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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

Arizona Corporation Commission
DOCKETED
DEC 17 2015
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. 75356

ORDER

Open Meeting
December 8 and 9, 2015
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, 2015, Southwest Gas Corporation ("Southwest" or "Company") 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, 2014, and December 31, 2014. During the third year of the EEP, Southwest accrued a credit balance of $11,999,805, and in addition to a carryover balance of $10,121,905 from a prior year, and is seeking to refund a total of $22,121,705 to its customers in the amount of -$0.05058 per therm.

4. Decision No. 72723 specifies eight criteria for evaluating Southwest's annual Revenue Decoupling Report. These criteria are: 1) a listing of customer complaints resulting from or associated with revenue decoupling; 2) a showing that disincentives to energy efficiency have been removed by December 31, 2012; 3) compliance with the Commission's required annual energy savings; 4) an analysis of usage differences between new and existing customers; 5) a comparison of the differences between new and existing customer usage per customer ("UPC"); 6) an analysis of overall customer usage, UPC, and customer growth per class on a pre- and post-decoupling basis; 7) an analysis of customer migration to tariffs not subject to decoupling or converting to non-gas energy usage; and 8) an analysis of Company activities in supporting new customer growth including the encouragement of new and economic uses of natural gas. Staff analysis of the Decoupling Report was conducted on the basis of these criteria.

Customer Complaints and Migration

5. Southwest began itemizing the annual decoupling and weather components on customer bills in November of 2014. Subsequently, Southwest experienced an increase in calls regarding the weather component. Southwest received 18 billing-related complaints on the weather component for the year. The Company reports that it treated such complaints as high-priority, and that through the use of an "escalation queue," some customers were contacted by a senior member of the Company's Rates and Regulatory Analysis department to address their concerns.

6. During the same time period, the Company reports that it did not receive any complaints pertaining to the annual decoupling component.

7. Southwest has not experienced any customer migration from decoupled to traditional coupled rate schedules. (Southwest's rate schedules that are not decoupled require use of a specific gas appliance, or are not available to new customers.)

8. Southwest also reports that during this reporting period, the Company has made several new efforts to improve customer communication as it pertains to the EEP. As discussed above, the improvements include itemizing the EEP annual and weather adjustments on the bill, in addition to updating the back of the bill to provide information on the EEP. Southwest also updated its tariff sheets, website, and created a video to help customers understand their bills.

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Energy Savings

9. Southwest filed its first energy efficiency ("EE") implementation plan on September 13, 2011, (Docket No. G-01551A-11-0344), and that plan was approved by the Commission on June 5, 2012. Under Arizona Administrative Code ("A.A.C.") R14-2-2504, EE standards for gas utilities require cumulative annual energy savings by the end of each calendar year to be reduced as a percentage of retail energy sales in the prior calendar year. For 2014, the required percentage is 2.4 percent, and for 2015 the required percentage is 3.0 percent.

10. From June 1, 2014, through May 31, 2015, Southwest estimates that it spent $2,792,377 of its approved budget of $4.7 million, and achieved an estimated annual savings of 4,036,023 therms (including therm equivalents). The table below summarizes the expenditures by program.

Program	**Third Year Expenditures (June 1, 2014 – May 31, 2015)**
Residential	$2,183,811
Non-Residential (Commercial/Dist.Gen)	$59,992
Low-Income	$411,105
Renewable Energy Resource Technology (RET)	$137,469
Total	$2,792,377

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

12. According to Southwest's 2013 Annual Report, total sales volume in Arizona during 2013 was 571,248,620 therms. Based on this total, the Company's 2014 target would be 13,709,967 therms saved. Using Southwest's 2014 Annual report sales volume of 474,879,080 therms, the Company's 2015 EE target would be 14,246,372 therms saved. These figures suggest that Southwest has not reached its 2014 or 2015 EE targets. However, Staff recognizes that Southwest's EE performance has been tempered due to required program changes and certain externalities beyond its control.

13. It should be noted that while the annual energy efficiency standards (R14-2-2501 through R14-2-2520) are set on a calendar year basis beginning in 2011, Southwest's first Energy Efficiency Implementation Plan was approved by the Commission in Decision 73229 on May 22, 2012, and the Company implemented that plan on June 1, 2012. As a result, Southwest's programs have been implemented approximately 18 months behind the first year of the EE standard.

