BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

Application of Southwest Gas Corporation for authority to increase its retail natural gas utility service rates for Southern and Northern Nevada.	)))	Docket No. 26-03021

At a general session of the Public Utilities Commission of Nevada, held at its offices on October 14, 2026

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

ORDER

TABLE OF CONTENTS

I. INTRODUCTION 5

II. SUMMARY 5

III. PROCEDURAL HISTORY 5

IV. COST OF CAPITAL 7

A. Capital Structure 7

B. Cost of Debt 9

C. Return on Equity ("ROE") 9

V. REVENUE REQUIREMENT 19

A. Directors and Officers Insurance 19

B. Uncollectible Expense 21

C. Board of Directors Charges 27

D. Investor Relations ("IR") Charges 30

E. Southwest Gas Holdings, Inc. ("Hold Co.") Charges 33

F. System Allocable Legal and Consulting Fees 34

G. Cash Working Capital ("CWC") 35

H. Continuation of Regulatory Accounting Treatment for Line Location Activity 39

I. Mesquite Regulatory Liability ("MRL") 40

J. Officer Salary Increases in Excess of Southwest Gas's Recommended Increases 42

K. Severance Payments 43

L. Management Incentive Program ("MIP") Net Income Metric 44

M. Long-Term Incentive ("LTI") Costs 46

N. Non-Qualified Retirement Plan Costs 48

O. Recording of Non-Travel Meals 50

P. Regulatory Liability for Over-Amortized Regulatory Assets 51

Q. Amortization Expenses both Beyond Certification Period and Pertaining to Other Rates and States 54

R. Accounting of Final GRC Costs 55

S. Southwest Gas's Affordability Analyses 56

T. Projects Added in Certification Filings 58

U. Request for Future Additional Witness to Support Certification Projects 66

V. Inclusion of Work Orders & Total Costs for Certification Projects in Future Certification Filings 69

W. Self-Insurance Expense Normalization 71

X. Staff's Recommended Annual Revenue Requirements and Mill Assessment Calculation 72

Y. Recovery for Solar-Power Projects 74

Z. H1 Hardware Server Refresh Project (WO 0061W0008381) 75

AA. Amortization of Microsoft Dual Use Software and Oracle Software Licenses 77

BB. Lamb Tap Project Expected Change in Circumstances ("ECIC") 79

VI. RATE DESIGN 85

A. Annualized Billing Determinants and Weather Normalization 85

B. Class Cost of Service Study ("CCOSS") 87

C. Cost Classifications of Distribution and Transmission Mains 92

D. Caps on Individual Rate-Class Rate Increases 97

E. Other Issues relating to Schedules SG-G5 and SG-G6 101

F. NCA1's Recommendation for Direct Assignment of the Cost of the Facilities Used to Serve NCA1 and to Go Back to the Assignment Methodology Used in Docket No. 20-02023 .102

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

I. INTRODUCTION

On March 18, 2026, Southwest Gas Corporation ("Southwest Gas," or, in tables, "SWG") filed with the Public Utilities Commission of Nevada ("Commission") an application, designated as Docket No. 26-03021, for authority to increase its retail natural gas utility service rates for Southern and Northern Nevada.

II. SUMMARY

Southwest Gas had requested to increase its return on equity investment from 9.5 percent to 10.0 percent. The Commission rejects that requested increase and maintains the current return on equity investment at 9.5 percent. The Commission also removed approximately $24 million in requested additional revenue from the Southern Nevada Division and approximately $6 million in requested additional revenue from the Northern Nevada Division. The Commission was able to remove these requested revenue increases, in part, by reducing the amount of officer compensation in rates, and delaying the inclusion in rates at this time of some requested plant infrastructure costs that were not in service before the filing of the rate case. In total, as of the certification date of this case, Southwest Gas has $3.29 billion invested in approved plant-in-service in Southern Nevada, and $442.2 million in Northern Nevada. As a result of this Order, ratepayers in Northern Nevada will see a reduction in rates. Ratepayers in Southern Nevada will see an overall rate increase; however, that increase will be less than what was requested by Southwest Gas.

III. PROCEDURAL HISTORY

- On March 18, 2026, Southwest Gas filed the application.

- Southwest Gas filed the application pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC"), Chapters 703 and 704, including, but not limited to, NRS 704.110, NRS 704.992, and NAC 704.9716(5).

- The Regulatory Operations Staff of the Commission ("Staff") participates as a matter of right pursuant to NRS 703.301.

- On March 24, 2026, the Nevada Bureau of Consumer Protection ("BCP") filed a notice of intent to intervene pursuant to NRS Chapter 228.

- On March 26, 2026, the Commission issued a notice of application and notice of prehearing conference.

- On April 22, 2026, Nevada Cogeneration Associates No. 1, LLC ("NCA1") filed a petition for leave to intervene ("PLTI"). That same day, Saguaro Power Company, A Limited Partnership ("Saguaro") and Sidecar Power LLC ("Sidecar") filed a PLTI.

- On April 30, 2026, Nevada Cogeneration Associates #2 ("NCA2") late-filed a PLTI.

- On May 7, 2026, the presiding officer held a prehearing conference. Southwest Gas, NCA1, Saguaro, Sidecar, NCA2, BCP, and Staff made appearances. The procedural schedule, discovery procedures, and PLTIs were discussed.

- On May 11, 2026, the presiding officer issued Procedural Order No. 1, adopting a procedural schedule and a discovery process. That same day, the presiding officer issued an order granting the PLTIs of NCA1, NCA2, and Saguaro.

- On May 12, 2026, the Commission issued a notice of consumer session and notice of hearing. That same day, Southwest Gas filed errata.

- On May 22, 2026, Sidecar filed written comments in support of its PLTI pursuant to Procedural Order No. 1.

- On June 10, 2026, the presiding officer issued an order granting Sidecar's PLTI.

- On June 22, 2026, Southwest Gas made its certification filing.

- On June 25, 2026, the presiding officer issued Procedural Order No. 2, postponing the consumer session.

- On July 6, 2026, the Commission issued an amended notice of consumer session. That same day, the presiding officer issued Procedural Order No. 3.

- On July 10, 2026, the presiding officer held a continued prehearing conference. Southwest Gas, NCA1, Saguaro, Sidecar, NCA2, BCP, and Staff made appearances. Revisions to the procedural schedule were discussed.

- On July 14, 2026, the presiding officer issued Procedural Order No. 4.
- On July 29, 2026, BCP and Staff filed direct testimony.
- On August 3, 2026, BCP filed three motions, and NCA1 filed one motion, for a witness to appear remotely.
- On August 5, 2026, the presiding officer issued Procedural Order No. 5.
- On August 10, 2026, Southwest Gas filed rebuttal testimony.
- On August 11, 2026, Southwest Gas filed a supplement to its rebuttal testimony.
- On August 13, 2026, Southwest Gas filed errata to its certification filing, and the presiding officer issued Procedural Order No. 6.
- On August 17-19, 2026, the presiding officer held a hearing. Southwest Gas, NCA1, NCA2, Saguaro, Sidecar, BCP, and Staff made appearances. Exhibits were admitted to the record.

IV. COST OF CAPITAL

A. Capital Structure

Southwest Gas's Position

1. Southwest Gas proposes a capital structure at certification of 50.05 percent common equity and 49.95 percent long-term debt. (Ex. 129 at 7.) As of the end of the test period and certification period, the capital structure was 50.08 percent long-term debt and 49.92 percent equity. (*Id.*) Southwest Gas states that its estimated capital structure as of May 31, 2026, is projected to be 49.95 percent debt and 50.05 percent equity. (Ex. 123 at 4-5.) Southwest Gas states in its certification filing that its capital structure is 48.65 percent debt and 51.35 percent equity. (Ex. 132 at 5-7.)

BCP's Position

2. BCP recommends a capital structure consisting of 50 percent debt and 50 percent equity. (Ex. 402 at 6.)

Staff's Position

3. Staff recommends that the Commission accept Southwest Gas's certification capital structure of 48.65 percent debt to total capital and 51.35 percent total equity to total capital. (Ex. 304 at 1.)

Southwest Gas's Rebuttal Position

4. Southwest Gas recommends that the Commission adopt the capital structure from its certification period, which ended on May 31, 2026, and was comprised of 48.65 percent debt and 51.35 percent equity. (Ex. 128 at 3.) Southwest Gas states that Staff agreed with its actual proposed capital structure and argues that it is reasonable. (Ex. 133 at 5.) Southwest Gas states that BCP acknowledged that its proposed capital structure is based upon its actual capital structure and cedes that most regulatory authorities use actual rather than hypothetical capital structures when setting rates. (Ex. 128 at 3.) Southwest Gas argues that utilizing its actual capital structure is consistent with industry norms and, therefore, reasonable. (Ex. 133 at 78.) Moreover, Southwest Gas provides that the proposed equity ratio is well below the actual mean equity ratio of the utility operating subsidiaries of the proxy group and is at the lower end of the range of equity ratios for those utilities. (*Id.*)

Commission Discussion and Findings

5. The Commission finds that the consolidated certified capital structure, reflecting an equity-to-debt ratio of 51.35 percent to 48.65 percent, respectively, is appropriate because it adheres to Southwest Gas's capital structure at the time of its certification filing, which is consistent with industry norms. Accordingly, the Commission accepts Southwest Gas's certified consolidated corporate capital structure.

B. Cost of Debt

Southwest Gas's Position

6. Southwest Gas requests a 4.33 percent cost of debt for its Southern Nevada Division ("SND") and a 4.39 percent cost of debt for its Northern Nevada Division ("NND"). (Ex. 127 at 3.) Southwest Gas explains that its embedded costs of debts are comprised of the cost of fixed-rate debentures and notes, fixed-rate medium-term notes, a variable-rate term facility, short-term debt, and customer deposits. (Ex. 123 at 5.)

BCP's Position

7. BCP states that Southwest Gas's proposed debt costs provided in Southwest Gas's certification update for its SND and NND are reasonable. (Ex. 402 at 6.)

Staff's Position

8. Staff recommends that the Commission accept Southwest Gas's proposed costs of debts for its SND and NND. (Ex. 304 at 1.)

Commission Discussion and Findings

9. The Commission finds that Southwest Gas's proposed certified embedded cost of debt for its SND and NND are appropriate because they are accurately reflected and unchallenged by any party. Accordingly, the Commission adopts a 4.33 percent cost of debt for its SND and 4.39 percent cost of debt for its NND.

C. Return on Equity ("ROE")

Southwest Gas's Position

10. Southwest Gas states that its ROE estimates show a mean constant-growth discounted cash flow ("DCF") range of 9.68 percent to 11.31 percent, a median constant-growth DCF range of 9.53 percent to 10.84 percent, a capital asset pricing 1model ("CAPM") range of 11.20 percent to 11.45 percent, an empirical capital asset pricing model ("ECAPM") range of

11.75 percent to 11.80 percent, and a risk premium model range of 10.54 percent to 10.70 percent. (Ex. 132 at AEB-1.)

11. Southwest Gas states that it uses a projected 30-year U.S. Treasury Bond Yield of 4.70 percent for its CAPM and ECAPM estimates. (Ex. 132 at AEB-4, p. 3.)

12. Southwest Gas argues that a reasonable range of ROE is between 10.25 percent and 11.25 percent. (*Id.* at 4. *See also id.* at AEB-1.)

13. Southwest Gas requests an ROE of 10.00 percent. (Ex. 129 at 6.) Southwest Gas states that its overall requested rates of return ("ROR") at time of certification for SND and NND were 7.17 and 7.20 percent, respectively, which Southwest Gas argues are reasonable and properly reflect its level of business, financial, and regulatory risks. (Ex. 123 at 14; *See also* Ex. 129 at 62-65.) Southwest Gas states that, based upon its models, an appropriate ROE would be in the range of 10.25 to 11.25 percent. (Ex. 129 at 6.)

14. For Southern Nevada, Southwest Gas proposes an overall rate of return or weighted average costs of capital ("WACC") of 7.17 percent. (Ex. 129 at 62.) For Northern Nevada, Southwest Gas proposes a WACC of 7.20 percent. (*Id.* at 63.)

BCP's Position

15. BCP recommends an equity return of 9.30 percent and 6.815 percent overall return for SND and 6.845 percent overall return for NND. (*Id.* at 3-4.) BCP argues that Southwest Gas's requested equity return and overall return are overstated by about $13.324 million annually. (Ex. 402 at 5-6.)

16. BCP states that its ROE estimates showed a two-stage DCF range of 8.99 percent to 9.06 percent, a CAPM range of 9.71 percent to 9.85 percent, an ECAPM range of 10.14 percent to 10.24 percent, and a bond-yield risk premium model range of 10.40 percent to 10.68

percent. (Ex. 402 at 3.) In arriving at its CAPM and ECAPM estimates, BCP states that it used a three-month average (April through June 2026) of 30-year U.S. Treasury bond yields of 4.96 percent. (*Id.* at 30.)

17. BCP argues that Southwest Gas's risk-premium model results of 10.54 percent to 10.70 percent are excessive relative to recent and current regulatory authorities authorized equity returns of 9.5 percent to 9.7 percent. (*Id.* 40-41.) Moreover, BCP provides that it has been several decades since regulatory Commissions have considered Southwest Gas's higher-end range of ROE estimates, which Southwest Gas uses to support the appropriateness of its 10.0 percent ROE recommendation. (*Id.* at 42.)

Staff's Position

18. Staff states that its ROE estimates show a constant-growth and three-stage DCF range of 7.29 percent to 10.58 percent, a CAPM and ECAPM range of 8.86 percent to 9.29 percent, and an allowed ROE/bond-yield average of 10.12 percent. (Ex. 304 at 3.) In arriving at its CAPM estimate, Staff states that it uses a three-month average (March through May 2026) of 30-year U.S. Treasury bond yields of 4.93 percent. (*Id.* at 19.)

19. Staff recommends that the Commission adopt an allowed ROE of 9.30 percent with a range of reasonableness of 9.10 percent and 9.80 percent and the resulting ROR of 6.88 percent for Southern Nevada and 6.91 percent for Northern Nevada. (*Id.* at 1.)

20. Staff states that its recommended ROE and range of reasonableness are based on the following: (1) the average over all of Staff methods demonstrating 9.50 percent; (2) Staff noting its CAPM and ECAPM ROE results' sensitivities to the movement of long-term Treasury yields and the Commission's historic cautious use of CAPM results; (3) the Federal Reserve's Federal Funds Rate being lowered from a high of 5.50 percent in the fall of 2023 to the current

3.75 percent; (4) the fact that state regulators have granted an average ROE of 9.70 percent for calendar year 2025 which was nearly the same average as calendar year 2024; and (5) the 9.50 percent ROE awarded to Southwest Gas in its 2023 general rate case ("GRC"), Docket No. 23-09012, not adversely impacting Southwest Gas's credit ratings. (Ex. 304 at 3-5.)

Southwest Gas's Rebuttal Position

21. Southwest Gas argues that its requested ROE of 10 percent is reasonable and states that neither Staff nor BCP have caused Southwest Gas to change its conclusions. (Ex. 133 at 5.) Southwest Gas states that the ROEs recommended by Staff and BCP would be the lowest ROEs authorized for any natural gas utility of 2025. (Ex. 133 at 6.)

22. Southwest Gas states that changes in long-term bond yields since the company's last proceeding demonstrate an increase in the cost of capital rendering BCP's and Staff's proposals directionally inconsistent with the current and projected capital market conditions and the investor-required return. (*Id.* at 5.)

Commission Discussion and Findings

23. In determining an appropriate ROE, the Commission relies upon frameworks contained in Nevada law and the two seminal Supreme Court decisions regarding ratemaking: *Fed. Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1942) and *Bluefield Water Works and Improvement Co. v. Pub. Serv. Comm'n of West Virginia*, 262 U.S. 679 (1923). Pursuant to *Hope* and *Bluefield*, regulators must consider numerous factors when setting a utility's ROR. (*Hope* 320 U.S. at 605; *Bluefield* 262 U.S. at 692.) As the Court has stated, regulators can and should consider "appropriate protection to the relevant public interests, both existing and foreseeable." (*In re Permian Basin Area Rate Cases*, 390 U.S. 747, 792 (1968).) The Court also has stated that "it is the result reached not the method employed which is controlling." (*Hope*,

320 U.S. at 605.) Nevada utilities are entitled to the opportunity to earn an authorized and reasonable ROR which is "'adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.'" (*Nevada Power Co. v. Pub. Serv. Comm'n*, 91 Nev. 816, 825, 544 P.2d 428, 434-35 (1975) (quoting *Hope*, 320 U.S. at 603.)) In establishing a zone of reasonableness and determining an ROE within that range, the Commission relies upon expert testimony and evidence which apply the principles of finance, accounting, and economics to the cost of a particular utility's common equity. This evidence includes the results of each expert's ROE studies, the expert's judgment in assessing macroeconomic conditions, capital markets, and Southwest Gas's particular circumstances, *e.g.*, capital structure, risk profile, and regulatory environment. The Commission finds, based upon the evidence in the record, that the range or zone of reasonableness for Southwest Gas's ROE falls between 9.10 percent and 9.80 percent, as recommended by Staff.

24. The ROE range of reasonableness by each party in this case is reflected in Table 1:

Table 1[1]

Party	Reasonable ROE Range	Recommended ROE
SWG	10.25% to 11.25%	10.00%
BCP	9.00% to 9.70%	9.35%
Staff	9.10% to 9.80%	9.30%

[1] Ex. 132 at 4 Figure 1: Southwest Gas's Summary of Equity Model Results; Ex. 402 at 3 (pages 3 and 4 of Exhibit 402 are transposed), Table 1: Cost of Equity Estimates Southwest Gas; Ex. 304 at 3, Table 2: Summary of Staff's ROE Estimation Results.

25. The recommended ROEs in Table 1 reflect a 65 to 70 basis point spread between the recommendations of BCP and Staff and the recommendation made by Southwest Gas.

26. The expert cost of capital witnesses in this case primarily relied on the results of several commonly used economic models, applied to a proxy group of comparable companies, to reach their respective recommendations for an appropriate ROE for Southwest Gas. The average ROE recommendation for each party and specific economic models employed are reflected in Table 2:

Table 2

Modeling Method Average Result	SWG ROE[2]	BCP ROE[3]	Staff ROE[4]
Constant Growth DCF:	10.52%	9.78%	9.29%
2-Stage DCF (BCP), 3-Stage DCF (Staff)		9.02%	8.01%
CAPM	11.33%	9.78%	8.92%
ECAPM	11.84%	10.19%	9.23%
Risk Premium Model, Bond Yield Risk Premium, Allowed ROE/Bond Yield	10.63%	10.54%	10.12%
Average (All Models)	11.08%	9.86%	9.50%
Recommended ROE	**10.00%**	**9.35%**	**9.30%**

[2] Ex.132 at internal exhibit _(AEB-1).
[3] Ex. 402 at 3.
[4] Ex. 304 at 3 (Table 2), 18 (Table 6), and 22 (Table 8).

27. All parties rely on the results from at least five ROE models in determining their recommended fair return on equity. The use of any unsupportable model input can skew the overall average ROE result.

28. All parties relied upon the following yields on Treasury Bonds for the risk-free rate used in the CAPM and ECAPM models:

Table 3

	Time Period used for Yield on Treasury Bonds	Risk-Free Rate
SWG	Projected Risk-Free Rate on 30 yr. Treasury Bonds	4.70%[5]
BCP	Three-month average on 30 yr. Treasury Bonds April-June 2026	4.96%[6]
Staff	Three-month average on 30 yr. Treasury Bonds; March-May 2026	4.93%[7]

29. The information in Table 3 suggests that the significant spread difference between Southwest Gas's CAPM and ECAPM results and Staff's and BCP's model results is not due to the selection of the risk-free rate used as an input because the risk-free rate used by Southwest Gas was 26 and 23 basis points lower than the risk-free rate that Staff and BCP used, respectively. If similar market risk premiums ("MRP") were used by the parties in producing CAPM and ECAPM estimates, the lower risk-free rate used by Southwest Gas would have produced ROE estimates lower than Staff and BCP.

