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WILLIAM A. MUNDELL
COMMISSIONER

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IN THE MATTER OF THE APPLICATION
OF NORTHERN STATES POWER
COMPANY, A MINNESOTA
CORPORATION, AND BLACK
MOUNTAIN GAS, A SUBSIDIARY OF
NORTHERN STATES POWER
COMPANY, A MINNESOTA
CORPORATION, TO DETERMINE
EARNINGS FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN FOR THE CAVE CREEK
DIVISION.

Docket No. G-03703A-00-0283

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
Direct Testimony of Gordon Fox, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 22nd day of November, 2000.

Daniel W. Pozefsky
Attorney

1 AN ORIGINAL AND TEN COPIES
2 of the foregoing filed this 22nd day of
3 November, 2000 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 22nd day of November, 2000 to:

7 Jerry Rudibaugh, Chief Administrative Law Judge
8 Hearing Division
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, Arizona 85007

10 Lyn Farmer, Chief Counsel
11 Legal Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

13 Deborah Scott, Director
14 Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

16 James H. Willson
17 General Manager and Chief Executive Officer
18 Black Mountain Gas Company
19 P.O. Box 427
20 Cave Creek, Arizona 85327

19 Timothy Berg, Esq.
20 Fennemore Craig
21 3003 North Central Avenue, Suite 2600
22 Phoenix, Arizona 85012

23 By Cheryl Fraulob
24 Cheryl Fraulob

NORTHERN STATES POWER COMPANY
BLACK MOUNTAIN GAS DIVISION

DOCKET NO. G-03703A-00-0283

DIRECT TESTIMONY

OF

GORDON FOX

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

NOVEMBER 22, 2000

1 Direct Testimony of Gordon L. Fox
2 Northern States Power Company/Black Mountain Gas/Cave Creek Division
3 Docket No. G-0703A-00-0283
4 Permanent Rates
5

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1 **INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Gordon L. Fox. My business address is 2828 North Central
4 Avenue, Suite 1200, Phoenix, AZ 85004.

5

6 Q. By whom are you employed and in what capacity?

7 A. The Residential Utility Consumer Office (RUCO) employs me in the position of
8 Utilities Chief Rate Analyst.

9

10 Q. Briefly summarize your educational and professional credentials related to your
11 work in the field of utility regulation.

12 A. I have Master and Bachelor of Science Degrees in Accounting. I have earned
13 the following professional accounting and finance certifications: Certified Public
14 Accountant (CPA); Certified Management Accountant (CMA); and Certified in
15 Financial Management (CFM). My utility experience includes three years in my
16 current position, seven years in various auditing and rate analyst positions with
17 the Arizona Corporation Commission and four years with a cable TV utility with
18 responsibility for preparing and presenting rate applications before jurisdictional
19 authorities.

20

21 Q. Please state the purpose of your testimony.

22 A. The purpose of my testimony is to present RUCO's recommendations regarding
23 Black Mountain Gas Company's ("Company" or "BMG") application for a

1 permanent increase in rates based on the findings of my review and analysis of
2 the Company's application and records. My testimony addresses operating
3 income, rate base, capital cost, and rate design issues.

4

5 Q. Please identify the Exhibits presented in your testimony.

6 A. I am presenting Schedules GLF-1 through GLF-22.

7

8 Q. Please summarize the recommendations and adjustments addressed in your
9 testimony.

10 A. My testimony addresses the following issues:

11 Plant in Service – This adjustment decreases rate base by \$69,633. This
12 adjustment removes post-test year expenditures the Company projected to
13 capitalize in the future based on pro forma adjustments to expenses.

14 Plant Reclassification – This adjustment has no impact on rate base. This
15 adjustment reclassifies \$262,067 of Land to Structures and Improvement in
16 accordance with an appraisal of the acquired land and facilities.

17 Accumulated Depreciation Pro Forma – This adjustment increases rate base by
18 \$83,038. This adjustment reverses the Company's pro forma adjustment to
19 increase Accumulated Depreciation by \$83,038 in excess of the end-of-test-year
20 balance.

21 Accumulated Depreciation and Accumulated Amortization of Contributions-in-
22 Aid-of-Construction (CIAC) – This adjustment has a net rate base impact of zero.

23 This adjustment increases Accumulated Depreciation and Accumulated

1 Amortization of CIAC each by \$416,726 to correct an error in the method of
2 accounting for these accounts.

3 Construction Work in Progress (CWIP) – This adjustment reduces rate base by
4 \$282,035. This adjustment removes the Company pro forma adjustment to
5 include CWIP that is unnecessary to provide service to the test-year-end
6 customer level in rate base.

7 Reclassification of Customers and Revenues – This adjustment increases test
8 year operating revenue by the net amount of \$486 to correct for the
9 misclassification of 18 commercial customers as residential customers for six
10 months during the test year.

11 Revenue Annualization – This adjustment increases test year operating revenue
12 by \$85,776. This adjustment corrects the Company's understatement of the
13 revenue annualization required to reflect the test-year-end level of residential and
14 commercial customers.

15 Purchased Gas Adjustment – This adjustment decreases test year operating
16 revenue by \$49,472. This adjustment removes the revenues recovered during
17 the test year that exceed the base cost of gas.

18 Purchase Gas Cost – This adjustment increases test year operating expenses by
19 \$35,063 to correspond with RUCO's annualized level of customers and gas
20 consumption.

21 Sales Promotion Pro Forma – This adjustment reduces test year operating
22 expenses by \$22,773. This adjustment removes non-recurring contract labor
23 costs for activities now being performed by Company employees.

1 Sales Promotion – This adjustment reduces test year operating expenses by
2 \$10,976 to remove costs unnecessary for and/or unrelated to the provision of
3 public utility service.

4 Depreciation Expense – This adjustment increases test year operating expenses
5 by \$8,727 to reflect RUCO's reclassification of portions of plant from a non-
6 depreciable account to a depreciable account.

7 Investment Tax Credits (ITC) – This adjustment decreases test year operating
8 expenses by \$4,957 to reflect amortization of the Company's ITCs that were
9 omitted in the Company's filing.

10 Income Tax Expense - This adjustment decreases test year operating expenses
11 by \$14,675 to reflect income tax expense calculated on RUCO's recommended
12 revenues and expenses on a stand-alone basis.

13 Rate Design – I recommend a rate design that is generally consistent with the
14 Company's proposed rate design adjusted to reflect RUCO's recommended
15 revenue requirement.

16

17 **REVENUE REQUIREMENTS**

18 Q. Please summarize the results of your analysis of BMG's filing and state RUCO's
19 recommended revenue requirement.

20 A. I am recommending that BMG's revenue requirement not exceed \$6,019,277.
21 My recommended revenue requirement represents a \$202,340 (3.48 percent)
22 increase over the adjusted test year revenue of \$5,813,937 and includes a base
23 cost of gas of \$0.42 per therm. My recommended revenue requirement is

1 \$87,048 less than the Company's proposal of \$6,103,325. Schedule GLF-1
2 presents the calculation of my recommended revenue requirement.
3

4 **RATE BASE**

5 Rate Base Recommendation

6 Q. Please state the amount of the rate base you are recommending.

7 A. As shown on Schedule GLF-3, I am recommending a rate bas of \$10,831,870.
8 My recommended rate base is a decrease of \$268,630 from the Company's
9 proposal of \$11,100,500.
10

11 Rate Base Adjustment No. 1 – Plant Pro Forma

12 Q. Do you agree with the Company's \$91,046 pro forma adjustment to increase
13 plant as shown on Schedule B-2 of the filing?

