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AZ CORP COMMISSION
DOCKET CONTROL



SOUTHWEST GAS CORPORATION

February 29, 2016

Docket Control Office
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

Re: Docket No. G-01551A-10-0458; Decision No. 72723

Southwest Gas Corporation (Southwest Gas) hereby submits for filing an original and thirteen (13) copies of its Application for Approval to Set Customer Owned Yard Line (COYL) Cost Recovery Mechanism Surcharge Rate. This Application is being submitted in compliance with Sections 5.15 through 5.18 of the Settlement Agreement approved by the Commission in Decision No. 72723 issued in Docket No. G-01551A-10-0458.

Please note that the Company's annual COYL report which is included as Exhibit 1 to the Application, contains exhibits (Exhibits D, E, and F) that are deemed confidential, proprietary, and commercially sensitive to Southwest Gas. Copies of the confidential exhibits are provided to the Staff of the Arizona Corporation Commission under separate cover in accordance with the existing Protective Agreement applicable to this docket.

If you have any questions, please contact me at 602-395-4058.

Respectfully submitted,

Matthew D. Derr
Regulatory Manager/Arizona

Cc: Tom Broderick, ACC Utilities Division Director
Bob Gray, ACC Utilities Division
Robin Mitchell, ACC Legal Division
David Tenney, RUCO

Arizona Corporation Commission

DOCKETED

FEB 29 2016

DOCKETED BY

1 serves approximately 1.9 million customers in the states of Arizona, California, and
2 Nevada. Approximately 54 percent of the Company's customers are located in the state
3 of Arizona, including portions of Cochise, Gila, Graham, Greenlee, La Paz, Maricopa,
4 Mohave, Pima, Pinal, and Yuma counties.

5 4. Southwest Gas' corporate offices are located at 5241 Spring Mountain
6 Road, P. O. Box 98510 Las Vegas, Nevada 89193-8510. For operational purposes,
7 Southwest Gas' Central Arizona operations are headquartered in Phoenix and its
8 Southern Arizona operations are headquartered in Tucson. Communications regarding
9 this filing should be addressed to:

10 Catherine M. Mazzeo
11 Assistant General Counsel
12 Southwest Gas Corporation
13 P.O. Box 98510
14 Las Vegas, NV 89193-8510
15 Phone: 702-876-7250
16 Email: catherine.mazzeo@swgas.com

17 Matthew Derr
18 Regulatory Manager
19 Southwest Gas Corporation
20 1600 Northern Avenue
21 Phoenix, AZ 85020
22 Phone: 620-395-4058
23 Email: matt.derr@swgas.com

15 **Background**

16 5. The Commission issued Decision No. 72723 in Southwest Gas' 2010
17 general rate case, which included approval of the Company's COYL program consistent
18 with the terms of a Settlement Agreement involving the Company and various other
19 parties to the docket, to replace all COYLs within the Company's Arizona service
20 territory. In January 2014, the Commission issued Decision No. 74304, which modified
21 Decision No. 72723 to create Phase II of the COYL program.

22 6. Through the original COYL program (now referred to as Phase I), the
23 Company leak surveys COYLs in its Arizona service territories and provides those
24 customers with leaking COYLs the opportunity to replace their COYLs with facilities
25 owned and operated by Southwest Gas.¹ Through Phase II of the program, the
26 Company offers customers the opportunity to replace their COYLs in coordination with
27
28

¹ Settlement Agreement, at §§5.13-5.19.

1 the Company's other pipeline replacement projects, and irrespective of whether or not
2 the COYL is leaking.²

3 7. As part of the Settlement Agreement the Company agreed to file a report
4 each February to provide various details on the program's performance.³ The
5 Company's annual report, covering the period January 1, 2015 through December 31,
6 2015, is attached hereto as Exhibit 1. The report addresses both Phase I and Phase II
7 of the program.

8 8. As detailed in the accompanying report, the COYL program continues to
9 be successful. In Phase I, the Company discovered 1,865 leaking COYLs, with 1,487
10 of the affected customers electing to have Southwest Gas relocate their gas meters and
11 replace their COYLs with facilities owned and operated by the Company – an
12 acceptance rate of approximately 94 percent.⁴ In Phase II, the Company received
13 permission to replace 2,499 COYLs, with 877 replacements occurring in 2015 and the
14 remaining 1,622 replacements scheduled for 2016.⁵

15 9. Decision No. 72723 also authorized the establishment of the COYL Cost
16 Recovery Mechanism (CCRM). The CCRM is the mechanism that allows Southwest
17 Gas to recover the capital investment associated with the COYL program. Pursuant to
18 the terms of the Settlement Agreement, the CCRM is based upon actual costs and costs
19 eligible for recovery (depreciation and pre-tax return). The CCRM surcharge is reset
20 annually, and contains a cap that prevents an increase in the surcharge amount greater
21 than \$0.01 per therm in any single year.⁶

22 10. Decision No. 74304 authorized capital costs associated with Phase II of
23 the COYL program to be recovered through the CCRM, under the same parameters set
24 forth in the Settlement Agreement with respect to Phase I.

25
26
27 ² Decision No. 74304.

³ Settlement Agreement, at §5.18.

⁴ Exhibit 1, at pg. 1.

⁵ Id. at pg. 7.

⁶ Settlement Agreement, at §§5.15-5.16.

1 11. Based upon collaborations between the Company and the Arizona
2 Corporation Commission Utilities Division Staff (Staff), the Settlement Agreement
3 provides that Staff will, within 45 days, review the Company's filing and make its
4 recommendations to the Commission.⁷

5 **Request to Reset CCRM Surcharge Rate**

6 12. Southwest Gas hereby requests approval to reset its CCRM surcharge
7 rate, based upon the COYL-related capital investments made by the Company from
8 January 1, 2015 through December 31, 2015.

9 13. In 2015, there was approximately \$4.6 million in capital expenditures for
10 Phase I of the program, and approximately \$2.5 million for Phase II. Utilizing the formula
11 provided in the Settlement Agreement,⁸ the Company proposes a CCRM surcharge of
12 \$0.00600 per therm. The Company's surcharge calculation is attached hereto as
13 Exhibit 2.

14 14. The Company requests that the Commission approve the CCRM
15 surcharge as set forth herein, effective June 1, 2016.

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28 ⁷ Id. at §5.18.

⁸ Id. at Exhibit B.

1 **Conclusion**

2 15. Based upon the foregoing, Southwest Gas respectfully requests that the
3 Commission reset the CCRM surcharge as set forth herein, with an effective date of
4 June 1, 2016.

5 Respectfully submitted this 29th day of February 2016.

6 SOUTHWEST GAS CORPORATION

7 

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10 5241 Spring Mountain Road

11 Las Vegas, NV 89150-0002

12 (702) 876-7250

13 (702) 252-7283 *facsimile*

14 catherine.mazzeo@swgas.com

15 *Attorney for Southwest Gas Corporation*

1 **CERTIFICATE OF SERVICE**

2
3 I hereby certify that on the 29th day of February 2016 and pursuant to R14-3-
4 107 of the Rule of Practice and Procedure of the Arizona Corporation Commission, I
5 caused to be served a copy of the foregoing Application via electronic mail copies
6 thereof to the following:

7
8 Timothy Hogan
202 E. McDowell Rd.
9 Phoenix, AZ 85004

Janice Alward
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

10 Michael Patten
Roshka DeWulf & Patten, PLC
11 One Arizona Center
400 E. Van Buren St, Ste. 800
12 Phoenix, AZ 85004

Daniel Pozefsky
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1110 W. Washington St., Ste 220
Phoenix, AZ 85007

13 Gary Yaquinto
2100 N. Central Ave., Suite 210
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Tom Broderick
Arizona Corporation Commission
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16 Dwight Nodes
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21 Laura Sanchez
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Albuquerque, NM 87103

23
24 

25 an employee of Southwest Gas

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT 1

1. Introduction

Southwest Gas Corporation (Southwest Gas or Company) hereby submits to the Arizona Corporation Commission (Commission) its fourth annual report on its Customer-Owned Yard Line (COYL) program. Pursuant to the Settlement Agreement approved by the Commission in Docket No. G-01551A-10-0458 (Decision No. 72723), and consistent with the goal of replacing all eligible COYLs in its Arizona service territory, Southwest Gas was authorized to establish a program to leak survey the COYLs in its Arizona service territories and to provide customers the opportunity to have leaking COYLs replaced with facilities owned and maintained by Southwest Gas.¹ In January 2014, the Commission issued Decision No. 74304, authorizing Phase II of the COYL program. Phase II allows Southwest Gas to replace COYLs (with customer consent) in coordination with the Company's other pipe replacement projects, and regardless of whether or not the COYLs are leaking.

