



BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE
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Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission
DOCKETED
JUN - 5 2012
DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION
FOR THE ESTABLISHMENT OF JUST
AND REASONABLE RATES AND
CHARGES DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF THE PROPERTIES
OF SOUTHWEST GAS CORPORATION
DEVOTED TO ITS ARIZONA
OPERATIONS; APPROVAL OF
DEFERRED ACCOUNTING ORDER; AND
FOR APPROVAL OF AN ENERGY
EFFICIENCY AND RENEWABLE ENERGY
RESOURCE TECHNOLOGY PORTFOLIO
IMPLEMENTATION PLAN

DOCKET NO. G-01551A-10-0458
DECISION NO. 73231
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 within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

Background

2. On November 12, 2010, Southwest Gas Corporation filed with the Arizona Corporation Commission ("Commission") an application for an increase in rates for service provided in Arizona. Included as part of the rate case filing was Southwest's *Arizona Energy*

1 *Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan* (“EE and
2 RET Plan”).

3 *Modified EE and RET Plan*

4 3. As part of the current rate case, and as noted in the Settlement Agreement (July 15,
5 2011), Southwest agreed to provide supplemental EE information in support of a modified EE and
6 RET Plan with EE measures that are cost-effective at the measure level. Under the proposed
7 Settlement Agreement, the modified EE and RET Plan was to have a proposed portfolio budget
8 exceeding \$4.4 million, with customer energy savings of at least 1,250,000 therms (not inclusive
9 of therm equivalents) within nine months of Commission approval of the modified EE and RET
10 Plan.

11 *Scope of Review*

12 4. The scope of review herein will be the Southwest EE and RET Plan, as modified
13 under the proposed Settlement Agreement. This modified EE and RET Plan consists of eight
14 proposed programs listed in the Summary Description Table (below), all named, or renamed, to
15 reflect the “*Smarter, Greener, Better*” (“SGB”) branding adopted by the Company. The analysis
16 covers the eight programs (seven EE and one RET) and their associated measures, as proposed for
17 inclusion in the modified Southwest EE and RET Plan. Cost-effectiveness has been calculated on
18 a per-measure level for the proposed energy efficiency programs.¹ Additional detail on each
19 program has been provided in individual sections, herein.

20 SUMMARY DESCRIPTION TABLE

<i>Current (and former) Name</i>	Existing/New	Description of program
<i>SGB Residential Rebates (formerly Consumer Products)</i>	Existing, new measures	Promotes Residential energy efficiency measures.
<i>SGB Homes (formerly Energy Star Home)</i>	Existing, new measures	Promotes Residential whole-house energy efficiency.
<i>SGB Business Rebates (formerly Commercial Equipment)</i>	Existing, new measures	Promotes Non-residential energy efficiency measures.
<i>SGB Custom Business Rebates</i>	New	Allows Non-Residential customers to design and propose energy efficiency projects, with rebates based on verifiable savings.

27
28 ¹ New construction and major rehabilitation programs are generally reviewed for cost-effectiveness on a whole house or whole building basis, with the whole house or building treated as a measure.

<i>Current (and former) Name</i>	Existing/New	Description of program
<i>SGB Distributed Generation (formerly Distributed Generation)</i>	Existing	Promotes Non-residential CHP.
<i>SGB Low Income Energy Conservation (formerly Low Income Energy Conservation)</i>	Existing	Promotes low-income weatherization.
<i>SGB Energy Education</i>	New	Promotes energy efficient behaviors by both Residential and Non-residential customers.
<i>SGB Solar Thermal Rebates</i>	New	Promotes solar thermal water and pool heating systems for Residential and Non-residential customers

Budget

5. The budgets for the modified Southwest EE and RET Plan are listed by category in the table below. Individual program budgets have been adjusted to reflect the measures proposed in the Company's current filing. The total budget proposed for the modified Southwest EE and RET Plan is \$8,386,545, as compared to the current approved portfolio budget of \$4.4 million:

BUDGET TABLE

Program	Rebates	Administration	Outreach	Delivery	MV&E	Program Total Cost
Residential						
Residential Rebates	\$ 2,108,900	\$ 22,972	\$ 183,774	\$ 666,180	\$ 45,944	\$ 3,027,770
Homes	\$ 1,810,500	\$ 90,000	\$ 270,000	\$ 45,000	\$ 45,000	\$ 2,260,500
Total Residential	\$ 3,919,400	\$ 112,972	\$ 453,774	\$ 711,180	\$ 90,944	\$ 5,288,270
Non-Residential						
Business Rebates	\$ 481,875	\$ 44,500	\$ 97,900	\$ 222,500	\$ 44,500	\$ 891,275
Custom Business Rebates	\$ 21,582	\$ 3,921	\$ 19,605	\$ 50,971	\$ 3,921	\$ 100,000
Distributed Generation	\$ 515,000	\$ 23,500	\$ 97,500	\$ 97,500	\$ 23,500	\$ 757,000
Total Non-Residential	\$ 1,018,457	\$ 71,921	\$ 215,005	\$ 370,971	\$ 71,921	\$ 1,748,275
Low-Income						
L-I Weatherization ¹	\$ 373,500	\$ 67,500	\$ 9,000	\$ -	\$ -	\$ 450,000
L-I Bill Assistance ²	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000
Total Low-Income	\$ 373,500	\$ 67,500	\$ 9,000	\$ -	\$ -	\$ 650,000
Education						
Residential Conservation Behavior	\$ -	\$ -	\$ 200,000	\$ -	\$ -	\$ 200,000

Renewable Energy Resource Technology						
Solar Thermal Rebates	\$ 350,000	\$ 15,000	\$ 60,000	\$ 67,500	\$ 7,500	\$ 500,000
Total Portfolio	\$ 5,661,357	\$ 267,393	\$ 937,779	\$1,149,651	\$ 170,365	\$ 8,386,545

¹L-I Weatherization delivery and evaluation are performed by the Arizona Governor's Office of Energy Policy and community agencies.

²L-I Bill Assistance is not a rebate program. Administration is capped at \$15,000.

