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SOUTHWEST GAS CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL

August 29, 2008

Arizona Corporation Commission
DOCKETED

AUG 29 2008

DOCKETED BY

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

Gentlemen:

Subject: Docket No. G-01551A-06-0746

Southwest Gas Corporation (Southwest) hereby submits for filing an original and thirteen (13) copies of its Compliance Report related to Southwest's transportation customer rate schedule no. T-1, as required in the above referenced docket. In a separate, but contemporaneous filing, Southwest has made a tariff filing requesting modifications to its T-1 tariff to improve its transportation customer service.

If you have any questions, please contact me at (702) 876-7163.

Respectfully submitted,

Debra S. Gallo by

Debra S. Gallo, Director
Government & State Regulatory Affairs

DSG:tl
Attachment

c: Mr. Ernest Johnson, ACC
Mr. Robert Gray, ACC
Compliance Section, ACC

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTEN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR APPROVAL OF REVISIONS TO ITS RATE SCHEDULE NO. T-1, TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS	))))))	DOCKET NO. G-01551A-06-0746 (filed November 24, 2006) COMPLIANCE REPORT

On June 28, 2007, the Arizona Corporation Commission (Commission) issued Decision No. 69688 in Docket No. G-01551A-06-0746, approving modifications to Southwest Gas Corporation's (Southwest or Company) Schedule No. T-1, Transportation of Customer-Secured Natural Gas (T-1 tariff). The T-1 tariff modifications were necessitated because of interstate pipeline charges (IPCs) implemented by El Paso Natural Gas Company (El Paso) resulting from its Federal Energy Regulatory Commission (FERC) rate case in Docket No. RP05-422.

In its Order approving Southwest's tariff revisions, the Commission required Southwest to hold a meeting with its transportation customers between May 1, 2008 and August 1, 2008 to discuss Southwest's experience with the tariff changes and to file a compliance report on Southwest's experience with the modified T-1 tariff by September 1, 2008. The report is to contain the following: (1) a discussion of Southwest's experience with the T-1 tariff provisions; (2) identification of any possible improvements to the tariff and proposed new tariff provisions; (3) responses to issues identified by Southwest's transportation customers; and (4) discussion of the possibility of new tariff options for large core customers.

SOUTHWEST'S EXPERIENCE WITH THE REVISED TARIFF PROVISIONS

Southwest was required to make significant modifications to its billing systems in order to manage the El Paso operational and billing changes approved by FERC in Docket No. RP05-422. To have the ability to continue to provide transportation service while protecting its sales customers from the action of its transportation customers, Southwest needed the ability to analyze the hourly consumption of the transportation customers. Southwest began re-programming its billing systems in 2007. In addition to upgrading its billing system, Southwest was required to upgrade its metering facilities at many customer locations to record and report the customer's hourly consumption. For the smaller transportation customers, this entailed the deployment of new meter technology that allowed the recording of hourly consumption that was accumulated over a month's time, and the downloading and manipulation of this large quantity of data for cost responsibility determination and allocation. At this time, all transportation customer meters are providing hourly consumption information, either through real-time telemetry or recording and downloading.

It is important to note that the purpose of Southwest's tariff change was to allocate upstream charges from El Paso to Southwest's transportation customers when those customer's actions caused the incurrence of El Paso charges. Southwest did not implement any additional charges for its transportation customers. For example, if a customer burns more gas than it scheduled on the interstate pipeline but Southwest is not charged a scheduling penalty, there is no cost to allocate to that customer. However, if Southwest is charged a scheduling penalty, such penalty is proportionately allocated to transportation customers and sales customers, based on actual takes in excess of scheduled volumes.

Since the inception of the El Paso changes, Southwest has been billed approximately $5 million by El Paso in various hourly, daily and monthly charges, in addition to the traditional reservation and usage charges. Southwest has billed $846,000 of this amount to transportation customers.

As a result of the Settlement of Docket No. RP05-422 (Settlement), El Paso made several changes to its as-filed charges. These changes have substantially reduced the frequency and dollar amount of IPCs. Southwest has also worked extensively with El Paso to move daily and hourly meter-related rights to minimize exposure for all customers. In addition, Southwest has worked extensively with its transportation customers to educate them on the potential for incurring these charges and to assist them with managing their exposure.

