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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission
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AZ Corporation Commission
Director Of Utilities

IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR PRE-APPROVAL OF COST RECOVERY FOR PARTICIPATION IN THE EL PASO NATURAL GAS COMPANY LINE 1903 PIPELINE PROJECT.	DOCKET NO. G-01551A-04-0807 DECISION NO. 67677 ORDER

Open Meeting
March 8 and 9, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On November 9, 2004, Southwest filed for Commission pre-approval of cost recovery for participation in the El Paso Natural Gas Company's ("El Paso") Line 1903 natural gas pipeline project.

3. The Line 1903 project would convert a section of a former crude oil pipeline in southern California which in conjunction with other arrangements would enable a shipper on the El Paso northern system with pipeline capacity to Topock to deliver gas onto the El Paso southern system at Ehrenberg. Southwest's filing is pursuant to the Commission's on-going Notice of Inquiry on Natural Gas Infrastructure, which the Commission initiated in April 2003, to consider issues related to natural gas infrastructure and their impact on natural gas service in Arizona.

4. The Line 1903 project involves approximately 88 miles of pipeline as well as some additional facilities to interconnect Line 1903 with El Paso's Mojave pipeline near Cadiz. The Mojave pipeline runs from Topock at the Arizona/California border to the Bakersfield area. In total, the Line 1903 project entails conversion of Line 1903 to natural gas service, acquisition of Mojave pipeline capacity by El Paso, construction of the interconnect between Line 1903 and the Mojave pipeline, and modification of Kern River pipeline facilities at Daggett, California to enable gas to flow from Daggett eastward on the Mojave pipeline.

5. El Paso filed for Federal Energy Regulation Commission ("FERC") approval of the Line 1903 project (Docket No. CP05-2) on October 5, 2004. The projected in-service date for the Line 1903 project is January 1, 2006. El Paso's projected cost for the Line 1903 project would be approximately $73.6 million. The project would provide 502,000 cubit feet of gas ("mcf/day") of pipeline capacity. This would include approximately 189,000 mcf/day of capacity to deliver gas from the Kern River pipeline at Daggett, approximately 182,000 mcf/day of capacity to move north system gas supplies at Topock down to the southern system, and approximately 130,000 mcf/day of capacity to mitigate existing north-south displacement concerns.

6. Southwest entered into a precedent agreement with El Paso for Line 1903 capacity on August 16, 2004. Southwest would receive an average of 75,548 decatherm ("dth") of pipeline capacity on Line 1903. If terms of the precedent agreement are met, Southwest would enter into a 10 year transportation service agreement with El Paso for the Line 1903 capacity.

7. Southwest's application in this matter specifically requests Commission pre-approval of the costs identified in the application for recovery through Southwest's purchased gas adjustor ("PGA") mechanism.

8. For the reasons discussed below, the Commission Utilities Division Staff ("Staff") does not recommend that the Commission grant Southwest's application for pre-approval for Line 1903.

9. A threshold issue to be considered in regard to this application is whether Commission pre-approval as contemplated in the Commission's December 18, 2003 Policy Statement Regarding New Natural Gas Pipeline and Storage Costs is warranted. The

Commission's policy statement also notes that the specific circumstances of each application for pre-approval must be carefully considered.

10. By its nature, Commission pre-approval is a process that should be limited to specific circumstances when such pre-approval is necessary and warranted. Previously the Commission has granted pre-approval of pipeline capacity acquisitions on the Silver Canyon pipeline by both Southwest and Arizona Public Service.

11. One purpose of the Commission's pre-approval process was to encourage utilities to make the best resource decisions taking into account both short and long term considerations regarding cost, service reliability, service flexibility, diversity, and other issues.

