

# OPEN MEETING



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MEMORANDUM  
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Arizona Corporation Commission

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TO: THE COMMISSION

2009 MAR 12 P 2:06

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

MAR 12 2009

DATE: March 12, 2009

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RE: APPLICATION OF SOUTHWEST GAS CORPORATION TO RESET THE DEMAND-SIDE MANAGEMENT ADJUSTOR RATE FOR APRIL 2009 THROUGH MARCH 2010 (DOCKET NO. G-01551A-09-0039)

Commission Decision No. 60352 (August 29, 1997) created the demand-side management ("DSM") adjustor mechanism, whereby Southwest Gas Corporation ("Southwest") files by the end of January each year with Staff to reset the DSM adjustor rate on April 1<sup>st</sup> of each year. Pursuant to the DSM adjustor mechanism, Southwest filed on February 2, 2009, to reset the DSM adjustor rate to \$0.00390 per therm, effective for the April 2009 through March 2010 billing cycles.

The current DSM adjustor rate is \$0.00423 per therm, effective through March 2009. In Decision No. 68487 (February 23, 2006), the Commission approved increasing Southwest's DSM spending level to \$4,385,000 annually. In this Decision, the Commission also ordered that the DSM adjustor rate be applied to all full margin customers. In Decision No. 70665 (December 24, 2008), the Commission approved increasing Southwest's DSM budget to \$5.4 million in 2010, \$6.4 million in 2011, and \$7.4 million in 2012.

One input to the calculation of the new DSM adjustor rate is to include an estimate of Southwest's DSM spending in the upcoming calendar year, in this case 2009. Because this mechanism is trued up annually, any over or underestimation of Southwest's DSM spending in a given year is captured when the DSM adjustor rate is reset the following year. Traditionally, Staff and Southwest have discussed the level of DSM spending projected for the coming year and have reached a mutually agreeable spending estimate for inclusion in the DSM adjustor rate calculation, recognizing that actual spending may vary due to a variety of factors.

Currently Southwest has six DSM programs that the Commission has approved, with a total approved budget of \$3,160,000. The programs and their approved budgets are as follows: low income energy conservation (\$600,000), Energy Star homes (\$350,000), Technology Information Center (\$35,000), Commercial Equipment (\$1,000,000), Consumer Products (\$775,000), and Distributed Generation (\$400,000). The Consumer Products program is up for renewal and the proposed renewal includes a proposed budget reduction from the current \$775,000 to \$529,300.

Southwest's February 2, 2009 filing reflects an estimated DSM spending level of \$4,400,000 in 2009 for the purpose of resetting the DSM adjustor mechanism. For 2007,

Southwest spent a total of \$1,028,519 on its DSM programs. In 2008, Southwest spent a total of \$939,293 on its DSM programs. Southwest's actual spending on DSM programs in 2008 was well below the budgets approved by the Commission for most of Southwest's DSM programs. Thus, Staff is doubtful that Southwest's projection of spending the full \$4,400,000 will come to fruition in 2009.

When the DSM adjustor rate was reset in the spring of 2008, an estimated budget of \$2,910,000 was included in the calculation, based upon the assumption that Southwest's newly approved DSM programs would ramp up significantly during 2008. It is clear from the actual 2008 spending level for DSM that in most cases the programs have not ramped up, and thus the DSM adjustor mechanism currently reflects an overcollection of \$908,918 as of the end of December 2008. While this overcollection will factor into a lower DSM adjustor rate for 2009, Staff believes it is important to avoid such sizable overcollections to the extent possible and thus believes a more cautious approach to projecting Southwest's DSM spending in 2009 should be taken. This in no way indicates that Staff is discouraging DSM spending, but rather that Staff wants to minimize the possibility of collecting substantial sums of money from Southwest's customers for DSM spending that may not happen during a given year.