The Company and its customers have actively managed their pipeline activities to minimize their exposure to IPCs. For the

12 months ended June 2008, Southwest was billed $234,000 in IPCs by El Paso. Of these, Southwest billed $87,000 to its transportation customers. Over the same period, Southwest's reservation charges on El Paso amounted to approximately $55 million, and the revenue recovered from the transportation customers was approximately $57 million. As such, not only have the IPCs been a small portion of Southwest's El Paso transportation costs, but in the aggregate, the IPCs represent only 0.2 percent of the transportation customers' bills.

Staff's consultant, Energy Ventures Analysis, Inc. or EVA, noted in its direct testimony in Southwest's Arizona general rate case (Docket No. G-01551A-07-0504), that El Paso Natural Gas's (El Paso) pipeline tariff was totally and completely restructured during the audit period (September 2004 through April 2007). EVA stated that Southwest was pro-active during the entire test period to either minimize or eliminate additional charges and penalties assessed by El Paso as a result of its restructured tariff. EVA further noted that Southwest vigorously pursued corrections of various flaws in El Paso's processes and strived to have El Paso change certain provisions to represent current Southwest load conditions. In terms of Southwest's transportation customers and the El Paso changes, EVA recommended that Southwest become much firmer with the customers and require detailed documentation from them regarding supply and capacity contracts, as well as to increase its capability to monitor hourly gas flows for these customers and allocate El Paso penalties to these customers for variances in gas flows. EVA further noted that Southwest had accomplished some of the action items with respect to its transportation customers, but in the future, Southwest needed to push for 100 percent compliance from transportation customers. Subsequently, in Staff's surrebuttal testimony in the proceeding, EVA concluded that Southwest would only need to review the customer's supply contracts if there was any question as to whether the particular transportation customer was the source of a specific El Paso penalty or charge.

On August 28, 2008 Southwest hosted a meeting with its transportation customers to discuss Southwest's experience with its tariff changes and to solicit comments from its customers regarding their experiences. The general consensus was that Southwest's tariff and operational changes have accomplished the goal of fairly assigning cost responsibility for the El Paso IPCs between sales and transportation customers. The only change or enhancement requested by customers was for more timely consumption information so that customers could better manage their energy consumption and resources. Southwest has recently finalized its standard for a "meter pulse output" device that, when installed, will allow customers to obtain real time consumption data for energy management purposes. Southwest offered to hold additional workshops with its customers to discuss gas infrastructure needs and planning.

TARIFF IMPROVEMENTS

Southwest has identified two sections in its tariff that can be modified to improve its transportation customer service. The first modification is to revert to the daily balancing provision that was in place in Section 6.9 of Southwest's Schedule No. T-1 prior to the tariff change. Section 6.9 was changed to allow Southwest to mimic the daily operating window of the interstate pipeline. This was deemed appropriate at the time of Southwest's tariff request in Docket No. G-01551A-06-0746 because El Paso was proposing the implementation of a daily balancing charge. However, the approved Settlement excluded El Paso's daily balancing proposal. As such, Southwest's previous daily balancing provision is more appropriate and would provide customers with more operational flexibility. This would not excuse any customer from responsibility for the cost of IPCs attributable to its activity.

The other section of the tariff that Southwest has identified for improvement is the capacity release provision. This provision is not consistent with recently modified FERC capacity release rules and should be modified accordingly.

Attached as Exhibit A are the recommended tariff changes to address these areas. Southwest is contemporaneously making a tariff filing under separate cover requesting approval of these proposed modifications.

TRANSPORTATION CUSTOMER ISSUES

Pooling

The issue of imbalance pooling was discussed at the customer meetings Southwest hosted during the preparation of the tariff filing. Southwest has studied the possibility for pooling and has concluded that a pooling arrangement would be problematic, given El Paso's operational and billing structure, which requires customers to schedule to specific D-Codes and addresses usage limits at specific meters. As such, just as Southwest is unable to take advantage of pooling supplies or meter-level rights, Southwest is unable to allow customers or their agents to do so. Southwest will continue to work with El Paso and its customers to minimize the exposure to IPCs.

Capacity Release to Transportation Customers

Southwest has a long standing practice of releasing interstate pipeline capacity when there is a market for the capacity and the capacity is not required, from time to time, to serve the needs of core sales customers. Releases are performed pursuant to the provisions of the FERC rules and the interstate pipeline tariffs. As noted previously, Southwest will be making a tariff filing to modify its capacity release provisions and clarify its capacity release procedures.

