



Southwest Gas Proposed Settlement Agreement Overview

November 2011





Settlement Agreement Process

- In July 2011, the settling parties agreed to a proposed settlement agreement in the Southwest Gas General Rate Case.
- The Settlement Agreement results in a balanced and complete package that addresses Southwest Gas' need for a rate increase with the continuation of safe and reliable service to customers at just and reasonable rates and charges.
- The Commission held hearings over the period of three days whereby all parties were provided an opportunity to present evidence in support of and in opposition to the proposed settlement agreement.



Key Components of the Proposed Settlement Agreement

- Two Decoupling Alternatives for Commission Consideration
 - Alternative A – partial decoupling
 - Alternative B – full decoupling
 - Customer Bill Impacts
 - Revenue Decoupling
 - Low Income Customer Protections
 - Energy Efficiency Programs
 - Other Customer Protections and Benefits
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Average Monthly Bill Impacts

Alternative A

Revenue Increase of \$54.9 Million

- Residential Increase - \$3.48*
- Low-Income Increase - \$0.70**
- Partial Decoupling (Lost Fixed Cost Recovery)
 - Results in estimated bill increase of \$0.05
 - No 5% cap or limit on bill increases
 - Tied directly to energy efficiency
- Energy Efficiency Portfolio Impact
 - Estimated bill increase of \$0.35

Alternative B


Revenue Increase of \$52.6 Million

- Residential Increase - \$3.33*
- Low-Income Increase - \$0.59**
- Full Decoupling
 - Can result in bill increases or decreases
 - 5% cap or limit on bill increases; no limit on bill decreases***
- Energy Efficiency Portfolio Impact
 - Estimated bill increase of \$0.35

* Based upon a monthly average use per customer of 25 therms, and an increase in the rate per therm of approximately \$0.139 for Alternative A and \$0.133 for Alternative B.


** Based upon a monthly average use per customer of 25 therms, and an increase in the rate per therm of approximately \$0.028 for Alternative A and \$0.024 for Alternative B.

*** The 5% cap or limit is applied to the non-gas cost portion of the bill.





Revenue Decoupling

- **Alternative A** (*partial revenue decoupling*)
 - Permits Southwest Gas to recover lost revenues attributable to achievement of the Commission's required annual energy savings targets
 - Maintains the traditional sales based regulatory model – where utilities are rewarded for selling more energy
 - **Alternative B** (*full revenue decoupling*)
 - Adjusts rates through a monthly surcharge or surcredit to reflect any difference between Commission-*authorized* revenues per customer and *actual* revenues per customer
 - Departs from the traditional sales based regulatory model – so utilities are no longer rewarded for selling more energy or penalized for selling less energy
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Revenue Decoupling

Alternative A **Partial Decoupling**

- Customer Protections and Benefits:
 - Enables utility to partner with customers to pursue Commission authorized energy efficiency programs
 - Portion of the surcharge refunded to customers if utility does not meet 100% of its target energy savings goal
 - Annual reporting requirements to ensure mechanism is working as intended
 - Commitment to develop customer outreach and education


Alternative B **Full Decoupling**

- Customer Protections and Benefits:
 - Enables utility to partner with customers to pursue all energy efficiency opportunities, including building codes and appliance standards
 - Prevents utility from increasing profits by increasing sales
 - Annual earnings test ensures utility does not collect a surcharge if it will over-earn
 - Viewed positively by rating agencies and will likely lead to future debt cost reductions for customers
 - Utility cannot file another general rate case for at least 5 years
 - Quarterly and annual reporting requirements to ensure mechanism is working as intended
 - Commission retains the right to terminate the use of the mechanism if it is not working as intended
 - Commitment to develop customer outreach and education
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Customer Benefits and Protections

(Included in Both Alternative A and Alternative B)

- **Low Income Customer Protections**
 - Increase in low income rate assistance discount from 20% to 30%
 - No rate increase associated with enhanced energy efficiency programs or customer-owned yard line replacement program
 - \$1 million shareholder-funded contribution to assist with home weatherization efforts
 - Commitment to increase customer awareness of programs
 - **Protection for Customers From High Winter Bills**
 - Protects customers from high bills following an extreme weather event by refunding over collections to customers
 - **No increase in the monthly basic service charge**
 - Residential monthly basic service charge will remain at \$10.70
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Customer Benefits and Protections

(Included in Both Alternative A and Alternative B)


■ Enhanced Energy Efficiency Programs

- Enhance and increase energy efficiency opportunities for customers to reduce utility bills
- Increased portfolio budget from \$4.7 million to \$8.4 million
- 1,250,000 therm savings and expected net societal benefits of \$7.4 million

■ Cost Reduction Commitment

- Reduce annual expenses by \$2.5 million per year
- Expected to result in a reduced rate increase in Southwest Gas' next general rate case

■ Customer Owned Yard Line Replacement Program

- Relieve customers of burden of operating and maintaining customer owned yard lines.
 - Enhances public safety
 - Commitment to leak survey and replace customer owned yard lines as necessary
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More Information

Please visit **swgas.com** for more information on:

Decoupling <http://swgas.com/tariffs/aztariff/decoupling/>

Low income programs <http://swgas.com/assistance/az/index.php>

Energy efficiency programs <http://swgas.com/efficiency/az/index.php>

