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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

Arizona Corporation Commission

DOCKETED

JAN - 7 2014

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IN THE MATTER OF SOUTHWEST GAS CORPORATION'S APPLICATION FOR APPROVAL TO SET ENERGY EFFICIENCY ENABLING PROVISION RATE

DOCKET NO. G-01551A-10-0458
DECISION NO. 74252
ORDER

Open Meeting
December 17 and 18, 2013
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On April 30, 2013, Southwest filed an application requesting approval for the initial rate relating to its revenue decoupling mechanism, the Energy Efficiency Enabling Provision ("EEP"), as well as its annual Revenue Decoupling Report, as required by Decision No. 72723.

3. Southwest has requested approval to set its initial EEP rate based on the Company's performance between January 1, 2012 and December 31, 2012. During the first year of the EEP, Southwest Gas accrued a credit balance of \$1,890,149, and is seeking to refund that balance to its customers in the amount of -\$0.00387 per therm.

...

1 gas utilities require cumulative annual energy savings by the end of each calendar year to be
 2 reduced as a percentage of retail energy sales in the prior calendar year. For 2011, the required
 3 percentage is 0.5%, and for 2012, the required percentage is 1.20%.

4 9. From June 1, 2012, through May 30, 2013, Southwest estimates that it spent
 5 \$4,433,522 of its approved budget of \$4.7 million, and achieved an estimated annual savings of
 6 3,146,127 therms (including therm equivalents). The table below summarizes the expenditures by
 7 program.

Program	First Year Expenditures (June 1, 2012 – May 30, 2013)
Residential	\$2,656,904
Non-Residential (Commercial/Dist.Gen)	\$432,840
Low-Income	\$531,895
Renewable Energy Resource Technology (RET)	\$811,883
Total	\$4,433,522

13
 14 10. It should be noted that renewable energy measures and programs are combined with
 15 Southwest's energy efficiency portfolio per the Commission's approval of its Energy Efficiency
 16 and Renewable Energy Resource Technology Plan under Decision No. 72339.

17 11. According to Southwest's 2010 Annual Report, total sales volume in Arizona
 18 during 2010 was 562,324,290 therms. Based on this total, the Company's 2011 EE target is
 19 2,811,621 therms saved. Using Southwest's 2011 Annual Report sales volume of 560,590,780
 20 therms, the Company's 2012 EE target would be 6,727,089 therms saved. These figures suggest
 21 that Southwest has reached its 2011 EE target, but has not reached its 2012 target.

22 Usage Analysis

23 12. Southwest continues to experience falling customer usage, as it has for over a
 24 decade. The Company reports that between 2007 and 2012, both residential and non-residential
 25 sales volume has declined. Usage per customer ("UPC") for residential customers fell by an
 26 average of 41.2 annual therms and non-residential UPC fell by an average of 306.2 annual therms.
 27 Southwest attributes this trend to advancements in building envelope technology and increasing
 28 energy efficiency requirements for new natural gas appliances. It should be noted that the

1 Company does not attribute these reductions to fuel switching to electric appliances. Southwest
2 credits most of the recent decline between 2008 and 2012 to improvements in appliance efficiency.
3 Southwest reports that this trend has not changed after the implementation of revenue decoupling.

4 13. The Company also reports that residential customers initiating service between
5 2001 and 2010 had an average UPC of 288.8 therms in 2012, but customers initiating service in
6 2011 and 2012 only have an average UPC of 227 therms in 2012. New customers typically use less
7 gas because they live in newer homes that feature the best building envelope products and
8 technology, in addition to the newest appliances that comply with current federal energy efficiency
9 standards.

10 Activities Supporting Customer Growth

11 14. Southwest is working to support customer growth in several ways. The Company is
12 exploring three areas of potential growth in the natural gas market, including use in multi-family
13 residential applications, expanded use in entry-level new construction homes, as well as
14 compressed natural gas (“CNG”) and liquefied natural gas (“LNG”) usage as a fuel for fleet
15 vehicles. Southwest is also expecting some customer growth to occur naturally as the state’s
16 economy improves.

