

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**Agenda ID# 21484
RESOLUTION G-3594
April 27, 2023**

R E S O L U T I O N

Resolution G-3594. Southwest Gas Tier 3 Advice Letter 1243-G Requesting Increase in Funding for Conservation and Energy Efficiency Programs during Program Years 2023 through 2025.

PROPOSED OUTCOME:

- Approves Southwest Gas Corporation (SWG) Tier 3 Advice Letter 1243-G requesting an increase in its Conservation and Energy Efficiency (CEE) Program budget from the currently authorized amount of \$250,000 per year to \$500,000 per year effective January 1, 2023, and to remain at this level through the remainder of the SWG’s current general rate case cycle which ends December 31, 2025.

SAFETY CONSIDERATIONS:

- There are no safety considerations associated with this resolution.

ESTIMATED COST:

- Authorizes an additional \$250,000 per year for Program Years 2023 through 2025 for a total Energy Efficiency budget of \$500,000 per year. SWG ratepayers will bear this additional cost via the Public Purpose Program surcharge.

By Southwest Gas Advice Letter 1243-G, Filed on December 22, 2022.

SUMMARY

This resolution approves Southwest Gas (SWG) Advice Letter (AL) 1243-G which requests an increase in SWG’s Conservation and Energy Efficiency (CEE) Program budget from the currently authorized amount of \$250,000 per year to \$500,000 per year

effective January 1, 2023, and to remain at this level through the remainder of the current SWG general rate case cycle which ends December 31, 2025. This AL was filed in compliance with Decision (D.) 21-03-052.

In this decision, SWG was approved to implement Gas Conservation and Energy Efficiency Programs with an annual budget of \$250,000 with the option to submit an advice letter to request additional funding up to a maximum of \$500,000 per year, beginning two years after a Commission decision is issued in this proceeding. The decision also stated that such a request for additional funding must be submitted via Tier 3 AL.

On December 22, 2022, SWG filed Tier 3 AL 1243-G requesting an increase in CEE program funding to \$500,000 per year for program years 2023 through 2025. Cal Advocates submitted a late protest to this AL on January 18, 2023 stating that SWG failed to demonstrate demand for existing and new rebate programs, SWG failed to provide sufficient evidence for the proposed increase from \$250,000 to \$500,000 per year, and SWG failed to demonstrate that the proposed forecast methodology used to calculate the \$500,000 is the most appropriate forecasting methodology. SWG replied to the Cal Advocates protest on January 25, 2023 by providing additional documentation on Energy Efficiency (EE) program demand and why the full \$500,000 annual budget is appropriate. SWG also offered an alternative funding approach using the Conservation and Energy Efficiency Balancing Account (CEEBA) for any amount spent above \$250,000, up to \$500,000, that will be recorded in the CEEBA and recovered from customers the year after it is spent.

This resolution approves SWG Tier 3 AL 1243-G per the guidelines and requirements in D.21-03-052. SWG's timing of this funding request, the use of a Tier 3 AL and the amount requested are all compliant with the Settlement Agreement approved in D.21-03-052. Further, SWG has demonstrated that this request for additional budget is reasonable and justified due to the demand for these new, approved programs and the expenditures needed for the existing EE programs. As such, SWG's CEE Program budget request is approved for the amount of \$500,000 per year effective January 1, 2023 through December 31, 2025. These funds will be collected as part of the CEEBA component of the Public Purpose Program Surcharge. All unspent, uncommitted CEE program funds must be used to offset collection in future years, or otherwise returned to ratepayers via the annual rate change implementation, or "true-up", advice letter process.

BACKGROUND

On March 25, 2021, the Commission approved Decision (D.) 21-03-052 adopting the Settlement Agreement in Southwest Gas's Test Year (TY) 2021 General Rate Case (GRC), Application (A.) 19-08-015, including post-TYs 2022 through 2025. D.21-03-052 approved Southwest Gas's CEE Program portfolio for program years (PY) 2021-2025 that continued its Residential and Commercial Equipment Rebate Programs and authorized the Company to implement three new programs: 1) Residential Equipment Direct-Install (RED); 2) New Home Rebates; and 3) Solar Thermal Rebates.

Unlike the large Investor-Owned Utilities that implement Market Rate Energy Efficiency programs and have specific proceedings dedicated to reviewing applications for EE programs,¹ SWG uses its GRC to propose and receive approval of its EE programs.

