

ORIGINAL
OPEN MEETING



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MEMORANDUM RECEIVED

Arizona Corporation Commission

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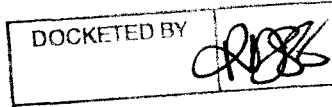
TO: THE COMMISSION

FROM: Utilities Division

MAR 15 2011

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: March 15, 2011



RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL TO REVISE THE RATE COLLECTED THROUGH ITS DEMAND-SIDE MANAGEMENT ADJUSTOR MECHANISM (DOCKET NO. G-01551A-11-0052)

On January 31, 2011, Southwest Gas Corporation (“Southwest” or “the Company”) filed an application to reset its current rate from \$0.00200 per therm to \$0.00345 per therm. Pursuant to Commission Decision No. 60352 (August 29, 1997), Southwest files an application each year to reset its Demand-side Management (“DSM”) adjustor rate. Once approved, the reset rate is then effective for twelve months, from April 1st through the following March 31st.

Southwest also has a pending rate case, in Docket No. G-01551A-10-0458, filed on November 12, 2010. The rate case includes the Company’s DSM implementation plan¹, which is a revamp of its existing DSM Portfolio and is designed to meet the new gas energy efficiency standard. Southwest’s DSM implementation plan includes the following proposals:

- a pilot program offering Residential energy audits and direct install for efficient showerheads and aerators, and promoting the Residential rebates;
- a pilot program offering Non-residential energy audits and promoting implementation of energy efficiency measures identified by the audits;
- an educational pilot program for all Southwest customers. It would promote energy efficiency and conservation, and explore partnerships for implementing a Conservation Behavior program;
- a Non-residential customized program offering rebates for achieved annual energy savings;
- multiple new Residential and Non-residential measures;
- a new Renewable Energy Resource Technology (“RET”) program promoting solar water heaters and solar pool heaters; and

¹ The “Arizona Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan” or “Implementation Plan.”

- a total portfolio budget increase to \$16,500,000 (compared to the \$4.8 million proposed in this reset filing).

In the rate case docket, Southwest has requested that the new DSM/RET Portfolio and the associated new DSM adjustor rate “become effective coincident with the rates approved in the general rate case.” The rate case DSM adjustor rate would replace any DSM adjustor rate in place at that time.

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 applied to the Company’s DSM bank balance.²

Current Over-collection

According to the Company, as of December 31, 2010, Southwest was over-collected by \$2,577,916, and anticipates that the over-collection will increase to \$2,687,163 by April 1, 2011. The over-collected balance, in combination with the higher adjustor rate, would fund Southwest’s planned increase in DSM spending during the 2011 program year (4/1/2011-3/31/2012).

Projected Spending

Southwest projects \$4,826,000 in spending for its conservation and energy efficiency spending during the 2011 program year. Southwest projected its proposed spending level based on: (i) the total budget for the Company’s current Commission-approved DSM portfolio (\$4,776,000); and (ii) the Company’s proposed Residential Energy Efficient Consumer Products Financing (“Consumer Products Financing”) program (\$50,000).

The higher DSM spending level would promote increased program participation and activity, increase energy savings generally, and enhance the Company’s ability to meet the new gas energy efficiency standards.³ The proposed \$4.8 million cost for the 2011 program year would be covered by the Company’s existing over-collection, combined with the proposed \$0.00345 per therm DSM adjustor rate.

² Interest is paid on both over- and under-collected balances, based on the one-year nominal constant maturities rate.

³ Gas energy efficiency standards have been set by the Commission and became effective on March 4, 2011. Gas utilities falling under the rules, as Southwest does, are required to achieve 0.50% in cumulative annual energy savings by the end of 2011.

Potential Impacts of Projected Increase in DSM Adjustor Rate

If participation and activity levels are similar to what the Company has projected, the proposed DSM adjustor rate would allow Southwest to recover its DSM-related costs in a timely fashion. If DSM spending reaches the \$4.8 million projected by the Company, the higher DSM adjustor rate level will also decrease the chances that the DSM bank balance will become under-collected once the current over-collection has been exhausted. (Any under-collection could be trued-up at the next reset.)