The fourth year of Southwest Gas' original COYL program (now referred to as Phase I) continues to make successful progress towards the original goal of removing all COYLs from the system. Under Phase I, the Company assessed 40,078 yard lines in the period January 1, 2015 through December 31, 2015. Southwest Gas discovered 1,865 leaking COYLs in 2015. As shown on Exhibit A to this report, and as detailed more fully below, 1,487 customers accepting a relocation, and only 95 customers declining the program, resulting in a 94 percent customer acceptance rate. The Company completed 1,466 Phase I COYL replacements in 2015, with 21 Phase I replacements "in progress", and scheduled to be completed in 2016.

¹ Settlement Agreement, §§ 5.13-5.19.

During the reporting period, the Company offered Phase II meter relocations to 3,374 customers, with 2,499 of those customers accepting the COYL program, resulting in a 74% acceptance rate. The Company completed 877 of these Phase II meter relocations on or before December 31, 2015, with the remaining 1,622 Phase II replacements “in progress”, and scheduled to be completed in 2016.

For the year, the Company completed a total of 2,343 COYL relocations between Phase I and Phase II, with 1,643 “in progress”, and scheduled to be completed in 2016. This represents the largest number of COYL replacements in a one-year period since the inception of the program in 2012.

2. Overview of the COYL Program

Background

For the purpose of its COYL program, Southwest Gas defines a COYL as the customer-owned exterior gas piping that connects at the meter and continues to where the gas piping enters the customer’s premise. A diagram depicting a typical COYL installation is attached hereto as Exhibit B. Because Southwest Gas is not required to inspect or maintain facilities beyond the point of delivery (at the meter), the responsibility for maintaining the COYL rests with the customer. Southwest Gas notifies new customers of this obligation through its new customer brochure, and reminds all COYL customers to inspect and maintain their yard lines through monthly notices included with their bills.

Southwest Gas proposed the COYL program in its 2010 general rate case, after noticing an upward trend in odor calls related to COYLs. Prior to the COYL program, a customer’s only three options for remedying a leaking COYL was to: 1) pay Southwest Gas to replace the COYL with Southwest Gas facilities and relocate the gas meter; 2)

hire a licensed plumber to repair the leak or replace the COYL; or 3) discontinue natural gas service.

There are several benefits to replacing COYLs with utility-owned facilities, including, but not limited to, enhanced public safety, increased pipeline safety, reliability and integrity, and routine maintenance by a Commission-regulated utility. However, before the COYL program was introduced, approximately 70 percent of customers with leaking COYLs hired a plumber to repair or replace the COYL, and only 15 percent elected to have Southwest Gas install its own facilities and relocate the gas meter. In the four years since the COYL program began, it has dramatically improved upon these statistics, with more than 90 percent of customers with leaking COYLs electing to replace the COYL with Southwest Gas facilities.

Since the inception of the COYL program, the Company has completed more than 8,200 meter relocations.

COYL Groups

As of December 31, 2015, there are approximately 86,205 active COYL customers in Arizona. As reported in prior COYL reports, Southwest Gas continues its strategy of separating COYL accounts into three groups:

- Group 1 – Customers for whom a leak inspection is conducted as part of the regular course of Southwest Gas' service (i.e. service turn-ons, odor complaints, and unusual usage investigations), and customers whose leaking COYLs might be identified through routine maintenance leak surveys on Southwest Gas facilities.
- Group 2 – Customers impacted by the Company's scheduled pipe replacement projects, whose COYLs could be replaced while additional Company or

contractor resources are available nearby. Group 2 customers are now evaluated for replacement as part of Phase II of the COYL program.

- Group 3 – All remaining COYL customers, who will be contacted by the Company regarding a COYL leak inspection. In determining the leak survey schedule for COYL customers in Group 3, the Company considers both the year the COYL was installed and any leak history that the Company is aware of.

Communications with Customers

Southwest Gas continues to employ a comprehensive communications process to explain the COYL program to customers and obtain their permission, where necessary, to conduct the COYL leak surveys. During 2015, numerous enhancements were made to the program's outreach process and materials for increased acceptance among customers.

The Company facilitated a focus group in March 2015 to test customer awareness, various messaging concepts, preferred communication/contact methods, and motivators for participation in the Tucson area. This effort identified that safety messages resonate well for communications and there is a preference for a combination of communication tactics, including phone calls, door-to-door, direct mail, etc. Additionally, the Company learned there was minimal recognition of the COYL program and an opportunity for further program branding.

In response to the findings from the focus group, the Company created a brand for the COYL program to increase awareness and recognition throughout the community. The Company created a COYL logo, introduced outreach coordinator uniforms, and added logoed magnets to the coordinators' trucks for greater visibility when canvassing

neighborhoods. For Phase 1, the Company updated the existing door hanger and associated collateral, including an introductory letter and brochure (English and Spanish) with new messaging that directs customers to the COYL program-specific webpage at www.swgas.com/coyl.

The Company held community meetings in Green Valley to generate increased COYL leak survey participation and gather further feedback about COYL program communications and awareness. Meetings were held with the Green Valley Council's Health and Human Services and Transportation and Arroyos Committees. Additionally, the Company partnered with the Green Valley Fire Department on a community meeting.

To enhance COYL program delivery and messaging, meetings were held with the outreach coordinators (contractors who conduct door-to-door outreach). These meetings focused on process improvements for the COYL program. New efforts were implemented as a result of the meetings, which included adjusting the work schedules to extend into the evenings and weekend to improve customer contact.

Cost Recovery

Unlike capital investments that generate new customers or increased load, Southwest Gas' COYL program is dedicated to capital investments that are non-incremental revenue producing in nature. Therefore, the Company's ability to timely recover the cost of service related to its COYL capital investment is an essential component of the COYL program. Consistent with the terms of the Settlement Agreement, Southwest Gas charges the capital investment associated with the COYL

program to a capital account, and recovers the related revenue requirement through the COYL Cost Recovery Mechanism (CCRM).²

In light of the industry's heightened focus on replacing aging and leak-prone infrastructure, interim cost recovery mechanisms like the CCRM are increasingly prevalent. Indeed, nearly 89 natural gas utilities across 38 states and the District of Columbia have infrastructure cost recovery mechanisms in place.³ These mechanisms provide the following benefits:

- Eliminate impediments to investing in non-revenue producing infrastructure by providing for timely cost recovery between rate cases,
- Mitigate customer bill impact by providing annual surcharge adjustments and other reasonable program conditions,
- Allow regulatory oversight over utility initiatives to replace infrastructure,
- Complement the rate case process by applying the same cost-of-service ratemaking principles while avoiding the need for more frequent rate case proceedings.

For Phase I, approximately \$4.6 million in capital costs were incurred during 2015. For Phase II, approximately \$2.5 million in capital costs were incurred during 2015. The annual revenue requirement attributable to the Phase I and Phase II COYL replacements since inception of the program is approximately \$3.6 million. The resulting CCRM surcharge is \$0.00600 per therm.

