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KRISTIN K. MAYES
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 THE PROPERTIES)
OF SOUTHWEST GAS CORPORATION)
DEVOTED TO ITS OPERATIONS)
THROUGHOUT THE STATE OF ARIZONA)

Docket No. G-01551A-04-0876

**NOTICE OF FILING DIRECT TESTIMONY
OF JEFFREY L. HOFFMAN**

On July 26, 2005, Yuma Cogeneration Associates filed the attached direct testimony of Jeffrey L. Hoffman in the above referenced matter.

RESPECTFULLY SUBMITTED this 26th day July, 2005.

LEWIS AND ROCA LLP

Michael Hall for

Thomas H. Campbell
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Attorneys for Yuma Cogeneration Associates

1 ORIGINAL AND thirteen (13) copies
2 of the foregoing hand-delivered
3 this 26th day of July, 2005, to:

3 Arizona Corporation Commission
4 Utilities Division – Docket Control
5 1200 W. Washington Street
6 Phoenix, Arizona 85007

5 COPY of the foregoing hand-delivered
6 this 26th day of July, 2005, to:

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11 Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman

MARC SPITZER

WILLIAM A. MUNDELL

MIKE GLEASON

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Docket No. G-01551A-04-0876

**DIRECT TESTIMONY OF JEFFREY L. HOFFMAN
ON BEHALF OF YUMA COGENERATION ASSOCIATES**

JULY 26, 2005

Q. Please state your name and business address.

A. Jeffrey L. Hoffman, 280 North 27th Drive, Yuma, Arizona.

Q. What is your present occupation?

A. I am General Manager, Yuma Cogeneration Associates ("YCA"), a cogeneration facility located in Yuma, Arizona.

Q. Please briefly describe your educational background and work experience.

A. From 1984 to 1989, I was on active duty with the United States Navy (USN) as a Gas Turbine Systems Electrician Technician. After leaving the USN, I worked for National Steel and Ship Building Company (NASSCO) as a Marine "A" Electrician for one month prior to being hired on with Sithe Energies as a Control Room Operator at the North Island, Naval Base Coronado cogeneration facility. I worked for Sithe Energies in the capacity of Control Room Operator from 1989 to 1994. In 1994, I was hired by MidAmerican Energy Holdings Company, and since that time have worked for various business units. From 1994 to 1997, I worked at Yuma Cogeneration Associates as a Control Room Operator. In 1997, I was promoted to Operations Manager at the NorCon cogeneration plant. I worked at NorCon as Operations Manager from 1997 to 1999. NorCon was sold in 1999 and I was transferred to Saranac Power Partners cogeneration plant as the Operations Manager. I worked as the Operations Manager at Saranac Power Partners from 1999 to 2001. I was promoted to General Manager of Yuma Cogeneration Associates in 2001 and currently work in this capacity.

Q. Have you previously submitted testimony before the Arizona Corporation Commission?

A. No, I have not.

Q. Please briefly describe YCA.

A. YCA is a natural gas-fired cogeneration facility located in Yuma, Arizona. YCA is one of the largest customers on Southwest's system, typically consuming over 3 Bcf of gas per year. YCA is a "Qualifying Cogeneration Facility" as that term is defined in Section 3(18) of the Federal Power Act, as amended [16 USCA 796(18)] and regulations thereunder. YCA generates electricity and steam pursuant to long term contracts. YCA is supplied with the natural gas required for conversion to electricity pursuant to a Master Agreement entered into between YCA and Southwest on June 30, 1993 ("Master Agreement"). YCA's requirements are exclusively met by Southwest Gas.

Q. Please describe the purpose of your testimony in this proceeding.

A. I am testifying regarding Southwest Gas Corporation's (Southwest) proposal in this docket to eliminate its Special Supplementary Tariff, Title Assignment Service ("Proposal").