6. The Company has requested flexibility to transfer funds between budget categories within programs, and between programs within each customer class. Staff recommends that Southwest be allowed to transfer up to 20 percent of funding between the SGB Residential Rebates and SGB Homes programs, if appropriate, to accommodate participation levels. Staff also recommends that Southwest be allowed to transfer up to 20 percent of funding between the SGB Business Rebates and SGB Custom Business programs, if appropriate to accommodate participation levels. Staff has also recommended that Southwest be allowed to transfer funds between budget categories within each program, as long as Administration costs retained by Southwest are limited to 10% of each program's individual budget.

EE and RET Portfolio Overview

7. The Southwest EE and RET Portfolio proposes the following eight programs and measures. Staff has recommended approval of all eight programs, and 23 of the 24 proposed measures, (excluding the Wall Insulation measure, which was not cost-effective), with the modifications listed herein:

- SGB Residential Rebates: (i) tankless water heaters; (ii) smart low-flow showerheads; and (iii) weatherization measures.
- SGB Homes: (i) Home Certification; (ii) Tankless Water Heaters; and (iii) Attic Insulation.
- SGB Business Rebates program: (i) tankless water heaters; (ii) condensing boilers; (iii) combination ovens; (iv) conveyor ovens (two types); (v) commercial dishwashers (five types); and (vi) air curtains.
- SGB Custom Business Rebates: Non-residential customer-proposed energy efficiency projects, including: (i) retrofits and/or improvements to existing systems; and (ii) first time installations that exceed industry standards.

- 1 • SGB Distributed Generation: high efficiency Combined Heat and Power (“CHP”) technologies to large commercial and industrial customers.
- 2
- 3 • SGB Low-Income Energy Conservation (“LIEC”): weatherization for low-income households; bill assistance.
- 4
- 5 • SGB Residential Conservation Behavior: periodic reports (up to 4 reports per year) showing customers how their homes compare with similar homes, and recommending specific actions that the household can take to save energy.
- 6
- 7 • SGB Solar Thermal Rebates: (i) Solar Water Heating and (ii) Solar Pool Heating Systems.
- 8

9 Projected Savings

10 8. Southwest’s modified EE and RET Plan is projected by the Company to save
 11 1,262,000 therms within nine months of the Commission approving the modified EE and RET
 12 Plan. This projected level of savings exceeds the 1,250,000 therms required under the terms of the
 13 proposed Settlement Agreement:

Programs and Measures	Projected Savings
Residential	
<i>Smarter, Greener, Better Residential Rebates</i>	261,000
<i>Smarter, Greener, Better Homes</i>	241,000
Non-residential	
<i>Smarter, Greener, Better Business Rebates</i>	223,000
<i>Smarter, Greener, Better Custom Business Rebates</i>	54,000
<i>Smarter, Greener, Better Distributed Generation</i>	250,000
Low-income	
<i>Smarter, Greener, Better Low-Income Energy Conservation</i>	21,000
Educational	
<i>Smarter, Greener, Better Residential Conservation Behavior</i>	125,000
Renewable Energy Resource Technology	
<i>Smarter, Greener, Better Solar Thermal Rebates</i>	87,000
Total:	1,262,000

22 9. Staff’s analysis indicates that the per-unit therm savings from the Tankless Water
 23 Heater measure are likely to be higher than initially estimated by the Company. This is significant
 24 because this measure is included in three programs and total participation for this measure is
 25 projected at more than 4,200. Based on the revised savings for this measure, if projected
 26 participation levels meet expectations, therm savings for the overall modified EE and RET Plan
 27 would increase to over 1.3 million therms.

28 ...

1 Additional Savings

2 10. The projected therm savings listed above also do not include therm equivalents
3 (such as kWh), or savings from building codes, both of which can be taken into account for
4 purposes of meeting the energy efficiency savings standards under the Gas Energy Efficiency
5 Rules ("Rules"). Annual projected therm savings from the Company's activities in support of
6 energy efficient building codes for Commercial Buildings in the City of Mesa are estimated at
7 5,700 therms.

8 11. Some of the proposed portfolio measures (particularly those enhancing the thermal
9 envelope for buildings) produce electric savings in addition to gas savings. For the modified EE
10 and RET Plan as a whole, Staff has estimated annual electric savings at approximately 2.1 million
11 kWh. These kWh, or therm equivalent, savings can also be taken into account for purposes of
12 meeting the energy efficiency standards under the Rules.

13 Cost-Effectiveness

14 12. The table below lists the benefit-cost ratios for each of the measures proposed as
15 part of each of the eight programs included in the modified EE and RET Plan. In order to be cost-
16 effective, a measure must have a benefit-cost ratio of greater than 1.0, meaning that the avoided
17 costs (or benefits) of a measure must be greater than the costs associated with purchasing and
18 installing the measure. Staff's analysis indicates that 20 out of 24 EE measures have a benefit-cost
19 ratio above 1.0 and are cost-effective.

20 13. The RET measures are also included in this table as part of Southwest's modified
21 EE and RET Plan, but RET measures are not required to be cost-effective and Staff has not
22 calculated or included benefit-cost ratios for these measures.

23 BENEFIT-COST RATIO TABLE

Programs and Measures	Benefit-cost ratio
Residential	
<i>Smarter, Greener, Better Residential Rebates</i>	
Tankless Water Heater	0.94
Smart Low-Flow Showerhead	1.21
Window	1.45
Attic Insulation	0.97
Floor Insulation	1.35
Wall Insulation	0.75

<i>Smarter, Greener, Better Homes</i>	
Home Certification	1.36
Tankless Water Heater	1.08
Attic Insulation	1.44
Non-residential	
<i>Smarter, Greener, Better Business Rebates</i>	
Tankless Water Heater	1.08
Condensing Boiler	1.47
Combination Oven	1.20
Conveyor Oven (<25")	2.70
Conveyor Oven (>25")	2.08
Dishwasher (Low Temp): Door Type	1.48
Dishwasher (High Temp/Gas Booster Heater): Under Counter	1.18
Dishwasher (High Temp/Gas Booster Heater): Door Type	1.53
Dishwasher (High Temp/Gas Booster Heater): Single Tank Conveyor	1.75
Dishwasher (High Temp/Gas Booster Heater): Multi-Tank Conveyor	2.26
Air Curtain	2.22
<i>Smarter, Greener, Better Custom Business Rebates</i>	
Typical Custom Business Project	3.55
<i>Smarter, Greener, Better Distributed Generation</i>	
Typical Distributed Generation Project	1.56
Low-income²	
<i>Smarter, Greener, Better Low-Income Energy Conservation</i>	
Typical Low-Income Energy Conservation Project	0.98
Educational	
<i>Smarter, Greener, Better Energy Education</i>	
Residential Conservation Behavior	1.24
Renewable Energy Resource Technology	
<i>Smarter, Greener, Better Solar Thermal Rebates</i>	
Solar Water Heater System	N/A
Solar Pool Heating System	N/A

