

ORIGINAL
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MEMORANDUM

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2005 JAN -5 P 2: 26

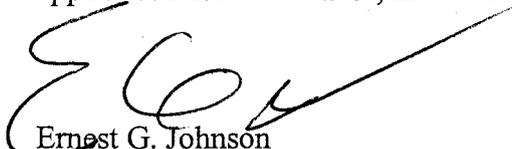
FROM: Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: January 5, 2005

RE: APPLICATION FOR A WAIVER OR, IN THE ALTERNATIVE, AN
APPLICATION FOR PRIOR APPROVAL OF SOUTHWEST GAS
CORPORATION (DOCKET NO. G-01551A-04-0806)

Attached is the Staff Report and proposed order for Southwest Gas Corporation's application for a waiver or, in the alternative, application for prior approval.


Ernest G. Johnson
Director
Utilities Division

EGJ:JJD:rdp

Originator: James J. Dorf

Arizona Corporation Commission
DOCKETED

JAN - 5 2005

DOCKETED BY	
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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: January 5, 2005

RE: STAFF REPORT FOR AN APPLICATION FOR A WAIVER OR, IN THE
ALTERNATIVE, AN APPLICATION FOR PRIOR APPROVAL OF
SOUTHWEST GAS CORPORATION (DOCKET NO. G-01551A-04-0806)

Attached is the Staff Report for Southwest Gas Corporation's application for a waiver or, in the alternative, application for prior approval.

EGJ:JJD:rdp

Originator: James J. Dorf

Attachment: Original and thirteen copies

Service List for: Southwest Gas Corporation
Docket No. G-01551A-04-0806

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

SOUTHWEST GAS CORPORATION
DOCKET NO. G-01551A-04-0806

APPLICATION FOR A WAIVER, OR IN THE
ALTERNATIVE, APPLICATION FOR PRIOR APPROVAL

JANUARY, 2005

EXECUTIVE SUMMARY
SOUTHWEST GAS CORPORATION
DOCKET NO. G-01551A-04-0806

Staff's Report addresses the application of Southwest Gas Corporation ("SWG") regarding a request that the Arizona Corporation Commission ("Commission") grant a waiver of compliance with Arizona Administrative Code ("A.A.C.") R14-2-804.B.2 for certain affiliate transactions, or in the alternative, prior approval to acquire and continue to operate a liquefied natural gas storage facility and an associated pipeline ("LNG facilities") to be owned by its wholly-owned subsidiary, Paiute Pipeline Company ("Paiute"). SWG requests approval to loan \$21,970,000 to Paiute to fund the amount needed to acquire the LNG facilities.

Paiute filed an application with the Federal Energy Regulatory Commission ("FERC"), in Docket No. CP04-343-001, for certificate authorization to acquire and operate the subject LNG facilities. Paiute currently leases the LNG facilities. The acquisition is subject to FERC review and approval. The LNG facilities will be used to provide peak shaving storage services to four local distribution companies: Avista, Sierra, Southwest - Northern California, and Southwest - Northern Nevada. Although not directly effecting Arizona natural gas users, it will have an indirect effect should the subject transaction have a negative financial impact on SWG.

SWG has an existing waiver from the affiliate rules in Commission Decision No. 58162 for certain affiliate transactions not exceeding \$13,000,000 during any 12 month period. The loan of \$21,970,000 represents approximately 1 percent of SWG's September 30, 2004 total capitalization. It does not appear that this transaction will impair SWG's financial status, otherwise prevent it from attracting capital at fair and reasonable terms, or impair its ability to provide safe, reasonable and adequate service. Staff recommends approval of the requested waiver subject to conditions outlined in Staff's report.

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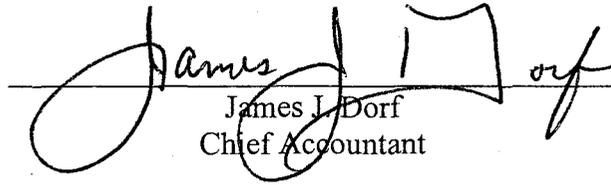
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STAFF ACKNOWLEDGMENT

The Staff Report for Southwest Gas Corporation ("SWG"), Docket No. G-01551A-04-0806 was the responsibility of the Staff member James J. Dorf, who performed the review and analysis of SWG's application for a waiver from the requirements of Arizona Administrative Code ("A.A.C.") A.A.C. R-14-2-804.B.2, or in the alternative, prior approval to loan \$21,970,000 to its wholly owned subsidiary, Paiute Pipeline Company.



