

OPEN MEETING



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ORIGINAL MEMORANDUM

RECEIVED

Arizona Corporation Commission

AZ CORP COMMISSION

DOCKET CONTROL

TO: THE COMMISSION

DOCKETED

FROM: Utilities Division

DEC 31 2013

2013 DEC 31 PM 2 07

DATE: December 31, 2013

DOCKETED BY [Signature]

RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL OF AN ENERGY EFFICIENCY AND RENEWABLE ENERGY RESOURCE TECHNOLOGY PORTFOLIO IMPLEMENTATION PLAN (DOCKET NO. G-01551A-13-0170)

Background

On May 31, 2013, Southwest Gas Corporation (“Southwest”) filed an Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan (“EE and RET Plan”) for years Three and Four of its current Plan. This filing was in compliance with R14-2-2505A of the Gas Utility Energy Efficiency Standards, which provides that companies must file their Implementation Plans on June 1 of each odd year, or annually at the election of each company.

The Southwest EE and RET Plan, covering Plan Year One was approved in Decision No. 73231, on June 5, 2012. At that time, eight programs were approved, with a budget of \$4.7 million, and the DSM Surcharge was set at \$0.00200 per therm.

On June 1, 2012, Southwest filed a new EE and RET Plan for Plan Year Two in Docket No. G-01551A-12-0218. Since the Commission has not issued a Decision in that case, Staff recommends that Docket No. G-01551A-12-0218 be administratively closed once a Decision is issued in this Docket.

DSM Adjustor Reset and Bank Balance

Southwest did not propose a change to the DSM Surcharge in its current filing. Instead, the Company has requested to continue using its current DSM adjustor process, originally approved by the Commission in Decision No. 60352. The current DSM adjustor process provides that Southwest file to reset its DSM adjustor rate in January of each year, with the new rate taking effect in the first billing cycle for the following April.

The most recent reset of the adjustor rate took place as of April 1, 2013. Decision No. 73772 (March 21, 2013) set the DSM Surcharge at \$0.007791 per therm. The DSM account balance was under-collected by \$1,973,957, as of May 31, 2013. As of September 2013, the under-collection was approaching \$3 million. In communications with Staff the Company indicated that it anticipates that the balance will be under-collected by approximately \$2 million at the time of reset in April 2014.

Recommendation: Staff recommends that the Company notify the Commission if the under-collection increases to more than \$3.5 million.

Summary of Existing Portfolio

The following are descriptions of the seven programs currently in place. Six offer energy efficiency measures, while one, Solar Thermal Rebates, offers renewable measures:

- (i) SGB¹ Residential Rebates: Rebates are available to residential customers on qualified program measures upon proof-of-purchase and installation. Existing measures include: ENERGY STAR tankless water heaters, high efficiency natural gas clothes dryers, and windows. Southwest now offers the attic and floor insulation measures from the SGB Residential Rebates program only to customers who undergo a Home Performance assessment, and who utilize an authorized contractor. Southwest made this change to ensure that attic and floor insulation measures are installed only in cases where they are likely to produce cost-effective savings, and because attic and floor insulation may not achieve deemed energy savings if not installed correctly.
- (ii) SGB Homes: Rebates are offered to home builders who build ENERGY STAR certified homes. The program is available to all builders of new single-family subdivision and custom homes and multi-family homes featuring natural gas water and/or space heating.
- (iii) SGB Commercial Rebates: Rebates are offered to non-residential customers on qualified program measures upon proof-of-purchase and installation. The measures include high efficiency space and water heating products, and food service measures such as dishwashers, natural gas fryers, griddles, conveyor and convection and combination ovens.
- (iv) SGB Custom Commercial Rebates: Rebates are available to non-residential customers based on achieved annual energy savings. 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.

¹ "SGB" stands for Smarter Greener Better.

- (v) SGB Distributed Generation: The program provides rebates to non-residential customers to achieve significant fuel savings by promoting high efficiency electric generation, providing financial benefits during peak electrical demand periods, and demonstrating the use of new natural gas technologies that are being brought to market. The rebates are based upon the size and efficiency of the system being installed.

Current Project: The Clarion Hotel installed a natural gas-powered engine to generate electricity when peak electric demand is at its highest. In addition to the natural gas-powered engine, the Combined Heat and Power (“CHP”) system includes a heat exchanger that captures waste heat from electricity generation and uses it to heat water that is stored in a large hot water tank, which fulfills most of the hotel’s hot water needs while the system is running. The exchange of heat in CHP, which is also called cogeneration, captures 80 percent of waste heat for use by the facility.

- (vi) SGB Low-Income Energy Conservation: The Low-Income Energy Conservation (“LIEC”) program is comprised of two components: one provides energy-efficient home improvements such as increased insulation, duct repairs, weather-stripping, and caulking, otherwise referred to as weatherization; and the other provides emergency assistance to help pay household natural gas bills. The program is available to households with annual incomes less than 150 percent of the federal poverty income guidelines, and is administered by Southwest in conjunction with the Arizona Governor’s Office on Energy Policy (“OEP”) and Arizona Community Action Agency (“ACAA”).
- (vii) SGB Solar Thermal Rebates: Rebates are offered to residential and non-residential customers on qualified solar thermal systems, used for water heating or pool heating, upon proof-of-purchase and installation. The program objective is to increase public awareness of the benefits of solar thermal systems and to reduce customer natural gas usage by providing economically beneficial rebates to install the systems. Long-term customer energy savings will be realized throughout the life of the solar thermal systems.

