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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

Arizona Corporation Commission  
**DOCKETED**

JUN - 5 2012

DOCKETED BY  
*JM*

IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST GAS CORPORATION  
FOR APPROVAL OF AN ENERGY  
EFFICIENCY AND RENEWABLE ENERGY  
RESOURCE TECHNOLOGY PORTFOLIO  
IMPLEMENTATION PLAN, AND FOR  
APPROVAL TO REVISE THE RATE  
COLLECTED THROUGH ITS DEMAND-  
SIDE MANAGEMENT ADJUSTOR  
MECHANISM

DOCKET NO. G-01551A-11-0344

DECISION NO. 73229

ORDER

Open Meeting  
May 22 and 23, 2012  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. Southwest serves approximately 991,000 customers in Arizona, including approximately 950,000 Residential customers and 40,000 Commercial customers, along with a smaller number of Industrial, Irrigation, Transportation and Other customers. Southwest serves natural gas customers in the following counties: Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal and Yuma.

...

1 The New Revised Plan

2 3. On September 13, 2011, in compliance with the rate case Settlement Agreement,  
3 Southwest filed an Application for Approval of its Energy Efficiency and Renewable Energy  
4 Resource Technology Portfolio Implementation Plan ("New Revised Plan"). The New Revised  
5 Plan application was filed in Docket No. G-01551A-11-0344.

6 Background

7 4. The Modified Plan. On November 12, 2010, Southwest filed an initial  
8 implementation plan as part of its rate case (Docket No. G-01551A-10-0458, "Rate Case Docket").  
9 The parties (with the exception of the Residential Utility Consumer Office) entered in a Settlement  
10 Agreement on July 15, 2011, which was later approved by the Commission in Decision No. 72723  
11 (January 6, 2012). As part of the Settlement Agreement, the Company provided supplemental EE  
12 information resulting in the Modified EE and RET Plan ("Modified Plan"). The focus of the  
13 Modified Plan was a group of cost-effective measures intended to achieve savings of 1.25 million  
14 therms within nine months of approval, as required under the terms of the Settlement Agreement.  
15 The Modified Plan was addressed in a Staff Report and proposed order docketed on September 30,  
16 2011 in the Rate Case Docket. The Staff Report and Proposed Order are pending and have not  
17 been decided.

18 5. The Settlement Agreement included the following commitment by Southwest, with  
19 respect to the New and Revised EE and RET Plan:

20 *"In order to increase the customer annual energy savings that are being agreed to*  
21 *as part of this Agreement, Southwest Gas shall file in a new docket within 60 days*  
22 *of filing this Agreement a new and revised EE and RET Implementation Plan*  
23 *pursuant to A.A.C. R14-2-2501 et seq. setting forth a plan for how it proposes to*  
24 *comply with the energy savings goals set forth therein. The new and revised EE*  
*and RET Implementation Plan will be incremental to the modified EE and RET*  
*Plan measures that are being committed to by Southwest Gas as part of this*  
*Agreement."*

25 6. Southwest filed the New Revised Plan, addressed by this proposed order, in  
26 compliance with the above commitment.

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1 Scope of the Proposed Order

2 7. New Measures and Programs. In this proposed order, although existing and  
3 previously addressed programs will be described to provide a summary of the portfolio as a whole,  
4 the focus of the analysis and recommendations herein will be the two new programs and 17 new  
5 measures proposed in the New Revised Plan. (The 17 new measures being proposed are  
6 associated with both existing and proposed new programs.)

7 8. Cost-effectiveness: Reporting and Discontinuance. Cost-effectiveness will be  
8 evaluated at the measure level. Cost-effectiveness for measures already reviewed will not be  
9 revisited. Staff has recommended that the Company file biannual reports concerning the  
10 performance of the measures included in its implementation plan, listing any measures which have  
11 ceased to be cost-effective and indicating why they have ceased to be cost-effective. The biannual  
12 measure report would be in addition to the reporting requirements of R14-2-2509.A. Staff has also  
13 recommended that any measures which cease to be cost-effective should be discontinued as part of  
14 the implementation plan.

15 9. DSM adjustor rate. On January 30, 2012, in compliance with Decision No. 60532,  
16 Southwest filed, to reset its DSM surcharge ("DSMS") (Docket No. G-01551A-12-0037).<sup>1</sup>  
17 Southwest requested an increase from the current \$0.00200 to \$0.00704 per therm for \$4.8 million  
18 in anticipated spending, which is what the Company anticipates spending from April 1, 2012  
19 through March 31, 2013 absent action on either the Modified Plan or New Revised Plans. Should  
20 the New Revised Plan with its associated \$16.5 million budget be approved, Southwest requests an  
21 increase to \$0.02552. This amount takes into account the currently over-collected DSM bank  
22 balance and surcharge accruals through March 2012.

23 10. Staff has recommended the DSMS reset be done as part of the current docket, and  
24 that the DSMS include the following: (i) the existing DSM bank balance; (ii) projected spending  
25 through 2013 for all existing programs and measures, and any programs and measures approved as  
26 ...

27 \_\_\_\_\_  
28 <sup>1</sup> In the New Revised Plan (September 2011), Southwest had requested a reset to "approximately" \$0.02673 per therm.

1 part of the Modified or New Revised Plans; and (iii) the costs of the Residential Financing  
2 Program approved in April 2011 (Decision No. 72256).

