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BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission

DOCKETED

MAR - 9 2005

DOCKETED BY	<i>MR</i>
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IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST GAS CORPORATION  
FOR PRE-APPROVAL OF COST  
RECOVERY FOR PARTICIPATION IN THE  
EL PASO NATURAL GAS COMPANY  
LINE 1903 PIPELINE PROJECT.

DOCKET NO. G-01551A-04-0807  
DECISION NO. 67677  
ORDER

Open Meeting  
March 8 and 9, 2005  
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 ("Commission").
2. On November 9, 2004, Southwest filed for Commission pre-approval of cost recovery for participation in the El Paso Natural Gas Company's ("El Paso") Line 1903 natural gas pipeline project.
3. The Line 1903 project would convert a section of a former crude oil pipeline in southern California which in conjunction with other arrangements would enable a shipper on the El Paso northern system with pipeline capacity to Topock to deliver gas onto the El Paso southern system at Ehrenberg. Southwest's filing is pursuant to the Commission's on-going Notice of Inquiry on Natural Gas Infrastructure, which the Commission initiated in April 2003, to consider issues related to natural gas infrastructure and their impact on natural gas service in Arizona.

1           4.       The Line 1903 project involves approximately 88 miles of pipeline as well as some  
2 additional facilities to interconnect Line 1903 with El Paso's Mojave pipeline near Cadiz. The  
3 Mojave pipeline runs from Topock at the Arizona/California border to the Bakersfield area. In  
4 total, the Line 1903 project entails conversion of Line 1903 to natural gas service, acquisition of  
5 Mojave pipeline capacity by El Paso, construction of the interconnect between Line 1903 and the  
6 Mojave pipeline, and modification of Kern River pipeline facilities at Daggett, California to enable  
7 gas to flow from Daggett eastward on the Mojave pipeline.

8           5.       El Paso filed for Federal Energy Regulation Commission ("FERC") approval of the  
9 Line 1903 project (Docket No. CP05-2) on October 5, 2004. The projected in-service date for the  
10 Line 1903 project is January 1, 2006. El Paso's projected cost for the Line 1903 project would be  
11 approximately \$73.6 million. The project would provide 502,000 cubic feet of gas ("mcf/day") of  
12 pipeline capacity. This would include approximately 189,000 mcf/day of capacity to deliver gas  
13 from the Kern River pipeline at Daggett, approximately 182,000 mcf/day of capacity to move  
14 north system gas supplies at Topock down to the southern system, and approximately 130,000  
15 mcf/day of capacity to mitigate existing north-south displacement concerns.

16           6.       Southwest entered into a precedent agreement with El Paso for Line 1903 capacity  
17 on August 16, 2004. Southwest would receive an average of 75,548 decatherm ("dth") of pipeline  
18 capacity on Line 1903. If terms of the precedent agreement are met, Southwest would enter into a  
19 10 year transportation service agreement with El Paso for the Line 1903 capacity.

20           7.       Southwest's application in this matter specifically requests Commission pre-  
21 approval of the costs identified in the application for recovery through Southwest's purchased gas  
22 adjustor ("PGA") mechanism.

23           8.       For the reasons discussed below, the Commission Utilities Division Staff ("Staff")  
24 does not recommend that the Commission grant Southwest's application for pre-approval for Line  
25 1903.

26           9.       A threshold issue to be considered in regard to this application is whether  
27 Commission pre-approval as contemplated in the Commission's December 18, 2003 Policy  
28 Statement Regarding New Natural Gas Pipeline and Storage Costs is warranted. The

1 Commission's policy statement also notes that the specific circumstances of each application for  
2 pre-approval must be carefully considered.

3 10. By its nature, Commission pre-approval is a process that should be limited to  
4 specific circumstances when such pre-approval is necessary and warranted. Previously the  
5 Commission has granted pre-approval of pipeline capacity acquisitions on the Silver Canyon  
6 pipeline by both Southwest and Arizona Public Service.

7 11. One purpose of the Commission's pre-approval process was to encourage utilities  
8 to make the best resource decisions taking into account both short and long term considerations  
9 regarding cost, service reliability, service flexibility, diversity, and other issues.

10 12. A particular concern was that risk-averse utilities might make resource decisions  
11 which minimize costs in the short term, but do not fully capture other longer term benefits. This is  
12 based upon the concept that a utility acquiring a resource that is not the lowest cost resource at the  
13 time might consider itself to be subject to greater regulatory risk than if it had simply acquired the  
14 resource that was the lowest cost resource in the short term. This was the case in Southwest's  
15 Silver Canyon pre-approval filing. The up front reservation charge costs were higher than the  
16 current El Paso pipeline charges, but the Silver Canyon pipeline offered other benefits such as  
17 greater operational flexibility and pipeline diversity.

