ORIGINAL NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____ G-04204A-06-0463

UNS GAS, INC. TESTIMONY AND EXHIBITS

VOLUME 1 OF 3

July 13, 2006

Application

BEFORE THE ARIZONA CORPORATION COMMISSION

<u>COMMISSIONERS</u>
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
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G-04204A-06-0463

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____ **APPLICATION**

UNS Gas, Inc. ("UNS Gas" or "Company"), pursuant to A.R.S. §§ 40-250, 40-251, and also A.A.C. R14-2-103, hereby files an Application for an increase in its base rates of $9,646,901, or approximately 7%, over test year revenues, and to set UNS Gas' fair value rate base at $191,429,398. UNS Gas requests that the new rates become effective August 1, 2007.

UNS Gas' current rates and charges do not produce a reasonable return on the fair value of its property devoted to public service and are therefore not just and reasonable. The rate increase sought is required to enable the Company to earn a fair rate of return on the fair value of its assets devoted to public service, which return will recover the Company's capital costs necessarily and prudently incurred in rendering adequate utility service to customers. The requested increase is necessary for UNS Gas to continue to operate as a financially strong utility that can ensure UNS Gas customers continued reliable service, on demand, and at reasonable prices into the future.

In connection with its request for increased revenues, UNS Gas is asking the Arizona Corporation Commission ("Commission") to design rates that recover a greater share of the Company's fixed costs through a higher fixed customer charge. Currently, customers in colder areas like Flagstaff essentially subsidize customers in warmer areas. This modification will reduce this inequity, and help ensure that all customers are paying their fair share. UNS Gas also has proposed a de-coupling mechanism that would "true up" the remaining volumetric charges to levels anticipated by test-year usage. Both changes would serve to create rates that treat customers across the Company's diverse service area more equitably while balancing the interests of the Company and its customers.

In this docket, the Company will be requesting the Commission to address a number of deficiencies in the current Purchase Gas Adjustor ("PGA") mechanism. Exacerbating these deficiencies is the volatile nature of the natural gas market. The current PGA mechanism was not designed to cope with such volatility. Thus, it should be revised to correct these deficiencies.[1]

Finally, through this Application as set forth in more detail in the accompanying testimony, UNS Gas is requesting the Commission to: (i) prospectively approve its gas procurement practices;[2] (ii) approve new Demand-Side Management ("DSM") programs and a charge to cover the cost of the DSM programs; and (iii) approve requested changes to the Company's Rules and Regulations, including the Company's line extension tariff.

In support of this Application, UNS Gas respectfully states as follows:

I.

The Company is a corporation duly organized, existing and in good standing under the laws of the State of Arizona. Its principal place of business is 2901 West Shamrell, Flagstaff, Arizona 86001.

II.

The Company is a public service corporation principally engaged in the transmission and distribution of natural gas for sale in Arizona pursuant to Certificates of Convenience and Necessity issued by the Commission.

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[1] UNS Gas filed an Application ("PGA Application") to review and revise its PGA on January 10, 2006, in Docket G-04204A-06-0013. In a forthcoming Motion to Consolidate, we will be requesting that the PGA Application be consolidated with this rate case proceeding.

[2] The Commission has initiated a prudence review of UNS Gas' procurement practices, in docket No. G-04204A-05-0831 ("UNS Gas prudence docket"). UNS Gas will also be requesting that the UNS Gas prudence docket be consolidated with this rate case proceeding.

III.

All communications and correspondence concerning this Application, as well as communications and pleadings with respect thereto filed by other parties, should be served upon the following:

Raymond S. Heyman, Esq.
Michelle Livengood, Esq.
UniSource Energy Corporation
One South Church, Suite 200
Tucson, Arizona 85701

and

Michael W. Patten, Esq.
Roshka, DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

IV.

This Commission has jurisdiction to conduct public hearings to determine the fair value of the property of a public service corporation, to fix a just and reasonable rate of return thereon, and thereafter, to approve rate schedules designed to develop such return. Further, the Commission has jurisdiction to establish the practices and procedures to govern the conduct of such hearing, including, but not limited to, such matters as notice, intervention, filing, service, exhibits, discovery and other prehearing and hearing matters.

V.

Accompanying this Application are the standard filing requirements and rate design schedules described in A.A.C. R14-2-103 and the direct testimony and related exhibits of the following witnesses:

- James S. Pignatelli
- David G. Hutchens
- Kentton C. Grant
- Dallas J. Dukes

- Karen G. Kissinger
- Gary A. Smith
- Dr. Ronald E. White
- Tobin L. Voge

VI.

UNS Gas respectfully requests that this Commission set a date for a hearing on this Application such that new rates for the Company will become effective on August 1, 2007. At the hearing conducted pursuant to this rate request, UNS Gas will establish, among other things, that:

(1) its current rates and charges do not permit the Company to earn a fair return on the fair value of its assets devoted to public service and are therefore no longer just and reasonable;

(2) the requested increase is the minimum amount necessary to allow the Company an opportunity to earn a fair return on the fair value of its assets devoted to public service, for preservation of the Company's financial integrity and for the attraction of new capital investment on reasonable terms;

(3) the Company requires additional permanent base revenue of at least $9,646,901 million based on annualized test period sales in order to continue to provide adequate and reliable gas service to its customers as required by law;

(4) the proposed rate design and related Throughput Adjustor Mechanism ("TAM") will better align the fixed and variable costs of service with the rates paid by the customers causing those costs and is in the public interest;

(5) the existing PGA for the Company should be revised so that proper and timely price signals are provided to the customers and so UNS Gas timely recovers the cost of the purchased gas;

(6) the Company's Price Stabilization Policy concerning gas purchases should be prospectively approved to provide Commission guidance for the Company's gas procurement practices;

(7) the new and expanded DSM programs proposed by UNS Gas should be approved, and the annual DSM charge proposed by UNS Gas should be approved; and

(8) the proposed modifications to UNS Gas' tariffs (specifically, its Rules and Regulations), including the modifications to UNS Gas' line extension tariff, should be approved.

VII.

In addition to setting a hearing date, UNS Gas asks that the Commission issue a procedural order setting forth the prescribed notice for the Application, establishing procedures for intervention, and providing for appropriate discovery. UNS Gas further requests that the Company should be authorized to serve all discovery requests, answers and objections electronically. Hard copy service would remain available to parties upon request or where the confidential nature of the information makes the use of electronic service impractical. In addition, UNS Gas notes that it will be filing a Motion to Consolidate this rate case with the pending PGA Application and the pending prudence review.[3]

WHEREFORE, UNS Gas respectfully requests that the Commission:

(1) issue a procedural order establishing a date for hearing evidence concerning the Application and prescribing the time and form of notice to UNS Gas customers and establishing procedures for intervention and discovery as described above;

(2) issue a final order granting the Company the permanent rate increase sought herein;

[3] See Footnotes 1 and 2, supra.

(3) issue a final order approving the new or modified rate and service schedules included with the Company's Application with an effective date no later than August 1, 2007;

(4) issue a final order authorizing UNS Gas' depreciation rates and classifications;

(5) issue a final order approving UNS Gas' Price Stabilization Policy;

(6) issue a final order approving the revenue de-coupling TAM described in the testimony accompanying this Application;

(7) issue a final order approving UNS Gas' revised Rules and Regulations, including the Company's revised line extension tariff, which were submitted with this Application and related testimony;

(8) issue a final order approving UNS Gas' proposed DSM programs and the related DSM charge; and

(9) grant the Company such additional relief as the Commission deems just and proper.

RESPECTFULLY SUBMITTED this 13th day of July 2006.

UNS Gas, Inc.

By ____________________
Michael W. Patten
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

and

Raymond S. Heyman
Michelle Livengood
UniSource Energy Services
One South Church Avenue
Tucson, Arizona 85702

Attorneys for UNS Gas, Inc.

Original and thirteen copies of the foregoing filed this 13th day of July 2006, with:

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

Copy of the foregoing hand-delivered this 13th day of July 2006, to:

Chairman Jeff Hatch-Miller
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner William A. Mundell
Arizona Corporation Commission
1200 West Washington Street
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By Mary Ippolito

Direct Testimony of James S. Pignatelli

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
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IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

Direct Testimony of

James S. Pignatelli

on Behalf of

UNS Gas, Inc.

July 13, 2006

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is James S. Pignatelli. My business address is One South Church Avenue, Tucson, Arizona 85701.

Q. By whom are you employed and what is your position?

A. I am Chief Executive Officer, President and Chairman of the Board of Directors of UniSource Energy Corporation ("UniSource Energy"), the parent company of UniSource Energy Services, Inc. ("UES"). UES is the parent company of UNS Gas, Inc. ("UNS Gas" or the "Company"), the Applicant in the case. I am also the President and Chief Executive Officer of UNS Gas.

Q. Mr. Pignatelli, what is the purpose of your direct testimony in this proceeding?

A. This rate case was prepared at my direction and under my supervision. In my direct testimony, I support UNS Gas' request for an increase in rates by providing: (i) a summary of UNS Gas' request and the factors that have caused us to file our application at this time; (ii) a brief history of the acquisition of UNS Gas and an explanation of the customer benefits provided by the acquisition; (iii) a discussion of proposed changes to improve the operation of the current purchase gas adjustor ("PGA"); (iv) an explanation of UNS Gas' position on Arizona Corporation Commission ("ACC" or the "Commission") prudence reviews of natural gas costs; (v) a description of UNS Gas' gas procurement practices; (vi) an explanation of why it is appropriate to include construction work in progress ("CWIP") in rate base for UNS Gas; (vii) a summary of the Company's Demand-Side Management ("DSM") and low income programs; (viii) an introduction into the rate design that UNS Gas is proposing in this case including a de-coupling mechanism and higher fixed charges; and (ix) identification of other UNS Gas witnesses and the topics that they will address in their respective testimony. My direct testimony is policy-oriented. Other UNS Gas witnesses address many of these topics in more detail.

II. SUMMARY OF UNS GAS' RATE REQUEST.

Q. Mr. Pignatelli, what is UNS Gas requesting that the Commission do in this rate case?

A. In order to provide necessary rate relief, we are asking the Commission to authorize UNS Gas to increase its rates $9,646,901, or approximately 7%, to modify the PGA to reflect current conditions as discussed below and to approve UNS Gas' Price Stabilization Policy. We also request that the Commission adopt our proposed rate design. We will shortly be requesting that the Commission consolidate this rate case with the pending prudence review of UNS Gas' procurement practices and the pending review of UNS Gas' PGA.

Q. Please explain why UNS Gas is filing a request for an increase in rates at this time.

A. UNS Gas' current rates are inadequate for the Company to recover its costs and earn a reasonable rate of return on its investment. This is primarily due to increased growth in UNS Gas' service territory and the related increase in capital expenditures and operating costs. Current revenues are insufficient for UNS Gas to meet its current and future obligations to customers. In order to better explain UNS Gas' present situation, I will compare the circumstances that existed at the time of our acquisition of Citizens Communications Company's ("Citizens") gas assets in 2003 with the circumstances that face us today.

At year-end 2003, UNS Gas had a customer base of 127,577. For the 2005 test year there were a total of 138,815 customers in UNS Gas' combined northern and southern service areas. And that number continues to increase. As of June 30, 2006, UNS Gas has 142,206 customers. Moreover, we project that the number of UNS Gas customers will increase by as much as 5-10% annually. This represents very significant growth. By comparison, Tucson Electric Power Company's ("TEP") customers are projected to grow at an annual rate of approximately 2.5% and the utility industry average is approximately 1.5%. In order to meet its growth, UNS Gas has incurred, and will continue to incur, capital expenditures for items such as pipelines, meters and regulators. These items cost significantly more than they did in 2003 when UNS Gas' rates were last set by the Commission. And these items cost significantly more than the original cost less depreciation for existing customers. Consequently, the significantly higher expenses have not yet been included in the Company's rate base.

In addition, in 2003, UNS Gas had an actual original cost rate base of $ 149,628,355.[1] As part of Decision No. 66028, which approved the acquisition, UNS Gas agreed to exclude more than $40 million from rate base.[2] So, for rate making purposes, UNS Gas' current rates are based upon an original cost less depreciation rate base of only $117,661,030. This $40 million reduction consisted of a $30 million "negative acquisition premium", and a $10 million reduction related to the Citizens' "Build-out" program.[3] This obvious benefit to UNS Gas' customers was the result of our ability to acquire the gas properties at a price below Citizen's investment in these properties. These exclusions are reflected in our proposed rate base, and our customers will continue to benefit from them.

Since 2003, UNS Gas has spent over $50 million in capital expenditures to meet customer growth. UNS Gas' 2005 test year rate base is $161,661,362. Additionally, the operation and maintenance ("O&M") expenses built into UNS Gas' current rates are $28,611,184. O&M expenses in the Company's current filing are $37,120,378.

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[1] See Decision No. 66028 (July 3, 2003); attached Settlement Agreement at Appendix B, Schedule 1. This figure was based on a 2001 test year.
[2] *Id.*
[3] *Id.*

From a timing perspective, in Decision No. 66028, the Commission ordered UNS Gas not to file a general rate case for a period of at least three years from the effective date of the Decision (July 3, 2003), thus requiring us to file our rate case application after July 3, 2006. In addition, the Commission modified the settlement to order that new rates may not become effective before August 1, 2007.

In summary, the main factors driving this rate case filing are: (i) current rates are based on out-of-date investment and expense levels; (ii) UNS Gas has greatly increased its investment in the gas properties attributable to increased customer growth and capital expenditures; and (iii) the rate case filing moratorium until July 2006 is set to expire thus allowing the Commission to address the Company's revenue shortfall.

Q. Mr. Pignatelli, are there any guidelines that the Commission should follow in considering the amount of rate increase to which UNS Gas is entitled?

A. Yes, I believe that the Commission should be guided, among other things, by the fundamental ratemaking standards established by the U.S. Supreme Court in Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) (the "Bluefield" case) and Federal Power Comm'n v. Hope Natural Gas, 320 U.S. 591 (1944) (the "Hope" case). The Bluefield case established the standards by which rates and a reasonable return are to be evaluated by stating:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and

> enable it to raise the money necessary for the proper discharge of its public duties.[4]

In Hope, the U.S. Supreme Court expanded on the Bluefield principles by stating:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for capital costs of the business. These include service on the debt and dividends on the stock...By that standard the return to the equity owner should be commensurate with return on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.[5]

I think that in these two cases the U.S. Supreme Court set forth the balancing test that the Commission should use when determining rates for UNS Gas. This balancing test, to me, is in the public interest as it factors in the impact of rate relief on both the investors and the customers. And so, in this case, I would ask that the Commission authorize a rate that allows UNS Gas to earn a fair return on its investment as well as to recover operating expenses and capital costs and to maintain its financial integrity consistent with this long-standing precedent.

III. HISTORY OF THE UNS GAS ACQUISITION.

Q. Mr. Pignatelli, please review how UniSource Energy came to acquire UNS Gas.

A. Starting in the latter part of the 1990's, Citizens attempted to sell some of its utility assets, including its Arizona gas and electric properties. In 2002, Citizens approached UniSource Energy to determine if we would be interested in acquiring those properties. After a period of negotiations, we entered into an agreement to acquire both the Citizens' Arizona gas and electric properties, subject to Commission approval.

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[4] 262 U.S. at 692-93.
[5] 320 U.S. at 603.

On December 18, 2002, Citizens and UniSource Energy (collectively "Joint Applicants"), filed a Joint Application[6] requesting authority for UniSource Energy to acquire the Citizens' Arizona gas and electric assets, to transfer Citizens' gas and electric Certificates of Convenience and Necessity to a UniSource Energy subsidiary, to obtain certain financing approvals, and to consolidate other related dockets.[7]

A Settlement Agreement signed by the Joint Applicants and Staff was filed with the Commission on April 1, 2003. The Commission approved the Settlement Agreement with modification on July 3, 2003, and authorized UniSource Energy to create subsidiaries to own and operate the electric and gas utility assets purchased from Citizens and, if necessary, to form an intermediate holding company to finance and own the electric and gas subsidiaries. UES was formed to hold the common stock of UNS Gas and UNS Electric, Inc., which operate the gas and electric system assets, respectively.

The Settlement Agreement contained numerous consumer benefits agreed to by UniSource Energy. In addition to the $40 million reduction in rate base that I previously discussed, UniSource Energy agreed: (i) that the UNS Gas rates to be implemented upon the acquisition would be significantly less than the amount that had been requested by Citizens;[8] (ii) to carry over the PGA bank balance accumulated by Citizens; (iii) to use the existing PGA structure, except for one modification;[9] (iv) to comply with certain service quality, staffing, and operational conditions[10]; (v) to implement a new line extension tariff and policy; and (vi) to the previously mentioned three-year moratorium on filing a general rate case.

[6] Docket Nos. E-01933A-02-0914, E-01032C-02-0914 and G-01032A-02-0914.
[7] Docket Nos. E-01032C-00-0751 and G-01032A-02-0598.
[8] Settlement Agreement Appendix D, Schedule 1, Column 1, line 23 less Column 3, line 23.
[9] *Id.* at ¶ 26.
[10] *Id.* at ¶¶ 39-34.

UNS Gas has complied with each of these conditions all of which have resulted in significant benefits to customers. In order to ensure that UNS Gas can continue to provide gas service to its customers, it is necessary for the Commission to authorize the requested rate increase at this time.

Q. Please provide a general description of UNS Gas' customers, test year and business operations.

A. UNS Gas is a gas distribution company and was serving approximately 139,000 retail customers 126,681 of which were residential customers, (at the end of the test year), in its service areas portions of Mohave, Yavapai, Coconino, and Navajo Counties in northern Arizona and Santa Cruz County in southeast Arizona. These counties comprise approximately 50% of the territory of the state of Arizona, with a population of approximately 751,000. UNS Gas' customer base is primarily residential. A copy of a map depicting UNS Gas' service territory is attached to my testimony as Exhibit JSP-1.

Most of the gas distributed by UNS Gas in Arizona is procured from the San Juan Basin in the Four Corners region and delivered on the El Paso Natural Gas ("EPNG") and Transwestern Pipeline Company ("Transwestern") interstate pipeline systems. UNS Gas has firm transportation agreements with EPNG and Transwestern with combined capacity sufficient to meet its customers' demands.

IV. THE UNS GAS PGA MECHANISM SHOULD BE MODIFIED.

Q. Mr. Pignatelli, what is UNS Gas recommending the Commission do to modify its current PGA?

A. UNS Gas filed an Application ("PGA Application") to review and revise its PGA on January 10, 2006, in Docket G-04204A-06-0013. In our forthcoming Motion to

Consolidate, we will be requesting that the PGA Application be consolidated with this rate case proceeding.

Q. What are the deficiencies of the current UNS Gas PGA mechanism?

A. The current PGA mechanism has a number of deficiencies which the Commission should address. The deficiencies include: (i) inappropriate price signals; (ii) the potential for large bank balances to accumulate -- recovery of which would cause significant price fluctuation and rate shock; (iii) below market interest allowed to be earned on the bank balance; (iv) an inappropriately narrow bandwidth; and (v) the potentially adverse impact on UNS Gas' ability to devote capital to other necessary investments to serve its customers. Contributing to these problems is the volatile nature of the natural gas market. The current PGA mechanism was not designed to cope with such volatility. Thus, it should be revised to correct these deficiencies.

Q. What specific modifications to the PGA mechanism are you recommending?

A. As described in more detail in the PGA Application, and in the Direct Testimony of Mr. David G. Hutchens filed in this case, UNS Gas is requesting the following modifications to the PGA mechanism:

1. **Bandwidth.** The current PGA mechanism has a limit, or cap, as to how much the PGA Rate can change in a given 12-month period (this is referred to as the PGA "Bandwidth" or "PGA Rate Band"). Given the recent volatility in natural gas prices, UNS Gas does not believe that a Bandwidth cap should be imposed on the PGA mechanism. However, in order to moderate volatility of customer bills, the current Bandwidth cap of $.10 per therm could initially be increased to $.25 per therm as an alternative and then eliminated.

2. **Increase Interest.** The interest earned and/or paid on the PGA bank balance should reflect UNS Gas' actual incremental cost of debt. UNS Gas currently can obtain

new debt at the London Inter-Bank Offering Rate ("LIBOR") plus 1.5%. Thus, the interest on the PGA bank balance should be at least LIBOR plus 1.5%.

3. **Regulatory Asset.** When the actual PGA bank balance is greater than two times the Commission-approved threshold level, as has occurred under the existing PGA mechanism, it is clear that continuing to report the asset as "short-term" on the Company's balance sheet (meaning that it will be settled in its entirety within one year) is no longer appropriate. Instead, it should more correctly be considered as a long-term asset (similar to plant and equipment) requiring UNS Gas to commit longer-term investment capital, thereby justifying a carrying cost at a rate equal to UNS Gas' authorized weighted average cost of capital. Currently, that rate is 9.05%. The proposed weighted average cost of capital in this case is 8.80%.

4. **Symmetrical Threshold.** In order to be fair to both the ratepayers and shareholders, symmetry should prevail, with the same threshold level applying to both under-collected and over-collected bank balances. UNS Gas recommends that the new threshold level for under-collected bank balances established in Decision No. 68325 ($6,240,000) also be adopted as the threshold level for over-collected bank balance.

5. **Capital Structure.** If the PGA mechanism results in UNS Gas accumulating significant PGA bank balances, additional long-term debt financing will likely be required. This additional debt will impact the Company's capital structure and weighted cost of capital, thus altering the determination of revenue requirements in rate cases. Because the current PGA mechanism provides for the accrual of carrying charges on the monthly balance (notwithstanding the inadequacy of the current interest accrual rate as previously described), the PGA bank balance would not be includible in rate base for ratemaking, even though <u>all</u> long-term debt issues are normally reflected in capital structure. As a result, the computed overall rate of return to be applied to rate base would be artificially diminished, as would be the

computed overall revenue requirement. UNS Gas respectfully requests that the Commission specifically find that any additional long-term debt issued solely to support the PGA bank balance be excluded from the determination of the cost of capital in this rate case and future UNS Gas rate case proceedings.

6. **Surcharges.** The above modifications should reduce the need for surcharges. However, when surcharges are required, the Commission should approve a surcharge large enough to eliminate the bank balance within twelve months.

Q. Why are you requesting these modifications?

A. The PGA, as presently constituted, no longer allows UNS Gas "to react to market fluctuations expediently in the regulatory environment in order to avoid severe impact on the Company's earnings and rate shock to the customers" as was its original intent.[11] The current volatile natural gas market has exposed weaknesses in the PGA mechanism that cause significant delays in the recovery of gas costs incurred by UNS Gas. This negatively impacts the Company's cash flows, which ultimately could have a detrimental effect on its operations. I should note that this situation also severely impacts the customer's ability to make informed consumption decisions that reflect actual costs. For these reasons, we believe that now is the appropriate time and this rate case is the appropriate forum for the Commission to modify the PGA.

[11] Decision No. 58664 (June 16, 1994) at 64.

V. PRUDENCE REVIEW.

Q. Mr. Pignatelli, the Commission has expressed an interest in a prudence review regarding UNS Gas' policies and procedures specific to its acquisition of gas. Has the formal prudence review process begun?

A. Yes, Docket No. G-04204A-05-0831 (the "UNS Gas prudence docket") has been opened and we have received and responded to discovery requests from the Staff.

Q. What is the purpose of the prudence review?

A. My understanding is that the prudence review is intended to determine the appropriateness of costs that have been incurred related to procuring natural gas. Thus, to the extent that the ultimate recovery of any such costs is an issue, the prudence review is clearly linked to this rate case.

Q. What are your concerns regarding the existing UNS Gas prudence docket?

A. UNS Gas procures gas for its customers on a pass-through basis. By that I mean that gas commodity costs ultimately are passed through to the customer and UNS Gas does not earn a return on those costs. As we all know, the gas market has been very volatile recently and UNS Gas has had to respond to that volatility on a real time basis. UNS Gas has no incentive to procure gas in an imprudent or otherwise expensive manner. In reality, UNS Gas has been subsidizing customers for those costs that have been incurred and not timely recovered. It would be patently unfair for the Commission to, in hindsight, second guess the real-time decisions that were made. It would be confiscatory for the Commission to then disallow the recovery of costs that were paid by the Company for gas that has already been used by customers.

Q. What is the Commission's definition of "prudence"?

A. The Commission defines "prudently invested" as:

> Investments which under ordinary circumstances would be deemed *reasonable* and not dishonest or obviously wasteful. All investments shall be *presumed* to have been prudently made, and such presumptions may be set aside only by clear and convincing evidence that such investments were imprudent, when viewed in light of all relevant conditions known or which in the exercise of reasonable judgment should have been known, *at the time such investments were made.*[12]

This rule adopts three important principles regarding the prudence of utility conduct. First, the rule adopts the presumption that investments are presumed to be prudent, and this presumption can only be set aside by clear and convincing evidence. Second, the rule uses reasonableness as the standard of prudence – an investment will be deemed prudent if "under ordinary circumstances" it is reasonable and "not dishonest or obviously wasteful." Third, the rule prohibits the use of hindsight by requiring that a finding of imprudence be based on information that was or should have been known "at the time such investments were made."

Q. Has the Commission further addressed prudence in the context of gas costs?

A. Yes, in the Generic PGA Docket, the Commission adopted the following standard to use in reviewing gas costs:

> As a general principle, subject to the circumstances of any specific matter: if a contract appeared to be prudent and reasonable *at the time it was entered into*, given market conditions and other relevant factors, the utility should be permitted an opportunity to recover the gas costs associated with that contract. However, the Commission has the right to review all LDC gas purchases on a case by case basis.[13]

While this standard applies only to "contracts", Staff has recommended that a similar standard apply to "the entire natural gas procurement process":

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[12] A.A.C. R14-2-103(A)(l)(emphasis added).

[13] Decision No. 61225 (October 30, 1998) at Finding of Fact No. 7 and Conclusion of Law No. 3 (emphasis added).

> In determining the prudence of natural gas procurement activities, the standard to be applied is whether each individual action, and the utility's actions taken as a whole, given the specific circumstances at the time, is/are reasonable in light of what the utility knew or should have known at that time.[14]

Q. Do you believe a separate prudence review docket is necessary?

A. No. Traditionally, the Commission reviews the prudence of all utility costs in rate case proceedings like this one. In fact, we will be requesting that the UNS Gas prudence docket be consolidated with this rate case.

Q. Has the Commission recently commented on the propriety of conducting a prudence review as part of a rate case?

A. Yes, the Commission recently re-affirmed the traditional practice of conducting a prudence review as part of a rate case. The Commission declined to rule on the prudence of the "Sundance" acquisition by Arizona Public Service ("APS"), noting that the prudence of the "transaction may only properly be reviewed in the context of an overall rate base determination."[15]

Q. Please summarize your opinion on the propriety of a prudence review on an incurred cost for a utility.

A. As I previously stated, I do not think that it is a good idea, nor sound regulation. UNS Gas has already incurred the cost of gas that it has acquired. The commodity has already been provided to the customer. UNS Gas does not earn a return on gas costs. Consequently, any disallowance of these incurred costs will have a magnified detrimental effect on the Company. I believe that a wiser approach is to focus on the methodology that UNS Gas employs. If UNS Gas follows the Commission-approved methodology, then these costs should be deemed conclusively prudent.

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[14] June 1, 2001 Staff Report at 3, in Docket No. G-00000C-98-0568, attached to Decision No. 63848 (June 28, 2001).
[15] Decision No. 67504 (January 20, 2005).

VI. APPROVAL OF THE UNS GAS, INC. PRICE STABILIZATION POLICY.

Q. Mr. Pignatelli, please explain UNS Gas' gas acquisition practices.

A. Mr. Hutchens will address these practices in more detail in his direct testimony, but in general terms, UNS Gas currently has an agreement with BP Energy Company ("BP") to supply and schedule all of UNS Gas' natural gas requirements. The pricing of the natural gas supplied is dependent on current market prices as well as how and when UNS Gas wants to purchase the gas. UNS Gas has a detailed hedging policy ("Price Stabilization Policy") that requires it to enter into fixed price volumes for portions of its estimated load in advance. The policy dictates that UNS Gas purchase fixed price volumes up to three years in advance in fixed monthly amounts. The minimum amount of gas that is hedged in this manner is 45% of the estimated monthly load. UNS Gas also has the flexibility to enter into additional fixed price hedges, subject to internal Risk Management Committee review.

The remaining gas is priced in the short-term and spot gas markets. Going into any given month, UNS Gas will split the remaining estimated load between fixed price First-of-the-Month gas index and daily natural gas prices.

Q. How often is UNS Gas' Price Stabilization Policy updated?

A. The Price Stabilization Policy is thoroughly reviewed and updated on an annual basis to take into account the changing natural gas market dynamics. Mr. Hutchens' Direct Testimony discusses recent changes to the Price Stabilization Policy in more detail.

Q. What does UNS Gas recommend regarding its Price Stabilization Policy?

A. We recommend that the Commission prospectively approve the Price Stabilization Policy. As I have indicated, prudence reviews are "after-the-fact" events that try to recreate the circumstances that existed at the time of the investment or expenditure. This can be very difficult when the period or activities in question were volatile and quickly unfolding. Rather than look at UNS Gas' procurement practices in hindsight, UNS Gas recommends that its Price Stabilization Policy be reviewed and approved by the Commission during this case for future implementation. This way the Commission can have input prior to UNS Gas incurring the costs for gas procurement rather than after the fact. And there will be no need for a separate non rate case-related prudency review of gas acquired pursuant to the approved methodology.

VII. CONSTRUCTION WORK IN PROGRESS IN RATE BASE.

Q. Mr. Pignatelli, what is Construction Work in Progress ("CWIP")?

A. From an accounting standpoint, CWIP is the balance of plant investment that has yet to be transferred to plant in service. This balance represents the Company's investment in ongoing construction projects at a defined point in time.

Q. Has UNS Gas included CWIP in rate base in this rate application?

A. Yes. The entire $7.2 million balance existing at the end of the test year has been included in rate base.

Q. Why is it necessary to include CWIP in rate base for UNS Gas?

A. As discussed by UNS Gas witness Mr. Kentton C. Grant, inclusion of CWIP in rate base is needed to support the financial integrity of UNS Gas. Since the Company will be dependent on outside capital for the foreseeable future in order to fund system growth and capital investments, it is essential that UNS Gas be allowed an opportunity to earn a reasonable return on invested capital. By including CWIP in rate base, the Company will have a better opportunity to actually earn the rate of return authorized by the Commission and to attract necessary capital on reasonable terms.

In addition to financial need, there are other valid reasons why CWIP should be included in rate base for UNS Gas. First, it should be recognized that this rate treatment represents one of the few tools available to help mitigate the effects of regulatory lag. Since UNS Gas is experiencing significant customer growth, and since the cost of new construction greatly exceeds the embedded cost of plant, the impact of regulatory lag on UNS Gas is more pronounced than with most utilities. Second, due to the relatively short timeframe required for most construction projects on the UNS Gas system, a large portion of the CWIP balance at year-end 2005 has already been transferred to plant-in-service. Customers are already receiving a benefit from this investment, and the customer advances relating to these projects have already been recognized as a reduction to rate base. Third, by including CWIP in rate base in this proceeding, the time period between this rate case and the next rate filing by UNS Gas will hopefully be extended. Since the cost and time involved with rate case preparation are very significant for a small utility like UNS Gas, the extension of time between rate filings is beneficial to both the Company and its customers. While UNS Gas will likely be required to file rate cases on a regular basis, neither the Company nor its customers are served by forcing the Company to file a rate case shortly after the case concludes. Finally, the recognition of a large negative acquisition adjustment to rate base must be recognized. As a result of the purchase of the gas properties by UniSource Energy in 2003, current UNS Gas customers are benefiting from a significant discount to the original cost of the gas distribution system.

VIII. DEMAND-SIDE MANAGEMENT, EDUCATION AND LOW-INCOME PROGRAMS.

Q. Mr. Pignatelli, what has UNS Gas done for DSM, education and low-income programs?

A. UNS Gas offers its customers an on-line energy audit to help customers improve their homes' energy efficiency. The Company's Web site also offers energy savings tips for those customers that do not want to conduct an audit. Additionally, the Company provides consumer education about safety, energy efficiency, increased gas costs, and low-income discount programs.

The Company's low-income programs include Low-Income Weatherization ("LIW"), Warm Spirits and the Customer Assistance Residential Energy Support ("CARES") Pricing Plan. In addition, low-income customers are exempt from the PGA Surcharge.

Q. What is UNS Gas proposing for DSM?

A. UNS Gas is proposing to add DSM for residential and commercial customers which are described in Mr. Gary A. Smith's testimony. Residential programs include enhancements to the existing LIW program, a residential new construction program and a furnace retrofit program. Commercial programs include an HVAC retrofit program and a commercial gas cooking efficiency program.

UNS Gas is further requesting the creation of a DSM charge to be adjusted annually to fund the DSM programs, including LIW. Based on the Company's analysis, these new programs can be implemented by UNS Gas for approximately $1,051,616 annually, and the programs are targeted to reduce energy consumption by 211,833 therms annually. The DSM charge, as set forth in more detail in Mr. Tobin L. Voge's testimony, will initially be set at $0.007608 per therm.

Q. What kind of consumer education does UNS Gas provide?

A. UNS Gas provides several media campaigns designed to educate the public on energy efficiency and the dangers involved with gas leaks. These consumer outreach efforts include Spanish and English bill inserts promoting energy efficiency tips, print and radio advertisements encouraging customers to enroll in UNS Gas' CARES low-income assistance program, and Spanish and English bill inserts notifying customers of UNS Gas' latest projections for winter gas prices. Customers can also contact their local UNS Gas office for more energy saving advice.

UNS Gas also provides safety education and outreach to customers for Blue Stake and carbon monoxide issues. Spanish and English bill inserts, print advertisement in major daily and weekly newspapers and Spanish and English radio spots request that customers contact Blue Stake before they dig. Similar media outlets are utilized to educate families on carbon monoxide safety and what to do if they smell natural gas.

Q. Does UNS Gas have programs that offer assistance to low-income consumers?

A. Yes. These programs are explained in more detail by Mr. Smith but as a general overview, UNS Gas offers the LIW, as I've discussed above, the CARES Pricing Plan, and a Warm Spirit Program. Low-income customers also are exempt from paying the PGA surcharge approved by the Commission in October 2005.

The CARES Pricing Plan provides low-income customers a discount on their gas bill. UNS Gas is proposing a change to increase the amount of discount that a CARES customer would receive. On average a low income customer on the CARES Pricing Plan would receive a 34% increase in annual dollars saved. Mr. Voge's testimony discusses the changes to the CARES tariff in more detail.

In December 2004, the Commission approved UNS Gas' request to modify the CARES pricing plan to make it easier for customers to apply for the program. As a result, UNS Gas' low-income participants can be enrolled in the program in less than 20 days rather than the 30 to 45 days it took under the previous program. UNS Gas also reduced the burden to participants to re-certify themselves for the program every year, and was authorized by the Commission to re-certify random samples of participants every two years.

The Warm Spirit Program provides emergency bill payment assistance during the winter heating season. In 2004, UNS Gas contributed $50,000 to the program and began matching its customers' contributions to the program dollar for dollar in 2005. Those matching contributions totaled approximately $24,000 in 2005.

In Decision No. 68241 (October 25, 2005), the Commission approved a per therm PGA surcharge. UNS Gas agreed in connection with Decision No. 68241 to exempt customers enrolled in the CARES program from paying the surcharge. Exempting CARES customers from the PGA surcharge resulted in a reduced PGA bank balance collection of $308,731 from November 2005 through March 2006.

IX. <u>THE COMMISSION SHOULD APPROVE A HIGHER MONTHLY CUSTOMER CHARGE AND A DE-COUPLING MECHANISM FOR DISTRIBUTION REVENUES.</u>

Q. Mr. Pignatelli, please describe UNS Gas' proposal for a higher monthly customer charge.

A. Mr. Voge will address the specifics of our proposal. However, I will provide an overview of the Company's recommendation and request.

Currently most if not all of a gas utility's transmission, distribution and commodity costs are recovered on a volumetric basis. By that, I mean that the cost of acquiring natural gas and delivering it to customers is recovered through rates that were calculated on a basis of test year therm usage. So, if customer usage is similar to test year usage, costs are recovered as anticipated. However, higher than expected usage can increase margin revenues beyond anticipated levels, while lower usage can result in an under-recovery of the utility's costs.

In this case, UNS Gas requests the Commission to design rates that recover a greater share of the Company's fixed costs through a higher fixed customer charge. UNS Gas also proposes a de-coupling mechanism that would "true up" the remaining volumetric charges to levels anticipated by test-year usage. Both changes will serve to create rates that treat customers more equitably while balancing the interests of the Company and its customers.

Q. What are the advantages of this rate design that UNS Gas is proposing?

A. This approach is more economically sound than the current rate design because it aligns more closely to the true costs of service. The cost of providing transmission and distribution service to individual UNS Gas customers does not vary significantly with usage. Yet the current rate structure recovers the bulk of those fixed costs through volumetric charges. This forces higher usage customers – typically those living in colder areas of UNS Gas service territory – to subsidize the true cost of serving lower-usage customers.

The rate design we have proposed relies on a higher average monthly charge to recover most transmission and distribution costs, which are incurred regardless of whether the customer uses any gas. For example, owners of luxury summer homes would have to pay the true cost of having gas hooked-up and available, even if they do not use any gas during the high-usage winter months. Similarly, this proposal would ease the burden on low-income customers in cold-weather climates who currently subsidize the fixed costs of customers in more temperate areas of UNS Gas' geographically diverse service territory. The more equitable rates that result from this change will mitigate the subsidies inherent in current rates while sending much clearer price signals about the true costs of service.

Q. Has UNS Gas proposed ways to mitigate the impact of a higher customer charge?

A. Yes. The proposed increase in the average monthly customer charge calls for a higher charge from April through November and a lower charge during the four remaining winter months. This will help equalize customers' year-round bills by reducing fixed costs during a period when the commodity portion of bills is typically at its peak. Also, the proposed revision of the CARES tariff described in more detail by Mr. Smith would provide low-income customers with a significant discount off the fixed monthly charge.

Q. How would the Throughput Adjustment Mechanism ("TAM") proposed by UNS Gas improve the collection of costs that remain tied to volumetric charges?

A. Because the volumetric charge will be based on test-year gas usage, customers will end up paying too much or too little for that portion of their service if usage strays from anticipated levels. Eliminating such uncertainty will benefit both the Company and its customers by providing a greater opportunity for fair recovery of the costs allocated in this proceeding. The de-coupling mechanism proposed by UNS Gas will accomplish this goal by either reducing or increasing the collection of volumetric margin revenues to match anticipated levels. This mechanism also will allow UNS Gas to implement the comprehensive energy conservation program proposed in this filing without threatening the volumetric margin revenues needed to serve its customers' growing needs and earn a fair rate of return.

Q. How would this TAM work?

A. The proposed TAM would work similarly to the PGA that has been in effect for many years. Just as the PGA fluctuates to account for variations in the cost of gas, the TAM would be adjusted to account for changes in usage per customer ("UPC"). The under-recovery of costs due to reduced UPC in any period would be "trued-up" in future periods through use of a volumetric surcharge. Similarly, any over-recovery would be refunded to customers through a volumetric credit on future bills. In this way, both the Company and its customers would enjoy a more equitable, reliable and balanced collection of volumetric costs. Mr. Voge describes the TAM in greater detail in his direct testimony.

X. <u>WITNESSES.</u>

Q. Mr. Pignatelli, in addition to you, who are the witnesses that are filing direct testimony for UNS Gas in this case?

A. UNS Gas is presenting the direct testimony of officers and managers who have direct responsibility for the subject matter about which they will testify. In addition, UNS Gas is presenting expert testimony regarding depreciation rates and methodology. The following individuals are presenting testimony in this proceeding:

<u>Mr. David G. Hutchens</u>. Mr. Hutchens is the General Manager, Fuels and Wholesale Power for TEP and its affiliates, including UNS Gas. He will testify about: (1) UNS Gas, Inc.'s Price Stabilization Policy, including the proposed pre-approval of the UNS Gas procurement practices; and (2) the proposed modifications to the PGA mechanism.

<u>Mr. Kentton C. Grant</u>. Mr. Grant is the General Manager, Financial Planning and Customer Pricing for TEP and its affiliates, including UNS Gas. Mr. Grant will testify about UNS Gas': (1) financial condition; (2) capital structure; (3) cost of equity; (4) cost of debt; (5) weighted average cost of capital; (6) rate base treatment for CWIP; and (7) the financial impact of the Company's rate request. Mr. Grant will also sponsor the following schedules:

A-3	Summary of Capital Structure
A-4	Construction Expenditures and Gross Plant in Service
D-1 though D-4	Cost of Capital
F-1 though F-4	Financial Projections

Mr. Dallas J. Dukes. Mr. Dukes is the Director of Revenue Requirements for TEP and its affiliates, including UNS Gas. He will testify concerning the UNS Gas income statement, and adjustments to the income statement for regulatory purposes, including various adjustments to expenses. He will also sponsor the following schedules:

A-1	Computation of Increase in Gross Revenue Requirements
A-2	Summary Results of Operations
A-5	Summary Changes in Financial Position
C-1	Adjusted Test Year Income Statement
C-2	Income Statement Pro Forma Adjustments

Ms. Karen G. Kissinger. Ms. Kissinger is the Vice President, Controller and Chief Compliance Officer for UniSource Energy. She is also the Vice President and Controller of UNS Gas. She will testify concerning the Company's financial statements and rate base. She will sponsor the following schedules:

B-1 through B-5	Rate Base
C-3	Computation of Gross Revenue Conversion Factor
E-1 through E-9	Financial Statements and Statistical Data

Mr. Gary Smith. Mr. Smith is a Vice President and General Manager of UNS Gas. Mr. Smith will discuss the following: (1) an operational overview of the Company; (2) capital spending since the acquisition; (3) productivity gains, technology improvements and other cost containment strategies; (4) a summary of UNS Gas' low-income assistance programs; (5) the Company's DSM programs; and (6) changes to UNS Gas' Rules and Regulations, including a new extension of line tariff.

Dr. Ronald White. Dr. White is a consultant for UNS Gas. Dr. White testifies concerning depreciation rates and methodology.

Mr. Tobin L. Voge. Mr. Voge is the Manager of Pricing and Economic Forecasting for TEP and its affiliates including UNS Gas. Mr. Voge will testify about: (1) weather normalization; (2) year-end customer annualization; (3) cost of service; (4) rate design; and (5) the proposed de-coupling mechanism. Mr. Voge will sponsor the following schedules:

G-1 through G-7	Cost of Service
H-1 through H-5	Effect of Proposed Rate Schedules

XI. SUMMARY.

Q. Mr. Pignatelli, please summarize the requests UNS Gas is making in this case:

A. We are requesting the following:

(1) A rate increase of approximately 7% compared to test year revenues or an approximately 21% increase compared to pro forma test year revenues (excluding gas cost revenues), to allow UNS Gas to recover its expenses and earn a reasonable return on its investment;

(2) Modifications to our PGA mechanism, to address current deficiencies in the mechanism, including problems posed by volatile prices and delayed and inadequate price signals. Specifically, these modifications are:

A. **Bandwidth.** The band should be eliminated, or in the alternative temporarily increased to $.25 per therm and then eliminated.

B. **Increase Interest.** The interest earned on the PGA bank balance should reflect UNS Gas' actual cost of new debt, which is LIBOR plus 1.5%.

C. **Regulatory Asset.** When the bank balance is greater than two times the threshold level, UNS Gas should earn its weighted average cost of capital as determined in its most recent rate case. Currently, this is 9.05%. Our proposed weighted average cost of capital in this case is 8.80%.

D. **Symmetrical threshold.** The new threshold level for under-collected bank balances established in Decision No. 68325 ($6,240,000) should also be adopted as the threshold level for over-collected bank balances.

E. **Capital Structure.** The Commission should declare that it will not include debt related to the bank balance in UNS Gas' capital structure for the purpose of calculating UNS Gas' weighted average cost of capital.

F. **Surcharges.** When surcharges are needed, the Commission should approve a surcharge large enough to eliminate the PGA bank balance within a reasonable period.

(3) A finding that UNS Gas' past gas procurement practices and current UNS Gas Price Stabilization Policy are prudent;

(4) Prospective approval of UNS Gas' gas procurement practices;

(5) Adoption of a charge for DSM programs;

(6) Approval of requested rate design and revenue TAM; and

(7) Approval of requested changes to the Company's Rules and Regulations, including the Company's line extension policy.

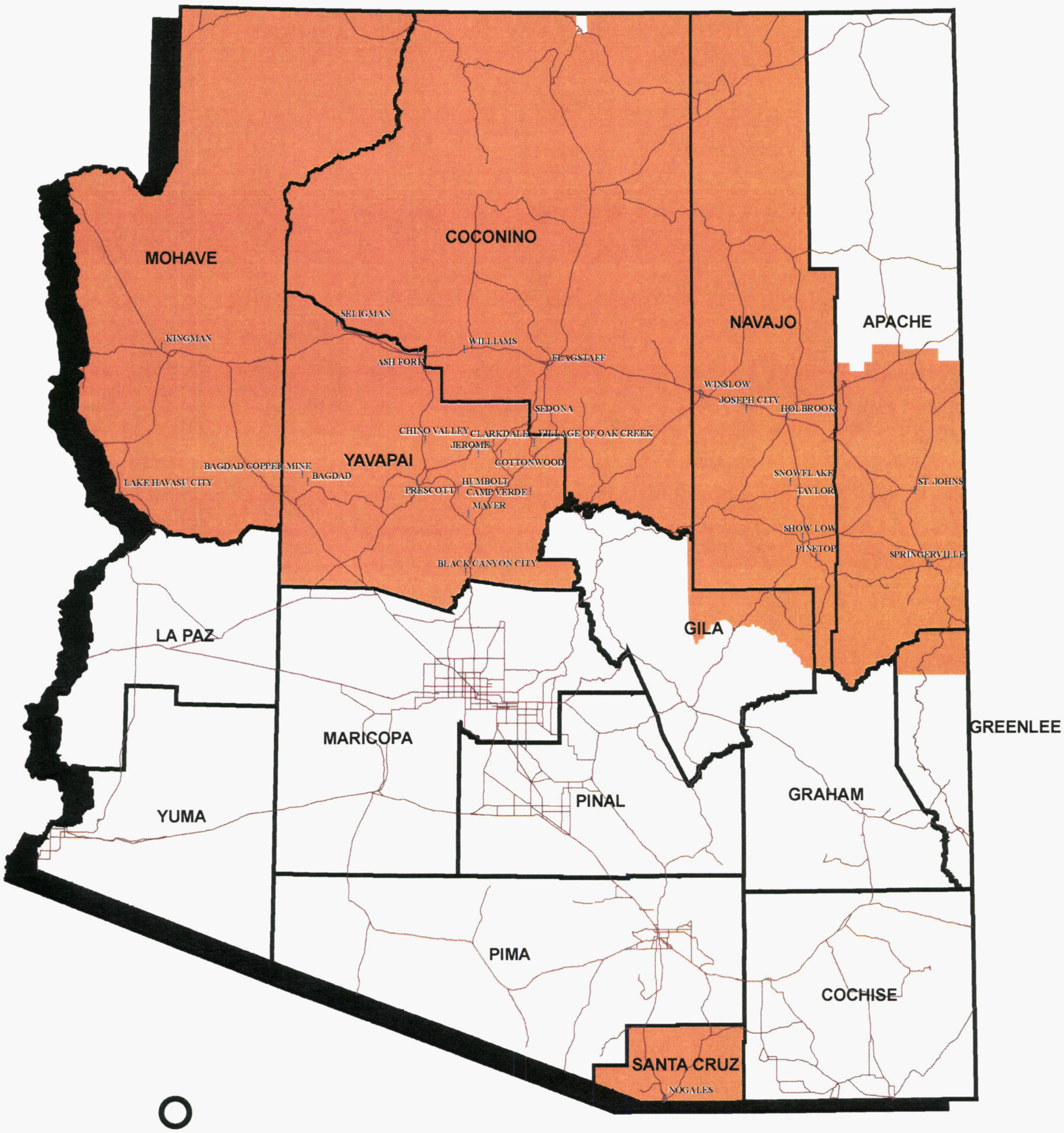
Q. Mr. Pignatelli, does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT

JSP-1

UniSource Energy Services
Gas Service Areas



KEY TO FEATURES:

- Towns
- Service Areas
- Arizona Highways

UniSource Energy SERVICES

Direct Testimony of David G. Hutchens

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

Direct Testimony of

David G. Hutchens

on Behalf of

UNS Gas, Inc.

July 13, 2006

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is David G. Hutchens. My business address in One South Church Avenue, Tucson, Arizona 85701.

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

A. I am employed by Tucson Electric Power Company ("TEP"). My position is General Manager, Fuels and Wholesale Power. In this role, I oversee the wholesale fuel and power procurement, trading, marketing and risk management functions for TEP and its affiliates, UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS Gas" or the "Company").

Q. Please describe your education and experience.

A. I received a Bachelor of Science degree in Aerospace Engineering from the University of Arizona in 1988 and a Master of Business Administration degree from the University of Arizona's Eller Graduate School of Management in 1999.

I was commissioned into the United States Navy in 1988 and served as a Nuclear-Trained Submarine Line Officer until 1993. From 1993 to 1994, I worked as a Process Engineer for Alcatel Telecommunications Cable in Roanoke, Virginia. From 1994 to 1995, I worked as the Instrumentation and Control Team Leader for Magma Copper Company in San Manuel, Arizona.

I was hired by TEP in 1995 as an Analyst in Product Planning and Development. In 1996, I moved into TEP's Wholesale Marketing Department as an Energy Marketer/Trader. I was promoted to Supervisor of the area in 1999 and Manager in 2001. I was promoted to by current position of General Manager in 2003. In this role, I oversee the contracting and procurement of coal and natural gas supply as well as the electricity supply, trading, risk management and marketing functions for TEP and its affiliates.

Q. What areas will you be discussing in your direct testimony?

A. In my direct testimony, I discuss: (i) UNS Gas' natural gas procurement and hedging policies; and (ii) recommended changes to the Purchase Gas Adjustor ("PGA") mechanism.

II. UNS GAS, INC. PRICE STABILIZATION POLICY.

Q. How does UNS Gas currently procure its natural gas supply?

A. UNS Gas currently has a full requirements agreement with BP Energy Company ("BP") to supply and schedule all of UNS Gas' natural gas needs (the "BP Agreement"). The BP Agreement was assigned to UNS Gas when it purchased the Arizona gas assets from Citizens Communications Company ("Citizens").

Q. How is the pricing of the natural gas determined pursuant to the BP Agreement?

A. The pricing of the natural gas supplied is fully dependent on how and when UNS Gas purchases the gas. The BP Agreement allows for UNS Gas to fix the price of any amount of its requirements ahead of time for delivery in future months. This allows UNS Gas to "hedge" a portion of its future prices. These fixed price hedges are made pursuant to UNS Gas' Price Stabilization Policy ("Price Stabilization Policy") discussed in more detail later in my testimony. The remaining amount of UNS Gas' natural gas requirements is priced using short term or spot market gas indices for the supply basin in which the gas is received. These indices include First of the Month ("FOM") Gas indices which reflect prices for delivery for the entire month and Daily indices which are based on prices for daily gas delivery. Prior to the beginning of each month UNS Gas informs BP how much of its remaining forecasted gas requirements will be purchased based on these two indices.

Q. Besides BP supplying and scheduling UNS Gas' natural gas needs, what are other significant provisions of the BP Agreement?

A. BP also optimizes UNS Gas' transportation capacity by re-marketing the excess capacity to third parties. The profits from these activities are split 50/50 with UNS Gas. UNS Gas' portion is credited to purchased gas costs to reduce the natural gas and transportation costs passed on to its customers.

Q. Have there been changes to the BP Agreement since its assumption by UNS Gas?

A. Yes. There have been two major changes to the BP Agreement, both of which were the result of changes to the pipeline transportation contract between UNS Gas and El Paso Natural Gas ("EPNG") (the "EPNG Contract"). First, in 2003, the EPNG Contract was restructured by the Federal Energy Regulatory Commission ("FERC") from a full requirements contract to a contract with fixed monthly maximum contract quantities.[1] This meant that UNS Gas now had fixed and defined maximum amounts of gas transportation that could be taken in each month. This change also defined specific rights for supply basin receipts thus limiting UNS Gas' access to the cheaper gas from the San Juan basin. As a result of these changes, a small amount of natural gas supply during some months is subsequently supplied and priced out of the Permian basin.

Second, in 2006, strict new tariffs for EPNG took effect as part of EPNG's on-going rate case at FERC.[2] These tariffs include strict imbalance tolerances and penalties. Imbalance is the difference between how much gas is scheduled into the pipeline and how much is actually taken out of the pipeline, or used. Prior to this change, BP was responsible for

[1] See FERC Docket RP00-336.
[2] FERC Docket RP05-422.

forecasting UNS Gas' load and for all pipeline imbalance and billed UNS Gas based on actual usage. This provided that any mismatch between what BP scheduled and what UNS Gas actually used was managed completely by BP and UNS Gas simply paid for gas based on its actual usage. As a result of EPNG implementing these new imbalance tolerances and penalties, UNS Gas is now responsible for forecasting its load and the imbalance on the EPNG system and pays BP for gas on a scheduled basis.

Q. Do you expect more changes to the BP Agreement in the future?

A. Yes. The increased scheduling and penalty complexities implemented by EPNG in June, 2006 will greatly increase the amount of administration necessary to schedule UNS Gas' gas supply. This will cause increased administrative and scheduling costs to BP. This cost increase is coupled with a reduced amount of transportation capacity available for BP to optimize due to the increased need for capacity to avoid penalties. This will likely require changes to the BP Agreement or for UNS Gas to manage its gas scheduling internally.

Q. You mentioned that the BP Agreement allows UNS Gas to fix (or, in other words, hedge) the prices of future deliveries. Please provide an overview of UNS Gas' Price Stabilization Policy.

A. UNS Gas has a detailed hedging policy, the Price Stabilization Policy attached as Exhibit DGH-1, that requires UNS Gas to enter into fixed price volumes for portions of its estimated load in advance. The Price Stabilization Policy dictates that UNS Gas purchase fixed price volumes up to three years in advance in fixed monthly amounts. The minimum amount of gas that is hedged in this manner is 45% of the estimated monthly load. UNS Gas also has the flexibility to enter into additional fixed price hedges, subject to internal review. The remaining gas is priced in the short-term and spot gas markets as previously discussed.

Q. How often is UNS Gas' Price Stabilization Policy updated?

A. The Price Stabilization Policy is thoroughly reviewed and updated on an annual basis to take into account the changing natural gas market dynamics.

Q. What changes has UNS Gas made to this year's Price Stabilization Policy to address the changes in the natural gas market?

A. The increase in natural gas prices and volatility led to three changes in UNS Gas' Price Stabilization Policy for 2006.

First, UNS Gas increased the frequency of hedges to once per month from its previous practice of three times per year and made the corresponding reductions in fixed percentages to hedge the same amount per year. This change will help reduce the effect of short-term price variations in UNS Gas' overall portfolio of hedges by providing a more mechanistic "dollar cost averaging" approach. It should be noted that the previous approach served UNS Gas and its customers very well in 2005 by hedging the majority of the fixed volumes for the 2005-2006 winter before the prices started increasing rapidly later in the year. However, with volatility in the natural gas market as it is, UNS Gas believes it prudent to make these changes.

Second, UNS Gas has shifted to completing the minimum 45% hedge volumes to two months in advance of the delivery month. This will avoid the higher volatilities seen in the two months before delivery.

Third, in order to avoid fixing prices in the midst of the extreme volatility of natural gas prices during the height of hurricane season, UNS Gas is not required to make any hedges during the months of August through October. UNS Gas does, however, retain the flexibility to make discretionary purchases during this period to take advantage of favorable market opportunities.

Q. What other changes in the natural gas market are affecting the way UNS Gas procures and hedges gas?

A. EPNG filed a rate case with significantly higher rates that went into effect January 1, 2006 (subject to refund) and new services that went into effect June 1, 2006. Besides the obvious price impact of the new rates for existing services and the cost of new services, the imbalance penalty provisions that EPNG is implementing will change the way UNS Gas must procure gas. Given the large variation of daily load in UNS Gas' service area and its desire to avoid imbalance penalties, UNS Gas expects to purchase a larger portion of its gas in the daily spot market. In order to remove the price risk associated with an increased reliance on the daily market, UNS Gas will need to employ financial hedging tools. UNS Gas has included simple types of these tools, such as fixed price swaps, in its current Price Stabilization Policy.

Q. Mr. Hutchens, do you believe that UNS Gas' procurement policies and practices are prudent?

A. Yes, I do. UNS Gas' procurement policies are prudent because:

1. UNS Gas utilizes a diversified portfolio approach to provide a mix of long-term, mid-term, short-term and spot market prices in its gas supply;
2. We have a thoroughly developed Price Stabilization Policy that provides a mechanistic dollar cost averaging approach to hedging long-term (greater than one year) and mid-term (greater than one month);
3. We utilize liquid market indices for determining the prices of short-term (monthly or First of the Month) and spot (daily) gas prices; and
4. We have thorough annual reviews of our Price Stabilization Policy and oversight from the highest levels of our organization through a Risk Management Committee.

Q. Mr. Hutchens, are you requesting that the Commission approve UNS Gas' Price Stabilization Policy as set forth in Exhibit DGH–1 to your testimony in this rate case?

A. Yes, we are. We believe that instead of the Commission attempting to second guess, after the fact, the individual acts that UNS Gas transacted in connection with gas procurement and hedging, it is more productive and beneficial to customers that the Commission review the policies and approve them prospectively. That way the Company will know the clear direction of the Commission and act accordingly. If the Company acts within the approved policies, its transactions will be conclusively prudent.

III. UNS GAS PGA MECHANISM.

Q. Please provide an overview of the problems caused by the current PGA mechanism.

A. The PGA no longer allows UNS Gas "to react to market fluctuations expediently in the regulatory environment in order to avoid severe impact on the Company's earnings and rate shock to the customers" as originally intended.[3] The current volatile natural gas market has exposed weaknesses in the PGA mechanism that cause significant delays in the recovery of gas costs incurred by UNS Gas. These delays severely impact the customer's ability to make informed consumption decisions that reflect actual costs. The delays also impact the Company's cash flows, which ultimately could have a negative effect on its earnings. Moreover, as bank balances are increased and surcharges imposed, it is inevitable that the Company's customers will see significant increases in their bills.

In order to avoid unintended negative consequences of the PGA, the existing mechanism must be modified to meet the specific circumstances in UNS Gas' service territory and the unprecedented price volatility in today's natural gas markets. The deficiencies existing in the current PGA mechanism include: (1) inappropriate price signals; (2) the potential for

[3] Citizens Utilities Co., Decision No. 58664 (June 16, 1994) at 64.

large bank balances to accumulate, recovery of which causes price fluctuation and rate shock; (3) below market interest allowed to be earned on the bank balance; (4) an inappropriately narrow bandwidth; and (5) the potentially adverse impact on UNS Gas' ability to devote capital to other necessary investments to serve its customers. Contributing to these problems is the volatile nature of the natural gas market. The current PGA mechanism was not designed to adequately cope with such volatility. Thus, it should be revised to correct these deficiencies.

Q. Summarize the changes you are recommending to UNS Gas' PGA mechanism in this rate case.

A. UNS Gas recommends that the Commission make the following revisions to the PGA:[4]

1. **Base Cost of Gas.** UNS Gas is recommending that there be no base cost of gas in its rates. Rather the base cost of gas should be rolled into the PGA rate.

2. **PGA Bandwidth.** The band should be eliminated, or in the alternative, increased to $.25 per therm for an interim period of time and then eliminated.

3. **PGA Bank Interest.** The interest earned on the PGA bank balance should reflect UNS Gas' actual cost of new debt, which is LIBOR[5] plus 1.5%. When the bank balance is greater than two times the threshold level, UNS Gas should earn its weighted average cost of capital as determined in this rate case.

4. **Bank Balance Thresholds.** The new threshold level for under-collected bank balances established in Decision No. 68325 ($6,240,000) should also be adopted as the threshold level for over-collected bank balances.

5. **Capital Structure.** To the extent the PGA bank balances result in long-term financing, that debt should be excluded from the cost of capital calculation in rate case proceedings.

6. **Surcharges.** When surcharges are required, the Commission should approve a surcharge large enough to eliminate the bank balance in a reasonable time period and allow for timely recovery.

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[4] The majority of these issues were raised by UNS Gas in Docket No. G-04204A-06-0013, "Application to Review and Revise Purchased Gas Adjustor" which also includes a detailed history on the PGA mechanism.

[5] "LIBOR" stands for "London Inter-Bank Offering Rate," and is a commonly used benchmark interest rate.

Q. Has UNS Gas made similar proposals before?

A. Yes, in its pending Application in Docket No. G-04204A-06-0013. We will be asking that docket be consolidated with this case. I adopt the Application in that docket as part of my Direct Testimony in this case, contingent upon the Commission granting our request for consolidation.

A. <u>Base cost of gas.</u>

Q. Please discuss UNS Gas' recommendation for its base cost of gas in this rate case?

A. UNS Gas is recommending that there be no base cost of gas in its rates. Rather, the entire cost of gas should be rolled into the PGA Rate. However, the PGA Rate would not include any PGA surcharge or surcredit. The new PGA Rate would be exactly the same as the combination of the base cost of gas and the former PGA Rate. In other words, it would equal the previous 12 months weighted average cost of gas.

Q. Why is UNS Gas proposing this change to the base cost of gas?

A. UNS Gas' customer bills currently include portions of total gas commodity costs in line items for the Basic Cost of Service (which includes the Base Cost of Gas and the Distribution Margin), the PGA Rate, and a PGA Surcharge or Surcredit, if applicable. UNS Gas is proposing this change to simplify its bill by making all the pass through commodity costs separate and distinct from the Distribution Margin and more clearly labeled such that customers can easily determine the commodity cost portion of their bills.

Q. What would be the new commodity cost billing rate components on UNS Gas bills?

A. UNS Gas bills would include the following two components: (i) the PGA Rate (the rolling 12 month average cost of gas); and (ii) the PGA surcharge or surcredit, if applicable. Thus, one line item on customer bills will include the commodity cost and one line will set forth any surcharge or surcredit -- thus allowing customers to easily see the changing cost of gas component separate from the distribution component. A separate volumetric charge would remain to cover those fixed distribution costs not recovered by the fixed monthly charge.

Q. Is there any precedent for this recommendation?

A. Yes. In Southwest Gas Corporation's ("SWG") most recent rate case a similar recommendation was made by Staff and accepted by the Commission.[6] The Commission also approved a similar change in the recent Duncan Rural Services Corporation rate case.[7]

Q. How would the 12 month PGA Rate band be applied to this new gas cost structure?

A. As discussed more fully below, UNS Gas is recommending that no band be applied to how much the PGA Rate can change in 12 months. Upon implementation of the new PGA Rate structure, the PGA Rate will increase significantly as it absorbs the base cost of gas. Such appropriate increase would be artificially limited by any band that the Commission should apply. This could lead to drastic under recovery of gas costs if not addressed. To remedy this problem, UNS Gas recommends that no band be applied to changes to the PGA Rate. If the Commission ultimately decides a band is necessary, for the first 12 months after UNS Gas new rates go into effect, that band should apply to a comparison of the new monthly PGA Rate to the sum of the base cost of gas and the monthly PGA rate in prior months. A similar proposal was approved by the Commission in the SWG rate case that I previously mentioned.

[6] Decision No. 68487 (February 23, 2006).
[7] Decision No. 68599 (March 23, 2006).

B. PGA bandwidth.

Q. Explain why UNS Gas is recommending elimination of the 12 month band on the PGA Rate.

A. The purpose of the PGA is to allow UNS Gas to recover its gas costs in a reasonably timely fashion while smoothing out price fluctuations for customers. The primary means to smooth out prices is the 12-month rolling average feature of the PGA Rate. As an additional protection, the Commission added a "band" which further limits movement of the PGA Rate. The band was intended to come into play only in extraordinary circumstances, and not on a routine basis.

Contrary to the original intent of the band, it has come into play much more frequently than anticipated due to the significant increases in natural gas prices and the extreme volatility of those prices. Because it has come into effect so often, the band limit no longer acts as a price smoothing device. Instead, the band has completely severed the link between the cost of gas and the allowed recovery level such that no meaningful price signals are sent to customers. In other words, the band no longer just limits price volatility, it limits the PGA from reflecting fundamentally higher prices of gas. This causes the PGA to act like an "out-of-control credit card," piling up debt that the customers must pay off later. It is also equally important to recognize that in an environment of dropping commodity prices the absence of an artificial band allows the benefit of lower commodity costs to be passed on to customers sooner.

To eliminate undue financial risk for UNS Gas and its customers, and to send the proper price signals, the PGA band limit should be eliminated. This will allow the rolling average of the PGA to accurately reflect the true, long-term cost of gas while still using the 12-month rolling average to smooth out price fluctuations. UNS Gas submits that a band is not a necessary component of a PGA. However, should the Commission believe that a band is necessary, the Commission must avoid setting the band at an inappropriate level. When the band is too narrow, it does not protect customers. Rather, it harms them by removing needed price signals and causing them to run up a huge debt because they do not know the true cost of gas they are consuming. It also harms UNS Gas, who must bear the burden of the bank balance until it is paid off. In sum, the current constrictive band of 10 cents should be eliminated, or in the alternative, increased to at least 25 cents, but only for an interim period of time and then eliminated.

C. <u>PGA bank interest.</u>

Q. What changes to the PGA Bank interest rate is UNS Gas requesting in this docket?

A. UNS Gas is requesting that it be allowed to recover one of two rates, depending on the size of the PGA bank balance. One rate would apply to bank balances <u>below</u> twice the PGA bank balance threshold (the threshold is currently $6.24 million) and one rate would apply to the PGA bank balance <u>above</u> twice the threshold.

Q. What is UNS Gas' recommendation for the interest rate on levels below twice the PGA bank balance threshold?

A. UNS Gas recommends that the interest earned on the levels below twice the PGA bank threshold should reflect UNS Gas' actual cost of new debt, which is LIBOR plus 1.5%.

Q. Why is UNS Gas recommending this change in the interest rate?

A. The PGA mechanism was not intended to create large bank balances; thus, the use of a 90-day interest rate. When bank balances did exceed the threshold, it was anticipated that surcharges would be approved that would promptly reduce the bank balances. In recent times, it has taken more than two years for some gas costs to be recovered through the PGA surcharge. In such circumstances, it is critical to have an adequate interest rate for use in computing carrying charges on the bank balance, reflecting the significant unrecovered costs as well as the duration between cost incurrence and cost recovery.

Unfortunately, the applicability of the current interest rate is flawed, because it is not tailored to UNS Gas and it does not reflect UNS Gas' actual costs. The current rate – like the rest of the PGA – was set on a "generic" basis, rather than being tailored to each utility. Each utility is different, and the PGA for each utility should reflect these differences. The current interest rate does not take into account UNS Gas' actual cost of new debt. Moreover, the current interest rate (the three month commercial financial paper rate[8]) is well below the actual interest rate that UNS Gas must pay to borrow the funds needed to buy the gas required by its customers.

Under its revolving credit facility, UNS Gas pays interest at a rate of LIBOR plus a credit spread of 1.5%. Thus, when the PGA does not cover the cost of gas, UNS Gas borrows money at this rate to pay for the gas it buys for its customers. UNS Gas is only allowed to recover a lower interest rate on the PGA bank balance – the three month commercial financial paper rate. As of the end of May, LIBOR plus 1.5% is 6.03% while the three month non-financial commercial paper rate is 4.43%. For every dollar borrowed to fund the PGA bank balance, UNS Gas loses money as a result of the spread between interest paid and interest earned, even if the bank balance is ultimately paid off.

A PGA, when it is operating as it is intended to, provides the utility with no profit (and no losses) on the gas that it purchases for its customers. The utility at best only recovers its gas costs, dollar-for-dollar. UNS Gas potentially loses money on each sale because costs not currently recovered are deferred to a tracking account upon which interest is accrued at

[8]Decision No. 68600 (March 23, 2006).

a low rate. The inability to recover interest costs that UNS Gas is incurring is confiscatory and must be remedied.

Q. What is UNS Gas recommending for treatment of large PGA bank balances above twice the PGA bank threshold level?

A. When the actual PGA bank balance is greater than two times the Commission-approved threshold level, as has occurred under the existing PGA mechanism, it is clear that continuing to report the asset as "short-term" on the Company's balance sheet (meaning that it will be settled in its entirety within one year) is no longer appropriate. Instead, it should more correctly be considered working capital (similar to materials, supplies, plant and equipment) as it requires UNS Gas to commit longer-term investment capital. Therefore, UNS Gas should be allowed a carrying cost at a rate equal to UNS Gas' authorized weighted average cost of capital as determined in this proceeding.

D. <u>Bank balance thresholds.</u>

Q. What recommendations is UNS Gas making for the bank balance thresholds?

A. We are recommending that the new threshold level for under-collected bank balances established in Decision No. 68325 ($6,240,000) should also be adopted as the threshold level for over-collected bank balances.

Q. What is the rationale for this change to the over-collected bank balance threshold?

A. A requirement that applies to both a utility and its customers should be symmetrical. Symmetry demonstrates that the requirement was designed in a fair and even handed manner. The PGA threshold applies to both under-collected amounts (owed by customers) and over-collected amounts (owed by the utility). In order to be fair to both the ratepayers and shareholders, symmetry should prevail, with the same threshold level applying to both under-collected and over-collected bank balances.

E. Capital Structure.

Q. What is UNS Gas proposing with respect to the impact of the PGA mechanism on UNS Gas' capital structure?

A. If the PGA mechanism results in UNS Gas accumulating significant PGA bank balances, additional debt financing will likely be required. This additional debt may impact the Company's capital structure and weighted cost of capital, thus altering the determination of revenue requirements in rate cases. Because the current PGA mechanism provides for the accrual of carrying charges on the monthly balance (notwithstanding the inadequacy of the current interest accrual rate as previously described), the PGA bank balance would not be includible in rate base for ratemaking, even though all long-term debt issues are normally reflected in capital structure. As a result, the computed overall rate of return to be applied to rate base would be artificially diminished, as would be the computed overall revenue requirement. UNS Gas respectfully requests that the Commission specifically find that any additional long-term debt issued solely to support the PGA bank balance be excluded from the determination of the cost of capital in this rate case and future UNS Gas rate case proceedings.

F. <u>Surcharges.</u>

Q. What is UNS Gas proposing with respect to the nature of the surcharge under the PGA mechanism?

A. When surcharges are required, the Commission should approve a surcharge large enough or a recovery period short enough, to eliminate the bank balance in a reasonable time period. This is important to ensure that customers who used the gas that resulted in the bank balance increase and surcharge will also pay the surcharge.

Q. Does this conclude your testimony?

A. Yes, it does.

EXHIBIT

DGH-1

UNS Gas, Inc. Price Stabilization Policy

Effective January 1, 2006

Contents

1 Introduction

1.1 Purpose

The UNS Gas, Inc. Price Stabilization Policy addresses the procurement methodology that is to be employed to stabilize the price of natural gas through forward hedging activities.

1.2 Objectives

- Define hedge policy including purchasing mechanisms that can be used to support price stabilization.
- Define and monitor the line of authority, responsibility and accountability.
- Monitor hedge positions and provide periodic reports to Senior Management that details total hedge position.

2 Hedge Procedure

2.1 Overview

The intent of this hedge policy is to create price stability for UNS Gas ratepayers. Due to the recent high volatility in the natural gas markets, over-reliance on spot market purchasing could expose the ratepayer to extreme price fluctuations of natural gas. This exposure combined with the current PGA mechanism for purchased gas cost recovery can also expose UNS to mismatches in revenues and expenses and require frequent PGA adjustments to rectify. Some spot market purchasing is prudent and a portion of the portfolio will be purchased in that manner. Entering into fixed price forward gas purchases will be the primary strategy used by UNS to stabilize gas prices. To execute this strategy several tools will be employed such as forecasts of both demand and gas prices, price and calendar triggers and various purchasing mechanisms.

2.2 Hedge Strategy

2.2.1 Time Horizon

A mix of physical and physical gas acquisitions and their respective time horizons will be the basis for this hedge strategy. This mix will consist of:

- Monthly Purchases (near-term)
- Purchases Less than one year with Fixed Price Transactions (mid-term)
- Purchases Greater than one year with Fixed Price Transactions (long-term)

UNS Gas will begin purchasing for its gas requirements for any given month approximately three years in advance.

2.2.2 Non-Discretionary & Discretionary Purchases

Non-Discretionary Purchases: A target level of 45% of the Estimated Monthly Gas Load prices will be fixed two months prior to the beginning of each month. Non-discretionary purchases will be made utilizing monthly calendar triggers to insure this 45% minimum is met. Purchases will not be made in the months of August thru October due to the historical volatility added by hurricanes Analysis has shown that there are regular oscillations within price trends with a typical low point in the third week of each month. On or before the 20th of each month (the "trigger date"), purchases will be made to bring the total fixed price monthly volume (including discretionary purchases) up to at least the percentage in Appendix 1. The table represents purchasing 15% of the Estimated Gas Load each year so that at the end of 3 years the 45% minimum purchase goal will be realized if no other purchases were made. Monthly purchases should serve to dollar cost average the gas positions and optimize the purchase schedule. Trigger dates analysis will be an ongoing process to confirm their potential.

Discretionary Purchases: Discretionary purchases may be made in excess of the Non-Discretionary purchases. In general, these purchases are made with the intent of taking advantage of favorable purchasing opportunities and/or reducing the amount of exposure to spot market prices during periods of high volatility. Any purchase made beyond 36 months will be considered a discretionary purchase. Discretionary and Non-Discretionary purchases will not exceed 80% of the Estimated Monthly Gas Load (70% in March, April, October and November shoulder months) to allow room for index purchasing and act as a buffer for lower than normal load. All discretionary purchases must be approved by the following three members of the RMC; CFO, COO Energy Resources and COO UniSource Energy Services.

The Trader will prepare a documentation packet for each stabilization purchase (whether discretionary or non-discretionary) to memorialize the decision process for future reference.

2.2.3 Physical Supply Location

UNS Gas will hedge the majority of its gas requirements at the San Juan supply basin. All physical amounts hedged at San Juan will be within UNS Gas' pipeline allocation from San Juan. These allocation limits may change from time to time and will be updated in the UNS Gas Book with current volumes allowed to be hedged at San Juan. The remaining physical hedges will be made at the Permian basin utilizing UNS Gas' pipeline receipt points.

2.3 Hedge Tools

2.3.1 Estimated Load for Hedging Purposes

UNS Gas' Estimated Load will be based on the annual budget forecasted load. Changes in year over year forecasts should be integrated into the stabilization plan and adjustments made to stay within the percentages discussed in section 2.2.

Natural gas price forecasts will be based on fundamental indicators such as gas storage (both current and projected), temperature forecasts, gas production (both current and projected) and historic gas trends.

2.3.3 Purchasing Mechanisms

The following types of transactions will be used as the primary methods used to achieve price stabilization:

- Fixed price forward physical purchases at supply basins
- Daily swing purchases based on index prices

The following types of transactions will be used as secondary methods to achieve price stabilization:

- Natural gas call options, collars and swaps
- NYMEX Purchases
- Basis Trades to convert NYMEX to physical supply basin.
- Storage

Financial hedges such as swaps or calls should be used to hedge any percentages above the 60% target level but may not exceed the maximum allowable hedge levels. This will retain operational flexibility for physical gas flow variations while still providing price stabilization.

3 Authorized Transaction Characteristics

In order to control gas purchasing, the following section outlines the specific physical transactions which may be entered into without prior approval from the Risk Management Committee. Any transaction not specifically authorized in this section must be approved by the RMC and receive any other necessary internal approvals.

3.1 Authorized Transactions

The Fuel and Wholesale Power group is authorized to enter into the following physical transactions without prior authorization from the Risk Management Committee within the confines of all controls, limits, and policies. All other transactions must have the express consent of the Risk Manager, the VP responsible for Fuels and Wholesale Power and one other Risk Management Committee member.

- Forward Physical Fixed Price Purchases: Trader may purchase San Juan or Permian gas blocks for terms and volumes described in Section 2.2. Physical purchases of San Juan gas shall not exceed the allowable basin percentage allotment discussed in section 2.2.3. Trader may also purchase NYMEX gas coupled with a San Juan Basis which sum to be the equivalent of San Juan Physical gas.

- Forward Financial Fixed Price Swap Purchases: Trader may purchase San Juan or Permian fixed for index gas swaps for terms and volumes described in Section 2.2. The index should be matched to the desired portion of index purchases to be hedged (either Daily or First of the Month).
- UNS Gas has a program called the Negotiated Sales Program. NSP customers are T-1 Transportation customers who can purchase gas from either UNS or the competitive market. The program allows UNS to sell these customers gas that is purchased on their behalf through UNS' supplier. The NSP Trader interacts with the NSP customers and UNS' key account managers to make forward purchases as requested by the customers. The customers may purchase NYMEX gas, basis or both for forward month deliveries. The NSP Trader will insure that the purchases made are entered into the customer's accounts for future pricing and will also ensure that the transaction is within the credit limit of the customer if necessary. Both the Risk Manager and NSP Trader will insure that UNS does not take on any risk from these transactions by only purchasing gas per the NSP customer requests and insuring all costs are passed directly on to the NSP customer.

4 Transaction Responsibility Assignments

4.1 Stabilization Purchase Execution

A purchase recommendation will be made to the Risk Manager by the Energy Trader responsible for UNS Gas Hedging for all purchases. Upon approval, the trader will place an order (market or limit) with the purchasing agent and consummate if the trigger is subsequently reached. An electronic confirmation will be generated by the purchasing agent and sent to the Energy Trader for filing. A trade ticket will be filled out by the trader with copies routed to the Risk Manager and Risk Controller.

Abbreviations are as follows:

T	- Trader	RM	- Risk Manager
RC	- Risk Controller	A	- Accounting/Billing
FA	- Fuels Analyst		

1) Transaction Activities

a) Execute trade	T
b) Designate Accounting Treatment	T
c) Complete trade ticket	T
d) Enter transaction information in risk management system	T
e) Ensure transaction is within limits	T, RM
f) Memorialization/Documentation	T

2) Contract Administration

a) Maintain customer trading and scheduling information — T,FA
b) Maintain customer billing information — A
c) Write and route transaction agreements — T
d) Maintain copies of executed transaction agreements — T

3) Transaction Compliance

a) Ensure proper recording of transactions — RM
b) Reconcile confirmation to trade ticket — RC
c) Reconcile transaction agreement to confirmation — T, RC
d) Reconcile confirmation to system data input and lock trade — RC
e) Deliver executed transaction agreement to counterparty — T
f) Ensure that designated hedge volume is within forecast — RM

5) Transaction Settlement

a) Reconcile gas invoices — A
c) Initiate payment — A
d) Ensure appropriate accounting and tax treatments — A
e) Monitor and report late payment and nonpayment — A

6) Position Control

a) Gather and input forward price curves — T
b) Validate forward price curves — RC
c) Perform monthly portfolio review — RM
d) Prepare and distribute periodic valuation reports — RM
e) Perform credit risk measurement — RC
f) Prepare and distribute periodic credit risk reports — RC
g) Perform market risk measurement — RM
h) Track GAAP and SEC compliance — RC, A
i) Monitor and report violation of authorities, limits and policies — RM, RC

4.2 NSP Purchase Execution

A purchase order will be requested by a NSP customer to the NSP Trader. The NSP Trader will enter into the transaction on the customer's behalf and notify the customer of the exact price and terms. The Administrator will fill out a trade ticket and route copies to the Key Account Manager for NSP's and Energy Settlements and Billing. A copy of the trade ticket will be maintained for the records.