3 11. New Programs and Measures. The table below lists all the programs, existing or  
4 proposed, in the Southwest portfolio. Listed, by program, and in bold, are the new measures  
5 proposed as part of the New Revised Plan. The two new pilot programs are also indicated, and are  
6 also in bold print. The new programs and measures were the focus of Staff's cost-effectiveness  
7 analysis.

Program Name	Existing, or New	Pending	New Measures
<i>Residential Sector</i>			
<i>SGB Residential Rebates</i>	Existing		<ul style="list-style-type: none"> <li>• <b>Condensing Water Heater</b></li> <li>• <b>Lavatory Faucet</b></li> <li>• <b>Boiler</b></li> <li>• <b>Duct Insulation and Duct Sealing</b></li> </ul>
<i>SGB Homes</i>	Existing		<ul style="list-style-type: none"> <li>• <b>Condensing Water Heater<sup>2</sup></b></li> <li>• <b>Clothes Dryer</b></li> </ul>
<i><b>SGB Residential Energy Assessments</b></i>	<b>New (pilot)</b>		<ul style="list-style-type: none"> <li>• <b>Energy audits; provides direct install: efficient showerheads;</b></li> <li>• <b>lavatory aerators;</b></li> <li>• <b>kitchen aeraerators</b></li> </ul>
<i>Non-residential Sector</i>			
<i>SGB Business Rebates</i>	Existing		<ul style="list-style-type: none"> <li>• <b>Steam Boiler</b></li> <li>• <b>Large Vat Fryer</b></li> <li>• <b>Convection Oven</b></li> <li>• <b>Dishwasher (Low Temp): Single Tank Conveyor</b></li> <li>• <b>Dishwasher (Low Temp): Multi Tank Conveyor</b></li> </ul>
<i>SGB Custom Business Rebates</i>	Proposed as part of the Modified EE and RET Plan (pending)		N/A
<i><b>SGB Business Energy Assessments</b></i>	<b>New (pilot)</b>		<ul style="list-style-type: none"> <li>• <b>Energy Audits</b></li> </ul>
<i>SGB Distributed Generation</i>	Existing		N/A
<i>Low-Income Sector</i>			
<i>SGB Low-Income Energy Conservation</i>	Existing		N/A
<i>Educational Sector</i>			
<i>SGB Energy Education</i>	Proposed as part of the Modified EE and RET Plan (pending)		<ul style="list-style-type: none"> <li>• <b>Print and Radio</b></li> </ul>
<i>Renewable Sector</i>			
<i>SGB Solar Thermal Rebates</i>	Proposed as part of the Modified EE and RET Plan (pending)		N/A

27 <sup>2</sup> The condensing water heater is proposed for both the Residential Rebates program and the Homes program. In cases  
28 where the Company is proposing the same energy efficient measure for more than one program, cost-effectiveness is  
evaluated separately for each program. Program costs vary from program to program, and can significantly impact the  
benefit-cost ratio, meaning that a measure could be a cost-effective part of one program, but not another.

1 Total Implementation Plan Budget

2 12. Southwest is proposing an overall budget of \$16.5 million, as compared to the  
 3 existing budget of approximately \$4.8 million and the \$8.4 million budget proposed for the  
 4 Modified Plan. The \$16.5 million budget, below, includes: (i) existing programs and measures;  
 5 (ii) programs and measures proposed as part of the pending Modified Plan; and (iii) programs and  
 6 measures proposed as part of the New Revised Plan.

7 13. The budget table lists projected costs by program and category.

Smarter Greener Better ("SGB") Program	Rebates	Administration	Outreach	Delivery	MV&E	Total Cost
<b>Residential</b>						
SGB Residential Rebates	\$3,853,350	\$41,250	\$330,000	\$1,192,900	\$82,500	\$5,500,000
SGB Homes	\$3,199,948	\$160,052	\$480,000	\$80,000	\$80,000	\$4,000,000
SGB Residential Energy Assessments	\$165,000	\$267,500	\$133,750	\$107,000	\$26,750	\$700,000
<b>Total Residential</b>	<b>\$7,218,298</b>	<b>\$468,802</b>	<b>\$943,750</b>	<b>\$1,379,900</b>	<b>\$189,250</b>	<b>\$10,200,000</b>
<b>Non-residential</b>						
SGB Business Rebates	\$1,102,270	\$90,000	\$222,730	\$495,000	\$90,000	\$2,000,000
SGB Custom Business Rebates	\$65,000	\$5,000	\$20,000	\$55,000	\$5,000	\$150,000
SGB Business Energy Assessments	\$350,000	\$17,500	\$105,000	\$175,000	\$52,500	\$700,000
SGB Distributed Generation	\$1,250,000	\$50,000	\$200,000	\$200,000	\$50,000	\$1,750,000
<b>Total Non- residential</b>	<b>\$2,767,270</b>	<b>\$162,500</b>	<b>\$547,730</b>	<b>\$925,000</b>	<b>\$197,500</b>	<b>\$4,600,000</b>
<b>Low-Income</b>						
SGB Low- Income Weatherization	\$373,500	\$67,500	\$9,000	\$0	\$0	\$450,000
Low-Income Bill Assistance	\$0	\$0	\$0	\$200,000	\$0	\$200,000
<b>Total Low- Income</b>	<b>\$373,500</b>	<b>\$67,500</b>	<b>\$9,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$650,000</b>
<b>Education</b>						
SGB Energy Education	\$0	\$60,000	\$482,500	\$0	\$7,500	\$550,000
<b>Total Education</b>	<b>\$0</b>	<b>\$60,000</b>	<b>\$482,500</b>	<b>\$0</b>	<b>\$7,500</b>	<b>\$550,000</b>
<b>Renewable Energy Resource Technology</b>						
SGB Solar	\$350,000	\$15,000	\$60,000	\$67,500	\$7,500	\$500,000