17 15. Southwest has recognized that natural gas usage in the residential market is less
18 prevalent in multi-family and entry-level home applications. Homes using natural gas require dual
19 utility connections (gas in addition to electric service), which builders are often less inclined to
20 provide due to potential costs. The Company sees growth potential in these sectors of the natural
21 gas market, so it is focusing its marketing efforts on builders of these types of homes. The
22 Company’s energy efficiency rebates can be utilized to help reduce builder costs and aid in market
23 penetration, thus keeping natural gas competitive with electric providers. Southwest believes it can
24 make a successful business case for the economic use of gas in such instances, and will continue to
25 pursue this market.

26 16. The use of natural gas as a fuel for motor vehicles, particularly in fleet applications,
27 is also of interest to Southwest Gas. The Company reports that it is working to facilitate increased
28 ...

1 use of both CNG and LNG as a motor fuel in Arizona. It is currently working with both the City of
2 Phoenix and Waste Management Inc. to expand its business in this area.

3 Credit Rating

4 17. Southwest's credit rating has improved post-decoupling. The Company's credit
5 rating has been upgraded by all three major credit rating agencies, and those upgrades are
6 attributed to the enhanced revenue stability provided by revenue decoupling. The table below
7 outlines the rating changes per agency.

8 Rating Agency	Last Change	Current Rating	Rating as of 6/30/10
9 S&P	March 2013	A-	BBB
10 Moody's	March 2012	Baa1	Baa2
Fitch	May 2012	A-	BBB

11 18. This result is similar to what utilities with decoupled rate structures have
12 experienced in other states. Decoupling is believed to reduce a utility's risk by ensuring that its
13 revenues and return on investment remain stable. Reduced risk is conducive to an improved debt
14 rating, and thus, a reduced cost of capital. Credit rating agencies are familiar with these
15 mechanisms, and as Moody's described in its July 30th change of Consolidated Edison's outlook
16 to positive, "Moody's views full revenue decoupling for both electric and gas services and weather
17 normalization for gas as material credit-positive features."¹

18 EEP Rate

19 19. Southwest has requested approval to set an initial rate related to its revenue
20 decoupling mechanism. The EEP rate is an annual true-up designed to reconcile the difference
21 between the Company's revenue authorized by the Commission and the revenue actually
22 experienced by Southwest Gas as described by Decision No. 72723. "Revenues authorized by the
23 Commission" is defined as the Commission authorized monthly revenue per customer multiplied
24 by the total number of customers billed for service during the month. "Experienced revenue" is
25 defined as the billed revenue for the month.

26 _____
27 ¹ Moody's Investor's Service, *Rating Action: Moody's changes Consolidated Edison's Outlook to Positive*, July 30,
28 2013, https://www.moodys.com/research/Moodys-changes-Consolidated-Edisons-outlook-to-positive--PR_278150.

1 20. The final per-therm rate adjustment is calculated by dividing the balance in the
2 deferred account by the previous 12 months sales volume. For the initial rate, the reporting period
3 was based on the Company's performance between January 1, 2012 and December 31, 2012.
4 During this time period, the Company collected \$1,890,149 in excess of its authorized revenues
5 and is now seeking to return that money to its ratepayers at the rate of -\$0.00387 per therm.

6 21. Southwest's filing indicates its total sales volume as 488,453,556 therms for the 12
7 months ending March 31, 2013. The Company has confirmed that this figure represents all
8 Arizona deliveries to customers on decoupled rate schedules between April 1, 2012 and March 31,
9 2013. The EEP rate is calculated using the most recent 12-month volume of natural gas use for
10 customers included in the EEP. The Company used this time period because it was the most recent
11 data available at the time of filing.

12 22. Staff issued two series of data requests pertaining to the calculation of the
13 \$1,890,149 account balance, and requested that Southwest provide an explanation of how it
14 reached this figure. Southwest provided Staff with a report and underlying monthly documentation
15 of the balancing account calculation. The report detailed volumetric margin (or therms multiplied
16 by the delivery charge), the basic service charge, and the monthly weather component of the EEP,
17 and provided monthly billed margin data for all Arizona customers on Southwest's five decoupled
18 rate schedules.