Benefit-Cost Ratio Table

A benefit-cost ratio table is attached to the proposed Order as Exhibit C. The Decision number and date are listed along with the benefit-cost ratio for each measure. Due to the Commission’s desire to preserve the status quo, Staff has not done a benefit-cost analysis for the new measures proposed by the Company.

Summary of Proposed Changes

Southwest has proposed modifications to its portfolio of EE programs. These modifications are discussed below:

- SGB Residential. The Company has proposed that direct install measures and weatherization measures be added to the SGB Residential Rebates program. Southwest believes these would provide a cost-effective opportunity for additional savings. Direct install and weatherization measures were originally proposed as part of the SGB Residential Energy Assessments pilot in Docket No. G-01551A-11-0344. The SGB Residential Business Energy Assessments pilot, as well as the proposed Energy Education program, were not found cost-effective and were not approved. (Decision No. 73229; June 5, 2012.)

Recommendation: Staff recommends that direct install measures and weatherization measures not be approved for the SGB Residential Rebates program at this time.

- SGB Homes
 - (i) Southwest has proposed that the SGB Homes program be restructured to offer tiered rebates based on each home's Home Energy Rating System ("HERS") rating score², instead of being based on the measures installed. In the revised program, the Tankless Water Heater and Attic Insulation measures would be discontinued as individual measures. Instead, all participating homes will need to comply with Version 3 of ENERGY STAR's program and be certified. In addition, Tier 1 of the program would offer rebates for meeting a HERS score equal to or greater than 66, while Tier 2 would be offered for homes achieving a HERS score less than or equal to 65. Restructuring the program to focus on the HERS scores would make the program more performance-based.

Recommendations: Staff recommends that the Commission approve the restructuring of the SGB Homes program to offer tiered rebates based on each home's HERS rating score on a trial basis, so long as doing so is cost-effective.

- (ii) The Company has proposed that the SGB Homes program be expanded to include low-rise multi-family homes. The Company states that more low-rise multi-family homes are being constructed in Arizona and anticipates that the savings will be equivalent to single-family homes. Widening eligibility to this type of housing would allow more ratepayers to

² On the HERS index scale, a score of 100 is considered the average efficiency of baseline new construction, while a HERS index score of 0 represents a home that produces all of its energy through on-site generation from renewable energy. In other words, the lower the HERS score, the less energy the home uses from offsite sources.

participate in the SGB Homes program. However, cost-effectiveness was not calculated separately for low-rise multi-family homes since this property type is included as a category in ENERGY STAR's Certified Homes, Version 3 National Program Requirements.

Recommendations: Staff believes that there is insufficient data to ensure that the multi-family homes would be cost-effective. Accordingly, Staff recommends that the Commission approve expanding eligibility for participation to low-rise multifamily homes on a pilot basis only. Data should be gathered concerning the cost-effectiveness of extending eligibility to low rise multi-family homes. Once twelve months of data has been gathered, these data should be included in the next progress report filed with the Commission.

- SGB Commercial Rebates

- (i) Southwest has proposed that several measures in the SGB Commercial Rebates Program be eliminated, namely: griddles, O2 trim control pads, and two³ categories of dishwashers. Higher-than-anticipated incremental costs coupled with low natural gas prices have kept these measures from being cost-effective.

- (ii) Recommendation: Staff recommends that the Commission approve the Company's proposal to eliminate griddles, O2 trim control pads, and any non-cost-effective categories of dishwashers.

- (iii) The Company has proposed that the following measures be added to the SGB Commercial Rebates Program: boiler reset controls, infrared broilers, and pre-rinse spray valves.

Recommendation: Staff recommends that the Commission not approve the addition of boiler reset controls, infrared broilers, or pre-rinse spray valves to the SGB Commercial Rebates Program at this time.

- (iv) Southwest has proposed that the existing commercial storage water heater measure be modified into a two-tier measure. (Tier 2 features a higher incremental cost and higher incentives, but also significantly higher savings).

Recommendation: Staff recommends that commercial storage water heaters remain eligible for incentives and that the Company be allowed to establish a first and second tier for this measure provided the modified measure is more cost-effective than the existing measure.

³ Represents update. Originally filing indicated three.

- (v) Instead of the existing oven measures, Southwest has proposed that any commercial oven meeting the new Energy Star Product specification effective January 2014 be eligible for a rebate, along with ovens tested and listed on the Food Service Technology Center qualifying product lists.

Recommendation: Staff recommends that Southwest be allowed to utilize the new eligibility standard it has proposed for commercial ovens, but that the Company not be allowed to recover the costs associated with the commercial oven measure unless and until it can demonstrate the cost-effectiveness of all the new models made eligible under the new standard.

- (vi) The Company has proposed that standards for modulating burner controls be increased. Under the new standard, controls would have to be installed on existing boilers with a capacity of greater than or equal to 2 MMBTUH. This change is intended to enhance savings.

