BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
CHAIRMAN
BOB STUMP
COMMISSIONER
SANDRA D. KENNEDY
COMMISSIONER
PAUL NEWMAN
COMMISSIONER
BRENDA BURNS
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTIES THROUGHOUT ARIZONA	Docket No. G-01551A-10-0458

RUCO'S EXCEPTIONS

RUCO respectfully asks the Commission to reject the Recommended Order and Opinion which adopts the Settlement Agreement and Option B (full revenue decoupling) and adopt the following alternative:

1. Reject decoupling in this rate case ***at this time***.
2. Increase the fixed monthly charge from $10.70 to $11.85.
3. Provide the same revenue requirement, cost of capital and fair value methodology as recommended in the ROO.
4. Results in rates that provide approximately the same $3.33 increase for the average residential customer as proposed by Option B.

EXECUTIVE SUMMARY - DO NOT IMPLEMENT DECOUPLING NOW

The Commission should reject the Settlement Agreement and Option B for the following reasons:

1. The Commission should take into consideration the state of the economy in finding that now is the proper time to implement decoupling since decoupling will shift the risks associated with the economy, weather, price and other variables from the shareholders to the ratepayers.

2. Many customers, many of whom are the least able to afford it, cannot or will not conserve natural gas and will see their overall rate and bill go up.
   a. **Renters** – cannot make improvements such as installing Energy Star appliances.
   b. **Low Income** – cannot afford to pay even a portion of the costs for energy efficient home upgrades in order to lower bills in the future.
   c. **Seniors** – fixed budgets preclude making home improvements even with substantial discounts or subsidies offered.
   d. **Low usage customers** – already low consumption makes significant reductions in consumption difficult. Even if they install Energy Star appliances, their limited use of these appliances result in incremental reductions in usage. Yet they would be subject to a potential 5% increase in base rates every year which may far exceed any cost savings due to their limited reduction in gas.
   e. **Proactive customers** - Customers who have already implemented all the energy efficiency measures they can.

3. Revenue decoupling for a natural gas distribution utility will not address the **primary goal** of the Commission Policy Statement to delay the need to build additional infrastructure and plant by having customers consume less.

4. Full revenue decoupling allows the utility to recover lost revenues for any reason – not just losses associated with energy efficiency. Decoupling shields SW Gas from losses due to weather, poor business decisions and lost revenues due to home foreclosures and commercial real estate vacancies.

5. The Settlement Agreement commits the parties to advancing energy efficiency programs to a level that requires ***quadrupling*** the DSM adjuster revenue from $4 million to $16.5 million. (See Settlement Agreement 5.7 through 5.11)

6. Full revenue decoupling can increase every customer's base rates by as much as 5% every year for the next 5 years. This increase would be in addition to the quadrupling of revenue collected through the DSMAC.

DECOUPLING GUARANTEES THE COMPANY MILLIONS OF DOLLARS OF ADDITIONAL REVENUE

Full revenue decoupling will be very costly to ratepayers. In this case, ***had full revenue decoupling been in place from 2007 through 2010, Staff's witness, David Dismukes testified that the Company would have collected an additional $62.0 million from residential ratepayers***. This additional revenue recovery would have come at perhaps the worst possible time for ratepayers given the decline in the economy. The ROO overlooks the current economy and its effect on ratepayers in an effort to provide incentive for the Company

to do something it is already required to do. Moving more revenue into the fixed charge provide the utility with an increased opportunity to earn its authorized rate of return without shifting all of the utility's business risk on to its customers.

RUCO's Exceptions focus exclusively on the issue of decoupling. At hearing, RUCO presented evidence on other disputed issues such as FVROR methodology and weather normalization which resulted in a lower revenue requirement and a lower rate of return than that offered under Option B. RUCO's adjustments were not adopted by the ROO. RUCO foregoes further argument on these points and does not dispute the ROO's recommendations on these issues. RUCO's alternative to reject decoupling and allow the utility to recover more of its fixed costs in rates is balanced and fair to both the ratepayer and the utility.