14 A. No. The Company's pro forma adjustment is based on other pro forma
15 adjustments it made to Salaries and Wages Expense. The Company Salaries
16 and Wages Expense pro forma adjustment consists of components for (1)
17 incentive bonuses, (2) salary and wage increases, (3) changes in employment
18 levels, and (4) annualization of contract employee services. The pro forma
19 adjustment pertaining to incentive bonuses represents costs incurred for services
20 provided during the test year. However, BMG did not record the incentive bonus
21 costs in the test year. Therefore, the portion of these costs that should have
22 been capitalized should also be included in rate base. The incentive bonus
23 portion of the Company's \$91,046 pro forma adjustment that should have been

1 capitalized is \$21,413 and I have accepted this portion of the Company's pro
2 forma adjustment.

3
4 The remaining portion (\$69,633) of the Company's pro forma adjustment to
5 capitalize plant pertains to the forward-looking segment of the Company's pro
6 forma adjustment to Salary and Wages (i.e., pro forma wage increases/employee
7 annualizations.) These items will not be eligible for capitalization until the year
8 after the test year. Thus, \$69,633 of the Company's pro forma salaries and
9 wages had not been incurred at the end of the test year, and accordingly, cannot
10 be capitalized.

11
12 Q. Is the Company's proposal to capitalize projected amounts of pro forma
13 expenses to be incurred in the future a normal ratemaking treatment?

14 A. No. The \$69,633 portion of the Company's pro forma adjustment that represents
15 projected capitalization of salaries and wages is inappropriate and should be
16 excluded from rate base.

17
18 Q. What adjustment are you recommending for pro forma plant adjustment?

19 A. As shown on Schedule GLF-4, Line 28, I have removed \$69,633 of the
20 Company's proposed \$91,046 pro forma plant adjustment.

21

22

23

1 Rate Base Adjustment No. 2 – Plant Reclassification

2 Q. Please explain your adjustment to reclassify \$262,067 from General Land to
3 General Structures and Improvements.

4 A. Schedule E-5 of the Company's filing shows a \$502,044 addition to the account
5 General Land & Rights in the year 1999. In response to Staff data request MSJ-
6 144 the Company stated that the land was appraised at \$239,000. BMG paid
7 \$500,000 for the land and building and incurred \$2,044 of fees related to the
8 transaction. As shown on Schedule GLF-6, I allocated the fees to the land and
9 building on a pro-rata (proportional) basis. As a result, \$262,067 of the \$502,044
10 cost to acquire the land and build is attributed to land and the remaining
11 \$239,977 attributed to the building. Thus, I reclassified \$262,067 from the
12 General Land account to General Structures and Improvements.

13

14 Rate Base Adjustment No. 3 – Accumulated Depreciation Proforma

15 Q. Do you agree with the Company's \$83,038 pro forma adjustment to increase
16 Accumulated Depreciation as shown on Schedule B-2 of the filing?

17 A. No. In response to RUCO data request 2.11(b) the Company cited matching of
18 the year-end plant included in rate base as the reason for the pro forma
19 adjustment. The \$83,038 adjustment represents one-half of the annual
20 depreciation on the plant additions made in the test year. The Company had
21 already recorded \$83,038 of Depreciation Expense in the test year. Since the
22 Company uses the half-year convention to record depreciation, only one-half of
23 the annual depreciation should be recorded in the first year plant is placed in

1 service. Therefore, the Company's Accumulated Depreciation balance at the
2 end of the test year was correct and no adjustment is necessary. Apparently, the
3 Company is of the mistaken understanding that Accumulated Depreciation must
4 be adjusted to reflect a full year's depreciation for plant placed in service during
5 the test year in order to recognize a full year's depreciation as expense. The
6 Company's pro forma adjustment of \$83,038 to Depreciation Expense as shown
7 on Schedule C-1 of the filing is a known and measurable change on a going
8 forward basis and therefore is appropriate, however, a retroactive restatement of
9 Accumulated Depreciation is not appropriate.

10

11 Rate Base Adjustment No. 4 – Accumulated Amortization of CIAC and Accumulated
12 Depreciation

13 Q. Please explain how the Company has been accounting for the Accumulated
14 Amortization of CIAC.

15 A. The Company has not been recording the Accumulated Amortization of CIAC.
16 Instead, the Company has netted the annual Amortization of CIAC against
17 Accumulated Depreciation.

18

19 Q. What is the result of the Company's accounting method?

20 A. The Company's accounting method results in an understatement of Accumulated
21 Amortization of CIAC and an understatement of Accumulated Depreciation.
22 Since the understatement of Accumulated Amortization of CIAC decreases rate

1 base and understatement of Accumulated Depreciation increases rate base, the
2 error has no direct impact on rate base.

3

4 Q. What adjustment are you recommending to correct the error in the Company's
5 method of account for Accumulated Amortization of CIAC and Accumulated
6 Depreciation?

7 A. As shown on Schedule GLF-4, Lines 30 and 33, I have increased both accounts
8 by \$416,726, which is the balance of Accumulated CIAC shown on the
9 Company's depreciation records at December 31, 1999 (Data Response 2.11(j)).

10

11 Rate Base Adjustment No. 5 – Construction Work in Progress (CWIP)

12 Q. Has the Company included any CWIP balances in rate base?

13 A. Yes. Schedule B-1 of the filing shows that the Company proposes to include
14 \$282,035 of CWIP in rate base.

15

16 Q. Do you agree with the Company's proposal to include \$282,035 of CWIP in rate
17 base?

18 A. No. It is my experience that the Commission does not typically include CWIP in
19 rate base. The exclusion of CWIP is appropriate because CWIP does not
20 provide service to customers during the test year. In this case, none of the
21 projects under construction are replacements for existing plant or otherwise
22 required to continue providing service to the test-year-end level of customers.
23 The Company's proposal to included CWIP in rate base represents a mismatch

1 of revenues, expenses and rate base. The projects will provide incremental
2 revenues that are not reflected in the filing. In addition, new plant can affect
3 operating characteristics that in turn affect revenue and expenses. That is, the
4 effects are not known and measurable. Further, due to outstanding accounts
5 payable and use of non-investor provided funds (e.g., advances-in-aid-of-
6 construction) CWIP expenditures do provide an accurate representation of
7 investor-supplied funds.

8

9 Q. What adjustment have you made to CWIP?

10 A. As shown on Schedule GLF-4, Line 4, I have removed \$282,035 of CWIP from
11 rate base. This adjustment removes the Company's proposed amount in its
12 entirety.

13

14 **OPERATING INCOME**

15 Operating Income Summary

16 Q. What are the results of your analysis of test year revenues, expenses, and
17 operating income?

18 A. As shown on Schedule GLF-7, my analysis resulted in test year revenues of
19 \$5,813,937, expenses of \$4,895,989, and an operating income of \$917,948. The
20 Company's filing shows test year revenues of \$5,777,147, expenses of
21 \$4,905,581, and operating income of \$871,566. These operating results reflect
22 the use of \$0.42 per therm as the base cost of gas.

23

1 Operating Income Adjustment No. 1 – Reclassification of Revenue

2 Q. Do you agree with the classification of customers and revenue as presented in
3 the Company's filing?

4 A. No. In response to RUCO data request 2.1, the Company stated that as a result
5 of converting to a new billing system during the test year 18 commercial
6 customers were misclassified as residential customers for a six-month period.

7
8 Q. What have you done to correct the misclassification of customers and revenues?

9 A. As shown on Schedule GLF-9, Lines 1 through 20, I have reclassified 18
10 residential customers and their associated consumption in terms as commercial
11 customer using the average consumption rate of commercial customers.

12

13 Q. What is the revenue impact of the reclassification?

14 A. Commercial revenues increase by \$35,376 and residential revenues decrease by
15 \$34,890 for a net increase of \$486.

16

17 Q. Why did revenues increase due to the reclassification?

18 A. Revenues increased because the monthly minimum charges for commercial and
19 residential customers, respectively, are \$10.00 and \$5.50, a difference of \$4.50
20 (\$4.50 per month x 6 months x 18 customers equals \$486.00).

