

# OPEN MEETING



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## MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

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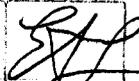
FROM: Utilities Division

APR 14 2014

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

ORIGINAL

DATE: April 14, 2014

DOCKETED BY 

RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL TO SET ITS CUSTOMER OWNED YARD LINE SURCHARGE RATE (DOCKET NO. G-01551A-10-0458)

On February 28, 2014, Southwest Gas Corporation (“Southwest” or “Company”) filed a request for approval of the Company’s initial customer-owned yard line (“COYL”) surcharge. Southwest’s initial application requested a surcharge of \$0.00241 per therm, effective June 1, 2014. Subsequently Southwest indicated to Staff that it made corrections to the surcharge calculation, resulting in a revised requested surcharge level of \$0.00231 per therm.

Southwest’s filing is pursuant to provisions contained in a settlement agreement approved by the Commission in Decision No. 72723 (January 6, 2012) to establish a COYL program that would survey existing COYLs and replace COYLs that were found to have leaks. A COYL is a service line where the meter is generally located at the property line or public right-of-way, some distance from the customer premises, and the customer currently owns and is responsible for replacing/repairing the service line if there are any problems with it. Southwest no longer installs COYLs, but rather locates the meter at the building or structural wall of the customer premises. Customers may not properly maintain their COYLs or even be aware of their responsibility to maintain their COYLs, creating a potential safety hazard due to corrosion and leakage.

Under the COYL program approved in Decision No. 72723, Southwest was given \$1 million annually in base rates to acquire necessary leak detection equipment and conduct a leak detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace COYLs discovered through the COYL survey or from a leak survey following an odor call complaint and recover capital investment related to the COYL replacement program through a COYL cost recovery mechanism (“CCRM”), as detailed in the settlement agreement. The CCRM surcharge is not permitted to be greater than \$0.01 per therm in any single year and would be reset annually. In Decision No. 74304 (January 29, 2014), the Commission expanded the COYL replacement program to allow COYL replacements to take place in coordination with other pipeline replacement projects, regardless of whether the COYL is leaking. However, Decision No. 74304 does not impact this filing, which only addresses COYL replacement activities through the end of 2013.

In Decision No. 73883 (May 8, 2013), the Commission approved Southwest's initial CCRM surcharge of \$0.00101 per therm, effective June 1, 2013. This surcharge was based upon total COYL spending of \$4.1 million in 2012. Southwest's current filing requests approval of a surcharge of \$0.00241 per therm, effective June 1, 2014, based on reported COYL spending of \$5.7 million in 2013. This brings total COYL spending through the end of 2013 to \$9.8 million. Under Decision No. 72723, Staff has 45 days from the date of Southwest's filing to make recommendations to the Commission regarding Southwest's filing.

The table below shows information on the COYL program activities in 2012 and 2013.

	2012	2013
Total Lines Inspected or Attempted to be Inspected	52,243	51,432
Lines Identified as Not Being Eligible Under the COYL Program	14,456	6,168
Lines Identified as COYLs	37,787	45,264
Number Passing the Survey	25,147	22,106
Number Identified as Leaks	1,913	1,967
Number Refusing to allow Southwest to Survey	1,479	5,053
Number Southwest was Unable to Contact	9,248	15,990
Number of COYLs Replaced	1,767	2,236
Replacements in Progress at the Time of Southwest's Filing	37	15
Number Undecided as to Whether to Replace	40	140
Number Declining Replacement of Leaking COYL	69	90

NOTE: In 2013, Southwest also had 404 COYLs that were identified as previously passing the survey, declined a leak survey, or did not respond to efforts by Southwest to communicate with them, but in 2013 had leaks discovered. There were also 110 relocations in 2013 that were identified as "in progress" in 2012, were undecided in 2012, or previously had declined a relocation but reconsidered.