Recommendation: Staff recommends that the Commission approve the Company's proposal to increase eligibility standards for modulating burner controls, so that burner controls would have to be installed on existing boilers with a capacity of greater than or equal to 2 MMBTUH.

- SGB Distributed Generation. The Company has proposed expansion of the eligible prime movers (types of electricity production) available under the Distributed Generation Program. The prime movers currently available are reciprocating engines, combustion turbines and steam turbines. The additional prime movers would be fuel cells and recuperated micro-turbines.

The Company states that each prime mover would still be individually evaluated to ensure cost-effectiveness prior to any rebate payments, and that the proposed expansion to other types of prime movers would increase opportunities for new technologies, if they prove to be efficient.

Recommendation: Staff recommends that the Commission not approve expansion of the type of eligible prime movers (types of electricity production) available under the Distributed Generation Program at this time.

- SGB Low-income Energy Conservation. The Company requests that the administrative dollars for the Bill Assistance component under the SGB Low-Income Energy Conservation program be increased. Under this proposal, the administrative budget would be increased to 15%.

THE COMMISSION

December 31, 2013

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Recommendation: Staff recommends that there be no increase in administrative dollars for the Bill Assistance component under the SGB Low-Income Energy Conservation program.

Current Budget

The current \$4.7 million budget was set in Decision Nos. 73229 and 73231 (from G-01551A-11-0344 and G-01551A-10-0458). Program budgets are allocated based on the market and are likely to shift over time.

Program	Rebates	Administration	Outreach	Delivery	MV&E	Total Cost
Residential						
SGB Residential Rebates	\$313,900	\$8,600	\$21,500	\$77,400	\$8,600	\$430,000
SGB Homes	\$2,100,000	\$30,000	\$45,000	\$30,000	\$45,000	\$2,250,000
SGB Commercial Rebates	\$111,600	\$5,400	\$14,400	\$45,000	\$3,600	\$180,000
SGB Custom Commercial Rebates	\$340,000	\$6,000	\$18,000	\$130,000	\$6,000	\$500,000
SGB Distributed Generation	\$100,000	\$5,000	\$12,000	\$30,000	\$3,000	\$150,000
SGB Low-Income Weatherization	\$363,750	\$77,500	\$9,000	0	0	\$450,000
SGB Low-Income Bill Assistance	0	0	0	0	0	\$200,000
SGB Solar Thermal Rebates	\$434,900	\$2,500	0	\$97,200	\$5,400	\$540,000
Total EE and RET Plan	\$3,764,150	\$134,750	\$119,900	\$409,600	\$71,600	\$4,700,000

Proposed Budgets, Years 3 and 4

Proposed Budgets. The Company has proposed new, higher budgets for Years 3 and 4. The budget proposed for Year 3 is \$7.5 million, as shown in Exhibit A. The budget proposed for Year 4 is \$6.0 million, as shown in Exhibit B.

Recommendation: Staff recommends that the budget for both Years 3 and 4 be increased by \$1.3 million, from \$4.7 million to \$6 million.

Incentive Levels

Incentives for Southwest measures are limited to no more than 75% of the incremental cost of an individual measure. Incentives currently represent approximately 80% of the portfolio budget. In Docket No. G-01551A-13-0407, Southwest has requested increasing its existing \$4.7 million budget by \$1.6 million due to increasing customer participation.

Recommendation: To accommodate expanding participation and maintain reasonable program budgets, Staff recommends the Commission lower the cap on incentives to no more than 60% of the incremental cost of each measure. Staff believes that decreasing the cap on incentives will allow more customers to participate in Southwest's programs and increase the number of therms saved per program dollar spent. Staff also recommends that Southwest gather twelve months of data regarding the impact of lowering the cap on incentives and include this information in the next progress report filed with the Commission.

Gas Efficiency Standards

Southwest states that it achieved 3,146,127 in therm savings during its first plan year, exceeding its goal of 3,085,874 therms. The Company also states that it achieved 81,394 in therm savings during the first month of its second plan year and that its cumulative goal for its second plan year is 7,615,263. Southwest believes that it is "on target" to meet this goal. However, in communications with Staff, the Company has indicated that it may have to shut down its existing programs in the near future if the interim funding requested in Docket No. G-01551A-13-0407 is not approved.

Summary of Recommendations

Bank Balance

- Staff recommends that the Company notify Staff if the under-collection increases to more than \$3.5 million.

Budget Recommendation

- Staff recommends that the budget for Year 3 and the budget for Year 4 both be set at \$6 million.

Incentive Levels

- Staff recommends that the Commission lower the cap on incentives to no more than 60% of the incremental cost of each measure.
- Staff recommends that Southwest gather twelve months of data regarding the impact of lowering the cap on incentives and include this information in the next progress report filed with the Commission.

SGB Residential Rebates

- Staff recommends that direct install measures and weatherization measures not be approved for the SGB Residential Rebates program at this time.

SGB Homes

- Staff recommends that the Commission approve the restructuring of the SGB Homes program to offer tiered rebates based on each home's HERS rating score on a trial basis, so long as doing so is cost-effective.
- Staff recommends that the Commission approve expanding eligibility for participation to low-rise multi-family homes on a pilot basis only. Data should be gathered concerning the cost-effectiveness of extending eligibility to low rise multi-family homes. Once twelve months of data have been gathered, these data should be included in the next progress report filed with the Commission.