21

22

23

1 Operating Income Adjustment No. 2 – Annualization of Revenue

2 Q. How did the Company annualize revenues?

3 A. The Company restricted its revenue annualization to residential customers. The
4 Company multiplied the test-year-end level of residential customers by twelve
5 (12) months to determine the number of annualized residential billings. The
6 Company used the annualized billings to determine the revenue from monthly
7 minimum charges. The Company also annualized consumption in therms by
8 multiplying the difference between the annualized residential customer billings
9 and the actual test year residential billings. The Company multiplied this
10 difference in residential billings times the average monthly consumption in therms
11 for the entire test year.

12
13 Q. Do you agree with the Company method of annualizing revenues?

14 A. No. The annualization should include commercial as well as residential
15 customers. Also, using the average monthly consumption in therms for the entire
16 test year distorts the probable usage by failing to recognize that usage is
17 seasonal.

18
19 Q. Have you recalculated the annualization of revenue to correct these errors?

20 A. Yes. My recalculation of the annualization adjustment is shown on Schedule
21 GLF-9. My recalculation recognizes seasonal changes by multiplying the test-
22 year-end customer level by the average usage in the test year for each individual
23 month for residential and commercial customers by class. My annualization

1 adjustment also reflects the reclassification of customers as discussed
2 previously.

3

4 Q. What adjustment have you made to annualize revenues?

5 A. As shown on Schedule GLF-9, Lines 26 and 38, I increased Commercial Gas
6 Sales by \$63,294 and Residential Gas Sales by \$22,482 for a total of \$85,776.

7

8 Operating Income Adjustment No. 3 – Purchase Gas Adjustment

9 Q. What amount of purchase gas adjustment did the Company include in its test
10 year revenue?

11 A. The Company's test year revenue of \$5,777,147 represents the following
12 amounts: revenues per bill count, \$4,626,709; adjustment to increase base cost
13 of gas from \$0.27 per therm to \$0.42 per therm; annualization of residential
14 revenue, \$260,660; other revenues, \$56,570; and purchase gas adjustment,
15 \$49,472. Thus, the Company's test year revenue includes \$49,472 for the
16 recovery of gas cost above the cost of gas included in base rates.

17

18 Q. Should the adjusted test year revenue include any amount for the purchase cost
19 of gas above the base cost of gas?

20 A. No. The Company has a purchase gas adjustor mechanism (PGA) that provides
21 for offsetting the over- and under-recovery of the purchase cost of gas. The test
22 year revenues will be distorted by the inclusion of PGA revenues. The test year
23 revenues should only reflect the \$0.42 per therm base cost of gas. Any

1 additional gas cost recoveries through the PGA mechanism should not be
2 included in the calculation of base rates, since such costs are to be recovered
3 through a separate PGA tariff.

4

5 Q. What adjustment have you made to revenues pertaining to the purchase gas
6 adjustment?

7 A. As shown on Schedule GLF-8, I removed \$49,472 of purchase gas adjustment
8 operating revenues. This adjustment completely removes purchase gas
9 adjustment revenues from test year revenues to reflect a base cost of gas at
10 \$0.42 per therm.

11

12 Operating Income Adjustment No. 4 – Annualization of Purchase Gas Cost

13 Q. Please explain your adjustment to increase Purchase Gas Cost by \$35,063.

14 A. My adjustment to Purchase Gas Cost is a companion adjustment to my
15 adjustment to annualize revenues. My adjustment to annualize revenues is
16 based on the sale of 5,308,392 therms, or 83,483 therms more than proposed by
17 the Company. As shown on Schedule GLF-10, the incremental cost of
18 purchasing 83,483 additional therms of gas at the rate of \$0.42 per therm is
19 \$35,063. Thus, I have increased the purchase cost of gas by \$35,063.

20

21

22

23

1 Operating Income Adjustment No. 5 – Sales Promotion Pro Forma

2 Q. What is the purpose of the Company's \$37,991 pro forma adjustment to increase
3 Sales Promotion Expense as shown on Schedule C-2, Page 2 of 3, of the filing?

4 A. In November 1999, the Company hired a full-time employee as a Marketing
5 Manager. The \$37,991 pro forma adjustment proposed by the Company
6 represents the portion of the annualization of the Marketing Manager's salaries
7 and benefits charged to sales promotion activities.

8

9 Q. Do you agree that annualization of the Marketing Manager's salary and benefits
10 is appropriate?

11 A. Yes. The Marketing Manager's position is a permanent full-time position.

12

13 Q. Do you agree with the Company's calculation of the pro forma adjustment for the
14 Marketing Manager's position?

15 A. No. During the test year the Company charged \$22,773 to operating expenses
16 for contract labor to perform marketing and sale activities that will now be
17 performed by the Marketing Manager. The Company has not removed the
18 marketing and sales charges paid on contract labor from operating expenses.
19 Including the sales and marketing contract labor and the Marketing Manager's
20 salary and benefits in operating expenses results in a double count and a double
21 recovery of sales and marketing costs.

22

1 Q. What adjustment have you made to Sales and Promotion Expense pertaining to
2 the Company's pro forma adjustment?

3 A. As shown on Schedule GLF-8, Line 11, Column F, I have decreased Sales and
4 Promotion Expense by \$22,773 to eliminate the test year contract marketing and
5 sales expenses. These activities will now be performed by the Marketing
6 Manager and therefore are non-recurring.

7
8 Operating Income Adjustment No. 6 – Sales Promotion

9 Q. Do you agree with the Sales and Promotion expenses recorded by the Company
10 during the test year?

11 A. No. I reviewed a sample of the Company's recorded advertising and promotion
12 expenses and identified twelve (12) items that were inappropriately charged to
13 the public service activities during the test year. Schedule GLF-11 identifies
14 each of the items and the specific reason each should not be included for
15 recovery from ratepayers in operating expense. Each of these items should be
16 excluded from operating expenses for one or more of the following reasons: (1)
17 The expense was incurred outside the test year. (2) The item was not necessary
18 for the provision of public service. (3) The item should have been charged to
19 BMG's non-regulated divisions (e.g. Gas-Connection or Lake Powell). (4) The
20 expense was incurred for merchandising activity.

21

22

23

1 Q. What adjustment have you made to Sales and Promotion Expense pertaining to
2 recorded test year expenses?

3 A. As shown on Schedule GLF-8, Line 11, Column G, I have decreased Sales and
4 Promotion Expense by \$10,976 related to recorded test year expenses.
5

6 Operating Income Adjustment No. 7 – Depreciation Expense

7 Q. Please explain your adjustment to increase Depreciation Expense by \$8,727 as
8 shown on Schedule GLF-8, Line 13.

9 A. Previously, I discussed the reclassification of \$262,067 from General Land &
10 Rights to General Structures and Improvements. My adjustment to Depreciation
11 Expense is a companion adjustment. General Land & and Rights is not a
12 depreciable account as is General Structures and Improvements. Accordingly,
13 Depreciation Expense must be adjusted to reflect the depreciable nature of the
14 reclassified plant amount. My calculation of the incremental Depreciation
15 Expense due to the reclassification is shown on Schedule GLF-12.
16

17 Operating Income Adjustment No. 8 – Investment Tax Credits (ITC)

18 Q. Has the Company reflected any ITC in its filing?

19 A. No.
20

21 Q. Does BMG have any ITCs?

22 A. Yes. In response to Staff data request KFR 1-94, the Company provided an
23 attachment showing ITCs generated in the years 1982 through 1986. The

1 outstanding ITCs are being amortized over 30 years. The attachment shows the
2 annual ITC amortization as \$6,366. The Company claims it has failed to
3 maintain adequate records determine its election for treatment (rate base
4 deduction or amortization to operating expense) of ITC under U.S. Treasury
5 Regulations. However, the Company noted that according to its audited financial
6 statements, BMG elected to amortize the ITCs over the life of the assets.

7
8 Q. How do you recommend that the ITCs be treated?

9 A. I recommend that the ITC be amortized to operating expense using a period of
10 30 years in accordance with the attachment provided by the Company.

