

ORIGINAL NEW APPLICATION



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SOUTHWEST GAS CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL

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January 27, 2014

Docket Control Office
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996
G-01551A-14-0024

Re: Application of Southwest Gas Corporation for Determination of Prudence and Pre-Approval of Ratemaking Treatment Relating to Construction of Liquefied Natural Gas Storage Facility in Southern Arizona

Southwest Gas Corporation herewith submits for filing an original and thirteen (13) copies of its application to the Arizona Corporation Commission seeking pre-approval of the cost recovery associated with the construction, operation, and maintenance of Liquefied Natural Gas storage facility in Southern Arizona.

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

Respectfully submitted,

Debra S. Gallo *very cmz*

Debra S. Gallo, Director
Government & State Regulatory Affairs

Arizona Corporation Commission

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JAN 27 2014

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- Bob Stump, Chairman
- Gary Pierce
- Brenda Burns
- Bob Burns
- Susan Bitter Smith

In the Matter of the Application of Southwest Gas Corporation for Determination of Prudence and Approval of Cost Recovery Relating to the Construction of a Liquefied Natural Gas Storage Facility.

DOCKET NO. G-01551A-14-_____
APPLICATION

APPLICATION

Introduction.

1. Pursuant to the Arizona Corporation Commission (“Commission”) Policy Statement Regarding New Natural Gas Pipeline and Storage Costs (“Policy Statement”), Southwest Gas Corporation (“Southwest Gas” or “Company”) hereby submits its application seeking approval of the cost recovery associated with the construction, operation, and maintenance of a liquefied natural gas (“LNG”) storage facility in Tucson, Arizona. The diversity in natural gas supply that the LNG storage facility will provide for the applicable service area will afford greater supply reliability and flexibility in natural gas deliveries to the Company’s customers. For the reasons set forth herein, Southwest Gas respectfully requests that the Commission approve the construction of the proposed LNG storage facility as being prudent, including approval of the associated costs incurred or to be incurred in carrying out this project.
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 application should be addressed to:

4 Jason S. Wilcock, Esq.
5 Associate General Counsel
6 Southwest Gas Corporation
7 P.O. Box 98510
8 Las Vegas, Nevada 89193-8510
9 Telephone: (702) 364-3227
10 Email: jason.wilcock@swgas.com

 Debra S. Gallo
 Director/Government and
 State Regulatory Affairs
 Southwest Gas Corporation
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11 4. Southwest Gas is a public utility subject to the jurisdiction of the
12 Commission pursuant to Article XV of the Arizona Constitution and the applicable
13 provisions of Title 40 of the Arizona Revised Statutes. Southwest Gas is engaged in
14 the retail distribution, transportation, and sale of natural gas for domestic, commercial,
15 agricultural, and industrial uses. Southwest Gas currently serves approximately 1.9
16 million customers in the states of Arizona, California, and Nevada. Approximately 54
17 percent of the Company's customers are located in the state of Arizona, including
18 portions of Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal,
19 and Yuma counties. For operational purposes, Southwest Gas' Central Arizona
20 division is headquartered in Phoenix and its Southern Arizona division is
21 headquartered in Tucson.

22 **ACC Policy Statement.**

23 5. The Commission issued its Notice of Inquiry on the Issue of Arizona
24 Corporation Commission Policy and Action on Natural Gas Infrastructure Matters in
25 Arizona ("NOI") April 15, 2003, wherein it sought comments and suggestions on future
26 natural gas infrastructure issues, including natural gas storage facilities. After
27 considering the input of interested parties, the Commission issued the Policy
28 Statement December 18, 2003.

