

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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Dated: July 17, 2006

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
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LOW-INCOME ASSISTANCE PROGRAM BUDGETS**

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
<i>Outreach</i>	\$97,714	\$96,400	\$95,000
<i>Processing and Verification</i>	\$20,402	\$41,900	\$42,000
<i>General</i>	\$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.

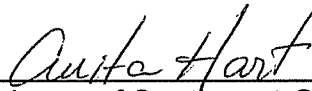


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CERTIFICATE OF SERVICE

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.



An employee of Southwest Gas
Corporation

ATTACHMENT

**SOUTHWEST GAS CORPORATION (U 905 G)
2005/2006 WINTER INITIATIVE FINAL REPORT
PURSUANT TO DECISION 05-10-044**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's)	
Proposed Policies and Programs Governing Post-)	Rulemaking 04-01-006
2003 Low-Income Assistance Programs)	(Filed January 8, 2004)
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**SOUTHWEST GAS CORPORATION
(U 905 G)
2005/2006 WINTER INITIATIVE
FINAL REPORT
PURSUANT TO DECISION 05-10-044**

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Dated: June 29, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's)	
Proposed Policies and Programs Governing Post-)	Rulemaking 04-01-006
2003 Low-Income Assistance Programs)	(Filed January 8, 2004)
)	

**SOUTHWEST GAS CORPORATION
(U 905 G)
2005/2006 WINTER INITIATIVE
FINAL REPORT
PURSUANT TO DECISION 05-10-044**

**I.
INTRODUCTION**

Southwest Gas Corporation (Southwest) respectfully submits its Final Report on the cost impact of the expansion of the California Alternate Rates for Energy (CARE) program provided in this decision along with the cost impacts caused by higher natural gas prices as directed in Decision (D.) 05-10-044 (October 27, 2005). Decision 05-10-044 implemented the *Winter Initiative* in response to high natural gas prices and the impact of those rising prices on consumers, especially low-income customers. Southwest was the only Small and Multi-Jurisdictional Utility (SMJU) to be included in the *Winter Initiative*. Pursuant to Ordering Paragraph 20 in this Decision 05-10-044, by June 30, 2006, each utility shall file a final report on the cost impact of the expansion of the CARE program provided in this decision along with the cost impacts caused by higher natural gas prices. The following sections describe the impacts to Southwest and its customers.

II.

BACKGROUND

The Winter Initiative began November 1, 2005, and continued through April 30, 2006. During this period, D.05-10-044 required the utilities to: 1) increase the CARE income guidelines from 175 percent to 200 percent of the Federal Poverty Income (FPI) levels; 2) suspend shut-off for all residential customers who pay at least 50 percent of their current bill during the winter months (November through April) and set up nine-month repayment plans; 3) suspend the collection of reconnection fees and deposits for low-income customers during the winter; 4) waive reconnection and deposit fees for CARE customers; 5) increase outreach efforts for CARE and LIEE; 6) conduct CARE enrollment and re-enrollment by telephone; 7) suspend recertification of existing CARE customers; 8) allow LIEE furnace replacements on a "go back" basis for dwellings that have previously been weatherized, and also allow furnace replacements for renters, where feasible; and 9) add the replacement of leaky or broken water heaters as an approved measure.

III.

WINTER INITIATIVE IMPACT

A. Cost and Rate Impacts on Customers Due to the Expansion of the CARE Program

1. CARE Participation

CARE is an income-qualified rate program that provides eligible customers with a discount from their otherwise applicable sales rates for natural gas service. Specifically, for Southwest, this program provides a 20 percent monthly bill discount to eligible California customers whose qualifying household income does not exceed 200 percent of the FPI.

Prior to the Winter Initiative, income qualifications were set at 175 percent of the FPI level.¹ Previously, Southwest's income guidelines matched the SMJU's at the 175 percent level; however, the Company's CARE guidelines now mirror the major utilities and are no longer the same as the other SMJUs.

