BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JIM O'CONNOR– Chairman
LEA MARQUEZ PETERSON
ANNA TOVAR
KEVIN THOMPSON
NICK MYERS

IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF SOUTHWEST GAS CORPORATION DEVOTED TO ITS ARIZONA OPERATIONS.	DOCKET NO. G-01551A-21-0368 DECISION NO. 78845 **OPINION AND ORDER**

DATE OF HEARING:	August 9, August 12, August 24, August 29, and September 19, 2022 (Telephonic Public Comment); September 19, 2022 (Pre-Hearing Conference); and August 26, 27, and 28, 2022 (Evidentiary Hearing)
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Sasha S. Paternoster
APPEARANCES:	Ms. Catherine M. Mazzeo, Mr. Kyle O. Stephens, and Mr. Andrew V. Hall, on behalf of Southwest Gas Corporation; Mr. Timothy M. Hogan, ARIZONA CENTER FOR LAW IN THE PUBLIC INTEREST, on behalf of Wildfire and Southwest Energy Efficiency Project; Mr. Daniel W. Pozefsky, on behalf of the Residential Utility Consumer Office; and Mr. Max Carpinelli, Ms. Kathryn Ust, and Ms. Samantha Egan, Staff Attorneys, Legal Division, on behalf of the Arizona Corporation Commission Utilities Division.

BY THE COMMISSION:

This matter involves the rate application of Southwest Gas Corporation ("SWG" or "Company") filed with the Arizona Corporation Commission ("Commission") for approval of an increase in the retail natural gas utility service rates for service to SWG's Arizona customers. In addition, SWG's application requested approval to continue its existing rate design; inclusion of its Move2Zero program to allow customers to purchase certified carbon offset credits to offset their natural gas usage; inclusion of a soft-off process to allow SWG to keep a meter active for no more than 30 calendar days before the meter is turned off; and modification of the Company's Low Income Ratepayer Assistance ("LIRA") program. The application is based upon adjusted test year ("TY") income for SWG's jurisdictional operations in Arizona during the 12 months ending August 31, 2021.

Intervention in this matter was granted to the Residential Utility Consumer Office ("RUCO"), Arizona Grain, Inc. ("Arizona Grain"),[1] Wildfire ("Wildfire"), and Southwest Energy Efficiency Project ("SWEEP").

DISCUSSION

I. Procedural History

On November 9, 2021, SWG filed a notice with the Commission indicating its intent to file a rate case on or about December 3, 2021.

On December 3, 2021, SWG filed its application for an increase in rates for utility service provided in Arizona. The application attached supporting schedules and the direct testimony of Matthew D. Derr, Carla D. Ayala, Frederica Harvey, Timothy S. Lyons, John R. Olenick, Nick Y. Liu, Randi L. Cunningham, Michelle L. Ansani, and Ann E. Bulkley.

On December 7, 2021, a Procedural Order regarding Consent to Email Service was issued.

On December 20, 2021, Arizona Grain filed Public Comments, stating that the Commission should find SWG's application to be deficient because the TY is based on SWG's present rates which were not in effect for a full year.

On December 28, 2021, the Commission issued Decision No. 78364, approving the joint

[1] On January 7, 2022, Arizona Grain filed an Application for Leave to Intervene, which was granted by Procedural Order dated February 1, 2022. On August 10, 2022, Arizona Grain filed a Notice of Withdrawal as Intervenor, which was approved by Procedural Order dated August 11, 2022.

application of SWG and Graham County Utilities, Inc. ("GCU") for authority to extend SWG's Certificate of Convenience and Necessity ("CC&N") and approval of SWG's purchase of the natural gas service-related assets of GCU.[2]

On January 3, 2022, the Commission's Utilities Division ("Staff") filed a Letter of Sufficiency, stating that SWG's application had met the sufficiency requirements outlined in Arizona Administrative Code ("A.A.C.") R14-2-103, and classifying the Company as a Class A utility.

On January 6, 2022, RUCO filed an Application to Intervene.

On January 7, 2022, Arizona Grain filed an Application for Leave to Intervene.

On February 1, 2022, Staff filed a Request for Procedural Schedule that included a proposed schedule agreed to by Staff, SWG, and the existing intervenors.

On February 1, 2022, by Procedural Order, a hearing was set to commence on September 26, 2022, and other procedural deadlines were established. RUCO's and Arizona Grain's requests to intervene were granted.

On March 29, 2022, Wildfire filed a Motion for Leave to Intervene and a Consent to Email Service.

On April 4, 2022, SWEEP filed a Motion for Leave to Intervene and a Consent to Email Service.

On April 8, 2022, SWG filed a Certification of Mailing and Publication, certifying that a copy of the public notice had been mailed or emailed to customers between February 22, 2022, and March 7, 2022; that notice was posted in a prominent location on SWG's website; and that a copy of the notice was published.

On April 14, 2022, by Procedural Order, Wildfire's and SWEEP's Motions for Leave to Intervene were granted.

On May 13, 2022, a Procedural Order regarding the format of the hearing was issued and miscellaneous filing dates were set.

On June 2, 2022, SWG filed a Motion and Consent of Local Counsel for *Pro Hac Vice*

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[2] *See* Docket Nos. G-01551A-21-0092 and G-02527A-21-0092. As a result of Dec. No. 78364, SWG extended its service territory to include former GCU customers and retained GCU rates and charges as required by the Commission Decision. SWG's application in this matter includes a proposal to move former GCU customers to SWG rate schedules and adjustments to the Company's cost of service to reflect the GCU rate base and operations and maintenance expense.

Admission of Kyle O. Stephens, Esq. and Andrew V. Hall, Esq.

On June 6, 2022, by Procedural Order, Kyle O. Stephens, Esq. and Andrew V. Hall, Esq. were admitted *pro hac vice*.

On June 16, 2022, Jennifer B. Anderson, attorney for Wildfire and SWEEP, filed a Notice of Withdrawal of Attorney and stated that Mr. Timothy M. Hogan will continue to represent Wildfire and SWEEP in this matter.

On June 21, 2022, Staff filed a Request to Modify the Procedural Schedule, requesting an extension of testimony filing deadlines. Staff's Request indicated the other parties had no objection to the Request.

On June 27, 2022, by Procedural Order, the modified procedural schedule proposed by Staff was adopted.

On August 5, 2022, Staff filed a Notice of Filing Direct Testimony of Tanya Pitre, David C. Parcell, Mackenzie Salomonson, and Alan Borne; and RUCO filed its Notice of Filing the Direct Testimonies of Jeffrey Michlik, Crystal S. Brown, Bentley Erdwurm, and John Cassidy.

On August 9, 2022, a telephonic public comment session was held at 6:00 p.m. at the Commission's Phoenix office. No members of the public called in to provide comment.

On August 10, 2022, Arizona Grain filed a Notice of Withdrawal as Intervenor. In its Notice, Arizona Grain stated that counsel for SWG, Staff, RUCO, Wildfire, and SWEEP were contacted and had no objection to Arizona Grain's withdrawal.

On August 11, 2022, Staff filed a Notice of Errata, correcting Testimony of Ms. Pitre filed on August 5, 2022.

Also on August 11, 2022, by Procedural Order, Arizona Grain's request to withdraw as an intervenor was approved.

On the same date, Commissioner Kennedy filed correspondence requesting that SWG docket an overview of all steps the Company took to communicate information about participation in the August 9, 2022, public comment session.

On August 12, 2022, Staff filed Revised Testimony of Mr. Borne, Direct Testimony of Teresa Hunsaker, Ms. Salomonson, Ralph C. Smith, and Brian K. Bozzo; RUCO filed Rate Design Testimony of Mr. Erdwurm; Wildfire filed Direct Testimony of Cynthia Zwick; and SWEEP filed Direct Testimony of Justin Brant.

Also on August 12, 2022, a telephonic public comment session was held at 6:00 p.m. at the Commission's Phoenix office. No members of the public called in to provide comment.

On August 22, 2022, Staff filed Notice of Errata Correcting Testimony of Teresa B. Hunsaker filed on August 12, 2022.

On August 23, 2022, SWG filed a Response to Commissioner Kennedy's August 11, 2022, Letter, detailing the various outreach it had conducted concerning customer communication.

On August 24, 2022, a telephonic public comment session was held at 10:00 a.m. No members of the public appeared to provide comment.

On August 26, 2022, SWG filed Rebuttal Testimony of Matt Nelson, Mr. Derr, Raied N. Stanley, Kevin M. Lang, Dr. Laura Nelson, Ms. Harvey, Mr. Olenick, Mr. Lyons, Ms. Bulkley, and Ms. Cunningham.

On August 29, 2022, a telephonic public comment session was held at 10:00a.m. at the Commission's Phoenix office. One member of the public called in to provide comment.

On September 9, 2022, SWG, Staff, RUCO, Wildfire, and SWEEP filed Notices Regarding Manner of Participation in Hearing.

Also on September 9, 2022, SWG filed Notice of Social Media Publication pursuant to Procedural Order dated February 1, 2022.

On September 16, 2022, Staff filed Surrebuttal Testimony of Ms. Pitre, Mr. Parcell, Ms. Salomonson, and Ms. Hunsaker; RUCO filed Surrebuttal Testimonies of Mr. Michlik, Ms. Brown, Mr. Erdwurm, and Mr. Cassidy; SWEEP filed Rebuttal Testimony of Mr. Brant; and Wildfire filed Notice Regarding Surrebuttal Testimony, stating that Wildfire will not be filing surrebuttal testimony.

On September 19, 2022, SWG filed Exhibit List and Notice of Filing Witness Summaries; Staff filed Notice of Filing Exhibits and Exhibit List and Notice of Filing Summaries of Pre-Filed Testimony; RUCO filed Notice of Filing Witness Summaries and List of Exhibits; SWEEP filed Notice of Filing Exhibits List, Notice of Filing Exhibits, and Notice of Filing Witness Summary; and Wildfire filed Notice of Filing Exhibits List, Notice of Filing Exhibits, and Notice of Filing Witness Summary.

Also on September 19, 2022, a public comment session was held with 20 members of the public appearing by telephone or in-person to provide comment. In addition, the Pre-Hearing Conference was held as scheduled with SWG, RUCO, SWEEP, Wildfire, and Staff appearing through counsel. The parties discussed witness scheduling and the stipulation to the admission of uncontested pre-filed testimony.

On September 20, 2022, SWG filed Notice of Filing Exhibits.

On September 21, 2022, SWG Filed Rejoinder Testimony of Mr. Olenick, Mr. Nelson, Ms. Harvey, Ms. Bulkley, Mr. Derr, Ms. Cunningham, Mr. Lang, Mr. Lyons, and Dr. Nelson.

On September 21, 2022, SWG filed Notice of Filing List of Prepared Rejoinder Testimony.

On September 22, 2022, SWG filed its Issues Matrix and Witness Schedule.

