

ARIZONA · GAS UTILITIES · CAPITAL BRIEFING

Arizona keeps adding gas customers. Your capital plan has to keep pace — and stay defensible.

Unlike much of the country, Arizona's gas system is still growing: Southwest Gas sets new meters by the tens of thousands each year while replacing aging steel and customer-owned yard lines under the SIB. Growth capital, integrity capital, and rate-case timing all compete for the same dollars. Invizion helps gas utilities re-sequence a capital portfolio in a click — and defend every decision to the Corporation Commission.

~1.46M¹	37,000²	~\$1.25B³	\$18.58⁴
Arizona natural gas customers (residential + commercial), 2024 — the large majority served by Southwest Gas.	First-time meter sets Southwest Gas added across its three-state system in 2025, with Arizona its largest growth market.	Southwest Gas system-wide capital budget for 2026 — up from \$855M spent in 2025.	Arizona residential natural gas price per thousand cubic feet, 2025 — the affordability backdrop to every rate case.

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THE ARIZONA LANDSCAPE

Four forces are moving your project list at once

Arizona is one of the few states where a gas utility is still extending mains to new rooftops. That growth sits on top of an aging-pipe replacement obligation, interstate-supply exposure, and a rate-case cycle that decides whether any of it earns a return. Together they mean the capital plan you approved last year may already be the wrong plan.

INTEGRITY & AGING PIPE

Replacing steel and yard lines while the system grows

Southwest Gas recovers non-revenue-producing pipe replacement through Arizona's **System Improvement Benefit (SIB)** surcharge — the mechanism that funds early-vintage steel replacement and its Customer-Owned Yard Line (COYL) program between rate cases.⁵

Those programs run under federal PHMSA distribution-integrity requirements, which mandate leak surveys, risk ranking, and documented replacement of leak-prone mains.⁶ Integrity capital is non-discretionary — it competes directly with the growth capital chasing new subdivisions.

DECARBONIZATION PRESSURE

Electrification debate, but no gas moratorium

Arizona has not adopted a statewide “future of gas” decarbonization docket, a building-electrification mandate, or a gas-hookup ban — state policy has favored preserving natural gas as a consumer energy choice, and Southwest Gas continues to extend service to new construction.²

Decarbonization here is voluntary and incremental: renewable natural gas capture and emissions-intensity targets rather than throughput caps, with Southwest Gas reporting it met its 2025 emissions-intensity goal.⁷ The long-horizon risk is still real — capital committed to 60-year assets has to be weighed against where policy drifts.

SUPPLY & PRICE VOLATILITY

An import-dependent state exposed to the interstate grid

Arizona produces virtually no natural gas of its own; nearly all supply arrives on interstate pipelines from the Permian, San Juan, and Rockies basins.⁸ That leaves customers exposed to wholesale price swings and winter-peak events — the kind of spikes seen in Winter Storm Uri (2021) and Elliott (2022) flow through to bills via purchased-gas adjustments.

With the residential price at \$18.58 per thousand cubic feet in 2025,⁴ every dollar of capital added to base rates lands on top of already-elevated commodity cost — sharpening the affordability tension in each filing.

CAPITAL RECOVERY & RATE CASES

The return depends on the ACC, and on timing

Southwest Gas filed a general rate case in Arizona in February 2024, with new rates effective in March 2025.² Its combined Arizona and Nevada filings sought about \$172 million of additional annual revenue.³

A recent twelve-month utility return on equity of roughly 8.1% sat below authorized levels — a regulatory-lag signal that capital is being deployed faster than it is being recovered.³ When recovery lags investment, sequencing the portfolio to the rate-case calendar is not optional; it is the plan.

WHO DELIVERS ARIZONA'S GAS

One dominant LDC, a Fortis subsidiary, and municipal systems

Arizona's gas distribution is unusually concentrated: Southwest Gas serves the large majority of the state, UNS Gas covers northern communities, and a handful of city-owned systems round out the map. The pressures are shared; the accountability path differs.

Investor-owned gas LDCs

Rates & capital recovery regulated by the ACC

Southwest Gas Corporation Over 2M customers across AZ, NV & CA¹⁰
(~2.28M as of FY2025) — the dominant AZ LDC²

Southwest Gas — Arizona Roughly 1.15M AZ customers (2021), grown since; built partly from the former APS & TEP gas systems¹¹

UNS Gas (Fortis / UNS Energy) Northern Arizona; part of UNS Energy Services serving 243,000+ AZ customers¹²

Southwest Gas alone budgeted roughly \$1.25 billion of system-wide capital for 2026.³

Municipal & other gas systems

Governed by city councils & boards, not ACC rates

City of Mesa — Natural Gas Large municipal gas utility, incl. service beyond city limits

Town of Wickenburg / other municipal gas Small community-owned distribution systems

UNS Energy Services (parent: Fortis) UNS Gas + UNS Electric; Fortis acquired UNS Energy in 2014¹³

Municipal gas systems set their own rates but face the same PHMSA integrity mandates and interstate-supply exposure as the investor-owned LDCs.⁶

Every capital dollar has to be defensible

For the investor-owned LDCs, the Arizona Corporation Commission decides whether growth capital and integrity capital earn a return — and how fast.

