



ARIZONA CORPORATION COMMISSION

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Commission Approves Credit Adjustment for Southwest Gas Customers

PHOENIX—The Arizona Corporation Commission today approved a credit for customers of Southwest Gas. The flat surcredit of \$0.08 will go into effect December 1, 2009, benefitting customers during the upcoming winter months, and will stay in effect until a current over-collection reaches zero, which is estimated to be around March 2011. With the surcredit, customer bills would be reduced by an estimated average of \$3.10 during the five highest usage (winter) months and \$0.82 during the five lowest usage (summer) months.

Like other gas utilities, while Southwest Gas is not allowed to make a profit on the cost of the natural gas it provides, it is permitted to recover the cost of that gas. The company recovers the cost of the gas, including its transportation costs, through a Purchased Gas Adjustor (PGA) rate.

Southwest Gas currently has an over-collected balance of approximately \$38 million. Although this amount is below the company's \$55.78 million threshold that would trigger an adjustment, the over-collected bank balance is projected to increase, and the Commission and company agree that it is reasonable to implement a surcredit at this time.

The amount of the surcredit approved today will pay down the existing over-collection, address continuing over-collections, and limit the risk of a large under-collection in the event of future increases in the price of natural gas.

Currently, the Southwest Gas PGA rate is calculated using a 12-month rolling average, with a \$0.15 per therm annual bandwidth. The cost of natural gas can change dramatically over a short period of time, increasing the risk of rate shocks to customers. The PGA mechanism is designed to limit these shocks and reduce the volatility of gas costs passed on to customers. The rolling average produces a more predictable and consistent PGA rate, while the bandwidth provides another brake on volatility by limiting changes (increases or decreases) to no more than \$0.15 per therm over a year's time.

Differences between the rolling average cost of natural gas and the actual cost are tracked and recorded in the PGA bank balance, so under-collections can be recovered by the company and over-collections can be returned to ratepayers. A threshold for over-collection ensures that over-collections will be returned to ratepayers once this upper limit is reached.

"As we have seen during the recession, every penny counts," said **Commissioner Sandra Kennedy**. "Today's Commission action should be a welcome relief to Southwest Gas ratepayers."

"We have a lull in the rapidly-rising costs of fossil fuels, and it's great to rebate ratepayer monies for fuel," said **Commissioner Paul Newman**. "However, we must remain committed to developing

solar, which has no fuel costs. Natural gas is a global commodity and is subject to the price swings of the spot market.”

“Southwest Gas customers will see a much-needed reprieve on gas costs this winter as a result of this credit,” **Chairman Kris Mayes** said. “The Commission is adamant that utility companies provide these gas credits back to their customers in a timely way.”

“I appreciate Southwest Gas filing this application before they were required, so the Commission could begin returning the over-collected balance to ratepayers before we head into the winter season,” said **Commissioner Gary Pierce**.

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