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ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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2001 APR -4 P 2:51

TO: THE COMMISSION

APR 04 2001

AZ CORP COMMISSION  
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FROM: Utilities Division

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DATE: April 4, 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. On February 16, 2001, the Commission suspended the filing for 90 days to provide Staff and Southwest with time to meet with interested customers and consider possible alternatives. On February 27, 2001, the Commission Staff, Southwest, and approximately fifteen interested customers met at the Commission offices in Tucson to discuss issues surrounding the setting of gas costs for Schedules G-60 and G-80. On March 26, 2001, Southwest filed a revised request for changes to the G-60 and G-80 schedules, regarding gas costs. On March 27, 2001, a Motion to Intervene was filed by Bohlender South Farms Ltd. and Dunlap Farms.

Currently, most of Southwest's rate schedules are subject to the 12 month rolling average Purchased Gas Adjustor ("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<sup>st</sup>. The annual May 1<sup>st</sup> 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 initial filing contemplated two changes related to the gas cost component for Schedules G-60 and G-80. First, Southwest proposed 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. Second, Southwest's initial filing changed

the method by which the gas cost component for Schedules G-60 and G-80 is adjusted. Instead of the annual adjustment, effective May 1<sup>st</sup>, Southwest had proposed that the gas cost would be updated as necessary to reflect market conditions.

Staff was contacted by a number of customers, including the party requesting intervention in this docket, who expressed concerns regarding the initial Southwest filing. Issues of concern included the size and timing of the proposed increase, seasonality of gas costs for schedule G-80, and the method of adjusting the gas cost component of the tariffs in the future. The concern with seasonality results from a large majority of consumption by G-80 customers taking place in the summer, when natural gas prices have historically been lower, while the gas cost for G-80 is set based upon all of Southwest's gas purchases each year. Because winter natural gas prices have typically been higher in the past, G-80 customers are concerned that they are paying for higher winter natural gas prices, despite their relatively low usage during that season. Additionally, a number of customers expressed a desire for some level of certainty in the price they pay for natural gas, so they are able to plan their crop plantings and other activities for the next season. These issues and others were discussed at the Tucson meeting.

Southwest's revised filing would provide for the gas cost for Schedules G-60 and G-80 to be reset each year on April 1<sup>st</sup> and October 1<sup>st</sup>, corresponding to the summer and winter seasons. Given the date of the latest filing in this docket it is not feasible to implement the new method of setting gas costs by April 1<sup>st</sup>. Therefore, for the summer 2001 season, Southwest anticipates that the new method of setting gas costs for the G-60 and G-80 rate schedules would go into effect on May 1<sup>st</sup>.

Southwest has entered into fixed price contracts to supply gas to the G-60 and G-80 customers, based upon anticipated usage in these rate classes. This would provide the customers on these rate schedules with a fixed price for natural gas through the following season. Gas costs for Schedules G-60 and G-80 would be tracked separately from Southwest's general purchased gas adjustor account. Any supply that is purchased for customers on the G-60 and G-80 schedules, but is not used to supply those customers during the following season, would be folded into Southwest's supply portfolio for its other sales schedules.

Southwest has indicated that as the beginning of the next season approaches and it enters into new gas supply contracts for the G-60 and G-80 rate schedules, it will send a notification to all G-60 and G-80 customers, indicating what the gas cost will be for the next season. Additionally Southwest's customer representatives will pass along the new gas cost information to customers.

Before making the revised filing in this docket, Southwest entered into fixed price supply contracts for the G-60 and G-80 rate schedules. Southwest's filing includes a tariff sheet reflecting what the fixed price of natural gas would be for the G-60 and G-80 rate schedules for the summer 2001 season, beginning with the May billing cycle. For the G-60 rate schedule the proposed tariff sheet reflects the existing margin of \$0.08197 per therm plus a gas cost of \$0.55097 per therm, for a total tariffed rate of \$0.63294 per therm (the rate through April 2001 is

THE COMMISSION

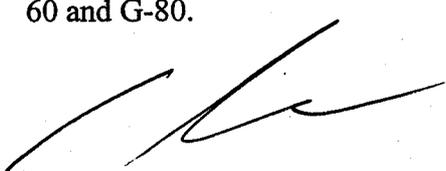
April 4, 2001

Page 3

\$0.31904 per therm). For the G-80 rate schedule the proposed tariff sheet reflects the existing margin of \$0.15900 per therm plus a gas cost of \$0.55097 per therm, for a total tarified rate of \$0.70997 per therm (the rate through April 2001 is \$0.39607 per therm). It should be noted that the proposed tariff sheet contains an error in the Rate Adjustment column. Rather than a charge of \$0.02542 per therm in that column, the column should have no charge. This charge inadvertently left on the sheet from the previous version, but was not included in the calculation of the Currently Effective Tariff Rate column of the tariff sheet. Southwest has indicated that it will file a revised tariff sheet to correct the error. These rates are substantially higher than the previously effective tarified rates for these rate schedules, which are due to be adjusted May 1<sup>st</sup> under existing tariff provisions. The increase is due to the significantly higher cost of natural gas being experienced by Southwest and across the country.