11
12 Q. What amount should be recognized for the Cave Creek Division?

13 A. In Docket No. G-03493A-98-0705, BMG's most recent rate case for its Page
14 Division, the Company filing (Schedule C-2, Page 2 of 2) shows a \$1,409 annual
15 amortization of ITCs for that division. I recommend that the remaining portion of
16 the annual ITC amortization be recognized in the Cave Creek Division.

17
18 Q. What adjustment are you recommending for ITCs?

19 A. As shown on Schedule GLF-13, Line 3, I have recognized an annual amortization
20 of ITCs of \$4,957. The amortization of ITCs decreases operating expenses.

21

22

23

1 Operating Income Adjustment No. 9 – Income Tax Expense

2 Q. Have you reviewed the Company's proposed treatment of Income Tax Expense?

3 A. Yes. BMG is allocated a portion of its parent company's (Northern States Power)
4 tax burden based on BMG's contribution to consolidated tax liability. BMG's
5 allocated amount is then further allocated between various regulated and non-
6 regulated BMG activities. For purposes of the rate filing, the Company made
7 additional adjustments reflecting allocations of short-term interest expense, short-
8 term investment income, and capitalized interest among its regulated and non-
9 regulated activities to calculate taxable income for the Cave Creek Division. The
10 Company applied a combined state and federal income tax rate of 40.2 percent
11 to the resultant taxable income allocated the Cave Creek Division.

12

13 Q. Is the Company's calculation of Income Tax Expense consistent with the
14 treatment normally recognized by the Commission?

15 A. No. For rate-making purposes, the Commission recognizes Income Tax
16 Expense on a stand-alone system/division basis recognizing only regulated
17 jurisdictional revenue, authorized operating expenses, and synchronized interest
18 expense.

19

20 Q. Do you agree with the Company's method of calculating Income Tax Expense?

21 A. No. The Company's method includes non-operating income and expenses,
22 requires allocations subject to judgment and manipulation, does not reflect a
23 stand-alone basis, and applies an incorrect tax rate.

1 Q. Have you calculated federal and state Income Tax Expense in the manner
2 normally recognized by the Commission based on your determination of test year
3 revenues and expenses at present rates?

4 A. Yes. Schedule GLF-14 shows the proper calculation of state and federal Income
5 Tax Expense on test year income at present rates.
6

7 Q. What adjustment have you made to test year Income Tax Expense?

8 A. As shown on Schedule GLF-8, Line 19, I decreased Income Tax Expense by
9 \$14,675 from the Company's proposed amount of \$510,887 to \$496,212.
10

11 Q. Have you also prepared a schedule the showing calculation of Income Tax
12 Expense on your proposed revenue?

13 A. Yes. Schedule GLF-2 presents a calculation of income taxes on my proposed
14 revenue. Schedule GLF-2 provides a proof that my proposed revenue will
15 provide for all state and federal income taxes and result in the operating income I
16 am recommending. This schedule also shows the calculation of the revenue
17 conversion factor that reconciles the required increase in revenue with the test
18 year and required operating incomes.
19
20
21
22
23

1 **COST OF CAPITAL**

2 Q. Have reviewed the Company's proposed capital structure, cost of equity, and
3 cost of capital?

4 A. Yes. As shown on Schedule GLF-15, I have made no adjustments to the
5 Company's capital structure, cost of equity, or cost of capital. The Company's
6 propose capital structure reflected the correct amount of outstanding long-term
7 debt and BMG's proposed cost of equity at 10.75 percent is reasonable.

8

9 Q. What is your recommended cost of capital?

10 A. I am recommending a cost of capital of 9.61 percent comprised of a weighted
11 cost of debt of 1.35 percent and a weighted cost of equity of 8.26 percent.

12

13 **RATE DESIGN**

14 Q. Have you prepared a schedule presenting your recommended rate design and a
15 proof of revenue?

16 A. Yes. My recommended rate design and a proof of revenue are presented on
17 Schedule GLF-16.

18

19 Q. Does your proposed rate design represent a significant change from the
20 Company's proposed rate design?

21 A. No. My rate design is consistent with the Company's proposed rate design
22 adjusted to reflect RUCO's proposed revenue requirement. Since RUCO's
23 proposed increase in revenues is approximately 60 percent (3.48% vs. 5.71%) of

1 the Company's, I have increased the monthly minimum charges for each
2 customer class by 60 percent of the increase proposed by the Company. My
3 recommended usage rates (charge per therm) are established at levels that
4 when combined with the minimum charges generate an increase in revenues for
5 each customer class that is approximately equal to the overall required
6 percentage increase in revenue. Thus, each customer class receives the same
7 overall increase in revenue. This is consistent with the Company's cost of
8 service study. Cost of service studies such as that prepared by the Company
9 provide only a general indication of the true cost of providing service to the
10 various customer classes.

11

12 Q. Does the Company's proposed rate design represent a significant change from
13 the existing rate design?

14 A. No. Based on the results of the Company's cost of service study, there is no
15 evidence to support a shift in the revenues between customer classes. With the
16 exception of co-generation customers, the Company's proposed rates also
17 maintain the relative revenue distribution of the existing rates.

18

19 Q. What is the significant change to the co-generation tariff?

20 A. The existing monthly minimum charge is \$10.00 and my recommended charge is
21 \$22.00. The Company's proposed monthly minimum for co-generation
22 customers is \$30.00.

23

1 Q. Why is the monthly minimum charge increasing significantly?

2 A. The contribution margin on the usage rate for co-generation customers is smaller
3 than for other classes of customers. As a consequence, the Company's ability to
4 recover customer related costs via the usage rate is lower than for other
5 customer classes. That is, the Company's risk related to recovery of unavoidable
6 costs is greater for co-generation customers than for other classes of customers.

7

8 Q. Does this conclude your direct testimony?

9 A. Yes.

10

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Direct Testimony of Gordon L. Fox

TABLE OF CONTENTS TO SCHEDULES GLF

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GLF-15	COST OF CAPITAL SUMMARY
GLF-16	RATE DESIGN & PROOF OF REVENUE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) RUCO ORIGINAL COST
1	Adjusted Rate Base	\$ 11,100,500	\$ 10,831,870
2	Adjusted Operating Income (Loss)	\$ 871,566	\$ 917,948
3	Current Rate of Return (L2 / L1)	7.85%	8.47%
4	Required Rate of Return	9.6088%	9.6088%
5	Require Operating Income (L4 * L1)	\$ 1,066,620	\$ 1,040,808
6	Operating Income Deficiency (L5 - L2)	\$ 195,054	\$ 122,861
7	Gross Revenue Conversion Factor	1.6722	1.6469
8	Required Revenue Increase (L7 * L6)	\$ 326,178	\$ 202,340
9	Adjusted Test Year Revenue	\$ 5,777,147	\$ 5,813,937
10	Proposed Annual Revenue (L8 + L9)	\$ 6,103,325	\$ 6,016,277
11	Require Increase in Revenue (%) (L8 / L9)	5.71%	3.48%
12	Rate of Return on Common Equity (%)	10.75%	10.75%

References:

Column (A): Company Schedules A-1, C-3, & D-1

Column (B): RUCO Schedules GLF-2, GLF-3, GLF-7, & GLF-14

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Revenue	1.0000			
2	Less: Combined Federal and State Tax Rate (Line 10)	0.3928			
3	Subtotal (L1 - L2)	0.6072			
4	Revenue Conversion Factor (L1 / L3)	1.6469			
 <i>Calculation of Effective Tax Rate:</i>					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	8.0000%			
7	Federal Taxable Income (L5 - L6)	92.0000%			
8	Applicable Federal Income Tax Rate (Line 32)	34.0000%			
9	Effective Federal Income Tax Rate (L7 x L8)	31.2800%			
10	Combined Federal and State Income Tax Rate (L6 +L9)	39.2800%			
11	Required Operating Income (Schedule GLF-1, Line 5)	\$ 1,040,808			
12	Adjusted Test Year Operating Income (Loss) (Schedule GLF-7, Line 21)	\$ 917,948			
13	Required Increase in Operating Income (L11 - L12)		\$ 122,861		
14	Income Taxes on Recommended Revenue (Col. (D), L31)	\$ 575,691			
15	Income Taxes on Test Year Revenue (Col. (B), L31)	\$ 496,212			
16	Required Increase in Revenue to Provide for Income Taxes (L14 -L15)		\$ 79,479		
17	Total Required Increase in Revenue (L13 + L16)		\$ 202,340		
<i>Calculation of Income Tax:</i>		<u>Test Year</u>		<u>RUCO Recommended</u>	
18	Revenue (Schedule GLF-7, Col.(C), Line 5 & Sch. GLF-1, Col. (B), Line 10)	\$ 5,813,937		\$ 6,016,277	
19	Less: Operating Expenses Excl. Inc. Tax (Sch GLF-7, Col. (C), L6 thru L17)	\$ 4,404,735		\$ 4,404,735	
20	Less: Synchronized Interest (L35)	\$ 145,934		\$ 145,934	
21	Arizona Taxable Income (L18 - L19 - L20)	\$ 1,263,268		\$ 1,465,608	
22	Arizona State Income Tax Rate	8.00%		8.00%	
23	Arizona Income Tax (L21 x L22)		\$ 101,061		\$ 117,249
24	Federal Taxable Income (L21 - L23)	\$ 1,162,206		\$ 1,348,359	
25	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
26	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250	
27	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
28	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 91,650		\$ 91,650	
29	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ 281,250		\$ 344,542	
30	Total Federal Income Tax	\$ 395,150		\$ 458,442	
31	Combined Federal and State Income Tax (L23 + L30)	\$ 496,212		\$ 575,691	
32	Applicable Federal Income Tax Rate [Col. (D), L30 - Col. (B), L30] / [Col. (C), L24 - Col. (A), L24]				34.0000%
 <i>Calculation of Interest Synchronization:</i>					
33	Rate Base (Schedule GLF-3, Col. (C), Line 17)	\$ 10,831,870			
34	Weighted Average Cost of Debt (Schedule GLF-15, Col. [F], L1 + L2)	1.35%			
35	Synchronized Interest (L33 X L34)	\$ 145,934			

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS REF	(C) RUCO AS ADJUSTED
1	\$ 15,836,481	\$ (69,633)	\$ 15,766,848
2	3,110,191	333,688	3,443,879
3	<u>\$ 12,726,290</u>	<u>\$ (403,321)</u>	<u>\$ 12,322,969</u>
<u>LESS:</u>			
4	\$ 673,542	\$ -	\$ 673,542
5	-	416,726	416,726
6	<u>673,542</u>	<u>(416,726)</u>	<u>256,816</u>
7	831,656	-	831,656
8	82,563	-	82,563
9	679,121	-	679,121
10	-	-	-
<u>ADD:</u>			
11	162,057	-	162,057
12	282,035	(282,035)	-
13	197,000	-	197,000
14	-	-	-
15	-	-	-
16	-	-	-
17	<u>\$ 11,100,500</u>	<u>\$ (268,630)</u>	<u>\$ 10,831,870</u>

References:

Column (A), Company Schedule B-1
Column (B): Schedule GLF-4
Column (C): Column (A) + Column (B)

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ.#1	(C) ADJ.#2	(D) ADJ.#3	(E) ADJ.#4	(F) ADJ.#5	(G) ADJ.#6	(H) ADJ.#7	(I) RUCO ADJUSTED
<i>PLANT IN SERVICE:</i>										
1	Organization - Intangible Plant	\$ 628,562	-	-	-	-	-	-	-	\$ 628,562
2	AFUDC - Debt	21,932	-	-	-	-	-	-	-	21,932
3	AFUDC - Equity	554,217	-	-	-	-	-	-	-	554,217
4	Franchises & Consents	286,863	-	-	-	-	-	-	-	286,863
5	Misc. Intangible Plant	5,833	-	-	-	-	-	-	-	5,833
6	Storage Plant - Land	4,135	-	-	-	-	-	-	-	4,135
7	Distribution Land Rights	1,768	-	-	-	-	-	-	-	1,768
8	Distribution Mains	8,660,801	-	-	-	-	-	-	-	8,660,801
9	Distribution Measuring & Reg.	189,903	-	-	-	-	-	-	-	189,903
10	Distribution Services	2,254,729	-	-	-	-	-	-	-	2,254,729
11	Meters	808,720	-	-	-	-	-	-	-	808,720
12	Meter Installations	363,128	-	-	-	-	-	-	-	363,128
13	House Regulators	19,154	-	-	-	-	-	-	-	19,154
14	House Regulators Installations	55,837	-	-	-	-	-	-	-	55,837
15	Industrial Meas. Y R4eg.	971	-	-	-	-	-	-	-	971
16	Distribution Property on Customer Premise	245	-	-	-	-	-	-	-	245
17	Other Distribution Equipment	3,874	-	-	-	-	-	-	-	3,874
18	Interest Capitalized	1,986	-	-	-	-	-	-	-	1,986
19	General Land & Rights	502,044	-	(262,067)	-	-	-	-	-	239,977
20	General Structures & Improvements	217,547	-	262,067	-	-	-	-	-	479,614
21	Office Furniture & Equipment	578,893	-	-	-	-	-	-	-	578,893
22	Transportation Equipment	314,030	-	-	-	-	-	-	-	314,030
23	Tools & Shop Equipment	128,483	-	-	-	-	-	-	-	128,483
24	Power Operating Equipment	23,116	-	-	-	-	-	-	-	23,116
25	Communication Equipment	40,578	-	-	-	-	-	-	-	40,578
26	Miscellaneous Equipment	10,026	-	-	-	-	-	-	-	10,026
27	Other Tangible Property	68,060	-	-	-	-	-	-	-	68,060
28	Pro Forma Adjustment	91,046	(69,633)	-	-	-	-	-	-	21,413
29	Gross Utility Plant in Service	\$ 15,836,481	\$ (69,633)	\$ -	\$ -	\$ 416,726	\$ -	\$ -	\$ -	\$ 15,766,848
30	Less: Accumulated Depreciation	3,110,191	-	-	(83,038)	416,726	-	-	-	3,443,879
31	Net Plant in Service (L23 - L 24)	\$ 12,726,290	\$ (69,633)	\$ -	\$ 83,038	\$ (416,726)	\$ -	\$ -	\$ -	\$ 12,322,969
<i>LESS:</i>										
32	Contributions in Aid of Construction (CIAC)	\$ 673,542	-	-	-	-	-	-	-	\$ 673,542
33	Less: Accumulated Amortization	-	-	-	-	-	-	-	-	-
34	Net CIAC (L25 - L26)	673,542	-	-	-	416,726	-	-	-	416,726
35	Advances in Aid of Construction (AIAC)	831,656	-	-	-	-	-	-	-	831,656
36	Customer Deposits	82,563	-	-	-	-	-	-	-	82,563
37	Deferred Income Tax Credits	679,121	-	-	-	-	-	-	-	679,121
38	Other Deductions	-	-	-	-	-	-	-	-	-
<i>ADD:</i>										
39	Materials & Supplies Inventories	162,057	-	-	-	-	-	-	-	162,057
40	CWIP	282,035	-	-	-	-	(282,035)	-	-	-
41	New Building	197,000	-	-	-	-	-	-	-	197,000
42	Cash Working Capital Allowance	-	-	-	-	-	-	-	-	-
43	Deferred Debits	-	-	-	-	-	-	-	-	-
44	Other Additions	-	-	-	-	-	-	-	-	-
45	Total Rate Base	\$ 11,100,500	\$ (69,633)	\$ -	\$ 83,038	\$ -	\$ (282,035)	\$ -	\$ -	\$ 10,831,870