1	Thermal Rebates					
2	<b>Total Renewable Energy Resource Technology</b>	<b>\$350,000</b>	<b>\$15,000</b>	<b>\$60,000</b>	<b>\$67,500</b>	<b>\$500,000</b>
3						
4	Total EE and RET Plan	\$10,709,068	\$773,802	\$2,042,980	\$2,372,400	\$401,750
5						\$16,500,000

6           14.    The budget comparison table, below, shows the differences between the proposed  
7 budget for the New Revised Plan and the proposed budget for the Modified Plan. As previously  
8 noted, the pending Modified Plan proposes a budget of approximately \$8.4 million, while the New  
9 Revised Plan would bring the total budget to \$16.5 million.

10           **Comparison of Proposed Budgets: New Revised Plan (Current Application) versus Modified Plan (Pending Application)**

11	Residential Rebates	\$5,500,000	New Revised Plan (New Revised Plan)
12		\$3,027,770	Modified Plan
13		<b>\$2,472,230</b>	<b>increase</b>
14	Homes	\$4,000,000	New Revised Plan (New Revised Plan)
15		\$2,260,500	Modified Plan
16		<b>\$1,739,500</b>	<b>increase</b>
17	Residential Energy Assessments	<b>\$700,000</b>	<b>increase (new program)</b>
18	Business Rebates	\$2,000,000	New Revised Plan (New Revised Plan)
19		\$891,275	Modified Plan
20		<b>\$1,108,725</b>	<b>increase</b>
21	Custom Business Rebates	\$150,000	New Revised Plan (New Revised Plan)
22		\$100,000	Modified Plan
23		<b>\$50,000</b>	<b>increase</b>
24	Business Energy Assessments	<b>\$700,000</b>	<b>increase (new program)</b>
25	Distributed Generation	\$1,750,000	New Revised EPlan (New Revised Plan)
26		\$757,000	Modified Plan
27		<b>\$993,000</b>	<b>increase</b>
28	Low-Income	<b>\$650,000</b>	<b>unchanged</b>
	Education	\$550,000	New Revised Plan (New Revised Plan)
		\$200,000	Modified Plan
		<b>\$350,000</b>	<b>increase</b>

Solar Thermal Rebates	\$500,000	unchanged
Total difference	\$8,113,455	Total increase, from Modified Plan to New Revised Plan
Total Proposed Spending	\$16,500,000	

15. Recommendation. Staff has recommended that the budget increase proposed for the New Revised Plan be adjusted to reflect any Commission-ordered changes, including measures or programs that are modified or not approved for inclusion in Southwest's Implementation Plan.

#### Cost-Effectiveness Issues

16. Summary. There are two general concerns regarding the cost-effectiveness of the new programs and measures proposed by Southwest in its New Revised Plan. One is that the Company has asserted that, under the Rules, pilot programs need not be cost-effective. The other is that the Company has proposed a significant number of individual measures with benefit-cost ratios well below what is required for cost-effectiveness.

17. Pilot Programs Required to be Cost-effective. In its application, Southwest asserts that "[p]ursuant to Section R14-2-2512(G) of the Gas EE Standard, cost-effectiveness is not required for pilot programs." Staff disagrees with this interpretation of the Gas EE Standard. In fact, R14-2-2503(A) states that "[a]n affected utility shall design *each DSM program* to be cost-effective." There is no language exempting pilot programs from this requirement.

18. The language in R14-2-2512(G) does state however, that "[r]esearch and development and pilot programs are not required to demonstrate cost-effectiveness." This narrow exemption allows a program to be continued beyond the pilot stage, even if cost-effectiveness was not demonstrated, when there is a reasonable expectation that the program will become cost-effective once fully implemented and active. It also means that a utility may recover the prudently incurred costs associated with an EE pilot that did not demonstrate cost-effectiveness during the pilot state. It does not relieve the utilities from the requirement to design programs to be cost-effective.

19. Cost-effectiveness Required at the Measure Level. Southwest states that "[c]onsistent with the Gas EE Standard, cost-effectiveness was performed at the portfolio and

1 program levels.” Southwest has proposed a number of measures that are not individually cost-  
2 effective, for inclusion in programs that are cost-effective on an overall basis.

3 20. The Company is mistaken in its assertion that, under the Gas EE Standard, cost-  
4 effectiveness is required at only the portfolio and program levels. For example, R14-2-2509  
5 provides an extensive list of the data on cost-effectiveness that must be reported for “each  
6 Commission-approved DSM program *and measure*,” while R14-2-2512 lists the type of data that  
7 may be included when analyzing “a DSM program’s *or DSM measure’s* cost-effectiveness.”  
8 (Emphasis added.) The language of the Gas Energy Efficiency Rules plainly indicates that cost-  
9 effectiveness is required at the measure level.

10 21. Impact of Non-cost-effective Measures. Staff believes that dispensing with the  
11 requirement for measure-level cost-effectiveness could harm overall cost-effectiveness. While a  
12 portfolio or program may remain cost-effective, even when non-cost-effective measures are  
13 included, the inclusion of measures with benefit-cost ratios below 1.0 necessarily dilutes the cost-  
14 effectiveness of the program or portfolio as a whole.