In D.21-03-052, the Commission stated that SWG's "Gas Conservation and Energy Efficiency Program, including residential and commercial equipment rebate programs, including residential equipment direct-install, new home and solar thermal rebates will be implemented with an annual budget of \$250,000 with the option to submit an advice letter to request additional funding up to a maximum of \$500,000 per year, beginning two years after a Commission decision is issued in this proceeding."² These funds are part of the Conservation and Energy Efficiency Balancing Account (CEEBA) component of the Public Purpose Program Surcharge.³

Further, the Commission ordered SWG to file a Tier 3 Advice Letter for additional CEE funding consistent with provisions of this Settlement Agreement, requiring compliance with General Order 96 and approval by the Commission's Energy Division.⁴

On December 22, 2022, SWG filed Tier 3 AL 1243-G requesting an increase in funding to \$500,000 per year for program years 2023 through 2025. Per GO 96-B, the disposition of a Tier 3 AL must be through a resolution voted on by the Commission.

¹ R.13-11-005 and most recently A.22-02-005.

² D.21-03-052, p.10.

³ Ibid, pp.14-15.

⁴ Ibid, OP 3 at p.19.

NOTICE

Notice of AL 1243-G was made by publication in the Commission's Daily Calendar. Southwest Gas states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter 1243-G was protested.

SWG's Advice Letter 1243-G was protested by the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) on January 18, 2023. This was not a timely protest as the protest period for AL 1243-G ended on January 11, 2023. Energy Division staff formally accepted this late protest via email to the A.19-08-015 service list on March 1, 2023.

Cal Advocates identified the following issues regarding SWG's CEE Program request for funding increase.

- SWG failed to demonstrate that there is demand for existing and new rebate programs within the company's Northern California, Southern California, and Lake Tahoe service territories.
- SWG failed to provide sufficient evidence for the proposed increase from \$250,000 to \$500,000 per year.
- SWG failed to demonstrate that the proposed forecast methodology used to calculate the \$500,000 is the most appropriate forecasting methodology.

SWG responded to the protest of Cal Advocates on January 25, 2023. In its response, SWG addressed each of the points raised in the Cal Advocates protest. In relation to demonstrating the need for increased EE budgets due to its current authorized budgets being nearly spent, SWG showed that it spent a total of \$241,000 in 2022, which is very close to that of its 2021 spending of \$243,919. All of this was spent on SWG's Residential and Commercial Equipment Rebate Programs; SWG was unable to implement Residential Equipment Direct-Install (RED), New Home Rebates, or Solar Thermal Rebate programs during the 2021 or 2022 program years primarily due to a lack of available program funding.

The Cal Advocates protest asserted that, since SWG did not spend the entire \$250,000 of CEE annual budget, demand for these programs was lacking. SWG replied that, because the Conservation and Energy Efficiency Balancing Account (CEEBA) is

a one-way balancing account, SWG necessarily must manage its CEE program expenses to ensure it spends less than the authorized amount annually. During 2021 and 2022, had the Company implemented its Commission-approved Residential Equipment Direct-Install (RED), New Home Rebates, and Solar Thermal Rebate programs, it would have exceeded the cost allowed by its current \$250,000 budget given the actual spend was so close to its allowed budget.

SWG responded to the Cal Advocates protest regarding forecast methodology of these budgets by providing details on how SWG engaged implementation contractors and assessed customer demand for these programs. SWG identified between 57 to 111 potential customers for the RED program. Each set of RED treatments are estimated to cost about \$1,100 per customer so the estimated spend could range from \$62,700 to \$122,100. Given that the RED program does not have an income restriction as the Energy Savings Assistance Program (ESA) does, SWG estimates that the potential customer pool will be larger. SWG also stated in its Reply to Protest that it has identified significant interest among implementation contractors in the deployment of the New Homes rebate program in California, and has estimated the demand in the California market compared to similar circumstances and programs it has implemented in Arizona.

In its Reply to Protest, SWG also proposed an alternative funding approach for the CEE programs, in the event the Commission did not grant the primary request in AL 1243-G. This alternative was also intended to be responsive to the protest from Cal Advocates, and contained three parts:

1. Southwest Gas is authorized to increase its annual CEE program budget to \$500,000 from 2023 through 2025.
2. SWG's annual CEEBA surcharge will be based on the annual authorized budget of \$250,000 per D.21-03-052.
3. Any amount spent above \$250,000, up to \$500,000, will be recorded in the CEEBA and recovered from customers the year after it is actually spent, i.e., any additional CEE program dollars expended in 2023 will be included in rates for recovery in 2024.

DISCUSSION

The Commission has reviewed Advice Letter 1243-G and finds that SWG's timing of this funding request, the use of a Tier 3 AL, and the amount requested are compliant with the Settlement Agreement in D.21-03-052. Further, SWG has demonstrated that its

request for additional budget is reasonable and justified. The Commission finds that SWG sufficiently addresses the Cal Advocates protest in its Reply to Protest, and we do not agree with Cal Advocates that SWG failed to demonstrate demand for increasing SWG's CEE program budgets, or that SWG did not provide enough evidence for the proposed increase from \$250,000 to \$500,000 per year, or that SWG did not provide information on its budget forecast methodology.