Abbreviations are as follows:

NT - NSP Trader　　RM - Risk Manager
A - Accounting/Billing

1) Transaction Activities

a) Execute trade — NT

b) Ensure transaction is within customer credit limit	NT
c) Enter transaction information into NSP book	T
2) Contract Administration	
a) Maintain customer trading and scheduling information	NT
b) Maintain customer billing information	A
c) Write and route transaction agreements	NT
d) Maintain copies of executed transaction agreements	NT
3) Transaction Compliance	
a) Ensure proper recording of transactions	RM
b) Reconcile confirmation to trade ticket	RC
4) Transaction Settlement	
a) Reconcile gas invoices	A
b) Initiate payment	A
c) Ensure appropriate accounting and tax treatments	A
d) Monitor and report late payment and nonpayment	A
5) Monitoring	
a) Perform periodic NSP reports	NT
b) Notify RM of NSP issues	NT

4.3 Signing Authorities

Transaction agreements for authorized transactions may be signed by the Risk Manager or any member of the RMC. All other agreements must be signed by the CFO or COO of Energy Resources.

4.4 Risk Policy Acknowledgement

The Risk Manager, Risk Controller and each Authorized Trader listed on Exhibit A will sign a copy of Exhibit B, "UNS Gas Hedge Policy Acknowledgement Form". These forms must be filled out for each new revision of this Policy. The Risk Manager will maintain a record of the signed exhibits.

5 Management Reporting Requirements

5.1 Overview of Management Reporting

Accurate and timely information is crucial to the control and management of risk. All Risk Management Committee members, therefore, will receive a comprehensive set of reports on a monthly basis of the business unit's risk profile and performance and updates of trading positions and limits. For the months when a quarterly Risk Management Committee meeting is scheduled, the reports will be distributed prior to the meeting together with written explanation of the major movements, along with the meeting agenda.

The RMC report should be sufficient to provide adequate information to judge the changing nature of the risk profile and the business unit's performance. All RMC members will be trained on the significance and understanding of all reports.

5.1.1 Key Market and Credit Risk Reports

The following is a listing of selected high level reports appropriate for the Risk Management Committee related to this gas stabilization policy.

Gas Hedging Reports

- Current Hedges—Report of current gas hedges including percent of estimated monthly volume hedged, hedged prices, product types and current mark-to-market of hedges.
- Stress market scenario analysis and effect on the PGA bank;
- Policy exceptions--description of exceptions with recommendations as to corrective action required;
- New transactions.

Exhibit A.

Authorized Stabilization Trader
Michael Bowling
Ramondo Robey

Authorized NSP Trader
Craig Lipke

Exhibit B.

UNS Gas Hedging Policy Acknowledgement Form

I acknowledge that I have read UNS Gas, Inc. Price Stabilization Policy dated ___________________ and I agree to comply fully with the parameters outlined. I understand that willful violation of limits set within these Policies may result in disciplinary action.

________________________ ___________________

(Signature) (Date)

____

(Print Name)

Direct Testimony of
Kentton C. Grant

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

Direct Testimony of

Kentton C. Grant

on Behalf of

UNS Gas, Inc.

July 13, 2006

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Exhibit KCG-1	Comparable Company Data
Exhibit KCG-2	Projected Growth Rates – Comparable Company Group
Exhibit KCG-3	Expected First Year Dividend – Comparable Company Group
Exhibit KCG-4	Multi-Stage DCF Analysis
Exhibit KCG-5	Application of Capital Asset Pricing Model
Exhibit KCG-6	Allowed Returns on Equity vs. 20-Year Treasury Bond
Exhibit KCG-7	Allowed ROE Premiums over 20-Year Treasury Bond
Exhibit KCG-8	U. S. Treasury Bill and Bond Yields
Exhibit KCG-9	Key Financial Indicator Forecast for UNS Gas

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Kentton C. Grant. My business address is One South Church Avenue, Tucson, Arizona, 85701.

Q. By whom are you employed and what are your duties and responsibilities?

A. I am employed by Tucson Electric Power Company ("TEP") as General Manager, Financial Planning and Customer Pricing. In this role I am responsible for providing financial and regulatory support services to UniSource Energy Corporation ("UniSource Energy"), and its regulated utility subsidiaries. These subsidiaries include UNS Gas, Inc. ("UNS Gas"), UNS Electric, Inc. ("UNS Electric") and TEP.

Q. Please summarize your professional experience and education.

A. My educational achievements include a Master of Business Administration degree with a concentration in finance from the University of Texas at Austin, as well as a Bachelor of Science degree in Civil Engineering from Purdue University. I am a member of the Chartered Financial Analyst ("CFA") Institute, and in 1995, I was awarded the professional designation of CFA. I am also a member of the Society of Utility and Regulatory Financial Analysts, and in 1992, I was awarded the designation of Certified Rate of Return Analyst ("CRRA").

From 1984 to 1995, I was employed by the Public Utility Commission of Texas. During this period I served in various staff positions, including Director of the Financial Review Division. In that role I directed a staff responsible for performing financial analyses, accounting reviews and management audits of electric and telecommunications utilities.

As a staff member I provided expert testimony on a variety of financial topics including the cost of capital.

I joined TEP in 1995 as a senior financial analyst. In 1997, I was promoted to Director of Capital Resources and elected Assistant Treasurer. I was subsequently promoted to Manager of Financial Planning and in 2003, became a General Manager in TEP's Shared Services Unit. In these roles I have gained additional experience in financial forecasting, financial analysis, the structuring of new financings and other related activities.

Q. What is the purpose of your direct testimony?

A. In my direct testimony I support UNS Gas' request for a rate increase by: (i) providing an overview of the Company's financial condition; (ii) recommending a fair rate of return on common equity capital; (iii) presenting UNS Gas' weighted average cost of capital; and (iv) describing the financial impact of UNS Gas' requested rate relief. In my testimony, I also explain why it is important for the Arizona Corporation Commission ("Commission") to include construction work-in-progress ("CWIP") in UNS Gas' rate base. Finally, I am sponsoring Schedule A-3 (Summary Capital Structure), Schedule A-4 (Construction Expenditures and Gross Plant in Service), the "D" Schedules (Cost of Capital Information) and the "F" Schedules (Projections and Forecasts) in support of UNS Gas' request for a rate increase.

Q. Please summarize the recommended fair rate of return, weighted average cost of capital, cost of debt and return on common equity UNS Gas is utilizing in this rate request.

A. The Company's rate request reflects an overall rate of return and weighted average cost of capital of 8.80%. This overall rate of return is based on a 6.6% cost of debt, an 11.0% cost of common equity capital, and a capital structure consisting of 50% long-term debt and 50% common equity. The rate of return on fair value rate base is 7.43%.

II. FINANCIAL CONDITION OF UNS GAS.

Q. Please describe UNS Gas' current financial condition.

A. UNS Gas has a mixed financial profile. On the positive side, the Company has a healthy mix of debt and equity capital, a relatively low cost of long-term debt and a growing service area. However, these strengths are offset by weak operating cash flows, large construction spending needs due to rapid growth in UNS Gas' service territory and a limited borrowing capacity. Obviously, it is critical that UNS Gas has the financial resources necessary to meet the needs of its current and future customers. UNS Gas' requested rate increase is necessary to meet those needs.

Q. Has the Company's financial condition improved since UniSource Energy acquired the gas utility operations from Citizens Communications Company ("Citizens") in 2003?

A. The Company's financial condition has improved in certain respects but weakened in other respects. On the positive side, the Company's equity ratio (equity / total capitalization) has improved from 33% in August of 2003 to 45% at the end of the test year. This has been accomplished through the retention of 100% of annual earnings at UNS Gas and an additional equity infusion of $16 million made by UniSource Energy. The Company's short-term liquidity was also significantly enhanced through the establishment of a $40 million credit facility, shared with UNS Electric, which allows either company to borrow a maximum of $30 million under the facility at any given time. However, since the acquisition was completed, the Company's earnings and cash flow have declined significantly. The following table highlights the some of the key financial results from 2004 and 2005, the first two fiscal years following the acquisition, and forecasted financial results for 2006:

($000s)	2004 Actual	2005 Actual	2006 Forecast
Net Income	$5,703	$5,046	$3,696
Return on Avg. Equity	10.2%	7.3%	4.5%
Operating Cash Flow (a)	$20,541	$14,299	$15,850
Capital Expenditures (b)	$19,137	$23,578	$30,287
Net Cash Flow [(a) – (b)]	$1,404	($9,279)	($14,437)

Reduced earnings and cash flow have also contributed to a reduction in UNS Gas' borrowing capacity since the acquisition. In order to incur additional indebtedness, UNS Gas must first determine that it will be able to meet certain minimum financial ratios as specified in the Company's credit agreements. Under these agreements the Company must maintain a ratio of EBITDA (earnings before interest, taxes, depreciation and amortization) to interest charges of at least 2.5X. For calendar years 2004 and 2005 this interest coverage ratio was 3.38X and 3.26X, respectively. Assuming an interest rate of 6.6% on new borrowings, which reflects the applicable rate under UNS Gas' credit facility as of April 2006, the test year interest coverage ratio would have allowed additional borrowing of only $31 million at UNS Gas. On a forecasted basis, the Company is expected to have additional borrowing capacity of only $13 million by year-end 2006. This level of aggregate borrowing capacity is clearly inadequate for a company with approximately $130 million of annual revenues, high capital spending requirements and continuing financial exposure to abnormal weather conditions and natural gas price volatility.

Q. Are the debt obligations of UNS Gas rated by the major credit rating agencies?

A. No. Credit ratings assigned by Moody's, Standard & Poor's and Fitch were not required by the lenders to UNS Gas. However, the lenders who purchased $100 million of long-term notes from UNS Gas in 2003 did require a rating from the National Association of

Insurance Commissioners ("NAIC"). The rating assigned to these notes was NAIC-2, which is roughly equivalent to a low investment-grade rating of Baa from Moody's or BBB from Standard & Poor's or Fitch. Due to the recent decline in earnings and cash flow, as well as the increased volatility of natural gas prices, it is not clear whether UNS Gas would receive the same rating today if a new ratings request were made.

Q. How does UNS Gas' financial condition compare with other gas distribution utilities?

A. The Company's 7.3% return on average common equity in 2005 and the 4.5% projected return in 2006 are both quite low when compared with average industry returns. On a composite basis, the average annual return on common equity reported by Value Line for the natural gas distribution industry ranged from 10.5% to 11.8% over the period 2002-2004. In terms of capital structure, the 45% common equity ratio for UNS Gas at year-end 2005 was comparable to the 46% industry average reported by Value Line Investment Survey for year-end 2004. In terms of credit quality metrics, the cash flow realized by UNS Gas during 2005 lagged the industry by a considerable margin, while debt leverage was in line with industry norms. On each of three different cash flow metrics, UNS Gas lagged the industry median value for a group of 14 gas distribution companies rated by Standard & Poor's. The credit ratings for this industry group ranged from a low of BB- to a high of AA, with a median credit rating of BBB+. The following table compares the key credit quality metrics for UNS Gas (2005 actual and 2006 projected values) with the industry median values for 2004:

	2005 Actual	2006 Forecast	Industry Median
FFO Interest Coverage	3.3X	2.5X	4.6X
FFO to Total Debt	16%	9%	20%
Net Cash Flow / Capital Expenditures	61%	52%	88%
Total Debt / Total Capital	55%	55%	57%

FFO = Funds from Operations.
Net Cash Flow = Operating Cash Flow less Dividends Paid.

The gap between UNS Gas and the industry median value for Net Cash Flow / Capital Expenditures is of particular concern for two reasons. First, a ratio of less than 100% indicates a dependence on outside capital to fund ongoing capital expenditures. During 2005, UniSource Energy funded this gap through increased equity contributions. These contributions were made despite a reduction in earnings at UNS Gas and the absence of any common dividend payout from UNS Gas. The Company's other source of capital, borrowed funds, is also very limited due to weak interest coverage levels. Absent a significant increase in operating cash flow, it will be difficult for the Company to attract the capital needed to fund required capital expenditures. Second, the gap between UNS Gas and the industry median value is actually much larger than indicated in the table above when dividend payout policies are considered. The average dividend payout as a percentage of earnings for the gas distribution sector was 63% as reported by Value Line for 2004. Had UNS Gas paid out common dividends in 2005 at the industry average payout rate of 63%, the Company's ratio of Net Cash Flow / Capital Expenditures would have fallen from 61% to 47%.

Q. Are there specific aspects of this rate filing that are designed to improve UNS Gas' financial condition and borrowing capacity?

A. Yes. The requested increase in rates would result in improved cash flow and expanded borrowing capacity at UNS Gas. In addition, the use of a hypothetical capital structure would help UNS Gas make further progress in strengthening the Company's balance sheet and would reduce the Company's dependence on debt financing. The Company is also proposing changes in rate design that would better align fixed monthly customer charges to the fixed costs of operating and maintaining a gas distribution system. This change in rate design would lessen the Company's financial exposure to unusually mild weather conditions or reductions in average consumption. Proposed changes to the Purchase Gas Adjustor ("PGA") mechanism would also reduce the Company's financial exposure to large increases in the cost of natural gas, a commodity that has experienced significant price volatility over the past 18 months. These proposed changes in rate design and the PGA mechanism are critical to the Company's ability to forecast and fund short-term liquidity needs. The financial impact of the Company's rate request is described in greater detail later in my testimony, following the cost of capital discussion below.

III. <u>COST OF CAPITAL METHODOLOGY</u>.

Q. Please describe the methodology you have used to determine a recommended rate of return for UNS Gas.

A. I have employed the weighted average cost of capital methodology. There are three basic steps in calculating the weighted average cost of capital. First, it is necessary to analyze the firm's capital structure, identify the sources of capital, and determine the appropriate weighting for each source of capital. For UNS Gas, these sources consist of long-term debt and common equity capital. Second, the appropriate cost of each component of the capital structure must be determined. For long-term debt, it is customary for rate setting purposes to use the embedded cost of debt. For common equity, a variety of techniques are available to estimate the cost of this capital. Finally, the cost of each capital source is weighted by its appropriate percentage share of the capital structure. The sum of the weighted component costs represents the weighted average cost of capital. The calculation of UNS Gas' weighted average cost of capital is provided in the last section of my testimony. This recommended value, 8.80%, is also reflected in Schedule D-1 in the Company's rate filing.

IV. CAPITAL STRUCTURE.

Q. Please describe the capital structure for UNS Gas as of the end of the test year.

A. The capital structure for UNS Gas as of December 31, 2005 consisted of $100 million principal amount of long-term debt and approximately $80 million of common equity. After adjusting for unamortized issuance expenses, the long-term debt balance as of December 31, 2005 was $98.9 million. As reflected in the following table, long-term debt comprised approximately 55% of total capital whereas common equity represented approximately 45% of total capital:

	12/31/05 ($thousands)	% of Total
Long-Term Debt	$98,859	55.33%
Common Equity	79,804	44.67%
Total Capital	$178,663	100.00%

Q. Should this capital structure be adjusted for rate setting purposes?

A. Yes. I am recommending that the Commission adopt a capital structure consisting of 50% common equity and 50% long-term debt. Although the test-year capital structure for UNS Gas was in line with industry averages, it is reasonable for the Company to target a higher common equity ratio due to the Company's small size, large capital spending needs and limited borrowing capacity. As reflected in the financial forecast discussed in Section IX of my testimony, and as evidenced by the actions taken to date, it is management's intent to gradually strengthen the Company's balance sheet through a combination of retained earnings and additional equity contributions from UniSource Energy. Assuming the Company's rate request is approved, it is forecasted that UNS Gas will achieve a 50% common equity ratio by the end of 2008, the first full calendar year under the proposed rates.

Q. Please elaborate on the actions taken by management to strengthen the Company's balance sheet.

A. As described earlier, the Company's equity ratio has improved from 33% in August of 2003 to 45% at the end of the test year. This has been accomplished by retaining 100% of the annual earnings at UNS Gas and through additional equity investments made by UniSource Energy. Despite the fact that UNS Gas has not paid any dividends to-date, and has little prospect of doing so in the near future, UniSource Energy has contributed an additional $16 million of equity capital in order to improve the financial condition and creditworthiness of UNS Gas. Had UniSource Energy not made this investment, thereby causing UNS Gas to borrow additional funds instead, UNS Gas' equity ratio would have been only 36% at the end of the test year. Clearly, UNS Gas is making progress in improving its equity ratio, and this progress should be encouraged.

Q. Has the Commission adopted a hypothetical capital structure before?

A. Yes, in many cases, including the recent Southwest Gas Corporation ('SWG") rate case, Decision No. 68487 (February 23, 2006).

Q. Will the use of a hypothetical capital structure allow the Company to make progress in improving its financial condition?

A. Yes. While UNS Gas has made progress in improving its equity ratio, other financial metrics have deteriorated, as noted previously. Because of the current weakness in earnings and cash flow, it is important for the Company to continue strengthening its balance sheet. During periods such as this, it is important to have a strong balance sheet in order to offset the negative credit impact of weak cash flow ratios. Lenders are much more willing to finance a well capitalized firm, even during periods of temporary cash flow and earnings distress, relative to a firm that has less shareholder capital at risk. Additionally, by financing a larger portion of capital expenditures with equity capital, UNS Gas will be able to retain more of its borrowing capacity to meet unexpected contingencies.

Q. Should the necessity of large capital expenditures be considered?

A. Yes. UNS Gas will need to make large capital expenditures in order to serve its customers. In order to do so, it must have access to capital, both debt and equity. Adjusting the capital structure will help assure that adequate capital is available.

Q. What is your recommended capital structure for UNS Gas?

A. For the reasons that I have stated, I recommend use of a capital structure consisting of 50% common equity and 50% long-term debt.

V. COST OF COMMON EQUITY CAPITAL.

Q. Please provide an overview of the methodology used to estimate the cost of equity capital for UNS Gas.

A. Four stages of analysis were employed to derive an estimated cost of equity for UNS Gas. First, the estimated cost of equity for a group of comparable companies was determined. This range was developed using the discounted cash flow approach ("DCF") and the capital asset pricing model ("CAPM"). Second, we examined the risk profile of UNS Gas relative to the comparable company group in order to determine an appropriate point estimate for the Company's cost of equity. Third, the estimated cost of equity determined for UNS Gas was compared with the allowed returns on equity for other gas utilities in the United States. Based on a review of this data, and the relationship between allowed returns on equity and long-term interest rates, we were able to confirm the reasonableness of our cost of equity estimate for UNS Gas. Finally, we examined the financial impact of the recommended return on equity ("ROE") and the overall rate request on UNS Gas. This final step was taken in order to assess the Company's ability to attract capital on reasonable terms, a key objective to consider in setting the allowed rate of return for a regulated utility.

A. <u>Comparable Company Group.</u>

Q. Why did you analyze a group of comparable companies in order to estimate the cost of equity capital for UNS Gas?

A. Reliance on a comparable company analysis is important because UNS Gas does not have publicly traded equity securities. Additionally, the assets of UniSource Energy, the parent company of UNS Gas, are heavily weighted toward the electric utility industry. Although the risk profiles of electric distribution and gas distribution utilities are similar, TEP, the largest subsidiary of UniSource Energy has a significant investment in electric generating facilities. As a consequence, the cost of equity capital for UniSource Energy may not be representative of the cost of equity capital for UNS Gas.

Q. What criteria did you employ in selecting companies for the comparable company analysis?

A. As a starting point we evaluated each of the companies included in the natural gas distribution industry by Value Line Investment Survey ("Value Line"). From this group of sixteen companies we then selected eleven companies that met the following screening criteria:

(i) More than 60% of revenues derived from gas operations,

(ii) More than 50% of total gas throughput derived from distribution operations,

(iii) No significant ownership of electric generating capacity,

(iv) No pending mergers or acquisitions of any significance, and

(v) Common stock currently paying a dividend.

Exhibit KCG-1 provides summary information on each of the companies that were selected based on these criteria. Although each of these companies may have unique circumstances that would differentiate them from UNS Gas, as a group these companies have operating and financial characteristics similar to those of UNS Gas. The extent of this similarity is discussed further in Section VI of my testimony.

B. <u>Application of DCF Model.</u>

Q. Please explain the DCF methodology.

A. The DCF methodology is derived from the Gordon dividend growth model. In its original form, the Gordon growth model may be used as a tool for determining the value of a share of common stock. The theory holds that the price of a share is equal to the present value of all future dividends. It is expressed mathematically as follows:

$$P_0 = \frac{D_1}{(1+k_1)^1} + \frac{D_2}{(1+k_2)^2} + \ldots + \frac{D_n}{(1+k_n)^n}$$

Where: P_0 = Current share price
D_n = Expected dividend in each year
k_n = Investors required rate of return in each year
n = One to infinity

If the dividends are assumed to grow at a constant rate "g" into the future, the required rate of return "k" is assumed to be constant from year to year, and "k" is greater than "g", then the equation above reduces to the following form as "n" approaches infinity:

$$P_0 = \frac{D_1}{(k - g)}$$

For purposes of estimating the cost of common equity capital, the equation above may be rearranged to solve for the investor's required rate of return:

$$k = \frac{D_1}{P_0} + g$$

Essentially, the constant growth DCF model recognizes that the return to the stockholder consists of two parts: dividend yield and growth. Equity investors expect to receive a portion of their total required return in the form of current dividends and the remainder though price appreciation. Unfortunately, the constant growth DCF model cannot be applied to companies having expected near-term growth rates that are significantly higher or lower than their long-term growth potential. In these situations, it is usually necessary to apply a multi-stage DCF model which incorporates the various growth rates expected over time.

Q. Please describe the multi-stage DCF model.

A. If the Gordon dividend growth model is modified to reflect the expected future price of the stock in terminal year "n", and assuming that the investor's required rate of return "k" is constant, the current value of a stock may be derived from the following equation:

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \ldots + \frac{D_n}{(1+k)^n} + \frac{P_n}{(1+k)^n}$$

Where: P_0 = Current share price
D_n = Expected dividend in each year
P_n = Expected share price in year "n"
n = Year of expected share price

If the expected growth rate "g" is constant beyond year "n", the expected value of "P_n" can be obtained from the constant growth DCF model:

$$Pn = \frac{Dn\,(1+g)}{(k-g)}$$

Substituting this equation for "P_n" in the modified Gordon growth model, the following multi-stage DCF equation is obtained:

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \ldots + \frac{D_n}{(1+k)^n} + \frac{D_n\,(1+g)}{(k-g)\,(1+k)^n}$$

Using this equation, the current share price, and the expected values for D_1 through D_n and "g", the required rate of return "k" may be calculated using an iterative solution process. The discount rate "k" which equates the current share price with the present value of future expected dividends represents the investor's required rate of return.

Q. How did you determine near-term dividend growth rates for each of the comparable companies?

A. We relied on estimates of future dividends and earnings growth published by Value Line, Thomson Financial Network ("Thomson") and SNL Financial ("SNL"). These estimates are all widely available in the investment community and are superior to estimates based solely on historical trend analysis. Published estimates are inherently forward looking, and presumably take into account historical financial trends as well as any future threats and opportunities.

Q. What specific growth rates did you select for each company?

A. Exhibit KCG-2 provides the range of growth estimates for each company, as well as the five-year growth rate selected for use in the multi-stage DCF model. The growth rates from Value Line were derived using the published point estimates for dividends per share ("DPS") and earnings per share ("EPS") for the 2009-2011 timeframe. The five-year EPS projections from Thomson and SNL represent the median or "consensus" growth estimates as determined through surveys of stock research analysts. Differences between these published growth rates for any given company may be expected due to differences in the scope and timing of the surveys conducted. For purposes of selecting a five-year dividend growth rate, we relied on the Value Line DPS growth rate if the rate fell within the range of published EPS estimates for the company in question. This was the case for four of the comparable companies (AGL Resources, Northwest Natural Gas, Piedmont Natural Gas and South Jersey Industries). For the other seven companies, we used the average of the Value Line DPS growth rate and the nearest EPS growth rate as the estimate for dividend growth over the next five years. Because analyst estimates for EPS growth are often influential in estimating future dividend growth, we believe that the growth rates selected for each company are representative of investor expectations.

Q. How did you calculate the expected first year dividend (D_1) for each company?

A. Exhibit KCG-3 shows the current quarterly dividend for each company, the five-year DCF growth rate for each company, and the projected quarterly dividends over the next four quarters. Projected quarterly dividends were increased from current levels based on each company's historical timing for dividend changes. The size of each projected dividend change was based on the five-year DCF growth rate. The expected first year dividend (D_1) was then derived by adding the projected quarterly dividends over the next four quarters.

Q. How did you determine the expected long-term growth rates to be used in the DCF model?

A. We considered several factors that would have a significant influence on long-term investor expectations. In addition to considering the published growth rates for the comparable company group provided in Exhibit KCG-2, we also examined published growth rates for the gas utility industry, published growth rates for the broader utility sector (including electric and water utilities), and prospects for growth in the U.S. economy as a whole. Once a reasonable estimate of long-term growth for the industry was established, we then adjusted this growth rate up or down to reflect unusually high or low growth rate expectations for specific companies.

Q. What is a reasonable estimate of expected long-term growth for the gas distribution industry?

A. An annual growth rate of six percent represents a reasonable estimate of investor expectations for earnings and dividends over the long-run. This value is consistent with the 6.1% median growth rate in EPS for the comparable company group as estimated by Value Line (see Exhibit KCG-2), and is also consistent with five-year estimates of EPS growth recently published by Thomson Financial for the gas utility industry (5.6%) and the broader utilities sector (6.4%). This value is also reasonable when compared with expectations for long-term growth in the U.S. economy. As a basic utility service, it is reasonable to assume that the gas utility industry will grow at a rate comparable to that of the overall economy over the long-run.

Projections of long-term economic growth vary considerably depending on the assumptions made. However, real economic growth in the United States has been remarkably consistent over long periods of time, averaging 3.4% per year from 1929 through 2005. Since this growth has occurred over numerous business cycles, and during extended periods of war and peace, it is reasonable to use this historical growth in real GDP as an estimate of future expected economic growth. In order to derive an estimate of nominal GDP growth, we added a long-term inflation rate of 2.9% to the estimated 3.4% growth in real GDP. The resulting growth in nominal GDP of 6.3% represents a reasonable expectation for future U.S economic growth and provides further support for a 6.0% long-term growth rate for the gas utility industry. The expected rate of inflation of 2.9% was calculated by subtracting the yield on 20-year inflation-indexed U.S. Treasury securities (2.4%) from the yield-to-maturity on 20-year fixed-rate U.S. Treasury bonds (5.3%) as of April 28, 2006.

Q. How did you adjust the expected industry growth rate to arrive at company-specific growth rates?

A. No adjustment was made for nine of the comparable companies, since the long-term growth rate for these companies was assumed to revert to the mean or expected long-term growth rate for the industry. However, adjustments to the industry growth rate were made for two companies to reflect unusually high or low published growth projections for these companies. Taking into account the EPS growth rates in Exhibit KCG-2, a 1% downward adjustment was made to arrive at a long-term expected growth rate for Nicor, Inc., and a 1% upward adjustment was made to arrive at a long-term expected growth rate for SWG. The expected long-term growth rates for each company, ranging from 5.0% to 7.0%, are shown on Exhibit KCG-4.

Q. How did you determine the current stock price for each company?

A. A simple average of the daily closing prices was calculated for each company for the month of April 2006.

Q. What results did you obtain from the multi-stage DCF model?

A. Exhibit KCG-4 summarizes the results obtained, as well as each of the input variables used in the multi-stage DCF calculations. The estimated cost of equity for each company fell within a range of 9.1% to 10.5%. The median value for the sample group was 9.9%.

C. Application of CAPM.

Q. Please describe the capital asset pricing model.

A. The CAPM was developed using modern portfolio theory, which is premised on the assumption that capital markets are highly efficient and that investors attempt to optimize their risk/return profiles through diversification. Defining investment risk as the variability of expected future returns, the CAPM further assumes that risk is comprised of two components: systematic risk and unsystematic risk. Systematic risk is unavoidable, and is tied to macroeconomic factors that affect all companies. Unsystematic risk is company-specific, and theoretically can be eliminated through portfolio diversification. As such, the CAPM holds that investors should only be compensated for systematic risk. Mathematically, the CAPM is expressed as follows:

$$k_s = r_f + B_s \times (k_m - r_f)$$

Where: k_s = expected return on stock "s"
r_f = expected risk-free rate of return
B_s = beta for stock "s"
k_m = expected return on overall stock market

As a measure of systematic risk, the "beta" coefficient measures the extent to which returns on a given stock are correlated with returns on the overall market. Historical values for beta can be determined statistically by comparing total returns on a stock to the total returns on a market index. The risk-free rate of return "r_f" is typically estimated using the yield-to-maturity ("YTM") on U.S. Treasury securities. For common stocks, which have no defined maturity date, the YTM on long-dated Treasury bonds should be used as the risk-free rate. The difference between the expected market return and the risk-free rate, shown above as $(k_m - r_f)$, is frequently referred to as the market risk premium. Estimates for the market risk premium are typically derived by examining historical rates of return for common stocks and U.S. Treasury securities over long periods of time. The time series data published by Ibbotson Associates is a commonly used reference for historical return and risk premium data. Using expected values for the market risk premium, beta, and the risk-free rate, the CAPM can be used to estimate the expected rate of return (or cost of equity) for any given stock.

Q. How did you determine expected values for the market risk premium, beta, and the risk-free rate?

A. Using the Ibbotson Associates time series data, we selected the historical market risk premium for the period 1926-2005 as a proxy for the expected market risk premium. This value, 7.1%, represents the arithmetic average of the excess returns of large company stocks over 20-year U.S. Treasury bonds. For the risk-free rate we selected the YTM on 20-year U.S. Treasury bonds as of April 28, 2006, or 5.3%. The beta for each company represents the published estimate from Value Line.

Q. What results did you obtain from the CAPM?

A. Exhibit KCG-5 summarizes the results obtained, as well as each of the input variables used in the CAPM calculations. With the exception of Nicor, Inc., which had an unusually high value for beta, the estimated cost of equity for each company fell within a range of 9.9% to 11.7%. The median value for the sample group was 11.0%, again excluding Nicor, Inc.

D. <u>Cost of Equity for Comparable Companies</u>.

Q. What conclusions have you reached regarding the cost of equity for the comparable company group?

A. The range of estimates obtained from the DCF model is significantly lower than the range of estimates derived from the CAPM. As may be seen in the table below, the range of overlapping values is relatively narrow (9.9% to 10.5%). Recognizing that each methodology has its own strengths and weaknesses, and recognizing that cost of equity analysis is not an exact science, we have selected a wider range of 9.5% to 11.0% as our estimate of the cost of equity for the comparable company group. Only three of the eleven comparable companies had a DCF estimate falling below this range, while only two of the comparable companies had a CAPM estimate that exceeded this range.

<u>Summary of Comparable Company Analysis</u>

	DCF Model	CAPM	Recommended Range
Low end of range	9.1%	9.9%	9.5%
High end of range	10.5%	11.7%	11.0%

VI. RETURN ON EQUITY FOR UNS GAS.

Q. How did you determine the ROE for UNS Gas?

A. This is best accomplished by comparing the risk profile of UNS Gas to that of the comparable company group and selecting an appropriate point estimate based on the well established relationship between risk and expected return.

Q. How does the risk profile of UNS Gas differ from that of the comparable company group?

A. Relative to an investment in the group of comparable companies, an equity investment in UNS Gas is decidedly riskier. UNS Gas is much smaller than any of the comparable companies, thereby limiting the Company's ability to withstand financial shocks arising from operating emergencies, reductions in customer demand, adverse regulatory decisions or other unforeseen events. The Company is also experiencing a much higher growth rate in net plant investment than any of the comparable companies. As a consequence, there is a continuing need for outside capital and a concurrent reduction in financial returns due to the Company's reliance on an historical test-year for rate setting purposes. Additionally, many of the comparable companies have a rate de-coupling mechanism or weather normalization adjustor that limits financial exposure to mild winter weather and customer conservation. As a result, the credit ratings assigned to the comparable companies by Moody's and Standard & Poor's are generally higher than the ratings UNS Gas could expect to receive. Of the eleven companies in the comparable group, six enjoy investment grade credit ratings of Single-A or better, while the other five companies have a Triple-B (Baa/BBB) investment grade rating.

Q. Would you please elaborate on the growth that UNS Gas is experiencing?

A. Yes. The following table summarizes the actual and forecasted growth in net plant investment, number of retail customers and investment per customer since the gas distribution properties were acquired from Citizens in August 2003:

	Net Plant ($ Millions)	Customers	Investment per Customer
Aug. 2003	$138	127,616	$1,081
Dec. 2004	$161	133,403	$1,207
Dec. 2005	$177	138,797	$1,278
Dec. 2006 (Forecast)	$200	143,843	$1,390
Dec. 2007 (Forecast)	$218	150,198	$1,454
Dec. 2008 (Forecast)	$231	156,691	$1,474
% Growth 2003-2008:	67%	23%	36%

Although much of the growth in net plant investment is attributable to customer growth of approximately 4% per year, investment on a per-customer basis is also increasing due to higher construction costs, the need for system improvements and the low embedded cost of plant acquired from Citizens. Since the assets of UNS Gas were acquired at a purchase price below book value, a substantial gap exists between the embedded investment per customer and the incremental investment per customer. Due to the use of a historical test year for rate setting purposes, as well as the time required to process a rate application, this gap also makes it very difficult, if not impossible, for UNS Gas to earn its authorized rate of return.

Industry-wide growth in net plant investment is forecasted by Value Line to be approximately 5% per year over the period 2005 – 2010. Likewise, the median growth rate forecasted by Value Line for the comparable company group is 5.3% per year. It is clear that UNS Gas is experiencing plant growth well above industry norms, a situation that increases the Company's need for new capital and timely rate recognition of new plant investments.

Q. What allowed ROE do you recommend for UNS Gas in this proceeding?

A. I recommend that the Commission adopt an allowed ROE of 11.0% in this proceeding. This allowed ROE is supported by the range established for the comparable company group and, as discussed below, is reasonable when compared with the allowed returns recently granted to other gas utilities in United States. Additionally, this level of return should also be sufficient, when coupled with other aspects of the Company's rate request, to support the financial integrity of UNS Gas and allow it to access capital on reasonable terms.

Q. What allowed returns on equity have been authorized in other jurisdictions recently?

A. As may be seen in Exhibit KCG-6, allowed ROEs for gas utilities have generally fallen within a range of 10-12%. However, tracking a downward trend in long-term interest rates, allowed returns have also decreased somewhat over time. When these allowed ROEs are compared to the prevailing yield-to-maturity on 20-year U.S. Treasury bonds at the time each rate case was decided, an implied equity risk premium can be calculated. Since January 2004, these equity risk premiums have fallen within a range of 4.7% to 7.2% (see Exhibit KCG-7).

Q. If the observed relationship between allowed equity returns and long-term interest rates continues, what range of allowed ROEs would you expect in the current interest environment?

A. Exhibit KCG-8 shows the yield-to-maturity on 20-year and 90-day U.S. Treasury securities over the past two years as of April 2006. As can be seen, short-term interest rates have steadily increased over this time period, whereas long-term interest rates have only recently begun to climb after bottoming out in mid-2005. Based on the 5.3% yield on U.S. Treasury bonds at the end of April 2006, and the observed range of equity risk premiums described above, it is reasonable to expect allowed returns on equity for gas utilities in the range of 9.9% to 12.5%. The recommended ROE of 11.0% for UNS Gas is just below the midpoint of this range (11.2%).

VII. COST OF DEBT CAPITAL.

Q. What was UNS Gas' embedded cost of debt for the test year?

A. As shown on Schedule D-2 of the Company's Application, the weighted average cost of debt for UNS Gas was 6.60% as of the end of the test year.

Q. What cost of debt do you recommend in this case?

A. I recommend use of the 6.60% cost as of the end of the test year. This cost reflects the interest rate of 6.23% on the two long-term notes issued by UNS Gas in 2003, the amortization of related issuance costs, and 50% of the issuance cost amortization and commitment fees on the joint revolving credit facility established for UNS Gas and UNS Electric in 2005. Although UNS Gas had no borrowings outstanding on the revolving credit facility at the end of the test year, maintenance of this facility is critical for purposes of funding seasonal working capital needs and future PGA bank balances, as well as funding a portion of capital expenditures. During the first quarter of 2006, for example, the Company did use this facility to meet temporary funding needs, and is forecasted to borrow additional amounts in late 2006 and in 2007. As such, it is appropriate to reflect the annual fixed cost of this facility in the cost of debt for UNS Gas.

VIII. WEIGHTED AVERAGE COST OF CAPITAL.

Q. Please summarize your findings regarding the weighted average cost of capital for UNS Gas.

A. Based on the recommended capital structure, the proposed cost of debt, and UNS Gas' cost of equity capital, I recommend the Commission adopt an overall Rate of Return ("ROR") of 8.80%, calculated as follows:

	% of Capital Structure	Component Cost	Weighted Average Cost
Long-Term Debt	50%	6.60%	3.30%
Common Equity	50%	11.00%	5.50%
Total	100.00%		8.80%

Q. How does this compare to the Company's current authorized weighed average cost of capital?

A. It is a decrease, from 9.05% to 8.80%.

IX. FINANCIAL IMPACT OF RATE REQUEST.

Q. What is the financial impact of the Company's rate request?

A. Exhibit KCG-9 provides a summary of key financial indicators for the period 2004-2009 assuming the Company's rate request is granted in full and implemented in August 2007. As may be seen on page 1 of this exhibit, the Company's earnings and cash flow are forecasted to improve if the requested level of rate relief is granted. Reflecting the expected improvement in cash flow, two key measures of credit quality (FFO interest coverage and FFO as a percentage of total debt) are also forecasted to approach industry median levels by 2008. (See page 4 of Exhibit KCG-9.) However, as discussed previously, the Company is not forecasted to earn the recommended ROE of 11.0%. Additionally, as reflected on pages 2 and 3 of Exhibit KCG-9, UNS Gas will continue to depend on outside capital to fund projected plant growth. The top chart on page 2 indicates that internal cash flows are forecasted to cover less than 100% of capital expenditures, while the top chart on page 3 indicates that additional borrowing will be required even if additional equity capital is invested in the Company.

The forecast information presented in Exhibit KCG-9 is based on numerous base case assumptions regarding customer growth, use per customer, operating and capital expenditure levels, short-term interest rates and other factors that are subject to change over time. In addition, this forecast also assumes that the Company's proposed changes to the PGA mechanism are approved, thereby eliminating any large over- or under-recovery of gas commodity costs after the current PGA surcharge expires.

Q. Is the recommended ROE of 11% sufficient to support the financial integrity of UNS Gas?

A. Yes, so long as other key aspects of the Company's rate request are granted. Although the Company's financial forecast does not indicate that UNS Gas will actually be able to earn the 11% ROE recommended in this proceeding, the level of rate relief sought by the Company should enable it to access additional capital on reasonable terms. Additionally, requested changes in the Company's rate design and PGA mechanism should provide UNS Gas with greater stability in its earnings and cash flow. Considered in its entirety, the Company's rate request appears to be sufficient to support the financial integrity of UNS Gas. However, if the requested level of cash rate relief is materially reduced, or if the proposed changes to rate design and the PGA mechanism are denied, then a higher ROE would be warranted.

X. RATE BASE TREATMENT OF CONSTRUCTION WORK-IN-PROGRESS.

Q. Is it necessary to include CWIP in rate base in order to preserve the financial integrity of UNS Gas?

A. Yes, it is. UNS Gas will continue to be dependent on outside capital for the foreseeable future in order to fund system growth and capital improvements. As reflected in the bottom chart on page 2 of Exhibit KCG-9, the Company's capitalization is projected to grow by 24% over the next four years, from $180 million in 2005 to an estimated $223 million in 2009. Since the projected demand for capital exceeds the $30 million of borrowing capacity available under the Company's existing credit facility, UNS Gas will need to either attract new outside lenders or additional equity capital in order to fund system growth. For UNS Gas to attract this capital on reasonable terms, the Company must have an opportunity to earn a reasonable rate of return on its capital and have a financial profile comparable to that of other firms in the industry.

As reflected in the Company's rate application, rate base treatment of the $7.2 million test-year CWIP balance provides UNS Gas with approximately $1.5 million in additional annual revenues. Denial of this requested rate treatment would have a material adverse impact on the Company's rate relief and future earnings. The Company's ability to earn a reasonable return on its capital would be cast further into doubt, as the forecasted ROE for UNS Gas would drop by another 100 basis points (or 1%) relative to the base case forecast summarized in Exhibit KCG-9. Likewise, key cash flow indicators would also be weaker than indicated in Exhibit KCG-9. As a result, I believe it would be difficult for the Company to attract new capital on reasonable terms.

Q. Are there other valid reasons to include CWIP in rate base for UNS Gas?

A. Yes, there are. First, it should be recognized that this rate treatment represents one of the few tools available to help mitigate the effects of regulatory lag. Since UNS Gas is experiencing significant customer growth, and since the cost of new construction greatly exceeds the embedded cost of plant, the impact of regulatory lag on UNS Gas is more pronounced than most utilities. Second, due to the relatively short timeframe required for most construction projects on the UNS Gas system, a large portion of the CWIP balance at year-end 2005 has already been transferred to plant-in-service. Customers are already receiving a benefit from this investment, and the customer advances relating to these projects have already been recognized as a reduction to rate base. Third, by including CWIP in rate base in this proceeding, the time period between this rate case and the next rate filing by UNS Gas will hopefully be extended. Since the cost and time involved with rate case preparation are very significant for a small utility like UNS Gas, the extension of time between rate filings is beneficial to both the Company and its customers. UNS Gas still intends to file rate cases on a regular basis, but neither the Company nor its customers are served by forcing the Company to file a rate case shortly after the case concludes. Finally, the large negative acquisition adjustment to rate base agreed to by UNS Gas upon the acquisition of Citizens must be recognized. As a result of the purchase of the gas properties by UniSource Energy in 2003, current UNS Gas customers are benefiting from a significant discount to the original cost of the gas distribution system.

Q. What do you recommend if the rate base treatment of CWIP is denied?

A. As noted earlier, the authorized rate of return should be increased. In addition, if CWIP is not allowed in rate base, then the Commission should consider the rate base treatment of plant that was placed into service after the test year, otherwise known as Post-Test Year Plant. As of May 31, 2006, the amount of Post-Test Year Plant that was previously included in the test year CWIP balance was $5,051,252. This plant is already in service and serving customers. Since the balance of Post-Test Year Plant is growing monthly, due to the ongoing completion of projects included in the test-year CWIP balance, it would be appropriate to update this balance at a later date if Post-Test Year Plant is included in rate base.

Q. Has the Commission allowed the use of Post-Test Year Plant before?

A. Yes, Post-Test Year Plant was allowed in the following cases: *Rio Rico Utilities, Inc.*, Decision No. 67279 (October 5, 2004); *Arizona Water Co.*, Decision No. 66849 (March 19, 2004); and *Bella Vista Water Co., Inc.*, Decision No. 65350 (November 1, 2002).

Q. Please compare the use of CWIP and Post-Test Year Plant.

A. CWIP is a superior measure of the value of the Company's plant because it does not arbitrarily exclude the value of plant that is not yet in service. On a practical level, most gas utilities are constantly building new plant necessary to serve customers. In the case of UNS Gas, this factor is much more important because of the large amount of construction necessary to serve our customers. Thus, CWIP should be allowed. But if it is not, then at a minimum Post-Test Year Plant should be allowed. That would at least mitigate the harm to UNS Gas' future financial condition.

XI. FINANCIAL IMPACT OF DEPRECIATION POLICY.

Q. How does depreciation policy affect the financial condition of a regulated utility?

A. Depreciation is a non-cash expense included in the revenue requirement to provide a return of capital previously invested in long-lived assets. As a non-cash expense, depreciation is a source of internal cash flow that a utility can reinvest in new plant facilities. Higher annual depreciation rates will generate higher internal cash flows, thus improving a utility's credit profile and reducing a utility's dependence on outside capital over the short-run. However, since depreciation expense also reduces the balance of net plant included in rate base, over the long-run no financial advantage is gained by having higher annual depreciation rates. In general, it is best to design depreciation rates that properly reflect the useful economic lives of the assets placed into service.

Q. How do the depreciation rates recommended for UNS Gas compare with the rates previously approved for Citizens?

A. As discussed by UNS Gas witness Dr. Ronald E. White, the composite annual depreciation rate recommended for UNS Gas is 2.73%. While this rate is comparable to the composite rate approved in the 2003 Settlement Agreement, it is significantly lower than the composite depreciation rates of 3.51% and 3.69% previously used by Citizens for the Northern Arizona and Southern Arizona gas divisions, respectively. One of the key factors contributing to the reduction in depreciation rates is the over-depreciation of plant by Citizens prior to 2003.

Q. What is the financial impact of lower depreciation rates on UNS Gas?

A. The reduction in depreciation rates relative to prior periods contributes to a lower revenue requirement and reduced operating cash flows at UNS Gas. Over the short-run, this situation increases the Company's dependence on outside capital and lowers key cash flow ratios monitored by lenders. However, over the long-run, the Company's rate base and earnings will more properly reflect the useful life of the assets placed into service.

XII. SUMMARY OF SCHEDULES.

A. Schedules A-3 and A-4.

Q. Please describe the information contained in Schedules A-3 and A-4.

A. Schedule A-3 presents a summary of the capital structure, capital ratios and weighted cost of capital for the years ending December 31, 2003 and December 31, 2004, and the test year ending December 31, 2005. Schedule A-3 also presents similar information on a forecasted basis for the year ending December 31, 2006.

Schedule A-4 provides historical and projected information relating to construction expenditures, net plant in service and gross utility plant in service. The projected information for the period 2006-2008 is consistent with the base case financial forecast discussed elsewhere in my testimony. The values for net plant in service and gross utility plant are presented on a regulatory accounting basis, which differs slightly from the presentation used in the Company's audited financial statements and the financial forecast.

B. <u>Schedules D-1 through D-4.</u>

Q. Please describe Schedule D in the Company's Application.

A. Schedule D consists of four parts, Schedules D-1 through D-4.

Schedule D-1 contains the Company's actual and proposed capital structure and weighted average cost of capital for the test year ended December 31, 2005. This schedule also contains projected information pertaining to the Company's capital structure and weighted average cost of capital as of December 31, 2006.

Schedule D-2 contains detailed information on UNS Gas' cost of long-term debt. Schedule D-2, Page 1, provides a calculation of the weighted average cost of long-term debt, both actual and proposed, for the test year ended December 31, 2005. Schedule D-2, Page 2, contains a projection of the Company's cost of debt as of December 31, 2006.

Schedule D-3 indicates that UNS Gas had no preferred stock outstanding during the test year, and that there are no plans to issue preferred stock.

Schedule D-4 contains the Company's estimated cost of equity capital and the proposed rate of ROE for use in this proceeding.

C. Schedules F-1 through F-4.

Q. Please describe Schedule F in the Company's Application.

A. Schedule F consists of four parts, Schedules F-1 through F-4.

Schedule F-1 contains a summary income statement and a return on common equity calculation for the test year ended December 31, 2005. This same information is presented on a projected basis for the year ending December 31, 2006. The projected year information is presented using two different rate assumptions: (i) a continuation of present rates; and (ii) an assumed implementation of proposed rates as of January 1, 2006.

Schedule F-2 contains a summary cash flow statement for the test year ended December 31, 2005. This same information is presented on a projected basis for the year ending December 31, 2006. The projected year information is presented using two different rate assumptions: (i) a continuation of present rates; and (ii) an assumed implementation of proposed rates as of January 1, 2006.

Schedule F-3 contains information on the Company's construction expenditures during the test year ended December 31, 2005. This same information is presented on a projected basis for calendar years 2006, 2007 and 2008.

Schedule F-4 contains a description of key forecast assumptions used in preparing the projected information appearing in Schedules F-1 through F-3

Q. Please comment on the projected information appearing in Schedules F-1 and F-2.

A. The financial projections that assume a continuation of current rates through December 2006 were taken from a base case financial forecast prepared for UNS Gas, the same base case forecast discussed elsewhere in my testimony. It should be noted that this forecast is based on numerous assumptions regarding sales growth, natural gas prices, operating and capital expenditure levels, and other factors that are subject to change over time. Additional financial projections are provided in Schedules F-1 and F-2 that assume implementation of the Company's requested rates beginning January 2006. I would like to note that these additional projections are purely hypothetical and are included for the sole purpose of complying with the Commission's rate filing requirements. In Decision No. 66028 (July 3, 2003), the Commission ordered that UNS Gas' present rates remain in effect until August 1, 2007 unless emergency circumstances arise or other specific events occur. Thus, projections assuming that new rates are implemented in January 2006 have limited analytical value.

Q. Does this conclude your testimony?

A. Yes, it does.

EXHIBIT

KCG-1

Exhibit KCG-1

UNS Gas, Inc.
Comparable Company Data

	Gas Distribution Customers	Common Equity as % of Total Capital (12/31/2005)	Senior Unsecured Credit Rating		Market Capitalization ($ Millions) (12/31/2005)
			S&P	Moody's	
AGL Resources Inc.	2,242,000	41.2%	BBB+	Baa1	$ 2,705
Atmos Energy Corp.	3,157,840	40.7%	BBB	Baa3	$ 2,107
Cascade Natural Gas Corporation	225,370	38.9%	BBB+	Baa1	$ 223
Laclede Group, Inc. (1)	629,722	44.8%	A	Baa2	$ 618
New Jersey Resources Corporation (2)	447,571	47.0%	A+	-	$ 1,154
Nicor Inc. (3)	1,923,900	42.0%	AA-	A1	$ 1,737
Northwest Natural Gas Company	617,163	47.2%	A+	A3	$ 943
Piedmont Natural Gas Company, Inc.	877,000	51.9%	A	A3	$ 1,853
South Jersey Industries, Inc. (4)	322,424	45.5%	-	Baa2	$ 845
Southwest Gas Corporation	1,713,000	34.4%	BBB-	Baa2	$ 1,038
WGL Holdings, Inc. (5)	1,012,105	56.0%	AA-	A2	$ 1,464
Median Value	877,000	44.8%	A	Baa1	$ 1,154

Notes

(1) S&P Corporate Rating for Laclede Group is A. Moody's Senior Secured Shelf ratings for Laclede Group and Laclede Gas are Baa2 and Baa1, respectively.

(2) S&P Corporate rating for New Jersey Natural Gas is A+.

(3) Moody's Corporate Rating for Northern Illinois Gas Company is A1.

(4) Moody's Senior Unsecured Rating for South Jersey Gas Co. is Baa2.

(5) S&P Corporate Rating for WGL Holdings, Inc is AA-. Moody's Senior Unsecured Rating for Washington Gas Light is A2.

EXHIBIT

KCG-2

Exhibit KCG-2

UNS Gas, Inc.
Projected Growth Rates for Earnings and Dividends
Comparable Company Group

	Value Line Dividend Growth (3 to 5 Years)	Projected Earnings Growth			
		Value Line (3 to 5 Years)	Thomson Financial (5-Year)	SNL Financial (5-Year)	5-Year Growth Rate for DCF
AGL Resources	3.9%	3.3%	5.0%	5.0%	3.9%
Atmos Energy Corp.	1.7%	7.8%	5.6%	5.5%	3.6%
Cascade Natural Gas Corporation	0.5%	11.6%	3.0%	3.0%	1.8%
Laclede Group, Inc.	1.7%	4.5%	N/A	5.0%	3.1%
New Jersey Resources Corporation	3.9%	4.2%	5.5%	6.0%	4.0%
Nicor Inc.	2.1%	3.9%	3.7%	3.7%	2.9%
Northwest Natural Gas Company	5.4%	6.1%	5.0%	5.5%	5.4%
Piedmont Natural Gas Company	5.1%	7.7%	4.2%	N/A	5.1%
South Jersey Industries, Inc.	5.5%	5.6%	6.0%	5.5%	5.5%
Southwest Gas Corporation	0.0%	10.4%	N/A	N/A	5.2%
WGL Holdings, Inc.	1.8%	6.7%	4.0%	4.0%	2.9%
Median Value for Group	2.1%	6.1%	5.0%	5.0%	3.9%

EXHIBIT

KCG-3

Exhibit KCG-3

UNS Gas, Inc.
Calculation of Expected First-Year Dividend
Comparable Company Group

	Current Quarterly Dividend	Last Change in Dividend Payment	Recent Ex-Dividend Date	5-Year Growth Rate for DCF	Expected Quarterly Dividends as of 4/30/06					Expected First-Year Dividend
					2Q 2006	3Q 2006	4Q 2006	1Q 2007	2Q 2007	
AGL Resources	$0.370	4Q 2005	02/15/06	3.9%	$0.370	$0.370	$0.385	$0.385		$1.509
Atmos Energy Corp.	$0.315	4Q 2005	02/23/06	3.6%	$0.315	$0.315	$0.326	$0.326		$1.283
Cascade Natural Gas Corporation	$0.240	None Recent	04/26/06	1.8%		$0.240	$0.240	$0.240	$0.240	$0.960
Laclede Group, Inc.	$0.355	2Q 2006	03/08/06	3.1%		$0.355	$0.355	$0.355	$0.366	$1.431
New Jersey Resources Corporation	$0.360	1Q 2006	03/13/06	4.0%		$0.360	$0.360	$0.375	$0.375	$1.469
Nicor Inc.	$0.465	None Recent	03/29/06	2.9%		$0.465	$0.465	$0.465	$0.465	$1.860
Northwest Natural Gas Company	$0.345	4Q 2005	04/26/06	5.4%		$0.345	$0.363	$0.363	$0.363	$1.435
Piedmont Natural Gas Company	$0.240	2Q 2006	03/22/06	5.1%		$0.240	$0.240	$0.240	$0.252	$0.972
South Jersey Industries, Inc.	$0.225	4Q 2005	03/08/06	5.5%		$0.225	$0.237	$0.237	$0.237	$0.937
Southwest Gas Corporation	$0.205	None Recent	02/13/06	5.2%	$0.205	$0.205	$0.205	$0.205		$0.820
WGL Holdings, Inc.	$0.338	2Q 2006	04/06/06	2.9%		$0.338	$0.338	$0.338	$0.348	$1.362

EXHIBIT

KCG-4

Exhibit KCG-4

UNS Gas, Inc.
Multi-Stage DCF Analysis
Comparable Company Group

	Recent Avg. Share Price	Projected Dividends Year 1	Year 2	Year 3	Year 4	Year 5	Long-Term Dividend Growth	Estimated Cost of Equity
AGL Resources	$35.29	$1.51	$1.57	$1.63	$1.69	$1.76	6.0%	9.98%
Atmos Energy Corp.	$26.47	$1.28	$1.33	$1.38	$1.43	$1.48	6.0%	10.47%
Cascade Natural Gas Corporation	$19.63	$0.96	$0.98	$0.99	$1.01	$1.03	6.0%	10.22%
Laclede Group, Inc.	$33.86	$1.43	$1.48	$1.52	$1.57	$1.62	6.0%	9.82%
New Jersey Resources Corporation	$44.84	$1.47	$1.53	$1.59	$1.65	$1.72	6.0%	9.05%
Nicor Inc.	$39.71	$1.86	$1.91	$1.97	$2.03	$2.08	5.0%	9.35%
Northwest Natural Gas Company	$34.42	$1.44	$1.51	$1.59	$1.68	$1.77	6.0%	10.08%
Piedmont Natural Gas Company	$24.28	$0.97	$1.02	$1.07	$1.13	$1.18	6.0%	9.88%
South Jersey Industries, Inc.	$26.58	$0.94	$0.99	$1.04	$1.10	$1.16	6.0%	9.46%
Southwest Gas Corporation	$27.69	$0.82	$0.86	$0.91	$0.95	$1.00	7.0%	9.77%
WGL Holdings, Inc.	$29.43	$1.36	$1.40	$1.44	$1.48	$1.53	6.0%	10.16%

EXHIBIT

KCG-5

Exhibit KCG-5

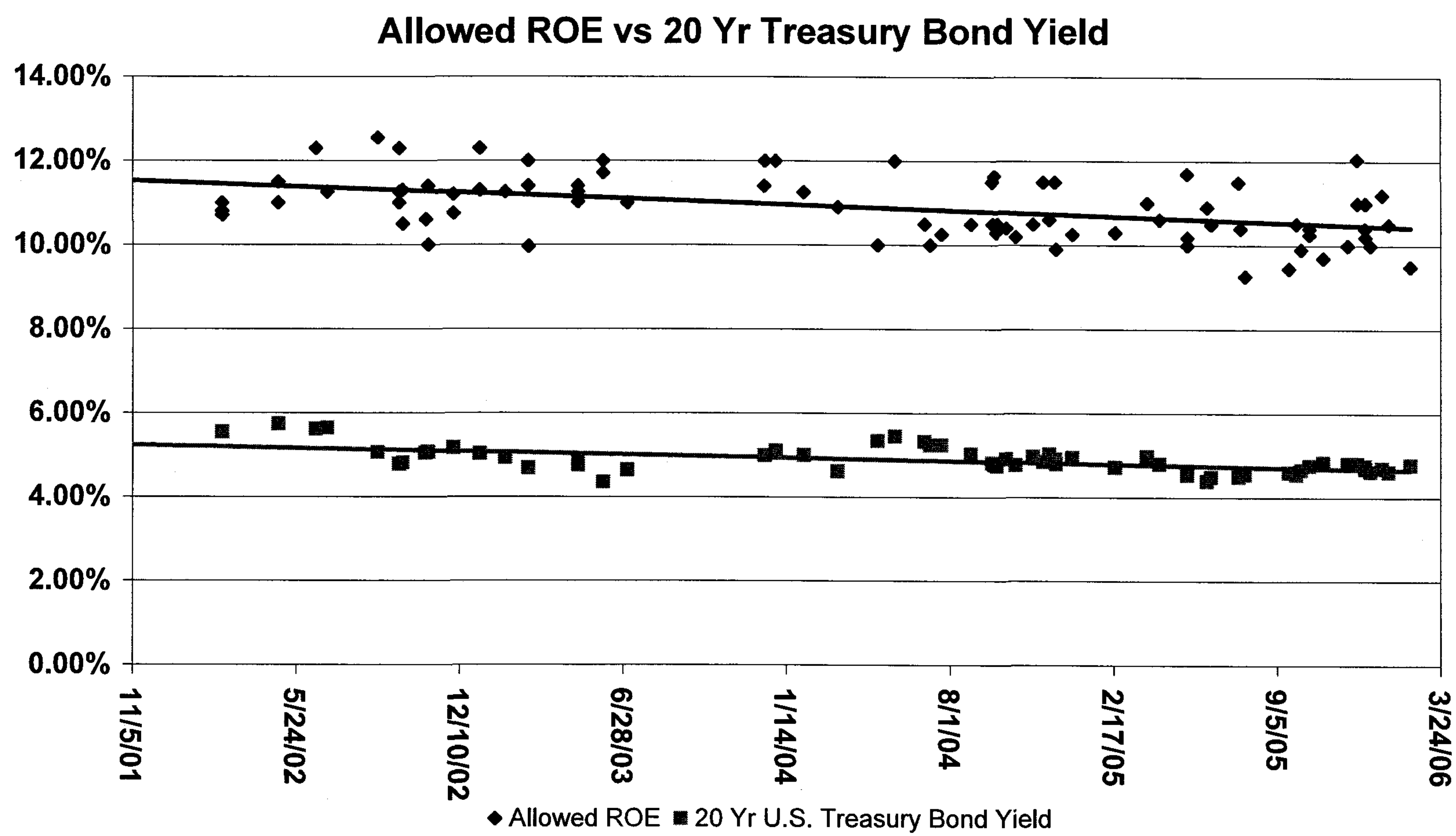
UNS Gas, Inc.
Application of Capital Asset Pricing Model
Comparable Company Group

	Risk-Free Rate		Beta		Equity Risk Premium		Estimated Cost of Equity
AGL Resources Inc.	5.3%	+	0.90	x	7.1%	=	11.7%
Atmos Energy Corp.	5.3%	+	0.70	x	7.1%	=	10.3%
Cascade Natural Gas Corporation	5.3%	+	0.80	x	7.1%	=	11.0%
Laclede Group, Inc.	5.3%	+	0.80	x	7.1%	=	11.0%
New Jersey Resources Corporation	5.3%	+	0.80	x	7.1%	=	11.0%
Nicor Inc.	5.3%	+	1.15	x	7.1%	=	13.5%
Northwest Natural Gas Company	5.3%	+	0.70	x	7.1%	=	10.3%
Piedmont Natural Gas Company	5.3%	+	0.75	x	7.1%	=	10.6%
South Jersey Industries, Inc.	5.3%	+	0.65	x	7.1%	=	9.9%
Southwest Gas Corporation	5.3%	+	0.80	x	7.1%	=	11.0%
WGL Holdings, Inc.	5.3%	+	0.80	x	7.1%	=	11.0%

EXHIBIT

KCG-6

Exhibit KCG - 6

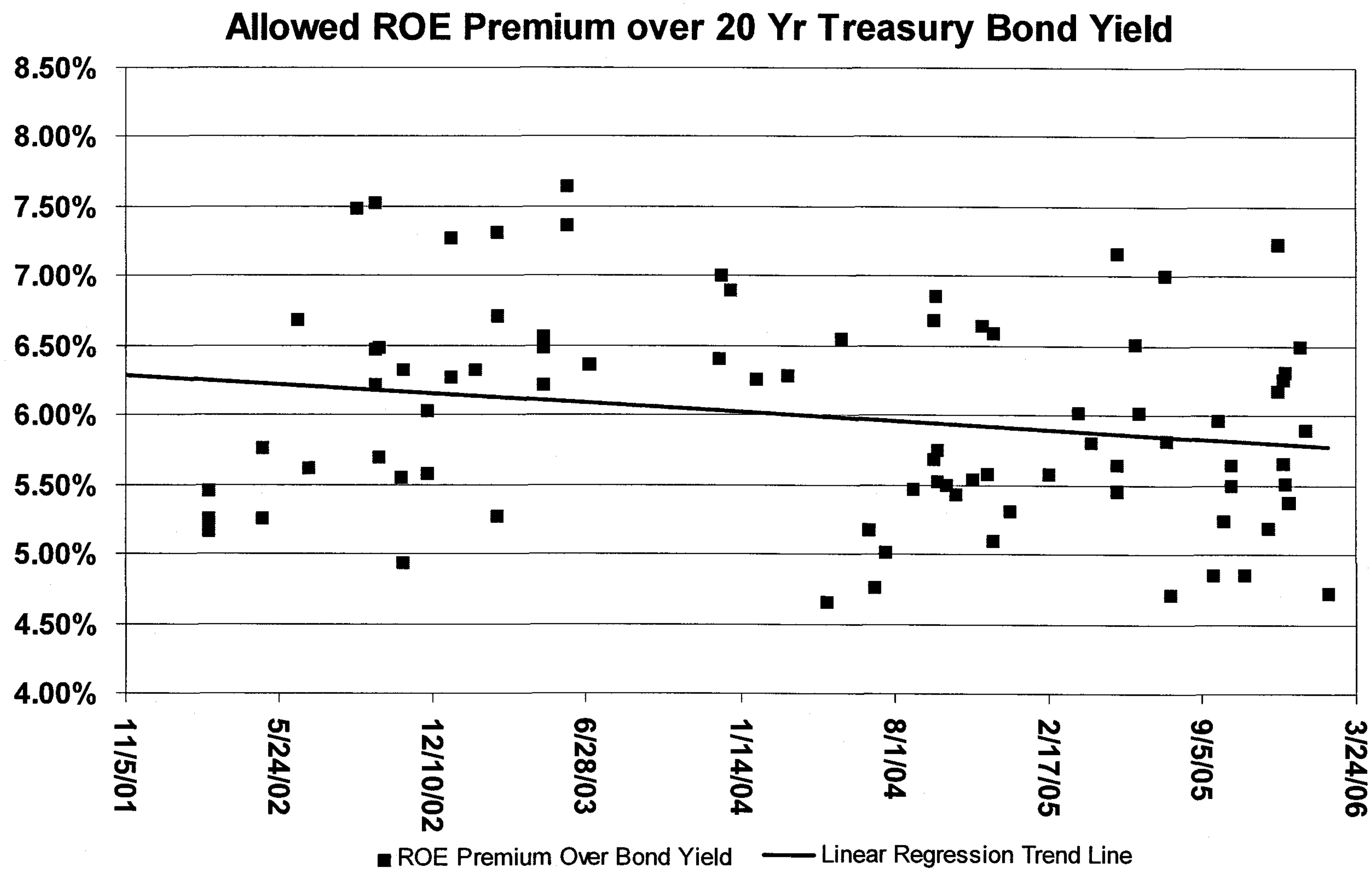


Note: Solid lines represent linear regression trend lines.
Source: 20 Yr U.S. Treasury yields obtained from the Federal Reserve Board of Governers web site: www.federalreserve.gov. Allowed ROE data obtained from the American Gas Association web site: www.aga.org.

EXHIBIT

KCG-7

Exhibit KCG - 7

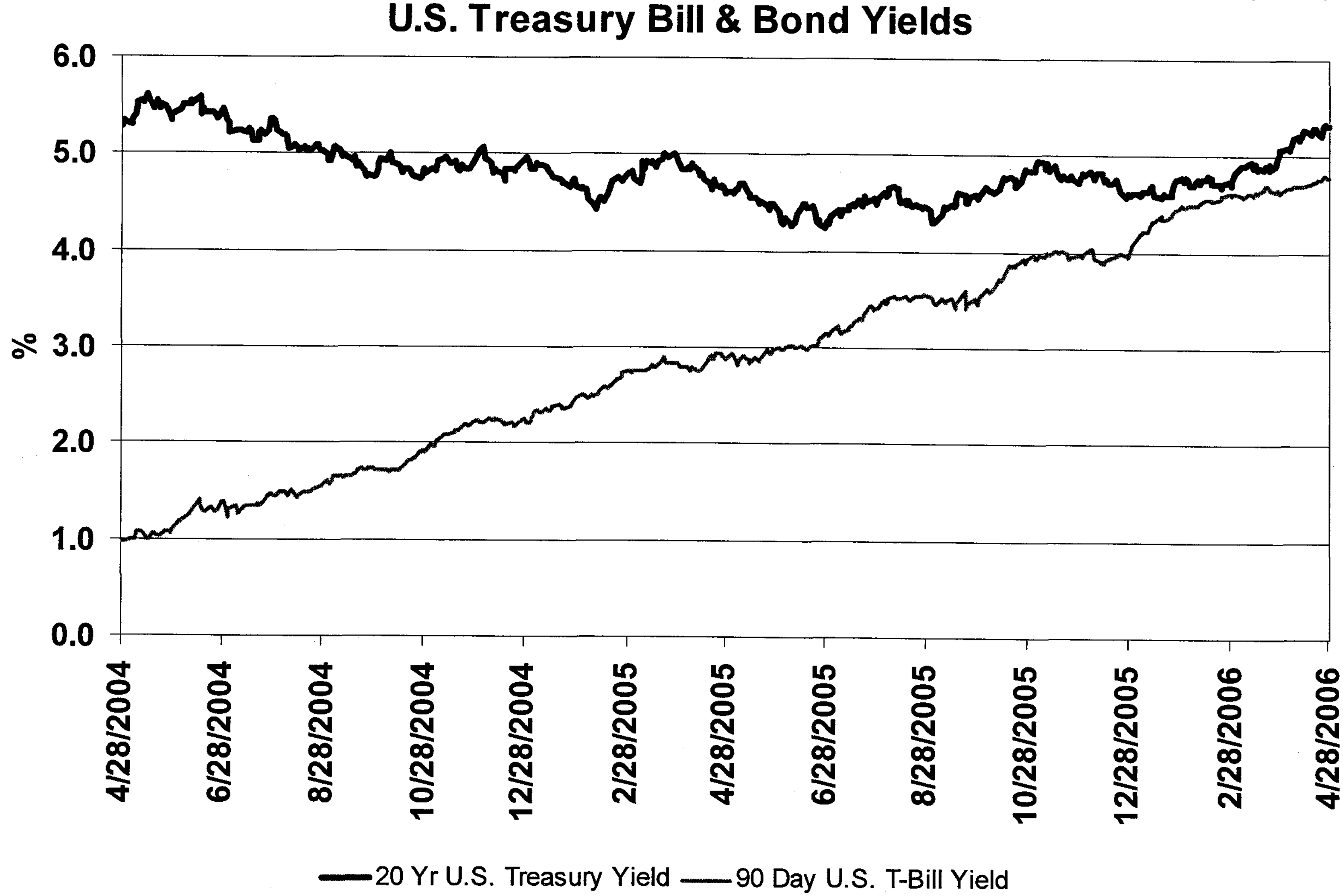


Source: 20 Yr U.S. Treasury yields obtained from the Federal Reserve Board of Governers web site: www.federalreserve.gov. Allowed ROE data obtained from the American Gas Association web site: www.aga.org.

EXHIBIT

KCG-8

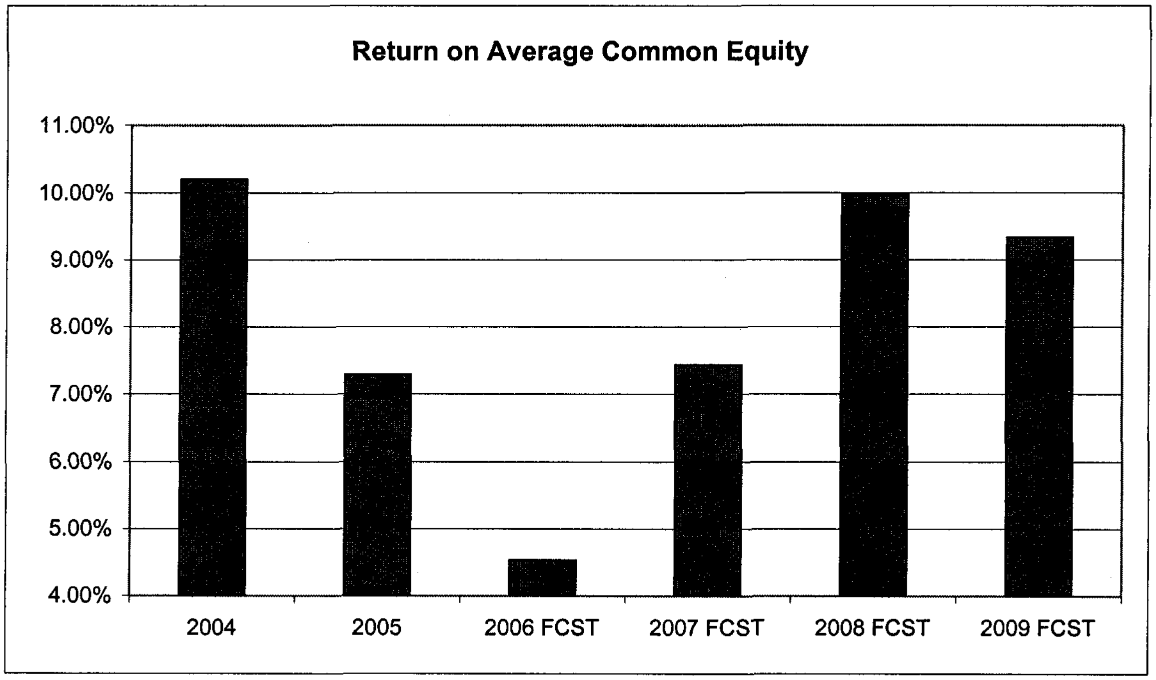
Exhibit KCG - 8

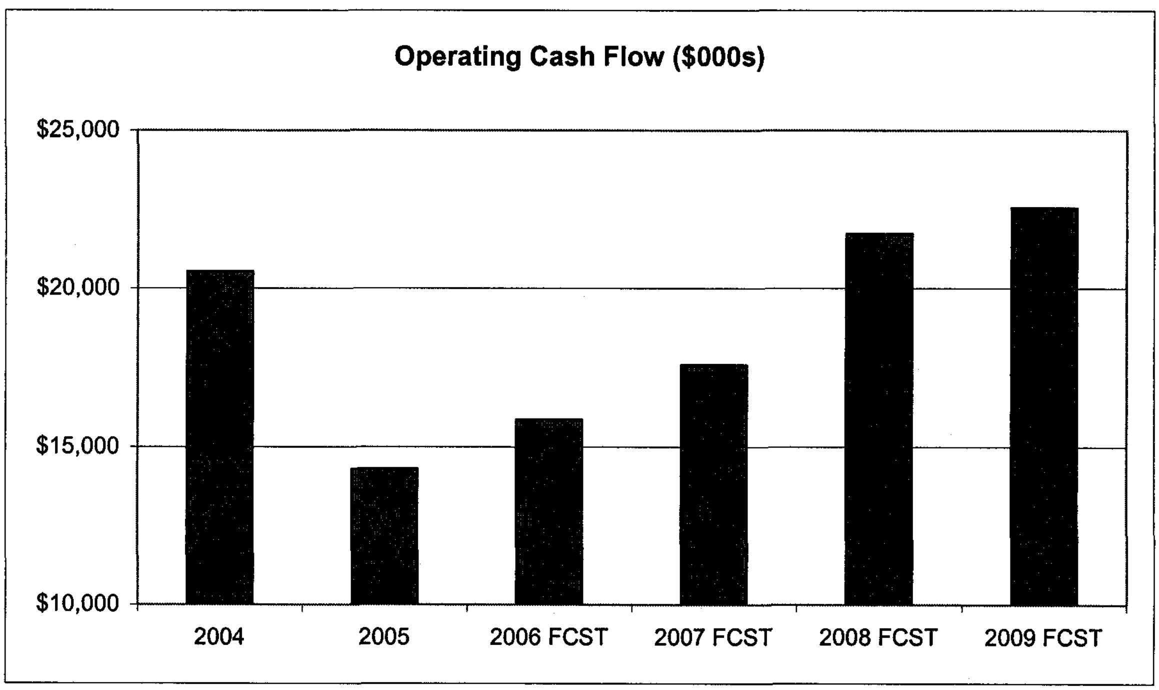


EXHIBIT

KCG-9

UNS Gas, Inc.
Base Case Financial Forecast
Summary of Key Financial Indicators





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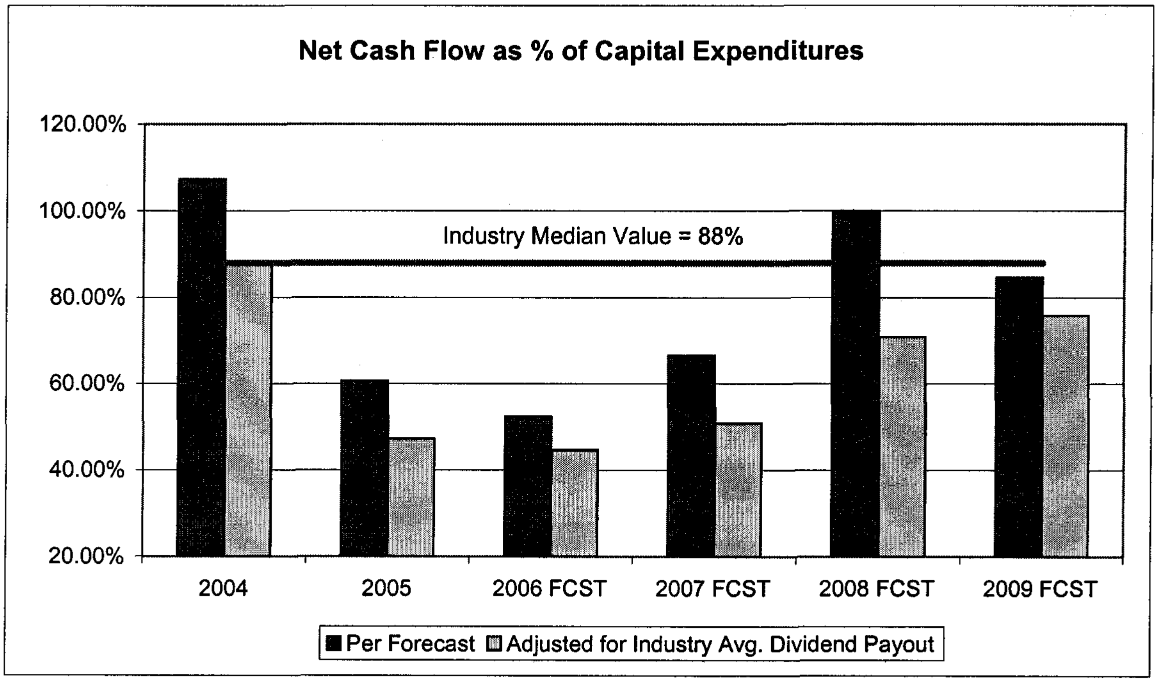

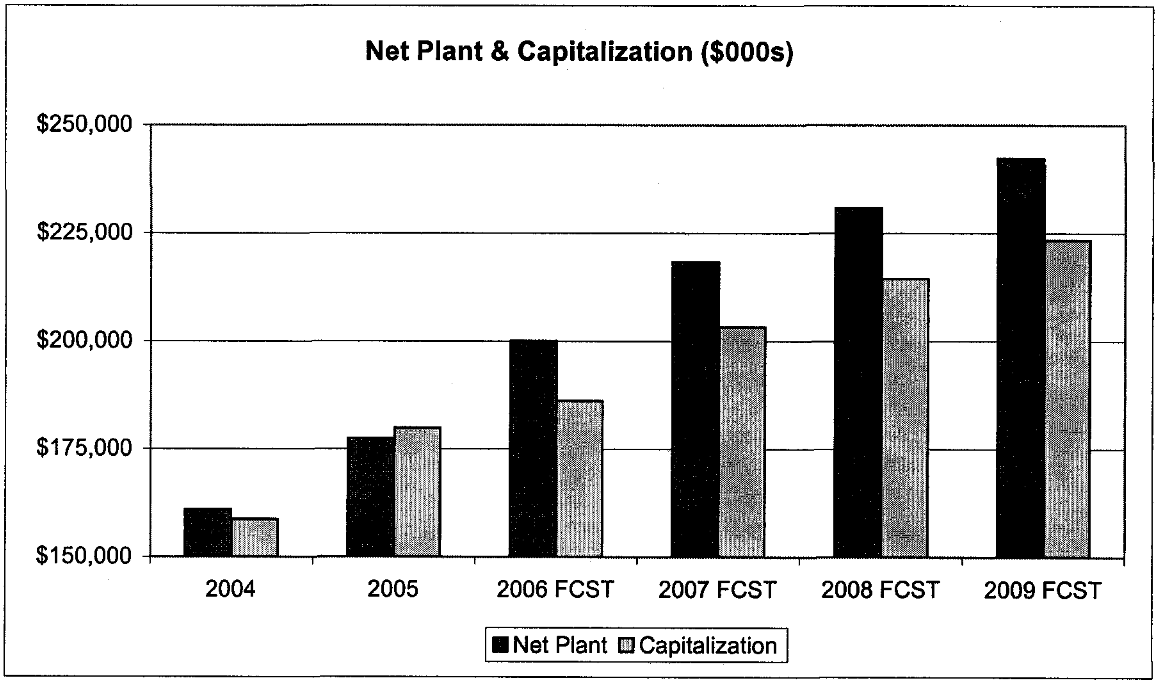

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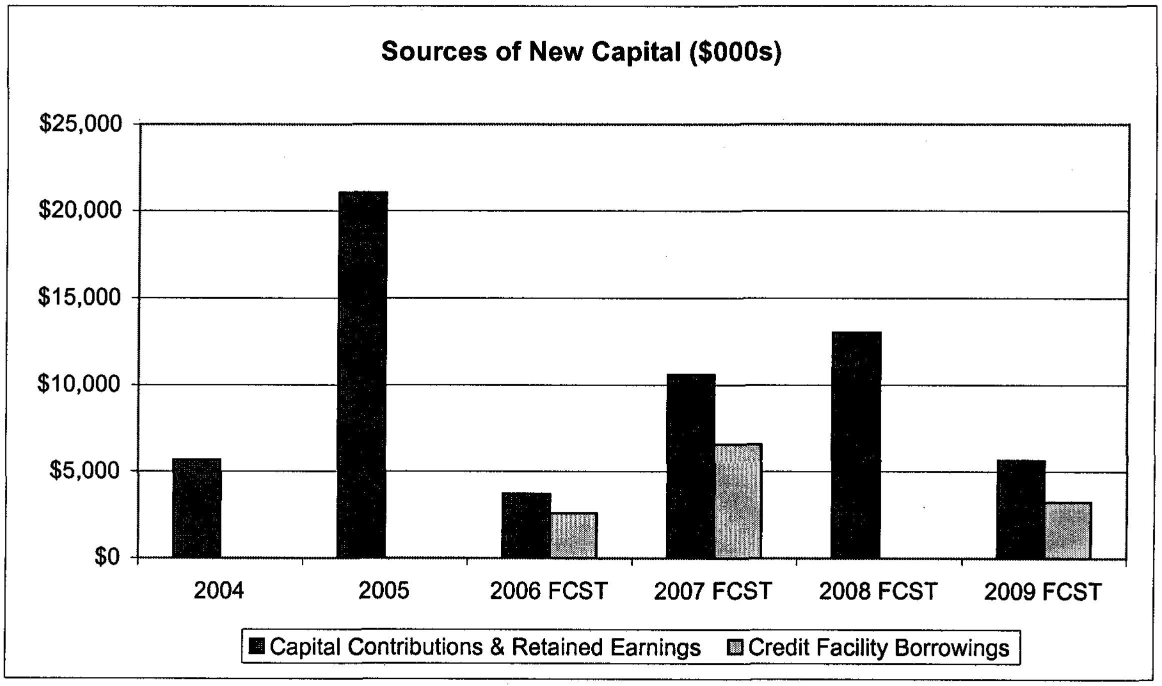
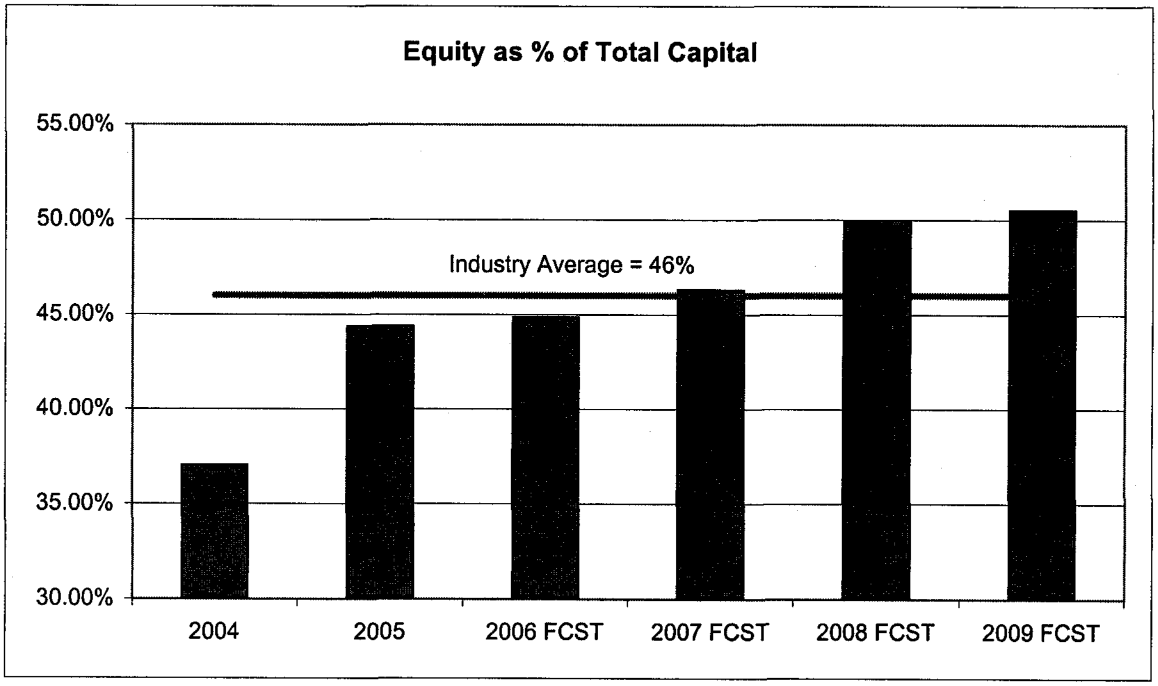
Summary of Key Financial Indicators





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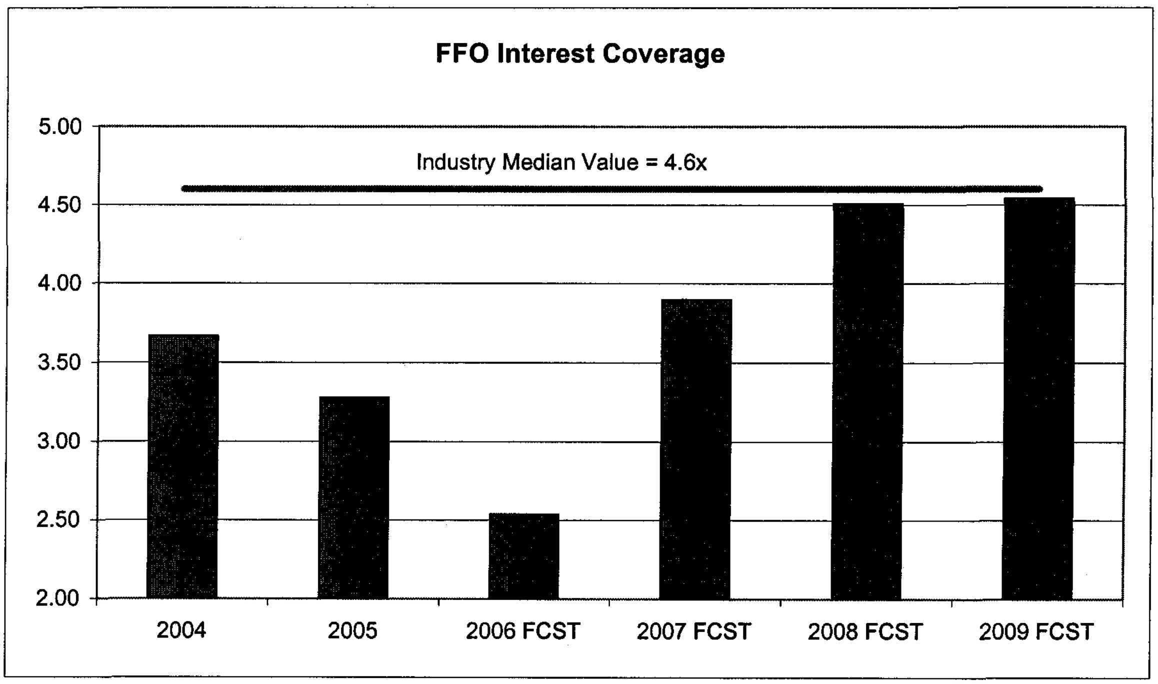
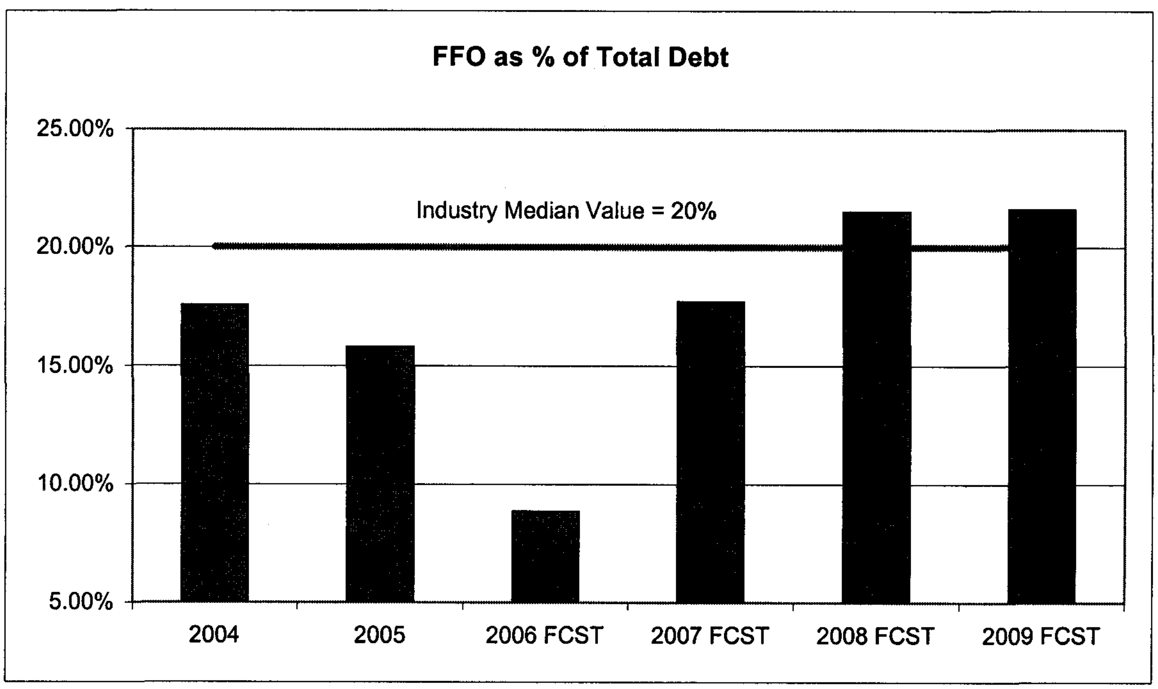
Summary of Key Financial Indicators





Direct Testimony of Dallas J. Dukes

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

Direct Testimony of

Dallas J. Dukes

on Behalf of

UNS Gas, Inc.

