

OPEN MEETING



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MEMORANDUM
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Arizona Corporation Commission

DOCKETED

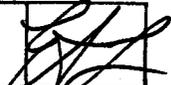
2014 JUN 26 P 3:52

JUN 26 2014

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 26, 2014

DOCKETED BY 

RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL TO ADJUST ITS GAS COST BALANCING ACCOUNT SURCHARGE AND FOR AUTHORITY TO ADJUST ITS GAS COST BALANCING ACCOUNT SURCHARGE IN CONJUNCTION WITH ITS MONTHLY GAS COST FILING. (DOCKET NO. G-01551A-14-0148)

ORIGINAL

On May 6, 2014, Southwest Gas Corporation (“Southwest” or “the Company”) filed an application for approval to adjust its Gas Cost Balancing Account (“GCBA” or “Balancing Account”) surcharge to \$0.09172 per therm, and for authority to adjust the GCBA surcharge as part of the Company’s monthly gas cost filings.

Due to increases in the market price for natural gas, Southwest is currently under-collected by approximately \$43 million.

Background

Southwest is allowed to recover only the actual cost of natural gas. It does so through its Monthly Gas Cost (“MGC”) rate, which is set using Southwest’s Purchased Gas Adjustor (“PGA”) mechanism. The PGA mechanism calculates the MGC rate based on a twelve-month rolling average, limited to a \$0.15 per therm bandwidth. Use of a rolling average makes the PGA adjustor rate more predictable and consistent, while the bandwidth provides an additional constraint on volatility by limiting changes (increases or decreases) to no more than \$0.15 per therm over twelve months.

The MGC rate, as governed by the PGA mechanism, may be either higher or lower than the actual cost of gas. The difference between the MGC rate and the actual cost of gas is tracked and recorded in the GCBA, so that under-collections can be recovered by the Company and over-collections can be returned to ratepayers. Interest is recorded in the Balancing Account, for both over- and under-collections, and is based on the monthly one-year nominal Treasury constant maturities rate.

THE COMMISSION

June 30, 2014

Page 2

For the past few years, Southwest has sustained an over-collected balance. In Decision No. 71434 (December 9, 2009), the Commission authorized a GCBA surcredit of \$0.08 per therm. At the time, the Company's over collected balance was approximately \$38 million. Under the tariff, Southwest must file to adjust the Balancing Account within 45 days of completing the monthly information filing showing that the threshold has been exceeded. Alternatively, the Company may contact the Commission to discuss why an adjustment is not necessary. Currently, there is no threshold on under-collected balances which allows the Company to forgo a surcharge in instances when changing market conditions would make a surcharge unnecessary.

In October 2012, Southwest had an over-collected balance exceeding \$56 million. Decision No. 73613 (December 12, 2012) approved Southwest Gas' request to increase its GCBA surcredit to \$0.10 per therm in order to enable the Company to return the over-collection to customers. The Commission also granted Southwest Gas the flexibility to increase the surcredit to \$0.11 per therm if necessary to pay down the over-collection on a timely basis. Finally, Decision No. 73613 imposed a \$28 million threshold on over-collections in the GCBA, which took effect once the over-collected bank balance dropped below \$10 million.

In December of 2013, Southwest Gas' GCBA balance transitioned from a credit balance to a debit balance. Due to billing and accounting lag time experienced by the Company, Southwest failed to notice the under-collection until late January, 2014. This lag prevented the Company from discontinuing the \$0.10 surcredit until sometime in February 2014; this coupled with a spike in natural gas prices caused by an extremely cold winter in the Northeast resulted in an under-collection of nearly \$43 million. As of February, 2014, Southwest had discontinued the \$.10 surcredit; the surcredit is now set at zero.

Current Application

In order to address the under-collection in the GCBA, Southwest has proposed a surcharge of \$0.09172 per therm. Based on the Company's projections; this surcharge will bring the Company's under-collected balance to zero sometime in May 2015.

In addition to the surcharge, Southwest is requesting the authority to evaluate the GCBA balance on a monthly basis and adjust the GCBA surcharge, as detailed below, in conjunction with the Company's monthly gas cost filings.

- a. If the GCBA balance is between plus and minus \$10 million, the GCBA surcharge will be set equal to zero;
- b. If the GCBA balance exceeds plus and minus \$10 million, the GCBA surcharge will be equal to the GCBA balance divided by the sales volumes used to calculate the PGA rate;

- c. Rate adjustments resulting from the above-described process will be limited such that customers will not experience an increase or decrease in the GCBA surcharge greater than \$0.02 per therm in a given month.

