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SOUTHWEST GAS CORPORATION

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Roger C. Montgomery, Vice President/Pricing

AZ 815013 200311
DECISION CONTROL

November 17, 2003

Docket Office
Arizona Corporation Commission
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

DOCKETED

Sent via Airborne

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Gentlemen:

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G-01551A-02-0425
G-01970A-02-0425

RE: Advice Letter No. 03-11-01

The Arizona Corporation Commission (ACC) issued Decision No. 66101 in Docket No. G-01551A-02-0425 approving Southwest's acquisition of Black Mountain Gas Company (BMG). In its Decision, the ACC ordered Southwest to freeze the PGA bank balances for BMG and Southwest upon the consummation of the stock purchase transaction, maintain one PGA for the combined entities on a going forward basis, and make a filing with the Commission seeking approval of a mechanism to treat the balances in the frozen accounts that attempts to minimize the impact of any surcharges. The purpose of this letter is to propose a mechanism to treat the respective balances. For the reasons discussed below, Southwest recommends that the frozen bank balances be consolidated into the bank balance established for the combined entities and that no surcharge be implemented at this time.

The stock purchase transaction was consummated on October 21, 2003, and Southwest began purchasing and accounting for gas on a combined basis at that time. For the purpose of analyzing and determining a recommendation for the disposition of the BMG and Southwest bank balances, Southwest utilized the September PGA bank balances.

The BMG Cave Creek bank balance at September 30, 2003 is (\$22,024). BMG sales volume for the twelve months ended September 30, 2003 is 6,469,987 therms. A surcredit to amortize the balance over twelve months would be (\$.00340) per therm. The September bank balance for Southwest is (\$14,630,766) and Southwest's applicable annual sales volume is 486,406,721 therms. A surcredit to amortize this balance would be (\$.03008) per therm. If the two bank balances and the two sales volumes were consolidated, the resultant figures would be a bank balance of (\$14,652,790), annual sales of 492,876,708 therms and a surcredit of (\$.02973) per therm.



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On both a national and regional level, natural gas prices for the 2002/2003 winter are expected to be higher than they were last year, and Southwest expects that this will result in additional deferrals of unrecovered gas costs to its PGA bank balance. If a surcredit is implemented at this time, it may have to be reversed and replaced with a surcharge in the near future. In order to avoid this see-sawing of rates, Southwest proposes that the separate frozen PGA bank balances of Southwest and BMG be consolidated and the credit in the bank balance be retained to offset expected gas cost increases and that no surcredit be implemented at this time.

This proposal complies with the directives in Decision No. 66101, minimizes the impact of surcharges and treats former customers of BMG and Southwest's pre-acquisition customers on an equitable basis. Southwest respectfully requests that the Commission issue an order approving the consolidation of the frozen PGA bank balances.

Respectfully submitted,

SOUTHWEST GAS CORPORATION

By *Roger C. Montgomery*
Roger C. Montgomery

c Mr. Robert Gray, ACC
Mr. Steven Ahern, RUCO