

**ORIGINAL
OPEN MEETING**



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MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED

2011 MAR -9 11:15

FROM: Utilities Division

MAR 9 2011

DATE: March 8, 2011

DOCKETED BY

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

RE: SOUTHWEST GAS CORPORATION - APPLICATION FOR APPROVAL OF ITS RESIDENTIAL ENERGY-EFFICIENT CONSUMER PRODUCTS FINANCING PROGRAM (DOCKET NO. G-01551A-10-0320)

BACKGROUND

On July 30, 2010, Southwest Gas Corporation ("Southwest Gas" or "Company") filed an application with the Arizona Corporation Commission ("Commission") in compliance with Decision No. 71643. Decision No. 71643, dated April 14, 2010, ordered Southwest Gas to "...file for Commission consideration...a proposed energy efficiency revolving loan fund..." On June 3, 2010, the Commission issued Decision No. 71718 which approved Southwest Gas' modified Demand Side Management ("DSM") Plan. Southwest Gas' DSM Plan includes, among other programs, the Consumer Products Program which promotes the adoption of high efficiency measures by residential customers.

PROGRAM DESCRIPTION

According to Southwest Gas, the proposed Residential Energy-Efficient Consumer Products Financing Program ("Financing Program") would allow potential customers the opportunity to obtain financing for its Commission-approved DSM measures included in its Consumer Products Program. In Decision No. 71643, Southwest Gas was ordered to use the estimated \$1.5 million dollars of over-collected DSM adjustor funds to develop an energy efficiency revolving loan fund. Any remaining funds may be used for the addition of measures to the Consumer Products Program, including expansion of the Financing Program. Southwest Gas is proposing to use the over-collected DSM adjustor funds to support the proposed Financing Program as collateral for loans provided by the lender. Southwest Gas states that the purpose of the Financing Program is to assist customers in accessing loans to help cover the up-front costs associated with implementing energy efficiency measures.

Southwest Gas states that loans would be available to its customers who participate in the Consumer Products Program, approved in Decision No. 71718. The measures included in the Consumer Products Program are: natural gas storage water heaters, tankless water heaters, clothes dryers and clothes washers. Programmable thermostats and smart low-flow showerheads are also included in the Consumer Products Program; however, these measures would only be financed in conjunction with a larger purchase because the price points of the items would not qualify for a dedicated loan agreement. Customers who participate in the Financing Program

would continue to receive applicable rebates available for the measures in the Consumer Products Program.

Southwest Gas has chosen to utilize National Bank of Arizona ("NBAZ") as its third-party lender for the proposed Financing Program. NBAZ would administer the loan and perform the billing function separately. The customer's financing bill would be sent to customers in a statement separate from the customer's monthly Southwest Gas bill. The program costs to Southwest Gas would be minimal thus allowing more program funds available for loans. In addition, using a third-party lender would result in lower implementation costs, shorter implementation time period, and provide less confusion for the customer.

Southwest Gas is proposing to offer unsecured loans ranging from a minimum of \$500 to a maximum of \$3,500 with a payback period of no greater than 48 months. Based on information provided by the Company, if a customer were to pursue all the measures included in the Consumer Products Program, the cost to the Customer would range from approximately \$1,400 to \$4,700 (choosing either a natural gas storage water heater OR a tankless water heater). Southwest Gas does not anticipate that the majority of customers would pursue all the measures included in the Consumer Products Program. Southwest Gas is also proposing to offer interest rates between 7 percent and 8 percent through NBAZ. Southwest Gas would establish a Guaranty Reserve Account ("GRA") which would cover the cost of loan defaults. This will help reduce the risk to NBAZ and help drive down interest rates without significantly increasing program costs. The GRA would be funded using the over-collected DSM adjustor funds. NBAZ would provide a total loan commitment of \$1 million to be funded in tranches of \$100,000 as loans are approved. The GRA would be 25 percent of the loan commitment amount up to \$250,000. Therefore, the initial GRA amount would be \$25,000. Should NBAZ increase its total loan commitment, the GRA would be funded to maintain its 25 percent level of the total loan commitment.