Rebates

14. Limits. Staff reviewed the proposed rebates and determined that all the per-measure incentives were at 75 percent or below of the incremental costs of the proposed measures. Limits of 50 to 75 percent of incremental cost are typical for Commission-approved energy efficiency programs. Some of the rebates, such as for the Custom Business and Solar Thermal Rebates programs feature rebates partly based on therm savings, but also include upper limits (usually up to 50 percent of installed cost) based on percentages of project or measure costs.

15. Exceptions. The Low-Income Energy Conservation program pays weatherization funds to community action agencies performing weatherization services, rather than paying out

² The benefit-cost ratio is based on actual program performance over four years. The health/safety and bill assistance components of the LIEC program provide benefits to ratepayers, but are not primarily designed to produce to energy savings and were not included in the cost-benefit analysis.

1 traditional incentives, while the Residential Conservation Behavior Program is educational in
2 nature and does not offer rebates.

REBATE TABLE

Programs and Measures	Rebate	% of incremental cost
Residential		
<i>Smarter, Greener, Better Residential Rebates</i>		
Tankless Water Heater	\$450	74%
Smart Low-Flow Showerhead	\$30	75%
Window	\$0.95/unit (per square foot)	73%
Attic Insulation	\$0.20/unit (per square foot)	40%
Floor Insulation	\$0.30/unit (per square foot)	71%
Wall Insulation	\$0.45/unit (per square foot)	70%
<i>Smarter, Greener, Better Homes</i>		
Home Certification	\$450	29%
Tankless Water Heater	\$450	74%
Attic Insulation	\$0.20/unit (per square foot)	40%
Non-residential		
<i>Smarter, Greener, Better Business Rebates</i>		
Tankless Water Heater	\$450	74%
Condensing Boiler	\$1.25/per MBTUH (based on input rating, usually 4-5,000 MBTUH)	75%
Combination Oven	\$1,100	72%
Conveyor Oven (<25")	\$400	71%
Conveyor Oven (>25")	\$900	72%
Dishwasher (Low Temp): Door Type	\$1,500	75%
Dishwasher (High Temp/Gas Booster Heater): Under Counter	\$750	75%
Dishwasher (High Temp/Gas Booster Heater): Door Type	\$1,575	75%
Dishwasher (High Temp/Gas Booster Heater): Single Tank Conveyor	\$2,250	75%
Dishwasher (High Temp/Gas Booster Heater): Multi-Tank Conveyor	\$3,000	75%
Air Curtain	\$2,100	75%
<i>Smarter, Greener, Better Custom Business Rebates</i>		
Typical Custom Business Project	\$1.00/therm 1 st year annual saving OR 50% of eligible project cost (as determined by Southwest)	50% of eligible project cost

<i>Smarter, Greener, Better</i> Distributed Generation		
Typical Distributed Generation Project	Rebate per/kW, based on fuel efficiency	40%-50%/kW; and up to 75% of engineering study, up to \$3,000
Low-income		
<i>Smarter, Greener, Better</i> Low-Income Energy Conservation		
Typical Low-Income Energy Conservation Project	N/A	N/A
Educational		
<i>Smarter, Greener, Better</i> Energy Education		
Residential Conservation Behavior	N/A	N/A
Renewable Energy Resource Technology		
<i>Smarter, Greener, Better</i> Solar Thermal Rebates		
Solar Water Heater System	\$15/therm	Up to 50% of installed cost
Solar Pool Heating System	\$15/therm	Up to 50% of installed cost

Modified EE and RET Plan: Descriptions

16. The following sections describe the individual programs, including issues specific to those programs.

SGB Residential Rebates

17. Program Description. The Southwest modified EE and RET *SGB* Residential Rebates Program proposes to include the following measures: (i) tankless water heaters; (ii) smart low-flow showerheads; and (iii) weatherization measures (windows, and attic, floor and wall insulation).

18. Tankless water heaters. Southwest proposes to continue offering rebates for tankless water heaters. Tankless water heaters were originally approved for inclusion in the Southwest portfolio in Decision No. 71718 (June 3, 2010).

19. The Energy Star site states that an estimated 15 percent of an average home's energy use goes to heating water, and that tankless water heaters save 45 percent to 60 percent over the minimum standards. Another factor increasing the overall cost-effectiveness of tankless water heaters is an expected lifespan (20 years), that is approximately twice that of high efficiency storage water heaters (8-10 years).

20. Smart Low-flow Showerheads. Southwest also proposes to continue smart showerheads as a measure in its *SGB* Residential Rebates program. The "smart" showerhead is a

1 low-flow showerhead with a water turn-off feature, designed to minimize the amount of hot water
2 wasted during the warm-up cycle, before the user enters the shower. The “smart” feature includes
3 a thermostatic valve that pauses a shower’s water flow once the water is hot enough for bathing,
4 when the shower may otherwise be running unattended. Once a user is ready to actually enter the
5 shower, he or she then turns on an already-heated flow of water. This measure is designed to both
6 conserve water and reduce energy use.

7 21. Weatherization measures. Southwest also proposes to offer rebates on
8 weatherization measures. The weatherization measures are designed to improve the energy
9 efficiency and comfort of homes by enhancing windows and improving insulation of the walls,
10 ceilings, and floors. Insulation and air sealing save energy during both cooling and heating
11 seasons, resulting in both natural gas and electric savings. The Energy Star site estimates that, if
12 combined with air sealing, insulation can save up to 10 percent of a typical home’s energy costs.

13 22. With respect to air sealing measures, only the Windows measure has been proposed
14 as part of the modified Southwest EE and RET Plan. (An Energy Star window reduces the heat
15 transfer in to the home, uses energy efficient materials for the frame, and is coated to provide a sun
16 screen.) Staff has recommended that the Company continue to research cost-effective measures,
17 and that one or more additional air sealing measures be proposed in future filings, if they are found
18 to be cost-effective.