Usage Analysis

14. Southwest 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 2012-2014 respectively. Those changes are outlined in the table below:

	Residential	**Non-Residential**
Sales Volume		
Pre-Decoupling	282,066,888	184,152,790
Post-Decoupling	274,868,901	180,872,593
Change	(7,197,986)	(3,280,197)
Customers		
Pre-Decoupling	945,342	39,844
Post-Decoupling	974,870	39,450
Change	29,528	(394)
Usage Per Customer (in therms)		
Pre-Decoupling	298.4	4621.9
Post-Decoupling	282.0	4584.9
Change	(16.4)	(37.0)

15. Southwest also reports that residential customers initiating service during 2011-2014 generally have the lowest Usage per Customer ("UPC") of Southwest's customers. This trend is in line with the Company's previous EEP Rate applications, 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, 2013 and customers initiating service prior to 2011. These data also suggest that new customer UPC is lower than it has been in the past.

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Activities Supporting Customer Growth

16. In its application, the Company states that it is evaluating proposals for multi-family residential DSM programs, as it believes that such programs can result in both greater natural gas utilization and greater overall energy efficiency. Southwest reports that it is making efforts to increase participation in its DSM programs by multi-family builders. Southwest has proposed several new measures in its pending EE Plan application, including storage water heaters, tankless water heaters, and natural gas condensing boilers that it believes will increase participation.

17. As in prior years, Southwest states that it is continuing to promote liquefied natural gas ("LNG") and compressed natural gas ("CNG") as a motor fuel for vehicles for both private and commercial use. This includes commercial light duty, heavy duty, transit and school bus, and refuse truck fleet applications.

18. In 2014, Southwest reports that it executed three new incremental facilities agreements with Questar Fueling, EVO CNG, and Republic Services to serve CNG fueling stations located in Phoenix and Tolleson. The Company states that Questar and EVO CNG stations serve long-haul and regional distribution trucking fleets for companies including Swift Transportation, Frito-Lay, and Knight Transportation. The Republic Services station serves its fleet of refuse trucks in Phoenix.

EEP Rate

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

20. The final per-therm rate adjustment is calculated by dividing the balance in the deferred account by the previous 12 months sales volume. For the current application, the reporting period was based on the Company's performance between January 1, 2014, and December 31, 2014.

During this time period, the Company collected $11,999,805 in excess of its authorized revenues, and is now seeking to return that money to its ratepayers at the rate of -$0.05058 per therm.

21. Southwest's filing indicates its total sales volume as 437,394,579 therms for the 12 months ending March 31, 2015. This figure represents all Arizona deliveries to customers on decoupled rate schedules between April 1, 2014, and March 31, 2015. The EEP rate is calculated using the most recent 12-month volume of natural gas use for customers included in the EEP. The Company used this time period because it was the most recent data available at the time of filing.

22. The EEP includes a variable weather normalization component. This monthly component adjusts customer bills to account for differences between actual temperatures and normal temperatures for the days in a billing cycle. The weather component is not included in the Revenue Decoupling Report evaluation as specified by Decision No. 72723. During 2014, as in the previous two years, notwithstanding that actual consumption was lower, weather normalized consumption was higher than the last rate case, resulting in the credit.

23. Based on Staff's analysis, and the supporting documentation provided, Southwest's sales volume and balancing account total appear accurately calculated. Therefore, the proposed rate of -$0.05058 per therm appears appropriate based on the method prescribed by Decision No. 72723.

Earnings Test

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

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

25. Southwest submitted the earnings test results shown below:

Line No.	Description	Reference	Amount
1.	Fair Value Rate Base	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	$92,733,030
5.	Earnings Deficit/(Excess)	Ln 3 - Ln 4	$7,809,961
6.	Gross Revenue Conversion Factor	Decision No. 72723	1.6579
7.	Revenue Deficit/(Excess)	Ln 5 * Ln 6	$12,948,134

26. Staff evaluated the accuracy of Southwest's earnings test submittal, and 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.

Bill Impact

27. Southwest estimates that the proposed EEP rate of -$0.05058 per therm will result in a total annual reduction in customer bills of approximately $13.32 for single-family residential customers.

Conclusions and Recommendations

28. Southwest's performance during 2014 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 information and data to support the eight criteria specified by Decision No. 72723. Staff's analysis of the Earnings Test also concludes that the Company has not over earned post-decoupling.

29. Staff has recommended that the Commission authorize a $22,121,710 credit to Southwest customers by setting the EEP rate at -$0.05058 per therm. Staff's analysis of data provided by the Company indicates that both the rate and account balance are correctly calculated.

CONCLUSIONS OF LAW

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

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

3. The Commission, having reviewed the filing and Staff's Memorandum dated November 24, 2015, concludes that it is in the public interest to approve Southwest Gas Corporation's Energy Efficiency Enabling Provision Rate.

ORDER

IT IS THEREFORE ORDERED that the proposed Energy Efficiency Enabling Provision Rate of -$0.05058 is hereby approved.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

EXCUSED
COMM. STUMP

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 17th day of December, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: ____________________

DISSENT: ____________________

TMB:EAH :nr/RRM

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