30. However, Southwest Gas used MRPs of 8.39 percent to 8.68 percent to produce its CAPM and ECAPM ROE estimates, which were 312 to 341 basis points higher than the 5.27 percent MRP that Staff used and 145 to 174 basis points higher than the 6.94 percent MRP that

[5] *See* Ex.132 at internal exhibit _(AEB-4), p. 3.
[6] *See* Ex. 402 at 30.
[7] *See* Ex. 304 at 19.

BCP used to produce their respective CAPM and ECAPM based ROE estimates. (*See* Ex. 132 at AEB-4; Ex. 304 at 20; Ex. 402 at 30.) Southwest Gas's higher MRP estimates result in its CAPM and ECAPM ROE estimates being considerably higher than Staff's and BCP's estimates, despite Southwest Gas using a lower risk fee rate, thus skewing higher the average ROE estimate results of Southwest Gas alone, and of all the parties when considered together.

31. In contrast to Southwest Gas's significantly higher CAPM and ECAPM ROE estimates, Southwest Gas's DCF-based estimates included on Table 2 above are consistent with Staff's and BCP's DCF-based ROE estimates.

32. In this docket, the Commission finds Staff's ROE recommendations to be the most supported. The Commission adopts an ROE of 9.50 percent based on Staff's ROE estimation and range of reasonableness, including its constant-growth and three-stage DCF model, CAPM, ECAPM, and an allowed ROE/bond yield analysis, the results of which are as follows:

Table 4[8]

Method	Average	Range
DCF (Constant Growth & Three Stage)	9.29%	7.29%-10.58%
CAPM & ECAPM	9.07%	8.86%-9.29%
Allowed ROE/Bond Yield	10.12%	
Average (All Models)	9.50%	7.29%-10.58%
Staff Recommended ROE	**9.30%**	**9.10%-9.80%**

[8] Ex. 304 at 3.

33. The Commission finds that the average ROEs granted by state regulators in the first half of 2026 of 9.49 percent noted by Southwest Gas falls within Staff's and BCP's ROE model ranges, while falling well outside of Southwest Gas's recommended range of reasonableness of 10.25 percent to 11.25 percent. (Ex. 132 at 4, AEB-7 at p. 4.) While BCP's recommendation of 9.35 percent fell within the Commission's adopted range of reasonableness, the Commission finds that an ROE of 9.50 percent based on Staff's recommendation to be most reflective of current market conditions.

34. The Commission agrees with BCP and finds that Southwest Gas's recommended ROE was based upon models that produced inflated results. In doing so, the Commission finds that Southwest Gas's ROE analysis resulted in inflated CAPM and ECAPM results. The Commission agrees with Staff's analysis that Southwest Gas's CAPM models relied on overstated MRPs. Specifically, Southwest Gas's prospective MRPs of 8.39 percent to 8.68 percent are overinflated compared to the historical MRP, and the survey results shown in the publications reviewed by Staff, which used an MRP of 5.27 percent based on its analysis, making Southwest Gas's prospective MRPs almost 312 to 341 basis points higher, as noted above, and inflating its ROE analysis and estimate. (*See* Ex. 132 at AEB-4; *see also* Ex. 304 at 20.)

35. While not precedential, in Southwest Gas's three prior GRCs, Docket Nos. 18-05031, 20-02023, and 23-09012, Southwest Gas used MRPs that were higher than Staff's and other published estimates, which the Commission found to be significantly above historical or published data and inadequately supported by Southwest Gas. The Commission further found that the MRPs resulting from Southwest Gas's method significantly overstated the ROE in its CAPM and ECAPM models and rejected the overstatement of the MRP in its CAPM and ECAPM analysis. The Commission finds that, in the instant proceeding, Southwest Gas used

similar methods and offered no additional support or evidence to justify its use of significantly higher MRPs. Accordingly, the Commission continues to be unpersuaded by Southwest Gas's CAPM and ECAPM models.

36. The Commission notes that Southwest Gas's ROE of 9.50 percent approved by the Commission in its 2023 GRC in Docket No. 23-09012 did not adversely affect Southwest Gas's credit ratings. Moreover, Fitch Ratings found the outcome of the 2023 Nevada GRC favorable. (*See* Ex. 304 at 5.) Additionally, Standard and Poor's upgraded Southwest Gas's credit rating to BBB+ from BBB in September 2025 to reflect the sale of its non-regulated Centuri Holdings, and accordingly, the improvement of Southwest Gas's business risk profile to "excellent." (*Id.*) Finally, Southwest Gas's credit ratings from Moody's and Fitch were maintained at Baa1 and BBB+, respectively. (*Id.*) Accordingly, the Commission finds that an ROE of 9.50 percent produces a balanced outcome within its adopted range of reasonableness, that similarly reflects current market conditions, and maintains Southwest Gas's current ROE, which is at a level recently found to be favorable by credit rating agencies.

37. For all the reasons stated above and consistent with the substantial evidence provided in this docket, the Commission finds that an ROE of 9.50 percent continues to balance the interests of ratepayers and shareholders and results in just and reasonable rates. The Commission further finds that, based upon the evidence, an ROE of 9.50 percent is commensurate with returns on investments in other enterprises having similar corresponding risks and is sufficient to assure both confidence in the financial integrity of the enterprise and for Southwest Gas to attract capital.

V. REVENUE REQUIREMENT

A. Directors and Officers Insurance

Southwest Gas's Position

38. Southwest Gas states that the Directors and Officers ("D&O") Liability Insurance was included in its most recent GRC statements in Docket No. 23-09012 and therefore Southwest Gas presents the item again. (Ex. 192 at 19.) Docket No. 23-09012 was settled and therefore this issue was not specifically addressed by the Commission. Southwest Gas argues that D&O insurance covers the Board of Directors ("Board") and Officers of Southwest Gas against lawsuits alleging breach of fiduciary duty and is provided so that executives can serve confidently without fear of personal financial loss. (Ex. 174 at 42.)

BCP's Position

39. BCP recommends that the Commission implement a 50/50 sharing allocation for D&O liability insurance charges between ratepayers and shareholders, which totals an expense disallowance of $192,648 in SND and $34,533 in NND and rate base disallowances of $112,527 for SND and $20,171for NND. (Ex. 407 at 3.) BCP argues that in the last litigated GRC in Docket No. 20-02023, the Commission split D&O insurance premiums 50/50 between ratepayers and shareholders. (Ex. 407 at 205.)

Staff's Position

40. Staff recommends that the Commission accepts Staff's adjustments to split the D&O liability insurance premiums 50/50 between ratepayers and shareholders. (Ex. 311 at 3.) This results in revenue requirement reduction of approximately $192,648 for Southern Nevada and $34,533 for Northern Nevada, and a rate base reduction of approximately $112,527 for Southern Nevada and $20,171 for Northern Nevada. (*Id.*)

41. Staff states that a 50/50 cost split is appropriate because both ratepayers and shareholders benefit from the D&O insurance. (*Id.* at 4.) Staff explains that the insurance protects directors, officers, and the company from liability, helping to attract and maintain qualified personnel which in turn benefits customers by ensuring the utility can provide safe, reliable service. (*Id.*)

42. Staff further argues that its recommendation is consistent with Staff's recommendations in Southwest Gas's last five GRCs (docket numbers 09-04003, 12-04005, 18-05031, 20-02023, and 21-09001). (*Id.* at 4.) Staff states that in all four contested GRCs the Commission agreed with Staff and approved Staff's recommended split. (*Id.*)

Southwest Gas's Rebuttal Position

43. Southwest Gas argues that D&O liability insurance is a reasonable and necessary cost of operating a publicly traded utility. (Ex. 194 at 7.) Southwest Gas states that the coverage protects its ability to attract and retain qualified directors and officers and that without the coverage the company could face increased costs or difficulty obtaining qualified leadership, which would be detrimental for both customers and shareholders. (*Id.*)

44. Southwest Gas states that D&O insurance is a standard component of risk management for publicly traded companies and regulated utilities and that it is normal cost of conducting business. (*Id.* at 8.)

45. Southwest Gas argues that D&O is a customary and necessary business expense incurred to support the operation and governance of the utility. (*Id.*)

Commission Discussion and Findings

46. The Commission accepts the proposed adjustment by Staff and BCP to allocate D&O liability insurance premiums 50/50 between ratepayers and shareholders because both

ultimately benefit from the insurance policies. The insurance provides assurances to directors and officers personally and protects the company itself from liability while ensuring that the company can maintain safe and reliable service for its customers.

47. Moreover, the 50/50 split is consistent with the Commission's finding in the 2018 and 2020 GRC Orders. The Commission agrees with Staff that Southwest Gas presents no new or compelling evidence to support that shareholders should not be allocated 50 percent of the costs. Southwest Gas's rebuttal arguments for rejecting the 50/50 allocation of D&O liability insurance premiums have been repeatedly considered and rejected by the Commission in prior electric, gas and water GRC proceedings. The Commission finds the 50/50 split reasonable, which reduces the revenue requirement of SND and NND by $192,648 and $34,533, respectively, and reduces rate base by $112,527 and $20,171 for SND and NND, respectively.

B. Uncollectible Expense

Southwest Gas's Position

48. Southwest Gas states that it utilized a two-year historic average rate of uncollectible expense to smooth out fluctuations or abnormal conditions experienced during the test year. (Ex. 184 at 4.) Southwest Gas states that this adjustment uses the average net write-off percentage for the two years ending on November 30, 2024, and 2025. (*Id.*) Southwest Gas states that this average write-off percentage was applied to test year margin at present rates to determine the normalized uncollectible expense for this case. (*Id.*)

Staff's Position

49. Staff recommends that the Commission normalize the uncollectible expense, excluding gas costs, by utilizing a ten-year average net write-off percentage rather than a two-year average. (Ex. 311 at 9.)

50. Staff states that the uncollectible expense recovery request by Southwest Gas in the instant docket is $5.7 million for SND, based on a 2-year average net write off percentage experience rate of 1.5585 percent, and $468 thousand for NND, based on a 2-year average net write off percentage experience rate of 0.8129 percent. (*Id.* at 10.)

51. Staff states that it believes that the normalized uncollectible expense reflected in the application should be adjusted by utilizing a ten-year average net write-off percentage rather than Southwest Gas's proposed two-year average net write-off percentage. (*Id.* at 11.)

52. Staff states that the recommendation results in a revenue requirement reduction of approximately $2,234,183 and $162,816 for SND and NND, respectively. (*Id.*)

53. Staff states that Southwest Gas's other operating divisions have uncollectible expense rates as a percentage of revenue of 0.5152 percent in Arizona, 0.5865 percent in Southern California, and 0.2128 percent in Northern California. (*Id.* at 15.) Staff provides that Southwest Gas's uncollectible expense rates in Nevada are materially higher than its uncollectible expense rates in Arizona and California. (*Id.*)

54. Staff also states that Nevada Power Company's ("Nevada Power") electric utility operation in SND has an uncollectible expense rate as a percentage of revenue of 0.5941 percent, Sierra Pacific Power Company's ("Sierra," and, together with Nevada Power, "NV Energy") electric utility operation in Northern Nevada has an uncollectible expense rate of 0.1884 percent, and Sierra's gas utility operation in Northern Nevada has an uncollectible expense rate of 0.1904 percent. (*Id.* at 16.) Staff argues that Southwest Gas's uncollectible expense rates are materially higher compared to other Nevada utilities. (*Id.* at 16-17.)

55. Staff states that the Nevada Franchise Tax, which Southwest Gas has historically included in net write-offs, should also be excluded from net write-off expense because the tax is

a pass-through tax. (*Id.* at 29.) Staff explains that when a customer pays the franchise tax, that portion is remitted to the State of Nevada and that if a customer does not pay the franchise tax, Southwest Gas has no corresponding tax obligation. (*Id.*)

56. Staff recommends that the Commission order Southwest Gas to develop, implement, and provide to Staff an updated written policy regarding its termination policies and procedures within 90 days of a final order in this docket. (*Id.* at 9.)

Southwest Gas's Rebuttal Position

57. Southwest Gas opposes Staff's proposed use of a 10-year average for uncollectible expense because factoring in only the most recent experience is a better indicator of the conditions expected when rates are in effect. (Ex. 194 at 3.) Southwest Gas explains that its proposed two-year average methodology is more representative of the conditions expected to exist when rates from this case are in effect. (*Id.* at 4.)

58. Southwest Gas agrees that, on a prospective basis, Nevada franchise taxes should be excluded from net write-offs used in future uncollectible expense normalization calculations. (*Id.* at 6.) Southwest Gas argues that excluding franchise taxes from future net write-off calculations is reasonable and would further refine the calculation of uncollectible expense. (*Id.*)

59. Southwest Gas disagrees with Staff's allegations of Southwest Gas's inconsistent application of its policies and procedures regarding uncollectible expenses and intentional collection delays. (Ex. 195 at 4-5.) Southwest Gas states that it has not identified any inconsistencies with its application of its Nevada Gas Tariff No. 7 or procedures. (*Id.*)

60. Southwest Gas disagrees with Staff's assertion that the company has a reduced incentive to collect bad debt and put an undue burden on its customers who make timely payments. (*Id.* at 10.) Southwest Gas states that it has implemented multiple collection strategies

designed to prevent past-due balances from becoming write-offs and recognizes potential burdens of uncollected customer bills recovered from paying customers. (*Id.*)

61. Southwest Gas disagrees with Staff's recommendation that the Commission order Southwest Gas to develop, implement, and provide to Staff an updated written policy regarding its termination policies and procedures within 90 days of a final order in this docket. (*Id.* at 12.) Southwest Gas argues that its current policies effectively capture termination policies and procedures; therefore, Southwest Gas does not believe it needs to develop any additional policies. (*Id.*) Southwest Gas further disagrees that a review of existing policies and procedures would be beneficial. (*Id.*)

62. Southwest Gas proposes that it continue collection and write-off initiatives currently underway with additional efforts to focus on the review of its policies and procedures alignment with its tariff to assess any inconsistencies. (*Id.* at 14.) Southwest Gas also proposes to provide its assessment, identified areas of improvement, and a potential implementation plan to enhance collection and write-off policies and procedures to Staff within 120 days of the issued order in this docket. (*Id.*)

Commission Discussion and Findings

63. The Commission finds the uncollectible expense amount determined by Southwest Gas's 2-year average net write off percentage, proposed for recovery from customers in the instant docket, to be unjust and unreasonable based on the evidentiary record. Here, the Commission finds that the matter at issue is Southwest Gas's uncollectible expense experience rate and management of uncollectible cost, and not the normalization period used to determine the amount of uncollectible expense included in rates charged to customers.

64. Southwest Gas's SND uncollectible expense experience rate requested in this case is 1.5585 percent. That amount is contrasted with Southwest Gas's comparable uncollectible expense experience rates in Arizona and Southern California, and NV Energy's Nevada Power Company Electric operations in Southern Nevada, which average 0.5653 percent. The average 0.5653 percent represents rates that are consistent across other jurisdictions and utility service types.

65. Southwest Gas's NND's uncollectible expense experience rate requested in this case is 0.8129 percent. That amount is contrasted with the comparable uncollectible expense experience rates among Southwest Gas's Northern California Division and Sierra's Northern Nevada gas and electric operations average 0.1972 percent. The average 0.1972 percent represents rates that are consistent across other jurisdictions and utility service types.

66. Southwest Gas's pre-Covid-19 Pandemic net uncollectible expense experience rates included in Docket No. 20-02023 for Southwest Gas's SND and NND were 0.5353 percent and 0.2313 percent, respectively. These are also in line with the net uncollectible expense experience rates for Southwest Gas's Arizona and California divisions, and NV Energy's Electric & Gas operations in Nevada, as outlined above. (*See* Ex. 311 at 14.) To the extent Southwest Gas and NV Energy experienced adverse impacts to uncollectable expense due to Covid-19 Pandemic-related customer disconnect moratoria, those issues appear to be resolved, except for Southwest Gas's Nevada divisions. As such, the Commission finds that as of October 2026, Covid-19 Pandemic-related emergency orders associated with utility customer disconnections are not a reasonable or compelling explanation for the inability to manage utility customer uncollectible expenses.

67. Based on the comparable net write-off percentage experience rates for Southwest Gas's Arizona and California divisions, and of Nevada's other operating utilities, the Commission finds that Southwest Gas's management of uncollectible expense, and the level of its recovery request for uncollectible expense in the instant docket, are unreasonable, and the approval of which would result in unjust and unreasonable rates being charged to customers.

68. The Commission finds Southwest Gas's Nevada net uncollectible expense experience rates concerning given that Southwest Gas's California and Arizona divisions demonstrate customer delinquency and uncollectible expense management which results in more reasonable net write-off percentage rates for its Arizona and California divisions.

69. Accordingly, based on the above and the evidence in the record, the Commission adjusts the 2-year average net write off percentage experience rates in the instant docket of 1.5585 percent for Southwest Gas's SND and 0.8129 percent for Southwest Gas's NND, to 0.5653 percent and 0.1972 percent, respectively, for purposes of determining the amount of uncollectible expense included in rates charged to customers.

70. The 0.5653 percent and 0.1972 percent net uncollectible expense rates approved by the Commission for SND and NND represent the comparable average net uncollectible expense rates for Southwest Gas's Arizona and California divisions and Nevada's other operating utilities as discussed above. The Commission finds that these comparable uncollectible expense experience rates are a reasonable and objective standard for evaluating Southwest Gas's net uncollectible expense management and request for uncollectible expense cost recovery in the instant docket. Adjusting Southwest Gas's proposed 2-year average net write off percentage experience rates in the instant docket to 0.5653 percent for SND and 0.1972 percent for NND

results in a revenue requirement reduction of approximately $3.6 million for SND and $355 thousand for NND.

71. As a compliance, the Commission directs Southwest Gas to file in this docket within 120 days of the Order issued in this docket the results of its proposed review and assessment of customer delinquency policies and procedures, inclusive of termination, write-off and bad debt recovery, for efficiency, effectiveness and alignment with its tariff. (*See* Ex. 195 at 12-14.) The results of this review should include specific identified areas for improving its credit and collection net uncollectible expense outcomes and an implementation plan for executing identified net uncollectible expense enhancement opportunities.

72. Finally, the Commission finds that Nevada franchise taxes should be excluded from the uncollectible expense calculation prospectively because it is a pass-through tax wherein, to the extent a customer does not pay it, Southwest Gas bears no additional corresponding tax liability.

C. Board of Directors Charges

Southwest Gas's Position

73. Southwest Gas states that it compensates the members of its independent board (the "Board") at the holding company level. (Ex. 174 at 40.) Southwest Gas states that this compensation is intended to recruit and retain highly qualified directors while emphasizing the importance of these roles as a representation of Southwest Gas's attitudes towards corporate governance. (*Id.*) Southwest Gas states that the Compensation Committee is responsible for periodically reviewing the compensation of the independent directors and recommends changes to the Board where appropriate. (*Id.* at 41.) Southwest Gas states that in August 2024 the Compensation Committee's compensation consultant, AON, completed a review of the directors' compensation and assessed the level of director compensation relative to Southwest Gas's peer

group of companies. (*Id.*) Southwest Gas states that AON's assessment recommended an increase to the annual retainer, a chair retainer, and an increase to the annual equity grant. (*Id.)*

74. Southwest Gas states that the Board's compensation expenses allocated to Southwest Gas are reasonable, prudently incurred, and appropriate for inclusion in the rates authorized in this case. (*Id.*) Southwest Gas states that the Securities Exchange Commission ("SEC") requires Southwest Gas Holdings, as a publicly traded company, to have the Board comprised of mostly independent members. (*Id.*) Southwest Gas states that its Board provides guidance and oversight to ensure that Southwest Gas provides safe and reliable service to its customers, prudently manages its operations, and invest in necessary infrastructure, which helps facilitate Southwest Gas's ability to access capital markets at reasonable rates. (*Id.*) Southwest Gas states that it reviewed its Board compensation to ensure that it is set at levels that are reasonable compared to the market. (*Id.*)

BCP's Position

75. BCP recommends that the Commission implement a 50/50 cost sharing allocation of Board charges between customers and shareholders. (Ex. 407 at 2.) Moreover, BCP recommends that the Commission disallow 100 percent of Board charges that are undocumented, un-itemized, excessive, or unreasonable. (*Id.*) Finally, BCP recommends that the Commission disallow 100 percent of Board restricted stock-based compensation units ("RSU"). (*Id.* at 3.)