July 13, 2006

TABLE OF CONTENTS

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Dallas J. Dukes and my business address is One South Church Ave, Tucson, Arizona, 85702.

Q. By whom are you employed and what are your duties and responsibilities?

A. I am the Director of Revenue Requirements for Tucson Electric Power Company ("TEP"). TEP, UNS Gas, Inc. ("UNS Gas" or the "Company") and UNS Electric, Inc. ("UNS Electric") are all regulated subsidiaries of UniSource Energy Corporation ("UniSource Energy"). As Director of Revenue Requirements, I am responsible for monitoring and determining revenue requirements for all the regulated utility subsidiaries of UniSource Energy.

Q. Please describe your background and work experience.

A. I hold a Bachelors of Science degree in Accounting from Indiana University. I am also a Certified Public Accountant licensed in the State of Indiana. I have over fifteen years experience as an accountant within the utility industry. Before assuming my current position, I was employed as the Director of Accounting for TEP.

Prior to that, I was employed by Citizens Gas & Coke Utility ("Citizens Gas") for approximately five years. Citizens Gas serves approximately 265,000 customers in the Indianapolis, Indiana area. The majority of my time at Citizens Gas was spent as the Controller.

Before then, I was the Controller and Director of Regulatory Affairs for Fountaintown Natural Gas Company and Southeastern Indiana Natural Gas Company.

Prior to that, I was employed by the Indiana Office of Utility Consumer Counselor ("OUCC") for approximately seven years. The majority of my time at the OUCC was spent as a Principal Accountant. My primary duties at the OUCC were to perform professional investigative audits and to represent the public's interest as an expert witness in proceedings before the Indiana Utility Regulatory Commission.

Q. Could you please summarize your testimony?

A. I am supporting the Company's request for a rate increase by sponsoring Schedules A-1, A-2, A-5, C-1 and C-2 and the pro forma accounting adjustments reflected on Schedules C listed below:

(i) Griffith Power Plant ("Griffith Plant") Operations;
(ii) Purchased Gas Cost and Gas Cost Revenue;
(iii) Negotiated Sales Program ("NSP") Revenue & Gas Cost;
(iv) Payroll Expense;
(v) Payroll Tax Expense;
(vi) Pensions and Benefits;
(vii) Post-Retirement Medical;
(viii) Worker's Compensation;
(ix) Incentive Compensation;
(x) Rate Case Expense;
(xi) Bad Debt Expense;
(xii) Interest on Customer Deposits;
(xiii) Fleet Fuel Expense;
(xiv) Amortization of GIS Expenditures;
(xv) Out of Period Expenses;
(xvi) Year-end Accruals;
(xvii) Advertising and Donations;

(xviii) Postage Expense;

(xix) Customer Assistance Residential Energy Support ("CARES") Expenses;

(xx) Depreciation & Property Tax for Construction Work In Progress ("CWIP");

(xxi) Gain on Sale of Prescott Property;

(xxii) Corporate Cost Allocations; and

(xxiii) Customer Service Cost Allocations.

Q. Please describe the information contained in summary Schedule A-1?

A. Schedule A-1 provides a summary of the increase in revenue requirement that UNS Gas is seeking as a rate increase in this case. Lines 1-8 of Schedule A-1 present the data utilized in determining the Company's revenue requirement. The data is presented pursuant to three valuation methodologies: (1) original cost; (2) reconstruction cost new less depreciation ("RCND"); and (3) fair value. The fair value is determined by adding together the original cost and RCND rate base amounts and dividing that total by two. This gives equal weight to both methods in determining the fair value amount. This method of determining the fair value is consistent with prior Commission practice.

The test year that the Company utilized for this rate case is the twelve months ending December 31, 2005. As set forth in Schedule A-1, the original cost rate base is \$161,661,362 and the RCND rate base is \$221,197,435. Under standard Arizona Corporation Commission ("ACC" or the "Commission") practice, the fair value rate base is considered to be \$191,429,398.

Schedule A-1 supports a finding that UNS Gas presently has an operating income deficiency of \$5,794,198 and is entitled to an increase in revenues of \$9,646,901. Lines 9-15 of Schedule A-1 present how the revenue increase would be allocated among UNS Gas' customers by class.

II. PRO FORMA ADJUSTMENTS.

Q. Please explain the consideration of pro forma adjustments in the rate case process.

A. Public utility rates are based on the reasonable and prudently incurred costs of providing safe, reliable service. The revenue requirement underlying rates is developed on the basis of a test year that reflects a level of operating revenues and expenses and net plant investment that is representative of normal conditions that are expected to exist during the time that resulting rates may be in effect. This affords the utility a reasonable opportunity to achieve a fair rate of return, as authorized by the respective regulatory authority.

Pro forma adjustments are made to recorded test year amounts that are not required for the provision of service or that are not representative of the levels expected to occur during the period in which the new rates will be in effect. Such adjustments may be made in the form of eliminations, annualizations, or normalizations.

Elimination adjustments are made to remove out-of-period or non-recurring transactions, or items that are not costs or revenues related to the provision of utility service; thus, not eligible for reflection in revenue requirements.

Annualization adjustments are made to reflect the full, twelve-month revenue or expense level of certain components of operating income. They are typically computed using end-of-test year quantities and the most current known and measurable prices and rates. Examples in this case include restating test year operating revenues to reflect customer levels at the end of the test year, adjusting payroll expense to reflect current salary rates and changes in employee levels during the test year, and adjusting recorded depreciation expense to reflect the full effect of plant additions and retirements during the test year.

Normalization adjustments reflect that the recorded test year operating revenues and expenses may not be representative of a normal level for ratemaking purposes. Certain events may have affected recorded transactions in an atypical manner. Moreover, some transactions eligible for reflection in revenue requirements are incurred at intervals less frequently than annually, provide benefits extending beyond a single year, or reoccur in significantly different amounts each year. As a result, the amounts recorded in the test year may not be viewed as "normal," thus requiring a restatement for ratemaking purposes. Normalization adjustments are made in such instances when a test year level of revenues or expenses is not representative of what would be expected on an on-going basis. Examples in this case include the adjustment for bad debt expense, the overtime factor implicit in the payroll adjustment, and the adjustment to normalize the level of postage expense.

Q. Were the pro forma adjustments that you are sponsoring in your testimony prepared by you or under your supervision?

A. Yes, they were.

III. OPERATING INCOME ADJUSTMENTS.

Q. Please explain the Griffith Plant adjustment.

A. This adjustment removes the revenues and expenses associated with serving the Griffith Plant. The Griffith Plant costs are recovered pursuant to a specific contract between UNS Gas and the owners of Griffith Plant. This special contract was approved by the Commission in Decision No. 61835 (July 21, 1999). Pursuant to that Decision, the plant, revenue, and expenses are excluded from rate base and revenue requirements for the purpose of general retail ratemaking.

Q. Please explain the Purchased Gas Cost and Gas Revenue adjustment.

A UNS Gas is recommending that no base cost of gas be built into its revenue requirements. Rather the base cost of gas should be recovered through the Purchase Gas Adjustor ("PGA") rate. The details of this recommendation are included in the Direct Testimony of Mr. David G. Hutchens. To reflect this recommendation in our adjusted operating income I have removed all purchased gas expenses and gas cost revenues. This represents a removal of the base cost of gas charged to the customers, PGA rates charged to the customers and approved surcharges charged to customers during the test year. This adjustment has zero impact on operating income as there is no profit associated with the recovery of purchased gas expenditures.

Q. Please explain the NSP Adjustment.

A. The NSP allows the Company to participate in the competitive bidding process of its transportation customers who are seeking to purchase gas supplies for their own use in accordance with a transportation tariff. The Company, in accordance with Decision No. 59399, credits the PGA bank account for 50% of the sales margin, unless the NSP customer is a transportation customer who was a bundled sales customer anytime during the most recent three year period. In that case, the Company credits the PGA bank 100% of the sales margin.

The test year income statement reflects revenues received and the gas cost incurred to serve NSP customers excluding the sales margin recorded into the PGA bank. The adjustment removes all remaining revenues and purchased gas expense from the sale of natural gas to NSP customers. This is necessary because the remaining sales margin is the portion to be retained by the Company.

Q. Please explain the Payroll adjustment.

A. The payroll adjustment is intended to reflect in operating expenses an annualized level of salaries and wages based on current rates of pay and the number of employees on the UNS Gas payroll at the end of the test year.

Q. What do you mean by "annualized level"?

A. The revenue requirement used to establish service rates should reflect a degree of business activity that would likely exist on an on-going basis during the period that such rates are likely to be in effect. As described in more detail in the Direct Testimony of Mr. Gary A. Smith, UNS Gas has experienced very rapid customer growth and expansion of the system. Because of this growth, employees have had to be added throughout the test year. During the test year, UNS Gas employee count has gone from 193 to 203. The adjustment reflects employee levels and rates of pay known and measurable at the end of the test year.

Q. Please explain the Payroll Tax Adjustment.

A. The payroll tax adjustment was computed in a manner similar to and consistent with the payroll adjustment. An annualized level of payroll taxes was computed using current payroll tax rates and the same end-of-test-year employee levels and current salary rates that were used in the payroll adjustment.

Q. Please explain the Post Retirement Medical Adjustment.

A. For ratemaking purposes, the Commission historically required the Company's predecessor, Citizens Communications Company ("Citizens"), to reflect post-retirement medical costs in revenue requirements on a cash basis. This adjustment effectively converts the amounts reflected in test year operating expenses from an accrual to a cash basis.

Q. Please explain the Worker's Compensation Costs Adjustment?

A. Similar to the post retirement medical adjustment, the Commission historically required the Company's predecessor, Citizens, to reflect worker's compensation costs in revenue requirements on a cash basis. This adjustment converts the amounts reflected in test year operating expenses from an accrual to a cash basis.

Q. Please explain the Incentive Compensation Adjustment.

A. Incentive compensation is an integral part of the Company's compensation and benefits program. The Company's Incentive Compensation program is calculated on specific corporate performance, and is designed to award non-union employees for their contributions to the Company. The goals are measured throughout the year, and final payout is determined based on year-end results, with payments made to employees late first quarter or early second quarter of the following year.

The adjustment is calculated by taking the average of the incentive compensation expense for the past two years and adjusting the amount reflected in test year operating expenses to that level. Since the incentive compensation payments are subject to payroll taxes, a portion of the adjustment reflects the incremental effect of payroll taxes thereon.

Q. Please explain the Rate Case expense adjustment.

A. The rate case expense adjustment addresses the outside costs thus far incurred and expected yet to be incurred in connection with the conduct of this rate case. This amount is an estimate of the anticipated final cost and will be updated prior to the record in this proceeding closing. The adjustment amortizes the balance to expense over three-years; the approximate time period between the filing of this rate case and the point at which the next rate case is likely to occur.

Q. Please explain the Bad Debt Expense Adjustment.

A. Bad debt expense is adjusted to a level reflective of final, pro forma weather-normalized, customer-annualized test year operating revenues, and the average percentage of actual account write-offs experienced during the past two years. This method of calculating bad debt expense is consistent with past Commission accepted practice.

Q. Please explain the Interest on Customer Deposits Adjustment.

A. The interest on customer deposits adjustment annualizes interest expense to reflect an occurrence of a six percent rate on the rate base level proposed in the Direct Testimony of Ms. Karen G. Kissinger.

Q. Please explain the Fleet Fuel Expense Adjustment.

A. This adjustment was made based on the level of vehicles and personnel at the end of the test year. We took this end-of-year level and calculated an annualized level of fuel usage. We then applied the most recent actual fuel rates experienced by UNS Gas to determine the pro forma expense.

Q. Please explain the amortization of Geographic Information System ("GIS") Expenditures.

A. This adjustment represents the recovery of the GIS Expenditures discussed in the Direct Testimony of Mr. Smith over the estimated life of the rates being established in this proceeding.

Q. Why were these expenditures expensed during the test year, rather than capitalized?

A. The expenditures UNS Gas is requesting to recover were primarily paid to an outside contractor and related to data conversion. Generally Accepted Accounting Principles

("GAAP") require that these types of expenditures be expensed as incurred, in accordance with SOP 98-1 - Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This treatment is also consistent with UNS Gas' interpretation of the Uniform System of Accounts ("USOA") prescribed treatment.

Q. Please explain the Out of Period Expenses adjustment.

A. In preparation for this filing we reviewed expense accounts and material transactions in an attempt to identify expenditures that were not reflective of on-going recurring business activity at UNS Gas and/or that belonged in other periods. In doing so, we identified certain expenses that belonged in a prior period and this adjustment reflects those corrections.

Q. Please explain the Year-end Accrual adjustment.

A. As part of the review discussed above, we also looked at all year-end accrued expense entries and compared them to the actual expenses incurred. In doing so, we identified some corrections to actual and those corrections are reflected in this entry.

Q. Please explain the Advertising and Donation Expense adjustment.

A. The advertising and donation expense adjustment removes sponsorships and support payments to local organizations from test year expenses.

Q. Please explain the Postage adjustment.

A. Postage expenditure levels vary considerably due to many factors. Such factors include the size, weight and rate of occurrence for things like safety literature, informational mailings and other materials sent directly to customers. Because of this variance, I used a two year average to determine a normal level of postage expense and then adjusted it for the postage rate increase that went into effect on January 8, 2006.

Q. Please explain the CARES Program expense adjustment.

A. The CARES program expense adjustment reflects the impact of the requested change in program discounts discussed in Mr. Smith's testimony. This adjustment also reflects the impact of removing some prior period adjustments that were made during the test year directly related to the true-up of the accounting for the CARES program.

Q. Please explain the Depreciation and Property Tax for CWIP adjustment.

A Mr. Kentton C. Grant explains in his Direct Testimony the Company's request for the inclusion of CWIP balance at the end of the test year into rate base. Mr. Grant discusses an approximately $1.5 million impact to annual revenues. Implicit in this revenue impact is the inclusion of the CWIP balance as plant in service. This inclusion would impact both the annualized depreciation adjustment and the property tax adjustment. This particular adjustment was calculated independently from the other depreciation and property tax adjustments to allow the impact to be easily identified. The depreciation of CWIP was calculated using the composite depreciation rate proposed by Dr. Ronald E. White in his Direct Testimony. The property tax adjustment was prepared consistent with the property tax adjustment proposed by Ms. Kissinger in her Direct Testimony.

Q. Please explain the Gain on the Sale of the Prescott Building adjustment.

A. In the first quarter of 2006 the sale of the "Prescott Building" was completed. This sale was approved by the Commission in Decision No. 68180 (September 30, 2005). In that proceeding, UNS Gas and the Staff agreed that the gain from the sale should be shared equally by the shareholders and ratepayers. This adjustment reflects the ratepayer's equal share of the gain being amortized over the estimated life of the rates as a reduction in the revenue requirements. The treatment of the gain on this sale was deferred until the next rate case.

IV. COST RESPONSIBILITY AND ALLOCATIONS.

Q. Briefly describe how costs associated with UNS Gas' administrative and operational support departments are treated in this rate application.

A. Costs are incurred directly at either the UNS Gas, UniSource Energy or TEP levels. Costs that are incurred at the UNS Gas level are expensed directly to UNS Gas, and are called "Direct Costs". Costs that are incurred at the UniSource Energy or TEP levels, are either charged directly to UNS Gas, or a portion thereof is allocated to UNS Gas (if the cost is common or beneficial to all UniSource Energy companies). The costs that are charged directly to UNS Gas from TEP are called "Direct Charges". The costs that are allocated to UNS Gas, if the cost is common or beneficial to all UniSource Energy companies, are called "Indirect Allocations".

V. DIRECT CHARGES.

Q. How does TEP charge UNS Gas for administrative and/or other operational activities that are undertaken on its behalf?

A. TEP administrative and/or operational personnel labor, performed specifically for the benefit of UNS Gas, is charged directly to UNS Gas. Specific activity tracking processes with pre-defined accounting (tasks) were established at the acquisition by UNS Gas to capture and charge time spent by TEP departments in direct support of UNS Gas. The labor loads (FICA, pensions and benefits) associated with these direct labor charges are also charged, as well as a rental charge for use of intangible and general plant (referred to as a "Building Usage").

Non-labor charges are handled in a similar manner. As costs are incurred that are in direct support of UNS Gas, the TEP department that manages that function will pay the bill from TEP but charge it to UNS Gas (through specific tasks on a voucher request, for example.) Occasionally, a TEP department may still manage a cost for UNS Gas, but the cost is treated and expensed as a Direct Cost (that is, invoiced and billed directly to UNS Gas and not through TEP to then be charged).

VI. INDIRECT ALLOCATIONS.

Q. What is an Indirect Allocation?

A. An indirect allocation is used to appropriately charge UNS Gas for its fair share of a system or a process. These may be for costs that are common or beneficial to the entire organization. There are various system allocations included as part of the indirect allocations, a Customer Service Cost allocation, and an allocation for corporate-type costs.

Q. How are system costs determined and split among the UniSource Energy companies?

A. Amounts necessary to maintain and manage a particular Information Technology system are accumulated in individual projects. The dollars are then allocated, and charged, to the UniSource Energy companies based on usage. For example, all financial plant and general ledger transactions are maintained in the Oracle system for TEP, UNS Gas and UNS Electric. Amounts associated with the cost of running the Oracle system are tracked in individual projects. The dollars accumulated in the specific Oracle projects are then charged or allocated to the appropriate companies based on the number of Oracle transactions supporting each particular company.

Q. How does the Customer Service Cost Allocation differ?

A. While the Customer Service Cost Allocation does track all costs in projects associated with running an integrated customer service center in Tucson, it allocates the amounts back to each Company based on a combination of specific customer talk time at each location and/or customer count.

Q. What about corporate-related costs that are included as part of the indirect allocations?

A. These are primarily employee expenses, including salary and benefits, which are accumulated as part of what is called the UNS Allocation. Also included are items such as costs of Sarbanes-Oxley compliance, certain legal expenses, and investor relations, all of which cover over 80% of the total allocation. These are costs that are common or beneficial to the entire organization, and the dollars are accumulated and allocated or charged to the various UniSource Energy companies based on the Massachusetts three-factor formula. The holding company order approved for UniSource Energy and issued by the Commission in Decision No. 60480 (November 25, 1997) approved an allocation policy which specifies the use of the Massachusetts formula. The three-factor formula is updated annually, and for this rate application it was calculated using end of test year data.

Q. Please explain the three-factor formula.

A. The three factor formula is based on the average of three equally-weighted components. These components are (i) payroll; (ii) plant and tangible assets; and (iii) total revenues. The three-factor formula, commonly referred to as the Massachusetts Formula, is a common and accepted allocation methodology.

Q. Please explain the Customer Service Cost Allocations Adjustment.

A. In May of 2005, the call center and customer service functions for UNS Gas were moved to Tucson to be integrated with TEP and UNS Electric. Because this change took place part way through the test year, it was necessary to annualize the expenses associated with the operation of the call center.

Q. Please explain the Corporate Cost Allocations Adjustment.

A. As explained above, costs that are common or beneficial to the entire UniSource Energy organization are accumulated in specific task or projects and then are allocated or charged to the various UniSource Energy companies based on the Massachusetts three-factor formula. In this adjustment, the charges to be allocated were reviewed and those that were non-recurring or not reflective of on-going expense levels were removed. Charges that were incurred during the test year that should have been included within the allocation were added to the pool. The labor and benefits charged to the pool were adjusted to reflect the rates and levels at the end of the test year. We then calculated the pro forma allocation to UNS Gas based on the Massachusetts three-factor formula. The three-factor formula was calculated using end of test year data.

VII. A SCHEDULES.

Q. Have you described Schedule A-1 earlier in your testimony?

A. Yes. Again Schedule A-1 is a summary of the increase in revenue requirement that UNS Gas is seeking as a rate increase in this case.

Q. Please describe the information contained in Schedule A-2.

A. Schedule A-2 presents a summary of the results of operations for the test year and two prior fiscal years, compared with the projected year. Lines 1-16 of Schedule A-2 set forth the summary of operations for the years ending December 31, 2003 and December 31, 2004, and the test year ending December 31, 2005. Schedule A-2 also presents projected results of operations for the year ending December 31, 2006 under the headings "present rates" and "proposed rates".

Q. Please comment on the information presented in Schedule A-2.

A. The data contained in Schedule A-2 shows that net income ranged between $1 and $5.7 million during the past three years. The projected net income is $3.7 million in 2006. The schedule also shows that the projected total company Return on Average Common Equity without adjustments or allocations is 4.53% in 2006. This demonstrates that, absent a rate increase, UNS Gas is projected to earn a return which is substantially less than the 11.0% supported in this case.

Q. Please describe the information contained in Schedule A-5.

A. Schedule A-5 presents statements of changes in financial position for the years ending December 31, 2003 and December 31, 2004, the test year ending December 31, 2005 and the projected year ending December 31, 2006.

VIII. C SCHEDULES.

Q. Please describe the **Schedules.**

A. Section C, comprised of Schedule Nos. C-1 through C-3, presents the development of the net operating income or "return" component of revenue requirements submitted for Commission consideration in this rate case filing.

Q. Please explain Schedule C-1.

A. Schedule C-1 shows the actual Income Statement for the test year. It also summarizes the effect of the proposed pro forma adjustments to recorded operating revenues and expenses, and the resulting adjusted net operating income.

Q. What is the purpose of Schedule C-2?

A. Schedule C-2 presents the detailed pro forma adjustments that reflect the full annual impact of operating changes, annualizations, normalizations, and other adjustments made to revenues and expenses as explained previously in this testimony.

Q. What is the purpose of Schedule C-3?

A. Schedule C-3 contains the development of the Gross Revenue Conversion Factor. That factor is used to convert the computed test year return deficiency to an equivalent annual revenue increase amount. It effectively recognizes that there will be additional bad debt expense and income taxes associated with any adjustment to annual revenue levels.

Q. Does this conclude your direct testimony?

A. Yes it does.

Direct Testimony of
Karen G. Kissinger

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	)	DOCKET NO. G-04204A-06-____

Direct Testimony of

Karen G. Kissinger

on Behalf of

UNS Gas, Inc.

July 13, 2006

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I. <u>INTRODUCTION.</u>

Q. Please state your name and address.

A. My name is Karen G. Kissinger and my business address is 4350 East Irvington Road, Tucson, Arizona, 85714.

Q. By whom are you employed and what is your position?

A. I am Vice President, Controller, and Chief Compliance Officer for UniSource Energy Corporation ("UniSource Energy"). I am also Vice President and Controller of UNS Gas, Inc., UniSource Energy's indirect subsidiary ("UNS Gas" or "Company").

Q. What are your duties and responsibilities as Vice President and Controller?

A. My present functional areas of responsibility include internal and external financial reporting, plant and property accounting, payroll, customer and revenue accounting, accounts payable, tax planning and tax compliance reporting, and energy settlements for all UniSource Energy owned utilities. I am also responsible for the UniSource Energy Compliance Program, which focuses on corporate policies, practices, and procedures that are designed to assure that UniSource Energy is in compliance with all laws, regulations, and corporate policies.

Q. Would you please describe your education, background and experience?

A. I received a Bachelor of Arts Degree in Spanish from the University of Virginia in 1977. I received a Master of Business Administration with a Concentration in Accounting from the University of Arizona in 1982. I am a Certified Public Accountant licensed to practice in the State of Arizona. I am a member of the American Institute of Certified Public Accountants and the Arizona State Society of Certified Public Accountants. Before joining Tucson Electric Power Company ("TEP") in 1991, I was employed by

Deloitte Haskins & Sells, and its successor by merger, Deloitte & Touche, in the audit department for approximately eight and one-half years. I was designated by Deloitte & Touche as a public utility specialist, and provided audit and consulting services to a client base comprised of both public and cooperative electric utilities. Since 1991, I have been employed by TEP as Vice President and Controller and as UniSource Energy's Vice President and Controller since the time of its formation. In 2003, I was assigned the additional responsibility of Chief Compliance Officer. I was named the Vice President and Controller of UNS Gas when it was formed in 2003.

Q. What is the purpose of your direct testimony in this proceeding?

A. My direct testimony supports UNS Gas' rate request in this proceeding. I am the sponsoring witness for much of the accounting and tax data reflected in UNS Gas' rate case application, including the "B" Schedules – (Rate Base), the "C" Schedules – (Test Year Income Statements), and the "E" Schedules – (Financial Statements and Statistical Schedules). I am also sponsoring the actual test period and prior years' data contained in Schedule A - Summary Schedules, Schedule B - Rate Base Schedules, Schedule C - Test Year Income Statements, Schedule D - Cost of Capital, and Schedule F - Projections and Forecasts, and several pro forma adjustments in Schedules B and C.

II. PRO FORMA ADJUSTMENTS.

Q. Please explain the consideration of pro forma adjustments in the rate case process.

A. Public utility rates are based on the reasonable and prudently-incurred costs of providing safe, reliable service. The revenue requirement underlying rates is developed on the basis of a test year that reflects a level of operating revenues and expenses and net plant investment that is representative of normal conditions that may be expected to exist during the time that resulting rates may be in effect. This affords the utility a reasonable opportunity to achieve a fair rate of return, as authorized by the respective regulatory authority.

Pro forma adjustments are made to recorded test year amounts that are not required for the provision of service or that are not representative of the levels expected to occur during the period in which the new rates will be in effect. Such adjustments may be made in the form of eliminations, annualizations, or normalizations.

Elimination adjustments are made to remove out-of-period or non-recurring transactions, or items that are not costs or revenues related to the provision of utility service; thus, not eligible for reflection in revenue requirements.

Annualization adjustments are made to reflect the full, 12-month revenue or expense level of certain components of operating income. Annualization adjustments are typically computed using end-of-test year quantities and the most current known and measurable prices and rates. Examples in this case include restating test year operating revenues to reflect customer levels at the end of the test year, adjusting payroll expense to reflect current salary rates and changes in employee levels during the test year, and adjusting recorded depreciation expense to reflect the full effect of plant additions and retirements during the test year.

Normalization adjustments reflect that the recorded test year operating revenues and expenses may not be representative of a normal level for ratemaking purposes. Certain events may have affected recorded transactions in an atypical manner. Moreover, some transactions eligible for reflection in revenue requirements are incurred at intervals less frequent than annually, provide benefits extending beyond a single year, or reoccur in significantly different amounts each year. As a result, the amounts recorded in the test year may not be viewed as "normal," thus requiring a restatement for ratemaking purposes. Normalization adjustments are made in such instances when a test year level of revenues or expenses is not representative of what would be expected on an on-going basis. Examples in this case include the adjustment for bad debt expense and the overtime factor implicit in the payroll adjustment.

Q. **Were the pro forma adjustments that you are sponsoring in your testimony prepared by you or under your supervision?**

A. Yes, they were.

Q. **Have the pro forma adjustments for which you are responsible in this rate filing been computed in accordance with sound ratemaking principles and all applicable rules and policies of the Arizona Corporation Commission ("ACC" or "Commission")?**

A. Yes. To the best of my knowledge, all of the adjustments that I am sponsoring have been so calculated.

III. RATE BASE ADJUSTMENTS.

A. Acquisition Discount Adjustment.

Q. **Please explain the Acquisition Discount Adjustment.**

A. Effective August 11, 2003, UniSource Energy acquired from Citizens Communications Company ("Citizens") its remaining gas assets located in Arizona. The Commission approved this acquisition in Decision No. 66028 (July 3, 2003) pursuant to a Settlement Agreement. This adjustment is necessary in order to properly reflect the discount, or negative acquisition premium, authorized by the Commission. Decision No. 66028 calls for the use of a $30.7 million "negative acquisition premium" (see page 8, lines 17 through 22 of the Order) in the calculation of rate base for ratemaking purposes to reflect this lower purchase price.

Q. Is an acquisition adjustment normally appropriate?

A. No. Under Commission rules, the original cost of utility property is the cost "at the time it is first devoted to pubic service." Arizona Administrative Code ("AAC") R14-2-102.A.6. In the case of an asset sale, the assets will have been devoted to service before the sale. Thus, the sale does not affect the original cost of the assets, either positively or negatively. In other words the relevant cost is the "cost of [the] property to the person first devoting it to public service." AAC R14-2-103.A.3.e. Thus, an acquisition adjustment is normally not appropriate. However, UniSource Energy did agree to the specific negative acquisition adjustment noted above. This pro forma adjustment is necessary so that the acquisition adjustment is limited for ratemaking purposes to the specific value agreed to by the Company and approved by the Commission.

Q. Please explain further.

A. UniSource Energy actually paid $50.1 million less than the original cost for the gas assets acquired from Citizens. In accordance with United States Generally Accepted Accounting Principles ("GAAP"), this amount had to be shown on the Company's books as a negative acquisition adjustment. This GAAP acquisition discount is larger than the acquisition discount approved by the Commission as described above. Normally, an acquisition discount would not be considered for ratemaking purposes at all. However, in this case, the discount agreed to by the Company must be recognized. Essentially, this pro forma adjustment takes the GAAP discount and reduces it to the value of the discount authorized by the Commission. Put another way, the GAAP discount must be eliminated for ratemaking purposes, thus increasing rate base. This increased rate base must then be reduced by the value of the agreed upon discount. Overall, this adjustment results in a net increase to rate base of $18.2 million.

Q. Please explain the accounting details further.

A. When I say the "value" of the agreed upon discount, I mean the $30.7 million figure stated in the Settlement Agreement, less amortization. The amortization has been calculated through December 31, 2005. Amortization reflects the fact that the assets which were purchased do not have an infinite life. Pursuant to the Settlement Agreement approved by the Commission, the amortization rate is the same as the depreciation rate for corresponding plant accounts. (Settlement Agreement at 18.) According to Commission and the Federal Energy Regulatory Commission ("FERC") directives, the acquisition adjustment was a credit to accumulated depreciation. (See Settlement Agreement at page 17.)

B. <u>Griffith Plant Adjustment.</u>

Q. Please explain the Griffith Plant Adjustment.

A. This adjustment removes from Plant in Service the cost of facilities that connect the Griffith Plant with the El Paso Natural Gas and Transwestern Pipeline Company interstate pipelines. Such facilities were constructed by and are owned by UNS Gas. The Griffith Plant costs are recovered pursuant to a specific contract between UNS Gas and the owners of the Griffith Plant. As explained in the Direct Testimony of Mr. Dallas J. Dukes, the facilities, revenue and expenses relating to the Griffith Plant are excluded from rate base and revenue requirements for the purposes of general retail ratemaking.

C. Build Out Plant Write-Down Adjustment.

Q. Please explain the Build Out Plant Write-Down adjustment.

A. In Decision No. 66028, the Commission approved a Settlement Agreement which included "an additional $10 million permanent disallowance to gas rate base … to recognize excessive costs associated with Citizens' Build-Out Program." (See page 8, lines 21-22.) This adjustment segregates the required adjustment to December 31, 2001 rate base into components for gross plant in service and accumulated depreciation and quantifies additional depreciation provided through December 31, 2005 and then removes the respective plant and accumulated depreciation from rate base.

D. Accumulated Deferred Income Tax Adjustment.

Q. Please explain the Accumulated Deferred Income Tax Adjustment.

A. The adjustment reduces rate base for the computed balance of Accumulated Deferred Income Taxes, a source of non-investor capital, based on adjusted test year rate base and operating results and the Company's existing income tax ratemaking authority.

Q. What are deferred income taxes?

A. Deferred income taxes represent the tax effect of differences that arise between the time period when revenues and expenses are recognized for financial reporting purposes and when they are considered for income tax return purposes. For public utilities, the largest such difference is that which exists as a result of the use of accelerated methods and shorter lives in computing tax depreciation as compared with the manner in which book depreciation is computed. The process of apportioning income taxes among accounting periods is referred to as "interperiod tax allocation." For this purpose, it is useful to distinguish between "timing differences" and "permanent differences."

Timing differences represent differences between book income before income taxes and taxable income which originate in one or more periods, and reverse or turn around, in one or more subsequent periods. Because of their capital intensity, the difference between book and tax depreciation is typically the largest timing difference affecting public utilities. Expenses that are deducted by utilities currently for tax purposes, but deferred on the books as regulatory assets for future recognition in rates is another example of a timing difference.

Permanent differences exist between book income and taxable income, and do not reverse in subsequent periods. Examples of permanent differences include non-taxable interest income from municipal bonds and non-deductible lobbying expenses.

Deferred income taxes are computed for timing differences, but not for permanent differences. The typical accounting for deferred taxes involves recognition of a deferred income tax provision (expense) on the income statement for the tax effect of the timing differences, with a corresponding entry made to a balance sheet accumulated deferred income tax reserve account. As the timing differences reverse over time, the deferred tax component of income tax expense becomes negative and balance of the reserve account is extinguished.

Q. How do deferred income taxes affect public utility ratemaking?

A. The reflection of deferred income taxes in ratemaking is labeled "normalization". Some regulatory bodies permit utilities to recognize deferred income taxes associated with all book-tax timing differences in ratemaking ("full normalization"), while others only permit the recognition of certain timing differences required by the Internal Revenue Code to be recognized in utility ratemaking ("partial normalization"). To the extent that normalization is permitted in ratemaking, the resulting deferred income taxes are reflected as a component of income tax expense, with the corresponding balance sheet reserve for accumulated deferred taxes deducted from rate base as non-investor capital, reflecting the availability of such amounts for plant investment or operating purposes between the time they are collected from customers and ultimately remitted to taxing authorities.

Q **What income tax ratemaking authority has been granted to UNS Gas?**

A. Citizens operated various properties throughout the state of Arizona, each having its separate designated service territory, rate schedules and service rules. For gas operations, Citizens operated under separate divisions in northern Arizona and southern Arizona. The Santa Cruz Gas Division, which was based in Santa Cruz County, Arizona, was authorized full normalization in Decision No. 53103 (July 8, 1982). The pro forma income tax expense calculations prepared in connection with the 1996 Citizens Northern Arizona Gas Division rate case, Decision No. 59875 (October 29, 1996), and also those prepared for the Citizens gas rate cases in progress at the time of the asset purchase approved in Decision No. 66028, clearly indicate the use of a full normalization of all books – tax timing differences. For ratemaking purposes, both of the gas plant properties acquired from Citizens have been permitted to provide deferred income taxes in rate making for all timing differences. In Decision No. 66028, the Commission also approved all of the gas divisions being combined into one entity for ratemaking purposes.

Q. **How was the tax cost of the gas plant assets determined in connection with computing the ADIT balance deducted from rate base as of the end of the test year?**

A. As I mentioned, in accordance with the Settlement Agreement approved by Decision No. 66028, the two Citizens gas divisions were merged into a single entity, UNS Gas. Upon their acquisition by UniSource Energy, a new tax basis reflecting the actual amounts for the acquired assets was established. For rate making purposes, such tax basis is adjusted to reflect the fixed acquisition discount established by the Commission in Decision No. 66028. Upon acquisition of the assets by UNS Gas from Citizens, all book-tax timing differences arising since that time have been fully normalized by UNS Gas, consistent with the prior rate treatment afforded to the assets when owned by Citizens.

E. Customer Adjustment.

Q. Please explain the Customer Advances Adjustment.

A. This adjustment reduces rate base by the balance of customer advances at December 31, 2005. This is appropriate because customer advances are non-investor capital.

Q. Please explain the Customer Deposits Adjustment.

A. This adjustment reduces rate base by the balance of customer deposits at December 31, 2005. This is appropriate because customer deposits are non-investor capital.

F. Working Capital Adjustment.

Q. What is working capital?

A. Working capital is generally viewed as investor funding in excess of the balance of net utility plant reflected in rate base that is required for the provision of utility service.

Q. What are the items of working capital for which the Company requests a return?

A. The components of working capital that the Company is requesting be included in rate base are:

(i) Materials and Supplies;

(ii) Prepayments; and

(iii) Cash Working Capital.

As more fully explained later in my testimony, the amounts requested for rate base inclusion for the materials and supplies and prepayments are based on test year recorded balances, adjusted to reflect normal levels. The cash working capital component was determined by the use of the Lead-Lag Study Methodology, to be covered in depth later herein.

Q. Please explain the Working Capital Adjustment.

A. The Working Capital Adjustment was computed in two pieces. As indicated on page 2 of Schedule B-5, the first piece adjusts the recorded end-of-test year balances for Materials and Supplies, and Prepayments to reflect the 13-month average monthly balances, in recognition of the variability in the monthly balances of the accounts. This is consistent with the treatment of such accounts in prior rate cases.

The second piece of the Working Capital Adjustment is the reflection in rate base of a measure of Cash Working Capital, developed through the preparation of a comprehensive study.

Q. What is Cash Working Capital?

A. The receipt of customer revenues for the provision of service, and the disbursement of cash for the payment of the various costs of providing service rarely occur simultaneously. This is the fundamental consideration underlying the concept of Cash Working Capital. Cash Working Capital is generally viewed as the component of working capital that represents the amount of invested cash required to pay day-to-day operating expenses incurred in rendering service to customers. It may either increase or decrease rate base. If the computation of Cash Working Capital produces a positive result, it is indicative that there is an additional investment for which a return is warranted, and thus, the amount is added to rate base. If the computation produces a negative result there is an implicit non-investor funding of Cash Working Capital, requiring a rate base deduction.

Q. **How did you compute the Cash Working Capital amount included in the Working Capital Adjustment?**

A. Under my direction, a comprehensive lead-lag study was prepared.

Q. **What period does the current lead-lag study cover?**

A. The lead-lag study for this Application covers the calendar year 2005.

Q. **What is a lead-lag study?**

A. A lead-lag study is a detailed analysis of the dynamic movement of funds throughout the organization, between the receivable and payable balance sheet accounts and related revenues and expenses that are reflected in the operating income component of revenue requirements. The method is generally viewed as the most accurate measure of Cash Working Capital. The Commission has stated a clear preference for the use of lead/lag studies in support of requested working capital amounts in rate cases.

The focal point of all lead/lag studies is the "point of service." That is the instant in time at which customers receive service and, coincident therewith, the utility incurs cost of providing that service. A lead/lag study measures the average length of time between the provision of service and the ultimate receipt of payment from the customer ("revenue lag"). The result is compared with the average length of time between the point at which the utility incurs a cost of providing that service and the date upon which it makes the related cash disbursement ("payment lead" if payment precedes the cost benefit, or "payment lag" is the payment occurs after the cost benefit). Cash Working Capital reflects the effect on costs of service of the difference between the revenue lag and payment leads or lags.

As may be seen on page 3 of Schedule B-5, a lead/lag study computes the Cash Working Capital associated with each component of cost of service. The revenue lag is constant for all cost categories. The various major expenses are analyzed separately for purposes of developing a specific payment lead or lag. Once the applicable expense lead or lag is known, it is compared with the revenue lag to determine the net lead or lag for that study category. After dividing the net lead or lag by 365 days to arrive at an annual percentage factor, the result is multiplied by the corresponding adjusted test year expense amount to quantify the Cash Working Capital requirement associated with that cost of service item. Consistent with past Commission policy, the effect of non-cash expenses such as depreciation and deferred income taxes are reflected in the study at a zero requirement.

Q. How was the average revenue lag computed?

A, The revenue lag is comprised of three distinct parts: the service lag, the billing lag, and the customer payment lag.

The service lag is measured from the midpoint of the period of service to the end of the period, the date upon which meters are read. A key underlying assumption is that service is taken uniformly throughout the period. With each customer being billed under twelve monthly billing cycles during the year, the average service lag is computed as 15.21 days [365 days / (12 X 2)].

The billing lag is typically measured from the meter read date to the date customer bills are prepared and balances entered into accounts receivable. The billing lag was computed based on actual meter read dates and bill mailing schedules used by UNS Gas during the test year.

The customer payment lag is measured from the point at which the customer bill enters accounts receivable to the date that either a payment is received or the account is written off as uncollectible. That lag was determined by computing the average accounts receivable turnover for six months during the test year. The accounts receivable turnover measures the average time during which a balance remains in accounts receivable and is computed by dividing the sum of the daily ending balances of accounts receivable by the sum of revenues billed and charged to accounts receivable during the study month.

Q. How were the payment leads and lags computed?

A. The payment leads and lags were developed based on analyses of actual payment history, contractual and statutory payment dates, and samples of expenditures.

Q. What was the overall result of the lead-lag study?

A. The study showed that there was negative cash working capital in the amount of $3,280,886. A corresponding decrease was made as a pro forma adjustment to rate base.

G. <u>Warm Spirit.</u>

Q. What is the rate base deduction for Warm Spirit?

A. Warm Spirit is a program created to permit existing customers to voluntarily contribute to a fund established for the purpose of assisting low income customers with the payment of their gas bills. The balance deducted from the rate base represents Warm Spirit amounts collected from customers through the end of the test year that were at the time being processed for dispersal to the respective non-profit agencies that have been selected to administer the program.

H. Customer Assistance Residential Energy Support ("CARES").

Q. What is the rate base addition identified as CARES?

A. Pursuant to Decision No. 59875, a special balance sheet account (regulatory asset) has been created for use in tracking amounts spent and recovered in connection with certain Company programs established to benefit low income customers. A designated amount intended to cover CARES bill discounts and out-of-pocket expenditures benefiting customers has been included in the revenue request underlying the Company's service rates. In the most recent rate case, that amount was set at $217,913. As CARES discounts and low-income expenses occur, they are charged to the tracking account each month as customers are billed. An estimate of the amounts received in rates is removed from the tracking account and charged to expense. At any point in time, the tracking account balance reflects the cumulative difference between amounts spent and amounts accrued. A debit balance reflects more program expenditures than recoveries. A credit balance indicates more recoveries than expenditures. Irrespective of whether it has a debt or credit balance, consistent with prior rate cases, the tracking account is a proper component of the rate base.

I. Geographic Information System ("GIS").

Q. Please explain the GIS adjustment.

A. This adjustment creates a regulatory asset for GIS. The GIS program and its importance are discussed in the Direct Testimony of Mr. Gary A. Smith.

IV. OPERATING INCOME ADJUSTMENTS.

Q. Please explain the Depreciation Expense adjustment.

A. The depreciation expense adjustment is computed to reflect in pro forma operating expense an annual depreciation amount based on depreciable plant in service as of the end of the test year and newly requested book depreciation rates as presented in detail in the testimony of witness Dr. Ronald E. White. The calculation of the adjustment properly considers the effects of depreciation associated with vehicles that are charged to clearing accounts or expense categories other than depreciation.

Q. Please explain the Amortization adjustment.

A. Pursuant to Decision No. 66028, the Company is amortizing the acquisition discount at the same rates used for computing book depreciation expense. This adjustment reflects a pro forma annualization expense based on the fixed $30.7 million acquisition discount and new book depreciation rates proposed by Dr. White.

Q. Please explain the Property Tax adjustment.

A. The property tax adjustment is intended to reflect in pro forma test year operating expenses an amount based on final, adjusted plant in service at the end of the test year, using the current statutory assessment ratio of 24.5%, and the most currently known average property tax rates. To the extent that more current average tax rate information becomes available during the conduct of this rate case, the Company is willing to update that part of the tax adjustment.

Q. Please explain the Income Tax Expense adjustment.

A. The income tax expense adjustment is computed with the intent to reflect in pro forma test year operating expenses an amount of income taxes based on final adjusted operating revenues, operating expense, and rate base. It is computed in two parts. The first part is pro forma current income tax expense, the tax liability computed as though an actual income tax return was being prepared on final adjusted test year taxable operating income. For this purpose, it was necessary to identify all operating book-tax differences ("Schedule M items"), both timing and permanent, and then recompute based on adjusted test year operating revenues and expenses, if necessary. The tax deduction for interest was computed using a synchronization methodology reflecting final adjusted rate base and the weighted cost of debt in the capital structure.

The second part of the income tax calculation is deferred income tax expense. Deferred income taxes are computed on the Schedule M items representing timing differences for which the Company has obtained normalization ratemaking authority from the Commission as previously described in my testimony.

V. SECTION B - RATE BASE.

Q. Please explain Section B of the Company's filing.

A. Section B, comprised of Schedule Nos. B-1 through B-5, presents the development of the rate base component of revenue requirements submitted for Commission consideration in this rate case filing. Some of the data in Section B and in schedules and exhibits referenced in my testimony are taken from UNS Gas' audited financial statements for the year ended December 31, 2005, attached as Exhibit KGK-1. Mr. Dukes will testify in support of the calculations and methodology underlying allocated amounts appearing on the Section B schedules.

Q. Please describe Schedule B-1.

A. This schedule summarizes the elements of UNS Gas' rate base on both a net recorded original cost and depreciated reconstructed cost new ("RCND") basis at December 31, 2005, along with the pro forma adjustments to rate base. Rate base is comprised of net utility plant, certain regulatory assets, and working capital, with deductions from rate base for accumulated deferred income taxes ("ADIT"), customer advances for construction and customer deposits.

Q. Please explain briefly the basis for the determination of the RCND rate base.

A. Plant in service and customer advances for construction reported at reconstructed cost new ("RCN") are summarized from the results of a detailed plant cost trending study. The accumulated depreciation and ADIT reported on a RCN basis have been computed by multiplying the corresponding original cost balances by a ratio, the numerator of which is gross reconstructed new cost of depreciable plant, and the denominator of which is gross original cost of depreciable plant. All other rate base elements are reflected at original cost.

Q. Please describe the plant cost trending study.

A. The trending study was prepared to establish a measure of the cost to reconstruct utility plant in service at current 2005 cost levels. The December 31, 2005 recorded balance in each plant account was analyzed by vintage component and adjusted to current cost levels by applying trending factors to each vintage total. For example, the RCN value for 1984 vintage assets in Account No. 362, Distribution Plant – Station Equipment was computed as follows:

$$\text{Original Cost of 1984 vintage assets in Acct. 362} \times \frac{\text{2005 Cost Index for Acct 362}}{\text{1984 Cost Index for Acct. 362}}$$

For most accounts, the Handy-Whitman Index of Public Utility Construction Costs for the Plateau Region has been employed. For plant accounts 303, 391, 393, 394, and 398, the "Marshall Valuation Service Cost Index" was used. For plant accounts 392, 395, 396, and 397, the Bureau of Labor Statistics producer price index was used. Where the Handy-Whitman Index was used for the trend factors, they are based on the index numbers released by Handy-Whitman for July 1, 2005. More current data has not yet been released.

Q. What is the Handy-Whitman Index?

A. It is an index of public utility construction costs that has been published continuously since 1924 by Whitman, Requardt and Associates of Baltimore, Maryland. The Handy-Whitman Index is a well recognized, widely used and generally accepted method for measuring differences in property values for insurance and other purpose, including the valuation of public utility property for rate case purposes. It has been used by UniSource Energy's utilities and other companies in proceedings before the Commission for many years.

The Handy-Whitman Index is comprised of index numbers for various accounts prescribed by the Uniform System of Accounts and for six geographical divisions of the country, including the Plateau Division, in which Arizona and New Mexico are located. These index numbers result from a comparison of the current prices of materials, labor, and equipment to prices in a base year. Index numbers are determined for each year as of January 1 and July 1.

The index numbers are used to determine cost trend factors, which are then applied to known original costs of like plant and property to determine the fluctuation in cost between the date of original installation and the date of valuation.

Q. What is the Marshall Index?

A. The Marshall Index, prepared by the firm of Marshall & Swift, is an index of construction cost trend valuations. It was used in development of costs reported in the RCND Study for those plant accounts not reported by Handy-Whitman.

Q. What is shown on Schedules B-2 and B-3?

A. Schedule B-2 shows the pro forma adjustments to the original cost rate base. The information presented includes the actual per-books balances at the end of the test year, pro forma adjustments, and the adjusted balances. Schedule B-3 provides the same detail by functional account classifications as shown in Schedule B-2, except that it is shown on an RCND basis.

Q. Please identify the pro forma adjustments on Schedules B-2 and B-3 that you are sponsoring in this rate case filing.

A. I am sponsoring most of the pro forma rate base adjustments. Specifically, as previously testified, I am sponsoring the following rate base adjustments:

(i) Acquisition Discount Adjustment;
(ii) Griffith Power Plant Exclusion;
(iii) Build-Out Plant Removal;
(iv) Accumulated Deferred Income Taxes;
(v) Customer Advances;
(vi) Customer Deposits;
(vii) Working Capital; and
(viii) Other Adjustments to Rate Base.

Each adjustment was identified and the related computational methodology has been explained in detail earlier in my testimony.

Q. Please explain Schedule B-4.

A. This schedule shows the balances of gross RCN and related accumulated depreciation by plant account at the end of the test year. It includes the applicable depreciation reserve ratio, based on original cost, for the depreciable plant balances.

Q. Please explain Schedule B-5.

A. This schedule summarizes the various elements of working capital that the Company is requesting for inclusion in rate base in this rate case.

Q. Why are the original costs and RCND costs of working capital the same in Schedule B-5?

A. They are the same because the original costs are at current prices or have been adjusted to current prices, meaning they have not been significantly affected by inflationary factors.

VI. <u>SECTION C - OPERATING INCOME.</u>

Q. Please describe Section C.

A. Section C, comprised of Schedule Nos. C-1 through C-3, presents the development of the net operating income component of revenue requirements submitted for Commission consideration in this rate case filing.

Q. Please explain Schedule C-1.

A. Schedule C-1 shows the actual Income Statement for the twelve months ending December 31, 2005, the test year in this case. It also summarizes the effect of the proposed pro forma adjustments to recorded operating revenues and expenses, and the resulting adjusted net operating income.

Q. What is the purpose of Schedule C-2?

A. Schedule C-2 presents the detailed pro forma adjustments that reflect the full annual impact of operating changes, annualizations, normalizations, and other adjustments made to revenues and expenses.

Q. Please identify the pro forma adjustments on Schedule C-2 that you are sponsoring in this rate case filing.

A. I have testified in support of the following pro forma operating income adjustments:

(i) Depreciation and Amortization Expense Annualization;

(ii) Property Tax; and

(iii) Income Taxes.

Q. What is the purpose of Schedule C-3?

A. Schedule C-3 contains the development of the Gross Revenue Conversion Factor. That factor is used to convert the computed test year return deficiency to an equivalent annual revenue increase amount. It effectively recognizes that there will be additional bad debt expense and income taxes associated with any adjustment to annual revenue levels.

VII. SECTION E - FINANCIAL STATEMENTS AND STATISTICAL SCHEDULES.

Q. Please explain Section E of the Company's filing.

A. Section E, as is the same for all other sections of this rate case filing, was prepared in accordance with the filing requirements contained in AAC R14-2-103. It is comprised of Schedule Nos. E-1 through E-9, containing annual financial statements and key operating statistics and financial data extracted from the Company's regulatory books of account.

Q. On what basis are the regulatory books of account of UNS Gas maintained?

A. The Company's regulatory books of account are maintained in accordance with the <u>Uniform System of Accounts</u> of the FERC, as required by AAC R14-2-312.G.2.

Q. Have there been any significant changes to the Company's accounting policies or principles since its acquisition by UniSource Energy in 2003?

A. No.

Q. Have the financial statements been audited?

A. Yes. The calendar years 2005, 2004 and 2003 (from inception date) financial statements were audited by the firm of PricewaterhouseCoopers LLP (Independent Certified Public Accountants).

Q. Please describe Schedule E-1.

A. Schedule E-1 contains the comparative balance sheets of UNS Gas for the test year ending December 31, 2005, and the two prior years ending December 31, 2004, and December 31, 2003.

Q. Please describe Schedule E-2.

A. This schedule sets forth comparative income statements for the test year ending December 31, 2005, and the two prior years ending December 31, 2004 and 2003. The income statement for the test year supports the actual test period income statement shown on Schedules C-1 and C-2.

Q. Please describe Schedule E-3.

A. This schedule presents the comparative statements of cash flows for the test year ending December 2005 and the two prior years ending December 31, 2004 and 2003.

Q. Please describe Schedule E-4.

A. This schedule reports the changes that occurred in stockholders' equity (deficit) during the period beginning January 1, 2003 and ending December 31, 2005. Changes occurring each year in both the number of shares outstanding and in the amounts of the various elements of stockholders' equity are reflected.

Q. Please describe Schedule E-5.

A. Page 1 of Schedule E-5 presents a summary of the balances in the various gas utility plant account categories and accumulated depreciation at December 31, 2005 and December 31, 2004, and the net changes therein during 2003, with plant in service presented on a functional basis. Pages 2 and 3 of Schedule E-5 present the same information on a more detailed basis, by individual gas plant account.

Q. Please describe Schedule E-6.

A. Schedule E-6 contains Operating Income Statements for the test year and two previous calendar years. Retail revenues are reported by rate class. Operating Expenses are reported by major category.

Q. Please describe Schedule E-7.

A. This schedule reports key gas operating statistics, in a comparative format, for the test year ending December 31, 2005 and the two prior years ending December 31, 2004 and 2005.

Q. Please describe Schedule E-8.

A. This schedule shows the taxes charged to operating expenses by tax type for the test year ended December 31, 2005 and the two prior years ended December 31, 2004 and 2003.

Q. Please describe Schedule E-9.

A. This schedule is intended to disclose important facts required for a proper understanding of the financial statements. A summary of the Company's significant accounting policies is set forth in Note 1 of the Notes to Financial Statements in the Company's audited financial statements for the year ended December 2005, attached as Exhibit KGK-1.

Q. Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT

KGK-1

UNS Gas, Inc.
Financial Statements
Years Ended December 31, 2005 and 2004

UniSourceEnergy
SERVICES

PricewaterhouseCoopers LLP
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Los Angeles CA 90071
Telephone (213) 356 6000
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Report of Independent Auditors

To the Board of Directors and Stockholder of
UNS Gas, Inc.

In our opinion, the accompanying consolidated balance sheets and statements of capitalization and the related consolidated statements of income, stockholder's equity, and cash flows present fairly, in all material respects, the financial position of UNS Gas, Inc. (the "Company) at December 31, 2005 and December 31, 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 11, 2006

UNS GAS, INC.
STATEMENTS OF INCOME

	Years Ended December 31, 2005	2004
	- Thousands of Dollars -	
Operating Revenues		
Gas Revenue	$ 135,967	$ 126,722
Other Revenues	2,312	2,234
Total Operating Revenues	138,279	128,956
Operating Expenses		
Purchased Gas	91,168	81,643
Other Operations and Maintenance	23,567	23,009
Depreciation and Amortization	6,773	5,475
Taxes Other than Income Taxes	2,924	3,171
Total Operating Expenses	124,432	113,298
Operating Income	13,847	15,658
Other Income (Deductions)		
Interest Income	412	255
Other	626	(128)
Total Other Income	1,038	127
Interest Expense		
Long-Term Debt	6,414	6,347
Allowance for Funds Used During Construction	(231)	(236)
Other	307	184
Total Interest Expense	6,490	6,295
Income Before Income Taxes	8,395	9,490
Income Taxes	3,349	3,787
Net Income	$ 5,046	$ 5,703

See Notes to Financial Statements.

UNS GAS, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	2004
	- Thousands of Dollars -	
Cash Flows from Operating Activities		
Cash Receipts from Gas Sales	**$ 145,281**	$ 136,797
Purchased Gas Costs Paid	**(91,445)**	(76,868)
Taxes Paid, Net of Amounts Capitalized	**(14,499)**	(14,918)
Payment of Other Operations and Maintenance Costs	**(11,840)**	(10,797)
Wages Paid, Net of Amounts Capitalized	**(6,872)**	(6,828)
Interest Paid, Net of Amounts Capitalized	**(6,003)**	(6,155)
Income Taxes Paid	**(620)**	-
Saguaro Termination Fee	**-**	(617)
Other Cash Receipts	**895**	451
Other Cash Payments	**(598)**	(524)
Net Cash Flows - Operating Activities	**14,299**	20,541
Cash Flows from Investing Activities		
Capital Expenditures	**(23,578)**	(19,137)
Purchase of Citizens Assets	**-**	(2)
Net Cash Flows - Investing Activities	**(23,578)**	(19,139)
Cash Flows from Financing Activities		
Equity Investment from UniSource Energy Services	**16,000**	-
Loan from UniSource Energy	**6,000**	-
Repayment of Loan from UniSource Energy	**(6,000)**	-
Customer Advance Receipts	**5,255**	2,943
Customer Advance Refunds	**(2,341)**	(736)
Payment of Debt Issuance Costs	**(181)**	-
Other	**(3,970)**	(2,980)
Net Cash Flows - Financing Activities	**14,763**	(773)
Net Increase in Cash and Cash Equivalents	**5,484**	629
Cash and Cash Equivalents, Beginning of Period	**8,569**	7,940
Cash and Cash Equivalents, End of Period	**$ 14,053**	$ 8,569

See Notes to Financial Statements.

UNS GAS, INC.
BALANCE SHEETS

	December 31, 2005	December 31, 2004
	- Thousands of Dollars -	
ASSETS		
Utility Plant		
Plant in Service	$ 180,107	$ 157,084
Construction Work in Progress	7,189	10,787
Total Utility Plant	187,296	167,871
Less Accumulated Depreciation and Amortization	(9,876)	(6,893)
Total Utility Plant - Net	177,420	160,978
Current Assets		
Cash and Cash Equivalents	14,053	8,569
Trade and Other Accounts Receivable, Less Allowance for Uncollectible Accounts of $338 and $997	11,908	9,573
Unbilled Accounts Receivable	16,736	14,726
Receivable from Related Parties	2,661	2,035
Under Recovered Purchased Gas Costs	5,899	-
Materials and Supplies	1,999	1,579
Other	527	495
Total Current Assets	53,783	36,977
Other Assets		
Unamortized Debt Discount and Expense	1,141	1,144
Regulatory Assets	309	277
Under Recovered Purchased Gas Costs	-	1,862
Other Assets	-	115
Total Other Assets	1,450	3,398
Total Assets	$ 232,653	$ 201,353
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	$ 79,804	$ 58,758
Long-Term Debt	100,000	100,000
Total Capitalization	179,804	158,758
Current Liabilities		
Accounts Payable	20,083	17,833
Payable to Related Parties	1,365	1,205
Interest Accrued	2,475	2,434
Customer Deposits	3,040	2,678
Income Taxes Payable	246	-
Taxes Accrued	4,544	4,151
Deferred Income Taxes - Current	2,071	392
Accrued Employee Expenses	642	783
Other	130	90
Total Current Liabilities	34,596	29,566
Deferred Credits and Other Liabilities		
Deferred Income Taxes - Noncurrent	7,222	5,716
Customer Advances for Construction	7,284	4,389
Deferred Employee Benefits	1,002	1,198
Net Cost of Removal for Interim Retirements	2,690	1,517
Other	55	209
Total Deferred Credits and Other Liabilities	18,253	13,029
Total Capitalization and Liabilities	$ 232,653	$ 201,353

See Notes to Financial Statements.

UNS GAS, INC.
STATEMENTS OF CAPITALIZATION

			December 31, 2005	December 31, 2004
			- Thousands of Dollars -	
COMMON STOCK EQUITY				
Common Stock--No Par Value			$ 67,978	$ 51,978
	2005	2004		
Shares Authorized	1,000	1,000		
Shares Outstanding	1,000	1,000		
Accumulated Earnings			11,826	6,780
Total Common Stock Equity			79,804	58,758
LONG-TERM DEBT				
Issue		**Maturity**		
Notes Payable				
6.23% Senior Unsecured Notes - Note A		8/11/2011	50,000	50,000
6.23% Senior Unsecured Notes - Note B		8/11/2015	50,000	50,000
Total Stated Principal Amount			100,000	100,000
Less Current Maturities			-	-
Total Long-Term Debt			100,000	100,000
Total Capitalization			$ 179,804	$ 158,758

See Notes to Financial Statements.

UNS GAS, INC.
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME

	Common Shares Outstanding	Common Stock	Accumulated Earnings	Total Stockholder's Equity
		- Thousands of Dollars -		
Balances at December 31, 2003	**1,000**	**$ 52,008**	**$ 1,077**	**$ 53,085**
Noncash Equity Transactions	-	(30)	-	(30)
Comprehensive Income:				
2004 Net Income	-	-	5,703	5,703
Total Comprehensive Income				5,703
Balances at December 31, 2004	**1,000**	**$ 51,978**	**$ 6,780**	**$ 58,758**
Equity Contribution from UniSource Energy Services	-	16,000	-	16,000
Comprehensive Income:				
2005 Net Income	-	-	5,046	5,046
Total Comprehensive Income				5,046
Balances at December 31, 2005	**1,000**	**$ 67,978**	**$ 11,826**	**$ 79,804**

See Notes to Financial Statements.

NOTE 1. NATURE OF OPERATIONS

UNS Gas, Inc. (UNS Gas) is a gas distribution company serving approximately 139,000 retail customers in Mohave, Yavapai, Coconino, and Navajo Counties in northern Arizona, as well as Santa Cruz County in southeast Arizona. UniSource Energy Services, Inc. (UES), an intermediate holding company, established UNS Gas on April 14, 2003, and owns all of the common stock of UNS Gas and UNS Electric. UniSource Energy Corporation (UniSource Energy) owns all of the common stock of UES. On August 11, 2003, UNS Gas and UNS Electric, Inc. (UNS Electric) completed the purchase of the Arizona gas and electric system assets from Citizens Communications Company (Citizens).

References to "we" and "our" are to UNS Gas.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP), including the accounting principles for rate-regulated enterprises. Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on Net Income.

ACCOUNTING FOR RATE REGULATION

UNS Gas is regulated by the Arizona Corporation Commission (ACC) with respect to retail gas rates, the issuance of securities, and transactions with affiliated parties.

UNS Gas generally uses the same accounting policies and practices used by unregulated companies for financial reporting under GAAP. However, sometimes these principles, such as the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71), require special accounting treatment for regulated companies to show the effect of regulation. For example, in setting UNS Gas' retail rates, the ACC may not allow UNS Gas to currently charge their customers to recover certain expenses, but instead may require that these expenses be charged to customers in the future. In this situation, FAS 71 requires that UNS Gas defer these items and show them as regulatory assets on the balance sheet until we are allowed to charge our customers. UNS Gas then amortizes these items as expense to the income statement as those charges are recovered from customers. Similarly, certain revenue items may be deferred as regulatory liabilities, which are also eventually amortized to the income statement as rates to customers are reduced.

The conditions a regulated company must satisfy to apply the accounting policies and practices of FAS 71 include:

- an independent regulator sets rates;
- the regulator sets the rates to recover specific costs of delivering service; and
- the service territory lacks competitive pressures to reduce rates below the rates set by the regulator.

FAS 71 may, at some future date, be discontinued due to changes in the regulatory and competitive environments. If UNS Gas stopped applying FAS 71 to its regulated operations, it would write off the related balances of its regulatory assets as an expense and would write off its regulatory liabilities as income on its income statement. UNS Gas' cash flows would not be affected if it stopped applying FAS 71 unless a regulatory order limited its ability to recover the cost of its regulatory assets. We believe our gas operations continue to meet the criteria for FAS 71.

UTILITY PLANT

UNS Gas reports utility plant at cost. Utility plant includes material and labor costs, contractor costs, construction overhead costs, and an allowance for funds used during construction (AFUDC). We charge maintenance and repairs to operating expense as incurred.

AFUDC represents the estimated cost of debt and equity funds that finance utility plant construction. AFUDC is also allowed on certain in service gas division assets prior to their inclusion in rate base. We recover AFUDC in rates through depreciation expense over the useful life of the related asset. UNS Gas imputed the cost of capital on construction expenditures at an average of 7.83% for 2005 and 7.85% for 2004. The component of AFUDC attributable to borrowed funds is included as a reduction of Other Interest Expense on the income statement and totaled $0.2 million in both 2005 and 2004. The equity component is included in Interest Income and totaled $0.2 million in both 2005 and 2004.

We compute depreciation of utility plant on a straight-line basis over the service lives of the assets. The average annual depreciation rates for UNS Gas' utility plant were 3.15% in 2005 and 2.81% in 2004.

During 2005, it was determined that depreciation of certain UNS Gas assets had been overstated in prior periods. An adjustment was recorded which reduced Other Operations and Maintenance Expense by $0.3 million.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

MATERIALS AND SUPPLIES

UNS Gas carries transmission and distribution materials and supplies in inventory at the lower of average cost or market.

COMPUTER SOFTWARE COSTS

UNS Gas capitalizes all costs incurred to purchase computer software and amortizes those costs over the estimated economic life of the product. We would immediately expense capitalized computer software costs if the software were determined to be no longer useful.

DEBT

We defer costs related to the issuance of debt. These costs include underwriters' commissions, discounts or premiums, and other costs such as legal, accounting and regulatory fees and printing costs. We amortize the costs over the life of the debt using the straight-line method, which approximates the effective interest method. Unamortized debt issuance costs totaled $1.1 million at December 31, 2005 and at December 31, 2004. See Note 5.

UTILITY OPERATING REVENUES

UNS Gas records revenues from customers when the gas is delivered to our customers. Gas Revenue includes unbilled revenues which are earned (service has been provided) but not billed by the end of an accounting period. Unbilled sales are estimated for the month by reviewing the meter reading schedules and determining the number of billed and unbilled therms for each billing cycle. Current month estimated unbilled therms are allocated by customer class. New unbilled revenue estimates are recorded and unbilled revenue estimates from the prior month are reversed.

We record an allowance for our estimate of revenues billed for which collection is doubtful. UNS Gas establishes an allowance for doubtful accounts based on historical experience and any specific customer collection issues.

Other Revenues primarily consist of miscellaneous fees, including service connection and late fees, and revenue from transportation of gas purchased from other providers.

PURCHASED GAS COSTS

UNS Gas defers differences between actual gas purchase costs and the recovery of such costs in revenues under a Purchase Gas Adjustor (PGA) mechanism. The PGA mechanism addresses the volatility of natural gas prices and allows UNS Gas to recover its costs through a price adjustor. The PGA charge may be changed monthly based on an ACC approved mechanism that compares the twelve-month rolling average gas cost to the base cost of gas, subject to limitations on how much the price per therm may change in a twelve month period. UNS Gas defers and recovers through the PGA mechanism the difference between the actual cost of UNS Gas' gas supply and transportation contracts and that currently allowed by the ACC. When under or over recovery trigger points are met, UNS Gas may request a PGA surcharge or surcredit with the goal of collecting or returning the amount deferred from or to customers over a twelve month period.

RELATED PARTY TRANSACTIONS

UNS Gas receives certain corporate and administrative support services from affiliates. These costs consist primarily of employee compensation and benefits. Services from Tucson Electric Power Company (TEP) totaled $2.8 million in 2005 and $2.4 million in 2004. Services from UNS Electric totaled $0.6 million in 2005 and $0.7 million in 2004. TEP, a regulated public utility serving retail electric customers in southern Arizona, is UniSource Energy's largest operating subsidiary.

INCOME TAXES

GAAP requires us to report some of our assets and liabilities differently in our financial statements than we do for income tax purposes. We report the tax effects of differences in these items as deferred income tax assets or liabilities in our balance sheet. We measure these tax assets and liabilities using current income tax rates.

UNS Gas is a member of the UniSource Energy consolidated income tax filing. UNS Gas is allocated income taxes based on its taxable income and deductions as reported in the UniSource Energy consolidated and/or combined tax return filings. The tax liability is allocated in accordance with the Income Tax Regulations. As a result, the regular tax liability of the company is calculated on a stand alone basis and the liability is then owed to UNS through intercompany accounts. UNS has the ultimate responsibility for payment of consolidated tax liabilities to taxing authorities and maintaining intercompany tax accounts with its subsidiaries. The Alternative Minimum Tax (AMT) liability of the company is also computed in accordance with Proposed Income Tax Regulations. This method for allocating consolidated

AMT among group members considers the contribution that one member's AMT attributes provide in offsetting the consolidated AMT liability that would otherwise result if the member were not included in the consolidated group.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

UNS Gas applies Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (FAS 133). Under FAS 133, all derivative instruments, except those meeting specific exceptions, are recognized in the balance sheet at their fair value. Changes in fair value are recognized immediately in earnings unless specific hedge accounting criteria are met. For derivatives that qualify for hedge accounting, depending on the nature of the hedge, changes in fair value are either offset by changes in the fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. At December 31, 2005 and December 31, 2004, UNS Gas had no derivatives accounted for as cash flow hedges.

Management has determined that UNS Gas' physical gas purchases qualify for the normal purchases and normal sales exception provided by FAS 133. This exception applies to physical sales and purchases of gas supply where it is probable that physical delivery will occur, the pricing provisions are clearly and closely related to the contracted prices and the FAS 133 documentation requirements are met.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of our current assets and liabilities approximate fair value because of the short maturity of these instruments.

UNS Gas' senior unsecured notes of $100 million outstanding at December 31, 2005 and December 31, 2004, have estimated fair values of $105 million and $108 million, respectively. UNS Gas determined the fair value of the senior unsecured notes by calculating the present value of the cash flows of each note, using a discount rate consistent with market yields generally available as of December 31, 2005 and December 31, 2004, for bonds with similar characteristics with respect to credit rating and time-to-maturity. The use of different market assumptions and/or estimation methodologies may yield different estimated fair value amounts.

EVALUATION OF ASSETS FOR IMPAIRMENT

UNS Gas evaluates its Utility Plant and other long-lived assets for impairment whenever events or circumstances occur that may indicate the carrying value of the assets may be impaired. If the fair value of the asset determined based on the undiscounted expected future cash flows from the long-lived asset is less than the carrying value of the asset, an impairment would be recorded.

ASSET RETIREMENT OBLIGATIONS

FASB Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (FAS 143) requires entities to record the fair value of a liability for a legal obligation to retire an asset in the period in which the liability is incurred. FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), requires entities to record the fair value of a liability regarding a legal obligation to perform asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. We record a liability when we are able to reasonably estimate the fair value of any future obligation to retire as a result of an existing or enacted law, statute, ordinance or contract. We also record a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. When the liability is initially recorded, we capitalize a cost by increasing the carrying amount of the related long-lived asset. Over time, we adjust the liability to its present value by recognizing accretion expense as an operating expense in the income statement each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we either settle the obligation for its recorded amount or incur a gain or loss if the actual costs differ from the recorded amount.

Under FAS 143, only the costs to remove an asset with legally binding retirement obligations will be accrued over time through accretion of the asset retirement obligation and depreciation of the capitalized asset retirement cost.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

As of December 31, 2005, UNS Gas had a total credit exposure related to its gas supply contracts of $9 million, primarily related to its relationship with one counterparty. Counterparty credit exposure is calculated by adding any outstanding receivables (net of amounts payable if a netting agreement exists) to the mark-to-market value of any forward contracts.

NOTE 3. REGULATORY MATTERS

UNS Gas is regulated by the ACC with respect to retail gas rates, the issuance of securities, and transactions with affiliated parties. UNS Gas' retail gas rates include a monthly customer charge, a base rate charge for delivery services and the cost of gas (expressed in cents per therm), and a PGA mechanism.

