

ORIGINAL

OPEN MEETING



MEMORANDUM RECEIVED

2013 FEB 28 A 11: 55

Arizona Corporation Commission
DOCKETED

FEB 28 2013

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION
FROM: Utilities Division
DATE: February 28, 2013

DOCKETED BY

RE: SOUTHWEST GAS CORPORATION –APPLICATION FOR APPROVAL TO REVISE THE RATE COLLECTED THROUGH ITS DEMAND-SIDE MANAGEMENT ADJUSTOR MECHANISM AND TO DISCONTINUE ITS RESIDENTIAL ENERGY-EFFICIENT CONSUMER PRODUCTS FINANCING PROGRAM (DOCKET NO. G-01551A-13-0018)

On January 31, 2013, Southwest Gas Corporation (“Southwest” or “the Company”) filed an application to revise the rate collected through its demand-side management (“DSM”) adjustor mechanism from \$0.00200 to \$0.01022 per therm and to discontinue its Residential Energy-Efficient Consumer Products Financing Program.

Increase to DSM Adjustor Rate

A DSM adjustor mechanism was established in Decision No. 60352. Southwest files an application each year to reset its DSM adjustor rate. Once approved, the reset rate is then effective for twelve months, from April 1st through March 31st of the next year.

Background: DSM Adjustor Mechanism and Reset

The purpose of the DSM adjustor mechanism is to recover the cost of the Company’s Commission-approved DSM programs. The DSM adjustor rate is reset each year to align it with projected spending for the upcoming year, and to true-up existing over- or under-collections. Over- and under-collections arise from the difference between the amounts recovered through the DSM adjustor and the amounts actually spent on energy efficiency programs (which can be impacted by factors such as participation levels that are higher or lower than anticipated). Over- and under-collections are both applied to the Company’s DSM bank balance.

In Decision Nos. 73229 and 73231¹ (docketed June 5, 2012) the Commission approved a budget of \$4.7 million and ordered that the DSM adjustor rate remain at its existing \$0.00200 per therm rate. At that time, the Southwest DSM Bank Balance was over-collected by

¹ Decision Nos. 73229 and 73231 related to two successive phases of Southwest’s EE & RET Plan. Decision No. 73231 concerns the Company’s Modified EE & RET Plan from the rate case (Docket No. G-01551A-10-458). The Modified EE & RET Plan addressed the Settlement Agreement’s requirement for more than \$4.4 million in spending and at least 1,250,000 in therm savings. Decision No. 73229 concerns the New Revised EE & RET Plan, also filed in compliance with the Settlement Agreement, which required that a new plan, incremental to the Modified EE & RET Plan, be filed in another docket (G-01551A-11-0344).

approximately \$1.3 million. As of December 31, 2012, the Southwest DSM Bank Balance was under-collected by \$802,475.²

Calculation of DSM Surcharge

The table below shows how the proposed DSM surcharge was calculated. The total is based on (i) the current annual portfolio budget of \$4.7 million; (ii) the DSM bank balance as of December 31, 2012; (iii) the projected recovery during the first three months of 2013, based on the current adjustor rate \$0.00200 per therm; and (iv) the projected accrual during the first three months of 2013, based on the approved annual budget of \$4.7 million. The resulting adjusted total is divided by projected therm sales for 2013 (based on 2012 sales) to arrive at the per therm recovery rate of \$0.01022.

Southwest DSM Surcharge Calculation	
Program costs	\$4,700,000
12/1/2012 undercollected balance	\$802,475
Estimated surcharge recoveries, January-March 2013	(\$510,369)
Estimated spending, January-March 2013	\$1,175,000 ³
Total	\$6,167,106
Applicable DSM Therms	603,223,751
Per Therm	\$0.01022

Analysis

Southwest has increased its DSM spending over time, but reached a \$3 million spending level only as of December 2012, despite having an approved budget of approximately \$4.4 million, or higher, since 2006⁴. Staff is concerned that the projected spending used to calculate the proposed adjustor rate may be unrealistic (\$1,175,000 for January through March of 2013 and \$4.7 million for April 2013 through March 2014, for a total of \$5,875,000). Below is a table showing the history of DSM spending by Southwest.