Q. What is YCA's position regarding the Proposal?

A. YCA opposes the Proposal, in that the Proposal is a violation of the Master Agreement. YCA believes that Southwest should withdraw the Proposal; if not, the Commission should deny Southwest's request to eliminate Title Assignment

Service. Further, the Commission should direct YCA to offer service to its customers under the tariff.

Q. How does the Proposal violate the Master Agreement?

A. The power supply customer and the lender for the facility have certain rights with respect to the project documents, of which the natural gas supply agreements are a critical component. Southwest and California Energy Development Corporation, then the managing general partner of YCA, entered into a Title Assignment Agreement dated November 10, 1992, a copy of which is attached hereto as Exhibit JLH-1. Although the Title Assignment Agreement had a primary term of only one year, the agreement then continues on a month-to-month basis. The Master Agreement and the Title Assignment Agreement were part of the portfolio of gas transportation and supply agreements executed by YCA prior to construction of the cogeneration facility. Paragraph C of Section III of the Master Agreement provides:

Southwest shall exert its good faith best efforts to maintain in effect appropriate regulatory authorization by the ACC and the FERC to continue to service [*sic*] to YCA under the Title Assignment Agreement for a term ending seventeen (17) years after the Firm Capacity Availability Date and from year to year thereafter, and so long as there is no material detrimental effect on Southwest's other customers.

Q. When does the seventeen (17) year period end?

A. The Firm Capacity Availability Date was May 28, 1994; therefore, the seventeen years ends on May 27, 2011.

Q. Is YCA aware of any "material detrimental effect on Southwest's other customers"?

A. Southwest has never informed YCA of any effect from the Title Assignment Service on Southwest's other customers. YCA does not believe the service, as designed, could have anything except a positive effect on other customers.

Q. Does YCA receive service under the Title Assignment Agreement?

A. No, YCA has never received service under its Title Assignment Agreement with Southwest Gas. Last year, YCA inquired about the service and was told by Southwest Gas that the service is "out of date."

Q. What was meant by that?

A. I have no idea. In my mind, the service is very similar to the service YCA currently receives from Southwest Gas, which is service under a Special Procurement Agreement ("SPA").

Q. What is the difference between the two services?

A. The only difference I am aware of is that the SPA is a bundled service that includes transportation on El Paso, distribution service on Southwest Gas and gas supply. Title Assignment Service does not include a gas supply, but would allow YCA to shop around and possibly obtain a better price for its gas supply.

Q. Doesn't YCA have a transportation agreement with Southwest Gas?

A. Yes, YCA has a transportation agreement that would allow it to obtain its supplies elsewhere. However, YCA is served off El Paso's Yuma Lateral. All the capacity on the Yuma Lateral is fully committed to Southwest Gas and to Arizona Public Service. YCA is unable to obtain the firm pipeline service it requires without utilizing service from Southwest Gas.

Q. You mentioned that other customers would benefit from the continuation of Title Assignment Service. How is that?

A. Southwest Gas would receive revenue from its release of capacity to YCA that then would be a credit to Southwest Gas' 191 account. I believe this credit would be greater than that provided by YCA's current service under the SPA. At a minimum, Title Assignment Service would allow YCA to shop around for its gas supply, rather than being captive to Southwest Gas' bundled services. This would create no negative impact on Southwest Gas' other customers that I am aware of.

Q. You mentioned earlier that the Commission should direct Southwest Gas to offer service to its customers under the Title Assignment tariff. Why do you say that?

A. As I indicated, YCA was told last year that the service was outdated and no longer available. As I have described in this testimony, YCA believes the service continues to be valid, and it may be a service YCA would like to receive upon expiration of its current SPA at the end of 2005.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Exhibit JLH - 1

SOUTHWEST GAS CORPORATION
ARIZONA SERVICE AREAS
OPERATING AGREEMENT
PURSUANT TO ACC DECISION NO. 57545

THIS AGREEMENT, is made and entered into as of the 10th day of November, 1992 by and between Southwest Gas Corporation (the Utility) and California Energy Development Company (CEDCO) a wholly owned subsidiary of California Energy Company, Inc., (the Customer).