Analysis

Staff's review of the Company's March 2014 Fuel Adjustor Report confirmed an under-collected balance in the GCBA of \$42,877,764. Information supported by Energy Information Administration data confirmed that high demand for natural gas, due to an extremely cold winter in the Northeast that forced suppliers to dip into gas storage, causing prices to spike over the winter months.

Staff believes the extraordinarily high under-collections during the months of December, January, February and March were further exacerbated by the Company's failure to scale down the Commission-mandated surcredit of \$0.10 per therm. It is important to note that traditionally natural gas costs have been fairly volatile and the spike in gas prices this winter speaks to the volatility of the natural gas industry.

Staff believes that if the Company had the ability to scale up or down (within reason) its GCBA surcharge or surcredit in relation to GCBA projections, some of the rate shock associated with moving between an over-collected and under-collected GCBA balance would be mitigated. Additionally, in this application the Company has requested a threshold of plus or minus \$10 million for its GCBA balance. It should be noted that in Decision No. 70665, the under-collection threshold of \$10 million was eliminated. For the purposes of this application, Staff believes it reasonable to establish a threshold "plus or minus \$10 million" where surcharges and surcredits remain fixed at zero.

Recommendations

Staff recommends that the Commission grant the Company the ability to adjust the GCBA surcharge/surcredit in conjunction with Monthly Gas Cost filings within the parameters outlined below.

- a. If the GCBA balance is between plus or minus \$10 million ("threshold"), the GCBA surcharge/surcredit will be set equal to zero;
- b. If the GCBA balance exceeds plus or minus \$10 million, the Company must implement a surcharge or surcredit;
- c. The surcharge/surcredit must be limited such that customers will not experience an increase or decrease greater or less than \$0.01 per therm in a given month;
- d. The GCBA surcharge/surcredit will have a maximum of plus or minus \$0.10 per therm until further order of the Commission;

- e. The GCBA surcharge/surcredit must track with monthly gas cost filings in an attempt to bring the balance within the threshold.

Staff recommends that the Company inform the Commission each time it adjusts the GCBA surcharge/surcredit, by filing a letter to this docket 15 days prior to the adjustment.

Staff recommends that if the Company incurs under- or over-collections of \$40 million which cannot be managed by the aforementioned flexible GCBA surcharge, the Company file in a timely manner with the Commission an application to reassess the GCBA surcharge.

To mitigate bill impacts, Staff recommends that the Commission approve a starting surcharge of \$0.06 per therm to take effect August 1, 2014. This surcharge would remain fixed and in effect until the Company's under-collected GCBA balance is reduced to \$20 million; at which point the Company would implement the aforementioned flexible GCBA surcharge.

The table below details Southwest Gas' monthly bill impacts for the proposed monthly GCBA surcharge; this surcharge would be in addition to MGC rate.

| | Average Monthly Usage in Therms | Company's Proposed Surcharge of {\$0.09172} per therm | Staff's Proposed Surcharge of {\$0.06} per therm |
|--------|---------------------------------|---|--|
| Summer | 11 | \$1.01 | \$0.66 |
| Winter | 41 | \$3.76 | \$2.46 |
| Annual | 26 | \$2.38 | \$1.56 |



Steven M. Olea
 Director
 Utilities Division

SMO:EMV:sms\RRM

ORIGINATOR: Eric Van Epps

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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

IN THE MATTER OF THE APPLICATION
 OF SOUTHWEST GAS CORPORATION
 FOR APPROVAL TO ADJUST ITS GAS
 COST BALANCING ACCOUNT
 SURCHARGE AND FOR AUTHORITY TO
 ADJUST ITS GAS COST BALANCING
 ACCOUNT SURCHARGE IN
 CONJUNCTION WITH ITS MONTHLY GAS
 COST FILING.

DOCKET NO. G-01551A-14-0148
 DECISION NO. _____
ORDER

Open Meeting
 July 22 & 23, 2014
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On May 6, 2014, Southwest filed for approval to adjust its Gas Cost Balancing Account ("GCBA") surcharge to \$0.09172 per therm, and for authority to adjust the GCBA surcharge as part of the Company's monthly gas cost filings.

3. Due to increases in the market price for natural gas, Southwest is currently under-collected by approximately \$43 million.

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1 Background

2 4. Southwest is allowed to recover only the actual cost of natural gas. It does so through
3 its Monthly Gas Cost ("MGC") rate, which is set using Southwest's Purchased Gas Adjustor ("PGA")
4 mechanism. The PGA mechanism calculates the MGC rate based on a twelve-month rolling average,
5 limited to a \$0.15 per therm bandwidth. Use of a rolling average makes the PGA adjustor rate more
6 predictable and consistent, while the bandwidth provides an additional constraint on volatility by
7 limiting changes (increases or decreases) to no more than \$0.15 per therm over twelve months.