If program participation and activity levels are lower than anticipated, the higher DSM adjustor rate could minimally decrease, maintain or even increase the Company's already substantial level of over-collection. For example, Staff estimates that if Southwest spent \$2.8 million (approximately twice what it spent in 2010), rather than the \$4.8 million projected by the Company, the over-collected bank balance would decrease from its current level, but still remain over \$2 million.

Details of Projected Spending

The individual per-program budgets are listed in the tables below, as are the components of the proposed financing program. Table I addresses existing programs, while Table II includes the initial budget for the proposed Consumer Products Financing program:

Table I

Existing Southwest DSM Programs	Budgets
<i>Smarter Greener Better Homes</i> /Energy Star Home	\$950,000
Low-Income Energy Conservation	\$650,000
Residential Rebates/Consumer Products	\$700,000
Commercial Equipment	\$1,111,000
Large Commercial Energy Efficient Boiler	\$650,000
Technology Information Center	\$15,000
Distributed Generation	\$700,000
Total	\$4,776,000

Table II

Proposed Residential Energy Efficient Consumer Products Financing Program (initial year)	Budgets
Administration and Set-up	\$25,000
Initial Guaranty Reserve Account	\$25,000
Total	\$50,000

Increased Participation and Spending

The \$4.8 million in spending on Southwest projects for the 2011 program year would more than triple the \$1.4 million spent during the 2009 and 2010 calendar years. During communications with Staff, Southwest listed a number of factors that it believes will contribute to such a marked increase in program activity and spending: (i) an improving economy; (ii) DSM portfolio enhancements, such as the new boiler program (for which Southwest anticipates a high level of interest) and higher new home construction rebates; (iii) a federal depreciation deduction on capitol investment that is likely to enhance participation in the Commercial Equipment program; (iv) the expected participation of a hospital Combined Heat and Power ("CHP")⁴ project in the Distributed Generation program, and the potential for a second project in the near future; (v) increased reliance on the Company's local division employees to assist with DSM programs; (vi) the hiring of a new DSM-dedicated employee; and (vii) additional targeted outreach efforts, focusing on manufacturers, engineers, architects and facility managers.

Calculation of the Proposed DSM Adjustor Rate

The table below shows how the requested credit was calculated, based on estimated spending, the over-collected bank balance, estimated recoveries and estimated accruals:

Table III

Projected Spending, Current Budget (2011 Program Year 4/1/2011-3/31/2012)	
Projected 2011 Spending on Approved DSM Programs	\$4,776,000
Projected 2011 Spending on Financing Program (Pending)	\$50,000
Subtotal: 2011 Projected DSM Program Costs (Current programs)	\$4,826,000
Total Amount to Be Recovered	
2011 Projected DSM Program Costs (Current programs)	\$4,826,000
DSM over-collection as of 12/31/2010	(\$2,577,916)
Estimated recoveries, January-March 2011	(461,295)
Estimated accruals, January-March 2011	\$352,048
Total amount to be recovered	\$2,138,837
Calculation of Southwest's Proposed Adjustor Rate	
Applicable Therms ⁵	619,588,669
$\$2,138,837 / 619,588,669 =$ Southwest's Proposed adjustor reset rate	\$0.00345

Estimated Residential Bill Impacts of Proposed Increase; Estimated Total Costs

Average usage rates. The average usage rates for single-family residential customers are listed in the table below. Also included is the highest monthly therm usage from 2010, so the

⁴ CHP technologies capture byproduct heat created during electric power generation and use it for heating and cooling, or to generate additional electricity.

⁵ Southwest customers on the G30 (optional) and B1 (bypass) rate schedules do not pay the DSM adjustor rate. The therms used by these customers are not, for this reason, used in calculating the per-therm DSM adjustor rate.

existing and proposed DSM adjustor rates can be evaluated in terms of their cost during a peak usage month:

Table IV

	Summer Months	Winter Months	Annual (per month)	Highest Usage Rate (per month)
Average no. of therms used	11	39	25	63

Bill Impacts; Costs. The Company's proposed DSM adjustor rate would have an impact on residential customer bills equal to the difference between the existing and proposed rate times usage, as shown below.