1 6. In its Policy Statement, the Commission recognized the need for a
2 reliable and secure natural gas infrastructure in Arizona to support adequate service
3 to the growing energy requirements in the state. Specifically, the Policy Statement
4 included the following declarations:

- 5 • Diversity in Arizona's natural gas infrastructure, including interstate pipeline
6 facilities, natural gas storage facilities, and related aspects of natural gas
7 service, is beneficial and should be actively pursued by Arizona utilities as a
8 way of providing greater supply reliability and flexibility and possible lower
9 costs.
- 10 • Arizona utilities should consider natural gas storage as an integral component
11 of their efforts to develop a diverse natural gas supply portfolio, recognizing the
12 variety of potential benefits of natural gas storage, including enhanced
13 reliability, operational flexibility, more efficient use of pipeline capacity assets,
14 and reduced natural gas price volatility.
- 15 • The Commission endorses voluntary efforts to analyze and plan for the present
16 and future natural gas supply needs of Arizona and encourages Arizona utilities
17 and others to actively participate in such activities.

18 7. In addressing the need for the development of new natural gas
19 infrastructure in Arizona, the Commission further recognized that cost recovery for
20 these projects was a "significant issue" that needed to be considered. The
21 Commission stated the following:

- 22 • In recognition of the current need for natural gas infrastructure in Arizona, the
23 Commission has also been considering alternate approaches to encourage the
24 development of infrastructure in Arizona. Pre-approval of cost recovery would
25 be one possible mechanism. The alternative recovery mechanism should incite
26 utilities to invest in the infrastructure they need to provide the best service to
27 their customers.
- 28 • At this time the Commission believes that the best method for the Commission
to address natural gas infrastructure matters is to encourage utilities to file
applications, including requests for alternate cost treatment, in order that the
Commission can consider specific requests for cost recovery proposals
appropriate to the circumstances for each individual applicant.

1 8. In light of the Commission's Policy Statement, Southwest Gas files this
2 application for approval to construct, operate, and maintain the proposed LNG storage
3 facility and to recover the actual costs associated therewith, including the
4 establishment of a regulatory asset. The Company believes that the facts and
5 circumstances set forth in this application support the requested relief by
6 demonstrating that the construction of the LNG storage facility will accomplish many of
7 the objectives specified in the Policy Statement.

8 9. As discussed in greater detail below, Southwest Gas has identified a
9 preferred site location in Southeast Tucson for its proposed LNG storage facility. The
10 proposed LNG storage facility will be designed and constructed in accordance with all
11 applicable safety regulations and standards. The land requirement for the proposed
12 LNG storage facility is approximately 30 acres and will be equipped with a security
13 system, hazard detection system, emergency shutdown system, and will include
14 appropriate spill containment areas. The storage tank is estimated to measure
15 approximately 60 feet in height and 108 feet in diameter and will have a design
16 storage capacity of approximately 233,000 Dth or 2,815,000 gallons, which is
17 sufficient to allow for the withdrawal of approximately 65,000 Dth/day. To fill the
18 storage tank, the Company has considered: (1) transferring LNG from tanker trucks;
19 or (2) liquefying natural gas onsite, as further addressed below. Construction of the
20 proposed LNG storage facility is expected to take between 24 and 30 months.

21 **Benefits of a Local LNG Storage Facility.**

22 10. The primary purpose of the proposed LNG storage facility is to have
23 readily available local gas supply to dispatch into Southwest Gas' distribution system
24 during severe supply disruption events. In order to deliver gas supplies purchased
25 from the Permian and San Juan Basins to customers in its Tucson service area,
26 Southwest Gas relies exclusively on El Paso Natural Gas' ("El Paso") interstate
27 transportation services. As a result of this dependency on El Paso and its ability to
28 provide reliable transportation service, to the extent El Paso experiences any

1 operational issues – including supply disruptions – Southwest Gas' distribution system
2 may also be impacted.

3 11. Indeed, Southwest Gas, as well as the rest of the southwest United
4 States, experienced such an event in early February 2011. During this event, the
5 Tucson and Sierra Vista areas experienced extreme cold temperatures. These
6 conditions, combined with an unanticipated decrease in the available gas supply from
7 El Paso's system, caused pressures in El Paso's pipeline serving this area to drop
8 below design parameters. As a result of these circumstances and reported customer
9 outages on the Company's distribution system, Southwest Gas determined that it was
10 necessary to temporarily interrupt natural gas service in certain areas in this region to
11 avoid a possible complete failure of its distribution system. This event impacted
12 approximately 19,000 Southwest Gas customers.