19 23. Program Analysis/Cost-effectiveness. The showerhead, window and floor
20 insulation measures have benefit-cost ratios above 1.0 and are cost-effective. Staff’s analysis
21 indicates that, although the Tankless Water Heater and Attic Insulation measures have benefit-cost
22 ratios slightly below 1.0, with ratios of 0.94 and 0.97 respectively, both measures are very close to
23 the level required for cost-effectiveness. Taking into account avoided environmental costs, the
24 value of which has not been established, but which are greater than zero, these measures are likely
25 to be cost-effective in practice. In addition, the inclusion of these measures in the Residential
26 Rebates program provides Residential customers with a greater range of options for enhancing the
27 energy efficiency of their existing homes. Staff has recommended that the tankless water heater
28 and attic insulation measures be approved.

1 24. The Wall Insulation measure has an estimated benefit-cost ratio of 0.75, putting it
2 well below the level required to find a measure cost-effective, even taking into account
3 environmental savings. Staff has recommended against inclusion of the Wall Insulation measure,
4 but has also recommended that the funding associated with this measure be used for other *SGB*
5 Residential Rebates program measures, if approved by the Commission.

6 25. Program Cost Issue. The Tankless Water Heater measure has a benefit-cost ratio
7 above 1.0 as part of the *SGB* Homes and Business Rebates programs, but drops slightly below 1.0
8 as part of the *SGB* Residential Rebates program. The same variance on the benefit-cost ratio exists
9 for the Attic Insulation measure, which is also part of the *SGB* Homes program. Staff's analysis
10 indicates that these variances result from higher per-unit non-incentive (or program) costs
11 associated with the *SGB* Residential Rebates program. In response to an inquiry from Staff,
12 Southwest reported that the large number of rebates and higher level of verification and inspection
13 necessary for the Residential and Business Rebates programs have resulted in increased delivery
14 costs, compared to other programs. (There is less negative impact to the Business Rebates
15 program, due to the generally higher benefit-cost ratios for that program.) Staff has recommended
16 that Southwest work to limit the program costs for the *SGB* Residential Rebates program.

17 26. Staff Recommendations: Summary. Below are Staff's recommendations with
18 respect to the Residential Rebates program:

- 19 • Staff has recommended approval of the Smart Low-Flow Showerhead, Window
20 and Floor Insulation measures in the Residential Rebates program.
- 21 • Staff has recommended inclusion of the Tankless Water Heater and Attic
22 Insulation measures in the Southwest EE and RET Plan, but has also
23 recommended that Southwest work to limit program costs associated with
24 delivering all measures for the *SGB* Residential Rebates program.
- 25 • Staff has recommended against inclusion of the Wall Insulation measure in the
26 *SGB* Residential Rebates program, but that the funding associated with the
27 measure be used for other measures in the program.
- 28 • Staff has recommended that the Company continue to research cost-effective
measures, and that one or more additional air sealing measures be proposed in
future filings, in any program where they are appropriate, if such measures are
found to be cost-effective.

- Staff has recommended that Southwest work to limit the program costs for the *SGB Residential Rebates* program.

SGB Homes

27. Program Description. The Southwest modified EE and RET *SGB Homes* program proposes to offer (i) Home Certification; (ii) Tankless Water Heaters; and (iii) Attic Insulation. The Smarter Greener Better Homes program is designed to increase the participation of Arizona homebuilders in building more energy-efficient housing. Rebates will be offered to homebuilders for homes certified as Energy Star, and for installing tankless water heaters and energy efficient attic insulation.

28. Home Certification. To be certified under the program, homes are required to meet Version 3.0 of EPA's program requirements, following either the Energy Star Prescriptive Path, or the Energy Star Performance Path. The Version 3.0 Overview states that homes built to Version 3 Guidelines "will be at least 20 percent more energy efficient than homes built to the 2009 International Energy Conservation Code." Mandatory requirements include improvements to: (i) the thermal envelope; (ii) heating, ventilation and air conditioning (HVAC); and (iii) the water management system. Verification by a third party rater is required.

29. Tankless Water Heaters and Attic Insulation. These measures have been discussed with respect to the *SGB Residential Rebates* program, above. The two measures differ as part of the *SGB Homes* because, with lower per-unit program costs, both have a higher benefit-cost ratio and improved cost-effectiveness.

30. Program Analysis/Cost-effectiveness. All three proposed measures have benefit-cost ratios above 1.0 and are cost-effective. Energy efficiency measures installed as part of initial construction are usually more cost-effective than retrofits. In addition, energy efficiency measures that are part of the original construction are experienced over the full lifespan of a structure, rather than just during the period following a retrofit.

31. Staff Recommendation. Staff has recommended approval of the *SGB Homes* program, along with all three proposed measures.

...

1 *SGB Business Rebates*

2 32. Program Description. The proposed Southwest modified EE and RET *SGB*
3 Business Rebates program offers (i) tankless water heaters; (ii) condensing boilers; (iii)
4 combination ovens; (iv) conveyor ovens (two types); (v) commercial dishwashers (five types); and
5 (vi) air curtains.

6 33. Southwest Gas will offer the *SGB* Business Rebates program to both new and
7 existing non-residential customers. It is designed to encourage the purchase of high efficiency
8 equipment to reduce energy consumption. Rebates are available for purchasing and installing
9 qualifying natural gas high efficiency measures at individually and master metered commercial
10 properties.

11 34. Program Analysis/Cost-effectiveness. The *SGB* Business Rebates program and the
12 *SGB* Residential Rebates program include a large number of rebates, and Southwest has indicated
13 that both programs require a higher level of verification and inspection compared to other
14 programs. This results in higher delivery costs and impacts cost-effectiveness. But commercial
15 equipment is generally used more hours per year, making higher savings possible for Non-
16 residential programs. This is true for the *SGB* Business Rebates program, which has generally
17 higher savings and benefit-cost ratios than the *SGB* Residential Rebates program. All the
18 measures proposed for the *SGB* Business Rebates are cost-effective even with higher delivery
19 costs.

