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SOUTHWEST GAS CORPORATION

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AZ CORP COMMISSION
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2013 FEB 28 AM 11 33

February 27, 2013

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

Re: Docket No. G-01551A-10-0458; D.72723

Southwest Gas Corporation (Southwest Gas) herewith submits to the Arizona Corporation Commission (Commission) an original and thirteen (13) copies of its Application for Approval to Set Customer Owned Yard Line (COYL) Cost Recovery Mechanism Surcharge Rate and for Authority to Expand the Scope of the COYL Program. This Application is being submitted in compliance with Sections 5.15 through 5.18 of the Settlement Agreement approved by the Commission in Decision No. 72723 issued in Docket No. G-01551A-10-0458. Please note that the Company's annual COYL report, which is included as Exhibit 1 to the Application, contains exhibits (Exhibits D and E) that are deemed confidential, proprietary, and commercially sensitive to Southwest Gas. Copies of the confidential exhibits will be made available upon request, subject to the execution of a Protective Agreement by the requesting party.

If you have any questions or comments regarding the attached, please do not hesitate to contact me at 702-876-7163.

Respectfully submitted,

Debra S. Gallo by kmf

Debra S. Gallo, Director
Government & State Regulatory Affairs

DSG:kt
Enclosures

c: Steven Olea, ACC
Bob Gray, ACC
Brian Bozzo, ACC Compliance
Robin Mitchell, ACC Legal Division
Patrick Quinn, RUCO

Arizona Corporation Commission
DOCKETED

FEB 28 2013

DOCKETED BY *DSM*

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **COMMISSIONERS**

4 BOB STUMP – Chairman
5 GARY PIERCE
6 BRENDA BURNS
7 BOB BURNS
8 SUSAN BITTER SMITH

9 In the Matter of the Application of
10 Southwest Gas Corporation for the
11 Establishment of Just and Reasonable
12 Rates and Charges Designed to Realize a
13 Reasonable Rate of Return on the Fair
14 Value of the Properties of Southwest Gas
15 Corporation Devoted to its Arizona
16 Operations; Approval of Deferred
17 Accounting Orders; and for Approval of an
18 Energy Efficiency and Renewable Energy
19 Resource Technology Portfolio
20 Implementation Plan.

Docket No.: G-01551A-10-0458

21 **APPLICATION FOR APPROVAL TO SET CUSTOMER OWNED YARDLINE (COYL)**
22 **COST RECOVERY MECHANISM SURCHARGE RATE AND FOR AUTHORITY TO**
23 **EXPAND THE SCOPE OF THE COYL PROGRAM**

24 **Introduction**

25 1. Southwest Gas Corporation (“Southwest Gas” or “Company”) hereby
26 submits its application to the Arizona Corporation Commission (“Commission”)
27 respectfully requesting approval of the initial surcharge rate related to its Customer
28 Owned Yardline (COYL) program. Further, Southwest Gas seeks approval to expand
the scope of its COYL program, as detailed herein.

2. Southwest Gas is a corporation in good standing under the laws of the
state of Arizona, is a corporation duly organized, validly existing, and is qualified to
transact intrastate business.

1 3. Southwest Gas' corporate offices are located at 5241 Spring Mountain
2 Road, P. O. Box 98510 Las Vegas, Nevada 89193-8510. Communications regarding
3 this filing should be addressed to:

4 Catherine M. Mazzeo, Esq.
5 Associate General Counsel
6 Southwest Gas Corporation
7 P.O. Box 98510
8 Las Vegas, Nevada 89193-8510
9 Telephone No. (702) 876-7250
10 Email: catherine.mazzeo@swgas.com

11 Debra Gallo
12 Director/Government & State
13 Regulatory Affairs
14 Southwest Gas Corporation
15 P.O. Box 98510
16 Las Vegas, Nevada 89193-8510
17 Telephone No. (702) 876-7163
18 Email: debra.gallo@swgas.com

19 4. Southwest Gas is a public utility subject to the jurisdiction of the
20 Commission pursuant to Article XV of the Arizona Constitution and the applicable
21 chapters of Title 40 of the Arizona Revised Statutes ("A.R.S."). Southwest Gas
22 currently serves approximately 1.9 million customers in the states of Arizona,
23 California, and Nevada. Approximately 54 percent of the Company's customers are
24 located in the state of Arizona, including portions of Cochise, Gila, Graham, Greenlee,
25 La Paz, Maricopa, Mohave, Pima, Pinal, and Yuma counties. For operational
26 purposes, Southwest Gas' Central Arizona division is headquartered in Phoenix and
27 its Southern Arizona division is headquartered in Tucson.