The full revenue decoupling mechanism recommended by the ROO includes a true-up component where customer rates will reset annually to account for the difference between actual and the Commission approved revenues per person. Every year, if the actual amount of revenues per customer is lower than the Commission's approved amount of revenue per customer in the rate case, the difference will be recovered through the decoupling mechanism.[1] In other words, when the Company's yearly sales revenues are lower than the Commission approved per-customer revenues, the ratepayer's rates increase. It does not matter whether the ratepayer conserves or does not conserve, his rates are going up. This is the unfortunate consequence of full decoupling – in times such as this, most ratepayer's efforts to reduce their bills have little to do with the commendable goal of preserving resources. Ratepayer's need their bills to be as low as possible because they need to shift those savings

[1] It is theoretically possible that extreme weather could result in higher per customer usage which would create a refund situation. While possible it is not probable. There was ample testimony in this case and in previous SW Gas rate cases that weather considerations are asymmetrical and, in the end, work to the utility's advantage. A reduced bill would be an isolated incident. The net effect of full revenue decoupling over a period of time is an increase in rates. (See Staff Direct Testimony, David Dismukes, p. 22-23)

to other more immediate costs – like paying the mortgage and/or putting food on the table. The renter, who lost his home in a short sale or foreclosure and has no choice but to use the energy inefficient appliances included in their apartment or rental – their gas rate will increase. Even the customer who does conserve, thinking he will save money – his rates will increase. Surely, this is not the course that this Commission wants to set for Arizona in the name of energy efficiency.

The approval of full revenue decoupling, in essence would recession-proof the Company. The Company would not have to worry about declining sales no matter what the reason since its revenues would be virtually guaranteed under the ROO. The ROO will shift the risks associated with the economy, sales and other variables from the shareholders to the ratepayers.

ROO OVERSTATES IMPACT OF DECLINING USAGE

The ROO notes that the Company has been unable to earn its authored rate of return for at least "15 years".[2] ROO at 40. Respectfully, RUCO contends that the ROO overstates this point. It also places consideration of the utilities financial health in higher regard than the financial health of its customers. There are many factors that may result in a utility not earning its authorized rate of return. SW Gas admitted that these reasons included changes in the Company's cost of capital ($20.9 million), depreciation expense ($12.9 million) and pension expense ($7.5 million).[3] While declining usage is certainly a factor, it is not the sole factor. Moving more revenue into the fixed charge addresses declining usage without having customers bear the utility's entire risk for lost revenues. Moreover, the regulatory paradigm in

[2] The inability of the Company to earn its Commission authorized rate of return for the past 15 years, according to the ROO is due primarily to an ongoing trend of declining usage. Somewhere between this Company's last couple of cases, it no longer seems to matter what the reason is for the declining usage. There is no evidence in this case that supports an argument that the declining usage is due solely to conservation. Why should ratepayers have to guarantee revenues for declining usage associated with reasons not related to conservation?
[3] A-9 at 4.

Arizona requires the Commission to provide the utility with an ***opportunity*** to earn its rate of return – not a ***guarantee*** to earn its rate of return as Option B seems to suggest. Specific to this Company, SWG's credit ratings are two (Moody's) or three (S&P) notches above non-investment ("junk") status, and both have offered a "stable" outlook for SWG.[4] Perhaps even more telling is the fact that the Company has been paying increasing dividends to its shareholders since at least 2007. RUCO-4 attached as Exhibit 1. Adoption of decoupling focuses on the health of an already financially secure utility rather than on financially struggling ratepayers. The focus of this case should be on ratepayers and their ability to pay for their gas service, not on ways to improve an already financially stable utilities' earnings.

There are numerous other mechanical and policy reasons why the Commission should not approve the full revenue decoupling proposal set forth more fully in RUCO's Opening and Reply Briefs which RUCO incorporates by reference into these Exceptions. RUCO does not oppose decoupling in the right case and under the right circumstances. Now however, is not the right time, and this is clearly not the right case. RUCO recommends the Commission approve RUCO's compromise position.

By any standard, RUCO's recommendation is fair. RUCO's position more than adequately addresses the issue of declining sales but does not shift the risk of the economy and all the other variables from the shareholders to the ratepayers. Attached hereto as Exhibit 2 are RUCO's proposed amendments.

[4] RUCO-6 at 10.

RESPECTFULLY SUBMITTED this 7th day of December, 2011.

