

**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)

**REQUEST FOR APPROVAL OF RATEMAKING PROCEDURAL PROPOSAL OF  
SOUTHWEST GAS CORPORATION  
(U 905 G)**

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7 **Introduction and Brief Background**

8 1. Southwest Gas Corporation (Southwest Gas) respectfully submits its request for  
9 approval of its ratemaking procedural proposal in compliance with the Amended Scoping Memo  
10 and Ruling of the Assigned Commissioner dated November 2, 2011.

11 2. On June 16, 2011 the Commission issued Decision 11-06-017 requiring all natural  
12 gas transmission pipeline operators be required to prepare and file a comprehensive implementation  
13 plan to pressure test or replace all natural gas transmission pipeline in California that have not been  
14 pressure tested, including cost estimates and proposed ratemaking treatment. The implementation  
15 plans were required to be filed no later than August 26, 2011 – Southwest Gas filed its Natural Gas  
16 Transmission Pipeline Comprehensive Pressure Testing Implementation Plan, including a cost  
17 recovery proposal August 26, 2011 (“Implementation Plan”).

18 3. At the time of filing its proposal, Southwest Gas anticipated that the construction  
19 activities associated with its Implementation Plan would be completed prior to Southwest Gas' next  
20 general rate case filing, expected to be filed late 2012 with rates effective January 1, 2014. The  
21 Company did not recommend the establishment of a rate making procedure to adjust rates outside of  
22 a general rate case, but rather proposed the establishment of a deferred regulatory asset  
23 (memorandum account) that would allow the Company to defer the costs associated with  
24

1 depreciation expense, carrying charges and property taxes related to the Implementation Plan work  
2 until the establishment of rates in its next general rate case proceeding.<sup>1</sup>

3 4. Southwest Gas' ratemaking proposal contemplated that depreciation expense would  
4 be calculated using the currently authorized depreciation rates, carrying charges would be based on  
5 the currently authorized cost of capital and property taxes would be calculated using the Company's  
6 current property tax rate. The deferred asset account will be amortized over the rate case cycle,  
7 typically three to five years, and the depreciated capital costs associated with the proposed  
8 Implementation Plan will be incorporated into the development of the test year rate base.  
9 Additionally, ongoing expenses related to its proposed Implementation Plan will be included in the  
10 development of the test year revenue requirement in the Company's next general rate case.

11 5. Since the Company did not propose to adjust rates as part of its Implementation Plan,  
12 there will be no immediate impact to customer rates following Commission approval of the  
13 proposed Implementation Plan. Rather, rates will not be adjusted until the Commission issues an  
14 order following the Company's next general rate case.

15 6. The total cost associated with the proposed Implementation Plan is approximately  
16 \$7.4 million, and the estimated annual revenue requirement associated with the proposed  
17 Implementation Plan is approximately \$1,300,000. As noted in the supporting testimony of  
18 Company witness Edward Giesecking, the impact to each customer class will ultimately be a  
19 function of the approved class-cost-of-service study and the resultant revenue requirement spread.  
20 For an average residential customer, the bill impact is anticipated to be approximately \$0.84 per  
21 month. The estimated proposed rate impacts for each customer class are further detailed in the

22  
23  
24 <sup>1</sup> See Notice of Filing and Request for Approval of Southwest Gas Corporation's Natural Gas Transmission Pipeline  
Comprehensive Pressure Testing Implementation Plan and Prepared Direct Testimony of Edward Giesecking,  
Rulemaking 11-02-019, August 26, 2011.

1 proposed Implementation Plan and the Prepared Direct and Supplemental Prepared Direct  
2 Testimony of Edward Giesecking.

3         7.         At the time of filing its proposed Implementation Plan the procedural schedule  
4 contemplated Commission review and approval of implementation plans (including cost recovery  
5 proposals) by the end of the calendar year 2011. Accordingly, Southwest Gas anticipated that its  
6 cost recovery proposal would be addressed by calendar year end 2011. Since the timeline for  
7 approval of the proposed Implementation Plan has been extended beyond the original schedule,  
8 Southwest Gas will likely not complete the activity contemplated in its Implementation Plan prior to  
9 the establishment of rates in its next general rate case. As a result, Southwest Gas may incur costs  
10 associated with the Implementation Plan, as well as other Commission authorized natural gas  
11 infrastructure improvements, beyond the test period in the Company's next general rate case.  
12 Therefore, in addition to deferring costs into the memorandum account for recovery in the  
13 Company's next general rate case, Southwest Gas also proposes to defer costs into the  
14 memorandum account for costs incurred beyond the general rate case test period. Costs that are  
15 deferred into the memorandum account after the general rate case test period will be recovered  
16 through a surcharge mechanism that would be thoroughly developed during Southwest Gas' next  
17 general rate case.

18         8.         Consistent with the June 9, 2011 decision in this OIR, Southwest Gas anticipates  
19 proceeding "as soon as practicable" with its Implementation Plan. In light of the change in the  
20 procedural schedule, Southwest Gas respectfully requests that the Commission approve its  
21 ratemaking proposal as soon as possible. Approval of the ratemaking proposal will allow  
22 Southwest Gas to proceed with the proposed Implementation Plan and also provide it an  
23 opportunity to request recovery of the prudently incurred costs in a future general rate case  
24 proceeding.

1 **Summary and Conclusion**

2 9. Based upon the foregoing, and in response to the Amended Scoping Memo and  
3 Ruling of the Assigned Commissioner dated November 2, 2011, Southwest Gas hereby respectfully  
4 requests that the Commission approve is proposal to track the costs associated with its  
5 Implementation Plan in a memorandum account for recovery in a future general rate case, and  
6 requests that the Commission approve its request as soon as possible.

7 10. Southwest Gas further requests that it be permitted to develop, in conjunction with  
8 its next general rate case, a surcharge mechanism that will allow the company to recover  
9 Implementation Plan replacement activity and future pipeline safety replacement activity that the  
10 Commission determines is warranted.

11 11. Southwest Gas furthers requests the Commission grant such further relief as the  
12 Commission deems appropriate.

13 DATED this 13<sup>th</sup> day of January, 2012, at Las Vegas, Nevada.

14 Respectfully submitted by,

15 SOUTHWEST GAS CORPORATION

16  
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