Concurrent with the closing of the acquisition, a retail rate increases for customers of UNS Gas went into effect in August 2003. The rate increase was approved by the ACC in July 2003, when it approved the acquisition and the terms of the April 2003 settlement agreement (UES Settlement Agreement) among UniSource Energy, Citizens, and the ACC Staff.

The related ACC order and the UES Settlement Agreement include the following terms related to UNS Gas rates:

- An increase in retail delivery base rates, effective August 11, 2003, equivalent to a 20.9% overall increase over 2001 test year retail revenues through a base rate increase.
- Fair value rate base of $142 million and allowed rate of return of 7.49%, based on a cost of capital of 9.05%, derived from a cost of equity of 11.00% and a cost of debt of 7.75% (based on a capital structure of 60% debt and 40% equity).
- The existing PGA rate may not change more than $0.15 per therm through July 2004. Thereafter, the PGA rate may not change more than $0.10 per therm.

Under the terms of the ACC order, UNS Gas may not file a general rate increase until July 2006 and any resulting rate increase shall not become effective prior to August 1, 2007.

The UES Settlement Agreement also limits dividends payable by UNS Gas to UES and UniSource Energy to 75% of earnings until the ratio of common equity to total capitalization reaches 40%. The ratio of common equity to total capitalization for UNS Gas was 44% at December 31, 2005 and was 37% at December 31, 2004.

The following table shows the balance of under recovered purchased gas costs as of December 31:

	2005	2004
	-Thousands of Dollars-	
Under Recovered Purchased Gas Costs – Regulatory Basis as Billed	$15,700	$ 9,281
Recovered Purchased Gas Costs – Unbilled Revenue Accrued	(9,801)	(7,419)
Under Recovered Purchased Gas Costs per Financial Statements	$ 5,899	$ 1,862

In August 2005, UNS Gas filed a request with the ACC to approve an increase in the PGA surcharge from $0.03 per therm to $0.27 per therm to be effective October 1, 2005. An increase was necessary to allow for the recovery of the existing PGA bank balance and recover projected costs of gas during the winter season.

On October 19, 2005, the ACC approved the following PGA surcharges:

Surcharge Amount Per Therm	Period In Effect
$0.15	November 2005 – February 2006
$0.25	March 2006 – April 2006
$0.30	May 2006 – June 2006
$0.35	July 2006 – September 2006
$0.25	October 2006 – November 2006
$0.20	December 2006 – February 2007
$0.25	March 2007 – April 2007

Currently, this PGA surcharge is predicted to stem the growth of the PGA bank balance. However, if gas prices increase, the PGA bank balance may continue to grow despite this surcharge. Sources to fund the growing balance could include an additional surcharge, draws on the revolving credit facility, additional credit lines or the investment of additional capital by UniSource Energy. Based on market prices for gas at February 28, 2006, which range from $6 to $9 per MMBtu through the end of 2006, the PGA bank balance on a billed basis is expected to drop below zero by the end of May 2006 and stay below zero for the balance of the year. Changes in the market price for gas, sales volumes and surcharge changes could significantly change the PGA bank balance in the future.

REGULATORY ASSETS AND LIABILITES

Regulatory assets and liabilities consist of the following at December 31:

	2005	2004
	-Thousands of Dollars-	
Regulatory Assets:		
Deferred Year 2000 Costs	$ 200	$ 277
CARES Deferral	109	-
Under Recovered Purchased Gas Costs	5,899	1,862
Regulatory Liabilities:		
Net Cost of Removal for Interim Retirements	(2,690)	(1,517)
Regulatory Assets, Net of Regulatory Liabilities	$ 3,518	$ 622

FUTURE IMPLICATIONS OF DISCONTUING APPLICATION OF FAS 71

UNS Gas regularly assesses whether it can continue to apply FAS 71 to its operations. If UNS Gas stopped applying FAS 71 to its regulated operations, UNS Gas would write off the related balance of its regulatory assets as an expense and would write off its regulatory liabilities as income on its income statement. Based on the regulatory asset and liability balances, if UNS Gas had stopped applying FAS 71 to its regulated operations, UNS Gas would have recorded an extraordinary after-tax loss of $2 million at December 31, 2005. UNS Gas's cash flows would not be affected if it stopped applying FAS 71.

NOTE 4. UTILITY PLANT

The following table shows Utility Plant in Service and depreciable lives by major class at December 31:

	2005	2004	Depreciable Lives
	-Thousands of Dollars-		
Plant in Service:			
Gas Distribution Plant	$ 151,678	$ 135,343	17 – 48 years
Gas Transmission Plant	17,510	12,508	37 – 55 years
General Plant	9,949	8,912	3 – 31 years
Intangible Plant	970	321	5 – 25 years
Total Plant in Service	$ 180,107	$ 157,084	

Intangible Plant primarily represents computer software costs.

NOTE 5. DEBT

SENIOR UNSECURED NOTES

UNS Gas has $100 million of senior unsecured notes outstanding consisting of $50 million of 6.23% Notes due in 2011 and $50 million of 6.23% Notes due in 2015 that are guaranteed by UES. The note purchase agreements for UNS Gas contain certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments, incurrence of indebtedness, and minimum net worth. Consolidated Net Worth, as defined by the note purchase agreement for UNS Gas, is approximately equal to the balance sheet line item, Common Stock Equity.

The table below outlines the actual and required minimum net worth levels of UES and UNS Gas at December 31, 2005.

	Required Minimum Net Worth	Actual Net Worth
	-Thousands of Dollars-	
UES	$ 50,000	$ 130,000
UNS Gas	43,000	80,000

The incurrence of indebtedness covenant requires UNS Gas to meet certain tests before additional indebtedness may be incurred. These tests include:

- A ratio of Consolidated Long-Term Debt to Consolidated Total Capitalization of no greater than 65%.
- An Interest Coverage Ratio (a measure of cash flow to cover interest expense) of at least 2.50 to 1.00.

However, UNS Gas may, without meeting these tests, refinance indebtedness and incur short-term debt in an amount not to exceed $7 million. UNS Gas may not declare or make distributions or dividends (restricted payments) on its common stock unless (a) immediately after giving effect to such action no default or event of default would exist under its note purchase agreement and (b) immediately after giving effect to such action, it would be permitted to incur an additional dollar of indebtedness under the debt incurrence test. As of December 31, 2005, UNS Gas was in compliance with the terms of its note purchase agreement.

The senior unsecured notes may be accelerated upon the occurrence and continuance of an event of default under the note purchase agreement. Events of default under the note purchase agreement include failure to make payments required thereunder, certain events of bankruptcy or commencement of similar liquidation or reorganization proceedings or a change of control of UES or UNS Gas. In addition, an event of default may occur if UNS Gas, UES or UNS Electric defaults on any payments required in respect of certain indebtedness that is outstanding in an aggregate principal amount of at least $4 million or if any such indebtedness becomes due or capable of being called for payment prior to its scheduled payment date or if there is a default in the performance or compliance with the other terms of such indebtedness and, as a result of such default, such indebtedness has become, or has been declared, due and payable, prior to its scheduled payment date.

REVOLVING CREDIT AGREEMENT

In April 2005, UNS Gas and UNS Electric entered into a $40 million three-year unsecured revolving credit agreement due in April 2008, with a group of lenders (the UNS Gas/UNS Electric Revolver). Either borrower may borrow up to a maximum of $30 million; however, the total combined amount borrowed cannot exceed $40 million.

UNS Gas is only liable for UNS Gas' borrowings, and similarly, UNS Electric is only liable for UNS Electric's borrowings under the UNS Gas/UNS Electric Revolver. UES guarantees the obligations of both UNS Gas and UNS Electric.

The borrowers have the option of paying interest at LIBOR plus 1.50% or at the agent bank's reference rate plus 0.50%. UNS Gas and UNS Electric also pay a commitment fee of 0.45% on the unused portion of the revolving credit facility.

The UNS Gas/UNS Electric Revolver contains restrictions on additional indebtedness, liens, mergers and sales of assets. The UNS Gas/UNS Electric Revolver also contains a maximum leverage ratio and a minimum cash flow to interest coverage ratio for each borrower. As of December 31, 2005, UES, UNS Gas and UNS Electric were each in compliance with the terms of the UNS Gas/UNS Electric Revolver.

If an event of default occurs, the UNS Gas/UNS Electric Revolver may become immediately due and payable. An event of default includes failure to make required payments under the UNS Gas/UNS Electric Revolver; certain change in control transactions, certain bankruptcy events of UNS Gas or UNS Electric, or failure of UES, UNS Gas or UNS Electric to make payments or default on debt greater than $4 million.

As of December 31, 2005, UNS Gas had no borrowings outstanding and UNS Electric had $5 million of borrowings outstanding under the UNS Gas/UNS Electric Revolver. As of March 31, 2006, UNS Gas had no borrowings outstanding under the UNS Gas/UNS Electric Revolver.

NOTE 6. COMMITMENTS AND CONTINGENCIES

We record liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties and other sources when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

TRANSPORTATION COMMITMENTS

UNS Gas has firm transportation agreements with El Paso Natural Gas (EPNG) and Transwestern Pipeline Company (Transwestern) with combined capacity sufficient to meet its load requirements. The EPNG and Transwestern contracts expire in August 2011 and January 2007, respectively. EPNG provides gas transportation service under a converted full requirements contract in which UNS Gas pays a fixed reservation charge. In July 2003, FERC required the conversion of UNS Gas' full requirements status under the EPNG agreement to contract demand starting on September 1, 2003. Upon conversion to contract demand status, UNS Gas now has specific volume limits in each month and specific receipt point rights from the available supply basins (San Juan and Permian). EPNG filed a rate case in 2005 with new, higher rates to be effective January 2006, subject to refund. UNS Gas made payments under these contracts of $7 million in both 2005 and 2004. In February 2006, UNS Gas extended its firm transportation contract with Transwestern through February 2012; the minimum expected annual payment is $2 million from the end of the current contract until contract expiration.

At December 31, 2005, UNS Gas estimates its future minimum payments under these contracts to be:

	Minimum Purchase Obligations
	-Thousands of Dollars-
2006	$ 10,565
2007	7,447
2008	7,000
2009	7,000
2010	7,000
Total 2006 – 2010	39,012
Thereafter	7,000
Total	$ 46,012

UniSource Energy has guaranteed $5 million of these natural gas transportation and supply payments.

OPERATING LEASES

UNS Gas has entered into operating leases, primarily for office facilities and office equipment, with varying terms, provisions, and expiration dates. UNS Gas' estimated future minimum payments under non-cancelable operating leases at December 31, 2005 were:

	Operating Leases
	-Thousands of Dollars-
2006	$ 542
2007	455
2008	437
2009	431
2010	457
Total 2006-2010	2,322
Thereafter	2,347
Total	$ 4,669

UNS Gas' operating lease expense was $0.5 million in 2005 and $0.6 million in 2004.

UniSource Energy has guaranteed $2 million in building lease payments for UNS Gas.

RESOLUTION OF CONTINGENCIES

Subsequent to the acquisition of the Arizona gas system assets from Citizens, UNS Gas paid certain property taxes and other expenses incurred prior to the acquisition date on behalf of Citizens. UNS Gas had fully reserved this receivable of $0.6 million at December 31, 2004 by adjusting the acquisition price. In 2005, Citizens made a payment of $0.5 million in full settlement to UNS Gas which UNS Gas recorded as Other Income in its income statement.

NOTE 7. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

As of December 31, 2005, UNS Gas implemented FIN 47. The implementation of FIN 47 required UNS Gas to update an existing inventory, originally created for the implementation of FAS 143, and to determine which, if any, of the conditional asset retirement obligations could be reasonably estimated. No significant conditional asset retirement obligations were identified.

The ability to reasonably estimate conditional asset retirement obligations was a matter of management judgment, based upon management's ability to estimate a settlement date or range of settlement dates, a method or potential method of settlement and probabilities associated with the potential dates and methods of settlement of UNS Gas' conditional asset retirement obligations. In determining whether its conditional asset retirement obligations could be reasonably estimated, management considered UNS Gas' past practices, industry practices, management's intent and the estimated economic life of the assets.

UNS Gas has various transmission and distribution lines that operate under land leases and rights of way that contain end dates and restorative clauses. UNS Gas operates its transmission and distribution systems as if they will be operated in perpetuity and would continue to be used or sold without land remediation. As a result, UNS Gas is not recognizing the costs of final removal of the transmission and distribution lines in its financial statements. UNS Gas had accrued $2.7 million at December 31, 2005 and $1.5 million at December 31, 2004, for the net cost of removal for interim retirements from its transmission, distribution and general plant. These amounts have been recorded as a regulatory liability.

Amounts recorded under FAS 143 are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur, and the credit-adjusted risk-free interest rates to be used to discount future liabilities. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as expense for asset retirement obligations.

NOTE 8. INCOME AND OTHER TAXES

INCOME TAXES

We record deferred tax liabilities for amounts that will increase income taxes on future tax returns. We record deferred tax assets for amounts that could be used to reduce income taxes on future tax returns. UNS Gas has determined that a valuation allowance on the deferred income tax assets for the years ended December 31, 2005 and December 31, 2004 is not necessary. We reached this conclusion based on our interpretation of tax rules, tax planning strategies, scheduled reversals of temporary differences, and projected future taxable income.

UniSource Energy includes UNS Gas' taxable income in its consolidated federal income tax return. Deferred tax assets (liabilities) consist of the following:

	2005	2004
	-Thousands of Dollars-	
Gross Deferred Income Tax Liabilities		
Plant	$ (11,456)	$ (7,966)
Purchase Gas Adjuster (PGA)	(2,336)	(737)
Other	(387)	(107)
Gross Deferred Income Tax Liabilities	(14,179)	(8,810)
Gross Deferred Income Tax Assets		
Customer Advances	2,931	1,431
Contributions in Aid of Construction	1,421	737
Compensation and Benefits	391	360
Reserve for Uncollectible Accounts	132	174
Other	11	-
Gross Deferred Income Tax Assets	4,886	2,702
Net Deferred Income Tax Liability	$ (9,293)	$ (6,108)

The net deferred income tax liability is included in the balance sheet in the following accounts:

	2005	2004
	-Thousands of Dollars-	
Deferred Income taxes – Current Liabilities	$ (2,071)	$ (392)
Deferred Income Taxes – Noncurrent Liabilities	(7,222)	(5,716)
Net Deferred Income Tax Liability	$ (9,293)	$ (6,108)

Income tax expense (benefit) included in the income statement includes amounts both payable currently and deferred for payment in future periods as indicated below:

	2005	2004
	-Thousands of Dollars-	
Current Tax Expense (Benefit)		
Federal	$ (80)	$ (1,501)
State	244	194
Deferred Tax Expense (Benefit)		
Federal	2,828	4,594
State	357	500
Total Federal and State Income Tax Expense	$ 3,349	$ 3,787

The following reconciles the provision for income taxes at the federal statutory rate of 35% to the effective rate:

	2005	2004
	-Thousands of Dollars-	
Federal Income Tax Expense at Statutory Rate	$ 2,938	$ 3,322
State Income Tax Expense, Net of Federal Deduction	387	438
Other	24	27
Total Federal and State Income Tax Expense	$ 3,349	$ 3,787

OTHER TAX MATTERS

On its 2003 tax return, UNS Gas elected to utilize an accounting method relating to the capitalization of indirect costs to production activities and self-constructed assets.

In August 2005, the Internal Revenue Service (IRS) issued a ruling which draws into question the ability of electric and gas utilities to use the accounting method. UNS Gas believes the IRS position is without merit, and intends to vigorously pursue this issue. However, if the IRS were to prevail and disallow the method in its entirety, UNS Gas would be required to pay up to $1 million in taxes and interest in the first half of 2006. Such payment would not affect total tax expense.

OTHER TAXES

UNS Gas acts as a conduit or collection agent for excise tax (sales tax) as well as franchise fees and regulatory assessments. It records liabilities payable to governmental agencies when it bills its customers for these amounts. Neither amounts billed nor payable are reflected in the income statement.

NOTE 9. PENSION AND POSTRETIREMENT BENEFIT PLANS

UNS Gas does not maintain a separate pension plan or other postretirement benefit plan for its employees. All regular employees are eligible to participate in the pension plan maintained by UES. A small group of active employees are also eligible to participate in a postretirement medical benefit plan. UES allocates net periodic benefit cost based on service cost for participating employees.

PENSION PLAN

UES established a noncontributory, defined benefit pension plan for substantially all regular employees on August 11, 2003. Benefits are based on years of service and the employee's average compensation. UES funds the plan by contributing at least the minimum amount required under Internal Revenue Service regulations.

OTHER POSTRETIREMENT BENEFIT PLAN

UNS Gas assumed a $0.8 million liability for postretirement medical benefits for current retirees and a small group of active employees at the acquisition of the Arizona gas system assets from Citizens. The select active employees participate in the TEP Postretirement Benefit Plan.

The ACC allows UNS Gas to recover postretirement benefit costs through rates only as benefit payments are made to or on behalf of retirees. We fund postretirement benefits entirely on a pay-as-you-go basis. Under current accounting guidance, UES cannot record a regulatory asset for the excess of expense calculated per Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, over actual benefit payments.

FASB Staff Position No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2), provides guidance related to accounting for the federal subsidy available to certain employers providing retirees with prescription drug benefits. For nonpublic companies, FSP 106-2 is effective for the first annual period beginning after December 15, 2004. Adoption of FSP 106-2 did not have a significant impact on our postretirement benefit costs or cash flows.

The actuarial present values of the pension benefit obligations and other postretirement benefit plans were measured at December 1. UES' benefit obligation, plan assets, and funded status for both UNS Gas and UNS Electric follow:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,			
	2005	2004	2005	2004
	-Thousands of Dollars-			
Benefit Obligation at End of Year	$(6,104)	$(5,350)	$(1,709)	$(1,516)
Fair Value of Plan Assets at End of Year	2,543	1,216	-	-
Funded Status	$(3,561)	$(4,134)	$(1,709)	$(1,516)

Amounts recognized in UNS Gas' Balance Sheet include:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,			
	2005	2004	2005	2004
	-Thousands of Dollars-			
Accrued Benefit Liability Included in Other Liabilities	$ (292)	$ (397)	$ (641)	$ (699)
Intangible Asset Included in Other Assets	-	106	-	-
Net Amount Recognized in the Balance Sheet	$ (292)	$ (291)	$ (641)	$ (699)

UNS Gas' net periodic benefit cost, employer contributions and benefits paid for the years ended December 31, 2005 and 2004 were:

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	-Thousands of Dollars-			
Net Periodic Benefit Cost	$ 775	$ 729	$ 23	$ 17
Employer Contribution	774	655	82	96
Benefits Paid	72	28	114	128

Weighted-Average Assumptions Used to Determine Benefit Obligations as of December 1,	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Discount Rate	5.90%	6.10%	5.80%	5.90%
Rate of Compensation Increase	3.00 – 4.00%	3.75%	-	-

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Costs for Period Ended December 31,	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Discount Rate	6.10%	6.25%	5.90%	5.50%
Rate of Compensation Increase	3.00 - 4.00%	4.00%	-	-
Expected Return on Plan Assets	8.50%	8.75%	-	-

Net periodic benefit cost is subject to various assumptions and determinations, such as the discount rate, the rate of compensation increase, and the expected return on plan assets. We estimated the expected return on plan assets based on a review of the plans' asset allocations and consultations with a third-party investment consultant and the plans' actuary considering market and economic indicators, historical market returns, correlations and volatility, central banks' and government treasury departments' forecasts and objectives, and recent professional or academic research. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as net periodic benefit cost.

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase 10 percent for employees who have not reached the age of 65 and 12 percent for employees who have reached the age of 65 in 2006. The rate was assumed to decrease gradually to 5 percent for 2013 and remain at that level thereafter.

Pension Plan Assets

UES calculates the market-related value of plan assets using the fair value of plan assets on the measurement date. The UES pension plan was initially funded during 2004. UES' pension plan asset allocations by asset category are as follows:

	Plan Assets December 31,	
	2005	2004
Asset Category		
Equity Securities	63.00%	68.25%
Debt Securities	37.00%	18.23%
Real Estate	-	13.52%
Total	100.00%	100.00%

The policy for the UES pension plan is to provide exposures to equity and debt securities by investing in a balanced fund. The fund will hold no more than 75% of its total assets in stocks.

Pension Plan Contributions

UNS Gas expects to contribute $0.7 million to the pension plan in 2006.

Estimated Future Benefit Payments

The following benefit payments, which reflect future service, as appropriate, are expected to be paid by UES for both UNS Gas and UNS Electric:

	Pension Benefits	Other Benefits
	- Thousands of Dollars -	
2006	$ 9	$ 154
2007	19	155
2008	36	158
2009	63	156
2010	109	153
Years 2011-2015	1,384	705

DEFINED CONTRIBUTION PLANS

UES sponsors a defined contribution savings plan that is offered to all eligible employees. The plan is a qualified 401(k) plan under the Internal Revenue Code. In a defined contribution plan, the benefits a participant receives result from regular contributions to a participant account. Participants direct the investment of contributions to certain funds in their account. UES makes matching contributions to participant accounts under this plan. Matching contributions to this plan for UNS Gas' participating employees were approximately $165,000 in 2005 and $163,000 in 2004.

NOTE 10. COMMON STOCK EQUITY

DIVIDEND RESTRICTIONS

As discussed in Note 3, the UES Settlement Agreement limits dividends payable by UNS Gas to UES and UniSource Energy to 75% of earnings until the ratio of common equity to total capitalization reaches 40%. UNS Gas met this ratio requirement at December 31, 2005. Additionally, the terms of the senior unsecured note agreements entered into by UNS Gas contain dividend restrictions. See Note 5.

CAPITAL CONTRIBUTIONS

In January 2005, UNS Gas established a short-term inter-company promissory note to UniSource Energy, by which it could borrow up to $10 million for general corporate purposes. In March 2005, UniSource Energy contributed an additional $6 million in capital to UNS Gas. UNS Gas used the proceeds of this contribution to repay the $6 million outstanding on the inter-company promissory note. In December 2005, UniSource Energy contributed $10 million in capital to UNS Gas.

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of net income to net cash flows from operating activities follows:

	Years Ended December 31,	
	2005	**2004**
	-Thousand of Dollars-	
Net Income	$ 5,046	$ 5,703
Adjustments to Reconcile Net Income to Net Cash Flows		
Depreciation and Amortization Expense	6,773	5,475
Amortization of Deferred Debt-Related Costs Included in Interest Expense	184	140
Provision for Bad Debts	405	715
Deferred Income Taxes	3,185	5,094
Other	1,250	(2,616)
Changes in Assets and Liabilities which Provided (Used) Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(3,391)	(1,154)
Materials and Supplies Inventory	(420)	(750)
Under Recovered Purchased Gas Costs	(4,037)	1,298
Accounts Payable	4,395	9,906
Interest Accrued	41	(79)
Taxes Accrued	639	(4,076)
Other Current Assets	(32)	611
Other Current Liabilities	261	274
Net Cash Flows – Operating Activities	$14,299	$20,541

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

UNS GAS, INC. TESTIMONY AND EXHIBITS

VOLUME 2 OF 3

July 13, 2006

Direct Testimony of
Gary A. Smith

BEFORE THE ARIZONA CORPORATION COMMISSION

<u>COMMISSIONERS</u>
JEFF HATCH-MILLER- CHAIRMAN
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Direct Testimony of

Gary A. Smith

on Behalf of

UNS Gas, Inc.

July 13, 2006

TABLE OF CONTENTS

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Gary A. Smith. My business address is 2901 West Shamrell Blvd., Suite 110 Flagstaff, Arizona 86001.

Q. What is your position with UNS Gas, Inc. ("UNS Gas" or the "Company")?

A. I am employed by UNS Gas as Vice President and General Manager.

Q. What are your duties and responsibilities?

A. I am responsible for directing the operations of UNS Gas. Our service territory includes much of northern Arizona as well as Santa Cruz County in southern Arizona. My chief responsibilities include oversight of the operations, maintenance, construction, and expansion of our gas systems. I also have management responsibility for UNS Gas employees.

Q. Please outline your educational background.

A. I have a Masters degree in Information Technology from the University of Phoenix and a Bachelor of Science degree in Civil Engineering from Arizona State University. I also have Associate of Arts degrees in Fire Science from Mesa Community College in Arizona and Emergency Medical Training from Monroe County Community College in Michigan.

Q. Please state your work experience.

A. I have 28 years of public utility experience, including 24 years of senior management experience. I have been with the Company since August 11, 2003. I worked at Citizens Communications Company ("Citizens") as Vice President and General Manager, Arizona Gas Division for six years. Prior to my position at Citizens, I worked at the Arizona

Corporation Commission ("Commission") for 19 years. During my tenure at the Commission, I served as Chief of Safety (1988-1998) and Chief of Pipeline Safety (1983-1988).

Q. What is the purpose of your testimony in this proceeding?

A. I will provide an overview of UNS Gas operations and explain some of the investments we've made to help meet the needs of our rapidly growing customer base. I also will describe the Company's low-income assistance programs and the Demand Side Management ("DSM") programs we've proposed. Finally, I will detail some proposed changes to UNS Gas' Rules and Regulations, including a new line extension tariff.

II. <u>OVERVIEW OF GAS COMPANY OPERATIONS.</u>

Q. Please describe UNS Gas.

A. UNS Gas serves a rapidly growing base of customers in northern Arizona and Santa Cruz County. These two territories comprise approximately 50 percent of Arizona's geographic area. During 2005, UNS Gas sold or transported over 17.6 billion cubic feet of gas.

Q. What is the makeup of UNS Gas' customers?

A. By number of customers, approximately 90 percent of UNS Gas customers are residential, 9 percent are commercial customers, and one percent are transportation and industrial customers.

Q. Please provide more specific information about your operations in northern Arizona.

A. We provide natural gas service in parts of Coconino, Mohave, Navajo, and Yavapai counties to a customer base that had grown to 131,490, as of the end of the test year. This service area includes the towns and cities of Flagstaff, Winslow, Joseph City, Holbrook, Belmont, Williams, Ashfork, Seligman, Kingman, Lake Havasu, Prescott, Prescott Valley, Chino Valley, Mayer, Dewey-Humboldt, Black Canyon City, Spring Valley, Cottonwood, Clarkdale, Jerome, Sedona, Village of Oak Creek, Verde Village, Cornville, Show Low, Taylor, Pinetop-Lakeside, and Camp Verde.

Q. How does that compare with your operations in southern Arizona?

A. We serve a Santa Cruz County customer base that had grown to 7,325 as of the end of the test year. The county covers approximately 1,200 square miles near the U.S.-Mexico border and includes Nogales, Tubac, Patagonia, Amado, Kino Springs, and Rio Rico.

Q. Please provide more detail regarding the customer growth UNS Gas has experienced.

A. Our customer base grew four percent in 2005, a rate more than double the industry average. The customer bases in two of our fastest growing communities, Prescott and Verde Valley, expanded by 6.7 percent and 4.6 percent, respectively, during 2005.

Q. Do you expect a similar level of growth in the future?

A. We expect our customer base will continue to expand at the current rate for at least the next few years. That expansion is likely to be driven by significant population growth in the Kingman, Chino Valley, Prescott Valley, and Dewey-Humboldt areas. Recent conversations with Mohave County developers and the local economic development agency suggest that our annual customer growth rate in that region could reach as high as six percent.

III. CAPITAL SPENDING SINCE ACQUISITION.

Q. Please describe the significant capital investment made by UNS Gas since the last rate case.

A. The last rate case for the gas properties utilized a 2001 test year and was resolved as part of the Settlement Agreement and Commission order approving the purchase of the system by UniSource Energy. Since then, UNS Gas has spent $61,616,006 through the end of the test year on its transmission and distribution facilities. Most of this investment has been related to growth in its natural gas system in a number of communities in both northern and southern Arizona.

Q. Please describe the capital investment for the upgrade and reinforcement of the system.

A. It has been necessary for UNS Gas to acquire from El Paso Pipeline Company some of its lateral pipelines that supply the natural gas services to some of our distribution systems. These acquisitions gave us better control of system pressure and flow, allowing us to provide safe, reliable, and continual service to our customers. The growth of our customer base also has compelled us to reinforce our distribution systems back at the receipt point to maintain reliable flow rates.

Q. Please describe the capital investment directly related to growth.

A. Since the acquisition of Citizens' Arizona Gas Division properties, UNS Gas has expended significant capital investment funds and incurred significantly increased operating expenses. UNS Gas has made substantial additions to utility plant and equipment that increase the reliability in serving existing customers and meet the demand of customer growth. The increased capital costs have exceeded the growth in sales and revenues. The requested rate increases are required to recognize the increased investment and to provide the Company with a reasonable opportunity to realize a fair rate of return.

Q. Please describe how these expenditures have been utilized.

A. UNS Gas has constructed and installed a total of 180 miles of gas distribution mains and 10,183 service lines since acquiring the Citizens' properties in August 2003. At the end of 2003, the gas system included 2,531 miles of gas distribution mains and 133,061 service lines. At the end of 2004, the system had grown to 2,641 miles of gas distribution mains with 137,874 service lines. On December 31, 2005, the distribution system had been expanded to include 2,711 miles of gas distribution mains and 143,244 service lines. As described previously, UNS Gas also has acquired three El Paso Natural Gas lateral lines to provide greater service reliability.

Q. Why are these investments necessary?

A. UNS Gas' goal is to provide safe, reliable, affordable service to the consumer. These investments are necessary to ensure this goal.

IV. PRODUCTIVITY GAINS, TECHNOLOGY IMPROVEMENTS AND OTHER COST CONTAINMENT STRATEGIES.

Q. What has UNS Gas done to control the costs of serving its growing customer base?

A. We have improved our engineering modeling system to better anticipate needed system improvements, upgrades and expansions and to provide more time for accurate cost assessments. UNS Gas supplies all system materials to its contractors, allowing us to better control material costs. Finally, UNS Gas has made it a priority to improve productivity through operational changes and targeted technology investments, helping us maximize our efforts to serve customers' growing needs.

Q. How has UNS Gas been able to increase productivity through information technology?

A. UNS Gas has employed new computer systems to more fully automate our customer service and work management processes. In addition to eliminating the use of paper orders, these systems allow our technicians to electronically access system maps, Company Standard Practices, customer information, and meter-reading data in the field.

Other technology improvements have played a part in productivity increases, including: the expansion of our internal computer network; Voice over Internet Protocol ("VoIP") telephone systems; tools utilizing the Global Positioning System; cell phone/direct-connect communications; and key-hole excavation techniques. The Company's recent transition to a computerized Geographic Information System ("GIS") offers perhaps the best example of how investments in technology have benefited UNS Gas customers.

Q. What prompted UNS Gas to invest in a new GIS?

A. UNS Gas installed its GIS in response to a directive from Commission Safety Staff ("Staff"), which indicated during a 2002 Annual Commission Pipeline Safety Audit that the Company needed to complete mapping of its service lines in a more timely basis. We enlisted outside contractors to set up the system after determining that doing so would be more cost effective and avoid the need to hire and train short-term employees for this task.

Q. What are the benefits of the Company's GIS?

A. State and federal regulations require gas pipeline operators to maintain accurate maps of their facilities – including gas mains, fittings, service lines, meter locations, regulator stations and other equipment – in relation to base map components such as roads and land parcels. UNS Gas had previously relied on drafted paper maps, which take longer to produce and cannot be updated on a daily basis. The GIS helps UNS Gas maintain an accurate, up-to-date record of its facilities, easing compliance with state and federal laws and providing numerous benefits to the Company and its customers, including:

- **Improved response** – The GIS can quickly identify the location of system controls, helping UNS Gas comply with the Commission's requirement that any emergency caused by a release of natural gas from a pipeline that may cause danger to the public and/or employees be controlled in two hours or less. The GIS also identifies customers likely to lose service due to a leak incident, allowing UNS Gas personnel to provide notification to the affected customers.
- **Better-informed decisions** – The GIS allows gas system planners to use computer models that help them evaluate proposed design alternatives. GIS data also can be used to evaluate the impact of future growth on the current distribution system for budget and planning purposes.
- **Faster work processes** – Map changes that might take weeks or months with conventional hand drafting methods can be completed in hours or days with the GIS at a much lower cost. The system also allows more timely reporting of facility assets for making management decisions and for internal accounting purposes.
- **Increased accuracy** – Employees can access up-to-date GIS maps from the field with laptop computers, allowing them to locate lines more quickly and accurately. This reduces the likelihood of line damage from construction projects or other outside forces, increasing system reliability and improving service to customers.

In these ways, the Company's GIS has significantly improved productivity and reduced costs for UNS Gas and its customers.

Q. What else has UNS Gas done to improve productivity?

A. UNS Gas has made several logistical planning improvements that have increased our employees' productivity. We have adopted a remote storage strategy that has moved parts, materials and other necessary supplies into numerous warehouses spread out across our vast service territory. This allows technicians and construction personnel to more quickly find what they need while working in the field. UNS Gas also has worked with the Arizona Blue Stake Center to automate line location requests, greatly reducing the time needed to locate and mark Company facilities. Most importantly, we have reorganized our staffing to enhance the Company's emergency response, meter reading, inspection, quality assurance, maintenance and call center operations.

Q. What changes have been made to the Company's call center operations, and how have they benefited customers?

A. In the interest of improving productivity and upgrading service, UNS Gas has combined its call center operations with those of UNS Electric, Inc. ("UNS Electric") and Tucson Electric Power Company ("TEP") in a joint call center located at TEP's operational headquarters in Tucson. This change has provided UNS Gas customers with access to a greater number of inbound telephone lines and a larger group of customer service representatives during longer hours of operation. As a result, the Company has provided its customers with a quicker response to requests while reducing the long-term costs associated with meeting their needs.

Q. What have been the results of UNS Gas' efforts to increase productivity?

A. While the Company's customer base has expanded significantly over the past three years, the number of UNS Gas employees has remained essentially flat. When UNS Gas began operations on August 11, 2003, it had one employee for every 616 customers. By December 31, 2005 – the last day of the test year in this case – UNS Gas had one employee for every 666 customers. This equates to a productivity gain of nearly 11 percent during a period when customer service has demonstrably improved. That increase in productivity, if converted to dollars, generated a savings of nearly $1.8 million in labor and benefit costs alone through the end of the test year.

V. <u>LOW-INCOME ASSISTANCE PROGRAMS.</u>

Q. Please describe the low-income assistance programs offered by UNS Gas.

A. We offer three programs designed to assist low-income customers: the Customer Assistance Residential Energy Support ("CARES") pricing plan, Warm Spirit, and Low-Income Weatherization.

A. <u>Customer Assistance Residential Energy Support.</u>

Q. Please describe the current CARES pricing plan

A. The current program offers a discount of $0.15 per therm on the first 100 therms of usage during the period from November through April.

Q. How does a residential customer qualify for CARES discounts?

A. A customer's household gross income must not exceed 150 percent of the Federal Poverty Guidelines ("FPG"), which vary for households of different sizes. For example, a family of two must have a monthly income of less than $1,604 to qualify for discounts, while a family of six must have a monthly income lower than $3,234.

In December 2004, the Commission approved UNS Gas' request to modify the CARES pricing plan to make it easier for customers to apply for the program. As a result, UNS Gas' low-income participants can be enrolled in the program in less than 20 days rather than the 30 to 45 days it took under the previous program. UNS Gas also reduced the burden to participants to re-certify themselves for the program every year and was authorized by the Commission to re-certify random samples of participants every two years.

Q. Is UNS Gas proposing any change to the CARES pricing plan?

A. Yes. The Company proposes eliminating the current volumetric discount and creating a fixed, year-round discount of $6.50 off the monthly residential customer charge. This change, which is described in more detail in Mr. Tobin L. Voge's testimony, is expected to increase the average annual discount enjoyed by CARES customers.

Q. Do CARES program participants enjoy any other benefits?

A. UNS Gas customers enrolled in the CARES program are exempt from paying the Purchase Gas Adjustor ("PGA") surcharge approved by the Commission in Decision No. 68241 (October 25, 2005). Exempting CARES customers from this surcharge resulted in a reduced PGA bank balance collection of $79,528 for November and December 2005. UNS Gas projects that this exemption will reduce surcharge proceeds by $477,000 in 2006.

B. Warm Spirit Program.

Q. How does the Warm Spirit program assist low-income customers?

A. Warm Spirit is a customer-funded program that helps provide emergency bill payment assistance to low-income customers. UES promotes Warm Spirit through bill inserts and bill messages that encourage customers to contribute to the program. All proceeds are distributed to local social service agencies that use the funds to assist qualified UES customers, typically during the winter home heating season.

Q. Does UNS Gas help fund the Warm Spirit Program?

A. UNS Gas matches customers' donations dollar-for-dollar with funds provided by UniSource Energy Corporation's shareholders. In 2004, UNS Gas kicked-off its sponsorship of the program with a one-time donation of $50,000. In 2005, UNS Gas matched customers' donations dollar for dollar in the amount of $24,000.

Q. Is UNS Gas proposing any change to the Warm Spirit program?

A. No. The Company will continue to tap shareholder funds to match customer contributions to the Warm Spirit program, which have averaged between $20,000 and $25,000 per year.

C. Low-Income Weatherization ("LIW").

Q. Please describe the UNS Gas LIW program.

A. The LIW program provides weatherization services to customers whose household income does not exceed 150 percent of the FPG. UNS Gas contracts with community action agencies throughout its service territory to make energy efficiency improvements to homes occupied by low-income residents, including the elderly and disabled. LIW provides up to $2,000 per home for increased insulation, weather stripping, furnace replacement and other improvements at no cost to the customer. The resulting improvements in energy efficiency are intended to produce long term savings on customers' utility bills.

Q. Is UNS Gas proposing any changes to its LIW program?

A. UNS Gas is seeking to extend the benefits of LIW to additional qualified low-income customers by increasing the annual funding level from $75,000 to $135,000. The Company also has proposed funding LIW through a proposed DSM charge to be adjusted annually, discussed in Mr. Voge's testimony. The cost allocation is removed from base rates in the CARES program expense adjustment sponsored by Mr. Dallas J. Dukes and LIW would become one of the residential programs in the DSM program portfolio. Finally, UNS Gas has proposed allocating $21,600 of LIW program funds to a new emergency bill assistance program for low-income customers.

Q. Under what circumstances would this emergency bill assistance program be used?

A. The program would be used to pay the natural gas bills for customers in crisis situations. Three categories of crisis, as defined by the Arizona Department of Economic Security's Community Services Division, are: (i) loss or reduction of income; (ii) unexpected or unplanned expenses that cause lack of resources; or (iii) a condition that endangers the health or safety of the household.

Q. How would the proposed emergency bill assistance program work?

A. The program would be administered by the community action agencies under contract with UNS Gas to implement LIW. Customers would qualify for emergency bill assistance if they meet the eligibility guidelines for the federal Low Income Home Energy Assistance Program ("LIHEAP"). To qualify, an individual must: (i) have a household income that does not exceed 150 percent of the FPG; (ii) be a utility customer; (iii) provide a utility delinquent or unpaid bill; and (iv) not have received emergency bill assistance in the previous 12 months. Customers who satisfy these criteria can receive up to $400 in assistance no more than once in a 12-month period, with the amount determined by their household's energy burden.

VI. DEMAND SIDE MANAGEMENT PROGRAMS.

Q. Does UNS Gas offer any DSM programs to its customers?

A. The Company offers the LIW program discussed above. In Arizona, LIW historically has been categorized as a DSM program and is funded in the same manner as DSM. However, UNS Gas' LIW program is currently funded through base rates. UNS Gas is requesting that its LIW program be included as a part of its DSM program portfolio, and that its associated program costs be included in the proposed DSM charge.

Q. Is the Company proposing to offer new DSM programs to its customers?

A. Yes. Contingent upon Commission approval and funding, UNS Gas proposes to add new DSM programs for residential and commercial customers.

A. <u>Proposed New Conservation and Energy Efficiency Programs.</u>

Q. What new conservation and energy efficiency programs does the Company propose?

A. Including the enhanced LIW program described above, UNS Gas is proposing five DSM programs and associated funding for residential and commercial customers.

Q. What new programs is UNS Gas proposing for residential customers?

A. In addition to enhancing LIW and including it as part of the residential DSM program portfolio, we are proposing a Residential Furnace Retrofit program and a Residential New Construction Program.

Q. Please describe the Residential Furnace Retrofit Program.

A. The proposed Residential Furnace Retrofit program provides prescriptive incentives to encourage residential and multi-family homeowners to invest in energy-efficient gas-fueled furnaces with a 90 percent or greater Annual Fuel Utilization Efficiency ("AFUE") rating. In addition, the program would provide training, qualification and promotion for contractors who are knowledgeable and meet UNS Gas standards for the installation and operation of high-efficiency residential gas furnace systems.

The proposed annual cost for the program is $204,243, with a targeted annual savings for the program of 74,240 therms.

Q. Please describe the Residential New Construction Program.

A. The proposed Residential New Construction Program provides prescriptive incentives to home builders for installation of energy efficiency measures in new residential construction projects. This program targets energy savings in heating, cooling, and hot water use. These savings are typically achieved through a combination of building envelope upgrades, high-performance windows, controlled air filtration, upgraded heating and air conditioning systems, tight air duct systems, and upgraded water-heating equipment.

The proposed annual cost for the program is $418,201, with a targeted annual savings for the program of 72,651 therms, a coincident peak kW reduction of 914, and annual kWh reduction of 1,415,646.

Q. What is the proposed annual funding level for all of the residential DSM programs?

A. The proposed funding level for the new DSM residential programs is $622,444. Including the enhanced LIW program funding of $135,000, the total proposed funding level is $757,444 annually.

Q. What new programs is UNS Gas proposing for commercial customers?

A. UNS Gas is proposing a Commercial HVAC Retrofit Program and a Commercial Gas Cooking Efficiency Program.

Q. Please describe the Commercial HVAC Retrofit Program.

A. This proposed program provides prescriptive incentives to encourage business owners to invest in energy efficiency improvements for their gas fueled water heating and space heating systems. The program will offer training, qualification and promotion for contractors who are knowledgeable and meet UNS Gas standards. Participating contractors will be allowed to take part in a qualified contractors' referral program.

The proposed annual cost for the program is $150,500, with a targeted annual savings for the program of 22,136 therms.

Q. Please describe the Commercial Gas Cooking Efficiency Program.

A. This proposed program provides prescriptive incentives to encourage business owners to make energy efficiency improvements in commercial gas-fueled cooking applications. The market for participating facilities includes restaurants as well as numerous kitchens located in schools, hospitals, and lodging facilities.

The proposed annual cost for the program is $143,672, with a targeted annual savings for the program of 42,806 therms.

Q. What is the proposed annual funding level for all of the commercial DSM programs?

A. The proposed funding level for the commercial programs is $294,172 annually.

Q. What is the proposed funding level for the entire DSM program portfolio?

A. The proposed funding level for the new residential and commercial DSM programs is $916,616. A listing of the proposed DSM programs, the associated funding, targeted annual savings and the results of the Total Resource Cost ("TRC") and Participant Test

("PT") test ratios are provided in Exhibit GAS-1. The total proposed funding to be collected through the DSM charge, including the LIW, is $1,051,616.

Q. What does UNS Gas expect to achieve from its new DSM program portfolio?

A. The DSM program portfolio will provide customers with the opportunity to participate in programs never offered in the UNS Gas service territory. Based on the Company's projections, the proposed DSM program portfolio is expected to achieve a savings of 211,833 therms annually.

Q. Have you reviewed the DSM programs from other states?

A. Yes. UNS Gas investigated a wide range of program options and identified those that have the greatest relevance to the local market. The Company reviewed 32 programs that are either operating or proposed for operation in Arizona and the surrounding region. Programs specifically reviewed are from TEP, Arizona Public Service, Southwest Gas Corporation and Public Service Company of New Mexico.

Q. How did you determine what programs to propose for UNS Gas?

A. In order to identify how a regional program may be applicable to the UNS Gas program portfolio design, the 32 programs previously mentioned were ranked according to seven criteria. High-ranking programs provided UNS Gas with further insight into product offerings, program design, budgeting, and marketing approaches that might be useful. The seven criteria include:

(i) Applicable to existing customer base;

(ii) Consistency with area demographic/growth trends;

(iii) Potential cost effectiveness;

(iv) High incentive value;

(v) Consistency with societal goals;

(vi) Delivery infrastructure in place; and

(vii) Whether a program compliments existing, ongoing programs.

Q. How were the DSM programs evaluated for cost-effectiveness?

A. UNS Gas utilized the TRC test and the PT to evaluate its recommended residential and commercial program portfolio. The TRC test measures the net costs of an energy efficiency program as a resource option based on the total costs of the program, including both the participants' and the utility's costs. The PT was utilized to measure the quantifiable benefits and costs to the customer due to participation in the program.

B. <u>Cost Recovery and Approval Process.</u>

Q. How would UNS Gas recover the costs of the programs, if approved?

A. The Company is proposing an annually adjusted charge to provide cost recovery for the approved DSM program portfolio. The DSM charge is discussed in more detail in Mr. Voge's testimony and would initially be set at $.007608 per therm.

Q. How will UNS Gas obtain approval for the proposed programs?

A. If the requested funding is approved, UNS Gas would like to file a joint DSM program portfolio with UNS Electric, a UES company.

Q. Why does UNS Gas want to file a joint program proposal with UNS Electric?

A. UNS Electric expects to file documents for a proposed rate case in late 2006. In that proceeding, UNS Electric will request an increase in funds to its current DSM program portfolio. UNS Gas and UNS Electric would like to take advantage of program synergies in Mohave and Santa Cruz Counties, where their service territories are the same. Taking advantage of program synergies requires a joint filing of a DSM program portfolio for

Commission approval. The DSM program portfolio for UNS Gas and UNS Electric would be filed 120 days after the resolution of the proposed UNS Electric rate case proceedings.

Q. What program synergies can be developed as a result of combining the DSM program portfolio?

A. The utilities can gain greater efficiencies and reduce program costs where service territories are the same by jointly administering the direct implementation, internal administration and marketing costs for the programs. Administering joint programs in Mohave and Santa Cruz Counties also will reduce customer confusion about program details and how to participate in a program. If the programs are jointly administered in these areas, local customers will not have to contact each utility to participate in a program.

Q. What programs will be jointly administered in Mohave and Santa Cruz Counties?

A. The Residential New Construction, Residential HVAC/Furnace Retrofit, and Commercial HVAC Retrofit programs will be jointly administered. These programs will be made available throughout the entire UNS Gas service territory. However, the aforementioned programs will be jointly administered in Mohave and Santa Cruz Counties.

VII. <u>RULES AND REGULATIONS.</u>

Q. Why has UNS Gas proposed changes to its Rules and Regulations?

A. Generally, the current Rules and Regulations were inherited from Citizens. UNS Gas has updated some of these Rules and Regulations as well as other tariffs and is seeking Commission approval of these changes.

Q. Please describe some of these changes.

A. The definitions for Cubic feet per Hour ("CFH"), Incremental Contribution Study ("ICS"), Law, Meter Set Assembly ("MSA"), Pricing Plan, Rules and Regulations, and Standard Conditions have been added to Section 2 of the Rules and Regulations.

In Section 6.B. 2. b., the amount that the customer will reimburse the Company for the gas service line on the customer's property was increased from $8.00 per foot to $16.00 per foot to reflect current costs. Also, the customer is now responsible for locating facilities on private property and removing landscaping prior to installation or is to be subject to applicable charges. For customers who provide the trench for the service line on their own property, the rate at which the customer will reimburse the Company has been increased to $12.00 per foot for the excess footage. These changes stem from increased costs and a requirement for 100 percent inspection, pursuant to Decision No. 66028.

In Section 10. C., "Billing Terms", the due date for bills for gas service was changed to ten days from the date the bill is rendered. Any payment not received within this time shall be considered past due and may be subject to a late payment penalty charge. The date for all past due bills for gas service was changed to be due and payable within fifteen days. Any payment not received within this time shall be considered delinquent and the customer will be issued a suspension of service notice. This change was made in order to align UNS Gas' Rules and Regulations with the Arizona Administrative Code.

Section 10. J., "Electronic Billing" was added. The previous Rules and Regulations did not include language to address this option for customers.

In Section 11. E, "Timing of Terminations with Notice", the advance written notice prior to the termination date was changed to at least five days. This change was made in order to align UNS Gas' Rules and Regulations with the Arizona Administrative Code.

Q. Is UNS Gas requesting any change to its Line Extension tariff?

A. UNS Gas is proposing several changes to our main line extension tariff, which is part of our Rules and Regulations. These changes would update our tariff to reflect current market conditions and make them consistent with our policy of asking developers to pay a fair cost for infrastructure installed to serve their facilities. For more details on these changes, please review the attached redline copy of the Rules and Regulations.

Q. Is a copy of the proposed modification to the Rules and Regulations attached?

A. Yes, redlined and clean copies of the revised Rules and Regulations are attached as Exhibit GAS-2.

Q. Does that conclude your testimony?

A. Yes.

EXHIBIT

GAS-1

Residential Programs

Programs by Market or Customer Segment	Program Name	Residential Electric Program Description	Proposed Average Annual Budget	Targeted Annual Savings	Benefit Costs Ratios
Residential Gas	Residential Furnace Retrofit	• Provides prescriptive incentives for residential single and multifamily home owners for energy efficiency improvements in residential gas fueled furnace applications. • Utilizes the existing UES online 'Residential Energy Advisor', or Department of Energy online energy audit, as part of the program application process. • Provide training, qualification and promotion of contractors who are knowledgeable and meet UES standards installing and operating high efficiency HVAC systems. • All residential structures in the UESE and UESG service territories served by UESG gas are eligible for the furnace efficiency measures. • Annual installation of approximately 800 furnaces with 90% or greater AFUE ratings.	$204,243	Coincident Peak kW = 0 Annual kWh = 0 Annual Therms = 74,240	TRC Ratio = 1.26 PT Ratio = 2.23
	Residential New Construction	• Provides prescriptive incentives to home builders for installation of energy efficiency measures in new residential construction projects. • Provide educational and promotional pieces and design tools to assistance to developers of new residential structures and associated middle market trade allies (A&Es, contractors, etc.) with the installation of high-efficiency homes that meet or exceed the UES Efficient Home and ENERGY STAR program standards. • Uses the UES Efficient Home (Energy Star) program savings measures, plus additional appliance measures. • Provides incentives to builders to install Energy Star labeled dishwashers, clothes washers, and refrigerators. • All new single family and multifamily buildings in the UESE and UESG service territories are eligible. • Annual participation is estimated to be 5% of new units, or approximately 580 homes in 2007.	$418,201	Coincident Peak kW = 914 Annual kWh = 1,415,646 Annual Therms = 72,651	TRC Ratio = 1.98 PT Ratio = 4.06
Residential Gas Subtotal			$622,444	Coincident Peak kW = 914 Annual kWh = 1,415,646 Annual Therms = 146,891	TRC Ratio = 1.72 PT Ratio = 3.29

Commercial Programs

Programs Organized by Market or Customer Segment	Program Name	Commercial Gas Program Description	Proposed Average Annual Budget	Targeted Annual Savings	Benefit Costs Ratios
C&I Gas	Commercial HVAC Retrofit	• Provides prescriptive incentives for business owners for energy efficiency improvements in gas fueled heating (space and water) applications. • Utilizes the existing UES online 'Business energy Advisor', or Department of Energy online energy audit, as part of the program application process. • Provide training, qualification and promotions of contractors who are knowledgeable and meet UES standards • Participating allies will be allowed to participate in a qualified allies referral program. • The target market includes all commercial facilities in the UESE and UESG service territories served by UESG gas are eligible for the efficiency measures • Annual participation is estimated at approximately 130 facilities.	$150,500	Coincident Peak kW = 0 Annual kWh = 0 Annual Therms = 22,136	TRC Ratio = 1.11 PT Ratio = 2.93
	Commercial Gas Cooking Efficiency	• Provides prescriptive incentives for business owners for energy efficiency improvements in commercial gas fueled cooking applications. • The target market includes all commercial kitchens in the UESE and UESG service territories served by UESG gas are eligible for the efficiency measures • The market for participating facilities in all UES service territories is estimated at 700 restaurants, and numerous kitchens located in schools, hospital, and lodging facilities.	$143,672	Coincident Peak kW = 0 Annual kWh = 0 Annual Therms = 42,806	TRC Ratio = 1.26 PT Ratio = 2.81
Commercial & Industrial Gas Subtotal			$294,172	Coincident Peak kW = 0 Annual kWh = 0 Annual Therms = 64,942	TRC Ratio = 1.19 PT Ratio = 2.86

EXHIBIT

GAS-2

UNS Gas, Inc.
Rules & Regulations

REDLINED VERSION

TABLE OF CONTENTS

SECTION NO. 1
APPLICABILITY OF RULES AND REGULATIONS AND DESCRIPTION OF SERVICE

~~1.~~A. ~~UniSource Energy Services' UNS Gas, Inc. (~~"Company"~~)~~ is a gas utility operating within portions of the state of Arizona. The Company will provide service to any person, institution or business located within its service area in accordance with the provisions of its Pricing Plans~~rate schedules~~ and the terms and conditions of ~~its rules as filed with and approved by the Arizona Corporation Commission ("ACC")~~these Rules and Regulations.

~~2.~~B. All gas delivered to any Customer is for the sole use of such Customer on that Customer's premises only. Gas delivered by the Company shall not be redelivered or resold, or the use thereof by others permitted unless otherwise expressly agreed to in writing by the Company. However, those Customers purchasing gas for redistribution to the Customer's own tenants (only on the Customer's premises) may separately meter each tenant distribution point for the purpose of prorating the Customer's actual purchase price of gas delivered among the various tenants on a per unit basis.

~~3.~~C. The~~ Company rules~~se Rules and Regulations shall apply to all gas service furnished by the Company to its Customers.

~~4.~~D. These Rules and Regulations ~~Company rules~~ are part of the Company's Pricing Plans~~tariffs~~ on file with, and duly approved by, the ACC. These Rules and Regulations shall remain in effect until modified, amended, or deleted by order of the ACC. No employee, agent or representative of the Company is authorized to modify the Company rules.

E. The~~ Company rules~~se Rules and Regulations shall be applied uniformly to all similarly situated Customers.

~~5.~~F. ~~It is intended that the Company rules comply in all respects with the rules of the ACC.~~ In case of ~~conflict~~any conflict between these Rules and Regulations and the ACC's rules, these Rules and Regulations shall apply~~, the rules of the ACC shall govern, except those for which the ACC has procedurally suspended or excused compliance therewith, in which event the Company rules shall govern~~.

~~6.~~G. Whenever the Company and an ~~applicant~~Applicant or a Customer are unable to agree on the terms and conditions under which such ~~applicant~~Applicant or Customer is to be served, or are unable to agree on the proper interpretation of the ~~Company rules~~these Rules and Regulations, either party may request assistance from the Consumer Services Section of the Utilities Division of the ACC. The ~~applicant~~Applicant or Customer also has the option to file an application with the ACC for a proper order, after notice and hearing.

H. The Company's supplying gas service to the Customer and the acceptance thereof by the Customer shall be deemed to constitute an agreement by and between the Company and the Customer for delivery, acceptance of and payment for gas service under the Company's Rules and Regulations and applicable Pricing Plans.

SECTION NO. 2
DEFINITIONS

A. In these Rules and Regulations~~rules~~, the following definitions shall apply unless the context requires otherwise:

1. "Advance in Aid of Construction" or "Advance" – Funds provided to the Company by an ~~applicant~~Applicant under the terms of a main extension agreement, the value of which may be refundable.

2. "Applicant" – A person ~~or entity~~ requesting the Company to supply gas service.

3. "Application" – A request to the Company for gas service, as distinguished from any inquiry as to the availability or charges for such service.

4. "Arizona Corporation Commission" ("ACC") – The ~~regulatory authority of the State of Arizona having jurisdiction over public service corporations operating in Arizona~~regulatory body established by Article XV of the Arizona Constitution.

5. "Billing Month" – The time interval between any two (2) regular readings of the Company's meters at approximately thirty (30) day intervals.

6. "Billing Period" – The time period between two (2) consecutive meter readings that are taken for billing purposes.

7. "British Thermal Unit" ("BTU") – The amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit, at ~~s~~Standard ~~c~~Conditions.

8. "CCF" – One hundred (100) cubic feet.

9. "CFH" – Cubic feet per hour.

~~9.~~10. "Commodity Charge" – The unit cost for billed usage as set forth in the Company's Pricing Plans~~Tariffs~~.

~~10.~~11. "Company" – UNS Gas, Inc.

~~11.~~12. "Contributions in Aid of Construction" or "Contribution" – Funds provided to the Company by the ~~applicant~~Applicant under the terms of a main extension agreement and/or service connection tariff, the value of which are not refundable.

SECTION NO. 2
DEFINITIONS
(continued)

~~12.~~13. "Cubic Foot" –

~~1.~~a. In cases where gas is supplied and metered to ~~Customer~~Customers at ~~the s~~Standard ~~d~~Delivery ~~p~~Pressure, a cubic foot of gas is the volume of gas, which at the temperature and pressure existing in the meter occupies one (1) cubic foot.

~~2.~~b. Regardless of the pressure supplied to the Customer, the volume of gas metered will be converted to the volume~~,~~ which the gas would occupy at ~~s~~Standard ~~c~~Conditions. ~~of 14.73 pounds per square inch absolute at sixty (60) degrees Fahrenheit.~~

~~3.~~c. The standard cubic foot of gas used for testing the gas for heating value shall be that volume of gas which, when saturated with water vapor and at a temperature of sixty (60) degrees Fahrenheit and under a pressure equivalent to that of thirty (30) inches of mercury (mercury at thirty-two (32) degrees Fahrenheit and under standard gravity), occupies one (1) cubic foot.

~~13.~~14. "Curtailment Priority" – The order in which gas service is to be curtailed to various classifications of ~~Customer~~Customers, as set forth in the Company's Pricing Plans~~Tariffs~~.

~~14.~~15. "~~Customer~~Customer" – The person ~~or entity~~ in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in the person's ~~his or her~~ name regardless of the identity of the actual user of the service.

~~15.~~16. "~~Customer~~Customer Charge" – The amount the Customer must pay the Company for the availability of gas service, excluding any gas used, as specified, in the Company's Pricing Plans~~Tariffs~~.

~~15.~~17. "~~Customer~~Customer Service Complaint" - Written complaint received from a C~~customer~~ustomer, or through the ACC on behalf of a ~~customer~~Customer.

~~16.~~18. "Day" – Calendar day.

~~17.~~19. "De~~k~~catherm" – Ten (10) therms or 1,000,000 BTU.

~~18.~~20. "Distribution Main" – A gas line of the Company from which service lines may be extended to ~~Customer~~Customers.

~~19.~~21. "Handicapped" – A person with a physical or mental condition which substantially contributes to the person's inability to manage his or~~f~~ her own resources, carry out activities of daily living, or protect themselves~~oneself~~ from neglect or hazardous situations without assistance from others.

SECTION NO. 2
DEFINITIONS
(continued)

~~20.~~22. "Illness" – A medical ailment or sickness for which a residential ~~Customer~~Customer obtains a verifiable document from a licensed medical physician stating the nature of the illness and that discontinuance of service would be especially dangerous to the ~~Customer~~Customer's health.

~~21.~~23. "Inability to Pay" – Circumstances where a residential ~~Customer~~Customer:

a. Is not gainfully employed and is unable to pay; or

b. Qualifies for government welfare assistance, but has not begun to receive assistance on the date that the bill is received and can obtain verification from the government welfare agency; or

c. Has an annual income below the published federal poverty level and can produce evidence of this; and

d. Signs a declaration verifying that the ~~Customer~~Customer meets one of the above criteria and is either a senior citizen, handicapped, or suffers from an illness.

24. "~~"Incremental Gas Cost"~~Incremental Contribution Study" ~~(ICS)~~ ()"ICS") ~~- An analysis which determines a Customer's contribution to the cost of his or her service and main line extension. The analysis utilizes estimates of revenues collected from the Customer, expenses incurred by the Company, and the Company's authorized rate of return~~ Tthe study described in Section 7.B.5 of these Rules and Regulations.

~~22.~~25. "Interruptible Gas Service" – Gas service that is subject to interruption or curtailment as specified in the ~~company'~~Company's Pricing Plans~~tTariffs~~.

26. "Law" – Any rule or requirement established and enforced by government authorities.

~~23.~~27. "Main Extension" – The lines and equipment necessary to extend the existing gas distribution system to provide service to additional ~~customers~~Customers.

~~24.~~28. "Master Meter" – An instrument for measuring or recording the flow of gas at a single location from which said gas is transported through a piping system to tenants or occupants for their individual consumption.

~~25.~~29. "MCF" – One thousand (1,000) cubic feet.

~~26.~~30. "Meter" – The instrument for measuring and indicating or recording the volume of gas that has passed through it.

31. "Meter Set Assembly" ("MSA") – All gas components downstream of the cCustomer's inlet service valve ~~-gas service stop~~ to the ~~Customer~~Customer's ~~point of delivery~~Point of Delivery.

SECTION NO. 2
DEFINITIONS
(continued)

~~27. "Meter Tampering" – A situation where a meter has been illegally altered. Common examples are meter bypassing and other unauthorized connections. Tampering also includes any action defined as "tampering" under A.R.S. § 40-491(4).~~

~~28.~~32. "Minimum Charge" – The amount the ~~Customer~~Customer must pay for the availability of gas service and~~,~~ may include ~~including~~ an amount of usage, as specified in the Company's Pricing Plans~~Tariffs~~.

~~29.~~33. "Permanent ~~Customer~~Customer" – A ~~Customer~~Customer who is a tenant or owner of a service location who applies for and receives gas service.

~~30.~~34. "Permanent Service" – Service which, in the opinion of the Company, is of a permanent and established character. The use of gas may be continuous, intermittent, or seasonal in nature.

~~31.~~35. "Person" – Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.

36. "Point of Delivery" – The ~~point of delivery~~Point of Delivery for all gas delivered to any ~~Customer~~Customer shall be at the point of interconnection between the facilities of the Company and those of such ~~Customer~~Customer.

~~32.~~37. "Premises" – All of the real property and apparatus employed in a single enterprise or residence on an integral parcel of land undivided by public streets, alleys or railways.

38. "Pricing Plan" – A part of the Company's Tariffs which sets forth the rates and charges related to specific categories of Customers, and related terms and conditions.

~~33.~~39. "Residential Subdivision" – Any tract of land which has been divided into four or more contiguous lots for use in the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.

~~34.~~40. "Residential Use" – Service to ~~Customer~~Customers using gas for domestic purposes such as space heating, air conditioning, water heating, cooking, clothes drying, and other residential uses and includes use in apartment buildings, mobile home parks, and other multi-unit residential buildings.

~~35.~~41. "Restricted Apparatus" – An apparatus prohibited by the ACC, another~~or other~~ governmental agency, or the Company.

42. "Rules and Regulations" or "Company rules" – These Rules and Regulations, which are part of the Company's Tariffs and Pricing Plans.

SECTION NO. 2
DEFINITIONS
(continued)

~~36.~~43. "Senior Citizen" – A person who is sixty-two (62) years of age or older.

~~37.~~44. "Service Areas" – ~~the~~The territory in which the Company has been granted a certificate of convenience and necessity and is authorized by the ACC to provide gas service.

~~38.~~45. "Service Establishment Charge" – A charge, as specified in the Company's Pricing Plans~~Tariffs~~, which covers the cost of establishing a new account.

~~39.~~46. "Service Line" – A gas pipe that transports gas from a common source or supply (normally a distribution main) to the ~~Customer~~Customer's ~~p~~Point of ~~d~~Delivery.

~~40.~~47. "Service Reconnection Charge" – A charge ~~as~~ specified in the Company's Pricing Plans~~Tariffs~~ ~~which~~that must b~~y~~e paid by the ~~Customer~~Customer prior to re-establishment of gas service each time the gas is disconnected for nonpayment, or ~~whenever service is discontinued~~ for failure to comply with the Company's Pricing Plans~~Tariffs~~.

~~41.~~48. "Service Re-Establishment Charge" – A charge ~~as~~ specified in the Company's Pricing Plans~~Tariffs~~ for the re-establishment of service at the same location where the same ~~Customer~~Customer had ordered a service disconnect within the preceding twelve (12) month period. In addition to the Service Re-Establishment Charge, such returning Customer shall pay the sum of the applicable monthly Customer Charges which would have accrued had the Customer not ordered the disconnect.

~~42.~~49. "Single Family Dwelling" – A house, an apartment, a~~and a~~or a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as permanent home.

50. "Standard Conditions" - 14.73 pounds per square inch absolute at sixty (60) degrees Fahrenheit.

~~43.~~51. "Standard Delivery Pressure" – 0.25 pounds per square inch gauge at the meter or ~~point of delivery~~Point of Delivery.

52. "Tampering" – A situation where a meter has been illegally altered. Common examples are meter bypassing and other unauthorized connections. Tampering also includes any action defined as "tampering" under A.R.S. § 40-491(4).

~~44.~~53. "Tariffs" – The documents filed with the ACC that list the services offered by the Company and set forth the terms and conditions and a schedule of the rates and charges for those services and products. These Rules and Regulations are part of the Company's Tariffs. The Company's Pricing Plans are also part of the Company's Tariffs.

~~45.~~54. "Temporary Service" – Service to premises or enterprises that are temporary in character, or where it is known in advance that the service will be of limited duration. Service that, in the opinion of the Company, is for operations of speculative character is also considered temporary service.

SECTION NO. 2
DEFINITIONS
(continued)

~~46.~~55. "Therm" – A unit of heating value, equivalent to one hundred thousand (100,000) BTUs.~~British Thermal Units.~~

~~**SECTION NO. 2**~~
~~**DEFINITIONS**~~
~~(continued)~~

~~47.~~56. "Third Party Notice" – A notice sent to a~~n~~ person ~~individual or a public entity~~ willing to receive notification of the pending discontinuance of service to~~of~~ a ~~Customer~~Customer of record, in order to make arrangements on behalf of said ~~Customer~~Customer that are satisfactory to the Company.

~~48.~~57. "Transmission Line" - A gas line for delivering natural gas that operates at a ~~l~~hoop stress of twenty percent (20%) or more of ~~SYMS~~ Specified Minimum Yield Strength ("SMYS")~~,~~, as defined in CFR 49, Part 192 or that transports gas to ~~a~~ a single large volume ~~customer~~Customer such as a distribution center, factory, power plant or institutional user.

~~49.~~58. "Unauthorized" – Use of gas services that is not in accordance with ~~the~~ ACC~~'s~~ rules, ~~and/or~~ the Company's Rules and Regulations,~~rules, regulations~~ or~~and~~ the Company's Pricing Plans~~tTariffs~~.

~~50. "Utility" – The public service corporation providing gas service to the public in compliance with state law.~~

~~51.~~59. "Weather Especially Dangerous to Health" – That period of time, commencing with the scheduled termination date, when the local weather forecast~~,~~ as predicted by the National ~~Oceanographic and Administration Service~~Oceanic and Atmospheric Administration, indicates that the temperature will not exceed thirty-two (32) degrees Fahrenheit for the next day's forecast. The ACC may determine that other weather conditions are especially dangerous to health as the need arises.

~~52.~~60. "Working Hours" – The period of time during which the Company's offices are open for business.

~~53.~~61. "Yardline" – A gas pipe that transports gas from the ~~Customer~~Customer's ~~point of delivery~~Point of Delivery to the point of entry into the ~~Customer~~Customer's residence or other place of consumption.

SECTION NO. 3
ESTABLISHMENT OF SERVICE

~~1.~~A. Information From ~~Applicant~~Applicants

1. The Company may obtain the following minimum information from each ~~applicant~~Applicant ~~of service~~:

   a. Name or names of ~~applicant~~Applicant(s);

   b. Service address or location and telephone number;

   c. Billing address or location and telephone number, if different than service address;

   d. Address where service was provided previously;

   e. Date ~~applicant~~Applicant will be ready for service;

   f. Indication of whether premises have been supplied with gas service previously;

   g. Purpose for which service is to be used;

   h. Indication of whether ~~applicant~~Applicant is owner or tenant of~~,~~ or agent for, the premises;

   i. Information concerning the gas usage and demand requirements of the ~~Customer~~Customer; and

   j. Type and kind of life-support equipment, if any, used by the ~~Customer~~Customer.

2. The Company may require a new ~~applicant~~Applicant for service to appear at the Company's designated place of business to produce proof of identity and sign the Company's application form.

3. Where service is requested by two or more individuals, the Company shall have the right to collect the full amount owed to the Company from any one of the ~~applicant~~Applicants.

4. ~~The company shall provide to the Customer customer making application for~~An Applicant for -gas service to ~~a~~-new construction~~/~~ or a new ~~expansion~~extension shall complete the following Company forms~~both a~~:

   a. New Service Application; and

   b. Excess Flow Valve ~~Customer~~Customer Notification (applies to Residential only).

The ~~customer~~Customer is responsible ~~to complete and return~~ for completing and returning both forms.~~-~~ Failure on the part of the ~~Customer~~Customer to provide completed forms shall be grounds for the Company to delay or refuse service. For the purpose of this Rule, the definition of new construction/~~expansion~~extension is where there is a need to run a new service line or install new gas facilities to a property that has never had prior natural gas service.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

~~2.~~B. Deposits

~~a.~~1. The Company may require from any present or prospective ~~Customer~~Customer a security deposit to guarantee payment of all bills. This deposit may be retained by the Company until service is discontinued and all bills have been paid; except as provided in Subsection B.4 below. Upon proper application by the ~~Customer~~Customer, the Company shall then return said deposit, together with any unpaid interest accrued thereon from the date of commencement of service or the date of making the deposit, whichever is later. The Company shall be entitled to apply said deposit together with any unpaid interest accrued thereon, to any indebtedness for the same class of service owed to the Company for gas service furnished to the ~~Customer~~Customer making the deposit. When said deposit has been applied to any such indebtedness, the ~~Customer~~Customer's gas service may be discontinued until all such indebtedness of the ~~Customer~~Customer is paid and a like deposit is again made with the Company by the ~~Customer~~Customer. No interest shall accrue on any deposit after discontinuance of the service to which the deposit relates.

The Company shall not require a deposit from a new ~~applicant~~Applicant for residential service if the ~~applicant~~Applicant is able to meet any of the following requirements:

a. The- ~~applicant~~Applicant has had service of a comparable nature with the Company at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

b. The ~~applicant~~Applicant can produce a letter regarding credit or verification from a gas or electric utility which states that the ~~applicant~~Applicant has had service of a comparable nature with that utility at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

c. In lieu of a cash deposit, a new Aapplicant may provide a Letter of Guarantee from an existing ~~Customer~~Customer of the Company who is acceptable to the Company, a surety bond, or similar alternative acceptable to the Company, such as a Certificate of Deposit, as security for Company in the sum equal to the required deposit; or

d. If a credit check is offered by the Company, the ~~applicant~~Applicant authorizes a credit check and meets the standards established by the Company.

~~b.~~2. The Company may issue a non-assignable, non-negotiable receipt to the ~~applicant~~Applicant for the deposit. The inability of the ~~Customer~~Customer to produce such a receipt shall in no way impair the ~~Customer~~Customer's right to receive a refund of the deposit which is reflected on the Company's records.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

3. Cash deposits held by the Company twelve (12) months or longer shall earn interest at the established one year Treasury Constant Maturities rates, effective on the first business day of each year, as published in the Federal Reserve website. ~~Simple interest at the rate of six percent (6.0%) per annum will be paid by the Company upon each such deposit for the time such deposit was held by the Company and the Customer was served by the Company, except that n~~No interest will be paid on deposits for which ~~Customer~~Customers have turned service on and off within the same calendar month. Such payment of interest shall be made during January of each year for ~~Customer~~Customers served by the Company for at least six (6) months and will cover all interest accrued up to the end of the preceding calendar year or on the date the deposit is returned to the ~~Customer~~Customer, pursuant to Subsection B.4 below. At the Company's option, the above payments may be made either by check or by credit on the monthly bill.

~~c.~~4. All deposits of residential or commercial ~~Customer~~Customers received and held by the Company shall be returned to the ~~Customer~~Customer by the Company (with interest, as provided by Subsection B.3 above), at such time as the affected ~~Customer~~Customers shall have maintained for a period of twelve (12) consecutive months (from and after the date when the deposit was made), their accounts with the Company. The ~~Customer~~Customer's accounts shall have been maintained in such a manner that they shall not have been delinquent in the payment of more than two (2) bills during such twelve (12) month period, whether at the same address or at a different address, nor have had their gas service, whether at the same address or at a different address, discontinued, in accordance with these Rules and Regulations~~rules~~, for failure to pay for gas service previously rendered.

~~d.~~5. The Company may require a ~~Customer~~Customer to establish or re-establish a deposit if the ~~Customer~~Customer became delinquent in the payment of three (3) or more bills within a twelve (12) consecutive month period, or has been disconnected from service during the last twelve (12) months.

~~e.~~6. The Company may review the ~~Customer~~Customer's usage after service has been connected and adjust the deposit amount based upon the ~~Customer~~Customer's actual usage.

~~f.~~7. A separate deposit may be required for each meter installed.

~~g.~~8. Residential ~~customer~~Customer deposits shall not exceed two (2) times that ~~customer~~Customer's estimated average monthly bill. Non-residential ~~customer~~Customer deposits shall not exceed two and one-half (2.5) times that ~~customer~~Customer's maximum estimated monthly bill. If actual usage history is available, then that usage, adjusted for normal weather, will be the basis for the estimate.

9. The posting of a deposit shall not preclude the Company from terminating service~~, because t, because of ahe~~ when the termination is due to the -Customer's failure to~~ make timely payment of any bill, Customer's failure to~~ perform any obligation under the agreement for service or ~~-for service or Customer's violation of~~ any of these Rules and Regulations.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

~~3.~~C. Grounds For Refusal Of Service

The Company may refuse to establish service if any of the following conditions exist:

~~2.~~1. The Applicant has an outstanding amount due for the same class of gas service with the Company and the Applicant is unwilling to make arrangements with the Company for payment; or

2. A condition exists which, in the Company's judgment, is unsafe or hazardous to the ~~applicant~~Applicant, the general population, or the Company's personnel or facilities; or

3. The ~~applicant~~Applicant refuses to provide the Company with a deposit when the ~~Customer~~Customer has failed to meet the credit criteria for waiver of deposit requirements; or

4. ~~Customer~~Customer is known to be in violation of the Company's Pricing Plans~~Tariffs filed with the ACC~~; or

5. ~~Customer~~Customer fails to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the ~~Customer~~Customer and which have been specified by the Company as a condition for providing service; or

6. ~~Applicant~~Applicant falsifies his or her identity for the purpose of obtaining service.

~~4.~~D. Service Establishments, Re-establishment or Reconnection Charge

1. The Company may make a charge as approved by the ACC for the establishment, re-establishment, or reconnection of service.

2. Should service be established during a period other than the Company's regular working hours at the ~~Customer~~Customer's request, the ~~Customer~~Customer may be required to pay an after-hour charge for the service connection. Where the Company's scheduling will not permit service establishment on the same day as requested, the ~~Customer~~Customer can elect to pay the after-hour charge for establishment that day, or his service will be established on the next available working day.

3. For the purpose of this Rule, the definition of service establishments are where the ~~Customer~~Customer's facilities are ready and acceptable to the Company, and the Company needs only to install a meter, read a meter, or turn the service on.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

~~5.~~E. Temporary Service

1. ~~Applicant~~Applicants for temporary service may be required to pay to the Company, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one (1) month, the ~~applicant~~Applicant may also be required to advance a sum of money equal to the estimated bill for service.

3. Where the duration of service is to exceed one (1) month, the ~~applicant~~Applicant may also be required to meet the deposit requirements of the Company, as outlined in Subsection B.1 above.

4. If at any time during the term of the agreement for service the character of a temporary ~~Customer~~Customer's operations changes so that, in the opinion of the Company, the ~~Customer~~Customer is classified as permanent, the terms of the Company's main extension rules shall apply.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS

A. Information for Residential ~~Customer~~Customers

~~a.~~1. The Company shall make available upon ~~Customer~~Customer request, no later than sixty (60) days from the date of request, a concise summary of the rate schedule applied for by such ~~Customer~~Customer. The summary shall include the following:

a. Monthly minimum or ~~Customer~~Customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable;

b. Rate blocks, where applicable; and

c. Any adjustment factor(s) and method of calculation.

2. ~~The Company shall, to the extent practical, identify the tariff most advantageous to the Customer~~~~Customer~~ ~~and notify the Customer~~~~Customer~~ ~~of such tariff prior to service commencement~~Upon aApplication~~,~~ or upon request, the Applicant or the Customer shall elect the applicable Pricing Plan best suited to their requirements. The Company may~~will~~ assist in making such election, but shall not be held responsible for notifying the Customer of the most favorable Pricing Plan and shall not be required to refund the difference in charges under different Pricing Plans.~~.~~

However, ~~For~~ new non-residential ~~customers~~Customers whose projected consumption is near the threshold between "large" and "small" Pricing Plans~~rates~~, ~~they will~~may elect the ~~be placed on the~~ "small" rate, subject to refund, if their usage qualifies them as a "large" ~~customer~~Customer. An existing non-residential ~~customer~~Customer will be moved to the "large" rate, or once moved, back to the "small" rate, only if ~~their~~~~his or her~~their consumption history or a clear permanent change in consumption makes it clear the ~~customer~~Customer will meet the volume requirements of one ~~rate or the other~~Pricing Plan.

A review may be initiated by either the Company or the ~~Customer~~Customer. Any change of Pricing Plan~~rate schedule~~, if appropriate, will be effective with the first bill issued seven (7) days after the ~~review~~ initiation of the review. No adjustment of past billings due to Pricing Plan~~rate~~ selection will be made to either the Company or the ~~Customer~~Customer, except for a new ~~customer~~Customer who qualifies for the "large" ~~rate based on its first~~Pricing Plan based on twelve (12) months of usage as set forth in this Rule.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

~~b.~~3. Upon ~~Customer~~Customer request, the Company shall make available to the ~~Customer~~Customer, a copy of the ACC's Rules and Regulations (Arizona Administrative Code, Title 14, Article 3 - Gas Utilities) concerning:

~~A.~~a. Deposits;

~~B.~~b. Termination of Service;

~~C.~~c. Billing and Collection; and

~~D.~~d. Complaint Handling.

~~c.~~4. The Company, upon ~~request of a Customer~~Customer request, shall transmit a written statement of actual consumption by the ~~Customer~~Customer for each billing period during the prior twelve (12) months unless such data is not reasonably ascertainable.

~~d.~~5. The Company shall inform all new ~~Customer~~Customers of their rights to obtain the information specified above.

6. The Company shall notify each ~~customer~~Customer of the following information, in writing, within ninety (90) days after the ~~customer~~ Customer first receives gas service at a particular location:

   a. The Company does not maintain the ~~Customer~~Customer's buried piping;

   b. If the ~~Customer~~Customer's buried piping is not maintained, it may be subject to the potential hazards of corrosion and leakage;

   c. Buried gas piping should be periodically inspected for leaks, periodically inspected for corrosion if the piping is metallic, and repaired if any unsafe condition is discovered;

   d. When excavating near buried gas piping, the piping must be located in advance, and the excavation done by hand;

   e. Plumbing contractors and heating contractors may assist in locating, inspecting, and repairing the ~~Customer~~Customer's buried piping; and

   f. In order to reduce damage by outside forces, the Company is a member of the statewide one call system in all areas in which the Company has underground natural gas piping.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

B. Information Required Due to Changes in Rates and Charges

1. The Company shall transmit to affected ~~Customer~~Customers a concise summary of any changes in the Company's rates and charges significantly impacting those ~~Customer~~Customers.

2. This information shall be transmitted to the affected ~~Customer~~Customer(s) within sixty (60) days of the effective date of the change in the Company's rates and charges.

SECTION NO. 5
MASTER METERING

A. Mobile Home Parks – New Construction/Expansion

~~A.~~1. The Company shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion are individually metered by the Company. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection policies of these rules and regulations.

