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MEMORANDUM RECEIVED

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2004 OCT - 8 A 8: 45 Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED

FROM: Utilities Division

AZ CORP COMMISSION  
DOCUMENT CONTROL

OCT - 8 2004

DATE: October 8, 2004

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RE: SOUTHWEST GAS APPLICATION FOR APPROVAL OF CHANGES TO  
IMBALANCE CHARGE PROVISIONS OF SCHEDULE T-1, TRANSPORTATION  
OF CUSTOMER-SECURED NATURAL GAS (DOCKET NO. G-01551A-04-0686)

On September 21, 2004, Southwest Gas Corporation ("Southwest") filed for Commission approval of changes to the imbalance charge provisions of Schedule T-1, Transportation of Customer Secured Natural Gas ("T-1 tariff").

In Southwest's most recent general rate proceeding, several intervening parties raised the issue of how Southwest's imbalance charges were calculated. The primary dispute was whether the imbalance charges would be based upon Southwest's single highest price for a purchase of natural gas in a given month or whether it would be based upon an average price of whatever cumulative number of highest priced purchases were necessary to meet the cumulative imbalances of all transportation customers in a given month. Imbalance charges are applied to transportation customers when their actual consumption of natural gas in a given month varies from the amount of natural gas they deliver onto Southwest's distribution system by more than the allowed operating window during a given month. Imbalance charges compensate Southwest for the cost of meeting the unanticipated imbalances and provide the transportation customers with an incentive to closely match their consumption with the natural gas they deliver onto Southwest's distribution system.

Commission Decision No. 64172 (October 30, 2001) ordered Southwest to file tariff pages within 30 days of the Order, reflecting in Schedule T-1 the actual costs of each unit of gas provided under Schedule T-1. This Decision further ordered that Staff complete its review of the filing and issue its recommendations within 120 days of receiving the filing. On November 29, 2001, Southwest filed tariff pages reflecting the cost of natural gas provided to Schedule T-1 customers. On January 7, 2002, the Commission held a workshop on natural gas transportation issues. On April 1, 2002, Staff filed a memorandum recommending that the issue of a new imbalance charge structure for Southwest Gas be delayed until the pipeline capacity issues at the Federal Energy Regulatory Commission ("FERC") have been addressed. Since 2002, Staff has monitored developments at FERC, including capacity allocation issues and a 2004 filing to introduce new imbalance services. Staff is not aware of any problems or complaints regarding the application of Southwest's imbalance penalty provisions in the intervening time period. In September 2003, FERC's reallocation of pipeline capacity went into effect and in September 2004, El Paso filed a settlement agreement for FERC approval regarding imbalance services.

Given these recent developments, Staff believes that the Commission should revisit the matter of Southwest's imbalance charges for transportation customers.

Southwest's current filing mirrors its November 29, 2001 filing, in the manner in which it contemplates adjusting the imbalance charge calculation methodology. In effect, it adopts the imbalance charge pricing methodology sought by the intervenors in the previous rate proceeding. Rather than relying on the single highest priced purchase to set the imbalance charge level, it would rely on the average of the cumulative highest priced purchases necessary to meet the imbalances in a given month. Such a methodology would generally reduce the imbalance charges to transportation customers and in no case would imbalance charges be increased as a result of this proposed change. It should be noted that the methodology under consideration for change here is one of two which Southwest applies in calculating the imbalance charge for customers. The other methodology applies one hundred and fifty percent of the base cost of gas component of the utility tariff. The higher result of the two calculation methodologies is the amount which is billed to transportation customers with imbalances subject to imbalance charges. The proposed methodology for changing the way imbalance charges are calculated would apply only to negative imbalances, which is when a transportation customer consumes more natural gas supplies than it delivers onto Southwest's distribution system. Provisions related to positive imbalances would remain unchanged. Additionally, the existing T-1 tariff allows Southwest to charge transportation customers any charges from upstream transporters or suppliers which result from Southwest providing service to the transportation customer. Implementation of the proposed imbalance methodology would enable Southwest to gain experience with the methodology and evaluate whether it works well or if some other methodology may be more appropriate.

Staff believes that the proposed imbalance charge calculation methodology is reasonable and recommends approval of Southwest's September 21, 2004 T-1 tariff filing. Staff further recommends that Southwest, on or before November 1, 2006, file a report with the Commission, documenting its experience with the new imbalance charge calculation methodology and recommending whether the existing methodology should be maintained or changed.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:RGG:redJMA

ORIGINATOR: Robert G. Gray

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MARC SPITZER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

IN THE MATTER OF THE APPLICATION ) DOCKET NO. G-01551A-04-0686  
OF SOUTHWEST GAS FOR APPROVAL )  
OF CHANGES TO IMBALANCE CHARGE ) DECISION NO. \_\_\_\_\_  
PROVISIONS OF SCHEDULE T-1, ) ORDER  
TRANSPORTATION OF CUSTOMER- )  
SECURED NATURAL GAS )

Open Meeting  
October 26 and 27, 2004  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On September 21, 2004, Southwest filed for Commission approval of changes to the imbalance charge provisions of Schedule T-1, Transportation of Customer Secured Natural Gas ("T-1 tariff").