28 **Background**

1 5. The Commission issued Decision No. 72723 in Southwest Gas' 2010
2 general rate case, which included approval of the Company's COYL program
3 consistent with the terms of a Settlement Agreement involving the Company and
4 various other parties to the docket. Through the COYL program, the Company leak
5 surveys COYLs in its Arizona service territories and provides those customers with
6 leaking COYLs the opportunity to replace their COYLs with facilities owned and
7 operated by Southwest Gas.¹ The Settlement Agreement requires that the Company
8 file a report with the Commission in February 2013, and each February thereafter, to

¹ Settlement Agreement, at §§5.13-5.19.

1 provide various details on the program's performance.² The Company's annual
2 report, covering the period from January 1, 2012 through December 31, 2012, is
3 attached hereto as Exhibit 1.

4 6. As detailed in the accompanying report, the COYL program had a
5 successful first year. The Company discovered 1,913 leaking COYLs, with 1,873 of
6 the affected customers electing to have Southwest Gas relocate their gas meters and
7 replace their COYLs with facilities owned and operated by the Company – an
8 acceptance rate of approximately 96 percent.³

9 7. Decision No. 72723 also authorized the establishment of the COYL Cost
10 Recovery Mechanism ("CCRM"). The CCRM is an interim cost recovery mechanism
11 that allows Southwest Gas to recover the capital investment associated with the COYL
12 program. Pursuant to the terms of the Settlement Agreement, the CCRM is based
13 upon actual costs and costs eligible for recovery (depreciation and pre-tax return).
14 The CCRM surcharge will be reset annually, and contains a cap that prevents a
15 surcharge amount greater than \$0.01 per therm in any single year.⁴

16 8. Based upon collaborations between the Company and the Arizona
17 Corporation Commission Utilities Division Staff ("Staff"), the Settlement Agreement
18 provides that Staff will, within 45 days, review the Company's filing and make its
19 recommendations to the Commission.⁵

20 **Request to Set CCRM Surcharge Rate**

21 9. Southwest Gas hereby requests approval of its initial CCRM surcharge
22 rate, which is based upon the COYL-related capital investments made by the
23 Company from January 1, 2012 through December 31, 2012.

24 10. In the first year of the COYL program, approximately \$4.1 million was
25 deferred into a capital account for recovery through the CCRM. Utilizing the formula
26

27 _____
28 ² Id. at §5.18.

³ Exhibit 1, at pg. 1.

⁴ Settlement Agreement, at §§5.15-5.16.

⁵ Id. at §5.18.

1 provided in the Settlement Agreement,⁶ the Company proposes a CCRM surcharge of
2 \$0.00101 per therm. The Company's surcharge calculations are attached hereto as
3 Exhibit 2.

4 11. The Company requests that the Commission approve the CCRM
5 surcharge, effective June 1, 2013.

6 **Request for Authority to Expand Program Scope**

7 12. The COYL program, as currently approved, allows the Company to
8 relocate the gas meter, replace the COYL and defer the related capital costs only in
9 those instances where a COYL is found to be leaking. The Company proposes that
10 the scope of the COYL program be expanded to include a "Phase II". In Phase II,
11 COYL surveys will be scheduled in coordination with the Company's major pipe
12 replacement projects, and will allow the Company to (with the customer's consent)
13 replace all COYLs, regardless of whether or not they are leaking.

14 13. Expanding the scope of the COYL program as requested will increase
15 efficiencies and program effectiveness. By scheduling the COYL work to coincide with
16 major pipe replacement projects, the Company can take advantage of crews that are
17 already in the immediate area, as well as blue staking and permitting that has already
18 been done as part of the pipe replacement project. The Company anticipates that
19 utilizing blanket services, as opposed to scheduling them individually, will reduce
20 COYL program costs and minimize the time needed to perform COYL work.