8 5. The MGC rate, as governed by the PGA mechanism, may be either higher or lower
9 than the actual cost of gas. The difference between the MGC rate and the actual cost of gas is tracked
10 and recorded in the Gas Cost Balancing Account ("GCBA", "Balancing Account"), so that under-
11 collections can be recovered by the Company and over-collections can be returned to ratepayers.
12 Interest is recorded in the Balancing Account, for both over- and under-collections, and is based on
13 the monthly one-year nominal Treasury constant maturities rate.

14 6. For the past few years, Southwest has sustained an over-collected balance. In Decision
15 No. 71434 (December 9, 2009), the Commission authorized a GCBA surcredit of \$0.08 per therm. At
16 that time, the Company's over-collected balance was approximately \$38 million. Under the tariff,
17 Southwest must file to adjust the Balancing Account within 45 days of completing the monthly
18 information filing showing that the threshold has been exceeded. Alternatively, the Company may
19 contact the Commission to discuss why an adjustment is not necessary. Currently, there is no
20 threshold on under-collected balances which allows the Company to forgo a surcharge in instances
21 when changing market conditions would make a surcharge unnecessary.

22 7. In October 2012, Southwest had an over-collected balance exceeding \$56 million.
23 Decision No. 73613 (December 12, 2012) approved Southwest Gas' request to increase its GCBA
24 surcredit to \$0.10 per therm in order to enable the Company to return the over-collection to
25 customers. The Commission also granted Southwest Gas the flexibility to increase the surcredit to
26 \$0.11 per therm if necessary to pay down the over-collection on a timely basis. Finally, Decision No.
27 73613 imposed a \$28 million threshold on over-collections in the GCBA, which took effect once the
28 over-collected bank balance dropped below \$10 million.

1 8. In December of 2013, Southwest Gas' GCBA balance transitioned from a credit
2 balance to a debit balance. Due to billing and accounting lag time experienced by the Company,
3 Southwest failed to notice the under-collection until late January, 2014. This lag prevented the
4 Company from discontinuing the \$0.10 surcredit until sometime in February, 2014; this, coupled with
5 a spike in natural gas prices caused by an extremely cold winter in the Northeast resulted in an under-
6 collection of nearly \$43 million. As of February, 2014, Southwest had discontinued the \$.10 surcredit;
7 the surcredit is now set at zero.

8 *Current Application*

9 9. In order to address the under-collection in the GCBA, Southwest has proposed a
10 surcharge of \$0.09172 per therm. Based on the Company's projections; this surcharge will bring the
11 Company's under-collected balance to zero sometime in May 2015.

12 10. In addition to the surcharge, Southwest is requesting the authority to evaluate the
13 GCBA balance on a monthly basis and adjust the GCBA surcharge, as detailed below, in conjunction
14 with the Company's monthly gas cost filings.

- 15 a. If the GCBA balance is between plus and minus \$10 million, the GCBA surcharge will
16 be set equal to zero;
- 17 b. If the GCBA balance exceeds plus and minus \$10 million, the GCBA surcharge will be
18 equal to the GCBA balance divided by the sales volumes used to calculate the PGA
19 rate;
- 20 c. Rate adjustments resulting from the above-described process will be limited such that
21 customers will not experience an increase or decrease in the GCBA surcharge greater
22 than \$0.02 per therm in a given month.

23 *Analysis*

24 11. Staff's review of the Company's March 2014 Fuel Adjustor Report confirmed an
25 under-collected balance in the GCBA of \$42,877,764. Information supported by Energy Information
26 Administration data confirmed that high demand for natural gas, due to an extremely cold winter in
27 the Northeast that forced suppliers to dip into gas storage, causing prices to spike over the winter
28 months.

1 12. Staff believes the extraordinarily high under-collections during the months of
2 December, January, February and March were further exacerbated by the Company's failure to scale
3 down the Commission-mandated surcredit of \$0.10 per therm. It is important to note that traditionally
4 natural gas costs have been fairly volatile and the spike in gas prices this winter speaks to the volatility
5 of the natural gas industry.

6 13. Staff believes that if the Company had the ability to scale up or down (within reason)
7 its GCBA surcharge or surcredit in relation to GCBA projections, some of the rate shock associated
8 with moving between an over-collected and under-collected GCBA balance would be mitigated.
9 Additionally, in this application the Company has requested a threshold of plus or minus \$10 million
10 for its GCBA balance. It should be noted that in Decision No. 70665, the under-collection threshold
11 of \$10 million was eliminated. For the purposes of this application, Staff believes it reasonable to
12 establish a threshold "plus or minus \$10 million" where surcharges and surcredits remain fixed at zero.