ADJ.#	References:
1	Plant in Service
2	Schedule GLF-5
3	Schedule GLF-6
4	Accum. Deprec. & Accum. Amort. CIAC
5	CWIP
	Testimony, GLF
	Testimony, GLF
	Testimony, GLF

RATE BASE ADJUSTMENT #1 - PLANT PRO FORMA

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] RUCO ADJUSTMENTS</u>	<u>[C] RUCO AS ADJUSTED</u>
1	Incentive Bonuses Prior Period Adjustment Capitalized	\$ 21,413	\$ -	\$ 21,413
2	Salary & Wage Increase Pro Forma Capitalized	36,226	(36,226)	-
3	Employment Level Adjustment Pro Forma Capitalized	(3,488)	3,488	-
4	Professional Services Annualization Pro Forma Capitalized	36,895	(36,895)	-
5	Total	<u>\$ 91,046</u>	<u>\$ (69,633)</u>	<u>\$ 21,413</u>

REFERENCES:

Column (A): Company Schedule B-2 and Response KFR 1-1, WP 11, Page 3, to Staff Data Request

Column (B): Testimony, GLF

Column (C): Column (A) - Column (B)

RATE BASE ADJUSTMENT #2 - RECLASSIFICATION OF PLANT

LINE NO.	DESCRIPTION	[A] AMOUNT	[B] PERCENT	[C] ALLOCATE FEES	[D] RUCO AS ADJUSTED	[E] COMPANY AS FILED	[F] RUCO ADJUSTMENT
1	Land	\$ 239,000	47.8%	\$ 977	\$ 239,977	\$ 502,044	\$ (262,067)
2	Building	261,000	52.2%	\$ 1,067	262,067	0	\$ 262,067
3	Total	500,000	100.0%	\$ 2,044	\$ 502,044	\$ 502,044	\$ -
4	Fees	2,044					
5	Total	\$ 502,044					

REFERENCES:

- Column (A): Data Response 2.15
- Column (C): Column (A) x Column (B)
- Column (D): Column (A) + Column (C)
- Column (E): Company Schedule E-5
- Column (F): Column (D) - Column (E)

OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] RUCO TEST YEAR ADJUSTMENTS	[C] RUCO TEST YEAR AS ADJUSTED	[D] RUCO PROPOSED CHANGES	[E] RUCO RECOMMENDED
REVENUES:						
1	Gas Sales - Residential	\$ 4,484,962	\$ (12,408)	\$ 4,472,554	\$ 151,921	\$ 4,624,475
2	Gas Sales - Commercial	1,186,143	98,670	1,284,813	42,249	1,327,062
3	Purchased Gas Adjustment	49,472	(49,472)	-	-	-
4	Other Gas Revenues 1	56,570	-	56,570	8,170	64,740
5	Total Operating Revenues	\$ 5,777,147	\$ 36,790	\$ 5,813,937	\$ 202,340	\$ 6,016,277
EXPENSES:						
6	Purchase Gas Cost	\$ 2,243,934	\$ 35,063	\$ 2,278,997	\$ -	\$ 2,278,997
7	Operating Wages & Expense	\$ 171,748	-	171,748	-	171,748
8	Maintenance Wages & Expense	\$ 103,161	-	103,161	-	103,161
9	Customer Accounting	\$ 148,824	-	148,824	-	148,824
10	Customer Service	\$ 33,232	-	33,232	-	33,232
11	Sales Promotion	\$ 101,410	(33,749)	67,661	-	67,661
12	Administrative & General	\$ 766,341	-	766,341	-	766,341
13	Depreciation	\$ 581,110	8,727	589,837	-	589,837
14	Property Taxes	\$ 212,052	-	212,052	-	212,052
15	Other Taxes	\$ 6,606	-	6,606	-	6,606
16	Corporate Expense Allocation	\$ 26,276	-	26,276	-	26,276
17	Other Expenses 1	\$ -	-	-	-	-
18	Amortization of ITC	\$ -	(4,957)	(4,957)	-	(4,957)
19	Income Taxes	510,887	(14,675)	496,212	79,479	575,691
20	Total Operating Expenses	\$ 4,905,581	\$ (9,592)	\$ 4,895,989	\$ 79,479	\$ 4,975,469
21	Operating Income (Loss)	\$ 871,566	\$ 46,382	\$ 917,948	\$ 122,861	\$ 1,040,808

References:

Column (A): Company Schedule C-1
Column (B): Schedule GLF-8
Column (C): Column (A) + Column (B)
Column (D): Schedules GLF-1 and GLF-2
Column (E): Column (C) + Column (D)

Black Mountain Gas Company, Cave Creek Division
 Docket No. G-03703A-00-0283
 Test Year Ended December 31, 1999

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) ADJ #8	(J) ADJ #9	(K) RUCO ADJUSTED
REVENUES:												
1	Gas Sales - Residential	\$ 4,484,962	\$ (34,890)	\$ 22,482	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,472,554
2	Gas Sales - Commercial	1,186,143	35,376	63,294	-	-	-	-	-	-	-	1,284,813.0
3	Purchased Gas Adjustment	49,472	-	-	(49,472)	-	-	-	-	-	-	-
4	Other Gas Revenues 1	56,570	-	-	-	-	-	-	-	-	-	56,570.0
5	Total Operating Revenues	\$ 5,777,147	\$ 486	\$ 85,776	\$ (49,472)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,813,937
EXPENSES:												
6	Purchase Gas Cost	\$ 2,243,934	\$ -	\$ -	\$ -	\$ 35,063	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,278,997
7	Operating Wages & Expense	171,748	-	-	-	-	-	-	-	-	-	171,748
8	Maintenance Wages & Expense	103,161	-	-	-	-	-	-	-	-	-	103,161
9	Customer Accounting	148,824	-	-	-	-	-	-	-	-	-	148,824
10	Customer Service	33,232	-	-	-	-	-	-	-	-	-	33,232
11	Sales Promotion	101,410	-	-	-	-	(22,773)	(10,976)	-	-	-	67,661
12	Administrative & General	766,341	-	-	-	-	-	-	-	-	-	766,341
13	Depreciation	581,110	-	-	-	-	-	-	8,727	-	-	589,837
14	Property Taxes	212,052	-	-	-	-	-	-	-	-	-	212,052
15	Other Taxes	6,606	-	-	-	-	-	-	-	-	-	6,606
16	Corporate Expense Allocation	26,276	-	-	-	-	-	-	-	-	-	26,276
17	Other Expenses 1	-	-	-	-	-	-	-	-	-	-	-
18	Amortization of ITC	-	-	-	-	-	-	-	-	(4,957)	-	(4,957)
19	Income Taxes	510,887	-	-	-	-	-	-	-	-	(14,675)	496,212
20	Total Operating Expenses	\$ 4,905,581	\$ -	\$ -	\$ (49,472)	\$ 35,063	\$ (22,773)	\$ (10,976)	\$ 8,727	\$ (4,957)	\$ (14,675)	\$ 4,895,989
21	Operating Income (Loss)	\$ 871,566	\$ 486	\$ 85,776	\$ (49,472)	\$ (35,063)	\$ 22,773	\$ 10,976	\$ (8,727)	\$ 4,957	\$ 14,675	\$ 917,948

ADJ #	References:
1	Revenue Reclassification
2	Revenue Annualization
3	Purchase Gas Adjustment
4	Purchase Gas Cost
5	Sales Promotion
6	Sales Promotion
7	Depreciation Expense
8	ITC Amortization
9	Income Taxes

ADJ #	References:
1	Schedule GLF-8
2	Schedule GLF-8
3	Testimony, GLF
4	Schedule GLF-9
5	Testimony, GLF
6	Schedule GLF-11
7	Schedule GLF-12
8	Schedule GLF-13
9	Schedule GLF-14

Black Mountain Gas Company, Cave Creek Division
 Docket No. G-03703A-00-0283
 Test Year Ended December 31, 1989