21 14. The expanded scope will not alter the program processes that currently
22 exist; rather, Phase II is intended to supplement the existing COYL program.
23 Southwest Gas will continue the leak survey and relocation process detailed in its
24 annual report in areas where major pipeline projects are not scheduled. The
25 Company will also prioritize leaking COYLs over non-leaking COYLs.

26 15. Although the Company will separately track the costs associated with
27 Phase II, it is not requesting any changes to the CCRM, or to the cap that prevents a
28 surcharge amount greater than \$0.01 per therm in any single year.

⁶ Id. at Exhibit B.

SOUTHWEST GAS CORPORATION

APPLICATION

EXHIBIT 1



SOUTHWEST GAS CORPORATION

**CUSTOMER-OWNED YARD LINE
PROGRAM**

February 28, 2013

1. Introduction

Southwest Gas Corporation (Southwest Gas or Company) hereby submits to the Arizona Corporation Commission (Commission) its first annual report on its Customer Owned Yard Line (COYL) program. Pursuant to the Settlement Agreement approved by the Commission in Docket No. G-01551A-10-0458 (Decision No. 72723), Southwest Gas was authorized to establish a program to leak survey the COYLs in its Arizona service territories and to provide customers the opportunity to have leaking COYLs replaced with facilities owned and maintained by Southwest Gas.¹

The first year of Southwest Gas' COYL program was very successful. As shown on Exhibit A to this report, and as detailed more fully below, in the period from January 1, 2012 through December 31, 2012, Southwest Gas discovered 1,913 leaking COYLs. Of the affected customers, 1,873 took advantage of the Company's COYL program and only 69 customers declined, resulting in a 96.3% customer acceptance rate.²

2. Overview of the COYL Program

Background

For the purpose of its program, Southwest Gas defines a COYL as the customer-owned exterior gas piping that connects at the meter and continues to where the gas piping enters the customer's premise. A diagram depicting a typical COYL installation is attached hereto as Exhibit B. Because Southwest Gas is not required to inspect or maintain facilities beyond the point of delivery (at the meter), the responsibility for maintaining the COYL rests with the customer. Southwest Gas notifies new customers

¹ Settlement Agreement, §§ 5.13-5.19.

² As of December 31, 2012, 40 affected customers remained undecided.

of this obligation through a new customer brochure, and reminds all COYL customers to inspect and maintain their yardlines through monthly notices included with their bills.

Southwest Gas proposed the program in its 2010 general rate case, after noticing an upward trend in odor calls related to COYLs. Prior to the COYL program, a customer's only options for remedying a leaking COYL was to pay Southwest Gas to replace the COYL with Southwest Gas facilities and relocate the gas meter, hire a licensed plumber to repair the leak or replace the COYL, or discontinue natural gas service.

There are several benefits to replacing COYLs with utility-owned facilities, including, but not limited to, enhanced public safety, increased pipeline safety, reliability and integrity, and routine maintenance by a Commission-regulated utility. However, before the COYL program was introduced, approximately 70 percent of customers with leaking COYLs hired a plumber to repair or replace the COYL, and only 15 percent elected to have Southwest Gas install its own facilities and relocate the gas meter. In its first year, the COYL program has dramatically improved upon these statistics, with over 96 percent of customers with leaking COYLs now electing to replace the COYL with Southwest Gas facilities.

COYL Groups

As of December 31, 2012, Southwest Gas estimated approximately 118,500 active COYL customers in Arizona. In developing a strategy for the COYL program, the Company separated its COYL accounts into three groups:

- Group 1 – Customers for whom a leak inspection is conducted as part of the regular course of Southwest Gas' service (i.e. service turn-ons, odor complaints,

and unusual usage investigations), and customers whose leaking COYLs might be identified through routine maintenance leak surveys on Southwest Gas facilities.

- Group 2 – Customers impacted by the Company’s scheduled pipe replacement projects, whose COYLs could be surveyed while additional Company or contractor resources are available nearby.

- Group 3 – All remaining COYL customers, who will be contacted by the Company regarding a COYL leak inspection. In determining the leak survey schedule for COYL customers in Group 3, the Company considers both the year the COYL was installed and any leak history that the Company is aware of.