15 22. Issues for Natural Gas Measure Cost-effective Generally. Staff notes that there are  
16 fewer opportunities to save natural gas cost-effectively, than there are for electricity. The reasons  
17 for this include the following: (i) fewer appliances are natural-gas powered, in both Residential  
18 and Non-residential settings; (ii) natural gas prices have been lower in recent years, making the  
19 costs avoided through energy efficiency lower and lowering cost-effectiveness for natural gas  
20 measures generally; and (iii) specifically in Arizona, the generally warmer climate means a lower  
21 demand for natural gas for heating in many areas of the state. Despite these more limited savings  
22 opportunities, Staff believes that it is required by the Gas Energy Efficiency Rules, and is in the  
23 ratepayers’ best interest, to design and maintain energy efficiency measures and programs in as  
24 cost-effective a manner as possible.

25 23. Cost-effectiveness of New Measures/Programs. The new measures and programs  
26 proposed as part of the New Revised Plan are listed below, along with their benefit-cost ratio, as  
27 calculated by Staff. In order to be cost-effective, a measure must have a benefit-cost ratio greater  
28 ...



1 than 1.0, meaning the costs (or benefits) of a measure must be greater than the costs associated  
2 with purchasing and installing the measure.

3 24. Analysis and Recommendations. Staff's analysis indicates that three of the  
4 proposed measures for existing programs have a benefit-cost ratio of higher than 1.0, making them  
5 cost-effective. Staff has recommended that Duct Insulation and Duct Sealing, Dishwasher (Low  
6 Temp): Single Tank Conveyor, and Dishwasher (Low Temp): Multi Tank Conveyor be approved.

7 25. With respect to the Residential and Business Assessment pilot programs, the  
8 available information and data do not support a conclusion that either program would provide cost-  
9 effective savings. Staff has recommended against approval of both programs.

10 26. One of the measures associated with the Residential Assessments direct install  
11 component, the Lavatory Aerator, approaches cost-effectiveness, having a benefit-cost ratio of  
12 0.95. Taking into account avoided environmental costs, the value of which has not been  
13 monetized, but which is greater than zero, the Lavatory Aerator is likely to be cost-effective in  
14 practice, if the associated program costs are low enough. Staff has recommended that the Lavatory  
15 Aerator measure be added to the SGB Residential Rebates Program and/or the SGB Homes  
16 Program, if such an addition can be done on a cost-effective basis.

Program Name/New Measures	Benefit-Cost Ratio
<b>Residential Sector</b>	
<i>SGB Residential Rebates</i>	
• <b>Condensing Water Heater</b>	0.52
• <b>Lavatory Faucet</b>	0.51
• <b>Boiler</b>	0.50
• <b>Duct Insulation and Duct Sealing</b>	1.19
<i>SGB Homes</i>	
• <b>Condensing Water Heater</b>	0.61
• <b>Clothes Dryer</b>	0.70
<i>SGB Residential Energy Assessments</i>	
• <b>Energy audits; also provides direct install efficient showerheads and faucets</b>	Southwest states that, as a pilot, this program need not be cost-effective. Data provided on direct install measures, but not on assessments.
• <b>Low-flow showerhead</b>	0.76
• <b>Lavatory aerator</b>	0.95
• <b>Kitchen aerator</b>	0.85

1	<b>Non-residential Sector</b>	
2	<i>SGB Business Rebates</i>	
3	• <b>Steam Boiler</b>	0.51
4	• <b>Large Vat Fryer</b>	0.78
5	• <b>Convection Oven</b>	0.81
6	• <b>Dishwasher (Low Temp): Single Tank Conveyor</b>	1.09
7	• <b>Dishwasher (Low Temp): Multi Tank Conveyor</b>	1.22
8	<i>SGB Custom Business Rebates</i>	
9		No new measures.
10	<i>SGB Business Energy Assessments</i>	
11	• <b>Energy Audits</b>	Southwest states that, as a pilot, this program need not be cost-effective. Data not provided.
12	<i>SGB Distributed Generation</i>	
13	N/A	No new measures.
14	<b>Low-Income Sector</b>	
15	<i>SGB Low-Income Energy Conservation</i>	
16	N/A	No new measures.
17	<b>Educational Sector</b>	
18	<i>SGB Energy Education (includes Conservation Behavior program)</i>	
19	• <b>Print and Radio</b>	An educational measure. No way to directly measure benefits relative to costs.
20	<b>Renewable Sector</b>	
21	<i>SGB Solar Thermal Rebates</i>	
22	N/A	Renewable measures are not required to be cost-effective.

## Implementation Plan Programs

### A. Smarter Greener Better Residential Rebates ("SGB Residential Rebates")

27. Description. *SGB Residential Rebates* is an existing program targeting Residential customers. Rebates are offered to residential customers on qualified program measures and mailed to participating customers upon proof-of-purchase and installation.

28. New SGB Residential Rebates Measures. The following new measures have been proposed for the *SGB Residential Rebates* program as part of the New Revised Plan:

- **Condensing Water Heater**
- **Lavatory Faucet**
- **Boiler**
- **Duct Insulation and Duct Sealing**

4 B. Smarter Greener Better Homes (“SGB Homes”)

5 29. Description. *SGB Homes* is an existing program targeting Residential customers.  
 6 Rebates are offered to home builders who build ENERGY STAR® certified homes and install  
 7 program-eligible ENERGY STAR® measures. The program is available to all builders of new  
 8 single-family subdivision and custom homes and individually metered multi-family homes  
 9 featuring natural gas water and space heating.