Staff's Position

76. Staff recommends that the Commission disallow 100 percent of the Board's life insurance included in the revenue requirements and disallow 50 percent of the remaining revenue requirement for the Board's compensation and related expenses. (Ex. 308 at 2.)

Southwest Gas's Rebuttal Position

77. In response to BCP's recommendations, Southwest Gas states that it provided line-item detail for all test year Board charges for full transparency. (Ex. 191 at 14.) Southwest Gas further states that it did not provide intact expense reports in this GRC because of complaints of confusion in prior GRCs because intact expense reports included charges for which Southwest Gas was not seeking recovery. (*Id.*)

78. Southwest Gas disagrees with Staff's proposal to disallow 100 percent of Board life insurance costs because the expenses are miniscule and help attract qualified board members. (Ex. 183 at 16-17.)

79. Southwest Gas accepts Staff proposal that remaining Board compensation and other costs continue to be shared equally between customers and shareholders. (*Id.* at 17.)

80. Southwest Gas argues that RSUs are time-vested and not tied to any financial performance measure. (Ex. 183 at 15.) Southwest Gas argues further that the purpose of these payments is as part of a pay package designed to retain talent over a multi-year vesting period, not to reward shareholder outcomes. (*Id.*)

Commission Discussion and Findings

81. The Commission finds that Board compensation and other costs should continue to be shared equally between customers and shareholders because both Southwest Gas ratepayers and shareholders currently benefit from qualified independent Board oversight and the equal division of costs reflects this balance. The Commission finds that the reductions to the recorded Board compensation and other costs made by Southwest Gas reasonable and declines to adopt the additional adjustments to Board costs proposed by Staff and BCP.

D. Investor Relations ("IR") Charges

Southwest Gas's Position

82. Southwest Gas states that IR functions to communicate accurate, timely, and transparent information about its financial conditions, operations, strategy, and risk profile to its Board and to debt and equity capital markets participants, including shareholders, bondholders, credits rating agencies and financial analysts. (Ex. 123 at 32.) Southwest Gas states that IR serves as a critical link between it and the capital markets that provides the financing necessary to build, maintain, and safely operate its infrastructure. (*Id.*) Southwest Gas argues that IR is necessary for the provision of providing service to its customers because effective IR helps the company secure financing at lower interest rates, more favorable terms, and a lower overall cost of capital. (*Id.*)

BCP's Position

83. BCP recommends that the Commission implement a 50/50 sharing allocation for IR costs between ratepayers and shareholders. (Ex. 407 at 2.) BCP further recommends a 100 percent disallowance of IR charges that were undocumented, un-itemized, where receipt affidavits were not supplied, and for costs associated with Southwest Gas's Hold Co.'s Annual SEC 10-K financial disclosures. (*Id.*) BCP states that this amounts to disallowances of $123,318 for SND and $22,098 for NND. (*Id.*)

Southwest Gas's Rebuttal Position

84. Southwest Gas disagrees with BCP's recommendation for 50 percent sharing allocation of its IR charges and argues that IR are fundamental to Southwest Gas's operations. (Ex. 128 at 4.) Southwest Gas states that BCP neither identifies a methodology demonstrating why 50 percent is the appropriate allocation factor nor quantifies the relative benefits received by ratepayers and shareholders. (*Id.*) Southwest Gas argues that BCP's recommendation assumes

that, because certain activities involve communication with investors or capital market participants, half of the costs should automatically be borne by shareholders. (*Id.*)

85. Southwest Gas states that investor confidence and market valuation affect its ability to attract capital needed to finance utility infrastructure and maintain financial flexibility. (*Id.* at 5.) Southwest Gas further states that IR activities support its ability to obtain the capital necessary to fund utility infrastructure and maintain reliable service. (*Id.* at 6.) Southwest Gas argues that without continued access to those sources of capital, Southwest Gas would be unable to finance the utility infrastructure necessary to safely and reliably serve customers. (*Id.*)

86. Southwest Gas states that it regularly requires access to capital markets, investor confidence supports access to capital, access to capital supports Southwest's capital expenditures including the construction of utility infrastructure, and investment in utility infrastructure supports Southwest Gas's objective of providing safe and reliable service to Nevada ratepayers. (*Id.* at 6-7.)

87. Southwest Gas states that BCP already removed all non-travel meals and those requests are therefore duplicative. (Ex. 191 at 20.) Southwest Gas states that it is overly punitive to deny recovery for charges under $50 that do not have a detailed receipt when it requested recovery of up to $30 per meal per attendee – an amount below the GSA rate for per diems. (*Id.* at 20-21.) Southwest Gas explains states that the $30 per person limitation that it requests applies to food, and that if there was alcohol on a receipt that was not already charged below-the-line and would still have been included after the $30 per person limitation was applied, it removed that additional amount. (*Id.* at 21.)

88. Southwest Gas states that in Docket No. 15-10008, its application to reorganize the company into a holding company structure, the Commission prohibited Southwest Gas from

recovering costs: (1) to secure necessary approvals for the reorganization into a holding company; or (2) that shifted from the non-regulated affiliates to the regulated affiliates. (*Id.* at 22.) Southwest Gas explains that neither prohibition is applicable here, as the company had to file 10-Ks prior to the formation of Southwest Gas Holdings, Inc. ("Hold Co."), making it a non-incremental cost eligible for recovery. (*Id.*)

Commission Discussion and Findings

89. The Commission rejects BCP's proposed adjustment to allocate 50 percent of IR charges to shareholders because it lacks a sufficient justification to justify the split. Specifically, the Commission finds that Southwest Gas's IR activities support access to the debt and equity capital necessary to fund the utility infrastructure investments required to provide safe reliable service, which predominantly benefits customers. Therefore, those expenses are appropriate for recovery in rates.

90. The Commission also rejects BCP's recommendation to disallow 100 percent of certain identified IR costs, including disallowances for specific undocumented charges, un-itemized receipts, ambiguities regarding the cost recovery of certain receipts containing alcohol, missing receipt affidavits, and a proposed disallowance related to Donnelley Financial SEC 10-K charges for Southwest Gas's holding company. The Commission finds that those expenditures were either duplicative of items already removed from recovery, substantially provided on rebuttal (*See* Ex. 191 at RLC-1.), fell under a reasonable per diem policy below the prevailing GSA rate, were subject to internal controls and safeguards that prevented the inclusion of alcohol from ratepayer recovery, or were prudently incurred, non-incremental costs that were not intended to be prohibited by the Commission as a condition of Southwest Gas's restructure in Docket No. 15-10008.

E. Hold Co. Charges

Southwest Gas's Position

91. Southwest Gas states that its parent company, Hold Co., contributed capital to Southwest Gas in the form of equity to support and maintain its strong investment grade credit ratings. (Ex. 123 at 19.) Southwest Gas states it is committed to maintaining an appropriate capital structure to support its strong investment grade credit ratings and that this commitment has been shown by Hold Co.'s willingness to continue to contribute capital in the form of equity to finance its investment in utility plant and maintain its capital structure. (*Id.*)

BCP's Position

92. BCP recommends that the Commission implement 50/50 cost sharing allocation of Hold Co. charges between customers and shareholders. (Ex. 407 at 2.) BCP further recommends that the Commission disallow 100 percent of Hold Co. charges that were undocumented, associated with Centuri Holdings Inc. financial disclosures, or Hold Co. financial disclosures for SEC filings. (*Id.*)

Southwest Gas's Rebuttal Position

93. Southwest Gas states that corrections were made in its second supplemental response to data request BCP-05-001 to remove six IR transactions inadvertently included on both Ex.187 at RLC-2 and DR BCP-05-001. (Ex. 191 at 23.) Southwest Gas states further that the remaining transactions provided in response to data request BCP-05-001 are not IR-related. (*Id.*) Southwest Gas argues that the Commission should allow recovery of the expenses associated with the remaining Hold Co. transactions. (*Id.*)

94. Southwest Gas states that it removed all Donnelley Financial costs associated with the Centuri transaction. (*Id.*) Moreover, Southwest Gas states that it provided missing receipts in its second supplemental response to data request BCP-05-001. (*Id.* at 24-25.)

Commission Discussion and Findings

95. The Commission rejects BCP's proposed 50/50 allocation of Hold Co. charges between customers and shareholders. Southwest Gas's Hold Co. costs were provided in Statement N of the certification filing in Southwest Gas's prior GRC, Docket No. 23-09012. BCP provides no compelling or reasonable evidence in the instant docket for its proposed 50/50 allocation. Moreover, as discussed above, the Commission already rejected BCP's proposed 100 percent disallowance of Donnelley Financial SEC 8-K and 10-K charges. The Commission rejects the balance of BCP's recommendation because Southwest Gas already removed all Donnelley Financial costs associated with the Centuri transaction.

F. System Allocable Legal and Consulting Fees

BCP's Position

96. BCP recommends that the Commission implement a 100 percent disallowance of system-allocable legal fees for Jackson Lewis in the amount of $446,663 as Southwest Gas has not provided evidentiary support required to justify ratepayer recovery. (Ex. 407 at 3, 27.)

97. BCP further recommends that the Commission implement 100 percent disallowance of system allocable consulting fees for Michael Stranik Consulting resulting in $363,645 disallowance. (*Id.* at 3.)

Southwest Gas's Rebuttal Position

98. Southwest Gas agrees to adjust amounts charged to Jackson Lewis P.C. that were related to other jurisdictions. (Ex. 191 at 10-11.) Southwest Gas states that it continues to request recovery for the remaining $58,727, before allocation to Nevada, because these amounts relate to system allocable employee visas. (*Id.* at 11.)

99. Southwest Gas states that it will not seek recovery of costs from Michael Stranik Consulting based on its determination that these costs are non-recurring. (*Id.* at 11-12.)

Commission Discussion and Findings

100. The Commission rejects BCP's recommendations to disallow certain legal and consulting costs as largely moot. Specifically, on its own accord, Southwest Gas removed most of the Jackson Lewis P.C.-related legal expenses for other jurisdictions, which substantially addressed the Commission's concerns raised by BCP. However, the Commission approves recovery of the remaining $58,727 in system allocable employee visa costs. The Commission finds that the employee visa costs in this case are a reasonable employee expense to engage a qualified workforce to the benefit of Southwest Gas ratepayers. The Commission further finds that BCP's recommendation to disallow costs associated with Michael Stranik Consulting is also moot because, in response to the recommendation, Southwest Gas voluntarily withdrew those expenses from recovery on the basis that they are non-recurring.

G. Cash Working Capital ("CWC")

Southwest Gas's Position

101. Southwest Gas explains that it provides a summary of its rate base components for its SND and NND in Statement G of its filing (Ex. 192 at 8; Ex. 101 at 37.) Southwest Gas provides that one such component is its lead-lag study, which compares the differences between its revenue lag and its expense leads. (Ex. 192 at 11.)

Staff's Position

102. Staff states that a lead-lag study is used to calculate a utility's CWC, which constitutes the level of day-to-day funding needed by the utility to operate, including Operations and Maintenance expenses, taxes, and interest expenses. (Ex. 314 at 2.) Staff recommends that Southwest Gas's calculation of CWC be adjusted to remove all non-cash expense categories, including "Pension Costs Charged to O&M," "Prepayments Amortized to O&M," and an

"Uncollectibles Expense," which results in a reduction of CWC of approximately $1.5 million for its SND and $0.3 million for its NND. (*Id.* at 2-3)

103. Staff contends that amortization of prepayments is not a cash expense and instead represents an accounting entry to account for the passage of time over which a one-time payment is recognized as an expense. (*Id.* at 3.) Similarly, Staff argues that pension costs charged to O&M are not cash expenses; rather, they represent the amount recognized in expense under generally accepted accounting principles. (*Id.*) Staff explains that the 13-month average of the associated asset accounts for Pension Costs and Expense Prepayments are already included in rate base in the "Other Working Cash Required" sections of G-5, and on the Deficiency Statements, and are therefore earning a rate of return. (*Id.* at 4.) Staff provides that the inclusion of these related expenses in the CWC for operating expenses also earns a rate of return resulting in double counting the figures. (*Id.*)

104. Additionally, Staff provides that the uncollectable expense represents a write-down of an accounts receivable balance and is more accurately characterized as a reduction in revenue instead of an expense because cash on hand is intended to pay expenses as they become due. (*Id.*) Staff states that while it may be appropriate to include some level of uncollectible expense in the revenue requirement, enabling a utility to receive a rate of return on the bad debt of customers, paid for in rates by other customers, is unreasonable. (*Id.* at 4-5.) Moreover, Staff states that other utilities that include CWC calculations in filings with the Commission exclude the non-cash expense items noted by Staff in their CWC calculations. (Tr. at 72-73)

Southwest Gas's Rebuttal Position

105. Southwest Gas disagrees with Staff's proposal, stating that its treatment of these items in its lead-lag study has been consistent for more than 50 years. (Ex. 194 at 8.)

106. Southwest Gas argues that Staff has not explained how the inclusion of prepayments amortized to O&M and pension costs charged to O&M with zero lag days now is improper or why decades of prior practice now are inapplicable. (*Id.* at 8-9.)

107. Southwest Gas further argues that prepaid items with accrual-based expense recognition require up-front payments. (*Id.* at 9.) Southwest Gas explains that the 13-month average balance of the prepaid assets is included in rate base, and the amortization expense is included in the lead lag study with zero lag days. (*Id.*) Southwest Gas states that the alternative would be to remove the prepaid balance and assign lag days for period between the pre-payment and midpoint of the service period, but it would produce substantially the same ratemaking result. (*Id.* at 9-11.)

Commission Discussion and Findings

108. As a preliminary matter, the Commission notes that Southwest Gas primarily criticizes Staff's recommendation to remove certain categories of items out of its CWC calculation because Southwest Gas has enjoyed the inclusion of those items in its CWC calculation for 50 years and Staff did not address why it now deems it improper. The Commission notes that while past practices can help informed reasoned decision-making, the Commission is not bound by *stare decisis.*[9]

109. NAC 704.583(4)(b) defines CWC as "the amount of money that the shareholders or investors of the utility have provided to enable the utility to pay current operating expenses of the utility between the time when the expenses of rendering utility service are paid and the time when revenues for that service are collected from the customers of the utility."

[9] We reject this argument because "administrative agencies are not bound by stare decisis." *State, Dep't of Taxation v. Chrysler Grp. LLC*, 129 Nev. 274, 280, 300 P.3d 713, 717 (2013); citing *Motor Cargo v. Public Service Comm'n*, 108 Nev. 335, 337, 830 P.2d 1328, 1330 (1992); see also *Desert Irrigation, Ltd. v. State of Nevada*, 113 Nev. 1049, 1058, 944 P.2d 835, 841 (1997) ("[N]o binding effect is given to prior administrative determinations.").

110. The Commission finds and agrees with staff that pension costs, prepayment amortizations, and uncollectible expense are non-cash in nature and should be excluded from the CWC lead-lag study. Specifically, the Commission finds that amortization of prepayments is not a cash expense because they are more accurately characterized as an accounting entry that factors the passage of time over which a one-time payment is recognized as an expense. The Commission finds this distinguishable and distinct from an operating expense due from the rendering of a utility service prior to revenues for that service is collected from customers contemplated by NAC 704.583(4)(b).

111. Similarly, the Commission finds and agrees with Staff that pension costs charged to O&M are not appropriate cash expenses under NAC 704.583(4)(b) because they represent the amount recognized in expense under generally accepted accounting principles as opposed to an actual operating expense due from the rendering of a utility service prior to revenues for that service being collected from customers.

112. Based on the arguments raised by Staff in this proceeding, the Commission finds and agrees with Staff that Southwest Gas did not meet its burden to demonstrate that uncollectible expense should be included in CWC. The Commission is persuaded that, under the arguments made in this proceeding, it is more appropriately considered a reduction in revenue than an expense actually incurred and due for utility service prior to receiving payment from a customer for that service. The Commission is further persuaded by the unrebutted position that other utilities that include CWC calculations before the Commission exclude such items.

113. Given the above, the Commission finds that the aforementioned items are non-cash in nature and should be excluded from the CWC lead-lag study. Accordingly, the Commission adjusts Southwest Gas's CWC calculation to exclude those items, resulting in a

revenue reduction of approximately $1.5 million and $0.3 million for the SND and NND, respectively.

H. Continuation of Regulatory Accounting Treatment for Line Location Activity

Southwest Gas's Position

114. Southwest Gas states that in Docket No. 25-01017 it received approval to establish regulatory-accounting treatment for line locate activity expenses. (Ex. 120 at 29-31.) Southwest Gas requests the continuation of such regulatory-accounting treatment. (*Id.* at 29.)

Staff's Position

115. Staff recommends that the Commission deny Southwest Gas's request for continuation of regulatory accounting treatment for line location activity that records variances above or below the level of expense reflected in its base rates and instead order these costs to be recovered as O&M in the ordinary course of business. (Ex. 312 at 1-2.)

116. Staff states that Southwest Gas requested a regulatory asset which would allow it to establish Damage Prevention Cost Tracking Mechanism ("DPCTM") to recover from or return to customers any difference in the expense of line locate activity-related costs relative to the level currently established in base rates in Southwest Gas's most recent GRC. (Ex. 312 at 2.) Staff states that line locator activity has since leveled off and that Southwest Gas has shifted to in-house labor for this activity. (*Id.* at 3.) Staff argues that these costs are more appropriately recovered as O&M expenses in the ordinary course of business. (*Id.*)

Southwest Gas's Rebuttal Position

117. Southwest Gas disagrees with Staff and states that NND has not experienced a leveling-off trend in excavation activity. (Ex. 141 at 3.)

118. Southwest Gas states that quality performance metric must be met to recover incremental costs in the regulatory asset and that simply relying on recent months of excavation

ticket volume at a point in time does not justify eliminating the regulatory accounting treatment. (*Id.*) Moreover, Southwest Gas states that Staff's recommendation is based off a comparison of a few months' of 2026 activity relative to 2025. (Ex. 122 at 18.) Southwest Gas provides that March year-to-date volumes for 2026 of 53,000 compared to totals for same period in 2022 to 2024 shows variability and supports continuation of regulatory asset. (*Id.*)

119. Southwest Gas states that the regulatory asset does not include carry charges and refunds any over collected amounts to customers. (*Id.* at 19.) Southwest Gas argues that it is premature and inappropriate to conclude line locate activity or any other item can be addressed through an alternative ratemaking filing prior to regulations being completed and approved by the Commission. (*Id.*)

Commission Discussion and Findings

120. The Commission finds Southwest Gas's request to continue regulatory-accounting treatment for line locate activity expenses reasonable and approves continuation of regulatory accounting treatment for line location activity. The Commission finds that discontinuation is premature based on the January 2025 effective date of regulatory accounting treatment for line location activity. In addition, the evidence in this case demonstrates that volumes are fluctuating based on third party excavation activity. Finally, carry charges are to be excluded from the regulatory asset and any over collections are to be refunded to customers as noted by Southwest Gas.

I. Mesquite Regulatory Liability ("MRL")

Southwest Gas's Position

121. Southwest Gas states that, as part of the stipulation in Docket No. 24-11005, it agreed to create the MRL account and transfer any credit balance in the Mesquite regulatory asset account to it. (Ex. 120 at 7.) Southwest Gas states that it also agreed to record all Mesquite

Infrastructure Expansion Rate revenues to the MRL. (*Id.*) Southwest Gas states that it agreed to credit the balance of the MRL to its Southern Nevada Customers through rate design in its future GRCs filed after September 30, 2025. (*Id.*)

122. Southwest Gas states that the MRL is credited to all Southern Nevada customers, and thus Mesquite customers would also receive the credit. (*Id.* at 8.) However, Southwest Gas estimates that Mesquite customers would receive approximately $2,500 annually of the approximately $1.24 million annual credit. (*Id.*) Southwest Gas recommends that the credit from the MRL be incorporated into base rates for all customers in Southern Nevada, including the Mesquite customers, because of the negligible credit that Mesquite customers would otherwise receive. (*Id.* at 9.)