In its application, Southwest Gas states that when using a third-party lender for financing, lending guidelines will generally be a combination of loan criteria used by the utility and the standard underwriting requirements of the lender. For Southwest Gas, criteria would consist of the eligibility requirements for the Consumer Products Program and the customer must be an active Southwest Gas customer. NBAZ would follow its general underwriting criteria which include a customer not having filed for bankruptcy, a stable employment history, credit scores of 700 or above and bankruptcy scores of 450 or below, and maximum debt-to-income ratios ranging from 40 percent to 55 percent based on level of income. Customers would be able to apply for a loan by telephone and receive conditional approval within 15 to 20 minutes.

PROGRAM COSTS

Because the costs associated with the proposed Financing Program would be funded through the over-collected DSM adjustor funds, there would be no impact to the current DSM adjustor rate. Southwest Gas' current DSM adjustor rate is \$0.002 per therm, approved in Decision No. 71643. Southwest Gas has indicated that there would be an initial program cost of

\$25,000 (this amount includes program implementation/administration and marketing) to be funded from the over-collected DSM adjustor funds for the set-up and on-going administration costs. In addition, the initial GRA amount of \$25,000 (25 percent of the first \$100,000 tranche of the total loan commitment from NBAZ) would be funded using the over-collected DSM adjustor funds. Therefore, the initial total program costs for the proposed Financing Program would be \$50,000. On January 31, 2011, Southwest Gas filed, for Commission approval, an application to increase the DSM adjustor rate from \$0.002 per therm to \$0.00345 per therm (Docket No. G-01551A-11-0052). Southwest Gas has included the costs of the proposed Financing Program in the calculations for its proposed DSM adjustor rate. Although the proposed Financing Program would not have an impact on the current DSM adjustor rate due to the program costs being collected through the over-collected DSM adjustor funds, the future costs of the proposed Financing Program would be funded through the DSM adjustor should the over-collected DSM adjustor funds be depleted and the Commission approves a new DSM adjustor rate.

RECOMMENDATIONS

Based on its analysis, Staff believes that Southwest Gas' proposed Financing Program would allow participation from customers who otherwise would be unable to participate in residential energy efficiency measures. Staff believes the program is in compliance with Decision No. 71643; therefore, Staff recommends approval of the proposed Financing Program. In addition, Staff recommends that Southwest Gas report on the Financing Program in its DSM semi-annual report filed with the Commission, or in any succeeding form of report ordered by the Commission. The information and data reported should include the number and size of the loans, the number and size of the loans in default, the total amount found to be uncollectible, and any other information necessary for the Commission to understand the progress and status of the Financing Program, including any ongoing problems and their proposed solutions. Staff further recommends that any default or group of defaults that would significantly affect the functioning of the Financing Program be reported to the Commission within 30 days of Southwest Gas being notified, or otherwise becoming aware, of the affecting default or defaults. Staff further recommends that Southwest Gas work to modify the loan requirements if it becomes necessary to address unanticipated problems. Southwest Gas should file an application with the Commission for approval of any modifications.



Steven M. Olea
Director
Utilities Division

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ORIGINATOR: Candrea Allen

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BEFORE THE ARIZONA CORPORATION COMMISSION

- GARY PIERCE
Chairman
- BOB STUMP
Commissioner
- SANDRA D. KENNEDY
Commissioner
- PAUL NEWMAN
Commissioner
- BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION
 OF SOUTHWEST GAS CORPORATION'S
 APPLICATION FOR APPROVAL OF ITS
 RESIDENTIAL ENERGY-EFFICIENT
 CONSUMER PRODUCTS FINANCING
 PROGRAM

DOCKET NO. G-01551A-10-0320
 DECISION NO. _____
ORDER

Open Meeting
 March 29 and 30, 2011
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest Gas" or "Company") is certificated to provide gas service as a public service corporation in the State of Arizona.