OPERATING ADJUSTMENTS #1 & #2 - ANNUALIZATION AND RECLASSIFICATION OF GAS REVENUES

LINE NO.	DESCRIPTION	[A] [B]												Total
		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	
RECLASSIFICATION														
Commercial:														
1	Test Year Thermals - Recorded	97,029	93,110	77,155	94,437	50,911	45,359	97,909	40,864	45,132	50,642	57,460	102,734	792,742
2	Test Year Customers - Recorded	148	152	152	150	149	152	148	148	148	150	147	170	1,812
3	Test Year Mo. Thermals Per Customer - Recorded (L1/L2)	655.60	612.57	507.60	629.58	341.68	298.41	259.65	276.11	304.95	337.61	390.98	604.32	437,500
4	Customers Misclassified as Residential	0	0	0	0	0	0	18	18	18	18	18	0	108
5	Reclassified Thermals (L3 x L4)	-	-	-	-	-	5,971.46	4,679.71	4,989.95	5,489.09	6,077.04	7,035.92	-	33,617
6	Corrected Test Year Customers (L2 + L4)	148	152	152	150	149	170	164	166	166	168	165	170	1,920
7	Corrected Test Year Thermals (L1 + L5)	97,029	93,110	77,155	94,437	50,911	50,730	42,583	45,834	50,621	56,719	64,496	102,734	826,359
8	Monthly Service Charge - TY	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	1,080.00
9	Adjustment to TY Service Charge (L4 x L8)	-	-	-	-	-	180.00	180.00	180.00	180.00	180.00	180.00	180.00	1,080.00
10	Commodity Rate (With \$0.42 base cost of gas)	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2
11	Adjustment to TY Commodity Revenue (L5 x L10)	-	-	-	-	-	5,479.96	4,788.12	5,070.34	5,599.91	6,199.80	7,178.04	-	34,296.17
12	Misclassification Adjustment (L9 + L11)	-	-	-	-	-	(5,971)	(4,874)	(4,970)	(5,489)	(6,077)	(7,036)	-	(33,617)
13	Thermals Reclassified as Commercial (L5)	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2	1,020.2
14	Commodity Rate (With \$0.42 base cost of gas)	-	-	-	-	-	(5,479.96)	(4,788.12)	(5,070.34)	(5,599.91)	(6,199.80)	(7,178.04)	-	(34,296.17)
15	Adjustment to TY Commodity Revenue (L13 x L14)	-	-	-	-	-	(18)	(18)	(18)	(18)	(18)	(18)	-	(108.00)
16	Customers Misclassified as Residential (Line 4)	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
17	Monthly Service Charge - TY	-	-	-	-	-	(99.00)	(99.00)	(99.00)	(99.00)	(99.00)	(99.00)	-	(594.00)
18	Adjustment to TY Service Charge (L16 x L17)	-	-	-	-	-	(99.00)	(99.00)	(99.00)	(99.00)	(99.00)	(99.00)	-	(34,890)
19	Misclassification Adjustment (L9 + L11)	-	-	-	-	-	5,479.96	4,788.12	5,070.34	5,599.91	6,199.80	7,178.04	-	34,296.17
20	Net Misclassification Revenue Adjustment (L12 + L19)	-	-	-	-	-	-	-	-	-	-	-	-	35,376
ANNUALIZATION														
Commercial:														
21	Test Year End Customers	170	170	170	170	170	170	170	170	170	170	170	170	2,040
22	Pro Forma Customer Annualization (L21 - L6)	22	18	18	20	21	-	6	4	4	2	5	-	120
23	Annualization of Monthly Service Charge (L22 x L8)	220.00	180.00	180.00	200.00	210.00	-	60.00	40.00	40.00	20.00	50.00	-	1,200.00
24	Pro Forma Thermals Annualization (L22 x L3)	14,423	11,026	9,137	12,592	7,175	-	1,558	1,104	1,220	675	1,954	-	60,865
25	Annualization of Commodity (L24 x L10)	14,714.58	11,248.91	8,321.34	12,845.95	7,320.32	-	1,589.37	1,126.74	1,244.42	688.87	1,993.90	-	62,094.41
26	Annualization Adjustment (L23 + L25)	14,934.58	11,428.91	9,501.34	13,045.95	7,590.32	-	1,649.37	1,166.74	1,284.42	708.87	2,043.90	-	63,294
Residential:														
27	Test Year End Customers	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	5,653	67,836
28	Test Year Customers - Recorded	4,987	5,036	5,095	5,151	5,222	5,283	5,242	5,245	5,387	5,446	5,519	5,653	63,276
29	Customers Misclassified as Residential (Line 4)	-	-	-	-	-	18	18	18	18	18	18	-	108
30	Pro Forma Customer Annualization (L27 - L26 - L29)	666	617	558	472	431	372	393	390	248	189	116	-	4,452
31	Annualization of Monthly Service Charge (L30 x L17)	3,663.00	3,363.50	3,069.00	2,596.00	2,370.50	2,046.00	2,161.50	2,145.00	1,364.00	1,039.50	638.00	-	24,466.00
32	Test Year Thermals - Recorded	577,335	504,046	415,727	541,652	221,628	165,417	103,571	77,485	110,188	143,115	288,153	608,274	3,756,591
33	Test Year Mo. Thermals Per Customer - Recorded (L32 / L28)	115.77	100.09	81.60	104.55	42.44	31.43	19.76	14.77	20.45	26.28	52.21	-	107.60
34	Pro Forma Thermals Annualization (L30 x L33)	77,101.49	61,754.64	45,530.06	49,345.54	18,292.16	11,692.02	7,764.86	5,761.52	5,072.70	4,966.72	6,056.49	-	299,336.29
35	Annualization of Commodity (L34 x L14)	78,658.94	63,002.09	46,449.77	50,342.42	18,661.66	11,928.20	7,921.71	5,877.90	5,175.17	5,067.04	6,178.93	-	299,263.72
36	Annualization RUCO (L31 + L35)	82,321.94	66,395.59	49,518.77	52,868.42	21,082.16	13,974.20	10,063.21	8,022.90	6,589.17	6,106.54	6,816.53	-	323,750
37	Annualization - Company (KFR 1-1, WP-7 + \$0.15 x 270,720)	-	-	-	-	-	-	-	-	-	-	-	-	-
38	Annualization Adjustment (L36 - L37)	-	-	-	-	-	-	-	-	-	-	-	-	-
39	Total Annualization Adjustment (L26 + L38)	-	-	-	-	-	-	-	-	-	-	-	-	22,482
References:														
Lines 1, 2, 21, 27, 28 & 32: Company Response KFR 1-1, WP 12, to Staff Data Request														
Line 4: D.R. 2.1														

[A] [B]

OPERATING ADJUSTMENT #4 - ANNUALIZATION OF PURCHASE GAS COST

LINE NO.	DESCRIPTION	[A] THERMS COMPANY	[B] THERMS RUCO	[C] DIFFERENCE	[D] BASE COST OF GAS	[E] RUCO ADJUSTMENT
1	Residential	4,027,311	4,016,312	(10,999)	\$ 0.42	\$ (4,620)
2	Air Conditioning	6,272	6,272	-	\$ 0.42	-
3	Commercial	792,742	887,224	94,482	\$ 0.42	39,682
4	Resort	298,408	298,408	-	\$ 0.42	-
5	Co-Generation	100,176	100,176	-	\$ 0.42	-
6	Total	5,224,909	5,308,392	83,483		<u>\$ 35,063</u>

References:

Column (A): Company Response KFR 1-1, WP 13, to Staff Data Request

Column (B): Schedule GLF-9

Column (C): Column (B) - Column (A)

