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REGISTRATION APPLICATION

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SOUTHWEST GAS CORPORATION

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Roger C. Montgomery, Vice President/Pricing

AZ CORP COMMISSION
DOCUMENT CONTROL

November 21, 2000

Ms. Deborah Scott, Director
Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

DOCKET NO. G-01551A 00-0963

Dear Ms. Scott:

Pursuant to the terms of Schedule No. G-30, Optional Gas Service, of Southwest Gas Corporation's (Southwest) Arizona Gas Tariff No. 7, Southwest herewith submits for the Commission's review and approval a Special Gas Procurement Agreement for Tucson Electric Power (TEP). Upon Commission approval, the Agreement will be in effect for the remainder of the current term, which expires on May 31, 2001. The Agreement may be re-negotiated and continue from year-to-year thereafter upon Commission approval.

With this filing, Southwest wishes to clarify the calculation of TEP's upstream pipeline capacity charges. TEP and Southwest have reached a mutual agreement as to the method of calculation for the upstream capacity charges. Supplies sourced from the Permian or Anadarko basins will be assessed a Capacity Charge calculated by using Natural Gas Week Bid Week Indices for the Permian Mainline Receipt Point and the California Border. Purchases made from the San Juan basin will use an equivalent calculation based on the San Juan Natural Gas Week Bid Week Mainline Receipt Point Index. The upstream capacity charge will be subject to a cap of the 100 percent "as-billed" El Paso rate. A detailed Capacity Charge Worksheet, which outlines this calculation, is attached as Exhibit B.

Southwest is also providing an Exhibit A detailing the rates to apply under the Special Procurement Agreement once approved by the Commission. Footnote number three on the customer's Exhibit A has also been modified to reflect this agreement. Exhibits A and B are being provided in an envelope marked CONFIDENTIAL due to the proprietary and commercially-sensitive nature of the information contained. The above referenced document is being furnished in



Ms. Deborah Scott
Page 2
November 21, 2000

reliance upon a Confidentiality Agreement being accepted and executed by Staff and Southwest.

Southwest has executed the accompanying Confidentiality Agreement in anticipation that the form of the agreement will be acceptable. If the form is satisfactory, please forward an executed copy.

Respectfully submitted,

SOUTHWEST GAS CORPORATION

By: *Roger C. Montgomery*
Roger C. Montgomery

Enclosure (s)

c: R. Gray

EXHIBIT A
360120

**SOUTHWEST GAS CORPORATION
SPECIAL GAS PROCUREMENT AGREEMENT
UNDER SCHEDULE NO. G-30**

CURRENT EFFECTIVE RATES:

Basic Service Charge/Month/Meter:

Number of Meters:

Basic Service Charge/Month:

Demand Charge/Month:

Commodity Charge:

Gas Cost² divided by the applicable fuel adjustment charge on the El Paso Natural Gas Company system, plus the applicable variable charge on the El Paso Natural Gas Company system, plus a capacity charge³ and the following:

All Scheduled Deliveries/Therm:

Irvington Station March - November
December - February
North Loop Station

Amount
\$ [Redacted]
\$ [Redacted]
\$ [Redacted]

\$ [Redacted]
\$ [Redacted]
\$ [Redacted]

Effective Date: August 1, 2000

Delivery Point(s)	Maximum Delivery Point Quantity per Day (Therms)	Priority
3950 East Irvington Road for Irvington Steam Units 1, 2, 3, and 4.	1,046,275	P-5
Irvington Gas Turbines 1, 2, and 3	263,175	P-3
10600 N. Casa Grande Hwy. for north loop Gas Turbines 1, 2, & 3.	263,175	P-3
	1,572,625	

Date Issued: November 20, 2000 supersedes Exhibit A issued April 6, 2000

Customer: TUCSON ELECTRIC POWER COMPANY

SOUTHWEST GAS CORPORATION

TUCSON ELECTRIC POWER COMPANY

By: Thomas J Armstrong
"Utility"
Thomas J Armstrong
Title: Vice President/Gas Resources and Energy Services

By: P.A. Delawed
"Customer"
Title: Vice President

Date: 11/21/00

Date: 11-21-00

¹ By Agreement, only one (1) Basic Service Charge will be assessed.
² Gas cost equal costs of gas purchased by the Utility for the Customer.
³ Capacity charge to be determined monthly pursuant to Exhibit B of this Agreement.
11/21/00