Table V

Costs/Impacts (usage x adjustor rate)	Average Monthly Cost: Summer	Average Monthly Cost: Winter	Average Monthly Cost: Annual	Cost During Peak Usage Month
Total Costs at Current \$0.00200 Rate Per Therm	\$0.02200	\$0.07800	\$0.05000	\$0.12600
Total Costs at Southwest Proposed \$0.00345 Rate Per Therm	\$0.03795	\$0.13455	\$0.08625	\$0.21735
Impact of Increase (Difference between existing and proposed rate.)	\$0.01595	\$0.05655	\$0.03625	\$0.09135

Staff Recommendations

As stated herein, Southwest filed an application for a rate case on November 12, 2010, which was found sufficient on December 13, 2010. In its application, Southwest proposed an extensive modification of its DSM Portfolio, including new programs, new measures and a large increase to the budget. Based on the proposed revamp, and the existing large over-collection, it is Staff's position that a reset should be postponed at this time and considered within the rate case.

Although the factors cited by Southwest are likely to increase DSM program participation, and to require increased spending, Staff believes that a higher DSM adjustor rate is not indicated at this time. The existing over-collection and the approximately \$1.2 million⁶ that would be recovered through the current DSMAC adjustor rate will provide Southwest with

⁶ This is the amount that would be recovered at the existing \$0.00200 DSM adjustor rate if it continues from 4/1/2011 to 3/31/2012. A reset occurring in the rate case prior to 3/31/2012 would impact the amount recovered.

THE COMMISSION

Page 6

funding to significantly expand its DSM participation and activity levels prior to the rate case revamp. In the event that an under-collection occurs, it could be trued-up during the next reset, or in the rate case.

Staff recommends that the DSM adjustor rate not be reset at this time and that the DSM adjustor rate remain at its current level of \$0.00200.

A handwritten signature in black ink, appearing to read 'Steven M. Olea', with a long horizontal stroke extending to the right.

Steven M. Olea
Director
Utilities Division

SMO:JMK:sms\RM

ORIGINATOR: Julie McNeely-Kirwan

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE
 Chairman
3 BOB STUMP
 Commissioner
4 SANDRA D. KENNEDY
 Commissioner
5 PAUL NEWMAN
 Commissioner
6 BRENDA BURNS
 Commissioner

7
8 IN THE MATTER OF THE APPLICATION
9 OF SOUTHWEST GAS CORPORATION
10 FOR APPROVAL TO REVISE THE RATE
11 COLLECTED THROUGH ITS DEMAND-
12 SIDE MANAGEMENT ADJUSTOR
13 MECHANISM

DOCKET NO. G-01551A-11-0052

DECISION NO. _____

ORDER

14 Open Meeting
15 March 29 and 30, 2011
 Phoenix, Arizona

16 BY THE COMMISSION:

17 **FINDINGS OF FACT**

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

21 2. Southwest serves approximately 986,000 customers in the counties of Gila, La Paz,
22 Cochise, Graham, Maricopa, Pima, Greenlee, Mohave, Pinal and Yuma. Of these customers,
23 approximately 945,000 are Residential, while 40,000 are Commercial. Southwest also serves a
24 small number of Industrial, Irrigation and Transportation customers.

25 *Current Filing*

26 3. On January 31, 2011, Southwest filed an application to reset its current rate from
27 \$0.00200 per therm to \$0.00345 per therm. Pursuant to Commission Decision No. 60352 (August
28 29, 1997), Southwest files an application each year to reset its Demand-side Management

1 (“DSM”) adjustor rate. Once approved, the reset rate is then effective for twelve months, from
2 April 1st through the following March 31st.

3 4. Southwest also has a pending rate case, in Docket No. G-01551A-10-0458, filed on
4 November 12, 2010. The rate case includes the Company’s DSM implementation plan¹, which is a
5 revamp of its existing DSM Portfolio and is designed to meet the new gas energy efficiency
6 standard. Southwest’s DSM implementation plan includes the following proposals:

- 7 • a pilot program offering Residential energy audits and direct install for
8 efficient showerheads and aerators, and promoting the Residential rebates;
- 9 • a pilot program offering Non-residential energy audits and promoting
10 implementation of energy efficiency measures identified by the audits;
- 11 • an educational pilot program for all Southwest customers. It would promote
12 energy efficiency and conservation, and explore partnerships for
13 implementing a Conservation Behavior program;
- 14 • a Non-residential customized program offering rebates for achieved annual
15 energy savings;
- 16 • multiple new Residential and Non-residential measures;
- 17 • a new Renewable Energy Resource Technology (“RET”) program
18 promoting solar water heaters and solar pool heaters; and
- 19 • a total portfolio budget increase to \$16,500,000 (compared to the \$4.8
20 million proposed in the reset filing).