Staff's Position

123. Staff recommends that the Commission grant Southwest Gas's request. (Ex. 312 at 6.) Staff states that the MRL originated in Docket No. 24-11005 and addresses a credit balance in the Mesquite regulatory asset account resulting from inclusion of the Mesquite Expansion Project infrastructure in Southern Nevada base rates and associated Infrastructure Expansion Rates. (*Id.*) Staff states that it verified the requested amounts and concurs with a two-year amortization period. (*Id.* at 7.)

Commission Discussion and Findings

124. The Commission approves Southwest Gas's request to establish the MRL as proposed in the instant docket because Staff verified the amounts and treatment requested by Southwest Gas. Moreover, no party to this proceeding opposed its establishment.

J. Officer Salary Increases in Excess of Southwest Gas's Recommended Increases

Southwest Gas's Position

125. Southwest Gas states that it has four classifications of employees for compensation purposes. (Ex. 174 at 11-13.) Southwest Gas states that Officers are executive-level employees, consisting of those with the title of vice president. (*Id.* at 12.) Southwest Gas states that Officers have a compensation analysis that, historically, an outside executive compensation consulting firm has completed. (*Id.*) Southwest Gas states that, for 2026, Officers received a compensation increase of 4.77 percent.

Staff's Position

126. Staff recommends disallowing the portion of the revenue requirement related to the test year and the certification period that Southwest Gas's Officers' salary increases exceeded Southwest Gas's own recommended survey salary increases. (Ex. 308 at 3.) Staff states that Officers' 2025 salary increases averaged 4.29 percent and 2026 increases averaged 4.77 percent, both exceeding the survey-recommended increases of 3.80 percent (2025) and 3.60 percent (2026). (*Id.* at 7.) Staff states that Southwest Gas provided conflicting benchmarking data and failed to adequately support the higher increases. (*Id.* at 7-9.)

Southwest Gas's Rebuttal Position

127. Southwest Gas argues that the increases are reasonable, prudent, and supported by a complete peer-match analysis. (Ex. 183 at 6.) Southwest Gas further argues that Staff's recommendation references two distinct documents that serve different purposes and are not interchangeable. (*Id.* at 5-6.) Southwest Gas indicates that the lower salary numbers are based on a general market comparison without adjustments for individual position scope, responsibilities or peer-company matching. (*Id.*)

Commission Discussion and Findings

128. The Commission supports reasonable compensation to ensure a qualified workforce to provide safe and reliable service, including officer compensation. In doing so, the Commission relies on Staff's analysis and recommendations regarding employee compensation. As noted by Staff, Southwest Gas has sole discretion on setting salary compensation. However, Southwest Gas must also provide support to the Commission explaining why such amounts are reasonable and prudent for cost recovery from ratepayers (*See* Ex. 308 at 9.) In this case, Southwest Gas provided conflicting information in support of its request for officer salary increases. More specifically, Southwest Gas provided two market studies ("2025 Officer Review" and "2025 Non-NEO Analysis") as well as an internal 2025 salary budget proposal ("Southwest Gas's recommended salary increases"). To aid the Commission in evaluating the reasonableness of the 2025 and 2026 officer increases, Southwest Gas pointed the Commission to the 2025 Non-NEO analysis and yet failed to provide a reasonable explanation for giving more weight to any particular data point. Further, the underlying source documentation for the market survey was not provided to the Commission. In light of the inconsistent and otherwise insufficient weight of the evidence provided supporting the survey compensation increases, the Commission accepts Staff's recommendation and disallows the portion of the revenue requirement related to the test year and the certification period Officers' salary increases that are in excess of Southwest Gas's recommended survey salary increases.

K. Severance Payments

Staff's Position

129. Staff recommends that the Commission disallow 100 percent of the revenue requirement for severance payments during the test period. (Ex. 308 at 9.) Staff states that Southwest Gas requested recovery of $12,415 for SND and $2,225 for NND for severance

payments but provided no justification for why ratepayers should fund employees who no longer work at the company. (*Id.* at 10.) Moreover, Southwest Gas lacks a formal policy regarding severance payments. (*Id.* at 9.)

Southwest Gas's Rebuttal Position

130. Southwest Gas states that severance costs reflect normal business activities and are not extraordinary or non-recurring. (Ex. 183 at 9.) Southwest Gas states further that costs were incurred in connection with routine turnover that occurs in normal course of managing a workforce of its size. (*Id.*) Southwest Gas states that severance payments are a standard and prudent tool that releases it from all employment related claims, thereby reducing exposure to litigation and/or judgements that could ultimately be borne by ratepayers. (*Id.*)

Commission Discussion and Findings

131. The Commission agrees with Staff's recommendation because of the discretionary nature of severance payments and the lack of a formal policy regarding such payments, which instead rely on general guidelines. (*See* Ex. 308 at 9.) Collectively, the discretionary nature of these payments and the lack of a formal policy support Staff's description of such payments as wholly elective. Such elective payments are not a prudent use of ratepayer funds and should therefore not be included in revenue requirements for recovery from ratepayers. The Commission therefore adopts Staff's recommendation to disallow 100 percent of the revenue requirements for the severance payments, resulting in jurisdiction disallowances of $12,415 for Southwest Gas's SND and $2,225 for its NND.

L. Management Incentive Program ("MIP") Net Income Metric

Southwest Gas's Position

132. Southwest Gas states that it utilizes numerous compensation surveys to determine market competitive levels and that it engages an external compensation consultant to perform its

executive compensation recommendations for senior executives. (Ex. 174 at 4.) Southwest Gas states that the survey data it uses to determine its analysis and recommendation includes target Total Cash Compensation ("TCC") and Total Direct Compensation ("TDC"). (*Id.*)

133. Southwest Gas states the TDC includes both short-term variable pay through the MIP and long-term variable pay through RSU awards and Performance Share Unit ("PSU") awards in furtherance of a compensation strategy is designed to generally position employees at the 50th percentile of market TDC. (*Id.* at 6.)

BCP's Position

134. BCP recommends that the Commission deny recovery of all MIP costs. (Ex. 413 at 12.) BCP states that MIP payment is conditioned on achieving an adjusted net income threshold, making the entire program fundamentally tied to financial performance that primarily benefits shareholders. (*Id.*) BCP states that removing 100 percent of MIP reduces the revenue requirement by approximately $4,593,649 for Southern Nevada and $823,142 for Northern Nevada. (*Id.*)

Staff's Position

135. Staff recommends that the Commission disallow 100 percent of the revenue requirement for the MIP net income metrics. (Ex. 308 at 1-2.) Staff states that the net income metric within the MIP cannot be directly correlated to customer benefits and primarily benefits shareholders. *(Id.* at 11.) Staff notes that in the two most recent GRCs, the parties reached stipulations that did not specifically discuss compensation; however, the Commission excluded this metric in the 2020 GRC, Docket No. 20-02023. (*Id.* at 12-13.)

Southwest Gas's Rebuttal Position

136. Southwest Gas states that it is agreeable to a 50/50 allocation of the net income MIP between customer and shareholders to recognize that financial strength provides meaningful benefits to customers. (Ex. 183 at 11.) Southwest Gas argues that a financially sound utility is better positioned to access capital on favorable terms, invest in infrastructure, and manage costs prudently, all of which support the provision of safe and reliable service to customers. (*Id.*)

Commission Discussion and Findings

137. The Commission agrees with Staff's recommendation related to the revenue requirement associated with Southwest Gas's MIP net income metric. The Commission finds that the MIP net income metric has no clear link between metric results and customer benefits. As Staff noted, it is unclear what, if any, benefits accrue to ratepayers and the balance of that possible benefit between ratepayers and shareholders. As Staff testified, it is not known how an incremental increase in net income leads to customer benefits. Conversely, net income is arguably an important measure of company profitability, which directly benefits shareholders. There is a strong link between increased net income and shareholder benefits, which ratepayers should not cover. The Commission accepts Staff's recommendation to exclude the portion of the revenue requirement tied to Southwest Gas's MIP net income metric.

138. The Commission rejects BCP's recommendation to exclude recovery of all MIP costs because, with the exception of net income, the MIP performance metrics provide benefits to customers.

M. Long-Term Incentive ("LTI") Costs

Southwest Gas's Position

139. Southwest Gas states that it offers incentive compensation through its Short-Term Incentive and LTI plans. (Ex. 174 at 22.) Southwest Gas states that the LTI plan includes three

types of rewards, PSUs, RSUs, and cash. (*Id.*) Southwest Gas states the LTI plan is designed to reward sustained performance over a three-year period with each grant made under the plan. (*Id.* at 31.)

BCP's Position

140. BCP recommends disallowance of 100 percent of Southwest Gas's LTI expenses. (Ex. 413 at 17.) BCP states that LTI components, including PSUs based on financial metrics, RSUs as retention tools, and cash awards, primarily reward shareholder-oriented financial performance. (Ex. 413 at 13.) BCP states that the adjustment reduces Southwest Gas's revenue requirement by approximately $3,060,348 for its SND and $548,388 for its NND. (*Id.* at 18.)

Staff's Position

141. Staff recommends that the Commission disallow 100 percent of the revenue requirement for LTI. (Ex. 308 at 14.) Staff states that the LTI program, comprising PSUs—which are based on earnings and ROE targets—RSUs, and cash payouts, is primarily aligned with shareholder interests. (*Id.*) Staff states further that the Commission previously ruled against full LTI recovery. (*Id.* at 15.)

Southwest Gas's Rebuttal Position

142. Southwest Gas states that LTI is a substantial component of the compensation program needed to attract and retain experienced leadership to provide safe and reliable natural gas service. (Ex. 183 at 15.) Southwest Gas states further that continuity of experienced leadership supports consistent execution of programs and strategies that directly affect service, safety, and reliability. (*Id.* at 15-16.)

Commission Discussion and Findings

143. The Commission denies Southwest Gas's request for recovery of LTI. As noted above, the Commission recognizes the importance of and remains supportive of reasonable compensation in rates for ensuring a qualified workforce to provide customers safe and reliable natural gas service. The Commission recognizes its responsibility to balance the interest of ratepayers and shareholders when setting rates. The Commission finds that the LTI program is more closely aligned with shareholders' interests, who should in turn bear those costs. The Commission agrees with BCP and Staff that the arguments Southwest Gas raises in this docket to support placing the LTI costs in rates fail to support a benefit to ratepayers to justify a change in how these costs have historically been treated. Further, both BCP and Staff point out that Southwest Gas has not demonstrated that commissions regulating peer utilities authorize recovery of comparable incentive costs. The Commission agrees with Staff that the use of LTI as a retention incentive does not hinge on whether the costs of related equity shares and cash payouts are paid by ratepayers or shareholders. Accordingly, the Commission accepts the recommendation by both BCP and Staff to disallow 100 percent of the LTI costs from Southwest Gas's revenue requirement, which reduces Southwest Gas's revenue requirement by approximately $3,060,348 for its SND and $548,388 for its NND.

N. Non-Qualified Retirement Plan Costs

Southwest Gas's Position

144. Southwest Gas states that it offers a supplemental executive retirement plan ("SERP") for participating executives. (Ex. 174 at 39.) Southwest Gas states that the SERP is a non-qualified retirement plan under the Internal Revenue Code ("IRC"). (*Id.*)

145. Southwest Gas states that it offers an Executive Deferral Plan ("EDP") for executives who are ineligible to receive matching contributions under Southwest Gas's

Employees Investment Plan. (*Id.* at 39-40.) Southwest Gas states that the EDP is a non-qualified retirement plan under the IRC. (*Id.* at 40.)

BCP's Position

146. BCP recommends that the Commission disallow non-qualifying retirement plan costs for highly compensated employees. (Ex. 413 at 20.) BCP states that Southwest Gas provides supplemental retirement benefits to highly compensated employees of the company which are beyond annual compensation limits and thus do not qualify as a tax deduction when the expense is accrued. (*Id.* at 18-19.)

147. BCP argues that shareholders should bear the additional costs associated with supplemental benefits to highly compensated employees, since these costs are not necessary for the provision of utility service and are instead discretionary costs for ratemaking purposes. (*Id.* at 20.) BCP states that the adjustment to exclude the non-qualified retirement plans from rate recovery reduces the revenue requirement for Southwest Gas's SND by $1,509,540 and $322,990 for its NND. (*Id.* at 25.)

Southwest Gas's Rebuttal Position

148. Southwest Gas states that its filing is consistent with the Commission's 2020 GRC order and that the company is seeking recovery of the restorative portion of its SERP costs in excess of the restorative benefit level. (Ex. 138 at 18-19.)

Commission Discussion and Findings

149. The Commission approves Southwest Gas's request to include non-qualified retirement costs in revenue requirement. The Commission finds it reasonable for Southwest Gas to provide a retirement plan to its non-executive employees and to extend a comparable offering to its executives. The Commission rejects BCP's recommendations to the contrary. The

Commission agrees with Southwest Gas that BCP has not identified any changed circumstance or new evidence that the Commission should consider at this time.

O. Recording of Non-Travel Meals

BCP's Position

150. BCP states that Southwest Gas requested recovery of $244,150.70 for Southern Nevada and $81,401.05 for Northern Nevada for non-travel meals, which are meals and snacks provided to employees during training events and business meetings not involving travel, *e.g.*, meetings with commercial developers, customer presentations, and project update meetings. (Ex. 405 at 4.) BCP argues that these meals were not critical for providing safe and reliable utility service. (*Id.*) BCP notes that the Commission accepted similar recommendations in the most recent Nevada Power GRC, Docket No. 25-02016. (*Id.* at 5.)

Southwest Gas's Rebuttal Position

151. Southwest Gas disagrees with BCP's standard for meals to be "critical for providing safe and reliable service" and argues that the standard is that that an expense must be reasonable and prudently incurred to be recoverable. (Ex. 191 at 5-6.) Southwest Gas states that the meals were for meetings, training, and other reasonable business activities. (*Id.* at 7-8.) Southwest Gas states further that it implemented a voluntary cap of $30 per meeting attendee, conducted a pre-filing review to identify meals that should have been removed, and removed meals that lacked adequate documentation. (*Id.* at 8-10.)

152. Southwest Gas argues that BCP did not put a good faith effort into analyzing costs for reasonableness and instead recommended a blanket disallowance. (*Id.* at 6.)

Commission Discussion and Findings

153. The Commission approves partial recovery of the non-travel meal expenditures requested by Southwest Gas. The Commission agrees with Southwest Gas that certain

circumstances warrant non-travel meal expenditures that are reasonable for recovery in rates. Further, the Commission agrees with Southwest Gas that there is no requirement for meals to be "critical for providing safe and reliable service" for cost recovery. However, the Commission agrees with BCP that some employee meals for convenience are not appropriate for cost recovery.

154. The Commission recognizes and appreciates the efforts Southwest Gas has undertaken to improve and refine internal processes related to this issue. However, despite the efforts undertook at the hearing to confirm the timing and level of data availability made available during the discovery process to further vet the reasonableness of non-travel meal expenditures, the evidence of Southwest Gas's voluntary $30 cap per attendee supports the reasonableness of recovery for some of these costs. In light of the Commission's finding that some non-travel meals are reasonable for cost recovery in rates and were reasonably incurred and BCP's recommendation to disallow all non-travel meals, the Commission directs a balanced outcome. The Commission therefore approves recovery of 50 percent of the requested non-travel meal expenditures.

155. The Commission notes that many resources are being expended on this issue relative to the magnitude of costs that are requested for recovery. Although the Commission is not issuing a directive at this time, the Commission encourages the parties to explore a methodology for evaluating the proper level of non-travel meal expenditures that are just and reasonable for inclusion in rates for future rate case evaluation.

P. Regulatory Liability for Over-Amortized Regulatory Assets

Southwest Gas's Position

156. Southwest Gas states that it seeks regulatory amortizations for its Annual Leak Survey Incremental Costs and its Customer-Owned Yard Lines Replacement Program regulatory

assets. (Ex. 184 at 13.) Southwest Gas states further that it seeks recovery for its rate-case expenses. (*Id.* at 11; Ex. 185 at 3-4.)

BCP's Position

157. BCP states that Southwest Gas did not track the over-recoveries of its regulatory assets in a liability account. (Ex. 413 at 25.) BCP further states that it identified an over-recovery of $1,533,800 for Southern Nevada and $255,929 for Northern Nevada. (*Id.*) BCP provides that amortization over two years will have a $766,900 revenue requirement impact for Northern Nevada and $127,965 for Southern Nevada. (*Id.*) To broadly address these issues prospectively, BCP recommends Southwest Gas continue amortizing regulatory assets, but into a regulatory liability account, which would have the effect of tracking the over-recovery of regulatory assets in a liability account that can then be returned to ratepayers a subsequent rate case. (*Id.* at 25-26.)

Staff's Position

158. Staff recommends that the Commission create a regulatory liability to be included in rate base to account for amortization beyond the two-year period for the regulatory assets, which results in a reduction to amortization expense of $858,599 with $753,394 reduction in Southern Nevada and $123,205 reduction in Southern Nevada. (Ex. 310 at 5.) Staff provides that the regulatory liability is needed to address six additional months of amortization collected from ratepayers in excess of what was originally anticipated before the rate-effective date of this proceeding. (*Id.* at 3.)

159. Staff further recommends the Commission direct Southwest Gas to limit supporting workpapers, both executable and hardcopy, in future GRCs to accounts applicable to the proceeding. (*Id.* at 7-8.) Staff explains that the supporting documentation is critical in Staff's review process as they provide the underlying detail needed to vet the amounts to be included for

cost recovery. (*Id.* at 7.) Staff expresses concerns with the increased likelihood of errors and confusion when Southwest Gas includes details on account and projects unrelated to the applicable proceeding, and the subsequent burden on Staff and intervenor resources. (*Id.*)

Southwest Gas's Rebuttal Position

160. Southwest Gas agrees with Staff's recommendation to create and include a regulatory liability to account for amortization beyond the two-year period for the regulatory assets previously approved for recovery. (Ex. 186 at 3.) Southwest Gas proposes a two-year amortization period for the regulatory liability and also proposes to establish a regulatory asset for any amortization recognized in excess of the regulatory liability balance. (*Id.*)

Commission Discussion and Findings

161. The Commission agrees with the recommendation proposed by Staff and agreed to by Southwest Gas in part. The Commission approves a two-year amortization period for the regulatory liability because this will timely address the over-amortization of the regulatory asset balances by ratepayers resulting from the rate-effective date of this proceeding. However, the Commission does not approve the establishment of a regulatory asset for any amortization recognized in excess of the reliability liability balance as proposed by Southwest Gas because regulatory assets and liabilities are to be used judiciously.

162. Further, the Commission directs Southwest Gas to establish regulatory liability accounts for any future regulatory asset amortizations which then exceed the debit balances that are requested in the next general rate case. However, the Commission denies Southwest Gas's request to establish a regulatory asset in the event the regulatory liability amortizations result in a debit balance because the ability to time its rate case is under Southwest Gas's control and it can determine when to file to address any regulatory liability to regulatory asset changes.

163. The Commission finds that BCP's recommendation to create regulatory liabilities to track and ultimately recover overcollection for a prior period, which extends to all regulatory assets, inappropriately attempts to reach back into a stipulated agreement, and therefore rejects it.

164. The Commission also accepts Staff recommendation regarding the supporting workpapers and directs Southwest Gas to limit supporting workpapers, both executable and hardcopy, in its next GRC to accounts applicable to the proceeding.

Q. Amortization Expenses both Beyond Certification Period and Pertaining to Other Rates and States

Southwest Gas's Position

165. Southwest Gas requests a new regulatory amortization for its Annual Leak Survey Incremental Costs regulatory asset. (Ex. 184 at 13.)

