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AZ CORP COMMISSION
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MEMORANDUM

410

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 7, 2006

RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION - PAGE DIVISION FOR APPROVAL OF A PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-01551A-06-0185)

On March 22, 2006, Southwest Gas Corporation ("Southwest") filed for Commission approval of a \$0.2562 per therm purchased gas adjustor ("PGA") surcharge applicable to its Page Division ("PD" or "Company") which sells propane. This would be an increase of \$0.1991 per therm over the Company's current surcharge of \$0.0571 per therm which lasts through the end of June 2006. The application requests an implementation date of July 1, 2006.

Propane market prices have increased significantly in recent years. Propane is produced through the process of refining natural gas and oil, so the high natural gas and oil prices in recent years have driven up propane prices. While natural gas prices have shown significant short-term declines in recent months, propane spot market prices have remained at or near record high levels through late 2005 and into 2006. This is likely due to propane's price linkage to oil prices, which have remained high in 2006. To illustrate the recent price increases in propane prices, the Mont Belvieu, Texas pricing hub saw a monthly price of \$0.73736 per gallon in January 2005, but prices have ranged from \$0.91892 per gallon to \$1.13048 per gallon since August 2005, with the April 2006 price at \$1.01611 per gallon. Delivered propane prices tend to be higher in Arizona due to the lack of pipeline infrastructure and the resulting necessity of having supplies trucked into the service territory from Utah and New Mexico.

At the end of February 2006, PD's PGA bank balance was undercollected by \$429,295. PD's threshold for the PGA bank balance is \$60,000, so PD is currently over the threshold. PD's projections provided with its application showed that absent a PGA surcharge, its bank balance would continue to increase throughout 2006 and 2007 and would be undercollected by \$490,973 in January, 2008. Staff has reviewed PD's projected gas commodity costs and believes they are reasonable for the purpose of setting a PGA surcharge.

Subsequent to PD's filing, PD indicated to Staff that its actual end of April 2006 PGA bank balance is approximately \$490,000, somewhat higher than its previously projected end of April 2006 PGA bank balance of approximately \$433,000.

In May 2006, the total cost of gas reflected in PD's rates was \$1.1736 per therm (\$0.55 per therm base cost of gas; \$0.5665 per therm for the monthly PGA rate; and \$0.0571 per therm

THE COMMISSION

June 7, 2006

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for the monthly PGA surcharge). If the proposed surcharge is approved, the projected total cost of gas reflected in PD's rates in July 2006 would be \$1.3769 per therm (\$0.55 per therm base cost of gas; \$0.5707 per therm for the monthly PGA rate; and \$0.2562 per therm for the monthly PGA surcharge).

An average residential customer using 67 therms in January had a bill in January 2006 of \$123.92. Under PD's proposed surcharge, it is estimated that an average residential customer in January 2007 using 67 therms would see a bill of \$147.98. This is a total estimated bill increase of 19.42 percent. Of this increase, 10.77 percent is due to the proposed PGA surcharge, with the remainder resulting from the upward movement of the monthly PGA rate over time. Attached is a spreadsheet showing estimated customer bills and projected PGA bank balances through January 2008. The spreadsheet shows this information in cases where there is no surcharge, the Company's proposed surcharge, and a surcharge weighted toward more collection in summer months.

The average residential monthly therm use for the entire year of 2006/2007 is 28 therms. In January 2006, the average residential monthly usage is 67 therms. Estimated residential customer bills for January 2006 and January 2007 are shown below:

Bill Component	January 2006	January 2007
Basic Service Charge	\$6.00	\$6.00
Margin Rate (\$0.6593 per therm)	\$44.17	\$44.17
Base Cost of Gas (\$0.55 per therm)	\$36.85	\$36.85
Monthly PGA Rate	\$33.07 (\$0.4936 per therm)	\$43.79 (\$0.6536 per therm)
PGA Surcharge	\$3.83 (\$0.0571 per therm)	\$17.17 (\$0.2562 per therm)
Total Bill (excluding taxes)	\$123.92	\$147.98
Total Percent Increase		19.42%
Percent Increase Due to Proposed PGA Surcharge		10.77%

Regarding customer notification, PD has indicated to Staff that prior to the June 27-28, 2006, Commission Open Meeting, all of PD's propane customers will have been notified of PD's application for approval of the \$0.2562 per therm PGA surcharge. PD has also indicated that it intends to notify customers following any Commission action approving a PGA surcharge.

Staff has reviewed the projections used in determining an appropriate surcharge and finds them reasonable for purposes of setting the surcharge. PD's proposed PGA surcharge of \$0.2562 per therm appears to be a reasonable step in addressing the continued problem of high propane prices and the Company's PGA bank balance undercollection.

