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MEMORANDUM

Arizona Corporation Commission
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AZ CORP COMMISSION
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DOCKETED BY

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 6, 2002

RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION – FILING FOR APPROVAL OF A SPECIAL GAS PROCUREMENT AGREEMENT WITH YUMA COGENERATION ASSOCIATES (DOCKET NO. G-01551A-02-0298)

On April 23, 2002, Southwest Gas Corporation ("Southwest") filed for approval of a special gas procurement agreement with Yuma Cogeneration Associates ("Yuma Cogen"). On May 16, 2002, the Commission suspended the filing until October 4, 2002 (Decision No. 64827).

The proposed agreement has an effective date of July 1, 2002, subject to Commission approval. The proposed procurement agreement has an initial term of one year. The agreement would automatically continue unless either party gives notice of termination at the end of the primary term or the agreement would terminate on the first day of any calendar month after either party has provided notice of termination at least 90 days prior.

The proposed agreement contains language indicating that the agreement is contingent upon Southwest maintaining its full requirements service with El Paso Natural Gas Company ("El Paso"). If Southwest's full requirements service is changed or another material change to service on El Paso takes place that is unacceptable to either party, either party may terminate the special gas procurement agreement.

On May 31, 2002, the Federal Energy Regulatory Commission ("FERC") issued an order in a number of dockets related to the allocation of pipeline capacity on El Paso's interstate pipeline system. This order, among other things, requires all large full requirements shippers, including Southwest, to convert from their current full requirements contracts to contract demand contracts. The FERC order contemplates an implementation date for this conversion of November 1, 2002.

Under a contract demand contract, Southwest would have a limited amount of pipeline capacity. Such a situation raises questions regarding the use of such pipeline capacity for Southwest's core customers and special gas procurement customers. These changing pipeline capacity circumstances will have to be taken into consideration in the treatment of existing and future special gas procurement agreements. Once Southwest's pipeline capacity rights and cost responsibilities are defined in the FERC proceedings regarding El Paso, Southwest should meet with Staff within 30 days. The purpose of this meeting would be to discuss the impact of changes to Southwest's pipeline capacity situation on the proposed agreement with Yuma

Cogen, as well as the impact of the new El Paso pipeline capacity situation on the ability of Yuma Cogen to bypass Southwest.

This special gas procurement agreement with Yuma Cogen is the successor to the previous Commission approved special gas procurement agreement with Yuma Cogen (Decision No. 60188, May 16, 1997). Service under Schedule G-30 is available to customers who can establish that bypass of Southwest is economically, operationally, and physically feasible and imminent. The Yuma Cogen facilities are located next to El Paso's interstate pipeline. Staff has reviewed Yuma Cogen's usage characteristics and believes that bypass is a viable option for Yuma Cogen. 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 Yuma Cogen'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 Yuma Cogen 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 Yuma Cogen. However, if conditions change it is theoretically possible that Southwest could experience a negative margin on this procurement agreement. As required by Schedule G-30, Southwest will credit the Purchased Gas Adjustor account with all upstream pipeline capacity charges collected from Yuma Cogen. This will benefit Southwest's core customers.

Yuma Cogen has a viable alternative to being served by Southwest. Without this agreement, Southwest might lose net revenues it would otherwise receive. 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. Further, Staff recommends that Southwest be required to meet with Staff within 30 days of the time at which Southwest's pipeline capacity rights and cost responsibilities are defined in the FERC proceedings regarding El Paso, for the purpose of discussing the impact of FERC actions regarding El Paso on the proposed Yuma Cogen agreement.

Ernest G. Johnson
Director
Utilities Division

EGJ:RGG:nms:lhm\JMA

ORIGINATOR: Robert Gray

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF SOUTHWEST GAS CORPORATION – FILING FOR APPROVAL OF A SPECIAL GAS PROCUREMENT AGREEMENT WITH YUMA COGENERATION ASSOCIATES	DOCKET NO. G-01551A-02-0298 DECISION NO.__________ ORDER

Open Meeting
June 25 and 26, 2002
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is certificated to provide natural gas as a public service corporation in the State of Arizona.

2. On April 23, 2002, Southwest filed for approval of a special gas procurement agreement with Yuma Cogeneration Associates ("Yuma Cogen").