~~B.~~2. Permanent residential mobile home parks for the purpose of this rule shall mean mobile home parks where the average length of stay for an occupant is a minimum of six (6) months.

~~C.~~3. For the purpose of this rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this rule.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS

A. Priority and Timing of Service Establishments

1. After an ~~applicant~~Applicant has complied with the Company's application and deposit requirements and has been accepted for service by the Company, the Company shall schedule that ~~Customer~~Customer for service establishment.

2. Service establishment shall be scheduled for completion within five (5) working days of the date the ~~Customer~~Customer has been accepted for service, except in those instances when the ~~Customer~~Customer requests service establishment beyond the five (5) working day limitation.

3. When the Company has made arrangements to meet with a ~~Customer~~Customer for service establishment purposes and the Company or the ~~Customer~~Customer cannot make the appointment during the prearranged time, the Company shall reschedule the service establishment appointment to the satisfaction of both parties.

4. The Company shall schedule service establishment appointments within a maximum range of four (4) hours during normal working hours, unless another time frame is mutually acceptable to the Company and the ~~Customer~~Customer.

5. Service establishments shall be made only by qualified ~~Company~~ service personnel of the Company or its authorized representatives.

6. For the purpose of this rule, service establishments can occur only when the ~~Customer~~Customer's facilities are ready and acceptable to the Company and the Company needs only to install, ~~or~~ read the~~a~~ meter, or turn the service on.

7. A fee for service establishment, re-establishment, or reconnection of service may be charged at a rate on file with and approved by the ACC. Whenever the ~~applicant~~Applicant requests after-hours handling of his request, the Company shall charge an additional fee on file with and approved by the ACC unless a special call out is required. If a special call out is required, the charge shall be for a minimum of one (1) hour at the Company's then prevailing after-hours rate for the service work on the ~~Customer~~Customer's premises. Special handling of calls and the related charges shall be made only on request of the ~~applicant~~Applicant.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

B. Facilities

1. ~~Customer~~Customer Provided Facilities

a. An ~~applicant~~Applicant for service shall be responsible for the safety and maintenance of all ~~Customer~~Customer piping from the ~~point of delivery~~Point of Delivery to the point of consumption.

~~1.~~b. Meters shall be installed in a location suitable to the Company where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the ~~Customer~~Customer. The ~~Customer~~Customer shall provide, without cost to the Company and at a suitable and easily accessible location, sufficient and proper space for the installation of meters.

~~2.~~c. Where the meter or service line location on the ~~Customer~~Customer's premises is changed at the request of the ~~Customer~~Customer or due to alterations on the ~~Customer~~Customer's premises, the ~~Customer~~Customer shall provide, and have installed at his expense, all ~~Customer~~Customer piping necessary for relocating the meter and the Company may make a charge for moving the meter and/or service line.

~~3.~~d. On all newly-constructed ~~customer~~Customer piping at the meter interconnection, the ~~customer~~Customer will be required to install necessary piping and equipment before the meter is installed.

2. Company Provided Facilities

~~A.~~a. The Company will install, at its own expense, the meter set assembly ("MSA") ~~gas service riser, service cock, regulator and meter~~ at a suitable location near the side wall of the ~~Customer~~Customer's building approximately three (3) feet or more from that front corner of the building nearest to the street in which the Company's distribution main is located. However, the Company, at its option, has the right to locate the meter at any location meeting the criteria of Subsection B.1.b of this section.

The three (3) feet as noted above refers to the approximate location of the meter from the corner of the building that is nearest to the street in which the distribution main servicing that ~~Customer~~Customer is located. The gas service riser, service cock, regulator and meter are all above ground. The service from the Company's distribution main to the building is below ground.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

b. The Company or authorized representative will install the gas service line and make all connections of the gas service line from the distribution main to the service riser. The Company will in all cases be responsible for the cost of construction of the service line from the Company's distribution main to the ~~Customer~~Customer's gas service riser~~property line~~ for an amount not to exceed the allowable investment as calculated by the Incremental Contribution Study (see Section No. 7, Subsection B), with the ~~Customer~~Customer reimbursing the Company for the difference. The ~~customer~~Customer will reimburse the Company for the gas- service line on the ~~Customer~~Customer's property at a rate of ~~eight~~ sixteen~~twenty-one~~ dollars ($16~~21~~8.00) per foot. The ~~customer~~Customer is responsible for locating facilities on private property and removal of landscaping prior to installation or be subject to applicable charges. For ~~customers~~Customers who provide the trench for the service line on the ~~Customer~~Customer's property~~s~~lines, Section No. 7, Subsection B.4~~5~~.d will apply and ~~. For customers who provide the trench for the entire service line,~~ the ~~Customer~~Customer will reimburse the Company at a rate of ~~five~~ twelve dollars ($12~~5~~.00) per foot for the excess footage ~~described above~~. The ~~Customer~~Customer, at the ~~Customer~~Customer's own expense, shall furnish, ~~and~~ install, and be responsible for all other pipe~~, fittings~~, fittings, ~~connections~~, connections, and ~~appertanences~~appurtenances ~~and connections~~ between the ~~point of delivery~~Point of Delivery and each point of consumption.

~~B.~~c. No ~~Customer~~Customer-owned pipe shall be directly connected with the Company's distribution mains or services~~s~~. No connection shall be made by the ~~Customer~~Customer between the facilities of the Company, including the meter, service cock and regulator and those of the ~~Customer~~Customer, nor shall any facilities of the Company be set, connected, disconnected, removed, repaired or altered except by the Company's representatives.

~~C.~~d. A single meter and a single ~~point of delivery~~Point of Delivery may be used to supply a group of buildings, such as those of a hospital or industrial establishment under single ownership or control. Such applications may fall under the Master Meter rule as defined in the Arizona Administrative Code. ~~Buildings located on separate lots are to be supplied with individual service connections as provided for in Subsections 2.a and 2.b above.~~

~~D.~~e. The Company may decline service to mobile residences or portable or other temporary structures if the conditions do not afford adequate protection for the occupant(s) thereof, or the persons or property of others. In no event will gas service be permitted, if to the Company's knowledge, the ~~Customer~~Customer or the ~~Customer~~Customer's facilities fail to meet applicable requirements of law, of the State, or of any local code.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

3. Easements and Right-of-Way

Each Customer shall grant, at no cost to the Company, adequate an easement and right-of-way, satisfactory to the Company to ensure proper service connection. Failure on the part of the Customer to grant an adequate easement and right-of-way shall be grounds for the Company to refuse service.

4. Unauthorized work or facilities

~~1.Each Customer~~Customer ~~shall grant, at no cost to the company~~Company, ~~grant adequate easement and right-of-way, at no cost, satisfactory~~ satisfactory ~~to the Company, at no cost, to ensure proper service connection. Failure on the part of the Customer~~Customer ~~to grant adequate easement and right-of-way shall be grounds for the Company to refuse service.~~

~~2.When the Company discovers that a Customer~~Customer ~~or the Customer~~Customer~~'s Agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of Federal, State or local laws, ordinances, statutes, rules or regulations or significantly interferes with the Company's access to equipment, the Company shall notify the Customer~~Customer ~~or the Customer~~Customer~~'s Agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the Customer~~Customer~~'s expense.~~

When the Company discovers that a ~~Customer~~Customer or the ~~Customer~~Customer's Agent has performed work or has constructed ~~facilites~~facilities that has altered the installation of the Company's facilities to the point that work is necessary to restore the previously installed ~~company~~Company facilities to meet regulatory ~~and~~ or Company~~company~~ requirements, the Company shall notify the ~~Customer~~Customer or the ~~Customer~~Customer's Agent and the Company shall take whatever actions are necessary to eliminate the hazard or violation at the ~~Customer~~Customer's expense.

~~4.~~5. ~~Point of Delivery~~Point of Delivery

The ~~point of delivery~~Point of Delivery for all gas delivered to any ~~Customer~~Customer shall be at the point of interconnection between the facilities of the Company and those of the ~~Customer~~Customer.

SECTION NO. 7
EXTENSION OF LINES

Extensions of gas distribution services and mains necessary to furnish permanent service to ~~applicant~~Applicants will be made in accordance with this rule.

A. General

The Company will construct, own, operate and maintain service line -and distribution main ~~line~~ extensions.

1. Gas service lines will be designed and installed so that ~~of s~~suitable capacity from the Company's ~~gas~~distribution main to a meter location on the property of the ~~applicant~~Applicant ~~that~~ is satisfactory to the Company~~ and to the CustomerCustomer at the time of original installation~~. If downstream ~~useage~~usage changes or is altered by the ~~Customer~~Customer, the ~~Customer~~Customer may be responsible for costs to upgrade or enlarge the service line to accommodate additional capacity requirements~~ from the Customer.~~.

2. Gas distribution main extensions will be only along public streets, roads, and highways, which the Company has legal right to occupy, and on public lands and private property across which rights-of-way, satisfactory to the Company, may be obtained.

~~2.~~3. All ~~Compnay~~Company distribution mains and ~~servicelines~~service lines shall be installed in accordance with all applicable Company standards.

B. Service and Main Extensions to ~~Applicant~~Applicants for Service

~~1.~~General Policy – All service line and main line extensions agreements are made on the basis of economic feasibility.~~ except those for master-metered mobile home parks ("MMP"), whose extensions shall be made in accordance with the provisions in Subsection B.3 below. The economic feasibility will be calculated by the Incremental Contribution Method as described in Subsection B.4 below. H; however, owever, at a minimum, the Company will extend thirty (30) feet of main for each applicant who connects a functioning water heater or furnace within four (4) months of the completion of the main.~~

1. Facility Charge – If any ~~applicant~~Applicant fails to use natural gas for equipment stated in the application and used as the basis for estimating the allowable investment (ICS)~~ within~~) within four (4) months of the completion of the main, the Company may ~~may calculate and~~ bill the ~~applicant~~Applicant for the Incremental Cost allowed towards the extension of service. ~~Th~~Thee ~~and the applicant~~Applicant shall pay within forty-five (45) days the charge as a non-refundable~~le~~ contribution towards the ~~e~~cost of extending service.~~a nonrefundable Facilities Charge according to the Company's extension rule in effect at the time the extension was made, as though service had been requested on the basis of the actual equipment installed and utilized.~~

SECTION NO. 7
EXTENSION OF LINES
(continued)

2. At its option, the Company may require a performance bond or other surety guaranteeing bona fide operation of the facility for which the extension is requested, in accordance with ~~applicant~~Applicant's representation in the contract.

3. Master Meter Extensions – If the residential ~~customer~~Customers are tenants in a fully improved master-metered mobile h ome park ("MMP") and the MMP is currently or was formerly served as a master-metered mobile home park, the allowable investment for the MMP will be calculated ~~determined~~ by the following Incremental Contribution Method and formula:

$$AI = (FR - CR) \times 5$$

where: AI = Allowable Investment

FR = The MMP's estimated future total annual revenue, assuming conversion to individual residential service, using the MMP's average park occupancy for the past two (2) years, less the Company's current average cost of purchased gas.

CR = The MMP's current total annual revenue, under the applicable schedule, averaged for the past two (2) years, less the Company's current average cost of purchased gas. If the MMP is not a current ~~customer~~Customer of the Company, the CR will be determined on the basis of engineering estimates of occupancy and usage.

The Company will install that portion of each service in excess of the ~~allowance~~Allowed Investment subject to a nonrefundable contribution to be paid by the ~~applicant~~Applicant MMP prior to construction. In no event shall costs above the allowable investment be borne by the Company.

4. Incremental Contribution Method – Gas service line and main line extensions will be made by the Company at its expense for ~~the~~ an amount not to exceed the ~~a~~Allowable ~~i~~Investment as calculated by an Incremental Contribution Study ("ICS").

   a. Allowable investment shall mean a determination by the Company that the revenues less the incremental gas cost to serve the ~~applicant~~Applicant ~~customer~~ provides a rate of return on the Company's investment no greater than the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case~~most recent overall rate of return authorized by the ACC in a general rate case for the Company~~.

   b. ~~All applicants will pay for the entire length of their service lines on their property.~~ If the ICS has an allowable investment that is more than the cost of the main extension, then the excess amount ~~canwill~~may~~will~~ be applied ~~evenly to all applicants~~ to reduce the~~ir~~ cost of service line installation.

SECTION NO. 7
EXTENSION OF LINES
(continued)

c. The Company, after conducting an ICS, may at its option, extend its facilities to ~~Customer~~Customers whose usage does not satisfy the definition of economic feasibility, but who otherwise are permanent ~~customer~~Customers, provided the ~~Customer~~Customer ~~signs an extension agreement and advances as much of the cost, and/or agrees to~~ pays a nonrefundable ~~Facility~~ advance~~Charge~~, necessary to make the extension economically feasible.

d. ~~Applicant~~Applicants may provide trenching for service lines and/or distribution mains to the Company's specifications and the ~~Company applicant~~Applicant's costs will be reduced accordingly ~~by an amount equal to this avoided cost in the ICS~~.

e. ~~Customer~~Customers provided with line extensions using the ICS ~~Incremental Contribution Method~~ shall be reviewed annually for a period of five (5) years to determine the amount of any refund, as described in Subsection B.~~5~~6 below.

f. For the purposes of this rule, "economic feasibility" means that the estimated incremental revenues derived from serving the Applicant, less the incremental gas cost to serve the Applicant, meets the estimated costs of serving the Applicant, including meeting capital costs as determined by the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case. An extension will not be considered economically feasible if the Applicant does not install a functioning water heater and furnace within four (4) months of the completion of the main.

5. Method of Refund

Amounts advanced by the Customer ~~customer~~(s) in accordance with this rule, less any unpaid Facility Charges, shall be refunded, without interest, in the following manner:

~~a.~~Refunds of an advance shall be made for each additional separately metered permanent service connected to the main extension for which an advance was collected ~~when an excess allowable investment is calculated by~~using an ICS that includes the additional ~~customers~~Customer(s). ~~The calculation will use actual usage for existing customers. Usage for future years will be estimated on actual usage adjusted for normal weather.~~

a.

~~b.Customers adding on to an existing main covered by an extension agreement, still subject to refund, will pay the entire cost of their service line, will contribute an advance equal to the average advance, minus any refunds, provided by the existing contributors, and will be eligible for refunds of advances in subsequent annual reviews.~~

~~c.~~b. No refunds will be made for additional ~~customers~~Customers connecting to a further extension or series of extensions constructed beyond the original extension.

~~d.~~c. ~~Refunds will be made annually or intermittently within the annual period at the option of the Company. Amounts to be refunded may be accumulated by the Company to a maximum of $50 per customer, or the total refundable balance if less than $50 per customer. Refunds will only be made to customers, the assignees of customers, or developers.~~ The ~~customer~~Customer may request an annual survey to determine if additional ~~customers~~Customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally advanced.

~~e. When two or more parties make a joint advance on the same extension, refundable amounts will be distributed to these parties in the same proportion as their individual percentages of the total joint advance.~~

~~f.~~d. The refund period shall be five (5) years from the date of the completion of the extension. No refunds will be made by the Company after the termination of the refund period. Any portion of the advance that remains unrefunded at the end of the refund period shall *be considered an unrefundable contribution*~~remain the property of the Company~~.

~~g.~~e. Any assignment by a ~~customer~~Customer of their interest in any part of an advance, which at the time remains unrefunded, must be made in writing and approved by the Company.

~~h.~~f. Amounts advanced under a gas main extension rule previously in effect will be refunded in accordance with the provisions of that rule.

SECTION NO. 7
EXTENSION OF LINES
(continued)

C. Service and Main Extensions to Service Individually Metered Subdivisions, Tracts, Housing Projects, Multi-Family Dwellings and Mobile Home Parks or Estates

1. Advances

   a. Gas distribution service and main extensions to and within individually metered subdivisions, tracts, housing projects, multi-family dwellings and mobile home parks or estates will be constructed, owned and maintained by the Company in advance of applications for service by bona fide ~~customers~~Customers only when the entire estimated cost of such extensions as determined by the Company, is advanced to the Company, and a main extension agreement~~contract~~ is executed. This advance may include the cost of any gas facilities installed at the Company's expense in conjunction with a previous service or main extension in anticipation of the current extension.

   b. The Company may require a ~~When a subdivider/builder/developer is building a project in consecutive phases such that each phase is constructed separately and requires separate advances, unused allowances from one phase may be applied to an outstanding advance in any other phase so long as such outstanding advance is still eligible for refund.~~ Ssubdivider/, builder/ or developer ~~may~~to provide trenching for service lines and/or distribution mains and may also ~~be~~ required the subdivider, builder or developer to provide bedding & shading material to ~~UES~~Company specifications.

c. For developers who have entered into a ~~line~~main extension agreement and facilities have been installed and then they or some other party request subsequent reconfiguring of facilities or other changes requiring additional expenditures by the Company, these new costs will be entirely paid for with a non-refundable ~~advance~~ contribution and any refunds will be made in accordance with the original agreement. No additional agreement or extension of the time for refunds will be made to cover the area piped under the original extension agreement.

~~**SECTION NO. 7**~~
~~**EXTENSION OF LINES**~~
~~(continued)~~

d. Upon completion of installation, the Company will perform a reconciliation of the estimate to actual costs incurred and may bill the ~~Customer~~Customer for any variance with the new amount included in the refundable balance, or at the Company's option withhold refunds until the underpayment is satisfied.

~~d.~~e. See Subsection B.~~3~~4 above for requests to serve MMP through individual residential meters if the MMP is currently or was formerly served under an MMP schedule.

~~e.~~f. Refunds will be made to developers as described in Subsection B.~~5~~6 above.

D. General Conditions

1. Postponement of Advance

The Company, at its option, may postpone, for a period not to exceed five (5) years that portion of an advance which it estimates would be refunded under the provisions of this rule. At the end of such refund period, the Company shall collect all such amounts not previously advanced. ~~which were not then refundable.~~ When advances are postponed, the ~~applicant~~Applicant may be required to furnish to the Company, ~~evidence of the necessary approvals to commence construction and adequate financing. A surety bond satisfactory to the Company, or other~~ a Company-approved suret~~y~~y~~,~~ ~~may be required~~ , to assure payment of any postponed amounts ~~at~~throughout the term of the facilities extension agreement up until the end of the postponement period.

SECTION NO. 7
EXTENSION OF LINES
(continued)

2. The ~~applicant~~Applicants or developer will provide property location, tax identification numbers, lot numbers, street names and other property information helpful to planning an extension.

3. Contracts

a. Each ~~applicant~~Applicant requesting an extension in advance of applications for service will be required to execute a main extension agreement~~contract~~ covering the terms under which the Company will install distribution mains ~~lines~~ in accordance with the provisions of the ~~tariff schedules~~ Company's ~~Tariffs~~Pricing Plans.

b. At the time service is requested, the ~~applicant~~Applicant will submit a list of natural gas equipment to be used including the BTU input.

~~SECTION NO. 7~~
~~EXTENSION OF LINES~~
~~(continued)~~

4. One Service for a Single Premise

   a. The Company will not install more than one service line to supply a single premise, unless it is for the convenience of the Company or an ~~applicant~~Applicant requests an additional service, and in the opinion of the Company, an unreasonable burden would be placed on the ~~applicant~~Applicant if the additional service were denied. When an additional service is installed at the ~~applicant~~Applicant's request, the ~~applicant~~Applicant shall make a nonrefundable contribution for the additional service based on the Company's estimated cost.

   b. When a service extension is made to a meter location upon private property which is subsequently subdivided into separate premises, with the ownership portions thereof divested to other than the ~~applicant~~Applicant or the ~~customers~~Customers, the Company shall have the right, upon written notice, to discontinue service without obligation or liability. Gas service, as required by the ~~applicant~~Applicant or ~~customer~~Customer, will be reestablished in accordance with the applicable provisions of the Company's rules.

5. Branch Services

   The Company, at its option, may install a branch service for units on adjoining premises. ~~"Branch Service" means a service line that is not connected to a distribution main and has as its source of supply another service line.~~

SECTION NO. 7
EXTENSION OF LINES
(continued)

6. Main Extension Agreement Requirements

   a. Upon request by an ~~applicant~~Applicant for a main extension, the Company shall prepare, without charge, a preliminary sketch and rough estimate of the cost of the installation to be advanced by the ~~applicant~~Applicant.

   b. Any ~~applicant~~Applicant for a main extension requesting the Company to prepare detailed plans, specifications, or cost estimates may be required to deposit with the Company an amount equal to the estimated cost of preparation. The Company shall, upon request, make available within ninety (90) days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the ~~applicant~~Applicant authorizes the Company to proceed with the construction of the extension, the deposit shall be credited to the cost of construction; otherwise, the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the Company's expense, appropriate details shall be set forth in the plans, specifications and cost estimates. Subdividers providing the Company with approved ~~plans~~subdivision plats shall be provided with plans, specifications or cost estimates within forty-five (45) days after receipt of the deposit referred to above.

   c. The ~~E~~estimated cost of main extension and any resulting Main Extension Agreement is valid for ninety (90) days from the date of ~~company~~Company issue. Any signed agreement with appropriate payment where construction does ~~n't~~not commence within ninety (90) days may be subject to review, recalculation and adjustment of advance requirements~~.~~.

   d. Where the Company requires an ~~applicant~~Applicant to advance funds for a main extension, the Company shall furnish the ~~applicant~~Applicant with a copy of this rule prior to the ~~applicant~~Applicant's acceptance of the Company's extension agreement.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~d.~~

~~d.~~e. All main extension agreements requiring payment by the ~~applicant~~Applicant shall be in writing, signed by each party and shall include the following:

~~(1)~~i. –Name and address of ~~applicant~~Applicant(s);

~~(2)~~ii. -Proposed service address(es) or location(s);

~~(3)~~iii. –Description and sketch of the requested main extension;

~~(4)~~iv. –Description of requested service differentiated by ~~customer~~Customer class;~~;~~

v. –Number of ~~customer~~Customers served;

~~(5)~~vi. –~~A~~ Estimated ~~Cost~~cost to construct facilities;~~cost estimate to include materials, labor, and other costs as necessary;~~

~~(6) Payment terms;~~

~~(7) A concise explanation of any refunding provisions, if applicable;~~

~~(8)~~vii. –The Company's estimated start date and completion date for construction of the main extension; ~~and~~

~~(9) A summary of the results of the Incremental Contribution analysis (Allowance)performed by the Company to determine the amount of advance required from the applicant for the proposed main extensions; and~~

~~(10)~~viii. Each ~~applicant~~Applicant shall be provided a copy of the approved main extension agreements;~~.~~

ix. Payment terms; and

x. A concise explanation of any refunding provisions, if applicable.

~~SECTION NO. 7~~
~~EXTENSION OF LINES~~
~~(continued)~~

7. Relocation of Service~~s~~ Lines and Distribution Mains

   a. When, in the judgment of the Company, the relocation of a distribution main or service line is necessary and is due either to maintenance of adequate service or the operating convenience of the Company, the Company shall perform such work at its own expense.

   b. If relocation of a distribution main or service line is due solely to meet the convenience or the requirements of the ~~applicant~~Applicant or the ~~customer~~Customer, such relocation, including metering and regulating facilities, shall be performed by the Company at the expense of the ~~applicant~~Applicant or the ~~customer~~Customer.

   ~~c.~~Relocation of facilities will be mandatory and at the ~~customer~~Customer's expense when actions of the ~~customer~~Customer restrict the Company's access to or the safety of the facility.

   c.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~When the Company discovers that a CustomerCustomer or the CustomerCustomer's Agent has performed work or has constructed facilitesfacilities that has altered the installation of the Company's facilities to the point that work is necessary to restore the previously installed company facilities to meet regulatory and company requirements, the Company shall notify the CustomerCustomer or the CustomerCustomer's Agent and shall take whatever actions are necessary to eliminate the hazard or violation at the CustomerCustomer's expense.~~

8. Standby Service or Residential Pool Heating

No allowance will be made for equipment used for standby or emergency purposes only or for equipment used for residential pool heating under Section No. 7, Subsection B.4.

9. Temporary Service

Extensions for temporary service or for operations, which in the opinion of the Company are of a speculative character or are of questionable permanency, will require an advance for the entire cost of the facilities needed, with provision for a refund using an ICS calculated annually,~~;~~ or at the termination of the temporary service.

10. Length and Location

The length of distribution mains or service lines required for an extension will be considered as the distance along the shortest practical and available route, as determined by the Company, from the Company's nearest permanent distribution main.

~~SECTION NO. 7~~
~~EXTENSION OF LINES~~
~~(continued)~~

11. Service Impairment to Other ~~Customer~~Customers

When, in the judgment of the Company, providing service to an ~~applicant~~Applicant would impair service to other ~~customer~~Customers, the cost of necessary reinforcement to eliminate such impairment may be included in the cost calculation for the extension.

12. Service From Transmission Lines

The Company will not tap a gas transmission main except when, in its sole opinion, conditions justify such a tap. Where such taps are made, the ~~applicant~~Applicant will pay the Company the cost of the tap, and extensions from the tap will be made in accordance with the provisions of this rule.

13. Other Types of Connections

Where an ~~applicant~~Applicant or ~~customer~~Customer -requests a type of service connection other than standard such as curb meters and vaults, etc., the Company will consider each such request and will grant such reasonable allowance as it may determine. The Company shall install only those facilities that it determines are necessary to provide standard natural gas service in accordance with ~~this tariff~~the Company's Pricing Plans~~Tariffs~~. Where the ~~applicant~~Applicant requests the Company to install special facilities which are in addition to, or in substitution for, or which result in higher costs than the standard facilities which the Company would normally install, the extra cost thereof shall be borne by the ~~applicant~~Applicant.

SECTION NO. 7
EXTENSION OF LINES
(continued)

14. Excess Flow Valve Installation Option

In accordance with Title 49, Section 192.383 of the Code of Federal Regulations, the installation of an excess flow valve, as defined in Rule No. 1, shall be performed by the Company on a new or replaced single residence service line at the request of a ~~customer~~Customer. The installation of an excess flow valve is not mandatory. If a ~~customer~~Customer elects this installation, the Company shall perform the installation subject to the ~~customer~~Customer assuming responsibility for all costs associated with installation, maintenance and replacement. Each ~~customer~~Customer requesting the installation of an excess flow valve will be required to execute a written agreement.

~~SECTION NO. 7~~
~~EXTENSION OF LINES~~
~~(continued)~~

15. Exceptional Cases

In unusual circumstances, when the application of this rule appears impractical or unjust to either party, the Company or the ~~applicant~~Applicant may refer the matter to the ACC for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

~~1.~~16. Taxes Associated with Nonrefundable Contributions and Advances

Any federal, state or local income taxes resulting from a nonrefundable contribution or advance by the ~~customer~~Customer in compliance with this rule will be recorded as a deferred tax and appropriately reflected in the Company's rate base. ~~These deferred taxes will be amortized over the remaining tax life of the asset.~~ However, if the estimated cost of facilities for any service line or distribution main extension exceeds $500,000, the Company may require the Applicant to include in the contribution or advance an amount (the "gross up amount") equal to the estimated federal, state or local income tax liability of the Company resulting from the contribution or advance, computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Estimated Construction Cost}}{(1 - \text{Combined Federal-State-Local Income Tax Rate})}$$

After the Company's tax returns are completed, and actual tax liability is known, to the extent that the computed gross up amount exceeds the actual tax liability resulting from the contribution or advance, the Company shall refund to the Applicant an amount equal to such excess. When a gross-up amount is to be obtained in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount, and will also disclose the gross-up amount separately from the estimated cost of facilities. In subsequent years, as tax depreciation deductions are taken by the Company on its tax returns for the constructed assets with tax bases that have been grossed-up, a refund will be made to the Applicant in an amount equal to the related tax benefit. Such refunds will be in addition to any required refunds of actual construction costs required by the extension agreement. In lieu of scheduling such refunds over the remaining tax life of the constructed assets, a reduced lump sum refund may be made at the time when actual construction costs are refunded in full. This lump sum payment shall reflect the net present value of remaining tax depreciation deductions discounted at the company's authorized rate of return.

SECTION NO. 8
PROVISION OF SERVICE

~~a.~~A. Company Responsibility

1. The Company shall be responsible for the safe transmission and distribution of gas until it passes the ~~point of delivery~~Point of Delivery to the ~~Customer~~Customer.

2. The Company shall be responsible for maintaining in safe operating condition all meters, regulators, service pipe or other fixtures installed on the ~~Customer~~Customer's premises by the Company for the purpose of delivering gas to the ~~Customer~~Customer.

3. The Company may, at its option, refuse service until the ~~Customer~~Customer's pipes and appliances have been tested and found to be safe, free from leaks, and in good operating condition. Proof of such testing shall be in the form of a certificate executed by a licensed plumber or local inspector certifying that the ~~Customer~~Customer's facilities have been tested and are in safe operating condition.

4. The Company shall be required to test the ~~Customer~~Customer's piping for leaks when the gas is turned on. If such tests indicate leakage in the ~~Customer~~Customer's piping, the Company shall refuse to provide service until such time as the ~~Customer~~Customer has had the leakage corrected.

5. The Company shall be responsible for the operation and maintenance of all facilities up to the outlet of the meter installed by the Company or its authorized agent.

~~b.~~B. ~~Customer~~Customer Responsibility

1. Each Customer shall be responsible for maintaining in safe operating condition all Customer piping fixtures and appliances on the Customer's side of the Point of Delivery.

2. Each Customer shall be responsible for safeguarding all Company property installed in or on the Customer's premises for the purpose of supplying gas service.

3. Each Customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The Customer shall be responsible for loss of, or damage to, Company property on the Customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs and replacements that arise from neglect, carelessness, or misuse.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

4. Each Customer shall be responsible for payment for any equipment damage and/or estimated unmetered usage resulting from unauthorized breaking of seals, interfering, Tampering, or bypassing the Company's meters. This remedy is cumulative to any other remedy available to Company under law or ACC rules.

5. Each ~~Customer~~Customer shall be responsible for promptly notifying the Company of any gas leakage identified in the ~~Customer~~Customer's or the Company's equipment.

6. The Customer will be responsible for the loss of gas or damage caused by gas in piping beyond the Company's meter.

7. No rent or other charge whatsoever will be made by the Customer against the Company for placing or maintaining meters, regulators, service lines, fixtures, etc. upon the Customer's premises.

~~c.~~C. Continuity of Service

The Company shall make reasonable efforts to supply a satisfactory and continuous level of service.

D. Liability

1. The Company shall not be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from the following:

   a. Any cause against which the Company could not have reasonably foreseen or made provision for ~~(such as force majeure)~~;

   b. Intentional service interruptions to make repairs or perform routine maintenance; or

   c. Curtailment.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~A.~~2. Neither the Company nor the Customer shall be liable to the other for any act, omission or circumstances (including, with respect to the Company, but not limited to, inability to provide service) occasioned by or in consequence of flood, rain, wind, storm, lightning, earthquake, fire, landslide, washout or other acts of the elements, or accident or explosion, or war, rebellion, civil disturbance, mobs, riot, blockade, terrorist actions, or other act of the public enemy, or acts of God, or interference of civil and/or military authorities, or strikes, lockouts or other labor difficulties, or vandalism, sabotage or malicious mischief, or usurpation of power, or the laws, rules, regulations or orders made or adopted by any regulatory or other governmental agency or body (federal, state or local) having jurisdiction of any of the business or affairs of the Company or the Customer, direct or indirect, or breakage or accidents to equipment or facilities, or lack, limitation or loss of electrical or gas supply, or any other casualty or cause beyond the reasonable control of the Company or the Customer, whether or not specifically provided herein and without limitation to the types enumerated, and which by the exercise of due diligence such party is unable to prevent or overcome; provided, however, that nothing contained herein shall excuse the Customer from the obligation of paying for gas delivered or services rendered.

~~B.~~3. A failure to settle or prevent any strike or controversy with employees or with anyone purporting or seeking to represent employees shall not be considered to be a matter within the control of the Company.

4. Company will not be responsible for any third-party claims against Company that arise from Customer's use of Company's gas.

5. Customer will indemnify, defend and hold harmless the Company (including the costs of reasonable attorney's fees) against all claims (including, without limitation, claims for damages to any business or property, or injury to, or death of, any person) arising out of any act or omission of the Customer, or the Customer's agents, in connection with the Company's service or facilities.

6. The liability of the Company for damages of any nature arising from errors, mistakes, omissions, interruptions, or delays of the Company, its agents, servants, or employees, in the course of establishing, furnishing, rearranging, moving, terminating, or changing the service or facilities or equipment shall not exceed an amount equal to the charges applicable under the Company's Pricing Plan~~Tariff~~ (calculated on a proportionate basis where appropriate) to the period during which such error, mistake, omission, interruption or delay occurs.

7. In no event shall the Company be liable for any incidental, indirect, special, or consequential damages (including lost revenue or profits) of any kind whatsoever regardless of the cause or foreseeability thereof.

8. The Company shall not be responsible for any loss or damage occasion or caused by the negligence or wrongful act of the Customer or any of his agents, employees or licensees in installing, maintaining, using, operating or interfering with any regulators, gas piping, appliances, fixtures or apparatus.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~d.~~E. Change in Character of Service

1. When a change is made by the Company in the type of service rendered which would adversely affect the efficiency of operation or require the adjustment of the equipment of ~~Customer~~Customers, all ~~Customer~~Customers who may be affected shall be notified by the Company at least thirty (30) days in advance of the change or, if such notice is not possible, as early as feasible. Where adjustments or replacements of the Company's standard equipment must be made to permit use under such changed condition, adjustments shall be made by the Company without charge to the ~~Customer~~Customers.

~~e.~~F. Service Interruptions

1. The Company shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.

2. The Company shall make reasonable provisions to meet emergencies resulting from failure of service and shall issue instructions to its employees covering procedures to be followed in the event of emergencies in order to prevent or mitigate interruption or impairment of service.

3. In the event of a national emergency or local disaster resulting in disruption of normal service, the Company may, in the public interest, interrupt service to other ~~Customer~~Customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

4. When the Company plans to interrupt service for more than four (4) hours to perform necessary repairs or maintenance, the Company shall attempt to inform affected ~~Customer~~Customers of the scheduled date and estimated duration of the service interruption at least twenty-four (24) hours in advance. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the ~~Customer~~Customers.

5. The ACC shall be notified of interruptions in service affecting the entire system or any major division of the entire system. The interruption of service and the cause shall be reported by telephone to the ACC within one (1) hour after the responsible representative of the Company becomes aware of said interruption, and shall be followed by a written report to the ACC.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~f.~~G. Heat Value Standard for Natural Gas

The Company shall supply gas to its ~~Customer~~Customers with an average total heating value of not less than nine hundred (900) BTUs per cubic foot. The number of BTUs per cubic foot actually delivered through the ~~Customer~~Customer's meter will vary according to the altitude and elevation of the location where the ~~Customer~~Customer is being provided service.

~~g.~~H. Standard Delivery Pressure

1. The Company shall maintain ~~a s~~Standard ~~d~~Delivery ~~p~~Pressure of ~~approximately 0.25 pounds per square inch~~ at the outlet of the ~~Customer~~Customer's meter, subject to variation under load conditions.

2. In cases where a ~~Customer~~Customer desires service at greater than ~~s~~Standard ~~de~~Delivery ~~p~~Pressure, the Company may supply, at its option, such greater pressure if and only as long as the furnishing of gas to such ~~Customer~~Customer at higher than standard delivery pressure will not be detrimental to the service of other ~~Customer~~Customers of the Company. The Company reserves the right to lower the delivery pressure or discontinue the delivery of gas at higher pressure at any time upon reasonable notice to the ~~Customer~~Customer. Where service is provided at pressure higher than ~~s~~Standard ~~d~~Delivery ~~p~~Pressure, the meter volumes shall be corrected to that higher pressure.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~h.~~I. Determination of Therms for Billing

1. Heating Value – The heating value (BTU per cubic foot) of the natural gas delivered will vary depending on the source of supplies received by the Company. The average heating values will be determined from the volumetric weighted average heating values of the supplies received by the Company.

2. Metered Volumes – The number of therms to be billed will be determined by multiplying the difference in meter readings by an appropriate billing factor.

   a. Therms are determined from the volumes measured by the following:

$$\overset{\textbf{A}}{\frac{\text{Atmospheric Pressure at Elevation + Delivery Pressure}}{\text{14.73 Atmospheric Pressure at Sea Level}}} \times \overset{\textbf{B}}{\frac{\text{Average Heating Value (BTU per cubic foot)}}{\text{100,000 BTU per Therm}}} \times \overset{\textbf{C}}{\text{Super Compressibility Factor}}$$

   Where:
   A = Correction for atmospheric pressure at elevation and applicable delivery pressure
   B = Applicable heating value of natural gas received
   C = Correction for super compressibility ratio

   b. Atmospheric Pressures at Elevations within the Company's service territory are outlined in the following table. At such time additional elevation bands are needed within the various areas served by the Company, new geographical zones will be added.

Northern Arizona:

Geographical Zone Description	Atmospheric Pressure Base
ASHFORK AZ E4801-5000	12.3264800
ASHFORK AZ E5001-5200	12.2366800
BAGD CPR AZ E3601-3800	12.8782000
BAGD ML AZ E2601-2800	13.3555800
BAGDAD MINE E0401-0600	14.4666500
BLACK CANYON CITY AZ E1601-1800	13.8498700

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Geographical Zone Description	Atmospheric Pressure Base
BLACK CANYON CITY AZ E1801-2000	13.7496200
CAMP VERDE AZ E2801-3000	13.2587800
CAMP VERDE AZ E3001-3200	13.1626500
CHINO VALLEY AZ E4201-4400	12.5995400
CHINO VALLEY AZ E4401-4600	12.5079100
CHINO VALLEY AZ E4601-4800	12.4168900
CLARKDALE AZ E3001-3200	13.1626500
CLARKDALE AZ E3201-3400	13.0671800
CLARKDALE AZ E3401-3600	12.9723700
CORNVILLE AZ E3001-3200	13.1626500
CORNVILLE AZ E3201-3400	13.0671800
COTTONWOOD AZ E3001-3200	13.1626500
COTTONWOOD AZ E3201-3400	13.0671800
COTTONWOOD AZ E3401-3600	12.9723700
COTTONWOOD AZ E3601-3800	12.8782000
DUVAL AZ E3201-3400	13.0671800
FLAGSTAFF AZ E6201-6400	11.7102300
FLAGSTAFF AZ E6401-6600	11.6244900
FLAGSTAFF AZ E6601-6800	11.5393200
FLAGSTAFF AZ E6801-7000	11.4546900
FLAGSTAFF AZ E7001-7200	11.3706100
FLAGSTAFF AZ E7201-7400	11.2870800
HOLBROOK AZ E4801-5000	12.3264800
HOLBROOK AZ E5001-5200	12.2366800
HUMBOLDT AZ E4201-4400	12.5995400
HUMBOLDT AZ E4401-4600	12.5079100
HUMBOLDT AZ E4601-4800	12.4168900
INDPK AZ E6201-6400	11.7102300
JEROME AZ E4201-4400	12.5995400
JEROME AZ E4401-4600	12.5079100
JEROME AZ E4601-4800	12.4168900
JEROME AZ E4801-5000	12.3264800
JEROME AZ E5001-5200	12.2366800
JOSEPH CITY AZ E4601-4800	12.4168900
JOSEPH CITY AZ E4801-5000	12.3264800
KINGMAN AZ E3001-3200	13.1626500

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Geographical Zone Description	Atmospheric Pressure Base
KINGMAN AZ E3201-3400	13.0671800
KINGMAN AZ E3401-3600	12.9723700
KINGMAN AZ E3601-3800	12.8782000
KINGMAN AZ E3801-4000	12.7846800
LAKE HAVASU CITY AZ E0201-0400	14.5720600
LAKE HAVASU CITY AZ E0401-0600	14.4666500
LAKE HAVASU CITY AZ E0601-0800	14.3620000
LAKE HAVASU CITY AZ E0801-1000	14.2581000
LAKE HAVASU CITY AZ E1001-1200	14.1549500
LAKE HAVASU CITY AZ E1201-1400	14.0525300
LAKE HAVASU CITY AZ E1401-1600	13.9508400
MAYER AZ E4001-4200	12.6917900
MAYER AZ E4201-4400	12.5995400
MOUNTAIN VIEW AZ E6401-6600	11.6244900
NAVAJO ARMY DEPOT E5401-5600	12.0588700
PAULDEN AZ E4001-4200	12.6917900
PAULDEN AZ E4201-4400	12.5995400
PAULDEN AZ E4401-4600	12.5079100
PHX CMT AZ E3401-3600	12.9723700
PINETOP/LAKESIDE AZ E6201-6400	11.7102300
PINETOP/LAKESIDE AZ E6401-6600	11.6244900
PINETOP/LAKESIDE AZ E6601-6800	11.5393200
PINETOP/LAKESIDE AZ E6801-7000	11.4546900
PINETOP/LAKESIDE AZ E7001-7200	11.3706100
PRESCOTT VALLEY AZ E4201-4400	12.5995400
PRESCOTT VALLEY AZ E4401-4600	12.5079100
PRESCOTT VALLEY AZ E4601-4800	12.4168900
PRESCOTT VALLEY AZ E4801-5000	12.3264800
PRESCOTT VALLEY AZ E5001-5200	12.2366800
PRESCOTT AZ E4601-4800	12.4168900
PRESCOTT AZ E4801-5000	12.3264800
PRESCOTT AZ E5001-5200	12.2366800
PRESCOTT AZ E5201-5400	12.1474800
PRESCOTT AZ E5401-5600	12.0588700
PRESCOTT AZ E5601-5800	11.9708400
PRESCOTT AZ E5801-6000	11.8834000

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Geographical Zone Description	Atmospheric Pressure Base
SEDONA AZ E3401-3600	12.9723700
SEDONA AZ E3601-3800	12.8782000
SEDONA AZ E3801-4000	12.7846800
SEDONA AZ E4001-4200	12.6917900
SEDONA AZ E4201-4400	12.5995400
SEDONA AZ E4401-4600	12.5079100
SEDONA AZ E4601-4800	12.4168900
SELIGMAN AZ E5001-5200	12.2366800
SHOW LOW AZ E5801-6000	11.8834000
SHOW LOW AZ E6001-6200	11.7965300
SHOW LOW AZ E6201-6400	11.7102300
SHOW LOW AZ E6401-6600	11.6244900
SNOWFLAKE AZ E5201-5400	12.1474800
SNOWFLAKE AZ E5401-5600	12.0588700
SPRING VALLEY AZ E3601-3800	12.8782000
SPRING VALLEY AZ E3801-4000	12.7846800
STONE CONTAINER E6001-6200	11.7965300
TAYLOR AZ E5401-5600	12.0588700
VERDE VALLEY AZ E3401-3600	12.9723700
VILLAGE OF OAK CREEK AZ E3601-3800	12.8782000
VILLAGE OF OAK CREEK AZ E3801-4000	12.7846800
VILLAGE OF OAK CREEK AZ E4001-4200	12.6917900
WILLIAMS AZ E6401-6600	11.6244900
WILLIAMS AZ E6601-6800	11.5393200
WILLIAMS AZ E6801-7000	11.4546900
WINSLOW AZ E4601-4800	12.4168900

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Southern Arizona:

Geographical Zone Description	Atmospheric Pressure Base
AMADO AZ E2801-3000	13.2587800
AMADO AZ E3001-3200	13.1626500
NOGALES AZ E3201-3400	13.0671800
NOGALES AZ E3401-3600	12.9723700
NOGALES AZ E3601-3800	12.8782000
NOGALES AZ E3801-4000	12.7846800
PATAGONIA AZ E3601-3800	12.8782000
PATAGONIA AZ E3801-4000	12.7846800
PATAGONIA AZ E4001-4200	12.6917900
RIO RICO AZ E3001-3200	13.1626500
RIO RICO AZ E3201-3400	13.0671800
RIO RICO AZ E3401-3600	12.9723700
RIO RICO AZ E3601-3800	12.8782000
RIO RICO AZ E3801-4000	12.7846800
RIO RICO AZ E4001-4200	12.6917900
TUBAC AZ E2801-3000	13.2587800
TUBAC AZ E3001-3200	13.1626500
TUBAC AZ E3201-3400	13.0671800
TUBAC AZ E3401-3600	12.9723700

~~I.~~J. Construction Standards and Safety

The Company's pipelines and pipeline facilities for the transportation of gas within the State of Arizona shall conform with and be subject to the Federal Safety Standards as adopted by the United States Department of Transportation, Pipeline and Hazardous Materials Safety Administration~~Office of Pipeline Safety~~. The Company maintains and updates an Operation and Maintenance plan and an Emergency plan. Upon discovery of occurrence, the Company will report all incidents as required under the Arizona Administrative Code, ~~Pipeline Incident Reports and Investigations rules~~R14-5-203.~~.~~

SECTION NO. 9
METER READING

A. Company or ~~Customer~~Customer Meter Reading

1. The Company may, at its discretion, allow for ~~Customer~~Customer reading of meters.

2. It shall be the responsibility of the Company to inform the ~~Customer~~Customer how to properly read the ~~Customer~~Customer's meter.

3. Where a ~~Customer~~Customer reads the meter, the Company will read the ~~Customer~~Customer's meter at least once every six (6) months.

4. The Company shall specify the timing requirements for the ~~Customer~~Customer to submit the monthly meter reading to conform to the Company's billing cycle.

5. In the event the ~~Customer~~Customer fails to submit the meter reading on time, the Company may issue the ~~Customer~~Customer an estimated bill.

6. Meters shall be read monthly on as close to the same day each month as practical.

B. Measuring of Service

~~a.~~1. All gas sold by the Company shall be metered, except in the case of gas sold according to a fixed charge schedule, or when otherwise authorized by the ACC.

~~b.~~2. When there is more than one (1) meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.

~~c.~~3. If and when the Company installs multiple meters or service lines to serve a single ~~Customer~~Customer for the Company's convenience, meter readings may be combined for billing purposes.

~~SECTION NO. 9~~
~~METER READING~~
~~(continued)~~

C. ~~Customer~~Customer - Requested Rereads

~~i.~~1. At the request of a ~~Customer~~Customer, the Company will reread that ~~Customer~~Customer's meter within ten (10) working days after such request by the ~~Customer~~Customer.

~~ii.~~2. Any reread may be charged to the ~~Customer~~Customer at a rate on file and approved by the ACC, provided that the original reading was not in error.

~~iii.~~3. When a reading is found to be in error, the reread shall be at no charge to the ~~Customer~~Customer.

SECTION NO. 9
METER READING
(continued)

D. Access to ~~Customer~~Customer Premises

The Company shall have the right of safe ingress to and egress from the ~~Customer~~Customer's premises at all reasonable hours for any purpose reasonably connected with the furnishing of service and the exercise of any and all rights secured to ~~it~~the Company by law or ~~the rules of~~ the ACC's rules or the Company's Pricing Plans~~Tariffs~~.

E. ~~Customer~~Customer-Requested Meter Tests

The Company shall test a meter upon ~~Customer~~Customer request and shall be authorized to charge the ~~Customer~~Customer for such meter test. ~~according to the tariff on file and approved by the ACCCompany.~~ However, if the meter is found to be in error by more than three percent (3%), no fee will be charged to the ~~Customer~~Customer.

~~F. Automatic Meter Reading ???????~~

~~[NOTE - DOES UNS USE OR PLAN ON USING AUTOMATIC METER READING SYSTEMS? - IF SO, IT MAY BE APPROPRIATE TO ADD SOME TARIFF PROVISIONS CONCERNING SUCH USE]~~

SECTION NO. 10
BILLING AND COLLECTION

~~a.~~A. Frequency and Estimated Bills

1. The Company shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days.

2. If the Company is unable to read a meter on the scheduled meter read date, the Company will estimate the consumption for the billing period, giving consideration to the following factors where applicable:

   a. The ~~Customer~~Customer's usage history in the previous twelve (12) months; and

   b. The amount of usage during the ~~proceeding~~preceding month.~~Weather during the billing period.~~

3. After the second consecutive month of estimating the ~~Customer~~Customer's bill for reasons other than severe weather, the Company will attempt to secure an accurate reading of the meter.

4. Failure on the part of the ~~Customer~~Customer to comply with a reasonable request by the Company for access to the ~~Customer~~Customer's meter may lead to the discontinuance of service.

5. Estimated bills will be issued only under the following conditions:

   ~~1.~~a. Failure of a ~~Customer~~Customer who reads his or her~~their~~ own meter to deliver the meter reading card to the Company in accordance with the requirements of the Company's billing cycle;

   ~~2.~~b. Severe weather conditions which prevent the Company from reading the meter; or

   ~~3.~~c. Circumstances that make it impossible to read the meter, such as locked gates, blocked meters, and vicious or dangerous animals, etc.

6. Each bill based on estimated usage will indicate that it is an estimated bill.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~b.~~B. Combining Meters - Minimum Bill Information

~~a.~~1. Each meter at a ~~Customer~~Customer's premises will be considered separately for billing purposes, and the readings of two (2) or more meters will not be combined unless approved by the Company.

~~b.~~2. Each bill for sales service will contain the following minimum information:

~~1.~~a. Date and meter reading at the start of billing period or number of days in the billing period;

~~2.~~b. Date and meter reading at the end of the billing period;

~~3.~~c. Billed usage;

~~4.~~d. Rate schedule number;

~~5.~~e. Company's telephone number;

~~6.~~f. ~~Customer~~Customer's name;

~~7.~~g. Service account number;

~~8.~~h. Amount due and due date;

~~9.~~i. Past due amount;

~~10.~~j. Adjustment factor, where applicable;

~~11.~~k. Taxes; and

~~12.~~l. The Arizona Corporation Commission address.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~c.~~C. Billing Terms

1. All bills for gas service are due and payable no later than ~~fifteen~~ (15~~0~~) days ~~when~~ from the date the bill is -rendered. Any payment not received within this time-frame ~~by the twentieth (20th) day from the date the bill is rendered is~~shall be considered past due and may be subject to a late payment penalty charge. If the ~~twentieth~~fifteenth (~~20~~150th) day falls on a weekend or holiday, then the past due date is extended to the next business day. ~~The amount of the late payment penalty shall not exceed one and one-half percent (1.5%) of the delinquent bill, applied on a monthly basis.~~

~~a.~~2. For purposes of this rule, the date the bill is rendered shall be the latest of the following:

   ~~i.~~a. The postmark date~~The date shown on the bill,~~;

   ~~ii.~~b. The mailing date~~Two days prior to the postmark date~~;~~,~~ or

   c. The billing date shown on the bill (however, the billing date shall not differ from the postmark or mailing date by more than two (2) days.

   ~~Two days prior to the mailing date.~~

   ~~The billing date shall not differ from the postmark or mailing date by more than two (2) days.~~

~~2.~~3. All past due bills for gas service are due and payable within fifteen (15) days. Any payment not received within this time-frame shall be considered delinquent ~~bills for which payment has not been received within thirty (30) days from the original bill rendered date~~and ~~will~~and will be issued a suspension of service notice. ~~Any delinquent payment not received within ten (10) days from the date of the suspension of service notice shall be subject to the provisions of the Company's suspension of service procedures.~~ For ~~Customer~~Customers under the jurisdiction of a bankruptcy court, a more stringent payment or prepayment schedule may be required, if allowed by that court.

   a. The amount of the late payment penalty shall not ~~exceen~~exceed one and one-half percent (1.5%) of the delinquent bill, applied on a monthly basis.

4. All delinquent bills for which payment has not been ~~recieved~~received within five (5) days shall be subject to the provisions of the Company's suspension of service procedures.

~~3.~~5. All payments shall be made at or mailed to the office of the Company or to the Company's duly authorized representative.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~d.~~D. Applicable Pricing Plans~~Tariffs~~, Prepayments, Failure to Receive, Commencement Date~~, Taxes~~

1. Each ~~Customer~~Customer shall be billed under the ~~applicable tariff~~Pricing Plan indicated in the ~~Customer~~Customer's application for service.

2. The Company shall make provisions for advance payment for Company services.

3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent and does not relieve the ~~Customer~~Customer of the ~~Customer~~Customer's obligations therein.

4. Charges for service commence when the service is installed and connection made, whether used or not.

~~e.~~E. Meter Error Corrections

~~a.~~1. If, after testing, any meter is found to be more than three percent (3%) in error, either fast or slow, proper correction between three percent (3%) and the amount of the error shall be made on previous readings, and adjusted bills shall be rendered according to the following terms:

~~1.~~a. For the period of three (3) months immediately preceding the removal of such meter from service for testing or from the time the meter was in service since last tested, but not exceeding three (3) months since the meter shall have been shown to be in error by such test.

~~2.~~b. From the date the error occurred, if the date of the cause can be definitely fixed.

~~b.~~2. No adjustment shall be made by the Company except to the ~~Customer~~Customer last served by the meter tested.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~f.~~F. Nonsufficient Funds ("NSF") Checks and Denied Electronic Funds Transfers

~~a.~~1. The Company shall be allowed to recover a fee, according to the ~~tariff on file and approved by the ACC~~Company's Pricing Plans~~Tariffs~~, for each instance where a ~~Customer~~Customer tenders payment for a Company service with an NSF check. This fee shall also apply when an electronic funds transfer ("EFT") is denied for any reason, including for lack of sufficient funds.

~~b.~~2. When the Company is notified by the ~~Customer~~Customer's bank that there are insufficient funds to cover the check tendered for service, or an EFT has been denied for any reason, the Company may require the ~~Customer~~Customer to make payment in cash, by money order or certified check, or by other means which guarantee the ~~Customer~~Customer's payment to the Company.

~~c.~~3. A ~~Customer~~Customer who tenders an NSF check or for whom an EFT is denied, shall in no way be relieved of the obligation to render payment to the Company under the original terms of the bill, nor defer the Company's provision for termination of service for nonpayment of bills.

~~g.~~G. Elevation/Pressure Adjustment

The Company shall~~, as a part of a general rate proceeding, file an adjustment factor to be applied to CustomerCustomer meter recordings to adjust for differences in pressure due to elevation.~~ adjust for pressure according to the procedures in Section 8.H of these Rules and Regulations.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~h.~~H. Deferred Payment Plan

~~a.~~1. The Company may, prior to termination of service, offer a deferred payment plan to qualifying residential ~~Customer~~Customers for the payment of unpaid bills for gas service.

~~b.~~2. Each deferred payment agreement entered into by the Company and the ~~Customer~~Customer, due to the ~~Customer~~Customer's inability to pay an outstanding bill in full, shall provide that service will not be discontinued if:

~~1.~~a. The ~~Customer~~Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement;

~~2.~~b. The ~~Customer~~Customer agrees to pay all future bills for gas service in accordance with the ~~billing and collection tariffs~~Company's Pricing Plans~~Tariffs of the Company~~; and

~~3.~~c. The ~~Customer~~Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments.

~~c.~~3. For the purposes of determining a reasonable installment payment schedule under these Rules, the Company and the ~~Customer~~Customer shall give consideration to the following conditions:

~~1.~~a. The size of the delinquent account.

~~2.~~b. The ~~Customer~~Customer's ability to pay.

~~3.~~c. The ~~Customer~~Customer's payment history.

~~4.~~d. The length of time that the debt has been outstanding.

~~5.~~e. The circumstances which resulted in the debt being outstanding.

~~6.~~f. Any other relevant factors related to the circumstances of the ~~Customer~~Customer.

~~d.~~4. Any ~~Customer~~Customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the Company's scheduled service termination date for nonpayment of bills. The ~~Customer~~Customer's failure to execute a deferred payment agreement prior to the scheduled service termination date shall not prevent the Company from terminating service for nonpayment.

~~e.~~5. Deferred payment agreements may be in writing and may be signed by the ~~Customer~~Customer and an authorized Company representative.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~f.~~6. A deferred payment agreement may include a finance charge of one and one-half percent (1.5%) per month.

~~g.~~7. If a ~~Customer~~Customer does not fulfill the terms of a deferred payment agreement, the Company shall have the right to disconnect service pursuant to the Company's termination of service rules (Section No. 11 of these Rules) and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

~~I.~~I. Change of Occupancy

~~a.~~1. Not less than three (3) working days advance notice must be given in person at the Company's office, in writing, or by telephone to discontinue service or to change occupancy.

~~b.~~2. The outgoing party shall be responsible for all Company services provided and/or consumed up to the scheduled turn-off date.

J. Electronic Billing

Electronic Billing is an optional billing service whereby Customers may elect to receive, view, and pay their bills electronically. Electronic Billing includes the "UES e-bill" service and the "Sure No Hassle Automatic Payment ("SNAP") service. The Company may modify its e~~E~~lectronic b~~B~~illing services from time to time. A Customer electing an electronic billing service may receive an electronic bill in lieu of a paper bill. Customers electing an electronic billing service may be required to complete additional forms and agreements. Electronic b~~B~~illing may be discontinued at any time by the Company or the Customer. An e~~E~~lectronic b~~B~~ill will be considered rendered at the time it is electronically sent to the Customer. Failure to receive bills or notices which have been properly sent by an e~~E~~lectronic b~~B~~illing system does not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein. Any notices which Company is required to send to a Customer who has elected an e~~E~~lectronic b~~B~~illing service may be sent by electronic means at the option of the Company. Except as otherwise provided in this subsection, all other provisions of the Company's Rules and Regulations and other applicable Pricing Plans~~Tariffs~~ are applicable to e~~E~~lectronic b~~B~~illing.

SECTION NO. 11
TERMINATION OF SERVICE

A. Non-Permissible Reasons to Disconnect Service

~~A.~~1. The Company may not disconnect service for any of the reasons stated below:

~~1.~~a. Delinquency in payment for services rendered to a prior ~~Customer~~Customer at the premises where service is being provided, except in the instance where the prior ~~Customer~~Customer continues to reside on the premises.

~~2.~~b. Failure of the ~~Customer~~Customer to pay for services or equipment that are ~~which areis~~ not regulated by the ACC.

~~3.~~c. Nonpayment of a bill related to another class of service.

~~4.~~d. Failure to pay a bill to correct a previous under-billing due to an inaccurate meter or meter failure, if the ~~Customer~~Customer agrees to pay over a reasonable period of time.

~~5.~~e. The Company may not terminate residential service where the ~~Customer~~Customer has an inability to pay and:

~~a.~~i. The ~~Customer~~Customer can establish through medical documentation that, in the opinion of a licensed medical physician, termination of service would be especially dangerous to the health of the ~~Customer~~Customer or to the health of a permanent resident residing on the ~~Customer~~Customer's premises;

~~b.~~ii. Life-supporting equipment is used in the home that is dependent on Company service for operation of such apparatus; or

~~c.~~iii. Where weather will be especially dangerous to health as defined herein or as determined by the ACC.

~~6.~~f. Residential service to persons who have an inability to pay and who have an Iillness, are a Senior Citizen, or who are Handicapped ~~ill, senior citizen, or handicapped persons who have an inability to pay~~ will not be terminated until all of the following have been attempted:

~~1.~~i. The ~~Customer~~Customer has been informed of the availability of funds from various government and social assistance agencies; and

~~2.~~ii. A third party previously designated by the ~~Customer~~Customer has been notified and has not made arrangement to pay the outstanding Company bill.

A ~~Customer~~Customer utilizing the provisions of Subsection A.1.e or A.1.f above may be required to enter into a deferred payment agreement with the Company within ten (10) days after the scheduled service termination date.

~~SECTION NO. 11~~
~~TERMINATION OF SERVICE~~
~~(continued)~~

~~7.~~g. Failure to pay the bill of another ~~Customer~~Customer as guarantor thereof.

h. Disputed bills where the ~~Customer~~Customer has complied with the ACC's rules on ~~Customer~~Customer bill disputes.

~~8.~~

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

B. Termination of Service Without Notice

1. The Company may ~~not~~ disconnect service without advance written notice ~~except~~ under the following conditions:

   ~~1.~~a. The existence of an obvious hazard to the safety or health of the c~~Consumer~~ustomer, the general population or which imperils service to other ~~consumers~~Customers;

   ~~2.~~b. The Company has evidence of ~~meter t~~Tampering or fraud;

   ~~3.~~c. There is an unauthorized resale or use of gas services that is not in accordance with the ACC's rules and/or ~~the~~these Rules and Regulations or other Company Pricing Plans~~Tariffs Company's rules, regulations, and tariffs~~; or

   ~~4.~~d. The ~~Customer~~Customer has failed to comply with the curtailment procedures imposed by the Company ~~during supply shortages~~in accordance with the Company's Pricing Plans~~Tariffs~~.

2. The Company shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the Company.

3. The Company shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one (1) year and shall be available for inspection by the ACC.

~~**SECTION NO. 11**~~
~~**TERMINATION OF SERVICE**~~
~~(continued)~~

C. Termination of Service With Notice

~~2.~~1. The Company may disconnect service to any ~~Customer~~Customer for any reason stated below, provided that the Company has met the notice requirements ~~established by the ACC~~described in Section 11.D below:

~~A.~~a. ~~Customer~~Customer violation of any of the Company's ~~t~~~~Tariff~~Pricing Planss;

~~B.~~b. Failure of the ~~Customer~~Customer to pay a delinquent bill for gas service;

~~C.~~c. Failure of the ~~Customer~~Customer to meet agreed upon deferred payment arrangements;

~~D.~~d. Failure to meet or maintain the Company's deposit requirements;

~~E.~~e. Failure of the ~~Customer~~Customer to provide the Company reasonable access to its equipment and property;

~~F.~~f. ~~Customer~~Customer breach of a written contract for service between the Company and ~~Customer~~Customer; or

~~G.~~g. When necessary for the Company to comply with an order of any governmental agency having such jurisdiction.

~~3.~~2. The Company shall maintain a record of all terminations of service with notice. This record shall be maintained for one (1) year and shall be available for ACC inspection.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

D. Termination Notice Requirements

~~A.~~1. The Company may not terminate service to any of its ~~Customer~~Customers without providing advance written notice to the ~~Customer~~Customer of the Company's intent to disconnect service, except under those conditions specified where advance written notice is not required.

~~B.~~2. Such advance written notice shall contain, at a minimum the following information:

a. The name of the person whose service is to be terminated and the address where service is being rendered;

b. The ~~t~~~~Tariff~~Pricing Plans that was violated and explanation of the violation or the amount of the bill, which the ~~Customer~~Customer has failed to pay in accordance with the payment policy of the Company, if applicable;

c. The date on or after which service may be terminated; and

~~SECTION NO. 11~~
~~TERMINATION OF SERVICE~~
~~(continued)~~

d. A statement advising the ~~Customer~~Customer that the Company's stated reason for the termination of services may be disputed by contacting the Company at a specific address or phone number, advising the Company of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the Company in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the Company shall retain the option to terminate service after affording this opportunity for a meeting, concluding that the reason of terminating is just, and advising the ~~Customer~~Customer of his right to file a complaint with the ACC.

~~C.~~3. Where applicable, a copy of the termination notice will be simultaneously forwarded to designated third parties.

E. Timing of Terminations With Notice

~~a.~~1. The Company shall be required to give at least ~~ten~~five (~~10~~5) days advance written notice prior to the termination date. For ~~Customer~~Customers under the jurisdiction of a bankruptcy court, a shorter notice may be provided, if permitted by that court.

~~b.~~2. Such notice shall be considered to be given to the ~~Customer~~Customer when a copy of the notice is left with the ~~Customer~~Customer or posted first class in the United States mail, and addressed to the ~~Customer~~Customer's last known address.

~~c.~~3. If, after the period of time allowed by the notice has elapsed, the delinquent account has not been paid nor arrangements made with the Company for the payment of the bill, or in the case of a violation of the Company's rules the ~~Customer~~Customer has not satisfied the Company that such violation has ceased, the Company may terminate service on or after the day specified in the notice without giving further notice.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

~~d.~~4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the Company.

~~e.~~5. The Company shall have the right, but not the obligation, to remove any or all of its property installed on the ~~Customer~~Customer's premises upon the termination of service.

~~SECTION NO. 11~~
~~TERMINATION OF SERVICE~~
~~(continued)~~

F. Landlord/Tenant Rule

1. In situations where service is rendered at an address different from the mailing address of the bill or where the Company knows that a landlord/tenant relationship exists and that the landlord is the ~~Customer~~Customer of the Company, and where the landlord as ~~Customer~~Customer would otherwise be subject to disconnection of service, the Company may not disconnect service until the following actions have been taken:

   ~~1.~~a. Where it is feasible to provide service, the Company, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in the occupant's own name. If the occupant then declines to subscribe, the Company may disconnect service pursuant to the rules.

   ~~2.~~b. The Company shall not attempt to recover payment of any outstanding bills or other charges due on the outstanding account of the landlord from a tenant. The Company shall not condition service to a tenant based on the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS

~~a.~~A. ~~Customer~~Customer Service Complaints

1. The Company shall make a full and prompt investigation of all service complaints made by its ~~Customer~~Customers, either directly to the Company or through the ACC.

2. The Company shall respond to the complainant and/or the ACC representative within five (5) working days as to the status of the Company's investigation of the complaint.

3. The Company shall notify the complainant and/or the ACC representative of the final disposition of each complaint. Upon request of the complainant or the ACC representative, the Company shall report the findings of its investigation in writing.

4. The Company shall inform the ~~Customer~~Customer of the right of appeal to the ACC.

5. The Company shall keep a record of all written service complaints received and which shall contain, at a minimum, the following data:

   ~~1.~~a. Name and address of complainant.

   ~~2.~~b. Date and nature of complaint.

   ~~3.~~c. Disposition of the complaint.

   ~~4.~~d. A copy of any correspondence between the Company, the ~~Customer~~Customer, and/or the ACC.

   This record shall be maintained for a minimum period of one (1) year and shall be available for inspection by the ACC.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

~~b.~~B. ~~Customer~~Customer Bill Disputes

1. Any ~~Customer~~Customer who disputes a portion of a bill rendered for gas service shall pay the undisputed portion of the bill prior to the delinquent date of the bill, and notify the Company's designated representative that any unpaid amount is in dispute.

2. Upon receipt of the ~~Customer~~Customer's notice of dispute, the Company shall:

   ~~1.~~a. Notify the ~~Customer~~Customer within five (5) working days of the receipt of a written dispute notice.

   ~~2.~~b. Initiate a prompt investigation as to the source of the dispute.

   ~~3.~~c. Withhold disconnection of service until the investigation is completed and the ~~Customer~~Customer is informed of the results. Upon request of the ~~Customer~~Customer, the Company shall report the results of the investigation in writing.

   ~~4.~~d. Inform the ~~Customer~~Customer of the right of appeal to the ACC.

3. Once the ~~Customer~~Customer has received the results of the Company's investigation, the ~~Customer~~Customer shall submit payment within five (5) working days to the Company for any disputed amounts. Failure to make full payment shall be grounds for termination of service.

~~c.~~C. ACC Resolution of Service and/or Bill Disputes

~~C.~~1. In the event a ~~Customer~~Customer and the Company cannot resolve a service and/or bill dispute, the ~~Customer~~Customer shall file a written statement with the ACC. By submitting such written notice to the ACC, the ~~Customer~~Customer shall be deemed to have filed an informal complaint against the Company.

~~D.~~2. Within thirty (30) days of the receipt of a written statement of ~~Customer~~Customer dissatisfaction related to a service or bill dispute, a designated representative of the ACC shall endeavor to resolve the dispute by correspondence and/or by telephone with the Company and the ~~Customer~~Customer. If resolution of the dispute is not achieved within twenty (20) days of the ACC representative's initial effort, the ACC shall hold an informal hearing to arbitrate the resolution of the dispute. The informal hearing shall be governed by the following rules:

   ~~2.~~a. Each party may be represented by legal counsel, if desired;

   ~~3.~~b. All such informal hearings may be recorded or held in the presence of a stenographer;

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

~~4.~~c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties; and

~~5.~~d. All parties and the ACC's representative shall be given an opportunity for cross-examination of the various parties.

The ACC's representative will render a written decision to all parties within five (5) working days after the date of the informal hearing. Such written decision of the ACC's representative is not binding on any of the parties and the parties will still have the right to make a formal complaint to the ACC.

~~E.~~3. The Company may implement normal termination procedures if the ~~Customer~~Customer fails to pay all bills rendered during the resolution of the dispute by the ACC.

~~F.~~4. The Company shall maintain a record of written statements of dissatisfaction and their resolution for a minimum of one (1) year and make such records available for ACC inspection.

~~d.~~D. Notice by Company of Responsible Officer or Agent

~~A.~~1. The Company shall file with the ACC a written statement containing the name, business address ~~(business, residence and post office)~~ and telephone numbers (~~business and residence~~office and mobile) of at least one officer, agent or employee responsible for the general management of its operations as a Company in Arizona.

~~B.~~2. The Company shall give notice, by filing a written statement with the ACC, of any change in the information required herein within five (5) days from the date of any such change.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN

~~A.~~A. Residential ~~Customer~~Customers may elect to participate in the Company's Budget Billing Payment Plan ("Plan") for payment of charges for gas service. ~~The Plan year shall be the twelve (12) billing months ending with the Customer's July bill.~~

~~1.~~B. Upon ~~Customer~~Customer request, the Company will develop an estimate of the ~~Customer~~Customer's levelized billing for a twelve (12) month period based on:

~~a.~~1. The ~~Customer~~Customer's actual consumption history at the service location, which may be adjusted for weather or other known variations. If sufficient history is not available, then an estimate will be prepared based on other similar service locations and ~~customer's~~Customer's anticipated load requirements; and

2. The applicable Pricing Plan~~Company's tariff schedules approved by the ACC applicable to that CustomerCustomer's class of service~~, the estimated gas costs for the Plan year, and applicable taxes.

~~2.~~C. The Company shall provide the ~~Customer~~Customer with a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a ~~Customer~~Customer's monthly bill, and the Company's right to adjust the ~~Customer~~Customer's billing for any variation between the Company's estimated billing and actual billing.

~~3.~~D. The Plan's monthly payment shall be determined as follows:

Settlement month will be the ~~customer's~~Customer's anniversary date, 12 months from the time the ~~customer~~Customer is set up on the Budget Billing Payment Plan. The Company reserves the right to adjust the remaining monthly Plan semi-annually to reduce the likelihood of an excessive debt or credit balance in rates due to dramatic PGA increases or PGA surcharges.

~~1.For Customers starting with the August bill, make an estimate of the usage for the Plan year for this Customer at the applicable premise, calculate the bill over the Plan year as described in Subsection B above, add in the debit or credit balance from actual usage at the due date for the most recent bill, and divide by twelve (12) months. Customers with a debit balance with any portion coming from overdue amounts may be required to pay off all overdue portions of the balance before being placed on the Plan.~~

~~2.For Customers starting with the September or a later bill, use the same process as in Subsection D.1 above, but use the remaining months of the Plan year for the usage, bill estimates and the divisor to determine the monthly payment. Customers who wish to start with the December or later bills may be required to pay off any existing balance, if over $75.00, or may be excluded if they have two (2) or more bills in the last twelve (12) months that have not been paid by the billing date of the next bill.~~

~~**SECTION NO. 13**~~
~~**BUDGET BILLING PAYMENT PLAN**~~
~~(continued)~~

~~3.~~1. The Company reserves the right to adjust the remaining monthly Plan payments of any ~~Customer~~Customer at any time if the Company's estimate of the ~~Customer~~Customer's usage and/or cost varies significantly from the ~~Customer~~Customer's actual usage and/or cost. Such review may also be initiated by the ~~Customer~~Customer. Any change resulting from such a review will be effective on a subsequent bill and no further notice is required.

~~4.~~2. The ~~Customer~~Customer shall continue to pay the monthly Plan payment amount each month, notwithstanding the current gas service charge shown on the bill.

~~5.~~3. Any other charges incurred by the ~~Customer~~Customer shall be paid monthly when due in addition to the monthly Plan payment.

~~6.~~4. Interest will not be charged the ~~Customer~~Customer on accrued debit balances nor paid by the Company on accrued credit balances.

~~7.~~5. Any amount due the Company will be settled and paid at the time a ~~Customer~~Customer, for any reason, ceases to be a participant in the Plan. If an amount due to the ~~Customer~~Customer exceeds fifty dollars ($50.00), the ~~Customer~~Customer has the option to receive a bill credit or a refund; otherwise the credit will remain as a bill credit.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN
(continued)

~~8.~~6. Any ~~Customer~~Customer's participation in the Plan may be discontinued by the Company if the monthly Plan payment has not been paid on or before the billing date of the next monthly Plan payment.

~~9.~~7. If a ~~Customer~~Customer in the Plan shall cease, for any reason, to participate in the Plan, then the Company may refuse that ~~Customer~~Customer's re-entry in the Plan until the following August or for six (6) months, whichever is longer.

~~10.~~8. For those ~~Customer~~Customers being billed under the Plan, the Company shall show, at a minimum, the following information on the ~~Customer~~Customer's monthly bill:

a. Actual consumption;

b. Amount due for actual consumption;

c. Levelized billing amount due; and

d. Accumulated variation in actual versus levelized billing amount.

SECTION NO. 14
CURTAILMENT PLAN

~~2.~~A. The Company shall use reasonable diligence in its operations to render continuous service to all its ~~Customer~~Customers other than those ~~Customer~~Customers served under Pricing Plans ~~rate schedules~~ expressly permitting interruptions of service for peak shaving purposes. If for any reason, however, the Company is unable to supply the demand for gas in any one or more of its systems, interruptions or curtailments of service shall be made in accordance with the provisions of this section. The Company shall not be liable for damages because of the operation of this section.

B. Applicability

1. The order of curtailment shall be in inverse order of the curtailment priorities set forth in Subsection C below.
2. Curtailment priorities shall apply to both sales and transportation ~~Customer~~Customers.
3. ~~Customer~~Customers being served under a discounted transportation or sales rate schedule shall be curtailed first. ~~Customer~~Customers paying the least will be curtailed first within an affected priority.
4. Each priority shall be curtailed in full before the next priority in order is curtailed.
5. When Priority 1 ~~Customer~~Customers would be curtailed due to system supply failure (either upstream capacity or supply failure), the Company is authorized to "preempt" deliveries of lower priority transportation ~~Customer~~Customers' gas and divert such supplies to the otherwise affected Priority 1 ~~Customer~~Customers. Affected transportation ~~Customer~~Customers will be curtailed to the same extent as sales ~~Customer~~Customers of the same priority. Such transportation ~~Customer~~Customers will be compensated for the preemption of their gas supply by either crediting the ~~Customer~~Customer's account with a like quantity of gas for use on a subsequent gas day, or by providing a cash payment or credit to the ~~customer~~Customer's bill at the cost of gas per unit paid by the ~~Customer~~Customer. If the gas supply of an alternate fuel-capable transportation ~~Customer~~Customer is preempted according to this provision, the Company shall provide additional compensation to such ~~Customer~~Customer for the incremental cost of using the alternate fuel, (the difference between the actual cost of using the alternate fuel and the actual cost of gas paid by the ~~Customer~~Customer for the preempted gas). Such credit shall be applied to the Company's next scheduled billing after the ~~Customer~~Customer has furnished adequate proof to the Company concerning alternate fuel costs, replacement volumes, and gas costs.
6. The installation of a cogeneration facility shall not affect the underlying end-use priority of the establishment.
7. Natural gas utilized as compressed natural gas for vehicle fuel shall be classified as a commercial end-use.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

8. Application of curtailment priorities will normally be done on a scheduled basis as part of the daily gas requirement nomination and confirmation routine. Operational emergency curtailment will conform to these priorities to the extent possible and practical.

9. A transportation ~~Customer~~Customer may be curtailed to the level of actual supply scheduled for that ~~Customer~~Customer, regardless of end-use priority.

C. Priorities

Priority 1: Residential, small commercial (less than five hundred (500) therms on a peak day), schools, hospitals, police protection, fire protection, sanitation facility, correctional facility, and emergency situation uses.

Priority 2A: Essential agricultural uses as certified by the Secretary of Agriculture.

Priority 2B: Essential industrial process and feedstock uses.

Priority 2C: Large Commercial (five hundred (500) therms or more on a peak day) and storage injection requirements, industrial requirements for plant protection, feedstock, process, ignition and flame stabilization needs not specified in Priority 2B.

Priority 3A: Industrial requirements not specified in Priorities 2, 4, and 5, of less than one thousand (1,000) therms on a peak day.

Priority 3B: All industrial requirements not specified in Priorities 2, 3A, 4, and 5.

Priority 4: Industrial requirements for boiler fuel use at less than thirty thousand (30,000) therms per peak day, but more than fifteen thousand (15,000) therms per peak day, where alternate fuel capabilities can meet such requirements.

Priority 5: Industrial requirements for large volume (thirty thousand (30,000) therms per peak day or more) boiler fuel use where alternate fuel capabilities can meet such requirements.

~~**SECTION NO. 14**~~
~~**CURTAILMENT PLAN**~~
~~(continued)~~

D. In the event of isolated incidents in order to avoid hazards and protect the public, the Company may temporarily interrupt service to certain ~~Customer~~Customers without regard to priority or any other ~~Customer~~Customer classification.

~~E.~~

SECTION NO. 14
CURTAILMENT PLAN
(continued)

~~F.~~E. Definitions

1. "Alternate Fuel Capability" – A situation where an alternate fuel can be utilized whether or not the facilities for such use have actually been installed.

2. "Correctional Facility Uses" – A facility, the primary function of which is to house, confine, or otherwise limit the activities of a person who has been assigned to such facilities as punishment by a court of law.

3. "Essential Agricultural Use" – Any use of natural gas which is certified by the Secretary of Agriculture as an "essential agricultural use."

4. "Essential Industrial Process and Feedstock Uses" – ~~Means a~~Any use of natural gas by an industrial ~~customer~~Customer as process gas, or as a feedstock, or gas used for human comfort to protect health and hygiene in an industrial installation.

5. "Feedstock Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

6. "Fire Protection Uses" – Natural gas used by and for the benefit of fire fighting agencies in the performance of their duties.

7. "Flame Stabilization Gas" – Natural gas which is burned by ~~ignitors~~igniters, main gas burners, or warm-up burners for the purpose of maintaining stable combustion of an alternate fuel.

8. "Hospital" – A facility, the primary function of which is delivering medical care to patients who remain at the facility (facility includes nursing and convalescent homes). Outpatient clinics or doctors' offices are not included in this definition.

9. "Ignition Gas" – Natural gas supplied to gas ~~ignitors~~igniters in boilers to light main burners, whether the main burners are operated by gas, oil, or coal.

10. "Industrial Boiler Fuel" – Natural gas used in a boiler as a fuel for the generation of steam or electricity.

11. "Industrial Use" – Natural gas used primarily in a process which creates or changes raw or unfinished materials into another form or product, including electric power generation.

~~**SECTION NO. 14**~~
~~**CURTAILMENT PLAN**~~

~~(continued)~~

12. "Peak Day" – Maximum daily ~~customer~~Customer use as determined by the best practical method available.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

~~12.~~

13. "Plant Protection Gas" – Minimum natural gas volumes required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

14. "Police Protection Uses" – Natural gas used by law enforcement agencies in the performance of their duties.

15. "Process Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

16. "Sanitation Facility Uses" – Natural gas use in a facility where natural gas is used to a) dispose of refuse, or b) protect and maintain the general sanitation requirements of the community at large.

17. "School" – A facility, the primary function of which is to provide instruction to regularly enrolled students in attendance at such facility. Facilities used for both educational and non-educational activities are not included under this definition unless the latter activities are merely incidental to the provision of instruction.

18. "Small Commercial Establishment" – Any establishment (including institutions and local, state, and federal government agencies) engaged primarily in the sale of goods or services where natural gas is used:

    a. in amounts of less than fifty (50) MCF on a peak day; and

    b. for purposes other than those involving manufacturing or electric power generation.

19. "Storage Injection Gas" – Natural gas injected by a distributor into storage for later use.

SECTION NO. 15
RATES AND UNIT MEASUREMENT

~~1.~~A. The rates and charges for gas service shall be those of the Company legally in effect and on file with the ACC.

~~2.~~B. All rates set forth in the Company's ~~rate schedules~~Pricing Plans are stated in therms. ~~The term "therm" means one hundred thousand (100,000) BTU's.~~ Unless otherwise provided by special contract, the number of therms delivered to any ~~Customer~~Customer shall be determined by measuring the volume of gas passing through that ~~Customer~~Customer's meter during the month to the nearest one hundred (100) cubic feet and ~~multiplying that volume by an appropriate conversion factor~~applying the procedures of Section 8.H of these Rules and Regulations.