20 35. Staff Recommendation. Analysis indicates that all the *SGB* Business Rebates
21 program measures have benefit-cost ratios above 1.0 and are cost-effective. Staff has
22 recommended that the program be approved and include all the measures proposed by the
23 Company.

24 *SGB Custom Business Rebates*

25 36. Program Description. The *SGB* Custom Rebates program allows Non-residential
26 customers to design their energy efficiency projects, including: (i) retrofits and/or improvements to
27 existing systems; and (ii) first time installations that exceed industry standards. Proposed
28 measures must produce verifiable natural gas usage reductions, be installed in existing structures

1 or new construction, have a minimum useful life of seven years, and exceed minimum cost-
2 effectiveness.

3 37. Program Analysis/Issues. Since the *SGB* Custom Business Rebates program is
4 intended to allow Non-residential customers to propose energy efficiency projects tailored to meet
5 their specific needs, no two sets of measures are likely to be the same. Cost-effectiveness analysis
6 was done on the basis of incremental costs and average therm savings for eight typical projects,
7 combined with the program costs projected specifically for the *SGB* Custom Business Rebates.

8 38. The *SGB* Custom Business Rebates program, as proposed, includes a
9 “Commissioning Opt-Out.” The Opt-Out would allow participating customers to choose reduced
10 rebates, rather than conduct the commissioning activities. (For purposes of the *SGB* Custom
11 Business Rebates program, “commissioning” includes verification of project savings and
12 confirmation that the measures are operating as intended.) Because verification and confirmation
13 are required in order to ascertain whether measures are achieving the desired energy savings, the
14 Opt-Out provision should be removed from the proposed *SGB* Custom Business Rebates program.

15 39. Staff Recommendation. Staff has recommended approval of the *SGB* Custom
16 Business Rebates program, with the modification that all participants be required to verify savings
17 in order to be eligible to receive rebates, i.e., the Opt-Out provision not be approved.

18 *SGB Distributed Generation*

19 40. Program Description. Southwest will offer the Smarter Greener Better Distributed
20 Generation (“*SGB* Distributed Generation”) program to large commercial and industrial customers
21 in the Company’s Arizona service territory. Specifically, the *SGB* Distributed Generation program
22 will promote high efficiency Combined Heat and Power (“CHP”) technologies.

23 41. Distributed Generation is defined as localized, on-site mechanical or electrical
24 power generation, while CHP describes any system that uses a primary energy source to
25 simultaneously produce electric energy and useful process heat. Most CHP systems are configured
26 to generate electricity, recapture the waste heat, and use that heat for space heating, water heating,
27 industrial steam loads, air conditioning, humidity control, water cooling, product drying, or any

28 . . .

1 other thermal need. Alternately, CHP may use excess heat from industrial processes and convert it
2 into electricity.

3 42. Program Analysis/Issues. Southwest's Distributed Generation program was
4 originally approved in September 2007. To date, although Southwest has been actively promoting
5 the program, no CHP projects have gone forward, largely due to customer concerns about the high
6 initial cost of CHP. Keeping the program in place has been reasonable, given the potentially high
7 savings associated with CHP, and the comparatively low costs associated with the promotion
8 process. (For example, during 2009 the total cost for this program was \$1,275, while in 2010,
9 during active discussions, the total cost came to \$8,039.)

10 43. Southwest has now partnered with the Arizona Energy Office (now the Governor's
11 Office of Energy Policy ("OEP")), which received an American Recovery and Reinvestment Act
12 CHP grant, allowing applicants to qualify for incentives from both programs, and potentially
13 increasing the level of incentive to as much as 75 percent of the installed cost.

14 44. In September 2010, Southwest received an application from a hospital in southern
15 Arizona to install a CHP system. The contractor working on the installation of the system was
16 targeting completion in 2010, but has notified Southwest that the CHP project has been delayed.
17 The turbine is on site, but the contractor has stated that it is still in negotiations with Tucson
18 Electric Power regarding the interconnection agreement. As a result of this delay, the installation
19 of the required Southwest facilities has been delayed. Southwest has completed the preliminary
20 engineering, right-of-way research, acquisition of the necessary easements, and pipeline design.
21 Once the system is installed and is in operation, Southwest Gas will verify the efficiency during
22 operation before the incentive will be distributed.

23 45. Staff Recommendation. Staff has recommended that the *SGB* Distributed
24 Generation program be approved for continuation, but has recommended that a revised *SGB*
25 Distributed Generation be submitted for Commission consideration if no CHP project begins the
26 installation process during the 12 months following Commission approval of this continuation.

27 ...

28 ...

1 SGB Low Income Energy Conservation

2 46. Program Description. Southwest proposes to continue the Low-Income Energy
3 Conservation (“LIEC”) program for income-qualified residential customers in the Company’s
4 Arizona service territory. The program targets low-income customers who require weatherization
5 for their homes and/or emergency assistance to pay their utility bills. The program assists low-
6 income households in increasing their energy efficiency.

7 47. The weatherization component of the program includes both home weatherization
8 and consumer education for income-qualified residences. Energy improvements, such as adding
9 insulation to the walls and roofs, can last for the remaining life of the dwelling, reducing energy
10 usage and lowering utility bills.

11 48. Program measures fall into four major categories: 1) duct repair; 2) infiltration
12 control; 3) insulation (including attic, duct and floor); and 4) repair or replacement of appliances
13 that are not operational or pose a health hazard. Typical weatherization services include installing
14 insulation, sealing, tuning and repairing cooling and heating systems, and mitigating heat gain
15 through windows, doors, and other infiltration points.

16 49. Program Analysis/Issues. At 0.98, the *SGB* Low-Income program comes in slightly
17 below the benefit-cost ratio of 1.0 required for cost-effectiveness. Taking into account avoided
18 environmental costs, the value of which has not been established, but which are greater than zero,
19 the *SGB* Low-income Conservation program is likely to be cost-effective in practice. In addition,
20 during most program years, Southwest participates in special projects that improve overall LIEC
21 program cost-effectiveness, such as the renovation of multifamily housing. These projects involve
22 renovating an entire low-income multifamily building, and can produce savings with a higher
23 benefit-cost ratio, due to economies of scale. The City of Phoenix has notified Southwest that it
24 plans to propose a special project for the 2011/2012 program year.

