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DEPARTMENT OF THE ARMY
UNITED STATES ARMY LEGAL SERVICES AGENCY
901 NORTH STUART STREET
ARLINGTON VA 22203-1837



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September 9, 2005

REPLY TO
ATTENTION OF

Regulatory Law Office
U 4136

Subject: In The Matter Of The Application Of Southwest Gas Corporation For A Rate Increase,
Arizona Corporation Commission, Docket No. G-01551-04-0876.

Arizona Corporation Commission
Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

Enclosed for filing with the Arizona Corporation Commission are the original and thirteen copies of the Surrebuttal Testimony of Dan L. Neidlinger on Behalf of the Department of Defense in the subject proceeding.

Copies of this Testimony have been sent in accordance with the attached Certificate of Service. Inquiries concerning this matter may be directed to the undersigned at (703) 696-1644.

Sincerely,

Peter Q. Nyce Jr.
General Attorney
Regulatory Law Office

Enclosure

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BEFORE THE ARIZONA CORPORATION COMMISSION

SOUTHWEST GAS CORPORATION

Docket No. G-01551A-04-0876

SURREBUTTAL TESTIMONY OF DAN L. NEIDLINGER

ON BEHALF OF

THE DEPARTMENT OF DEFENSE

SEPTEMBER 13, 2005

**ARIZONA CORPORATION COMMISSION
SOUTHWEST GAS CORPORATION
DOCKET NO. G-01551A-04-0876**

Surrebuttal Testimony of Dan L. Neidlinger

Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive, Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm specializing in utility rate economics.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A. A summary of my professional qualifications and experience is included in the attached Statement of Qualifications. In addition to the Arizona Corporation Commission ("ACC"), I have presented expert testimony before regulatory commissions and agencies in Alaska, California, Colorado, Guam, Idaho, New Mexico, Nevada, Texas, Utah, Wyoming and the Province of Alberta, Canada.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of the Department of Defense ("DOD"). The DOD installations in Arizona served by Southwest Gas Corporation ("Southwest" or the "Company") include Davis Monthan Air Force Base ("DM"), Luke Air Force Base ("Luke"), Yuma Marine Air Station ("Yuma") and Fort Huachuca. DM, Luke and Yuma are currently serviced by the Company under the Armed Forces tariff, Rate Schedule G-35. Fort Huachuca is currently served under a special contract but will begin taking tariffed service on October 1, 2005.

Q. WHAT IS THE COMBINED ANNUAL GAS USAGE OF THESE DOD FACILITIES?

A. These military installations are some of the Company's largest customers. Combined annual gas usage for these facilities totals 658,000 decatherms. Fort Huachuca's usage represents approximately 48% of this total.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to briefly comment on the direct and rebuttal testimonies of Company witnesses Giesecking and Congdon and the direct testimony of ACC Staff witness Gray with respect to rate design proposals that affect DOD facilities. The Company is proposing in this case to eliminate Rate Schedule G-35, the Armed Forces rate schedule, and transfer all DOD customers to the Large General Gas Service rate, Rate Schedule G-25. The Residential Utility Consumer Office ("RUCO") does not object to this consolidation. Staff, however, recommends maintaining the current Rate Schedule G-35 for DOD customers with the provision that these customers could elect to take service under Rate Schedule G-25.

Q. DID THE COMPANY EXPRESS CONCERNS ABOUT PROVIDING DOD CUSTOMERS WITH RATE OPTIONS?

A. Yes. In his rebuttal testimony, Company witness Congdon asserts that the Company could experience a short-fall in margins if DOD customers were allowed to choose to take service under either Rate Schedule G-25 or G-35. If Staff's rate proposals for Rate Schedules G-25 and G-35 are adopted in this case, it is unlikely that there would be any migration to Rate Schedule G-25 since annual gas costs to DOD customers would increase. Accordingly, the Company's concerns are unwarranted. Staff's recommended rates essentially maintain the status quo and provide no realistic rate-switching option for DOD customers.