21 5. In the rate case docket, Southwest has requested that the new DSM/RET Portfolio
22 and the associated new DSM adjustor rate “become effective coincident with the rates approved in
23 the general rate case.” The rate case DSM adjustor rate would replace any DSM adjustor rate in
24 place at that time.

25 Background: DSM Adjustor Mechanism and Reset

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27 Company’s Commission-approved DSM programs. The DSM adjustor rate is reset each year to

28 ¹ The “Arizona Energy Efficiency and Renewable Energy Resource Technology Portfolio Implementation Plan” or
“Implementation Plan.”

1 align it with projected spending for the upcoming year, and to true-up existing over- or under-
2 collections. Over- and under-collections arise from the difference between the amounts recovered
3 through the DSM adjustor and the amounts actually spent on energy efficiency programs (which
4 can be impacted by factors such as participation levels that are higher or lower than anticipated).
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8 collected by \$2,577,916, and anticipates that the over-collection will increase to \$2,687,163 by
9 April 1, 2011. The over-collected balance, in combination with the higher adjustor rate, would
10 fund Southwest's planned increase in DSM spending during the 2011 program year (4/1/2011-
11 3/31/2012).

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18 9. The higher DSM spending level would promote increased program participation
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23 Potential Impacts of Projected Increase in DSM Adjustor Rate

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25 the proposed DSM adjustor rate would allow Southwest to recover its DSM-related costs in a
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27 ² Interest is paid on both over- and under-collected balances, based on the one-year nominal constant maturities rate.

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Calculation of the Proposed DSM Adjustor Rate

14. The table below shows how the requested credit was calculated, based on estimated spending, the over-collected bank balance, estimated recoveries and estimated accruals:

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Applicable Therms ⁵	619,588,669
$\$2,138,837 / 619,588,669 =$ Southwest's Proposed adjustor reset rate	\$0.00345

⁴ CHP technologies capture byproduct heat created during electric power generation and use it for heating and cooling, or to generate additional electricity.

⁵ Southwest customers on the G30 (optional) and B1 (bypass) rate schedules do not pay the DSM adjustor rate. The therms used by these customers are not, for this reason, used in calculating the per-therm DSM adjustor rate.

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15. Average usage rates. The average usage rates for single-family residential customers are listed in the table below. Also included is the highest monthly therm usage from 2010, so the existing and proposed DSM adjustor rates can be evaluated in terms of their cost during a peak usage month:

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Impact of Increase (Difference between existing and proposed rate.)	\$0.01595	\$0.05655	\$0.03625	\$0.09135

Recommendations

17. As stated herein, Southwest filed an application for a rate case on November 12, 2010, which became sufficient on December 13, 2010. In its application, Southwest proposed an extensive modification of its DSM Portfolio, including new programs, new measures and a large increase to the budget. Based on the proposed revamp, and the existing large over-collection, it is Staff's position that a reset should be postponed at this time and considered within the rate case.

...

19. Staff has recommended that the DSM adjustor rate not be reset at this time and that the DSM adjustor rate remain at its current level of \$0.00200 per therm.

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

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

3. The Commission, having reviewed the application and Staff's Memorandum dated March 15, 2011, concludes that it is not in the public interest to approve the Southwest Gas DSM adjustor reset at this time.

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Decision No.

ORDER

IT IS THEREFORE ORDERED that the DSM adjustor rate not be reset at this time and that the DSM adjustor rate remain at its current level of \$0.00200 per therm until further order of the Commission.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
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 _____, 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JMK:sms/RM

Decision No. _____

1 SERVICE LIST FOR: Southwest Gas Corporation
2 DOCKET NO. G-01551A-11-0052

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18 Mr. Steven M. Olea
19 Director, Utilities Division
20 Arizona Corporation Commission
21 1200 West Washington Street
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23 Ms. Janice M. Alward
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26 1200 West Washington Street
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