25 50. Staff Recommendation. The *SGB* LIEC program addresses the energy efficiency
26 needs of low-income Residential customers on a cost-effective basis, reducing utility costs and
27 improving the health and safety for low-income households. Staff has recommended that the *SGB*

28 . . .

1 Low-income Conservation program be approved for continuation as part of the modified
2 Southwest EE and RET program.

3 *SGB Residential Conservation Behavior*

4 51. Program Description. Southwest has proposed a Residential Conservation Behavior
5 (“SGB Conservation Behavior”) program that would drive customer conservation behavior by
6 providing participating residential customers with periodic reports (up to 4 reports per year)
7 showing how their homes compare with similar homes, and recommending specific actions that
8 the household can take to save energy. Reports would be mailed to customers, and participants
9 would also be encouraged to access a program web portal for more information.

10 52. The *SGB* Conservation Behavior program would target approximately 23,000
11 residential customers in the Company's Arizona service territory and is estimated to result in
12 savings of approximately 125,000 therms. This program is similar to the Arizona Public Service
13 Company ("APS") Residential Conservation Behavior program that recently launched on a pilot
14 basis. If both utilities continue their Residential Conservation Behavior programs in the future,
15 Southwest Gas will explore a possible partnership with APS.

16 53. Program Analysis/Issues. Conservation behavior programs should be designed to
17 protect customer confidentiality. Southwest has informed Staff that it will require the contractor to
18 sign a confidentiality agreement to protect customer data. Customers chosen to participate in the
19 program will also have a simple way to opt out, should they choose not to participate.

20 Staff Recommendations

21 54. Staff has recommended that the Conservation Behavior program be approved.

22 55. Staff has recommended that Southwest review data from the first year of the
23 program and that, following this review, the Conservation Behavior program be continued only if
24 it produces documented and cost-effective energy savings.

25 56. Staff has recommended that Southwest report on the results from the Conservation
26 Behavior program, including whether the program is cost-effective and should be continued, in the
27 following Implementation Plan.

28 ...

1 SGB Solar Thermal Rebates

2 57. Program Description. The *SGB* Solar Thermal Rebates program would offer
3 rebates to both Residential and Non-residential customers for Solar Water Heating and Solar Pool
4 Heating Systems. Rebates would be paid on qualified solar thermal systems based on proof of
5 purchase and installation.

6 58. Program Analysis/Issues. Due to the high cost, most Residential customers do not
7 heat their pools, so installing a Residential solar pool heater is likely to extend the swimming
8 season without saving energy. Alternatively, Non-residential customers, such as hotels and
9 resorts, are likely to utilize pool heaters to accommodate winter visitors, a differing usage pattern
10 that creates opportunities for energy savings. (Renewable programs governed by the REST
11 Standards include commercial solar pool heaters, but not residential solar pool heaters. See R14-2-
12 1802.B.3.)

13 59. The OG-100-certified collectors are the qualifying measure specification for the
14 *SGB* Solar Thermal Rebates program, but OG-100 certification applies to collectors only. In
15 comparison, the OG-300 certification covers complete packaged water heating systems for
16 residential and small commercial buildings. The OG-300 certification rates the performance of an
17 entire system, rather than only the collector, and would provide better, more reliable, information
18 on residential and small commercial applications. (Domestic Solar Water Heating Systems must
19 also be rated and certified using the OG-300 system under the APS 2011 REST Plan.)

20 60. OG-100 certification remains appropriate for large, non-residential systems,
21 because, while there is currently no whole-system certification for larger commercial systems
22 (which vary from customer to customer), the OG-100 collector rating shows the performance of
23 the collector, which is the most significant component of a solar water heater in either a residential
24 or non-residential application.

25 Recommendations

26 61. Staff has recommended that the *SGB* Solar Thermal Rebate program be approved,
27 with the following modifications:

28

- 1 • that the Solar Thermal Pool Heating measure not be approved for inclusion in
2 the *SGB* Solar Thermal Rebates program as a Residential measure.
- 3 • that funding which would have been used to allow Residential customers to
4 participate in the Solar Thermal Pool Heating measure be used, instead, to allow
5 additional participation by Residential customers in the Solar Thermal Water
6 Heater measure.
- 7 • that OG-300 certification be required for Residential and small Non-residential
8 Solar Water Heating Systems. Larger, Non-residential Solar Water and Pool
9 Heating Systems should be OG-100 certified as proposed by Southwest.
- 10 • that Residential solar water heating systems utilize OG-100 certified collectors
11 and be tested and certified to OG-300 standards by: (i) the SRCC; (ii) a
12 Southwest-approved Nationally Recognized Testing Laboratory (“NRTL”); or
13 (iii) an American National Standards Institute (“ANSI”) accredited certifying
14 organization.

15 Measurement, Evaluation, and Research

16 62. Measurement, Evaluation, and Research (“MER”) should be performed, at a
17 minimum, in accordance with the Gas Energy Efficiency Rules, Arizona Administrative Code
18 R14-2-2515. The Company may perform additional MER activities, where appropriate, so long as
19 the costs associated with MER remain within ten percent of what has been projected for the
20 Monitoring, Evaluation and Research budget category in the Budget Table

21 Reporting

22 63. Reporting should be done, at a minimum, in accordance with the Gas Energy
23 Efficiency Rules, Section R14-2-2509. The Company may provide additional reporting, where
24 appropriate, so long as the costs associated with reporting remain reasonable.

25 Summary of Recommendations: Modified EE and RET Plan

26 64. Staff has made the following recommendations:

- 27 • Staff has recommended that Southwest be allowed to transfer up to 20 percent
28 of funding between the SGB Residential Rebates and SGB Homes programs, if
appropriate, to accommodate participation levels.
- Staff has recommended that Southwest be allowed to transfer up to 20 percent
of funding between the SGB Business Rebates and SGB Custom Business
programs, if appropriate, to accommodate participation levels.