13 12. Following the February 2011 event, the Federal Energy Regulatory
14 Commission and the North American Electric Reliability Corporation conducted an
15 investigation. In a report entitled "Outages and Curtailments During the Southwest
16 Cold Weather Event of February 1-5, 2011" ("FERC Report"), it was determined that
17 additional "local" natural gas storage in Arizona could have prevented many of the
18 outages that occurred. The FERC Report explained that "[n]atural gas storage is a
19 key component of the natural gas grid that helps maintain the reliability of gas supplies
20 during periods of high demand" and that "[s]torage can help [local distribution
21 companies] maintain adequate supply during periods of heavy demand by
22 supplementing pipeline capacity, and can serve as a backup supply in case of
23 interruptions in wellhead production." (FERC Report, p. 213.)

24 13. By having readily available local natural gas supply that can be timely
25 dispatched into sections of its distribution system upon demand, an LNG storage
26 facility will support Southwest Gas' ongoing efforts to enhance the reliability of
27 segments of its distribution system and mitigate against future service interruptions
28 resulting from supply shortage events.

1 14. Other advantages of having a storage facility connected to part of
2 Southwest Gas' distribution system include: (i) ability to mitigate localized curtailments
3 that could come about due to third-party damage caused by construction or other
4 activities; (ii) mitigating localized interruptions that may result from the performance of
5 required maintenance; and (iii) sustaining local system requirements during times of
6 high system demand.

7 15. To address the Commission's recognized need for additional
8 infrastructure and meet the needs of its customers for an alternate secure and reliable
9 gas supply, Southwest Gas has considered other alternatives. However, none of
10 these alternatives proved to be as reliable and cost effective as the proposed local
11 LNG storage facility. The Company spent a significant amount of time considering
12 possible underground storage solutions during its participation in the Arizona Storage
13 Coalition. The coalition was ultimately unsuccessful in identifying a viable
14 underground project. Barriers such as unquantifiable development costs and potential
15 environmental issues proved too difficult to overcome.

16 16. In addition, the proposed LNG storage facility offers superior service and
17 reliability compared to existing third-party storage providers. Located in and around
18 Texas are providers that offer storage services to shippers on El Paso. In fact, the
19 Company currently has a contract with Enstor to provide such services for the benefit
20 of its customers. While these storage arrangements can provide an alternate supply
21 source to gas typically sourced from the gas production areas, injection of gas
22 supplies from Texas-based storage into El Paso – some 700 miles upstream of the
23 Company's distribution system – offers no support for the immediate pressure needs
24 on the distribution system during peak demand or supply shortage events. Further,
25 during extreme supply shortage periods on the interstate pipeline system, there is no
26 assurance that gas withdrawn from storage in Texas would in fact be timely delivered
27 to the customer's market area. For example, potential problems with upstream facility
28 performance or other shippers upstream of Southwest Gas taking the gas prior to it

1 reaching the desired destination could both impact deliveries to Southwest Gas
2 customers.

3 17. Moreover, if required to rely on the transportation services of interstate
4 pipelines for delivery from storage, Southwest Gas would be compelled to adhere to
5 the applicable interstate pipeline gas scheduling tariff provisions in order to schedule
6 gas from the storage facility. By instead relying on a local storage option, Southwest
7 Gas will have greater flexibility to take gas from storage when it is needed, which
8 could be critical during supply shortage events. The proposed LNG storage facility
9 would be operated by Southwest Gas and connected directly to its distribution system,
10 making it accessible for customer demands 24 hours a day without the need to
11 schedule gas on El Paso or with a third-party storage provider.

12 **Safety Features of Proposed LNG Storage Facility.**

13 18. Southwest Gas' proposed LNG storage facility will be designed and
14 constructed in accordance with all applicable safety regulations and standards. The
15 proposed LNG tank consists of a cryogenic inner tank and a non-cryogenic outer tank.
16 The tank is classified as a single containment tank. The inner tank is insulated with
17 load bearing insulation between the outer and inner floors, granular insulation in the
18 annular space between the tank walls, and closed by an insulated suspended deck
19 (i.e. ceiling). The foundation for the tank is expected to be a ring wall, and will be
20 configured with electric foundation heat to prevent soil freezing underneath the
21 foundation.