In the period from January 1, 2012 through December 31, 2012, many of the Company’s leak surveys involved COYL accounts in Groups 1 and 2. As the Company continues to refine its COYL program, it anticipates conducting a greater number of leak surveys on accounts in Group 3.

Communications with Customers

Southwest Gas implemented a comprehensive communications process to explain the COYL program to customers and obtain their permission, where necessary, to conduct the COYL leak surveys. Southwest Gas’ communication efforts are summarized as follows:

- Field coordinators knock on doors to explain the program, give customers literature about the program, and obtain permission to leak survey the COYL. They also verify that the customer is in fact the property owner (as opposed to a tenant or family member).

- If there is no response to the door knock, field coordinators leave door hanger bags containing literature about the program, including a toll-free phone number. Upon calling the toll-free number, customers are able to grant the permission necessary for Southwest Gas to leak survey the COYL.

- If there is no response to the door hanger bag after two days, the same materials are sent via U.S. Mail, along with a letter requesting a response. If there is no response to the letter within 14 days, a final reminder letter is mailed. Southwest Gas makes every effort to ascertain correct mailing addresses, and updates its records when new contact information is identified.

- If there is still no response, the contact is considered complete. However, if the customer responds to the Company's communications at a later date, the Company will add the customer to its COYL leak survey rotation.

Cost Recovery

Unlike capital investments that generate new customers or increased load, Southwest Gas' COYL program is dedicated to capital investments that are non-revenue producing in nature. Therefore, the Company's ability to timely recover its capital investment is an essential component of the COYL program. Consistent with the terms of the Settlement Agreement, Southwest Gas charges the capital investment associated with the COYL program to a capital account, for recovery through the COYL cost recovery mechanism (CCRM)³.

In light of the industry's heightened focus on replacing aging and leak-prone infrastructure, interim cost recovery mechanisms like the CCRM are increasingly

³ Settlement Agreement. at §5.15.

prevalent. Indeed, 48 cost recovery mechanisms have been implemented in 22 jurisdictions; and many of them were approved within the past five years.⁴ These mechanisms provide the following benefits:

- Eliminate impediments to investing in non-revenue producing infrastructure by providing for timely cost recovery between rate cases
- Mitigate customer bill impact by providing annual surcharge adjustments and, in Southwest Gas' case, imposing a cap on annual surcharge amounts
- Allow regulatory oversight over utility initiatives to replace infrastructure
- Complement the rate case process by applying the same cost-of-service ratemaking principles while avoiding the need for more frequent rate case proceedings

In the first year of the COYL program, approximately \$4.1 million in capital costs were deferred for recovery through the CCRM. The resulting surcharge equals \$0.00101 per therm.

3. 2012 Program Results

The overall results of Southwest Gas' COYL surveys from January 1, 2012 through December 31, 2012 are reflected on Exhibit C to this report. In the program's first year, Southwest Gas inspected 52,243 yard lines, of which 14,456 were determined not to be COYLs. Among the remaining COYLs, Southwest Gas discovered 1,913 leaks, resulting in an overall COYL leak rate of approximately 5 percent. As mentioned above and detailed in Exhibit A, only 69 of the 1,913 affected customers declined to participate in the Company's program. Those who declined typically did so for aesthetic

⁴ "Gas Distribution Infrastructure: Replacement and Upgrades", American Gas Foundation (July 2012) pg. 5.

reasons, wishing to keep the meter away from the residence. In cases where the leaking COYL was replaced under the Company's program, the average construction period was five days (from the date the contract was signed by the property owner to the date natural gas service was restored).

Attached hereto as Exhibits D and E is information detailing, by location, the means by which the leaking COYL was discovered, and the capital costs incurred. The capital costs associated with the Company's 2012 COYL replacements averaged approximately \$2,150 per COYL. As referenced above, the resulting CCRM surcharge equals \$0.00101 per therm. The average residential impact is approximately \$0.03 per month.

4. 2013 Leak Survey Plans

Southwest Gas' 2013 COYL leak survey activity will continue surveys for customers in Groups 1 and 2. In Southern Arizona, where a majority of the COYLs are located, surveys for customers in Group 3 will continue in the metropolitan Tucson area, and will expand into Yuma, Casa Grande and other rural districts. The Company will continue its efforts to leak survey COYLs in individually metered mobile homes in central Arizona, and will continue surveying COYLs in its Bullhead City district from south (where the majority of the district's COYLs are located) to north. Although the Company is currently focusing its Group 3 surveys on residential and individually metered mobile home accounts, it intends to gradually incorporate commercial and other non-residential COYLs into its survey rotation.

