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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

OCT 25 2005

DOCKETED BY	
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IN THE MATTER OF THE APPLICATION  
FOR SOUTHWEST GAS CORPORATION  
AND BLACK MOUNTAIN GAS  
COMPANY APPROVAL OF ACQUISITION  
PLAN AND IF APPROPRIATE, WAIVER  
OF SELECTED PROVISIONS OF THE  
AFFILIATE RULES – PROPOSED  
PROGRAMS FOR PAGE DIVISION

DOCKET NOS. G-01551A-02-0425  
G-01970A-02-0425

DECISION NO. 68249

ORDER

Open Meeting  
October 18 and 19, 2005  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation (“Southwest” or “Company”) is certificated to provide natural gas and propane services as a public service corporation in the State of Arizona.

2. On February 28, 2005, Southwest submitted a filing to the Commission to comply with requirements of Decision No. 66101 (July 25, 2003). Decision No. 66101 authorized the acquisition of Black Mountain Gas by Southwest. The Decision also established certain requirements of Southwest should it acquire Black Mountain Gas and not sell its Page Division within 18 months. Southwest has acquired Black Mountain Gas but has not sold the Page Division. On June 7, 2005, Southwest submitted a new filing to replace the February 28, 2005, filing.

3. This application consists of Arizona Propane Tariff No. 1 which would replace in entirety the currently effective Page Division tariff of Black Mountain Gas Company. Southwest’s

1 Arizona Propane Tariff No. 1 maintains existing rates and adds new services required by Decision  
2 No. 66101. Decision No. 66101 orders that Southwest, “make a filing for Commission approval to  
3 begin offering the Page Division propane customers service options that are currently available to  
4 Southwest Gas Corporation’s customers. Such services include, but are not limited to, a low  
5 income discount tariff for residential customers, a balanced payment plan option, an online bill  
6 payment option, and applicable demand-side management programs.”

7 4. Pursuant to this requirement, Southwest proposes the following new items in the  
8 tariff: Low Income Rate Assistance Discount Pilot Program (“LIRA” or “Pilot”), Summary  
9 Billing, Equal Payment Plan (“EPP”), Landlord Agreements, Deferred Payment Plan, and  
10 Electronic Billing. A demand-side management (“DSM”) program is not proposed in the filing.

11 5. The LIRA Pilot program that Southwest proposes for the Page Division offers to  
12 eligible residential propane customers a discount of \$12.10 during the winter season, November 1  
13 through April 30. For bills less than \$12.10, the LIRA discount will equal the amount of the bill  
14 for that month, exclusive of any other non-related credits. LIRA eligibility requirements for  
15 Southwest’s natural gas customers are set forth in Southwest’s Arizona Gas Tariff No. 7, Schedule  
16 No. G-10. The tariff describes that to be eligible for the LIRA program a customer’s household  
17 income must not exceed 150 percent of the Federal poverty level. Staff has recommended that this  
18 same criteria be used for the Page LIRA program.

19 6. In Southwest’s natural gas territory, the LIRA program benefit is calculated at 20  
20 percent of a residential customer’s commodity rate during winter months. Use of this method to  
21 determine the LIRA benefit makes the total cost of the LIRA program primarily dependent on two  
22 variables, the number of customers that participate in the program and the therm use of the  
23 participants.

24 7. Southwest has proposed that the LIRA benefit available to each Page Division  
25 customer in the Pilot program be limited to \$12.10 per customer monthly. This is the average  
26 benefit received by LIRA participants in Southwest’s natural gas service territory. Use of a LIRA  
27 benefit that is capped at \$12.10 per customer in the Page Division will help in controlling for the  
28 uncertainty related to program costs that are a function of customer therm use.