22 19. The proposed LNG storage tank will be located within an impoundment
23 area that is configured according to the applicable regulations to contain the entire
24 liquid contents of the tank in the event of an uncontrolled leak.

25 20. The proposed LNG storage facility will be equipped with a security
26 system, including barbed wire fencing surrounding the perimeter of the facility and
27 monitoring of the area with closed circuit television systems. Access to the site will be
28 limited by security controlled gates. In addition, the facility is expected to have a

1 hazard detection system consisting of the following: fire detectors; flammable gas
2 detectors; smoke and heat detectors; and a seismic event recorder. The proposed
3 LNG storage facility will also have an emergency shutdown system to prevent the flow
4 of natural gas in the event of a gas leak or fire. The security and related control
5 systems will be capable of manual, automatic, or remote operation.

6 21. In addition to the aforementioned safety features, Southwest Gas has
7 considerable experience owning and operating an LNG storage facility. Paiute
8 Pipeline Company ("Paiute"), a Southwest Gas affiliate, has been safely maintaining
9 and operating an LNG storage facility in Lovelock, Nevada for more than 30 years
10 without incident. A significantly larger facility than the proposed LNG storage facility, it
11 has a storage capacity of 1 Bcf, with a firm withdrawal capacity capability of 71,959
12 Dth. Paiute's LNG storage facility is also outfitted with liquefaction equipment. As a
13 result, Southwest Gas has gained and will continue to gain the requisite knowledge
14 and experience pertaining to safe operation and maintenance of an LNG storage
15 facility.

16 22. LNG storage facilities have maintained a consistent safety record for
17 nearly 70 years. As the LNG itself is not ignitable, LNG has likewise proven to be safe
18 when used properly. While under specific limited circumstances LNG vapors are
19 considered flammable, these conditions are not likely to exist at the proposed LNG
20 facility as the storage tank and related facilities are specially designed to prevent the
21 potential for a combustible mixture of air and gas within an enclosed space. Further,
22 LNG has been deemed a non-toxic substance. For example, if LNG were mixed with
23 water, the water would be safe to drink after complete vaporization of the LNG. Unlike
24 gasoline or other liquid fuels, once LNG vaporizes no toxic residue remains.

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1 **General Project Description.**

2 23. Southwest Gas has considered several sites in the Tucson area for the
3 facility, and it has identified a preferred site located in Southeast Tucson and is
4 currently working with the land owner to secure the site, subject to Commission
5 approval of this project. In reviewing these sites, several key factors have been
6 analyzed, including: safety considerations, pipeline maximum allowable operation
7 pressure, system take away capacity, site access, and proximity to Southwest Gas'
8 existing distribution system. The land requirement for the proposed LNG storage
9 facility is not expected to exceed 30 acres.¹

10 24. The proposed LNG storage facility is anticipated to consist of a flat
11 bottom API 620 tank with a cryogenic inner tank and a non-cryogenic outer tank, and
12 related pumps, a boil-off system, vaporization equipment, and equipment to facilitate
13 the filling of the storage tank. The storage tank is estimated to measure
14 approximately 60 feet in height, with a diameter of 108 feet. In addition, the LNG
15 storage facility will include spill containment areas, a control building, and security
16 fencing surrounding the entire facility. Attachment 1 includes a typical site plan
17 drawing prepared by CHI Engineering.

18 25. The design storage capacity of the proposed LNG facility is
19 approximately 233,000 Dth or 2,815,000 gallons. This capacity is sufficient to allow a
20 minimum of 168,000 Dth of supply to be readily available after boil-off and
21 vaporization fuel loss.² Once the LNG vaporizes, it will be dispatched into Southwest
22 Gas' distribution system and taken as part of the day-to-day supply requirement.
23 Therefore, no gas is lost during the boil-off process. The proposed design of the
24 vaporization equipment will allow for the withdrawal of approximately 65,000 Dth/day.

