



BEFORE THE ARIZONA CORPORATION COMMISSION

2005 SEP 29 A 9:08

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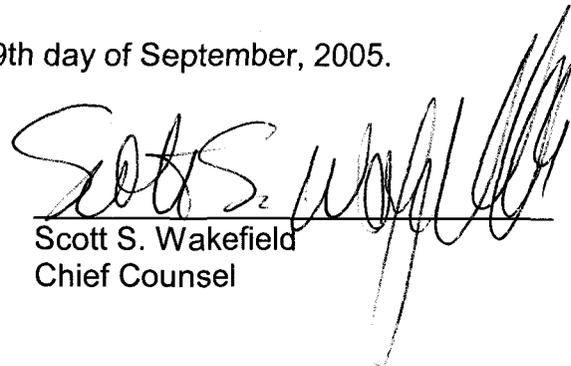
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8 IN THE MATTER OF THE APPLICATION OF
9 SOUTHWEST GAS CORPORATION FOR
10 THE ESTABLISHMENT OF JUST AND
11 REASONABLE RATES AND CHARGES
12 DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF THE PROPERTIES OF SOUTHWEST
GAS CORPORATION DEVOTED TO ITS
OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

Docket No. G-01551A-04-0876

NOTICE OF FILING TESTIMONY SUMMARIES

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15 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
16 Testimony Summaries of Marylee Diaz Cortez, Rodney L. Moore and William A. Rigsby in the
17 above-referenced matter.

18 RESPECTFULLY SUBMITTED this 29th day of September, 2005.

19
20 
21 Scott S. Wakefield
Chief Counsel

22 AN ORIGINAL AND THIRTEEN COPIES
23 of the foregoing filed this 29th day
of September, 2005 with:

24 Docket Control
Arizona Corporation Commission
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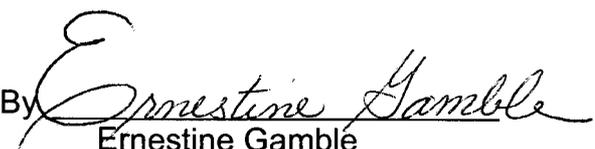
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Ernestine Gamble
Secretary to Scott Wakefield

Southwest Gas Corporation
Docket No. G-01551A-04-0876
Rate Application

SUMMARY OF THE TESTIMONIES OF MARYLEE DIAZ CORTEZ, CPA
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in the direct and surrebuttal testimony of Ms. Diaz Cortez. A full discussion of these issues and the underlying theory and rationales for her recommendations are contained in the referenced documents.

Rate Base

Pipe Replacements - This adjustment writes off a percentage of the cost of replacing defective pipe as required by Decision No. 58698.

Miscellaneous Intangible Plant - This adjustment reflects the rate base effects of the Company-proposed expired software amortizations. The adjustment removes from rate base plant and accumulated amortization of miscellaneous intangible plant that will have expired by December 31, 2004.

Working Capital - This adjustment restates SWG's cash working capital requirement based on RUCO's recommended level of operating expenses and lead/lag days. The adjustment also reclassifies certain test year expenses that produce a benefit equaling or exceeding one year of the Prepayments account.

Operating Income

Sarbanes Oxley Section 404 - This adjustment trues up the Company's estimated costs of complying with Section 404 of the Sarbanes Oxley Act of 2002 to actual costs.

Transmission Integrity Management Program (TRIMP) - This adjustment restates the estimated costs of implementing and maintaining the TRIMP based actual experience during 2004 and 2005.

Amortization of Miscellaneous Intangible Plant - This adjustment reduces test year amortization expense to reflect the level of Miscellaneous Intangible Plant recommended in Rate Base Adjustment #4.

Management Incentive Plan - This adjustment removes 67% of the cost of a bonus program that awards select employees for the achievement of certain goals. In large part, the benefits of achieving these goals accrue solely to shareholders, particularly between rate cases.

Demand Side Management - RUCO recommends approval of SWG's proposed increase in DSM spending, as well as outlines a recommended design and approval process.

Rate Design

Conservation Margin Tracker - RUCO recommends that the proposed CMT be denied and that less extreme rate design tools be used to address some of the Company's concerns, as well as establish fair and reasonable rates.

Rate Structure - RUCO recommends a rate structure that maintains the current allocation of revenue requirement between the residential and commercial classes, yet shifts within each class a greater proportion of the revenue requirement from the

commodity charge to the fixed monthly service charge. RUCO also recommends the current declining block rate structure be modified to one flat commodity charge that is applicable to all levels of usage and all seasons.

SUMMARY OF THE TESTIMONIES OF RODNEY L. MOORE
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the Direct and Surrebuttal Testimonies given by Rodney L. Moore applicable to RUCO's recommended conditions for a permanent rate increase. A full disclosure of the issues and conditions are contained in the referenced documents.

