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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

SEP 27 2007

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IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION –
FILING FOR APPROVAL OF ITS MULTI-
FAMILY NEW CONSTRUCTION
PROGRAM

DOCKET NO. G-01551A-04-0876

DECISION NO. 69918

ORDER

Open Meeting
September 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation (“Southwest”) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On June 26, 2006, Southwest Gas Corporation (“Southwest”) filed an application for approval of its Multi-Family New Construction (“Multi-Family”) program, as required by Decision No. 68487. Decision No. 68487 required that the Company file detailed descriptions of its DSM programs within 120 days of the Commission’s February 23, 2006 Order approving rate changes effective March 1, 2006.

3. The proposed program would be newly-implemented and would provide incentives to builders of multi-family apartments to follow ENERGY STAR® guidelines. The Multi-Family New Construction (“Multi-Family”) program is one of seven demand-side management (“DSM”) programs included in Southwest’s 2006 Arizona Demand Side Management Program Plan.

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1 4. Program Description

2 The program is designed to raise energy efficiency standards for the construction of
3 apartment buildings and to improve awareness of high efficiency measures among apartment
4 builders and renters. Financial incentives are proposed for the following energy-efficiency
5 measures: sealed ductwork, programmable thermostats, compact fluorescent lights and high-
6 efficiency water heaters. These above incentives would be paid to builders of apartment
7 complexes in the Phoenix and Tucson areas.

8 5. Staff has recommended against approval of this program because it would require
9 gas utility customers to fund a DSM program offering only electric savings, and because it would
10 result in a large net increase in natural gas usage. There are, in addition, fuel switching issues with
11 respect to using DSM dollars to install natural gas measures in a market usually dominated by
12 electric use.

13 6. Delivery, Marketing and Communication

14 The target market of this program would be multi-family apartment builders in the
15 greater Phoenix and Tucson areas. The target market includes builders in these areas who serve
16 seniors and low-income customers. Marketing and communication would be carried out through:

- 17 • one-on-one contacts between builders and Southwest staff members, particularly
18 Southwest's Service Planning Department;
- 19 • a brochure and banners promoting the program;
- 20 • advertisements in the Arizona Republic and Apartment.com;
- 21 • Southwest website information and through a toll-free Energy Services Department
22 hotline (for both consumers and builders);
- 23 • Southwest's work with the Arizona Department of Commerce Energy Office, to
24 promote the program with Low-Income Housing Tax Credit program participants.

25 7. The program would also attempt to create awareness among renters of the benefits
26 of more energy-efficient apartments; this awareness would be promoted through leasing agents,
27 who would receive education under the program, and who would provide renters with a flyer
28 concerning the program.

8. Incentives

There are two incentive levels available under the program. One level reflects incentives available to the 10 percent of the Arizona apartment market usually equipped with natural gas¹ while the other level of incentives is for the 90 percent of the Arizona apartment market that would usually feature all-electric units. The two levels of incentives reflect the differing costs of including gas water heaters.

10% Multi-Family Market (with natural gas)

Measure	Incentives
Duct sealing	\$150
Programmable Thermostats	\$20
Gas Water Heater	\$43
CFL(minimum x 2)	\$15
Total	\$228

90% Multi-Family Market (usually all-electric)

Measure	Incentives
Duct sealing	\$150
Programmable Thermostats	\$20
Gas Water Heater	\$398
CFL(minimum x 2)	\$15
Total	\$583

9. Testing and Verification

As part of the implementation process, outside contractors would be hired to verify and test the duct sealing done by participating builders. The outside contractors would also verify the installation of other DSM measures under the auspices of the Multi-Family program.

10. Monitoring and Evaluation

Southwest proposes to track and measure the program in the following ways: (i) number of program participants, (ii) number of units constructed, (iii) measures installed, (iv) number and results of ducts tests, (v) rebates processed, (vi) energy savings in therms and kWh, (vii) number of communication activities; (viii) website hits; and (ix) consumer and builder

¹ Generally, only apartments in luxury projects are equipped with natural gas, in addition to electricity.

1 inquiries. Southwest may hire an outside contractor to carry out the measurement and evaluation
2 portion of the program.

3 11. Southwest indicates that it might also conduct a follow-up survey. (A survey is
4 listed in the proposed budget.) Participants would be asked to evaluate the program and
5 marketing, while non-participating builders would be surveyed to determine their reasons for
6 opting out of the program.

7 12. Program Budget

8 The estimated total budget for the proposed Multi-Family program is \$1.2 million
9 dollars, allocated as shown below. \$1.2 million represents approximately 27 percent of the total
10 Southwest DSM budget of \$4,385,000. Incentives make up 91.25 percent of the budget, while
11 marketing costs run from 4.7 percent to 4.8 percent and outside contractors (for implementation)
12 would total 3.75 percent. Measurement/Evaluation and Administrative costs under the proposed
13 Multi-Family program would be minimal:

Program Year	2007	2008	2009
Implementation			
Outside contractors	\$45,000	\$45,000	\$45,000
Marketing/Communication			
Newspapers, magazines, Banners and brochures	\$56,000	\$57,500	\$57,500
Incentives			
Incentive amounts	\$1,095,000	\$1,095,000	\$1,095,000
Measurement and Evaluation			
Outside contractors	\$1,500	\$1,500	\$1,500
Survey	\$500	\$500	\$500
Administrative Costs			
Office supplies	\$1,000	\$500	\$500
Travel expenses	\$1,000		
TOTAL	\$1,200,000	\$1,200,000	\$1,200,000

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22 13. Staff has recommended that no portion of the Southwest Gas DSM budget be
23 allocated to the proposed Multi-Family project.