25 _____
26 ¹ In order to obtain preliminary design requirements and the associated cost estimates for this
27 project, Southwest Gas retained the services of CHI Engineering Services, Inc. ("CHI
28 Engineering").

² Boil-off occurs during a heat transfer process that causes the LNG stored in the tank to
vaporize after the LNG reaches a temperature greater than minus 260 degrees Fahrenheit.

1 Natural gas vaporized out of the LNG storage facility will be delivered into Southwest
2 Gas' high pressure system downstream of either the Company's existing Valencia
3 Road or Houghton Road taps.

4 26. Following the initial fill of the storage tank, it is estimated that a minimum
5 of 11,000 Dth or 134,000 gallons of LNG inventory is required to remain in the tank at
6 any given point in time. This LNG inventory, known as heel gas or cushion gas, is
7 necessary to keep the tank cool when it is not full. After the initial fill, the total volume
8 of LNG required to fill the storage tank each year will be offset by the heel gas and
9 unused working inventory remaining in the tank.

10 27. Depending on the site location, Southwest Gas will need to install up to
11 seven miles of Southwest Gas mainline facilities to connect the LNG storage facility to
12 its existing high pressure system. Other utilities, such as water, electric, telecom, and
13 sewer/septic, will also need to be installed at the site. In addition, to permit access to
14 the facility Southwest Gas may be required to construct paved roadways depending
15 on the site location.

16 28. The Company has considered two alternatives for filling the storage
17 tank: (1) transferring LNG from tanker trucks; or (2) liquefying natural gas onsite using
18 liquefaction equipment to convert the natural gas into a liquid form for ease of storage.

19 29. The first alternative would be to fill the tank by transferring LNG from
20 tanker trucks into the LNG storage tank. Southwest Gas intends on purchasing the
21 LNG from a vendor who produces LNG and provides the necessary transportation
22 services to deliver the LNG to the proposed facility. Although Southwest Gas has yet
23 to enter into any supply agreements with such vendors, the Company has currently
24 identified and had preliminary discussions with a vendor located near Topock,
25 Arizona. The approximate distance from this vendor's facility to the Southeast Tucson
26 area is 365 miles. The total maximum amount of LNG that would need to be
27 purchased and delivered to the storage facility for the initial fill under this alternative is
28 approximately 268,000 Dth or nearly 3,238,000 gallons. This amount takes into

1 account the anticipated LNG flash or vapor lost in the process of refilling the tank,
2 which is why the estimated total maximum amount for the initial fill is more than the
3 proposed design storage capacity. Southwest Gas estimates that the LNG storage
4 facility will be filled at a rate of 10,000 gallons per hour, which would result in the tank
5 being filled in approximately 41 days.

6 30. The second alternative would include installing liquefaction equipment
7 during the construction of the LNG storage facility. Liquefying natural gas is
8 accomplished by condensing it through a cooling process. The proposed liquefaction
9 equipment would be capable of liquefying approximately 2,000 Dth or 24,000 gallons
10 of LNG per day. Under this alternative, Southwest Gas would need to purchase
11 approximately 335,000 Dth or 4,054,000 gallons of natural gas for the initial fill of the
12 storage tank. This amount is necessary to cover the LNG flash or vapor losses
13 mentioned above, in addition to an estimated 5% gas loss associated with the
14 liquefaction equipment. Southwest Gas estimates that it will take approximately 137
15 days to fill the tank using liquefaction equipment.

16 31. Southwest Gas anticipates that it will take between 24 and 30 months to
17 complete construction of the proposed LNG storage facility. If the facility were to
18 include the construction of onsite liquefaction equipment it is estimated that an
19 additional 6 months would need to be included in the projected construction schedule.

20 **Benefits of Liquefaction Equipment.**

21 32. A storage facility outfitted with liquefaction equipment provides
22 operational and service flexibility benefits. For instance, having liquefaction
23 equipment onsite at an LNG storage facility provides the flexibility of replenishing
24 withdrawn inventory throughout the year without dependency on a vendor that
25 produces and transports LNG to the storage facility.