10 30. New SGB Homes Measures. The following new measures have been proposed for  
 11 the *SGB Homes* program as part of the New Revised Plan:

- **Condensing Water Heater**
- **Clothes Dryer**

14 C. Smarter Greener Better Residential Energy Assessments (Pilot “SGB Residential Energy  
 15 Assessments”)

16 31. Description. *SGB Residential Energy Assessments* is proposed as a new pilot  
 17 program targeting Residential customers. Southwest proposes a joint residential energy  
 18 assessment (energy audit) program with Arizona Public Service for the program’s first year, and  
 19 expects to partner with Salt River Project and/or Tucson Electric Power during future program  
 20 years. All three of these utilities serve in Southwest’s Arizona service territory and have already  
 21 developed their own residential energy audit programs. For all participating homes with natural  
 22 gas water and space heating, Southwest would pay rebates to homeowners for a portion of  
 23 contractor costs and will provide direct-install measures such as smart low-flow showerheads and  
 24 faucet accessories (aerators) and information for the *SGB Residential Rebates* program.

25 32. New SGB Residential Energy Assessments (Pilot) Measures. The new measures  
 26 associated with this proposed pilot program are as follows:

- **Energy AuditDirect Install of:**
- **Efficient showerheads**

- Lavatory aerators
- Kitchen aerators

D. Smarter Greener Better Business Rebates (“SGB Business Rebates”)

33. Description. *SGB Business Rebates* is an existing program targeting Non-residential customers. Rebates are offered to non-residential customers on qualified program measures and mailed to participating customers upon proof-of-purchase and installation.

34. The following new measures have been proposed for the *SGB Business Rebates* program as part of the New and Revised EE and RET Plan:

- Steam Boiler
- Large Vat Fryer
- Convection Oven
- Dishwasher (Low Temp): Single Tank Conveyor
- Dishwasher (Low Temp): Multi Tank Conveyor

E. Smarter Greener Better Custom Business Rebates (“SGB Custom Rebates”)

35. Description. The *SGB Customer Rebates* program would offer incentives to non-residential customers based on achieved annual energy savings. This program was proposed as part of the pending Modified Plan. Southwest is not proposing any changes to the pending program.

36. Measures. The program does not specify eligible measures in order to provide participants maximum flexibility in identifying potential projects. Participants may propose any measure that produces a verifiable natural gas usage reduction, is installed in either existing or new construction applications, has a minimum useful life of seven years and exceeds minimum cost-effectiveness requirements. Qualifying measures include those that target cost-effective natural gas savings, such as retrofits of existing systems, improvements to existing systems and first time installations where the system’s efficiency exceeds applicable codes or standard industry practice.

F. Smarter Greener Better Business Energy Assessments (Pilot) (“SGB Business Energy Assessments”)

37. Description. The *SGB Business Energy Assessments* program would offer up to \$5,000 per non-residential customer to aid in offsetting the cost of conducting a comprehensive

1 energy assessment (energy audit) for all, or a substantial portion of the customer's premises. The  
2 audit must meet or exceed the American Society of Heating, Refrigerating, and Air Conditioning  
3 Engineers (ASHRAE) Level 2, energy audit standards. The energy audit would study a customer's  
4 existing equipment and building envelope and identify potential energy conservation measures to  
5 reduce overall energy consumption and increase energy efficiency.

6 38. New SGB Business Energy Assessments (Pilot) Measure. The new measure  
7 associated with this proposed pilot program is as follows:

- 8 • **Energy Audit**

9  
10 G. Smarter Greener Better Distributed Generation ("SGB Distributed Generation")

11 39. Description. The *SGB Distributed Generation* program promotes the installation of  
12 high efficiency Combined Heat and Power ("CHP") technologies, and targets large commercial  
13 and industrial customers in the Company's Arizona service territory. CHP uses a primary energy  
14 source to produce both electric energy and useful process heat. CHP systems are configured to  
15 recapture the waste heat and use it for space heating, water heating, industrial steam loads, air  
16 conditioning, humidity control, water cooling, product drying or any other thermal need. The  
17 rebates are based upon the size and efficiency of the system being installed and range from \$400 to  
18 \$500 per kW.

19 40. Measures. The *SGB Distributed Generation* program offers rebates for individual  
20 non-residential projects meeting program criteria. Southwest has not proposed new measures for  
21 this program. Southwest has proposed an increase in this program's budget. Given the large size  
22 of the projects, the savings available and the recent increased program activity, the proposed  
23 increase is reasonable.

24 H. Smarter Greener Better Low-Income Energy Conservation ("SGB LIEC")

25 41. Description. The *SGB LIEC* program provides income-qualified residential  
26 customers with money-saving weatherization measures that reduce energy use in their homes. The  
27 program is available to households with annual incomes less than 150 percent of the federal  
28 poverty income guidelines, and is administered by Southwest in conjunction with the Arizona

1 Governor's Office on Energy Policy (OEP – formerly referred to as the Arizona Energy Office).  
2 The OEP manages the Department of Energy's statewide Weatherization Assistance Program in  
3 Arizona and sub-contracts with local community agencies to install home weatherization  
4 measures. The home weatherization measures focus on four major categories: 1) duct repair; 2)  
5 infiltration control; 3) insulation (including attic, duct and floor); and 4) repair or replacement of  
6 appliances that are not operational or pose a health hazard.

7       42.     Measures. Southwest has not proposed new measures for the *SGB LIEC* program.  
8 As part of the Modified Plan it was proposed that the program's eligibility be tied to that of the  
9 federal Low-Income Home Energy Assistance Program ("LIHEAP"), to expand eligibility and  
10 ease administration. Currently, LIHEAP's eligibility level is equal to 200% of the federal poverty  
11 level.