12. A particular concern was that risk-averse utilities might make resource decisions which minimize costs in the short term, but do not fully capture other longer term benefits. This is based upon the concept that a utility acquiring a resource that is not the lowest cost resource at the time might consider itself to be subject to greater regulatory risk than if it had simply acquired the resource that was the lowest cost resource in the short term. This was the case in Southwest's Silver Canyon pre-approval filing. The up front reservation charge costs were higher than the current El Paso pipeline charges, but the Silver Canyon pipeline offered other benefits such as greater operational flexibility and pipeline diversity.

13. However, Staff does not believe that Southwest's participation in the Line 1903 project is a situation where it is necessary for the Commission to grant pre-approval and Staff recommends against pre-approval of Southwest's application. Although the Line 1903 project addresses certain goals of the Commission's gas infrastructure policy statement, such as diversifying Arizona's natural gas infrastructure, consideration of all factors presented in this matter indicates that pre-approval is not warranted.

14. Staff believes that Southwest's acquisition of Line 1903 capacity, as represented by Southwest, is more in the nature of a normal acquisition of pipeline capacity to more efficiently utilize its existing pipeline capacity portfolio, than it is in the nature of a major infrastructure acquisition requiring Commission pre-approval to overcome significant potential obstacles such as higher up front costs to make the project happen.

15. Further, the Commission's December 18, 2003 policy statement indicates traditionally the Commission has not granted pre-approval and that the traditional method of the Commission evaluating the actions taken and the costs incurred by the utility at a later time is the preferred method. Staff believes that this traditional method of addressing the costs incurred by Southwest for Line 1903 capacity is appropriate in this circumstance.

16. In response to a Staff data request, Southwest indicated that its acquisition of Line 1903 capacity is considered to be a continuation of the conversion from full requirements capacity rights to contract demand capacity rights. Southwest further indicated that it was currently relying on this capacity to serve customers on an alternate basis and that acquisition of Line 1903 capacity is needed to serve existing demands. Southwest also indicated that due to these circumstances, the Line 1903 capacity was not evaluated in conjunction with other potential infrastructure projects or even that there are any alternative projects that could bring the pipeline capacity from Topock to the southern system in a timely manner.

17. It is clear that the Commission's policy statement on natural gas infrastructure contemplated pre-approval of natural gas infrastructure acquisitions would be limited to projects where a compelling case could be made that pre-approval would be necessary and play a significant role in moving the infrastructure project forward. Expansion of pre-approval beyond such cases could result in the Commission becoming overly involved in the on-going management of Southwest's pipeline capacity portfolio and would represent an expansion of the pre-approval concept beyond what was previously contemplated.

18. Given these circumstances, Staff believes that Southwest's acquisition of Line 1903 capacity simply does not require the Commission's pre-approval as contemplated under the Commission's natural gas infrastructure policy statement.

19. Unlike the Silver Canyon project, there is no compelling basis to find that Southwest may face the higher cost risks or other potential cost-recovery issues if pre-approval is not granted. Further, even if the Commission does not pre-approve Southwest's acquisition of Line 1903 capacity, the capacity may be considered by the Commission in future reviews of Southwest's gas acquisition activities as would other aspects of Southwest's acquisition of natural

gas and pipeline services.

20. If the Commission wishes to pre-approve Southwest's acquisition of capacity on the Line 1903 project, Staff would recommend conditions similar to those adopted by the Commission in Southwest's Silver Canyon pipeline project pre-approval proceeding.

21. Staff did not recommend that the Commission grant Southwest's application for pre-approval for Line 1903.

CONCLUSIONS OF LAW

1. Southwest 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 and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated February 17, 2005, concludes that it is in the public interest to not approve the filing.

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's application for pre-approval of cost recovery for participation in the El Paso Natural Gas Companies Line 1903 natural gas pipeline project is hereby denied.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER COMMISSIONER

COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary 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 9th day of March, 2005.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:BGG:red/JA

Decision No. 67677

SERVICE LIST FOR: Southwest Gas Corporation
DOCKET NO. G-01551A-04-0807

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