26 33. An LNG storage facility with liquefaction equipment can also provide
27 Southwest Gas with the operational flexibility of using readily available LNG to
28 temporarily serve parts of Southwest Gas' distribution system that may not be able to

1 adequately support sudden customer growth. Further, in the event of a service
2 interruption or outage resulting from required maintenance or repairs of certain
3 sections of the Company's system, Southwest Gas may be able to utilize available
4 LNG to mitigate the effects of any such work.

5 34. The liquefaction equipment could further benefit Southwest Gas and its
6 customers relative to the future maintenance and operation costs associated with the
7 LNG storage facility. With this equipment, Southwest Gas may have opportunities to
8 provide Commission approved LNG tariff services upon making the necessary
9 regulatory filings. For example, Southwest Gas could provide LNG service to vendors
10 who have LNG fueling stations for transportation use. Southwest Gas could also
11 provide LNG service to other utilities for peak shaving or temporary supply purposes.
12 The revenues received from any such services could be used to offset the customer
13 impacts associated with future maintenance and operation costs.

14 35. It is anticipated that installing liquefaction equipment would add
15 approximately \$24,000,000 to the project cost. As a result, notwithstanding the
16 potential benefits of installing liquefaction equipment, Southwest Gas recommends
17 filling the tank by transferring LNG from tanker trucks to minimize the overall project
18 cost and the resulting bill impact to customers.

19 **Estimated Costs and Deferred Accounting Treatment.**

20 36. The current estimated total capital cost of the proposed LNG storage
21 facility, including those facilities necessary to connect the proposed storage tank to
22 Southwest Gas' existing distribution system, is approximately \$46,363,000.

23 37. Since Southwest Gas is in the preliminary stages of this project and has
24 yet to secure a specific site location or conduct a detailed engineering analysis and
25 cost estimate, Southwest Gas respectfully requests approval of the actual cost of the
26 facility, not to exceed \$55,000,000. The \$55,000,000 consists of the estimated cost of
27 \$46,363,000, plus 20 percent, which is a reasonable contingency commonly used in
28 the industry.

1 38. Utilizing the requested not-to-exceed amount of \$55,000,000 as a proxy,
2 the annualized revenue requirement associated with the proposed LNG storage
3 facility equates to a monthly bill impact of \$0.54 or 1.34 percent for an average
4 residential customer using 25 therms per month.

5 39. Based on a \$4.00/Dth Southern California border market price for
6 natural gas, plus the associated cost for a third-party vendor to produce and transport
7 the LNG to the proposed storage facility, Southwest Gas estimates that the annual
8 gas cost associated with this boil-off will be approximately \$1,678,000. The total cost
9 per unit is approximately \$13.42/Dth. This amount would increase the average gas
10 cost rate for residential customers by approximately \$0.00319 per therm, which
11 equates to a monthly bill impact of approximately \$0.08.

12 40. As a result, the estimated combined average monthly bill impact on
13 residential customers of the incremental costs associated with the proposed LNG
14 storage facility would be \$0.62.

15 41. In light of the costs Southwest Gas anticipates incurring to complete,
16 operate, and maintain the proposed LNG storage facility, the Company is requesting
17 approval to establish a regulatory asset to defer the ongoing revenue requirement
18 associated with the proposed LNG storage facility, including the depreciation
19 expense,³ property taxes,⁴ operation and maintenance expenses,⁵ and carrying
20 charges consistent with the Company's currently authorized pre-tax rate of return, until
21 the Company's next general rate case.

22 _____
23 ³ Southwest Gas' preliminary ratemaking proposal contemplates that depreciation expense on
24 distribution plant would be calculated using the currently authorized depreciation rates. Since
25 Southwest Gas does not currently have an authorized depreciation rate for storage plant, the
depreciation rate of 4.75% (as currently authorized for Paiute's storage plant) was used as a
proxy.

26 ⁴ Property taxes would be calculated using the Company's current property tax rate.

27 ⁵ Southwest Gas estimates that the first year annual cost to operate the LNG storage facility will
28 be approximately \$237,000. These costs are primarily associated with property insurance,
manpower, utilities, and maintenance for the facility.