12 *I. Smarter Greener Better Energy Education (Pilot) ("SGB Energy Education" formerly "SGB*  
13 *Conservation Behavior")*

14       43.     Description. The SGB Energy Education Program includes the SGB Conservation  
15 Behavior program addressed in the pending Staff Report and proposed order relating to the  
16 Modified Plan. As part of the New Revised Plan, Southwest is proposing to increase spending for  
17 the Conservation Behavior measure from \$200,000 to \$375,000, and to expand participation from  
18 23,000 to 50,000. In addition, as part of the New Revised Plan, Southwest is proposing to spend  
19 \$175,000 on print and radio marketing. The expanded participation and the addition of print and  
20 radio advertising would increase the total proposed spending for the Energy Education (formerly  
21 the Conservation Behavior) program from \$200,000 (in the Modified Plan) to \$550,000 (for the  
22 New Revised Plan).

23       44.     New Measure. Print and radio marketing have been proposed as a new measure.

24       45.     Recommendation. Staff calculated the benefit-cost ratio for the Conservation  
25 Behavior program component at 1.24, as part of its evaluation of the Modified Plan. The increased  
26 participation proposed by Southwest should increase overall energy savings for the Southwest  
27 portfolio of programs. Staff has recommended in favor of expanding the Conservation Behavior

28 ...

1 component of the Energy Education Program from 23,000 to 50,000 participants and in favor of  
2 increasing the budget for this component from \$200,000 to \$375,000.

3 46. The Print and Radio marketing measure, however, would not produce direct and  
4 verifiable savings, and appears to be an unnecessary added expense for a portfolio with an already  
5 substantial Outreach budget. Staff has recommended against the Print and Radio marketing  
6 measure, and against the \$175,000 in funding proposed for this measure.

7 J. Smarter Greener Better Solar Thermal Rebates ("SGB Solar")

8 47. Description. Rebates will be offered to residential and non-residential customers on  
9 qualified solar thermal systems, used for water heating or pool heating, upon proof-of-purchase  
10 and installation. The program objective is to increase public awareness of the benefits of solar  
11 thermal systems and to reduce customer natural gas usage by providing economically beneficial  
12 rebates to install the systems. Long-term customer energy savings will be realized throughout the  
13 life of the solar thermal systems.

14 48. The *SGB Solar* program was addressed in the Staff Report and proposed order  
15 relating to the Modified Plan, which is pending. No new measures were proposed for this program  
16 in the New Revised Plan. Staff notes that, as a renewable program, neither the program nor its  
17 constituent measures are required to be cost-effective.

18 Implementation Plan Savings

19 49. The Southwest Implementation Plan, including new measures proposed in the New  
20 Revised Plan, is designed to achieve savings of approximately 3,597,767 therms or therm  
21 equivalents, based on the measures and programs proposed by the Company. Based on the  
22 estimated savings above, and on Staff's recommendations with respect to the New Revised Plan,  
23 Staff's revised estimate of savings is 3,294,517 therms or therm equivalents.

24 Revised Budget

25 50. Recommendation. Staff has recommended against approval of two programs and  
26 most of the new measures proposed by the Company in the New Revised Plan. If the Commission  
27 agrees with Staff's recommendations, the proposed budget should be adjusted to accord with the  
28 modifications. Below, Staff has recommended a revised budget for the Southwest portfolio that is

1 reflective of its recommendations regarding the proposed measures and programs. This lower  
2 budget is also taken into account in Staff's calculation of its revised DSMS.

Smarter Greener Better ("SGB") Program	Company Proposed Budget	Staff Proposed Budget
<b>Residential</b>		
SGB Residential Rebates	\$5,500,000	\$4,389,000
SGB Homes	\$4,000,000	\$3,664,000
SGB Residential Energy Assessments	\$700,000	0
<b>Total Residential</b>	<b>\$10,200,000</b>	<b>\$8,053,000</b>
<b>Non-residential</b>		
SGB Business Rebates	\$2,000,000	\$1,956,000
SGB Custom Business Rebates	\$150,000	\$150,000
SGB Business Energy Assessments	\$700,000	0
SGB Distributed Generation	\$1,750,000	\$1,750,000
<b>Total Non-residential</b>	<b>\$4,600,000</b>	<b>\$3,856,000</b>
<b>Low-Income</b>		
SGB Low-Income Weatherization	\$450,000	\$450,000
Low-Income Bill Assistance	\$200,000	\$200,000
<b>Total Low-Income</b>	<b>\$650,000</b>	<b>\$650,000</b>
<b>Education</b>		
SGB Energy Education	\$550,000	\$375,000
<b>Total Education</b>	<b>\$550,000</b>	<b>\$375,000</b>
<b>Renewable Energy Resource Technology</b>		
SGB Solar Thermal Rebates	\$500,000	\$500,000
<b>Total Renewable Energy Resource Technology</b>	<b>\$500,000</b>	<b>\$500,000</b>
<b>Total EE and RET Plan</b>	<b>\$16,500,000</b>	<b>\$13,434,000</b>

20 Measurement, Evaluation, and Research ("MER")

21 51. Reporting shall be done in accordance with the Gas Energy Efficiency Rules,  
22 Section R14-2-2515.

23 Bill Impacts

24 52. Based on the modifications recommended by Staff, Staff has recommended a  
25 DSMS of \$0.02069 per therm. The table below shows the bill impacts associated with the existing,  
26 Company-proposed, and Staff-proposed DSMS levels:

27 ...

28 ...