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- Staff has also recommended that Southwest be allowed to transfer funds between budget categories within each program, as long as Administration costs retained by Southwest are limited to 10% of each program's individual budget.
 - Staff has recommended that the Company continue to research cost-effective measures, and that one or more additional air sealing measures be proposed in future filings, in any program where they are appropriate, if such measures are found to be cost-effective.
 - Staff has recommended approval of the Smart Low-Flow Showerhead, Window and Floor Insulation measures in the *SGB Residential Rebates* program.
 - Staff has recommended inclusion of the Tankless Water Heater and Attic Insulation measures in the *SGB Residential Rebates* program, but has also recommended that Southwest work to limit program costs associated with delivering all measures for the *SGB Residential Rebates* program.
 - Staff has recommended against inclusion of the Wall Insulation measure in the *SGB Residential Rebates* program, but also recommends that the funding associated with this measure be used for other *SGB Residential Rebates* program measures.
 - Staff has recommended that the *SGB Business Rebates* program be approved and include all the measures proposed by the Company.
 - Staff has recommended that Southwest work to limit the program costs for the *SGB Business Rebates* program.
 - Staff has recommended approval of the *SGB Homes* program, along with all the measures proposed for inclusion.
 - Staff has recommended approval of the *SGB Custom Business Rebates* program, with the modification that all participants in the *SGB Custom Business Rebates* program will be required to verify savings in order to be eligible to receive rebates.
 - Staff has recommended that the *SGB Distributed Generation* program be approved for continuation.
 - Staff has recommended that a revised *SGB Distributed Generation* be submitted for Commission consideration if no CHP project begins the installation process during the 12 months following Commission approval of this continuation.
 - Staff has recommended that the *SGB Low-income Conservation* program be approved for continuation as part of the modified Southwest EE and RET Plan.

- 1 • Staff has recommended that the *SGB* Residential Conservation Behavior
2 program be approved.
- 3 • Staff has recommended that Southwest review data from the first year of the
4 program and that, following this review, the *SGB* Residential Conservation
5 Behavior program be continued only if it produces documented and cost-
6 effective energy savings.
- 7 • Staff has recommended that Southwest report on the results from the *SGB*
8 Residential Conservation Behavior program, including whether the program is
9 cost-effective and should be continued, in the following Implementation Plan.
- 10 • Staff has recommended that the *SGB* Solar Thermal Rebate program be
11 approved, with the following modifications:
- 12 ○ that the Solar Thermal Pool Heating measure not be approved for inclusion
13 in the *SGB* Solar Thermal Rebates program as a Residential measure.
 - 14 ○ that funding which would have been used to allow Residential customers to
15 participate in the Solar Thermal Pool Heating measure be used, instead, to
16 allow additional participation by Residential customers in the Solar
17 Thermal Water Heater measure.
 - 18 ○ that OG-300 certification be required for Residential and small Non-
19 residential Solar Water Heating Systems. Larger, Non-residential Solar
20 Water and Pool Heating Systems should be SRCC OG-100 certified as
21 proposed by Southwest.
 - 22 ○ that Residential solar hot water systems utilize OG-100 certified collectors
23 and be tested and certified to OG-300 standards by: (i) the SRCC; (ii) a
24 Southwest-approved Nationally Recognized Testing Laboratory (“NRTL”);
25 or (iii) an American National Standards Institute (“ANSI”) accredited
26 certifying organization.

21 65. On April 23, 2012, RUCO filed comments opposing Southwest’s request to
22 increase its EE budget to \$16.5 million, a 300% increase over its currently approved EE budget of
23 \$4.7 million. RUCO states that Southwest’s EE budget has increased from \$1.4 million in 2010, to
24 \$2.8 million in 2011, to \$4.7 million in 2012. At the same time, RUCO indicates that Southwest’s
25 per customer consumption has decreased on average 1.93% a year for the past 24 years. RUCO
26 asserts that this decline in per customer consumption has occurred for reasons outside of
27 Commission efforts to pursue additional EE. In light of the foregoing, RUCO recommends
28 ...

1 authorizing a \$4.7 million EE budget for Southwest in 2012 instead of increasing it to \$13.2
2 million as proposed by Staff.

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

7 67. Accordingly, we will approve a \$4.7 million 2012 EE budget for Southwest. We
8 will also maintain the existing DSM Surcharge of \$0.00200 per therm in light of the approximately
9 \$1.3 million over-collection in Southwest’s DSM balance. Moreover, to further ensure that
10 expenditures under Southwest’s EE and RET Plan result in ratepayer savings, we will not approve
11 funds collected through the DSM Surcharge to be expended on any measure that has not been
12 evaluated by Staff and found cost effective.

13 CONCLUSIONS OF LAW

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

16 2. The Commission has jurisdiction over Southwest and over the subject matter of the
17 application.

18 3. The Commission, having reviewed the application and Staff’s Memorandum dated
19 September 30, 2011, concludes that it is in the public interest to approve the Southwest EE and
20 RET Plan with modifications as discussed herein.

21 ORDER

22 IT IS THEREFORE ORDERED that the modified Southwest Gas Corporation EE and
23 RET Plan is approved, with a budget of \$4.7 million and DSM Surcharge of \$0.00200, with the
24 modifications discussed herein.

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

27 ...
28 ...

1 IT IS FURTHER ORDERED that Southwest Gas Corporation is allowed to transfer up to
2 20 percent of funding between the *SGB Residential Rebates* and *SGB Homes* programs, if
3 appropriate, to accommodate participation levels.

4 IT IS FURTHER ORDERED that Southwest Gas Corporation is allowed to transfer up to
5 20 percent of funding between the *SGB Business Rebates* and *SGB Custom Business Rebates*
6 programs, if appropriate, to accommodate participation levels.

7 IT IS FURTHER ORDERED that Southwest be allowed to transfer funds between budget
8 categories within each program, as long as Administration costs retained by Southwest are limited
9 to 10% of each program's individual budget.

10 IT IS FURTHER ORDERED that Southwest Gas Corporation shall continue to research
11 cost-effective measures, and that one or more additional air sealing measures shall be proposed in
12 future filings, in any program where they would be appropriate, if such measures are found to be
13 cost-effective.

14 IT IS FURTHER ORDERED that the Smart Low-Flow Showerhead, Window and Floor
15 Insulation measures be included in the *SGB Residential Rebates* program.

16 IT IS FURTHER ORDERED that the Tankless Water Heater and Attic Insulation measures
17 be included in the *SGB Residential Rebates* program, and that Southwest Gas Corporation shall
18 work to limit program costs associated with delivering all measures for the *SGB Residential*
19 *Rebates* program.