SGB Commercial Rebates

- Staff recommends that the Commission approve the Company's proposal to eliminate griddles, O2 trim control pads, and any non-cost-effective categories of dishwashers.
- Staff recommends that the Commission not approve the addition of boiler reset controls, infrared broilers, or pre-rinse spray valves to the SGB Commercial Rebates Program at this time.
- Staff recommends that commercial storage water heaters remain eligible for incentives and that the Company be allowed to establish a first and second tier for this measure.
- Staff recommends that Southwest be allowed to utilize the new eligibility standard it has proposed for commercial ovens, but that the Company not be allowed to recover the costs associated with the commercial oven measure unless and until it can demonstrate the cost-effectiveness of all the new models made eligible under the new standard.
- Staff recommends that the Commission approve the Company's proposal to increase eligibility standards for modulating burner controls, such that burner controls would have to be installed on existing boilers with a capacity of greater than or equal to 2 MMBTUH.

SGB Distributed Generation

- Staff recommends that the Commission not approve expansion of the type of eligible prime movers (types of electricity production) available under the Distributed Generation Program.

SGB Low-income Energy Conservation

- Staff recommends that the Commission not approve an increase in administrative dollars for the Bill Assistance component under the SGB Low-Income Energy Conservation program.

General

- Staff recommends that Docket No. G-01551A-12-0218 be administratively closed.



for

Steven M. Olea
Director
Utilities Division

SMO:JMK:sms\RRM

ORIGINATOR: Julie McNeely-Kirwan

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2 **BEFORE THE ARIZONA CORPORATION COMMISSION**

3 BOB STUMP

Chairman

4 GARY PIERCE

Commissioner

5 BRENDA BURNS

Commissioner

6 BOB BURNS

Commissioner

7 SUSAN BITTER SMITH

Commissioner

8
9 IN THE MATTER OF THE APPLICATION)
10 OF SOUTHWEST GAS CORPORATION)
11 FOR APPROVAL OF AN ENERGY)
12 EFFICIENCY AND RENEWABLE ENERGY)
13 RESOURCE TECHNOLOGY PORTFOLIO)
14 IMPLEMENTATION PLAN)

DOCKET NO. G-01551A-13-0170

DECISION NO. _____

ORDER

15 Open Meeting
16 January 14 and 15, 2014
17 Phoenix, Arizona

18 BY THE COMMISSION:

19 FINDINGS OF FACT

20 Background

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

24 2. Southwest serves approximately one million customers in the counties of Gila, La
25 Paz, Cochise, Graham, Maricopa, Pima, Greenlee, Mohave, Pinal and Yuma. Of these customers,
26 approximately 970,000 are Residential, while 40,000 are Commercial. Southwest also serves a
smaller number of Industrial, Irrigation and Transportation customers.

27 3. On May 31, 2013, Southwest filed an Energy Efficiency and Renewable Energy
28 Resource Technology Portfolio Implementation Plan (“EE and RET Plan”) for years Three and

1 Four of its current Plan. This filing was in compliance with R14-2-2505A of the Gas Utility
2 Energy Efficiency Standards, which provides that companies must file their Implementation Plans
3 on June 1 of each odd year, or annually at the election of each company.

4 4. The Southwest EE and RET Plan, covering Plan Year One was approved in
5 Decision No. 73231, on June 5, 2012. At that time, eight programs were approved, with a budget
6 of \$4.7 million, and the DSM Surcharge was set at \$0.00200 per therm.

7 5. On June 1, 2012, Southwest filed a new EE and RET Plan for Plan Year Two in
8 Docket No. G-01551A-12-0218. Since the Commission has not issued a Decision in that case,
9 Staff recommends that Docket No. G-01551A-12-0218 be administratively closed once a Decision
10 is issued in this Docket.

11 **DSM Adjustor Reset and Bank Balance**

12 6. Southwest did not propose a change to the DSM Surcharge in its current filing.
13 Instead, the Company has requested to continue using its current DSM adjustor process, originally
14 approved by the Commission in Decision No. 60352. The current DSM adjustor process provides
15 that Southwest file to reset its DSM adjustor rate in January of each year, with the new rate taking
16 effect in the first billing cycle for the following April.

17 7. The most recent reset of the adjustor rate took place as of April 1, 2013. Decision
18 No. 73772 (March 21, 2013) set the DSM Surcharge at \$0.007791 per therm. The DSM account
19 balance was under-collected by \$1,973,957, as of May 31, 2013. As of September 2013, the
20 under-collection was approaching \$3 million. In communications with Staff the Company
21 indicated that it anticipates that the balance will be under-collected by approximately \$2 million at
22 the time of reset in April 2014.

23 8. Recommendation. Staff has recommended that the Company notify the
24 Commission if the under-collection increases to more than \$3.5 million.

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1 **Summary of Existing Portfolio**

2 9. The following are descriptions of the seven programs currently in place. Six offer
3 energy efficiency measures, while one, Solar Thermal Rebates, offers renewable measures:

4 (i) SGB¹ Residential Rebates: Rebates are available to residential customers on
5 qualified program measures upon proof-of-purchase and installation. Existing
6 measures include: ENERGY STAR tankless water heaters, high efficiency natural
7 gas clothes dryers, and windows. Southwest now offers the attic and floor
8 insulation measures from the SGB Residential Rebates program only to customers
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10 contractor. Southwest made this change to ensure that attic and floor insulation
11 measures are installed only in cases where they are likely to produce cost-effective
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13 savings if not installed correctly.