Daniel W. Pozefsky
Chief Counsel

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Ernestine Gamble

EXHIBIT 1

SOUTHWEST GAS NYSE-SWX

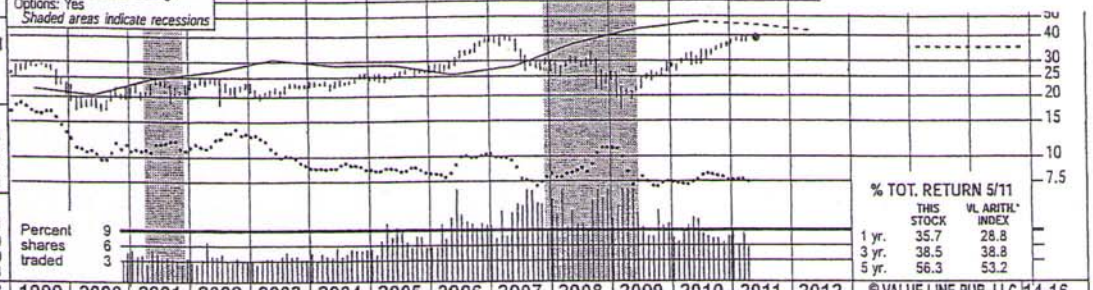
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD
39.06	16.6	(Trailing: 16.8 Median: 18.0)	1.01	2

EXHIBIT 1

TIMELINESS 3 Lowered 8/20/10
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Raised 5/27/11
BETA .75 (1.00 = Market)

High:	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	33.3	29.5	37.3	40.6
Low:	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1	26.3	36.1

LEGENDS
— 1.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2014-16 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+40%)	11%
Low	35	(-10%)	1%

Insider Decisions

	J	A	S	O	N	D	J	F	M
to Buy	0	0	2	0	0	1	0	0	2
Options	0	0	4	0	2	3	2	0	7
to Sell	0	0	4	0	3	3	2	0	9

Institutional Decisions

	3Q2010	4Q2010	1Q2011
to Buy	57	61	60
to Sell	76	75	80
Hld's(000)	32794	32710	33193

Percent shares traded 9 6 3

% TOT. RETURN 5/11

	THIS STOCK	VL ARITH.* INDEX
1 yr.	35.7	28.8
3 yr.	38.5	38.8
5 yr.	56.3	53.2

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	© VALUE LINE PUB. LLC	14-16
23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	42.00	40.14	*37.85*	*38.00*	Revenues per sh	*48.00*
2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	6.16	6.45	*6.55*	*6.90*	"Cash Flow" per sh	*7.80*
.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	1.94	2.27	*2.35*	*2.50*	Earnings per sh A	*3.00*
.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	.95	1.00	*1.06*	*1.10*	Div'ds Decl'd per sh B■†	*1.25*
6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	4.81	4.72	*4.85*	*5.00*	Cap'l Spending per sh	*6.00*
14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	24.44	25.59	*27.95*	*29.15*	Book Value per sh	*34.00*
24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	45.09	45.60	*46.50*	*48.00*	Common Shs Outst'g C	*50.00*
NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	12.2	14.0	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
NMF	NMF	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	.81	.89	*Value Line*		Relative P/E Ratio	*1.00*
5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	4.0%	3.2%	*estimates*		Avg Ann'l Div'd Yield	*2.8%*

CAPITAL STRUCTURE as of 3/31/11
Total Debt $1122.7 mill. Due in 5 Yrs $275.0 mill.
LT Debt $1122.7 mill. LT Interest $72.0 mill.
(Total interest coverage: 3.2x) (48% of Cap'l)
Leases, Uncapitalized Annual rentals $5.0 mill.
Pension Assets-12/10 $505.6 mill.
Oblig. $708.9 mill.

