

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the  
Commission's Own Motion to Adopt  
New Safety and Reliability Regulations  
for Natural Gas Transmission and  
Distribution Pipelines and Related  
Ratemaking Mechanisms.

Rulemaking 11-02-019  
(Filed February 24, 2011)

**RESPONSE OF THE DIVISION OF RATEPAYER ADVOCATES TO  
REQUEST FOR APPROVAL OF RATEMAKING PROCEDURAL PROPOSAL  
OF SOUTHWEST GAS CORPORATION**

**I. INTRODUCTION**

In accordance with the Amended Scoping Memo and Ruling of the Assigned Commissioner issued in the above-captioned proceeding on November 2, 2011, the Division of Ratepayer Advocates (“DRA”) hereby submits its response to the motion of Southwest Gas Corporation (“SWG”) for approval of its ratemaking procedural proposal.<sup>1</sup> DRA recommends that the Commission deny SWG’s memorandum account request.

**II. DISCUSSION**

SWG proposes to establish “a deferred regulatory asset (memorandum account) that would allow the Company to defer the costs associated with depreciation expense, carrying charges and property taxes related to the Implementation Plan work until the establishment of rates in its next general rate case proceeding.”<sup>2</sup> SWG “also proposes to defer costs into the memorandum account for costs incurred beyond the general rate case

<sup>1</sup> See Rulemaking (“R.”) 11-02-019, Request for Approval of Ratemaking Procedural Proposal of Southwest Gas Corporation (U 905 G) (“SWG Motion”), Jan. 13, 2012.

<sup>2</sup> SWG Motion, pp. 2-3.

test period ... [to] be recovered through a surcharge mechanism”<sup>3</sup> in SWG’s next general rate case (“GRC”).

DRA proposes no memorandum account treatment of any costs associated with SWG’s Implementation Plan. The Consumer Protection and Safety Division (“CPSD”) has found that the costs of testing or replacement of pipe in Class 1 locations of SWG’s Victor Valley Transmission System “should be borne by SWG shareholders because of its failure to follow GO 112.”<sup>4</sup> As stated in DRA’s comments to CPSD’s report, DRA agrees and proposes no recovery from ratepayers of Implementation Plan costs.<sup>5</sup>

The Commission could address the cost recovery issue on a prospective basis in SWG’s upcoming GRC. SWG’s GRC application for a 2014 Test Year is scheduled to be filed before the Commission later in 2012. SWG states that it “anticipated that its cost recovery proposal would be addressed by the end of calendar year 2011.”<sup>6</sup> But, because the procedural schedule has been modified, SWG “will likely not complete the activity contemplated in its Implementation Plan prior to the establishment of rates in its next [GRC]. As a result, Southwest Gas may incur costs associated with the Implementation Plan, as well as other Commission authorized natural gas infrastructure improvements, beyond the test period in the Company’s next [GRC].”<sup>7</sup> The initial schedule adopted in the June 16, 2011, Scoping Memo and Ruling of the Assigned Commissioner set evidentiary hearings for November 2011, with dates for opening and reply briefs to be set at the conclusion of hearings. It was unlikely that a proposed decision, let alone a final Commission decision, would have been issued by the end of 2011, even if the schedule were not subsequently modified. The extension of the procedural schedule does not

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<sup>3</sup> SWG Motion, p.4.

<sup>4</sup> R.11-02-019, Technical Report of the Consumer Protection and Safety Division Regarding Southwest Gas Corporation’s Pipeline Safety Implementation Plan, Jan. 3, 2012, p.12.

<sup>5</sup> See R.11-02-019, Comments of the Division of Ratepayer Advocates Pursuant to January 5, 2012 Administrative Law Judge’s Ruling and December 21, 2011 Assigned Commissioner Ruling, Jan. 13, 2012.

<sup>6</sup> SWG Motion, p.4.

<sup>7</sup> SWG Motion, p.4.

justify establishing a memorandum account and associated recovery mechanism as proposed by SWG.

### III. CONCLUSION

For the foregoing reasons, DRA respectfully recommends that the Commission deny SWG's request for authority to establish a memorandum account related to its proposed Implementation Plan.

Respectfully submitted,

/s/ Marion Peleo

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January 24, 2012