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16 subdivision and custom homes and multi-family homes featuring natural gas water
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2 construction applications, has a minimum useful life of seven years and exceeds
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4 target cost-effective natural gas savings, such as retrofits of existing systems,
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13 Current Project:. The Clarion Hotel installed a natural gas-powered engine to
14 generate electricity when peak electric demand is at its highest. In addition to the
15 natural gas-powered engine, the Combined Heat and Power ("CHP") system
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18 the hotel's hot water needs while the system is running. The exchange of heat in
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7 customer natural gas usage by providing economically beneficial rebates to install
8 the systems. Long-term customer energy savings will be realized throughout the
9 life of the solar thermal systems.

10 Benefit-Cost Ratio Table

11 A benefit-cost ratio table is attached as Exhibit C. The Decision number and date are listed
12 along with the benefit-cost ratio for each measure. Due to the Commission's desire to preserve the
13 status quo, Staff has not done a benefit-cost analysis for the new measures proposed by the
14 Company.

15 Summary of Proposed Changes

16 10. Southwest has proposed modifications to its portfolio of EE programs. These
17 modifications are discussed below:

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19 weatherization measures be added to the SGB Residential Rebates program. Southwest
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24 Education program, were not found cost-effective and were not approved. (Decision
25 No. 73229; June 5, 2012.)

26 Recommendation: Staff has recommended that direct install measures and
27 weatherization measures not be approved for the SGB Residential Rebates program at
28 this time.

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11 equal to 65. Restructuring the program to focus on the HERS scores would
12 make the program more performance-based.

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16 so is cost-effective.

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19 rise multi-family homes are being constructed in Arizona and anticipates
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24 type is included as a category in ENERGY STAR's Certified Homes,
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25 Recommendation: Staff believes that there is insufficient data to ensure that
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Recommendation: Staff has recommended that commercial storage water heaters remain eligible for incentives and that the Company be allowed to establish a first and second tier for this measure, provided the modified measure is more cost-effective than the existing measure.

- (iv) Instead of the existing oven measures, Southwest has proposed that any commercial oven meeting the new Energy Star Product specification effective January 2014 be eligible for a rebate, along with ovens tested and listed on the Food Service Technology Center qualifying product lists.

Recommendation: Staff has recommended that Southwest be allowed to utilize the new eligibility standard it has proposed for commercial ovens, but that the Company not be allowed to recover the costs associated with the commercial oven measure unless and until it can demonstrate the cost-effectiveness of all the new models made eligible under the new standard.

- (v) The Company has proposed that standards for modulating burner controls be increased. Under the new standard, controls would have to be installed on existing boilers with a capacity of greater than or equal to 2 MMBTUH. This change is intended to enhance savings.

Recommendation: Staff has recommended that the Commission approve the Company's proposal to increase eligibility standards for modulating burner controls, so that burner controls would have to be installed on existing boilers with a capacity of greater than or equal to 2 MMBTUH.

- SGB Distributed Generation. The Company has proposed expansion of the eligible prime movers (types of electricity production) available under the Distributed Generation Program. The prime movers currently available are reciprocating engines, combustion turbines and steam turbines. The additional prime movers would be fuel cells and recuperated micro-turbines.

The Company states that each prime mover would still be individually evaluated to ensure cost-effectiveness prior to any rebate payments, and that the proposed expansion to other types of prime movers would increase opportunities for new technologies, if they prove to be efficient.

Recommendation: Staff has recommended that the Commission not approve expansion of the type of eligible prime movers (types of electricity production) available under the Distributed Generation Program at this time.

- SGB Low-income Energy Conservation. The Company requests that the administrative dollars for the Bill Assistance component under the SGB Low-Income Energy Conservation program be increased. Under this proposal, the administrative budget would be increased to 15%.

Recommendation: Staff has recommended that there be no increase in administrative dollars for the Bill Assistance component under the SGB Low-Income Energy Conservation program.

Current Budget

11. The current \$4.7 million budget was set in Decision Nos. 73229 and 73231 (from G-01551A-11-0344 and G-01551A-10-0458). Program budgets are allocated based on the market and are likely to shift over time.

Program	Rebates	Administration	Outreach	Delivery	MV&E	Total Cost
Residential						
SGB Residential Rebates	\$313,900	\$8,600	\$21,500	\$77,400	\$8,600	\$430,000
SGB Homes	\$2,100,000	\$30,000	\$45,000	\$30,000	\$45,000	\$2,250,000
SGB Commercial						
SGB Commercial Rebates	\$111,600	\$5,400	\$14,400	\$45,000	\$3,600	\$180,000
SGB Custom Commercial Rebates	\$340,000	\$6,000	\$18,000	\$130,000	\$6,000	\$500,000
SGB Distributed Generation	\$100,000	\$5,000	\$12,000	\$30,000	\$3,000	\$150,000
SGB Low-Income						
SGB Low-Income Weatherization	\$363,750	\$77,500	\$9,000	0	0	\$450,000
SGB Low-Income Bill Assistance	0	0	0	0	0	\$200,000

1						
2	SGB Solar Thermal Rebates	\$434,900	\$2,500	0	\$97,200	\$5,400
3	Total EE and RET Plan	\$3,764,150	\$134,750	\$119,900	\$409,600	\$71,600
						\$540,000
						\$4,700,000

4 **Proposed Budgets, Years 3 and 4**

5 12. Proposed Budgets. The Company has proposed new, higher budgets for Years 3
6 and 4. The budget proposed for Year 3 is \$7.5 million, as shown in Exhibit A. The budget
7 proposed for Year 4 is \$6.0 million, as shown in Exhibit B.

