BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Application of Southwest Gas Corporation for authority to establish the Accumulated Deferred Interest rate in Southern Nevada pursuant to the Variable Interest Expense Recovery mechanism, Unrecovered Gas Cost Expense rates, system shrinkage rates, excess Imbalance Commodity and Reservation Charges, Renewable Energy Program Rates, General Revenues Adjustment rates, Conservation and Energy Efficiency rates, Mesquite Infrastructure Expansion Rates, Spring Creek Infrastructure Expansion Rates, and Contract Transition Adjustment Provision rate.	Docket No. 23-11017

At a general session of the Public Utilities Commission of Nevada, held at its offices on June 10, 2024.

PRESENT: Chair Hayley Williamson
Commissioner Tammy Cordova
Commissioner Randy J. Brown
Assistant Commission Secretary Trisha Osborne

ORDER

The Public Utilities Commission of Nevada ("Commission") makes the following findings of fact and conclusions of law:

I. INTRODUCTION

On November 27, 2023, Southwest Gas Corporation ("Southwest Gas") filed with the Public Utilities Commission of Nevada ("Commission") an application, designated as Docket No. 23-11017 (the "Application"), for authority to establish the Accumulated Deferred Interest rate in Southern Nevada pursuant to the Variable Interest Expense Recovery mechanism, Unrecovered Gas Cost Expense rates, system shrinkage rates, excess Imbalance Commodity and Reservation Charges, Renewable Energy Program Rates, General Revenues Adjustment rates, Conservation and Energy Efficiency rates, Mesquite Infrastructure Expansion Rates, Spring Creek Infrastructure Expansion Rates, and Contract Transition Adjustment Provision ("CTAP") rate.

On April 16, 2024, Southwest Gas, the Nevada Bureau of Consumer Protection ("BCP") and the Regulatory Operations Staff of the Commission ("Staff") (collectively, the "Signatories") filed a stipulation ("Stipulation") resolving all but two issues in this Docket. The two remaining issues are whether Southwest Gas's recorded costs of natural gas included in the Application were reasonably and prudently incurred, and whether Southwest Gas prudently administered the CTAP regulatory asset / liability account in the Southern Nevada rate jurisdiction.

II. SUMMARY

The Commission finds that Southwest Gas's recorded costs of natural gas in the Application were reasonable and prudent. The Commission further finds that Southwest Gas prudently administered the CTAP regulatory asset / liability account in the Southern Nevada rate jurisdiction, and sets a CTAP rate of $0.00085 per therm in Southern Nevada.

III. PROCEDURAL HISTORY

• On November 16, 2023, Southwest Gas filed the Application. It was not accepted for docketing until an amendment was filed on November 27, 2023.

• Southwest Gas filed the Application pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC") Chapters 703 and 704, including, but not limited to, NRS 704.110 and NAC 701B.245, 703.535, 704.116, and 704.953 through 704.9718.

• Staff participates as a matter of right pursuant to NRS 703.301.

• On November 27, 2023, Southwest Gas filed an amendment to the Application.

• On November 29, 2023, BCP filed a Notice of Intent to Intervene pursuant to Chapter 228 of the NRS.

• On December 11, 2023, the Commission issued a Notice of Application and Notice of Prehearing Conference.

• On January 9, 2024, the Presiding Officer held a prehearing conference. The Signatories made appearances. A procedural schedule and discovery procedures were discussed.

• On January 16, 2024, the Commission issued a procedural order containing discovery and hearing dates.

• On April 8, 2024, Southwest Gas filed an errata to the Application.

• On April 9, 2024, the Presiding Officer held a continued prehearing conference. The Signatories made appearances. A partial stipulation was discussed, and the prehearing conference was continued.

• On April 16, 2024, Southwest Gas filed the Stipulation.

• On April 17, 2024, the Presiding Officer held a continued prehearing conference. The Signatories appeared and presented the Stipulation.

• On April 19, 2024, Staff and BCP filed direct testimony.

• On May 1, 2024, the Commission voted to approve the Stipulation. The Commission also issued a notice of hearing on this day.

• On May 3, 2024, Southwest Gas filed rebuttal testimony and updated tariff sheets. The Commission also issued an order on the Stipulation.