3. On May 16, 2002, the Commission suspended the filing until October 4, 2002 (Decision No. 64827).

4. The proposed agreement has an effective date of July 1, 2002, subject to Commission approval. The proposed procurement agreement has an initial term of one year. The agreement would automatically continue unless either party gives notice of termination at the end of the primary term or the agreement would terminate on the first day of any calendar month after either party has provided notice of termination at least 90 days prior.

5. The proposed agreement contains language indicating that the agreement is contingent upon Southwest maintaining its full requirements service with El Paso Natural Gas Company ("El Paso").

. . .

6. If Southwest's full requirements service is changed or another material change to service on El Paso takes place that is unacceptable to either party, either party may terminate the special gas procurement agreement.

7. On May 31, 2002, the Federal Energy Regulatory Commission ("FERC") issued an order in a number of dockets related to the allocation of pipeline capacity on El Paso's interstate pipeline system. This order, among other things, requires all large full requirements shippers, including Southwest, to convert from their current full requirements contracts to contract demand contracts. The FERC order contemplates an implementation date for this conversion of November 1, 2002.

8. Under a contract demand contract, Southwest would have a limited amount of pipeline capacity. Such a situation raises questions regarding the use of such pipeline capacity for Southwest's core customers and special gas procurement customers. These changing pipeline capacity circumstances will have to be taken into consideration in the treatment of existing and future special gas procurement agreements.

9. Once Southwest's pipeline capacity rights and cost responsibilities are defined in the FERC proceedings regarding El Paso, Southwest should meet with Staff within 30 days. The purpose of this meeting would be to discuss the impact of changes to Southwest's pipeline capacity situation on the proposed agreement with Yuma Cogen, as well as the impact of the new El Paso pipeline capacity situation on the ability of Yuma Cogen to bypass Southwest.

10. This special gas procurement agreement with Yuma Cogen is the successor to the previous Commission approved special gas procurement agreement with Yuma Cogen (Decision No. 60188, May 16, 1997).

11. Service under Schedule G-30 is available to customers who can establish that bypass of Southwest is economically, operationally, and physically feasible and imminent. The Yuma Cogen facilities are located next to El Paso's interstate pipeline. Staff has reviewed Yuma Cogen's usage characteristics and believes that bypass is a viable option for Yuma Cogen. Further, Southwest has indicated the proposed procurement agreement is necessary to avoid such a bypass.

12. Southwest has indicated that it will enter into gas supply contracts with a gas supplier for Yuma Cogen'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.

13. The specific charges for serving Yuma Cogen 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 Yuma Cogen. However, if conditions change it is theoretically possible that Southwest could experience a negative margin on this procurement agreement.

14. As required by Schedule G-30, Southwest will credit the Purchased Gas Adjustor account with all upstream pipeline capacity charges collected from Yuma Cogen. This will benefit Southwest's core customers.

15. Yuma Cogen has a viable alternative to being served by Southwest. Without this agreement, Southwest might lose net revenues it would otherwise receive.

16. Staff has recommended approval of this filing.

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

18. Further, Staff has recommended that Southwest be required to meet with Staff within 30 days of the time at which Southwest's pipeline capacity rights and cost responsibilities are defined in the FERC proceedings regarding El Paso, for the purpose of discussing the impact of FERC actions regarding El Paso on the proposed Yuma Cogen agreement.

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 of the subject matter in this filing.

3. The Commission, having reviewed the filing and Staff's Memorandum dated June 6, 2002, concludes that it is in the public interest to approve the filing.

ORDER

THEREFORE, IT IS ORDERED that this filing be and is hereby 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 Southwest be required to meet with Staff within 30 days of the time at which Southwest's pipeline capacity rights and cost responsibilities are defined in the FERC proceedings regarding El Paso, for the purpose of discussing the impact of FERC actions regarding El Paso on the proposed Yuma Cogen agreement.

IT IS FURTHER ORDERED that this Order 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 ___________2002.

BRIAN C. McNEIL
Executive Secretary

DISSENT: ____________________

EGJ:RGG:nms:lhm\JMA

Service List for: Southwest Gas Corporation
Docket No. G-01551A-02-0298

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