Staff's Position

166. Staff states that the Leak Survey Incremental Costs regulatory asset accounts for both Southern Nevada and Northern Nevada, as shown on a Lead-Lag schedule, contain estimated account activity for June through September 2026, which is beyond certification. (Ex. 310 at 6.) Staff argues that Southwest Gas is trying to include expense recovery for costs not included in the associated regulatory assets and for estimated costs beyond the test and certification periods. (*Id.*)

167. Staff notes that the Lead-Lag schedules include accounts that are not relevant to this docket, such as assets recovered through other Nevada rates and accounts that pertain only to other states. (*Id.* at 7.) Staff argues that this practice results in confusion, wastes Staff's resources, and errors by Southwest Gas when it inadvertently includes these accounts in rate base with corresponding amortizations. (*Id.*)

168. Staff recommends disallowing $830,017 for SND and $286,274 for NND, totaling $1,116,291 of amortization expenses based on the months beyond the certification period. (*Id.* at 8.) Staff further recommends that the Commission direct Southwest Gas in future GRCs to limit its supporting workpapers, both executable and hardcopy, to accounts applicable to the proceeding. (*Id.*)

Southwest Gas's Rebuttal Position

169. Southwest Gas argues that Staff's recommendation regarding the disallowance of amortization expenses is inconsistent with another recommendation by the same Staff witness for Southwest Gas to continue previously authorized amortizations through the effective date of the pending GRC. (Ex. 186 at 4.) Southwest Gas argues that the timing of costs included for regulatory assets should be consistent with the treatment of amortizations. (*Id.*)

Commission Discussion and Findings

170. The Commission denies Southwest Gas's request to include new regulatory amortizations in the instant docket for expenses recorded beyond the certification period because these costs were incurred after the certification period and have not yet been vetted by other parties. The Commission finds that this situation is distinct from extending previously authorized and reviewed cost amortization through the effective date.

R. Accounting of Final GRC Costs

Staff's Position

171. Staff recommends that the Commission order Southwest Gas to provide an accounting of the final costs to prepare and present this GRC within 90 days of issuance of the final Commission order. (Ex. 310 at 8.)

Commission Discussion and Findings

172. The Commission accepts Staff's recommendation because it will provide valuable insight into the cost of preparing and presenting these proceedings. As a compliance item, the Commission orders Southwest Gas to provide an accounting of the final costs incurred to present and prepare this GRC, within 90 days of a final Commission order.

S. Southwest Gas's Affordability Analyses

Southwest Gas's Position

173. Southwest Gas states that, to determine the affordability of its cost of service, it has reviewed its average residential base rates yielded from GRCs since 2004 and proposed in this GRC, determined via research a metric generally used to measure affordability, and analyzed its average bills measured by the affordability metric. (Ex. 196 at 16-17.) Southwest Gas states that, adjusted for inflation, its costs of service in both Southern Nevada and Northern Nevada have remained relatively flat since 2004. (*Id.* at 18-20.)

174. Southwest Gas states that, according to the United States Department of Energy, energy burden is the percentage of average gross household income spent on energy costs. (*Id.* at 21.) Southwest Gas argues that a household's energy burden can be used to determine energy affordability. (*Id.* at 20-21.) Southwest Gas states that, based upon its review of sources, an energy burden greater than 6 percent is considered unaffordable, and thus an energy burden of 6 percent or less is affordable. (*Id.* at 21.)

175. Southwest Gas provides that it determined that the average residential gas energy burdens for Southern Nevada and Northern Nevada are 0.6 percent and 0.9 percent, respectively. (*Id.* at 25.) Southwest Gas concludes that its residential bills fall well below the 6 percent threshold for affordability. (*Id.*)

Staff's Position

176. Staff states that Southwest Gas's affordability analyses focused solely on residential customers, which are approximately 96 percent of Southwest Gas's customer base. (Ex. 302 at 4.) Staff states that Southwest Gas omitted general service customers in its affordability analyses. (*Id.* at 4-5.) Staff recommends that future studies should include general service customer affordability analyses. (*Id.* at 5.)

177. Staff states that Southwest Gas's base rate analysis also excluded the Base Tariff Energy Rate and Deferred Energy Account Adjustment, which constitute a significant portion of customer bills. (*Id.* at 5-7.) Staff recommends that future studies should analyze an effective rate that includes these components. (*Id.*)

178. Staff argues that Southwest Gas's analysis had a value bias because it was designed to demonstrate affordability rather than investigate affordability, used an inadequate definition of affordability, and focused on the "average" customer while ignoring low-income customers. (*Id.* at 7-10.) Staff argues further that the 6 percent energy burden threshold was misapplied, because natural gas is only one part of total household energy costs. (*Id.* at 13.) Accordingly, Staff recommends that Southwest Gas provide data on bill delinquencies, missed payments, service suspensions, and assistance program enrollment. (*Id.* at 15.)

Southwest Gas's Rebuttal Position

179. Southwest Gas states that its focus on residential customers was by design because residential customers are the majority of its customer base. (Ex. 197 at 26.) Southwest Gas states further that its analysis included the base rates because those are the components of customers' bills that this GRC will establish. (*Id.*)

Commission Discussion and Findings

180. The Commission appreciates Southwest Gas's focus on the affordability of energy service to its customers and its sensitivity of the overall energy burden its provision of natural gas service has on Nevada customers. Likewise, the Commission appreciates the thoughtful comments from Staff on how Southwest Gas can refine this effort going forward. The Commission encourages the parties to engage in further discussions as warranted.

T. Projects Added in Certification Filings

BCP's Position

181. BCP recommends that the Commission disallow costs for the Grand Teton project because Southwest Gas has not demonstrated when the project will be needed to meet design day demand. (Ex. 411 at 32.)

182. BCP recommends that the Commission disallow the incremental $1,156,259 for the Tule Springs Project attributable to upsizing from 6-inch steel pipe to 16-inch steel pipe for two work orders. (*Id.* at 38.) BCP makes this recommendation because it provides that Southwest Gas has not done sufficient analysis to establish when upsizing will be necessary, under what conditions it would be necessary, or whether upsizing will be necessary at all. (*Id.* at 37-38.)

183. BCP recommends that the Commission disallow $19,765,175 of early-vintage plastic pipe ("EVPP") replacement costs and allow the remaining $94,403,584 into rates. (*Id.* at 49.)

184. BCP recommends that the Commission require Southwest Gas to provide the following in future integrated resource plans ("IRP"): a recent copy of its distribution integrity management program ("DIMP") plan; a clear explanation of its risk scoring, methodology, thresholds, and how the thresholds are determined; and, a list of risk scores for segments

determined to be "Very High," "High," and "Medium" risk and dates planned for replacement where applicable. (*Id.* at 54.)

Staff's Position

185. Staff recommends that the Commission disallow approximately $51.9 million for plant-in-service work orders introduced for the first time in the certification filing. (Ex. 307 at 1.) Staff argues that these projects were not included in the original application as certification projects and therefore Southwest Gas did not meet its burden of establishing that these costs were just and reasonable in the original filing. (*Id.*)

186. A different Staff witness makes a similar disallowance at a different amount of approximately $55.6 million for plant in-service work orders introduced by Southwest Gas in the certification filing because the projects were not included in the original filing as a certification project. (Ex. 305 at 2.) The disallowances result in approximately $15.1 million for NND, $33.7 million for SND, and $6.8 million system allocable. (*Id.*)

187. Staff states that its principal concern is that the certification process is not meant to be unrestricted where projects are introduced for the first time that were not mentioned or known at the end of the test period or when a utility makes its original GRC application. (Ex. 307 at 4.) Staff argues that allowing such late-introduced costs into the rate recovery would undermine the purpose of the known and measurable standard and reduce the transparency and accountability expected at certification stages. (*Id.*) Further, Staff argues that this issue has been raised in numerous electric rate cases and that the Commission has found that only known and measurable costs for test year projects in continuity can be included during certification. (*Id.* at 4-5.)

188. Staff argues that because the work orders were omitted from the original filing suggests that they were not known, measurable, or expected to be completed during the certification period at the time that the application was filed. (*Id.* at 6.)

189. Staff states that it reviewed the new and unique work orders introduced at certification. (*Id.* at 8.) Staff states that on July 9, 2026, prudency packages for these work orders were in transit to Staff as attachments accompanying Southwest Gas's response to Staff Data Request 253. (*Id.*) Staff states that it was unable to begin its preliminary review of the work orders until July 13, 2026, due to the size and volume of information. (*Id.*) Staff states that some of the projects were substantially completed well before the end of the test period with minimal accounting cleanup costs to occur during the certification. (*Id.*)

190. Staff states that a blanket work order ("BWO") at certification is a known and measurable category of costs that would have the least amount of variance in estimated costs for certification and yet Southwest Gas failed to disclose such work orders and failed to estimate their costs in the original application filing. (*Id.* at 10.)

191. Staff states that 139 work orders should be removed from the docket at an approximate cost of $51.9 million closed to plant at certification. (*Id.* at 12.) Staff states that this excludes the twelve identified by Southwest Gas in certification testimony, two solar facility projects, requisite reinforcement fluid for one of the solar facilities, and the Lamb-Tap related projects. (*Id.*)

192. Staff argues that in prior GRCs the Commission determined that new projects introduced for the first time in certification testimony were improperly included and ordered that the associated costs be removed. (*Id.* at 12.) Staff states that in Docket No.18-05031, the Commission disallowed 100 percent of the costs of a work order because Southwest Gas did not

meet the burden of establishing the prudence of the project in the initial application filing. (*Id.* at 12-13.)

Southwest Gas's Rebuttal Position

193. Southwest Gas states that NRS 704.110(3) does not limit certification adjustments for budgets relied on secondarily. (Ex. 141 at 9.) Southwest Gas provides that NRS 704.110(3) states that the 12-month test year contemplated in a company's application can be "adjusted for increased revenues, any increased investment in facilities, increased expenses for depreciation, certain other operating expenses as approved by the Commission and changes in the costs of securities which are known and are measurable with reasonable accuracy at the time of filing and which will become effective within 6 months after the last month of those 12 months," for the Commission's consideration. (*Id.*)

194. Southwest Gas states that Staff has not asserted or demonstrated that the investments contemplated in Staff's recommended disallowance were unnecessary. (Ex. 194 at 26.) Southwest Gas states that Staff's reasoning for disallowance is on the absence of work order level detail in the application and related to the timing of review. (*Id.*) Southwest Gas argues that it was transparent that it proposed a certification adjustment for plant in service and the amount was clearly identifiable in the Commission-required Statements and Schedules and work papers as previously discussed. (*Id.*)

195. Southwest Gas states that Staff's proposed adjustments are inconsistent. (*Id.* at 27.) Southwest Gas provides that Staff witness Percival O. Lucban recommends removing approximately $51.9 million while Staff witness Andrew Greene recommends removing approximately $55.6 million. (*Id.*) Southwest Gas states that Staff does not reconcile the difference between Mr. Lucban's and Mr. Greene's recommendations although it appears that Mr.

Greene's calculation includes System Allocable plant before allocation to Nevada, which is inappropriate to Southwest Gas (*Id.* at 27.)

196. Southwest Gas states that the resulting estimated certification period investment in Southern Nevada is $108.8 million based on the most recently approved 2026 budget for estimated spend for February through May 2026. (Ex. 162 at 48.) Southwest Gas states that the actual gross plant in service on May 31, 2026, was approximately $107 million. (*Id.*)

197. Southwest Gas disagrees with Staff that work orders indicate if something is known or measurable and that its capital investment planning is not done at the work order level. (*Id.* at 49.) Southwest Gas states that work orders are created after the expected level of investment is known and that the existence of or absence of a work order at a point in time is not a firm indication of whether or not something will or will not happen. (*Id.*)

198. Southwest Gas states that the previous filing standard established that work orders exceeding $1 million be discussed in testimony and thus any "new and unique" work orders not discussed in testimony were a result of the previously established standard. (Ex. 197 at 12.)

199. Southwest Gas states that it does not generally file prudency packages supporting investments because those are typically requested during the discovery process by parties conducting their audit of the case. (*Id.* at 14.)

200. Southwest Gas recommends that the Commission reject Staff's recommendation to disallow $52 million included in its certification adjustment No. C5—Rate Base and Property Tax Annualization. (*Id.* at 21.)

201. Southwest Gas states that BCP does not identify any specific DIMP replacement project included in the proceeding as unnecessary, improperly prioritized, or imprudently

executed. (Ex. 173 at 4.) Southwest Gas provides that its DIMP plan is audited regularly by Staff. (*Id.* at 4-5.)

202. Southwest Gas argues that the Grand Teton Project was part of a broader long-term system planning strategy and was consistent with its transmission and feeder strategy framework and thus not undertaken solely to address an immediate minimum service pressure issue. (Ex. 162 at 29.) Southwest Gas provides that the City of Las Vegas bridge project created a unique, time-sensitive opportunity to install the 16-in crossing in a cost-effective and constructible manner while avoiding more difficult alternatives. (*Id.*) Southwest Gas states that it was reasonable to act when the bridge opportunity became available because opportunities to secure a high-pressure distribution crossing of a major highway in an established corridor are limited. (*Id.* at 35.)

203. Southwest Gas argues that the 16-in high pressure distribution main was a prudent system improvement because it served the immediate Tule Springs development need while also supporting long-term high-pressure distribution system reinforcement, future growth, integration with facilities extending west from Lamb Tap, and the Losee Road / Clark County 215 bridge crossing. (*Id.* at 40.)

204. Southwest Gas argues that it has provided extensive information regarding its DIMP activities risk assessment process and replacement activities during discovery in the instant docket and other recent dockets, including providing its DIMP Plan in response to data request BCP-02-004 in its Nevada Triennial Resource Plan, (Ex. 173 at 4.)

205. Southwest Gas states that it was required to replace the identified EVPP facilities pursuant to the Commission's final order in Docket No. 21-08009 issued on March 8, 2022, which approved a stipulation between Staff and Southwest Gas. (Ex. 166 at 8.) Southwest Gas

states that the stipulation directed it to remove all known EVPP in Southern Nevada by December 31, 2024. (*Id.*)

206. Southwest Gas argues that the higher EVPP costs during later years of the program do not indicate poor cost control or imprudent management. (*Id.*) Southwest Gas states that the costs increased primarily because the remaining EVPP inventory became smaller, more geographically dispersed, and more difficult to replace as the program progressed. (*Id.*) Southwest Gas argues that remaining facilities were scattered throughout the service territory as small segments of contiguous pipe requiring additional mobilizations, traffic control, restoration work, jurisdictional coordination, permitting, and specialized construction methods such as horizontal directional drilling, vacuum excavation in congested utility corridors, and specialized excavation techniques. (*Id.* at 9.) Southwest Gas states that fixed project costs were spread across fewer feet of pipe replacement which increased the cost per mile. (*Id.*)

207. Southwest Gas states that DIMP replacement projects completed under BWOs were appropriately selected and prudently undertaken and that replacement decisions are based on established evaluation processes that consider factors such as leak history, asset condition and performance, material characteristics, field observations, operating experience, system knowledge, and other risk indicators. (*Id.* at 15.)

208. Southwest Gas states that the use of BWOs does not indicate that replacement projects lacked sufficient project-specific justification and that BWO is an administrative accounting and tracking tool, not a project-selection mechanism and does not determine whether work should be performed. (*Id.* at 16.)

209. Southwest Gas states that the absence of a single numerical risk score associated with a replacement project does not mean the project lacked justification and states that the risk

scores are only one component of the integrity-management process. (*Id.* at 17.) Southwest Gas states that replacement decisions consider leak history, asset condition, inspection findings, operating experience, engineering assessments, field observations, and other relevant information. (*Id.*)

Commission Discussion and Findings

210. The Commission's consideration regarding this issue is whether Southwest Gas complied with the requirements for cost recovery of certification projects. Staff argues that Southwest Gas did not meet its burden for cost recovery because any information that was provided in Southwest Gas's initial application was insufficient to determine whether the projects were known and are measurable with reasonable accuracy at the time of filing. As Staff notes, certification is not intended to include every project that might close to plant during certification. The project must be adequately identified in the initial application and close to plant during certification. For example, projects that are only contemplated and initiated following the filing of the case cannot meet this standard even if they ultimately close to plant during certification because they could not be identified at filing.

211. Southwest Gas argues that the projects were necessary and that work order level detail is not necessary. Southwest Gas further argues that its application included a statement that it would certify plant in service and the amount it would certify appeared in its Statements and Schedules. Although work order level detail may not be required, Southwest Gas's presentation alone is insufficient to meet the standard outlined in NRS 704.110 (3). Certification is an update of costs, not an update of projects, and Southwest Gas retains the responsibility to provide adequate information at filing regarding projects it intends to certify.

212. Accordingly, the Commission accepts Staff witness Lucban's recommendation to reject $51.9 million for plant in service work orders introduced by Southwest Gas for the first time in certification. These projects are not deemed imprudent at this time; they may be brought forward to request cost recovery in a future GRC.

213. Regarding the Grand Teton project discussed by BCP, the Commission finds this project reasonable for inclusion in rates because the project is consistent with Southwest Gas's long-term planning strategy.

214. Regarding the incremental costs for the Tule Springs project discussed by BCP, the Commission finds this project reasonable for inclusion in rates. The Commission agrees with Southwest Gas that the upsizing of the main will support a needed high-pressure distribution system.

215. Regarding the EVPP replacement costs of $19,765,175 discussed by BCP, the Commission finds these costs reasonable for inclusion in rates. These EVPP costs were incurred to implement the required replacement pursuant to Docket No. 21-08009. Southwest Gas's explanation for the reasons why the costs increase as the EVPP replacement reached completion are reasonable and help ensure safe, reliable service.

216. Finally, the Commission declines to issue a directive at this time regarding Southwest Gas's DIMP as requested by BCP. However, Southwest Gas remains responsible for including detailed information regarding known risks and planned investments in its IRP.

U. Request for Future Additional Witness to Support Certification Projects

Staff's Position

217. Staff recommends that the Commission issue a directive that prospectively requires Southwest Gas to produce a witness that sponsors a summary of costs estimated for completion through the end of the certification period of a rate case. (Ex. 307 at 14.) Staff states

that Southwest Gas does not provide a witness in its general rate recovery proceedings who sponsors any exhibit offering advance notice of the projects that Southwest Gas anticipates submitting for recovery in its subsequent certification filings. (*Id.*) Staff states that the late disclosure restricts Staff's ability to evaluate project prudence in a timely manner, identify issues early, or determine whether project scopes, schedules, or budgets warrant further examination. (*Id.* at 15.) Staff provides that Southwest Gas's certification filing does not present a comprehensive record of total plant costs through the certification period. (*Id.*)

218. Staff argues that to improve transparency and facilitate a more effective review process, Southwest Gas should include a witness(es) in its GRC filing who is responsible for sponsoring an exhibit that identifies and describes the projects anticipated for inclusion, and projects that are expected to have significant updates, in certification filings during the rate case period. (*Id.* at 16.)

219. Staff states that a summary exhibit, such as an update to Master Data Request ("MDR") 106, but through the end of the certification period, would resolve these issues—namely, Southwest Gas not including total costs for work orders in the certification filing and only providing additional costs incurred during the certification period—by consolidating all plant activity into one clear record. (*Id.* at 17.) Staff states that this would improve the efficiency of the review process and better equip Staff with a tool to verify that plant-in-service and related costs are included in the request for rate recovery and have been fully and transparently disclosed. (*Id.*)

220. Staff states that it believes these enhancements must be formalized by Commission directive to ensure consistent application going forward and acknowledges Southwest Gas's willingness to improve its process. (*Id.*)

Southwest Gas's Rebuttal Position

221. Southwest Gas provides that it provided a witness to sponsor prepared certification testimony supporting operations-related capital investments for that period in Northern Nevada. (Ex. 145 at 6.) Similarly, Southwest Gas states that it provided a witness that sponsored capital investments placed in service by May 31, 2026, in Southern Nevada. (Ex. 166 at 13.) Southwest Gas provides that it updated plant in service in its certification filing based on capital projects placed into service on or before May 31, 2026. (Ex. 166 at 13.)