Monthly Bill Impacts: Seasonal and Annual	Winter	Summer	Annual
Average Therm Usage/month	39	11	25
<b>Current DSMS</b>			
\$0.00200	\$0.08	\$0.02	\$0.05
<b>Proposed DSMS</b>			
Southwest *			
\$0.02552	\$1.00	\$0.28	\$0.64
Staff			
\$0.02069	\$0.81	\$0.23	\$0.52

\*Based on budget proposed in the New Revised Plan.

## Summary of Recommendations

### Reporting and Discontinuance

- Staff has recommended that the Company file biannually concerning the performance of the measures included in its implementation plan, listing any measures which have ceased to be cost-effective and indicating why they have ceased to be cost-effective. The reports would be due in April and October of each year (covering six months of data) until further order of the Commission.
- Staff has also recommended that any measures which cease to be cost-effective should be discontinued as part of the implementation plan.

### DSMS Reset

- Staff has recommended the DSMS reset be done as part of the current docket, and that the DSMS include the following: (i) the existing DSM bank balance; (ii) projected spending through 2013 for all existing programs and measures, and any programs and measures approved as part of the Modified or New Revised Plans.
- Staff has recommended that the DSMS be reset to \$0.02069 per therm.

### Overall Budget

- Staff has recommended that the budget increase proposed for the New Revised Plan be adjusted to reflect any Commission-ordered changes, including measures or programs that are modified or not approved for inclusion in Southwest's Implementation Plan.

### Energy Education Program

- Staff has recommended in favor of expanding the Conservation Behavior component of the Energy Education Program from 23,000 to 50,000 participants and in favor of increasing the budget for this component from \$200,000 to \$375,000.
- Staff has recommended against approval of the Print and Radio marketing measure proposed for the Energy Education Program, and against the \$175,000 in funding associated with this measure.

1           53. On April 23, 2012, RUCO filed comments opposing Southwest's request to  
2 increase its EE budget to \$16.5 million, a 300% increase over its currently approved EE budget of  
3 \$4.7 million. RUCO states that Southwest's EE budget has increased from \$1.4 million in 2010, to  
4 \$2.8 million in 2011, to \$4.7 million in 2012. At the same time, RUCO indicates that Southwest's  
5 per customer consumption has decreased on average 1.93% a year for the past 24 years. RUCO  
6 asserts that this decline in per customer consumption has occurred for reasons outside of  
7 Commission efforts to pursue additional EE. In light of the foregoing, RUCO recommends  
8 authorizing a \$4.7 million EE budget for Southwest in 2012 instead of increasing it to \$13.2  
9 million as proposed by Staff.

10          54. We believe there is wisdom in RUCO's recommendation. In light of the fact that  
11 Southwest's annual expenditures in EE has increased more than 200% in the past two years, we  
12 believe the prudent thing to do is to evaluate the impact the current spending levels are having on  
13 increasing EE and further reducing an already declining usage per customer.

14          55. Accordingly, we will approve a \$4.7 million 2012 EE budget for Southwest. We  
15 will also maintain the existing DSM Surcharge of \$0.00200 per therm in light of the approximately  
16 \$1.3 million over-collection in Southwest's DSM balance. Moreover, to further ensure that  
17 expenditures under Southwest's EE and RET Plan result in ratepayer savings, we will not approve  
18 funds collected through the DSM Surcharge to be expended on any measure that has not been  
19 evaluated by Staff and found cost effective.

#### 20                                   CONCLUSIONS OF LAW

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

23           2. The Commission has jurisdiction over Southwest and over the subject matter of the  
24 application.

25           3. The Commission, having reviewed the application and Staff's Memorandum dated  
26 April 10, 2012, concludes that it is in the public interest to approve the New Revised Plan as  
27 discussed herein.

28     ...

ORDER

1  
2 IT IS THEREFORE ORDERED that the Southwest Gas Corporation New Revised Plan be  
3 approved with a budget of \$4.7 million and DSM Surcharge of \$0.00200, with the modification  
4 discussed herein. This \$4.7 million is not in addition to the \$4.7 million approved in Docket No.  
5 G-01551A-10-0458.

6 IT IS FURTHER ORDERED that Southwest will not expend any funds collected through  
7 its DSM Surcharge on any measure that has not been evaluated by Staff and found cost effective.

8 IT IS FURTHER ORDERED that the following measures be approved:

- 9
- 10 • Duct Insulation and Duct Sealing;
  - 11 • Dishwasher (Low Temp): Single Tank Conveyor;
  - 12 • Dishwasher (Low Temp): Multi Tank Conveyor;
  - 13 • Lavatory Aerator.

14 IT IS FURTHER ORDERED that the Lavatory Aerator measure, originally proposed as  
15 part of the Residential Assessments program, be added to the SGB Residential Rebates Program  
16 and/or the SGB Homes Program, if such an addition can be done on a cost-effective basis.

17 IT IS FURTHER ORDERED that Southwest Gas Corporation file a report biannually  
18 concerning the performance of the measures included in its implementation plan, listing any  
19 measures which have ceased to be cost-effective and indicating why they have ceased to be cost-  
20 effective. The reports shall be due in April and October of each year until further order of the  
21 Commission.

22 IT IS FURTHER ORDERED that any measures which cease to be cost-effective should be  
23 discontinued as part of the implementation plan.

24 IT IS FURTHER ORDERED that the Conservation Behavior component of the Energy  
25 Education Program be expanded from 23,000 to 50,000 participants, and that the budget for this  
26 component be increased from \$200,000 to \$375,000.