Southwest was successful in increasing CARE program participation in response to the Winter Initiative by approximately 42 percent in its Northern California Division, including South Lake Tahoe, and 33 percent in its Southern California Division. Participating CARE customers, on average, received benefits of approximately \$37.00 per month in Southwest's Northern California Division, approximately \$29.00 per month in the Southern California Division and approximately \$22.00 in South Lake Tahoe. Southwest believes that the effort to provide as many CARE eligible customers as possible with substantial relief from high winter bills is laudable; however, providing such relief has resulted in significant cost to Southwest's Southern California Division Non-Care customers. Southwest's estimated cost of the Winter Initiative and the impact to its non-CARE customers is discussed in Section 3.

2. Public Purpose Program (PPP) Surcharge Rate

Pursuant to D.04-08-010, Southwest is required to file an advice letter with its proposed PPP surcharges by October 31 of each year, with a requested effective date of January 1 the following year. Southwest has re-calculated its January 1, 2006 effective PPP surcharges filed in Advice Letter No. 748-A to recover its newly estimated CARE program benefits using the actual CARE customer count as of April 30, 2006. When Southwest calculated the 2006 PPP surcharges for the October 31, 2005 filing, it was

¹ As communicated by the Energy Division annually per Resolution E-3524, adopted on February 19, 1998.

estimated that approximately 29,000 customers would be participating in the CARE program in 2006, with the vast majority of CARE customers residing in southern California. Southwest had a little more than 39,000 customers on CARE as of April 30, 2006. The tables below outline the filed versus the updated data for the CARE benefits, the number of participating CARE customers, the PPP surcharge rate and average cost per Non-CARE customer.

Northern California	2006 Filed	2006 If Adjusted	Difference	Percent Change From Filed
CARE Benefits	\$412,045	\$587,734	\$175,689	43%
Number of CARE Customers	1,653	2,347	694	42%
PPP Surcharge Rate	\$0.01819	\$0.02286	\$0.00467	26%
Cost/Non-CARE Residential Customer (780 therms)	\$14.19	\$17.83	\$3.64	26%

Southern California	2006 Filed	2006 If Adjusted	Difference	Percent Change From Filed
CARE Benefits	\$6,117,632	\$8,106,010	\$1,988,378	33%
Number of CARE Customers	27,674	36,713	9,039	33%
PPP Surcharge Rate	\$0.09534	\$0.13011	\$0.03477	36%
Cost/Non-CARE Residential Customer (565 therms)	\$53.87	\$73.51	\$19.65	36%

3. Impact on Non-CARE Customers

While Southwest was clearly successful in increasing CARE participation -- the primary goal of the Winter Initiative -- the resulting cost to fund the CARE program in Southwest's Southern California Division is becoming increasingly burdensome for its Non-CARE customers. The disproportionate impact to Southwest's Non-CARE customers is evidenced by comparing Southwest's Non-CARE PPP Surcharge and the average annual

cost to its Non-CARE residential customers versus the Non-CARE residential surcharges and resulting annual cost to Non-CARE customers for Southern California Gas Company (SoCalGas) and Pacific Gas and Electric (PG&E). This comparison is reflected in the table below.

	Southwest	SoCalGas	PG&E
Residential Non-CARE PPP Surcharge ¹	\$0.13011	\$0.05322	\$0.04968
Residential Non-CARE Annual Cost (565 therms)	\$73.51	\$30.07	\$28.07
Southwest Percent Over Other IOUs		244%	262%

¹ The PPP Surcharge for Southwest includes the estimated effect of the Winter Initiative, while the PPP surcharge for SoCalGas and PG&E excludes the effect of any increases that may have resulted from the Winter Initiative.