The testimonies of Mr. Moore addresses the following issues:

Rate Base

Fair Value Rate Base – Mr. Moore stated the fair value rate base by giving equal weighting (50/50 split) to RUCO's adjusted original cost rate base and RUCO's calculation of the reconstruction cost new depreciated rate base.

Test-Year In Service Plant and Accumulated Depreciation – Mr. Moore restated gross test-year gas plant in service and the accumulated depreciation value to reflect RUCO's adjustments to the Company's proposed value of its construction completed not classified.

Operating Income

Labor Annualization Expense – Mr. Moore reduced test-year operating expenses to reflect RUCO's recommended level of annualized payroll and payroll taxes.

Uncollectibles Annualization Expense – No adjustment.

Promotional Expense – No adjustment.

American Gas Association Dues – Mr. Moore removed the portion of the dues dedicated to advertising and lobbying.

Paiute Allocation Annualization Expense – No adjustment.

Injuries and Damages Expense – Mr. Moore's adjustment reflected RUCO's determination of an average annual level of expense; the adjustment was revised in the surrebuttal testimony.

Rate Case Expense – Mr. Moore proposed no adjustment at this time, but reserves the right to make an adjustment to the rate case expenses after an assessment of actual costs is made.

Miscellaneous Expense Mr. Moore expanded the scope of the Company's proposed adjustment to miscellaneous expense adjustments and removed inappropriate expenditures not necessary in the provisioning of gas service.

Vehicle Compensation Expense – No adjustment.

Out of Period Expense – No adjustment.

Property Taxes Expense – Mr. Moore reflected the appropriate level of property tax expense given RUCO's recommended level of net plant in service.

Interest on Customer Deposits expense – No adjustment.

RUCO Adjustments To Test-Year Operating Expenses – Mr. Moore's adjustment reflected RUCO's determination to remove the supplemental executive retirement plan.

Income Tax Expense – Mr. Moore’s adjustment reflected income tax expenses calculated on RUCO’s recommended revenues and expenses.

Rate Design

In the instant case, Mr. Moore was responsible to produce an accurate set of bill determinants. Therefore, Mr. Moore revised the bill determinants to reflect updated bill frequency analyses provide by the Company and RUCO’s adjustment to correctly produce test-year revenues. Mr. Moore then imputed revised bill determinants into the Company’s proposed rate design; and finally annualized the imputed bill determinants utilizing the Company’s pro forma adjustments. Ms. Marylee Diaz Cortez discussed RUCO’s proposed rate design in her testimony.

Conclusions And Recommendations

Mr. Moore concludes that the approval of this application will be consistent with the public interest if the Commission adopts the following recommendations:

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
1. Percentage Increase In Average Typical Residential Customer’s Monthly Statement	4.2%	6.8%
2. Recommended Revenue Requirement	\$370,818,589	\$371,372,057

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
3. Recommended FVRB (Based on 50/50 Split Between OCRB & RCND)		
	\$1,163,910,949	\$1,164,944,249

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
4. Recommended Required Operating Income		
	\$79,378,637	\$79,478,947

	<u>DIRECT TESTIMONY</u>	<u>SURREBUTTAL TESTIMONY</u>
5. Recommended Percentage Increase In Revenue Requirement		
	14.85%	15.02%

Southwest Gas Corporation
Docket No. G-01551A-04-0876
Rate Application

SUMMARY OF THE TESTIMONIES OF WILLIAM A. RIGSBY
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE

The following is a summary of the significant issues set forth in both the Direct and the Surrebuttal testimony of RUCO witness William A. Rigsby, on Southwest Gas Corporation's ("SWG" or the "Company") application for a permanent rate increase for the Company's natural gas distribution operations in Arizona. A full discussion of the cost of capital issues associated with SWG's request for rate relief and the underlying theory and rationales for Mr. Rigsby's recommendations are contained in the referenced documents. The significant issues associated with the case are as follows:

Capital Structure – Mr. Rigsby is recommending that the Commission adopt the Company-proposed hypothetical capital structure which is comprised of 53 percent debt, 42 percent common equity and 5 percent preferred equity. Mr. Rigsby's recommendation is based on the observed debt and equity percentages of a sample group of local distribution companies (used in his cost of capital analysis), which averaged 51.2 percent debt, 48.5 percent common equity and 0.3 percent preferred equity.

Weighted Cost of Capital – Mr. Rigsby is recommending an 8.64 percent weighted cost of capital. His 8.64 percent figure is based on the weighted cost of

debt, the weighted cost of common equity and the weighted cost preferred equity. Mr. Rigsby's weighted cost of capital is the result of his recommended hypothetical capital structure, his recommended cost of common equity and his decision to accept the Company-proposed costs of preferred equity and debt.

Cost of Common Equity – Mr. Rigsby is recommending a 10.15 percent cost of common equity. Mr. Rigsby's 10.15 percent figure is based on the results of his cost of equity analysis and was derived through the use of both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. Mr. Rigsby's recommended 10.15 percent cost of common equity figure takes the Company's actual debt-heavy capital structure into consideration.