**SOUTHWEST GAS CORPORATION
SPECIAL GAS PROCUREMENT AGREEMENT
UNDER SCHEDULE NO. G-30**

**Capacity Charge Worksheet
Calculation of El Paso Natural Gas Co. Upstream Capacity Charges**

1. August 2000 Capacity Charge is in the amount of \$ [REDACTED]
2. September 2000 Capacity Charge is in the amount of \$ [REDACTED]
3. Commencing on October 1, 2000 and through the remainder of Agreement, the Capacity Charge in the Agreement shall be calculated in accordance with the methodology set forth in Exhibit A hereto. In connection therewith, TEP and SWG expressly agree that the methodology shall (a) use the Permian Basin Index as the Mainline Receipt Point Index for gas purchases from the Permian and Anadarko Basins; (b) use the San Juan Basin Index as the Mainline Receipt Point Index for San Juan Basin gas purchases; and (c) [REDACTED]

Calculation of Market Transportation Cost:

Natural Gas Week (NGW) Bid Week Indices

Mainline Receipt Point Index ¹	A
California Border Index (Topock Station)	B
Market Transportation Cost	C = B - A

Calculation of Capacity Charge:

Market Transportation Cost	C
Less:	
Usage Charge ²	d
AGA ²	e
GRI ²	f
Fuel ²	g = (A/.9612) - A

Upstream Capacity Market Rate ³ = C - d - e - f - g

¹ NGW's El Paso Permian: Waha, Texas Index will be used as the Mainline receipt Point Index for Permian and Anadarko Purchases and NGW's El Paso San Juan: Ignacio, Colo. Index will be used as the Mainline Receipt Point for San Juan Purchases.

2. Currently Effective El Paso Charges, subject to change.

3. [REDACTED]

SETTLEMENT AND RELEASE AGREEMENT

This Settlement and Release Agreement is entered into this 20th day of November, 2000 by [Signature] and between Tucson Electric Power Company ("TEP") and Southwest Gas Corporation ("SWG") as follows:

RECITALS.

A. In April 1998, TEP and SWG entered into a Special Gas Procurement Agreement under SWG's Schedule G-30 (Optional Gas Service) (the "Agreement"). Pursuant to the Agreement SWG is providing gas to TEP generating stations. Some of the gas SWG provides to TEP is purchased from the Permian Basin and some from the San Juan Basin.

B. A dispute has arisen between TEP and SWG regarding the manner in which SWG is calculating the Capacity Charge that it is billing TEP under the Agreement (the "dispute"). As a result of the dispute, TEP has started to pay only that portion of the SWG bill that is not in dispute (the "undisputed amount"). TEP is withholding payment of that portion of the SWG bill that it believes is an overcharge (the "disputed amount").

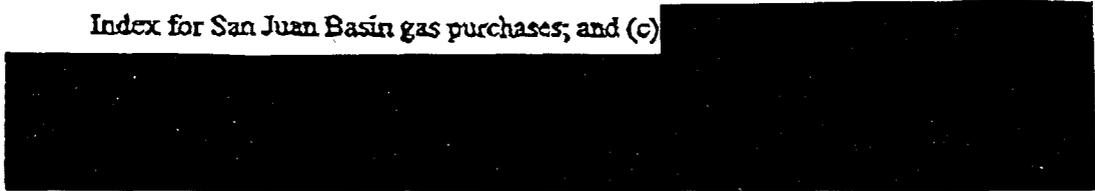
C. On October 20, 2000, TEP filed with the Arizona Corporation Commission ("Commission") its "Statement of Dissatisfaction; or in the alternative, Formal Complaint against Southwest Gas" in which TEP alleged that SWG had overbilled TEP under the Agreement.

D. On October 26, 2000, SWG filed its Answer with the Commission in which it denied that it had improperly billed TEP under the Agreement.

E. TEP and SWG desire to resolve the dispute in accordance with the terms and conditions of this Settlement and Release Agreement.