Pfd Stock None

Common Stock 45,848,692 shs.
as of 4/29/11

MARKET CAP: $1.8 billion (Mid Cap)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		14-16
1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	1893.8	1830.4	*1760*	*1825*	Revenues ($mill)	*2400*
37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	87.5	104.0	*110*	*120*	Net Profit ($mill)	*150*
34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	34.0%	34.7%	*37.0%*	*35.0%*	Income Tax Rate	*35.0%*
2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	4.6%	5.7%	*6.3%*	*6.6%*	Net Profit Margin	*6.3%*
56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	53.5%	49.1%	*47.0%*	*46.0%*	Long-Term Debt Ratio	*45.0%*
39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	46.5%	50.9%	*53.0%*	*54.0%*	Common Equity Ratio	*55.0%*
1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	2371.4	2292.0	*2450*	*2600*	Total Capital ($mill)	*3100*
1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	3034.5	3072.4	*3150*	*3250*	Net Plant ($mill)	*3600*
5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	5.4%	6.2%	*6.0%*	*6.0%*	Return on Total Cap'l	*6.5%*
6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.9%	*8.5%*	*8.5%*	Return on Shr. Equity	*9.0%*
6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	7.9%	8.9%	*8.5%*	*8.5%*	Return on Com Equity	*9.0%*
1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	4.1%	5.0%	*4.5%*	*5.0%*	Retained to Com Eq	*5.0%*
71%	70%	72%	49%	65%	42%	44%	63%	48%	44%	*45%*	*44%*	All Div'ds to Net Prof	*42%*

CURRENT POSITION ($MILL.)	2009	2010	3/31/11
Cash Assets	65.3	116.1	108.4
Other	352.3	329.8	281.9
Current Assets	417.6	445.9	390.3
Accts Payable	158.9	165.5	114.5
Debt Due	1.3	75.1	- -
Other	314.0	356.4	363.2
Current Liab.	474.2	597.0	477.7
Fix. Chg. Cov.	251%	299%	314%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '08-'10 to '14-'16
Revenues	5.0%	4.0%	*1.5%*
"Cash Flow"	3.5%	3.0%	*4.0%*
Earnings	3.5%	6.0%	*8.0%*
Dividends	1.0%	2.0%	*4.5%*
Book Value	4.5%	5.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	813.6	447.3	374.4	509.4	2144.7
2009	689.9	387.6	317.5	498.8	1893.8
2010	668.8	385.8	307.7	468.1	1830.4
2011	628.4	*365*	*300*	*466.6*	*1760*
2012	*650*	*375*	*310*	*490*	*1825*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	1.14	d.06	d.38	.71	1.39
2009	1.12	d.01	d.18	1.01	1.94
2010	1.42	d.02	d.11	.98	2.27
2011	1.48	*Nil*	*d.12*	*.99*	*2.35*
2012	*1.50*	*Nil*	*d.10*	*1.10*	*2.50*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238	.238	.94
2010	.238	.250	.250	.250	.99
2011	.250	.265			

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2010 margin mix: residential and small commercial, 86%; large commercial and industrial, 4%; transportation, 10%. Total throughput: 2.2 billion therms. Sold PriMerit Bank, 7/96. Has 4,802 employees. Off. & Dir. own 1.7% of common stock; BlackRock Inc., 8.6%; T. Rowe Price Associates, Inc., 7.2%; GAMCO Investors, Inc., 7.0% (3/11 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

Shares of Southwest Gas have traded in a holding pattern over the past three months, following a healthy rebound over the past couple of years. The company posted lower revenues but higher share earnings for the March period.

Mixed performance will likely continue in the coming quarters. The natural gas utility operations will likely continue to experience softness in demand, though this should be partly offset by rate relief in California and modest customer growth. Elsewhere, the construction services subsidiary ought to further benefit from an increase in maintenance and replacement work. Overall, lower revenues will likely be offset by a decline in the cost of gas sold, and we expect a moderate share-net improvement for full-year 2011. Earnings should continue to advance in 2012, assuming utility demand picks up.

Efforts to procure rate relief ought to further benefit performance. Southwest has filed a general rate case in Arizona, requesting an increase in revenues of $73.2 million (roughly 9.3%). The company is also seeking a decoupled rate structure and several programs promoting energy efficiency. A decision on this matter is expected by early 2012. Southwest's focus on rate relief and improved rate design is important, as the company depends on such approved revenue increases to help it cope with rising operating costs and to provide compensation for investments in infrastructure.

Investors should be aware of several caveats. Southwest Gas will likely incur greater operating expenses as it continues to expand going forward. Moreover, warmer-than-normal temperatures during the winter months can result in lower profitability. Insufficient, or lagging, rate relief can also hurt performance.

