

NEW APPLICATION



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ORIGINAL
SOUTHWEST GAS CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL

July 29, 2010

Docket Control Office
Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

G-01551A-10-0320

Re: Application Requesting Approval of Southwest Gas Corporation's Residential Energy-Efficient Consumer Products Financing Program

Southwest Gas Corporation (Southwest), pursuant to Decision No. 71643, herewith submits for filing and approval an original and thirteen (13) copies of the aforementioned Application.

If you have any questions or comments on the attached report, please do not hesitate to contact me at 702-876-7163.

Respectfully submitted,

Debra S. Gallo, Director
Government & State Regulatory Affairs

Arizona Corporation Commission
DOCKETED

JUL 30 2010

DSG/kt
Enclosures

cc: Ms. Janice Alward, ACC (via electronic mail)
Compliance Section, ACC
Mr. Steven Olea, ACC
Mr. Dan Pozefsky, RUCO (via electronic mail)
Mr. Jeff Schlegel, SWEEP (via electronic mail)

DOCKETED BY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **COMMISSIONERS**

4 KRISTIN K. MAYES, Chairman
5 GARY PIERCE
6 PAUL NEWMAN
7 SANDRA D. KENNEDY
8 BOB STUMP

9 IN THE MATTER OF THE APPLICATION OF
10 SOUTHWEST GAS CORPORATION FOR
11 APPROVAL OF ITS RESIDENTIAL ENERGY-
12 EFFICIENT CONSUMER PRODUCTS
13 FINANCING PROGRAM

DOCKET NO. G-01551A-10- _____

14 **APPLICATION REQUESTING APPROVAL OF
15 SOUTHWEST GAS CORPORATION'S RESIDENTIAL ENERGY-EFFICIENT
16 CONSUMER PRODUCTS FINANCING PROGRAM**

17 **Introduction**

18 1. Southwest Gas Corporation, pursuant to Decision No. 71643, hereby submits
19 its application to the Arizona Corporation Commission ("Commission") respectfully
20 requesting approval of its proposed Residential Energy-Efficient Consumer Products
21 Financing program that will complement its existing Residential Energy-Efficient Consumer
22 Products program by providing convenient customer financing for up-front costs associated
23 with Commission-approved Demand Side Management (DSM) consumer product measures.

24 2. Southwest Gas is a corporation duly organized and validly existing under the
25 laws of California and is qualified to transact intrastate business and is in good standing under
26 the laws of Arizona. Southwest Gas is engaged in retail transmission, distribution,
27 transportation and sale of natural gas for domestic, commercial, agricultural and industrial
28 uses to approximately 1.8 million customers in the states of Arizona, California and Nevada.

1 Southwest Gas's corporate offices are located at 5241 Spring Mountain Road, P.O. Box
2 98510 Las Vegas, Nevada 89193-8510.

3 3. Southwest Gas is a public utility operating in the state of Arizona and is subject
4 to that Commission's jurisdiction with respect to its prices and terms of natural gas service to
5 retail customers in Arizona pursuant to the applicable sections of Article XV of the Arizona
6 Constitution and the applicable chapters of Title 40 of the Arizona Revised Statutes.
7 Southwest Gas currently provides natural gas service to approximately 980,000 customers in
8 ten counties in the state of Arizona, including Cochise, Gila, Graham, Greenlee, La Paz,
9 Maricopa, Mohave, Pima, Pinal and Yuma.

10 4. Communications regarding this filing should be addressed to:

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14 PO Box 98510
15 Las Vegas, NV 89193-8510
16 Telephone No: (702) 876-7183
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18 Debra S. Gallo
19 Director/Gov't & State Reg. Affairs
20 Southwest Gas Corporation
21 PO Box 98510
22 Las Vegas, NV 89193-8510
23 Telephone No. (702) 876-7163
24 Email: debra.gallo@swgas.com

25 **Proposal**

26 5. On April 14, 2010, the Commission issued Decision No. 71643 directing
27 Southwest Gas to file a proposed energy efficiency revolving loan fund program. The
28 purpose of the program is to assist Southwest Gas customers in accessing loans to help cover
up-front costs associated with implementing energy efficiency measures offered through
Southwest Gas's DSM consumer products program.