Southwest has indicated that 19,190 known COYLs remain in Arizona to be inspected in 2014 (not counting those for which Southwest has attempted to survey but

has been unable to in 2012 and 2013). The initial round of inspection was expected to take place in three years and thus Southwest appears to be on or ahead of schedule to

complete all the inspections (apart from those COYLs it has been unable to gain access to inspect) within the initial three year period of the COYL program.

At the time the Commission reviewed Southwest's CCRM surcharge filing a year ago, Southwest estimated that there were 118,500 COYLs in Southwest's Arizona service territory. Southwest now estimates that there are a total of 98,303 COYLs that have been replaced (4,003) or remain to be replaced assuming customer consent (94,300). Southwest now estimates that the COYL program would cost \$240,835,453 to replace all COYLs in its Arizona service territory.

When reviewing last year's COYL filing, Staff expressed concern with the high percentage of customers with COYLs who did not have their COYLs inspected either because Southwest was unable to contact them or that the customer refused to allow Southwest to inspect the COYL. In Decision No. 73883, the Commission ordered Southwest to submit a plan within 90 days of the Commission's decision in the proceeding, aimed at increasing customer response and participation in the COYL inspection process. On August 6, 2013, Southwest filed its Customer-Owned Yard Line Response and Participation Plan. Southwest has indicated to Staff that in 2013 it implemented a telephone outreach effort with live telephone contact to try to improve participation. Southwest continues to have a significant number of customers whose COYLs it is unable to survey. Southwest also has indicated that in the 2<sup>nd</sup> quarter of 2014 the Company will put COYL program information on its website for customers to access.

Southwest is seeking recovery of \$5,768,730 in gross COYL plant installed in 2013. Thus, the total gross plant installed under the COYL program to date is approximately \$9.8 million (\$4.1 million in gross plant was installed in 2012). Staff has reviewed the 2013 costs and held discussions with Southwest regarding these costs and believes that these costs are reasonable to include for recovery through the CCRM surcharge.

Given the \$5.7 million cost in 2013 and the COYLs replaced under the program, the total cost per COYL replaced is approximately \$2,450 per COYL replaced in 2013. This is an increase from a cost of approximately \$2,300 per COYL replaced in 2012. Southwest has indicated that the cost increase per replacement in 2013 is a result of more COYL survey activities in rural areas and the resulting longer service line lengths and more difficult digging conditions.

TO THE COMMISSION

April 14, 2014

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In summary, Staff recommends approval of the \$0.00231 per therm CCRM surcharge, effective for 12 months, beginning on June 1, 2014.

 for  
Steven M. Olea  
Director  
Utilities Division

SMO:RGG:sms\RRM

ORIGINATOR: Robert Gray

1                                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 BOB STUMP  
Chairman

3 GARY PIERCE  
Commissioner

4 BRENDA BURNS  
Commissioner

5 BOB BURNS  
Commissioner

6 SUSAN BITTER SMITH  
Commissioner

7  
8 IN THE MATTER OF THE APPLICATION )  
9 OF SOUTHWEST GAS CORPORATION )  
10 FOR APPROVAL OF ITS CUSTOMER )  
11 OWNED YARD LINE SURCHARGE RATE. )  
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DOCKET NO. G-01551A-10-0458

DECISION NO. \_\_\_\_\_

ORDER

14 Open Meeting  
15 May 13 and 14, 2014  
16 Phoenix, Arizona

16 BY THE COMMISSION:

17                                   FINDINGS OF FACT

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

21           2.       On February 28, 2014, Southwest filed a request for approval of the Company’s initial  
22 customer-owned yard line (“COYL”) surcharge. Southwest’s initial application requested a surcharge  
23 of \$0.00241 per therm, effective June 1, 2014. Subsequently Southwest indicated to Staff that it made  
24 corrections to the surcharge calculation, resulting in a revised requested surcharge level of \$0.00231  
25 per therm.