² Settlement Agreement. at §5.15.

³ "Innovative Rates, Non-Volumetric Rates and Tracking Mechanisms: Current List", American Gas Association (February 2015).

3. 2015 COYL Program Results and Costs

Phase I

In 2015, Southwest Gas assessed 40,078 yard lines, of which 1,504 were determined not to be COYLs with another 719 determined to be ineligible for the COYL program.⁴ As shown on Exhibit C, Southwest Gas conducted 22,531 COYL leak surveys, and found 1,865 leaks. Of these, 1,593 leaks were identified as COYLs eligible for relocation. Four leaks were later deemed ineligible for replacement because the service line was abandoned after the leak was identified. The remaining 272 leaks were identified as houseline leaks. As mentioned above, and detailed in Exhibit A, only 95 of the customers with leaking COYLs declined to participate in the program. The average construction period was four days (from the date the contract was signed by the property owner to the date natural gas service was restored).

Phase II

In an effort to increase the frequency of COYL replacements and to expedite the removal of all eligible COYLs within its Arizona service territory, Southwest Gas proposed Phase II of the COYL program, which was approved by the Commission in January 2014. During 2015, which was the first full year of Phase II work, the Company offered 3,374 meter relocations to coincide with its other pipe replacement projects. Of the customers offered meter relocations as part of Phase II, 2,499 agreed to the meter relocation and 875 declined. The Company has replaced 877 of these as of the end of the year with the remaining 1,622 scheduled to be completed in 2016.

⁴ Examples of COYLs that are deemed ineligible for the program include COYLs that consist of above-ground piping and COYLs connected to a multi-meter manifold.

COYL Program Costs

Attached as Exhibits D and E is information detailing, by location, the means by which the leaking Phase I COYLs were discovered and the capital costs incurred. Attached as Exhibit F is information detailing the capital costs incurred for Phase II of the program.⁵ The cumulative capital costs associated with the Company's COYL replacements since the program's inception averaged approximately \$2,700 per COYL. As referenced above, the resulting CCRM surcharge equals \$0.00600 per therm (this is inclusive of both Phase I and Phase II). The average residential impact is approximately \$0.14 per month.

4. 2016 COYL Program Outlook

The Company will continue to evaluate COYL customers for inclusion in Phase II of the program. Each division and district throughout the Company's Arizona service territory will engage with its respective COYL customer groups in a systematic way that maximizes efficiencies and takes into consideration the uniqueness of each operating area (i.e., geography, COYL concentration, seasonal customers, etc.). With the first three-year cycle complete, and work into the second cycle, the Company has identified a pool of customers who have expressed interest in a meter relocation as part of the COYL program, but do not qualify under either Phase I or Phase II. The Company is maintaining this list of customers for consideration into a potential expansion of the COYL program in a future proceeding.

⁵ Because Phase II COYL replacements are performed regardless of whether the COYLs are leaking, information regarding the means of discovery is not included for Phase II replacements.

5. **Conclusion**

The results from the 2015 COYL program year indicate that the program continues to assist COYL customers in the manner contemplated by both the Settlement Agreement and Decision No. 74304, which authorized Phase II of the COYL program. The COYL program therefore remains in the public interest.

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT 2

**SOUTHWEST GAS CORPORATION
ARIZONA
CUSTOMER OWNED YARD LINE (COYL) PROGRAM
SURCHARGE CALCULATION
AS OF DECEMBER 31, 2015
PROJECTED EFFECTIVE DATE JUNE 1, 2016**

Line No.	Description (a)	Reference (b)	Phase 1 Amount (c)	Phase 2 Amount (d)	Total (e)	Line No.
1	Gross COYL Plant Installed	Company Records	\$ 19,950,221 [1]	\$ 3,152,402 [2]		1
2	Accumulated Provision for Depreciation	Company Records	<u>(1,502,872)</u>	<u>(7,569)</u>		2
3	Net COYL Plant	Ln 1 + Ln 2	\$ 18,447,349	\$ 3,144,833		3
4	Accumulated Deferred Income Taxes	Company Records	<u>(3,497,693)</u>	<u>(583,237)</u>		4
5	COYL Rate Base	Ln 3 + Ln 4	\$ 14,949,656	\$ 2,561,596		5
6	Return on COYL Rate Base	8.95% * Ln 5	1,337,994	229,263		6
7	Income Tax Factor	Settlement Agreement	<u>0.6579</u>	<u>0.6579</u>		7
8	Income Taxes	Auth. Cost of Equity (9.5%) * Ln 5 * Ln 7	\$ 934,361	\$ 160,101		8
9	Depreciation Expense	Company Records	<u>917,573</u>	<u>85,293</u>		9
10	Revenue Requirement	Ln 6 + Ln 8 + Ln 9	\$ 3,189,929	\$ 474,657	\$ 3,664,585	10
11	2015 Full Margin Therms [3]	Company Records			<u>611,117,827</u>	11
12	Surcharge	Ln 10 / Ln 11			<u>\$ 0.00600</u>	12

[1] Balance represents \$4.1M installed in 2012, \$5.7M installed in 2013, \$5.6M installed in 2014, and \$4.6M installed in 2015

[2] Balance represents \$678K installed in 2014 and \$2.5M in 2015.

[3] Net of Low Income.

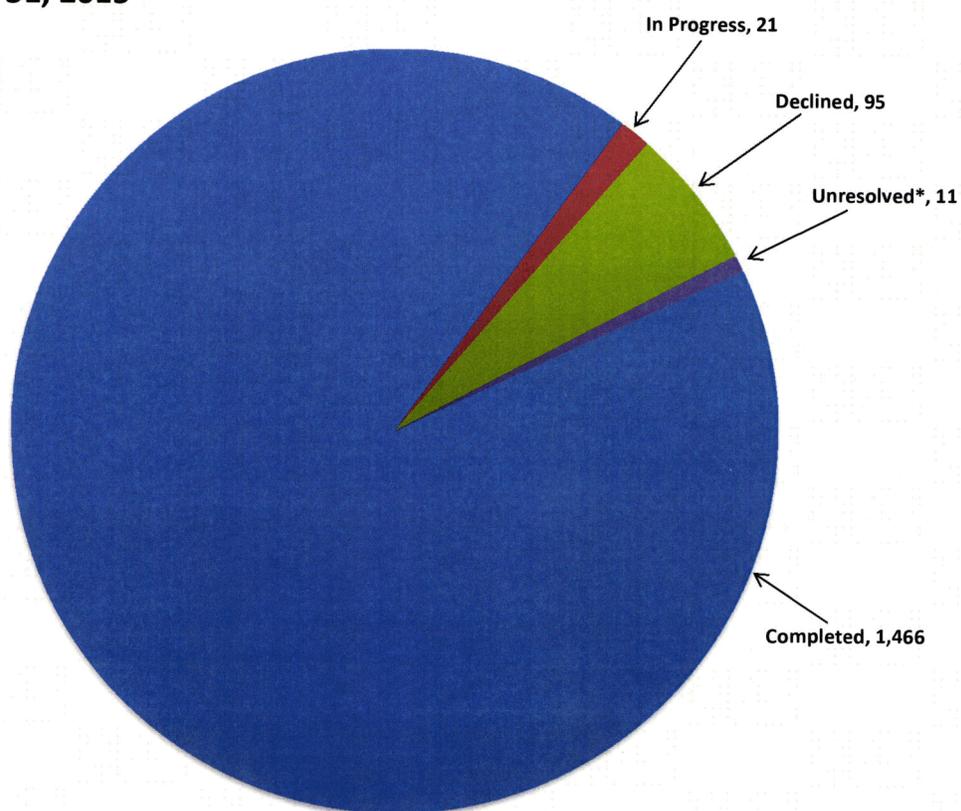
SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT A