8 13. Recommendation: Staff has recommended that the budget for both Years 3 and 4
9 be increased by \$1.3 million, from \$4.7 million to \$6 million.

10 **Incentive Levels**

11 14. Incentives for Southwest measures are limited to no more than 75% of the
12 incremental cost of an individual measure. Incentives currently represent approximately 80% of
13 the portfolio budget. In Docket No. G-01551A-13-0407, Southwest has requested increasing its
14 existing \$4.7 million budget by \$1.6 million due to increasing customer participation.

15 15. Recommendation: To accommodate expanding participation and maintain
16 reasonable program budgets, Staff recommends the Commission lower the cap on incentives to no
17 more than 60% of the incremental cost of each measure. Staff believes that decreasing the cap on
18 incentives will allow more customers to participate in Southwest's programs and increase the
19 number of therms saved per program dollar spent. Staff also recommends that Southwest gather
20 twelve months of data regarding the impact of lowering the cap on incentives and include this
21 information in the next progress report filed with the Commission.

22 **Gas Efficiency Standards**

23 16. Southwest states that it achieved 3,146,127 in therm savings during its first plan
24 year, exceeding its goal of 3,085,874 therms. The Company also states that it achieved 81,394 in
25 therm savings during the first month of its second plan year and that its cumulative goal for its
26 second plan year is 7,615,263. Southwest believes that it is "on target" to meet this goal.
27 However, in communications with Staff, the Company has indicated that it may have to shut down

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1 its existing programs in the near future if the interim funding requested in Docket No. G-01551A-
2 13-0407 is not approved.

3 Summary of Recommendations

4 Bank Balance

- 5 • Staff has recommended that the Company notify Staff if the under-collection
6 increases to more than \$3.5 million.

7 Budget Recommendation

- 8 • Staff has recommended that the budget for Year 3 and the budget for Year 4 both be
9 set at \$6 million.

10 Incentive Levels

- 11 • Staff has recommended that the Commission lower the cap on incentives to no
12 more than 60% of the incremental cost of each measure.
- 13 • Staff has recommended that Southwest gather twelve months of data regarding the
14 impact of lowering the cap on incentives and include this information in the next
15 progress report filed with the Commission.

16 SGB Residential Rebates

- 17 • Staff has recommended that direct install measures and weatherization measures not
18 be approved for the SGB Residential Rebates program at this time.

19 SGB Homes

- 20 • Staff has recommended that the Commission approve the restructuring of the SGB
21 Homes program to offer tiered rebates based on each home's HERS rating score on
22 a trial basis, so long as doing so is cost-effective.
- 23 • Staff has recommended that the Commission approve expanding eligibility for
24 participation to low-rise multi-family homes on a pilot basis only. Data should be
25 gathered concerning the cost-effectiveness of extending eligibility to low rise multi-
26 family homes. Once twelve months of data have been gathered, these data should
27 be included in the next progress report filed with the Commission.

28 ...

SGB Commercial Rebates

- Staff has recommended that the Commission approve the Company's proposal to eliminate griddles, O2 trim control pads, and any non-cost-effective categories of dishwashers.
- Staff has recommended that the Commission not approve the addition of boiler reset controls, infrared broilers, or pre-rinse spray valves to the SGB Commercial Rebates Program at this time.
- Staff has recommended that commercial storage water heaters remain eligible for incentives and that the Company be allowed to establish a first and second tier for this measure, provided the modified measure is more cost-effective than the existing measure.
- Staff has recommended that Southwest be allowed to utilize the new eligibility standard it has proposed for commercial ovens, but that the Company not be allowed to recover the costs associated with the commercial oven measure unless and until it can demonstrate the cost-effectiveness of all the new models made eligible under the new standard.
- Staff has recommended that the Commission approve the Company's proposal to increase eligibility standards for modulating burner controls, such that burner controls would have to be installed on existing boilers with a capacity of greater than or equal to 2 MMBTUH.

SGB Distributed Generation

- Staff has recommended that the Commission not approve expansion of the type of eligible prime movers (types of electricity production) available under the Distributed Generation Program.

SGB Low-income Energy Conservation

- Staff has recommended that the Commission not approve an increase in administrative dollars for the Bill Assistance component under the SGB Low-Income Energy Conservation program.

1 General

- 2 • Staff has recommended that Docket No. G-01551A-12-0218 be administratively
- 3 closed.

4 CONCLUSIONS OF LAW

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

7 2. The Commission has jurisdiction over Southwest and over the subject matter of the
8 application.