On September 23, 2022, SWG filed one additional exhibit.

On September 26, 2022, RUCO filed two Notices of Filing List of Exhibits.

On September 26, 2022, SWG filed an Updated Issues Matrix and one additional exhibit.

On September 26, 27, and 28, 2022, the hearing commenced as scheduled before a duly authorized Administrative Law Judge ("ALJ") of the Commission in a hybrid proceeding with RUCO, Wildfire, and SWEEP appearing exclusively via videoconference; SWG's counsel and several witnesses appearing in person and Mr. Lyons and Mr. Lang appearing via videoconference; and Staff's counsel and witnesses appearing in person. SWG presented the witness testimony of Mr. Lyons, Ms. Harvey, Mr. Derr, Ms. Cunningham, Mr. Olenick, Dr. Nelson, and Mr. Lang; SWEEP presented the witness testimony of Mr. Brant; RUCO presented the witness testimony of Ms. Brown and Mr. Michlik; and Staff presented the witness testimony of Ms. Hunsaker, Ms. Salomonson, Ms. Pitre, and Mr. Bozzo. In addition, the parties stipulated to the admission of the pre-filed testimony of Ms. Ayala,[3] Mr. Liu,[4] Ms. Ansani,[5] Mr. Stanley,[6] and Mr. Nelson[7] on behalf of SWG; Ms. Zwick[8] on behalf of Wildfire; Mr.

[3] Exhibit A-4.
[4] Ex. A-15.
[5] Ex. A-16.
[6] Ex. A-26.
[7] Ex. A-27 and A-28.
[8] Ex. W-1.

Erdwurm[9] and Mr. Cassidy[10] on behalf of RUCO; and Mr. Parcell,[11] Mr. Borne,[12] and Mr. Smith[13] on behalf of Staff. At the conclusion of the hearing, the matter was taken under advisement pending submission of closing briefs and final schedules.

On September 27, 2022, SWG filed 14 additional exhibits.

On September 28, 2022, Commissioner Kennedy filed Correspondence in the docket, requesting information regarding any potential health risks related to indoor nature gas use, whether the Commission has the legal authority to act in response to any health impacts, and any potential policy avenues the Commission could consider to address the health impacts of indoor natural gas use.

On September 28, 2022, Staff filed Staff's Notice of Filing Late-Filed Exhibits S-16 and Exhibit List.

On September 30, 2022, by Procedural Order, the timeclock in this matter was extended to January 31, 2023.

On October 14, 2022, SWG, SWEEP, RUCO, and Staff filed a Response to Commissioner Kennedy's Letter of September 28, 2022.

On October 26, 2022, SWG, SWEEP, Wildfire, RUCO, and Staff filed their respective Closing Briefs. In addition, SWG, RUCO, and Staff filed their respective Final Schedules.

During the pendency of the proceeding, 58 written public comments were docketed in opposition to SWG's application.

II. The Parties

a. SWG

SWG is a Nevada corporation and subsidiary of Southwest Gas Holdings, Inc. ("SWG Parent"). SWG provides gas utility service to approximately 2 million customers in Arizona, California, and Nevada, with approximately 1.1 million (54 percent) of the Company's customers located throughout Arizona in portions of Cochise, Gila, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal, and Yuma Counties. SWG's current rates were established in Decision No. 77850 (December 17, 2020).

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[9] Ex. RUCO-5, RUCO-6, and RUCO-7.
[10] Ex. RUCO-8 and RUCO-9.
[11] Ex. S-4 and S-5.
[12] Ex. S-12 and S-13.
[13] Ex. S-15.

b. SWEEP

SWEEP is a non-profit public interest organization that promotes greater energy efficiency in six states in the Southwest, including Arizona. SWEEP fully participated in the hearing and provided recommendations relating to rate design issues.

c. Wildfire

Wildfire, formerly the Arizona Community Action Association, is a non-profit public interest organization that works to alleviate and end poverty in Arizona. Wildfire supported SWG's proposed expansion of its LIRA program.

d. RUCO

RUCO was created by the Arizona Legislature in A.R.S. § 40-462 to represent the interests of residential utility customers in Commission regulatory proceedings involving public service corporations. RUCO fully participated in the hearing and its positions and recommendations are set forth below.

e. Staff

The Commission's Utilities Division is comprised of public utility financial analysts, engineers, and consultants, and is responsible for reviewing all rate case filings with the Commission, and providing independent policy and rate recommendations to the Commission. Staff fully participated in the hearing and its positions and recommendations are set forth below

III. Summary of Final Positions

The parties' initial positions on fair value rate base ("FVRB"), operating income, fair value rate of return ("FVROR"), and overall revenue requirement evolved over the course of the proceeding, with several contested issues being resolved prior to hearing. Following the conclusion of the hearing, SWG, RUCO, and Staff filed final rate case schedules documenting their final revenue requirement positions, as set forth below.

SWG

SWG is proposing total operating revenue of $640,898,051, an increase of $61,712,618 or 10.66 percent, over adjusted TY revenue of $579,185,433, to provide operating income of $175,641,274, and a 5.19 percent FVROR on a proposed FVRB of $3,384,114,411. SWG proposed rates that would increase the monthly bill for the typical single-family residential customer with average annual usage of 24 therms from $44.28 to $47.66, for an increase of $3.38 or 7.63 percent. For SWG's newly acquired customers from GCU, the monthly bill for the typical single-family residential customer with average annual usage of 29 therms would increase from $43.61 to $55.43, for an increase of $11.82 or 27.10 percent.

RUCO

RUCO is proposing total operating revenue of $633,119,372, an increase of $53,933,939 or 9.31 percent, over adjusted TY revenue of $579,185,433, to provide operating income of $169,934,174, and a 5.15 percent FVROR on a proposed FVRB of $3,300,835,262. RUCO proposed rates that would increase the monthly bill for the typical single-family residential customer with average annual usage of 24 therms from $44.28 to $47.41, for an increase of $3.13 or 7.07 percent. For SWG's newly acquired customers from GCU, the monthly bill for the typical single-family residential customer with average annual usage of 29 therms would increase from $43.61 to $57.53, for an increase of $13.92 or 31.92 percent.

Staff

Staff is proposing total operating revenue of $635,126,655, an increase of $55,941,222 or 9.66 percent, over adjusted TY revenue of $579,185,433, to provide operating income of $175,297,665, and a 5.19 percent FVROR on a proposed FVRB of $3,377,604,344. Staff proposed rates that would increase the monthly bill for the typical single-family residential customer with average annual usage of 24 therms from $44.28 to $47.33, for an increase of $3.05 or 6.89 percent. For SWG's newly acquired customers from GCU, the monthly bill for the typical single-family residential customer with average annual usage of 29 therms would increase from $43.61 to $55.03, for an increase of $11.42 or 26.19 percent.

IV. Standard of Review

All parties agree that the Commission has plenary rate-making authority under the Arizona Constitution, Article XV, Section III to set just and reasonable rates.

SWG

SWG argues that to establish just and reasonable rates, the Commission must consider the utility's operating expenses, the utility's rate base, and a reasonable rate of return, and that it is not appropriate to disallow prudent and reasonable costs incurred by the utility based on benefits to both the customers and the shareholders. According to SWG, using a "benefit-sharing" rationale to disallow otherwise prudently incurred costs, particularly when not applied universally, will reduce SWG's opportunity to earn a reasonable return on its investment and will leave uncertain the "evidentiary standards used for recovery of costs."[14]

RUCO

RUCO states that it is incumbent upon the Commission to consider who benefits from the expenditure when determining just and reasonable rates. RUCO asserts that the Commission's past practice of apportioning the recovery of operating expenses based on the determination of who benefits does not violate the regulatory compact, but instead is required by the Constitution when determining just and reasonable rates.[15]

Staff

According to Staff, failing to consider the benefits to ratepayers and shareholders when determining appropriate cost recovery would run "afoul" of the Commission's constitutional duty to set just and reasonable rates. Staff notes that just and reasonable rates have been consistently held by Arizona courts to mean "those that are fair to both consumers and public service corporations."[16] Additionally, Staff points to the Commission's long-standing practice of sharing the costs of programs that benefit both shareholders and ratepayers.[17]

Resolution

It is well recognized that regulatory goals in ratemaking should consider the interests of all the parties involved to achieve results that are just and reasonable. We agree with RUCO and Staff that the equitable sharing between ratepayers and shareholders of prudently incurred costs is appropriate to balance each party's interest when setting just and reasonable rates. Given the Commission's established practice of doing so, we reject SWG's concerns that this will lead to confusion regarding

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[14] SWG Closing Brief ("Cl. Br.") at 14-16.
[15] RUCO Cl. Br. at 10-12.
[16] *Phelps Dodge Corp. v. Arizona Elec. Power Co-op, Inc.* 207 Ariz. 95, 106 (Ct. App. 2004), *as amended on denial of reconsideration* (Mar. 15, 2004).
[17] Staff Cl. Br. at 2-3.

the evidentiary standards for cost recovery. As such, we find that disallowances to otherwise prudently incurred costs based on a derived benefit to both the shareholder and the ratepayer is well within the Commission's purview in setting just and reasonable rates.

V. Rate Base

a. Rate Base Summary

SWG proposed an adjusted jurisdictional original cost rate base ("OCRB") of $2,611,766,158; a reconstruction cost new depreciated rate base ("RCND") of $4,156,462,662; and an overall FVRB of $3,384,114,411. RUCO proposed an adjusted jurisdictional OCRB of $2,528,782,357; an RCND of $4,072,888,167; and an overall FVRB of $3,300,835,262. Staff proposed an adjusted jurisdictional OCRB of $2,605,256,092; an RCND of $4,149,952,595; and an overall FVRB of $3,377,604,344.

b. Rate Base Adjustments

i. Post-Test Year Plant ("PTYP")

The Company proposed an adjustment to rate base to include approximately $163 million in certain non-revenue producing, used and useful PTYP additions that were placed in service during the 12-month period of September 30, 2021, to August 31, 2022 ("PTYP Period").[18] SWG's PTYP proposal includes one half year of accumulated depreciation of $664,639.

All the parties acknowledge that the Commission at present does not have a policy governing the treatment of PTYP. As a result, the treatment of PTYP in this matter applies only to the facts and circumstances of this case.

