

OPEN MEETING

MEMORANDUM

Arizona Corporation Commission

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AZ CORP COMMISSION
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TO: THE COMMISSION

FROM: Utilities Division

DATE: June 12, 2001

RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION - FILING FOR APPROVAL OF AN EXTENSION OF THE CURRENT PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-01551A-01-0453)

On June 1, 2001, Southwest Gas Corporation ("Southwest") filed for Commission approval of an extension of the current purchased gas adjustor ("PGA") surcharge of \$0.05691 per therm.

The \$0.05691 per therm surcharge was initially implemented in June 1999 to amortize the Southwest's frozen PGA bank balance at the time the 12 month rolling average PGA mechanism was implemented. The frozen bank balance was fully amortized at the end of August 2000. At that time, Southwest filed for an extension of the surcharge in light of the rise in natural gas prices. The surcharge was subsequently extended in Decision Nos. 62860 (August 24, 2000), and 63265 (December 15, 2000). The current extension is due to expire at the end of June 2001.

Southwest's filing requests further extension of the surcharge through the end of June 2002 to address continued high natural gas costs and the resulting undercollected PGA bank balance. Southwest's May 2001 monthly PGA report shows that Southwest's PGA bank balance is undercollected by \$78,450,844 as of April 30, 2001. Southwest's tariffed rates for June 2001 reflect a gas cost of \$0.47776 per therm, including a base cost of gas of \$0.25489 per therm, the monthly PGA rate of \$0.16596 per therm, and the \$0.05691 per therm PGA surcharge. This cost of gas includes both the actual commodity cost of the natural gas and the cost of interstate pipeline delivery. It is anticipated that the monthly PGA rate will continue to gradually move higher in the coming months. However, if the \$0.05691 per therm surcharge were to expire at the end of June 2001, the overall cost of gas Southwest reflects in its tariffed rates would be reduced and would take a number of months to move up to its current level.

While natural gas prices have moderated somewhat in recent months, there is a high level of uncertainty regarding the cost of natural gas in the coming year. It is very possible that natural gas prices will move significantly higher again either during the summer cooling season or during the next winter heating season.

Given Southwest's large undercollected bank balance and the uncertainty of natural gas prices in the coming year, it appears to be reasonable to extend the \$0.05691 per therm surcharge through June 2002. If the surcharge were allowed to expire at the end of June 2001, it is likely that another PGA surcharge would need to be implemented in the near future to address Southwest's undercollected bank balance. This would result in ratepayers experiencing greater volatility in their natural gas rates. Retention of the existing \$0.05691 per therm PGA surcharge will result in greater rate stability for Southwest's customers and will help to address Southwest's undercollected PGA bank balance. Staff recommends approval of the filing.



Deborah R. Scott

Director

Utilities Division

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