1 42. Furthermore, since the Company is in the preliminary stages of this
2 project and has yet to secure a site for the facility or retain an engineering consultant
3 to conduct a detailed analysis and cost estimate for the proposed LNG storage facility,
4 it is possible that an unforeseen circumstance may arise resulting in Southwest Gas
5 recommending not to construct the project. As this decision may occur sometime
6 after the Company has incurred significant costs, Southwest Gas seeks approval to
7 recover any and all non-refundable project-related costs prudently incurred by the
8 Company, regardless of whether the project is constructed.

9 **Cost Recovery.**

10 43. In the event the proposed LNG storage facility is included in the
11 Company's next general rate case, the depreciated capital costs associated with the
12 LNG storage facility (net of deferred taxes) and LNG inventory will be incorporated
13 into the development of the test year rate base, and the ongoing expenses related to
14 the facility will also be included in the test year revenue requirement. However, if the
15 LNG storage facility is not included in rate base in the Company's next general rate
16 case, the Company plans to request approval of a cost recovery mechanism that
17 would facilitate recovery of the LNG storage facility costs that have been deferred into
18 the regulatory asset.

19 44. With respect to gas cost recovery, Southwest Gas requests that the gas
20 costs associated with the LNG storage facility be recovered pursuant to the
21 Purchased Gas Cost Adjustment Provision ("PGA") of the Southwest Gas Arizona
22 Gas Tariff. Assuming there is no supply disruption which necessitates use of the LNG
23 contained in the storage facility, it is anticipated that the proposed facility will yield
24 approximately 125,000 Dth of boil-off annually, which will be dispatched into
25 Southwest Gas' distribution system and taken as part of the day-to-day supply
26 requirement.

27 ...

28 ...

1 **Conclusion.**

2 45. By having readily available local gas supply to dispatch into Southwest
3 Gas' system, the proposed LNG storage facility will enhance the reliability and
4 flexibility of Southwest Gas' distribution system and mitigate against future service
5 interruptions arising from severe supply disruption events in the area. Thus,
6 Southwest Gas believes that the LNG storage facility has long-term benefits for its
7 customers. This proposal was a result of reasoned and thoughtful judgment that
8 balanced the cost of the project with the benefits derived from it.

9 46. Based thereon, the construction of the LNG storage facility and the costs
10 related thereto should be deemed reasonable and prudent. Pursuant to the
11 Commission's Policy Statement, Southwest Gas respectfully requests that the
12 Commission approve recovery of these costs as set forth herein.

13 WHEREFORE, Southwest Gas respectfully requests that the Commission
14 issue a final order:

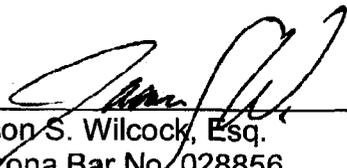
- 15 A. Granting Southwest Gas approval to construct, operate, and maintain the
16 proposed LNG storage facility to serve its customers;
- 17 B. Approving Southwest Gas' actual project costs for the proposed LNG
18 storage facility, not to exceed \$55,000,000 for an LNG storage facility
19 without liquefaction;
- 20 C. Authorizing the Company to establish a regulatory asset to capture the
21 ongoing revenue requirement associated with the proposed LNG storage
22 facility and to recover those deferred costs in the Company's next general
23 rate case or through a cost recovery mechanism established in its next
24 general rate case, as set forth herein;
- 25 D. Authorizing Southwest Gas to recover the costs associated with any gas
26 released from the LNG storage facility into the Company's distribution
27 system and taken as part of the day-to-day supply requirement, including
28 without limitation, the boil-off, pursuant to the PGA mechanism; and