1           8.       Southwest also proposes that the annual cost of the program be capped at \$12,500.  
2 This cap level is the approximate cost Southwest estimates would be necessary to provide the  
3 LIRA benefit to 15 percent of residential customers served under Schedule No. PR-1. Southwest  
4 has indicated that it anticipates a 15 percent LIRA participation rate based on experience in other  
5 Arizona communities with similar demographics. While this may be the participation rate of cities  
6 of similar demographics, one cannot be certain of the actual participation rate in the Page Division  
7 prior to implementation of either a LIRA pilot or program. Use of a \$12,500 cap will help to  
8 control for the uncertainty related to program costs that are a function of the number of customers  
9 that participate in the program.

10           9.       Given uncertainty regarding future participation levels in the LIRA program and  
11 consequently the costs associated with provision of the LIRA benefit, Southwest proposes that  
12 LIRA be implemented initially as a pilot program. Once participation in the LIRA Pilot Program  
13 is known, a more informed decision can be made regarding whether a LIRA benefit that is  
14 calculated as a percentage of commodity cost should be implemented in the Page Division. The  
15 Pilot will also provide data to help in determining an appropriate benefit level should a percentage  
16 based benefit be adopted in the future.

17           10.       Southwest has stated in its filing that it intends to recover costs of the LIRA Pilot in  
18 a deferral account and will seek recovery of the deferred amounts in the next Page Division,  
19 Arizona general rate case. Southwest has indicated in response to a data request from Staff that it  
20 intends to seek recovery of interest costs for the deferred amounts at 7.86 percent. Southwest  
21 states that this rate is equal to the Page, Arizona Property's authorized rate of return and is  
22 commensurate with the interest applied to the LIRA account for Southwest's Arizona natural gas  
23 properties. Staff finds it appropriate for Southwest to seek consideration of recovery of deferred  
24 costs in its next Page Division general rate case.

25           A deferral mechanism provides a regulated utility the Ability to defer costs that would  
26 otherwise be expensed using generally accepted accounting principles. It permits alternative  
27 accounting treatment of capital or other costs as permitted under the Uniform System of Accounts.  
28 However, because the deferral has been determined outside of a general rate proceeding, the

1 Company will only be allowed to include carrying costs utilizing the Federal Energy Regulatory  
2 Commission ("FERC") interest rate pursuant to Section 154.501 of the FERC regulations.<sup>1</sup>

3 11. Southwest's application does not propose an ending date or limited period of time  
4 for the LIRA Pilot program. In order to test customer participation in a LIRA program in the Page  
5 Division, Staff recommends that the LIRA Pilot program be implemented for two years. At the  
6 end of 20 months of implementation of the LIRA Pilot program, Southwest should file with the  
7 Commission an application making a recommendation as to whether the LIRA program should be  
8 continued, modified, or eliminated after the two years. This would allow the Pilot program to  
9 function for two complete winters and would allow for consideration of the recommendation  
10 before termination of the Pilot program. The Pilot program should terminate if a rate case decision  
11 were to implement a LIRA program on a regular basis, rather than a pilot basis, prior to two years  
12 of implementation of the Pilot program.

13 12. In order that customers might be made aware of the LIRA Pilot program and its  
14 benefits, Staff has recommended that, within 30 days of a decision in this matter, Southwest should  
15 begin to market LIRA in accordance with a plan submitted to the Director of the Utilities Division  
16 for review prior to implementation.

17 13. Decision No. 66101 orders Southwest to make a filing for Commission approval to  
18 begin offering "applicable demand-side management programs." Southwest has not included a  
19 proposal for a DSM program in this application. Southwest has indicated, however, that it is  
20 willing to offer its Low Income Energy Conservation ("LIEC") program, currently in effect for  
21 other Southwest customers, immediately. The LIEC program is a DSM program. Southwest has  
22 also requested permission to establish a deferral account for the costs of the LIEC program. We  
23 agree that providing the LIEC program for the Page Division is in the public interest.

24 In order to comply with Decision No. 66101, Staff has recommended that Southwest  
25 develop information regarding a possible DSM program or programs. Such a study should include

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27 <sup>1</sup> The FERC, on a quarterly basis, published authorized interest rates for natural gas pipelines. The rates are available  
28 at <http://www.ferc.gov/legal/acct-matts/interest-rates.asp>.