These shares remain neutrally ranked for Timeliness. Looking further out, we anticipate solid improvement in revenues and share earnings at the company out to 2014-2016. This appears to be partly reflected in the present quotation, and the shares currently trade within our Target Price Range. Moreover, Southwest's dividend yield is below average for its industry group. Investors can probably find more-attractive opportunities elsewhere.

Michael Napoli, CFA *June 10, 2011*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due early August. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	75

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EXHIBIT 2

RUCO’s Amendment 1

RUCO’s Amendment 2

Exhibit 2
RUCO's Amendment 1
Southwest Gas Corporation
Docket No. G-01551A-10-0458

SUMMARY: Rejects the Settlement Agreement but adopts all material provisions of the Settlement Agreement except for decoupling. The OCRB, RCND, revenue requirement ($52.6 million), return on equity (9.5%), cost of capital remains the same as proposed under Option B. Increases the fixed monthly charge from $10.70 to $11.85.

DELETE Page 36 Line 17 through Page 37, line 18,
Page 38 Line 16 through page 41, line 7 up to "Agreement,"

INSERT Page 38 at Line 16

132. For the reasons outlined below, we find that the Settlement Agreement is not in the public interest at this time. The reasons why the Settlement is not in the public interest are numerous and have been discussed at length above through the testimony presented by various witnesses in opposition to the Agreement.

133. The Commission has approved a Policy Statement favoring decoupled rate structures. However, while we favor decoupled rate structures as a means to address utility disincentives to energy efficiency, a decoupled rate structure must be appropriate in the then-present economy and under the facts and circumstances of any given case.

134. The state of Arizona's economy is a major consideration in the Commission's rejection of any decoupling mechanism for SWG at this time.

135. Full revenue decoupling creates a shift in risk that will likely be very costly to ratepayers in this case. In this case, had full revenue decoupling been in place from the period of 2007 through 2010, Staff's witness, David Dismukes testified that it would have allowed the Company to collect an additional $62.0 million from residential ratepayers. This additional revenue recovery would have come at perhaps the worst possible time for ratepayers given the decline in the economy.

136. The current economy provides real-life reasons why decoupling is not appropriate in this case. In times such as the present, most ratepayers' efforts to reduce their bills have little to do with the

commendable goal of preserving resources. Ratepayer's need their bills to be as low as possible because they need to shift those savings to other more immediate costs – like paying the mortgage and/or purchasing food. The renter, who lost his home in a short sale or foreclosure and has no choice but to use the energy inefficient appliances included in the rental – his gas rate will increase.

137. In rejecting the Company's request for a decoupling mechanism(s) in the Company's last rate case we noted:

> "It appears that, first and foremost, revenue decoupling is a means of providing the Company with what is effectively a guaranteed method of recovering authorized revenues, thereby shifting a significant portion of the Company's risk to ratepayers." Decision No. 70665 at 40.

138. We note that the record shows that SW Gas has acted in good faith in pursuing DSM and energy efficiency measures with its customers in the past and has even won awards for its efforts. There is no evidence to suggest that SW Gas would not continue to promote energy efficiency without a decoupling mechanism.

139. In this case, we do not believe the decoupling mechanisms proposed in the Settlement fairly balance the interests of the shareholders and the ratepayers.

140. Although we appreciate the settling parties' efforts in developing and presenting two different decoupling mechanisms, we are concerned with several potential problems that could arise if either alternative were adopted. Under both decoupling mechanisms, many residential ratepayers who are unable to take advantage of energy efficiency programs will see their bills increase. These ratepayers include renters who cannot switch out their natural gas appliances or heater, low income and senior citizen customers who have limited finances to pay even a portion of the out of pocket costs for energy efficient natural gas appliances and heaters, low usage customers whose conservation efforts would only yield incremental change in usage and those customers who already participate in the energy efficiency programs that SW Gas has been promoting for the last several years.

141. The Policy Statement favored decoupling as a means to delay the need to build additional infrastructure or new generation to accommodate increasing consumption. However, SW Gas is a distribution utility and must expand infrastructure to accommodate new growth regardless of the levels of efficiency or conservation executed by existing customers.

