



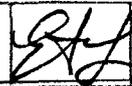
0000159372

BEFORE THE ARIZONA CORPORATION COMMISSION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

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

Arizona Corporation Commission
DOCKETED
DEC 18 2014

DOCKETED BY 

IN THE MATTER OF THE APPLICATION)
OF SOUTHWEST GAS CORPORATION)
FOR APPROVAL OF THE)
ESTABLISHMENT OF JUST AND)
REASONABLE RATES.)

DOCKET NO. G-01551A-10-0458
DECISION NO. 74862
ORDER

Open Meeting
December 11 and 12, 2014
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 ("Commission").
2. On April 30, 2014, Southwest filed an application requesting approval to set its annual 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 EEP rate based on the Company's performance between January 1, 2013, and December 31, 2013. During the second year of the EEP, Southwest Gas accrued a credit balance of \$11,626,351, and is seeking to refund that balance to its customers in the amount of -\$0.02626 per therm.

...

1 5,230,962 therms (including therm equivalents). The table below summarizes the expenditures by
 2 program.

Program	Second Year Expenditures (June 1, 2013 – May 30, 2014)
Residential	\$3,008,812
Non-Residential (Commercial/Dist.Gen)	\$669,869
Low-Income	\$549,623
Renewable Energy Resource Technology (RET)	\$435,060
Total	\$4,663,364

9
 10 10. (Note that renewable energy measures and programs are combined with Southwest's
 11 energy efficiency portfolio per the Commission's approval of its Energy Efficiency and Renewable
 12 Energy Resource Technology Plan under Decision No. 72339.)

13 11. According to Southwest's 2012 Annual Report, the Company's 2013 EE target was
 14 9,385,239 therms saved. Using Southwest's 2013 Annual Report, the Company's 2014 EE target is
 15 13,709,967 therms saved. Based on the 5,230,962 therms saved during the 12 months ended May 30,
 16 2014, Southwest did not reach its 2013 target and will most likely not reach its 2014 EE target.

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...

28 ...

Usage Analysis

12. Southwest Gas has analyzed customer growth on a pre- and post-decoupling basis. This analysis is based on the most recent years prior to decoupling and post decoupling, which were 2009-2011 and 2012-2013 respectively. Those changes are outlined in the table below:

	Residential	Non-Residential
Sales Volume		
Pre-Decoupling	282,066,888	184,152,790
Post-Decoupling	287,560,061	182,570,202
<i>Change</i>	5,493,173	(1,582,589)
Customers		
Pre-Decoupling	945,342	39,844
Post-Decoupling	968,880	39,416
<i>Change</i>	23,538	(428)
Usage Per Customer (in therms)		
Pre-Decoupling	298.4	4621.9
Post-Decoupling	296.8	4631.9
<i>Change</i>	(1.6)	10.0

13. Southwest also reports that residential customers initiating service during 2011-2013 have the lowest Usage per Customer (“UPC”) of Southwest’s customers. This trend is in line with the Company’s previous EEP Rate application, where Southwest attributed the trend to new customers living in newer homes that feature the best building envelope products and technology, in addition to the newest appliances that comply with current federal energy efficiency standards. The Company also included a comparison of recorded and weather-adjusted monthly UPC for customers initiating service in 2011, 2012, and customers initiating service prior to 2011. These data also suggest that new customer UPC is lower than it has been in the past.

Activities Supporting Customer Growth

14. In its initial EEP Rate filing, Southwest reported that it was working to support customer growth in multi-family residential applications, and as usage as a fuel for fleet vehicles. Staff requested an update on the status of these efforts in its data request. In its response, Southwest reported that in respect to its residential efforts, the Company continues to pursue increased utilization in multi-family markets for both individually metered dwellings units and central hot water

1 systems. In its most recent Energy Efficiency and Renewable Energy Resource Technology Portfolio
2 Implementation Plan, Southwest proposed extending eligibility of its Smarter Greener Better Homes
3 program to low-rise multi-family structures on a pilot basis. This proposal was approved by the
4 Commission in Decision No. 74300.

5 15. The Company also detailed its continued efforts to expand use of natural gas as a fuel
6 for vehicles. The Company recently executed an incremental facilities agreement (“IFA”) with the City
7 of Phoenix to serve four natural gas fueling stations in Phoenix, as well as an IFA with Waste
8 Management to serve a fueling station in north Phoenix. The City of Phoenix plans to convert its fleet
9 of 286 garbage trucks from diesel to natural gas during the next ten years, and Waste Management will
10 convert its fleet of 70 garbage trucks to natural gas during the next seven years.

