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MEMORANDUM RECEIVED
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TO: THE COMMISSION JAN-29 2001

FROM: Utilities Division

DOCKETED BY JM

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: January 26, 2001

RE: SOUTHWEST GAS CORPORATION - FILING FOR APPROVAL OF CHANGES TO SCHEDULES G-60, COGENERATION GAS SERVICE, AND G-80, NATURAL GAS ENGINE GAS SERVICE, REGARDING GAS COSTS (DOCKET NO. G-01551A-01-0060)

On January 17, 2001, Southwest Gas Corporation ("Southwest") filed for Commission approval of changes to Schedules G-60, Cogeneration Gas Service, and G-80, Natural Gas Engine Gas Service, regarding gas costs.

Most of Southwest's rate schedules are currently subject to the 12 month rolling average PGA mechanism, resulting in a new PGA rate being calculated each month. However, the gas cost for Schedules G-60 and G-80 is currently adjusted annually, with a new rate becoming effective each May 1, 2001. The annual May 1st adjustment to the gas cost component for Schedules G-60 and G-80 is calculated using the most recent 12 months of cost and consumption information. Because the gas cost component of Schedules G-60 and G-80 is adjusted annually and when it is adjusted it is based upon the previous 12 months of information, the gas cost component may not accurately reflect the actual cost of gas to serve customers on Schedules G-60 and G-80 during the year a given gas cost component is in use. This is particularly true when there are large swings in the price of natural gas, as there have been recently.

Southwest's filing contemplates two changes related to the gas cost component for Schedules G-60 and G-80. First, Southwest proposes to adjust the gas cost component of Schedules G-60 and G-80, effective March 1, 2001, rather than waiting for the annual adjustment which normally would go into effect on May 1, 2001. The reason Southwest is requesting this adjustment is that natural gas prices have risen dramatically for serving all customer classes and Schedules G-60 and G-80 do not currently reflect any change in the cost of service these customers. Therefore, the customer is not receiving a proper price signal and Southwest's margins on these rate schedules are impacted.

Second, Southwest's filing changes the method by which the gas cost component for Schedules G-60 and G-80 are adjusted. Instead of the annual adjustment, effective May 1st, Southwest has proposed that the gas cost would be updated as necessary to reflect market conditions.

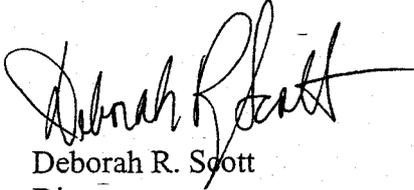
Staff has recently been contacted by a customer who receives service under Schedule G-80 and who has indicated that they intend to intervene in this filing to ensure that their concerns regarding this filing are fully considered. Given the date of the filing and the customer's

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expression of interest in the filing, Staff believes there has not been sufficient time available to allow this customer to provide input regarding this filing. Additionally, the proposal to adjust the gas cost component to reflect market conditions does not prescribe any specific mechanism identifying how and when adjustments would be made. It would be useful for Staff, Southwest, and other interested parties to have further time to analyze this filing. Staff recommends suspension of this filing for 90 days.



Deborah R. Scott
Director
Utilities Division

DRS:BGG:jbc/JMA

ORIGINATOR: Robert Gray

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