Under the existing gas cost adjustment method for Schedules G-60 and G-80, where the gas cost is adjusted annually on May 1<sup>st</sup>, Schedules G-60 and G-80 would experience an even higher increase in the gas cost component. In Southwest's most recent monthly PGA report Southwest's average cost of gas was approximately \$0.61 per therm (the gas cost the year before was \$0.23707 per therm). Therefore, the G-60 and G-80 customers would experience a smaller rate increase under the proposed new gas cost adjustment method than they would under the existing gas cost adjustment method.

Staff believes that Southwest's proposal addresses customer concerns regarding the seasonality of natural gas usage and pricing, as well as the desire for some certainty in natural gas prices in the next season. However, given the national run up in natural gas prices this past year and the continued relatively high natural gas prices being experienced currently, there is no way to avoid passing along higher natural gas costs to consumers. Staff recommends approval of the filing. Staff further recommends that Southwest file a report with the Commission by July 1, 2003, documenting its experience with the new gas cost adjustment mechanism for Schedules G-60 and G-80.

  
Deborah R. Scott  
Director  
Utilities Division

DRS:BGG:lhj\JMA

ORIGINATOR: Robert Gray

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL  
Chairman  
3 JIM IRVIN  
Commissioner  
4 MARC SPITZER  
Commissioner  
5

6 IN THE MATTER OF THE APPLICATION OF )  
SOUTHWEST GAS CORPORATION - FILING )  
7 FOR APPROVAL OF CHANGES TO )  
SCHEDULES G-60, COGENERATION GAS )  
8 SERVICE, AND G-80, NATURAL GAS ENGINE )  
GAS SERVICE, REGARDING GAS COSTS )  
9

DOCKET NO. G-01551A-01-0060

DECISION NO. \_\_\_\_\_

ORDER

10 Open Meeting  
April 17 and 18, 2001  
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

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

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

18 3. On February 16, 2001, the Commission suspended the filing for 90 days to provide Staff  
19 and Southwest with time to meet with interested customers and consider possible alternatives.

20 4. On February 27, 2001, the Commission Staff, Southwest, and approximately fifteen  
21 interested customers met at the Commission offices in Tucson to discuss issues surrounding the setting  
22 of gas costs for Schedules G-60 and G-80.

23 5. On March 26, 2001, Southwest filed a revised request for changes to the G-60 and G-80  
24 schedules, regarding gas costs.

25 6. On March 27, 2001, a Motion to Intervene was filed by Bohlender South Farms, Ltd.,  
26 and Dunlap Farms.

27 7. Currently, most of Southwest's rate schedules are subject to the 12 month rolling average  
28 Purchased Gas Adjustor ("PGA") mechanism, resulting in a new PGA rate being calculated each

1 month. However, the gas cost for Schedules G-60 and G-80 is currently adjusted annually, with a new  
2 rate becoming effective each May 1st. The annual May 1st adjustment to the gas cost component for  
3 Schedules G-60 and G-80 is calculated using the most recent 12 months of cost and consumption  
4 information. Because the gas cost component of Schedules G-60 and G-80 is adjusted annually and  
5 when it is adjusted, it is based upon the previous 12 months of information, the gas cost component  
6 may not accurately reflect the actual cost of gas to serve customers on Schedules G-60 and G-80 during  
7 the year a given gas cost component is in use. This is particularly true when there are large swings in  
8 the price of natural gas, as there have been recently.

9       8. Southwest's initial filing contemplated two changes related to the gas cost component  
10 for Schedules G-60 and G-80. First, Southwest proposed to adjust the gas cost component of  
11 Schedules G-60 and G-80, effective March 1, 2001, rather than waiting for the annual adjustment  
12 which normally would go into effect on May 1, 2001. Second, Southwest's initial filing changed the  
13 method by which the gas cost component for Schedules G-60 and G-80 is adjusted. Instead of the  
14 annual adjustment, effective May 1st, Southwest had proposed that the gas cost would be updated as  
15 necessary to reflect market conditions.

16       9. Staff was contacted by a number of customers, including the party requesting  
17 intervention in this docket, who expressed concerns regarding the initial Southwest filing. Issues of  
18 concern included the size and timing of the proposed increase, seasonality of gas costs for schedule  
19 G-80, and the method of adjusting the gas cost component of the tariffs in the future.

20       10. The concern with seasonality results from a large majority of consumption by G-80  
21 customers taking place in the summer, when natural gas prices have historically been lower, while the  
22 gas cost for G-80 is set based upon all of Southwest's gas purchases each year. Because winter natural  
23 gas prices have typically been higher in the past, G-80 customers are concerned that they are paying  
24 for higher winter natural gas prices, despite their relatively low usage during that season.

25       11. Additionally, a number of customers expressed a desire for some level of certainty in the  
26 price they pay for natural gas, so they are able to plan their crop plantings and other activities for the  
27 next season. These issues and others were discussed at the Tucson meeting.