11 EEP Rate

12 16. Southwest has requested approval to set its second annual rate related to its revenue
13 decoupling mechanism. The EEP rate is an annual true-up designed to reconcile the difference
14 between the Company’s revenue authorized by the Commission and the revenue actually experienced
15 by Southwest Gas as described by Decision No. 72723. “Revenues authorized by the Commission” is
16 defined as the Commission authorized monthly revenue per customer multiplied by the total number
17 of customers billed for service during the month. “Experienced revenue” is defined as the billed
18 revenue for the month.

19 17. The final per-therm rate adjustment is calculated by dividing the balance in the
20 deferred account by the previous 12 months sales volume. For the current application, the reporting
21 period was based on the Company’s performance between January 1, 2013 and December 31, 2013.
22 During this time period, the Company collected \$11,626,351 in excess of its authorized revenues, and
23 is now seeking to return that money to its ratepayers at the rate of -\$0.02626 per therm.

24 18. Southwest’s filing indicates its total sales volume as 442,764,852 therms for the 12
25 months ending March 31, 2014. The Company has confirmed that this figure represents all Arizona
26 deliveries to customers on decoupled rate schedules between April 1, 2013, and March 31, 2014. The
27 EEP rate is calculated using the most recent 12-month volume of natural gas use for customers
28

1 included in the EEP. The Company used this time period because it was the most recent data available
2 at the time of filing.

3 19. Staff issued a data request pertaining to the calculation of the \$11,626,351 account
4 balance, and requested that Southwest provide an explanation of how it reached this figure. Southwest
5 provided Staff with supporting documentation of the balancing account calculation. The Company
6 detailed applicable therms for customers billed with the EEP rate adjustment applied to their bills and
7 the corresponding changes in the EEP account balance.

8 20. The EEP includes a variable weather normalization component. This monthly
9 component adjusts customer bills to account for differences between actual temperatures and normal
10 temperatures for the days in a billing cycle. The weather component is not included in the Revenue
11 Decoupling Report evaluation as specified by Decision No. 72723, but it should be noted that weather
12 circumstances in 2013 played a role in the resulting proposed credit. Southwest reported that during
13 2013, an upward billing adjustment was made due to higher than average temperatures in April and a
14 downward adjustment was made in January due to lower than average temperatures.

15 21. Based on the responses to Staff's data request, and the supporting documentation
16 provided, Southwest's sales volume and balancing account total appear accurately calculated.
17 Therefore, the proposed rate of $-\$0.02626$ per therm appears appropriate based on the method
18 prescribed by Decision No. 72723.

19 Earnings Test

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

26 ...

27 ...

28 ...

Line No.	Description
1.	Fair Value Rate Base = \$1,452,933,391
2.	Fair Value Rate of Return = 6.92%
3.	Operating Income Required = Ln 1 * Ln 2
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
5.	Earnings Deficit/(Excess) = Ln 3 - Ln 4
6.	Gross Revenue Conversion Factor = 1.6579
7.	Revenue Deficit/(Excess) = Ln 5 * Ln 6

23. Southwest submitted the earnings test results shown below:

Line No.	Description	Reference	Amount
1.	Fair Value Base Rate	Decision No. 72723	\$1,452,933,391
2.	Fair Value Rate of Return	Decision No. 72723	6.92%
3.	Operating Income Required	Ln 1 * Ln 2	\$100,542,991
4.	Net Operating Income Available	Company Records	\$100,352,377
5.	Earnings Deficit/(Excess)	Ln 3 - Ln 4	\$190,613
6.	Gross Revenue Conversion Factor	Decision No. 72723	1.6579
7.	Revenue Deficit/(Excess)	Ln 5 * Ln 6	\$316,018

24. Staff evaluated the accuracy of Southwest's earnings test submittal, and issued a data request which included questions related to the calculation of the Company's Net Operating Income. Staff compared the Net Operating Income the Company reported to the Commission to the Net Operating Income used for the Earnings Test Calculation. Southwest's response to the Staff's data request detailed how this figure was reached, and the Company provided sufficient reconciliation with explanations that surcharge revenues and interest expenses are treated differently for the earnings test figure. Staff's review has confirmed that the test calculation above complies with the requirements of Decision No. 72723. Based upon this information, Staff has confirmed that Southwest did not have earnings in excess of the level authorized in Decision No. 72723.

Conclusions and Recommendations

25. Southwest's performance during 2013 supports use of the decoupling mechanism. Based on Staff's analysis, the revenue decoupling mechanism has accomplished its objectives, including both enhanced revenue stability for the Company and bill stabilization for consumers, as well as removal of disincentives to energy efficiency. The Company has supplied the relevant

...

