

**ORIGINAL**

**OPEN MEETING**



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**MEMORANDUM  
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2009 SEP 10 A 11: 04

Arizona Corporation Commission  
**DOCKETED**

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

SEP 10 2009

DATE: September 10, 2009

DOCKETED BY	
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RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR CONTINUANCE AND MODIFICATION OF ITS DEMAND-SIDE MANAGEMENT CONSUMER PRODUCTS PROGRAM (DOCKET NO. G-01551A-08-0619)

On December 31, 2008, Southwest Gas Corporation (“Southwest” or “the Company”) filed to continue the existing Consumer Products program through 2011 and to modify it by expanding eligibility to additional high-efficiency water heaters models and adding “smart” showerheads. Southwest has also re-proposed programmable thermostats as a measure, contending that current, more user-friendly ENERGY STAR® programmable thermostats are more likely to produce changes in customer behavior and resultant energy savings.

Southwest’s application for continuation and modification of the Consumer Products program was originally placed on the agenda for the June 23 and 24, 2009, Open Meeting. The item was removed from the June agenda in order to allow Staff to evaluate the “smart” showerhead measure in light of new information provided by the Company regarding the cost of the showerhead.<sup>1</sup>

In the ensuing period, Southwest also developed new information regarding the larger (up to 75-gallon) residential water heaters it had proposed to include in the program. The Company determined that residential water heaters meeting program efficiency requirements (0.62 EF<sup>2</sup> or higher) are not generally available in models larger than 65 gallons. Southwest also found that data supporting energy savings for larger-capacity water heaters (particularly 75-gallon models) was not readily available. For these reasons, the Company now proposes eligibility for incentives be limited to water heaters no larger than 65 gallons.

Updated information regarding “smart” showerheads and the 65-gallon size limit for water heaters is included in the discussion below.

Southwest originally filed an application for approval of its Consumer Products (“Consumer Products”) program on June 26, 2006. On September 27, 2007, Decision No. 69916 approved the Consumer Products program as a one-year pilot offering incentives to Residential

<sup>1</sup> In discussions with the manufacturer and wholesaler of the “smart” showerhead, Southwest determined that the \$30 cost it had originally assigned to the measure was for the thermostatic valve alone, rather than for a combination valve and showerhead. Southwest was informed that the low-flow showerhead would cost an additional \$10, and that these components would not be sold separately in Arizona.

<sup>2</sup> Energy Factor.

customers to install high-efficiency water heaters. Programmable thermostats and clothes washer/dryer measures were not approved for inclusion, as originally proposed, because these measures were not found to be cost-effective.

#### Current Program: Eligibility and Participation

To be eligible under the current program, residential customers must purchase water heaters with an EF of 0.62 or higher. Under the current program, eligibility has been limited to models in the 30- to 65-gallon capacity range. The high-efficiency appliances purchased under this program would also have to be slated for installation in a Southwest service area.

Initially, Southwest reported low participation, largely because retailers were not stocking water heaters with EF ratings that met program guidelines. As a result, the Company intensified its outreach to retailers and plumbers. Participation has now increased and Southwest reports that there are fewer denials, meaning that fewer potential participants are applying for rebates related to ineligible water heaters. In November 2008, 36 rebates were approved and paid, while in December there were 99 rebates. With respect to 2009 only, 412 water heater rebate applications had been approved as of June 3rd, 154 were pending and only 20 had been denied. With additional water heaters eligible for incentives and with an increase in incentives (see below), it is likely that participation will continue to improve in 2009.

#### Proposed Changes to the Water Heater Measure

##### *Increased Incentives for Water Heaters*

Southwest also proposes to increase the incentive for water heaters from \$75 to \$100. Southwest states that the increase would make the incentive more reflective of the higher cost of high-efficiency equipment, as compared to standard models, which it reports at \$106.

Staff recommends that a flat \$100 incentive not be approved for the water heater measure. A \$100 incentive would equal approximately 94 percent of the incremental cost of a high-efficiency water heater, meaning that there would be very little investment by participants in the higher efficiency models. An incentive limited to 50 percent or 75 percent of incremental cost would also be consistent with most other Residential Demand Side Management ("DSM") programs approved by the Commission, and would ensure that limited incentive funding goes further.