COYL Phase I Meter Relocations
January 1, 2015 -
December 31, 2015



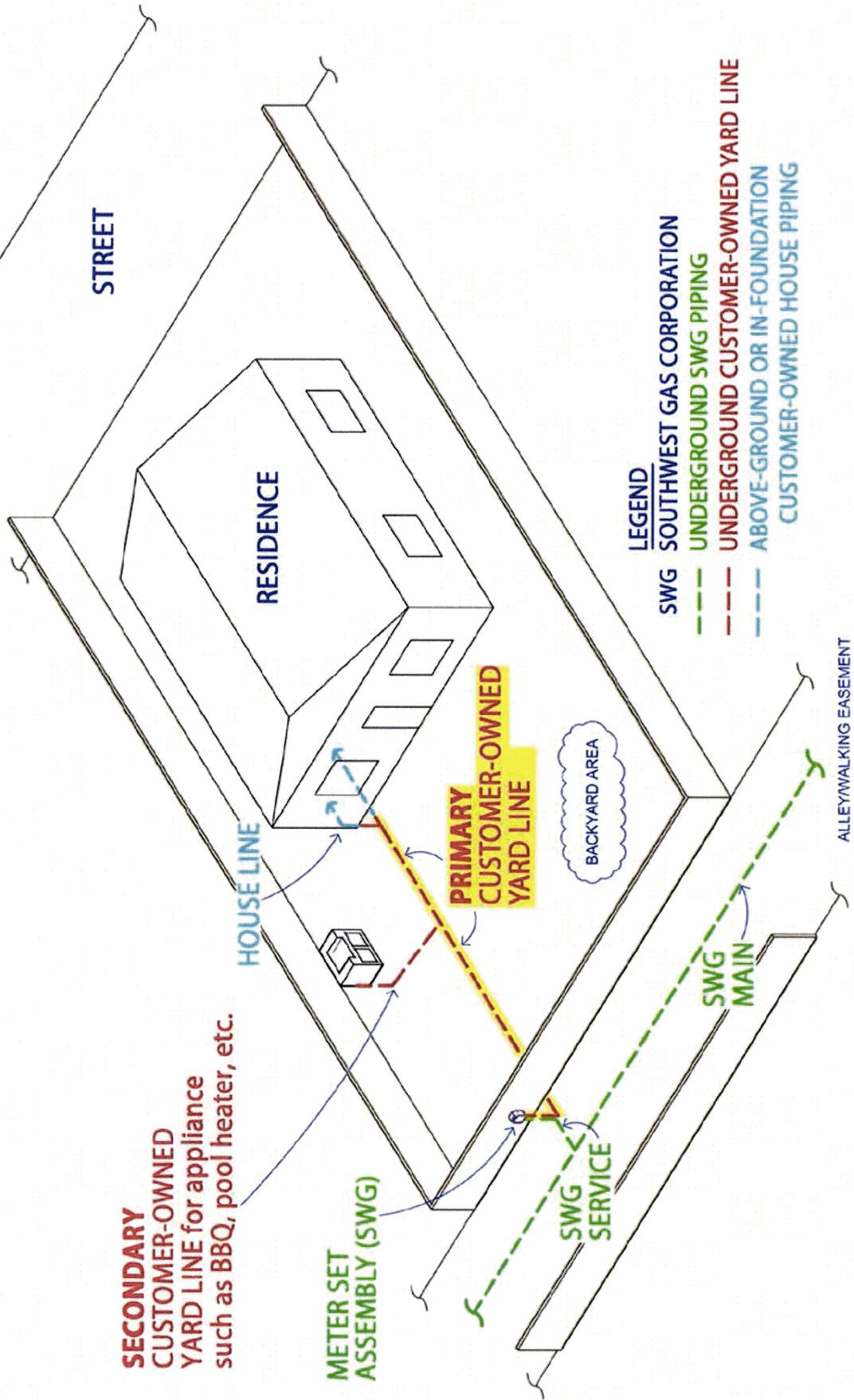
*Off due to leak -
customer hasn't opted
for relocation or repair

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT B



SECONDARY CUSTOMER-OWNED YARD LINE for appliance such as BBQ, pool heater, etc.

METER SET ASSEMBLY (SWG)

HOUSE LINE

PRIMARY CUSTOMER-OWNED YARD LINE

BACKYARD AREA

SWG MAIN

SWG SERVICE

ALLEYWALKING EASEMENT

STREET

RESIDENCE

- LEGEND**
- SWG SOUTHWEST GAS CORPORATION
 - UNDERGROUND SWG PIPING
 - UNDERGROUND CUSTOMER-OWNED YARD LINE
 - ABOVE-GROUND OR IN-FOUNDATION CUSTOMER-OWNED HOUSE PIPING

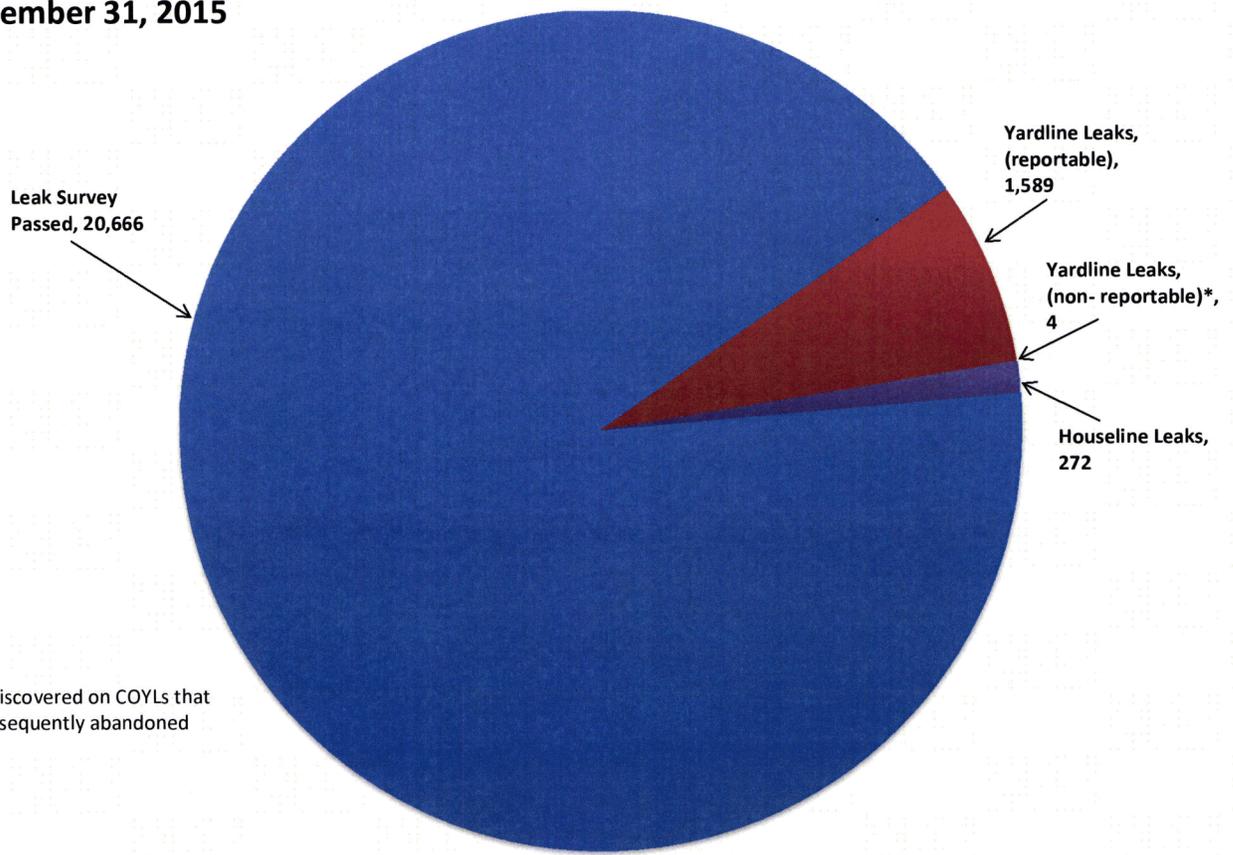
SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT C

**Leak Survey Results
January 1, 2015 -
December 31, 2015**



* Leaks discovered on COYLs that were subsequently abandoned

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT D

EXHIBIT D

CONFIDENTIAL

FILED UNDER SEAL

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT E

EXHIBIT E

CONFIDENTIAL

FILED UNDER SEAL

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT F

EXHIBIT F

CONFIDENTIAL

FILED UNDER SEAL



SOUTHWEST GAS CORPORATION

February 29, 2016

Docket Control Office
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

Re: Docket No. G-01551A-10-0458; Decision No. 72723

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If you have any questions, please contact me at 602-395-4058.