222. Southwest Gas argues that beginning with Southwest Gas's 2020 GRC, Docket No. 20-02023, it presented multiple witnesses sponsoring direct testimony in support of its capital investments for plant in service at the end of the 12-month test year, including discussion on and support for work orders in excess of $1 million and an exhibit to each witness's testimony presenting the list of all work orders equal to or greater than $100,000 or more. (Ex. 197 at 9.)

223. Southwest Gas states that it is not aware of a requirement by the Commission to discuss work orders in excess of $1 million in testimony. (*Id.* at 10.)

224. Southwest Gas argues that Commission direction is not necessary because, based on its understanding of Staff's recommendation, the information requested was provided in the instant docket as discussed in prepared rebuttal testimony, and in its three prior rate cases. (*Id.* at 22.) However, Southwest Gas states that it remains open to process and presentation improvements related to its GRCs and is agreeable to provide information going forward. (*Id.* at 27.) Southwest Gas proposes the following recommendations:

(a) Enhancement No. 1: Southwest Gas's prepared direct testimony will include support for and a listing of known work orders that have closed to plant in service for months included in the certification period, as applicable.

(b) Enhancement No. 2: For expected capital expenditures that have not yet closed to plant in service, Southwest Gas will include in prepared direct

testimony a listing of work orders representing construction work in progress ("CWIP") that are expected to close by the end of the certification period and will provide updates to this information, along with supporting documentation, throughout the certification period as recorded information becomes available. This approach will provide information only relevant to investments placed in service, avoiding inundating parties with supporting documentation for all investments in CWIP status that may not actually be placed in service by the end of the certification period.

(c) Enhancement No. 3: If, at the time a GRC is being prepared, a work order has not yet been established for a capital expenditure expected to be placed in service by the end of the certification period, Southwest Gas will provide discussion in prepared direct testimony on the additional plant in service included in its certification adjustment, to be certified to.

(*Id.* at 24.)

Commission Discussion and Findings

225. The Commission accepts the enhancements provided by Southwest Gas and issues a directive for Southwest Gas's next GRC accordingly. The Commission adopts these enhancements to help ensure adequate evidentiary records in future proceedings.

226. As discussed in the prior section, Southwest Gas retains the responsibility to provide adequate information in its initial application filing for the Commission to determine that a certification project was known and are measurable with reasonable accuracy at the time of the initial application filing. Southwest Gas may choose the process by which it ensures that it has provided sufficient clarity as to what those projects are at the time of the initial application filing.

V. Inclusion of Work Orders & Total Costs for Certification Projects in Future Certification Filings

Staff's Position

227. Staff recommends that the Commission issue a directive to Southwest Gas, on a going-forward basis in each of its rate recovery proceedings, to produce a comprehensive list of work orders and their associated total costs, in a similar format to MDR 106, through the end of

the certification period when it submits its certification filing. (Ex. 307 at 2.) Staff provides that this directive will aid parties in assessing how Southwest Gas's plant-in-service balances have changed or begin to determine whether those changes are reasonable and properly supported. (*Id.* at 15.)

Southwest Gas's Rebuttal Position

228. Southwest Gas disagrees with Staff's recommendation that the Commission issue a directive to Southwest Gas, on a going forward basis in each of its rate recovery proceedings, to produce a witness that sponsors a summary of costs estimated for completion through the end of the certification period because Southwest Gas claims that it would be duplicative of what is already found in its applications. (Ex. 194 at 23.) Southwest Gas states that a summary of costs for investments estimated for completion through the end of the certification period was provided in Volumes 2 (Northern Nevada) and 3 (Southern Nevada) of its application. (*Id.*) Further, Southwest Gas states that the workpapers filed with its application identified the level of investment expected to close to plant in service, by Federal Energy Regulatory Commission account for each month of the certification period, which included actual gas plant additions for December 2025 and January 2026, and estimates for February 2026 through May 2026 based on the Board-approved budget available at the time Southwest Gas's application was being prepared. (*Id.* at 22.)

Commission Discussion and Findings

229. The Commission agrees with Staff's recommendation because it will help parties assess how Southwest Gas's plant-in-service balances have changed or begin to determine whether those changes are reasonable and properly supported, thus ensuring a more complete record. The Commission therefore directs Southwest Gas, in its next GRC, to submit a filing

substantially similar to MDR 106 through the end of the certification period in its certification filing.

W. Self-Insurance Expense Normalization

Southwest Gas's Position

230. Southwest Gas states that it has a $1 million self-insured retention and that it is self-insured for the first $1 million of every general liability claim, with this per-occurrence amount applying to each individual claim and without any annual limit. (Ex. 192 at 13.) Southwest Gas states that it is responsible for the portion above $1 million until its total payments for these excess amounts reach the policy's $4 million Supplemental Retention Aggregate, after which the insurer takes over payments above the $1 million per occurrence level for the remainder of the policy year for non-vehicle general liability claims. (*Id.*)

231. Southwest Gas states that Adjustment No. 9 adjusts the test year recorded self-insured accruals charges to Account 925 during the test year to a normalized level. (*Id.* at 12.)

232. Southwest Gas states that it uses a ten-year average of self-insured claim amounts to normalize the self-insured expense for ratemaking purposes. (*Id.*)

Staff's Position

233. Staff recommends that the Commission remove costs used by Southwest Gas in their calculation of the Self-Insured Expense Normalization Calculation because these costs are directly attributable to the drilling into a mis-marked high-pressure gas main, known as the "Cheyenne Incident," and the Commission had disallowed those costs in Docket No. 17-08020. (Ex. 307 at 18-21.)

234. Staff recommends that the Commission remove three settlement payments related to the Cheyenne Incident from the 10-year self-insured expense normalization calculation. (Ex.

311 at 32.) Staff states that this recommendation results in a revenue requirement reduction of approximately $5,116 for SND. (*Id.*)

Southwest Gas's Rebuttal Position

235. Southwest Gas agrees with Staff's adjustment to remove from the self-insurance expense normalization amounts associated with settlement payments and costs that were previously disallowed by the Commission. (Ex. 194 at 4.) Southwest Gas states that the adjustment reduces its revenue requirement by $5,116. (*Id.*)

Commission Discussion and Findings

236. The Commission orders Southwest Gas to adjust the self-insurance expense of $5,116 because those costs were incurred as a result of damage caused by Southwest Gas and should not be borne by ratepayers.

X. Staff's Recommended Annual Revenue Requirements and Mill Assessment Calculation

Staff's Position

237. Staff recommends an annual revenue requirement of approximately $55.7 million for NND and approximately $406.4 million for SND. (Ex. 313 at 9.) Staff states that the proposed annual revenue requirement results in decreases of approximately $6.6 million for Northern Nevada and $30.2 million for Southern Nevada. (*Id.*)

238. Staff states that the methodology utilized by Southwest Gas in its revenue requirement model differs from Staff's model with regard to calculating the Mill assessment. (*Id.* at 3.) Staff states that the use of Mill assessment calculation is a prospective approach as opposed to the historical approach utilized by Southwest Gas. (*Id.* at 4.) Staff states that the amount of Mill assessment paid in the test year is based on fiscal year ("FY") 2024 revenues and that Southwest Gas reports its previous year's revenue each May to the Commission. (*Id.* at 3.)

Staff states that the Mill assessment paid by Southwest Gas during the test year does not accurately reflect the test year or certification period revenues and in effect, the amounts used by Southwest Gas will not reflect its future Mill assessment obligations. (*Id.*)

239. Staff states that its approach to the Mill assessment calculation starts with the Staff's adjusted revenue requirement before Mill assessments and then adds the non-margin revenue (reported fuel revenues in the instant case) subject to the Mill assessment. (*Id.* at 3-4.) Staff states that it then adds the calculated bad debt expenses to the results above and that Staff's model multiplies this total by the Mill assessment gross-up rate, which provides the estimated Mill assessment applicable to the test year's adjusted revenues. (*Id.* at 4)

Southwest Gas's Rebuttal Position

240. Southwest Gas states that it uses the same methodology as the last known assessment by the Commission in its methodology for the Nevada Mill Assessment certification adjustment. (Ex. 137 at 4.) Southwest Gas states that the assessable revenues used by the Commission were for calendar year 2024 and the assessment rate was for FY 2025 (received in June 2025). Southwest Gas states that it utilized this methodology in both of its preceding GRCs, Docket Nos. 21-09001 and 23-09012. (*Id.*)

241. Southwest Gas states that it recognizes its methodology may not reflect future Nevada Mill Assessment obligations but that Southwest Gas believes that Staff's proposal has the same limitation. (*Id.* at 5.) Specifically, Southwest Gas finds that methodologies are estimating assessments that are calculated by the Commission in the future and are not known as of the date of Southwest Gas's certification period and states that its methodology relies on the last known assessment by the Commission and is consistent with the approach that has been taken and approved by the Commission in both Docket Nos. 21-09001 and 23-09012. (*Id.*)

Southwest Gas states that it has under-recovered the Nevada Mill Assessment since its last GRC in Docket No. 23-09012. (*Id.* at 5.)

242. Southwest Gas proposes to maintain its historic methodology and utilize the last known assessment from the Commission as of the certification date while recognizing there are different methodologies that may be employed to determine the Nevada Mill Assessment certification adjustment. (*Id.* at 6.)

Commission Discussion and Findings

243. The Commission accepts the historical methodology used by Southwest Gas to calculate the Mill tax as it is unclear to the Commission what impact a change in methodology would have on reasonable recovery of the Mill tax expense.

244. The Commission directs Southwest Gas to submit the Mill tax using its historical methodology and Staff's proposed methodology in its next GRC filing as agreed to during the hearing. (Tr. Vol. 2 at 72.) Southwest Gas must coordinate with Staff to ensure the methodology proposed by Staff is understood and correctly deployed.

Y. Recovery for Solar-Power Projects

Southwest Gas's Position

245. Southwest Gas states that it installed solar modules at its Durango campus, South Operations Center in Henderson, and North Operations Center in North Las Vegas. (Ex. 170 at 6.) Southwest Gas states further that the projects' purpose is to decrease its power costs and greenhouse gas emissions. (*Id.*) Southwest Gas states that the costs of the solar projects were reasonably incurred. (*Id.* at 8.)

Staff's Position

246. Staff recommends that the Commission approve Southwest Gas's request to include the solar projects for recovery in this GRC. (Ex. 309 at 6.) Staff notes that Southwest

Gas did not include two work orders for the solar projects at the operations centers in the original application. (*Id.* at 3.) However, Staff states that it has independently verified these work orders. (*Id.* at 5.)

Southwest Gas's Rebuttal Position

247. Southwest Gas notes that Staff recommends approval of these work orders. (Ex. 172 at 5.)

Commission Discussion and Findings

248. The Commission finds that Southwest Gas may recover costs associated with solar module installs at its Durango campus, South Operations Center in Henderson, and North Operations Center in North Las Vegas. The projects are used and useful to reduce Southwest Gas's electric expenses, and Staff has verified the costs in the work orders.

Z. H1 Hardware Server Refresh Project (WO 0061W0008381)

Southwest Gas's Position

249. Southwest Gas states that the H1 Hardware Server Refresh work order is the purchase of new Cisco Unified Computing System servers to replace the current servers at the Switch (H1) data center, because the current servers reached the end of their life cycles or support in February 2024. (Ex. 168 at 2.)

250. Southwest Gas states that the cost of the work order was approximately $1.9 million, before allocation to Nevada customers. (*Id.* at 4.) Of that cost, Southwest Gas allocated approximately $93,000 to Northern Nevada customers and approximately $517,000 to Southern Nevada Customers. (*Id.* at 4-5.) Southwest Gas argues that the work order costs are reasonable and prudent, and Southwest Gas argues that the assets are used and useful in providing utility service. (*Id.* at 4.)

Staff's Position

251. Staff states that this work order was introduced for the first time in the certification filing and was not part of the original application or response to MDR 106. (*Id.* at 6.) Staff argues that because Southwest Gas did not disclose this work order until certification, no prudency package, project justification, cost detail, or allocation information was available to Staff during the primary discovery window. (*Id.* at 7.) Staff argues that, as a result, it was unable to vet the costs or perform any meaningful review of this new capital project. (*Id.*)

252. Staff recommends that the Commission reject recovery of the H1 Hardware Server Refresh work order because the project does not meet the criteria for inclusion in the certification revenue requirement. (*Id.*)

Southwest Gas's Rebuttal Position

253. Southwest Gas argues that Staff offers no testimony demonstrating that this project was unreasonable, unnecessary, or imprudent. (Ex. 169 at 4.) Southwest Gas argues further that this project was placed in service during the certification period and supports critical utility applications. (*Id.*). Moreover, Southwest Gas argues that on July 1, 2026, Staff propounded a data request and received a complete prudency package regarding this project. (*Id.* at 5.)

Commission Discussion and Findings

254. The Commission rejects the inclusion of the H1 Hardware Server Refresh Project in rates at this time because of Staff and other potentially interested parties' inability to vet the costs and perform a meaningful review of this new capital project. Nonetheless, the H1 Hardware Server Refresh Project was placed in service during certification, and, as computer hardware, it will have a shorter depreciable life than other gas distribution plant. Therefore, the

Commission authorizes Southwest Gas to place the costs of this project into a regulatory asset without carrying costs for consideration at a subsequent GRC.

AA. Amortization of Microsoft Dual Use Software and Oracle Software Licenses

Southwest Gas's Position

255. Southwest Gas states that it has an unlimited license agreement ("ULA"), which gives it unlimited deployment rights for specific Oracle products. (Ex. 167 at 13.) Southwest Gas argues that the ULA qualifies for capitalization because it is a long-term internal-use software asset that provides multi-year operational benefits and is essential to Southwest Gas's mission-critical systems. (*Id.* at 16.). Southwest Gas states that it also renewed its agreement to license various Microsoft products. (*Id.* at 30.) Southwest Gas argues that the costs of its Microsoft licenses similarly qualify for capitalization. (*Id.* at 35.)

Staff's Position

256. Staff recommends aligning amortization with the start date of each subscription or license agreement because the Microsoft and Oracle projects are not new system implementations. (Ex. 309 at 9.) Staff argues that the Microsoft Dual Use Software and the Oracle Software Licenses are license renewals, not new implementations that delivered operational benefits from the start of their agreements. (*Id.*) Staff contends that Southwest Gas delayed transferring the work orders to plant-in-service, which caused a mismatch between cost recognition and value delivery. (*Id.*) Staff argues that aligning amortization with agreement start dates better reflects useful life and prevents ratepayer overpayment. (*Id.* at 9-10.)

257. Staff states that Southwest Gas renewed its Microsoft 365 enterprise licensing from April 2024 to March 2027 to maintain access to essential productivity, identity management, and server software tools. (*Id.* at 8.) Staff states that these licenses are recurring, non-optional, and necessary for core functions, and that the Dual-use rights allow cloud or on-

premises installation without penalty. (*Id.*) Staff explains that of the $6.8 million total cost, 80 percent is capitalized as software license value and 20 percent is expensed as hosting services. (*Id.*)

258. Staff states that Southwest Gas procured an Oracle Unlimited License Agreement to support mission-critical systems such as customer information, outage management, asset management, financials, and emergency response. (*Id.*) Staff states further that the license terms are from May 2024 to May 2027. (*Id.*) Staff states further that the total cost is approximately $4.85 million, with the perpetual license portion allocated across jurisdictions. (*Id.*)

259. Staff argues that because these are license renewals, the underlying applications and database tools remain fully available on day one of the subscription terms and do not require a six-month system build or deployment period. (*Id.* at 9.)

260. Staff notes that Southwest Gas moved the Microsoft license and the Oracle license to plant in November 2024 instead of on the agreement dates in April and May 2024, respectively. (*Id.*)

261. Staff recommends that the Commission direct Southwest Gas to begin amortizing the costs associated with these licenses at the start date of each subscription or license agreements instead of on the date that Southwest Gas moved each subscription or license to plant-in-service. (*Id.* at 10.) Staff calculates that amortizing the costs from the date of purchase to the end of the certification period reduces system allocable net plant-in-service by $5.697 million, before allocations. (Ex. 305 at 4.) Staff argues that including these assets at unamortized book value would result in ratepayer overpayment. (*Id.*)

Southwest Gas's Rebuttal Position

262. Southwest Gas argues that Staff's recommendation incorrectly treats the software license agreements and the related implementation projects as a single asset. (Ex. 194 at 16.)

263. Southwest Gas argues further that the critical accounting trigger is not the date a software license becomes effective, but rather the date the implementation asset is ready for productive use. (*Id.* at 17.) Southwest Gas argues that the implementation projects associated with both the Microsoft and Oracle software were not placed in service until November 2024. (*Id.*)

264. Southwest Gas states that its review indicates that the actual reduction resulting from Staff's adjustment is approximately $1.28 million, which represents the difference between its filed system allocable net plant in-service and Staff's proposed amount. (*Id.* at 18.)

Commission Discussion and Findings

265. The Commission finds the purchases of the licenses were renewals for existing products and not results of new implementations. The Commission agrees with Staff that the amortization schedules associated for these license renewals should align with the starting dates of the renewal agreements. Notably, the applications underlying the renewals were continuously available to Southwest Gas. However, the Commission agrees with Southwest Gas that the resulting reduction should be $1.28 million and not $5.697 million originally calculated by Staff. Staff agreed with this amount during the hearing. (Tr. Vol. 3 at 9.)

BB. Lamb Tap Project Expected Change in Circumstances ("ECIC")

Southwest Gas's Position

266. Southwest Gas states that the Lamb Tap Project is a new interconnection with Kern River, designed to maintain service in the northern and eastern parts of the Las Vegas Valley. (Ex. 146 at 23.) Southwest Gas states that, on certification, the Lamb Tap Project is

expected to cost $44.4 million, an increase from the initial estimate of $35.5 million. (Ex. 147 at 8-9. *See also* Ex. 146 at 24.) Southwest Gas requests that the Commission grant an ECIC adjustment under NRS 704.110(4) for the Lamb Tap Project. (Ex. 146 at 25.)

BCP's Position

267. BCP recommends that the Commission reject the ECIC request for the Lamb Tap project. (Ex. 411 at 24.) BCP argues that Southwest Gas should be required to submit the Lamb Tap Project for prudence evaluation in its next GRC. (*Id.*) BCP further argues that the Commission should require Southwest Gas to provide, as part of its request, hydraulic modeling results that support the need for the Lamb Tap Project, an explanation and justification for cost overruns, a justification for decommissioning the Pecos Tap, and a modeling of the Lamb Tap required capacity and cost with and without the Pecos Tap in service. (*Id.* at 24.)

Staff's Position

268. Staff notes that the 210-day period under NRS 704.110(4) for an ECIC expires on October 14, 2026. (Ex. 306 at 3, *corrected by* Tr. Vol. 3 at 10-11.)

269. Staff argues that the Lamb Tap Project fails to meet ECIC criteria on three grounds: (1) it does not have an objectively high probability of occurring as expected; (2) it will not be placed into service within the 210-day ECIC period; and (3) its costs were not reasonably known and measurable with reasonable accuracy at the time of filing. (Ex. 306 at 6.) Staff notes that the Lamb Tap Project's estimated cost increased approximately 25 percent, from $35.5 million to $44.4 million. (*Id.* at 7-8.) Staff notes that Southwest Gas has obtained only 2 of 11 required permits approximately one month after Southwest Gas had filed the application in this docket. (*Id.* at 8-9.)

270. Staff notes that Southwest Gas initially projected that the Lamb Tap Project would operate at a level of 720 pounds per square inch gauge ("psig") for a $35.5 million cost and with a generic estimated in-service date prior to the end of October 2026. (*Id.* at 6.) Staff notes further that Southwest Gas now states that the Lamb Tap Project will only be able to operate at 300 psig until additional planned modifications to its high-pressure system are completed in the 2027-2028 timeframe to enable operation at the higher 720-psig level. (*Id.* at 7.)