Staff recommends that Southwest be allowed to pay incentives of up to 75 percent of the incremental cost of eligible high efficiency water heaters, with a cap of \$100. Staff recommends a 75 percent (or \$75) incentive, rather than a 50 percent incentive, in order to encourage participation in a relatively high-cost measure in a challenging economic environment.

Eligibility for 29-Gallon (Mobile Home) Water Heaters

During the pilot year Southwest discovered that the 29-gallon water heaters typically used in mobile homes were not eligible for incentives under the terms of the original program. Southwest proposes to expand the program to allow incentives for these smaller high-efficiency water heaters.

Staff concurs with the Southwest proposal and recommends that 29-gallon water heaters be made eligible for incentives under the Consumer Products program guidelines. Adding smaller high-efficiency water heaters would make participation possible for a broader spectrum of customers, since mobile home owners are generally less affluent than customers living in site-built homes. Adding the smaller-capacity water heaters could also increase the overall level of program participation.

Eligibility of 65-Gallon to 75-Gallon Water Heaters

In its application, Southwest originally proposed to modify program eligibility to add high-efficiency residential water heaters up to 75-gallons. As discussed herein, the Company has since modified its position and now requests that eligibility for incentives be limited to efficient residential water heaters with a capacity of 65 gallons and below.

Staff concurs and recommends that eligibility not be extended to residential water heaters with a more than 65-gallon capacity. With their limited availability (at .62 EF or above), and doubtful cost-effectiveness, these larger models are not appropriate for program inclusion at this time.

With respect to water heaters in the 50-gallon to 65-gallon range, Staff research indicates that models meeting the 0.62 program standard may currently be limited in availability. Staff recommends that, in cases where the 50-gallon to 65-gallon models meeting the 0.62 program standard are unavailable, eligibility be extended to models exceeding the federal minimum standards, if to do so would be cost-effective.<sup>3</sup>

Below is a table giving examples of the federal standard for various sizes.

Federal Standards, EF Factors for Gas Water Heaters	
Energy Factor Rate Storage Volume in Gallons	Federal Minimum Requirement for New Manufacture
29 gallons	0.61
40 gallons	0.59
60 gallons	0.57

<sup>3</sup> Federal efficiency standards for water heaters vary by size, and are lower for larger water heaters; energy savings can be achieved by exceeding these standards, even if the 0.62 program standard is not met. To determine the federal standard for 50+ to 65 gallon water heaters, Southwest should utilize the formula published in the Federal Register/Vol. 66., No. 11/Wednesday, January 17, 2001:  $(0.67 - (0.0019 \times \text{Rated Storage Volume in gallons}))$ .

### Cost-Effectiveness

Water heaters remain a cost-effective program measure, with a benefit-cost ratio of 1.1.<sup>4</sup> Staff recommends that the Consumer Products program be continued and that water heaters be retained as a measure.

### Programmable Thermostats

#### Background

As stated above, at the time of the original application (June 26, 2006), programmable thermostats were not found to be cost-effective. Unlike appliances that produce savings through a more efficient use of energy, installing programmable thermostats can only produce energy savings if there are changes in consumer behavior. Field studies showed that these changes in behavior were not occurring in practice and that, in some instances, energy consumption increased after programmable thermostats were installed. (One explanation for the increase was that consumers who normally kept off furnaces or air conditioners while they were at work, instead used the programmable thermostats to turn on their appliances prior to arriving home.) Due to concerns over savings, and over maintaining the integrity of the Energy Star mark, as of February 2007, the Environmental Protection Agency ("EPA") was planning to end the Energy Star designation for this measure, and would, instead, transition to a consumer education campaign focusing on programmable thermostats.

Research done on the current application indicates that the designation for programmable thermostats has not yet been revoked and, in response to an inquiry from Staff, Energy Star Support Staff indicated that cost-effective savings were possible, *if the four pre-programmed settings on Energy Star programmable thermostats are properly used for heating and cooling.* [Emphasis added.] But in a May 4, 2009, letter to thermostat manufacturers and other stakeholders, the EPA restates its intent to sunset the programmable thermostat specification as of December 31, 2009, adding that "EPA has been unable to confirm any improvement in terms of the savings delivered by programmable thermostats. . . ." EPA adds, however, that it will continue to work on an Energy Star specification for programmable thermostats, including specifications that would limit issues that reduce energy savings. The EPA also stated that it would continue to educate homeowners on the energy savings available from programmable thermostats.