James J. Dorf
Chief Accountant

Introduction and Background

On November 8, 2004, Southwest Gas Corporation ("SWG") filed an application with the Arizona Corporation Commission ("Commission") for a waiver of the requirements of Arizona Administrative Code ("A.A.C.") R14-2-804.B.2 for certain affiliate transactions or, in the alternative, prior approval to loan \$21,970,000 to its wholly owned subsidiary, Paiute Pipeline Company ("Paiute"), to fund the amount needed acquire and continue to operate a liquefied natural gas storage facility and an associated pipeline ("LNG facilities"). Rule R14-2-804.B.2 states that "A utility will not consummate the following transactions without prior approval by the Commission:

2. Lend to any affiliate not regulated by the Commission with the exception of short-term loans for a period of less than 12 months in an amount less than \$100,000; or".

SWG operates both an interstate and local distribution natural gas pipeline systems in the states of Arizona, Nevada and Utah. It serves over 850,000 customers.

On October 22, Paiute filed an amended application with the Federal Energy Regulatory Commission ("FERC"), in Docket No. CP04-343-001, for certificate authorization to acquire and operate the subject LNG facilities. Paiute currently leases the LNG facilities from Uzal, LLC. The facilities consist of a liquefied natural gas storage facility located near Lovelock, Nevada and approximately 61 miles of 20-inch diameter pipeline which loops Paiute's mainline between the LNG facility and the Wadsworth Junction near Wadsworth, Nevada. A second amendment (CP04-343-002) was filed On October 27, 2004 and reflected certain revised contract entitlement levels for the proposed storage services.

Paiute's predecessor, SWG, constructed the facilities in 1982 and coincidentally entered in to a sale/leaseback arrangement to finance the facility costs. The lease has been held by a variety of entities and is currently held by Uzal, LLC. The current lease expires on July 6, 2005. The LNG facilities will be used to provide peak shaving storage services to four local distribution companies: Avista, Sierra, Southwest- Northern California, and Southwest - Northern Nevada.

As more fully described in its amended filing in FERC Docket No. CP04-343-001, several parties are involved in the process to certificate the LNG facilities. If approved by the FERC, it will resolve five pending, contested FERC proceedings, as well as two related court cases. A Joint Parties Settlement, which reflects the agreement of three service-provider applicants and the four historic customers of the LNG facilities, provides for the following FERC approvals, authorizations, and determinations (as abbreviated)¹:

1. The FERC will issue a certificate of public convenience and necessity pursuant to Section 7(c) of the Natural Gas Act, subject to the closing of the sale of the LNG facilities, authorizing Paiute to acquire from Uzal and operate the LNG facilities

¹ See FERC Docket Nos. CP04-343-000, CP04-343-001 and CP04-343-002.

2. The FERC will issue a certificate of public convenience and necessity pursuant to Section 7(c) of the Natural Gas Act, subject to the closing of the sale of the LNG facilities, authorizing Paiute to provide long-term LNG storage service to Avista, Sierra, Southwest – Northern California, and Southwest – Northern Nevada under their new storage service agreements.
3. The FERC will determine that the \$21,970,000 acquisition cost of the LNG facilities is a prudent expenditure by Paiute and a reasonable starting rate base amount, net of depreciation from the date of purchase, for the acquired LNG facilities....
4. The FERC will approve Tuscarora's notice of withdrawal of its application in Docket No. CP04-344-000....
5. The FERC will approve Uzal's notice of withdrawal of its application in Docket Nos. CP04-388-000, CP04-389-000, and CP04-390-000.....
6. Other interrelated promises, rights and obligations as summarized in CP04-343-001.

If approved by the FERC, the LNG facilities will be supported by four long-term storage contracts with local distribution companies and implementation of the Joint Parties Settlement will enable the LNG facilities to operate at full service for many years. As indicated in Paiute's FERC filing, "the LNG Plant can serve a valuable function as a source of winter peak shaving and emergency gas supplies at the right price. The right price has been achieved through the Paiute-Uzal Settlement and the Joint Parties Settlement."