Arizona Corporation Commission (ACC) regulates rates, capital recovery, and cost mechanisms for Southwest Gas and UNS Gas; the Commission has been actively debating formula-rate policy that would affect how utilities recover ongoing investments⁹

System Improvement Benefit (SIB) — Arizona's infrastructure-replacement surcharge lets Southwest Gas recover non-revenue-producing pipe replacement, including vintage steel and the Customer-Owned Yard Line (COYL) program, between general rate cases.⁵

2024 Arizona general rate case — filed February 2024 with new rates effective March 2025; Southwest Gas's combined Arizona and Nevada filings sought about \$172 million in additional annual revenue.²³

Prior rate case — Southwest Gas's previous Arizona general rate case was filed in December 2021 with rates effective February 2023, showing the roughly three-year cadence capital plans must be sequenced against.⁵

Surcharges and rate cases, more than federal grants

Arizona's gas build-out is funded chiefly through rate base and surcharge mechanisms, not one-time federal awards. The constraint is timing: how much can be recovered through the SIB now, and how much waits for the next case.

SIB surcharge recovery — the primary between-case mechanism for integrity capital: vintage steel replacement, COYL yard lines, and other non-revenue-producing pipe, recovered without a full rate case.⁵

General rate case recovery — growth mains, new services, and the balance of the program earn a return only once folded into base rates; the 2024–2025 Arizona case is the vehicle for the current investment cycle.²

Capital spend is accelerating — Southwest Gas spent \$855 million system-wide in 2025 and budgeted roughly \$1.25 billion for 2026, with about \$520 million deployed by mid-2026.³

Federal safety funding (PHMSA NGDISM) — the Natural Gas Distribution Infrastructure Safety and Modernization grant program is a potential source for leak-prone-main replacement, but Arizona's LDCs rely far more on surcharge and rate-base recovery than on federal grants.⁶

ARIZONA'S GAS SECTOR, IN BRIEF

Questions Arizona gas utility leaders are asking

Short, sourced answers — the same facts we dig into with utilities looking at their capital programs.

How big is Arizona's natural gas distribution sector?

Arizona had roughly 1.46 million natural gas customers in 2024, the large majority served by Southwest Gas, with UNS Gas and municipal systems covering the rest.¹

Is Arizona's gas customer base still growing?

Yes — unusually so. Southwest Gas added 37,000 first-time meter sets across its three-state system in 2025 (after roughly 40,000 in 2023), with Arizona its largest and fastest-growing market²

What is the SIB, and how does Southwest Gas replace aging pipe?

The System Improvement Benefit is Arizona's infrastructure-replacement surcharge. It lets Southwest Gas recover non-revenue-producing pipe replacement — including vintage steel and the Customer-Owned Yard Line program — between rate cases, under PHMSA distribution-integrity requirements.⁵⁶

Does Arizona have a gas ban or electrification mandate?

No. Arizona has not adopted a statewide gas moratorium, a building-electrification mandate, or a “future of gas” decarbonization docket; state policy has favored preserving natural gas as a consumer energy choice while utilities pursue voluntary emissions-intensity and RNG efforts.⁷

Who regulates Arizona gas rates and when is the next case?

The Arizona Corporation Commission regulates Southwest Gas and UNS Gas. Southwest Gas's most recent Arizona general rate case was filed in February 2024 with new rates effective March 2025; its combined Arizona and Nevada filings sought about \$172 million in additional revenue.⁹²³

How does Invizion help Arizona gas utilities plan capital?

Invizion is scenario-based capital portfolio optimization for utilities. It lets you model how a load of new line extensions, a SIB-eligible replacement wave, or a rate-case timing shift reshuffles your whole project list, re-sequence the portfolio automatically against your constraints, and keep a defensible record of every trade-off for the Corporation Commission.

REFERENCES

Sources

Every figure in this briefing is tied to a primary or authoritative source.

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2. Southwest Gas Holdings, Inc. Form 10-K, fiscal year 2025 (approx. 2,281,000 total customers; 37,000 first-time meter sets in 2025; Arizona rate case filed Feb 2024, effective March 2025). [SEC EDGAR](#)
3. StockTitan — Southwest Gas Holdings (SWX) results: \$855M capex in 2025, ~\$1.25B 2026 budget, ~\$520M spent by mid-2026, ~8.1% 12-month utility ROE, combined AZ+NV rate cases seeking ~\$172M, 2025–2026. www.stocktitan.net
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6. PHMSA — Gas Distribution Annual Data and distribution-integrity management requirements (leak-prone main, cast iron / bare steel, replacement reporting). www.phmsa.dot.gov
7. Southwest Gas — Sustainability (renewable natural gas capture; met 2025 emissions-intensity goal, 33.7% reduction vs. 2015 baseline). www.swgas.com
8. U.S. Energy Information Administration — Arizona State Energy Profile (minimal in-state production; supply delivered by interstate pipelines). www.eia.gov
9. Arizona Corporation Commission — utility rate regulation and formula-rate policy proceedings. www.azcc.gov
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11. Southwest Gas overview — approx. 1.15 million Arizona customers (2021); founded 1931; service territory built partly from the former APS and TEP gas systems. en.wikipedia.org
12. UNS Energy Services (uesaz.com) — more than 243,000 UNS Gas and UNS Electric customers across Arizona. www.uesaz.com
13. UNS Energy Corporation — parent of UNS Gas / UNS Electric / Tucson Electric Power; acquired by Fortis Inc. in 2014 (UNS gas operations acquired from Citizens in 2003). en.wikipedia.org

ABOUT INVIZION

Capital program optimization for utilities

Invizion is a purpose-built capital lifecycle management platform for utilities. It integrates budgeting, CIP, scenario analysis, and funding-source tracking in one system — so utilities can re-sequence a capital portfolio in a click and demonstrate audit-ready, defensible decisions to regulators, boards, and rating agencies.

See how utilities keep capital plans current and defensible with Invizion.

Explore Invizion →