Staff recommends that Southwest file a report as a compliance item with Docket Control, no later than January 31, 2010, in which it informs the Commission on whether the EPA has revoked the Energy Star designation for programmable thermostats. If the Energy Star designation has been revoked for programmable thermostats, Southwest must indicate whether programmable thermostats should remain eligible for incentives under the Consumer Products program and, if so, why they should remain eligible.

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<sup>4</sup> A benefit-cost ratio over 1.0 is considered cost-effective.

### Cost-Effectiveness

Staff's analysis indicates that programmable thermostats would be significantly cost-effective, if the settings are used as intended. Staff calculates the potential benefit-cost ratio for gas savings alone at 2.83<sup>5</sup>, but notes that the cost-effectiveness is reliant on consumer behavior, such as not overriding the settings too frequently, and reducing or eliminating any savings.

Because the savings from programmable thermostats are uncertain, but potentially substantial, Staff recommends that this measure be approved for inclusion on a pilot basis. Staff recommends that Southwest verify the energy savings arising from this measure once the Company has accumulated 12 months of data. If the savings from programmable thermostats, in practice, are insufficient to meet cost-effectiveness requirements under the Societal Cost Test, then programmable thermostats should cease to be eligible for incentives under the Consumer Products program. Staff recommends that Southwest file a report in the Docket regarding the cost-effectiveness of programmable thermostats within 60 days of the end of the 12-month pilot period.

### "Smart" Showerheads

#### Background

Southwest also proposes the addition of "smart" showerheads as a measure in its Consumer Products DSM program. The "smart" showerhead is a low-flow showerhead with a water turn-off feature, designed to minimize the amount of hot water wasted during the warm-up cycle, before the user enters the shower. The "smart" feature includes a thermostatic valve that pauses a shower's water flow once the water is hot enough for bathing, when the shower may otherwise be running unattended. Once a user is ready to actually enter the shower, he or she then turns on an already-heated flow of water. This measure is designed to both conserve water and reduce energy use.

#### Proposed Incentive

Southwest proposes an incentive of \$30, which is equal to the incremental cost of the low flow showerhead. Staff recommends that the incentive be set at \$22.50, or 75 percent of the incremental cost of this energy efficiency measure. At 75 percent, the incentive encourages participation in a new measure, but still requires some investment by the participants.

#### Cost-effectiveness

Staff's analysis indicates that the "smart" showerhead has a benefit-cost ratio of 1.1, and is cost-effective. This ratio is calculated based on the incremental cost, projected energy

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<sup>5</sup> The Company also estimates savings of 304.37 kWh for 3 degree set-up (increase in temperature setting).

savings<sup>6</sup> and projected participation rates.<sup>7</sup> for this measure. The cost-effectiveness calculation also includes a conservative estimate of water savings at the utility level.<sup>8</sup>

The “smart” technology is relatively new, and the data on energy savings for this measure is limited; moreover, actual participation rates can not be predicted with certainty. Staff recommends that this measure be approved for inclusion on a pilot basis. Staff also recommends that Southwest verify and measure the savings arising from “smart” showerheads once the Company has accumulated 12 months of data. If the savings from “smart” showerheads, in practice, are insufficient to meet cost-effectiveness requirements under the Societal Cost Test, then “smart” showerheads should cease to be eligible for incentives under the Consumer Products program. Staff recommends that Southwest file a report in the Docket on its findings regarding the cost-effectiveness of the “smart” showerheads measure within 60 days of the end of the 12-month pilot period.

Consumer Products Program Incentives

Table 1, below, reflects the projected participation and incentive amounts for each measure.

**Table 1**

Measure	Number of Participants	Staff Proposed Incentive Amount	Company Proposed Incentive Amount
Water Heater	1,700	\$75-\$100	\$100
Programmable Thermostat	3,100	\$20	\$20
“Smart” Showerhead	3,100	\$22.50	\$30
<b>Total</b>	<b>7,900</b>		

Consumer Products Program Proposed Budget

The projected budget for the DSM Consumer Products program is listed in Table 2, below:

<sup>6</sup> The application states that Sempra Energy Utilities adopted “smart” showerheads in their California energy efficiency program and estimated a savings of 6.8 therms annually, per installation, and that a City of San Diego study documented savings of 800 gallons of water per showerhead.