9 3. The Commission, having reviewed the application and Staff’s Memorandum dated
10 December 31, 2013, concludes that it is in the public interest to approve the EE and RET Plan, as
11 discussed herein.

12 ORDER

13 IT IS THEREFORE ORDERED that the Southwest Gas Corporation notify the
14 Commission if the under-collection increases to more than \$3.5 million.

15 IT IS FURTHER ORDERED that the budget for Year 3 and the budget for Year 4 both be
16 set at \$6 million.

17 IT IS FURTHER ORDERED that Southwest Gas Corporation lower the cap on incentives
18 to no more than 60% of the incremental cost of each measure.

19 IT IS FURTHER ORDERED that Southwest Gas Corporation gather twelve months of
20 data regarding the impact of lowering the cap on incentives and include this information in the
21 next progress report filed with the Commission.

22 IT IS FURTHER ORDERED that direct install measures and weatherization measures not
23 be approved for the SGB Residential Rebates program at this time.

24 IT IS FURTHER ORDERED that the SGB Homes program offer tiered rebates based on
25 each home’s Home Energy Rating System rating score, so long as doing so is cost-effective.

26 IT IS FURTHER ORDERED that eligibility in the SGB Homes program be expanded to
27 low-rise multifamily homes on a pilot basis only. Southwest Gas Corporation should gather data

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1 concerning the cost-effectiveness of this expansion. Once twelve months of data has been
2 gathered, the data should be included in the next progress report filed with the Commission.

3 IT IS FURTHER ORDERED that Southwest Gas Corporation eliminate griddles, O2 trim
4 control pads, and any non-cost-effective categories of dishwashers.

5 IT IS FURTHER ORDERED that Southwest Gas Corporation not add boiler reset controls,
6 infrared broilers, or pre-rinse spray valves to the SGB Commercial Rebates program.

7 IT IS FURTHER ORDERED that commercial storage water heaters remain eligible for
8 incentives and that the Company be allowed to establish a first and second tier for this measure,
9 provided the modified measure is more cost-effective than the existing measure.

10 IT IS FURTHER ORDERED that Southwest Gas Corporation be allowed to utilize the new
11 eligibility standard it has proposed for commercial ovens, but that the Company not be allowed to
12 recover the costs associated with the commercial oven measure unless and until it can demonstrate
13 the cost-effectiveness of the models made eligible under the new standard.

14 IT IS FURTHER ORDERED that the Company's proposal to increase eligibility standards
15 for modulating burner controls, so that burner controls would have to be installed on existing
16 boilers with a capacity of greater than or equal to 2 MMBTUH is approved.

17 IT IS FURTHER ORDERED that Southwest Gas Corporation not expand the type of
18 eligible prime movers (types of electricity production) available under the Distributed Generation
19 Program.

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1 IT IS FURTHER ORDERED that there be no increase in administrative dollars for the Bill
2 Assistance component under the SGB Low-Income Energy Conservation program.

3 IT IS FURTHER ORDERED that Docket No. G-01551A-12-0218 be administratively
4 closed.

5 IT IS FURTHER ORDERED that this Order shall take effect immediately.

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

8
9 _____
10 CHAIRMAN

COMMISSIONER

11
12 _____
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14 IN WITNESS WHEREOF, I, JODI JERICH, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of
18 Phoenix, this _____ day of _____, 2014.

19 _____
20 JODI JERICH
EXECUTIVE DIRECTOR

21 DISSENT: _____

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23 DISSENT: _____

24 SMO:JMK:sms\RRM
25
26
27
28

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION
2 DOCKET NO. G-01551A-13-1070

3 Catherine M. Mazzeo, Esq.
4 Associate General Counsel
5 Southwest Gas Corporation
6 P.O. Box 98510
7 Las Vegas, Nevada 89193-7250

8 Debra Gallo
9 Director/Government & State
10 Regulatory Affairs
11 Southwest Gas Corporation
12 P.O. Box 98510
13 Las Vegas, Nevada 89193-7250

14 Mr. Steven M. Olea
15 Director, Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 Ms. Janice M. Alward
20 Chief Counsel, Legal Division
21 Arizona Corporation Commission
22 1200 West Washington Street
23 Phoenix, Arizona 85007

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EXHIBITS

EXHIBIT A**Southwest Proposed Year 3 Budget**

Program	Rebates	Administration	Outreach	Delivery	MV&E	Total Cost
<i>SGB Residential Rebates</i>	\$584,000	\$16,000	\$40,000	\$144,000	\$16,000	\$800,000
<i>SGB Homes</i>	\$3,285,000	\$73,000	\$146,000	\$73,000	\$73,000	\$3,650,000
<i>SGB Commercial Rebates</i>	\$341,000	\$16,500	\$44,000	\$137,500	\$11,000	\$550,000
<i>SGB Custom Commercial Rebates</i>	\$256,500	\$9,000	\$27,000	\$148,500	\$9,000	\$450,000
<i>SGB Distributed Generation</i>	\$280,000	\$12,000	\$32,000	\$68,000	\$8,000	\$400,000
<i>SGB Low-Income Weatherization</i>	\$0	\$0	\$0	\$0	\$0	\$450,000
<i>SGB Low-Income Bill Assistance</i>	\$0	\$0	\$0	\$0	\$0	\$200,000
<i>Low-income Total</i>	\$0	\$0	\$0	\$0	\$0	\$650,000
<i>SGB Solar Thermal Rebates</i>	\$738,800	\$15,000	\$50,000	\$186,200	\$10,000	\$1,000,000
Total EE and RET Plan	\$5,485,300	\$141,500	\$339,000	\$757,200	\$127,000	\$7,500,000