• On May 7, 2024, Southwest Gas filed updated tariff sheets.

• On May 8, 2024, the Commission issued a second procedural order containing instructions on the submission of exhibits.

• On May 21, 2024, the Presiding Officer held a hearing. Southwest Gas, Staff, and BCP appeared.

IV. CTAP

Southwest Gas's Position

1. Southwest Gas states that CTAP allows the utility to track differences in revenues associated with the transition of negotiated contract customers to full margin rate schedules as those contracts expire. (Ex. 105 at 2.) Southwest Gas states that CTAP acts as a two-way balancing account through which any loss or gain in revenues will be recovered by or returned to full margin customers through a per therm charge until rates can be reset in the next-filed general rate case ("GRC"). (*Id.*) Southwest Gas states that CTAP protects both customers and Southwest Gas from over and under recovery of revenue. (*Id.*)

2. Southwest Gas states that the CTAP account reflects the difference between monthly contract revenue of a negotiated contract rate that was included in designing rates in the most recent GRC and to the amount billed under the customer's full margin rate schedule, after a customer transitions to the full margin rate (*Id.* at 2-3.) Southwest Gas states that it calculates the CTAP rate for the test period by dividing the balance in the CTAP subaccount on September

30, 2023, by the tracking period sales, which includes the full margin transportation volume. (*Id.* at 3.)

3. Southwest Gas states that it is not requesting any changes to the CTAP mechanism or rate calculation methodology in the Application. (*Id.*) Southwest Gas notes that it requested enhancements to the CTAP mechanism in its last-filed GRC[1].

4. Southwest Gas states that the CTAP account balance for Southern Nevada reflects an under-collection of $585,134, resulting in a proposed rate of $0.00085 per therm. (Exhibit 102 at 2.)

BCP's Position

5. BCP states that Saguaro Power Company ("Saguaro") was the only contract customer that transitioned to tariff rates during the annual rate adjustment test-year period. (Exhibit 400 at 5.) BCP states that Saguaro had a Qualifying Facility ("QF") contract with Nevada Power Company d/b/a NV Energy ("Nevada Power") that resulted in Saguaro transporting approximately 570,000 dekatherms of gas each month through Southwest Gas's distribution system. (*Id.* at 5.) BCP states that Saguaro's QF contract terminated on September 30, 2022, at which point Saguaro began operating as a power generator only during the peak summer months. (*Id.* at 5.) BCP states that once Saguaro's QF ended, Saguaro's annual natural gas needs decreased by 5 million dekatherms, decreasing Southwest Gas's test year revenues. (*Id.* at 6.)

6. BCP states that the Commission approved a 27-year contract for special services between Saguaro and Southwest Gas beginning on April 1, 1994, and ending on March 31, 2021, where in Southwest Gas sold natural gas to Saguaro at a negotiated rate that was "well below"

[1] *See* Docket No. 23-09012, Application of Southwest Gas Corporation for authority to increase its retail natural gas utility service rates for Southern and Northern Nevada.

full margin tariff rates. (*Id.* at 7.) BCP argues that Southwest Gas should have notified Saguaro that Southwest Gas would terminate the contract with Saguaro as early as March 31, 2019, and converted Saguaro to a general service ("GS") customer on March 31, 2021. (*Id.* at 9.) BCP states that Southwest Gas delayed terminating the contract for 19 months until September 2022, after the preliminary term expired, which resulted in an excess charge of $585,134 to the CTAP account. (*Id.* at 7.) BCP argues that there was no valid reason for Southwest Gas's management to delay terminating Saguaro's contract and, thus, the decision was unreasonable and imprudent. (*Id.*)

7. BCP states that Southwest Gas's captive customers have already subsidized Saguaro's negotiated contract rates with Southwest Gas for at least 27 years and have paid excess electricity costs to Nevada Power because of Saguaro's QF contract. (*Id.*) BCP posits that customers should be refunded $3,496,470, instead of Southwest Gas collecting $585,134. (*Id.*) BCP further suggests that the $3,496,470 refund should not be paid out to customers, but should be retained in the CTAP regulatory asset / liability account to offset future debits to the account. (*Id.* at 18-19.)