The disparity in surcharge rates and the annual cost to Non-CARE customers is largely a result of differences in demography between Southwest's and the other utilities' service territories. Southwest's Southern California service area has a very high percentage of low-income residential customers relative to the other utilities. Also, Southwest's customer base is primarily residential with very few large commercial and industrial customers from which to recover CARE program costs. In fact, excluding volumes that are exempt from the PPP surcharge, approximately, 65 percent of Southwest's annual throughput is residential and approximately 30 percent of Southwest's residential volume is already served under CARE rates.

Southwest is concerned about the growing PPP cost burden that is being placed on its Non-CARE customers. Southwest has actively promoted and increased CARE participation in the Southern California service area, and it has led to higher CARE program benefits to be recovered from increasingly fewer Non-CARE customers. Southwest believes there are several options within the Commission's purview to provide relief to its Non-CARE customers in Southern California. For example, the Commission could return a

greater amount from the State's surcharge fund than Southwest's customers actually contribute, or the Commission could levelize the cost of California's Public Purpose Programs across all customers by developing a state-wide PPP surcharge. Southwest believes assistance from the Commission would be necessary to resolve the disproportionately higher cost to Southwest's Non-CARE customers. Southwest's Southern California PPP surcharge will continue to be higher than the state-wide average, and may become even more disparate from the average as more customers are added to Southwest's CARE program.

B. Cost and Customer Bill Impact Caused by Higher Natural Gas Prices

1. Winter 2005/2006 Natural Gas Costs

During the late summer and fall of 2005, there were expectations of record high natural gas prices for the upcoming winter. For example, NYMEX futures contracts for the five-month strip reached \$14.67/dekatherm in October 2005. A significant factor in the price run-up was the extensive damage to natural gas production facilities caused by hurricanes Katrina and Rita in August 2005. Reduction of supply was expected to exacerbate an already tight supply and demand market. Post-Katrina and -Rita, several industry analysts were concerned that adequate gas storage levels could not be reached before the winter, which placed even greater upward pressure on natural gas prices. To protect customers against extreme price spikes during the winter, two major California utilities requested Commission approval to implement emergency hedging programs. Southwest, however, did not need to modify its existing gas procurement program as it had already hedged a portion of its gas portfolio through storage and fixed-price supply contracts as it had done for the last several years.

Despite reduced supply, storage levels reached 3.2 trillion cubic feet (Tcf) by October 31, 2005, which was at the high end of the normal range. November arrived with mild weather, and prices began to decrease. Across the country, mild weather continued throughout the winter. As a result, storage levels remained at the high end of the five-year historic range and by February were exceeding the historic range. High storage levels, mild weather, and restoration of some of the production in the Gulf of Mexico all served to moderate prices throughout the winter and spring. For example, the March 2006 contract closed at \$7.11/dekatherm, down from a high in December 2005 of \$15.29/dekatherm.

2. Impact on Residential Customer Bills

Nevertheless, these higher commodity prices caused Southwest's residential rates, on average, to be approximately 14 percent higher in Northern California, including South Lake Tahoe, and approximately 8 percent higher in Southern California last winter in comparison to the prior winter season. Specifically, the average winter bill for residential customers in Southwest's Northern California Division rose from approximately \$162.94 in 2004/2005 to \$185.46 in 2005/2006. For South Lake Tahoe, the average residential winter bill rose from \$94.64 to \$107.56. Southern California's average residential winter bill rose from \$108.52 to \$116.95. As such, the increase in California customers' bills was considerably lower than initially expected.

IV. CONCLUSION

Southwest will continue to monitor the impact of increased CARE participation and the resulting cost to Southwest's Non-CARE customer. In addition, Southwest will continue to follow today's increasingly volatile energy prices and the impact that these energy prices

may have on our customers in the future. Southwest looks forward to working with the Commission, other California utilities and community agencies to assist both its CARE and Non-CARE customers in continuing to minimize the potential impact of today's energy price levels on their natural gas bills.

Dated at Las Vegas, Nevada this 29th day of June, 2006.

Respectfully submitted,

A handwritten signature in cursive script, reading "Debra S. Jacobson", written over a horizontal line.

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