EXHIBIT B**Proposed Year 4 Budget**

Program	Rebates	Administration	Outreach	Delivery	MV&E	Total Cost
Residential						
<i>SGB Residential Rebates</i>	\$452,600	\$12,400	\$31,000	\$111,600	\$12,400	\$620,000
<i>SGB Homes</i>	\$2,592,000	\$57,600	\$115,200	\$57,600	\$57,600	\$2,880,000
<i>SGB Commercial Rebates</i>	\$248,000	\$12,000	\$32,000	\$100,000	\$8,000	\$400,000
<i>SGB Custom Commercial Rebates</i>	\$199,500	\$7,000	\$21,000	\$115,500	\$7,000	\$350,000
<i>SGB Distributed Generation</i>	\$210,000	\$9,000	\$24,000	\$51,000	\$6,000	\$300,000
<i>SGB Low-Income Weatherization</i>	\$0	\$0	\$0	\$0	\$0	\$450,000
<i>SGB Low-Income Bill Assistance</i>	\$0	\$0	\$0	\$0	\$0	\$200,000
<i>Low-income Total</i>	\$0	\$0	\$0	\$0	\$0	\$650,000
<i>SGB Solar Thermal Rebates</i>	\$591,040	\$12,000	\$40,000	\$148,960	\$8,000	\$800,000
Total EE and RET Plan	\$4,293,140	\$110,000	\$263,200	\$584,660	\$99,000	\$6,000,000

BENEFIT-COST RATIO AND DECISION TABLE

Programs and Measures	Decision No.	Date	Benefit-cost ratio
Residential			
<i>Smarter, Greener, Better Residential Rebates</i>			
Tankless Water Heater	73231	6/5/2012	0.94
Clothes Dryer	71718	6/3/2010	1.55
Windows	73231	6/5/2012	1.45
Attic Insulation	73231	6/5/2012	0.97
Floor Insulation	73231	6/5/2012	1.35
Smart Low-Flow Showerhead	73231	6/5/2012	1.21
<i>Smarter, Greener, Better Homes</i>			
Home Certification	73231	6/5/2012	1.36
Tankless Water Heater	73231	6/5/2012	1.08
Attic Insulation	73231	6/5/2012	1.44
Non-residential			
<i>Smarter, Greener, Better Business Rebates</i>			
Storage Water Heater	69880	8/28/2007	2.46 ¹
Tankless Water Heater	73231	6/5/2012	1.08
Non-condensing Boiler	71718	6/3/2010	1.35
Condensing Boiler	73231	6/5/2012	1.47
Boiler-Modulating Burner Control	71718	6/3/2010	0.61-1.88 ²
Boiler—Steam Trap (Installed, Replaced or Repaired)	71718	6/3/2010	7.31
Air Curtain	73231	6/5/2012	2.22
Griddle	69880	8/28/2007	2.46 ³
Combination Oven	73231	6/5/2012	1.20
Conveyor Oven	73231	6/5/2012	2.70/2.08 ⁴
Fryer	71718	6/3/2010	1.38
Dishwasher (Low Temp): Door Type	73231	6/5/2012	1.48
Dishwasher (Low Temp): Single Tank Conveyor	73229	6/5/2012	1.09
Dishwasher (Low Temp) Multi Tank Conveyor	73229	6/5/2012	1.22
Dishwasher (High Temp/Gas Booster Heater): Under Counter	73231	6/5/2012	1.18
Dishwasher (High Temp/Gas Booster Heater): Door Type	73231	6/5/2012	1.53
Dishwasher (High Temp/Gas Booster Heater): Single Tank Conveyor	73231	6/5/2012	1.75
Dishwasher (High Temp/Gas Booster Heater): Multi Tank Conveyor	73231	6/5/2012	2.26

¹ Approved as part of the Commercial Equipment program; benefit-cost ratio for entire program was 2.46.

² Wide range of cost-effectiveness; only cost-effective projects approved.

³ Measure being discontinued. Approved as part of the Commercial Equipment program; benefit-cost ratio for entire program was 2.46.

⁴ <2.5”=2.70;>2.5”=2.08.

<i>Smarter, Greener, Better Custom Business Rebates</i>			
Typical Custom Business Project	73231	6/5/2012	3.55
<i>Smarter, Greener, Better Distributed Generation</i>			
Typical Distributed Generation Project	73231	6/5/2012	1.56
Low-income⁵			
<i>Smarter, Greener, Better Low-Income Energy Conservation</i>			
Typical Low-Income Energy Conservation Project	73231	6/5/2012	0.98
Renewable Energy Resource Technology			
<i>Smarter, Greener, Better Solar Thermal Rebates</i>			
Residential Solar Water Heater System	73231	6/5/2012	N/A
Non-residential Solar Water Heater System	73231	6/5/2012	N/A
Non-residential Solar Pool Heating System	73231	6/5/2012	N/A

⁵ 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.