8. BCP states that in response to data requests, Southwest Gas claimed it could not have transferred Saguaro to the GS customer class because no GS rate schedules existed in March 2019, and that the GS-5 and GS-6 schedules were not in effect until September 2020. (*Id.* at 8.) BCP avers that Southwest Gas was provided ample opportunity through various Commission proceedings and inherent control Southwest Gas has over when to file rate cases to propose the appropriate rate schedules in a timely manner, but chose not to. (*Id* at 10.) BCP states that Saguaro could have been placed on the GS-5 schedule because its annual gas usage

during the 19-month delay went from 69 million therms to approximately 19 million therms. (*Id.* at 15.)

9. BCP further states that Southwest Gas could have classified Saguaro on the GS-4 schedule as it would have imposed a demand charge on and increased the commodity volumetric rate charged to Saguaro as compared to the continued special services contract rate, and passed on the increased revenue to Southwest Gas's captive customers. (*Id.* at 11.) BCP further argues that the GS-4 rate schedule would have cost Saguaro an additional $132,126 per month as compared to being on the GS-6 schedule implemented on April 1, 2021. (*Id.*)

10. BCP argues that Saguaro also failed to notify Nevada Power that it was seeking a waiver of the QF requirements from the Federal Energy Regulation Commission because Saguaro no longer qualified as a QF. (*Id.* at 13.) BCP claims that Saguaro collected nearly $1 million per month it was not entitled to from Nevada Power and its customers because Saguaro lost its QF status (*Id.* at 14.)

11. BCP further argues that Southwest Gas improperly allowed Saguaro to be classified as a GS-5 customer from November 2022 to January 2023 because placing Saguaro on the GS-5 schedule increased the amount in the CTAP regulatory asset to be recovered from captive customers by $341,111. (*Id* at 16.) Therefore, BCP suggests that the Commission, at a minimum, should reduce the CTAP to $244,023 (i.e. the difference between Southwest Gas's request for recovery of $585,134 and the cost associated with misclassifying Saguaro as a GS-6 customer). (*Id.* at 17.)

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Staff's Position

12. Staff states that it reviewed Southwest Gas's CTAP rate calculation for Southern Nevada, and it supports the $585,134.00 regulatory asset and the CTAP rate of $0.00085 per therm as proposed by Southwest Gas. (Exhibit 300 at 3.)

Southwest Gas's Rebuttal

13. Southwest Gas states that it acted prudently in delaying the termination of Saguaro's contract, and it did so for the following reasons:

- Saguaro's and the other negotiated rate customers' ("NRCs") usages were too great to be classified as GS-4 customers because the NRCs used between 15 and 67 times more gas annually than other GS-4 customers, there was no cost-of-service basis to charge the NRCs more, and the NRCs' rates produced returns greater than the system rate of return;
- Treatment of the NRCs was subject to rulemaking and investigatory proceedings at the Commission;
- Southwest Gas's combined cost-of-service study indicated a return for the NRC class of nearly 18 percent; and
- Southwest Gas terminated Saguaro's negotiated rate contract shortly after receiving the Commission's approval of the GS-5, GS-6, and GS-7 schedules.

(Ex. 109 at 5-6.)

14. Southwest Gas disagrees with BCP's assertion that it could have filed a rate case sooner to have new schedules in place for Saguaro, because filing a new rate case would have resulted in all customers paying more, and sooner. (*Id.*) Southwest Gas also disagrees with BCP's CTAP calculation of a $3,496,470 regulatory liability because BCP's position relies on speculation and assumption as to what actions Saguaro would have taken had it been charged a

different amount by Southwest Gas. (*Id.* at 7.) Southwest Gas also disagrees with BCP's assertion that the Commission should withhold credits or delay the recovery of credits in the CTAP account because BCP's calculation is not only based on unreliable speculation, but it also involves additional speculation regarding events that have not occurred yet. (*Id.* at 8.)