5. Conclusion

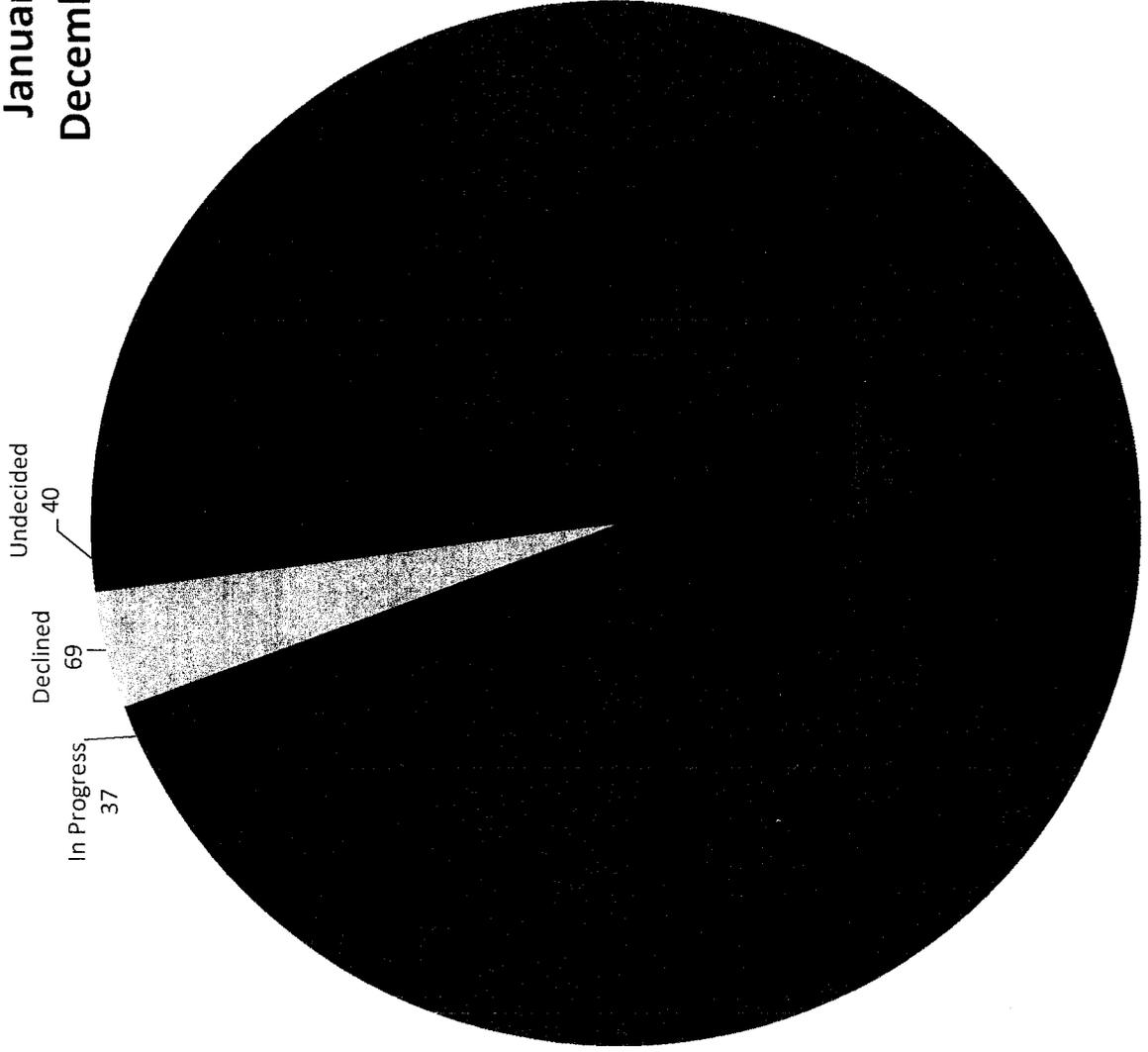
Although Southwest Gas' COYL program is still in its infancy, the results from the first year indicate that the program is assisting COYL customers in the manner contemplated by the Settlement Agreement. The program therefore remains in the public interest. The Company will continue to monitor and evaluate the program, and will make any necessary program recommendations to the Commission as part of its annual COYL filings.