TARIFF OPTIONS FOR LARGE CORE CUSTOMERS

The Commission directed Southwest to discuss the possibility of new tariff options for large core customers, such as some form of interruptible or fixed priced service in its report. Southwest has not received any customer feedback requesting tariff options as a result of the IPCs. Southwest's current tariff provisions allow it to tailor service to its large customers. In its currently pending general rate case, no party to the case or customer came forward requesting any new service options. However, Southwest will continue to solicit input from its customers and will consider new service options when appropriate.

RESPECTFULLY SUBMITTED this 29th day of August, 2008.

SOUTHWEST GAS CORPORATION

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Government & State Regulatory Affairs
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all parties of record in this proceeding by mailing a copy thereof, properly addressed with first class postage prepaid, or by electronic mail service.

Dated at Las Vegas, Nevada, this 29th day of August, 2008.

Telma López

An employee of SOUTHWEST GAS CORPORATION

Exhibit A

SCHEDULE NO. T-1

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

6. OPERATING PROCEDURES *(Continued)*

6.8 Processing Requests for Transportation Service: *(Continued)* N

(d) Upstream Pipeline Resources. Demonstration of upstream interstate pipeline resources and services that are equivalent to the level of service requested from the Utility. A reasonable demonstration of equivalent resources and services may be made by presentation of a contract between the customer and upstream provider, an affidavit from the customer detailing the customer's confirmed upstream resources and services, or any other means acceptable to the Utility. Customers must notify the Utility immediately upon the acquisition of, or any change in, upstream interstate pipeline resources and services.

Upon receipt of all of the information specified above, the Utility shall prepare and tender to the customer for execution a transportation service agreement. If the customer fails to execute the service agreement within 30 days of the date tendered, the customer's request shall be deemed null and void.

6.9 Balancing: Notwithstanding all other provisions of this schedule, customers must endeavor to schedule supplies at the Utility's Receipt Points that match the customer's demands. Imbalances, defined as the difference between metered quantity and scheduled transportation quantity, established in excess of the customer's applicable daily or monthly operating windows, will be subject to imbalance charges as set forth in Section 7 of this schedule. Any imbalance (plus or minus) carried forward, as well as any Utility-approved imbalance nomination, shall be considered first through the meter during the next applicable daily or monthly period.

(a) Daily Balancing: Transportation customers are provided a daily operating window under which the customer's daily imbalance must be within plus or minus 25 percent (±25%) of the daily scheduled transportation quantities, plus any Utility-approved imbalance adjustment quantity, or 35,000 therms, whichever is greater. If, in the Utility's sole good faith judgment, operating conditions permit and upon request from the customer, the Utility will increase the daily operating window. D/N N

The Utility may reduce a transportation customer's daily operating window as necessary to protect system integrity or to respond to upstream pipeline conditions. The daily window will be adjusted pursuant to the following conditions:

SPECIAL SUPPLEMENTARY TARIFF
INTERSTATE PIPELINE CAPACITY SERVICES PROVISION
(Continued)

I. TITLE ASSIGNMENT SERVICE *(Continued)*

F. CHANGES IN RATES

The Utility will revise rates for Title Assignment Service as necessary to reflect Federal Energy Regulatory Commission (FERC) authorized changes in upstream pipeline transportation rates and billing determinants. Any refunds received from upstream pipelines will be allocated on the basis of the customer's Title Assignment volumes billed during the refund period.

G. ACCOUNTING FOR TITLE ASSIGNMENT REVENUES

All revenues received by the Utility in providing service under this provision shall be credited to Account No. 191, Unrecovered Purchased Gas Costs.

II. CAPACITY RELEASE SERVICE

Capacity Release Service will be provided by the Utility pursuant to the terms and conditions set forth in the Utility's upstream interstate pipeline service providers FERC-approved tariffs. All capacity release credits received by the Utility shall be credited to Account No. 191, Unrecovered Purchased Gas Costs. D/N N D

SOUTHWEST GAS CORPORATION
P.O. Box 98510
Las Vegas, Nevada 89193-8510
Arizona Gas Tariff No. 7
Arizona Division

First Revised A.C.C. Sheet No. 94-103
Canceling Original A.C.C. Sheet No. 98-103

HELD FOR FUTURE USE

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Issued On August 29, 2008
Docket No.

Issued by
John P. Hester
Senior Vice President

Effective October 1, 2008 T
Decision No.