1. PTYP Period

<u>SWG</u>

According to SWG, the Company's proposed PTYP Period is reasonable and in the public interest and aligns with the Commission's past practices in allowing PTYP, such as limiting recovery to projects that are non-revenue producing and placed into service following the TY. SWG argues that its proposed PTYP adjustment comports with the matching principle to ensure that the adjustment satisfies ratemaking and accounting principles. SWG asserts that the PTYP adjustment does not

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[18] SWG Cl. Br. at 5; the PTYP adjustment encompasses the PTYP for GCU of $374,253.

eliminate regulatory lag but agrees that the inclusion of PTYP mitigates the effects of regulatory lag and more accurately aligns the costs the Company incurs to serve its customers.[19]

SWG rebuts RUCO's recommendation for a 6-month PTYP period by pointing to the negative impact caused by the 6-month PTYP period that the Commission ordered in SWG's last rate case. According to SWG, the shortened PTYP period led to the Company to file this rate case less than a year from the time rates from its last rate case became effective to recover the significant investment SWG had made in its system since July 2019. The Company asserts that the same situation may arise if RUCO's recommendation for recovery of a 6-month PTYP period is accepted. SWG also states that RUCO's comparison of the Company's PTYP adjustments from prior rate cases to the current one is irrelevant, asserting that the table RUCO developed to support the notion that SWG's PTYP requests have "exploded" does not measure the same thing.[20]

RUCO

RUCO raises concerns with SWG's "exploding" PTYP requests, pointing to the Company's ever-increasing amounts beginning with the Company's 2007 rate case.[21] RUCO argues that in SWG's most recent rate case, the Commission exercised its discretion to limit the Company's PTYP Period to six months because the proposed 11 months of PTYP was excessive. RUCO asserts that the circumstances in this case are not much different in that SWG is seeking recovery of an "extraordinary" amount of PTYP and contends that SWG's PTYP request is excessive.[22]

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[19] SWG Cl. Br. at 9.
[20] SWG Cl. Br.at 10-12.
[21] RUCO Cl. Br. at 3.

[A] Decision No.	[B] Rate Case Year	[C] Amount of PTY Plant Proposed in Rate Application
Dec. No. 70665	2007 Rate Case	$2,976,115
Dec. No. 72723	2010 Rate Case	$6,090,567
Dec. No. 76069	2016 Rate Case	$40,071,749
Dec. No. 77850	2019 Rate Case	$241,139,897
Instant Rate Case	2021 Rate Case	$171,393,549

[22] RUCO Cl. Br. at 3-7.

Staff

Staff is in agreement with the Company's proposed PTYP Period, finding that the PTYP is used and useful. Staff notes that PTYP can help reduce regulatory lag and allow SWG to begin recovery on its investment sooner.[23]

Resolution

Here, the large increase in rate base is due to needed investment in plant. In order for SWG to fully recover its investment in capital improvements between rate cases, PTYP must be included in rate base within 12-15 months of its in-service date. Therefore, we find that the 12-month PTYP adjustment period proposed by the Company, and as recommended by Staff, is reasonable and appropriate under the circumstances. We decline to adopt RUCO's recommendation to limit PTYP recovery to six months because it does not allow the Company an opportunity to timely recover its capital investment and leads to the expense of frequent rate cases.

2. PTYP Adjustment for Routine Plant

SWG

According to the Company, SWG's PTYP request conforms with the guidance provided by Commission Staff in the generic PTYP docket,[24] notably excluding PTYP associated with system growth or new customers and ensuring that the plant additions are prudent and used and useful.[25]

In response to RUCO's position that routine, non-critical "backbone" plant should be excluded as Staff recommended in the generic PTYP docket, SWG submits that here, Staff accepts the projects because they are not the type of routine investments to which Staff was referring in the generic docket and that RUCO's reliance on Staff's analysis should extend to this issue.[26]

RUCO

At the time of hearing, RUCO sought to remove three categories of plant[27] from the PTYP proposal as routine, arguing that the plant was not critical to the operations of SWG, or "backbone"

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[23] Staff Cl. Br. at 3-4.
[24] In the Matter of a Docket Evaluating Commission Policy on Post-Test Year Plant, Docket No. AU-00000A-19-0080.
[25] SWG Cl. Br. at 6.
[26] SWG Cl. Br. at 7.
[27] The three categories were Account No. 390.1 (Office Furniture); Account No. 391.1 (Computers), and Account No. 392.11 (Transportation Equipment – Light); Ex. RUCO-3 at 19.

plant. However, at hearing, RUCO's witness, Ms. Crystal Brown, seemed to accept that since RUCO relied on Staff's initial analysis in recommending the removal of the "routine" plant projects, it should adopt Staff's subsequent analysis to include those projects.[28] However, RUCO's final schedules show routine plant in the amount of $1,422,732 was removed from PTYP.

Staff

Although Staff's initial analysis removed PTYP it considered to be routine, Staff revised its recommendation after SWG explained the need for the plant. Staff ultimately agreed with the Company's proposed PTYP projects.[29]

Resolution

We find that based on the totality of the evidence, the projects included in SWG's PTYP proposal are reasonable and appropriate.

3. Plant Reclassifications

In its review of SWG's application, Staff identified several PTYP projects that were misclassified, specifically $1,929,350 of PTYP additions improperly classified in the Federal Energy Regulatory Commission ("FERC") Account No. 363.3 (Compressor Equipment) that should be moved to FERC Account No. 363.5 (Other Equipment); $829,161 of PTYP additions in Account No. 390.1 (Structures and Improvement – Company Owned) that should be moved to Account No. 391 (Office Furniture and Fixtures); and $274,897 of PTYP additions from Account No. 397.2 (Telemetry Equipment) that should be moved to Account No. 397 (Communication Equipment).[30] The Company agreed with Staff's proposal and made the adjustments in its rebuttal testimony.[31]

4. PTYP Retirements

RUCO identified $267,818 in PTYP retirements and recommended a decrease in OCRB plant in service to remove the retirements.[32] SWG adopted RUCO's position and removed PTYP retirements from gas plant in service and the associated accumulated depreciation.[33]

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[28] Hearing Transcript ("Tr.") at 256-257.
[29] Ex. S-8 at 3.
[30] Ex. S-1 at 8.
[31] Ex. A-18 at 4.
[32] Ex. RUCO-3 at 4.
[33] Ex. A-19 at 3.

5. PTYP Amount

As a public service corporation, SWG has the duty to provide safe, adequate, and reliable service to its customers. No party has claimed that the PTYP is not used and useful and, as such, we conclude that SWG's investment in plant improvements was necessary to provide service to its customers.

Based on the foregoing discussion, we find that the inclusion of 12 months of PTYP totaling $162,759,716 is reasonable and appropriate and in the public interest. We base our finding on the goals of reducing regulatory lag which we anticipate will reduce the frequency of the Company's rate case filings; reflecting the level of costs SWG will incur to serve its end of TY customers; and including only non-revenue producing and used and useful plant.

ii. Cash Working Capital ("CWC")

SWG proposes CWC of $(13,955,701). RUCO and Staff recommend CWC of $(24,302,757) and $(24,977,727), respectively based on various adjustments discussed below.

1. Revenue Lag Days

SWG

In its application, SWG calculated lag days based on actual test period experience of 40.62 lag days which it maintains is the appropriate number to use.

In response to RUCO's assertion that SWG's proposed lag days are unusually high and should be normalized, the Company offered an alternative methodology if the Commission finds it reasonable to normalize the number of lag days by either (1) averaging the lag days from SWG's last two general rate cases, which results in 38.07 lag days or (2) averaging the lag days from SWG's last three general rate cases which results in 38.12 lag days.[34]

RUCO

RUCO argues that the Company's proposed 40.62 lag days is unusually high and asserts that this is due to the moratorium on disconnections and waiver of late fees during the COVID-19 pandemic. In its testimony, RUCO recommended using 37.05 lag days based on the weighted average of the

[34] SWG Cl. Br. at 13.

revenue lag days in the current case and SWG's last general rate case.[35] In its Closing Brief, RUCO accepted the Company's proposal of 38.07 lag days.[36]

Staff

Staff did not adjust the lag days and its only adjustment to CWC was to reflect the impacts of Staff's adjustments to operating expenses.[37]

Resolution

We find that the parties' compromise of 38.07 lag days is reasonable and appropriate, and we will adopt it.

2. Expense Lag Days for Non-Income Taxes

SWG

SWG calculated its actual expense lag days ranging from 194 to 208 for property taxes but, in Rejoinder Testimony, agreed to RUCO's recommended 212 lag days.[38]

RUCO

In its Direct Testimony, RUCO proposed 212 lag days for Taxes Other than Income Taxes because the amount includes property tax payments and historically the Commission has approved 212 lag days. RUCO stated that this approach is the most balanced for both the customers and the utilities.[39]

Staff

Staff took no position on this issue.

Resolution

We adopt the agreement between SWG and RUCO and find that 212 lag days for property taxes is reasonable and appropriate as it balances both the interests of the Company and the customers.

3. Uncollectible Expense

SWG

SWG included uncollectible expense in its CWC calculation, asserting that this amount represents cash the Company did not collect from ratepayers and must be included for the lead lag

[35] Ex. RUCO-3 at 23.
[36] RUCO Cl. Br. at 8-9.
[37] Ex. S-1 at 11-12.
[38] Ex. A-19 at 16.
[39] Ex. RUCO-3 at 24.

study to produce correct results. The Company states that uncollectible expense has been included in its CWC calculation since the 1990's without objection and maintains that the Commission should continue to approve it.[40]

RUCO

According to RUCO, uncollectible expense should not be included in the CWC calculation because it does not represent an outlay of cash.[41] RUCO cites to Decision No. 75268 (September 8, 2015) where the Commission found that "...bad debt expense should be removed from that calculation of working capital because bad debt represents revenue that will never be collected and an expense that will never be paid. As such, there can be no lag in recovery, and no payment related to bad debt expense."[42] As a result, RUCO removed $1,692,711 from CWC.

Staff

Staff accepts the Company's calculation to include uncollectible expense in CWC.[43]

Resolution

We note that the purpose of a lead-lag study is to recognize timing differences in cash flows and agree with RUCO that because uncollectible revenues are never collected and never paid, no lead or lag can exist. As such, we find it appropriate to remove uncollectible expense from the calculation of CWC.

4. Amortized Prepayments

SWG

SWG also included amortized prepayments in its CWC calculation and contends that there are two equivalent methods to properly reflect prepayments in the cost of service: (1) include the TY average monthly prepayment balances in rate base, or (2) include the TY prepayment cash outlay with a half-year lag and no recognition in rate base.[44]

The Company argues that RUCO's analysis of the issue is flawed because RUCO removes the amortization of the prepayments without excluding the prepayments balance from rate base which

[40] SWG Cl. Br. at 13-14.
[41] Ex. RUCO-3 at 24.
[42] Dec. No. 75268 at 27.
[43] Ex. S-1, Schedule TDP-8.
[44] SWG Cl. Br. at 14.

creates a mismatch. SWG asserts that its methodology of including the prepayment cash outlay with a half-year lag and no balance in rate base is appropriate and that RUCO's adjustment should be denied.[45]

RUCO

RUCO states that including amortized prepayments in CWC is inappropriate because they do not represent an actual outlay of cash by SWG in the TY.[46] As such, RUCO argues that amortized prepayments should be treated the same as uncollectible expense and be excluded.[47]

Staff

Staff accepted the Company's calculation to include amortized prepayments in CWC.[48]

Resolution

We agree with SWG and Staff and find that prepayments are a legitimate component of working capital. Therefore, we reject RUCO's proposal to remove amortized prepayments.