271. Staff notes that since the initial preliminary estimate, Southwest Gas has identified additional requirements, including the need for rupture mitigation valves ("RMVs") to meet federal safety requirements under 49 Code of Federal Regulations ("CFR") § 192.634(a), adjustments required by the Bureau of Land Management ("BLM") permit, and relocation of the Lamb Tap site of approximately 100 feet. (*Id.* at 8.) Staff further notes that, by the end of June 2026, Southwest Gas still has yet to receive from the Nevada Department of Transportation approval of its traffic control plans associated with crossing Interstate 15, approval of its site development plans for the RMV site, including grading, drainage, and block wall construction, or approval of the permits associated with the Lamb Tap site from BLM and the City of North Las Vegas. (*Id.* at 9.)

272. To support its concerns that Southwest Gas would not be able to place the Lamb Tap Project in service within the 210-day deadline, Staff notes that Southwest Gas took approximately six to seven months to construct, place into service, and transfer to plant the Sunridge distribution regulator station ("DRS"), which is much smaller, less complex, and less costly than the Lamb Tap Project. (*Id.* at 11-12.)

273. Staff notes that Southwest Gas has formally requested from the Pipeline and Hazardous Materials Safety Administration ("PHMSA") a 90-day extension of 49 CFR

§ 192.634(a)'s 14-day requirement to install RMVs because of Southwest Gas's inability to install the supervisory control and data acquisition ("SCADA") systems necessary to operate and control the RMVs prior to the deadline because Southwest Gas does not yet have the required site development permits. (*Id.* at 13.)

274. Staff states that Southwest Gas has not provided any information pertaining to the construction status of Kern River's Interconnection Facilities, has yet to obtain all necessary permits to construct the project, and has notified its federal pipeline safety regulator that it cannot install the required SCADA systems until 45 to 60 days after it installs the RMVs. (*Id.* at 14.)

275. Staff recommends that the Commission should not allow Southwest Gas to claim that the Lamb Tap Project is in-service until, at a minimum, natural gas is flowing from Kern River to the tie-in with the high-pressure distribution system at Craig Road, all necessary facilities, including the required SCADA systems, are installed and operating as intended, and Southwest Gas has closed the Lamb Tap Project to plant. (*Id.*)

276. Staff recommends that the Commission adhere to the statutorily required ratepayer protections associated with ECIC, determine that Southwest Gas has not met its burden that the Lamb Tap Project satisfies the ECIC requirements in NRS 704.110(4) in its initial application for the reasons stated above, and deny the Lamb Tap Project's ECIC adjustments. (*Id.* at 16.) Accordingly, Staff recommends that the Commission remove from rate base the approximately $44.4 million in costs attributable to the Lamb Tap Project's ECIC. (Ex. 305 at 3.)

Southwest Gas's Rebuttal Position

277. Southwest Gas states that NRS 704.110(4) permits utilities to reflect expected changes in circumstances that are specific and identifiable, reasonably known and measurable with reasonable accuracy, and expected to occur while the rate case is pending. (Ex. 194 at 12.)

278. Southwest Gas states that it identified and disclosed the Lamb Tap Project in its original application and that it subsequently provided updated information through the certification process. (*Id.* at 12-13.)

279. Southwest Gas explains that large utility infrastructure projects often become more refined as engineering, permitting, contractor pricing, and project execution activities progress. Southwest Gas argues that updates to estimates as more information becomes available does not mean the project itself was unknown or speculative. (*Id.* at 13.)

280. Southwest Gas requests that, if the Commission concludes that the Lamb Tap Project does not satisfy the ECIC requirements under NRS 704.110(4), the Commission authorize Southwest Gas to record the prudently incurred costs associated with the Lamb Tap Project as a regulatory asset pending recovery in a future proceeding. (*Id.* at 13.)

281. Southwest Gas proposes in the alternative that the Commission authorize recovery of the known, measurable, and prudently incurred and recorded costs associated with the Lamb Tap Project as of the end of the certification period. (*Id.* at 15.) Southwest Gas states that this approach would recognize only the known, actual investment made as of the certification period, approximately $18.8 million, that will serve customers while rates from this proceeding are in effect, while addressing concerns regarding the inclusion of forecasted or estimated future costs. (*Id.*)

282. Southwest Gas argues that the timeline for the construction of the Sunridge DRS Project is separate and distinct from the timeline to construct the Lamp Tap Project, and that a comparison of the two is not appropriate. (Ex. 145 at 5.) Southwest Gas states that the Sunridge DRS was contingent on another project, primary regulator issues caused additional delays, and

backend processes would have been expedited if tight timelines were in place. (*Id.* at 4.) Southwest Gas notes that a typical DRS installation takes one to three months. (*Id.*)

283. Southwest Gas argues that the Lamb Tap Project addresses a demonstrated need for additional firm upstream supply, system reinforcement, and pressure support in the northern and eastern portions of the Las Vegas Valley. (Ex. 162 at 4.) Southwest Gas argues further that the Lamb Tap Project is necessary because otherwise, without a new interconnection to Kern River, its system would not have sufficient reliable capacity to meet design day demand. (*Id.*)

284. Southwest Gas notes that the testimony recommending denial of the ECIC adjustment primarily questions timing, cost development, permitting, construction progress, and possible alternatives. (*Id.* at 5.) Southwest Gas states that its response to data request BCP-18 Confidential -007 demonstrates that the primary cost increases for the Lamb Tap Project were associated with site construction, contractor labor, site construction requirements, and related overheads as project design and execution details became more fully defined. (*Id.* at 15.)

285. Southwest Gas states that it met with representatives from PHMSA and Staff on July 28, 2026, to discuss the Lamb Tap RMV configuration and the proposed crossover valve arrangement. (*Id.* at 21.) Southwest Gas states further that during that meeting, the PHMSA representative indicated that he did not identify concerns with Southwest Gas's proposed crossover valve configuration and stated that he did not see a reason to reject the proposal. (*Id.*)

Commission Discussion and Findings

286. The Commission finds that Southwest Gas has met the ECIC criteria and demonstrated that the Lamp Tap project would be in-service prior to the end of the ECIC period. While the Commission does have concerns regarding the changes in scope since the original

filing, Southwest Gas was able to navigate several permitting issues and achieved several large construction milestones to commission the project before the end of the ECIC deadline.

287. The Commission approves the Lamb Tap project based on the expectation, pursuant to the evidence in the record, that the project is placed in-service during the ECIC period. As a compliance, Southwest Gas shall provide to the Commission proof of the Lamb Tap commissioning during the ECIC period as well as the total project costs incurred through the ECIC period.

288. The Commission also finds that additional construction activities may be required to achieve the entire benefit that the Lamb Tap project is expected to provide after the project is placed in-service during the ECIC period. Considering this, the Commission is not approving any project costs occurring after the ECIC period. Those costs, should they be incurred, can be requested in a future rate case filing.

VI. RATE DESIGN

A. Annualized Billing Determinants and Weather Normalization

Southwest Gas's Position

289. Southwest Gas states that it has adjusted test-year billing determinants by: (1) billing adjustments; (2) customer-specific volume annualizations; (3) customer reclassifications; (4) weather normalization, and (5) customer annualizations. (Ex. 118 at 3.) Southwest Gas states that the methodology used in this case is the same as the methodology that it has been using in its rate cases since 2001. (*Id.* at 4.)

290. Southwest Gas states that weather normalization adjustments depict monthly test year volumes under normal, or average weather conditions. (*Id.* at 5.) Southwest Gas states that for the test year in this docket, actual billing cycle heating degree days ("HDD") were approximately 7.3 percent warmer than normal in Southern Nevada and approximately 8.3

percent warmer than normal in Northern Nevada. (*Id.* at 6.) Southwest Gas states that it adjusted its test year volumes to reflect anticipated volumes under normal weather conditions. (*Id.*)

291. Southwest Gas states that in its certification filing it has replaced forecasted customers through May 2026 with actual billed customers for Single-Family and Multi-Family Residential rate schedules, the small commercial customers within the General Service rate schedules, and the apartment category within the SG-G1 General Service rate schedule, and that it has changed the monthly terms for those affected rate schedules. (Ex. 119 at 3.) Southwest Gas states further in its certification filing that all other customers and rate schedules are consistent with what it had included for the November 2025 test period. (*Id.*)

Staff's Position

292. Staff recommends that the Commission accept Southwest Gas's certification-period annualized billing determinants. (Ex. 303 at 2-5.)

Commission Discussion and Findings

293. The Commission finds that Southwest Gas's methodology for determining HDDs and Cooling Degree Days ("CDD") as part of its weather normalization process to be acceptable. The Commission recognizes that Southwest Gas's current 10-year average HDD used to weather normalize test year volumes, has been the methodology used by Southwest Gas since 1985. The Commission agrees that using this methodology is consistent and appropriate for this case because the methodology has consistently normalized annual weather changes.

294. The Commission advises Southwest Gas that if it changes its methodology, then Southwest Gas it should provide the new methodology in testimony, along with illustrative examples of the methodology that has been used since the 1980s, and explain why it believes that it needs to change the methodology. The Commission recognizes that Southwest Gas's

current ten-year average HDD methodology reflects the identified warming trend, as shown by the rolling actual and ten-year average HDD graphs included in Exhibit 118. The Commission encourages Southwest Gas to include data on any forward analysis that could give the Commission an indication on how this warming trend may affect the utility and the rate payers in the future.

295. The Commission accepts Southwest Gas's certification period annualized billing determinants and weather normalization process because it provides adequate information consistent with past filings.

B. Class Cost of Service Study ("CCOSS")

Southwest Gas's Position

296. Southwest Gas states that it does not propose substantive changes to its existing CCOSS. (Ex. 120 at 11.) Southwest Gas provides that it made some ministerial changes to the CCOSS and rate-design model to make the model more understandable and user-friendly. (*Id.* at 12.)

297. Southwest Gas states that it used its proposed CCOSS to move class revenue requirements at proposed rates closer to revenue requirements based upon cost of service. (*Id.* at 19.) Southwest Gas further states that it updated its CCOSS and rate-design models to incorporate the certification period. (Ex. 121 at 3.)

NCA1's Position

298. NCA1 presents an alternative CCOSS that approximates a plastic/steel refinement for allocating costs of distribution mains and ensures that no SND rate class receives an increase greater than 1.25 times the system average increase. (Ex. 500 at 34.)

299. NCA1 argues that Southwest Gas's CCOSS does not assign transmission and distribution capacity costs to cost causers in accordance with rate design cost-causation

principles. (*Id.* at 7.) NCA1 states further that Southwest Gas's CCOSS reflects a volumetric allocation of capacity costs through its peak month throughput design, rather than a design day demand allocation. (*Id.*) NCA1 also argues that Southwest Gas's CCOSS allocates a share of total system distribution costs to the SG-G5 customer class, rather than directly assigning the costs of the dedicated high-pressure facilities that are used to serve that class. (*Id.*) NCA1 states that Southwest Gas's proposed revenue apportionment, together with its proposal to not increase the rates for the SG-G5 customer class, produces a cross-subsidy from the SG-G5 class to the SG-G6, SG-EG, and SG-WP classes that is contradictory to its own CCOSS. (*Id.*)

BCP's Position

300. BCP argues that Southwest Gas's CCOSS is unreasonable. (Ex. 400 at 46.) BCP states that it conducted an alternative CCOSS using industry-accepted approaches. (*Id.* at 3.)

Staff's Position

301. Staff states that Southwest Gas proposes to maintain current basic service charges and to adjust demand charges and per-therm delivery charges to meet each customer class's revenue requirement. (Ex. 301 at 19.) Staff states that this formula is acceptable. (*Id.*) However, Staff recommends that the Commission reject Southwest Gas's customer-class revenue-requirement allocation based upon Southwest Gas's CCOSS and instead accept Staff's estimates based on various adjustments described in Staff's recommendations below. (Ex. 301 at 18-19.)

302. Staff recommends that the Commission find that the computations underlying Staff's position on Southwest Gas's CCOSS and rate design are reliable and valid. (Ex. 300 at 5.)

303. Staff states that Southwest Gas's recommended CCOSS and rate-design models contain rate-design mitigations that Southwest Gas did not include in its alternative CCOSS and

rate-design models. (*Id.* at 6.) Staff states that this difference makes it difficult to compare Southwest Gas's recommended CCOSS and rate-design models with their alternatives. (*Id.*)

304. Staff recommends that the Commission issue a directive that, in future GRCs, Southwest Gas enhances the ease of comparing its various CCOSS and rate-design models. (Ex. 300 at 6.)

305. Staff states that Southwest Gas currently lacks daily consumption data per customer class. (Ex. 301 at 20.) Staff states that it believes such data would be instrumental to evaluating CCOSSs and designing effective rates. (*Id.*)

306. Staff recommends that the Commission issue a directive for Southwest Gas to investigate whether it is cost-effective to invest in meters that will allow Southwest Gas to determine peak-day consumption for all customer classes. (*Id.* at 22.)

Southwest Gas's Rebuttal Position

307. Southwest Gas states that it prepared an illustrative CCOSS using the exact classification weighting that Staff proposed in its 2023 GRC, Docket No. 23-09012. (Ex. 122 at 11.) Southwest Gas notes that Staff criticizes that illustrative CCOSS because Southwest Gas did not apply the mitigations used in its recommended CCOSS to that illustrative CCOSS. (*Id.* at 12.) Southwest Gas notes further that when Staff applied those mitigations to the illustrative CCOSS, Staff also used its own modifications to those mitigations. (*Id.*) Southwest Gas notes that Staff's actions undermine its own complaint that Southwest Gas did not present an "apples to apples" comparison. (*Id.*) Southwest Gas argues that Staff's actions thus support Southwest Gas's decision not to apply a uniform set of mitigations across all its illustrative CCOSS models, because the appropriate mitigations might vary depending upon the underlying CCOSS results and the rate-design objectives. (*Id.*)

308. Southwest Gas states that, for Northern Nevada, all the parties' recommended class revenue allocations are relatively similar. (*Id.* at 13.) For Southern Nevada, Southwest Gas argues that Staff's recommendation does not reasonably reflect the way Southwest Gas incurs costs to serve the various customer classes. (*Id.* at 14.) Southwest Gas argues that Staff's recommendation would shift a substantial portion of revenue responsibility from the single-family residential rate class to other rate classes, including the multi-family residential rate class. (*Id.*)

309. Southwest Gas states that the results produced by Staff's CCOSS model, including mitigations, appear to be unreasonable. (Ex. 122 at 16.) Moreover, Southwest Gas does not believe that a Commission directive regarding the comparison of its recommended and alternative CCOSSs is necessary. (Ex. 122 at 16.) Southwest Gas states that it provided a CCOSS guide in this docket, and that it made some ministerial changes to its CCOSS and rate-design models to improve clarity and user-friendliness. (*Id.*)

Commission Discussion and Findings

310. The Commission accepts Southwest Gas's CCOSS as appropriate for use in this case, subject to the adjustment approved elsewhere in this Order. Specifically, the 1.25 times system average cap on SND class increases is applied to Southwest Gas's SND CCOSS.

311. The Commission finds that Southwest Gas's CCOSS provides adequate transparency and adequately captures the costs of Southwest Gas's system for ratemaking purposes. The impact of the output of the CCOSS on the various rate classes is one of several issues that the Commission must consider in setting an appropriate rate design. The Commission notes that Southwest Gas's SND CCOSS did not increase rates for the SG-G5 customer class.

312. The Commission rejects Staff's CCOSS and its use of the demand and commodity ("DEMCOM") allocation. The Commission views rate design as an exercise of judgment as well as mathematics, including but not limited to, keeping one customer class from experiencing rate shock. In Staff's CCOSS proposal, the multi-family class would experience a significant rate increase without any meaningful change of service. The Commission acknowledges the conundrum raised by Staff in the reliance solely on demand; however, the Commission finds the use of commodity to allocate costs not appropriate in this instance because the commodity cost does not drive investment. The Commission believes that additional discussion of this area is warranted, to be held in the informal workshop ordered below.

313. The Commission has considered BCP's proposed alternative CCOSS and finds that its proposal is not appropriate in this case.

314. The Commission rejects the use of NCA1's proposed CCOSS to set rates in this case. As discussed further in a subsequent section, using NCA1 approach to distinguish steel and plastic distribution mains for cost allocation is not consistent with how NCA1 utilizes Southwest Gas's system.

315. The Commission finds that Southwest Gas's proposal of maintaining current basic service charges and adjusting demand charges and per-therm delivery charges is appropriate for setting rates in this case. Staff agreed that Southwest Gas's proposal is acceptable and thus the Commission maintains the basic structure of rates in this case. No party presented evidence that changes to the current rate structure would benefit customers.

316. The Commission finds that the guide, which Southwest Gas provided in response to Staff's request for an explanation how its CCOSS is constructed, clear and easy to follow. However, the Commission acknowledges Staff's concern with the CCOSS guide. The

Commission therefore directs that an informal workshop, facilitated by the Commission's Policy Analysis Division, be held to discuss the concerns that Staff has with Southwest Gas's CCOSS guide, as well as other concerns identified such as the use of the DEM allocator.

317. Finally, as a directive, the Commission orders Southwest Gas to include in its next IRP filing an analysis whether it is cost-effective to invest in meters that would allow it to determine peak-day consumption for all customer classes. This information will assist the Commission in analyzing potential future metering investment.

C. Cost Classifications of Distribution and Transmission Mains

Southwest Gas's Position

318. Southwest Gas states that its classification of distribution mains reflect two distinct cost drivers – the number of customers and peak day demand given that distribution mains are intended to meet customer demand. (Ex. 118 at 14.) Southwest Gas explains that it classifies the costs of distribution mains 50 percent on the number of customers and 50 percent on the demand. (*Id.*)

319. Southwest Gas states that it has a 100 percent demand classification factor for the cost of its Southern Nevada transmission mains. (Ex. 122 at 9 n.22.) Southwest Gas states that it has no transmission lines in Northern Nevada. (Ex. 140 at 3.)

NCA1's Position

320. NCA1 notes that transmission and distribution mains must be sized to meet system peak day demand, which is primarily driven by customers who are weather sensitive. (Ex. 500 at 7.) NCA1 states that the fixed cost of that capacity is the same every day of the year, irrespective of operating pressure and the utilization of the mains. (*Id.* at 7-8.)

321. NCA1 notes that a throughput allocator allocates more capacity cost to higher load factor classes than is necessary to meet their coincident peak demand, and it allocates less capacity cost to the lower load factor classes that drive the need for capacity. (*Id.* at 8-9.)

322. NCA1 argues that Southwest Gas's billing determinants show that SG-G5 delivered 665,017 therms during the January 2025 peak month, which is 0.70 percent of Southern Nevada's total peak month throughput. (*Id.* at 9.) NCA1 argues that, in contrast, deliveries to SG-G5 during summer months exceeded 16 million therms per month. (*Id.*) NCA1 argues that, consequently, SG-G5's deliveries in the system's peak month of January 2025 represent less than one percent of its annual deliveries of approximately 77.4 million therms. (*Id.*) NCA1 concludes that SG-G5 does not drive the need for capacity to meet system design day demand, but that the winter peaking classes drive that demand. (*Id.*)

323. NCA1 argues that a commodity classification is inconsistent with the reality of a gas distribution system and that it is inconsistent with Southwest Gas's own testimony and discovery responses in this docket. (*Id.*) NCA1 states that transmission and distribution mains are capital facilities, and that their cost is incurred when they are installed and does not vary with the volume of gas that flows through them. (*Id.*) NCA1 states further that no engineering, cost, or load study has been offered that ties any portion of main capacity cost to volumetric throughput. (*Id.* at 17.)

324. NCA1 states that the commodity component is allocated on volumes. (*Id.* at 17.) NCA1 states further that the demand components are allocated on peak month throughput, which itself is a volumetric measure. (*Id.*) NCA1 argues that a demand-classified allocation and a commodity-classified allocation thus reflects a class's volumetric usage twice. (*Id.*) NCA1

recommends that the Commission reject any classification of transmission or distribution main capacity as commodity-related. (*Id.* at 18.)

325. NCA1 notes that Southwest Gas classifies its distribution mains as 50 percent customer-related and 50 percent demand-related, to reflect the cost drivers of the number of customers and peak-day demand. (Ex. 500 at 30.) However, NCA1 provides that Southwest Gas's minimum system study indicates that, for Southern Nevada, 67.76 percent of distribution mains should be classified as customer-related. (*Id.*) NCA1 explains that it does not oppose the continued use of the 50/50 classification, but it notes that it has no evidentiary basis in this docket because Southwest Gas has presented only the minimum system study that indicates that 67.76 percent of distribution mains should be classified as customer-related. (*Id.* at 31-32.)

