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May 23, 2007

2007 JUN 18 P 1:52

Arizona Corporation Commission
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**Subject: Southwest Gas Corporation Proposed Changes to its
Arizona Gas Tariff No. 7 dated November 22, 2006**

Docket Number: G-01551A-06-0746

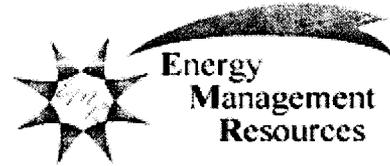
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Energy Management Resources of Missouri, Inc, ("EMR") located at 700 S. 291 Highway, Suite 208, Liberty, MO 64068, is the authorized representative of the following transportation customers operating within the Southwest Gas Corporation ("Southwest") system: Honeywell International Inc.; American Italian Pasta Company; and Sara Lee Bakery Group. These customers collectively operate 23 manufacturing and office facilities in the Phoenix area, all served by Southwest.

EMR has attended the meetings hosted by Southwest Gas and by the Commission for the purpose of resolving some of the objections raised concerning the proposed tariff. These meetings have been very productive and have resolved some of the key concerns that EMR and its clients have expressed in those meetings. Nevertheless, there remain some important issues that still need to be resolved and should be considered by the Commission in the evaluation of the Southwest proposed tariffs. Therefore, EMR respectfully submits the following comments for consideration by the Commission in relation to the proposed changes by Southwest to Tariff No. 7 (Schedule T-1).

1) Balancing Services

Approval of the extensive balancing requirements proposed by Southwest for transportation customers, both by receipt point and on an hourly basis, will create an unreasonable burden on Southwest transportation customers and suppliers. It is very difficult, if not impossible, for any facility to utilize natural gas at a constant rate of flow. Consumption volumes often vary depending on the factors such as ambient air temperature, manufacturing line speed, varying product mix and operational requirements. Some consumption processes turn off and on as needed, similar to the furnace in a home. Other manufacturing applications are monitored by control systems that automatically raise and lower consumption to maintain a constant temperature. To try to balance each facility on an hourly and daily basis with narrow percentages is very difficult if not impossible to do effectively. If balancing requirements, such as those proposed by Southwest, are deemed to be necessary to protect system integrity, it is recommended that Southwest be required by the Commission to provide additional services to assist in maintaining system integrity. One such service should be a "pooling" service for customers and suppliers, as agents for customers on the Southwest system, which allows for balancing of multiple facilities as a single entity. This is a service that will facilitate keeping the Southwest system in balance and dramatically simplify the overall balancing requirements for



customers. EMR believes that institution of a pooling arrangement for Southwest transportation customers will allow for fair, reasonable and non-discriminatory transportation services being available for all Southwest for the following reasons:

- As a service provider to customers, Southwest Gas should have an obligation to provide reasonable mechanisms to assist customers in working together to comply with the El Paso system changes and to keep the Southwest system in balance.
- Smaller customers and those with varying load requirements are at a serious disadvantage under the proposed rules. Pooling will allow these volumes to be combined with other customers to create a much larger, more manageable balancing structure.
- Without real time data, small customers do not know consumption until after the fact and have little chance to manage consumption. A pool manager, however, can analyze consumption trends of a much larger entity and make anticipatory supply adjustments to maintain the pool in balance. Small customers and customers with variable loads can be absorbed by a balancing pool with little effect on the overall system imbalances.
- Pooling is not an unusual service for utilities to provide and particularly for those who requires daily balancing. The service allows the utility to keep deliveries in balance without creating unnecessary hardship and expense for customers.

This is one example of the kind of services that Southwest should design to help manage deliveries under the new El Paso tariff structure. It is further recommended that the Commission hold another technical conference to determine what other new services Southwest might be able to provide, what they will cost, and what affect they will have on existing sales service and transportation customers.