Respectfully submitted,

Matthew D. Derr
Regulatory Manager/Arizona

Cc: Tom Broderick, ACC Utilities Division Director
Bob Gray, ACC Utilities Division
Robin Mitchell, ACC Legal Division
David Tenney, RUCO

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 DOUG LITTLE – Chairman
4 BOB STUMP
5 BOB BURNS
6 TOM FORESE
7 ANDY TOBIN

8 In the Matter of the Application of
9 Southwest Gas Corporation for the
10 Establishment of Just and Reasonable
11 Rates and Charges Designed to Realize a
12 Reasonable Rate of Return on the Fair
13 Value of the Properties of Southwest Gas
14 Corporation Devoted to its Arizona
15 Operations; Approval of Deferred
16 Accounting Orders; and for Approval of an
17 Energy Efficiency and Renewable Energy
18 Resource Technology Portfolio
19 Implementation Plan.

Docket No.: G-01551A-10-0458

16 **APPLICATION FOR APPROVAL TO SET CUSTOMER-OWNED YARDLINE (COYL)
17 COST RECOVERY MECHANISM SURCHARGE RATE**

18 **Introduction**

19 1. Southwest Gas Corporation (Southwest Gas or Company) hereby submits
20 its application to the Arizona Corporation Commission (Commission), respectfully
21 requesting to update the previously approved surcharge rate related to its Customer-
22 Owned Yard Line (COYL) program to reflect 2015 COYL activity.

23 2. Southwest Gas is a corporation in good standing under the laws of the
24 state of Arizona, is a corporation duly organized, validly existing, and is qualified to
25 transact intrastate business.

26 3. Southwest Gas is a public utility subject to the jurisdiction of the
27 Commission pursuant to Article XV of the Arizona Constitution and the applicable
28 chapters of Title 40 of the Arizona Revised Statutes (A.R.S.). Southwest Gas currently

1 serves approximately 1.9 million customers in the states of Arizona, California, and
2 Nevada. Approximately 54 percent of the Company's customers are located in the state
3 of Arizona, including portions of Cochise, Gila, Graham, Greenlee, La Paz, Maricopa,
4 Mohave, Pima, Pinal, and Yuma counties.

5 4. Southwest Gas' corporate offices are located at 5241 Spring Mountain
6 Road, P. O. Box 98510 Las Vegas, Nevada 89193-8510. For operational purposes,
7 Southwest Gas' Central Arizona operations are headquartered in Phoenix and its
8 Southern Arizona operations are headquartered in Tucson. Communications regarding
9 this filing should be addressed to:

10 Catherine M. Mazzeo
11 Assistant General Counsel
12 Southwest Gas Corporation
13 P.O. Box 98510
14 Las Vegas, NV 89193-8510
15 Phone: 702-876-7250
16 Email: catherine.mazzeo@swgas.com

17 Matthew Derr
18 Regulatory Manager
19 Southwest Gas Corporation
20 1600 Northern Avenue
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24 **Background**

25 5. The Commission issued Decision No. 72723 in Southwest Gas' 2010
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6. Through the original COYL program (now referred to as Phase I), the
Company leak surveys COYLs in its Arizona service territories and provides those
customers with leaking COYLs the opportunity to replace their COYLs with facilities
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9 be successful. In Phase I, the Company discovered 1,865 leaking COYLs, with 1,487
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17 Gas to recover the capital investment associated with the COYL program. Pursuant to
18 the terms of the Settlement Agreement, the CCRM is based upon actual costs and costs
19 eligible for recovery (depreciation and pre-tax return). The CCRM surcharge is reset
20 annually, and contains a cap that prevents an increase in the surcharge amount greater
21 than \$0.01 per therm in any single year.⁶

22 10. Decision No. 74304 authorized capital costs associated with Phase II of
23 the COYL program to be recovered through the CCRM, under the same parameters set
24 forth in the Settlement Agreement with respect to Phase I.

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26
27 ² Decision No. 74304.

³ Settlement Agreement, at §5.18.

⁴ Exhibit 1, at pg. 1.

⁵ Id. at pg. 7.

⁶ Settlement Agreement, at §§5.15-5.16.

1 11. Based upon collaborations between the Company and the Arizona
2 Corporation Commission Utilities Division Staff (Staff), the Settlement Agreement
3 provides that Staff will, within 45 days, review the Company's filing and make its
4 recommendations to the Commission.⁷

5 **Request to Reset CCRM Surcharge Rate**

6 12. Southwest Gas hereby requests approval to reset its CCRM surcharge
7 rate, based upon the COYL-related capital investments made by the Company from
8 January 1, 2015 through December 31, 2015.

9 13. In 2015, there was approximately \$4.6 million in capital expenditures for
10 Phase I of the program, and approximately \$2.5 million for Phase II. Utilizing the formula
11 provided in the Settlement Agreement,⁸ the Company proposes a CCRM surcharge of
12 \$0.00600 per therm. The Company's surcharge calculation is attached hereto as
13 Exhibit 2.

14 14. The Company requests that the Commission approve the CCRM
15 surcharge as set forth herein, effective June 1, 2016.

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28 ⁷ Id. at §5.18.

⁸ Id. at Exhibit B.

1 **Conclusion**

2 15. Based upon the foregoing, Southwest Gas respectfully requests that the
3 Commission reset the CCRM surcharge as set forth herein, with an effective date of
4 June 1, 2016.

5 Respectfully submitted this 29th day of February 2016.

6 SOUTHWEST GAS CORPORATION

7 

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13 (702) 252-7283 *facsimile*

14 catherine.mazzeo@swgas.com

15 *Attorney for Southwest Gas Corporation*

1 **CERTIFICATE OF SERVICE**

2
3 I hereby certify that on the 29th day of February 2016 and pursuant to R14-3-
4 107 of the Rule of Practice and Procedure of the Arizona Corporation Commission, I
5 caused to be served a copy of the foregoing Application via electronic mail copies
6 thereof to the following:

7
8 Timothy Hogan
202 E. McDowell Rd.
9 Phoenix, AZ 85004

Janice Alward
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

10 Michael Patten
Roshka DeWulf & Patten, PLC
11 One Arizona Center
400 E. Van Buren St, Ste. 800
12 Phoenix, AZ 85004

Daniel Pozefsky
RUCO
1110 W. Washington St., Ste 220
Phoenix, AZ 85007

13 Gary Yaquinto
2100 N. Central Ave., Suite 210
14 Phoenix AZ 85004

Tom Broderick
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21 Laura Sanchez
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23
24 

25 an employee of Southwest Gas
26
27
28

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT 1

1. Introduction

Southwest Gas Corporation (Southwest Gas or Company) hereby submits to the Arizona Corporation Commission (Commission) its fourth annual report on its Customer-Owned Yard Line (COYL) program. Pursuant to the Settlement Agreement approved by the Commission in Docket No. G-01551A-10-0458 (Decision No. 72723), and consistent with the goal of replacing all eligible COYLs in its Arizona service territory, Southwest Gas was authorized to establish a program to leak survey the COYLs in its Arizona service territories and to provide customers the opportunity to have leaking COYLs replaced with facilities owned and maintained by Southwest Gas.¹ In January 2014, the Commission issued Decision No. 74304, authorizing Phase II of the COYL program. Phase II allows Southwest Gas to replace COYLs (with customer consent) in coordination with the Company's other pipe replacement projects, and regardless of whether or not the COYLs are leaking.