Staff has held several discussions with Southwest regarding the projected 2009 DSM spending. The result of these discussions is that Staff is recommending that 2009 projected DSM spending for the purposes of resetting the DSM adjustor rate be set at \$1,250,000. This provides an increase over 2008 actual spending, but should help Southwest avoid the possibility of incurring another sizable overcollected bank balance at the end of 2009 as had occurred at the end of 2008. This is a relatively low spending number compared to the overall DSM budget the Commission has approved as well as the cumulative budgets of individual programs the Commission has approved.

Staff has held discussions with Southwest regarding the difficulties Southwest is experiencing in spending the approved budget levels for DSM programs. Southwest has cited a number of issues, including the poor condition of the economy, the difficulty customers are experiencing in financing energy efficiency measures, and difficulties in getting retailers to stock energy efficient equipment that is contemplated in certain Southwest DSM programs. Southwest has indicated to Staff that it will make significant efforts to increase DSM spending in the future.

For the purpose of setting the DSM adjustor rate for Southwest from April 2009 through March 2010, Staff's estimates 2009 DSM spending of \$1,250,000 for Southwest. It is Staff's understanding that Southwest does not object to this projected spending level for DSM spending in 2009, for the purpose of resetting the DSM adjustor rate. To the extent Southwest's actual DSM spending in 2009 is higher or lower than this estimate, such higher or lower spending would be reflected when the DSM adjustor rate is reset in 2010.

Staff has reviewed Southwest's February 2, 2009 filing, requesting the DSM adjustor rate to be reset at \$0.00390 per therm. Staff has also reviewed supporting materials and has had discussions with Southwest regarding its proposed new DSM adjustor rate. Based on the

THE COMMISSION

March 12, 2009

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projected 2009 DSM spending level of \$1,250,000 and an overcollection in the DSM bank balance of \$908,918 at the end of 2008, Staff believes that the appropriate level for the DSM adjustor rate is a credit (i.e., rate reduction) of \$0.00099 per therm for the April 2009 through March 2010 billing cycles. For a residential customer using the February 2008 average of 75 therms, the proposed DSM adjustor credit of \$0.00099 per therm would decrease their monthly bill by approximately \$0.07.

Staff recommends approval of a DSM adjustor rate credit of \$0.00099 per therm for Southwest, applicable to the April 2009 through March 2010 billing cycles.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:RGG:lhmkOT

ORIGINATOR: Robert G. Gray

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

- KRISTIN K. MAYES  
Chairman
- GARY PIERCE  
Commissioner
- PAUL NEWMAN  
Commissioner
- SANDRA D. KENNEDY  
Commissioner
- BOB STUMP  
Commissioner

IN THE MATTER OF THE APPLICATION )  
 OF SOUTHWEST GAS CORPORATION TO )  
 RESET THE DEMAND-SIDE )  
 MANAGEMENT ADJUSTOR RATE FOR )  
 APRIL 2009 THROUGH MARCH 2010 )

DOCKET NO. G-01551A-09-0039  
 DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
 March 31 and April 1, 2009  
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. Commission Decision No. 60352 (August 29, 1997) created the demand-side management ("DSM") adjustor mechanism, whereby Southwest Gas files by the end of January each year with Staff to reset the DSM adjustor rate on April 1st of each year.
3. Pursuant to the DSM adjustor mechanism, Southwest filed on February 2, 2009, to reset the DSM adjustor rate to \$0.00390 per therm, effective for the April 2009 through March 2010 billing cycles.
4. The current DSM adjustor rate is \$0.00423 per therm, effective through March 2009.
- ...

1           5.       In Decision No. 68487 (February 23, 2006), the Commission approved increasing  
2 Southwest's DSM spending level to \$4,385,000 annually. In this Decision, the Commission also  
3 ordered that the DSM adjustor rate be applied to all full margin customers. In Decision No. 70665  
4 (December 24, 2008), the Commission approved increasing Southwest's DSM budget to \$5.4  
5 million in 2010, \$6.4 million in 2011, and \$7.4 million in 2012.