2) Capacity Release on El Paso

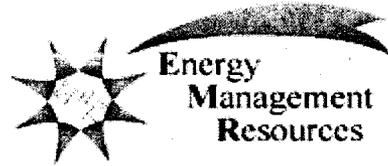
Historically, one of the major dilemmas for customers behind Southwest who were transporting natural gas has been the lack of availability of firm primary capacity on El Paso into Southwest. Most customers have had to rely on secondary firm capacity, because all of the firm capacity with primary delivery points into Southwest has been controlled by Southwest. Recently, that situation has changed and some limited capacity is available. Nevertheless, it is critical under the new El Paso rules to make sure that an efficient and effective process exists to utilize capacity with primary firm delivery into Southwest. It is recommended that Southwest be required to put into place a process to make available any excess capacity on El Paso to existing customers at rates not to exceed the maximum rates approved by the Federal Energy Regulatory Commission so that firm primary transportation service can be an option to customers that otherwise would be required to use secondary firm capacity or purchase sales gas from Southwest. In support of this recommendation, EMR submits the following:



- Most customers have been receiving firm natural gas service or transportation service from Southwest for many years and Southwest has, in the past and presumably currently, had sufficient capacity on EPNG to serve all these customers using primary firm capacity.
- To the extent that Southwest has capacity available that is not required to serve existing firm sales service customers, such capacity should be made available for utilization by existing customers who decide to purchase supplies from a third party supplier.
- Southwest Gas should be obligated by the Commission to designate volumes at specific receipt points on the El Paso system in order to serve both native sales customers and native transportation customers behind those points. The volume at each point should reflect the required capacity to serve that part of the system and transportation customers should not become a casualty of an arbitrary assignment of capacity. Failure by Southwest Gas to provide capacity at these points for transport customers who have historically received volumes at those points suggests the possibility of discrimination against transportation customers.
- If there is a cost identified with providing sufficient firm capacity at a given receipt point, then that cost should be borne by all customers at that receipt point, not just transportation customers.
- Southwest Gas has requested FERC approve their right to release capacity at higher than maximum rates (RM06-21-000). If this request should be approved, the Arizona Commission should consider requiring Southwest Gas to first offer any available capacity to existing customers at maximum rates before releasing the capacity to third parties at higher than maximum rates. Giving Southwest Gas the authority to receive more than maximum rates for the already scarce El Paso capacity with firm primary delivery into Southwest discriminates against transportation customers who never had the opportunity to secure that capacity in the first place.

3) Documentation Requirements and Review of Allocation Methodology

Southwest Gas has been allocating El Paso penalty charges to transportation customers. In allocating these charges, Southwest has not provided the specific detail of the calculation and methodology used to allocate those charges. One of EMR clients, American Italian Pasta, is in a dispute with Southwest Gas and this is one of the issues in that dispute. Southwest Gas has not disclosed the specific Maximum Daily Obligation (MDO) and Maximum Hourly Obligation (MHO) for the specific delivery point in question, the excess consumption at that point, the penalty incurred as a result of the excess consumption and the allocation of that penalty to the transportation customer. This information is necessary to verify the accuracy of the charge. Southwest Gas should be required to provide adequate documentation along with invoice to customers of any penalty charges from El Paso so that the customer can understand how the charge was derived. Southwest Gas should have an obligation to compile and maintain complete



documentation of all charges and make those documents and the underlying calculations available to customers for review.

Furthermore, since the penalty allocation methodology is unclear and not documented in the Southwest Gas tariff, it is requested that the Commission review that methodology to make sure it is fair and equitable among all of the Southwest customers. In the event that Southwest and El Paso reach a settlement in their ongoing dispute that would result in a re-determination of the penalties by El Paso, the Commission should require a like re-determination by Southwest regardless of whether or not the result is a retroactive refund.

Because of the complexity of this tariff and the evolutionary nature of these balancing and penalty issues, it is also suggested that the Commission consider instituting an annual or at least a periodic re-evaluation process.

Thank you for your consideration,

A handwritten signature in black ink, appearing to read "Ed Freeman", is written over the typed name.

**Ed Freeman,
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cc: Mr. Jaime Ramirez – Southwest Gas
Mr. David M. Mills – Honeywell International
Mr. John Griffith – American Italian Pasta
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