WHEREAS, the Customer is an existing transportation customer of the Utility under the Utility's Rate Schedule No. PT-1;

WHEREAS, the Customer has an opportunity to use the Utility's transportation capacity on upstream pipelines to transport customer-secured gas pursuant to Arizona Corporation Commission (ACC) Decision No. 57545 under the provisions of Footnote No. 5 to the Utility's Arizona Gas Tariff No. 4, Sixth Revised Sheet No. 20;

WHEREAS, the Utility will provide transportation services for customer secured gas as provided in this Agreement and Schedule No. PT-1 and Schedule No. AB-1;

WHEREAS, the Utility will provide transportation service on an "as-available" basis pursuant this Agreement only to the extent that the Utility's system supply is not disadvantaged by allowing the Customer access to the Utility's upstream pipeline capacity;

NOW THEREFORE, in order to fully implement the provisions of Schedule No. PT-1 and this Agreement, the parties agree as follows:

ARTICLE I.
Responsibilities and Performances

1.1 Written Daily Nomination. The Customer, or the Customer's authorized agent, will provide to the Utility in writing, or by facsimile, the daily nominated quantities of customer-secured gas to be scheduled for transportation under this Agreement. The written daily nomination shall specifically state the quantities of gas, receipt points, and all other pertinent information required to effect a nomination to upstream pipelines for transportation of customer-secured gas pursuant to this Agreement.

1.2 Assignment. When the Customer, or the Customer's authorized agent, makes a written daily nomination as set forth in Paragraph 1.1 herein, such nomination shall constitute the assignment of title of such customer-secured gas to the Utility. It is expressly understood that title to such gas will be conveyed to the Utility only for those quantities that were specifically nominated by the Customer and actually transported under the Utility's service agreements with upstream pipelines. Title to such gas, less any fuel use required by upstream pipelines to transport the gas, shall be reassigned by the Utility to the Customer upon custody transfer of the gas from the upstream pipeline to the Utility's distribution system at the upstream pipeline delivery point(s).

1.3 Operating Procedure. Service under this Agreement is dependant upon the Utility's daily forecasted requirements, and will be limited to the "Maximum Daily Quantity" set forth in the Customer's service agreement under Schedule No. PT-1. Service is further dependant upon operating conditions the Utility will experience in securing and/or transporting its forecasted requirements on upstream pipelines. The operating procedures for integrating customer-secured gas into the Utility's day to day operations are listed in Exhibit A, which is attached hereto and by this reference incorporated herein.

1.4 Customer Responsibility. The Customer shall use its best efforts to cause its producers/suppliers to operate and perform so the necessary quantities of gas are tendered at the applicable upstream pipeline's receipt points. Gas tendered to the upstream pipeline by the Customer's producer/supplier shall conform to all specifications as contained in the upstream pipeline's tariff.

ARTICLE II.
Applicable Charges

2.1 Upstream Pipeline Charges. The Customer shall reimburse the Utility for any charges rendered or billed to the Utility by all upstream pipelines and gas gatherers, either during or after termination of this Agreement, which Southwest, in its sole good faith opinion, determines have been incurred because of the transportation of Customer-secured gas under this Agreement. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, monthly demand charges, standby charges or reservation fees, prepayments, commodity charges, applicable taxes, franchise and regulatory fees, fuel reimbursement, shrinkage, lost or unaccounted for gas, G.R.I. surcharges, overrun and penalty charges, filing fees, and any charges or costs resulting from the implementation of the Federal Regulatory Commission (FERC) Order No. 636.