Commission Discussion and Findings

15. The Commission finds that Southwest Gas acted reasonably in delaying the termination of its contract with Saguaro because of Saguaro's high gas usage, the lack of appropriate rate schedules, and the other, pending rulemakings and investigations regarding contract customer treatment. The Commission further finds that it cannot make a determination as to what Saguaro would or would not have done at the higher, proposed rates because of the uncertainty surrounding Saguaro's decisions. The Commission also declines to review the terms of a contract that was approved 30 years ago and terminated two years ago.

16. Therefore, the Commission finds that Southwest Gas's proposed CTAP rate of $0.00085 per therm in Southern Nevada, based on the CTAP liability of $585,134, is appropriate.

IV. SOUTHWEST GAS'S PROCUREMENT PRACTICES

Southwest Gas's Position

17. Southwest Gas states that it endeavors to acquire the best-cost gas supply portfolio considering price, reliability, flexibility, and protection from short-term market volatility, while providing security of supply to meet the gas supply requirements of its customers. (Exhibit 104 at 2.) Southwest Gas states that its supply policy combines the firm portion of its supply portfolio with monthly and daily spot-market purchases to keep gas costs reasonable. (*Id.* at 3.) Southwest Gas states that to ensure availability of gas supply, it procures

upstream interstate transport capacity, firm bundled delivered gas supplies, and firm gas supplies purchased at the production basins to meet its forecasted winter design-day requirements. (*Id.*)

18. Southwest Gas states that it's purchases into the Tuscarora Pipeline totaled $24,692,504.00 with a cost per unit of $13.7019. (*Id.*, Ex. VSA-3 at 1.) Southwest Gas also states that its Tuscarora volumetric transportation charge was $9,596.00, with a cost per unit of $0.0054. (*Id.* at 1.) Southwest Gas states that its Tuscarora Reservation Charge was $3,342,471.00. (*Id.*)

BCP's Position

19. BCP states that the Tuscarora Contract 385 is a 20-year NRC between Tuscarora and Southwest Gas for firm capacity of 12,200 dekatherms from the Tuscarora/GTN Interconnect in Oregon to the Tuscarora interconnection with Great Basin Gas Transmission Company ("Great Basin") near Wadsworth, Nevada. (Exhibit 400 at 19-20.) BCP states that the annual charge of the Tuscarora Contract is $1,870,260. (*Id.* at 20.) BCP states that Southwest Gas did not seek preapproval for the Tuscarora Contract from the Commission. (*Id.*)

20. BCP also states that Tuscarora Contract 385 was not needed for reliability because Southwest Gas improperly inflated its forecast peak demand based on an out-of-date extreme weather event and a scaling factor that is not based on the most recent data. (*Id.* at 20.) BCP adds that it is investigating Southwest Gas's interactions with Great Basin because BCP claims that the interactions between the two entities do not appear to reflect "arms-length" negotiations. (*Id.* at 21-22.) Therefore, BCP recommends that the Commission disallow recovery of the cost of the contract from Southwest Gas's captive customers. (*Id.*)

21. BCP states that Southwest Gas entered into the Tuscarora Contract based on its reliance on the scaling factor and associated expansions; however, BCP claims that there is no

need for the contract, and therefore, the costs associated with the Tuscarora Contract are imprudent and should be denied. (*Id.* at 22.) BCP presents forecasts with and without Southwest Gas's scaling factor that includes an extreme weather event from 1989, and BCP concludes that the scaling factor results in an over-supply of gas. (*Id.* at 23-25.) Similarly, BCP presents forecasts with and without the extreme weather event from 1989 that also include the scaling factor, and BCP concludes that the extreme weather event results in an over-supply of gas. (*Id.* at 25-29). BCP concludes that the Commission should deny Tuscarora Contract 385 costs because Southwest Gas's forecast uses both the scaling factor and outdated, unreliable information (i.e. the extreme weather event from over 30 years ago). (*Id.* at 29.)