The fourth year of Southwest Gas' original COYL program (now referred to as Phase I) continues to make successful progress towards the original goal of removing all COYLs from the system. Under Phase I, the Company assessed 40,078 yard lines in the period January 1, 2015 through December 31, 2015. Southwest Gas discovered 1,865 leaking COYLs in 2015. As shown on Exhibit A to this report, and as detailed more fully below, 1,487 customers accepting a relocation, and only 95 customers declining the program, resulting in a 94 percent customer acceptance rate. The Company completed 1,466 Phase I COYL replacements in 2015, with 21 Phase I replacements "in progress", and scheduled to be completed in 2016.

¹ Settlement Agreement, §§ 5.13-5.19.

During the reporting period, the Company offered Phase II meter relocations to 3,374 customers, with 2,499 of those customers accepting the COYL program, resulting in a 74% acceptance rate. The Company completed 877 of these Phase II meter relocations on or before December 31, 2015, with the remaining 1,622 Phase II replacements "in progress", and scheduled to be completed in 2016.

For the year, the Company completed a total of 2,343 COYL relocations between Phase I and Phase II, with 1,643 "in progress", and scheduled to be completed in 2016. This represents the largest number of COYL replacements in a one-year period since the inception of the program in 2012.

2. Overview of the COYL Program

Background

For the purpose of its COYL program, Southwest Gas defines a COYL as the customer-owned exterior gas piping that connects at the meter and continues to where the gas piping enters the customer's premise. A diagram depicting a typical COYL installation is attached hereto as Exhibit B. Because Southwest Gas is not required to inspect or maintain facilities beyond the point of delivery (at the meter), the responsibility for maintaining the COYL rests with the customer. Southwest Gas notifies new customers of this obligation through its new customer brochure, and reminds all COYL customers to inspect and maintain their yard lines through monthly notices included with their bills.

Southwest Gas proposed the COYL program in its 2010 general rate case, after noticing an upward trend in odor calls related to COYLs. Prior to the COYL program, a customer's only three options for remedying a leaking COYL was to: 1) pay Southwest Gas to replace the COYL with Southwest Gas facilities and relocate the gas meter; 2)

hire a licensed plumber to repair the leak or replace the COYL; or 3) discontinue natural gas service.

There are several benefits to replacing COYLs with utility-owned facilities, including, but not limited to, enhanced public safety, increased pipeline safety, reliability and integrity, and routine maintenance by a Commission-regulated utility. However, before the COYL program was introduced, approximately 70 percent of customers with leaking COYLs hired a plumber to repair or replace the COYL, and only 15 percent elected to have Southwest Gas install its own facilities and relocate the gas meter. In the four years since the COYL program began, it has dramatically improved upon these statistics, with more than 90 percent of customers with leaking COYLs electing to replace the COYL with Southwest Gas facilities.

Since the inception of the COYL program, the Company has completed more than 8,200 meter relocations.

COYL Groups

As of December 31, 2015, there are approximately 86,205 active COYL customers in Arizona. As reported in prior COYL reports, Southwest Gas continues its strategy of separating COYL accounts into three groups:

- Group 1 – Customers for whom a leak inspection is conducted as part of the regular course of Southwest Gas' service (i.e. service turn-ons, odor complaints, and unusual usage investigations), and customers whose leaking COYLs might be identified through routine maintenance leak surveys on Southwest Gas facilities.
- Group 2 – Customers impacted by the Company's scheduled pipe replacement projects, whose COYLs could be replaced while additional Company or

contractor resources are available nearby. Group 2 customers are now evaluated for replacement as part of Phase II of the COYL program.

- Group 3 – All remaining COYL customers, who will be contacted by the Company regarding a COYL leak inspection. In determining the leak survey schedule for COYL customers in Group 3, the Company considers both the year the COYL was installed and any leak history that the Company is aware of.

Communications with Customers

Southwest Gas continues to employ a comprehensive communications process to explain the COYL program to customers and obtain their permission, where necessary, to conduct the COYL leak surveys. During 2015, numerous enhancements were made to the program's outreach process and materials for increased acceptance among customers.

The Company facilitated a focus group in March 2015 to test customer awareness, various messaging concepts, preferred communication/contact methods, and motivators for participation in the Tucson area. This effort identified that safety messages resonate well for communications and there is a preference for a combination of communication tactics, including phone calls, door-to-door, direct mail, etc. Additionally, the Company learned there was minimal recognition of the COYL program and an opportunity for further program branding.

In response to the findings from the focus group, the Company created a brand for the COYL program to increase awareness and recognition throughout the community. The Company created a COYL logo, introduced outreach coordinator uniforms, and added logoed magnets to the coordinators' trucks for greater visibility when canvassing

neighborhoods. For Phase 1, the Company updated the existing door hanger and associated collateral, including an introductory letter and brochure (English and Spanish) with new messaging that directs customers to the COYL program-specific webpage at www.swgas.com/coyl.

The Company held community meetings in Green Valley to generate increased COYL leak survey participation and gather further feedback about COYL program communications and awareness. Meetings were held with the Green Valley Council's Health and Human Services and Transportation and Arroyos Committees. Additionally, the Company partnered with the Green Valley Fire Department on a community meeting.

To enhance COYL program delivery and messaging, meetings were held with the outreach coordinators (contractors who conduct door-to-door outreach). These meetings focused on process improvements for the COYL program. New efforts were implemented as a result of the meetings, which included adjusting the work schedules to extend into the evenings and weekend to improve customer contact.

Cost Recovery

Unlike capital investments that generate new customers or increased load, Southwest Gas' COYL program is dedicated to capital investments that are non-incremental revenue producing in nature. Therefore, the Company's ability to timely recover the cost of service related to its COYL capital investment is an essential component of the COYL program. Consistent with the terms of the Settlement Agreement, Southwest Gas charges the capital investment associated with the COYL

program to a capital account, and recovers the related revenue requirement through the COYL Cost Recovery Mechanism (CCRM).²

In light of the industry's heightened focus on replacing aging and leak-prone infrastructure, interim cost recovery mechanisms like the CCRM are increasingly prevalent. Indeed, nearly 89 natural gas utilities across 38 states and the District of Columbia have infrastructure cost recovery mechanisms in place.³ These mechanisms provide the following benefits:

- Eliminate impediments to investing in non-revenue producing infrastructure by providing for timely cost recovery between rate cases,
- Mitigate customer bill impact by providing annual surcharge adjustments and other reasonable program conditions,
- Allow regulatory oversight over utility initiatives to replace infrastructure,
- Complement the rate case process by applying the same cost-of-service ratemaking principles while avoiding the need for more frequent rate case proceedings.

For Phase I, approximately \$4.6 million in capital costs were incurred during 2015. For Phase II, approximately \$2.5 million in capital costs were incurred during 2015. The annual revenue requirement attributable to the Phase I and Phase II COYL replacements since inception of the program is approximately \$3.6 million. The resulting CCRM surcharge is \$0.00600 per therm.

² Settlement Agreement. at §5.15.

³ "Innovative Rates, Non-Volumetric Rates and Tracking Mechanisms: Current List", American Gas Association (February 2015).