SOUTHWEST GAS CORPORATION

CUSTOMER-OWNED YARD LINE ANNUAL REPORT

EXHIBIT A

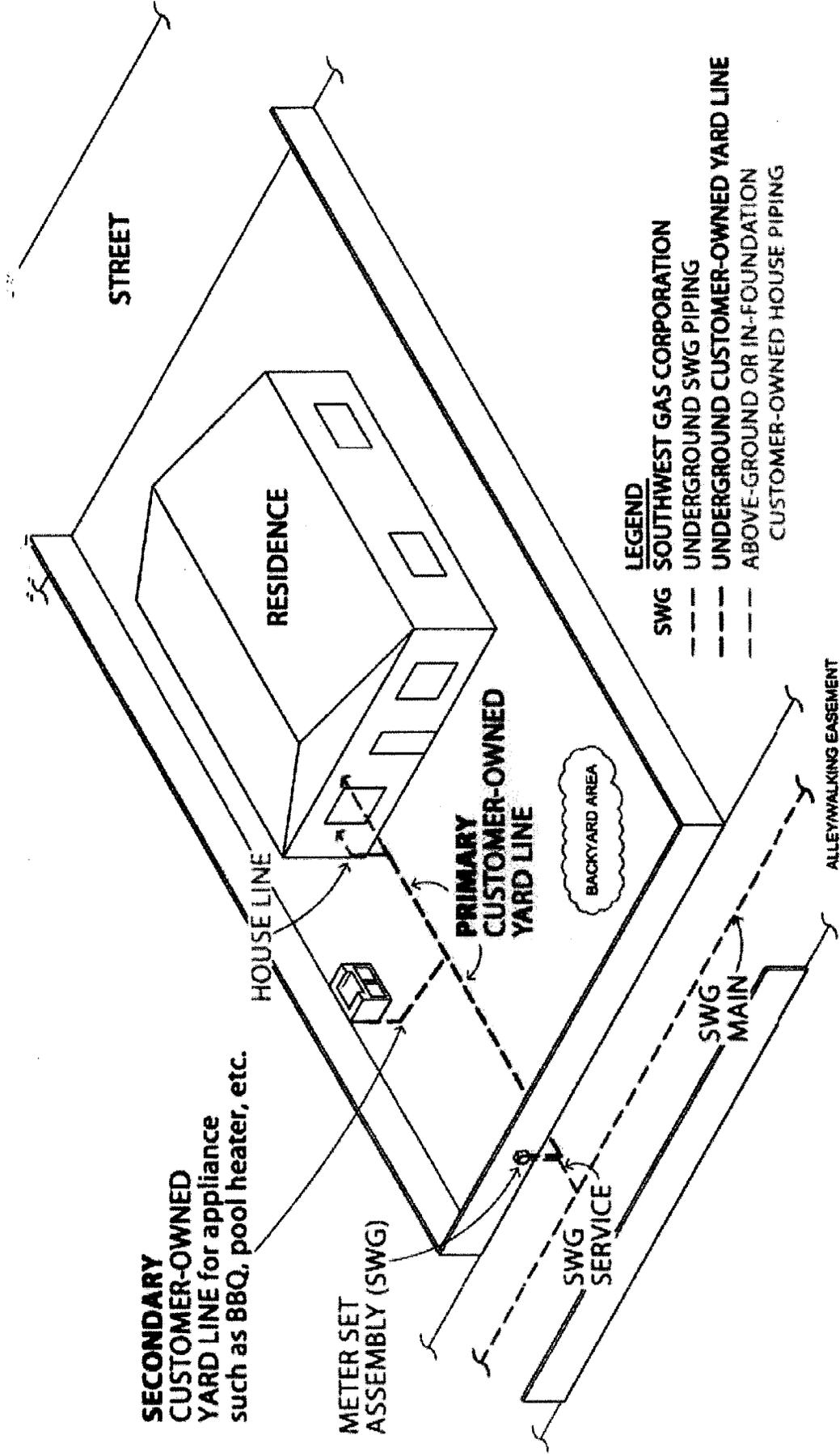
COYL Meter Relocations January 1, 2012 - December 31, 2012