19 23. The EEP includes a variable weather normalization component. This monthly
20 component adjusts customer bills to account for differences between actual temperatures and
21 normal temperatures for the days in a billing cycle. The weather component is not included in the
22 Revenue Decoupling Report evaluation as specified by Decision No. 72723, but it should be noted
23 that weather circumstances in 2012 played a role in the resulting proposed credit. Southwest
24 reported that during 2012, an upward billing adjustment was made due to higher than average
25 temperatures in December, and downward adjustments were made in January and February due to
26 lower than average temperatures.

27 24. It should also be noted that during the preparation of responses to Staff's data
28 requests, Southwest discovered that one of the EEP accounts did not have interest properly

1 recorded, and so a "catch-up" entry in the amount of (\$1,713.04) was made in September 2013
 2 records. Southwest provided Staff with data supporting this revised interest calculation. The
 3 Company confirmed that this revision has no impact on the proposed EEP rate.

4 25. Based on the responses to Staff's data requests, and the supporting documentation
 5 provided, Southwest's sales volume and balancing account total appear accurately calculated.
 6 Therefore, the proposed rate of -\$0.00387 per therm appears appropriate based on the method
 7 prescribed by Decision No. 72723.

8 Earnings Test

9 26. Pursuant to paragraphs 3.25 and 3.26 of the Settlement Agreement approved by the
 10 Commission in Decision No. 72723, the Company is to include the results of its annual earnings
 11 test in its annual revenue decoupling report. The data points and assumptions to be utilized in the
 12 earnings test report are identified in paragraph 3.27 of the Settlement Agreement. The earnings test
 13 is required in order to ensure that Southwest does not over earn as a result of the Commission's
 14 revenue decoupling decision. The formula associated with this earnings test is shown in the table
 15 below.

16 Line No.	Description
17 1.	Fair Value Rate Base = \$1,452,933,391
18 2.	Fair Value Rate of Return = 6.92%
19 3.	Operating Income Required = Ln 1 * Ln 2
20 4.	Net Operating Income Available = Experienced non-gas revenue less recorded operating expenses, adjusted for certain ratemaking adjustments as identified in Section 3.27 of the settlement agreement
21 5.	Earnings Deficit/(Excess) = Ln 3 - Ln 4
22 6.	Gross Revenue Conversion Factor = 1.6579
23 7.	Revenue Deficit/(Excess) = Ln 5 * Ln 6

24 27. Southwest submitted the earnings test results shown below:

25 Line No.	Description	Reference	Amount
26 1.	Fair Value Base Rate	Decision No. 72723	\$1,452,933,391
27 2.	Fair Value Rate of Return	Decision No. 72723	6.92%
28 3.	Operating Income Required	Ln 1 * Ln 2	\$100,542,991
	Net Operating Income Available	Company Records	\$98,829,544
	Earnings Deficit/(Excess)	Ln 3 - Ln 4	\$1,713,447
	Gross Revenue Conversion Factor	Decision No. 72723	1.6579
	Revenue Deficit/(Excess)	Ln 5 * Ln 6	\$2,840,723

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's proposed Energy Efficiency Enabling Provision Rate of negative \$0.00387 is hereby approved, effective January 1, 2014.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

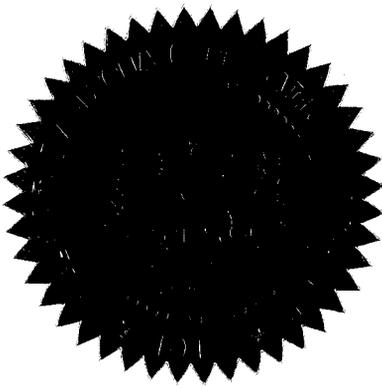

CHAIRMAN


COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director 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 7th day of January, ~~2013~~ 2014


JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:EAH:sms\RRM

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