~~3.~~C. The unit of volume for measurement of gas sold shall be one (1) ~~cubic foot of gas at a base temperature of sixty (60) degrees Fahrenheit and a base pressure of fourteen and seventy three hundredths (14.73) pounds per square inch atmospheric ("PSIA").~~ Cubic Foot of gas, as defined in Section 2~~.~~, Subsection A.1~~2~~3 of these Rules and Regulations. The volume of gas measured shall be rounded to the nearest one hundred (100) cubic feet for any given period.

~~4.~~D. The atmospheric pressure will be the standard atmospheric pressure for the location.

~~5.~~E. The standard serving pressure shall be seven (7) inches of water pressure (four (4) ounces per square inch gauge) above the atmospheric pressure.

~~6.~~F. The standard temperature of sixty (60) degrees Fahrenheit will be used for volume determination unless stated otherwise under special contract. The Company shall retain the right, but shall not be obligated, to install temperature recording or compensating equipment as part of the measuring facilities. When such temperature recording equipment is used, the arithmetic average temperature of the gas each day, during periods of flow only, shall be used in computing the quantity of gas delivered by that day.

~~5.~~G. The Company, at its own option, may elect to serve a ~~Customer~~Customer at a pressure higher than the standard serving pressure. The Company shall correct such volume to Standard Conditions ~~the standard base pressure of fourteen and seventy three hundredths (14.73) PSIA and sixty (60) degrees Fahrenheit~~ by the use of compensating equipment or the use of a factor. The Company retains the right to determine the method used for applying such correction. The factor used to correct the measured volume shall be in accordance with American Gas Association Report 3.

~~SECTION NO. 15~~
~~RATES AND UNIT MEASUREMENT~~
~~(continued)~~

~~A standard cubic foot for determining the heating value of gas is defined as the quantity of gas saturated with water vapor, which at a pressure of thirty (30) inches or mercury and at a temperature sixty (60) degrees Fahrenheit occupies one (1) cubic foot.~~

~~7.~~H. The therm conversion factor shall be determined each month and shall be the product of the conversion factor and the most recent heating value content available using the weighted average delivered pressure by office. The weighted average delivered pressure is derived monthly using the delivered pressure for each town code served which is reflective of each town code's elevation, weighted by the sales distribution among assigned gas distribution systems within each respective office. Further explained in Section 8.H. of these Rules and Regulations.~~h, Provision of Service.~~

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN

A. General Plan

The Company will annually sample groups of meters to determine the continuing accuracy and performance of the group. Certain safe and proper standards are defined, and meters will remain in service as long as they meet these standards. This program will allow the Company to obtain all the useful service available from a meter until the meter no longer meets prescribed standards. At that time, then it is proper for the meter to be removed, tested, repaired, or retired.

This procedure is for the purpose of testing and controlling the performance of small gas meters that are two hundred fifty (250) CFH ~~**(WHAT IS CFH? NOT IN DEFINITIONS. NEED TO SPELL OUT)**~~ or less. The program will identify and remove meters that do not meet the standards of performance described in Subsection D below, and identify and retain in service meters that do meet or exceed the stated standards. Meters are classified into groups, samples of each group are tested annually, and groups are removed from service when they do not meet performance standards.

B. Meter Groups

1. Meters are segregated into groups on the following basis:

   a. Year last repaired or purchased;

   b. Manufacturer;

   c. Diaphragm type (leather or synthetic), when available; and

   d. Geographic district.

2. For meters repaired or purchased in a given year, the groups are established at the beginning of the next year. When a new group being established is found to contain less than one thousand (1,000) meters, this group may be combined with another group having meters of the same or similar operating characteristics. An existing group may be divided into two or more groups, if experience characteristics of part of the group are sufficiently different from the remainder of the group to warrant separate sampling of the parts.

C. Sampling

A representative random sample is selected from each group of meters. The samples are used in determining the performance of each group of meters each year. If the initial order for meter removals does not produce an adequate sample, additional meters are drawn on a random basis. These meters are combined with the original sample for determining acceptability of the group. Samples are taken annually from all groups that have been in service for ten years or longer.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

D. Performance Standard

The criteria for acceptability for a group to remain in service are:

1. No more than ten percent (10%) of the meters tested in the group are more than three percent (3%) fast.
2. At least eighty percent (80%) of the meters tested in the group are within +/- three percent (3%) of zero error. This results in a condition wherein a minimum of ninety percent (90%) of the meters remaining in service are either within +/- three percent (3%) or are more than three percent (3%) slow and in the ~~Customer~~Customer's favor.

E. Records

The test results for each group are kept in appropriate records that indicate the number of meters in the sample versus the test results, expressed as a percent.

F. Removal of Groups

1. A test result falling on or above the prescribed standards is satisfactory and the groups will remain in service.
2. A test falling below the prescribed standards is not satisfactory and the group will be removed from service.
3. The Company, for its convenience, may remove a group (or part of a group) even though the group meets the requirements for remaining in service.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

G. Annual Reports

A report of the meter performance control program will be filed annually with the ACC, which will contain the following:

1. A description of each group, showing its identification, size and composition;

2. A list of the total number of meters tested, at Company initiative or upon ~~Customer~~Customer request;

3. A detailed list of the performance results of each group, showing the number of meters in the group, the number of meters removed during the year, the number of meters not tested (dead, non-registering, damaged, etc.), the number or meters tested, the number of meters slow - minus three percent (-3%), the number of meters accurate, the percent of meters accurate, the number of meters fast - plus three percent (+3%), and the percent of meters fast;

4. A summary of results for each year of service; and

5. A summary or the overall results.

EXHIBIT

GAS-2

UNS Gas, Inc.
Rules & Regulations

CLEAN VERSION

TABLE OF CONTENTS

SECTION NO. 1
APPLICABILITY OF RULES AND REGULATIONS AND DESCRIPTION OF SERVICE

A. Company is a gas utility operating within portions of the state of Arizona. The Company will provide service to any person, institution or business located within its service area in accordance with the provisions of its Pricing Plans and the terms and conditions of these Rules and Regulations.

B. All gas delivered to any Customer is for the sole use of such Customer on that Customer's premises only. Gas delivered by the Company shall not be redelivered or resold, or the use thereof by others permitted unless otherwise expressly agreed to in writing by the Company. However, those Customers purchasing gas for redistribution to the Customer's own tenants (only on the Customer's premises) may separately meter each tenant distribution point for the purpose of prorating the Customer's actual purchase price of gas delivered among the various tenants on a per unit basis.

C. These Rules and Regulations shall apply to all gas service furnished by the Company to its Customers.

D. These Rules and Regulations are part of the Company's Pricing Plans on file with, and duly approved by, the ACC. These Rules and Regulations shall remain in effect until modified, amended, or deleted by order of the ACC. No employee, agent or representative of the Company is authorized to modify the Company rules.

E. These Rules and Regulations shall be applied uniformly to all similarly situated Customers.

F. In case of any conflict between these Rules and Regulations and the ACC's rules, these Rules and Regulations shall apply.

G. Whenever the Company and an Applicant or a Customer are unable to agree on the terms and conditions under which such Applicant or Customer is to be served, or are unable to agree on the proper interpretation of the these Rules and Regulations, either party may request assistance from the Consumer Services Section of the Utilities Division of the ACC. The Applicant or Customer also has the option to file an application with the ACC for a proper order, after notice and hearing.

H. The Company's supplying gas service to the Customer and the acceptance thereof by the Customer shall be deemed to constitute an agreement by and between the Company and the Customer for delivery, acceptance of and payment for gas service under the Company's Rules and Regulations and applicable Pricing Plans[t1].

SECTION NO. 2
DEFINITIONS

A. In these Rules and Regulations, the following definitions shall apply unless the context requires otherwise:

1. “Advance in Aid of Construction” or “Advance” – Funds provided to the Company by an Applicant under the terms of a main extension agreement, the value of which may be refundable.
2. “Applicant” – A person requesting the Company to supply gas service.
3. “Application” – A request to the Company for gas service, as distinguished from any inquiry as to the availability or charges for such service.
4. “Arizona Corporation Commission” ("ACC") – The regulatory body established by Article XV of the Arizona Constitution.
5. “Billing Month” – The time interval between any two (2) regular readings of the Company's meters at approximately thirty (30) day intervals.
6. “Billing Period” – The time period between two (2) consecutive meter readings that are taken for billing purposes.
7. “British Thermal Unit” ("BTU") – The amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit, at Standard Conditions.
8. “CCF” – One hundred (100) cubic feet.
9. “CFH” – Cubic feet per hour.
10. “Commodity Charge” – The unit cost for billed usage as set forth in the Company's Pricing Plans.
11. “Company” – UNS Gas, Inc.
12. “Contributions in Aid of Construction” or “Contribution” – Funds provided to the Company by the Applicant under the terms of a main extension agreement and/or service connection tariff, the value of which are not refundable.

SECTION NO. 2
DEFINITIONS
(continued)

13. "Cubic Foot" –

    a. In cases where gas is supplied and metered to Customers at Standard Delivery Pressure, a cubic foot of gas is the volume of gas, which at the temperature and pressure existing in the meter occupies one (1) cubic foot.

    b. Regardless of the pressure supplied to the Customer, the volume of gas metered will be converted to the volume which the gas would occupy at Standard Conditions.

    c. The standard cubic foot of gas used for testing the gas for heating value shall be that volume of gas which, when saturated with water vapor and at a temperature of sixty (60) degrees Fahrenheit and under a pressure equivalent to that of thirty (30) inches of mercury (mercury at thirty-two (32) degrees Fahrenheit and under standard gravity), occupies one (1) cubic foot.

14. "Curtailment Priority" – The order in which gas service is to be curtailed to various classifications of Customers, as set forth in the Company's Pricing Plans.

15. "Customer" – The person in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in the person's name regardless of the identity of the actual user of the service.

16. "Customer Charge" – The amount the Customer must pay the Company for the availability of gas service, excluding any gas used, as specified, in the Company's Pricing Plans.

17. "Customer Service Complaint" - Written complaint received from a Customer, or through the ACC on behalf of a Customer.

18. "Day" – Calendar day.

19. "Decatherm" – Ten (10) therms or 1,000,000 BTU.

20. "Distribution Main" – A gas line of the Company from which service lines may be extended to Customers.

21. "Handicapped" – A person with a physical or mental condition which substantially contributes to the person's inability to manage his or her own resources, carry out activities of daily living, or protect themselves from neglect or hazardous situations without assistance from others.

SECTION NO. 2
DEFINITIONS
(continued)

22. "Illness" – A medical ailment or sickness for which a residential Customer obtains a verifiable document from a licensed medical physician stating the nature of the illness and that discontinuance of service would be especially dangerous to the Customer's health.

23. "Inability to Pay" – Circumstances where a residential Customer:

    a. Is not gainfully employed and is unable to pay; or

    b. Qualifies for government welfare assistance, but has not begun to receive assistance on the date that the bill is received and can obtain verification from the government welfare agency; or

    c. Has an annual income below the published federal poverty level and can produce evidence of this; and

    d. Signs a declaration verifying that the Customer meets one of the above criteria and is either a senior citizen, handicapped, or suffers from an illness.

24. "Incremental Contribution Study" ("ICS") - The study described in Section 7.B.5 of these Rules and Regulations.

25. "Interruptible Gas Service" – Gas service that is subject to interruption or curtailment as specified in the Company's Pricing Plans.

26. "Law" – Any rule or requirement established and enforced by government authorities.

27. "Main Extension" – The lines and equipment necessary to extend the existing gas distribution system to provide service to additional Customers.

28. "Master Meter" – An instrument for measuring or recording the flow of gas at a single location from which said gas is transported through a piping system to tenants or occupants for their individual consumption.

29. "MCF" – One thousand (1,000) cubic feet.

30. "Meter" – The instrument for measuring and indicating or recording the volume of gas that has passed through it.

31. "Meter Set Assembly" ("MSA") – All gas components downstream of the Customer's inlet service valve [t2] to the Customer's Point of Delivery.

SECTION NO. 2
DEFINITIONS
(continued)

32. "Minimum Charge" – The amount the Customer must pay for the availability of gas service and may include an amount of usage, as specified in the Company's Pricing Plans.[t3]

33. "Permanent Customer" – A Customer who is a tenant or owner of a service location who applies for and receives gas service.

34. "Permanent Service" – Service which, in the opinion of the Company, is of a permanent and established character. The use of gas may be continuous, intermittent, or seasonal in nature.

35. "Person" – Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.

36. "Point of Delivery" – The Point of Delivery for all gas delivered to any Customer shall be at the point of interconnection between the facilities of the Company and those of such Customer.

37. "Premises" – All of the real property and apparatus employed in a single enterprise or residence on an integral parcel of land undivided by public streets, alleys or railways.

38. "Pricing Plan" – A part of the Company's Tariffs which sets forth the rates and charges related to specific categories of Customers, and related terms and conditions.

39. "Residential Subdivision" – Any tract of land which has been divided into four or more contiguous lots for use in the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.

40. "Residential Use" – Service to Customers using gas for domestic purposes such as space heating, air conditioning, water heating, cooking, clothes drying, and other residential uses and includes use in apartment buildings, mobile home parks, and other multi-unit residential buildings.

41. "Restricted Apparatus" – An apparatus prohibited by the ACC, another governmental agency, or the Company.

42. "Rules and Regulations" or "Company rules" – These Rules and Regulations, which are part of the Company's Tariffs and Pricing Plans.

SECTION NO. 2
DEFINITIONS
(continued)

43. "Senior Citizen" – A person who is sixty-two (62) years of age or older.

44. "Service Areas" – The territory in which the Company has been granted a certificate of convenience and necessity and is authorized by the ACC to provide gas service.

45. "Service Establishment Charge" – A charge, as specified in the Company's Pricing Plans, which covers the cost of establishing a new account.

46. "Service Line" – A gas pipe that transports gas from a common source or supply (normally a distribution main) to the Customer's Point of Delivery.

47. "Service Reconnection Charge" – A charge specified in the Company's Pricing Plans that must be paid by the Customer prior to re-establishment of gas service each time the gas is disconnected for nonpayment, or for failure to comply with the Company's Pricing Plans.

48. "Service Re-Establishment Charge" – A charge specified in the Company's Pricing Plans for the re-establishment of service at the same location where the same Customer had ordered a service disconnect within the preceding twelve (12) month period. In addition to the Service Re-Establishment Charge, such returning Customer shall pay the sum of the applicable monthly Customer Charges which would have accrued had the Customer not ordered the disconnect.

49. "Single Family Dwelling" – A house, an apartment, or a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as permanent home.

50. "Standard Conditions" - 14.73 pounds per square inch absolute at sixty (60) degrees Fahrenheit.

51. "Standard Delivery Pressure" – 0.25 pounds per square inch gauge at the meter or Point of Delivery.

52. "Tampering" – A situation where a meter has been illegally altered. Common examples are meter bypassing and other unauthorized connections. Tampering also includes any action defined as "tampering" under A.R.S. § 40-491(4).

53. "Tariffs" – The documents filed with the ACC that list the services offered by the Company and set forth the terms and conditions and a schedule of the rates and charges for those services and products. These Rules and Regulations are part of the Company's Tariffs. The Company's Pricing Plans are also part of the Company's Tariffs.

54. "Temporary Service" – Service to premises or enterprises that are temporary in character, or where it is known in advance that the service will be of limited duration. Service that, in the opinion of the Company, is for operations of speculative character is also considered temporary service.

SECTION NO. 2
DEFINITIONS
(continued)

55. "Therm" – A unit of heating value, equivalent to one hundred thousand (100,000) BTUs.

56. "Third Party Notice" – A notice sent to a person willing to receive notification of the pending discontinuance of service to a Customer of record, in order to make arrangements on behalf of said Customer that are satisfactory to the Company.

57. "Transmission Line" - A gas line for delivering natural gas that operates at a hoop stress of twenty percent (20%) or more of Specified Minimum Yield Strength ("SMYS")[t4], as defined in CFR 49, Part 192 or that transports gas to a single large volume Customer such as a distribution center, factory, power plant or institutional user.

58. "Unauthorized" – Use of gas services that is not in accordance with ACC rules, the Company's Rules and Regulations, or the Company's Pricing Plans.

59. "Weather Especially Dangerous to Health" – That period of time, commencing with the scheduled termination date, when the local weather forecast as predicted by the National Oceanic and Atmospheric Administration, indicates that the temperature will not exceed thirty-two (32) degrees Fahrenheit for the next day's forecast. The ACC may determine that other weather conditions are especially dangerous to health as the need arises.

60. "Working Hours" – The period of time during which the Company's offices are open for business.

61. "Yardline" – A gas pipe that transports gas from the Customer's Point of Delivery to the point of entry into the Customer's residence or other place of consumption.

SECTION NO. 3
ESTABLISHMENT OF SERVICE

A. Information From Applicants

1. The Company may obtain the following minimum information from each Applicant:

   a. Name or names of Applicant(s);

   b. Service address or location and telephone number;

   c. Billing address or location and telephone number, if different than service address;

   d. Address where service was provided previously;

   e. Date Applicant will be ready for service;

   f. Indication of whether premises have been supplied with gas service previously;

   g. Purpose for which service is to be used;

   h. Indication of whether Applicant is owner or tenant of or agent for, the premises;

   i. Information concerning the gas usage and demand requirements of the Customer; and

   j. Type and kind of life-support equipment, if any, used by the Customer.

2. The Company may require a new Applicant for service to appear at the Company's designated place of business to produce proof of identity and sign the Company's application form.

3. Where service is requested by two or more individuals, the Company shall have the right to collect the full amount owed to the Company from any one of the Applicants.

4. An Applicant for gas service to new construction or a new extension shall complete the following Company forms:

   a. New Service Application; and

   b. Excess Flow Valve Customer Notification (applies to Residential only).

The Customer is responsible for completing and returning both forms. Failure on the part of the Customer to provide completed forms shall be grounds for the Company to delay or refuse service. For the purpose of this Rule, the definition of new construction/extension is where there is a need to run a new service line or install new gas facilities to a property that has never had prior natural gas service.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

B. Deposits

1. The Company may require from any present or prospective Customer a security deposit to guarantee payment of all bills. This deposit may be retained by the Company until service is discontinued and all bills have been paid; except as provided in Subsection B.4 below. Upon proper application by the Customer, the Company shall then return said deposit, together with any unpaid interest accrued thereon from the date of commencement of service or the date of making the deposit, whichever is later. The Company shall be entitled to apply said deposit together with any unpaid interest accrued thereon, to any indebtedness for the same class of service owed to the Company for gas service furnished to the Customer making the deposit. When said deposit has been applied to any such indebtedness, the Customer's gas service may be discontinued until all such indebtedness of the Customer is paid and a like deposit is again made with the Company by the Customer. No interest shall accrue on any deposit after discontinuance of the service to which the deposit relates.

   The Company shall not require a deposit from a new Applicant for residential service if the Applicant is able to meet any of the following requirements:

   a. The Applicant has had service of a comparable nature with the Company at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

   b. The Applicant can produce a letter regarding credit or verification from a gas or electric utility which states that the Applicant has had service of a comparable nature with that utility at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

   c. In lieu of a cash deposit, a new Applicant may provide a Letter of Guarantee from an existing Customer of the Company who is acceptable to the Company, a surety bond, or similar alternative acceptable to the Company, such as a Certificate of Deposit, as security for Company in the sum equal to the required deposit; or

   d. If a credit check is offered by the Company, the Applicant authorizes a credit check and meets the standards established by the Company.

2. The Company may issue a non-assignable, non-negotiable receipt to the Applicant for the deposit. The inability of the Customer to produce such a receipt shall in no way impair the Customer's right to receive a refund of the deposit which is reflected on the Company's records.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

3. Cash deposits held by the Company twelve (12) months or longer shall earn interest at the established one year Treasury Constant Maturities rates, effective on the first business day of each year, as published in the Federal Reserve website. No interest will be paid on deposits for which Customers have turned service on and off within the same calendar month. Such payment of interest shall be made during January of each year for Customers served by the Company for at least six (6) months and will cover all interest accrued up to the end of the preceding calendar year or on the date the deposit is returned to the Customer, pursuant to Subsection B.4 below. At the Company's option, the above payments may be made either by check or by credit on the monthly bill.

4. All deposits of residential or commercial Customers received and held by the Company shall be returned to the Customer by the Company (with interest, as provided by Subsection B.3 above), at such time as the affected Customers shall have maintained for a period of twelve (12) consecutive months (from and after the date when the deposit was made), their accounts with the Company. The Customer's accounts shall have been maintained in such a manner that they shall not have been delinquent in the payment of more than two (2) bills during such twelve (12) month period, whether at the same address or at a different address, nor have had their gas service, whether at the same address or at a different address, discontinued, in accordance with these Rules and Regulations, for failure to pay for gas service previously rendered.

5. The Company may require a Customer to establish or re-establish a deposit if the Customer became delinquent in the payment of three (3) or more bills within a twelve (12) consecutive month period, or has been disconnected from service during the last twelve (12) months.

6. The Company may review the Customer's usage after service has been connected and adjust the deposit amount based upon the Customer's actual usage.

7. A separate deposit may be required for each meter installed.

8. Residential Customer deposits shall not exceed two (2) times that Customer's estimated average monthly bill. Non-residential Customer deposits shall not exceed two and one-half (2.5) times that Customer's maximum estimated monthly bill. If actual usage history is available, then that usage, adjusted for normal weather, will be the basis for the estimate.

9. The posting of a deposit shall not preclude the Company from terminating service when the termination is due to the Customer's failure to perform any obligation under the agreement for service or any of these Rules and Regulations.[t6]

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

C. Grounds For Refusal Of Service

The Company may refuse to establish service if any of the following conditions exist:

1. The Applicant has an outstanding amount due for the same class of gas service with the Company and the Applicant is unwilling to make arrangements with the Company for payment; or

2. A condition exists which, in the Company's judgment, is unsafe or hazardous to the Applicant, the general population, or the Company's personnel or facilities; or

3. The Applicant refuses to provide the Company with a deposit when the Customer has failed to meet the credit criteria for waiver of deposit requirements; or

4. Customer is known to be in violation of the Company's Pricing Plans; or

5. Customer fails to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the Customer and which have been specified by the Company as a condition for providing service; or

6. Applicant falsifies his or her identity for the purpose of obtaining service.

D. Service Establishments, Re-establishment or Reconnection Charge

1. The Company may make a charge as approved by the ACC for the establishment, re-establishment, or reconnection of service.

2. Should service be established during a period other than the Company's regular working hours at the Customer's request, the Customer may be required to pay an after-hour charge for the service connection. Where the Company's scheduling will not permit service establishment on the same day as requested, the Customer can elect to pay the after-hour charge for establishment that day, or his service will be established on the next available working day.

3. For the purpose of this Rule, the definition of service establishments are where the Customer's facilities are ready and acceptable to the Company, and the Company needs only to install a meter, read a meter, or turn the service on.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

E. Temporary Service

1. Applicants for temporary service may be required to pay to the Company, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one (1) month, the Applicant may also be required to advance a sum of money equal to the estimated bill for service.

3. Where the duration of service is to exceed one (1) month, the Applicant may also be required to meet the deposit requirements of the Company, as outlined in Subsection B.1 above.

4. If at any time during the term of the agreement for service the character of a temporary Customer's operations changes so that, in the opinion of the Company, the Customer is classified as permanent, the terms of the Company's main extension rules shall apply.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS

A. Information for Residential Customers

1. The Company shall make available upon Customer request, no later than sixty (60) days from the date of request, a concise summary of the rate schedule applied for by such Customer. The summary shall include the following:

   a. Monthly minimum or Customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable;

   b. Rate blocks, where applicable; and

   c. Any adjustment factor(s) and method of calculation.

2. Upon application or upon request, the Applicant or the Customer shall elect the applicable Pricing Plan best suited to their requirements. The Company may assist in making such election, but shall not be held responsible for notifying the Customer of the most favorable Pricing Plan and shall not be required to refund the difference in charges under different Pricing Plans.[t7]

   However, new non-residential Customers whose projected consumption is near the threshold between "large" and "small" Pricing Plans, may elect the "small" rate, subject to refund, if their usage qualifies them as a "large" Customer. An existing non-residential Customer will be moved to the "large" rate, or once moved, back to the "small" rate, only if their consumption history or a clear permanent change in consumption makes it clear the Customer will meet the volume requirements of one Pricing Plan.

   A review may be initiated by either the Company or the Customer. Any change of Pricing Plan, if appropriate, will be effective with the first bill issued seven (7) days after the initiation of the review. No adjustment of past billings due to Pricing Plan selection will be made to either the Company or the Customer, except for a new Customer who qualifies for the "large" Pricing Plan based on twelve (12) months of usage as set forth in this Rule.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

3. Upon Customer request, the Company shall make available to the Customer, a copy of the ACC's Rules and Regulations (Arizona Administrative Code, Title 14, Article 3 - Gas Utilities) concerning:

    a. Deposits;

    b. Termination of Service;

    c. Billing and Collection; and

    d. Complaint Handling.

4. The Company, upon Customer request, shall transmit a written statement of actual consumption by the Customer for each billing period during the prior twelve (12) months unless such data is not reasonably ascertainable.

5. The Company shall inform all new Customers of their rights to obtain the information specified above.

6. The Company shall notify each Customer of the following information, in writing, within ninety (90) days after the Customer first receives gas service at a particular location:

    a. The Company does not maintain the Customer's buried piping;

    b. If the Customer's buried piping is not maintained, it may be subject to the potential hazards of corrosion and leakage;

    c. Buried gas piping should be periodically inspected for leaks, periodically inspected for corrosion if the piping is metallic, and repaired if any unsafe condition is discovered;

    d. When excavating near buried gas piping, the piping must be located in advance, and the excavation done by hand;

    e. Plumbing contractors and heating contractors may assist in locating, inspecting, and repairing the Customer's buried piping; and

    f. In order to reduce damage by outside forces, the Company is a member of the statewide one call system in all areas in which the Company has underground natural gas piping.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

B. Information Required Due to Changes in Rates and Charges

1. The Company shall transmit to affected Customers a concise summary of any changes in the Company's rates and charges significantly impacting those Customers.

2. This information shall be transmitted to the affected Customer(s) within sixty (60) days of the effective date of the change in the Company's rates and charges.

SECTION NO. 5
MASTER METERING

A. Mobile Home Parks – New Construction/Expansion

1. The Company shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion are individually metered by the Company. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection policies of these rules and regulations.

2. Permanent residential mobile home parks for the purpose of this rule shall mean mobile home parks where the average length of stay for an occupant is a minimum of six (6) months.

3. For the purpose of this rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this rule.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS

A. Priority and Timing of Service Establishments

1. After an Applicant has complied with the Company's application and deposit requirements and has been accepted for service by the Company, the Company shall schedule that Customer for service establishment.

2. Service establishment shall be scheduled for completion within five (5) working days of the date the Customer has been accepted for service, except in those instances when the Customer requests service establishment beyond the five (5) working day limitation.

3. When the Company has made arrangements to meet with a Customer for service establishment purposes and the Company or the Customer cannot make the appointment during the prearranged time, the Company shall reschedule the service establishment appointment to the satisfaction of both parties.

4. The Company shall schedule service establishment appointments within a maximum range of four (4) hours during normal working hours, unless another time frame is mutually acceptable to the Company and the Customer.

5. Service establishments shall be made only by qualified service personnel of the Company or its authorized representatives.

6. For the purpose of this rule, service establishments can occur only when the Customer's facilities are ready and acceptable to the Company and the Company needs only to install, read the meter, or turn the service on.

7. A fee for service establishment, re-establishment, or reconnection of service may be charged at a rate on file with and approved by the ACC. Whenever the Applicant requests after-hours handling of his request, the Company shall charge an additional fee on file with and approved by the ACC unless a special call out is required. If a special call out is required, the charge shall be for a minimum of one (1) hour at the Company's then prevailing after-hours rate for the service work on the Customer's premises. Special handling of calls and the related charges shall be made only on request of the Applicant.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

B. Facilities

1. Customer Provided Facilities

   a. An Applicant for service shall be responsible for the safety and maintenance of all Customer piping from the Point of Delivery to the point of consumption.

   b. Meters shall be installed in a location suitable to the Company where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the Customer. The Customer shall provide, without cost to the Company and at a suitable and easily accessible location, sufficient and proper space for the installation of meters.

   c. Where the meter or service line location on the Customer's premises is changed at the request of the Customer or due to alterations on the Customer's premises, the Customer shall provide, and have installed at his expense, all Customer piping necessary for relocating the meter and the Company may make a charge for moving the meter and/or service line.

   d. On all newly-constructed Customer piping at the meter interconnection, the Customer will be required to install necessary piping and equipment before the meter is installed.

2. Company Provided Facilities

   a. The Company will install, at its own expense, the meter set assembly ("MSA") at a suitable location near the side wall of the Customer's building approximately three (3) feet or more from that front corner of the building nearest to the street in which the Company's distribution main is located. However, the Company, at its option, has the right to locate the meter at any location meeting the criteria of Subsection B.1.b of this section.

      The three (3) feet as noted above refers to the approximate location of the meter from the corner of the building that is nearest to the street in which the distribution main servicing that Customer is located. The gas service riser, service cock, regulator and meter are all above ground. The service from the Company's distribution main to the building is below ground.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

b. The Company or authorized representative will install the gas service line and make all connections of the gas service line from the distribution main to the service riser. The Company will in all cases be responsible for the cost of construction of the service line from the Company's distribution main to the Customer's gas service riser for an amount not to exceed the allowable investment as calculated by the Incremental Contribution Study (see Section No. 7, Subsection B), with the Customer reimbursing the Company for the difference. The Customer will reimburse the Company for the gas service line on the Customer's property at a rate of sixteen dollars ($16.00) per foot. The Customer is responsible for locating facilities on private property and removal of landscaping prior to installation or be subject to applicable charges. For Customers who provide the trench for the service line on the Customer's property, Section No. 7, Subsection B.5.d will apply and the Customer will reimburse the Company at a rate of twelve dollars ($12.00) per foot for the excess footage. The Customer, at the Customer's own expense, shall furnish, install, and be responsible for all other pipe, fittings, connections, and appurtenances between the Point of Delivery and each point of consumption.

c. No Customer-owned pipe shall be directly connected with the Company's distribution mains or services. No connection shall be made by the Customer between the facilities of the Company, including the meter, service cock and regulator and those of the Customer, nor shall any facilities of the Company be set, connected, disconnected, removed, repaired or altered except by the Company's representatives.

d. A single meter and a single Point of Delivery may be used to supply a group of buildings, such as those of a hospital or industrial establishment under single ownership or control. Such applications may fall under the Master Meter rule[t8] as defined in the Arizona Administrative Code.

e. The Company may decline service to mobile residences or portable or other temporary structures if the conditions do not afford adequate protection for the occupant(s) thereof, or the persons or property of others. In no event will gas service be permitted, if to the Company's knowledge, the Customer or the Customer's facilities fail to meet applicable requirements of law, of the State, or of any local code.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

3. Easements and Right-of-Way

   Each Customer shall grant, at no cost to the Company, adequate an easement and right-of-way, satisfactory to the Company to ensure proper service connection. Failure on the part of the Customer to grant an adequate easement and right-of-way shall be grounds for the Company to refuse service.

4. Unauthorized work or facilities

   When the Company discovers that a Customer or the Customer's Agent has performed work or has constructed facilities that has altered the installation of the Company's facilities to the point that work is necessary to restore the previously installed Company facilities to meet regulatory or Company requirements, the Company shall notify the Customer or the Customer's Agent and the Company shall take whatever actions are necessary to eliminate the hazard or violation at the Customer's expense.

5. Point of Delivery

   The Point of Delivery for all gas delivered to any Customer shall be at the point of interconnection between the facilities of the Company and those of the Customer.

SECTION NO. 7
EXTENSION OF LINES

Extensions of gas distribution services and mains necessary to furnish permanent service to Applicants will be made in accordance with this rule.

A. General

The Company will construct, own, operate and maintain service line and distribution main extensions.

1. Gas service lines will be designed and installed so that suitable capacity from the Company's distribution main to a meter location on the property of the Applicantis satisfactory to the Company. If downstream usage changes or is altered by the Customer, the Customer may be responsible for costs to upgrade or enlarge the service line to accommodate additional capacity requirements.

2. Gas distribution main extensions will be only along public streets, roads, and highways, which the Company has legal right to occupy, and on public lands and private property across which rights-of-way, satisfactory to the Company, may be obtained.

3. All Company distribution mains and service lines shall be installed in accordance with all applicable Company standards.

B. Service and Main Extensions to Applicants for Service

General Policy – All service line and main line extension agreements are made on the basis of economic feasibility.

1. Facility Charge – If any Applicant fails to use natural gas for equipment stated in the application and used as the basis for estimating the allowable investment (ICS) within four (4) months of the completion of the main, the Company may bill the Applicant for the Incremental Cost allowed towards the extension of service. The Applicant shall pay within forty-five (45) days the charge as a non-refundable contribution towards the cost of extending service.

SECTION NO. 7
EXTENSION OF LINES
(continued)

2. At its option, the Company may require a performance bond or other surety guaranteeing bona fide operation of the facility for which the extension is requested, in accordance with Applicant's representation in the contract.

3. Master Meter Extensions – If the residential Customers are tenants in a fully improved master-metered mobile home park ("MMP") and the MMP is currently or was formerly served as a master-metered mobile home park, the allowable investment for the MMP will be calculated by the following Incremental Contribution Method and formula:

$$AI = (FR - CR) \times 5$$

where: AI = Allowable Investment

FR = The MMP's estimated future total annual revenue, assuming conversion to individual residential service, using the MMP's average park occupancy for the past two (2) years, less the Company's current average cost of purchased gas.

CR = The MMP's current total annual revenue, under the applicable schedule, averaged for the past two (2) years, less the Company's current average cost of purchased gas. If the MMP is not a current Customer of the Company, the CR will be determined on the basis of engineering estimates of occupancy and usage.

The Company will install that portion of each service in excess of the Allowed Investment subject to a nonrefundable contribution to be paid by the Applicant MMP prior to construction. In no event shall costs above the allowable investment be borne by the Company.

4. Incremental Contribution Method – Gas service line and main line extensions will be made by the Company at its expense for an amount not to exceed the Allowable Investment as calculated by an Incremental Contribution Study ("ICS").

    a. Allowable investment shall mean a determination by the Company that the revenues less the incremental gas cost to serve the Applicant provides a rate of return on the Company's investment no greater than the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case.

    b. If the ICS has an allowable investment that is more than the cost of the main extension, then the excess amount may be applied to reduce the cost of service line installation.

SECTION NO. 7
EXTENSION OF LINES
(continued)

c. The Company, after conducting an ICS, may at its option, extend its facilities to Customers whose usage does not satisfy the definition of economic feasibility, but who otherwise are permanent Customers, provided the Customer pays a nonrefundable advance, necessary to make the extension economically feasible.

d. Applicants may provide trenching for service lines and/or distribution mains to the Company's specifications and the Applicant's costs will be reduced accordingly.

e. Customers provided with line extensions using the ICS shall be reviewed annually for a period of five (5) years to determine the amount of any refund, as described in Subsection B.6 below.

f. For the purposes of this rule, "economic feasibility" means that the estimated incremental revenues derived from serving the Applicant, less the incremental gas cost to serve the Applicant, meets the estimated costs of serving the Applicant, including meeting capital costs as determined by the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case. An extension will not be considered economically feasible if the Applicant does not install a functioning water heater and furnace within four (4) months of the completion of the main.

5. Method of Refund

Amounts advanced by the Customer (s) in accordance with this rule, less any unpaid Facility Charges, shall be refunded, without interest, in the following manner:

a. Refunds of an advance shall be made for each additional separately metered permanent service connected to the main extension for which an advance was collected using an ICS that includes the additional Customer(s).

b. No refunds will be made for additional Customers connecting to a further extension or series of extensions constructed beyond the original extension.

c. The Customer may request an annual survey to determine if additional Customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally advanced.

d. The refund period shall be five (5) years from the date of the completion of the extension. No refunds will be made by the Company after the termination of the refund period. Any portion of the advance that remains unrefunded at the end of the refund period shall be considered an unrefundable contribution.

e. Any assignment by a Customer of their interest in any part of an advance, which at the time remains unrefunded, must be made in writing and approved by the Company.

f. Amounts advanced under a gas main extension rule previously in effect will be refunded in accordance with the provisions of that rule.

SECTION NO. 7
EXTENSION OF LINES
(continued)

C. Service and Main Extensions to Service Individually Metered Subdivisions, Tracts, Housing Projects, Multi-Family Dwellings and Mobile Home Parks or Estates

1. Advances

   a. Gas distribution service and main extensions to and within individually metered subdivisions, tracts, housing projects, multi-family dwellings and mobile home parks or estates will be constructed, owned and maintained by the Company in advance of applications for service by bona fide Customers only when the entire estimated cost of such extensions as determined by the Company, is advanced to the Company, and a main extension agreement is executed. This advance may include the cost of any gas facilities installed at the Company's expense in conjunction with a previous service or main extension in anticipation of the current extension.

   b. The Company may require a subdivider, builder or developer to provide trenching for service lines and/or distribution mains and may also require the subdivider, builder or developer to provide bedding & shading material to Company specifications.

   c. For developers who have entered into a main extension agreement and facilities have been installed and then they or some other party request subsequent reconfiguring of facilities or other changes requiring additional expenditures by the Company, these new costs will be entirely paid for with a non-refundable contribution and any refunds will be made in accordance with the original agreement. No additional agreement or extension of the time for refunds will be made to cover the area piped under the original extension agreement.

   d. Upon completion of installation, the Company will perform a reconciliation of the estimate to actual costs incurred and may bill the Customer for any variance with the new amount included in the refundable balance, or at the Company's option withhold refunds until the underpayment is satisfied.

   e. See Subsection B.4 above for requests to serve MMP through individual residential meters if the MMP is currently or was formerly served under an MMP schedule.

   f. Refunds will be made to developers as described in Subsection B.6 above.

D. General Conditions

1. Postponement of Advance

   The Company, at its option, may postpone, for a period not to exceed five (5) years that portion of an advance which it estimates would be refunded under the provisions of this rule. At the end of such refund period, the Company shall collect all such amounts not previously advanced. When advances are postponed, the Applicant may be required to furnish to the Company, a Company-approved surety, to assure payment of any postponed amounts throughout the term of the facilities extension agreement up until the end of the postponement period.

SECTION NO. 7
EXTENSION OF LINES
(continued)

2. The Applicants or developer will provide property location, tax identification numbers, lot numbers, street names and other property information helpful to planning an extension.

3. Contracts

   a. Each Applicant requesting an extension in advance of applications for service will be required to execute a main extension agreement covering the terms under which the Company will install distribution mains in accordance with the provisions of the Company's Pricing Plans.

   b. At the time service is requested, the Applicant will submit a list of natural gas equipment to be used including the BTU input.

4. One Service for a Single Premise

   a. The Company will not install more than one service line to supply a single premise, unless it is for the convenience of the Company or an Applicant requests an additional service, and in the opinion of the Company, an unreasonable burden would be placed on the Applicant if the additional service were denied. When an additional service is installed at the Applicant's request, the Applicant shall make a nonrefundable contribution for the additional service based on the Company's estimated cost.

   b. When a service extension is made to a meter location upon private property which is subsequently subdivided into separate premises, with the ownership portions thereof divested to other than the Applicant or the Customers, the Company shall have the right, upon written notice, to discontinue service without obligation or liability. Gas service, as required by the Applicant or Customer, will be reestablished in accordance with the applicable provisions of the Company's rules.

5. Branch Services

   The Company, at its option, may install a branch service for units on adjoining premises.

SECTION NO. 7
EXTENSION OF LINES
(continued)

6. Main Extension Agreement Requirements

   a. Upon request by an Applicant for a main extension, the Company shall prepare, without charge, a preliminary sketch and rough estimate of the cost of the installation to be advanced by the Applicant.

   b. Any Applicant for a main extension requesting the Company to prepare detailed plans, specifications, or cost estimates may be required to deposit with the Company an amount equal to the estimated cost of preparation. The Company shall, upon request, make available within ninety (90) days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the Applicant authorizes the Company to proceed with the construction of the extension, the deposit shall be credited to the cost of construction; otherwise, the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the Company's expense, appropriate details shall be set forth in the plans, specifications and cost estimates. Subdividers providing the Company with approved subdivision plats shall be provided with plans, specifications or cost estimates within forty-five (45) days after receipt of the deposit referred to above.

   c. The estimated cost of main extension and any resulting Main Extension Agreement is valid for ninety (90) days from the date of Company issue. Any signed agreement with appropriate payment where construction does not commence within ninety (90) days may be subject to review, recalculation and adjustment of advance requirements.

   d. Where the Company requires an Applicant to advance funds for a main extension, the Company shall furnish the Applicant with a copy of this rule prior to the Applicant's acceptance of the Company's extension agreement.

SECTION NO. 7
EXTENSION OF LINES
(continued)

e. All main extension agreements requiring payment by the Applicant shall be in writing, signed by each party and shall include the following:

i. Name and address of Applicant(s);

ii. Proposed service address(es) or location(s);

iii. Description and sketch of the requested main extension;

iv. Description of requested service differentiated by Customer class;

v. Number of Customers served;

vi. Estimated cost to construct facilities;

vii. The Company's estimated start date and completion date for construction of the main extension;

viii. Each Applicant shall be provided a copy of the approved main extension agreements;

ix. Payment terms; and

x. A concise explanation of any refunding provisions, if applicable.[t9]

7. Relocation of Service Lines and Distribution Mains

a. When, in the judgment of the Company, the relocation of a distribution main or service line is necessary and is due either to maintenance of adequate service or the operating convenience of the Company, the Company shall perform such work at its own expense.

b. If relocation of a distribution main or service line is due solely to meet the convenience or the requirements of the Applicant or the Customer, such relocation, including metering and regulating facilities, shall be performed by the Company at the expense of the Applicant or the Customer.

c. Relocation of facilities will be mandatory and at the Customer's expense when actions of the Customer restrict the Company's access to or the safety of the facility.

SECTION NO. 7
EXTENSION OF LINES
(continued)

[t10]

8. Standby Service or Residential Pool Heating

   No allowance will be made for equipment used for standby or emergency purposes only or for equipment used for residential pool heating under Section No. 7, Subsection B.4.

9. Temporary Service

   Extensions for temporary service or for operations, which in the opinion of the Company are of a speculative character or are of questionable permanency, will require an advance for the entire cost of the facilities needed, with provision for a refund using an ICS calculated annually, or at the termination of the temporary service.

10. Length and Location

   The length of distribution mains or service lines required for an extension will be considered as the distance along the shortest practical and available route, as determined by the Company, from the Company's nearest permanent distribution main.

11. Service Impairment to Other Customers

   When, in the judgment of the Company, providing service to an Applicant would impair service to other Customers, the cost of necessary reinforcement to eliminate such impairment may be included in the cost calculation for the extension.

12. Service From Transmission Lines

   The Company will not tap a gas transmission main except when, in its sole opinion, conditions justify such a tap. Where such taps are made, the Applicant will pay the Company the cost of the tap, and extensions from the tap will be made in accordance with the provisions of this rule.

13. Other Types of Connections

   Where an Applicant or Customer requests a type of service connection other than standard such as curb meters and vaults, etc., the Company will consider each such request and will grant such reasonable allowance as it may determine. The Company shall install only those facilities that it determines are necessary to provide standard natural gas service in accordance with the Company's Pricing Plans. Where the Applicant requests the Company to install special facilities which are in addition to, or in substitution for, or which result in higher costs than the standard facilities which the Company would normally install, the extra cost thereof shall be borne by the Applicant.

SECTION NO. 7
EXTENSION OF LINES
(continued)

14. Excess Flow Valve Installation Option

In accordance with Title 49, Section 192.383 of the Code of Federal Regulations, the installation of an excess flow valve, as defined in Rule No. 1, shall be performed by the Company on a new or replaced single residence service line at the request of a Customer. The installation of an excess flow valve is not mandatory. If a Customer elects this installation, the Company shall perform the installation subject to the Customer assuming responsibility for all costs associated with installation, maintenance and replacement. Each Customer requesting the installation of an excess flow valve will be required to execute a written agreement.

15. Exceptional Cases

In unusual circumstances, when the application of this rule appears impractical or unjust to either party, the Company or the Applicant may refer the matter to the ACC for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

16. Taxes Associated with Nonrefundable Contributions and Advances

Any federal, state or local income taxes resulting from a nonrefundable contribution or advance by the Customer in compliance with this rule will be recorded as a deferred tax and appropriately reflected in the Company's rate base. However, if the estimated cost of facilities for any service line or distribution main extension exceeds $500,000, the Company may require the Applicant to include in the contribution or advance an amount (the "gross up amount") equal to the estimated federal, state or local income tax liability of the Company resulting from the contribution or advance, computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Estimated Construction Cost}}{(1 - \text{Combined Federal-State-Local Income Tax Rate})}$$

After the Company's tax returns are completed, and actual tax liability is known, to the extent that the computed gross up amount exceeds the actual tax liability resulting from the contribution or advance, the Company shall refund to the Applicant an amount equal to such excess. When a gross-up amount is to be obtained in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount, and will also disclose the gross-up amount separately from the estimated cost of facilities. In subsequent years, as tax depreciation deductions are taken by the Company on its tax returns for the constructed assets with tax bases that have been grossed-up, a refund will be made to the Applicant in an amount equal to the related tax benefit. Such refunds will be in addition to any required refunds of actual construction costs required by the extension agreement. In lieu of scheduling such refunds over the remaining tax life of the constructed assets, a reduced lump sum refund may be made at the time when actual construction costs are refunded in full. This lump sum payment shall reflect the net present value of remaining tax depreciation deductions discounted at the company's authorized rate of return.

SECTION NO. 8
PROVISION OF SERVICE

A. Company Responsibility

1. The Company shall be responsible for the safe transmission and distribution of gas until it passes the Point of Delivery to the Customer.

2. The Company shall be responsible for maintaining in safe operating condition all meters, regulators, service pipe or other fixtures installed on the Customer's premises by the Company for the purpose of delivering gas to the Customer.

3. The Company may, at its option, refuse service until the Customer's pipes and appliances have been tested and found to be safe, free from leaks, and in good operating condition. Proof of such testing shall be in the form of a certificate executed by a licensed plumber or local inspector certifying that the Customer's facilities have been tested and are in safe operating condition.

4. The Company shall be required to test the Customer's piping for leaks when the gas is turned on. If such tests indicate leakage in the Customer's piping, the Company shall refuse to provide service until such time as the Customer has had the leakage corrected.

5. The Company shall be responsible for the operation and maintenance of all facilities up to the outlet of the meter installed by the Company or its authorized agent.

B. Customer Responsibility

1. Each Customer shall be responsible for maintaining in safe operating condition all Customer piping fixtures and appliances on the Customer's side of the Point of Delivery.

2. Each Customer shall be responsible for safeguarding all Company property installed in or on the Customer's premises for the purpose of supplying gas service.

3. Each Customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The Customer shall be responsible for loss of, or damage to, Company property on the Customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs and replacements that arise from neglect, carelessness, or misuse.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

4. Each Customer shall be responsible for payment for any equipment damage and/or estimated unmetered usage resulting from unauthorized breaking of seals, interfering, Tampering, or bypassing the Company's meters. This remedy is cumulative to any other remedy available to Company under law or ACC rules.

5. Each Customer shall be responsible for promptly notifying the Company of any gas leakage identified in the Customer's or the Company's equipment.

6. The Customer will be responsible for the loss of gas or damage caused by gas in piping beyond the Company's meter.[t11]

7. No rent or other charge whatsoever will be made by the Customer against the Company for placing or maintaining meters, regulators, service lines, fixtures, etc. upon the Customer's premises.[t12]

C. Continuity of Service

The Company shall make reasonable efforts to supply a satisfactory and continuous level of service.

D. Liability

1. The Company shall not be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from the following:

   a. Any cause against which the Company could not have reasonably foreseen or made provision for;
   b. Intentional service interruptions to make repairs or perform routine maintenance; or
   c. Curtailment.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

2. Neither the Company nor the Customer shall be liable to the other for any act, omission or circumstances (including, with respect to the Company, but not limited to, inability to provide service) occasioned by or in consequence of flood, rain, wind, storm, lightning, earthquake, fire, landslide, washout or other acts of the elements, or accident or explosion, or war, rebellion, civil disturbance, mobs, riot, blockade, terrorist actions, or other act of the public enemy, or acts of God, or interference of civil and/or military authorities, or strikes, lockouts or other labor difficulties, or vandalism, sabotage or malicious mischief, or usurpation of power, or the laws, rules, regulations or orders made or adopted by any regulatory or other governmental agency or body (federal, state or local) having jurisdiction of any of the business or affairs of the Company or the Customer, direct or indirect, or breakage or accidents to equipment or facilities, or lack, limitation or loss of electrical or gas supply, or any other casualty or cause beyond the reasonable control of the Company or the Customer, whether or not specifically provided herein and without limitation to the types enumerated, and which by the exercise of due diligence such party is unable to prevent or overcome; provided, however, that nothing contained herein shall excuse the Customer from the obligation of paying for gas delivered or services rendered.

3. A failure to settle or prevent any strike or controversy with employees or with anyone purporting or seeking to represent employees shall not be considered to be a matter within the control of the Company.[t13]

4. Company will not be responsible for any third-party claims against Company that arise from Customer's use of Company's gas.

5. Customer will indemnify, defend and hold harmless the Company (including the costs of reasonable attorney's fees) against all claims (including, without limitation, claims for damages to any business or property, or injury to, or death of, any person) arising out of any act or omission of the Customer, or the Customer's agents, in connection with the Company's service or facilities.[t14]

6. The liability of the Company for damages of any nature arising from errors, mistakes, omissions, interruptions, or delays of the Company, its agents, servants, or employees, in the course of establishing, furnishing, rearranging, moving, terminating, or changing the service or facilities or equipment shall not exceed an amount equal to the charges applicable under the Company's Pricing Plan (calculated on a proportionate basis where appropriate) to the period during which such error, mistake, omission, interruption or delay occurs.[t15]

7. In no event shall the Company be liable for any incidental, indirect, special, or consequential damages (including lost revenue or profits) of any kind whatsoever regardless of the cause or foreseeability thereof.

8. The Company shall not be responsible for any loss or damage occasion or caused by the negligence or wrongful act of the Customer or any of his agents, employees or licensees in installing, maintaining, using, operating or interfering with any regulators, gas piping, appliances, fixtures or apparatus.[t16]

SECTION NO. 8
PROVISION OF SERVICE
(continued)

[t17]
E. Change in Character of Service

1. When a change is made by the Company in the type of service rendered which would adversely affect the efficiency of operation or require the adjustment of the equipment of Customers, all Customers who may be affected shall be notified by the Company at least thirty (30) days in advance of the change or, if such notice is not possible, as early as feasible. Where adjustments or replacements of the Company's standard equipment must be made to permit use under such changed condition, adjustments shall be made by the Company without charge to the Customers.

F. Service Interruptions

1. The Company shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.

2. The Company shall make reasonable provisions to meet emergencies resulting from failure of service and shall issue instructions to its employees covering procedures to be followed in the event of emergencies in order to prevent or mitigate interruption or impairment of service.

3. In the event of a national emergency or local disaster resulting in disruption of normal service, the Company may, in the public interest, interrupt service to other Customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

4. When the Company plans to interrupt service for more than four (4) hours to perform necessary repairs or maintenance, the Company shall attempt to inform affected Customers of the scheduled date and estimated duration of the service interruption at least twenty-four (24) hours in advance. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the Customers.

5. The ACC shall be notified of interruptions in service affecting the entire system or any major division of the entire system. The interruption of service and the cause shall be reported by telephone to the ACC within one (1) hour after the responsible representative of the Company becomes aware of said interruption, and shall be followed by a written report to the ACC.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

G. Heat Value Standard for Natural Gas

The Company shall supply gas to its Customers with an average total heating value of not less than nine hundred (900) BTUs per cubic foot. The number of BTUs per cubic foot actually delivered through the Customer's meter will vary according to the altitude and elevation of the location where the Customer is being provided service.

H. Standard Delivery Pressure

1. The Company shall maintain Standard Delivery Pressure of at the outlet of the Customer's meter, subject to variation under load conditions.

2. In cases where a Customer desires service at greater than Standard Delivery Pressure, the Company may supply, at its option, such greater pressure if and only as long as the furnishing of gas to such Customer at higher than standard delivery pressure will not be detrimental to the service of other Customers of the Company. The Company reserves the right to lower the delivery pressure or discontinue the delivery of gas at higher pressure at any time upon reasonable notice to the Customer. Where service is provided at pressure higher than Standard Delivery Pressure, the meter volumes shall be corrected to that higher pressure.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

I. Determination of Therms for Billing

1. Heating Value – The heating value (BTU per cubic foot) of the natural gas delivered will vary depending on the source of supplies received by the Company. The average heating values will be determined from the volumetric weighted average heating values of the supplies received by the Company.

2. Metered Volumes – The number of therms to be billed will be determined by multiplying the difference in meter readings by an appropriate billing factor.

   a. Therms are determined from the volumes measured by the following:

$$\underbrace{\frac{\text{Atmospheric Pressure at Elevation + Delivery Pressure}}{\text{14.73 Atmospheric Pressure at Sea Level}}}_{A} \times \underbrace{\frac{\text{Average Heating Value (BTU per cubic foot)}}{\text{100,000 BTU per Therm}}}_{B} \times \underbrace{\text{Super Compressibility Factor}}_{C}$$

Where:
A = Correction for atmospheric pressure at elevation and applicable delivery pressure
B = Applicable heating value of natural gas received
C = Correction for super compressibility ratio

   b. Atmospheric Pressures at Elevations within the Company's service territory are outlined in the following table. At such time additional elevation bands are needed within the various areas served by the Company, new geographical zones will be added.

Northern Arizona:

Geographical Zone Description	Atmospheric Pressure Base
ASHFORK AZ E4801-5000	12.3264800
ASHFORK AZ E5001-5200	12.2366800
BAGD CPR AZ E3601-3800	12.8782000
BAGD ML AZ E2601-2800	13.3555800
BAGDAD MINE E0401-0600	14.4666500
BLACK CANYON CITY AZ E1601-1800	13.8498700

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Geographical Zone Description	Atmospheric Pressure Base
BLACK CANYON CITY AZ E1801-2000	13.7496200
CAMP VERDE AZ E2801-3000	13.2587800
CAMP VERDE AZ E3001-3200	13.1626500
CHINO VALLEY AZ E4201-4400	12.5995400
CHINO VALLEY AZ E4401-4600	12.5079100
CHINO VALLEY AZ E4601-4800	12.4168900
CLARKDALE AZ E3001-3200	13.1626500
CLARKDALE AZ E3201-3400	13.0671800
CLARKDALE AZ E3401-3600	12.9723700
CORNVILLE AZ E3001-3200	13.1626500
CORNVILLE AZ E3201-3400	13.0671800
COTTONWOOD AZ E3001-3200	13.1626500
COTTONWOOD AZ E3201-3400	13.0671800
COTTONWOOD AZ E3401-3600	12.9723700
COTTONWOOD AZ E3601-3800	12.8782000
DUVAL AZ E3201-3400	13.0671800
FLAGSTAFF AZ E6201-6400	11.7102300
FLAGSTAFF AZ E6401-6600	11.6244900
FLAGSTAFF AZ E6601-6800	11.5393200
FLAGSTAFF AZ E6801-7000	11.4546900
FLAGSTAFF AZ E7001-7200	11.3706100
FLAGSTAFF AZ E7201-7400	11.2870800
HOLBROOK AZ E4801-5000	12.3264800
HOLBROOK AZ E5001-5200	12.2366800
HUMBOLDT AZ E4201-4400	12.5995400
HUMBOLDT AZ E4401-4600	12.5079100
HUMBOLDT AZ E4601-4800	12.4168900
INDPK AZ E6201-6400	11.7102300
JEROME AZ E4201-4400	12.5995400
JEROME AZ E4401-4600	12.5079100
JEROME AZ E4601-4800	12.4168900
JEROME AZ E4801-5000	12.3264800
JEROME AZ E5001-5200	12.2366800
JOSEPH CITY AZ E4601-4800	12.4168900
JOSEPH CITY AZ E4801-5000	12.3264800
KINGMAN AZ E3001-3200	13.1626500

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Geographical Zone Description	Atmospheric Pressure Base
KINGMAN AZ E3201-3400	13.0671800
KINGMAN AZ E3401-3600	12.9723700
KINGMAN AZ E3601-3800	12.8782000
KINGMAN AZ E3801-4000	12.7846800
LAKE HAVASU CITY AZ E0201-0400	14.5720600
LAKE HAVASU CITY AZ E0401-0600	14.4666500
LAKE HAVASU CITY AZ E0601-0800	14.3620000
LAKE HAVASU CITY AZ E0801-1000	14.2581000
LAKE HAVASU CITY AZ E1001-1200	14.1549500
LAKE HAVASU CITY AZ E1201-1400	14.0525300
LAKE HAVASU CITY AZ E1401-1600	13.9508400
MAYER AZ E4001-4200	12.6917900
MAYER AZ E4201-4400	12.5995400
MOUNTAIN VIEW AZ E6401-6600	11.6244900
NAVAJO ARMY DEPOT E5401-5600	12.0588700
PAULDEN AZ E4001-4200	12.6917900
PAULDEN AZ E4201-4400	12.5995400
PAULDEN AZ E4401-4600	12.5079100
PHX CMT AZ E3401-3600	12.9723700
PINETOP/LAKESIDE AZ E6201-6400	11.7102300
PINETOP/LAKESIDE AZ E6401-6600	11.6244900
PINETOP/LAKESIDE AZ E6601-6800	11.5393200
PINETOP/LAKESIDE AZ E6801-7000	11.4546900
PINETOP/LAKESIDE AZ E7001-7200	11.3706100
PRESCOTT VALLEY AZ E4201-4400	12.5995400
PRESCOTT VALLEY AZ E4401-4600	12.5079100
PRESCOTT VALLEY AZ E4601-4800	12.4168900
PRESCOTT VALLEY AZ E4801-5000	12.3264800
PRESCOTT VALLEY AZ E5001-5200	12.2366800
PRESCOTT AZ E4601-4800	12.4168900
PRESCOTT AZ E4801-5000	12.3264800
PRESCOTT AZ E5001-5200	12.2366800
PRESCOTT AZ E5201-5400	12.1474800
PRESCOTT AZ E5401-5600	12.0588700
PRESCOTT AZ E5601-5800	11.9708400
PRESCOTT AZ E5801-6000	11.8834000

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Geographical Zone Description	Atmospheric Pressure Base
SEDONA AZ E3401-3600	12.9723700
SEDONA AZ E3601-3800	12.8782000
SEDONA AZ E3801-4000	12.7846800
SEDONA AZ E4001-4200	12.6917900
SEDONA AZ E4201-4400	12.5995400
SEDONA AZ E4401-4600	12.5079100
SEDONA AZ E4601-4800	12.4168900
SELIGMAN AZ E5001-5200	12.2366800
SHOW LOW AZ E5801-6000	11.8834000
SHOW LOW AZ E6001-6200	11.7965300
SHOW LOW AZ E6201-6400	11.7102300
SHOW LOW AZ E6401-6600	11.6244900
SNOWFLAKE AZ E5201-5400	12.1474800
SNOWFLAKE AZ E5401-5600	12.0588700
SPRING VALLEY AZ E3601-3800	12.8782000
SPRING VALLEY AZ E3801-4000	12.7846800
STONE CONTAINER E6001-6200	11.7965300
TAYLOR AZ E5401-5600	12.0588700
VERDE VALLEY AZ E3401-3600	12.9723700
VILLAGE OF OAK CREEK AZ E3601-3800	12.8782000
VILLAGE OF OAK CREEK AZ E3801-4000	12.7846800
VILLAGE OF OAK CREEK AZ E4001-4200	12.6917900
WILLIAMS AZ E6401-6600	11.6244900
WILLIAMS AZ E6601-6800	11.5393200
WILLIAMS AZ E6801-7000	11.4546900
WINSLOW AZ E4601-4800	12.4168900

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Southern Arizona:

Geographical Zone Description	Atmospheric Pressure Base
AMADO AZ E2801-3000	13.2587800
AMADO AZ E3001-3200	13.1626500
NOGALES AZ E3201-3400	13.0671800
NOGALES AZ E3401-3600	12.9723700
NOGALES AZ E3601-3800	12.8782000
NOGALES AZ E3801-4000	12.7846800
PATAGONIA AZ E3601-3800	12.8782000
PATAGONIA AZ E3801-4000	12.7846800
PATAGONIA AZ E4001-4200	12.6917900
RIO RICO AZ E3001-3200	13.1626500
RIO RICO AZ E3201-3400	13.0671800
RIO RICO AZ E3401-3600	12.9723700
RIO RICO AZ E3601-3800	12.8782000
RIO RICO AZ E3801-4000	12.7846800
RIO RICO AZ E4001-4200	12.6917900
TUBAC AZ E2801-3000	13.2587800
TUBAC AZ E3001-3200	13.1626500
TUBAC AZ E3201-3400	13.0671800
TUBAC AZ E3401-3600	12.9723700

J. Construction Standards and Safety

The Company's pipelines and pipeline facilities for the transportation of gas within the State of Arizona shall conform with and be subject to the Federal Safety Standards as adopted by the United States Department of Transportation, Pipeline and Hazardous Materials Safety Administration. The Company maintains and updates an Operation and Maintenance plan and an Emergency plan. Upon discovery of occurrence, the Company will report all incidents as required under the Arizona Administrative Code, R14-5-203.

SECTION NO. 9
METER READING

A. Company or Customer Meter Reading

1. The Company may, at its discretion, allow for Customer reading of meters.

2. It shall be the responsibility of the Company to inform the Customer how to properly read the Customer's meter.

3. Where a Customer reads the meter, the Company will read the Customer's meter at least once every six (6) months.

4. The Company shall specify the timing requirements for the Customer to submit the monthly meter reading to conform to the Company's billing cycle.

5. In the event the Customer fails to submit the meter reading on time, the Company may issue the Customer an estimated bill.

6. Meters shall be read monthly on as close to the same day each month as practical.

B. Measuring of Service

1. All gas sold by the Company shall be metered, except in the case of gas sold according to a fixed charge schedule, or when otherwise authorized by the ACC.

2. When there is more than one (1) meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.

3. If and when the Company installs multiple meters or service lines to serve a single Customer for the Company's convenience, meter readings may be combined for billing purposes.

C. Customer - Requested Rereads

1. At the request of a Customer, the Company will reread that Customer's meter within ten (10) working days after such request by the Customer.

2. Any reread may be charged to the Customer at a rate on file and approved by the ACC, provided that the original reading was not in error.

3. When a reading is found to be in error, the reread shall be at no charge to the Customer.

SECTION NO. 9
METER READING
(continued)

D. Access to Customer Premises

The Company shall have the right of safe ingress to and egress from the Customer's premises at all reasonable hours for any purpose reasonably connected with the furnishing of service and the exercise of any and all rights secured to the Company by law or the ACC's rules or the Company's Pricing Plans.

E. Customer-Requested Meter Tests

The Company shall test a meter upon Customer request and shall be authorized to charge the Customer for such meter test. However, if the meter is found to be in error by more than three percent (3%), no fee will be charged to the Customer.

SECTION NO. 10
BILLING AND COLLECTION

A. Frequency and Estimated Bills

1. The Company shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days.

2. If the Company is unable to read a meter on the scheduled meter read date, the Company will estimate the consumption for the billing period, giving consideration to the following factors where applicable:

    a. The Customer's usage history in the previous twelve (12) months; and

    b. The amount of usage during the preceding month.

3. After the second consecutive month of estimating the Customer's bill for reasons other than severe weather, the Company will attempt to secure an accurate reading of the meter.

4. Failure on the part of the Customer to comply with a reasonable request by the Company for access to the Customer's meter may lead to the discontinuance of service.

5. Estimated bills will be issued only under the following conditions:

    a. Failure of a Customer who reads his or her own meter to deliver the meter reading card to the Company in accordance with the requirements of the Company's billing cycle;

    b. Severe weather conditions which prevent the Company from reading the meter; or

    c. Circumstances that make it impossible to read the meter, such as locked gates, blocked meters, and vicious or dangerous animals, etc.

6. Each bill based on estimated usage will indicate that it is an estimated bill.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

B. Combining Meters - Minimum Bill Information

1. Each meter at a Customer's premises will be considered separately for billing purposes, and the readings of two (2) or more meters will not be combined unless approved by the Company.

2. Each bill for sales service will contain the following minimum information:

    a. Date and meter reading at the start of billing period or number of days in the billing period;

    b. Date and meter reading at the end of the billing period;

    c. Billed usage;

    d. Rate schedule number;

    e. Company's telephone number;

    f. Customer's name;

    g. Service account number;

    h. Amount due and due date;

    i. Past due amount;

    j. Adjustment factor, where applicable;

    k. Taxes; and

    l. The Arizona Corporation Commission address.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

C. Billing Terms

1. All bills for gas service are due and payable no later than ten (10) days from the date the bill is rendered. Any payment not received within this time-frame shall be considered past due and may be subject to a late payment penalty charge. If the tenth (10th) day falls on a weekend or holiday, then the past due date is extended to the next business day.

2. For purposes of this rule, the date the bill is rendered shall be the latest of the following:

   a. The postmark date;

   b. The mailing date; or

   c. The billing date shown on the bill (however, the billing date shall not differ from the postmark or mailing date by more than two (2) days.

3. All past due bills for gas service are due and payable within fifteen (15) days. Any payment not received within this time-frame shall be considered delinquent and will be issued a suspension of service notice. For Customers under the jurisdiction of a bankruptcy court, a more stringent payment or prepayment schedule may be required, if allowed by that court.

   a. The amount of the late payment penalty shall not exceed one and one-half percent (1.5%) of the delinquent bill, applied on a monthly basis.

4. All delinquent bills for which payment has not been received within five (5) days shall be subject to the provisions of the Company's suspension of service procedures.

5. All payments shall be made at or mailed to the office of the Company or to the Company's duly authorized representative.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

D. Applicable Pricing Plans, Prepayments, Failure to Receive, Commencement Date

1. Each Customer shall be billed under the Pricing Plan indicated in the Customer's application for service.

2. The Company shall make provisions for advance payment for Company services.

3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein.

4. Charges for service commence when the service is installed and connection made, whether used or not.

E. Meter Error Corrections

1. If, after testing, any meter is found to be more than three percent (3%) in error, either fast or slow, proper correction between three percent (3%) and the amount of the error shall be made on previous readings, and adjusted bills shall be rendered according to the following terms:

   a. For the period of three (3) months immediately preceding the removal of such meter from service for testing or from the time the meter was in service since last tested, but not exceeding three (3) months since the meter shall have been shown to be in error by such test.

   b. From the date the error occurred, if the date of the cause can be definitely fixed.

2. No adjustment shall be made by the Company except to the Customer last served by the meter tested.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

F. Nonsufficient Funds ("NSF") Checks and Denied Electronic Funds Transfers

1. The Company shall be allowed to recover a fee, according to the Company's Pricing Plans, for each instance where a Customer tenders payment for a Company service with an NSF check. This fee shall also apply when an electronic funds transfer ("EFT") is denied for any reason, including for lack of sufficient funds.[t18]

2. When the Company is notified by the Customer's bank that there are insufficient funds to cover the check tendered for service, or an EFT has been denied for any reason, the Company may require the Customer to make payment in cash, by money order or certified check, or by other means which guarantee the Customer's payment to the Company.

3. A Customer who tenders an NSF check or for whom an EFT is denied, shall in no way be relieved of the obligation to render payment to the Company under the original terms of the bill, nor defer the Company's provision for termination of service for nonpayment of bills.

G. Elevation/Pressure Adjustment

The Company shall adjust for pressure according to the procedures in Section 8.H of these Rules and Regulations.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

H. Deferred Payment Plan

1. The Company may, prior to termination of service, offer a deferred payment plan to qualifying residential Customers for the payment of unpaid bills for gas service.

2. Each deferred payment agreement entered into by the Company and the Customer, due to the Customer's inability to pay an outstanding bill in full, shall provide that service will not be discontinued if:

   a. The Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement;

   b. The Customer agrees to pay all future bills for gas service in accordance with the Company's Pricing Plans; and

   c. The Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments.

3. For the purposes of determining a reasonable installment payment schedule under these Rules, the Company and the Customer shall give consideration to the following conditions:

   a. The size of the delinquent account.

   b. The Customer's ability to pay.

   c. The Customer's payment history.

   d. The length of time that the debt has been outstanding.

   e. The circumstances which resulted in the debt being outstanding.

   f. Any other relevant factors related to the circumstances of the Customer.

4. Any Customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the Company's scheduled service termination date for nonpayment of bills. The Customer's failure to execute a deferred payment agreement prior to the scheduled service termination date shall not prevent the Company from terminating service for nonpayment.

5. Deferred payment agreements may be in writing and may be signed by the Customer and an authorized Company representative.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

6. A deferred payment agreement may include a finance charge of one and one-half percent (1.5%) per month.

7. If a Customer does not fulfill the terms of a deferred payment agreement, the Company shall have the right to disconnect service pursuant to the Company's termination of service rules (Section No. 11 of these Rules) and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

I. Change of Occupancy

1. Not less than three (3) working days advance notice must be given in person at the Company's office, in writing, or by telephone to discontinue service or to change occupancy.

2. The outgoing party shall be responsible for all Company services provided and/or consumed up to the scheduled turn-off date.

J. Electronic Billing

Electronic Billing is an optional billing service whereby Customers may elect to receive, view, and pay their bills electronically. Electronic Billing includes the "UES e-bill" service and the "Sure No Hassle Automatic Payment ("SNAP") service. The Company may modify its electronic billing services from time to time. A Customer electing an electronic billing service may receive an electronic bill in lieu of a paper bill. Customers electing an electronic billing service may be required to complete additional forms and agreements. Electronic billing may be discontinued at any time by the Company or the Customer. An electronic bill will be considered rendered at the time it is electronically sent to the Customer. Failure to receive bills or notices which have been properly sent by an electronic billing system does not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein. Any notices which Company is required to send to a Customer who has elected an electronic billing service may be sent by electronic means at the option of the Company. Except as otherwise provided in this subsection, all other provisions of the Company's Rules and Regulations and other applicable Pricing Plans are applicable to electronic billing.[t19]

SECTION NO. 11
TERMINATION OF SERVICE

A. Non-Permissible Reasons to Disconnect Service

1. The Company may not disconnect service for any of the reasons stated below:

   a. Delinquency in payment for services rendered to a prior Customer at the premises where service is being provided, except in the instance where the prior Customer continues to reside on the premises.

   b. Failure of the Customer to pay for services or equipment that are not regulated by the ACC.

   c. Nonpayment of a bill related to another class of service.

   d. Failure to pay a bill to correct a previous under-billing due to an inaccurate meter or meter failure, if the Customer agrees to pay over a reasonable period of time.

   e. The Company may not terminate residential service where the Customer has an inability to pay and:

      i. The Customer can establish through medical documentation that, in the opinion of a licensed medical physician, termination of service would be especially dangerous to the health of the Customer or to the health of a permanent resident residing on the Customer's premises;

      ii. Life-supporting equipment is used in the home that is dependent on Company service for operation of such apparatus; or

      iii. Where weather will be especially dangerous to health as defined herein or as determined by the ACC.

   f. Residential service to persons who have an inability to pay and who have an Illness, are a Senior Citizen, or who are Handicapped will not be terminated until all of the following have been attempted:

      i. The Customer has been informed of the availability of funds from various government and social assistance agencies; and

      ii. A third party previously designated by the Customer has been notified and has not made arrangement to pay the outstanding Company bill.

   A Customer utilizing the provisions of Subsection A.1.e or A.1.f above may be required to enter into a deferred payment agreement with the Company within ten (10) days after the scheduled service termination date.

   g. Failure to pay the bill of another Customer as guarantor thereof.

   h. Disputed bills where the Customer has complied with the ACC's rules on Customer bill disputes.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

B. Termination of Service Without Notice

1. The Company may disconnect service without advance written notice under the following conditions:

    a. The existence of an obvious hazard to the safety or health of the Customer, the general population or which imperils service to other Customers;

    b. The Company has evidence of Tampering or fraud;

    c. There is an unauthorized resale or use of gas services that is not in accordance with the ACC's rules and/or these Rules and Regulations or other Company Pricing Plans; or

    d. The Customer has failed to comply with the curtailment procedures imposed by the Company in accordance with the Company's Pricing Plans.

2. The Company shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the Company.

3. The Company shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one (1) year and shall be available for inspection by the ACC.

C. Termination of Service With Notice

1. The Company may disconnect service to any Customer for any reason stated below, provided that the Company has met the notice requirements described in Section 11.D below:

    a. Customer violation of any of the Company's Pricing Plans;

    b. Failure of the Customer to pay a delinquent bill for gas service;

    c. Failure of the Customer to meet agreed upon deferred payment arrangements;

    d. Failure to meet or maintain the Company's deposit requirements;

    e. Failure of the Customer to provide the Company reasonable access to its equipment and property;

    f. Customer breach of a written contract for service between the Company and Customer; or

    g. When necessary for the Company to comply with an order of any governmental agency having such jurisdiction.

2. The Company shall maintain a record of all terminations of service with notice. This record shall be maintained for one (1) year and shall be available for ACC inspection.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

D. Termination Notice Requirements

1. The Company may not terminate service to any of its Customers without providing advance written notice to the Customer of the Company's intent to disconnect service, except under those conditions specified where advance written notice is not required.

2. Such advance written notice shall contain, at a minimum the following information:

   a. The name of the person whose service is to be terminated and the address where service is being rendered;

   b. The Pricing Plans that was violated and explanation of the violation or the amount of the bill, which the Customer has failed to pay in accordance with the payment policy of the Company, if applicable;

   c. The date on or after which service may be terminated; and

   d. A statement advising the Customer that the Company's stated reason for the termination of services may be disputed by contacting the Company at a specific address or phone number, advising the Company of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the Company in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the Company shall retain the option to terminate service after affording this opportunity for a meeting, concluding that the reason of terminating is just, and advising the Customer of his right to file a complaint with the ACC.

3. Where applicable, a copy of the termination notice will be simultaneously forwarded to designated third parties.

E. Timing of Terminations With Notice

1. The Company shall be required to give at least five (5) days advance written notice prior to the termination date. For Customers under the jurisdiction of a bankruptcy court, a shorter notice may be provided, if permitted by that court.

2. Such notice shall be considered to be given to the Customer when a copy of the notice is left with the Customer or posted first class in the United States mail, and addressed to the Customer's last known address.

3. If, after the period of time allowed by the notice has elapsed, the delinquent account has not been paid nor arrangements made with the Company for the payment of the bill, or in the case of a violation of the Company's rules the Customer has not satisfied the Company that such violation has ceased, the Company may terminate service on or after the day specified in the notice without giving further notice.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the Company.

5. The Company shall have the right, but not the obligation, to remove any or all of its property installed on the Customer's premises upon the termination of service.

F. Landlord/Tenant Rule

1. In situations where service is rendered at an address different from the mailing address of the bill or where the Company knows that a landlord/tenant relationship exists and that the landlord is the Customer of the Company, and where the landlord as Customer would otherwise be subject to disconnection of service, the Company may not disconnect service until the following actions have been taken:

   a. Where it is feasible to provide service, the Company, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in the occupant's own name. If the occupant then declines to subscribe, the Company may disconnect service pursuant to the rules.

   b. The Company shall not attempt to recover payment of any outstanding bills or other charges due on the outstanding account of the landlord from a tenant. The Company shall not condition service to a tenant based on the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS

A. Customer Service Complaints

1. The Company shall make a full and prompt investigation of all service complaints made by its Customers, either directly to the Company or through the ACC.

2. The Company shall respond to the complainant and/or the ACC representative within five (5) working days as to the status of the Company's investigation of the complaint.

3. The Company shall notify the complainant and/or the ACC representative of the final disposition of each complaint. Upon request of the complainant or the ACC representative, the Company shall report the findings of its investigation in writing.

4. The Company shall inform the Customer of the right of appeal to the ACC.

5. The Company shall keep a record of all written service complaints received and which shall contain, at a minimum, the following data:

   a. Name and address of complainant.

   b. Date and nature of complaint.

   c. Disposition of the complaint.

   d. A copy of any correspondence between the Company, the Customer, and/or the ACC.

   This record shall be maintained for a minimum period of one (1) year and shall be available for inspection by the ACC.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

B. Customer Bill Disputes

1. Any Customer who disputes a portion of a bill rendered for gas service shall pay the undisputed portion of the bill prior to the delinquent date of the bill, and notify the Company's designated representative that any unpaid amount is in dispute.

2. Upon receipt of the Customer's notice of dispute, the Company shall:

   a. Notify the Customer within five (5) working days of the receipt of a written dispute notice.

   b. Initiate a prompt investigation as to the source of the dispute.

   c. Withhold disconnection of service until the investigation is completed and the Customer is informed of the results. Upon request of the Customer, the Company shall report the results of the investigation in writing.

   d. Inform the Customer of the right of appeal to the ACC.

3. Once the Customer has received the results of the Company's investigation, the Customer shall submit payment within five (5) working days to the Company for any disputed amounts. Failure to make full payment shall be grounds for termination of service.

C. ACC Resolution of Service and/or Bill Disputes

1. In the event a Customer and the Company cannot resolve a service and/or bill dispute, the Customer shall file a written statement with the ACC. By submitting such written notice to the ACC, the Customer shall be deemed to have filed an informal complaint against the Company.

2. Within thirty (30) days of the receipt of a written statement of Customer dissatisfaction related to a service or bill dispute, a designated representative of the ACC shall endeavor to resolve the dispute by correspondence and/or by telephone with the Company and the Customer. If resolution of the dispute is not achieved within twenty (20) days of the ACC representative's initial effort, the ACC shall hold an informal hearing to arbitrate the resolution of the dispute. The informal hearing shall be governed by the following rules:

   a. Each party may be represented by legal counsel, if desired;

   b. All such informal hearings may be recorded or held in the presence of a stenographer;

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties; and

d. All parties and the ACC's representative shall be given an opportunity for cross-examination of the various parties.

The ACC's representative will render a written decision to all parties within five (5) working days after the date of the informal hearing. Such written decision of the ACC's representative is not binding on any of the parties and the parties will still have the right to make a formal complaint to the ACC.

3. The Company may implement normal termination procedures if the Customer fails to pay all bills rendered during the resolution of the dispute by the ACC.

4. The Company shall maintain a record of written statements of dissatisfaction and their resolution for a minimum of one (1) year and make such records available for ACC inspection.

D. Notice by Company of Responsible Officer or Agent

1. The Company shall file with the ACC a written statement containing the name, business address and telephone numbers (office and mobile) of at least one officer, agent or employee responsible for the general management of its operations as a Company in Arizona.

2. The Company shall give notice, by filing a written statement with the ACC, of any change in the information required herein within five (5) days from the date of any such change.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN

A. Residential Customers may elect to participate in the Company's Budget Billing Payment Plan ("Plan") for payment of charges for gas service.

B. Upon Customer request, the Company will develop an estimate of the Customer's levelized billing for a twelve (12) month period based on:

1. The Customer's actual consumption history at the service location, which may be adjusted for weather or other known variations. If sufficient history is not available, then an estimate will be prepared based on other similar service locations and Customer's anticipated load requirements; and

2. The applicable Pricing Plan, the estimated gas costs for the Plan year, and applicable taxes.

C. The Company shall provide the Customer with a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a Customer's monthly bill, and the Company's right to adjust the Customer's billing for any variation between the Company's estimated billing and actual billing.