5. COVID-19 Waived Fees and Penalties

In its application, the Company requested to recover late fees and penalties waived due to the COVID-19 pandemic in the amount of $2,543,151 and proposed to recover the amount over three years. SWG contended that the interim accommodation to its ratepayers represented revenues to the Company and referenced an informal Commission discussion at an Open Meeting about seeking recovery for lost revenues.[49] Both Staff and RUCO recommended disallowance of SWG's proposed COVID-19 waived fees.[50] At hearing, SWG agreed to adopt Staff's and RUCO's position of no recovery.[51]

Thus, we adopt CWC of $(18,153,797).

c. Original Cost Rate Base ("OCRB")

Based on the foregoing, we adopt an adjusted jurisdictional OCRB of $2,607,568,062.

d. Reconstruction Cost New Rate Base ("RCND")

We adopt an adjusted jurisdictional RCND of $4,152,264,565.

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[45] SWG Cl. Br. at 14.
[46] RUCO Cl. Br. at 9.
[47] Ex. RUCO-3 at 25.
[48] Ex. S-1 at 11.
[49] Ex. A-17 at 28, Footnote 4.
[50] Ex. S-1 at 14-15; RUCO-5 at 16-18.
[51] SWG Cl. Br., Ex 1 at 4.

e. Fair Value Rate Base ("FVRB")

Historically, the Commission has determined the FVRB by taking the average of the OCRB and the RCND. No party has recommended that a different weighting be used in this proceeding. Therefore, we find that SWG's adjusted jurisdictional FVRB is $3,379,916,314.

f. Fair Value Increment ("FVI")

The FVI is the amount of FVRB in excess of OCRB. This amount is not financed with investor-supplied funds. In this proceeding, SWG proposed a 0.0 percent return on FVI which both Staff and RUCO supported. We adopt the Company's position a find a 0.0 percent return on FVI is reasonable.

VI. Operating Income

a. TY Revenue

In its application, SWG proposed a jurisdictional TY operating revenue of $579,185,433. No party opposed the Company's proposed TY revenue. As such, we find that the Company's proposed TY revenue is reasonable and appropriate and adopt TY operating revenue of $579,185,433 for the purpose of this proceeding.

b. TY Operating Expense

i. Amortization Period

SWG

SWG seeks a three-year amortization period for regulatory assets, stating that the Commission authorized a three-year amortization in the Company's last rate case.[52]

According to the Company, RUCO's concern with SWG over-recovering with a three-year amortization period does not properly consider the rate case cycle given that the rate case processing time does not add time to the rate case cycle or the amount of amortization recovered. As a result, SWG argues that RUCO's recommendation for a four-year amortization period is without merit. SWG dismisses RUCO's second argument that the Public Utilities Commission of Nevada authorized a four-

[52] SWG Cl. Br. at 16-17.

year amortization period in 2020, pointing to the more recent SWG Nevada rate case authorizing a two-year amortization period.[53]

RUCO

RUCO argues that a three-year amortization period could allow SWG to over-recover, reasoning that SWG will fully recover the amount for each regulatory asset if the Company does not file another rate case for three years and will continue to recover while the rate case is processed over the fourth year. As such, RUCO recommends approval of a four-year amortization period to protect customers from overpaying for regulatory assets.[54]

Staff

Staff accepts SWG's position for a three-year amortization period.[55]

Resolution

We are cognizant that ratepayers have been hampered by extraordinarily high inflation, increased cost of living, and higher energy costs overall. We agree with RUCO that a longer amortization period helps customers by lowering costs. As a result, we find that a four-year amortization period balances the need of the Company to recover its investments with the needs of its ratepayers to have reduced costs. We also note that SWG will not be at risk for under-recovery because if the regulatory asset is not fully amortized by the effective date of rates in the next rate case, the unamortized balance could be re-amortized over the next anticipated rate case interval.

ii. Property Tax Expense

SWG

In its application, SWG proposed \$69,307,957 for property taxes expenses which included a pro forma adjustment of \$15,797,894 of estimated property taxes for plant additions by estimating the full cash value, multiplying estimated full cash value by the 2022 assessment ratio, multiplying the assessed value by the composite property tax rate, and then making reductions for capitalized property taxes and increases for the Salt River Tribe assessment.[56]

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[53] SWG Cl. Br. at 16-17.
[54] RUCO Cl. Br. at 9-10.
[55] Staff Cl. Br. at 12.
[56] Ex. A-17 at 24-25.

In response to Staff's recommendation to utilize the Company's Property Tax Mechanism rather than to utilize a pro forma adjustment, SWG argued that disallowing the property tax adjustment and relying solely on the Property Tax Mechanism will delay recovery "for a number of years in the future." As a result, the Company suggested an alternative proposal to set the property tax expense in rates equal to the actual amount of property taxes billed in the 2021 calendar year or $56,214,094, a difference of $5,415,443 from Staff's proposal.[57]

RUCO

RUCO took no position with respect to this adjustment.

Staff

Staff objects to SWG's pro forma adjustment, stating that it does not reflect known and measurable costs and noting that the Company has a Property Tax Mechanism in place which allows timely recovery of actual property tax incurred over the amount approved in rate base.[58] Staff reviewed SWG's alternative property tax expense adjustment of $5,415,443, found it reflected known and measurable expenses, and recommended adoption of the alternative property tax adjustment.[59]

Resolution

We find that property tax expense in the amount of $56,214,094, as agreed to by SWG and Staff, is reasonable and appropriate and we will adopt it.

iii. GCU Operations & Maintenance ("O&M")

SWG

SWG proposed two cost of service adjustments resulting from its acquisition of the GCU Gas Division: (1) an adjustment to PTYP which is incorporated in the PTYP discussion above, and (2) an adjustment for annual O&M expense. The Company explained that the application included an estimated level of O&M costs because the transaction did not close until after the filing of SWG's application in this matter. While SWG initially requested $913,665 associated with operating GCU, the Company updated the amount in its rebuttal testimony to $1,007,585 to reflect "a more refined level of anticipated O&M on a go-forward basis" based on actual operating costs incurred. According to

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[57] Ex A-18 at 39-41; A-27 at 8.
[58] Ex. S-1 at 25-27.
[59] Ex. S-3 at 7-8.

SWG, it conducted a leak survey of GCU's entire system in January 2022 and located 203 leaks which required $2.2 million in repair costs. SWG's $1.1 million amount is based on averaging the estimated operating costs for 2023 through 2025.[60]

RUCO

RUCO took no position with respect to this adjustment.

Staff

Staff accepts SWG's initial estimate of $907,101[61] for GCU O&M expense and contends that this estimate remains appropriate as the costs are not known and measurable but based on the Company's board approved budget.[62]

Resolution

The amount of O&M expenses recognized for recovery should be the known and measurable amount reflecting adjustments for normalization or annualization. Here, SWG's initial request of $913,655 and the revised request of $1,007,585 are estimates. The evidence shows that the actual amount of O&M expense incurred was $2.2 million, which exceeds both estimates by a wide margin. Although it is reasonable for SWG to assume some risk related to the GCU acquisition, the $93,930 difference between the initial and updated estimates is immaterial and is small compared to the difference between the updated estimate and the actual amount SWG is willing to forego. Accordingly, we find that the $1,007,585 revised estimate is reasonable.

iv. Board Of Director ("BOD") Fees

SWG

SWG seeks full recovery of its BOD fees after allocation to Arizona, asserting that a board is necessary to provide guidance and oversight and must be compensated for its service. Therefore, the Company contends that BOD fees of $430,201, after allocation to Arizona, are not a discretionary expense and full recovery is appropriate.[63]

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[60] SWG Cl. Br. at 17-18.
[61] According to Staff, SWG updated its GCU O&M request to this amount in response to a Staff data request.
[62] Staff Cl. Br. at 4-5.
[63] SWG Cl. Br. at 20.

RUCO

RUCO proposes recovery of 50 percent of SWG's BOD fees, arguing that these costs benefit both ratepayers and shareholders. RUCO cites to SWG's 2020 rate case in Nevada[64] which approved disallowance of 50 percent of BOD expenses based on the shared benefits resulting from efficient BOD oversight, i.e., decisions that ensure safe, reliable, and adequate service benefit ratepayers which also increases the value of SWG which benefits shareholders. RUCO also cites recent Commission Decision No. 78644 (July 27, 2022) (Global Water Utilities' 2020 Rate Case) in which the Commission found a 50/50 sharing of BOD fees and recommends that the Commission find it to be reasonable in this case.[65]

Staff

Staff did not take a position on this issue.

Resolution

We are persuaded by RUCO's argument that this cost should be shared because shareholders clearly gain benefit. There is no doubt that BOD fees are a necessary and unavoidable expense, however we note that both shareholders and ratepayers benefit. Therefore, we will allow 50 percent recovery of BOD fees.

v. Director & Officer ("D&O") Insurance Expense

SWG

The Company contends that D&O insurance is an essential cost to cover the BOD and SWG officers against lawsuits alleging breach of fiduciary duty so that the executives can serve without financial risk to themselves or the Company. While SWG acknowledges that the Commission previously disallowed 50 percent of D&O expense, as recommended by Staff and RUCO, the Company notes that even RUCO believes that foregoing D&O insurance would be "unwise." SWG claims that the record in this matter supports full recovery of the Company's D&O insurance expense of $531,951.[66]

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[64] *See* Docket No. 20-02023.
[65] RUCO Cl. Br. at 15.
[66] SWG Cl. Br. at 20-21.

RUCO

According to RUCO, shareholders benefit from D&O insurance through insurance coverage for litigation brought against the Company and any payments realized under the policy whereas ratepayers benefit through the ability of SWG to attract and retain Directors and Officers. RUCO argues that, because D&O insurance expense benefits both ratepayers and shareholders, the cost should be shared 50/50 and requests that the Commission reduce D&O insurance by $265,976 to $265,975.[67]

Staff

Staff recommends disallowance of 50 percent of D&O insurance costs because both ratepayers and shareholders benefit from the expense. Staff points to SWG's acknowledgment that shareholders benefit from D&O insurance because executives can "serve confidently" knowing their personal assets are protected and the assets of the Company are protected. As a result, Staff recommends disallowance of $265,976 of D&O insurance expense.[68]

Resolution

We find that D&O insurance expense is an unavoidable cost that all large corporations must incur to attract competent directors and officers. We accept that both shareholders and ratepayers benefit from this cost. As a result, we find that it is appropriate for the costs related to D&O insurance to be shared equally between shareholders and ratepayers as recommended by RUCO and Staff.

vi. Supplemental Executive Retirement Plan ("SERP")

SWG

The Company presented unrefuted evidence to establish that its total executive compensation package is around the median of its industry peers and is a reasonable and prudently incurred expense. SWG requests recovery of $28,489 for the restorative portion of the Company's SERP expense, which is the amount of the expense that restores the level of pension benefits for executives to the level that other employees receive. The Company believes that its entire SERP expense is a necessary cost of providing service to make its executive compensation commensurate with its peers but seeks only the restorative portion because those costs provide executives "a retirement opportunity similar to what is

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[67] RUCO Cl. Br. at 13-14.
[68] Staff Cl. Br. at 7-8.

available to other Southwest Gas employees." SWG notes that in the Company's last three litigated rate cases before the Public Utilities Commission of Nevada, the restorative SERP expense amount has been recoverable. [69]

RUCO

RUCO testified that recovery of the restorative portion of the SERP is expense is "reasonable,"[70] but in its Closing Brief noted that the Commission has consistently held that SERP expense is not a necessary cost.[71] In its final schedules, RUCO did not make a SERP disallowance.