<sup>7</sup> The cost-effectiveness calculation includes an incremental cost based on the assumption that the “smart” showerheads will be purchased to replace non-functioning units, rather than as substitutes for functioning standard showerheads.

<sup>8</sup> Southwest provided information indicating that the average Southwest customer would save \$16.28 per year on water costs.

**Table 2**

Category	2008 Actual	2009	2010	2011
Administration	\$41,538	\$52,930	\$52,930	\$52,930
Outreach	\$43,015	\$136,800	\$136,800	\$136,800
Incentives	\$35,000	\$339,570	\$339,570	\$339,570
Total	\$119,553	\$529,300	\$529,300	\$529,300

Southwest originally proposed an administrative budget of \$67,500, or 12.75 percent of the overall budget for 2009-2011. Although administrative costs can be high during the ramp-up phase of a program, Staff's position is that during most of the life of a DSM program administrative costs should be limited to 10 percent. The Company has now agreed to limit the administrative budget to \$52,930, or 10 percent of the overall budget. Rather than reducing the overall budget, Staff recommends that the \$14,570 difference be allocated to incentives. The \$339,570 listed for incentives in the table above reflects the movement of these funds into incentives.

Environmental Savings

The Company's projected lifetime environmental savings for the DSM Consumer Products program are listed in Table 3, below:

**Table 3**

Measure	Lifetime CO2 Savings (in metric tons)
Programmable Thermostats	73,800
Water Heaters	5,616
"Smart" Showerheads	3,360
Total	82,776

Reporting

Staff recommends that the Consumer Products program continue to be included in the semi-annual report, with the type of data for all measures that is currently included for water heaters.

Summary of Staff Recommendations

- Staff recommends that the Consumer Products program be continued and that water heaters be retained as a measure.
- Staff recommends that 29-gallon high efficiency water heaters be eligible for incentives under the Consumer Products program.
- Staff recommends that eligibility not be extended to residential water heaters with a more than 65-gallon capacity.

- Staff recommends that, in cases where 50-gallon to 65-gallon models meeting the 0.62 program standard are unavailable, eligibility be extended to models exceeding the federal minimum standard, if to do so would be cost-effective.
- Staff recommends that Southwest file a report as a compliance item with Docket Control, no later than January 31, 2010, in which it informs the Commission on whether the EPA has revoked the Energy Star designation for programmable thermostats. If the Energy Star designation has been revoked for programmable thermostats, Southwest must indicate whether programmable thermostats should remain eligible for incentives under the Consumer Products program and, if so, why they should remain eligible.
- Staff recommends that programmable thermostats and “smart” showerheads be included as measures in the Consumer Products program on a pilot basis, and that Southwest verify the cost-effectiveness of these measures once it has accumulated twelve months of data; if either measure is found to be not cost-effective, that measure should cease to be eligible for incentives under the Consumer Products program.
- Staff recommends that Southwest file a report in the Docket on its findings regarding the cost-effectiveness of the programmable thermostat and “smart” showerhead measures within 60 days of the end of the 12-month pilot period for each measure.
- Staff recommends that the Consumer Products program continue to be included in the semi-annual report, with the type of data for all measures that is currently included for water heaters.
- Staff recommends that a flat \$100 incentive not be approved for the water heater measure.
- Staff recommends that Southwest be allowed to pay incentives of up to 75 percent of the incremental cost of eligible high efficiency water heaters, with a cap of \$100.
- Staff recommends that the incentive be set at \$22.50 for “smart” showerheads, rather than the \$30 proposed by the Company.

THE COMMISSION

September 10, 2009

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- Staff recommends that the administrative budget be limited to 10 percent of the overall program budget and that the \$14,570 difference between the originally proposed administrative budget and the 10 percent administrative budget be shifted to incentives.



Steven M. Olea  
Director  
Utilities Division

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ORIGINATOR: Julie McNeely-Kirwan

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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 )  
FOR CONTINUANCE AND )  
MODIFICATION OF ITS DEMAND SIDE )  
MANAGEMENT CONSUMER PRODUCTS )  
PROGRAM )  
\_\_\_\_\_ )

DOCKET NO. G-01551A-08-0619  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
September 22 and 23, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. Southwest Gas Corporation (“Southwest” or “Company”) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On December 31, 2008, Southwest filed to continue the existing Consumer Products program through 2011 and to modify it by expanding eligibility to additional high-efficiency water heaters models and adding “smart” showerheads. Southwest has also re-proposed programmable thermostats as a measure, contending that current, more user-friendly ENERGY STAR® programmable thermostats are more likely to produce changes in customer behavior and resultant energy savings.
- ...

