

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southwest Gas Corporation
(U 905 G) for Approval of Program Years
2007-2008 Low-Income Assistance Programs

Application 06-06-002
(Filed June 1, 2006)

**REPLY BY
SOUTHWEST GAS CORPORATION (U 905 G)
TO THE RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO THE
APPLICATION OF SOUTHWEST GAS CORPORATION FOR
APPROVAL OF PROGRAM YEARS 2007-2008
LOW-INCOME ASSISTANCE PROGRAM BUDGETS**

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Pursuant to Rule 44.6 of the California Public Utilities Commission (CPUC or Commission) Rules of Practice and Procedure, Southwest Gas Corporation (Southwest) respectfully submits its reply to the Response of the Division of Ratepayer Advocates (DRA) submitted in regards to Southwest's application for approval of its 2007-2008 Low-Income Assistance Program Budgets.

I.
INTRODUCTION

Pursuant to Decision (D.) 05-07-014, Southwest filed its Application for Approval of Program Years 2007-2008 Low-Income Assistance Program Budgets on June 1, 2006 (A.06-06-002). On July 6, 2006, DRA filed its response to Southwest's Application. Southwest appreciates DRA reviewing the Application and providing its comments and recommendations to the CPUC. Southwest, in particular, would like to commend DRA for recommending Commission approval for consolidating the budgeting, accounting, and reporting requirements for its Northern California service area and South Lake

Tahoe, as well as recommending equalizing the Federal Poverty Income (FPI) guideline requirements between Southwest's California Alternate Rates for Energy (CARE) and Low-Income Energy Efficiency (LIEE) programs from 175 percent to 200 percent. Southwest also appreciates DRA's recognition of the rapid increase in new CARE customers and the challenges this increase has created for Southwest. Although generally in agreement with DRA's responses, Southwest would like to provide additional information to correct or clarify other issues raised by DRA, including: 1) Southwest's requested CARE budget increase; 2) measurement and evaluation reports from Community-Based Organizations (CBO); and 3) Southwest's South Lake Tahoe LIEE program.

II. DISCUSSION

A. Southwest's Requested CARE Budget Increase

DRA recommends that Southwest provide more detailed support for its requested budget increases. Southwest's application includes an estimate of the 2007 - 2008 CARE program benefits. With regard to the CARE program, there are two types of costs. First, costs within Southwest's control, and second, costs that are outside of Southwest's control. The budgeted costs in the application that are within Southwest's control include: Outreach; Processing and Verification; and General Administrative expenses. These costs have remained relatively constant over the last several years. Costs outside of Southwest's control are the CARE program benefits (the 20 percent discount from otherwise effective residential rates) received by participating customers. The amount of the CARE program benefit is a function of the number of participating CARE customers, as well as the absolute level of Southwest's rates for residential gas

service. From December 2004 through April 2006, Southwest has seen a 60 percent increase in the number of participating CARE customers, as well as upward pressure on residential rates resulting from increases in the cost of natural gas purchased for customers. As a result, the amount of Southwest's CARE program benefits has increased substantially over this period. For more information on the unique nature of Southwest's CARE program and the challenges faced by Southwest's non-CARE customers, please see Southwest's Final Report on the CPUC's *Winter Initiative* (copy attached).

Southwest's authorized budget amounts for CARE program Outreach, Processing and Verification, and General Administrative expenses for years 2004 through 2006; and Southwest's proposed budget amounts for 2007 - 2008 are reflected in Table 1.

TABLE 1

	2004¹	2005 - 2006²	2007 - 2008
Outreach	\$97,714	\$96,400	\$95,000
Processing and Verification	\$20,402	\$41,900	\$42,000
General	\$5,100	\$33,100	\$34,000

¹ Approved in D.03-12-016

² Approved in D.05-07-014

Table 1 shows that Southwest's requested 2007 - 2008 budget amounts for CARE program costs (costs that are within its ability to control) have remained relatively constant from previously authorized amounts. As stated at Page 2 of its Application, Southwest is required by D.04-08-010 to file an advice letter with its proposed Public Purpose Program (PPP) surcharges by October 31st of each year, with a requested effective date of January 1st of the following year. Southwest will incorporate the Outreach, Processing and Verification, and General Administrative expense amounts

approved by the Commission pursuant to this application, as well as an updated and more current estimate of its 2007 CARE program benefits to calculate proposed PPP surcharges in its October advice letter filing.

Southwest's estimated CARE benefit, the annual dollar benefit per participating customer and total number of participating CARE customers are reflected in Table 2.

TABLE 2

	2004	2005	2006	2007
CARE Benefit	\$3,332,600 ¹	\$3,975,578 ²	\$6,529,677 ³	\$8,772,330
Participating Customers	24,415	30,859	39,060 ⁴	43,855
Annual Benefit/Customer	\$156	\$177	\$223	\$207 ⁵

¹ Approved by the Energy Division in Advice Letter 695

² Approved by the Energy Division in Advice Letter 722-A

³ Approved by the Energy Division in Advice Letter 748-A

⁴ Actual number of CARE customers at April 30, 2006.

⁵ Southwest's 2007 annual dollar benefit per customer reflects an expected reduction in average use per CARE customer.