BCP's Position

326. BCP argues that Southwest Gas's classification of distribution-main costs as 50 percent customer-related and 50 percent demand-related is biased. BCP states that this classification results in double counting: small-volume customers, served mostly by 2-inch plastic pipe, get assigned costs both as "customer" costs and again through their share of peak demand. (Ex. 400 at 25-26.)

327. BCP disputes the notion that the number of customers is a valid cost driver. (*Id.* at 15-16.) BCP notes that under Southwest Gas's own Rule 9, Southwest Gas will only extend distribution mains to where usage and revenue would economically justify the investment. (*Id.* at 16-17.)

328. BCP proposes the alternative peak-and-average ("P&A") method, which it argues is industry-recognized, because it reflects both year-round usage and peak-period responsibility. (*Id.* at 34-36.)

Staff's Position

329. Staff states that Southwest Gas's demand allocation factor ("DEM") relies solely on peak-month, *i.e.*, January, consumption for costs like depreciation and operations & maintenance. (Ex. 301 at 6-7.) Staff argues that Southwest Gas incurs these costs year-round and that both demand and consumption influence these costs. (*Id.* at 9.)

330. Staff proposes Southwest Gas utilize DEMCOM instead, an allocation factor consisting of 50 percent demand and 50 percent commodity. (*Id.* at 9-10.) Staff argues that using DEMCOM results in a shift from the residential and multi-residential classes to larger customer classes such as SG-G4, SG-G5, and SG-G6. (*Id.* at 10.)

331. Staff recommends that the Commission reject the demand allocation factor and, in its place, accept Staff's proposed DEMCOM allocation factor, which is an equally weighted combination of Southwest Gas's demand allocation factor "DEM" and its commodity allocation factor "COM." (*Id.* at 11.)

Southwest Gas's Rebuttal Position

332. Southwest Gas recommends that, if the Commission adopts NCA1's recommendation to return to the approach used in Docket No. 20-02023, then NCA1 should be required to enter into a revised transportation service agreement ("TSA") with Southwest Gas, limiting NCA1's gas deliveries only to receipts from Kern River Gas Transmission Company. (Ex. 122 at 22.)

333. Southwest Gas notes that, in event the Commission adopts NCA1's recommendation to allocate transmission and distribution main capacity costs using the design-day allocator and customer-classified distribution main costs using customer counts, it has estimated the design day demand values used in its illustrative CCOSS. (Ex. 122 at 23.)

Southwest Gas explains that it does not maintain daily usage data for all customer classes, and thus the design day demand values were developed for illustrative purposes only in evaluating alternative allocation methodologies. (*Id.*)

334. Southwest Gas states that it has used its methodology of 50 percent customer and 50 percent demand classification for distribution mains since 2001. (Ex. 122 at 8.) Southwest Gas states that it has been consistent with its 50/50 classification over the years while Staff has changed its perspective. (*Id.* at 10.)

335. Southwest Gas recommends that the Commission reject Staff's recommendation to replace the DEM allocation factor with the DEMCOM allocation factor. (*Id.* at 16.)

Commission Discussion and Findings

336. The Commission approves the 50/50 classification presented by Southwest Gas for distribution mains. The Commission initially approved the 50/50 classification in Southwest Gas's 2001 GRC, Docket No. 01-7023 and has approved this classification in every Southwest Gas GRC since. Both customer count and peak day demand drive the need for additional investment in distribution mains, therefore the 50/50 classification is a balanced method to capture those cost drivers.

337. The Commission acknowledges BCP's argument that the 50/50 customer/demand classification, in its perspective, may result in double counting. However, small volume customers drive many of the costs for distribution mains. Therefore, the Commission finds that the 50/50 classification does appropriately allocate the costs for distribution mains. Peak demand is an undeniable aspect of providing gas utility service. Thus, the classification of peak demand is appropriate for rate making in this case.

338. The Commission declines to use peak and average methodology in this docket because Southwest Gas would need to present the full data in such a methodology for the Commission and other intervenors evaluate its reasonableness. The Commission declines the adoption of BCP's proposed peak-and average methodology in this docket and retains the 50/50 classification.

339. The Commission rejects in this case the use of a commodity component for allocation. The Commission finds that evidence in this case suggests that using a commodity component to determine distribution main allocation would be inappropriate given that the volume of gas does not necessarily drive capital investment. The Commission therefore denies Staff's proposal to use the DEMCOM allocator as it utilizes a commodity component. The commodity allocation is not a reasonable tool to allocate capital investment in this matter.

340. The Commission finds NCA1's discussion on the commodity issue interesting; however, it does not find sufficient evidence to deviate from the currently utilized 50/50 allocation. Further, the Commission agrees with Southwest Gas's argument that a return to the approach in Docket No. 20-02023 could only occur after NCA1 enters into a TSA.

D. Caps on Individual Rate-Class Rate Increases

Southwest Gas's Position

341. Southwest Gas states that it bases its revenue targets for each rate class on its proposed Proportional Cost Responsibility Method ("PCRM"), subject to mitigations. (Ex. 120 at 24.) Southwest Gas states that its proposed first mitigation is to not allow any rate class in Southern or Northern Nevada to receive more than 2.0 times the system average rate increase. (*Id.*)

342. Southwest Gas states that its proposed second mitigation, specific to Southern Nevada, is to cap the single-family residential rate class at the cost-of-service rate-of-return revenue. (*Id.* at 25.)

343. Southwest Gas states that its proposed third mitigation, again specific to Southern Nevada, is to not increase the SG-G5 rate class's rates because its current rate of return from that class is well above the requested system rate of return. (*Id.*) Southwest Gas proposes further that the difference resulting from this mitigation be allocated to the SG-G6, SG-WP, and SG-EG rate classes to move those classes closer to cost-of-service-based rates.

NCA1's Position

344. NCA1 states that under Southwest Gas's PCRM, the percentage increase for each rate class is calculated by multiplying the system average percentage increase by the ratio of each class's margin at the system rate of return to its margin at present rates. (Ex. 500 at 32.) NCA1 states that Southwest Gas's PCRM can only produce increases in rates. (*Id.*)

345. NCA1 states that the SG-G5 rate class illustrates the point. (*Id.*) NCA1 explains that SG-G5's rate of return based upon Southwest Gas's proposed CCOSS is 15.78 percent, which is 3.4 times the system average return of 4.70 percent. (*Id.*) NCA1 further explains that Southwest Gas's own CCOSS shows that SG-G5's margin at the system rate of return is $1,434,525, compared to present margin of $2,000,444. (*Id.*) NCA1 states that, put another way, Southwest Gas's proposed CCOSS indicates a decrease in SG-G5, but the PCRM produced a proposed increase of $242,062. (*Id.* at 32-33.)

346. NCA1 states that Southwest Gas's method, with the no-increase cap for SG-G5, still would result in a rate of return of 15.61 percent for SG-G5, which would be 2.2 times the system average at the proposed rates. (*Id.* at 33.) NCA1 notes that Southwest Gas addresses the

issue by proposing an adjustment so that SG-G5 receives no increase and rate classes SG-G6, SG-EG, and SG-WP receive corresponding additional increases. (*Id.*)

347. NCA1 proposes a revenue allocation that starts with its alternate CCOSS, which approximates a refinement for whether distribution mains are plastic or steel, and caps each SND class's increase at 1.25 times the system average rate increase. (*Id.* at 34.)

BCP's Position

348. BCP states that Southwest Gas proposes to limit increasing the rate of any class to two times the system average percentage increase. (Ex. 400 at 46.) BCP proposes the same cap. (*Id.* at 47.) However, BCP argues that the proposed rate increases are unfair and unreasonable. (*Id.* at 46.)

Staff's Position

349. Staff states that it disagrees with Southwest Gas's proposal for no increase in the SG-G5 rate class, but Staff also states that the SG-G5 rate class should receive some policy consideration because of the small number of customers in the class. (*Id.* at 15.) Staff proposes that the SG-G5 rate class receives an increase of no more than 0.6 times the system average rate increase. (*Id.*)

350. Staff recommends capping SG-RM's contribution at 25 percent. (*Id.* at 17.)

351. Staff does not propose any adjustment to Southwest Gas's rate increase cap for Northern Nevada because, based upon its own CCOSS, the differences would be insignificant. (*Id.*)

Southwest Gas's Rebuttal Position

352. Regarding BCP's proposed revenue increases, Southwest Gas does not dispute the reasonableness of BCP's approach. (Ex. 122 at 20.) However, Southwest Gas disagrees with

BCP's recommendation for a rate increase in the SG-G5 rate class because under Southwest Gas's proposal of no increase, SG-G5's allocation still would exceed the revenue indicated by Southwest Gas's CCOSS. (*Id.*) Otherwise, Southwest Gas provides that BCP's recommended revenue allocation is generally consistent with Southwest Gas's approach. (*Id.* at 20-21.)

353. Regarding Staff's recommendations, Southwest Gas states that its rebuttal focuses on Southern Nevada, because for Northern Nevada the parties' recommended class revenue allocations are relatively similar and generally align with Southwest Gas's proposed class revenue allocation. (*Id.* at 13.)

354. Southwest Gas notes that NCA1's, BCP's, and its own recommended margin revenue increase to SG-RS range from $45.2 million to $49.5 million. (*Id.* at 13-14.) Southwest Gas notes further that Staff's recommended margin revenue increase to SG-RS is approximately $25.7 million. (*Id.* at 14.)

355. Southwest Gas states that Staff's proposed reduction to the SG-RS customer allocation results in shifts to the multi-family residential customers in the rate schedule SG-RM and to the general service rate schedules SG-G1 through SG-G6. (*Id.*)

356. Southwest Gas states that it disagrees with Staff's proposed class revenue allocation because it would unreasonably shift revenue responsibility among customer classes. (*Id.* at 14-15.)

Commission Discussion and Findings

357. The Commission adopts NCA1's proposed revenue allocation methodology which caps each SND rate class's increase at 1.25 times the system average. The Commission finds that NCA1's approach appropriately restrains rate shock across customer classes while still

permitting movement toward cost-of-service based rates. The Commission adopts Southwest Gas's proposed allocation methodology for NND as presented in the application.

358. The Commission rejects Staff's proposal to allow the SG-G5 rate class to receive an increase. The evidence in this docket, including Southwest Gas's own CCOSS, establishes that SG-G5's rate of return is already above the system average. Accepting Staff's proposal would make that disparity even larger. The Commission finds no basis to increase the SG-G5 rates beyond present.

E. Other Issues relating to Schedules SG-G5 and SG-G6

NCA1's Position

359. NCA1 notes that, in response to discovery, Southwest Gas indicated a willingness to eliminate the 15-percent winter usage threshold in SG-G5 and to combine SG-G5 and SG-G6 for the purposes of class cost of service and rate design. (Ex. 500 at 36.) NCA1 opposes this combination because it would result in a large cross-subsidy from SG-G5 customers to SG-G6 customers. (*Id.*)

360. NCA1 argues that the winter threshold should be kept because it reflects the cost of service. (Ex. 500 at 41.) NCA1 argues further that the threshold should be modified to exclude a customer's firm scheduled deliveries at the Apex Tap from the winter usage calculation. (*Id.*) NCA1 provides that without the exclusion, firm winter deliveries at the Apex Tap could disqualify NCA1 from the schedule that reflects its cost of service. (*Id.*)

Southwest Gas's Rebuttal Position

361. Southwest Gas does not address this issue raised by NCA1.

Commission Discussion and Findings

362. The above-referenced issue was raised in response to data request sent by NCA1 to Southwest Gas regarding certain tariff changes. However, NCA1 has provided testimony

which demonstrates that accepting such a tariff change would result in a cross subsidy. This change was not proposed in Southwest Gas's application and Southwest Gas did not provide any testimony related to the concept. The Commission rejects the proposal to combine the tariffs and to eliminate the 15 percent usage threshold because it lacks an adequate evidentiary basis.

F. NCA1's Recommendation for Direct Assignment of the Cost of the Facilities Used to Serve NCA1 and to Go Back to the Assignment Methodology Used in Docket No. 20-02023

NCA1's Position

363. NCA1 states that Southwest Gas allocates a share of total system demand-related distribution main costs to all customers, including SG-G5, using each class's share of peak-month throughput. (Ex. 500 at 18.) NCA1 states further that in Docket No. 20-02023 the proposed CCOSS had direct assignment of the dedicated high-pressure facilities used to serve NCA1. (*Id.*) NCA1 states that it does not and cannot use the low-pressure plastic mains that comprise the substantial majority of Southwest Gas's distribution system. (*Id.* at 19.) NCA1 states that it is served through an 8-inch steel distribution pipeline and at pressures exceeding the 125-psig threshold that separates high-pressure from low pressure systems under Rule No. 1 of Southwest Gas's tariff. (*Id.* at 18-19.) NCA1 argues that it is unjust and unreasonable to allocate shared system distribution plant costs and associated expenses to a customer that does not and physically cannot use the majority of the distribution system infrastructure because the customer does not cause Southwest Gas to incur those costs. (*Id.* at 19.)

Southwest Gas's Rebuttal Position

364. In response to NCA1's first recommendation, Southwest Gas argues that if the Commission adopts NCA1's position to use the approach in Docket No. 20-02023 and directly assign NCA1 the costs of the facilities that serve it, then Southwest Gas believes that it may be necessary to execute a TSA, the implications of which would need to be explored within such an

agreement. (Ex. 122 at 22.) Southwest Gas states further that under that agreement, NCA1's gas deliveries should be limited to receipts only from the Kern River Gas Transmission Company ("Kern River") pipeline because the facilities for which NCA1 seeks direct cost assignment are interconnected with Kern River. (*Id.* at 22-23.) Southwest Gas notes that implementing this recommendation would create an entire rate schedule applicable only to NCA1. (*Id.* at 23.) Southwest Gas contends that these requirements, should the Commission adopt either of NCA1's recommendations, would be consistent with the Commission's prior decisions in Docket Nos. 20-02023 and 23-09012. (*Id.* at 22-23 & n.47 & 48.)

365. Southwest Gas notes that in Docket No. 23-09012, the Commission found that NCA1 does benefit from Southwest Gas's low-pressure distribution system due to NCA1's agreement with Southwest Gas for gas purchases. (*Id.* at 22 n.48.) Southwest Gas notes that when gas delivered through the El Paso and Transwestern interstate gas pipelines, with which NCA1 is not connected, is cheaper than gas delivered through the Kern River pipeline, NCA1 can purchase the cheaper El Paso and Transwestern gas, which is delivered to Southwest Gas's low-pressure distribution system, and Southwest Gas buys an equal amount of more expensive gas from Kern River, which is delivered to NCA1. (*Id.*)

366. In response to NCA1's second recommendation, Southwest Gas states that it believes that it is appropriate to require NCA1 and any similarly situated transportation customer receiving such treatment to enter into a revised TSA restricting the scheduling and delivery of natural gas supplies to upstream pipelines that are only physically capable of serving the facilities for which costs are assigned to that customers, which would prevent those customers from receiving the benefits of a broader set of system assets without a corresponding allocation of associated costs. (*Id.* at 23-24.)

Commission Discussion and Findings

367. The Commission's findings in Docket No. 23-09012 remain valid. In that docket, the Commission found that NCA1 benefits from Southwest Gas's low-pressure distribution system through its agreement with Southwest Gas for gas purchases. Even though NCA1 uses Kern River for delivery of gas, NCA1 may contract for gas delivery from El Paso and/or Transwestern. Because of this ability of NCA1 to purchase gas from a variety of sources which may be delivered to the Southwest Gas distribution system, the Commission found it reasonable that NCA1 still pay for the access to the system.

368. As discussed by Southwest Gas, should NCA1 elect to receive gas solely from Kern River and not consider any other option such as El Paso or Transwestern, NCA1 would be required to execute a TSA with Southwest Gas. Currently, NCA1 enjoys the opportunity to contract for lower-price gas from systems beyond Kern River and uses Southwest Gas's distribution system as the contracting mechanism to do so. Accordingly, NCA1 must pay for that benefit.

Therefore, it is ordered:

1. The application of Southwest Gas Corporation, designated as Docket No. 26-03021, for authority to increase its retail natural gas utility service rates for Southern and Northern Nevada is granted in part and denied in part consistent with this order.

Compliances

2. Southwest Gas Corporation shall file amended tariff sheets within 10 days of this order.

3. Southwest Gas Corporation shall provide an accounting of the final costs incurred to prepare and present this application within 90 days of the date of this order.

4. Within 90 days of the date of this order, Southwest Gas Corporation shall file in this docket proof that the Lamb Tap project was commissioned on or before October 14, 2026, and Southwest Gas Corporation shall provide the total costs of the Lamb Tap project incurred through October 14, 2026.

5. Within 120 days of the date of this order, Southwest Gas Corporation shall file in this docket the results of its proposed review and assessment of customer delinquency policies and procedures—inclusive of termination, write-off, and bad debt recovery—for efficiency, effectiveness, and alignment with its tariff. The results of this review should include specific identified areas for improving its credit and collection net uncollectible expense outcome and an implementation plan for executing identified net uncollectible expense enhancement opportunities.

Directives

6. Southwest Gas Corporation, the Regulatory Operations Staff of the Public Utilities Commission of Nevada, the Nevada Bureau of Consumer Protection, and any interested persons may participate in an informal workshop to be facilitated by the Policy Analysis Division of the Public Utilities Commission of Nevada regarding concerns about Southwest Gas Corporation's guide to its class cost of service study and related cost-allocation issues, including the use of the demand allocator, to be scheduled by the Policy Analysis Division of the Public Utilities Commission of Nevada.

7. In Southwest Gas Corporation's next integrated resource plan docket, it shall include an analysis whether it is cost-effective to invest in meters that would allow it to determine peak-day consumption for all customer classes.

8. In Southwest Gas Corporation's next general rate case, it shall submit the Mill assessment using its historical methodology and the proposed methodology of the Regulatory Operations Staff of the Public Utilities Commission of Nevada. Southwest Gas Corporation shall coordinate with the Regulatory Operations Staff of the Public Utilities Commission of Nevada to ensure the methodology proposed by the Regulatory Operations Staff of the Public Utilities Commission of Nevada is understood and correctly deployed.

9. In its next general rate case, Southwest Gas Corporation shall submit in its certification filing a document similar to Master Data Request 106 with information current through the end of the certification period, and Southwest Gas Corporation shall provide a witness who sponsors that document.

10. In its next general rate case, Southwest Gas Corporation shall provide a witness who will provide information regarding projects anticipated to be completed during the certification period, in accordance with the recommendation of the Regulatory Operations Staff of the Public Utilities Commission of Nevada.

11. In its next general rate case, Southwest Gas Corporation shall include any forward analysis indicating how the identified warming trend may affect the utility and its ratepayers.

12. The Public Utilities Commission of Nevada directs Southwest Gas Corporation to provide, as part of its next general rate case filing, a guide for its Cost of Service Study models, which shall include an overview of the foundational concepts and principles, the cost allocation process, issues associated with empirical implementations, the primary inputs and structure of Southwest Gas Corporation's Cost of Service Study models, and a description of the workings of Southwest Gas Corporation's Cost of Service Study models.

13. The Public Utilities Commission of Nevada directs Southwest Gas Corporation to record in a regulatory liability account any amortization of a regulatory asset collected in rates in excess of the asset's remaining balance, for disposition in its next general rate case.

14. In its next general rate case, Southwest Gas Corporation shall limit supporting workpapers, both executable and hardcopy, to accounts applicable to the proceeding.

By the Commission,

HAYLEY WILLIAMSON, Chair

TAMMY CORDOVA, Commissioner and Presiding Officer

RANDY J. BROWN, Commissioner

Attest:
TRISHA OSBORNE,
Assistant Commission Secretary

Dated: Carson City, Nevada

10/14/26

(SEAL)