SOUTHWEST GAS CORPORATION

CUSTOMER-OWNED YARD LINE ANNUAL REPORT

EXHIBIT B

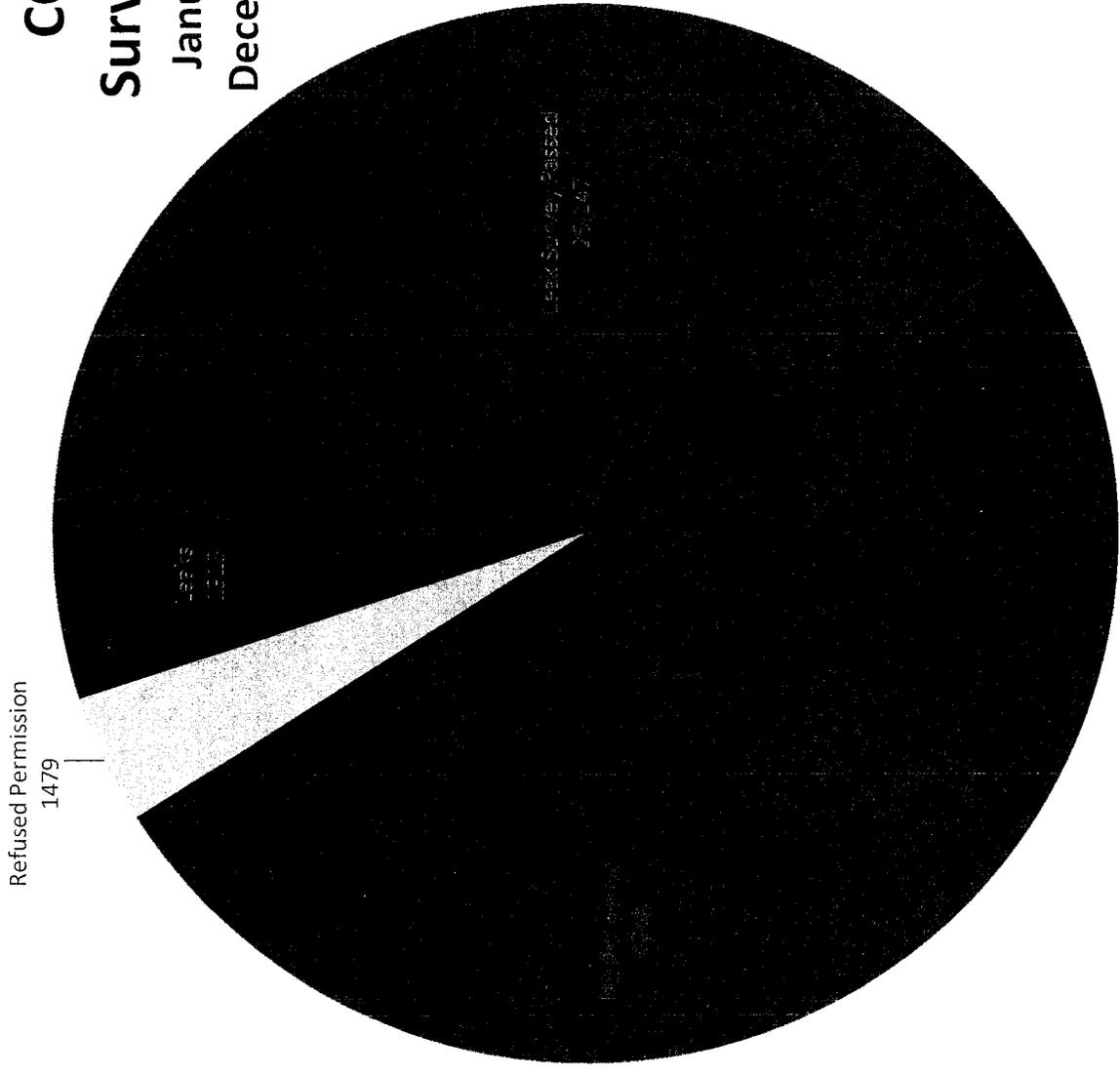


SOUTHWEST GAS CORPORATION

CUSTOMER-OWNED YARD LINE ANNUAL REPORT

EXHIBIT C

COYL Leak Survey Activity January 1, 2012 - December 31, 2012



SOUTHWEST GAS CORPORATION

**CUSTOMER-OWNED YARD LINE
ANNUAL REPORT**

EXHIBIT D

EXHIBIT D

CONFIDENTIAL

FILED UNDER SEAL

SOUTHWEST GAS CORPORATION

CUSTOMER-OWNED YARD LINE ANNUAL REPORT

EXHIBIT E

EXHIBIT E

CONFIDENTIAL

FILED UNDER SEAL

SOUTHWEST GAS CORPORATION

APPLICATION

EXHIBIT 2

**SOUTHWEST GAS CORPORATION
ARIZONA
CUSTOMER OWNED YARD LINE (COYL) PROGRAM
SURCHARGE CALCULATION
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012
PROJECTED EFFECTIVE DATE 6/1/13**

Line No.	Description (a)	Reference (b)	Amount (c)
1	Gross COYL Plant Installed	Company Records	\$ 4,110,341
2	Accumulated Provision for Depreciation	Company Records	<u>51,543</u>
3	Net COYL Plant	Ln 1 - Ln 2	\$ 4,058,798
4	Deferred Income Taxes	Company Records	<u>(717,437)</u>
5	COYL Rate Base	Ln 3 + Ln 4	\$ 3,341,361
6	Return on COYL Rate Base	8.95% * Ln 5	299,052
7	Income Tax Factor	Settlement Agreement	<u>0.6579</u>
8	Income Taxes	Auth. Cost of Equity (9.5%) * Ln 5 * Ln 7	\$ 208,837
9	Depreciation Expense	Company Records	<u>90,636</u>
10	Total Revenue Requirement Full Margin Therms sold previous year	Ln 6 + Ln 8 + Ln 9	\$ 598,525
11	less Low Income Therms	Company Records	<u>592,035,220</u>
12	Surcharge	Ln 10 / Ln 11	<u>\$ 0.00101</u>

SOUTHWEST GAS CORPORATION

APPLICATION

EXHIBIT 3



Dear Homeowner:

Starting on or about March 19, Southwest Gas will commence maintenance work on its pipelines buried in the alleys throughout your neighborhood. Southwest plans to replace these lines with modern, state-of-the-art facilities. This work should last approximately 6 weeks, and your natural gas service will be unaffected during that period.

Our contractor will make every effort to minimize the inconvenience to you and your neighbors. Their work will be inspected and supervised by Southwest Gas personnel.