D. The Plan's monthly payment shall be determined as follows:Settlement month will be the Customer's anniversary date, 12 months from the time the Customer is set up on the Budget Billing Payment Plan. The Company reserves the right to adjust the remaining monthly Plan semi-annually to reduce the likelihood of an excessive debt or credit balance in rates due to dramatic PGA increases or PGA surcharges.

1. The Company reserves the right to adjust the remaining monthly Plan payments of any Customer at any time if the Company's estimate of the Customer's usage and/or cost varies significantly from the Customer's actual usage and/or cost. Such review may also be initiated by the Customer. Any change resulting from such a review will be effective on a subsequent bill and no further notice is required.

2. The Customer shall continue to pay the monthly Plan payment amount each month, notwithstanding the current gas service charge shown on the bill.

3. Any other charges incurred by the Customer shall be paid monthly when due in addition to the monthly Plan payment.

4. Interest will not be charged the Customer on accrued debit balances nor paid by the Company on accrued credit balances.

5. Any amount due the Company will be settled and paid at the time a Customer, for any reason, ceases to be a participant in the Plan. If an amount due to the Customer exceeds fifty dollars ($50.00), the Customer has the option to receive a bill credit or a refund; otherwise the credit will remain as a bill credit.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN
(continued)

6. Any Customer's participation in the Plan may be discontinued by the Company if the monthly Plan payment has not been paid on or before the billing date of the next monthly Plan payment.

7. If a Customer in the Plan shall cease, for any reason, to participate in the Plan, then the Company may refuse that Customer's re-entry in the Plan until the following August or for six (6) months, whichever is longer.

8. For those Customers being billed under the Plan, the Company shall show, at a minimum, the following information on the Customer's monthly bill:

    a. Actual consumption;

    b. Amount due for actual consumption;

    c. Levelized billing amount due; and

    d. Accumulated variation in actual versus levelized billing amount.

SECTION NO. 14
CURTAILMENT PLAN

A. The Company shall use reasonable diligence in its operations to render continuous service to all its Customers other than those Customers served under Pricing Plans expressly permitting interruptions of service for peak shaving purposes. If for any reason, however, the Company is unable to supply the demand for gas in any one or more of its systems, interruptions or curtailments of service shall be made in accordance with the provisions of this section. The Company shall not be liable for damages because of the operation of this section.

B. Applicability

1. The order of curtailment shall be in inverse order of the curtailment priorities set forth in Subsection C below.

2. Curtailment priorities shall apply to both sales and transportation Customers.

3. Customers being served under a discounted transportation or sales rate schedule shall be curtailed first. Customers paying the least will be curtailed first within an affected priority.

4. Each priority shall be curtailed in full before the next priority in order is curtailed.

5. When Priority 1 Customers would be curtailed due to system supply failure (either upstream capacity or supply failure), the Company is authorized to "preempt" deliveries of lower priority transportation Customers' gas and divert such supplies to the otherwise affected Priority 1 Customers. Affected transportation Customers will be curtailed to the same extent as sales Customers of the same priority. Such transportation Customers will be compensated for the preemption of their gas supply by either crediting the Customer's account with a like quantity of gas for use on a subsequent gas day, or by providing a cash payment or credit to the Customer's bill at the cost of gas per unit paid by the Customer. If the gas supply of an alternate fuel-capable transportation Customer is preempted according to this provision, the Company shall provide additional compensation to such Customer for the incremental cost of using the alternate fuel, (the difference between the actual cost of using the alternate fuel and the actual cost of gas paid by the Customer for the preempted gas). Such credit shall be applied to the Company's next scheduled billing after the Customer has furnished adequate proof to the Company concerning alternate fuel costs, replacement volumes, and gas costs.

6. The installation of a cogeneration facility shall not affect the underlying end-use priority of the establishment.

7. Natural gas utilized as compressed natural gas for vehicle fuel shall be classified as a commercial end-use.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

8. Application of curtailment priorities will normally be done on a scheduled basis as part of the daily gas requirement nomination and confirmation routine. Operational emergency curtailment will conform to these priorities to the extent possible and practical.

9. A transportation Customer may be curtailed to the level of actual supply scheduled for that Customer, regardless of end-use priority.

C. Priorities

Priority 1: Residential, small commercial (less than five hundred (500) therms on a peak day), schools, hospitals, police protection, fire protection, sanitation facility, correctional facility, and emergency situation uses.

Priority 2A: Essential agricultural uses as certified by the Secretary of Agriculture.

Priority 2B: Essential industrial process and feedstock uses.

Priority 2C: Large Commercial (five hundred (500) therms or more on a peak day) and storage injection requirements, industrial requirements for plant protection, feedstock, process, ignition and flame stabilization needs not specified in Priority 2B.

Priority 3A: Industrial requirements not specified in Priorities 2, 4, and 5, of less than one thousand (1,000) therms on a peak day.

Priority 3B: All industrial requirements not specified in Priorities 2, 3A, 4, and 5.

Priority 4: Industrial requirements for boiler fuel use at less than thirty thousand (30,000) therms per peak day, but more than fifteen thousand (15,000) therms per peak day, where alternate fuel capabilities can meet such requirements.

Priority 5: Industrial requirements for large volume (thirty thousand (30,000) therms per peak day or more) boiler fuel use where alternate fuel capabilities can meet such requirements.

D. In the event of isolated incidents in order to avoid hazards and protect the public, the Company may temporarily interrupt service to certain Customers without regard to priority or any other Customer classification.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

E. Definitions

1. "Alternate Fuel Capability" – A situation where an alternate fuel can be utilized whether or not the facilities for such usehave actually been installed.
2. "Correctional Facility Uses" – A facility, the primary function of which is to house, confine, or otherwise limit the activities of a person who has been assigned to such facilities as punishment by a court of law.
3. "Essential Agricultural Use" – Any use of natural gas which is certified by the Secretary of Agriculture as an "essential agricultural use."
4. "Essential Industrial Process and Feedstock Uses" – Any use of natural gas by an industrial Customer as process gas, or as a feedstock, or gas used for human comfort to protect health and hygiene in an industrial installation.
5. "Feedstock Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.
6. "Fire Protection Uses" – Natural gas used by and for the benefit of fire fighting agencies in the performance of their duties.
7. "Flame Stabilization Gas" – Natural gas which is burned by igniters, main gas burners, or warm-up burners for the purpose of maintaining stable combustion of an alternate fuel.
8. "Hospital" – A facility, the primary function of which is delivering medical care to patients who remain at the facility (facility includes nursing and convalescent homes). Outpatient clinics or doctors' offices are not included in this definition.
9. "Ignition Gas" – Natural gas supplied to gas igniters in boilers to light main burners, whether the main burners are operated by gas, oil, or coal.
10. "Industrial Boiler Fuel" – Natural gas used in a boiler as a fuel for the generation of steam or electricity.
11. "Industrial Use" – Natural gas used primarily in a process which creates or changes raw or unfinished materials into another form or product, including electric power generation.
12. "Peak Day" – Maximum daily Customer use as determined by the best practical method available.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

13. "Plant Protection Gas" – Minimum natural gas volumes required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

14. "Police Protection Uses" – Natural gas used by law enforcement agencies in the performance of their duties.

15. "Process Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

16. "Sanitation Facility Uses" – Natural gas use in a facility where natural gas is used to a) dispose of refuse, or b) protect and maintain the general sanitation requirements of the community at large.

17. "School" – A facility, the primary function of which is to provide instruction to regularly enrolled students in attendance at such facility. Facilities used for both educational and non-educational activities are not included under this definition unless the latter activities are merely incidental to the provision of instruction.

18. "Small Commercial Establishment" – Any establishment (including institutions and local, state, and federal government agencies) engaged primarily in the sale of goods or services where natural gas is used:

    a. in amounts of less than fifty (50) MCF on a peak day; and

    b. for purposes other than those involving manufacturing or electric power generation.

19. "Storage Injection Gas" – Natural gas injected by a distributor into storage for later use.

SECTION NO. 15
RATES AND UNIT MEASUREMENT

A. The rates and charges for gas service shall be those of the Company legally in effect and on file with the ACC.

B. All rates set forth in the Company's Pricing Plans are stated in therms. Unless otherwise provided by special contract, the number of therms delivered to any Customer shall be determined by measuring the volume of gas passing through that Customer's meter during the month to the nearest one hundred (100) cubic feet and applying the procedures of Section 8.H of these Rules and Regulations.

C. The unit of volume for measurement of gas sold shall be one (1) Cubic Foot of gas, as defined in Section 2, Subsection A.13 of these Rules and Regulations. The volume of gas measured shall be rounded to the nearest one hundred (100) cubic feet for any given period.

D. The atmospheric pressure will be the standard atmospheric pressure for the location.

E. The standard serving pressure shall be seven (7) inches of water pressure (four (4) ounces per square inch gauge) above the atmospheric pressure.

F. The standard temperature of sixty (60) degrees Fahrenheit will be used for volume determination unless stated otherwise under special contract. The Company shall retain the right, but shall not be obligated, to install temperature recording or compensating equipment as part of the measuring facilities. When such temperature recording equipment is used, the arithmetic average temperature of the gas each day, during periods of flow only, shall be used in computing the quantity of gas delivered by that day.

G. The Company, at its own option, may elect to serve a Customer at a pressure higher than the standard serving pressure. The Company shall correct such volume to Standard Conditions by the use of compensating equipment or the use of a factor. The Company retains the right to determine the method used for applying such correction. The factor used to correct the measured volume shall be in accordance with American Gas Association Report 3[t20].

H. The therm conversion factor shall be determined each month and shall be the product of the conversion factor and the most recent heating value content available using the weighted average delivered pressure by office. The weighted average delivered pressure is derived monthly using the delivered pressure for each town code served which is reflective of each town code's elevation, weighted by the sales distribution among assigned gas distribution systems within each respective office.[t21] Further explained in Section 8.H. of these Rules and Regulations.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN

A. General Plan

The Company will annually sample groups of meters to determine the continuing accuracy and performance of the group. Certain safe and proper standards are defined, and meters will remain in service as long as they meet these standards. This program will allow the Company to obtain all the useful service available from a meter until the meter no longer meets prescribed standards. At that time, then it is proper for the meter to be removed, tested, repaired, or retired.

This procedure is for the purpose of testing and controlling the performance of small gas meters that are two hundred fifty (250) CFH or less. The program will identify and remove meters that do not meet the standards of performance described in Subsection D below, and identify and retain in service meters that do meet or exceed the stated standards. Meters are classified into groups, samples of each group are tested annually, and groups are removed from service when they do not meet performance standards.

B. Meter Groups

1. Meters are segregated into groups on the following basis:

   a. Year last repaired or purchased;

   b. Manufacturer;

   c. Diaphragm type (leather or synthetic), when available; and

   d. Geographic district.

2. For meters repaired or purchased in a given year, the groups are established at the beginning of the next year. When a new group being established is found to contain less than one thousand (1,000) meters, this group may be combined with another group having meters of the same or similar operating characteristics. An existing group may be divided into two or more groups, if experience characteristics of part of the group are sufficiently different from the remainder of the group to warrant separate sampling of the parts.

C. Sampling

A representative random sample is selected from each group of meters. The samples are used in determining the performance of each group of meters each year. If the initial order for meter removals does not produce an adequate sample, additional meters are drawn on a random basis. These meters are combined with the original sample for determining acceptability of the group. Samples are taken annually from all groups that have been in service for ten years or longer.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

D. Performance Standard

The criteria for acceptability for a group to remain in service are:

1. No more than ten percent (10%) of the meters tested in the group are more than three percent (3%) fast.

2. At least eighty percent (80%) of the meters tested in the group are within +/- three percent (3%) of zero error. This results in a condition wherein a minimum of ninety percent (90%) of the meters remaining in service are either within +/- three percent (3%) or are more than three percent (3%) slow and in the Customer's favor.

E. Records

The test results for each group are kept in appropriate records that indicate the number of meters in the sample versus the test results, expressed as a percent.

F. Removal of Groups

1. A test result falling on or above the prescribed standards is satisfactory and the groups will remain in service.

2. A test falling below the prescribed standards is not satisfactory and the group will be removed from service.

3. The Company, for its convenience, may remove a group (or part of a group) even though the group meets the requirements for remaining in service.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

G. Annual Reports

A report of the meter performance control program will be filed annually with the ACC, which will contain the following:

1. A description of each group, showing its identification, size and composition;

2. A list of the total number of meters tested, at Company initiative or upon Customer request;

3. A detailed list of the performance results of each group, showing the number of meters in the group, the number of meters removed during the year, the number of meters not tested (dead, non-registering, damaged, etc.), the number or meters tested, the number of meters slow - minus three percent (-3%), the number of meters accurate, the percent of meters accurate, the number of meters fast - plus three percent (+3%), and the percent of meters fast;

4. A summary of results for each year of service; and

5. A summary or the overall results.

Direct Testimony of
Dr. Ronald E. White

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

Direct Testimony of

Dr. Ronald E. White

on Behalf of

UNS Gas, Inc.

July ____, 2006

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BEFORE THE
ARIZONA CORPORATION COMMISSION

PREPARED DIRECT TESTIMONY OF
DR. RONALD E. WHITE
IN DOCKET NO. G-04204A-06___

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Ronald E. White. My business address is 17595 S. Tamiami Trail, Suite 212, Fort Myers, Florida 33908.

Q. WHAT IS YOUR OCCUPATION?

A. I am an Executive Vice President and Senior Consultant of Foster Associates, Inc.

I. Qualifications

Q. WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATIONAL TRAINING AND PROFESSIONAL BACKGROUND?

A. I received a B.S. degree in Engineering Operations and an M.S. degree and Ph.D. (1977) in Engineering Valuation from Iowa State University. I have taught graduate and undergraduate courses in industrial engineering, engineering economics, and engineering valuation at Iowa State University and previously served on the faculty for Depreciation Programs for public utility commissions, companies, and consultants, sponsored by Depreciation Programs, Inc., in cooperation with Western Michigan University. I also conduct courses in depreciation and public utility economics for clients of the firm.

I have prepared and presented a number of papers to professional organizations, committees, and conferences and have published several articles on matters relating to depreciation, valuation and economics. I am a past member of the Board of Directors of the Iowa State Regulatory Conference and an affiliate member of the joint American Gas Association (A.G.A.) – Edison Electric Institute (EEI) Depreciation Accounting Committee, where I previously served as chairman of a standing committee on capital recovery and its effect on corporate economics. I am also a member of the American Economic Association, the Financial Management Association, the

Midwest Finance Association, the Electric Cooperatives Accounting Association (ECAA), and a founding member of the Society of Depreciation Professionals.

Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE?

A. I joined the firm of Foster Associates in 1979, as a specialist in depreciation, the economics of capital investment decisions, and cost of capital studies for ratemaking applications. Before joining Foster Associates, I was employed by Northern States Power Company (1968–1979) in various assignments related to finance and treasury activities. As Manager of the Corporate Economics Department, I was responsible for book depreciation studies, studies involving staff assistance from the Corporate Economics Department in evaluating the economics of capital investment decisions, and the development and execution of innovative forms of project financing. As Assistant Treasurer at Northern States, I was responsible for bank relations, cash requirements planning, and short–term borrowings and investments.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY BODY?

A. Yes. I have testified in numerous proceedings before administrative and judicial bodies in over thirty states, including Arizona. I have also testified before the Federal Energy Regulatory Commission, the Federal Power Commission, the Alberta Energy Board, the Ontario Energy Board, and the Securities and Exchange Commission. I have sponsored position statements before the Federal Communication Commission and numerous local franchising authorities in matters relating to the regulation of telephone and cable television. A more detailed description of my professional qualifications is contained in Attachment REW–1.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. Foster Associates was engaged by UNS Gas, Inc. (UNS Gas), an operating subsidiary of UniSource Energy Services, to conduct a 2006 depreciation rate study for gas utility plant owned and operated by UNS Gas. The purpose of my testimony is to sponsor and describe the study conducted by Foster Associates. Depreciation rates currently used by UNS Gas were adopted pursuant to a Settlement Agreement approved in Decision No. 66028 (July 3, 2003).

III. Development of Depreciation Rates

Q. WOULD YOU PLEASE EXPLAIN WHY DEPRECIATION STUDIES ARE NEEDED FOR ACCOUNTING AND RATEMAKING PURPOSES?

A. The goal of depreciation accounting is to charge to operations a reasonable estimate of the cost of the service potential of an asset (or group of assets) consumed during an accounting interval. A number of depreciation systems have been developed to achieve this objective, most of which employ time as the apportionment base.

Implementation of a time–based (or age–life system) of depreciation accounting requires the estimation of several parameters or statistics related to a plant account. The average service life of a vintage, for example, is a statistic that will not be known with certainty until all units from the original placement have been retired from service. A vintage average service life, therefore, must be estimated initially and periodically revised as indications of the eventual average service life becomes more certain. Future net salvage rates and projection curves, which describe the expected distribution of retirements over time, are also estimated parameters of a depreciation system that are subject to future revisions. Depreciation studies should be conducted periodically to assess the continuing reasonableness of parameters and accrual rates derived from prior estimates.

The need for periodic depreciation studies is also a derivative of the ratemaking process which establishes prices for utility services based on costs. Absent regulation, deficient or excessive depreciation rates will produce no adverse consequence other than a systematic over or understatement of the accounting measurement of earnings. While a continuance of such practices may not comport with the goals of depreciation accounting, the achievement of capital recovery is not dependent upon either the amount or the timing of depreciation expense for an unregulated firm. In the case of a regulated utility, however, recovery of investor–supplied capital is dependent upon allowed revenues, which are in turn dependent upon approved levels of depreciation expense. Periodic reviews of depreciation rates are, therefore, essential to the achievement of timely capital recovery for a regulated utility.

Q. WHAT ARE THE PRINCIPAL ACTIVITIES INVOLVED IN CONDUCTING A DEPRECIATION STUDY?

A. The first step in conducting a depreciation study is the collection of plant accounting data needed to conduct a statistical analysis of past retirement experience. Data are also collected to permit an analysis of the relationship between retirements and realized gross salvage and removal expense. The data collection phase should include a verification of the accuracy of the plant accounting records and a reconciliation of the assembled data to the official plant records of the company.

The next step in a depreciation study is the estimation of service life statistics from an analysis of past retirement experience. The term *life analysis* is used to describe the activities undertaken in this step to obtain a mathematical description of the forces of retirement acting upon a plant category. The mathematical expressions used to describe these forces are known as survival functions or survivor curves.

Life indications obtained from an analysis of past retirement experience are blended with expectations about the future to obtain an appropriate projection life curve. This step, called *life estimation*, is concerned with predicting the expected remaining life of property units still exposed to the forces of retirement. The amount of weight given to the analysis of historical data will depend upon the extent to which past retirement experience is considered descriptive of the future.

An estimate of the net salvage rate applicable to future retirements is usually obtained from an analysis of the gross salvage and cost of removal realized in the past. An analysis of past experience (including an examination of trends over time) provides a baseline for estimating future salvage and cost of removal. Consideration, however, should be given to events that may cause deviations from the net salvage realized in the past. Among the factors which should be considered are the age of plant retirements; the portion of retirements that will be reused; changes in the method of removing plant; the type of plant to be retired in the future; inflation expectations; the shape of the projection life curve; and economic conditions that may warrant greater or lesser weight to be given to the net salvage observed in the past.

A comprehensive depreciation study will also include an analysis of the adequacy of the recorded depreciation reserve. The purpose of such an analysis is to compare the current balance in the recorded reserve with the balance required to achieve the goals and objectives of depreciation accounting if the amount and timing of future retirements and net salvage are realized exactly as predicted. The difference between the required (or theoretical) reserve and the recorded reserve provides a measurement of the expected excess or shortfall that will remain in the depreciation reserve if corrective action is not taken to extinguish the reserve imbalance.

Although reserve records are typically maintained by various account classifications, the total reserve for a company is the most important measure of the status of the company's depreciation practices and procedures. Differences between the theoretical reserve and the recorded reserve will arise as a normal occurrence when service lives, dispersion patterns and salvage estimates are adjusted in the course of depreciation reviews. Differences will also arise due to plant accounting activity such as transfers and adjustments, which require an identification of reserves at a different level from that maintained in the accounting system. It is appropriate, therefore, and consistent with group depreciation theory, to periodically redistribute recorded reserves among primary accounts based on the most recent estimates of retirement dispersion and salvage. A redistribution of the recorded reserve will provide an initial reserve balance for each primary account consistent with the estimates of retirement dispersion selected to describe mortality characteristics of the accounts and establish a baseline against which future comparisons can be made.

Finally, parameters estimated from service life and net salvage studies are integrated into an appropriate formulation of an accrual rate based upon a selected depreciation system. Three elements are needed to describe a depreciation system. The sub–elements most widely used in constructing a depreciation system are shown in Table 1.

Methods	Procedures	Techniques
Retirement	Total Company	Whole-Life
Compound-Interest	Broad Group	Remaining-Life
Sinking-Fund	Vintage Group	Probable-Life
Straight-Line	Equal-Life Group	
Declining Balance	Unit Summation	
Sum-of-Years'-Digits	Item	
Expensing		
Unit-of-Production		
Net Revenue		

Table 1. Elements of a Depreciation System

These elements (*i.e.*, method, procedure and technique) can be visualized as three dimensions of a cube in which each face describes a variety of sub–elements that can be combined to form a system. A depreciation system is therefore formed by selecting a sub–element from each face such that the system contains one method, one procedure and one technique.

IV. 2006 Depreciation Rate Study

Q. DID UNS GAS PROVIDE FOSTER ASSOCIATES PLANT ACCOUNTING DATA FOR CONDUCTING THE 2006 DEPRECIATION STUDY?

A. Yes, they did. The database used in the 2006 study was assembled from three sources. The first source was the database used in conducting a 2002 depreciation study for Citizens Communications Company. The database for the Northern Arizona Gas Division was originally compiled by Citizens and used in its 1993 study. The database had been assembled from a Southern Union Gas Company legacy system that included activity year transactions from inception through December 31, 1991. Foster Associates appended 1992-2001 aged transactions to this database. The 1992–1998 transactions were compiled from annual "CPR Plant Control" reports issued from a Computer Associates plant accounting system. The 1999-2001 transactions were compiled from an SAP system installed in 1999 and populated with age distributions at December 31, 1998.

An unaged database for Santa Cruz Gas Division was compiled by Citizens for all accounts from inception through December 31, 1998. Foster Associates appended unaged transactions for 1999–2001 to this database and initiated an aged transaction database for all accounts beginning in 1999. The resulting database provided age distributions used for accrual computations in the 2002 depreciation study.

The second data source, obtained from Citizens, provided plant and reserve transactions over the period January 1, 2002 through August 31, 2003. This interval is the period of time beyond the end of the database used in conducting the 2002 studies until gas assets were purchased by UNS Gas from Citizens on August 31, 2003. Plant and reserve transactions were coded by Foster Associates and appended to the database used in the 2002 studies.

The third data source was obtained from UNS Gas. Plant and reserve transactions over the period September 1, 2003 through December 31, 2005 were extracted from an Oracle fixed asset system and appended to the database containing transactions through August 31, 2003.

Unlike the 2002 study in which depreciation rates were developed independently for Northern Arizona Gas Division and Santa Cruz Gas Division, the two Citizens divisions were combined in the 2006 study and depreciation rates were developed for the combined plant accounts. Unadjusted Plant History reports produced from the merged database were reconciled to Citizens and UNS Gas ledger reports over the period 1992–2005.

Q. DID FOSTER ASSOCIATES CONDUCT STATISTICAL LIFE STUDIES FOR UNS GAS PLANT AND EQUIPMENT?

A. Yes, we did. As discussed in Attachment REW–2, all plant accounts were analyzed using a technique in which first, second and third degree orthogonal polynomials were fitted to a set of observed retirement ratios. The resulting function can be expressed as a survivorship function, which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least–squares procedure to the Iowa–curve family to obtain a mathematical description or classification of the dispersion characteristics of the data. Service life indications derived from the statistical analyses were blended with informed judgment and expectations about the future to obtain an appropriate projection life curve for each plant category.

Q. DID FOSTER ASSOCIATES CONDUCT A NET SALVAGE ANALYSIS FOR UNS GAS PLANT AND EQUIPMENT?

A. Yes, we did. A traditional, historical analysis using a five–year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in the study to a) estimate a realized net salvage rate; b) detect the emergence of historical trends; and c) establish a basis for estimating a future net salvage rate.

The average net salvage rate for an account was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate.

Q. DID FOSTER ASSOCIATES CONDUCT AN ANALYSIS OF RECORDED DEPRECIATION RESERVES?

A. Yes, we did. Statement C of Attachment REW–2 provides a comparison of the computed and recorded reserves for UNS Gas at December 31, 2005. The recorded reserve was $77,127,380 or 26.5 percent of the depreciable plant investment. The corresponding computed reserve is $60,898,596 or 20.9 percent of the depreciable plant investment. A proportionate amount of the measured reserve excess of $16,228,784 will be amortized over the composite weighted–average remaining life of each rate category using the remaining life depreciation rates proposed in the study.

Q. IS FOSTER ASSOCIATES RECOMMENDING A REBALANCING OF DEPRECIATION RESERVES FOR UNS GAS?

A. Yes, we are. Offsetting reserve imbalances attributable to both the passage of time and parameter adjustments recommended in the current study should be realigned among primary accounts to reduce offsetting imbalances and increase depreciation rate stability.

A redistribution of reserves is also needed to eliminate reserve imbalances derived from an initialization of amortization accounting proposed for several general support asset accounts. Amortization periods proposed for these accounts were used to derive theoretical reserves that will replace the recorded reserves and permit a uniform treatment of embedded plant and future additions. Plant older than the proposed amortization periods will be retired from service and future retirements will be posted as each vintage achieves an age equal to the amortization period. Depreciation reserves for the general plant function were redistributed by setting the recorded reserves for the proposed amortization accounts equal to the theoretical reserves derived from the proposed amortization periods and distributing the residual imbalances to the remaining depreciable accounts in the general function.

A redistribution of the recorded reserve for all depreciable plant was achieved by multiplying the calculated reserve for each primary account within a function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within a function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Q. WOULD YOU PLEASE DESCRIBE THE DEPRECIATION SYSTEM CURRENTLY APPROVED BY THE COMMISSION FOR UNS GAS?

A. Current depreciation rates were developed for each primary account in a 2002 study using a depreciation system composed of the straight–line method, vintage group procedure, remaining–life technique. The formulation of an account accrual rate using the currently approved depreciation system is given by:

$$Accrual\ Rate = \frac{1.0 - Reserve\ Ratio - Future\ Net\ Salvage\ Rate}{Remaining\ \ Life}.$$

A remaining–life rate is equivalent to the sum of a whole–life rate and an amortization of any reserve imbalance over the estimated remaining life of a rate category. Stated as an equation, a remaining–life accrual rate is equivalent to

$$Accrual Rate = \frac{1.0 - Average\ Net\ Savage\ Rate}{Average\ Life} + \frac{Computed\ Reserve - Recorded\ Reserve}{Remaining\ Life}$$

where both the computed reserve and the recorded reserve are expressed as ratios to the plant in service.

Q. IS FOSTER ASSOCIATES RECOMMENDING A CHANGE IN THE DEPRECIATION SYSTEM FOR UNS GAS?

A. No, we are not. The matching and expense recognition principles of accounting provide that the cost of an asset (or group of assets) should be allocated to operations over an estimate of the economic life of the asset in proportion to the consumption of service potential. It is the opinion of Foster Associates that the objectives of depreciation accounting are adequately achieved using the straight–line method, vintage–group procedure, remaining–life technique.

Q. WOULD YOU PLEASE SUMMARIZE THE DEPRECIATION RATES AND ACCRUALS FOSTER ASSOCIATES RECOMMENDED FOR UNS GAS IN THE 2006 STUDY?

A. Table 2 provides a summary of the changes in annual rates and accruals resulting from adoption of the parameters and depreciation system recommended in the study.

	Accrual Rate			2006 Annualized Accrual		
Function	Present	Proposed	Difference	Present	Proposed	Difference
A	B	C	D=C-B	E	F	G=F-E
Transmission	1.60%	1.54%	-0.06%	$415,845	$400,324	($15,521)
Distribution	2.34%	2.32%	-0.02%	5,764,814	5,718,101	(46,713)
General Plant	12.95%	9.94%	-3.01%	2,362,179	1,813,433	(548,746)
Total	2.94%	2.73%	-0.21%	$8,542,838	$7,931,858	($610,980)

Foster Associates is recommending primary account depreciation rates equivalent to a composite rate of 2.73 percent. Depreciation expense is presently accrued at a composite rate of 2.94 percent. The recommended change in the composite depreciation rate is, therefore, a reduction of 0.21 percentage points.

A continued application of rates currently approved would provide annualized depreciation expense of $8,542,838 compared with an annualized expense of $7,931,858 using the rates developed in the study. The resulting 2006 expense decrease is $610,980. The computed change in the annualized accrual includes a reduction of $728,850 attributable to amortization of a $16,228,784 reserve imbalance.

The remaining portion of the change is attributable to parameter adjustments recommended in the 2006 study.

Of the 35 property accounts included in the 2006 study, Foster Associates is recommending rate reductions for 24 accounts and rate increases for 11 accounts.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

EXHIBIT

REW-1

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Education

1961 - 1964 Valparaiso University
Major: Electrical Engineering

1965 Iowa State University
B.S., Engineering Operations

1968 Iowa State University
M.S., Engineering Valuation
Thesis: The Multivariate Normal Distribution and the Simulated Plant Record Method of Life Analysis

1977 Iowa State University
Ph.D., Engineering Valuation
Minor: Economics
Dissertation: A Comparative Analysis of Various Estimates of the Hazard Rate Associated With the Service Life of Industrial Property

Employment

1996 - Present Foster Associates, Inc.
Executive Vice President

1988 - 1996 Foster Associates, Inc.
Senior Vice President

1979 - 1988 Foster Associates, Inc.
Vice President

1978 - 1979 Northern States Power Company
Assistant Treasurer

1974 - 1978 Northern States Power Company
Manager, Corporate Economics

1972 - 1974 Northern States Power Company
Corporate Economist

1970 - 1972 Iowa State University
Graduate Student and Instructor

1968 - 1970 Northern States Power Company
Valuation Engineer

1965 - 1968 Iowa State University
Graduate Student and Teaching Assistant

Publications

A New Set of Generalized Survivor Tables, Journal of the Society of Depreciation Professionals, October, 1992.

The Theory and Practice of Depreciation Accounting Under Public Utility Regulation, Journal of the Society of Depreciation Professionals, December, 1989.

Standards for Depreciation Accounting Under Regulated Competition, paper presented at The Institute for Study of Regulation, Rate Symposium, February, 1985.

The Economics of Price-Level Depreciation, paper presented at the Iowa State

University Regulatory Conference, May, 1981.

Depreciation and the Discount Rate for Capital Investment Decisions, paper presented at the National Communications Forum - National Electronics Conference, October 1979.

A Computerized Method for Generating a Life Table From the 'h-System' of Survival Functions, paper presented at the American Gas Association - Edison Electric Institute Depreciation Accounting Committee Meeting, December, 1975.

The Problem With AFDC is ..., paper presented at the Iowa State University Conference on Public Utility Valuation and the Rate Making Process, May, 1973.

The Simulated Plant-Record Method of Life Analysis, paper presented at the Missouri Public Service Commission Regulatory Information Systems Conference, May, 1971.

Simulated Plant-Record Survivor Analysis Program (User's Manual), special report published by Engineering Research Institute, Iowa State University, February, 1971.

A Test Procedure for the Simulated Plant-Record Method of Life Analysis, Journal of the American Statistical Association, September, 1970.

Modeling the Behavior of Property Records, paper presented at the Iowa State University Conference on Public Utility Valuation and the Rate Making Process, May, 1970.

A Technique for Simulating the Retirement Experience of Limited-Life Industrial Property, paper presented at the National Conference of Electric and Gas Utility Accountants, May, 1969.

How Dependable are Simulated Plant-Record Estimates?, paper presented at the Iowa State University Conference on Public Utility Valuation and the Rate Making Process, April, 1968.

Testifying Witness

Alabama Public Service Commission, Docket No. 18488, General Telephone Company of the Southeast; testimony concerning engineering economy study techniques.

Alabama Public Service Commission, Docket No. 20208, General Telephone Company of the South; testimony concerning the equal-life group procedure and remaining-life technique.

Alberta Energy and Utilities Board, Application No. 1250392, Aquila Networks Canada; rebuttal testimony supporting proposed depreciation rates.

Alberta Energy and Utilities Board, Case No. RE95081, Edmonton Power Inc.; rebuttal evidence concerning appropriate depreciation rates.

Alberta Energy and Utilities Board, 1999/2000 General Tariff Application, Edmonton Power Inc.; direct and rebuttal evidence concerning appropriate depreciation rates.

Arizona Corporation Commission, Docket No. T-01051B-97-0689, U S West Communications, Inc.; testimony concerning appropriate depreciation rates.

Arizona Corporation Commission, Docket No. G-1032A-02-0598, Citizens Communications Company; testimony supporting proposed depreciation rates.

Arizona Corporation Commission, Docket No. E–0135A–03–0437, Arizona Public Service Company; rebuttal testimony supporting net salvage rates.

Arizona Corporation Commission, Docket No. E–0135A–05–0816, Arizona Public

Service Company; testimony supporting proposed depreciation rates.

Arizona State Board of Equalization, Docket No. 6302-07-2, Arizona Public Service Company; testimony concerning valuation and assessment of contributions in aid of construction.

California Public Utilities Commission, Case Nos. A.92-06-040, 92-06-042, GTE California Incorporated; rebuttal testimony supporting depreciation study techniques.

California Public Utilities Commission. Docket No. GRC A.05–12–003, Pacific Gas and Electric Company, testimony regarding estimation of net salvage rates.

Public Utilities Commission of the State of Colorado, Application No. 36883-Reopened. U S WEST Communications; testimony concerning equal-life group procedure.

State of Connecticut Department of Public Utility Control, Docket No. 05–03–17, The Southern Connecticut Gas Company; testimony supporting recommended depreciation rates.

Delaware Public Service Commission, Docket No. 81-8, Diamond State Telephone Company; testimony concerning the amortization of inside wiring.

Delaware Public Service Commission, Docket No. 82-32, Diamond State Telephone Company; testimony concerning the equal-life group procedure and remaining-life technique.

Public Service Commission of the District of Columbia, Formal Case No. 842, District of Columbia Natural Gas; testimony concerning depreciation rates.

Public Service Commission of the District of Columbia, Formal Case No. 1016, Washington Gas Light Company - District of Columbia; testimony supporting proposed depreciation rates.

Federal Communications Commission, Prescription of Revised Depreciation Rates for AT&T Communications; statement concerning depreciation, regulation and competition.

Federal Communications Commission, Petition for Modification of FCC Depreciation Prescription Practices for AT&T; statement concerning alignment of depreciation expense used for financial reporting and regulatory purposes.

Federal Communications Commission, Docket No. 99-117, Bell Atlantic; affidavit concerning revenue requirement and capital recovery implications of omitted plant retirements.

Federal Energy Regulatory Commission, Docket No. ER95-267-000, New England Power Company; testimony supporting proposed depreciation rates.

Federal Energy Regulatory Commission, Docket No. RP89-248, Mississippi River Transmission Corporation; rebuttal testimony concerning appropriateness of net salvage component in depreciation rates.

Federal Energy Regulatory Commission, Docket No. ER91-565, New England Power Company; testimony supporting proposed depreciation rates.

Federal Energy Regulatory Commission, Docket No. ER78-291, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Federal Energy Regulatory Commission, Docket Nos. RP80-97 and RP81-54, Tennessee Gas Pipeline Company; testimony concerning offshore plant depreciation rates.

Federal Power Commission, Docket No. E-8252, Northern States Power Company; testimony concerning general financial requirements and measurements of financial performance.

Federal Power Commission, Docket No. E-9148, Northern States Power Company; testimony concerning general financial requirements and measurements of financial performance.

Federal Power Commission, Docket No. ER76-818, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Federal Power Commission, Docket No. RP74-80, *Northern* Natural Gas Company; testimony concerning depreciation expense.

Public Utilities Commission of the State of Hawaii, Docket No. 00-0309, The Gas Company; testimony supporting proposed depreciation rates.

Public Utilities Commission of the State of Hawaii, Docket No. 94-0298, GTE Hawaiian Telephone Company Incorporated; testimony concerning the need for shortened service lives and disclosure of asset impairment losses.

Idaho Public Utilities Commission, Case No. U-1002-59, General Telephone Company of the Northwest, Inc.; testimony concerning the remaining-life technique and the equal-life group procedure.

Illinois Commerce Commission, Case No. 04–0476, Illinois Power Company, testimony supporting proposed depreciation rates.

Illinois Commerce Commission, Docket No. 94-0481, Citizens Utilities Company of Illinois; rebuttal testimony concerning applications of the Simulated Plant-Record method of life analysis.

Iowa State Commerce Commission, Docket No. RPU 82-47, North Central Public Service Company; testimony on depreciation rates.

Iowa State Commerce Commission, Docket No. RPU 84-34, General Telephone Company of the Midwest, testimony concerning the remaining-life technique and the equal-life group procedure.

Iowa State Utilities Board, Docket No. DPU-86-2, Northwestern Bell Telephone Company; testimony concerning capital recovery in competition.

Iowa State Utilities Board, Docket No. RPU-84-7, Northwestern Bell Telephone Company; testimony concerning the deduction of a reserve deficiency from the rate base.

Iowa State Utilities Board, Docket No. DPU-88-6, U S WEST Communications; testimony concerning depreciation subject to refund.

Iowa State Utilities Board, Docket No. RPU-90-9, Central Telephone Company of Iowa; testimony concerning depreciation rates.

Iowa State Utilities Board, Docket No. RPU-93-9, U S WEST Communications; testimony concerning principles of depreciation accounting and abandonment of FASB 71.

Iowa State Utilities Board, Docket No. DPU-96-1, U S WEST Communications; testimony concerning principles of depreciation accounting and abandonment of FASB 71.

Iowa State Utilities Board, Docket No. RPU-05-2, Aquila Networks; testimony supporting recommended depreciation rates.

Kansas Corporation Commission, Docket No. 04–AQLE–1065–RTS, Aquila Networks – WPE (Kansas), testimony supporting proposed depreciation rates.

Kansas Corporation Commission, Docket No. 03–KGSG–602–RTS, Kansas Gas Service, a Division of ONEOK, Inc., rebuttal testimony supporting net salvage rates.

Kansas Corporation Commission, Docket No. 06–KGSG–1209–RTS, Kansas Gas Service, a Division of ONEOK, Inc., testimony supporting proposed depreciation rates.

Kentucky Public Service Commission, Case No. 97-224, Jackson Purchase Electric Cooperative Corporation; rebuttal testimony supporting proposed depreciation rates.

Maryland Public Service Commission, Case No. 8485, Baltimore Gas and Electric Company; testimony supporting proposed depreciation rates.

Maryland Public Service Commission, Case No. 7689, Washington Gas Light Company; testimony concerning life analysis and net salvage.

Maryland Public Service Commission, Case No. 8960, Washington Gas Light Company; testimony supporting proposed depreciation rates.

Massachusetts Department of Public Utilities, Case No. DPU 91-52, Massachusetts Electric Company; testimony supporting proposed depreciation rates which include a net salvage component.

Michigan Public Service Commission, Case No. U13899, Michigan Consolidated Gas Company, testimony concerning service life estimates.

Michigan Public Service Commission, Case No. U-13393, Aquila Networks – MGU; testimony supporting proposed depreciation rates.

Michigan Public Service Commission, Case No. U-12395, Michigan Gas Utilities; testimony supporting proposed depreciation rates including amortization accounting and redistribution of recorded reserves.

Michigan Public Service Commission, Case No. U-6587, General Telephone Company of Michigan; testimony concerning use of a theoretical depreciation reserve with the remaining-life technique.

Michigan Public Service Commission, Case No. U-7134, General Telephone Company of Michigan; testimony concerning the equal-life group depreciation procedure.

Minnesota Public Service Commission, Docket No. E-611, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Minnesota Public Service Commission, Docket No. E-1086, Northern States Power Company; testimony concerning depreciation rates.

Minnesota Public Service Commission, Docket No. G-1015, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Public Service Commission of the State of Missouri, Case No. ER-2001-672, Missouri Public Service, a division of Utilicorp United Inc.; surrebuttal testimony regarding computation of income tax expense.

Public Service Commission of the State of Missouri, Case No. TO-82-3, Southwestern Bell Telephone Company; rebuttal testimony concerning the remaining-life technique and the equal-life group procedure.

Public Service Commission of the State of Missouri, Case No. GO-97-79, Laclede

Gas Company; rebuttal testimony concerning adequacy of database for conducting depreciation studies.

Public Service Commission of the State of Missouri, Case No. GR-99-315, Laclede Gas Company; rebuttal testimony concerning treatment of net salvage in development of depreciation rates.

Public Service Commission of the State of Missouri, Case No. HR–2004–0024, Aquila Inc. d/b/a/ Aquila Networks–L & P, testimony supporting depreciation rates.

Public Service Commission of the State of Missouri, Case No. ER–2004–0034, Aquila Inc. d/b/a/ Aquila Networks–L & P and Aquila Networks–MPS, testimony supporting depreciation rates.

Public Service Commission of the State of Missouri, Case No. GR–2004–0072, Aquila Inc. d/b/a/ Aquila Networks–L & P and Aquila Networks–MPS, testimony supporting depreciation rates.

Public Service Commission of the State of Montana, Docket No. 88.2.5, Mountain State Telephone and Telegraph Company; rebuttal testimony concerning the equal-life group procedure and amortization of reserve imbalances.

Montana Public Service Commission, Docket No. D95.9.128, The Montana Power Company; testimony supporting proposed depreciation rates.

Public Service Commission of Nevada, Docket No. 92-7002, Central Telephone Company-Nevada; testimony supporting proposed depreciation rates.

Public Service Commission of Nevada, Docket No. 91-5054, Central Telephone Company-Nevada; testimony supporting proposed depreciation rates.

New Hampshire Public Utilities Commission, Docket No. DR95-169, Granite State Electric Company; testimony supporting proposed net salvage rates.

New Jersey Board of Public Utilities, Docket No. GR 87060552, New Jersey Natural Gas Company; testimony concerning depreciation rates.

New Jersey Board of Regulatory Commissioners, Docket No. GR93040114J, New Jersey Natural Gas Company; testimony concerning depreciation rates.

North Carolina Utilities Commission, Docket No. E-7, SUB 487, Duke Power Company; rebuttal testimony concerning proposed depreciation rates.

North Carolina Utilities Commission, Docket No. P-19, SUB 207, General Telephone Company of the South; rebuttal testimony concerning the equal-life group depreciation procedure.

North Dakota Public Service Commission, Case No. 8860, Northern States Power Company; testimony concerning general financial requirements.

North Dakota Public Service Commission, Case No. 9634, Northern States Power Company; testimony concerning rate of return and general financial requirements.

North Dakota Public Service Commission, Case No. 9666, Northern States Power Company; testimony concerning rate of return and general financial requirements.

North Dakota Public Service Commission, Case No. 9741, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Ontario Energy Board, E.B.R.O. 385, Tecumseh Gas Storage Limited; testimony concerning depreciation rates.

Ontario Energy Board, E.B.R.O. 388, Union Gas Limited; testimony concerning depreciation rates.

Ontario Energy Board, E.B.R.O. 456, Union Gas Limited; testimony concerning depreciation rates.

Ontario Energy Board, E.B.R.O. 476-03, Union Gas Limited; testimony concerning depreciation rates.

Public Utilities Commission of Ohio, Case No. 81-383-TP-AIR, General Telephone Company of Ohio; testimony in support of the remaining-life technique.

Public Utilities Commission of Ohio, Case No. 82-886-TP-AIR, General Telephone Company of Ohio; testimony concerning the remaining-life technique and the equal-life group procedure.

Public Utilities Commission of Ohio, Case No. 84-1026-TP-AIR, General Telephone Company of Ohio; testimony in support of the equal-life group procedure and the remaining-life technique.

Public Utilities Commission of Ohio, Case No. 81-1433, The Ohio Bell Telephone Company; testimony concerning the remaining-life technique and the equal-life group procedure.

Public Utilities Commission of Ohio, Case No. 83-300-TP-AIR, The Ohio Bell Telephone Company; testimony concerning straight-line age-life depreciation.

Public Utilities Commission of Ohio, Case No. 84-1435-TP-AIR, The Ohio Bell Telephone Company; testimony in support of test period depreciation expense.

Public Utilities Commission of Oregon, Docket No. UM 204, GTE of the Northwest; testimony concerning the theory and practice of depreciation accounting under public utility regulation.

Public Utilities Commission of Oregon, Docket No. UM 840, GTE Northwest Incorporated; rebuttal testimony concerning principles of capital recovery.

Pennsylvania Public Utility Commission, Docket No. R-80061235, The Bell Telephone Company of Pennsylvania; testimony concerning the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. R-811512, General Telephone Company of Pennsylvania; testimony concerning the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. R-811819, The Bell Telephone Company of Pennsylvania; testimony concerning the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. R-822109, General Telephone Company of Pennsylvania; testimony in support of the remaining-life technique.

Pennsylvania Public Utility Commission, Docket No. R-850229, General Telephone Company of Pennsylvania; testimony in support of the remaining-life technique and the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. C-860923, The Bell Telephone Company of Pennsylvania; testimony concerning capital recovery under competition.

Rhode Island Public Utilities Commission, Docket No. 2290, The Narragansett Electric Company; testimony supporting proposed net salvage rates and depreciation rates.

South Carolina Public Service Commission, Docket No. 91-216-E, Duke Power Company; testimony supporting proposed depreciation rates.

Public Utilities Commission of the State of South Dakota, Case No. F-3062, Northern States Power Company; testimony concerning general financial requirements and measurements of financial performance.

Public Utilities Commission of the State of South Dakota, Case No. F-3188, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Securities and Exchange Commission, File No. 3-5749, Northern States Power Company; testimony concerning the financial and ratemaking implications of an affiliation with Lake Superior District Power Company.

Tennessee Public Service Commission, Docket No. 89-11041, United Inter-Mountain Telephone Company; testimony concerning depreciation principles and capital recovery under competition.

State of Vermont Public Service Board, Docket No. 6596, Citizens Communications Company – Vermont Electric Division, testimony supporting recommended depreciation rates.

State of Vermont Public Service Board, Docket No. 6946 and 6988, Central Vermont Public Service Corporation, testimony supporting net salvage rates.

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Other Consulting Activities

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Faculty

Depreciation Programs for public utility commissions, companies, and consultants, sponsored by Depreciation Programs, Inc., in cooperation with Western Michigan University. (1980 - 1999)

United States Telephone Association (USTA), Depreciation Training Seminar, November 1999.

Depreciation Advocacy Workshop, a three-day team-training workshop on preparation, presentation, and defense of contested depreciation issues, sponsored by Gilbert Associates, Inc., October, 1979.

Corporate Economics Course, Employee Education Program, Northern States Power Company. (1968 - 1979)

Perspectives of Top Financial Executives, Course No. 5-300, University of Minnesota, September, 1978.

Depreciation Programs for public utility commissions, companies, and consultants, jointly sponsored by Western Michigan University and Michigan Technological University, 1973.

Professional Associations

Advisory Committee to the Institute for Study of Regulation, sponsored by the American University and The University of Missouri-Columbia.

American Economic Association.

American Gas Association - Edison Electric Institute Depreciation Accounting Committee.

Board of Directors, Iowa State Regulatory Conference.

Edison Electric Institute, Energy Analysis Division, Economic Advisory Committee, 1976-1980.

Financial Management Association.

The Institute of Electrical and Electronics Engineers, Inc., Power Engineering Society, Engineering and Planning Economics Working Group.

Midwest Finance Association.

Society of Depreciation Professionals (Founding Member and Chairman, Policy Committee

Moderator

Depreciation Open Forum, Iowa State University Regulatory Conference, May 1991.

The Quantification of Risk and Uncertainty in Engineering Economic Studies, Iowa State University Regulatory Conference, May 1989.

Plant Replacement Decisions with Added Revenue from New Service Offerings, Iowa State University Regulatory Conference, May 1988.

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Opposing Views on the Use of Customer Discount Rates in Revenue Requirement Comparisons, Iowa State University Regulatory Conference, May 1986.

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Conference, May 1984.

Ratemaking Treatment of Large Capacity Additions, Iowa State University Regulatory Conference, May 1983.

The Economics of Excess Capacity, Iowa State University Regulatory Conference, May 1982.

New Developments in Engineering Economics, Iowa State University Regulatory Conference, May 1980.

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The Real Time Problem of Capital Recovery, Missouri Public Service Commission, Regulatory Information Systems Conference, September 1974.

Speaker

Depreciation Studies for Regulated Utilities, Hydro One Networks, Inc., April 2006.

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Finding the "D" in RCNLD (Valuation Applications of Depreciation), Society of Depreciation Professionals Annual Meeting, September 2001.

Capital Asset and Depreciation Accounting, City of Edmonton Value Engineering Workshop, April 2001.

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Capital Recovery in a Changing Regulatory Environment, Pennsylvania Electric Association Financial-Accounting Conference, May 1999.

Depreciation Theory and Practice, Southern Natural Gas Company Accounting and Regulatory Seminar, March 1999.

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Economic Depreciation, AGA Accounting Services Committee and EEI Property Accounting and Valuation Committee, May 1998.

Discontinuation of Application of FASB Statement No. 71, Southern Natural Gas Company Accounting Seminar, April 1998.

Forecasting in Depreciation, Society of Depreciation Professionals Annual Meeting, September 1997.

Economic Depreciation In Response to Competitive Market Pricing, 1997 TELUS Depreciation Conference, June 1997.

Valuation of Special Franchise Property, City of New York, Department of Finance Valuation Seminar, March 1997.

Depreciation Implications of FAS Exposure Draft 158-B, 1996 TLG Decommissioning Conference, October 1996.

Why Economic Depreciation?, American Gas Association Depreciation Accounting Committee Meeting, August 1995.

The Theory of Economic Depreciation, Society of Depreciation Professionals

Annual Meeting, November 1994.

Vintage Depreciation Issues, G & T Accounting and Finance Association Conference, June 1994.

Pricing and Depreciation Strategies for Segmented Markets (Regulated and Competitive), Iowa State Regulatory Conference, May 1990.

Principles and Practices of Depreciation Accounting, Canadian Electrical Association and Nova Scotia Power Electric Utility Regulatory Seminar, December 1989.

Principles and Practices of Depreciation Accounting, Duke Power Accounting Seminar, September 1989.

The Theory and Practice of Depreciation Accounting Under Public Utility Regulation, GTE Capital Recovery Managers Conference, February 1989.

Valuation Methods for Regulated Utilities, GTE Capital Recovery Managers Conference, January 1988.

Depreciation Principles and Practices for REA Borrowers, NRECA 1985 National Accounting and Finance Conference, September 1985.

Depreciation Principles and Practices for REA Borrowers, Kentucky Association of Electric Cooperatives, Inc., Summer Accountants Association Meeting, June 1985.

Considerations in Conducting a Depreciation Study, NRECA 1984 National Accounting and Finance Conference, October 1984.

Software for Conducting Depreciation Studies on a Personal Computer, United States Independent Telephone Association, September 1984.

Depreciation—An Assessment of Current Practices, NRECA 1983 National Accounting and Finance Conference, September 1983

Depreciation—An Assessment of Current Practices, REA National Field Conference, September 1983.

An Overview of Depreciation Systems, Iowa State Commerce Commission, October 1982.

Depreciation Practices for Gas Utilities, Regulatory Committee of the Canadian Gas Association, September 1981.

Practice, Theory, and Needed Research on Capital Investment Decisions in the Energy Supply Industry, workshop, sponsored by Michigan State University and the Electric Power Research Institute, November 1977.

Depreciation Concepts Under Regulation, Public Utilities Conference, sponsored by The University of Texas at Dallas, July 1976.

Electric Utility Economics, Mid-Continent Area Power Pool, May 1974.

Honors and Awards

The Society of Sigma Xi.

Professional Achievement Citation in Engineering, Iowa State University, 1993.

EXHIBIT

REW-2

Attachment REW–2

2006 Depreciation Rate Study

UNS Gas, Inc.

Prepared by
Foster Associates, Inc.

FOSTER ASSOCIATES INCORPORATED

CONTENTS

General Plant

Account 392.20 – Transportation Equipment C2

EXECUTIVE SUMMARY

INTRODUCTION

This report presents findings and recommendations developed in a 2006 Depreciation Rate Study conducted by Foster Associates, Inc. (Foster Associates) for UNS Gas, Inc. (UNS Gas), an operating subsidiary of UniSource Energy Services, Inc. Work on the study commenced in November 2005 and progressed through mid–May 2006, at which time the project was completed.

Foster Associates is a public utility economic consulting firm headquartered in Bethesda, Maryland offering economic research and consulting services on issues and problems arising from governmental regulation of business. Areas of specialization supported by the firm's Fort Myers office include property service–life forecasting, depreciation estimation, and valuation of industrial property.

Foster Associates has undertaken numerous depreciation engagements for both public and privately owned business entities, including detailed statistical life studies, analyses of required net salvage rates, and the selection of depreciation systems that will most nearly achieve the goals of depreciation accounting under the constraints of either government regulation or competitive market pricing. Foster Associates is widely recognized for industry leadership in the development of depreciation systems, life analysis techniques and computer software for conducting depreciation and valuation studies.

Depreciation rates currently used by UNS Gas were adopted pursuant to a Settlement Agreement in Docket No. G–01032A–02–0598 consolidated with Docket Nos. E–01032C–00–0751, E–01933A–02–0914, E–01032C–02–0914 and G–01032A–02–0914 (Order 66028 dated July 3, 2003). The Settlement Agreement between the Joint Applicants and Staff authorized, *inter alia*, UNS Gas to: a) acquire gas assets in Arizona owned and operated by Citizens Communications Company; and b) adopt depreciation rates proposed by Citizens in Docket No. G–01032A–02–0598. Depreciation rates proposed by Citizens were developed in a 2002 depreciation rate study conducted by Foster Associates for Northern Arizona Gas Division and Santa Cruz Gas Division.

The principal findings and recommendations of the 2006 UNS Gas Depreciation Study are summarized in the Statements section of this report. Statement A provides a comparative summary of present and proposed annual depreciation rates for each rate category. Statement B provides a comparison of present and proposed annual depreciation accruals. Statement C provides a comparison of computed, recorded and rebalanced depreciation reserves for each rate category. Statement D provides a summary of the components used to obtain a weighted–average net salvage rate for each plant account. Statement E provides a comparative summary of present and proposed parameters and statistics including projection life, projection curve, average service life, average remaining life, and average and future net salvage rates.

SCOPE OF REVIEW

The principal activities undertaken in conducting the 2006 study included:

- Collection of plant and reserve data;
- Discussions with UNS Gas plant accounting personnel;
- Estimation of projection lives and retirement dispersion patterns;
- Analysis of gross salvage and cost of removal;
- Analysis and redistribution of recorded depreciation reserves; and
- Development of recommended accrual rates for each rate category.

DEPRECIATION SYSTEM

A depreciation rate is formed by combining the elements of a depreciation system. A depreciation system is composed of a method, a procedure and a technique. Depreciation rates currently approved for UNS Gas were developed from a system composed of the straight–line method, vintage group procedure, remaining–life technique.

The matching and expense recognition principles of accounting provide that the cost of an asset (or group of assets) should be allocated to operations over an estimate of the economic life of the asset in proportion to the consumption of service potential. It is the opinion of Foster Associates that the objectives of depreciation accounting are being achieved through the use of the vintage group procedure which distinguishes service lives among vintages, and the remaining–life technique which provides cost apportionment over the estimated weighted–average remaining life of a rate category. Although the emergence of economic factors such as competition and incentive forms of regulation may eventually encourage abandonment of the straight–line method, no attempt was made in the current study to address these concerns.

In addition to revised depreciation rates, amortization accounting is recommended for selected general support asset categories in which the unit cost of equipment is small in relation to the cost of maintaining detailed accounting records. Depreciation accounting would be replaced with amortization accounting for the asset categories summarized in Table 1.

Account Number	Description	Amortization Period
A	B	C
302.00	Office Furniture and Equipment	25 yrs.
303.00	Miscellaneous Intangible Plant	15 yrs.
391.00	Office Furniture and Equipment	22 yrs.
391.20	Computer Equipment - Desktop PCs	5 yrs.
393.00	Stores Equipment	35 yrs.
394.00	Tools, Shop and Garage Equipment	25 yrs.
395.00	Laboratory Equipment	9 yrs.
397.00	Communication Equipment	15 yrs.
398.00	Miscellaneous Equipment	25 yrs.

Table 1. Proposed Amortization Accounts

Recommended amortization periods were used to derive theoretical reserves that will replace recorded reserves and permit a uniform treatment of both embedded plant and future additions. Upon approval of the proposed change in accounting, plant older than the proposed amortization period will be retired from service and future retirements will be posted as each vintage achieves an age equal to the amortization period. Reserve imbalances created by the recommended amortization periods were eliminated by a systematic redistribution of recorded reserves. Reserve imbalances for the proposed amortization accounts were distributed to the remaining depreciable accounts in the General plant function. Net salvage realized in the future would be netted against current–year vintage additions.

RECOMMENDED DEPRECIATION RATES

Table 2 provides a summary of the changes in annual rates and accruals resulting from an application of the parameters and depreciation system recommended for UNS Gas operations.

	Accrual Rate			2006 Annualized Accrual		
Function	Present	Proposed	Difference	Present	Proposed	Difference
A	B	C	D=C-B	E	F	G=F-E
Transmission	1.60%	1.54%	-0.06%	$415,845	$400,324	($15,521)
Distribution	2.34%	2.32%	-0.02%	5,764,814	5,718,101	(46,713)
General Plant	12.95%	9.94%	-3.01%	2,362,179	1,813,433	(548,746)
Total	2.94%	2.73%	-0.21%	$8,542,838	$7,931,858	($610,980)

Table 2. Gas Operations

The composite accrual rate recommended for gas operations is 2.73 percent. The current equivalent rate is 2.94 percent. The recommended change in the composite rate is a reduction of 0.21 percentage points.

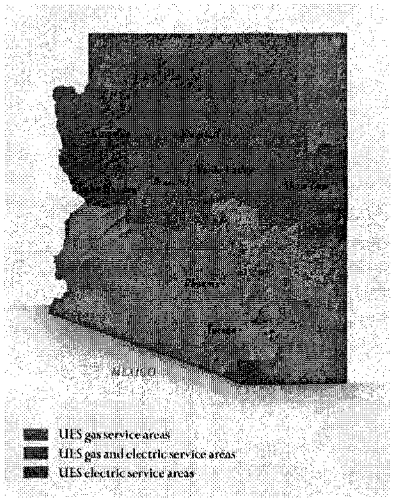
A continued application of current rates would produce annualized depreciation expense of $8,542,838 compared with an annualized expense of $7,931,858 using the proposed rates. The resulting 2006 expense decrease is $610,980. The computed change in the annualized accrual includes a reduction of $728,850 attributable to amortization of a $16,228,784 reserve imbalance. The remaining portion of the change is attributable to parameter adjustments recommended in the 2006 study.

Of the 35 primary accounts included in the 2006 study, Foster Associates is recommending rate reductions for 24 plant accounts and rate increases for 11 accounts.

COMPANY PROFILE

GENERAL

UNS Gas is the second largest and fastest growing gas company in Arizona, serving a large geographic area in Northern Arizona, and a smaller area in the southern part of the state. These counties served comprise approximately 50 percent of Arizona's geographic area. Customer growth in 2005 was 4 percent, which is more than twice the industry average. During 2005, UNS Gas sold or transported over 17.6 billion cubic feet of gas and is one of the lowest cost energy suppliers in the state.



The rates that UNS Gas is allowed to charge for its distribution services are regulated by the Arizona Corporation Commission (ACC).

GAS UTILITY OPERATIONS

UNS Gas has approximately 2,711 miles of distribution main lines and 143,244 service lines in its current distribution system. Since UNS Gas acquired the Citizens system in 2003, the Company has installed approximately 180 miles of distribution main lines and 10,183 service lines.

The distribution system in Arizona is primarily new and well maintained. Approximately 50 percent of the system is steel and the remainder is plastic pipe. UNS Gas has an on-going cathodic protection program for its steel distribution system. As a result, corrosion has all but been eliminated, substantially reducing the replacement of those systems. In addition, UNS Gas has a continual leak survey program and implemented a more stringent classification than prescribed by minimal safety standards. This approach has greatly reduced the risk of hazard and significantly reduced the unaccounted gas, which is reported annually.

The gas distribution system is interconnected with two separate interstate pipeline systems and operates 30 interconnect points. The delivery pressures are set contractually, and range from 200 pounds per square inch gauged ("PSIG") to 1000 PSIG.

CUSTOMER BASE

Ninety percent of UNS Gas customers are residential and nine percent are commercial, with transportation and industrial customers making up the remaining one percent. UNS Gas provides gas to Griffith Energy Plant, a 600-megawatt combined-cycle gas turbine electric generation facility in Mohave County. Griffith is UNS Gas's single largest customer, with annual usage of over 80 MMBtu.

UNS Gas provides natural gas service to 131,493 customers in portions of Coconino, Mohave, Navajo, and Yavapai counties. This service area includes the towns and cities of Flagstaff, Kingman, Prescott, Sedona, Show Low, Cottonwood, Clarkdale, Village of Oak Creek, Verde Village, Pinetop-Lakeside, and Camp Verde.

UNS Gas serves 7,323 customers in Santa Cruz County. Santa Cruz County covers 1,236 square miles and is located near the Mexico border in the southern part of the state. Communities that UNS Gas serves in this area include Nogales, Tubac, Patagonia, Kino Springs, and Rio Rico. Citizens' largest customer in the area is the hospital. Other commercial customers include a sterilizer of medical supplies, hotels, restaurants, and schools.

STUDY PROCEDURE

INTRODUCTION

The purpose of a depreciation study is to analyze the mortality characteristics, net salvage rates and adequacy of the depreciation accrual and recorded depreciation reserve for each rate category. This study provides the foundation and documentation for recommended changes in depreciation rates used by UNS Gas. The proposed rates are subject to approval by the Arizona Corporation Commission.

SCOPE

The steps involved in conducting a depreciation study can be grouped into five major tasks:

- Data Collection;
- Life Analysis and Estimation;
- Net Salvage Analysis;
- Depreciation Reserve Analysis; and
- Development of Accrual Rates.

The scope of the 2006 study undertaken for UNS Gas included a consideration of each of these tasks as described below.

DATA COLLECTION

The minimum database required to conduct a statistical life study consists of a history of vintage year additions and unaged activity year retirements, transfers and adjustments. These data must be appropriately adjusted for transfers, sales and other plant activity that would otherwise bias the measured service life of normal retirements. The age distribution of surviving plant for unaged data can be estimated by distributing the plant in service at the beginning of the study year to prior vintages in proportion to the theoretical amount surviving from a projection or survivor curve identified in the life study. The statistical methods of life analysis used to examine unaged plant data are known as *semi–actuarial techniques*.

A far more extensive database is required to apply statistical methods of life analysis known as *actuarial techniques*. Plant data used in an actuarial life study most often include age distributions of surviving plant at the beginning of a study year and the vintage year, activity year, and dollar amounts associated with normal retirements, reimbursed retirements, sales, abnormal retirements, transfers, corrections, and extraordinary adjustments over a series of prior activity years. An actuarial database may include age distributions of surviving plant at the beginning of the earliest activity year, rather than at the beginning of the study year. Plant additions, however, must be included in a database containing an opening age distribution to derive aged survivors at the beginning of the study year. All activity year transactions with vintage year identification are coded and stored in a data file.

The data are processed by a computer program and transaction summary reports are created in a format reconcilable to the Company's official plant records. The availability of such detailed information is dependent upon an accounting system that supports aged property records. The Continuing Property Record (CPR) system currently used for UNS Gas provides aged transactions over the period August 31, 2003 through December 31, 2005 for all plant accounts.

The database used in the 2006 study was assembled by Foster Associates from three sources. The first source was the database used in conducting a 2002 depreciation study for Citizens Communications Company. The database for the Northern Arizona Gas Division was originally compiled by Citizens and used in its 1993 study. The database had been assembled from a Southern Union Gas Company legacy system that included activity year transactions from inception through December 31, 1991. The database provided aged transactions for all plant accounts with the exception of Account 381.00 (Meters) and Account 383.00 (House Regulators), which were unaged. Foster Associates appended 1992-2001 aged transactions to this database and initiated aged transaction activity for the Meters and House Regulator accounts beginning in 1992. The 1992–1998 transactions were compiled from annual "CPR Plant Control" reports issued from a Computer Associates plant accounting system. The 1999-2001 transactions were compiled from an SAP system installed in 1999 and populated with age distributions at December 31, 1998. Foster Associates reconciled the 1992–2001 activity year total transactions to Citizens' ledger reports and the age distributions of surviving plant were reconciled to CPR age distributions at December 31, 2001.

An unaged database for Santa Cruz Gas Division was compiled by Citizens for all accounts from inception through December 31, 1998. Foster Associates appended unaged transactions for 1999–2001 to this database and reconciled the 1978–2001 activity year total transactions to Citizens' ledger reports. The unaged database provided the basis for parameter analysis and estimation in the 2002 study. Additionally, Foster Associates initiated an aged transaction database for all accounts beginning in 1999. The aged database was reconciled to Citizens' ledger reports for activity years 1999-2001 and to CPR age distributions at December 31, 2001. The resulting database provided age distributions used for accrual computations in the 2002 depreciation study.

The second data source, obtained from Citizens, provided plant and reserve transactions over the period January 1, 2002 through August 31, 2003. This interval is the period of time beyond the end of the database used in conducting the 2002 studies until gas assets were purchased by UNS Gas from Citizens on August 31, 2003. Plant and reserve transactions were coded by Foster Associates and appended to the database used in the 2002 studies.

The third data source was obtained from UNS Gas. Plant and reserve transactions over the period September 1, 2003 through December 31, 2005 were extracted from an Oracle fixed asset system and appended to the database containing transactions through August 31, 2003.

Unlike the 2002 study in which depreciation rates were developed independently for Northern Arizona Gas Division and Santa Cruz Gas Division, the two Citizens divisions were combined in the 2006 study and depreciation rates were developed for the combined plant accounts. Aged plant transactions initiated for the Santa Cruz division in 1999 were merged into the aged history for the Northern Arizona division using a transfer code (Code 33) assigned to the Santa Cruz age distributions of surviving plant at December 31, 1999. Post–1999 Santa Cruz transactions were included with corresponding Northern Arizona transactions in the merged database. Unadjusted Plant History reports produced from the merged database were reconciled to Citizens and UNS Gas ledger reports over the period 1992–2005.

LIFE ANALYSIS AND ESTIMATION

Life analysis and life estimation are terms used to describe a two–step procedure for estimating the mortality characteristics of a plant category. The first step (*i.e.*, life analysis) is largely mechanical and primarily concerned with history. Statistical techniques are used in this step to obtain a mathematical description of the forces of retirement acting upon a plant category and an estimate of a service life known as the *projection life* of the account. Mathematical expressions used to describe these life characteristics are known as *survival functions* or *survivor curves*.

The second step (*i.e.*, life estimation) is concerned with predicting the expected remaining life of property units still exposed to forces of retirement. It is a process of blending the results of a life analysis with informed judgment (including expectations about the future) to obtain an appropriate projection life and curve. The amount of weight given to the life analysis will depend upon the extent to which past retirement experience is considered descriptive of the future.

The analytical methods used in a life analysis are broadly classified as actuarial and semi–actuarial techniques. Actuarial techniques can be applied to plant accounting records that reveal the age of a plant asset at the time of its retirement from service. Stated differently, each property unit must be identifiable by date of installation and age at retirement. Semi–actuarial techniques can be used to derive service life and dispersion estimates when age identification of retirements is not maintained or readily available.

An actuarial life analysis program designed and developed by Foster Associates was used in the 2006 study. The first step in an actuarial analysis involves a systematic treatment of the available data for the purpose of constructing an observed life table. A complete life table contains the life history of a group of property units installed during the same accounting period and various probability relationships derived from the data. A life table is arranged by age–intervals (usually defined as one year) and shows the number of units (or dollars) entering and leaving each age–interval and probability relationships associated with this activity. A life table minimally contains the age of each survivor and the age of each retirement from a group of property units installed in a given accounting year.

A life table can be constructed in any one of at least five alternative methods. The annual–rate or retirement–rate method was used in the 2006 study. The mechanics of the annual–rate method require the calculation of a series of ratios obtained by dividing the number of units (or dollars) surviving at the beginning of an age interval into the number of units (or dollars) retired during the same interval. This ratio (or set of ratios) is commonly referred to as retirement ratios. The cumulative proportion surviving is obtained by multiplying the retirement ratio for each age–interval by the proportion of the original group surviving at the beginning of that interval and subtracting this product from the proportion surviving at the beginning of the same interval. The annual–rate method is applied to multiple groups or vintages by combining the retirements and/or survivors of like ages for each vintage included in the analysis.

The second step in an actuarial analysis involves graduating or smoothing the observed life table and fitting the smoothed series to a family of survival functions. The functions used in the 2006 study are the Iowa–type curves which are mathematically described by the Pearson frequency curve family. Observed life tables were smoothed by a weighted least–squares procedure in which first, second and third degree polynomials were fitted to the observed retirement ratios. The resulting function can be expressed as a survivorship function which is numerically integrated to obtain an estimate of average service life. The smoothed survivorship function is then fitted by a weighted least–squares procedure to the Iowa–curve family to obtain a mathematical description or classification of the dispersion characteristics of the data.

The set of computer programs used in the UNS Gas study provides multiple rolling–band and shrinking–band analyses of an account. Observation bands are defined for a "retirement era" which restricts the analysis to retirement activity of all vintages represented by survivors at the beginning of a selected era. In a rolling–band analysis, a year of retirement experience is added to each successive retirement band and the earliest year from the preceding band is dropped. A shrinking–band analysis begins with the total retirement experience available and the earliest year from the preceding band is dropped for each successive band. Rolling and shrinking band analyses are used to detect the emergence of trends in the behavior of the dispersion and average service life.

Options available in the actuarial life analysis program include the width and location of both placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated. The program also provides tabular and graphics output as an aid in the analysis and algorithms for calculating depreciation rates and accruals.

While actuarial and semi–actuarial statistical methods are well–suited to an analysis of plant categories containing a large number of homogeneous units (*e.g.*, poles and services), theses methods are not well–suited to plant categories composed of major items of plant that will most likely be retired as a single unit. Property units retired from an integrated system prior to the retirement of the entire facility are more properly viewed as interim retirements that will be replaced in order to maintain the integrity of the system. Plant facilities may also be added to the existing system (*i.e.*, interim additions) to expand or enhance its productive capacity without extending the service life of the present system. A proper depreciation rate can be developed for an integrated system using a life–span method. All plant accounts were treated as full mortality categories in the UNS Gas study.

NET SALVAGE ANALYSIS

Depreciation rates designed to achieve the goals and objectives of depreciation accounting will normally include a parameter for future net salvage and a variable for average net salvage that reflects both realized and future net salvage rates.

An estimate of the net salvage rate applicable to future retirements is most often obtained from an analysis of gross salvage and removal expense realized in the past. An analysis of past experience (including an examination of trends over time) provides an appropriate basis for estimating future salvage and cost of removal. However, consideration should also be given to events that may cause deviations from net salvage realized in the past. Among the factors that should be considered are the age of plant retirements; the portion of retirements likely to be reused; changes in the method of removing plant; the type of plant to be retired in the future; inflation expectations; the shape of the projection life curve; and economic conditions that may warrant greater or lesser weight to be given to the net salvage observed in the past.

Special consideration should also be given to the treatment of insurance proceeds and other forms of third–party reimbursements credited to the depreciation reserve. A properly conducted net salvage study will exclude such activity from the estimate of future parameters and include the activity in the computation of realized and average net salvage rates.

Five–year moving averages of the ratio of realized salvage and cost of removal to the associated retirements were used in the 2006 study to a) estimate a realized net salvage rate; b) detect the emergence of historical trends; and c) establish a basis for estimating a future net salvage rate.

Average net salvage rates were estimated using direct dollar–weighting of historical retirements with the historical net salvage rates, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rates. The computation of the estimated average net salvage rate for each rate category is shown in Statement D.

DEPRECIATION RESERVE ANALYSIS

The purpose of a depreciation reserve analysis is to compare the current level of the recorded reserve with the level required to achieve the goals or objectives of depreciation accounting if the amount and timing of future retirements and net salvage are realized as predicted. The difference between the required depreciation reserve and the recorded reserve provides a measurement of the expected excess or shortfall that will remain in the depreciation reserve if corrective action is not taken to gradually extinguish the reserve imbalance.

Unlike a recorded reserve which represents the net amount of depreciation expense charged to previous periods of operations, a theoretical reserve is a measure of the implied reserve requirement at the beginning of a study year if the timing of future retirements and net salvage is in exact conformance with a survivor curve chosen to predict the probable life of plant units still exposed to the forces of retirement. Stated differently, a theoretical depreciation reserve is the difference between the recorded cost of plant presently in service and the sum of the depreciation expense and net salvage that will be charged in the future if retirements are distributed over time according to a specified retirement frequency distribution.

The survivor curve used in the calculation of a theoretical depreciation reserve is intended to describe forces of retirement that will be operative in the future. However, retirements caused by forces such as accidents, physical deterioration and changing technology seldom, if ever, remain stable over time. It is unlikely, therefore, that a probability or retirement frequency distribution can be identified that will accurately describe the age of plant retirements over the complete life cycle of a vintage. It is for this reason that depreciation rates should be reviewed periodically and adjusted for observed or expected changes in the parameters chosen to describe the underlying forces of mortality.

Although reserve records are commonly maintained by various account classifications, the total reserve for a company is the most important measure of the status of the company's depreciation practices. If a company has not previously conducted statistical life studies or considered retirement dispersion in setting depreciation rates, it is likely that some accounts will be over–depreciated and other accounts will be under–depreciated relative to a calculated theoretical reserve. Differences between theoretical reserves and recorded reserves also will arise as a normal occurrence when service lives, dispersion patterns and net salvage estimates are adjusted in the course of depreciation reviews. It is appropriate, therefore, and consistent with group depreciation theory to periodically redistribute or rebalance the total recorded reserve among the various primary accounts based upon the most recent estimates of retirement dispersion and net salvage rates.

A redistribution of recorded reserves is considered appropriate for UNS Gas at this time. Offsetting reserve imbalances attributable to both the passage of time and parameter adjustments recommended in the current study should be realigned among primary accounts to reduce offsetting imbalances and increase depreciation rate stability.

A redistribution of reserves is also needed to eliminate reserve imbalances derived from an initialization of amortization accounting proposed for the general support asset accounts summarized in Table 1. Amortization periods proposed for these accounts were used to derive theoretical reserves that will replace the associated recorded reserves and permit a uniform treatment of embedded plant and future additions. Plant older than the proposed amortization periods will be retired from service and future retirements will be posted as each vintage achieves an age equal to the amortization period. Depreciation reserves for the general plant function were redistributed by setting the recorded reserves for the proposed amortization accounts equal to the theoretical reserves derived from the proposed amortization periods and distributing the residual imbalances to the remaining depreciable accounts in the general function.

A redistribution of the recorded reserve for all depreciable plant was achieved by multiplying the calculated reserve for each primary account within a function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within a function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Statement C provides a comparison of the computed, recorded and rebalanced reserves at December 31, 2005. The recorded reserve was $77,127,380 or 26.5 percent of the depreciable plant investment. The corresponding computed reserve is $60,898,596 or 20.9 percent of the depreciable plant investment. A proportionate amount of the measured reserve excess of $16,228,784 will be amortized over the composite weighted–average remaining life of each rate category using the remaining life depreciation rates proposed in this review.

DEVELOPMENT OF ACCRUAL RATES

The goal or objective of depreciation accounting is cost allocation over the economic life of an asset in proportion to the consumption of service potential. Ideally, the cost of an asset—which represents the cost of obtaining a bundle of service units—should be allocated to future periods of operation in proportion to the amount of service potential expended during an accounting interval. The service potential of an asset is the present value of future net revenue (*i.e.*, revenue less expenses exclusive of depreciation and other non–cash expenses) or cash inflows attributable to the use of that asset alone.

Cost allocation in proportion to the consumption of service potential is often approximated by the use of depreciation methods employing time rather than net revenue as the apportionment base. Examples of time–based methods include sinking–fund, straight–line, declining balance, and sum–of–the–years' digits. The advantage of a time–based method is that it does not require an estimate of the remaining amount of service capacity an asset will provide or the amount of capacity actually consumed during an accounting interval. Using a time–based allocation method, however, does not change the goal of depreciation accounting. If it is reasonable to predict that the net revenue pattern of an asset will either decrease or increase over time, then an accelerated or decelerated time–based method should be used to approximate the rate at which service potential is actually consumed.

The time period over which the cost of an asset will be allocated to operations is determined by the combination of a procedure and a technique. A depreciation procedure describes the level of grouping or sub–grouping of assets within a plant category. The broad group, vintage group, equal–life group, and item (or unit) are a few of the more widely used procedures. A depreciation technique describes the life statistic used in a depreciation system. Whole–life and remaining–life (or expectancy) are the most common techniques.

The first step in the development of an accrual rate, therefore, is the selection of an appropriate method, procedure and technique. Depreciation rates recommended in this study were developed using a system composed of the straight–line method, vintage group procedure, remaining–life technique. It is the opinion of Foster Associates that this system will remain appropriate for UNS Gas, provided depreciation studies are conducted periodically and parameters are routinely adjusted to reflect changing operating conditions. Although the emergence of economic factors such as restructuring, bypass and performance based regulation may ultimately encourage abandonment of the straight–line method, no attempt was made in the current study to address this concern.

It is also the opinion of Foster Associates that the adoption of amortization accounting proposed in this study is consistent with the goals and objectives of depreciation accounting derived from the matching and expense recognition principles of accounting. Adoption of amortization accounting for the general plant categories will relieve UNS Gas of the burden to maintain detailed plant records for numerous plant items in which the unit cost is small in relation to the cost of tracking the disposition of the assets.

STATEMENTS

INTRODUCTION

This section provides a comparative summary of depreciation rates, annual depreciation accruals, recorded and computed depreciation reserves, and present and proposed service life and net salvage statistics recommended for UNS Gas. The content of these statements is briefly described below.

- Statement A provides a comparative summary of present and proposed annual depreciation rates using the vintage group procedure, remaining–life technique.
- Statement B provides a comparison of present and proposed annualized 2006 depreciation accruals using the vintage group procedure, remaining–life technique.
- Statement C provides a comparison of recorded, computed and redistributed reserves for each rate category at December 31, 2005.
- Statement D provides a summary of the components used to obtain a weighted average net salvage rate for each rate category.
- Statement E provides a comparative summary of present and proposed parameters including projection life, projection curve, average service life, average remaining life and average and future net salvage rates.

Present depreciation accruals shown on Statement B are the product of the plant investment (Column B) and present depreciation rates (Column D) shown on Statement A. These are the effective rates used by UNS Gas for the mix of investments recorded on December 31, 2005. Proposed depreciation accruals shown on Statement B are the product of the plant investment and proposed depreciation rates (Column H) shown on Statement A. Proposed accrual rates are given by:

$$\textit{Accrual Rate} = \frac{\textit{1.0 – Reserve Ratio – Future Net Salvage Rate}}{\textit{Remaining Life}}.$$

This formulation of the accrual rate is equivalent to

$$\textit{Accrual Rate} = \frac{\textit{1.0 – Average Net Salvage}}{\textit{Average Life}} + \frac{\textit{Computed Reserve – Recorded Reserve}}{\textit{Remaining Life}}$$

where *Average Net Salvage*, *Computed Reserve* and *Recorded Reserve* are expressed in percent.