BACKGROUND

2. On July 30, 2010, Southwest Gas filed an application with the Arizona Corporation Commission ("Commission") in compliance with Decision No. 71643. Decision No. 71643, dated April 14, 2010, ordered Southwest Gas to "...file for Commission consideration...a proposed energy efficiency revolving loan fund..." On June 3, 2010, the Commission issued Decision No. 71718 which approved Southwest Gas' modified Demand Side Management ("DSM") Plan. Southwest Gas' DSM Plan includes, among other programs, the Consumer Products Program which promotes the adoption of high efficiency measures by residential customers.

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1 **PROGRAM DESCRIPTION**

2 3. According to Southwest Gas, the proposed Residential Energy-Efficient Consumer
3 Products Financing Program (“Financing Program”) would allow potential customers the
4 opportunity to obtain financing for its Commission-approved DSM measures included in its
5 Consumer Products Program. In Decision No. 71643, Southwest Gas was ordered to use the
6 estimated \$1.5 million dollars of over-collected DSM adjustor funds to develop an energy
7 efficiency revolving loan fund. Any remaining funds may be used for the addition of measures to
8 the Consumer Products Program, including expansion of the Financing Program. Southwest Gas
9 is proposing to use the over-collected DSM adjustor funds to support the proposed Financing
10 Program as collateral for loans provided by the lender. Southwest Gas states that the purpose of
11 the Financing Program is to assist customers in accessing loans to help cover the up-front costs
12 associated with implementing energy efficiency measures.

13 4. Southwest Gas states that loans would be available to its customers who participate
14 in the Consumer Products Program, approved in Decision No. 71718. The measures included in
15 the Consumer Products Program are: natural gas storage water heaters, tankless water heaters,
16 clothes dryers and clothes washers. Programmable thermostats and smart low-flow showerheads
17 are also included in the Consumer Products Program; however, these measures would only be
18 financed in conjunction with a larger purchase because the price points of the items would not
19 qualify for a dedicated loan agreement. Customers who participate in the Financing Program
20 would continue to receive applicable rebates available for the measures in the Consumer Products
21 Program.

22 5. Southwest Gas has chosen to utilize National Bank of Arizona (“NBAZ”) as its
23 third-party lender for the proposed Financing Program. NBAZ would administer the loan and
24 perform the billing function separately. The customer’s financing bill would be sent to customers
25 in a statement separate from the customer’s monthly Southwest Gas bill. The program costs to
26 Southwest Gas would be minimal thus allowing more program funds available for loans. In
27 addition, using a third-party lender would result in lower implementation costs, shorter
28 implementation time period, and provide less confusion for the customer.

1 6. Southwest Gas is proposing to offer unsecured loans ranging from a minimum of
2 \$500 to a maximum of \$3,500 with a payback period of no greater than 48 months. Based on
3 information provided by the Company, if a customer were to pursue all the measures included in
4 the Consumer Products Program, the cost to the Customer would range from approximately \$1,400
5 to \$4,700 (choosing either a natural gas storage water heater OR a tankless water heater).
6 Southwest Gas does not anticipate that the majority of customers would pursue all the measures
7 included in the Consumer Products Program.

8 7. Southwest Gas is also proposing to offer interest rates between 7 percent and 8
9 percent through NBAZ. Southwest Gas would establish a Guaranty Reserve Account ("GRA")
10 which would cover the cost of loan defaults. This will help reduce the risk to NBAZ and help
11 drive down interest rates without significantly increasing program costs. The GRA would be
12 funded using the over-collected DSM adjustor funds. NBAZ would provide a total loan
13 commitment of \$1 million to be funded in tranches of \$100,000 as loans are approved. The GRA
14 would be 25 percent of the loan commitment amount up to \$250,000. Therefore, the initial GRA
15 amount would be \$25,000. Should NBAZ increase its total loan commitment, the GRA would be
16 funded to maintain its 25 percent level of the total loan commitment.