6. Southwest Gas has contacted and worked in conjunction with the State
Energy Office, community groups, and various other utilities in developing its proposed
residential energy-efficient consumer product financing program ("Program").

1 Southwest Gas's proposal will complement its existing consumer products program by
2 providing convenient customer financing for up-front costs associated with Commission-
3 approved DSM consumer product measures. The proposal will be offered in conjunction
4 with a third-party financial institution (initially with the National Bank of Arizona).
5

6 7. Southwest Gas's proposal makes available to customers loans ranging in
7 the amount of \$500 to \$3,500 with an interest rate of between 7 and 8 percent, for a
8 period of up to 48 months. Southwest Gas believes these terms will be attractive to
9 customers because the available loan amounts are broad enough to cover at least one
10 qualifying energy-efficient measure or a combination of measures, the payback period
11 strikes an appropriate balance between attracting customers wanting to make these types
12 of purchases and providing reasonable monthly payments, and the interest rate represents
13 a discounted rate from the typical consumer loan rate of 14 percent or higher. A more
14 detailed description of the proposed Program is attached hereto as Exhibit A.
15

16 8. Southwest Gas also proposes to have the third-party financial institution be
17 responsible for billing customers as the third-party lender is already setup to handle these
18 types of transactions, so the implementation date can be more immediate. Southwest Gas
19 estimates that program implementation could begin within 90 days of a Commission
20 decision approving its proposed Program. However, if there are modifications to
21 Southwest Gas's proposal that would require changes to Southwest Gas's current billing
22 system, a longer implementation timeline may be necessary – up to one and one-half
23 years.
24

25 9. Southwest Gas will have an initial program cost of \$25,000 for set-up and
26 on-going administration costs. An initial commitment for a Guaranty Reserve Account in
27
28

1 the amount of \$25,000 will also be required; additional guaranty amounts will be
2 provided as loans are completed, up to the Program's full \$1.5 million commitment.

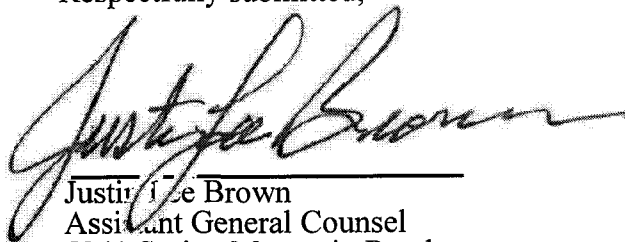
3 **Conclusion**

4 Southwest Gas agrees with the Commission that a financing program will
5 facilitate participation in Southwest Gas's consumer products program. Based upon its
6 review of financing programs offered by other utilities, Southwest Gas recommends the
7 most efficient and effective way to institute a financing program is by using a third-party
8 financial institution (National Bank of Arizona in this case) to fully implement the
9 Program, including billing. Southwest intends to continue to work with other Arizona
10 utilities and community groups, in addition to pursuing opportunities with other lending
11 institutions, to enhance implementation of its Program.
12
13

14 Based upon the foregoing, Southwest Gas respectfully requests that the Commission
15 approve Southwest Gas's proposed Residential Energy-Efficient Consumer Products
16 Financing program for its customers.
17

18 Dated this 30th day of July 2010.

19 Respectfully submitted,

20 

21
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Attorney for Southwest Gas Corporation

1 ORIGINAL and 13 COPIES of
2 the foregoing filed this 30th day
3 of July 2010, with:

4 Docket Supervisor
5 Docket Control
6 Arizona Corporation Commission
7 1200 W. Washington
8 Phoenix, Arizona 85007

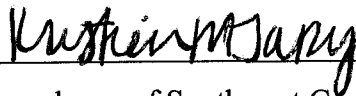
9 COPIES of the foregoing
10 served by e-mail
11 this 30th day of July

12 2010 on:

13 Janice Alward, Esq.
14 Legal Division
15 ARIZONA CORPORATION
16 COMMISSION
17 1200 West Washington Street
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19 jalward@azcc.gov

