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OPEN MEETING AGENDA ITEM



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Jeffrey W. Shaw, Chief Executive Officer

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February 28, 2011

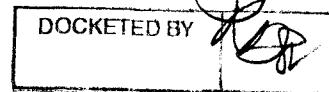
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Arizona Corporation Commission

DOCKETED

FEB 28 2011

Chairman Gary Pierce
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007
Email address: gpierce@azcc.gov



Re: *Southwest Gas Corporation's Response to Natural Gas Outages in Southeastern Arizona*

Dear Chairman Pierce:

Thank you for your letter dated February 7, 2011, requesting additional information related to the natural gas outage that affected Southwest Gas Corporation's (Southwest Gas or the Company) customers in Tucson and Sierra Vista earlier this month. We regret the inconvenience experienced by customers during the outage and look forward to discussing the circumstances precipitating the service disruption, as well as Southwest Gas' service restoration effort at the Arizona Corporation Commission's (Commission) March 2nd open meeting. In advance of that meeting, I offer the following brief overview of the issues raised in your letter.

Operating Conditions

The natural gas outage that occurred on February 3 in Tucson and Sierra Vista was the culmination of multiple factors. The delivery of natural gas to Southwest Gas' distribution system was severely limited due to extreme weather conditions and rolling power outages in Texas, which impacted production capabilities where Southwest Gas procures its natural gas supplies for Arizona. The interstate pipelines transporting natural gas to Arizona experienced significant supply loss, and the extremely cold weather also lead to peak natural gas demand. These factors caused pressure and deliverability issues across the southern portion of the western interstate pipeline systems in Arizona, Texas and New Mexico.

Transportation Services

El Paso Natural Gas Company (EPNG) provides interstate transportation services to Southwest Gas by transporting natural gas supplies Southwest Gas purchases from third-party natural gas suppliers; El Paso does not sell the natural gas supply. The natural gas that Southwest Gas purchases is first delivered into EPNG's pipeline system, and then transported into Southwest Gas' Arizona distribution system. Southwest Gas utilized its firm transportation agreements with EPNG and Transwestern Pipeline (TWPL) to move natural gas to Southwest Gas' Arizona customers during the extreme weather conditions earlier this month.



Supply Purchases

The process of purchasing, nominating, confirming, scheduling, and ultimately delivering natural gas supplies is complex. Southwest Gas only pays for the volume of gas that is "scheduled" by the interstate pipeline, and if a third-party supplier does not meet its commitment, and "confirms" a lower quantity than Southwest Gas "nominated," then Southwest Gas only pays for the lower quantity that was actually scheduled; hence Southwest Gas did not pay for firm supply that was not delivered. During the extreme weather event, Southwest Gas' natural gas supplies were nominated and confirmed properly; however, upstream natural gas processing and gathering systems were not physically delivering as much natural gas to interstate transmission pipelines as was expected, due to wellheads freezing and power outages in Texas. As a result, the amount of natural gas available to be scheduled for delivery to Southwest Gas, and other interstate transportation customers, was significantly reduced.

Location of Outages

The outages experienced in portions of Southern Arizona, namely Tucson and Sierra Vista, were the result of a culmination of multiple factors that caused a significant lack of pressure in areas of EPNG's system and consequently Southwest Gas' system in the areas where outages occurred. The outages did not occur in Southwest Gas' Central Arizona service territories because they did not experience the same pressure reductions. While TWPL's Phoenix Lateral provided incremental supplies to Southwest Gas' Central Arizona service territories on February 3, it is not clear that Southwest Gas would have experienced customer outages in Central Arizona absent the existence of TWPL.

Natural Gas Storage

Since natural gas storage is currently unavailable in Arizona, it is not clear how its existence would have impacted the February 3 service outages; any beneficial impact would be a function of the location of the facility, its delivery capabilities, and its interconnections with Southwest Gas' distribution system. Nonetheless, Southwest Gas believes that the availability of market-area storage could be beneficial. As such, Southwest Gas is an active member of the Arizona Storage Coalition (Coalition) that was formed in December 2007 to evaluate and pursue natural gas storage opportunities in Arizona. The Coalition has studied several storage developer proposals using salt cavern storage in the Picacho Basin area, but, to date, no project has reached the developmental stage.

Communication Efforts

During the outage, Southwest Gas used a number of communication methods to inform its customers. Those methods included active local media interaction, website posting updates, and collaboration with government entities, for example. Southwest Gas acknowledges the need to identify additional communication tools to keep its customers better informed when such outages occur, however. Southwest Gas has already begun exploring additional measures that can be used, and will continue to update the Commission as those methods are implemented.



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Relighting Process

Due to the magnitude of this outage, Southwest Gas employees first worked to effectively contain the extent of customer service outages, and subsequently restored service to customers in a safe and efficient manner. The efforts of Southwest Gas' Southern Arizona employees were augmented with the assistance of nearly 100 additional Southwest Gas field personnel from Central Arizona, Southern Nevada and Southern California operating divisions, who worked tirelessly to restore service to customers impacted by the outage.

Safety and reliability of natural gas service for our customers is of the utmost importance; I never want to see a customer lose service. Southwest Gas looks forward to elaborating on the circumstances surrounding the service outage earlier this month at the open meeting the Commission has scheduled for March 2, 2011. We further commit to identifying ways of improving customer service, particularly regarding communications. Please do not hesitate to contact me if you would like to discuss any aspect of our service at any time.

Sincerely,

Jeffrey W. Shaw, Chief Executive Officer
Southwest Gas Corporation

JWS/kt

cc via electronic mail and/or regular mail:

Bob Stump, Commissioner
Paul Newman, Commissioner
Sandra D. Kennedy, Commissioner
Brenda Burns, Commissioner