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OPEN MEETING

MEMORANDUM

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TO: THE COMMISSION ^{Arizona Corporation Commission}

2003 DEC 31 A 10: 08

FROM: Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: December 31, 2003 DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR APPROVAL OF A MECHANISM TO ADDRESS PURCHASED GAS ADJUSTOR BANK BALANCES (G-01551A-02-0425, G-01970A-02-0425)

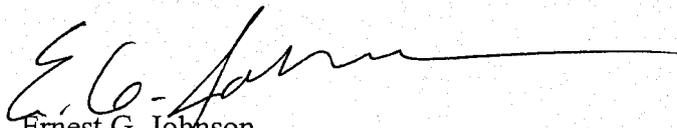
On November 18, 2003, Southwest Gas Corporation ("Southwest") filed for Commission approval of a mechanism to address the purchased gas adjustor ("PGA") bank balances of Southwest Gas and the Cave Creek Division of Black Mountain Gas ("BMG").

On July 25, 2003, the Commission approved the acquisition of BMG by Southwest (Decision Number 66101). In Decision Number 66101, the Commission ordered Southwest to "freeze the PGA bank balances for Black Mountain Gas Company and Southwest Gas Corporation upon consummation of the stock purchase transaction, shall maintain one PGA for the combined entities on a going forward basis, and shall 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." Southwest consummated the stock purchase plan on October 21, 2003. As of the end of September 2003, Southwest's reported PGA bank balance was overcollected by \$14,630,766 and the BMG Cave Creek Division PGA bank balance was overcollected by \$22,024. Southwest's filing recommends a mechanism that combines the frozen PGA bank balances into a positive bank balance that will be retained, and will not, at this time, implement a per therm credit.

The BMG Cave Creek Division PGA bank balance of \$22,024 is of sufficiently small size that implementation of a separate PGA credit for the former Cave Creek Division customers would have a de minimus impact on customer bills (approximately \$0.0034 per therm). Implementation of a credit at this level would be significantly smaller than any PGA credit or surcharge the Commission has approved in recent years. Therefore Staff believes, Southwest's recommendation to merge the two PGA bank balances is the most reasonable and efficient way to address the issue of whether the two PGA bank balances should be addressed separately or in a combined fashion.

In considering whether to implement a credit to address the combined PGA bank balance, the potential benefit of reducing customer bills in the short term must be carefully weighed against the potential impacts of such action over a longer term, including the potential to

exacerbate customer rate instability. In its request to the Commission for a mechanism that retains a combined positive balance, Southwest cites the expectation that natural gas prices will increase in the 2003/2004 winter heating season. If a credit were implemented in such a scenario, it is very possible that Southwest's PGA bank balance could quickly swing to a sizable undercollection, possibly necessitating the implementation of a PGA surcharge in the near future. While natural gas prices are highly volatile and prices had trended gradually downward through the summer of 2003, in recent months prices have moved upward. For example, Gas Daily's El Paso San Juan Index moved from \$4.105 per MMBtu on October 31, 2003 to \$6.08 per MMBtu on December 22, 2003. Given the potential for higher natural gas prices in the coming months, the likely sizable impact such prices would have on Southwest's PGA bank balance, and the Commission's expressed goal of reducing price volatility for customers, Southwest's proposed handling of the frozen balances, at this time, is reasonable. Staff recommends approval of the filing.



Ernest G. Johnson
Director
Utilities Division

EGJ:RGG:hml/LV

ORIGINATOR: ROBERT GRAY

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION
FOR APPROVAL OF A MECHANISM TO
ADDRESS PURCHASED GAS ADJUSTOR
BANK BALANCES.

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

DECISION NO. _____

ORDER

Open Meeting
January 13 and 14, 2004
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On November 18, 2003, Southwest filed an application ("Application") for Commission approval of a mechanism to address the purchased gas adjustor ("PGA") bank balances of Southwest and the Cave Creek Division of Black Mountain Gas ("BMG").

3. On July 25, 2003, the Commission approved the acquisition of BMG by Southwest (Decision Number 6 6101). In Decision Number 6 6101, the Commission ordered Southwest to "freeze the PGA bank balances for BMG Company and Southwest upon consummation of the stock purchase transaction, shall maintain one PGA for the combined entities on a going forward basis, and shall 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."

1 4. Southwest consummated the stock purchase plan on October 21, 2003.

2 5. As of the end of September 2003, Southwest's reported PGA bank balance was
3 overcollected by \$14,630,766 and the BMG Cave Creek Division PGA bank balance was
4 overcollected by \$22,024.

5 6. Southwest's filing recommends a mechanism that combines the frozen PGA bank
6 balances into a positive bank balance that will be retained, and will not, at this time, implement a
7 per therm credit.

8 7. The BMG Cave Creek Division PGA bank balance of \$22,024 is of sufficiently
9 small size that implementation of a separate PGA credit for the former Cave Creek Division
10 customers would have de minimus impact on customer bills (approximately \$0.0034 per therm).

11 8. In considering whether to implement a credit to address the combined PGA bank
12 balance, the potential benefit of reducing customer bills in the short term must be carefully
13 weighed against the potential impacts of such action over a longer term, including the potential to
14 exacerbate customer rate instability.

15 9. In its request to the Commission for a mechanism that retains a combined positive
16 balance, Southwest cites the expectation that natural gas prices will increase in the 2003/2004
17 winter heating season. If a credit were implemented in such a scenario, it is very possible that
18 Southwest's PGA bank balance could quickly swing to a sizable undercollection, possibly
19 necessitating the implementation of a PGA surcharge in the near future.

20 10. While natural gas prices are highly volatile and prices had trended gradually
21 downward through the summer of 2003, in recent months prices have moved upward. For
22 example, Gas Daily's El Paso San Juan Index moved from \$4.105 per MMBtu on October 31,
23 2003 to \$6.08 per MMBtu on December 22, 2003.

24 11. Given the potential for higher natural gas prices in the coming months, the likely
25 sizable impact such prices would have on Southwest's PGA bank balance, and the Commission's
26 expressed goal of reducing price volatility for customers, Southwest's proposed handling of the
27 frozen balances, at this time, is reasonable.

28 12. Staff has recommended approval of the filing.

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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 over the subject matter of the Application.

3. The Commission, having reviewed the Application and Staff's Memorandum dated December 31, 2003, concludes that it is in the public interest to approve the filing.

ORDER

IT IS THEREFORE ORDERED that this filing be and is hereby approved.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN	COMMISSIONER	COMMISSIONER
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 _____, 2004.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:RGG:hml/LV

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION
2 DOCKET NOS. G-01551A-02-0425 and G-01970A-02-0425

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4 Mr. Ernest G. Johnson
5 Director, Utilities Division
6 Arizona Corporation Commission
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8 Phoenix, Arizona 85007

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10 Mr. Christopher C. Kempley
11 Chief Counsel
12 Arizona Corporation Commission
13 1200 West Washington
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