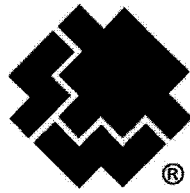
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20 

21 an employee of Southwest Gas Corporation
22
23
24
25
26
27
28

Exhibit A



SOUTHWEST GAS CORPORATION

**Southwest Gas Corporation's Proposed
Residential Energy-Efficient Consumer Products
Financing Program**

July 30, 2010

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. Program Parameters.....	2
II. Convenient Customer Access and Repayment.....	2
III. Partnership/Collaboration Opportunities.....	2
A. Public or State Funding	2
B. Community Partnerships.....	3
C. Utility Partnership Opportunities	3
IV. Financing Program Design	3
A. Source of Funds	3
B. Overview of Southwest's Financing Program	5
C. Interest Rates.....	5
D. Loan Amounts	5
E. Payback Period.....	6
F. Risk Management.....	6
G. Ease of Use	7
V. Outreach	7
VI. Program Costs	7

EXECUTIVE SUMMARY

In compliance with Decision No. 71643 Southwest Gas Corporation (“Southwest” or “Company”) is proposing to implement a Residential Energy-Efficient Consumer Products Financing Program (“Program”) in partnership with a third-party financial institution (initially with the National Bank of Arizona). The Program will provide Southwest’s residential customers the opportunity to obtain loans for Southwest’s Commission-approved Demand Side Management (DSM) consumer product measures. It is anticipated that the loans will likely range from \$500 to \$3,500 due to the up-front costs associated with implementing these energy-efficiency measures. Southwest proposes to use \$1.5 million of over-collected DSM Adjustor Mechanism funds to support this program as collateral for loans provided by the third party institution.

Southwest considered the following goals when developing this proposal:

- Determine and select familiar energy-efficient measures for inclusion in the initial Program. Additional measures such as insulation, windows and furnaces could be included in future Program revisions;
- Evaluate methods to ensure convenient customer access and repayment;
- Present the concept of implementing a financing program with community groups including the Arizona Community Action Association;
- Inquire about participation from the Arizona State Energy Office;
- Discuss possible partnership opportunities with Arizona Public Service and Unisource Gas; and
- Investigate joint ventures with financial institutions to administer the Program.

I. Program Parameters

Initially Southwest proposes to facilitate loans for its customers who participate in its Commission-approved DSM Consumer Products programs: natural gas storage water heaters, tankless water heaters, clothes dryers, and clothes washers. Two additional measures, programmable thermostats and smart low-flow showerheads, would likely be financed only if they were part of a larger purchase, as their price points do not warrant a dedicated financing arrangement. Customers who participate in the financing program will continue to receive rebates on the approved equipment, consistent with Southwest's Consumer Products program.

II. Convenient Customer Access and Repayment

Pursuant to our review of available data on energy-efficiency financing programs, there are two general types of repayment options: third-party administration of the billing feature or a utility implemented on-the-bill repayment option. Southwest investigated financing repayment options other utilities around the country are utilizing for their customer base. A majority of the utilities surveyed utilize a third-party vendor to manage the billing portion. Southwest evaluated what changes would be required to implement the various options and discovered that absent significant programming efforts and a delay in the implementation timeline, a repayment option through the utility is not economically practical. By utilizing a third-party lender to perform the billing function, and billing the customer separately, Southwest's programming costs would be minimal, leaving more financial resources available for customer loans. In addition, Southwest is not in the lending and financing business and such an approach could result in additional expenses being incurred to comply with applicable lending regulations and laws.

While evaluating all options for this Program, Southwest believes the best and most efficient manner for ensuring convenient customer access is to implement a financing program by partnering with a third-party financial institution. This option will allow the financial institution to administer this Program by billing participating customers for monthly payments in a separate statement from their utility bill. The benefits to this option would be lower implementation costs, quicker implementation, and less confusion for the customer.