2.2 Upstream Pipeline Demand Charges. In addition to charges described in Article 2.1, the Utility may pass through to the Customer up to 100 percent of the upstream pipeline fixed demand charges set forth in such pipeline firm transportation rates imposed on the Utility for use of such upstream pipeline capacity. Such charges will be allocated on a volumetric basis for the use of such capacity to transport customer-secured gas under this Agreement. The pass through of such demand charges will become operative once the upstream pipelines' rate designs are replaced with rate designs that modify the current allocation of demand and commodity charges. The level of pass through to the Customer will be established by the Utility based on competitive market conditions.

2.3 Applicable Taxes. The Customer agrees to pay to the Utility on demand all privilege, use, sales, franchise, excise or similar taxes or assessments which apply to the service provided pursuant to this Agreement and Schedule PT-1, including any sales or use tax applicable to the value of the gas transported. In order to determine the value of the gas transported for taxing purposes, the Utility shall utilize the El Paso Natural Gas Company Permian Basin Index price as published in the Inside FERC Gas Market Report the first week of each month (Index Price). Alternatively, the Customer may provide to the Utility by the twentieth day of the month the actual value of the gas transported each month. In the event the state taxing authority requires the sales or use tax to be levied on the actual value of the gas in lieu of the Index Price, the Customer shall provide the actual value of the gas to the Utility, and will be responsible for the payment of any differences. Payment obligations of the Customer to the Utility for applicable taxes shall survive the termination of this Agreement.

2.4 Payment for Gas Supply The Customer is responsible for making all payments for gas supplies transported under this Agreement.

2.5 Upstream Pipeline Refunds. In the event refunds are made to the Utility of any applicable upstream pipeline charges which occurred while providing service pursuant to this Agreement, the Utility will provide refunds to the Customer on the same basis by which the Utility received the refunds.

ARTICLE III.
Term and Limitations

3.1 Term. This Agreement shall become effective on November 10, 1992 and shall continue in effect for a period extending for a primary term to and including December 31, 1993, subject to termination at expiration of the said primary term. In the event that service under this Agreement is authorized to extend past December 31, 1993 by the ACC, this Agreement shall continue in effect from month to month thereafter, subject to termination upon the first day of any calendar month after the primary term by either party hereto through written notice so stating and given to the other no less than thirty (30) days in advance. Each party retains the right to terminate this Agreement for any reason within the primary term through written notice so stating and given to the other party no less than thirty (30) days in advance.

3.2 Applicability of Schedule PT-1. Except to the extent modified by this Agreement, the terms and conditions of Schedule PT-1 shall continue to apply to transportation service under this Agreement.

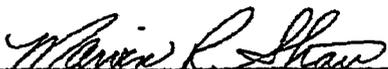
3.3 Regulatory Requirements.

3.3.1 The Customer shall not take any action which would subject the Utility to the jurisdiction of the Federal Energy Regulatory Commission (FERC), the Department of Energy (DOE), or any successor governmental agency. Any such action shall be cause for immediate termination of this Agreement. This Agreement, all terms and provisions contained or incorporated herein, and the respective obligations of the parties hereunder are subject to all valid laws, orders, rules, and regulations of duly constituted authorities having jurisdiction over the subject matter of this Agreement. This Agreement shall at all times be subject to such changes or modifications by the ACC as it may from time to time direct in the exercise of its jurisdiction.

3.3.2 Should the FERC, DOE, ACC or any other regulatory or successor governmental agency having jurisdiction impose by rule, order or regulation any terms or conditions upon this Agreement or should the FERC modify upstream pipeline transportation rates or provisions of service, which are not mutually satisfactory to the parties, then the parties within thirty (30) days of the issuance of such rule, order or regulation, and with notification to the other party, may terminate this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate originals.

SOUTHWEST GAS CORPORATION
"the Utility"

By: 
(Marvin R. Shaw)

Title: Executive Vice President

Date: 11/25/92

CALIFORNIA ENERGY DEVELOPMENT
COMPANY
"the Customer"

By: 
Philip H. Essner

Title: Vice President

Date: 11/21/92