Staff

Staff states that the SERP is a method to provide executives retirement benefits that exceed amounts limited in qualified plans by the Internal Revenue Service ("IRS").[72] According to Staff, SERP expenses, restorative or otherwise, should not be recoverable from ratepayers as they are not a necessary cost of service. Staff recommends disallowance of the restorative amount of $28,489.[73]

Resolution

While we recognize that SWG's request for the SERP restorative amount is substantially reduced from SWG's past requests, our underlying rationale disallowing this cost remains. We find that the SERP expense is not necessary for the provision of gas utility service to customers and, as a result, we find it reasonable and appropriate to disallow the recovery of the SERP restorative amount in this case.

vii. Executive Deferral Plan ("EDP")

SWG

SWG states that the EDP provides salary deferral for executives wherein the Company provides matching contributions under the EDP that are akin to the contributions SWG makes for other employees. The Company claims that full recovery of $119,635 is appropriate because it keeps SWG's compensation package consistent with other utilities' executive compensation.[74]

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[69] SWG Cl. Br. at 26-27.
[70] Tr. at 288.
[71] RUCO Cl. Br. at 17.
[72] Ex. S-1 at 21.
[73] Staff Cl. Br. at 11-12.
[74] SWG Cl. Br. at 28.

RUCO

RUCO argues that because the EDP is limited to top executives and is additional executive compensation, the EDP amount should be disallowed in its entirety. RUCO takes issue with the Company's portrayal of the EDP as a 401(K) matching program because under a qualified 401(K), only $19,500 could be deferred in 2021 whereas, under SWG's EDP, executives are allowed to defer their annual salary resulting in a much higher dollar amount. Accordingly, RUCO recommends denial of the Company's EDP match.[75]

Staff

Staff notes that the EDP is a non-qualified benefit plan that provides executives the same 3.5 percent match available to SWG employees under the Employees Investment Plan ("EIP"). Staff contends that the EDP matching component disproportionately benefits shareholders and, therefore, shareholders should bear that cost. Staff recommends disallowance of the EDP matching component in the amount of $119,635.[76]

Resolution

We agree with Staff and RUCO and find that the EDP match expense is not a necessary cost to the provision of gas utility service to customers. Therefore, we find it reasonable and appropriate to disallow the match component of the EDP in rates.

viii. Management Incentive Plan ("MIP")

SWG

According to SWG, the MIP incents executives and other eligible management employees for superior performance with variable, at-risk pay based on specific benchmarks: (1) Net Income (40 percent of target MIP weighting), (2) Operations & Maintenance Expense Per Customer (20 percent of target MIP weighting), (3) Customer Satisfaction (20 percent of target MIP weighting), (4) Safety – Damage Per 1,000 Tickets (10 percent of target MIP weighting), and (5) Safety – Incident Response Time within 30 minutes (10 percent of target MIP weighting). SWG contends that full recovery of the MIP expense is appropriate because the MIP is a prudently incurred cost, is essential to encourage

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[75] RUCO Cl. Br. at 16-17.
[76] Staff Cl. Br. at 10-11.

excellent employee performance, and is an opportunity for employees to earn compensation to keep pay commensurate with SWG peers.[77]

In response to Staff and RUCO recommendations to disallow 50 percent of the MIP expense, SWG argues that Staff and RUCO failed to provide any analysis as to why sharing of the cost is appropriate in this case. The Company stated that the parties' reliance on SWG's last rate case which disallowed 40 percent of the MIP expense related to the Net Income benchmark is misplaced. SWG argued that it presented evidence to establish ratepayers as well as shareholders benefit from employees prudently managing the utility expenses and, as a result, the entirety of the MIP expense of $5,442,002 should be recoverable.[78]

<u>RUCO</u>

RUCO is recommending that the Commission continue to share the MIP expenses equally between ratepayers and shareholders. According to RUCO, the MIP benchmarks relate to SWG's financial and cost containment goals which arguably benefit ratepayers and shareholders alike. To support its position, RUCO points to Commission Decision No. 78664 in the Global Utilities' rate case that held a 50/50 sharing of incentive compensation is appropriate and notes that the incentive metrics contained therein are similar to those of SWG's MIP. As a result, RUCO recommends disallowance of 50 percent of the MIP expense.[79]

<u>Staff</u>

Staff recommends disallowing 50 percent of the MIP expense, or $2,721,001, arguing that both shareholders and ratepayers benefit and should share the costs equally. Staff explains that the MIP is an incentive plan based on the achievement of performance metrics and notes that the Net Income metric is based on SWG's profitability. Staff acknowledges that the Commission in SWG's last rate case disallowed 40 percent of the MIP expense found to be tied directly to profitability but states that sharing the MIP expense 50/50 between ratepayers and shareholders is appropriate in this case because all of the MIP metrics benefit both.[80]

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[77] SWG Cl. Br. at 23.
[78] SWG Cl. Br. at 24-25.
[79] RUCO Cl. Br. at 14-16.
[80] Staff Cl. Br. at 8-9.

Resolution

We agree with Staff and RUCO that the costs of the MIP should be shared equally between ratepayers and shareholders. We find that costs incurred to incentivize profits benefit shareholders. Further, we find that efficient utility service not only benefits ratepayers but advances shareholders' interests as well through lower operating costs and higher customer satisfaction. Therefore, we find disallowance of $2,721,001 is appropriate in this matter.

ix. Restricted Stock Unit Plan ("RSUP")

SWG

SWG explains that its RSUP compensation is another component of the Company's long-term incentive plan, with this one rewarding sustained performance over a three-year period. The plan uses two types of awards: the Time Lapse Restricted Stock Units ("RSUs")[81] and the Performance Shares Units ("PSUs").[82] The PSU award focuses on two financial measures: (1) 3-year Consolidated Earnings Per Share, weighted at 60 percent; and (2) 3-year Utility Return on Equity, weighted at 40 percent. The RSU award vests over three years from the date of grant. SWG argues that these benefits not only benefit shareholders but benefit ratepayers by maintaining comparable compensation packages to keep employees competitively compensated and keeping long-term operating costs low.

The Company argues that the recommendation of Staff and RUCO to disallow the entirety of the RSUP costs neglects to recognize that the RSUP helps to retain qualified employees and contain costs, both of which benefits shareholders and ratepayers. As a result, SWG questions why Staff and RUCO did not recommend benefit sharing for this expense. SWG believes that full recovery of the RSUP in the amount of $1,936,884 is appropriate.[83]

RUCO

RUCO states there are several reasons to deny recovery of the RSUP expense: (1) eligible participants, namely executives and upper management employees, are already adequately compensated; (2) the compensation is tied to financial performance benefitting shareholders; and (3) the RSUP covers a three-year period of financial statements and stock prices which incentivizes

[81] Executives and Director-level employees are eligible to receive RSU awards.
[82] Only Executives are eligible for PSU awards.
[83] SWG Cl. Br at 25-26.

"business decisions from the perspective of shareholders." RUCO argues that the costs of the RSUP should be borne by the Company because the program generates earnings for the Company. Therefore, RUCO recommends 100 percent disallowance of the RSUP costs.[84]

Staff

Staff recommends disallowance of the entire amount of RSUP expenses, reasoning that the metrics used to award RSUs and PSUs are based on SWG's profitability which benefits shareholders. Staff relies on the Commission's long-standing practice of disallowing incentive compensation based solely on profitability and recommends disallowance of $1,936,884 in RSUP expense.[85]

Resolution

We agree with Staff and RUCO in finding that the RSUP is tied to the profitability of the Company solely to the benefit of shareholders. Ratepayers do not share in the financial success of the Company and should not be expected to fund additional compensation to increase shareholder profits. Accordingly, we find that the costs associated with the RSUP should be disallowed.

x. Employee Education Assistance Program ("EEAP")[86]

SWG

The Company seeks recovery of $370,166 for its EEAP that allows for professional development and growth opportunities for its employees. SWG explains that the EEAP is a key component in its comprehensive benefits package, is necessary for employee recruitment and retention, and is important to continue work processes and standards.[87]

SWG criticizes RUCO's disallowance of 50 percent of the EEAP because RUCO did not perform any analysis as to how much this expense benefits ratepayers versus shareholders, RUCO did not recommend disallowance in the prior SWG rate case, the Commission allowed recovery of the entire EEAP in the Company's last rate case, and RUCO cannot identify any other jurisdiction

[84] RUCO Cl. Br. at 18-19.
[85] Staff Cl. Br. at 9-10.
[86] SWG initially requested recovery of costs related to finance and estate planning for its executives but removed this request in Rebuttal Testimony. *See* Ex. A-18 at 22.
[87] SWG Cl. Br. at 29-30.

disallowing similar costs. Therefore, SWG requests that the Commission reject RUCO's disallowance of EEAP expenses.[88]

RUCO

RUCO recommends a 50/50 sharing of employee education expenses, reasoning that both SWG and ratepayers benefit from a higher-educated workforce. According to RUCO, it would be acceptable to remove all costs associated with the EEAP because ratepayers should only bear the costs related to safe, reliable, and affordable gas rates and not "to run a university education program."[89]

Staff

Staff did not take a position on this issue.[90]

Resolution

We agree with RUCO that employee education expenses should be equally shared between ratepayers and shareholders because both benefit from a higher-educated workforce.

xi. Severance Pay Adjustment

SWG requests $309,701 for expenses relating to severance pay. While RUCO originally removed these costs,[91] it appears that RUCO no longer objects to recovery of these expenses.[92] Therefore, we find the costs associated with severance pay is reasonable and appropriate and we will adopt it.

xii. Industry Membership Dues Expense Adjustment

SWG

The Company is requesting recovery of $344,613 after allocation to Arizona for its membership to the American Gas Association ("AGA"), an industry organization representing natural gas utilities. SWG contends that membership with the AGA benefits both ratepayers and the Company through educational opportunities and safety recommendations, and that the portion of industry dues related to lobbying activities have been removed.[93]

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[88] SWG Cl. Br. at 29-30.
[89] RUCO Cl. Br. at 19.
[90] SWG Cl. Br., Ex. 1, Updated Issues Matrix at 6.
[91] Ex. RUCO-1 at 6.
[92] Ex. RUCO-2 at Schedule 23.
[93] SWG Cl. Br. at 19-20.