Staff Analysis

Although the transaction does not directly affect Arizona natural gas users, it could have an indirect effect if the transaction weakens SWG's financial position. As indicated at Schedule JJD-1, it does not appear that this transaction will have a material impact on SWG's financial position. The loan amount only represents approximately 1 percent of SWG's total capitalization. Additionally, the estimated after-tax cash flow from the project will increase consolidated operating cash flow approximately 1.9 percent and will be sufficient to service the related loan. Also, SWG's net income from 1999 through the twelve months ended September 30, 2004 has been relatively consistent, ranging between \$37 million to \$50 million.

The operating profile for the acquired LNG facilities appears financially viable. The facilities have been successfully operated for over 20 years and it is believed the facilities will last another 59 years, based upon the current depreciation rate and if properly maintained. Paiute, if approved by the FERC, will have long-term contracts with four local distribution companies wherein the capacity of the storage facility is fully subscribed.

The transaction and related contracts must be approved by the FERC as well as the tariff associated with the storage services. The associated transportation services will be provided pursuant to Paiute's existing open access transportation certificate.

Staff Recommendations

SWG has an existing waiver from the affiliate rules in Commission Decision No. 58162 for certain affiliate transactions not exceeding \$13,000,000 during any 12 month period. The loan of \$21,970,000 represents approximately 1 percent of SWG's September 30, 2004 total capitalization. The transaction is supported by long-term storage contracts and provides sufficient cash flow to permit repayment of the loan amount. Staff recommends approval of the requested waiver subject to the following conditions:

1. Commission approval of the waiver is conditioned upon FERC approval of the subject transaction and contractual arrangements contemplated in FERC Docket No. CP04-343-001.
2. SWG shall file a copy of the FERC approval and the related loan document with the Docket Control within 30 days of FERC approval.
3. Any new affiliated transactions subject to A.A.C. R14-2-804.B.2 for the twelve month period following FERC approval and execution of the loan will require Commission approval.
4. At the completion of the twelve month period noted in item 2. above, the previously approved waiver for \$13,000,000 shall again be in effect.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL DATA
(Thousands of Dollars)

	As of 9/30/2004	As of 12/31/2003	As of 12/31/2002
Total Assets	<u>\$2,678,071</u>		
Cash Flow From Operations-12 Months Ended	<u>\$156,728</u>		
Subordinated Debentures- Due Southwest Capital II	\$100,000		
Long-Term Debt (less current maturities)	<u>1,164,650</u>		
Total Debt	1,264,650		
Total Equity	<u>661,662</u>		
Total Capitalization	<u>\$1,926,312</u>	<u>\$1,851,631</u>	<u>\$1,748,315</u>
Return on Average Common Equity	<u>7.9% *</u>	<u>6.3%</u>	<u>7.5%</u>
Net Income - 12 Months Ended	<u>\$50,803</u>	<u>\$38,502</u>	<u>\$43,965</u>
Requested Authorization Amount	<u>\$21,970</u>		
As a % of Total Capitalization	<u>1.1%</u>		
Estimated After-tax Cash Flow Increase	<u>\$2,939</u>		
As a % of Cash Flow From Operations	<u>1.9%</u>		

* Estimated

Sources: Southwest Gas Corporation SEC Form 10-Q, September 30, 2004, Annual Report to the Arizona Corporation Commission for 2003 and Data Provided in Docket No. G-01551A-04-0806.

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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 OF)
 SOUTHWEST GAS CORPORATION APPLICA-)
 TION FOR WAIVER OR, IN THE ALTERNA-)
 TIVE, APPLICATION FOR PRIOR APPROVAL)

DOCKET NO. G-01551A-04-0806
 DECISION NO. _____
ORDER

Open Meeting
 January 11 and 12, 2005
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On November 8, 2004, Southwest Gas Corporation ("SWG") filed an application with the Arizona Corporation Commission ("Commission") for a waiver of the requirements of A.C.C. R14-2-804.B.2 for certain affiliate transactions or, in the alternative, prior approval to loan \$21,970,000 to its wholly owned subsidiary, Paiute Pipeline Company ("Paiute"), to fund the amount needed acquire and continue to operate a liquefied natural gas storage facility and an associated pipeline ("LNG facilities").