26           3.       Southwest’s filing is pursuant to provisions contained in a settlement agreement  
27 approved by the Commission in Decision No. 72723 (January 6, 2012) to establish a COYL program  
28 that would survey existing COYLs and replace COYLs that were found to have leaks. A COYL is a

1 service line where the meter is generally located at the property line or public right-of-way, some  
2 distance from the customer premises, and the customer currently owns and is responsible for  
3 replacing/repairing the service line if there are any problems with it. Southwest no longer installs  
4 COYLs, but rather locates the meter at the building or structural wall of the customer premises.  
5 Customers may not properly maintain their COYLs or even be aware of their responsibility to  
6 maintain their COYLs, creating a potential safety hazard due to corrosion and leakage.

7 4. Under the COYL program approved in Decision No. 72723, Southwest was given \$1  
8 million annually in base rates to acquire necessary leak detection equipment and conduct a leak  
9 detection survey of all the COYLs over a 3 year period. Southwest was also permitted to replace  
10 COYLs discovered through the COYL survey or from a leak survey following an odor call complaint  
11 and recover capital investment related to the COYL replacement program through a COYL cost  
12 recovery mechanism ("CCRM"), as detailed in the settlement agreement. The CCRM surcharge is not  
13 permitted to be greater than \$0.01 per therm in any single year and would be reset annually.

14 5. In Decision No. 74304 (January 29, 2014), the Commission expanded the COYL  
15 replacement program to allow COYL replacements to take place in coordination with other pipeline  
16 replacement projects, regardless of whether the COYL is leaking. However, Decision No. 74304 does  
17 not impact this filing, which only addresses COYL replacement activities through the end of 2013.

18 6. In Decision No. 73883 (May 8, 2013), the Commission approved Southwest's initial  
19 CCRM surcharge of \$0.00101 per therm, effective June 1, 2013. This surcharge was based upon total  
20 COYL spending of \$4.1 million in 2012.

21 7. Southwest's current filing requests approval of a surcharge of \$0.00231 per therm,  
22 effective June 1, 2014, based on reported COYL spending of \$5.8 million in 2013. This brings total  
23 COYL spending through the end of 2013 to \$9.8 million.

24 8. Under Decision No. 72723, Staff has 45 days from the date of Southwest's filing to  
25 make recommendations to the Commission regarding Southwest's filing.

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9. The table below shows information on the COYL program activities in 2012 and 2013.

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10. Southwest has indicated that 19,190 known COYLs remain in Arizona to be inspected in 2014 (not counting those for which Southwest has attempted to survey but has been unable to in 2012 and 2013). The initial round of inspections was expected to take place in three years and thus Southwest appears to be on or ahead of schedule to complete all inspections (apart from those COYLs it has been unable to gain access to to inspect) within the initial three year period of the COYL program.

11. At the time the Commission reviewed Southwest's CCRM surcharge filing a year ago, Southwest estimated that there were 118,500 COYLs in Southwest's Arizona service territory.

12. Southwest now estimates that there are a total of 98,303 COYLs that have been replaced (4,003) or remain to be replaced assuming customer consent (94,300). Southwest now estimates that the COYL program would cost \$240,835,453 to replace all COYLs in its Arizona service territory.



1           2.     The Commission has jurisdiction over Southwest Gas Corporation and over the  
2 subject matter of the application.

3           3.     The Commission, having reviewed the filing and Staff's Memorandum dated April 14,  
4 2014, concludes that it is in the public interest to approve Southwest Gas Corporation's application  
5 for approval of the \$0.00231 per therm CCRM surcharge, effective for 12 months, beginning on June  
6 1, 2014.

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's application for a CCRM surcharge of \$0.00231 per therm, effective for 12 months, beginning on June 1, 2014, be and hereby is approved.

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

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

\_\_\_\_\_  
CHAIRMAN

\_\_\_\_\_  
COMMISSIONER

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COMMISSIONER

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COMMISSIONER

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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 \_\_\_\_\_ day of \_\_\_\_\_, 2014.

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:RRG:sms\RRM

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION  
2 DOCKET NO. G-01551A-10-0458

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