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1           3.       In Southwest's most recent general rate proceeding, several intervening parties  
2 raised the issue of how Southwest's imbalance charges were calculated. The primary dispute was  
3 whether the imbalance charges would be based upon Southwest's single highest price for a  
4 purchase of natural gas in a given month or whether it would be based upon an average price of  
5 whatever cumulative number of highest priced purchases were necessary to meet the cumulative  
6 imbalances of all transportation customers in a given month.

7           4.       Imbalance charges are applied to transportation customers when their actual  
8 consumption of natural gas in a given month varies from the amount of natural gas they deliver  
9 onto Southwest's distribution system by more than the allowed operating window during a given  
10 month.

11          5.       Imbalance charges compensate Southwest for the cost of meeting the unanticipated  
12 imbalances and provide the transportation customers with an incentive to closely match their  
13 consumption with the natural gas they deliver onto Southwest's distribution system.

14          6.       Commission Decision No. 64172 (October 30, 2001), ordered Southwest to file  
15 tariff pages within 30 days of the Order, reflecting in Schedule T-1 the actual costs of each unit of  
16 gas provided under Schedule T-1. This Decision further ordered that Staff complete its review of  
17 the filing and issue its recommendations within 120 days of receiving the filing.

18          7.       On November 29, 2001, Southwest filed tariff pages reflecting the cost of natural  
19 gas provided to Schedule T-1 customers.

20          8.       On January 7, 2002 the Commission held a workshop on natural gas transportation  
21 issues.

22          9.       On April 1, 2002, Staff filed a memorandum recommending that the issue of a new  
23 imbalance charge structure for Southwest Gas be delayed until the pipeline capacity issues at the  
24 Federal Energy Regulatory Commission ("FERC") have been addressed.

25          10.       Since 2002, Staff has monitored developments at FERC, including capacity  
26 allocation issues and a 2004 filing to introduce new imbalance services. Staff is not aware of any  
27 problems or complaints regarding the application of Southwest's imbalance penalty provisions in  
28 the intervening time period.

1           11.     In September 2003, FERC's reallocation of pipeline capacity went into effect and in  
2 September 2004, El Paso filed a settlement agreement for FERC approval regarding imbalance  
3 services.

4           12.     Given these recent developments, Staff believes that the Commission should revisit  
5 the matter of Southwest's imbalance charges for transportation customers.

6           13.     Southwest's current filing mirrors its November 29, 2001 filing, in the manner in  
7 which it contemplates adjusting the imbalance charge calculation methodology.

8           14.     In effect, it adopts the imbalance charge pricing methodology sought by the  
9 intervenors in the previous rate proceeding.

10          15.     Rather than relying on the single highest priced purchase to set the imbalance  
11 charge level, it would rely on the average of the cumulative highest priced purchases necessary to  
12 meet the imbalances in a given month. Such a methodology would generally reduce the imbalance  
13 charges to transportation customers and in no case would imbalance charges be increased as a  
14 result of this proposed change.

15          16.     It should be noted that the methodology under consideration for change here is one  
16 of two which Southwest applies in calculating the imbalance charge for customers. The other  
17 methodology applies one hundred and fifty percent of the base cost of gas component of the utility  
18 tariff. The higher result of the two calculation methodologies is the amount which is billed to  
19 transportation customers with imbalances subject to imbalance charges.

20          17.     The proposed methodology for changing the way imbalance charges are calculated  
21 would apply only to negative imbalances, which is when a transportation customer consumes more  
22 natural gas supplies than it delivers onto Southwest's distribution system. Provisions related to  
23 positive imbalances would remain unchanged.

24          18.     Additionally, the existing T-1 tariff allows Southwest to charge transportation  
25 customers any charges from upstream transporters or suppliers which result from Southwest  
26 providing service to the transportation customer.

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ORDER

IT IS THEREFORE ORDERED that Southwest's September 21, 2004, T-1 tariff filing be and is hereby approved.

IT IS FURTHER ORDERED Southwest, on or before November 1, 2006, file a report with the Commission, documenting its experience with the new imbalance charge calculation methodology and recommending whether the existing methodology should be maintained or changed.

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

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary 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 \_\_\_\_\_, 2004.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Secretary

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:RGG:red/JMA

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