Now, therefore, in consideration of the mutual promises contained herein and for other fair and valuable consideration, the sufficiency of which is hereby acknowledged, TEP and SWG agree as follows:

1. Commencing on October 1, 2000 and through the remainder of Agreement, the Capacity Charge in the Agreement shall be calculated in accordance with the methodology set forth in Exhibit A hereto. In connection therewith, TEP and SWG expressly agree that the methodology shall (a) use the Permian Basin Index as the Mainline Receipt Point Index for gas purchases from the Permian and Anadarko Basins; (b) use the San Juan Basin Index as the Mainline Receipt Point Index for San Juan Basin gas purchases; and (c)



2. TEP shall retain the disputed amounts for the months of August and September 2000. SWG hereby waives any claim to the disputed amount and forever releases and discharges TEP from paying the disputed amount to SWG and TEP hereby

waives any claim to any other amounts and forever releases SWG from refunding any amounts paid by TEP prior to October 1, 2000.

- 3. Upon approval of this Settlement Agreement by the Commission, or as soon as possible thereafter, TEP and SWG shall file with the Commission a "Joint Stipulation to Dismiss With Prejudice, TEP's Statement of Dissatisfaction; or in the alternative, Formal Complaint against Southwest Gas".

- 4. In consideration of the modifications to the Agreement described herein, TEP (and its officers, directors, employees, agents, representatives, successors, subsidiaries, shareholders, affiliates, attorneys, and assigns of each of them) and SWG (and its officers, directors, employees, agents, representatives, successors, subsidiaries, shareholders, attorneys, affiliates, and assigns and each of them) hereby fully release and forever mutually discharge each other from any and all claims, demands, damages, actions, causes of action or suits at law or in equity of whatever kind or nature, whether based upon alleged tort or alleged contract or any other legal or equitable theory of recovery, known or unknown, past, present, or future, whether anticipated or not anticipated, suspected or not suspected, which have arisen or are now arising or hereafter may arise, in connection with the dispute. Nothing herein shall affect any rights or obligations of TEP or SWG under past, present, or future contracts or other business arrangements other than the Agreement.

5. Each party further agrees to bear its own costs, disbursements and expenses of any kind incurred in prosecuting and defending the dispute.
6. It is expressly understood and agreed that this Settlement and Release Agreement, and the consideration therefore, is a full, final and complete compromise settlement of disputed claims, and is entered into solely for the purpose of avoiding the expense and disruption of further litigation, and it is not to be construed as an admission of liability on the part of any party.
7. Authorized Representatives of TEP and SWG have read this Settlement and Release Agreement and it is agreed that TEP and SWG are acting fully and freely upon their own investigation and knowledge, and upon the advice of counsel, and are voluntarily executing this document of their own free will.
8. This Settlement and Release Agreement shall in all respects be interpreted, and enforced and governed by, the laws of the State of Arizona.
9. This Settlement and Release Agreement shall be binding upon and inure to the benefit of any heirs, successors, predecessors, assigns, employees, shareholders, agents or sureties of the parties, hereto and any parties released herein.
10. The parties hereto further agree, covenant, represent and warrant that none of them has heretofore assigned or transferred, or attempted, or purported to, assign or transfer to any person or entity not a party hereto any claim, right or other matter released herein, in whole or in part, and each party agrees to indemnify and hold harmless the other from and against any claims, demands, causes of action, damages, debts, liabilities, obligations, expenses, liens and compensation of any nature whatsoever, in law and in equity, including attorneys' fees actually

incurred as a result thereof whether or not litigation be commenced, which is based upon, arises out of, or arises in connection with, in whole or in part, any such assignment or transfer, or attempted or purported assignment or transfer.

- 11. TEP and SWG warrant and guarantee that each person whose signature appears hereof has been duly authorized and has the full authority to execute this Settlement and Release Agreement.
- 12. This Settlement and Release Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, and all of which shall constitute one and the same agreement.
- 13. This Settlement and Release Agreement is subject to approval by the Commission.

Tucson Electric Power Company

By: *V.A. Deland*
Its: *Vice President*

Southwest Gas Corporation

By: *Thomas J. Demeter*
Its: *Vice President*

Exhibit A
Capacity Charge Worksheet
Calculation of El Paso Natural Gas Co. Upstream Capacity Charges

Calculation of Market Transportation Cost:

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Calculation of Capacity Charge:

Market Transportation Cost	C
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Less:

Usage Charge ²	d
AGA ²	e
GRI ²	f
Fuel ²	g = (A/9612) - A

Upstream Capacity Market Rate ³	= C - d - e - f - g
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2. Currently Effective El Paso Charges, subject to change.

3. 