OPERATING ADJUSTMENT #6 - SALES PROMOTION ITEMS

LINE NO.	DESCRIPTION	REFERENCE DATE	[A] COMPANY PROPOSED	[B] RUCO RECOMMENDED	[C] RUCO ADJUSTMENT
1	Sonoran News (a)	31-Dec-98	228	-	(228)
2	Musicfest (b) & (c)	1-Jan-99	1,000	500	(500)
3	Foothills Sentinel (b)	31-Mar-99	474	-	(474)
4	Carefree Enterprise (b)	1-Apr-99	612	-	(612)
5	Town Planner (b)	29-Jul-99	5,616	1,872	(3,744)
6	Musicfest (b)	1-Aug-99	1,000	500	(500)
7	Tom Saxer & Friends (c)	21-Oct-99	489	-	(489)
8	Sonoran News (c) & (d)	29-Nov-99	570	171	(399)
9	Foothills Sentinel (c)	30-Nov-99	245	-	(245)
10	Myron Manufacturing Corp. (c)	2-Dec-99	1,179	393	(786)
11	C. E. - Prize (b)	28-May-99	\$ 1,500	\$ -	(1,500)
12	J. R. - Prize (b)	28-May-99	1,500	-	(1,500)
13	Total		<u>\$ 14,412</u>	<u>\$ 3,436</u>	<u>\$ (10,976)</u>

- (a) Out of Test Year
- (b) Not necessary for provision of service
- (c) Non-regulatory activity (e.g. Gas-Connection, Lake Powell)
- (d) Merchandising

References:

- Column (A): Company Response, Exhibit KFR-125, to Staff Data Request
- Column (B): Testimony, GLF
- Column (C): Column (B) - Column (A)

Black Mountain Gas Company, Cave Creek Division
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Schedule GLF-12

OPERATING ADJUSTMENT #7 - DEPRECIATION EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
1	Plant Reclassified from Land to Struct. & Improv.	\$ 262,067
2	Depreciation Rate for Structures & Improvements	3.33%
3	Depreciation Adjustment - RUCO (L1 x L2)	<u>\$ 8,727</u>

References:

Line 1: Schedule GLF-6

Line 2: Data Response 2.11(j)

Black Mountain Gas Company, Cave Creek Division
Docket No. G-03703A-00-0283
Test Year Ended December 31, 1999

Schedule GLF-13

OPERATING ADJUSTMENT #8 - INVESTMENT TAX CREDITS (ITC)

<u>LINE</u> <u>NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
1	BMG Annual Amortization	\$ (6,366)
2	Annual Amortization - Page Division	(1,409)
3	ITC Adjustment - RUCO (L1 - L2)	<u>\$ (4,957)</u>

References:

Line 1: Company Response KFR-94, Attachment A, to Staff Data Request

Line 2: Docket No. G-03493A-98-0705, BMG Filing, Schedule C-2, Page 2 of 2

OPERATING ADJUSTMENT #9 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]	[D]
<i>Calculation of Arizona Income Tax</i>					
1	Operating Income (Schedule GLF-7, L21)	\$ 917,948			
2	Amortization of ITC (Schedule GLF-7, L18)	\$ (4,957)			
3	Income Taxes Used to Calculate Operating Income (Schedule GLF-7, L19)	\$ 496,212			
4	Operating Income Before Income Taxes (L1 + L2 + L3)		\$ 1,409,202		
5	Less: Synchronized Interest (L24)		\$ 145,934		
6	Arizona Taxable Income (L4 - L5)			\$ 1,263,268	
7	Arizona State Income Tax Rate			8.00%	
8	Arizona Income Tax (L6 X L7)				\$ 101,061
<i>Calculation of Federal Income Tax</i>					
9	Operating Income Before Income Taxes (L4)			\$ 1,409,202	
10	Less: Arizona Income Tax (L8)			\$ 101,061	
11	Less: Synchronized Interest (L24)			\$ 145,934	
12	Federal Taxable Income (L9 + L10 + L11)			<u>\$ 1,162,206</u>	
		<u>Taxable Income</u>	<u>Tax Rate</u>	<u>Tax</u>	
13	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 50,000	15.00%	\$ 7,500	
14	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 25,000	25.00%	\$ 6,250	
15	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 25,000	34.00%	\$ 8,500	
16	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 235,000	39.00%	\$ 91,650	
17	Federal Tax on Fifth Income Bracket (\$335,001 to \$10 million) @ 34%	\$ 827,206	34.00%	\$ 281,250	
18	Total Federal Income Tax (Shown in Column (D))	<u>\$ 1,162,206</u>			<u>\$ 395,150</u>
19	Combined Federal and State Income Tax - RUCO(L8 + L18)				\$ 496,212
20	Income Tax - Company (Company Schedule C-1)				510,887
21	RUCO Adjustment				<u>\$ (14,675)</u>
<i>Calculation of Interest Synchronization</i>					
22	Rate Base (Schedule GLF-3, Col. (C), Line 17)	\$ 10,831,870			
23	Weighted Average Cost of Debt (Schedule GLF-15, Col. [F], L1 + L2)		1.35%		
24	Synchronized Interest (L22 X L23)	<u>\$ 145,934</u>			

Black Mountain Gas Company, Cave Creek Division
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Schedule GLF-15

COST OF CAPITAL SUMMARY

LINE NO.	DESCRIPTION	(A) AMOUNT PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED	(D) PERCENT	(E) COST RATE	(F) WEIGHTED COST RATE
1	Short-term Debt	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
2	Long-term Debt	\$ 3,000,000	\$ -	\$ 3,000,000	23.15%	5.82%	1.35%
3	Preferred Stock	\$ -	\$ -	\$ -	0.00%	0.00%	0.00%
4	Common Equity	\$ 9,959,563	\$ -	\$ 9,959,563	76.85%	10.75%	8.26%
6	Total Capital	<u>\$ 12,959,563</u>	<u>\$ -</u>	<u>\$ 12,959,563</u>	<u>100.00%</u>		
7	Cost of Capital						<u>9.61%</u>

References:

- Column (A): Company Schedule D-1
- Column (B): Testimony, GLF
- Column (C): Column (A) + Column (B)
- Column (D): Column (C) / Column C, L6
- Column (E): Company Schedule D-1
- Column (F): Column (D) x Column (E)

RATE DESIGN & PROOF OF REVENUE

LINE NO.	DESCRIPTION		RUCO PROPOSED RATE		RUCO PROPOSED ANNUAL REVENUE
Residential					
1	Bills	67,836	\$ 5.80	\$	393,449
2	Therms	4,016,312	\$ 1.0526	\$	4,227,720
Air Conditioning					
3	Bills	12	\$ 5.80	\$	70
4	Therms	6,272	\$ 0.5160	\$	3,237
Commercial					
5	Bills	2,040	\$ 13.00	\$	26,520
6	Therms	887,224	\$ 1.0476	\$	929,489
Resort					
7	Bills	301	\$ 27.18	\$	8,181
8	Therms	298,408	\$ 1.0516	\$	313,817
Co-Generation					
9	Bills	24	\$ 22.00	\$	528
10	Therms	100,176	\$ 0.4844	\$	48,527
11	Total Gas Sales Revenue			\$	5,951,537
12	Other Gas Revenues				64,740
13	Total Operating Revenue			\$	6,016,277
14	Total Revenue Requirement			\$	6,016,277
15	Excess Over Required Revenue			\$	-
CNG					
16	Bills		\$ 6.00		
17	Therms		\$ 0.4800		
<i>Service Charges:</i>					
18	Establishment of Service		\$ 20.00		
19	Re-Establishment - (within 12 mo.)		Mo. off system time	\$ Min. Chrg	
20	Re-Connection - Reg Hrs		\$ 30.00		
21	Re-Connection - OT Hrs		\$ 45.00		
22	Services - Per Hour - Reg		\$ 30.00		
23	Services - Per Hour - Reg		\$ 45.00		
24	Meter Re-read (If Correct)		\$ 25.00		
25	Meter Test Fee (If Correct)		\$ 25.00		
26	NSF Charge (Per Month)		\$ 10.00		
27	Late Charge (Per Month)		1.5%		