24 14. Cost-Benefit Analysis

25 *Cost-Effectiveness Ratio*

26 Southwest estimated a cost-effectiveness ratio of 2.17 for its proposed Multi-Family
27 program. Staff modified Southwest's cost-effectiveness to remain consistent with other DSM
28 ...

1 programs, and to reflect removal of programmable thermostats as a measure.² In addition, because
 2 data was provided on a separate basis for the two incentive levels available under this program,
 3 Staff has calculated two cost-effectiveness ratios. For the 10 percent of apartments that would
 4 normally be equipped with gas, Staff calculates a cost-effectiveness ratio of 2.34, while for the 90
 5 percent of apartments that would usually be all-electric, Staff estimates a cost-effectiveness ratio of
 6 0.42.³ With 90 percent of potential DSM projects well below the level required for cost-
 7 effectiveness, the program as a whole can not be considered cost-effective.

8 15. Environmental Benefits

9 Staff has modified Southwest's estimated emissions savings to exclude the savings
 10 projected for programmable thermostats. It is Staff's understanding that the increased therm usage
 11 resulting from this program was not taken into account by Southwest in calculating the
 12 environmental savings. An estimation that included the increased therm usage under this program
 13 would have the effect of offsetting the benefits set forth below, although the net benefits would
 14 still occur.

Annual Savings	CO2	NOx	SOx	H2O
2007	5,615,194	1,054	26	1,426,761
2008	5,615,194	1,054	26	1,426,761
2009	5,615,194	1,054	26	1,426,761
Lifetime Savings	274,700,721	51,525	1,288	69,798,548

19 16. Staff Analysis

20 Although apartment amenities, like pools or barbeques, are usually gas-powered,
 21 approximately 90 percent of the individual apartment units in Arizona are all-electric. As a result,
 22 most of the energy savings available at apartment complexes are also electric. While several
 23 measures in the Multi-Family program proposed by Southwest would provide electric savings,
 24 none would provide gas savings. In fact, as stated below, net natural gas usage would increase by
 25 millions of therms as a consequence of this gas DSM program. Southwest Gas ratepayers,
 26 _____

27 ² Multiple studies have indicated that residential programmable thermostats do not yet result in energy savings, and the
 Environmental Protection Agency ("EPA") is in the process of removing the Energy Star designation from this
 28 measure.

³ Program with a cost-effectiveness ratio below 1.0 are considered not cost-effective.

1 including senior and low-income customers, should not be asked to fund a DSM program that
2 provides no direct savings to gas utility customers. Staff has recommended that this program not
3 be approved by the Commission.

4 17. Another issue with respect to the Multi-Family program relates to fuel switching.
5 In Appendix D to its program description, Southwest estimated kWh savings of 334,839,966,
6 while estimating increased gas usage at 3,859,200 therms. Staff's understanding is that, under this
7 program, Southwest would provide incentives to participating builders to install gas piping⁴ and
8 gas water heaters to apartments that would normally have been all-electric. The effect of this
9 program would be to subsidize Southwest's ability to compete in a market normally dominated by
10 electric utilities.

11 18. Staff shares Southwest's concern about finding ways to benefit low-income
12 customers. As stated earlier, Southwest has proposed a \$1.2 million budget for the Multi-Family
13 program. Staff has recommended that Southwest explore the feasibility of shifting this funding to
14 the existing Low-Income Energy Conservation ("LIEC") program. The LIEC program is cost-
15 effective, provides natural gas savings and lowers energy costs for Southwest's low-income
16 customers. Staff has recommended that Southwest file a report no later than 60 days from the date
17 of this decision regarding the feasibility of reallocating the proposed Multi-Family program
18 funding to the LIEC program, including with the report a plan for how the funding is to be
19 reallocated. Should Southwest determine that reallocating the funding to the LIEC program would
20 not be feasible, Southwest must provide a plan for allocating the Multi-Family funding to an
21 alternative Southwest DSM program or programs.

22 19. Reporting Requirements

23 Staff has recommended that the Multi-Family program not be approved and, for this
24 reason, has not made recommendations regarding the type of program information that should be
25 included in Southwest's semi-annual DSM reports.

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28 ⁴ The cost of installing piping to apartment building that would normally be all-electric is included as part of the incremental cost of the gas water heater measure.

1 IT IS FURTHER ORDERED that Southwest explore the feasibility of shifting the funding
2 proposed for the Multi-Family program to the existing Low-Income Energy Conservation
3 ("LIEC") program.

4 IT IS FURTHER ORDERED that Southwest docket no later than 60 days from the date of
5 this decision, as a compliance item in this matter, a report regarding the feasibility of reallocating
6 the proposed Multi-Family program funding to the LIEC program, including with the report a plan
7 for how the funding is to be reallocated. Should Southwest determine that reallocating the funding
8 to the LIEC program would not be feasible, Southwest must provide a plan for allocating the
9 Multi-Family funding to an alternative Southwest DSM program or programs.

10 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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13 *Laurel Stearn*
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CHAIRMAN

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13 *Will Wood*
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COMMISSIONER

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16 _____
COMMISSIONER

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16 *[Signature]*
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COMMISSIONER

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16 *Paul Quinn*
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COMMISSIONER

18 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
19 Executive Director of the Arizona Corporation Commission,
20 have hereunto, set my hand and caused the official seal of
21 this Commission to be affixed at the Capitol, in the City of
22 Phoenix, this 27th day of September, 2007.

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22 *Dean S. Miller*
23 _____
DEAN S. MILLER
24 Interim Executive Director

25 DISSENT: *Jeffrey M. Hatch-Miller*
26 _____

27 DISSENT: _____

28 EGJ:JMK:ihm/JMA

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