We find SWG's explanation of the demand for its CEE programs and the need for increased budgets reasonable. SWG explained in the AL and its Reply to Protest that it spent over 95 percent of its existing Residential and Commercial Equipment Rebate Programs budget in PY 2021 and 2022. The reason 100 percent of the budget was not expended was due to the nature of the one-way CEE balancing account, in which any overage above \$250,000 would not be recoverable by SWG. We find this a reasonable explanation for a one-way balancing account. Furthermore, SWG provides estimated household treatment data for the RED program, and implementer perspective and comparative market research for the New Homes rebate program. We find this information supports SWG's claim that there is indeed demand for these CEE programs, and that additional program funding is justified.

We also find that SWG's budgeting forecast for increasing the CEE budget from \$250,000 per year to \$500,000 per year is reasonable and justified. SWG relied on implementer feedback, customer data, and market research for its request. SWG cites residential program demand for non-ESA eligible households, as well as similar market conditions in nearby states (Arizona) to explain the variables used to calculate both the potential demand for these CEE programs and the proposed budgets. Based on the information provided by SWG on estimated program demand and budget forecasts for the three new CEE programs, as well as the budget expenditures for the existing Residential and Commercial Equipment Rebate programs in program years 2021 and 2022, the estimated program expenditures for program years 2023 through 2025 are reasonable and approved. Table 1 provides an overview of SWG's proposed annual expenditures for program years 2023 through 2025.

Table 1 - PYs 2023-2025 Proposed CEE Annual Expenditures	
Residential Equipment Rebates	\$120,000
Commercial Equipment Rebates	\$140,000
Solar Thermal Rebates	\$20,000
New Home Rebates	\$170,000
RED	\$40,000
CEE Plan Administration	\$10,000
Total	\$500,000

Lastly, SWG’s alternative funding proposal in its Reply to Protest is rejected. Authorizing the full \$500,000 per year but not collecting these funds is not part of the Settlement Agreement decision funding requirements, nor would it provide certainty of the program funding that the Settlement Agreement authorized. SWG will continue to use the Conservation and Energy Efficiency Balancing Account (CEEBA) pursuant to its California Gas Tariff Preliminary Statement, Section 16.G.1 for tracking the costs and expenditures of the approved budgets for CEE programs. Any unspent, uncommitted CEE program funds from each program year will be used to offset collection in future year, or otherwise returned to ratepayers in the rate change implementation, or “true-up”, advice letter submitted by Southwest Gas each year.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this Resolution must be served on all parties and subject to at least 30 days public review. Any comments are due within 20 days of the date of its mailing and publication on the Commission’s website and in accordance with any instructions accompanying the notice. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. Commission Decision 21-03-052 adopted the Settlement Agreement in Southwest Gas's Test Year 2021 General Rate Case, Application 19-08-015, including post-Test Years 2022 through 2025.
2. Decision 21-03-052 approved Southwest Gas's Conservation and Energy Efficiency Program portfolio for program years 2021-2025 that continued its Residential and Commercial Equipment Rebate Programs and authorized the Company to implement three new programs: 1) Residential Equipment Direct-Install; 2) New Home Rebates; and 3) Solar Thermal Rebates.
3. Decision 21-03-052 authorized Southwest Gas Conservation and Energy Efficiency Programs with an annual budget of \$250,000 with the option to submit a Tier 3 advice letter to request additional funding up to a maximum of \$500,000 per year, beginning two years after a Commission decision was issued in the proceeding.
4. Decision 21-03-052 directed Southwest Gas to collect these funds as part of the Conservation and Energy Efficiency Balancing Account (CEEBA) component of the Public Purpose Program Surcharge.
5. Southwest Gas filed Tier 3 Advice Letter 1243-G on December 22, 2022, requesting to increase Conservation and Energy Efficiency Program funding to \$500,000 per year for program years 2023 through 2025. This request would increase Conservation and Energy Efficiency Program budgets beginning two years after the Commission decision was issued.
6. Southwest Gas Tier 3 Advice Letter 1243-G and its Reply to Protest from Cal Advocates describe the programmatic demand and budget forecasting for increasing the budgets for its Conservation and Energy Efficiency Programs for program years 2023 through 2025.

THEREFORE IT IS ORDERED THAT:

1. The request of Southwest Gas to increase the annual funding for its Conservation and Energy Efficiency Programs for program years 2023 through 2025 from \$250,000 per year to \$500,000 per year, as requested in Advice Letter 1243-G, is approved.
2. Southwest Gas shall continue to use the Conservation and Energy Efficiency Balancing Account for tracking the costs and expenditures of the approved budgets for Conservation and Energy Efficiency programs. Any unspent, uncommitted Conservation and Energy Efficiency program funds from each program year will be used to offset collection in a future year, or otherwise returned to ratepayers in the rate change implementation, or "true-up", advice letter submitted by Southwest Gas each year.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on April 27, 2023; the following Commissioners voting favorably thereon:

Rachel Peterson
Executive Director