13 **Recommendations**

14 14. Staff has recommended that the Commission grant the Company the ability to adjust
15 the GCBA surcharge/surcredit in conjunction with Monthly Gas Cost filings within the parameters
16 outlined below.

- 17 a. If the GCBA balance is between plus or minus \$10 million ("threshold"), the GCBA
18 surcharge/surcredit will be set equal to zero;
- 19 b. If the GCBA balance exceeds plus or minus \$10 million, the Company must
20 implement a surcharge or surcredit;
- 21 c. The surcharge/surcredit must be limited such that customers will not experience an
22 increase or decrease greater or less than \$0.01 per therm in a given month;
- 23 d. The GCBA surcharge/surcredit will have a maximum of plus or minus \$0.10 per
24 therm until further order of the Commission;
- 25 e. The GCBA surcharge/surcredit must track with monthly gas cost filings in an attempt
26 to bring the balance within the threshold.

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1 15. Staff has recommended that the Company inform the Commission each time it adjusts
2 the GCBA surcharge/surcredit, by filing a letter to this docket 15 days prior to the adjustment.

3 16. Staff has recommended that, if the Company incurs under- or over-collections of \$40
4 million which cannot be managed by the aforementioned flexible GCBA surcharge, the Company file
5 in a timely manner with the Commission an application to reassess the GCBA surcharge.

6 17. To mitigate bill impacts, Staff has recommended that the Commission approve a
7 starting surcharge of \$0.06 per therm to take effect August 1, 2014. This surcharge would remain fixed
8 and in effect until the Company's under-collected GCBA balance is reduced to \$20 million; at which
9 point the Company would implement the aforementioned GCBA surcharge flexibility.

10 18. The table below details Southwest Gas' monthly bill impacts for the proposed monthly
11 GCBA surcharge; this surcharge would be in addition to the MGC rate.

| | Average Monthly Usage in Therms | Company's Proposed Surcharge of {\$0.09172} per therm | Staff's Proposed Surcharge of {\$0.06} per therm |
|--------|---|---|---|
| Summer | 11 | \$1.01 | \$0.66 |
| Winter | 41 | \$3.76 | \$2.46 |
| Annual | 26 | \$2.38 | \$1.56 |

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CONCLUSIONS OF LAW

15 1. Southwest is an Arizona public service corporation within the meaning of Article XV,
16 section 2, of the Arizona Constitution

17 2. The Commission has jurisdiction over Southwest and over the subject matter of the
18 application.

19 3. The Commission, having reviewed the application and Staff's Memorandum dated
20 June 26, 2014, concludes that it is in the public interest to approve the surcharge with modifications as
21 discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation be granted the ability to adjust the GCBA surcharge/surcredit in conjunction with Monthly Gas Cost filings within the parameters outlined herein.

- a. If the GCBA balance is between plus or minus \$10 million (“threshold”), the GCBA surcharge/surcredit will be set equal to zero;
- b. If the GCBA balance exceeds plus or minus \$10 million, Southwest Gas Corporation must implement a surcharge or surcredit;
- c. The surcharge/surcredit must be limited such that customers will not experience an increase or decrease greater or less than \$0.02 per therm in a given month;
- d. The GCBA surcharge/surcredit will have a maximum of plus or minus \$0.10 per therm until further order of the Commission;
- e. The GCBA surcharge/surcredit must track with monthly gas cost filings in an attempt to bring the balance within the threshold.

IT IS FURTHER ORDERED that Southwest Gas Corporation inform the Commission through a letter to this docket every time it adjusts the GCBA surcharge/surcredit. This letter should be filed 15 days prior to the adjustment.

1 IT IS FURTHER ORDERED that, if Southwest Gas Corporation incurs under- or over-
 2 collections of \$40 million which cannot be managed by the aforementioned flexible GCBA surcharge,
 3 Southwest Gas Corporation shall file in a timely manner with the Commission an application to
 4 reassess the GCBA surcharge.

5 IT IS FURTHER ORDERED that Southwest Gas Corporation's surcharge of \$0.06 per
 6 therm shall take effect August 1, 2014. This surcharge shall remain fixed and in effect until Southwest
 7 Gas Corporation's under-collected GCBA balance is reduced to \$20 million; at which point the
 8 Southwest Gas Corporation shall implement the aforementioned flexible GCBA surcharge.

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

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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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.

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 JODI JERICH
 EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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1 SERVICE LIST FOR: Southwest Gas Corporation
DOCKET NO. G-01551A-14-0148

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