SWG notes that RUCO's recommendation to disallow 50 percent of SWG's proposed AGA dues seems to be due to RUCO's inability to audit the AGA. SWG further notes that the Company provided the same information that it provided in the last rate case pertaining to how AGA allocates its membership dues and that the Commission found those costs to be reasonable. SWG concludes that its request in this matter should also be found reasonable.[94]

RUCO

RUCO proposes to disallow 50 percent of the AGA dues, relying on SWG's 2007 rate case[95] in which the Commission disallowed 40 percent of the Company's request. RUCO argues that that the AGA represents the interests of SWG and other natural gas companies and that AGA activities may not be necessary for the provision of utility service. RUCO also points to an ongoing FERC Petition for Rulemaking in which FERC is urged to amend the Uniform System of Accounts ("USoA") to treat industry association dues as presumptively non-recoverable for rate recovery purposes.[96] Therefore, RUCO requests a 50/50 sharing of AGA dues.[97]

Staff

Staff recommends approval of SWG's request for industry dues, stating that SWG agreed to remove lobbying fees from its request.[98]

Resolution

Although SWG ultimately withdrew its request to implement the Soft Off process that would allow it to keep an active meter on an otherwise inactive account for 30 days, it is notable that such a process is not recognized as a best practice by the AGA.[99] If AGA safety recommendations are a reason put forth by the Company as to why membership dues benefit ratepayers and should be recoverable, then it seems equally important that SWG should have to heed those safety recommendations for AGA membership to be a benefit. Because the Company appears to treat at least some of the AGA safety recommendations as optional, it is reasonable that the ratepayers should not

[94] SWG Cl. Br. at 19-20.
[95] Decision No. 70665 (December 24, 2008) at 12-13.
[96] Ex. RUCO-1, Attachment B.
[97] RUCO Cl. Br. at 19-21.
[98] Staff Cl. Br. at 12.
[99] Ex. S-14 at 17, citing to RUCO DR 2-01(f).

be responsible for the entirety of the dues. As a result, we will adopt RUCO's recommendation to share AGA dues equally between ratepayers and shareholders and disallow $172,306 of industry dues.

xiii. Rate Case Expense Adjustment

The parties are in agreement with rate case expense in the amount of $400,000 to be collected through a surcharge over four years.[100] We find that the rate case adjustment as agreed to by the parties is reasonable and should therefore be adopted.

xiv. Long-Term Gas Planning Stakeholder Process

At the Commission's May 2022 Open Meeting, Commissioner Kennedy asked SWG to conduct a stakeholder process to discuss the need for long term gas resource, storage, and distribution planning.[101] SWG noted that it would incur an incremental expense for obtaining outside facilitators and, in its application, requested $100,000 to be amortized over three years for such facilitator expense.[102] RUCO recommended disallowance of this incremental cost.[103] At hearing, the Company agreed to withdraw this request.[104]

xv. GCU Acquisition Premium

In its application, SWG proposed to recover an acquisition premium of $956,256 associated with the purchase of the natural gas service-related assets of GCU. The acquisition premium is the difference between the $3.5 million purchase price and the approximately $2.5 million rate base. The Company proposed to amortize the acquisition premium over a three-year period.[105] Staff and RUCO recommended disallowance of any recovery.[106] SWG ultimately withdrew its request for an acquisition premium.[107]

c. Summary of Adjusted TY Operating Expense

Based on the foregoing, we find that SWG's adjusted TY operating expense is $444,140,375 for the purpose of this proceeding.

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[100] SWG Cl. Br., Ex. 1 at 4.
[101] Ex. A-18 at 30.
[102] Ex. A-18 at 13.
[103] Ex. RUCO-2 at 11-12
[104] SWG Cl. Br., Ex. 1 at 6.
[105] Ex. A-15 at 8.
[106] Ex. S-1 at 15-16; Ex. RUCO-5 at 2.
[107] SWG Cl. Br., Ex. 1 at 6.

d. Summary of TY Operating Income

Based on the adoption of the foregoing adjustments, the following amounts details the adjusted TY net operating income for ratemaking purposes:

Operating TY Revenue	$579,185,433
Adjusted TY Operating Expense	$444,410,375
Net TY Operating Income	$134,775,058

VII. Cost of Capital

The cost of capital is the weighted average costs of all elements in the utility's capital structure, primarily consisting of debt and equity.

a. Capital Structure

SWG initially proposed a target capital structure of 49 percent long-term debt and 51 percent common equity,[108] with RUCO proposing a capital structure of 51.37 percent long-term debt and 48.63 percent common equity[109] and Staff proposing SWG's actual TY capital structure of 50.71 long-term debt and 49.29 percent common equity.[110] However, at the time of hearing, the parties had agreed to a capital structure of 50 percent debt and 50 percent equity.[111]

Resolution

We find that a capital structure consisting of 50 percent long-term debt and 50 percent common equity in this case is reasonable and appropriate and in the public interest.

b. Cost of Debt

SWG proposed an embedded cost of long-term debt of 4.15 percent, which represents SWG's actual TY cost of debt.[112] RUCO and Staff both support 4.15 percent for the cost of debt.[113]

Resolution

We find that the parties' positions for the cost of long-term debt is reasonable and appropriate and adopt 4.15 percent as the cost of long-term debt for the purpose of this proceeding.

[108] Ex. A-23 at 10.
[109] Ex. RUCO-8 at 3.
[110] Ex. S-4 at 3.
[111] SWG Cl. Br. at 3.
[112] Ex. A-23 at 12.
[113] Ex. RCUO-8 at 25; S-4 at 3.

c. Cost of Equity

In its application, SWG requested a 9.9 percent cost of equity ("COE") based on several factors, including the standards for determining a fair and reasonable COE set forth in *Hope* and *Bluefield*,[114] current and projected market conditions, and the results from the Constant Growth form of the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), and the Risk Premium ("RP") approach.[115] RUCO recommended a COE of 9.36 percent based on results from the Constant Growth DCF, the CAPM and the Comparable Earnings ("CE") model.[116] Staff recommended a COE of 9.3 percent based on model results from the DCF, CAPM, CE, and RP.[117] At hearing, the parties stipulated to a COE of 9.3 percent.[118]

Resolution

We find that a 9.3 percent COE as proposed by the parties in this case is reasonable and appropriate and we will adopt it.

d. Return on FVI

The FVI is the difference between the Original Cost Rate Base ("OCRB") and the Company's proposed FVRB. In this case, SWG proposed a 0.0 percent return on FVI, which all parties supported.[119]

Resolution

We find that the parties agreed upon 0.0 percent return on FVI is reasonable and appropriate and in the public interest.

e. Fair Value Rate of Return ("FVROR")

When applying the foregoing capital structure, cost of debt, COE, and return on FVI, we reach a Weighted Average Cost of Capital ("WACC") and overall FVROR of 5.19 percent. We find that the FVROR complies with the constitutional requirement of fair value and will result in just and reasonable rates.

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[114] *Federal Power Commission et al. v. Hope Natural Gas Co. ("Hope")*, 320 U.S. 591 (1944); *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia ("Bluefield")*, 262 U.S. 679 (1923).
[115] Ex. A-23 at 5-6.
[116] Ex. RUCO-9 at 2.
[117] Ex. S-5 at 18.
[118] SWG Cl. Br. at 3.
[119] SWG Cl. Br., Ex. 1 at 1.

	Weight	Cost	Weighted Avg. Cost
Common Equity	38.58%	9.3%	3.59%
Debt	38.58%	4.15%	1.60%
FVI above OCRB	22.85%	0.0%	0.0%
Weighted Avg. Cost of Capital	100%		5.19%

VIII. Revenue Requirement

Based on our findings herein, we determine that the gross revenue for SWG should increase by $54,283,435, or 9.37 percent, from $579,185,433 in the TY to $633,468,868.

Fair Value Rate Base	$3,379,916,314
Adjusted TY Operating Income (Loss)	$134,775,058
Required Fair Value Rate of Return	5.19%
Required Operating Income	$175,438,452
Operating Income Deficiency	$40,663,394
Gross Revenue Conversion Factor	1.3349
Gross Revenue Increase	$54,283,435
Adjusted TY Revenue	$579,185,433
Authorized Revenue Requirement	$633,468,868
Revenue Increase (%)	9.37%

IX. Rate Design Issues

a. Cost of Service

To determine appropriate rates to be charged customers, a class cost of service study ("CCOSS") is prepared to assist in allocating the costs of service to the appropriate rate class that reflects the underlying cost of service for each rate class. The CCOSS uses a three-step process to cost allocation: (1) functionalization, or cost assignment into functional categories; (2) classification, or cost assignment according to whether costs are related to serving peak demands, customers service requirements, or commodity demands; and (3) allocation, or cost assignment to rate classes consistent with the functionalization and classification steps. SWG utilized the minimum size main method to support the classification of distribution mains by estimating the cost of the distribution system assuming all mains were installed at the unit cost of the smallest main installed in the distribution system.[120]

No party objected to the Company's CCOSS. Staff recommends that SWG be required to file a minimum system study as part of the Company's next rate case.[121] While SWG did not oppose Staff's recommendation, RUCO disputed the need for the study but ultimately stipulated to the Company's rejoinder position that the cost of conducting a minimum system study for the next rate case will not exceed $2,500.

Resolution

We find that SWG's proposed CCOSS is reasonable and should be adopted for setting rates in this proceeding. Further, we find that Staff's recommendation, and SWG's position, to prepare and file a minimum system study at a cost not to exceed $2,500 is appropriate and should be adopted.

b. Billing Determinants

As in SWG's last rate case, the Company's billing determinants were determined using the monthly recorded number of bills and volumes by rate schedule for the TY. Subsequently, adjustments were made to billing adjustments, customer-specific volume annualizations, customer reclassifications, weather normalizations, and customer annualizations to derive the adjusted test period billing determinants. The Company made weather normalized and customer annualization adjustments for the GCU properties given the lack of detailed information.[122]

No party opposed or provided evidence with respect to SWG's billing determinants and, therefore, we adopt them.

[120] Ex. A-5 at 4-6.
[121] Ex. S-7 at 5.
[122] Ex. A-4 at 2.

c. Rate Design

SWG proposes to maintain its existing rate design and basic service charge, allocating the approved margin increase through its delivery charge.[123] Staff and RUCO support the Company's proposed rate design.[124] We find that SWG's proposed rate design is reasonable and appropriate and should therefore be adopted.