1           3.       Southwest's application for continuation and modification of the Consumer  
2 Products program was originally placed on the agenda for the June 23 and 24, 2009, Open  
3 Meeting. The item was removed from the June agenda in order to allow Staff to evaluate the  
4 "smart" showerhead measure in light of new information provided by the Company regarding the  
5 cost of the showerhead.<sup>1</sup>

6           4.       In the ensuing period, Southwest also developed new information regarding the  
7 larger (up to 75-gallon) residential water heaters it had proposed to include in the program. The  
8 Company determined that residential water heaters meeting program efficiency requirements (0.62  
9 EF<sup>2</sup> or higher) are not generally available in models larger than 65 gallons. Southwest also found  
10 that data supporting energy savings for larger-capacity water heaters (particularly 75-gallon  
11 models) was not readily available. For these reasons, the Company now proposes eligibility for  
12 incentives be limited to water heaters no larger than 65 gallons.

13           5.       Updated information regarding "smart" showerheads and the 65-gallon size limit  
14 for water heaters is included in the discussion below.

15           6.       Southwest originally filed an application for approval of its Consumer Products  
16 ("Consumer Products") program on June 26, 2006. On September 27, 2007, Decision No. 69916  
17 approved the Consumer Products program as a one-year pilot offering incentives to Residential  
18 customers to install high-efficiency water heaters. Programmable thermostats and clothes  
19 washer/dryer measures were not approved for inclusion, as originally proposed, because these  
20 measures were not found to be cost-effective.

21 Current Program: Eligibility and Participation

22           7.       To be eligible under the current program, residential customers must purchase water  
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25 \_\_\_\_\_  
26 <sup>1</sup> In discussions with the manufacturer and wholesaler of the "smart" showerhead, Southwest determined that the \$30  
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and showerhead. Southwest was informed that the low-flow showerhead would cost an additional \$10, and that these  
components would not be sold separately in Arizona.

28 <sup>2</sup> Energy Factor.

1 models in the 30- to 65-gallon capacity range. The high-efficiency appliances purchased under  
2 this program would also have to be slated for installation in a Southwest service area.

3 8. Initially, Southwest reported low participation, largely because retailers were not  
4 stocking water heaters with EF ratings that met program guidelines. As a result, the Company  
5 intensified its outreach to retailers and plumbers. Participation has now increased and Southwest  
6 reports that there are fewer denials, meaning that fewer potential participants are applying for  
7 rebates related to ineligible water heaters. In November 2008, 36 rebates were approved and paid,  
8 while in December there were 99 rebates. With respect to 2009 only, 412 water heater rebate  
9 applications had been approved as of June 3rd, 154 were pending and only 20 had been denied.  
10 With additional water heaters eligible for incentives and with an increase in incentives (see below),  
11 it is likely that participation will continue to improve in 2009.

#### 12 Proposed Changes to the Water Heater Measure

##### 13 *Increased Incentives for Water Heaters*

14 9. Southwest also proposes to increase the incentive for water heaters from \$75 to  
15 \$100. Southwest states that the increase would make the incentive more reflective of the higher  
16 cost of high-efficiency equipment, as compared to standard models, which it reports at \$106.

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27 encourage participation in a relatively high-cost measure in a challenging economic environment.

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1                    Eligibility for 29-Gallon (Mobile Home) Water Heaters

2            12.     During the pilot year Southwest discovered that the 29-gallon water heaters  
3 typically used in mobile homes were not eligible for incentives under the terms of the original  
4 program. Southwest proposes to expand the program to allow incentives for these smaller high-  
5 efficiency water heaters.

6            13.     Staff concurs with the Southwest proposal and has recommended that 29-gallon  
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9 spectrum of customers, since mobile home owners are generally less affluent than customers living  
10 in site-built homes. Adding the smaller-capacity water heaters could also increase the overall level  
11 of program participation.