20 IT IS FURTHER ORDERED that the Wall Insulation measure not be included in the *SGB*
21 *Residential Rebates* program, but that the funding associated with this measure be used for other
22 *SGB Residential Rebates* program measures.

23 IT IS FURTHER ORDERED that the *SGB Business Rebates* program be approved and
24 include all the measures proposed by Southwest Gas Corporation in its current application.

25 IT IS FURTHER ORDERED that Southwest Gas Corporation shall work to limit program
26 costs for the *SGB Business Rebates* program.

27 IT IS FURTHER ORDERED that the *SGB Homes* program be approved and include all
28 measures proposed by Southwest Gas Corporation in its current application.

1 IT IS FURTHER ORDERED that the *SGB* Custom Business Rebates program is approved,
2 with the modification that all participants in the *SGB* Custom Business Rebates program will be
3 required to verify savings in order to be eligible to receive rebates i.e., the Opt-Out provision not
4 be approved.

5 IT IS FURTHER ORDERED that *SGB* Distributed Generation program is approved for
6 continuation.

7 IT IS FURTHER ORDERED that a revised *SGB* Distributed Generation program shall be
8 submitted for Commission consideration if no CHP project begins the installation process during
9 the 12 months following the effective date of the Decision approving the modified Southwest EE
10 and RET Plan.

11 IT IS FURTHER ORDERED that the *SGB* Low-income Conservation program is approved
12 for continuation as part of the modified Southwest EE and RET Plan.

13 IT IS FURTHER ORDERED that the *SGB* Conservation Behavior program is approved as
14 a one-year pilot. Once the program is ramped up, data from the first twelve months of activity
15 should be collected and reviewed to confirm that the pilot has achieved a cost-effective level of
16 savings.

17 IT IS FURTHER ORDERED that the *SGB* Residential Conservation Behavior program is
18 approved.

19 IT IS FURTHER ORDERED that Southwest Gas Corporation shall review data from the
20 first year of the program and that, following this review, the *SGB* Residential Conservation
21 Behavior program be continued only if it produces documented and cost-effective energy savings.

22 IT IS FURTHER ORDERED that Southwest Gas Corporation shall report on the results
23 from the *SGB* Residential Conservation Behavior program, including whether the program is cost-
24 effective and should be continued, in the following Implementation Plan.

25 IT IS FURTHER ORDERED that the *SGB* Solar Thermal Rebate program is approved,
26 with the following modifications:

- 27 • that the Solar Thermal Pool Heating measure is not approved for inclusion in the *SGB*
28 Solar Thermal Rebates program as a Residential measure.

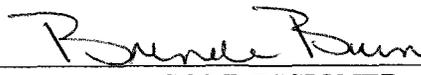
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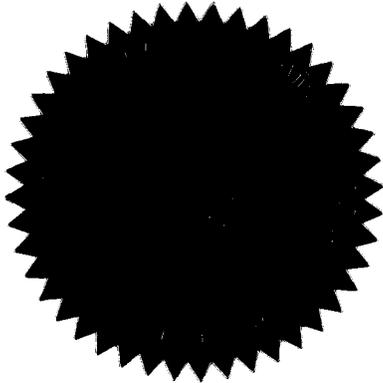
- that funding which would have been used to allow Residential customers to participate in the Solar Thermal Pool Heating measure shall be used, instead, to allow additional participation by Residential customers in the Solar Thermal Water Heater measure.
- that OG-300 certification shall be required for Residential and small Non-residential Solar Water Heating Systems. Larger, Non-residential Solar Water and Pool Heating Systems shall be OG-100 certified as proposed by Southwest.
- that Residential solar water heating systems shall utilize OG-100 certified collectors and be tested and certified to OG-300 standards by: (i) the SRCC; (ii) a Southwest-approved Nationally Recognized Testing Laboratory (“NRTL”); or (iii) an American National Standards Institute (“ANSI”) accredited certifying organization.

1 IT IS FURTHER ORDERED that to ensure accurate and timely cost-effectiveness analysis
 2 through the use of one model and consistent input values, Staff should attempt to retain an
 3 independent third-party consultant to assist a Staff-led working group, including the Company and
 4 interested stakeholders, in (a) exploring effective options for cost-effectiveness analysis models;
 5 (b) selecting and securing one model to be used by the Company and Staff for cost-effectiveness
 6 analysis; (c) resolving any differences in key input values used in the analysis; and (d) creating
 7 templates for Implementation Plans and annual progress and status reports.

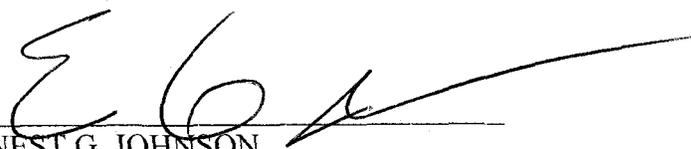
8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9
 10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

11  CHAIRMAN
 12  COMMISSIONER
 13
 14  COMMISSIONER
 15 COMMISSIONER COMMISSIONER COMMISSIONER



16
 17 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 18 Executive Director of the Arizona Corporation
 19 Commission, have hereunto, set my hand and caused the
 20 official seal of this Commission to be affixed at the
 21 Capitol, in the City of Phoenix, this
 22 5th day of June, 2012.

23 
 ERNEST G. JOHNSON
 EXECUTIVE DIRECTOR

24
 25 DISSENT: 

26
 27 DISSENT: 

28 SMO:JMK:lh\RM

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ARIZONA CORPORATION COMMISSION

May 24, 2012

Arizona Corporation Commission
Docket Control
G-01551A-10-0458

RE: DISSENT
SOUTHWEST GAS COMPANY
G-01551A-10-0458

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

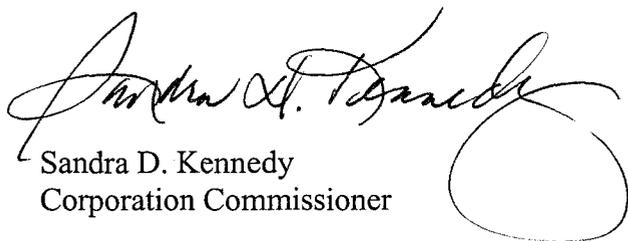
Decision No. **73231**

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