27 IT IS FURTHER ORDERED that to ensure accurate and timely cost-effectiveness analysis  
28 through the use of one model and consistent input values, Staff should attempt to retain an  
independent third-party consultant to assist a Staff-led working group, including the Company and  
interested stakeholders, in (a) exploring effective options for cost-effectiveness analysis models;

1 (b) selecting and securing one model to be used by the Company and Staff for cost-effectiveness  
2 analysis; (c) resolving any differences in key input values used in the analysis; and (d) creating  
3 templates for Implementation Plans and annual progress and status reports.

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

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

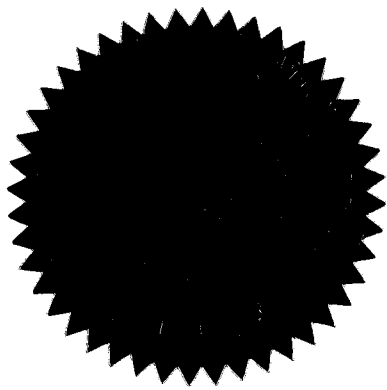
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CHAIRMAN

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COMMISSIONER

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11 COMMISSIONER

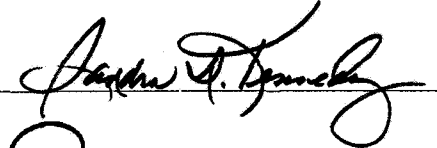
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11 COMMISSIONER

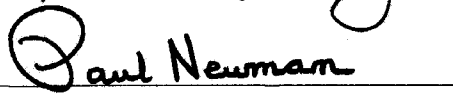
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COMMISSIONER



12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
13 Executive Director of the Arizona Corporation Commission,  
14 have hereunto, set my hand and caused the official seal of this  
15 Commission to be affixed at the Capitol, in the City of Phoenix,  
16 this 5<sup>th</sup> day of June, 2012.

16  
17   
18 ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

19  
20 DISSENT: 

21  
22 DISSENT: 

23 SMO:JMK:lhm\RM

1 SERVICE LIST FOR: Southwest Gas Corporation  
DOCKET NO. G-01551A-11-0344

2

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



**ARIZONA CORPORATION COMMISSION**

**SANDRA D. KENNEDY**  
**COMMISSIONER**

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May 24, 2012

Arizona Corporation Commission  
Docket Control  
G-01551A-11-0344

**RE: DISSENT**  
**SOUTHWEST GAS COMPANY**  
**G-01551A-11-0344**

I am filing this dissent letter to explain my "No" vote concerning Southwest Gas Company's ("SWG") applications for Commission approval of its proposed Energy Efficiency Implementation Plans in Docket Nos. G-01551A-11-0344 and G-01551A-10-0458.

After waiting five months since the SWG rate case, the Commissioners finally had an opportunity to consider the Company's Energy Efficiency ("EE") programs. I am disappointed in the outcome.

I understand that part of the delay was due to the overwhelming workload of our Staff as well as the timing of the rate case and the EE filings. However, I believe that doing the rate case portion of the EE programs in a bifurcated process may have resulted in the substantial under funding of the Company's EE budget and its programs. I am concerned that this in turn will hamper the success of the Commission's EE rules.

Our Staff did its due diligence in its analysis of the programs initially proposed by the Company, and modified the Company's proposals to ensure that they were cost-effective for ratepayers. The Commission's Staff did an admirable job to balance impacts to ratepayers with the Company's need to comply with the EE rules. Staff's recommended budget was \$ 3 million less than the Company's initially proposed budget. In my opinion, the budget as modified by Staff reduces the cost of utility service even when natural gas usage by the customer is declining.

I agree with the statements made by a stakeholder that utility bill reductions are valuable to customers. Our numerous workshops, special open meetings, research and input by numerous stakeholders have established that EE programs save ratepayers money, defer the building of costly plants, protect the environment and provide economic opportunities.

The fact that four of the current five Commissioners participated in all phases of the development of the rules and funding mechanisms demonstrates bipartisan support and the wide

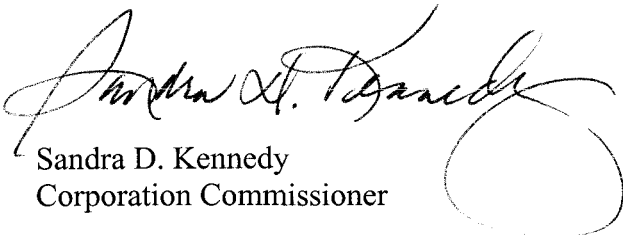
Decision No. **73229**

Page 2

The fact that four of the current five Commissioners participated in all phases of the development of the rules and funding mechanisms demonstrates bipartisan support and the wide appeal of the EE rules. I am puzzled that there was not the same level of support for the Staff recommended EE programs and budget in these dockets as there was eighteen months ago when the Commission unanimously adopted the EE rules. I hope that this does not mean that Commission funding support for EE plans in future cases will be less than would be required for compliance with the EE rules.

For me this has never been a case of spending ratepayers' monies for the sake of spending. I carefully reviewed the Staff recommended budget and concluded that the cost benefits, including utility bill reductions, far exceeded the minimal cost of the programs. I truly believe that making some small investments in EE programs and measures will pay big dividends for customers by reducing their gas bills.

The Commission approved a budget by a 3-2 vote that will likely limit options for the ratepayers who have requested tools to mitigate rising utility costs. Therefore, it was impossible for me to support the Commission orders, and I voted "No".



Sandra D. Kennedy  
Corporation Commissioner