22. BCP finally recommends that the Commission order Southwest Gas to refund $62,989 for the reservation charges from the firm capacity Great Basin acquired for the Carson and Tahoe districts because such capacity was not necessary. (*Id.*)

Staff's Position

23. Staff states that it conducted a review of Southwest Gas's recorded costs of gas purchases and gas procurement practices pursuant to NRS 704.110(9) and did not discover any of Southwest Gas's purchases or procurement practices to be unreasonable or imprudent. (Exhibit 300 at 2.) Staff recommends that the Commission find Southwest Gas's gas procurement practices are reasonable and that the recorded gas procurement costs were reasonably incurred. (*Id.*)

Southwest Gas's Rebuttal

24. Southwest Gas states that the decision to enter into Tuscarora Contract 385 was prudently incurred because it was based on Southwest Gas's forecasting methodology, and Southwest Gas predicted a resource shortfall along Great Basin's Carson Lateral pipeline

beginning in 2023, as presented by Southwest Gas in its 2022 and 2023 Informational Reports. (Exhibit 107 at 3-4.) Southwest Gas states that BCP's characterization of the amounts Southwest Gas is assessed for delivery rights is incorrect and that, as a result of the Tuscarora Contract 385, Southwest Gas gained additional rights. (*Id.* at 5-7.)

25. Southwest Gas states that its methods of forecasting demand are generally accepted and that it used a regression-based methodology to forecast both monthly sales volumes under normal weather conditions and design day deliveries. (Exhibit 106 at 3.) Southwest Gas states that it utilizes a 10-year average HDD assumption for long-range demand forecasts and an extreme weather assumption based on an event in 1988 to ensure sufficient resources to avoid significant property damage or loss of life in all of its service territories. (*Id.* at 3.)

26. Southwest Gas states that it uses historical demands to ensure that the current regression equation and forecast aligns with historical demands and, based on that data, creates a "preliminary forecast," which it then may adjust with a scaling factor. (*Id.*at 3-4.) Southwest Gas states that it applied a scaling factor to the preliminary forecasts in this Docket because the preliminary forecast under-forecasted demand on an actual cold event in January 2007. (*Id.* at 7.)

27. Southwest Gas does not agree with BCP's assertion that a gas utility should not use a weather event beyond the most recent 30-year period in its forecast of peak demand because doing so would increase the risk of having insufficient resources to serve customer demand in extreme weather conditions. (*Id.* at 8.) Southwest Gas further points out that it is permitted to use a period other than 30 years by NAC 704.9605. (*Id.* at 8-9.)

Commission Discussion and Findings

28. Pursuant to NRS 704.110(9)(e), when a public utility files an ARA application, the Commission shall not allow the public utility to recover any recorded costs of natural gas

which were the result of any practice or transaction that was unreasonable or was undertaken, managed, or performed imprudently by the public utility. Here, the Commission finds that Southwest Gas's procurement of gas during the test period was reasonable and prudent. The Commission acknowledges that the issue of changing or modifying Southwest Gas's forecasting methodologies is already being addressed in Docket No. 19-12019[2]. However, the Commission finds that Southwest Gas's current peak demand forecasting methods are consistent with longstanding procedures and practices.

29. NAC 704.9605 allows Southwest Gas to use another period rather than the previous 30 years in its forecasting methodologies, if justified. The Commission finds that it is in the public interest for Southwest Gas to use a period other than the previous 30 years in its forecasting methodology because it will reduce the risk of extreme weather events causing significant property damage or loss of life in the relevant service territories. Therefore, the Commission finds that Southwest Gas's use of the February 1989 cold weather event is permissible and justified under NAC 704.9605.

30. The Commission finds that Southwest Gas's gas procurement practices were prudent and that the recorded gas procurement costs were reasonably incurred.

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[2] Investigation and Rulemaking to adopt, amend, or repeal regulations regarding review of long-term natural gas procurement practices pursuant to NRS 704.185 and 704.991 and requirements for long-term natural gas forecasting.

Therefore, it is ordered:

1. The remaining issues that were not resolved by stipulation in this docket, namely Southwest Gas Corporation's requests for recovery of costs associated with the Contract Transition Adjustment Provision and Tuscarora Contract 385, are approved as delineated in this order.

By the Commission,

HAYLEY WILLIAMSON, Chair

TAMMY CORDOVA, Commissioner

RANDY J. BROWN,
Commissioner and Presiding Officer

Attest:
TRISHA OSBORNE,
Assistant Commission Secretary

Dated: Carson City, Nevada

6/11/24

(SEAL)

PUBLIC UTILITIES COMMISSION PUC OF NEVADA