2 On June 1, 2012, Southwest filed its Energy Efficiency and Renewable Energy Technology Plan ("EE & RET Plan") for Year Two of its Implementation Plan. (Southwest filed Year One of its EE & RET Plan in its most recent rate case in 2010.) The Southwest EE & RET Plan for Year Two proposes a budget of \$14 million, with a portfolio of programs designed to save approximately 4.8 million therms or therm equivalents. Review of the EE & RET Plan for Year Two is underway.

3 Reflects 25% (or three months) of a \$4.7 million budget.

4 Decision No. 68487 (February 2006) approved a \$4,385,000 budget. Decision No. 70665 (December 2008) approved a \$4.4 million budget with \$1 million increases each year from 2010 through 2012. Decision Nos. 73229 and 73231 (June 2012) approved a \$4.7 million budget.

Year	Amount Spent	Change
2006	\$1,210,000	
2007	\$1,028,519	(\$181,481)
2008	\$939,293	(\$89,226)
2009	\$1,405,762	\$466,469
2010	\$1,408,190	\$2,428
2011	\$2,776,658	\$1,368,468
2012	\$3,080,313	\$303,655

The total increase since 2006 is \$1,870,313, while the average annual increase over six years was \$311,719. Despite a significant increase from 2010 to 2011, from \$1,408,190 to \$2,776,658, it is unlikely that the Southwest portfolio of programs will spend \$5,875,000 from January 2013 through March 2014. Staff believes that resetting the DSM adjustor to limit recovery to \$4.7 million over the course of the adjustor year would allow the Company to address its current under-collection, and still allow for a significant expansion of its energy efficiency efforts, but at a more achievable level. Based on the Company's projected eligible therms for 2013, an adjustor rate of \$0.007791 per therm should recover approximately \$4.7 million.

Recommendation

Staff recommends that the Southwest adjustor rate be reset to \$0.007791 per therm.

Bill Impact

The bill impacts of the Company's and Staff's proposed surcharges, based on average Residential usage, are shown below.

Residential Bill Impacts	Average Therms Used	Current Surcharge	Company Proposed Surcharge	Staff Proposed Surcharge
		\$0.00200	\$0.01022	\$0.007791
Summer	11	\$0.02	\$0.11	\$0.09
Winter	39	\$0.08	\$0.40	\$0.30
Annual	25	\$0.05	\$0.26	\$0.19

Request to Discontinue Financing Program

In addition to an increase in the adjustor rate, in this application the Company is requesting permission to discontinue its Residential financing program. The Southwest Residential Energy-Efficient Consumer Products Program ("Financing Program") was approved in Decision No. 72256 on March 29, 2011. The purpose of the program is to assist Southwest customers in obtaining loans to cover up-front costs associated with implementing energy efficiency measures. Southwest entered into a loan Commitment Agreement with National Bank of Arizona ("NBAZ") for NBAZ to act as the third party lender for the Financing Program.

Southwest promoted the Financing Program through its website and bill inserts, among other means. In addition, NBAZ provided promotion on its website and through a special offers promotion. Despite these promotion efforts, no Southwest customers have participated in the Financing Program.

On December 10, 2012, NBAZ notified Southwest that it would terminate the Commitment Agreement as of February 15, 2013. Southwest has now requested permission to discontinue the Financing Program in its application filed January 31, 2013.

Analysis

Staff recommends that Southwest be allowed to discontinue its Financing Program due to the lack of participation and the third party lender's termination of the Commitment Agreement.

Summary of Recommendations

- Staff recommends that the Southwest adjustor rate be reset to \$0.007791 per therm.
- Staff recommends that Southwest be allowed to discontinue its Financing Program due to the lack of participation and the third party lender's termination of the Commitment Agreement.



Steven M. Olea
Director
Utilities Division

SMO:JKM:sms\WVC

ORIGINATOR: Julie McNeely-Kirwan

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION)
OF SOUTHWEST GAS CORPORATION)
FOR APPROVAL TO REVISE THE RATE)
COLLECTED THROUGH ITS DEMAND-)
SIDE MANAGEMENT ADJUSTOR)
MECHANISM AND TO DISCONTINUE ITS)
RESIDENTIAL ENERGY-EFFICIENT)
CONSUMER PRODUCTS FINANCING)
PROGRAM)

DOCKET NO. G-01551A-13-0018
DECISION NO. _____
ORDER

Open Meeting
March 12 and 13, 2013
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. On January 31, 2013, Southwest filed an application to revise the rate collected through its demand-side management ("DSM") adjustor mechanism from \$0.00200 to \$0.01022

per therm and to discontinue its Residential Energy-Efficient Consumer Products Financing Program.