In addition to this maintenance project, we would like to tell you about a new program that could save you money, and continue to ensure the safety and reliability of the natural gas system in your neighborhood.

Did you know that the outside gas piping located between the meter and your home or business, and any outside natural gas appliances, is owned and must be maintained by the property owner? This natural gas piping is not owned by Southwest Gas, and it is the responsibility of the property owner to maintain and pay for any cost of repairing or replacing if necessary. Once the gas line enters your home, it is considered the house line, and the property owner is also responsible to maintain and repair the house line.

Here's the good news: Recently, the Arizona Corporation Commission, the state agency that regulates Southwest Gas, approved a program that enables us to inspect customer-owned yard lines for leaks, and if a leak is found, we will relocate the meter and the primary yard line free of charge to the property owner. Note that any secondary underground lines serving appliances such as barbecues are not included in this program, as well as any appliance updates or houseline repairs.

Southwest Gas will be conducting leak surveys on customer-owned yard lines in your neighborhood at the same time as it is performing its maintenance activities. Based on our visual assessment of your property, we believe your customer-owned piping will require the following type of survey:

An exterior leak survey requiring access to your property.

A pressure test of your line requiring entry into your home or business. (Due to terrain, landscaping, or other factors, we are unable to conduct an exterior leak survey on your property.)

Please contact us at 1-800-654-2765 by (DATE) to make entry arrangements.

Taking advantage of the program can save you money, and it helps to continue to ensure the safety and reliability of the natural gas system for you and your neighbors. If you have any questions regarding this special opportunity, please call our Energy Services Department at 1-800-654-2765.