1 E. For such other relief as this Commission deems appropriate.

2 Dated this 27th day of January 2014.

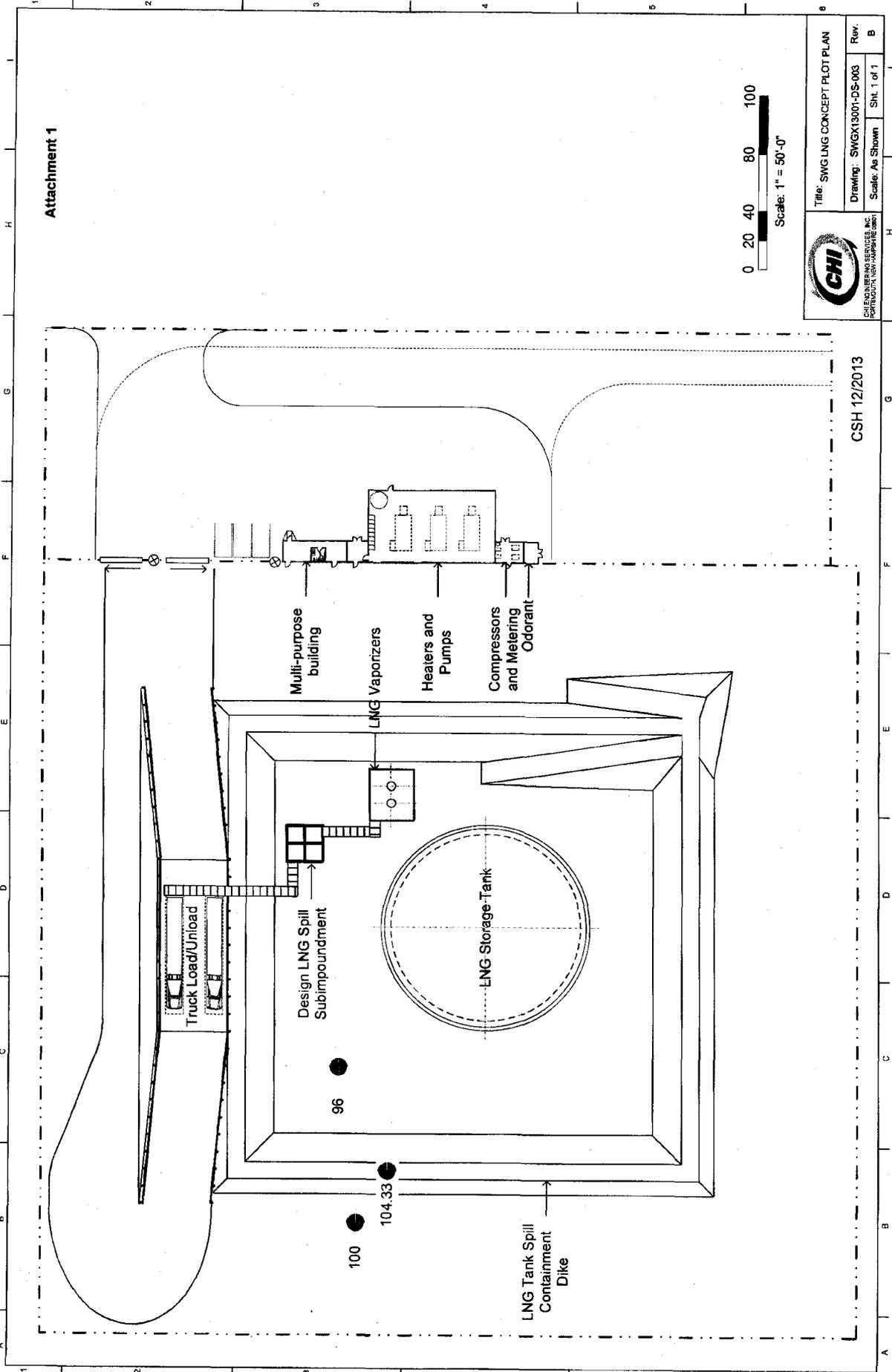
3 Respectfully submitted,

4 SOUTHWEST GAS CORPORATION

5
6 
7 _____
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12 Telephone: (702) 364-3227
13 Email: jason.wilcock@swgas.com

14 *Attorney for Southwest Gas Corporation*

Attachment 1



Attachment 1



Title: SWG LNG CONCEPT PLOT PLAN
 Drawing: SWGX13001-DS-003
 Scale: As Shown

CSH 12/2013

Rev. B
 Sh. 1 of 1

CHI ENGINEERING SERVICES, INC.
 PORTLAND, NEW HAMPSHIRE 03801