Increase to DSM Adjustor Rate

3. A DSM adjustor mechanism was established in Decision No. 60352. Southwest files an application each year to reset its DSM adjustor rate. Once approved, the reset rate is then effective for twelve months, from April 1st through March 31st of the next year.

1 Background: DSM Adjustor Mechanism and Reset

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3 Company's Commission-approved DSM programs. The DSM adjustor rate is reset each year to
4 align it with projected spending for the upcoming year, and to true-up existing over- or under-
5 collections. Over- and under-collections arise from the difference between the amounts recovered
6 through the DSM adjustor and the amounts actually spent on energy efficiency programs (which
7 can be impacted by factors such as participation levels that are higher or lower than anticipated).
8 Over- and under-collections are both applied to the Company's DSM bank balance.

9 5. In Decision Nos. 73229 and 73231¹ (docketed June 5, 2012) the Commission
10 approved a budget of \$4.7 million and ordered that the DSM adjustor rate remain at its existing
11 \$0.00200 per therm rate. At that time, the Southwest DSM Bank Balance was over-collected by
12 approximately \$1.3 million. As of December 31, 2012, the Southwest DSM Bank Balance was
13 under-collected by \$802,475.²

14 Calculation of DSM Surcharge

15 6. The table below shows how the proposed DSM surcharge was calculated. The total
16 is based on (i) the current annual portfolio budget of \$4.7 million; (ii) the DSM bank balance as of
17 December 31, 2012; (iii) the projected recovery during the first three months of 2013, based on the
18 current adjustor rate \$0.00200 per therm; and (iv) the projected accrual during the first three
19 months of 2013, based on the approved annual budget of \$4.7 million. The resulting adjusted total
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24 73231 concerns the Company's Modified EE & RET Plan from the rate case (Docket No. G-01551A-10-458). The
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 2 recovery to \$4.7 million over the course of the adjustor year would allow the Company to address
 3 its current under-collection, and still allow for a significant expansion of its energy efficiency
 4 efforts, but at a more achievable level. Based on the Company's projected eligible therms for
 5 2013, an adjustor rate of \$0.007791 per therm should recover approximately \$4.7 million.

6 Recommendation

7 9. Staff has recommended that the Southwest adjustor rate be reset to \$0.007791 per therm.

8 Bill Impact

9 10. The bill impacts of the Company's and Staff's proposed surcharges, based on
 10 average Residential usage, are shown below.

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 19 requesting permission to discontinue its Residential financing program. The Southwest
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 22 customers in obtaining loans to cover up-front costs associated with implementing energy
 23 efficiency measures. Southwest entered into a loan Commitment Agreement with National Bank
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 28 the Financing Program.

1 13. On December 10, 2012, NBAZ notified Southwest that it would terminate the
 2 Commitment Agreement as of February 15, 2013. Southwest has now requested permission to
 3 discontinue the Financing Program in its application filed January 31, 2013.

4 Analysis

5 14. Staff has recommended that Southwest be allowed to discontinue its Financing
 6 Program due to the lack of participation and the third party lender's termination of the
 7 Commitment Agreement.

8 CONCLUSIONS OF LAW

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

11 2. The Commission has jurisdiction over Southwest Gas Corporation and over the
 12 subject matter of the application.

13 3. The Commission, having reviewed the application and Staff's Memorandum dated
 14 February 28, 2013, concludes that it is in the public interest to approve Staff's recommended reset
 15 of the Southwest Gas Corporation DSM adjustor rate and the discontinuance of the Residential
 16 Energy-Efficient Consumer Products Financing Program.

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ORDER

IT IS THEREFORE ORDERED that the Southwest Gas Corporation's DSM Surcharge be reset to \$0.007791 per therm, effective April 1, 2013.

IT IS FURTHER ORDERED that Southwest Gas Corporation be allowed to discontinue its Residential Energy-Efficient Consumer Products Program.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2013.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JMK:sms/WVC

1 SERVICE LIST FOR:
2 DOCKET NO. G-01551A-13-0018

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