18 13. However, Staff does not believe that Southwest's participation in the Line 1903  
19 project is a situation where it is necessary for the Commission to grant pre-approval and Staff  
20 recommends against pre-approval of Southwest's application. Although the Line 1903 project  
21 addresses certain goals of the Commission's gas infrastructure policy statement, such as  
22 diversifying Arizona's natural gas infrastructure, consideration of all factors presented in this  
23 matter indicates that pre-approval is not warranted.

24 14. Staff believes that Southwest's acquisition of Line 1903 capacity, as represented by  
25 Southwest, is more in the nature of a normal acquisition of pipeline capacity to more efficiently  
26 utilize its existing pipeline capacity portfolio, than it is in the nature of a major infrastructure  
27 acquisition requiring Commission pre-approval to overcome significant potential obstacles such as  
28 higher up front costs to make the project happen.

1           15. Further, the Commission's December 18, 2003 policy statement indicates  
2 traditionally the Commission has not granted pre-approval and that the traditional method of the  
3 Commission evaluating the actions taken and the costs incurred by the utility at a later time is the  
4 preferred method. Staff believes that this traditional method of addressing the costs incurred by  
5 Southwest for Line 1903 capacity is appropriate in this circumstance.

6           16. In response to a Staff data request, Southwest indicated that its acquisition of Line  
7 1903 capacity is considered to be a continuation of the conversion from full requirements capacity  
8 rights to contract demand capacity rights. Southwest further indicated that it was currently relying  
9 on this capacity to serve customers on an alternate basis and that acquisition of Line 1903 capacity  
10 is needed to serve existing demands. Southwest also indicated that due to these circumstances, the  
11 Line 1903 capacity was not evaluated in conjunction with other potential infrastructure projects or  
12 even that there are any alternative projects that could bring the pipeline capacity from Topock to  
13 the southern system in a timely manner.

14           17. It is clear that the Commission's policy statement on natural gas infrastructure  
15 contemplated pre-approval of natural gas infrastructure acquisitions would be limited to projects  
16 where a compelling case could be made that pre-approval would be necessary and play a  
17 significant role in moving the infrastructure project forward. Expansion of pre-approval beyond  
18 such cases could result in the Commission becoming overly involved in the on-going management  
19 of Southwest's pipeline capacity portfolio and would represent an expansion of the pre-approval  
20 concept beyond what was previously contemplated.

21           18. Given these circumstances, Staff believes that Southwest's acquisition of Line 1903  
22 capacity simply does not require the Commission's pre-approval as contemplated under the  
23 Commission's natural gas infrastructure policy statement.

24           19. Unlike the Silver Canyon project, there is no compelling basis to find that  
25 Southwest may face the higher cost risks or other potential cost-recovery issues if pre-approval is  
26 not granted. Further, even if the Commission does not pre-approve Southwest's acquisition of  
27 Line 1903 capacity, the capacity may be considered by the Commission in future reviews of  
28 Southwest's gas acquisition activities as would other aspects of Southwest's acquisition of natural

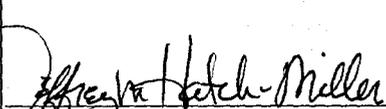
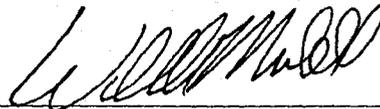
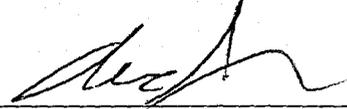


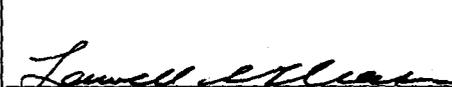
ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's application for pre-approval of cost recovery for participation in the El Paso Natural Gas Companies Line 1903 natural gas pipeline project is hereby denied.

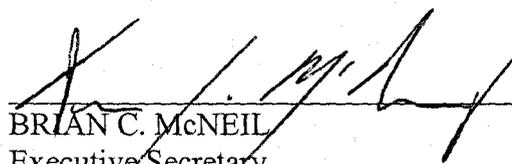
IT IS FURTHER ORDERED that this Order shall become effective immediately.

**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 9<sup>th</sup> day of March, 2005.

  
 BRIAN C. McNEIL  
 Executive Secretary

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

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

EGJ:BGG:red/JA

1 SERVICE LIST FOR: Southwest Gas Corporation  
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