...

1 information and data to support the eight criteria specified by Decision No. 72723. Staff's analysis of
2 the Earnings Test also concludes that the Company has not over earned post-decoupling.

3 26. Staff has recommended that the Commission authorize a \$11,626,351 credit to
4 Southwest customers by setting the EEP rate at -\$0.02626 per therm. Staff's analysis of data provided
5 by the Company indicates that both the rate and account balance are correctly calculated.

6 CONCLUSIONS OF LAW

7 1. Southwest Gas Corporation is an Arizona public service corporation within the
8 meaning of Article XV, Section 2, of the Arizona Constitution.

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

11 3. The Commission, having reviewed the filing and Staff's Memorandum dated
12 December 1, 2014, concludes that it is in the public interest to approve Southwest Gas Corporation's
13 Energy Efficiency Enabling Provision Rate.

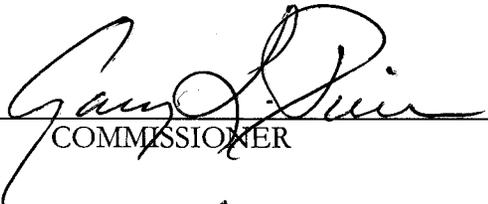
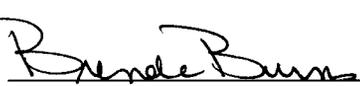
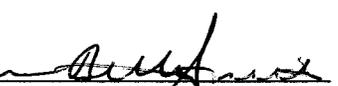
14 ...
15 ...
16 ...
17 ...
18 ...
19 ...
20 ...
21 ...
22 ...
23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

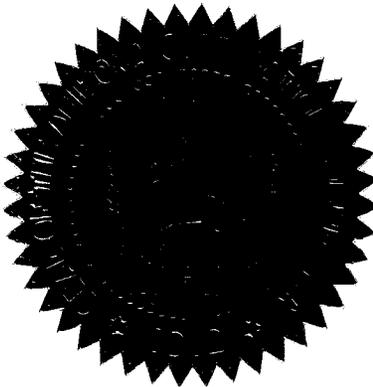
ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's proposed Energy Efficiency Enabling Provision Rate of negative \$0.02626 per therm is hereby approved, effective January 1, 2015.

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 18th day of December, 2014.


JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:EAH:sms\RRM

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

3 Debra Gallo
4 Southwest Gas Corporation
5 P.O. Box 98510
6 Las Vegas, Nevada 89193-8510

7 Justin Brown
8 Southwest Gas Corporation
9 P.O. Box 98510
10 Las Vegas, Nevada 89193-8510

11 Catherine Mazzeo
12 5241 Spring Mountain Road
13 Las Vegas, Nevada 89150

14 Philip Dion
15 88 E. Broadway Blvd.
16 P.O. Box 711
17 HQE910
18 Tucson, Arizona 85702

19 Laura Sanchez
20 P.O. Box 65623
21 Albuquerque, New Mexico 87103

22 Cynthia Zwick
23 1940 E. Luke Avenue
24 Phoenix, Arizona 85016

25 Timothy Hogan
26 202 E. McDowell Rd. - 153
27 Phoenix, Arizona 85004

28 Gary Yaquinto
Arizona Utility Investors Association
2100 N. Central Avenue, Suite 210
Phoenix, Arizona 85004

Michael Grant
Gallagher & Kennedy, P.A.
2575 E. Camelback Rd.
Phoenix, Arizona 85016-9225

Jeff Schlegel
1167 W. Samalayuca Dr.
Tucson, Arizona 85704-3224

- 1 Michael Patten
- 2 Roshka DeWulf & Patten, PLC
- 3 One Arizona Center
- 4 400 E. Van Buren St. – 800
- 5 Phoenix, Arizona 85004

- 6 Daniel Pozefsky
- 7 RUCO
- 8 1110 West Washington, Suite 220
- 9 Phoenix, Arizona 85007

- 10 Mr. Steven M. Olea
- 11 Director, Utilities Division
- 12 Arizona Corporation Commission
- 13 1200 West Washington Street
- 14 Phoenix, Arizona 85007

- 15 Ms. Janice M. Alward
- 16 Chief Counsel, Legal Division
- 17 Arizona Corporation Commission
- 18 1200 West Washington Street
- 19 Phoenix, Arizona 85007

- 20
- 21
- 22
- 23
- 24
- 25
- 26
- 27
- 28