12                    Eligibility of 65-Gallon to 75-Gallon Water Heaters

13            14.     In its application, Southwest originally proposed to modify program eligibility to  
14 add high-efficiency residential water heaters up to 75-gallons. As discussed herein, the Company  
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19 above), and doubtful cost-effectiveness, these larger models are not appropriate for program  
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21            16.     With respect to water heaters in the 50-gallon to 65-gallon range, Staff research  
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17. Below is a table giving examples of the federal standard for various sizes.

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Cost-Effectiveness

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Programmable Thermostats

Background

19. As stated above, at the time of the original application (June 26, 2006), programmable thermostats were not found to be cost-effective. Unlike appliances that produce savings through a more efficient use of energy, installing programmable thermostats can only produce energy savings if there are changes in consumer behavior. Field studies showed that these changes in behavior were not occurring in practice and that, in some instances, energy consumption increased after programmable thermostats were installed. (One explanation for the increase was that consumers who normally kept off furnaces or air conditioners while they were at work, instead used the programmable thermostats to turn on their appliances prior to arriving home.) Due to concerns over savings, and over maintaining the integrity of the Energy Star mark, as of February 2007, the Environmental Protection Agency ("EPA") was planning to end the Energy Star designation for this measure, and would, instead, transition to a consumer education campaign focusing on programmable thermostats.

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4 Background

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26 efficiency program and estimated a savings of 6.8 therms annually, per installation, and that a City of San Diego study  
27 documented savings of 800 gallons of water per showerhead.

28 <sup>7</sup> The cost-effectiveness calculation includes an incremental cost based on the assumption that the “smart”  
showerheads will be purchased to replace non-functioning units, rather than as substitutes for functioning standard  
showerheads.

<sup>8</sup> Southwest provided information indicating that the average Southwest customer would save \$16.28 per year on  
water costs.

27. The "smart" technology is relatively new, and the data on energy savings for this measure is limited; moreover, actual participation rates can not be predicted with certainty. Staff has recommended that this measure be approved for inclusion on a pilot basis. Staff has also recommended that Southwest verify and measure the savings arising from "smart" showerheads once the Company has accumulated 12 months of data. If the savings from "smart" showerheads, in practice, are insufficient to meet cost-effectiveness requirements under the Societal Cost Test, then "smart" showerheads should cease to be eligible for incentives under the Consumer Products program. Staff has recommended that Southwest file a report in the Docket on its findings regarding the cost-effectiveness of the "smart" showerheads measure within 60 days of the end of the 12-month pilot period.

#### Consumer Products Program Incentives

28. Table 1, below, reflects the projected participation and incentive amounts for each measure.

**Table 1**

Measure	Number of Participants	Staff Proposed Incentive Amount	Company Proposed Incentive Amount
Water Heater	1,700	\$75-\$100	\$100
Programmable Thermostat	3,100	\$20	\$20
"Smart" Showerhead	3,100	\$22.50	\$30
<b>Total</b>	<b>7,900</b>		

#### Consumer Products Program Proposed Budget

29. The projected budget for the DSM Consumer Products program is listed in Table 2, below:

**Table 2**

Category	2008 Actual	2009	2010	2011
Administration	\$41,538	\$52,930	\$52,930	\$52,930
Outreach	\$43,015	\$136,800	\$136,800	\$136,800
Incentives	\$35,000	\$339,570	\$339,570	\$339,570
<b>Total</b>	<b>\$119,553</b>	<b>\$529,300</b>	<b>\$529,300</b>	<b>\$529,300</b>

30. Southwest originally proposed an administrative budget of \$67,500, or 12.75 percent of the overall budget for 2009-2011. Although administrative costs can be high during the ramp-up phase of a program, Staff's position is that during most of the life of a DSM program administrative costs should be limited to 10 percent. The Company has now agreed to limit the administrative budget to \$52,930, or 10 percent of the overall budget. Rather than reducing the overall budget, Staff has recommended that the \$14,570 difference be allocated to incentives. The \$339,570 listed for incentives in the table above reflects the movement of these funds into incentives.

#### Environmental Savings

The Company's projected lifetime environmental savings for the DSM Consumer Products program are listed in Table 3, below:

**Table 3**

Measure	Lifetime CO2 Savings (in metric tons)
Programmable Thermostats	73,800
Water Heaters	5,616
"Smart" Showerheads	3,360
Total	82,776

#### Reporting

31. Staff has recommended that the Consumer Products program continue to be included in the semi-annual report, with the type of data for all measures that is currently included for water heaters.