1 program descriptions, program costs and benefits, cost effectiveness, eligibility, anticipated  
2 participation levels, marketing plans, and specific information regarding the services provided  
3 consistent with applicable DSM policies and recommendations. Staff has recommended that  
4 Southwest file a report containing such information with the Commission within six months of a  
5 decision in this matter along with a request for approval of any cost-effective DSM program or  
6 programs.

7 A deferral mechanism for the LIEC program would serve the same purpose described in  
8 Finding of Fact No. 10. Because the deferral for the LIEC program would also be determined  
9 outside of a general rate proceeding, the Company will only be allowed to include carrying costs  
10 utilizing the FERC interest rate pursuant to Section 154.01 of the FERC regulations.

11 14. The new service options (Summary Billing, EPP, Landlord Agreements, Deferred  
12 Payment Plan, and Electronic Billing) are described in the proposed Arizona Propane Tariff No. 1.  
13 All of these new options are similar to options currently offered and approved in Southwest Gas  
14 Arizona Gas Tariff No. 7, Southwest's tariff for natural gas customers in Arizona. Summary  
15 Billing provides the opportunity for customers who have multiple accounts to receive a bill with  
16 summary data from each of the accounts. The Equal Payment Program provides a pricing option  
17 for customers. It allows customers to pay their estimated annual bill in 12 equal payments.  
18 Landlord Agreements allows landlords to continue service in their own names when renters leave.  
19 The Deferred Payment Plan offers payment plans to qualified customers to retire unpaid bills.  
20 Electronic Billing allows customers the option of receiving and paying bills electronically.

21 15. Staff has analyzed this application in terms of whether there were fair value  
22 implications. The impact on revenue is estimated to be a reduction of \$12,500, the annual LIRA  
23 program cap. The impact on operating expenses is estimated to be an increase of approximately  
24 \$12,500 for the LIEC program. Although fair value rate base is not impacted directly, the impact  
25 for these programs on rate of return on Page Division's rate base could be approximately a 1.30  
26 percent reduction. When Southwest's entire Arizona operations are considered, the impact of the  
27 approximate 1.30 percent reduction for the Page Division, a small part of Southwest's total  
28 Arizona operation, is de minimus.

1           16. Staff has recommended approval of Arizona Propane Tariff No. 1 with the  
2 following modifications:

3                   (a) References to A.C.C. Sheet No. 3 on A.C.C. Sheet Nos. 9 and 24 should be  
4 changed to Sheet No. 5 to accurately reflect the source of rates and charges; (b) Eligibility  
5 requirements for LIRA should be listed on the tariff; (c) Eligibility requirements for the LIRA  
6 program in the Page Division should be the same criteria as approved in Southwest's Arizona Gas  
7 Tariff No. 7, Schedule No. G-10.

8           17. Staff has also recommended the following:

9                   (d) LIRA should be implemented as a two-year pilot program; (e) At the end of 20  
10 months of implementation of the LIRA Pilot program, Southwest should docket, as a compliance  
11 matter in this case, an application making a recommendation as to whether the LIRA program  
12 should be continued, modified, or eliminated after two years; (f) A deferral account should be  
13 established for the costs of the LIRA program with carrying costs calculated pursuant to FERC  
14 Section 154.501 of the FERC regulations; (g) Southwest should file annual reports with Docket  
15 Control, as a compliance matter in this case, by May 30th of each year of the Pilot program. The  
16 reports should document the previous winter season's (November 1 through April 30) activity by  
17 month, including the number of participants, the total amount of discounts, the median and mean  
18 amount of discount per customer, the amount of administrative expenses, and the balance in the  
19 deferral account; (h) Within 30 days of a decision in this matter, Southwest should begin to  
20 market LIRA in accordance with a plan submitted to the Director of the Utilities Division for  
21 review prior to implementation; (i) Within six months of a decision in this matter, Southwest  
22 should conduct a study on additional DSM as described above and docket, as a compliance matter  
23 in this case, a report along with a request for approval of any additional cost-effective DSM  
24 programs.