Table 2 shows that the increase in Southwest's CARE benefit is driven primarily by the dramatic growth in the number of participating CARE customers (a 60 percent increase from December 2004 to April 2006; which is estimated to grow to an 80 percent increase by the end of year 2007). Approximately \$3,032,640, or 56 percent of the increase in the CARE benefit, is related to growth in the number of participating customers. The remaining 44 percent of the increase in the total CARE benefit is related to increases in the annual dollar benefit per customer, which, as explained above, is driven primarily by increases in the cost of purchased gas.

Growth in the number of participating CARE customers is a function of several factors. Southwest was the only Small and Multi-jurisdictional Utility (SMJU) included in

D.05-10-044¹ (*Winter Initiative*), which meant Southwest: 1) greatly increased its outreach activities; 2) accepted telephone applications without verification; 3) did not require certification/re-certification; 4) did not disconnect any CARE customers; 5) did not perform any random audits; and 6) expanded eligibility requirements to 200 percent of the FPI guidelines.

Additionally, as discussed in Southwest's Final Report² Report on the CPUC's *Winter Initiative*, Southwest's Southern California service area has a very high percentage of low-income residential customers, and Southwest's customer base is primarily residential with very few large commercial and industrial customers from which to recover CARE program costs. As such, approximately 65 percent of Southwest's annual throughput, excluding volumes that are exempt from the PPP surcharge, is residential and approximately 30 percent of Southwest's residential volume is already served under CARE rates. The net effect is disproportionately high costs to Southwest's non-CARE customers, as discussed in greater detail in the attached report on the *Winter Initiative*, and a relatively high level of CARE program benefits.

B. Measurement and Evaluation Reports from Community-Based Organizations (CBO)

Southwest does not maintain performance management reports for the CBOs and contractors conducting LIEE work on behalf of Southwest. Southwest contacted the CBOs/contractors and they do not provide this type of report to any of the utilities they assist. In fact, Southwest has no knowledge of the reports referenced by DRA.

¹ D.05-10-044 – Interim Opinion Approving Various Emergency Program Changes in Light of Anticipated High Natural Gas Prices in the Winter of 2005-2006.

² Southwest Gas Corporation (U 905G) 2005/2006 Winter Initiative Final Report Pursuant to Decision 05-10-044.

Southwest receives monthly invoices and information from Richard Heath and Associates (RHA), who subcontracts with Project Go, for the Northern California service territory. Southwest also receives monthly invoices and information from the Community Action Partnership of San Bernardino County for the Southern California service area. These invoices contain detailed customer information and the quantity/price of weatherization measures installed in each home. The invoices also track the year-to-date budget for each CBO. In addition, RHA submits inspection invoices to Southwest, which outline the weatherized homes that were inspected and whether they passed or failed. The information from these invoices is reflected in Southwest's Mid-year and Annual Reports, as set forth in the *Second Energy Division Workshop Report on the Review of the Accounting and Reporting Requirements for the California Alternate Rates for Energy (CARE) and Low Income Energy Efficiency (LIEE) Programs of the Small and Multi-jurisdictional Utilities*.³ These reports provide detailed data about the CARE and LIEE programs and provide the Commission and other interested parties sufficient information to ensure Southwest is providing its low-income customers the benefits required by the CPUC.

C. South Lake Tahoe LIEE Program

There seems to be a misperception by DRA that Southwest has experienced problems due to the acquisition of Avista's South Lake Tahoe service area in 2005. This is simply untrue. The acquisition has given Southwest a broader customer base in the Tahoe area over which to spread low-income program costs. Southwest has also increased operational and safety efficiencies in the Tahoe area since it acquired South

³ As directed in the June 24, 2004 Scoping Memo of Assigned Commissioner Carl W. Wood and Administrative Law Judge Sarah R. Thomas.

Lake Tahoe. Southwest only requested (Advice Letter No. 760) that the Northern California and South Lake Tahoe PPP budgets, accounting, and reporting be consolidated to provide Southwest greater administrative efficiency in terms of accounting and reporting and allow program funds to be transferred between Northern California and South Lake Tahoe to efficiently serve more low-income customers that are in need of weatherization in South Lake Tahoe.

III.

CONCLUSION

Southwest appreciates DRA's review of its Application for Approval of Program Years 2007-2008 Low-Income Assistance Program Budgets and its Response addressing it, and believes the information provided herein will facilitate timely approval of Southwest's requested budgets for LIEE program activity and CARE program benefits.

Southwest looks forward to continuing to work with DRA, the Energy Division Staff and the Commission on California Low-Income Assistance Programs.

Dated this 17th day of July, 2006.

Bridget B. Jensen /s/

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **Reply by Southwest Gas Corporation (U 905 G) to the Response of the Division of Ratepayer Advocates to the Application of Southwest Gas Corporation for Approval of Program Years 2007-2008 Low-Income Assistance Program Budgets** on each party named on the official service list in proceeding R.04-01-006 by electronic mail or regular first-class mail.

Dated at Las Vegas, Nevada, this 17th day of July 2006.

Anita L. Hart /s/
An employee of Southwest Gas
Corporation