Q. DO YOU HAVE ANY OBJECTION TO THE COMPANY'S PROPOSAL TO TRANSFER DOD CUSTOMERS TO RATE SCHEDULE G-25?

A. No. DOD customers should logically be classified with other large gas users for ratemaking purposes. Fort Huachuca has requested service under Rate Schedule G-25. The Fort understands that it must initially take service under Rate Schedule G-35 and that G-25 will not be available until the conclusion of this case.

Q. THE COMPANY IS PROPOSING TO CHANGE ITS METHOD FOR MEASURING A LARGE CUSTOMER'S PEAK DEMAND FROM A COINCIDENT PEAK METHOD (SYSTEM PEAK MONTH) TO A NONCOINCIDENT PEAK METHOD (CUSTOMER PEAK MONTH). DO YOU AGREE?

A. Partially. Staff recommends that a customer's billing demand continue to be ratcheted based on its monthly demand at the time of the Company's system peak – normally a winter month. I would support a modified noncoincident peak method whereby a customer's billing demand would be based on the highest monthly demand experienced during any winter month. Demands during the summer months of May through September would be exempt from the calculation.

Q. HAVE YOU REVIEWED THE RECOMMENDED LARGE CUSTOMER G-25 RATES PROPOSED IN THIS CASE?

A. Yes. I have reviewed and analyzed the rate recommendations for large, transportation eligible customers proposed by the Company, Staff and RUCO in this case as well as the cost of service studies prepared by the Company and Staff. The overall revenue requirements proposed by the Staff and RUCO are comparable. Should the Commission set revenue requirements at or near these levels, RUCO's proposed G-25 rates are preferable to Staff's recommended rates since they better reflect cost of service.

Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

DAN L. NEIDLINGER

SUMMARY STATEMENT OF QUALIFICATIONS

I. General:

Mr. Neidlinger is President of Neidlinger & Associates, Ltd., a Phoenix consulting firm specializing in utility rate economics and financial management. During his consulting career, he has managed and performed numerous assignments related to utility ratemaking and energy management.

II. Education:

Mr. Neidlinger was graduated from Purdue University with a Bachelor of Science degree in Electrical Engineering. He also holds a Master of Science degree in Industrial Management from Purdue's Krannert Graduate School of Management. He is a licensed Certified Public Accountant in Arizona and Ohio.

III. Consulting Experience:

Mr. Neidlinger has presented expert testimony on financial, accounting, cost of service and rate design issues in regulatory proceedings throughout the western United States involving companies from every segment of the utility industry. Testimony presented to these regulatory bodies has been on behalf of commission staffs, applicant utilities, industrial intervenors and consumer agencies. He has also testified in a number of civil litigation matters involving utility ratemaking and once served as a Special Master to a Nevada court in a lawsuit involving a Nevada public utility.

Mr. Neidlinger has performed feasibility studies related to energy management including cogeneration, self-generation, peak shaving and load-shifting analyses for clients with large electric loads. In addition, he has consulted with U.S. Army installations on privatization of utility systems and assisted these and other consumer clients in contract negotiations with utility providers of electric, gas and wastewater service.

Mr. Neidlinger has extensive experience in the costing and pricing of utility services. During his consulting career, he has been responsible for the design and implementation of utility rates for numerous electric, gas, water and wastewater utility clients ranging in size from 50 to 25,000 customers.

IV. Professional Affiliations:

Professional affiliations include the American Institute of Certified Public Accountants.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Surrebuttal Testimony of Dan L. Neidlinger on Behalf of the United States Department of Defense was sent to the parties on the attached service list either by United Parcel Service Next Day Air or by first class mail, postage prepaid on September 9, 2005.

Dated at Arlington County, Virginia, this 9th day of September 2005.


PETER Q. NYCE, JR.

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