3. 2015 COYL Program Results and Costs

Phase I

In 2015, Southwest Gas assessed 40,078 yard lines, of which 1,504 were determined not to be COYLs with another 719 determined to be ineligible for the COYL program.⁴ As shown on Exhibit C, Southwest Gas conducted 22,531 COYL leak surveys, and found 1,865 leaks. Of these, 1,593 leaks were identified as COYLs eligible for relocation. Four leaks were later deemed ineligible for replacement because the service line was abandoned after the leak was identified. The remaining 272 leaks were identified as houseline leaks. As mentioned above, and detailed in Exhibit A, only 95 of the customers with leaking COYLs declined to participate in the program. The average construction period was four days (from the date the contract was signed by the property owner to the date natural gas service was restored).

Phase II

In an effort to increase the frequency of COYL replacements and to expedite the removal of all eligible COYLs within its Arizona service territory, Southwest Gas proposed Phase II of the COYL program, which was approved by the Commission in January 2014. During 2015, which was the first full year of Phase II work, the Company offered 3,374 meter relocations to coincide with its other pipe replacement projects. Of the customers offered meter relocations as part of Phase II, 2,499 agreed to the meter relocation and 875 declined. The Company has replaced 877 of these as of the end of the year with the remaining 1,622 scheduled to be completed in 2016.

⁴ Examples of COYLs that are deemed ineligible for the program include COYLs that consist of above-ground piping and COYLs connected to a multi-meter manifold.

COYL Program Costs

Attached as Exhibits D and E is information detailing, by location, the means by which the leaking Phase I COYLs were discovered and the capital costs incurred. Attached as Exhibit F is information detailing the capital costs incurred for Phase II of the program.⁵ The cumulative capital costs associated with the Company's COYL replacements since the program's inception averaged approximately \$2,700 per COYL. As referenced above, the resulting CCRM surcharge equals \$0.00600 per therm (this is inclusive of both Phase I and Phase II). The average residential impact is approximately \$0.14 per month.

4. 2016 COYL Program Outlook

The Company will continue to evaluate COYL customers for inclusion in Phase II of the program. Each division and district throughout the Company's Arizona service territory will engage with its respective COYL customer groups in a systematic way that maximizes efficiencies and takes into consideration the uniqueness of each operating area (i.e., geography, COYL concentration, seasonal customers, etc.). With the first three-year cycle complete, and work into the second cycle, the Company has identified a pool of customers who have expressed interest in a meter relocation as part of the COYL program, but do not qualify under either Phase I or Phase II. The Company is maintaining this list of customers for consideration into a potential expansion of the COYL program in a future proceeding.

⁵ Because Phase II COYL replacements are performed regardless of whether the COYLs are leaking, information regarding the means of discovery is not included for Phase II replacements.

5. Conclusion

The results from the 2015 COYL program year indicate that the program continues to assist COYL customers in the manner contemplated by both the Settlement Agreement and Decision No. 74304, which authorized Phase II of the COYL program. The COYL program therefore remains in the public interest.

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT 2

**SOUTHWEST GAS CORPORATION
ARIZONA
CUSTOMER OWNED YARD LINE (COYL) PROGRAM
SURCHARGE CALCULATION
AS OF DECEMBER 31, 2015
PROJECTED EFFECTIVE DATE JUNE 1, 2016**

Line No.	Description (a)	Reference (b)	Phase 1 Amount (c)		Phase 2 Amount (d)	Total (e)	Line No.
1	Gross COYL Plant Installed	Company Records	\$ 19,950,221	[1]	\$ 3,152,402	[2]	1
2	Accumulated Provision for Depreciation	Company Records	<u>(1,502,872)</u>		<u>(7,569)</u>		2
3	Net COYL Plant	Ln 1 + Ln 2	\$ 18,447,349		\$ 3,144,833		3
4	Accumulated Deferred Income Taxes	Company Records	<u>(3,497,693)</u>		<u>(583,237)</u>		4
5	COYL Rate Base	Ln 3 + Ln 4	\$ 14,949,656		\$ 2,561,596		5
6	Return on COYL Rate Base	8.95% * Ln 5	1,337,994		229,263		6
7	Income Tax Factor	Settlement Agreement	<u>0.6579</u>		<u>0.6579</u>		7
8	Income Taxes	Auth. Cost of Equity (9.5%) * Ln 5 * Ln 7	\$ 934,361		\$ 160,101		8
9	Depreciation Expense	Company Records	<u>917,573</u>		<u>85,293</u>		9
10	Revenue Requirement	Ln 6 + Ln 8 + Ln 9	\$ 3,189,929		\$ 474,657	\$ 3,664,585	10
11	2015 Full Margin Therms [3]	Company Records				<u>611,117,827</u>	11
12	Surcharge	Ln 10 / Ln 11				<u>\$ 0.00600</u>	12

[1] Balance represents \$4.1M installed in 2012, \$5.7M installed in 2013, \$5.6M installed in 2014, and \$4.6M installed in 2015

[2] Balance represents \$678K installed in 2014 and \$2.5M in 2015.

[3] Net of Low Income.

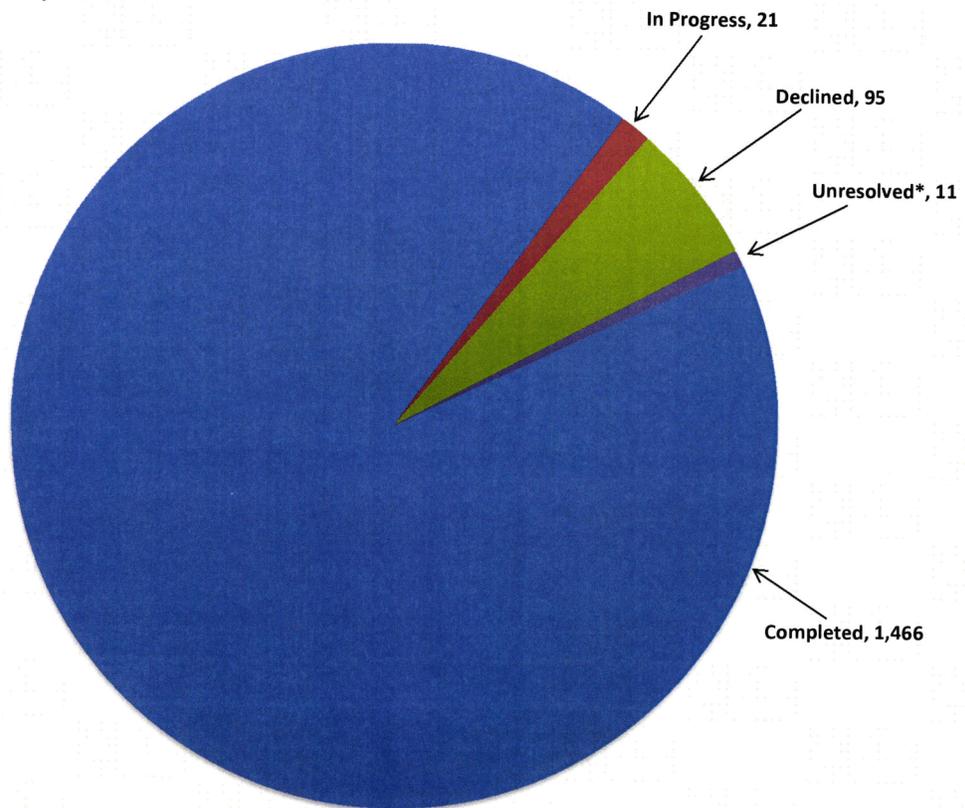
SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT A