2. Rule R14-2-804.B.2 states that "A utility will not consummate the following transactions without prior approval by the Commission:

3. Lend to any affiliate not regulated by the Commission with the exception of short-term loans for a period of less than 12 months in an amount less than \$100,000; or".

4. SWG operates both an interstate and local distribution natural gas pipeline systems in the states of Arizona, Nevada and Utah. It serves over 850,000 customers.

...

1 5. On October 22, Paiute filed an amended application with the Federal Energy Regulatory
2 Commission ("FERC"), in Docket No. CP04-343-001, for certificate authorization to acquire and
3 operate the subject LNG facilities. A second amendment (CP04-343-002) was filed On October 27,
4 2004 and reflected certain revised contract entitlement levels for the proposed storage services.

5 6. Paiute currently leases the LNG facilities from Uzal, LLC. The facilities consist of a
6 liquefied natural gas storage facility located near Lovelock, Nevada and approximately 61 miles of 20-
7 inch diameter pipeline which loops Paiute's mainline between the LNG facility and the Wadsworth
8 Junction near Wadsworth, Nevada.

9 7. Paiute's predecessor, SWG, constructed the facilities in 1982 and coincidentally entered
10 in to a sale/leaseback arrangement to finance the facility costs. The lease has been held by a variety of
11 entities and is currently held by Uzal, LLC. The current lease expires on July 6, 2005.

12 8. The LNG facilities will be used to provide peak shaving storage services to four local
13 distribution companies: Avista, Sierra, Southwest- Northern California, and Southwest – Northern
14 Nevada.

15 9. Although the transaction does not directly affect Arizona natural gas users, it could
16 have an indirect effect if the transaction weakens SWG's financial position.

17 10. As more fully described in its amended filing in FERC Docket No. CP04-343-001,
18 several parties are involved in the process to certificate the LNG facilities. If approved by the FERC, it
19 will resolve five pending, contested FERC proceedings, as well as two related court cases.

20 11. A Joint Parties Settlement, which reflects the agreement of three service-provider
21 applicants and the four historic customers of the LNG facilities, provides for several FERC approvals,
22 authorizations, and determinations.

23 12. Staff's evaluation of the application indicates that it does not appear that this transaction
24 will have a material impact on SWG's financial position. The loan amount only represents
25 approximately 1 percent of SWG's total capitalization.

26 13. SWG has an existing waiver from the affiliate rules in Commission Decision No. 58162
27 for certain affiliate transactions not exceeding \$13,000,000 during any 12 month period.

28 ...

1 14. The transaction is supported by long-term storage contracts and provides sufficient cash
2 flow to permit repayment of the loan amount.

3 15. Staff recommends approval of the requested waiver subject to the following conditions:

4
5 a. Commission approval of the waiver is conditioned upon FERC approval of the
6 subject transaction and contractual arrangements contemplated in FERC Docket No.
CP04-343-001.

7 b. SWG shall file a copy of the FERC approval and the related loan document
8 with the Docket Control within 30 days of FERC approval.

9 c. Any new affiliated transactions subject to A.C.C. R14-2-804.B.2 for the twelve
10 month period following FERC approval and execution of the loan will require
Commission approval.

11 d. At the completion of the twelve month period noted in item 2. above, the
12 previously approved waiver for \$13,000,000 shall again be in effect.

13
14 CONCLUSIONS OF LAW

15 1. SWG a public service corporation within the meaning of Article 15 of the Arizona
16 Constitution and Title 40 of the Arizona Revised Statutes.

17 2. The Commission has jurisdiction over SWG and over the subject matter of the
18 application.

19 3. The Commission having reviewed the application and Staff's Memorandum of January 5,
20 2005, concludes that it is in the public interest to grant SWG's request but subject to the limitations
21 recommended by Staff.

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ORDER

IT IS THEREFORE ORDERED that the application be and hereby is granted subject the conditions as recommended by Staff in Findings of Fact No. 14.

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

BY 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 _____, 2005.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:JJD:rdp

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION

2 DOCKET NO. G-01551A-04-0806

3
4 Mr. John P. Hester
5 Vice President, Regulatory Affairs and Systems Planning
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7 Las Vegas, Nevada 89150-0002

8
9 Mr. Ernest G. Johnson
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11 Arizona Corporation Commission
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