III. Partnership/Collaboration Opportunities

A. Public or State Funding

In developing its Program, Southwest explored the availability of complementary government funds, such as those available under the American Recovery and Reinvestment Act of 2009 (ARRA). Currently,

the Arizona Department of Commerce Energy Office provides ARRA funding through the Energy Efficiency and Conservation Block Grants (EECGB). These grants, however, are only awarded to municipalities to improve energy efficiency and reduce energy use, and therefore are not available for utilities' energy-efficiency programs. The state of Arizona considered using ARRA funds to implement an energy-efficiency loan program, but decided not to pursue this venture. As a result, State funding is not an option for Southwest's energy-efficiency financing program at this time.

B. Community Partnerships

Southwest solicited input regarding its Program with the Arizona Community Action Association (ACAA), the umbrella agency for Community Agencies throughout the state. The organization fully supports this endeavor; however, expressed that they are not in a position to participate in such a loan program. ACAA primarily focuses on developing and implementing strategies that promote economic self-sufficiency for low-income customers.

C. Utility Partnership Opportunities

During the process of developing this proposal, Southwest has been and continues to be in communication with Unisource Gas/Tucson Electric Power (UNS/TEP) and Arizona Public Service (APS) regarding energy-efficiency financing collaboration efforts. Early in discussions, however, it was determined that Southwest's Program will be different from those of other utilities because of the dollar value of the loans that would be made in the financing Program. As Southwest's Program evolves, we will continue to look for partnership opportunities with other Arizona utilities. This cooperative commitment was reaffirmed in a July 20, 2010, conference call with UNS/TEP, APS, and Southwest Energy Efficiency Project regarding ways utilities can collaborate on loan programs. A meeting will be scheduled in the third quarter to further discuss partnership opportunities.

IV. Financing Program Design

A. Source of Funds

For an energy-efficiency financing program to be successful it needs a stable source of funding. Energy-efficient financing programs have been supported by a variety of means to secure and sustain sources of funds. With the parameters established for Southwest's initial Program,

the Company believes the best source of funding is through a third-party financial institution.

1. Third-Party Funding

Many variations of energy-efficiency financing programs are utilized throughout the nation. Southwest spoke with other utilities that have implemented energy-efficiency financing programs, and the most commonly used utility-sponsored energy-efficiency financing model is third-party funding. A significant benefit of this method is that it allows for a relatively quick implementation of the Program. By implementing the Program more quickly, customers are afforded an opportunity to incorporate energy-efficiency measures immediately.

Southwest believes that partnering with a third-party financial institution is the most feasible, timely and cost-effective option to best serve its customers.

2. Specific Funding Source

Southwest contacted five private financial institutions to determine if they would be interested in creating an energy-efficiency loan program. Of those institutions, National Bank of Arizona (NBA) expressed interest in partnering to create such a program that would meet the goals identified by both the Commission and Southwest. As a result of many discussions and proposals, Southwest recommends that NBA administer the Program initially, on behalf of Southwest. As the Program matures and potentially expands, Southwest will continue to seek additional lending opportunities for customers.

National Bank of Arizona, the fourth largest bank in Arizona, has 76 branches throughout the state with more than 1,100 banking professionals. This banking institution is committed to Arizona energy-efficiency initiatives and has adopted its own energy saving solutions at its various offices. Although NBA has strong Arizona roots, it also has significant regional support as a subsidiary of Zions Bancorporation, which operates more than 450 full-service banking offices in 10 states.

B. Overview of Southwest's Financing Program

Southwest currently has an agreement in principle with NBA to offer the following as part of Southwest's financing program:

- Third-party financing through National Bank of Arizona;
- Guaranty Reserve Account (or comparable financial agreement) on deposit with National Bank of Arizona to facilitate attractive interest rates and to subsidize default costs;
- Loans amounts available between \$500 and \$3,500 for up to 48 months, unsecured by the borrower;
- Loan qualification criteria based on the bank's underwriting criteria to manage risk;
- Customers who participate in the Program will have a direct relationship with the bank; and
- Loans will be available for Southwest's Commission-approved DSM consumer product measures.

C. Interest Rates

Interest rates are an integral part of the customer's financing decision making process. In order to have a successful program, the interest rate needs to be appealing to customers.