We are even less persuaded that full revenue decoupling, Option B, is appropriate in this case. Full revenue decoupling would require customers to pay for lost revenues that result from conservation and non-conservation related variables. Option B has the effect of shifting the risk associated with the economy, weather, and all the other non-conservation as well as conservation-related variables from the shareholder to the ratepayer.

142. Finally, the public's lack of support for decoupling in this case has been great, indicating that now is not the time to approve decoupling. Hundreds if not thousands of ratepayers have filed letters in the docket and/or appeared at public meeting expressing their opposition to decoupling in this case. It is clear that the public overwhelmingly does not support decoupling in this case. While public outreach is a component of the Settlement, it would be difficult to conduct an effective public outreach program if the customers do not want to listen.

143. The Commission stands by its previously approved decoupling policy. The Commission believes that if proposed, decoupling has to be considered in the context of each rate case and only then can a determination be made as to whether decoupling is an appropriate option in that particular case. For all of the reasons stated above, the Commission rejects the approval of the Settlement Agreement.

144. We find that there are many factors that have led to the utility not achieving its authorized rate of return. Declining usage is a factor.

145. We find that moving more of the authorized revenue requirement into the fixed monthly charge appropriately addresses declining usage.

146. This Commission increased the fixed charge and rejected the Company's decoupling proposal in its last rate case. In that Order increasing the fixed charge from $9.70 to $10.70 we noted:

"We agree with Staff's rate design recommendation because it balances the objectives of allowing Southwest Gas to continue to recover more of its fixed costs through the customer charge while, at the same time, minimizing the burden on any individual rate class…Although the Company contends that Staff's recommendation fails to allow recovery of fixed costs through the fixed customer charge, we believe that approximately 10 percent increase of the monthly residential customers charge (from $9.70 to $10.70) provides adequate movement in the direction of fixed cost recovery." Decision No. 70665 at pp. 46-47

147. The Commission believes that RUCO's recommendation to increase the fixed customer charge from $10.70 to $11.85 is reasonable and strikes a fair balance between the shareholders and the ratepayers. We, therefore, adopt RUCO's recommendation finding it adequately addresses the issue of declining sales without shifting the risk of the economy and all the other variables from the shareholders to the ratepayers.

DELETE pages 41, lines 15-28, page 42, lines 1-7

DELETE page 42, line 17 and insert, "Adoption of the Settlement Agreement, as discussed herein, is not in the public interest."

DELETE page 42 Line 21 – 25, "IT IS THEREFORE ORDERED that the Settlement Agreement, as discussed herein, is not in the public interest, and that adoption of RUCO's recommended position, as discussed herein, is in the public interest.

IT IS FURTHER ORDERED that Southwest Gas Corporation is hereby directed to file with the Commission, on or before December 3 1, 2011, revised schedules of rates and charges consistent with the findings herein."

DELETE Page 43 Line 4 through line 21,

INSERT IT IS FURTHER OREDERED that Southwest Gas Corporation shall implement and comply with the terms of the Order as set forth herein, including filing all reports, studies and plans as set forth herein.

DELETE page 45, lines 7-11.

Make all conforming changes.

Exhibit 2
RUCO's Amendment 2
Southwest Gas Corporation
Docket No. G-01551A-10-0458

SUMMARY: Provides an additional 10 basis point in the authorized ROE in order to adjust for risk of implementing energy efficiency programs without recovering lost revenues through a decoupling mechanism.

Page 41, after line 13 insert new FOF:

We also find that it is appropriate to increase SWG's return on common equity from 9.50% to 9.60% as an added measure to assure the utility's financial health in its pursuit of energy efficiency measures. While we find that increasing the fixed monthly charge provides reasonable cost recovery for lost revenues associated with declining usage directly associated with energy efficiency and DSM programs, we understand the Company's concern that the Commission is not including all fixed costs in its fixed monthly charge. To accommodate this arguable risk, the Commission agrees to increase SWG's ROE.

We find that 10 basis points is an appropriate increase for any argued risk. In SWG's Nevada rate case, SWG argued that full decoupling reduced its business risk by 10 basis points. If SWG believes that decoupling reduces risk by that amount, then a corresponding increase would offset any business risk of not having a decoupling mechanism.

An ROE of 9.60% is within the range of recommendations found in the evidentiary record and is reasonable.

Make all conforming changes.