28 ...

1           12. Southwest's revised filing would provide for the gas cost for Schedules G-60 and G-80  
2 to be reset each year on April 1st and October 1st, corresponding to the summer and winter seasons.  
3 Given the date of the latest filing in this docket it is not feasible to implement the new method of  
4 setting gas costs by April 1st. Therefore, for the summer 2001 season, Southwest anticipates that the  
5 new method of setting gas costs for the G-60 and G-80 rate schedules would go into effect on May 1st.

6           13. Southwest has entered into fixed price contracts to supply gas to the G-60 and G-80  
7 customers, based upon anticipated usage in these rate classes. This would provide the customers on  
8 these rate schedules with a fixed price for natural gas through the following season.

9           14. Gas costs for Schedules G-60 and G-80 would be tracked separately from Southwest's  
10 general purchased gas adjustor account.

11           15. Any supply that is purchased for customers on the G-60 and G-80 schedules, but is not  
12 used to supply those customers during the following season, would be folded into Southwest's supply  
13 portfolio for its other sales schedules.

14           16. Southwest has indicated that as the beginning of the next season approaches and it enters  
15 into new gas supply contracts for the G-60 and G-80 rate schedules, it will send a notification to all  
16 G-60 and G-80 customers, indicating what the gas cost will be for the next season. Additionally,  
17 Southwest's customer representatives will pass along the new gas cost information to customers.

18           17. Before making the revised filing in this docket, Southwest entered into fixed price supply  
19 contracts for the G-60 and G-80 rate schedules.

20           18. Southwest's filing includes a tariff sheet reflecting what the fixed price of natural gas  
21 would be for the G-60 and G-80 rate schedules for the summer 2001 season, beginning with the May  
22 billing cycle. For the G-60 rate schedule, the proposed tariff sheet reflects the existing margin of  
23 \$0.08197 per therm plus a gas cost of \$0.55097 per therm, for a total tariffed rate of \$0.63294 per  
24 therm. For the G-80 rate schedule, the proposed tariff sheet reflects the existing margin of \$0.15900  
25 per therm plus a gas cost of \$0.55097 per therm, for a total tariffed rate of \$0.70997 per therm.

26           19. It should be noted that the proposed tariff sheet contains an error in the Rate Adjustment  
27 column. Rather than a charge of \$0.02542 per therm in that column, the column should have no  
28 charge. This charge was inadvertently left on the sheet from the previous version, but was not included

1 in the calculation of the Currently Effective Tariff Rate column of the tariff sheet. Southwest has  
2 indicated that it will file a revised tariff sheet to correct the error.

3 20. These rates are substantially higher than the previously effective tariffed rates for these  
4 rate schedules, which are due to be adjusted May 1st under existing tariff provisions. The increase is  
5 due to the significantly higher cost of natural gas being experienced by Southwest and across the  
6 country.

7 21. Under the existing gas cost adjustment method for Schedules G-60 and G-80, where the  
8 gas cost is adjusted annually on May 1st, Schedules G-60 and G-80 would experience an even higher  
9 increase in the gas cost component. In Southwest's most recent monthly PGA report, Southwest's  
10 average cost of gas was approximately \$0.61 per therm. Therefore, the G-60 and G-80 customers  
11 would experience a smaller rate increase under the proposed new gas cost adjustment method than they  
12 would under the existing gas cost adjustment method.

13 22. Staff believes that Southwest's proposal addresses customer concerns regarding the  
14 seasonality of natural gas usage and pricing, as well as the desire for some certainty in natural gas  
15 prices in the next season. However, given the national run up in natural gas prices this past year and  
16 the continued relatively high natural gas prices being experienced currently, there is no way to avoid  
17 passing along higher natural gas costs to consumers.

18 23. Staff has recommended approval of the filing.

19 24. Staff has further recommended that Southwest file a report with the Commission by  
20 July 1, 2003, documenting its experience with the new gas cost adjustment mechanism for Schedules  
21 G-60 and G-80.

#### 22 CONCLUSIONS OF LAW

23 1. Southwest is an Arizona public service corporation within the meaning of Article XV,  
24 Section 2, of the Arizona Constitution.

25 2. The Commission has jurisdiction over Southwest and over the subject matter of the  
26 application.

27 3. The Commission, having reviewed the application and Staff's Memorandum dated April  
28 4, 2001, concludes that it is in the public interest to approve the revised filing.

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ORDER

THEREFORE, IT IS ORDERED that the revised filing be and hereby is approved.

IT IS FURTHER ORDERED that Southwest file a report with the Commission by July 1, 2003, documenting its experience with the new gas cost adjustment mechanism for Schedules G-60 and G-80.

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

**BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

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 \_\_\_\_\_, 2001.

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

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

DRS:BGG:lhm

SERVICE LIST FOR: Southwest Gas Corporation

1 DOCKET NO. G-01551A-01-0060

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