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OPEN MEETING

0000029740

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 9, 2001

RE: SOUTHWEST GAS CORPORATION – FILING FOR APPROVAL OF A SPECIAL GAS PROCUREMENT AGREEMENT WITH TUCSON ELECTRIC POWER COMPANY (DOCKET NO. G-01551A-01-0449)

On May 31, 2001, Southwest Gas Corporation ("Southwest") filed for Commission approval of a special gas procurement agreement with Tucson Electric Power Company ("TEP"). Previously, on May 22, 1998 (Decision No. 60914), the Commission approved the initial special gas procurement agreement between Southwest and TEP. Subsequently, on January 11, 2001, the Commission approved a revised special gas procurement agreement between Southwest and TEP to clarify the manner in which interstate pipeline capacity charges are calculated (Decision No. 63308). This special gas procurement agreement expired at the end of May 2001.

Southwest's filing requests Commission approval of a new special gas procurement agreement with TEP. If approved, the new agreement would be effective as of June 1, 2001, and would have an initial five year term. The proposed agreement would automatically continue after the initial term unless one party gives notice of termination at least 90 days prior to the anniversary date of the agreement.

Service under Schedule G-30 is available to customers who can establish that bypass of Southwest is economically, operationally, and physically feasible and imminent. TEP's facilities to be served under the proposed agreement are located in close proximity to El Paso Natural Gas Company's ("El Paso") interstate pipeline. Staff has reviewed TEP's usage characteristics and projected bypass costs and believes that bypass is a viable option for TEP. Further, Southwest has indicated the proposed procurement agreement is necessary to avoid such a bypass.

Southwest has indicated that it will enter into gas supply contracts with a gas supplier for TEP's gas requirements which are separate from Southwest's general system supply contracts and that this supply will be accounted for separately from Southwest's general system supply.

The specific charges for serving TEP were provided to Staff under a confidentiality agreement. Staff has reviewed the charges included in the proposed procurement agreement and believes that the revenues Southwest receives should cover its cost of serving TEP. However, if conditions change in the gas market, it is theoretically possible that Southwest could experience a negative margin on this procurement agreement.

The proposed agreement contains rates for the first two years of the agreement. The proposed agreement contains a procedure for Southwest and TEP to renegotiate the rates to be applied after the first two years. Before implementing any changes in rates under this agreement, Southwest will file for Commission approval of such changes.

As required by Schedule G-30, Southwest will credit the Purchased Gas Adjustor account with all upstream pipeline capacity charges collected from TEP. In response to Staff information requests, Southwest has indicated that under the proposed agreement, the credit to the PGA account will be equal to the El Paso 100 percent load factor rate. This is the same credit level that was in place under the agreement between Southwest and TEP that expired at the end of May 2001. This credit to the PGA account will benefit other ratepayers.

TEP has a viable alternative to being served by Southwest. Staff recommends approval of this filing. Further, Staff recommends that any negative margin resulting from this agreement not be recovered from other ratepayers in any future proceeding.

Deborah R. Scott
Director
Utilities Division

DRS:BGG:lhm\JMA

ORIGINATOR: Robert Gray

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION - FILING FOR APPROVAL OF A SPECIAL GAS PROCUREMENT AGREEMENT WITH TUCSON ELECTRIC POWER COMPANY	DOCKET NO. G-01551A-01-0449 DECISION NO.__________ ORDER

Open Meeting
June 26 and 27, 2001
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On May 31, 2001, Southwest filed for Commission approval of a special gas procurement agreement with Tucson Electric Power Company ("TEP").

3. Previously, on May 22, 1998 (Decision No. 60914), the Commission approved the initial special gas procurement agreement between Southwest and TEP. Subsequently, on January 11, 2001, the Commission approved a revised special gas procurement agreement between Southwest and TEP to clarify the manner in which interstate pipeline capacity charges are calculated (Decision No. 63308). This special gas procurement agreement expired at the end of May 2001.

4. Southwest's filing requests Commission approval of a new special gas procurement agreement with TEP. If approved, the new agreement would be effective as of June 1, 2001, and would have an initial five year term.

5. The proposed agreement would automatically continue after the initial term unless one party gives notice of termination at least 90 days prior to the anniversary date of the agreement.

. . .

6. Service under Schedule G-30 is available to customers who can establish that bypass of Southwest is economically, operationally, and physically feasible and imminent.

7. TEP's facilities to be served under the proposed agreement are located in close proximity to El Paso Natural Gas Company's ("El Paso") interstate pipeline.

8. Staff has reviewed TEP's usage characteristics and projected bypass costs and believes that bypass is a viable option for TEP. Further, Southwest has indicated the proposed procurement agreement is necessary to avoid such a bypass.

9. Southwest has indicated that it will enter into gas supply contracts with a gas supplier for TEP's gas requirements which are separate from Southwest's general system supply contracts and that this supply will be accounted for separately from Southwest's general system supply.

10. The specific charges for serving TEP were provided to Staff under a confidentiality agreement. Staff has reviewed the charges included in the proposed procurement agreement and believes that the revenues Southwest receives should cover its cost of serving TEP. However, if conditions change in the gas market, it is theoretically possible that Southwest could experience a negative margin on this procurement agreement.

11. The proposed agreement contains rates for the first two years of the agreement. The proposed agreement contains a procedure for Southwest and TEP to renegotiate the rates to be applied after the first two years. Before implementing any changes in rates under this agreement, Southwest will file for Commission approval of such changes.

12. As required by Schedule G-30, Southwest will credit the Purchased Gas Adjustor account with all upstream pipeline capacity charges collected from TEP. In response to Staff information requests, Southwest has indicated that under the proposed agreement, the credit to the PGA account will be equal to the El Paso 100 percent load factor rate. This is the same credit level that was in place under the agreement between Southwest and TEP that expired at the end of May 2001. This credit to the PGA account will benefit other ratepayers.

13. TEP has a viable alternative to being served by Southwest.

14. Staff has recommended approval of this filing.

. . .

15. Further, Staff has recommended that any negative margin resulting from this agreement not be recovered from other ratepayers in any future proceeding.

CONCLUSIONS OF LAW

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

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

3. The Commission, having reviewed the application and Staff's Memorandum dated June 9, 2001, concludes that it is in the public interest to approve the filing.

ORDER

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

IT IS FURTHER ORDERED that any negative margin resulting from this agreement not be recovered from other ratepayers in any future proceeding.

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
DOCKET NO. G-01551A-01-0449

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