17 8. In its application, Southwest Gas states that when using a third-party lender for
18 financing, lending guidelines will generally be a combination of loan criteria used by the utility
19 and the standard underwriting requirements of the lender. For Southwest Gas, criteria would
20 consist of the eligibility requirements for the Consumer Products Program and the customer must
21 be an active Southwest Gas customer. NBAZ would follow its general underwriting criteria which
22 include a customer not having filed for bankruptcy, a stable employment history, credit scores of
23 700 or above and bankruptcy scores of 450 or below, and maximum debt-to-income ratios ranging
24 from 40 percent to 55 percent based on level of income. Customers would be able to apply for a
25 loan by telephone and receive conditional approval within 15 to 20 minutes.

26 **PROGRAM COSTS**

27 9. Because the costs associated with the proposed Financing Program would be
28 funded through the over-collected DSM adjustor funds, there would be no impact to the current

1 DSM adjustor rate. Southwest Gas' current DSM adjustor rate is \$0.002 per therm, approved in
2 Decision No. 71643. Southwest Gas has indicated that there would be an initial program cost of
3 \$25,000 (this amount includes program implementation/administration and marketing) to be
4 funded from the over-collected DSM adjustor funds for the set-up and on-going administration
5 costs. In addition, the initial GRA amount of \$25,000 (25 percent of the first \$100,000 tranche of
6 the total loan commitment from NBAZ) would be funded using the over-collected DSM adjustor
7 funds. Therefore, the initial total program costs for the proposed Financing Program would be
8 \$50,000. On January 31, 2011, Southwest Gas filed, for Commission approval, an application to
9 increase the DSM adjustor rate from \$0.002 per therm to \$0.00345 per therm (Docket No.
10 G-01551A-11-0052). Southwest Gas has included the costs of the proposed Financing Program in
11 the calculations for its proposed DSM adjustor rate. Although the proposed Financing Program
12 would not have an impact on the current DSM adjustor rate due to the program costs being
13 collected through the over-collected DSM adjustor funds, the future costs of the proposed
14 Financing Program would be funded through the DSM adjustor should the over-collected DSM
15 adjustor funds be depleted and the Commission approves a new DSM adjustor rate.

16 **RECOMMENDATIONS**

17 10. Based on its analysis, Staff believes that Southwest Gas' proposed Financing
18 Program would allow participation from customers who otherwise would be unable to participate
19 in residential energy efficiency measures. Staff believes the program is in compliance with
20 Decision No. 71643; therefore, Staff has recommended approval of the proposed Financing
21 Program.

22 11. In addition, Staff has recommended that Southwest Gas report on the Financing
23 Program in its DSM semi-annual report filed with the Commission, or in any succeeding form of
24 report ordered by the Commission. The information and data reported should include the number
25 and size of the loans, the number and size of the loans in default, the total amount found to be
26 uncollectible, and any other information necessary for the Commission to understand the progress
27 and status of the Financing Program, including any ongoing problems and their proposed
28 solutions.

1 be reported to the Commission within 30 days of Southwest Gas Corporation being notified, or
2 otherwise becoming aware, of the affecting default or defaults.

3 IT IS FURTHER ORDERED that Southwest Gas Corporation work to modify the loan
4 requirements if it becomes necessary to address unanticipated problems. Southwest Gas
5 Corporation shall file an application with the Commission for approval of any modifications.

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

7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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11 _____
CHAIRMAN

COMMISSIONER

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14 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

15
16 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
17 Executive Director of the Arizona Corporation Commission,
18 have hereunto, set my hand and caused the official seal of
19 this Commission to be affixed at the Capitol, in the City of
20 Phoenix, this _____ day of _____, 2011.

21 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

22 DISSENT: _____
23

24 DISSENT: _____
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26 SMO:CLA:lh\RM
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1 SERVICE LIST FOR: Southwest Gas Corporation
2 DOCKET NO.: G-01551A-10-0320

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