#### Summary of Staff Recommendations

- Staff has recommended that the Consumer Products program be continued and that water heaters be retained as a measure.
- Staff also has recommended that 29-gallon high efficiency water heaters be eligible for incentives under the Consumer Products program.
- Staff has recommended that eligibility not be extended to residential water heaters with a more than 65-gallon capacity.

- 1 • Staff has recommended that, in cases where 50-gallon to 65-gallon models meeting the  
2 0.62 program standard are unavailable, eligibility be extended to models exceeding the  
3 federal minimum standard, if to do so would be cost-effective.
- 4 • Staff has recommended that Southwest file a report as a compliance item with Docket  
5 Control, no later than January 31, 2010, in which it informs the Commission on  
6 whether the EPA has revoked the Energy Star designation for programmable  
7 thermostats. If the Energy Star designation has been revoked for programmable  
8 thermostats, Southwest must indicate whether programmable thermostats should  
9 remain eligible for incentives under the Consumer Products program and, if so, why  
10 they should remain eligible.
- 11 • Staff has recommended that programmable thermostats and “smart” showerheads be  
12 included as measures in the Consumer Products program on a pilot basis, and that  
13 Southwest verify the cost-effectiveness of these measures once it has accumulated  
14 twelve months of data; if either measure is found to be not cost-effective, that measure  
15 should cease to be eligible for incentives under the Consumer Products program.
- 16 • Staff has recommended that Southwest file a report in the Docket on its findings  
17 regarding the cost-effectiveness of the programmable thermostat and “smart”  
18 showerhead measures within 60 days of the end of the 12-month pilot period for each  
19 measure.
- 20 • Staff has recommended that the Consumer Products program continue to be included  
21 in the semi-annual report, with the type of data for all measures that is currently  
22 included for water heaters.
- 23 • Staff has recommended that a flat \$100 incentive not be approved for the water heater  
24 measure.
- 25 • Staff has recommended that Southwest be allowed to pay incentives of up to 75  
26 percent of the incremental cost of eligible high efficiency water heaters, with a cap of  
27 \$100.
- 28 • Staff has recommended that the incentive be set at \$22.50 for “smart” showerheads,  
rather than the \$30 proposed by the Company.
- Staff has recommended that the administrative budget be limited to 10 percent of the  
overall program budget and that the \$14,570 difference between the originally  
proposed administrative budget and the 10 percent administrative budget be shifted to  
incentives.

#### CONCLUSIONS OF LAW

1. Southwest Gas Corporation is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.



1           IT IS FURTHER ORDERED that Southwest Gas Corporation file a report in the Docket on  
2 its findings regarding the cost-effectiveness of the programmable thermostat and “smart”  
3 showerhead measures within 60 days of the end of the 12-month pilot period.

4           IT IS FURTHER ORDERED that the Consumer Products program continue to be included  
5 in the semi-annual report, with the type of data for all measures that is currently included for water  
6 heaters.

7           IT IS FURTHER ORDERED that a flat \$100 incentive not be approved for the water  
8 heater measure.

9           IT IS FURTHER ORDERED that Southwest Gas Corporation be allowed to pay incentives  
10 of up to 75 percent of the incremental cost of eligible high efficiency water heaters, with a cap of  
11 \$100.

12           IT IS FURTHER ORDERED that the incentive be set at \$22.50 for “smart” showerheads.

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IT IS FURTHER ORDERED that the administrative budget be limited to 10 percent of the overall program budget and that the difference between the originally proposed administrative budget and the 10 percent administrative budget be shifted to incentives.

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

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, 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.

\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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

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

SMO:JMK:lh\CH

1 SERVICE LIST FOR: Southwest Gas Corporation  
2 DOCKET NO. G-01551A-08-0619

3 Mr. Justin Lee Brown  
4 Southwest Gas Corporation  
5 5241 Spring Mountain Road  
6 Post Office Box 98510  
7 Las Vegas, Nevada 89193-8510

8 Ms. Debra Gallo  
9 Southwest Gas Corporation  
10 5241 Spring Mountain Road  
11 Post Office Box 98510  
12 Las Vegas, Nevada 89193-8510

13 Mr. Steve M. Olea  
14 Director, Utilities Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Ms. Janice M. Alward  
19 Chief Counsel, Legal Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007

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24  
25  
26  
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