6           6.       One input to the calculation of the new DSM adjustor rate is to include an estimate  
7 of Southwest's DSM spending in the upcoming calendar year, in this case 2009. Because this  
8 mechanism is tried up annually, any over or underestimation of Southwest's DSM spending in a  
9 given year is captured when the DSM adjustor rate is reset the following year. Traditionally, Staff  
10 and Southwest have discussed the level of DSM spending projected for the coming year and have  
11 reached a mutually agreeable spending estimate for inclusion in the DSM adjustor rate calculation,  
12 recognizing that actual spending may vary due to a variety of factors.

13           7.       Currently Southwest has six DSM programs that the Commission has approved,  
14 with a total approved budget of \$3,160,000. The programs and their approved budgets are as  
15 follows: low income energy conservation (\$600,000), Energy Star homes (\$350,000), Technology  
16 Information Center (\$35,000), Commercial Equipment (\$1,000,000), Consumer Products  
17 (\$775,000), and Distributed Generation (\$400,000). The Consumer Products program is up for  
18 renewal and the proposed renewal includes a proposed budget reduction from the current \$775,000  
19 to \$529,300.

20           8.       Southwest's February 2, 2009 filing, reflects an estimated DSM spending level of  
21 \$4,400,000 in 2009 for the purpose of resetting the DSM adjustor mechanism. For 2007,  
22 Southwest spent a total of \$1,028,519 on its DSM programs. In 2008, Southwest spent a total of  
23 \$939,293 on its DSM programs. Southwest's actual spending on DSM programs in 2008 was well  
24 below the budgets approved by the Commission for most of Southwest's DSM programs. Thus,  
25 Staff is doubtful that Southwest's projection of spending the full \$4,400,000 will come to fruition  
26 in 2009.

27           9.       When the DSM adjustor rate was reset in the spring of 2008, an estimated budget of  
28 \$2,910,000 was included in the calculation, based upon the assumption that Southwest's newly

1 approved DSM programs would ramp up significantly during 2008. It is clear from the actual  
2 2008 spending level for DSM that in most cases the programs have not ramped up, and thus the  
3 DSM adjustor mechanism currently reflects an overcollection of \$908,918 as of the end of  
4 December 2008. While this overcollection will factor into a lower DSM adjustor rate for 2009,  
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7 taken. This in no way indicates that Staff is discouraging DSM spending, but rather that Staff  
8 wants to minimize the possibility of collecting substantial sums of money from Southwest's  
9 customers for DSM spending that may not happen during a given year.

10       10. Staff has held several discussions with Southwest regarding the projected 2009  
11 DSM spending. The result of these discussions is that Staff is recommending that 2009 projected  
12 DSM spending for the purposes of resetting the DSM adjustor rate be set at \$1,250,000. This  
13 provides an increase over 2008 actual spending, but should help Southwest avoid the possibility of  
14 incurring another sizable overcollected bank balance at the end of 2009 as had occurred at the end  
15 of 2008. This is a relatively low spending number compared to the overall DSM budget the  
16 Commission has approved as well as the cumulative budgets of individual programs the  
17 Commission has approved.

18       11. Staff has held discussions with Southwest regarding the difficulties Southwest is  
19 experiencing in spending the approved budget levels for DSM programs. Southwest has cited a  
20 number of issues, including the poor condition of the economy, the difficulty customers are  
21 experiencing in financing energy efficiency measures, and difficulties in getting retailers to stock  
22 energy efficient equipment that is contemplated in certain Southwest DSM programs. Southwest  
23 has indicated to Staff that it will make significant efforts to increase DSM spending in the future.

24       12. For the purpose of setting the DSM adjustor rate for Southwest from April 2009  
25 through March 2010, Staff's estimates 2009 DSM spending of \$1,250,000 for Southwest. It is  
26 Staff's understanding that Southwest does not object to this projected spending level for DSM  
27 spending in 2009, for the purpose of resetting the DSM adjustor rate.

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's DSM adjustor rate be reset to a credit of \$0.00099 per therm for the April 2009 through March 2010 billing cycles.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
MICHAEL P. KEARNS  
INTERIM EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:RGG:lhm\KOT

1 SERVICE LIST FOR: Southwest Gas Corporation  
2 DOCKET NO. G-01551A-09-0039

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