The parties' proposed revenue requirements, as well as the revenue requirement adopted herein, would have the following bill impacts on a single-family residential customer with average annual usage of 24 therms:

	Current Rates	Proposed Rates	Dollar Increase	Increase
SWG	$44.28	$47.66	$3.38	7.63%
RUCO	$44.28	$47.41	$3.13	7.07%
Staff	$44.28	$47.33	$3.05	6.89%
Decision	$44.28	$47.22	$2.94	6.64%

For former GCU customers, the following bill impacts on a single-family residential customer with average annual usage of 29 therms are as follows:

	Current Rates	Proposed Rates	Dollar Increase	Increase
SWG	$43.61	$55.43	$11.82	27.10%
RUCO	$43.61	$57.53	$13.92	31.92%
Staff	$43.61	$55.03	$11.42	26.19%
Decision	$43.61	$54.89	$11.28	25.87%

d. Adjustor Mechanisms

i. Purchased Gas Adjustor ("PGA")

SWG's PGA and Gas Cost Balancing Account allow the Company to recover the annual cost of natural gas it procures on behalf of its ratepayers, which helps to mitigate the impact on ratepayers

[123] Ex. A-1 at 7.

[124] Ex. S-9 at 3; RUCO-6 at 2.

by spreading volatile gas prices over a 12-month period.[125] Staff found the PGA to be functioning properly and recommends the continuation of the PGA.[126] RUCO appeared to take no position. As noted by Staff, the PGA is functioning as expected and helped to spread the extraordinarily high natural gas costs in February 2021 over a longer period which is a benefit to ratepayers. As a result, we adopt and approve the continuation of the PGA.

ii. Gas Cost Balancing Account ("GCBA")

The Company's GCBA records the difference between the actual cost of natural gas purchased and the amount collected from customers based on the monthly gas cost and refunds or collects the balance in the account.[127] Staff found that the GCBA to be functioning properly and recommends the continuation of the GCBA.[128] RUCO appeared to take no position. As noted by Staff, the GCBA is functioning as expected and helped to mitigate the effects of extremely high natural gas costs in February 2021 by spreading them over a longer period which is a benefit to ratepayers. As a result, we adopt and approve the continuation of the GCBA.

iii. Delivery Charge Adjustor ("DCA")

The DCA mechanism is a form of full revenue decoupling, meaning the utility's revenues and sales volumes are no longer linked and revenues as adjusted to match the authorized revenue requirement so SWG neither over- or under- recovers.[129] Staff recommends the continuation of the DCA[130] and RUCO took no position.[131] We find it reasonable and appropriate to continue the DCA mechanism.

X. Proposed Tariff Changes

In its application, SWG proposed several changes to its tariffs, including the Move2Zero program, a Soft Off proposal, and enhancements to its LIRA program. [132]

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125 Ex. S-15 at 20-21.
126 Staff Cl. Br. at 15.
127 Ex. S-15 at 21.
128 Staff Cl. Br. at 15.
129 Ex. A-5 at 17-24.
130 Staff Cl. Br. at 15.
131 Ex. RUCO-1 at 36-37.
132 Ex. A-12 at 6.

a. Move2Zero

The Move2Zero program is a proposed voluntary program that would offer Arizona SWG ratepayers the ability to offset Greenhouse Gas ("GHG") emissions associated with natural gas usage through the purchase and retirement of certified carbon offsets credits purchased by the Company.

SWG

SWG asserts that the Move2Zero program should be approved by the Commission. The Company states that the concerns raised by SWEEP either lack evidence or have been addressed. According to the Company, its Nevada Move2Zero program incorporates a "stringent" process to purchase carbon offsets by developing a project review and ranking process that considers the project type, invalidation risk, and other factors including a requirement that reputable carbon offset projects were registered with a reputable carbon offset program registry. SWG states that the same review process will be utilized for its Arizona Move2Zero program. The Company further states that the Plan of Administration ("POA") it develops with Staff will require annual documentation related to the carbon offset projects. In the event of the invalidation of an offset, SWG commits to replace it with a validated offset and bear the cost, negating SWEEP's concerns.[133]

The Company contends that its marketing materials will explain to ratepayers that the voluntary market for carbon offset credits will be used to purchase offsets to reduce the ratepayers' GHG emissions footprint though does not reduce the ratepayer's direct emissions. According to SWG, this description is akin to SWEEP's description of the carbon offset credit market.[134]

SWG asserts that SWEEP's concerns related to the lack of certainty of the program costs are without merit because the exact costs cannot be known given that the price of carbon offsets are not fixed and the amount of customer participation for the voluntary program is unknown. SWG points to testimony at hearing in which Mr. Olenick stated that administrative costs for Nevada's Move2Zero program have been minimal.[135] The Company argues that because the Move2Zero is a voluntary program, only the ratepayers that participate in the program will pay the offset costs and administrative

[133] SWG Cl. Br. at 30-32.
[134] SWG Cl. Br. at 30-32.
[135] Tr. at 192.

costs, and that ratepayers can choose to purchase offsets elsewhere. As a result, SWG contends that this issue is a red herring and SWEEP's concerns are unfounded.[136]

SWEEP

SWEEP opposes the Company's Move2Zero program, raising concerns relating to carbon offset markets that have systematic over-crediting of credits, how much the program will cost, and the failure of SWG to survey its ratepayers for interest. SWEEP notes that the California Public Utility Commission rejected SWG's Move2Zero proposal and that the Nevada Public Utility Commission approved only a pilot version of the program. Accordingly, SWEEP recommends that the Commission reject Move2Zero.[137]

RUCO

RUCO did not address this issue.

Staff

Staff supports approval of the Move2Zero program, stating it is in the public interest. Staff recommends that the Company file a proposed POA for Staff review.[138]

Resolution

We find that there are too many unknown variables associated with SWG's Move2Zero program to support adoption at this time. We agree with SWEEP that a customer survey to establish interest in the program would be beneficial and encourage the Company to present a more comprehensive demonstration of how the Move2Zero program has worked in Nevada in its next rate case.

b. Soft Off

The proposed Soft Off process would have allowed SWG to maintain an active meter for no more than 30 calendar days before the meter is turned off. According to SWG, the Soft Off process

[136] SWG Cl. Br. at 30-32.
[137] SWEEP Cl. Br. at 15-18.
[138] Staff Cl. Br. at 15-16.

makes it quicker and more convenient for a new customer to establish service.[139] Staff opposed this change.[140] The Company withdrew the Soft Off proposal in its rejoinder testimony.[141]

c. LIRA

The Company's LIRA program provides reduced energy rates to qualifying low-income customers. The current program benefits customers who meet an annual household income threshold that is less than or equal to 200 percent of the Federal Poverty Income Guidelines, reducing their monthly basic service charge and per therm cost by 30 percent for the first 150 therms of natural gas used in each month from November 1 to April 30.[142]

Under SWG's proposed modifications to the LIRA program, the number of customers eligible for the discount will increase due to expanded income qualifications; the timeframe for the discount will lengthen to year-round; and regulatory reporting will be streamlined. SWG proposes to increase its LIRA program eligibility to incomes less than or equal to 250 percent of the Federal Poverty Income Guidelines. In addition, the Company proposes to expand the LIRA's program impact by extending the 30 percent reduction from six months to year-round. SWG also proposes to reduce its regulatory reporting on the LIRA program from quarterly to annually.[143]

All parties to this matter supported the changes to the Company's LIRA program.[144]

XI. <u>SWEEP Proposals</u>

a. Gas Infrastructure Investment Plan ("IIP")

<u>SWEEP</u>

SWEEP contends that the gas industry is in a time of transition, resulting from energy efficiency, improvements in technology, and health concerns that has led to a decline in usage per customer. As a result, SWEEP recommends that the Commission implement a Gas IIP to address the gas transition that may result in SWG's infrastructure investments becoming stranded. SWEEP's Gas IIP proposal would require a filing every three years with a 10-year plan that would address major

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[139] Ex. A-12 at 8-9.
[140] Ex. S-14 at 13-18.
[141] Ex. A-14 at 8.
[142] Ex. A-12 at 9.
[143] Ex. A-12 at 9-11.
[144] SWG Cl. Br. at 3.

planned investments, their cost, the justification for the investments, and a comparison of investments against non-pipeline alternatives.[145]

In response to SWG's objections, SWEEP states that the Commission presently only has oversight of investments once made whereas SWEEP's IIP would provide more transparency to the capital planning process that is forward looking. SWEEP contends that a rulemaking is not necessary to require SWG to file a Gas IIP as the Commission may regulate a public service corporation by rule or by order making such a directive well within the Commission's authority. SWEEP further contends that requiring an IIP will not limit customer choice of fuels but simply provides a planning tool for the Commission to consider.[146]

SWG

The Company opposes SWEEP's recommendation for the Commission to institute a Gas IIP in this proceeding. According to SWG, SWEEP's stated premise for a Gas IIP that Arizona customers are transitioning away from gas which may result in stranded investments is wrong. SWG points to first-time meter sets, growth of customers, and Arizona law to establish that natural gas is a valued and important energy source. The Company believes that the Commission's current regulatory oversight is adequate, negating the need for a Gas IIP, and argues that the implementation of new required reporting in a rate case without allowing for stakeholder input is inappropriate. However, SWG is not opposed to the Commission initiating a rulemaking where stakeholders are able to participate to consider the impacts of requiring a Gas IIP.[147]

Staff & RUCO

Neither Staff nor RUCO addressed SWEEP's recommendation for the Commission to institute a Gas IIP.

Resolution

We decline to adopt a Gas IIP at this time. We find that the evidence does not establish a need to implement additional regulatory oversight for infrastructure investment based on SWEEP's assertion that customers are transitioning away from gas which may lead to stranded assets. However, the

[145] SWEEP Cl. Br. at 2-11.
[146] SWEEP Cl. Br. at 11-12.
[147] SWG Cl. Br. at 32-34.