Based on the above factors, Staff recommends approval of a \$0.2562 per therm surcharge commencing in the July 2006 rates and to be in effect until the earlier of: the end of January 2008, or until PD's balance is reduced to zero, or the Commission orders otherwise prior to the end of January 2008. Staff further recommends that if PD's PGA bank balance has not reached

THE COMMISSION

June 7, 2006

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zero by the end of January 2008, that a \$0.10 per therm PGA surcharge be applied beginning in February 2008 and until PD's PGA bank balance reaches zero or the Commission orders otherwise. Such a \$0.10 per therm PGA surcharge would replace any surcharge in place through January 2008 and would not be additive. Staff further recommends that PD provide notification to its customers prior to implementation of the PGA surcharge in July 2006 and that PD seek other means as may be available to inform its customers of the PGA surcharge, its impact on customer bills, ways customers can reduce their consumption, and the general issue of rising propane prices.

A handwritten signature in black ink, appearing to read "E.G. Johnson", with a long horizontal line extending to the right.

Ernest G. Johnson
Director
Utilities Division

EGJ:RGG:lhmvJMA

ORIGINATOR: Robert Gray

PGA Rate Each Month

No Surcharge	Jan-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Company Proposal		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Emphasis on Summer		\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562
No Surcharge	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08						
Company Proposal	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00						
Emphasis on Summer	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562	\$0.2562						

Estimated Customer Bills (excluding taxes and assessments)

No Surcharge	Jan-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Company Proposal	\$123.92	\$27.36	\$25.75	\$29.38	\$27.62	\$58.50	\$93.84	\$130.81	\$110.33	\$70.71	\$55.90	\$39.36	\$30.14
Emphasis on Summer	\$123.92	\$30.43	\$28.57	\$32.71	\$30.69	\$65.93	\$106.14	\$147.98	\$124.68	\$79.68	\$62.82	\$43.97	\$33.47
No Surcharge	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08						
Company Proposal	\$28.32	\$26.48	\$30.20	\$28.34	\$60.00	\$95.37	\$130.75						
Emphasis on Summer	\$31.39	\$29.30	\$33.54	\$31.42	\$67.42	\$107.67	\$147.91						
No Surcharge	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08						
Company Proposal	\$33.72	\$31.43	\$35.40	\$31.94	\$67.25	\$102.57	\$140.80						

Estimated PGA Bank Balance

No Surcharge	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Company Proposal	\$431,348	\$432,145	\$433,249	\$434,796	\$446,111	\$459,477	\$467,843	\$474,049	\$480,420	\$480,048	\$479,800	\$479,443
Emphasis on Summer	\$417,583	\$404,159	\$390,609	\$373,572	\$353,306	\$322,236	\$281,551	\$254,214	\$235,530	\$214,751	\$198,118	\$182,175
No Surcharge	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08					
Company Proposal	\$407,171	\$382,989	\$358,353	\$338,051	\$318,418	\$305,508	\$284,896					
Emphasis on Summer	\$149,180	\$120,421	\$94,081	\$68,509	\$41,608	\$22,230	\$809					

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
 OF SOUTHWEST GAS CORPORATION –)
 PAGE DIVISION FOR APPROVAL OF A)
 PURCHASED GAS ADJUSTOR)
 SURCHARGE)

DOCKET NO. G-01551A-06-0185
 DECISION NO. _____
ORDER

Open Meeting
 June 27 and 28, 2006
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation (“Southwest”) - Page Division (“PD” or “Company”) is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On March 22, 2006, Southwest filed for Commission approval of a \$0.2562 per therm purchased gas adjustor (“PGA”) surcharge applicable to the Page Division, which sells propane. This would be an increase of \$0.1991 per therm over the Company’s current surcharge of \$0.0571 per therm which lasts through the end of June 2006. The application requests an implementation date of July 1, 2006.
3. Propane market prices have increased significantly in recent years. Propane is produced through the process of refining natural gas and oil, so the high natural gas and oil prices in recent years have driven up propane prices. While natural gas prices have shown significant short-term declines in recent months, propane spot market prices have remained at or near record

1 high levels through late 2005 and into 2006. This is likely due to propane's price linkage to oil
2 prices, which have remained high in 2006. To illustrate the recent price increases in propane
3 prices, the Mont Belvieu, Texas pricing hub saw a monthly price of \$0.73736 per gallon in January
4 2005, but prices have ranged from \$0.91892 per gallon to \$1.13048 per gallon since August 2005,
5 with the April 2006 price at \$1.01611 per gallon. Delivered propane prices tend to be higher in
6 Arizona due to the lack of pipeline infrastructure and the resulting necessity of having supplies
7 trucked into the service territory from Utah and New Mexico.