COYL Phase I Meter Relocations
January 1, 2015 -
December 31, 2015



*Off due to leak -
customer hasn't opted
for relocation or repair

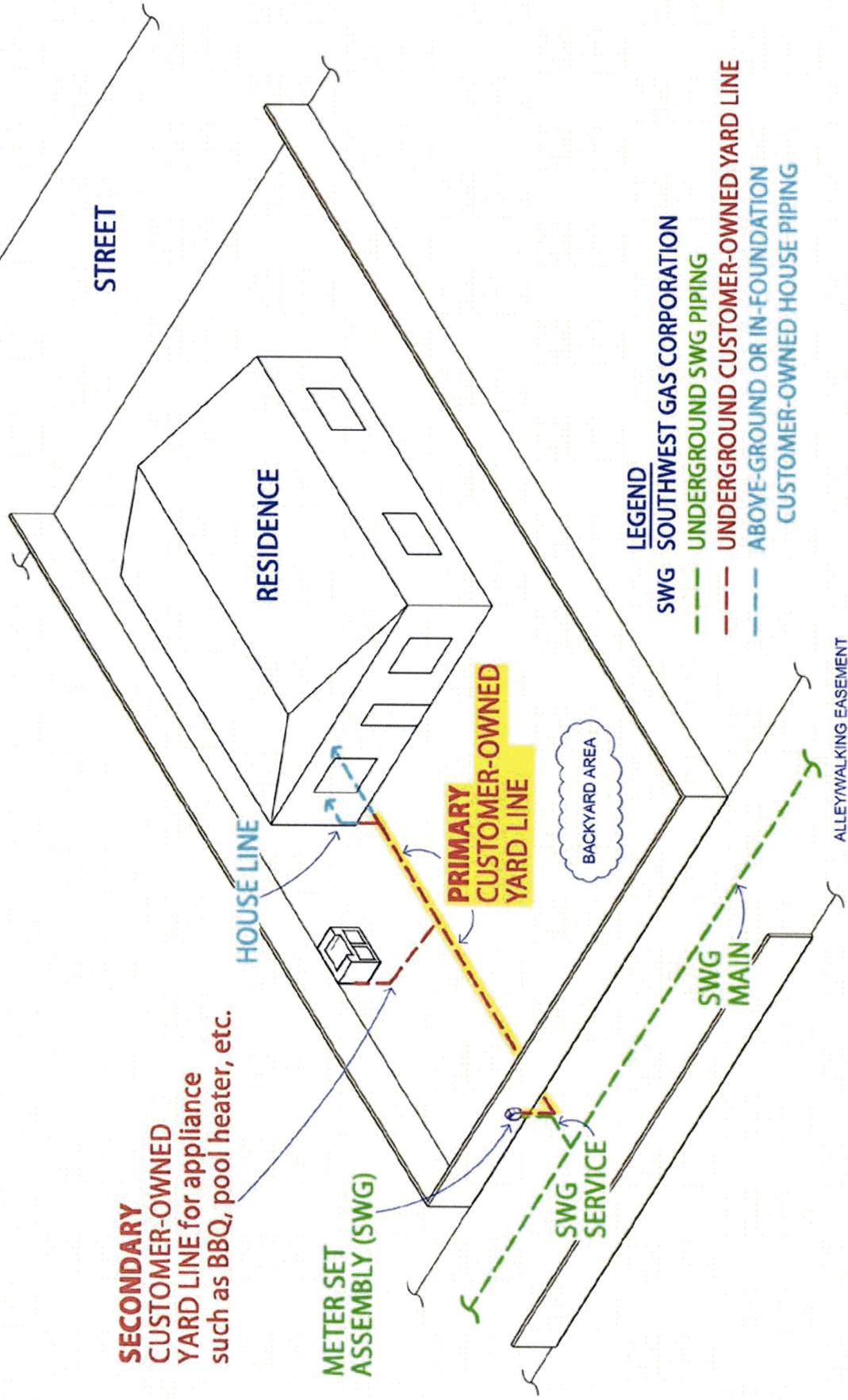
SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT B

EXHIBIT B



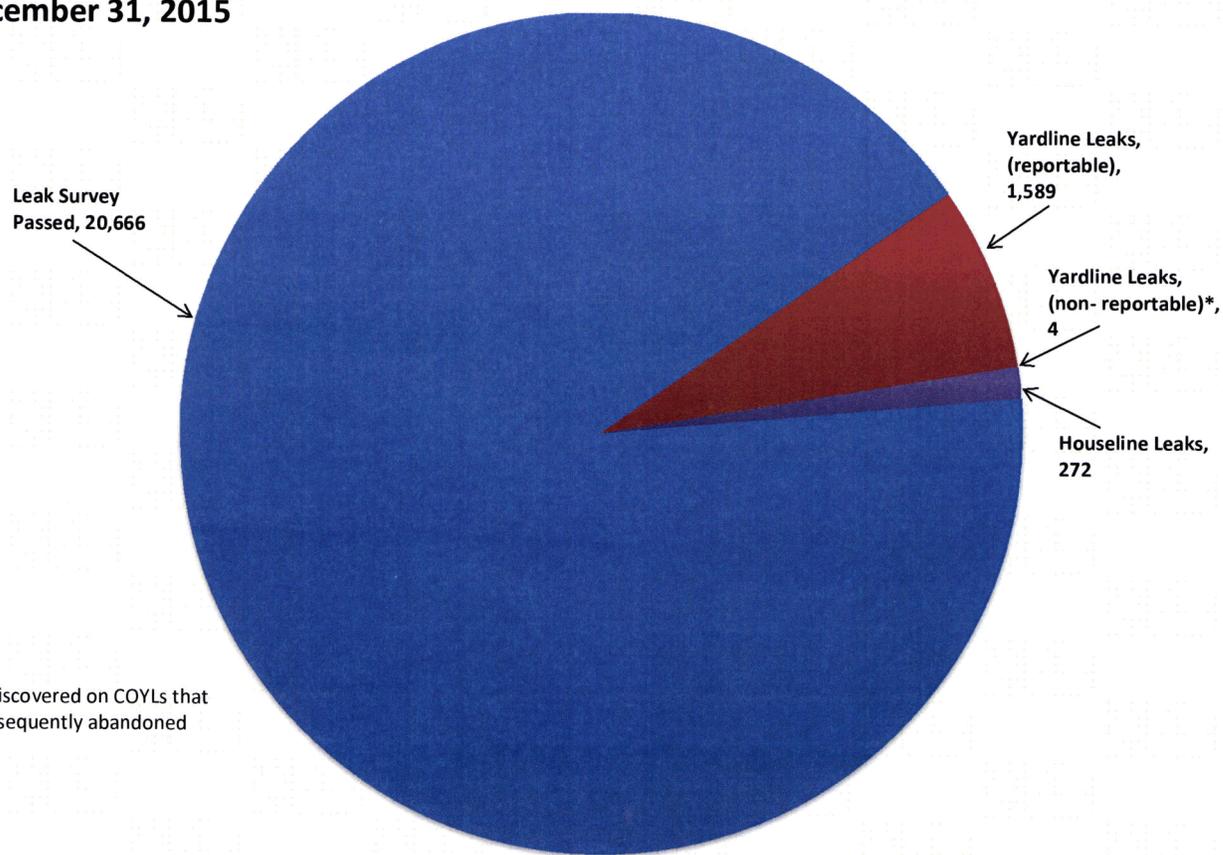
SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT C

**Leak Survey Results
January 1, 2015 -
December 31, 2015**



* Leaks discovered on COYLs that were subsequently abandoned

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT D

EXHIBIT D

CONFIDENTIAL

FILED UNDER SEAL

SOUTHWEST GAS CORPORATION

CUSTOMER OWNED YARD LINE

ANNUAL REPORT

EXHIBIT E

EXHIBIT E

CONFIDENTIAL

FILED UNDER SEAL

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EXHIBIT F

EXHIBIT F

CONFIDENTIAL

FILED UNDER SEAL