Commission may, in its discretion, initiate a rulemaking dedicated to this topic to determine any impacts of such a policy.

b. End Construction Allowances

SWEEP

SWEEP urges the Commission to discontinue Construction Allowances which are subsidies provided to new customers requesting gas service to offset the cost of connecting to the SWG system based on a projection of the customer's usage for up to 10 years. SWEEP argues that the subsidy reduces any rate relief to existing customers when new customers are added because existing customers must pay for the subsidy over the long term. SWEEP also contends that eliminating the subsidy will have minimal effect on economic development because the typical subsidy ranges from $1,092 to $1,770 which is too minor to impact larger scale projects. SWEEP states that new customers should be required to pay the full cost to interconnect to the SWG system.[148]

SWG

SWG strongly objects to SWEEP's recommendation to end SWG's construction allowance policy, arguing that the recommendation is inconsistent with Arizona law by interfering with the installation of natural gas and the ability of a customer to choose their energy source.[149] The Company cites to A.A.C. R14-2-307, which requires SWG to provide pipeline footage and/or equipment allowance that will be provided at no upfront cost to the customer to be served with the new gas main extension and which requires SWG to conduct an economic feasibility analysis for those extensions that exceed the allowance. SWG notes that if the Commission adopted SWEEP's recommendation to end construction allowances, the Commission would have to deviate from or modify the regulations.[150]

In addition, SWG states SWEEP's recommendation is contradicted by the high demand for natural gas utility service, inhibits customer choice in contrast with public policy, negatively impacts Arizona's economic growth, and creates an imbalance between SWG and other utilities that continue to benefit from construction allowances. SWG also raises concerns over unintended consequences of eliminating construction allowances and thereby increasing the cost of natural gas service, such as

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[148] SWEEP Cl. Br. at 13-14.
[149] *See* ARS § 40-202 and A.A.C. R14-2-307.
[150] SWG Cl. Br. at 36.

increased natural gas use by electric utilities to cover the additional electricity load, increased fuel consumption due to electric appliances using more energy over the full-fuel-cycle, and violation of the regulatory compact by preventing the Company from the opportunity to invest in its system and earn a fair rate of return on the investment.[151]

Staff & RUCO

Neither Staff nor RUCO addressed SWEEP's recommendation to end SWG's construction allowances.

Resolution

We agree with SWG that construction allowances are consistent with Commission rules and support public policy directed at providing customer choice. We find no compelling reasons to end construction allowances and many compelling reasons to maintain them. Therefore, we decline to adopt SWEEP's recommendation to eliminate the Company's construction allowances.

c. End Customer Owned Yard Lines ("COYL") for non-LIRA customers

SWEEP

SWEEP recommends that the Commission end the COYL program with the exception of customers who take service under SWG's LIRA tariff. SWEEP argues that the COYL program allows the Company to replace pipe at no cost to the customer, which significantly expands rate base and customer rates. According to SWEEP, the pipe replacements should be the responsibility of the homeowner and the subsidy should be discontinued because the high costs of the COYL program outweigh its benefits. However, SWEEP recommends that the COYL program be maintained for LIRA ratepayers because the "COYL program provides benefits that are worth maintaining."[152]

SWG

SWG opposes SWEEP's recommendation to limit the COYL program to LIRA ratepayers, noting that the Commission approved the COYL program to assist with all customer-owned facilities that were not being maintained and, therefore, presenting a safety risk. The Company argues that there is no evidence to support SWEEP's assertion that the gas transition will lead to stranded assets relating

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[151] SWG Cl. Br. at 34-40.
[152] SWEEP Cl. Br. at 14-15.

to the COYL program or to support SWEEP's claim that the COYL program suffered from prior mismanagement. SWG maintains that the COYL program's safety objectives and enhancements are necessary to keep customers safe and bring the COYL facilities within the SWG infrastructure to be maintained by the Company. Therefore, SWG strongly opposes SWEEP's proposal.[153]

Staff & RUCO

Neither Staff nor RUCO addressed SWEEP's recommendation for the Commission to end the COYL program except for LIRA ratepayers.

Resolution

There is no evidence to suggest that the COYL program has been misused or improperly managed. To the contrary, an independent monitor determined that the COYL program was operating as expected.[154] As a result, we find that the public interest is served by the COYL program by ensuring that leaking pipes can be quickly and safely maintained. The safety concerns surrounding COYLs make it reasonable and appropriate to continue the COYL program for all SWG ratepayers. Therefore, we decline to adopt SWEEP's recommendation to limit the COYL program to ratepayers that qualify for LIRA. We further find that the associated surcharge should also be continued.

XII. Gas Procurement

SWG provided support for the reasonableness and prudency of the Company's gas procurement activities from January 2019 to August 2021,[155] which Staff found to be appropriate.[156] RUCO did not address SWG's gas procurement activities.

Staff recommends that the Company investigate proposals to develop gas storage in its Arizona system to allow SWG to buy gas during off-peak periods and store it for use during periods of high prices. Staff further recommends that SWG report on its efforts to acquire additional gas storage.[157] The Company agrees with Staff's recommendations and proposes to report on these efforts during the Commission's annual winter preparedness meeting.[158]

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[153] SWG Cl. Br. at 40-42.
[154] SWG Cl. Br. at 40-41.
[155] Ex. A-20 at 3
[156] Ex. S-15 at 9.
[157] Ex. S-15 at 13.
[158] Ex. A-21 at 2, 11.

We find that SWG's gas procurement activities were reasonable and prudent. We agree with Staff and SWG that it would be beneficial for SWG to seek additional gas storage and to report on its activities at the Commission's annual winter preparedness meeting.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. SWG is a public service corporation engaged in furnishing gas utility service in Arizona pursuant to authority granted by the Commission.

2. On December 3, 2021, SWG filed an application for an increase in rates for utility service provided in Arizona.

3. On January 3. 2022, Staff filed a Letter of Sufficiency, stating that SWG's application had met the sufficiency requirements outlined in A.A.C. R14-2-103, and classifying the Company as a Class A utility.

4. Intervention in this matter was granted to RUCO, Arizona Grain, Wildfire, and SWEEP. However, Arizona Grain subsequently requested to withdraw as an intervenor which was approved.

5. The procedural history and positions of the parties as set forth in the Discussion portion of this Decision are accurate and incorporated herein by reference as though set forth in full herein.

6. Notice of the application was provided in accordance with law.

7. The hearing commenced as scheduled in a hybrid format with some parties and witnesses appearing in person and others appearing via videoconference on September 26, 27, and 28, 2022.

8. Based on the record in this proceeding, the adjustments to rate base adopted herein are just and reasonable and in the public interest, and result in an adjusted fair value rate base of $3,379,916,314 for the purpose of establishing rates in this proceeding.

9. Based on the record in this proceeding, the adjustments to TY operating expense adopted herein are just and reasonable and in the public interest, and result in an adjusted TY operating expense of $444,886,199 for the purpose of establishing rates in this proceeding.

10. Based on the record in this proceeding, it is reasonable and in the public interest to adopt the following capital structure and FVROR:

	Weight	Cost	Weighted Avg. Cost
Common Equity	38.58%	9.3%	3.59%
Debt	38.58%	4.15%	1.60%
FVI above OCRB	22.85%	0.0%	0.0%
Weighted Avg. Cost of Capital	100%		5.19%

11. Based on the record in this proceeding, the following findings are just and reasonable and in the public interest for the purposes of establishing rates in this proceeding:

Fair Value Rate Base	$3,379,916,314
Adjusted TY Operating Income (Loss)	$134,775,058
Required Fair Value Rate of Return	5.19%
Required Operating Income	$175,438,452
Operating Income Deficiency	$40,663,394
Gross Revenue Conversion Factor	1.3349
Gross Revenue Increase	$54,283,435
Adjusted TY Revenue	$579,185,433
Authorized Revenue Requirement	$633,468,868
Revenue Increase (%)	9.37%

12. Based on the record in this proceeding, the rate design proposed by SWG is in the public interest and will result in just and reasonable rates. The rates approved herein will increase the monthly bill of the typical single-family residential customer with average annual usage of 24 therms by $2.94, from $44.28 to $47.22, or 6.64 percent. For former GCU customers, the rates approved herein will increase the monthly bill of the typical single-family residential customer with average annual usage of 29 therms by $11.28, from $43.61 to $54.89, or 25.87 percent.

13. Based on the record in this proceeding, it is reasonable and appropriate and in the public

interest to continue the PGA, GCBA, and DCA until further Order of the Commission.

14. Based on the record in this proceeding, it is reasonable and appropriate and in the public interest to continue the COYL program and associated surcharge mechanism.

15. Based on the record in this proceeding, it is reasonable and appropriate to adopt the Company's proposed modifications to the LIRA program.

16. Based on the record in this proceeding, it is not in the public interest to adopt the Company's proposed Move2Zero program at this time.

17. Based on the record in this proceeding, it is not in the public interest to adopt SWEEP's proposed gas IIP.

18. Based on the record in this proceeding, it is reasonable and appropriate to continue SWG's construction allowances.

19. Based on the record in this proceeding, it is reasonable and appropriate to adopt Staff's recommendation for SWG to seek additional gas storage and to report on its activities at the Commission's annual winter preparedness meeting.

CONCLUSIONS OF LAW

1. Southwest Gas Corporation is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. Title 40, Chapter 2.

2. The Commission has jurisdiction over Southwest Gas Corporation and of the subject matter of the application.

3. Notice of the application was provided in the manner prescribed by Arizona law.

4. For the purposes of this proceeding, Southwest Gas Corporation's jurisdictional fair value rate base is determined to be $3,379,916,314.

5. The rates, charges, and conditions of service authorized herein and established herein are just and reasonable and in the public interest.

ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation shall file with the Commission, on or before January 31, 2023, revised schedules of rates and charges consistent with the discussion herein.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after February 1, 2023.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall notify its customers of the authorized rates and charges and their effective date, in a form acceptable to the Commission's Utilities Division, by means of an insert in its next regularly scheduled billing and by posting notice on its website in a prominent manner and conspicuous location.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall file with Docket Control, as a compliance item in this docket, within 10 days after the date of notice of the authorized rates and charges is sent to customers, a copy of the notice provided to customers.

IT IS FURTHER ORDERED that Southwest Gas Corporation is authorized to continue the Delivery Charge Adjustor until further Order of the Commission.

IT IS FURTHER ORDERED that Southwest Gas Corporation is authorized to continue the Purchase Gas Adjustor until further Order of the Commission.

IT IS FURTHER ORDERED that Southwest Gas Corporation is authorized to continue the Gas Cost Balancing Account until further Order of the Commission.

IT IS FURTHER ORDERED that Southwest Gas Corporation is authorized to continue the Customer Owned Yard Line replacement program consistent with Decision No. 77850, and the Customer Owned Yard Line replacement program surcharge mechanism until further Order of the Commission.

IT IS FURTHER ORDERED that Southwest Gas Corporation is authorized to modify its Low Income Ratepayer Assistance program as discussed herein.

IT IS FURTHER ORDERED that Southwest Gas Corporation is authorized to continue its construction allowance policy as discussed herein.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall investigate and determine the feasibility of obtaining and/or constructing additional gas storage and to report on its activities at the Commission's annual winter preparedness meeting.

IT IS FURTHER ORDERED that Southwest Gas Corporation shall file an updated Class Cost of Service Study at a cost of no more than $2,500 as a part of its next general rate case.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN O'CONNOR	COMMISSIONER MÁRQUEZ PETERSON

DISSENT		
COMMISSIONER TOVAR	COMMISSIONER THOMPSON	COMMISSIONER MYERS

IN WITNESS WHEREOF, I, KIM BATTISTA, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 23rd day of January 2023.

KIM BATTISTA
INTERIM EXECUTIVE DIRECTOR

DISSENT Anna Tovar

DISSENT ______________________
SP/(gb)

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