25           18. Staff has further recommended that Southwest file with Docket Control, as a  
26 compliance matter in this case, a corrected version of Arizona Propane Tariff No. 1 consistent with  
27 this decision within 30 days of a decision in this matter.

28 ...



1 including the number of participants, the total amount of discounts, the median and mean amount  
2 of discount per customer, the amount of administrative expenses, and the balance in the deferral  
3 account.

4 IT IS FURTHER ORDERED that within 30 days of a decision in this matter, Southwest  
5 shall begin to market LIRA in accordance with a plan submitted to the Director of the Utilities  
6 Division for review prior to implementation.

7 IT IS FURTHER ORDERED that Southwest offer its Low Income Energy Conservation  
8 ("LIEC") program to eligible Page Division customers as soon as possible, but no later than  
9 November 1, 2005.

10 IT IS FURTHER ORDERED that a deferral account be established for the costs of the  
11 LIEC program with carrying charges calculated pursuant to FERC Section 154.501 of the FERC  
12 regulations.

13 IT IS FURTHER ORDERED that, Southwest shall submit a marketing plan for its LIEC  
14 program, to the Director of the Utilities Division, as soon as possible but no later than 30 days  
15 from the effective date of this Order.

16 IT IS FURTHER ORDERED that within six months of a decision in this matter, Southwest  
17 shall conduct a study on additional DSM as described above and docket, as a compliance matter in  
18 this case, a report along with a request for approval of any additional cost-effective DSM  
19 programs.

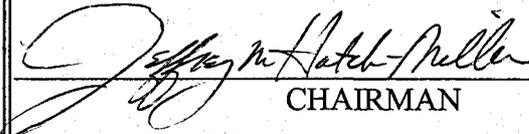
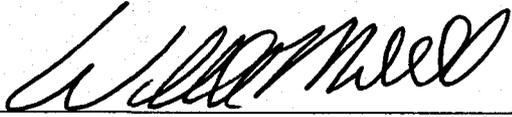
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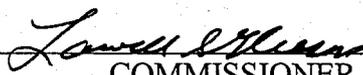
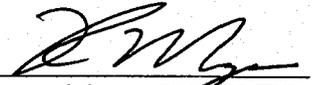
1 IT IS FURTHER ORDERED that Southwest file with Docket Control, as a compliance  
2 matter in this case, a corrected version of Arizona Propane Tariff No. 1 consistent with this  
3 decision within 30 days of a decision in this matter.

4 IT IS FURTHER ORDERED that this Order shall be effective immediately.

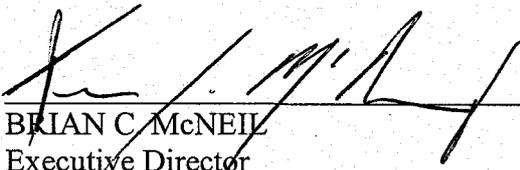
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**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

  
CHAIRMAN   
COMMISSIONER

  
COMMISSIONER   
COMMISSIONER   
COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director 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 25<sup>th</sup> day of October, 2005.

  
BRIAN C. McNEIL  
Executive Director

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

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

EGJ:SPI:rdp/JDG

1 SERVICE LIST FOR: Southwest Gas Corporation and Black Mountain Gas Company  
2 DOCKET NOS. G-01551A-02-0425 and G-01970A-02-0425

3 Mr. Roger C. Montgomery  
4 Vice President/Pricing  
5 Southwest Gas Corporation  
6 5241 Spring Mountain Road  
7 Post Office Box 98510  
8 Las Vegas, Nevada 89193-8510

9 Mr. Ernest G. Johnson  
10 Director, Utilities Division  
11 Arizona Corporation Commission  
12 1200 West Washington  
13 Phoenix, Arizona 85007

14 Mr. Christopher C. Kempley  
15 Chief Counsel  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

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