Southwest's proposal is to offer customers a discounted loan rate between 7 percent and 8 percent through NBA, as opposed to the typical consumer loan rate of 14 percent or higher. The interest rate is based on the lender's LIBOR/SWAP rate, and is subject to change on the first day of each calendar month. The published rates are valid for 30 days. Southwest will provide a partial guaranty subsidy for the financing program in the form of a Guaranty Reserve Account held by NBA. The reserve account leverages DSM dollars to create a fund used to cover the costs of loan defaults. Most importantly, the Guaranty Reserve Account serves as financial backing for the energy-efficiency loans allowing the bank to offer significantly reduced interest rates for these types of unsecured loans.

D. Loan Amounts

The available loan amount should be broad enough to cover at least one energy-efficient approved measure or a combination of approved measures. Therefore, loan amounts for the abovementioned measures would range from \$500 to \$3,500.

E. Payback Period

Loan terms define the length of the payback period of the loan. Payback terms must be balanced against the risk of defaults and the lenders willingness to extend the line of credit. The measures that Southwest is recommending for the initial program cost less than \$3,500 individually, and in many cases collectively. However, the most significant factor in considering the payback period is the useful life of the measure being financed. As a result, Southwest recommends payback periods no greater than 48 months. This payback period strikes an appropriate balance between attracting customers wanting to make these types of energy-efficiency improvements and providing reasonable monthly payments.

F. Risk Management

In order to generate loan participation, while still managing risk for customers and the Company, lending criteria should be set appropriately. When partnering with a third-party financial institution, the lending terms would be a combination of the utility's parameters as well as the lenders. The lender will generally follow their underwriting approach by reviewing and verifying the applicant's loan application, employment status and history, and FICO credit, debt to income rate, and bankruptcy scores.

Southwest proposes the following criteria for the Program:

- Meet eligibly requirements for Southwest's residential DSM Consumer Products program.
- Be an active Southwest Gas customer.

NBA will follow its General Underwriting Criteria including the following:

- Have not filed for personal bankruptcy.
- Have a stable employment history.
- FICO Scores above 700 and Bankruptcy Scores below 450.
- Maximum debt-to-income ratios ranging from 40 percent to 55 percent based on level of income.

When a loan becomes 90 days past due, NBA will provide written notice to Southwest that the bank will be exercising its right to offset a portion of the outstanding balance of the loan against the Loan Loss Reserve. The reserve will support 75 percent of the first loss up to the guaranty reserve percentage of 25 percent. NBA will incur 25 percent of the first loss until the guaranty reserve is depleted and 100 percent of the loss thereafter.

G. Ease of Use

When implementing an energy-efficiency loan program, the most beneficial financial option is one that is easy, convenient and timely for the customer to use. With NBA, customers can apply by phone and receive conditional approval within 15 to 20 minutes. To finalize the loan, customers will be able to utilize any of the 76 branches within the state. In addition, the loan recipient will be locked into an interest rate for 30 days upon receiving approval. This will allow the loan recipient the ability to research and purchase an approved energy-efficient measure with a secured loan rate.

V. Outreach

If approved by the Commission, Southwest Gas plans to promote the financing program on various DSM collateral materials including brochures, bill inserts and the website. The Company's Energy Service Specialists will also promote the program to customers. Depending on the level of participation, other outreach means may be considered.

VI. Program Costs

By using the third-party lender (NBA) to perform the billing function, and billing the customer separately, Southwest's and NBA's programming costs would be minimal, leaving more financial resources available for customer loans.

With NBA as the lender for Southwest's Program, Southwest would have an initial program cost of \$25,000 for set-up and on-going administration costs. An initial commitment of the Guaranty Reserve Account in the amount of \$25,000 will also be required; additional guaranty amounts will be provided as loans are completed, up to the Program's full \$1.5 million commitment. The Guaranty Reserve Amount is required to help mitigate potential credit losses and achieve favorable pricing, terms, and other factors associated with this financing program. Each individual loan would deplete the reserve by 25 percent of the customer loan amount.