8 4. At the end of February 2006, PD's PGA bank balance was undercollected by
9 \$429,295. PD's threshold for the PGA bank balance is \$60,000, so PD is currently over the
10 threshold. PD's projections provided with its application showed that absent a PGA surcharge, its
11 bank balance would continue to increase throughout 2006 and 2007 and would be undercollected
12 by \$490,973 in January 2008. Staff has reviewed PD's projected gas commodity costs and
13 believes they are reasonable for the purpose of setting a PGA surcharge.

14 5. Subsequent to PD's filing, PD indicated to Staff that its actual end of April 2006
15 PGA bank balance is approximately \$490,000, somewhat higher than its previously projected end
16 of April 2006 PGA bank balance of approximately \$433,000.

17 6. In May 2006, the total cost of gas reflected in PD's rates was \$1.1736 per therm
18 (\$0.55 per therm base cost of gas; \$0.5665 per therm for the monthly PGA rate; and \$0.0571 per
19 therm for the monthly PGA surcharge). If the proposed surcharge is approved, the projected total
20 cost of gas reflected in PD's rates in July 2006 would be \$1.3769 per therm (\$0.55 per therm base
21 cost of gas; \$0.5707 per therm for the monthly PGA rate; and \$0.2562 per therm for the monthly
22 PGA surcharge).

23 7. An average residential customer using 67 therms in January 2006 had a bill of
24 \$123.92. Under PD's proposed surcharge, it is estimated that an average residential customer in
25 January 2007 using 67 therms would see a bill of \$147.98. This is a total estimated bill increase of
26 19.42 percent. Of this increase, 10.77 percent is due to the proposed PGA surcharge, with the
27 remainder resulting from the upward movement of the monthly PGA rate over time.

28 ...

1 8. Attached to Staff's memorandum is a spreadsheet showing estimated customer bills
2 and projected PGA bank balances through January 2008. The spreadsheet shows this information
3 in cases where there is no surcharge, the Company's proposed surcharge, and a surcharge weighted
4 toward more collection in summer months.

5 9. The average residential monthly therm use for the entire year of 2006/2007 is 28
6 therms. In January 2006, the average residential monthly usage is 67 therms. Estimated
7 residential customer bills for January 2006 and January 2007 are shown below:

8	9	10	11
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13	Monthly PGA Rate	\$33.07 (\$0.4936 per therm)	\$43.79 (\$0.6536 per therm)
14	PGA Surcharge	\$3.83 (\$0.0571 per therm)	\$17.17 (\$0.2562 per therm)
15	Total Bill (excluding taxes)	\$123.92	\$147.98
16	Total Percent Increase		19.42%
17	Percent Increase Due to Proposed PGA Surcharge		10.77%

16 10. Regarding customer notification, PD has indicated to Staff that prior to the June 27-
17 28, 2006, Commission Open Meeting, all of PD's propane customers will have been notified of
18 PD's application for approval of the \$0.2562 per therm PGA surcharge. PD has also indicated that
19 it intends to notify customers following any Commission action approving a PGA surcharge.

20 11. Staff has reviewed the projections used in determining an appropriate surcharge and
21 finds them reasonable for purposes of setting the surcharge. PD's proposed PGA surcharge of
22 \$0.2562 per therm appears to be a reasonable step in addressing the continued problem of high
23 propane prices and the Company's PGA bank balance undercollection.

24 12. Based on the above factors, Staff has recommended approval of a \$0.2562 per
25 therm surcharge commencing in the July 2006 rates and to be in effect until earlier of: the end of
26 January 2008 or until PD's balance is reduced to zero or the Commission orders otherwise prior to
27 the end of January 2008.

28 ...

1 IT IS FURTHER ORDERED that PD provide notification to its customers prior to
 2 implementation of the PGA surcharge in July 2006 and that PD seek other means as may be
 3 available to inform its customers of the PGA surcharge, its impact on customer bills, ways
 4 customers can reduce their consumption, and the general issue of rising propane prices.

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

6
 7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8
 9 _____
 CHAIRMAN

COMMISSIONER

10
 11 _____
 COMMISSIONER

COMMISSIONER

COMMISSIONER

12
 13
 14 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
 15 Director of the Arizona Corporation Commission, have
 16 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 _____, 2006.

17
 18
 19 _____
 20 BRIAN C. McNEIL
 Executive Director

21
 22 DISSENT: _____

23
 24 DISSENT: _____

25 EGJ:RGG:lhm\JMA

1 SERVICE LIST FOR: Southwest Gas Corporation
2 DOCKET NO. G-01551A-06-0185

3 Mr. Randall W. Sable
4 Manager, State Regulatory Affairs
5 Southwest Gas Corporation
6 5241 Spring Mountain Road
7 P.O. 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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