UNS GAS, INC. Statement A

Comparison of Present and Proposed Accrual Rates
Present: VG Procedure / RL Technique
Proposed: VG Procedure / RL Technique

	Present			Proposed			
Account Description	Rem. Life	Net Salvage	Accrual Rate	Rem. Life	Net Salvage	Reserve Ratio	Accrual Rate
A	B	C	D	E	F	G	H
TRANSMISSION PLANT							
365.20 Rights of Way				59.57		17.75%	1.38%
366.00 Structures and Improvements			7.27%	56.50		12.39%	1.55%
367.00 Mains		-10.0%	1.57%	60.21	-10.0%	17.65%	1.53%
369.00 Meas. and Reg. Station Equipment		-5.0%	1.61%	54.10	-5.0%	21.94%	1.54%
371.00 Other Equipment			5.00%	24.50		38.95%	2.49%
Total Transmission Plant			1.60%	58.78	-9.2%	18.38%	1.54%
DISTRIBUTION PLANT							
374.20 Rights of Way				20.74		80.66%	0.93%
374.30 Easements				49.38		13.23%	1.76%
375.00 Structures and Improvements			1.77%	17.21		66.82%	1.93%
376.00 Mains		-20.0%	2.08%	46.64	-20.0%	23.46%	2.07%
378.00 Meas. and Reg. Station Equip. - General		-30.0%	3.03%	34.34	-30.0%	27.99%	2.97%
379.00 Meas. and Reg. Station Equip. - City Gate			2.39%	35.26		16.86%	2.36%
380.00 Services		-50.0%	2.85%	42.82	-50.0%	29.35%	2.82%
381.00 Meters			2.05%	27.49		44.46%	2.02%
382.00 Meter Installations			2.42%	33.80		20.15%	2.36%
383.00 House Regulators			2.63%	25.92		33.67%	2.56%
384.00 House Regulator Installations			2.83%	32.23		9.77%	2.80%
385.00 Industrial Meas. and Reg. Station Equip.		-40.0%	2.61%	33.54	-40.0%	49.32%	2.70%
387.00 Other Work Equipment			3.15%	22.62		31.81%	3.01%
Total Distribution Plant			2.34%	42.85	-26.6%	26.37%	2.32%
GENERAL PLANT							
Depreciable							
389.20 Rights of Way				18.75		7.54%	4.93%
390.00 Structures and Improvements			3.75%	19.00		7.05%	4.89%
392.10 Transportation Equipment - C1			25.00%	5.62	10.0%	7.32%	14.71%
392.20 Transportation Equipment - C2			25.00%	4.78	10.0%	4.56%	17.87%
392.30 Transportation Equipment - C3			25.00%	3.71	10.0%	5.87%	22.68%
392.40 Transportation Equipment - C4			25.00%	6.59	10.0%	4.07%	13.04%
392.50 Transportation Equipment - C5			25.00%	7.48	10.0%	1.50%	11.83%
396.00 Power Operated Equipment		10.0%	5.69%	7.71	10.0%	9.10%	10.49%
Total Depreciable			19.35%	6.25	7.9%	5.54%	13.60%
Amortizable							
302.00 Franchises and Consents			3.95%	← 25 Year Amortization →			
303.00 Miscellaneous Intangible Plant			5.84%	← 15 Year Amortization →			
391.00 Office Furniture and Equipment			4.24%	← 22 Year Amortization →			
391.20 Computer Equipment - Desktop PCs			13.89%	← 5 Year Amortization →			
393.00 Stores Equipment			3.03%	← 35 Year Amortization →			
394.00 Tools, Shop and Garage Equipment			3.64%	← 25 Year Amortization →			
395.00 Laboratory Equipment			9.29%	← 9 Year Amortization →			
397.00 Communication Equipment			6.11%	← 15 Year Amortization →			
398.00 Miscellaneous Equipment			4.01%	← 25 Year Amortization →			
Total Amortizable			9.11%	3.74		60.89%	7.75%
Total General Plant			12.95%	4.68	-23.2%	40.11%	9.94%
TOTAL GAS UTILITY			2.94%	32.35	-23.2%	26.52%	2.73%

UNS GAS, INC.

Statement B

Comparison of Present and Proposed Accruals
Present: VG Procedure / RL Technique
Proposed: VG Procedure / RL Technique

Account Description	12/31/05 Plant Investment	2006 Annualized Accrual		
		Present	Proposed	Difference
A	B	C	D	E=D-C
TRANSMISSION PLANT				
365.20 Rights of Way	$102,606		$1,416	$1,416
366.00 Structures and Improvements	16,853	1,225	261	(964)
367.00 Mains	22,159,137	347,898	339,035	(8,863)
369.00 Meas. and Reg. Station Equipment	3,574,097	57,543	55,041	(2,502)
371.00 Other Equipment	183,581	9,179	4,571	(4,608)
Total Transmission Plant	$26,036,274	$415,845	$400,324	($15,521)
DISTRIBUTION PLANT				
374.20 Rights of Way	$25,111		$234	$234
374.30 Easements	104,951		1,847	1,847
375.00 Structures and Improvements	10,947	194	211	17
376.00 Mains	144,881,931	3,013,544	2,999,056	(14,488)
378.00 Meas. and Reg. Station Equip. - General	2,012,458	60,977	59,770	(1,207)
379.00 Meas. and Reg. Station Equip. - City Gate	2,334,480	55,794	55,094	(700)
380.00 Services	71,193,117	2,029,004	2,007,646	(21,358)
381.00 Meters	12,936,282	265,194	261,313	(3,881)
382.00 Meter Installations	6,624,931	160,323	156,348	(3,975)
383.00 House Regulators	2,565,287	67,467	65,671	(1,796)
384.00 House Regulator Installations	1,135,504	32,135	31,794	(341)
385.00 Industrial Meas. and Reg. Station Equip.	1,212,929	31,657	32,749	1,092
387.00 Other Work Equipment	1,540,463	48,525	46,368	(2,157)
Total Distribution Plant	$246,578,391	$5,764,814	$5,718,101	($46,713)
GENERAL PLANT				
Depreciable				
389.20 Rights of Way	$166,402		$8,204	$8,204
390.00 Structures and Improvements	1,270,787	47,655	62,141	14,486
392.10 Transportation Equipment - C1	1,009,671	252,418	148,523	(103,895)
392.20 Transportation Equipment - C2	1,450,023	362,506	259,119	(103,387)
392.30 Transportation Equipment - C3	906,907	226,727	205,687	(21,040)
392.40 Transportation Equipment - C4	924,281	231,070	120,526	(110,544)
392.50 Transportation Equipment - C5	729,468	182,367	86,296	(96,071)
396.00 Power Operated Equipment	389,812	22,180	40,891	18,711
Total Depreciable	$6,847,351	$1,324,923	$931,387	($393,536)
Amortizable				
302.00 Franchises and Consents	$383,215	$15,137	$13,489	($1,648)
303.00 Miscellaneous Intangible Plant	900,696	52,601	48,187	(4,414)
391.00 Office Furniture and Equipment	1,231,765	52,227	55,429	3,202
391.20 Computer Equipment - Desktop PCs	5,155,361	716,080	557,295	(158,785)
393.00 Stores Equipment	111,289	3,372	2,916	(456)
394.00 Tools, Shop and Garage Equipment	1,628,265	59,269	63,502	4,233
395.00 Laboratory Equipment	730,667	67,879	65,249	(2,630)
397.00 Communication Equipment	985,332	60,204	65,623	5,419
398.00 Miscellaneous Equipment	261,520	10,487	10,356	(131)
Total Amortizable	$11,388,110	$1,037,256	$882,046	($155,210)
Total General Plant	$18,235,461	$2,362,179	$1,813,433	($548,746)
TOTAL GAS UTILITY	$290,850,126	$8,542,838	$7,931,858	($610,980)

UNS GAS, INC.
Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2005

Statement C

Account Description	Plant Investment	Recorded Reserve Amount	Recorded Reserve Ratio	Computed Reserve Amount	Computed Reserve Ratio	Redistributed Reserve Amount	Redistributed Reserve Ratio
A	B	C	D=C/B	E	F=E/B	G	H=G/B
TRANSMISSION PLANT							
365.20 Rights of Way	$102,606	$0		$8,572	8.35%	$18,211	17.75%
366.00 Structures and Improvements	16,853	4,135	24.54%	983	5.83%	2,089	12.39%
367.00 Mains	22,159,137	4,010,960	18.10%	1,840,773	8.31%	3,910,916	17.65%
369.00 Meas. and Reg. Station Equipment	3,574,097	727,035	20.34%	369,026	10.33%	784,034	21.94%
371.00 Other Equipment	183,581	44,626	24.31%	33,657	18.33%	71,507	38.95%
Total Transmission Plant	$26,036,274	$4,786,757	18.38%	$2,253,010	8.65%	$4,786,757	18.38%
DISTRIBUTION PLANT							
374.20 Rights of Way	$25,111			$15,647	62.31%	$20,255	80.66%
374.30 Easements	104,951	0		10,724	10.22%	13,883	13.23%
375.00 Structures and Improvements	10,947	9,767	89.22%	5,650	51.62%	7,315	66.82%
376.00 Mains	144,881,931	32,928,845	22.73%	26,254,116	18.12%	33,986,611	23.46%
378.00 Meas. and Reg. Station Equip. - General	2,012,458	944,721	46.94%	435,091	21.62%	563,237	27.99%
379.00 Meas. and Reg. Station Equip. - City Gate	2,334,480	821,369	35.18%	304,047	13.02%	393,596	16.86%
380.00 Services	71,193,117	22,263,336	31.27%	16,139,155	22.67%	20,892,541	29.35%
381.00 Meters	12,936,282	4,875,854	37.69%	4,442,888	34.34%	5,751,430	44.46%
382.00 Meter Installations	6,624,931	1,053,528	15.90%	1,031,060	15.56%	1,334,733	20.15%
383.00 House Regulators	2,565,287	1,063,986	41.48%	667,136	26.01%	863,624	33.67%
384.00 House Regulator Installations	1,135,504	94,352	8.31%	85,684	7.55%	110,921	9.77%
385.00 Industrial Meas. and Reg. Station Equip.	1,212,929	598,470	49.34%	462,157	38.10%	598,274	49.32%
387.00 Other Work Equipment	1,540,463	372,256	24.17%	378,567	24.57%	490,064	31.81%
Total Distribution Plant	$246,578,391	$65,026,484	26.37%	$50,231,923	20.37%	$65,026,484	26.37%
GENERAL PLANT							
Depreciable							
389.20 Rights of Way	$166,402			$48,931	29.41%	$12,552	7.54%
390.00 Structures and Improvements	1,270,787	521,758	41.06%	349,006	27.46%	89,531	7.05%
392.10 Transportation Equipment - C1	1,009,671	665,456	65.91%	287,944	28.52%	73,866	7.32%
392.20 Transportation Equipment - C2	1,450,023	452,081	31.18%	257,858	17.78%	66,149	4.56%
392.30 Transportation Equipment - C3	906,907	257,865	28.43%	207,635	22.89%	53,265	5.87%
392.40 Transportation Equipment - C4	924,281	284,002	30.73%	146,614	15.86%	37,611	4.07%
392.50 Transportation Equipment - C5	729,468	101,346	13.89%	42,674	5.85%	10,947	1.50%
396.00 Power Operated Equipment	389,812	289,124	74.17%	138,250	35.47%	35,465	9.10%
Total Depreciable	$6,847,351	$2,571,632	37.56%	$1,478,911	21.60%	$379,387	5.54%

UNS GAS, INC.
Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2005

Statement C

Account Description	Plant Investment	Recorded Reserve Amount	Recorded Reserve Ratio	Computed Reserve Amount	Computed Reserve Ratio	Redistributed Reserve Amount	Redistributed Reserve Ratio
A	B	C	D=C/B	E	F=E/B	G	H=G/B
Amortizable							
302.00 Franchises and Consents	$383,215	$197,465	51.53%	$198,464	51.79%	$198,464	51.79%
303.00 Miscellaneous Intangible Plant	900,696	340,154	37.77%	392,962	43.63%	392,962	43.63%
391.00 Office Furniture and Equipment	1,231,765	(102,058)	-8.29%	201,457	16.36%	201,457	16.36%
391.20 Computer Equipment - Desktop PCs	5,155,361	3,349,924	64.98%	4,598,032	89.19%	4,598,032	89.19%
393.00 Stores Equipment	111,289	25,675	23.07%	31,411	28.22%	31,411	28.22%
394.00 Tools, Shop and Garage Equipment	1,628,265	523,919	32.18%	604,885	37.15%	604,885	37.15%
395.00 Laboratory Equipment	730,667	288,256	39.45%	454,766	62.24%	454,766	62.24%
397.00 Communication Equipment	985,332	30,282	3.07%	381,197	38.69%	381,197	38.69%
398.00 Miscellaneous Equipment	261,520	88,888	33.99%	71,579	27.37%	71,579	27.37%
Total Amortizable	$11,388,110	$4,742,508	41.64%	$6,934,753	60.89%	$6,934,753	60.89%
Total General Plant	$18,235,461	$7,314,140	40.11%	$8,413,664	46.14%	$7,314,140	40.11%
TOTAL GAS UTILITY	$290,850,126	$77,127,380	26.52%	$60,898,596	20.94%	$77,127,380	26.52%

UNS GAS, INC.
Average Net Salvage

Statement D

Account Description	Plant Investment			Salvage Rate		Net Salvage			Average
	Additions	Retirements	Survivors	Realized	Future	Realized	Future	Total	Rate
A	B	C	D=B-C	E	F	G=E*C	H=F*D	I=G+H	J=I/B
TRANSMISSION PLANT									
365.20 Rights of Way	$102,606		$102,606						
366.00 Structures and Improvements	16,853		16,853						
367.00 Mains	22,514,429	355,292	22,159,137		-10.0%		(2,215,914)	(2,215,914)	-9.8%
369.00 Meas. and Reg. Station Equipment	3,600,481	26,384	3,574,097	-0.5%	-5.0%	(132)	(178,705)	(178,837)	-5.0%
371.00 Other Equipment	183,581		183,581						
Total Transmission Plant	$26,417,950	$381,676	$26,036,274		-9.2%	($132)	($2,394,619)	($2,394,750)	-9.1%
DISTRIBUTION PLANT									
374.20 Rights of Way	$25,111		$25,111						
374.30 Easements	104,951		104,951						
375.00 Structures and Improvements	10,947		10,947						
376.00 Mains	146,630,613	1,748,682	144,881,931	-15.4%	-20.0%	(269,297)	(28,976,386)	(29,245,683)	-19.9%
378.00 Meas. and Reg. Station Equip. - General	2,164,493	152,035	2,012,458	-13.3%	-30.0%	(20,221)	(603,737)	(623,958)	-28.8%
379.00 Meas. and Reg. Station Equip. - City Gate	2,583,304	248,824	2,334,480						
380.00 Services	73,187,197	1,994,080	71,193,117	-7.0%	-50.0%	(139,586)	(35,596,559)	(35,736,144)	-48.8%
381.00 Meters	13,346,999	410,717	12,936,282	-0.1%		(411)		(411)	
382.00 Meter Installations	6,625,166	235	6,624,931	-597.5%		(1,404)		(1,404)	
383.00 House Regulators	2,727,655	162,368	2,565,287						
384.00 House Regulator Installations	1,135,597	93	1,135,504	-4846.4%		(4,507)		(4,507)	-0.4%
385.00 Industrial Meas. and Reg. Station Equip.	1,380,761	167,832	1,212,929	-16.8%	-40.0%	(28,196)	(485,172)	(513,367)	-37.2%
387.00 Other Work Equipment	1,579,588	39,125	1,540,463						
Total Distribution Plant	$251,502,382	$4,923,991	$246,578,391	-9.4%	-26.6%	($463,621)	($65,661,854)	($66,125,475)	-26.3%
GENERAL PLANT									
Depreciable									
389.20 Rights of Way	$770,032	$603,630	$166,402						
390.00 Structures and Improvements	5,939,521	4,668,734	1,270,787	-0.1%		(4,669)		(4,669)	-0.1%
392.10 Transportation Equipment - C1	1,296,706	287,035	1,009,671	6.2%	10.0%	17,796	100,967	118,763	9.2%
392.20 Transportation Equipment - C2	3,944,715	2,494,692	1,450,023	8.7%	10.0%	217,038	145,002	362,041	9.2%
392.30 Transportation Equipment - C3	1,338,331	431,424	906,907	7.6%	10.0%	32,788	90,691	123,479	9.2%
392.40 Transportation Equipment - C4	939,686	15,405	924,281	9.0%	10.0%	1,386	92,428	93,815	10.0%
392.50 Transportation Equipment - C5	729,468		729,468		10.0%		72,947	72,947	10.0%
396.00 Power Operated Equipment	704,490	314,678	389,812	10.2%	10.0%	32,097	38,981	71,078	10.1%
Total Depreciable	$15,662,949	$8,815,598	$6,847,351	3.4%	7.9%	$296,437	$541,016	$837,454	5.3%

UNS GAS, INC.
Average Net Salvage

Statement D

Account Description	Plant Investment			Salvage Rate		Net Salvage			Average
	Additions	Retirements	Survivors	Realized	Future	Realized	Future	Total	Rate
A	B	C	D=B-C	E	F	G=E*C	H=F*D	I=G+H	J=I/B
Amortizable									
302.00 Franchises and Consents	$383,215		$383,215						
303.00 Miscellaneous Intangible Plant	900,696		900,696						
391.00 Office Furniture and Equipment	4,963,951	3,732,186	1,231,765						
391.20 Computer Equipment - Desktop PCs	5,252,474	97,113	5,155,361						
393.00 Stores Equipment	124,371	13,082	111,289						
394.00 Tools, Shop and Garage Equipment	2,096,121	467,856	1,628,265						
395.00 Laboratory Equipment	773,310	42,643	730,667						
397.00 Communication Equipment	1,547,910	562,578	985,332						
398.00 Miscellaneous Equipment	284,057	22,537	261,520						
Total Amortizable	$16,326,105	$4,937,995	$11,388,110						
Total General Plant	$31,989,054	$13,753,593	$18,235,461	2.2%	3.0%	$296,437	$541,016	$837,454	2.6%
TOTAL GAS UTILITY	$309,909,386	$19,059,260	$290,850,126	-0.9%	-23.2%	($167,316)	($67,515,456)	($67,682,772)	-21.8%

UNS GAS, INC.
Present and Proposed Parameters
Vintage Group Procedure

Statement E

Account Description	Present Parameters P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	Proposed Parameters P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.
A	B	C	D	E	F	G	H	I	J	K	L	M
TRANSMISSION PLANT												
365.20 Rights of Way							65.00	R3	65.00	59.57		
366.00 Structures and Improvements							60.00	R4	60.00	56.50		
367.00 Mains	65.00	R3				-10.0	65.00	R3	65.01	60.21	-9.8	-10.0
369.00 Meas. and Reg. Station Equipment	60.00	R4				-5.0	60.00	R4	60.00	54.10	-5.0	-5.0
371.00 Other Equipment							30.00	S6	30.00	24.50		
Total Transmission Plant									63.75	58.78	-9.1	-9.2
DISTRIBUTION PLANT												
374.20 Rights of Way							55.00	L5	55.03	20.74		
374.30 Easements	35.00	R4					55.00	L5	55.00	49.38		
375.00 Structures and Improvements	35.00	R4					35.00	R4	35.57	17.21		
376.00 Mains	55.00	L5				-20.0	55.00	L5	54.89	46.64	-19.9	-20.0
378.00 Meas. and Reg. Station Equip. - General	40.00	SC				-30.0	40.00	SC	40.81	34.34	-28.8	-30.0
379.00 Meas. and Reg. Station Equip. - City Gate	40.00	SC					40.00	SC	40.54	35.26		
380.00 Services	50.00	R2.5				-50.0	50.00	R2.5	50.04	42.82	-48.8	-50.0
381.00 Meters	40.00	R5					40.00	R5	41.87	27.49		
382.00 Meter Installations	40.00	R5					40.00	R5	40.03	33.80		
383.00 House Regulators	35.00	R5					35.00	R5	35.03	25.92		
384.00 House Regulator Installations	35.00	R5					35.00	R5	35.00	32.23	-0.4	
385.00 Industrial Meas. and Reg. Station Equip.	45.00	R1.5				-40.0	45.00	R1.5	45.16	33.54	-37.2	-40.0
387.00 Other Work Equipment	30.00	S6					30.00	S6	29.99	22.62		
Total Distribution Plant									51.05	42.85	-26.3	-26.6
GENERAL PLANT												
Depreciable												
389.20 Rights of Way							25.00	SC	26.56	18.75		
390.00 Structures and Improvements	25.00	SC					25.00	SC	26.22	19.00	-0.1	
392.10 Transportation Equipment - C1							8.00	L1.5	8.30	5.62	9.2	10.0
392.20 Transportation Equipment - C2							6.00	L2	6.01	4.78	9.2	10.0
392.30 Transportation Equipment - C3							5.00	S5	5.02	3.71	9.2	10.0
392.40 Transportation Equipment - C4							8.00	S4	8.00	6.59	10.0	10.0
392.50 Transportation Equipment - C5							8.00	S4	8.00	7.48	10.0	10.0
396.00 Power Operated Equipment	12.00	L2				10.0	12.00	L2	12.71	7.71	10.1	10.0
Total Depreciable									8.19	6.25	5.3	7.9

UNS GAS, INC.
Present and Proposed Parameters
Vintage Group Procedure

Statement E

Account Description	Present Parameters						Proposed Parameters					
	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.	P-Life/ AYFR	Curve Shape	VG ASL	Rem. Life	Avg. Sal.	Fut. Sal.
A	B	C	D	E	F	G	H	I	J	K	L	M
Amortizable												
302.00 Franchises and Consents							25.00	SQ	25.00	13.68		
303.00 Miscellaneous Intangible Plant							15.00	SQ	15.00	10.53		
391.00 Office Furniture and Equipment	22.00	R1.5					22.00	SQ	22.00	18.59		
391.20 Computer Equipment - Desktop PCs	5.00	R4					5.00	SQ	5.00	1.00		
393.00 Stores Equipment	35.00	SC					35.00	SQ	35.00	27.40		
394.00 Tools, Shop and Garage Equipment	25.00	L1					25.00	SQ	25.00	16.12		
395.00 Laboratory Equipment	9.00	S4					9.00	SQ	9.00	4.23		
397.00 Communication Equipment	15.00	L2					15.00	SQ	15.00	9.20		
398.00 Miscellaneous Equipment	25.00	S0					25.00	SQ	25.00	18.32		
Total Amortizable									8.20	3.74		
Total General Plant									8.20	4.68	-21.8	-23.2
TOTAL GAS UTILITY									38.98	32.35	-21.8	-23.2

ANALYSIS

INTRODUCTION

This section provides an explanation of the supporting schedules developed in the UNS Gas depreciation study to estimate appropriate projection curves, projection lives and net salvage statistics for each rate category. The form and content of the schedules developed for an account depend upon the method of analysis adopted for the category.

This section also includes examples of the supporting schedules developed for Account 392.20 (Transportation Equipment C2). Documentation for all other plant accounts is contained in the study work papers. Supporting schedules developed in the UNS Gas study include:

Schedule A – Generation Arrangement;

Schedule B – Age Distribution;

Schedule C – Plant History;

Schedule D – Actuarial Life Analysis;

Schedule E – Graphics Analysis; and

Schedule F – Historical Net Salvage Analysis.

The format and content of these schedules are briefly described below.

SCHEDULE A – GENERATION ARRANGEMENT

The purpose of this schedule is to obtain appropriate weighted–average life statistics for a rate category. The weighted–average remaining–life is the sum of Column H divided by the sum of Column I. The weighted average life is the sum of Column C divided by the sum of Column I.

It should be noted that the generation arrangement does not include parameters for net salvage. Computed Net Plant (Column H) and Accruals (Column I) must be adjusted for net salvage to obtain a correct measurement of theoretical reserves and annualized depreciation accruals.

The following table provides a description of each column in the generation arrangement.

Column	Title	Description
A	Vintage	Vintage or placement year of surviving plant.
B	Age	Age of surviving plant at beginning of study year.
C	Surviving Plant	Actual dollar amount of surviving plant.
D	Average Life	Estimated average life of each vintage. This statistic is the sum of the realized life and the unrealized life, which is the product of the remaining life (Column E) and the theoretical proportion surviving.
E	Remaining Life	Estimated remaining life of each vintage.
F	Net Plant Ratio	Theoretical net plant ratio of each vintage.
G	Allocation Factor	A pivotal ratio which determines the amortization period of the difference between the recorded and computed reserve.
H	Computed Net Plant	Plant in service less theoretical reserve for each vintage.
I	Accrual	Ratio of computed net plant (Column H) and remaining life (Column E).

Table 3. Generation Arrangement

SCHEDULE B – AGE DISTRIBUTION

This schedule provides the age distribution and realized life of surviving plant shown in Column C of the Generation Arrangement (Schedule A). The format of the schedule depends upon the availability of either aged or unaged data. Derived additions for vintage years older than the earliest activity year in an account for unaged data are obtained from the age distribution of surviving plant at the beginning of the earliest activity year. The amount surviving from these vintages is shown in Column D. The realized life (Column G) is derived from the dollar years of service provided by a vintage over the period of years the vintage has been in service. Plant additions for vintages older than the earliest activity year in an account are represented by the opening balances shown in Column D.

The computed proportion surviving (Column D) for unaged is derived from a computed mortality analysis. The average service life displayed in the title block is the life statistic derived for the most recent activity year, given the derived age distribution at the start of the year and the specified retirement dispersion. The realized life (Column F) is obtained by finding the slope of an SC retirement dispersion, which connects the computed survivors of a vintage (Column E) to the recorded vintage addition (Column B). The realized life is the area bounded by the SC dispersion, the computed proportion surviving and the age of the vintage.

SCHEDULE C – PLANT HISTORY

An Unadjusted Plant History schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Activity year totals for unaged data are obtained from a transaction file without vintage identification. Information displayed in the unadjusted plant history is consistent with regulated investments reported internally by the Company.

An Adjusted Plant History schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company with sales, transfers, and adjustments appropriately aged for depreciation study purposes. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Ageing of adjusting transactions is achieved using transaction codes that identify an adjusting year associated with the dollar amount of a transaction. Adjusting transactions processed in the adjusted plant history are not aged in the Company's records or in the unadjusted plant history.

SCHEDULE D – ACTUARIAL LIFE ANALYSIS

These schedules provide a summary of the dispersion and life indications obtained from an actuarial life analysis for a specified placement band. The observation band (Column A) is specified to produce either a rolling–band or a shrinking–band analysis depending upon the movement of the end points of the band. The degree of censoring (or point of truncation) of the observed life table is shown in Column B for each observation band. The estimated average service life, best fitting Iowa dispersion, and a statistical measure of the goodness of fit are shown for each degree polynomial (First, Second, and Third) fitted to the estimated hazard rates. Options available in the analysis include the width and location of both the placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated.

The estimated average service lives (Columns C, F, and I) are flagged with an asterisk if negative hazard rates are indicated by the fitted polynomial. All negative hazard rates are set equal to zero in the calculation of the graduated survivor curve. The Conformance Index (Columns E, H, and K) is the square root of the mean sum–of–squared differences between the graduated survivor curve and the best fitting Iowa curve. A Conformance Index of zero would indicate a perfect fit.

SCHEDULE E – GRAPHICS ANALYSIS

This schedule provides a graphics plot of a) the observed proportion surviving for a selected placement and observation band; b) the statistically best fitting Iowa dispersion and derived average service life; and c) the projection curve and projection life selected to describe future forces of mortality.

The graphics analysis also provides a plot of the observed hazard rates and graduated hazard function for a selected placement and observation band. The estimator of the hazard rates and weighting used in fitting orthogonal polynomials to the observed data are displayed in the title block of the displayed graph.

SCHEDULE F – HISTORICAL NET SALVAGE ANALYSIS

This schedule provides a moving average analysis of the ratio of realized net salvage (Column I) to the associated retirements (Column B). The schedule also provides a moving average analysis of the components of net salvage related to retirements. The ratio of gross salvage to retirements is shown in Column D and the ratio of cost of removal to retirements is shown in Column G.

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Dispersion: 6 - L2
Procedure: Vintage Group

Generation Arrangement

Vintage	Age	December 31, 2005 Surviving Plant	Avg. Life	Rem. Life	Net Plant Ratio	Alloc. Factor	Computed Net Plant	Accrual
A	B	C	D	E	F	G	H=C*F*G	I=H/E
2005	0.5	311,307	6.00	5.50	0.9173	1.0000	285,552	51,881
2004	1.5	1,141,566	6.01	4.57	0.7614	1.0000	869,239	190,006
2003	2.5	(2,850)	6.04	3.76	0.6223	1.0000	(1,774)	(472)
Total	1.3	$1,450,023	6.01	4.78	0.7952	1.0000	$1,153,018	$241,415

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Age Distribution

Vintage	Age as of 12/31/2005	Derived Additions	1949 Opening Balance	Experience to 12/31/2005 Amount Surviving	Proportion Surviving	Realized Life
A	B	C	D	E	F=E/(C+D)	G
2005	0.5	311,307		311,307	1.0000	0.5000
2004	1.5	1,141,566		1,141,566	1.0000	1.5000
2003	2.5	(2,850)		(2,850)	1.0000	2.5000
2001	4.5	442,902			0.0000	4.0000
2000	5.5	170,859			0.0000	4.6958
1998	7.5	459,468			0.0000	7.0000
1997	8.5	340,424			0.0000	6.3453
1991	14.5	3,499			0.0000	11.0000
1990	15.5	14,956			0.0000	12.0000
1988	17.5	5,175			0.0000	14.0000
1986	19.5	67,507			0.0000	10.7027
1982	23.5	9,529			0.0000	19.0000
1981	24.5	67,781			0.0000	6.7167
1980	25.5	22,229			0.0000	8.0000
1979	26.5	62,138			0.0000	6.2379
1978	27.5	82,482			0.0000	7.4506
1977	28.5	22,285			0.0000	8.8125
1976	29.5	42,556			0.0000	5.9559
1975	30.5	42,524			0.0000	7.4437
1974	31.5	45,220			0.0000	7.1208
1973	32.5	30,658			0.0000	7.1650
1972	33.5	50,257			0.0000	7.0972
1971	34.5	69,175			0.0000	8.8108
1970	35.5	16,802			0.0000	4.9563
1969	36.5	45,261			0.0000	4.4639
1968	37.5	23,873			0.0000	4.7111
1967	38.5	29,721			0.0000	7.4632
1966	39.5	30,795			0.0000	5.0401
1965	40.5	57,816			0.0000	6.0901
1964	41.5	40,896			0.0000	6.5445
1963	42.5	25,356			0.0000	4.8087
1962	43.5	15,780			0.0000	6.2887
1961	44.5	4,879			0.0000	3.5802
1960	45.5	20,885			0.0000	4.5790
1959	46.5	26,535			0.0000	5.8378
1958	47.5	26,043			0.0000	6.2800
1957	48.5	22,779			0.0000	5.4232
1956	49.5	4,215			0.0000	6.4973

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Age Distribution

Vintage	Age as of 12/31/2005	Derived Additions	1949 Opening Balance	Experience to 12/31/2005 Amount Surviving	Proportion Surviving	Realized Life
A	B	C	D	E	F=E/(C+D)	G
1955	50.5	2,322			0.0000	6.0000
1954	51.5	3,695			0.0000	6.0000
1952	53.5	1,743			0.0000	8.0000
1951	54.5	14,157			0.0000	9.0067
1950	55.5	10,282			0.0000	10.5681
1949	56.5	19,234			0.0000	36.0000
Total		$3,944,715		$1,450,023	0.3676	

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Unadjusted Plant History

Year	Beginning Balance	Additions	Retirements	Sales, Transfers & Adjustments	Ending Balance
A	B	C	D	E	F=B+C-D+E
1949		19,234			19,234
1950	19,234	10,282			29,516
1951	29,516	14,157			43,673
1952	43,673	1,743			45,416
1953	45,416				45,416
1954	45,416	3,695			49,111
1955	49,111	2,322			51,433
1956	51,433	4,215			55,648
1957	55,648	22,779			78,427
1958	78,427	26,043			104,470
1959	104,470	26,535	13,983		117,022
1960	117,022	20,885	14,333		123,574
1961	123,574	4,879	4,466		123,987
1962	123,987	15,780	7,849		131,918
1963	131,918	25,356	31,386		125,888
1964	125,888	40,896	20,491		146,293
1965	146,293	57,816	37,867		166,242
1966	166,242	30,795	15,899		181,138
1967	181,138	29,721	16,319		194,540
1968	194,540	23,873	16,816		201,597
1969	201,597	45,261	33,613		213,245
1970	213,245	16,802	16,489		213,558
1971	213,558	69,175	40,869		241,864
1972	241,864	50,257	51,991		240,130
1973	240,130	30,658	31,053		239,735
1974	239,735	45,220	37,565		247,390
1975	247,390	42,524	25,345		264,569
1976	264,569	42,556			307,125
1977	307,125	22,285	30,575		298,835
1978	298,835	82,484	31,884		349,435
1979	349,435	62,138	40,894		370,679
1980	370,679	22,224	16,987		375,916
1981	375,916	67,781	32,639		411,058
1982	411,058		53,897		357,161
1983	357,161		66,449		290,712
1984	290,712		90,653		200,059
1985	200,059		46,534		153,525
1986	153,525	25,275	16,336		162,464
1987	162,464	1,203	27,433		136,234
1988	136,234		79,964		56,270

UNS GAS, INC.

General Plant

Depreciable

Account: 392.20 Transportation Equipment - C2

Unadjusted Plant History

Year	Beginning Balance	Additions	Retirements	Sales, Transfers & Adjustments	Ending Balance
A	B	C	D	E	F=B+C-D+E
1989	56,270	1,187	29,795		27,662
1990	27,662		11,980		15,682
1991	15,682	3,094		(7,242)	11,534
1992	11,534				11,534
1993	11,534		18,777		(7,242)
1994	(7,242)	1,330		7,242	1,330
1995	1,330	10,559			11,889
1996	11,889				11,889
1997	11,889	577,033		19,773	608,696
1998	608,696	520,012			1,128,708
1999	1,128,708	27,211	4,053	99,119	1,250,985
2000	1,250,985	688,746	53,878		1,885,854
2001	1,885,854	823,339	42,227		2,666,966
2002	2,666,966	(27,840)	138,927		2,500,199
2003	2,500,199			(1,255,722)	1,244,477
2004	1,244,477	494,576			1,739,054
2005	1,739,054	955,446	1,244,477		1,450,023

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Adjusted Plant History

Year	Beginning Balance	Additions	Retirements	Sales, Transfers & Adjustments	Ending Balance
A	B	C	D	E	F=B+C-D+E
1949		26,048			26,048
1950	26,048	10,282			36,330
1951	36,330	14,157			50,487
1952	50,487	1,743			52,230
1953	52,230				52,230
1954	52,230	3,695			55,925
1955	55,925	2,322			58,247
1956	58,247	4,215			62,462
1957	62,462	22,779			85,241
1958	85,241	26,043			111,284
1959	111,284	26,535	13,983		123,836
1960	123,836	20,885	14,333		130,388
1961	130,388	4,879	4,466		130,801
1962	130,801	15,780	7,849		138,732
1963	138,732	25,356	31,386		132,702
1964	132,702	40,896	20,491		153,107
1965	153,107	57,816	37,867		173,056
1966	173,056	30,795	15,899		187,952
1967	187,952	29,721	16,319		201,354
1968	201,354	23,873	16,816		208,411
1969	208,411	45,261	33,613		220,059
1970	220,059	16,802	16,489		220,372
1971	220,372	69,175	40,869		248,678
1972	248,678	50,257	51,991		246,944
1973	246,944	30,658	31,053		246,549
1974	246,549	45,220	37,565		254,204
1975	254,204	42,524	25,345		271,383
1976	271,383	42,556			313,939
1977	313,939	27,950	30,575		311,314
1978	311,314	88,264	31,884		367,694
1979	367,694	62,138	40,894		388,938
1980	388,938	22,423	16,987		394,375
1981	394,375	76,330	32,639		438,066
1982	438,066		53,897		384,169
1983	384,169		66,449		317,720
1984	317,720		90,653		227,067
1985	227,067		46,534		180,533
1986	180,533	34,809	16,336		199,007
1987	199,007	1,071	27,433		172,645
1988	172,645		79,964		92,681

UNS GAS, INC.

General Plant

Depreciable

Account: 392.20 Transportation Equipment - C2

Adjusted Plant History

Year	Beginning Balance	Additions	Retirements	Sales, Transfers & Adjustments	Ending Balance
A	B	C	D	E	F=B+C-D+E
1989	92,681	(34,581)	29,795		28,305
1990	28,305		11,980		16,325
1991	16,325	3,499		(17,052)	2,772
1992	2,772				2,772
1993	2,772		18,777		(16,005)
1994	(16,005)	21,103		(9,953)	(4,855)
1995	(4,855)	10,559			5,704
1996	5,704				5,704
1997	5,704	577,033			582,738
1998	582,738	520,012			1,102,750
1999	1,102,750	19,660	4,053	99,119	1,217,476
2000	1,217,476	688,746	53,878		1,852,344
2001	1,852,344	823,339	42,227		2,633,456
2002	2,633,456		138,927		2,494,529
2003	2,494,529	(2,850)		(1,250,052)	1,241,627
2004	1,241,627	1,141,566			2,383,193
2005	2,383,193	311,307	1,244,477		1,450,023

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Schedule D
Page 1 of 1

T-Cut: None
Placement Band: 1949-2005
Hazard Function: Proportion Retired
Weighting: Exposures

Rolling Band Life Analysis

		First Degree			Second Degree			Third Degree		
Observation Band	Censoring	Average Life	Disper-sion	Conf. Index	Average Life	Disper-sion	Conf. Index	Average Life	Disper-sion	Conf. Index
A	B	C	D	E	F	G	H	I	J	K
1965-1969	0.0	7.0	O3	17.94	5.4	L2 *	3.43	5.2	L2 *	3.89
1966-1970	0.0	15.9	O4 *	20.51	8.6	L0.5 *	4.84	6.9	L1.5 *	5.64
1967-1971	9.4	9.6	O4 *	13.27	6.9	L2 *	6.22	6.4	L2 *	5.54
1968-1972	7.6	6.7	O4 *	13.19	6.1	L2 *	5.61	5.9	L2 *	5.37
1969-1973	3.5	5.7	O4 *	13.76	5.7	L2 *	3.24	5.6	L2 *	3.32
1970-1974	3.7	5.7	O3	13.94	5.6	L2 *	3.68	5.5	L2 *	3.76
1971-1975	1.8	5.5	O3	14.94	5.5	L2 *	3.39	5.4	L2 *	3.94
1972-1976	2.4	7.7	O3	15.62	6.2	L2 *	4.48	6.1	L2 *	4.65
1973-1977	4.8	9.7	O3	17.29	7.0	L2 *	6.30	7.0	L2 *	5.84
1974-1978	0.0	10.0	O3	14.88	7.4	L2 *	5.37	7.4	L2 *	5.20
1975-1979	0.0	10.6	O3	15.21	8.0	L2 *	5.11	8.0	L2 *	4.91
1976-1980	0.0	12.3	O3	15.46	9.4	L1.5 *	6.74	9.2	L1.5 *	6.63
1977-1981	0.0	10.2	O3	13.92	8.3	L2 *	5.82	8.3	L2 *	5.85
1978-1982	0.0	9.4	O3	14.00	8.0	L2 *	3.78	8.0	L2 *	3.81
1979-1983	0.0	8.2	O3	14.05	7.6	L2 *	3.96	7.6	L2 *	4.06
1980-1984	0.0	6.5	O3	15.28	7.1	L3 *	4.09	7.0	L3 *	4.25
1981-1985	0.1	5.6	O3	15.21	7.0	L3 *	4.01	6.9	L3 *	4.45
1982-1986	0.0	5.3	O3	16.03	7.1	L3 *	4.01	7.0	L3 *	4.10
1983-1987	0.0	4.9	O3	15.91	7.2	L2 *	3.19	7.2	L2 *	3.00
1984-1988	0.0	3.9	O3	19.87	7.0	L3 *	2.89	7.0	L3 *	2.89
1985-1989	0.0	4.4	O3	18.64	7.4	L3 *	2.93	7.4	S1.5 *	2.74
1986-1990	0.0	3.0	O4	20.49	7.1	L3 *	3.16	7.1	L3 *	3.28
1987-1991	2.0	2.0	O4	24.60	5.2	L1 *	7.83	6.4	L3 *	3.59
1988-1992	0.6	0.9	O4 *	30.92	9.1	S6 *	16.82	3.8	L0.5 *	15.58
1989-1993	-1333.6	0.3	SC *	345.45	8.8	L3 *	368.44	6.1	L2 *	356.36
1990-1994	-1333.6	30.5	L5 *	485.01	11.3	L3 *	454.78	8.5	L1.5 *	444.24
1991-1995	21.4	31.3	L5 *	53.16	12.3	L4 *	25.72	14.3	O3 *	13.68
1992-1996	100.0					No Retirements				
1993-1997	100.0					No Retirements				
1994-1998	100.0					No Retirements				
1995-1999	89.0	15.3	L1.5 *	27.55	18.2	R5 *	6.50	18.1	S5 *	6.77
1996-2000	81.5	15.6	L0.5	24.20	47.1	O4 *	44.90	39.0	O4 *	44.34
1997-2001	0.0	9.8	L2 *	35.73	11.1	S1.5	28.19	12.2	R2.5	21.28
1998-2002	0.0	8.7	L2 *	18.60	9.0	S1 *	16.74	9.0	S1 *	16.89
1999-2003	0.0	9.6	L2 *	18.38	9.9	S1.5	15.40	10.1	S1.5 *	14.73
2000-2004	0.0	10.2	L2 *	15.85	10.2	R2.5	13.28	10.4	R2.5	12.18
2001-2005	0.0	5.6	S1.5 *	6.63	5.6	S1.5 *	6.52	5.8	S2 *	5.01

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

T-Cut: None
Placement Band: 1949-2005
Hazard Function: Proportion Retired
Weighting: Exposures

Shrinking Band Life Analysis

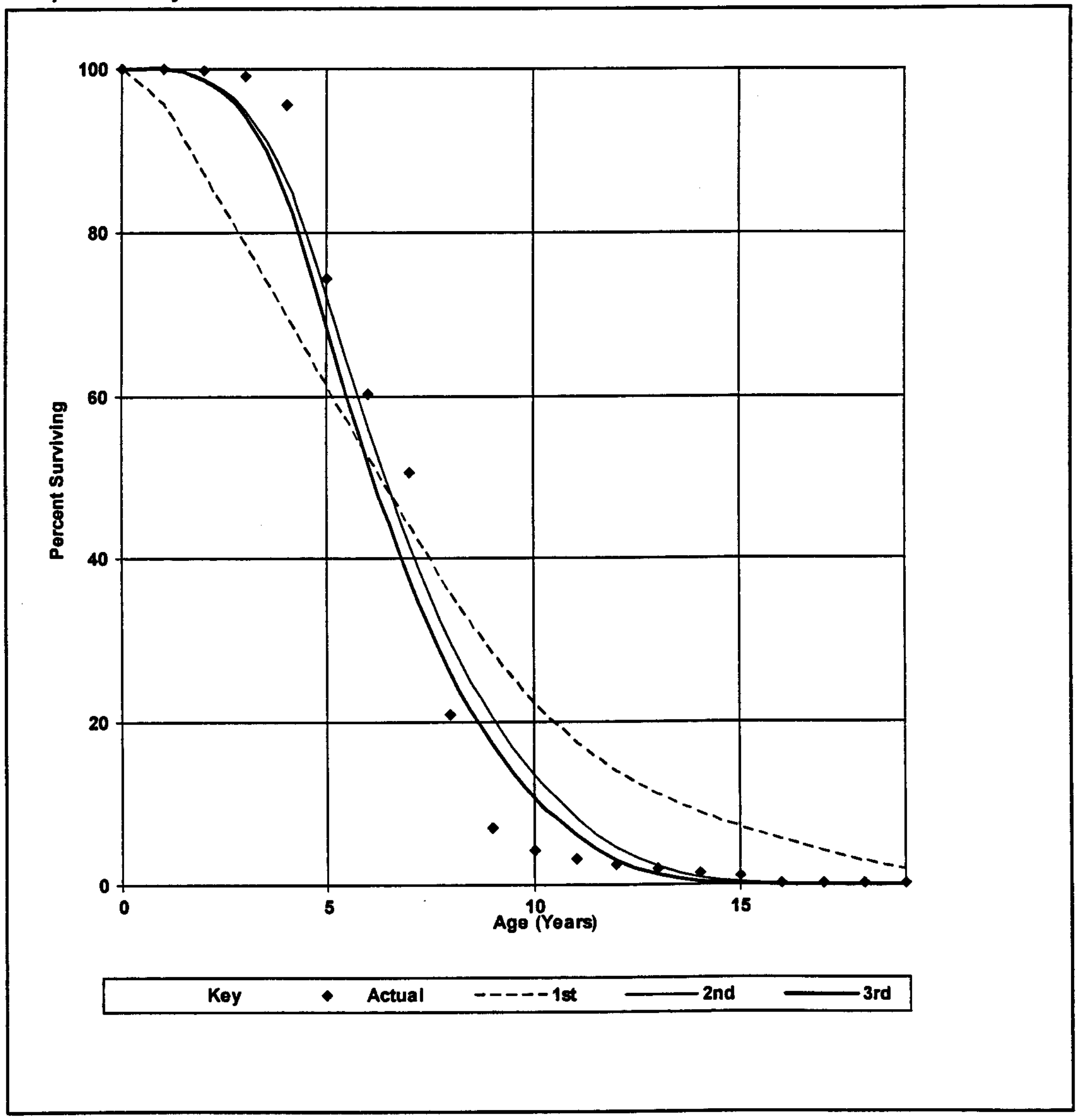
		First Degree			Second Degree			Third Degree		
Observation Band	Censoring	Average Life	Disper-sion	Conf. Index	Average Life	Disper-sion	Conf. Index	Average Life	Disper-sion	Conf. Index
A	B	C	D	E	F	G	H	I	J	K
1965-2005	0.0	6.5	O2	9.30	6.3	L2 *	3.65	6.0	L2 *	3.65
1967-2005	0.0	6.5	O2	9.29	6.3	L2 *	3.61	6.0	L2 *	3.68
1969-2005	0.0	6.4	O2	9.21	6.3	L2 *	3.52	6.0	L2 *	3.67
1971-2005	0.0	6.4	O2	9.14	6.2	L2 *	3.49	6.0	L2 *	3.72
1973-2005	0.0	6.5	O2	9.07	6.2	L2 *	3.49	6.0	L2 *	3.75
1975-2005	0.0	6.5	O2	8.92	6.2	L2 *	3.49	6.0	L2 *	3.79
1977-2005	0.0	6.4	O2	8.63	6.1	L2 *	3.41	6.0	L2 *	3.71
1979-2005	0.0	6.3	O2	8.31	6.1	L2 *	3.44	6.0	L2 *	3.76
1981-2005	0.0	6.2	L0	8.06	6.0	L2 *	3.62	5.9	L2 *	3.91
1983-2005	0.0	6.1	L0	7.44	5.9	L2 *	3.67	5.8	L2 *	3.93
1985-2005	0.0	6.1	L1	6.27	5.9	L2 *	3.77	5.8	L2 *	3.94
1987-2005	-0.1	6.6	L1	7.51	6.3	L2 *	4.71	6.1	L2 *	4.65
1989-2005	-1.2	6.6	L1	7.35	6.2	L2 *	5.07	6.1	L2 *	5.03
1991-2005	-2.2	6.4	L1.5 *	6.36	6.2	L2 *	5.10	6.1	L2 *	5.12
1993-2005	-2.2	6.3	L2 *	5.66	6.1	L2 *	4.97	6.0	L2 *	5.01
1995-2005	-2.7	6.3	L2 *	8.12	6.1	L2 *	7.57	6.1	L2 *	7.30
1997-2005	-3.2	6.3	L2 *	8.21	6.1	L2 *	7.65	6.2	L2 *	7.40
1999-2005	0.0	5.9	L2 *	5.94	5.7	L2 *	6.40	5.8	S1.5 *	5.26
2001-2005	0.0	5.6	S1.5 *	6.63	5.6	S1.5 *	6.52	5.8	S2 *	5.01
2003-2005	0.0	5.0	S1.5 *	13.72	5.1	S1.5	15.72	4.6	L1.5 *	15.79
2005-2005	0.0	3.1	S1 *	23.09	2.7	S3	29.64	2.5	L4	33.78

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

T-Cut: None
Placement Band: 1949-2005 Observation Band: 1965-2005
Hazard Function: Proportion Retired
Weighting: Exposures

Graphics Analysis

1st: 6.5-O2 2nd: 6.3-L2 3rd: 6.0-L2

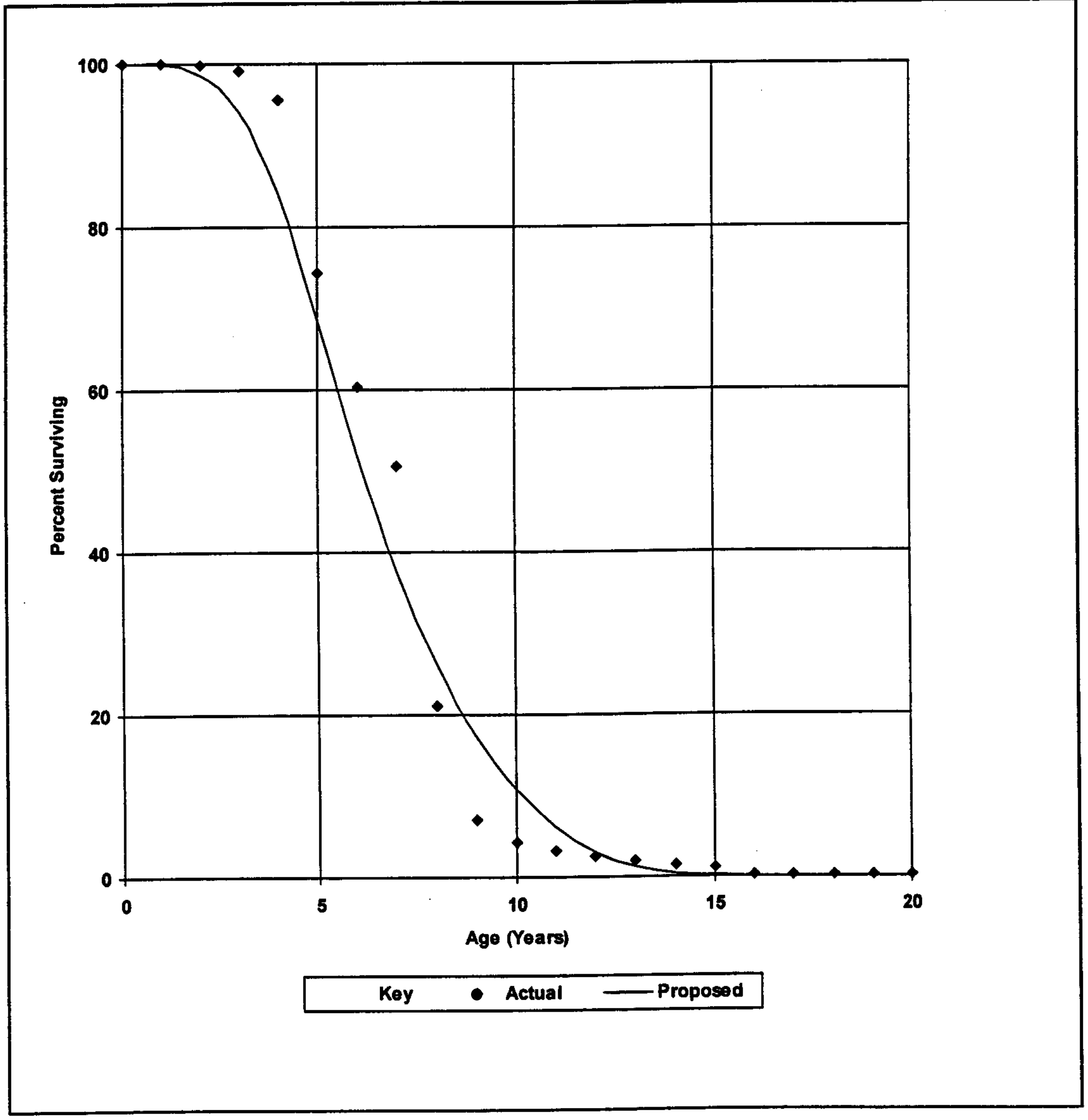


Schedule E

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

T-Cut: 20
Placement Band: 1949-2005
Observation Band: 1965-2005
6.0-L2

Proposed Projection Life Curve



UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Unadjusted Net Salvage History

Year	Retirements	Gross Salvage Amount	Gross Salvage Pct.	Gross Salvage 5-Yr Avg.	Cost of Retiring Amount	Cost of Retiring Pct.	Cost of Retiring 5-Yr Avg.	Net Salvage Amount	Net Salvage Pct.	Net Salvage 5-Yr Avg.
A	B	C	D=C/B	E	F	G=F/B	H	I=C-F	J=I/B	K
1982	59,684		0.0			0.0			0.0	
1983	66,449		0.0			0.0			0.0	
1984	93,857		0.0			0.0			0.0	
1985	55,284	4,800	8.7			0.0		4,800	8.7	
1986	32,349	7,000	21.6	3.8		0.0	0.0	7,000	21.6	3.8
1987	27,433		0.0	4.3		0.0	0.0		0.0	4.3
1988	82,864	300	0.4	4.1		0.0	0.0	300	0.4	4.1
1989	35,462		0.0	5.2		0.0	0.0		0.0	5.2
1990	19,993	1,675	8.4	4.5		0.0	0.0	1,675	8.4	4.5
1991			0.0	1.2		0.0	0.0		0.0	1.2
1992			0.0	1.4		0.0	0.0		0.0	1.4
1993	18,777		0.0	2.3		0.0	0.0		0.0	2.3
1994	2,673		0.0	4.0		0.0	0.0		0.0	4.0
1995	3,800		0.0	0.0		0.0	0.0		0.0	0.0
1996	9,949		0.0	0.0		0.0	0.0		0.0	0.0
1997	15,450		0.0	0.0		0.0	0.0		0.0	0.0
1998			0.0	0.0		0.0	0.0		0.0	0.0
1999	4,053		0.0	0.0		0.0	0.0		0.0	0.0
2000	53,878		0.0	0.0		0.0	0.0		0.0	0.0
2001	42,227		0.0	0.0		0.0	0.0		0.0	0.0
2002	138,927		0.0	0.0		0.0	0.0		0.0	0.0
2003			0.0	0.0		0.0	0.0		0.0	0.0
2004			0.0	0.0		0.0	0.0		0.0	0.0
2005	1,244,477	161,167	13.0	11.3		0.0	0.0	161,167	13.0	11.3
Total	2,007,585	174,942	8.7			0.0		174,942	8.7	

UNS GAS, INC.
General Plant
Depreciable
Account: 392.20 Transportation Equipment - C2

Schedule F
Page 1 of 1

Adjusted Net Salvage History

		Gross Salvage			Cost of Retiring			Net Salvage		
Year	Retirements	Amount	Pct.	5-Yr Avg.	Amount	Pct.	5-Yr Avg.	Amount	Pct.	5-Yr Avg.
A	B	C	D=C/B	E	F	G=F/B	H	I=C-F	J=I/B	K
1982	59,684		0.0			0.0			0.0	
1983	66,449		0.0			0.0			0.0	
1984	93,857		0.0			0.0			0.0	
1985	55,284	4,800	8.7			0.0		4,800	8.7	
1986	32,349	7,000	21.6	3.8		0.0	0.0	7,000	21.6	3.8
1987	27,433		0.0	4.3		0.0	0.0		0.0	4.3
1988	82,864	300	0.4	4.1		0.0	0.0	300	0.4	4.1
1989	35,462		0.0	5.2		0.0	0.0		0.0	5.2
1990	19,993	1,675	8.4	4.5		0.0	0.0	1,675	8.4	4.5
1991			0.0	1.2		0.0	0.0		0.0	1.2
1992			0.0	1.4		0.0	0.0		0.0	1.4
1993	18,777		0.0	2.3		0.0	0.0		0.0	2.3
1994	2,673		0.0	4.0		0.0	0.0		0.0	4.0
1995	3,800		0.0	0.0		0.0	0.0		0.0	0.0
1996	9,949		0.0	0.0		0.0	0.0		0.0	0.0
1997	15,450		0.0	0.0		0.0	0.0		0.0	0.0
1998			0.0	0.0		0.0	0.0		0.0	0.0
1999	4,053		0.0	0.0		0.0	0.0		0.0	0.0
2000	53,878		0.0	0.0		0.0	0.0		0.0	0.0
2001	42,227		0.0	0.0		0.0	0.0		0.0	0.0
2002	138,927		0.0	0.0		0.0	0.0		0.0	0.0
2003			0.0	0.0		0.0	0.0		0.0	0.0
2004			0.0	0.0		0.0	0.0		0.0	0.0
2005	1,244,477	161,167	13.0	11.3		0.0	0.0	161,167	13.0	11.3
Total	2,007,585	174,942	8.7			0.0		174,942	8.7	

Direct Testimony of
Tobin L. Voge

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

Direct Testimony of

Tobin L. Voge

on Behalf of

UNS Gas, Inc.

July 13, 2006

TABLE OF CONTENTS

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Tobin L. Voge. My business address is One South Church Avenue, Tucson, Arizona, 85701.

Q. What is your position with UNS Gas, Inc. ("UNS Gas" or the "Company")?

A. I am employed by Tucson Electric Power Company ("TEP") as Manager of Pricing and Economic Forecasting. In this role I am responsible for the cost of service studies and rate design proposals. In this capacity, I also perform these functions for UNS Gas.

Q. Please describe your education and experience.

A. I received a Bachelor of Science Degree in Biochemistry from California Polytechnic State University at San Luis Obispo. I also received a Masters Degree in Business Administration from the University of Arizona. I joined TEP in 1986 and worked as a Financial Planning Analyst until 1991. In 1991, I began working as a Power Contracts Coordinator. From 1991 through 1995, I held positions in Power Contracts and Wholesale Power Marketing. In 1995, I was promoted to Supervisor of Wholesale Power Marketing, and then to Manager in 1999. Since 2001, I have been Manager of Pricing and Economic Forecasting.

Q. What is the purpose of your direct testimony?

A. I am the sponsoring witness for Schedules G and H, which summarize the class cost of service study ("CCOSS"), rate design and proof of revenue for this filing. I also sponsor the Weather Normalization and Year-End Customer Annualization pro-forma adjustments shown in Schedule C-2. My testimony will explain: (i) weather normalization; (ii) customer annualization; (iii) the CCOSS; (iv) proposed rate design changes; and (v) the Company's recommendation for de-coupling.

II. WEATHER NORMALIZATION.

Q. What is the purpose of a weather normalization adjustment?

A. A weather normalization adjustment is performed in order to represent test year sales and revenues under typical weather conditions. Gas consumption for several UNS Gas classes of customers is weather sensitive. The weather normalization adjustment quantifies the change in therm sales and revenue that would have occurred if the weather in the test year had been typical.

Q. How is normal weather determined?

A. For natural gas consumption related to space heating, heating requirements are small when average daily temperatures are greater than 65 degrees Fahrenheit. Therefore, the industry uses the variable known as heating degree days ("HDD") to measure heat load. A HDD is 65 degrees minus the average of the maximum and minimum temperature for the day. UNS Gas records daily temperatures at six locations and this temperature data is used to calculate HDD. To determine normal weather for each calendar month, I averaged the sum of the monthly HDDs recorded over the last ten years.

Q. Please describe your weather normalization calculations.

A. I used historical weather and use-per-customer ("UPC") data to calculate the weather adjustment. I calculated an incremental UPC per HDD above base usage. In most of the weather data locations, the base load month (fewest historic HDD) occurs in July or August. To recognize that customers typically do not use heating equipment anywhere in Arizona in the summer, I limited my weather adjustment calculations to the months of

January through May and October through December of the test year. Monthly heating factors for these months were calculated by dividing the heating load by the recorded HDD. This calculation resulted in a heating factor, or heat load per HDD, for each month in the ten year historical period. The ten-year average monthly heating factor was multiplied by the respective non-summer month's deviation from normal HDD to develop the composite weather adjustment. Although some months were colder than normal, the overall weather for the year was slightly warmer than normal. Therefore sales were slightly lower than normal.

Q. **Did you weather normalize all rate classes?**

A. No, I weather normalized those rate classes where sales are impacted by heating requirements. I found two classes where there was no strong correlation between monthly consumption and HDDs. These were the industrial and gas light classes.

Q. **What was the affect of weather adjustments on test year sales volumes?**

A. Because sales were slightly lower than normal, it is necessary to adjust them upward to reflect a "normalized" level of sales. The net result of weather normalization adjustments was an increase in test year sales volumes of 1,832,760 therms or 1.4% of the total actual sales volume for the test year.

III. CUSTOMER ANNUALIZATION.

Q. **Please describe the customer annualization adjustment.**

A. The customer annualization adjustment restates the number of test year bills and volumes to be consistent with the number of customers on the system at the end of the test year. The customer annualization adjustment also captures the seasonal variation in the number of customers (the comings and goings of seasonal residents). The adjustment distinguishes the effects of the longer-term growth trend in number of customers and seasonal variation. As such, the early months of the test year typically reflect more adjustment in number of customers. The first month of the test year must be adjusted for 11 months of growth to reach adjusted test-year end levels, whereas the eleventh month of the test year only requires one month of adjustment. Adjustments to the monthly volumes were made by multiplying the monthly customer differences by the UPC for the month.

Q. What was the effect of the customer annualization adjustment on test year sales volumes?

A. The net result of the customer annualization adjustment was an increase in test year sales volumes of 1,780,320 therms or 1.4% of the total actual sales volume for the test year.

IV. <u>CLASS COST OF SERVICE STUDY.</u>

Q. Please describe a CCOSS.

A. The purpose of a CCOSS is to allocate each cost component to the respective classes in order to determine an appropriate total cost to serve each class. Allocation should be based upon an equitable method not inconsistent with the cost-causal relationships for the provision of services. The Company's approach follows past approaches that have been approved by the Arizona Corporation Commission ("Commission"). The approach promotes "gradualism"; that is, it helps avoid large percentage differences in class revenue increases, while moving each class towards parity. The term "cost" is used broadly here to cover both expenses, including taxes, and the return on investment. The total cost to serve a class varies depending on its customers' individual and combined consumption characteristics, installed facilities, labor and other capital needed to reliably and safely serve customers in the class.

Q. What is the objective of the CCOSS?

A. Based on allocated costs, the goal is to confirm the extent to which present and proposed rates generate revenue that recovers costs and provides for a reasonable return on investment by class. The CCOSS is designed to clearly present the costs and the allocation factors applied to the costs. The cost model also includes sections summarizing costs, a list of the allocation factors, and a revenue requirements summary. The G Schedules of the filing are assembled using the results of the CCOSS.

Q. Please describe the CCOSS model.

A. The model, created in Microsoft Excel, starts with cost components by function or purpose (functionalized cost). The model presents functionalized costs vertically (i.e., in rows down the spreadsheet) and the allocation of costs to rate classes horizontally (i.e., in columns across the spreadsheet). Exactly 100% - no more, no less – of each functionalized cost is allocated to the customer classes. The percentage of a given cost allocated to a specific class will depend on the allocation factor chosen. The choice of the allocation factor depends on the function of the cost in question. A cost associated with billing customers, for example, should be allocated so as to reasonably approximate the cost of billing the customers, by class. Some allocation factors used are "external" allocation factors. External allocation factors are determined independent of the magnitude of specific costs in the CCOSS. That is, the external allocation factor is developed in an analysis separate from the CCOSS. An example of an external allocation factor is the distribution plant allocation factor ("DISTR"). DISTR is the capacity allocation factor used for the allocation of distribution plant capacity-related costs, such as distribution land and land rights, measuring and regulating station equipment and mains. DISTR is based on the Proportional Responsibility Method. The Proportional Responsibility Method is described in more detail below.

An internal allocation factor is calculated within the CCOSS model and is dependent on the cost components found therein. For example, the Materials and Supplies component of Working Capital (a rate base item) is allocated based on PLANT. PLANT is a composite of different plant categories (e.g., transmission, distribution). To the extent that plant categories allocated differently, the PLANT allocator will vary based on the level of different plant types of net plant. Allocation factors are listed in Schedule G-7. As shown, some factors are "customer-related". Studies on metering, services, meter reading, customer service and billing provide the basis for the customer-related factors. Additionally, there are factors based on labor costs, throughput, or internal factors based on individual or aggregate costs. The overall methodology has been approved in previous filings before this Commission. One example of the use of this methodology is Docket No. G-01032A-02-0598.

Q. Please describe the Proportional Responsibility Method?

A. The Proportional Responsibility Method is based on the respective class' share of total load in each of the twelve months for the test year. The peak load months are more heavily weighted under Proportional Responsibility. A class' share of total load in low load months has only a small impact on the factor. DISTR is the allocation factor used for distribution plant capacity-related costs. DISTR is an external factor because the Proportional Responsibility Method is based on class loads, and is calculated independently of the magnitude of any cost components. The Proportional Responsibility Method drives many significant costs in the CCOSS model.

Q. Has the Proportional Responsibility Method been used in a previous general rate case filing?

A. Yes. This method was used and approved in Docket No. G-01032A-02-0598, Decision No. 66028, when the Commission approved the Citizens Communications Company ("Citizens") Settlement Agreement.

V. <u>RATE DESIGN.</u>

Q. What is the Company's objective in rate design?

A. The primary objective of our rate design proposal is to allow for more equitable collection of the Company's fixed costs. In so doing, we can minimize the cross subsidization that occurs when usage within customer classes varies significantly based on geography and climate. In sum, the Company's proposed rates would more accurately allocate costs to the customers who create the costs.

Q. Please explain the inequities your proposal seeks to address.

A. UNS Gas currently collects the bulk of its fixed costs through a volumetric charge, the Basic Cost of Service. Within the residential class, however, throughput has little impact on the true, non-commodity cost of serving customers (i.e. the costs other than actual natural gas). It costs no more to provide distribution service to high-usage customers than it does to serve low-usage customers. Under UNS Gas' current rates, however, high-usage customers are paying a far greater share of the Company's fixed costs through volumetric charges on their monthly bills.

Q. How has the nature of UNS Gas' service territory exacerbated this inequity?

A. Since natural gas usage is driven largely by weather, the Company's current rates have forced customers in cooler areas (i.e., districts with more HDDs) to subsidize those living in warmer districts. This disparity is exacerbated by the stark geographic differences in UNS Gas' service territory, which includes areas that are either among the coldest (e.g. Flagstaff) or the hottest (e.g. Lake Havasu City) parts of Arizona. So customers in the coldest corners of our service territory – those affected most by rising costs on the commodity portion of their bills during home heating season – have borne the additional burden of subsidizing the fixed cost of serving customers who spend their winters in far more moderate climates.

Q. Have you performed an analysis to illustrate the subsidy of warmer districts by cooler districts?

A. Yes. It is attached as Exhibit TLV-1. The table shows average annual residential consumption and margin revenue for ten locations in the UNS Gas service territory. By "margin", I mean the sum of: (i) customer charge; and (ii) the portion of the volumetric charge not related to the commodity cost of gas. It includes the costs of mains, customer service, and other non-gas costs of serving our customers. The data illustrates the disparity between locations in contribution. For example, the average residential customer in Flagstaff pays an annual margin of $292, $133 more than the $159 paid by the average residential customer in Lake Havasu. The investment in distribution plant that the Company has made to serve the two customers is similar, yet the Flagstaff customer is contributing a larger share of the cost. Indeed, the Flagstaff customer pays about 84% more for the same distribution service.

Q. How might the inequities inherent in UNS Gas' current rates be addressed?

A. Since the true cost of serving individual customers does not vary significantly based on usage, the Company could seek to recover its fixed costs entirely through a monthly Customer Charge. In addition to distributing fixed costs more equitably among customers, this approach would reduce monthly bill fluctuations, send clear price signals on the gas commodity and help customers better understand the charges on their bills. Although gas utilities have traditionally recovered a portion of fixed costs on a volumetric basis, their customers have become increasingly accustomed to paying infrastructure costs on a fixed monthly basis in the bills they receive for cable television, internet access and local telephone service.

For UNS Gas, however, this approach would require a monthly Customer Charge of nearly $26.00, based on the costs documented in this case. Although this fee would be accompanied by a reduction in volumetric charges, it would produce a significant increase to bills in warm weather areas, where customers are unaccustomed to paying their true share of UNS Gas' system costs. It also would somewhat limit customers' ability to influence their bills by moderating usage, since a larger percentage of their monthly costs would be unaffected by the volume of gas they use. For these reasons, UNS Gas has proposed a more moderate increase in its customer charge that would partially mitigate the inequities inherent in current rates.

Q. How would UNS Gas' proposal serve to reduce the inequities you have discussed?

A. The proposed average customer charges of $17 for residential customers, $20 for commercial customers and $120 for industrial customers would align more closely to the true costs of providing monthly distribution service to those classes. In this way, these higher charges would reduce the inequities borne by high usage customers. Under our proposed rate design, the average residential customer in Flagstaff would pay an annual margin of $333, while the average Lake Havasu customer would pay $250 – just $83 less than the Flagstaff customer. This represents a significant reduction from the cross subsidy that Flagstaff customers currently bear, as described above.

Q. Your proposed average monthly residential customer charge of $17, while lower than the true cost of service, would still produce a significant percentage increase to customer bills in warmer areas. Does your rate design include a way to mitigate the impact to customers?

A. Yes. I recognize that customers in the warmer climates have grown accustomed to having their usage more steeply subsidized by customers in cold weather climates. Therefore, we have proposed setting the residential customer charge at $20.00 in the months of April through November and reducing that charge to $11.00 in the four remaining winter months. This shift would help levelize bills across all 12 months, allowing customers to more easily budget for their bills. Customers in colder regions also would benefit from a lower customer charge during months when the commodity portions of their bills pose the largest burden.

Q. What safeguards will you provide for lower income customers who might struggle with higher customer charges?

A. UNS Gas is proposing that monthly customer charges under the Customer Assistance Residential Energy Support ("CARES") R-12 pricing plan be discounted from the Residential Gas Service R-10 pricing plan. Currently, CARES customers pay the standard $7 monthly charge while receiving a discount of $0.15 per therm for the first 100 therms they use during the months November through April. In order to provide year-round assistance for CARES customers, we propose to discount $6.50 from the monthly customer charge applicable under the Residential Gas Service pricing plan. The existing $0.15 per therm winter discount would be eliminated. Given the average monthly CARES customer usage was about 64 therms in the winter period of the test year, the average customer received an annual discount of $58. The proposed annual CARES discount would be $78 for every customer, regardless of usage. This represents a 34 percent increase in annual dollars saved for the average CARES customer.

VI. DE-COUPLING.

Q. What else might be done to make UNS Gas rates fairer to the Company and customers?

A. Although the proposed rate structure described above would mitigate inequities inherent in UNS Gas' current rates, the continued use of a volumetric charge to recover a portion of the Company's fixed costs carries another concern: the uncertainty of recovery. If actual usage strays from the anticipated level used to establish that volumetric rate, customers end up paying too much or too little for that portion of their service. Since usage is driven largely by weather trends during home heating season, particularly cold winters typically produce a swell in UNS Gas' margin revenues. Meanwhile, warm weather, effective conservation efforts or anything else that reduces consumption below anticipated levels leads to an under-recovery of the Company's costs. Eliminating such uncertainty would benefit both the Company and its customers by providing a greater opportunity for fair and appropriate recovery of the costs allocated in this proceeding.

Q. How has UNS Gas proposed eliminating that uncertainty?

A. UNS Gas has proposed a mechanism that would either reduce or increase the collection of volumetric margin revenues to match anticipated usage levels. This so-called "de-coupling" mechanism, the Throughput Adjustment Mechanism ("TAM"), would weaken the link between UNS Gas revenues and customer usage, achieving greater equity in the Company's cost recovery. Although the increased customer charge discussed above would align rates more closely with actual costs, the proposed TAM is needed to ensure that the remaining volumetric charge allows for equitable cost recovery. UPC can vary significantly due to uncontrollable forces – particularly the weather. A very cold winter could result in a significant UPC increase and related over-recovery by UNS Gas. The mechanism also would allow UNS Gas to actively promote conservation without threatening the volumetric margin revenues needed to serve its customers' growing needs and earn a fair rate of return.

Q. How would this proposed TAM work?

A. Under UNS Gas' proposed TAM, the under-recovery in any period would be "trued-up" in future periods through use of a volumetric surcharge. Similarly, any over-recovery would be refunded to customers through a volumetric credit on future bills. Because the size of those surcharges and credits would be based on anticipated sales, the actual funds collected or refunded might differ slightly from the targeted amount to the extent that actual sales differ from anticipated sales. A final true-up would be made two years from the period in question by incorporating the difference into the next year's credit or surcharge.

Both credits and surcharges would be designed to true-up revenue to a level associated with a constant UPC. Therefore, on a "go-forward" basis, margin revenue would increase (or decrease) as the number of customers increase (or decrease), but would remain unaffected by changes in UPC. This result would be appropriate because it matches cost causation on the system.

The TAM would be independent of UNS Gas' Purchase Gas Adjustor ("PGA"). Therefore, it would be possible for customers to have a PGA surcharge and a TAM credit occur in the same month.

Q. How would the TAM surcharge or credit be calculated?

A. In order to administer the TAM, a base UPC must be established. Our proposal includes a separate base UPC for Residential, Small Volume Commercial, and Small Volume Public Authority customers. The base UPCs will be determined by dividing the 2005 weather adjusted therm sales by the 2005 average number of customers. In subsequent years, actual UPCs will be calculated by dividing calendar year therm sales by average number of customers. The difference between the actual and base UPC will be multiplied by the 2005 base number of customers and the margin rate for the customer class to arrive at the required throughput adjustment stated in dollars. This amount will be divided by projected 12-month therm sales to determine the required throughput adjustment stated in cents per therm.

As an alternative to an annual true-up of the margin rate, establishing a deferred throughput adjustment account is acceptable to UNS Gas. The adjustment calculations would occur as described above, but the dollar amount of the adjustment would be recorded in a regulatory asset/liability account. In the context of the next rate case or in a surcharge or surcredit application, the balance of the account would be reviewed and included in rate base, within an appropriate amortization period to be determined as well.

Q. Have you prepared examples of these calculations?

A. Yes, sample calculations are attached as Exhibit TLV-2.

Q. Have you prepared a proposed TAM Rider?

A. Yes, the proposed Rider RR-2 is attached as Exhibit TLV-3. I have also included revisions to Pricing Plans R-10, R-12, C-20 and PA 40 with references to the Rider.

Q. Why have you chosen to limit the application of the TAM to the Residential, Small Volume Commercial and Small Volume Public Authority customers?

A. These classes of customers are the most weather-sensitive and therefore, are most likely to experience changes in usage due to year-to-year weather variations in HDDs. Furthermore, these customers are the primary participants of energy conservation programs.

Q. Why do you believe this proposed TAM is beneficial to UNS Gas and UNS Gas customers?

A. I believe the TAM would benefit UNS Gas and its customers for the following reasons: (1) the TAM will minimize – over time – the impact of weather on customer bills and the Company's financial condition; and (2) the TAM will allow the Company to implement, fund, and actively promote energy efficiency programs for its customers.

Q. How does this proposal differ from the TAM proposed by Southwest Gas Corporation ("SWG") in its recent rate case?

A. The UNS Gas proposal differs from the SWG proposal in at least three areas:

(i) UNS Gas would include all small volume customers, whereas SWG proposed to limit the adjustment to residential customers;

(ii) UNS Gas provides examples of the calculations required to implement the adjustment, using historical UPC data. This may help the parties to this case gain an appreciation for the potential amount of future adjustments and impact to customers; and

(iii) UNS Gas is willing to consider the creation of a deferred throughput adjustment account.

Q. How will the TAM minimize the impact of weather on customers?

A. The TAM will reduce the volatility in the non-commodity portion of customers' bills over time. As I previously described, in the period following a colder than normal period, customers will receive a credit to the volumetric margin rate. This credit reimburses the customer for the non-commodity portion of the relatively high cold winter gas bill.

Q. How will the TAM minimize the impact of weather on the Company's financial condition?

A. As is the case in this filing, test year costs and revenues are weather normalized. Since the margin the Company collects is based on normal weather, any temperature-sensitive customer usage (primarily space heating) that varies with deviations from normal weather will also cause revenue collection to vary. Therefore, during a period of warmer than normal weather, customer usage will decline and the Company will not collect margin revenues required to recover a portion of its fixed costs. If a TAM is in place, a surcharge will be assessed to customers in order to enable the Company a better opportunity to recover its costs, including capital costs.

Q. Please describe the relationship between the TAM and the Company's motivation to implement and promote energy conservation programs?

A. Energy conservation will have the effect of lowering UPC from the level experienced during the test year. Consequently, if the Company recovers a portion of its fixed costs through a volumetric margin rate, its ability to earn its authorized rate of return is jeopardized upon implementation of post-test year energy conservation programs. This disincentive to introduce energy conservation can be negated by the application of the TAM. Breaking the link between sales volume and revenue collection allows the Company to promote energy efficiency without threatening its financial viability. In this way, the TAM aligns the Company's interests with those of its customers, who clearly benefit from avoiding commodity expenses and other volumetric costs through conservation.

VII. OTHER TARIFF CHANGES.

Q. Are you proposing any other tariff changes?

A. Yes. UNS Gas proposes tariff changes as follows:

(i) Eliminate the Base Cost of Gas in all gas service tariffs. With this modification, all gas commodity and transportation costs will be recovered through the PGA Rate. UNS Gas witness Mr. David G. Hutchens discusses this proposed change in his direct testimony.

(ii) Modify Pricing Plans I-30 Small Volume Industrial and I-32, Large Volume Industrial Service to conform to the North American Industry Classification System ("NAICS") Sector designations. Also, the NAICS Sector for agriculture has been added to the tariff.

(iii) Revise the first sentence of the Applicability section of Pricing Plans Public Authority ("PA")-40 Small Volume Public Authority Service and PA-42 Large Volume Public Authority Service to read " To all facilities *owned or* operated by governmental agencies…".

The four modified Pricing Plans are shown in a red-line format, attached as Exhibit TLV-4.

Q. Why is UNS Gas proposing to change Pricing Plans I-30 and I-32?

A. UNS Gas proposes the replacement of Standard Industrial Classification ("SIC") codes with NAICS designations because SIC codes are no longer used. UNS Gas proposes to add an agriculture designation to the Pricing Plans because the load characteristics of industrial agriculture customers are similar to those of mining and manufacturing.

Q. Why is UNS Gas proposing the change to PA 40 and PA 42?

A. These tariffs are intended to apply to service for governmental agencies. An agency receives the service whether it both owns and operates the facility, or whether it just owns the facility and contracts with another party for the operation of its facility. Adding the words "owned or" enables the governmental agency in the latter case to qualify for one of these Pricing Plans.

Q. Are you proposing an increase in reconnect fees for customers who leave the system and then return?

A. Yes. We have revised the definition of Service Re-Establishment Charge in the UNS Gas Rules and Regulations to include a clause for customers who disconnect and subsequently reconnect at the same premise within a 12-month period. Such customers will be charged the sum of the monthly customer charges that they would have incurred had they remained connected to the system.

Q. Why are you proposing this modification?

A. This modification is intended to discourage customers from disconnecting during the summer months in order to avoid customer charges. Typically, such customers would not use gas during the summer months, so disconnection does not significantly affect their usage. As discussed above, the customer charge is designed to collect fixed costs. It would be unfair to the Company and other customers if some customers were permitted to avoid their fixed cost responsibility by disconnecting service for a portion of the year.

Q. What rate design changes are you proposing for customers not on the general residential rate, including non-residential customers?

A. Schedule H-3 shows a comparison of present and proposed rate components for all UNS Gas Pricing Plans. The rate components in each pricing plan were designed so that the overall revenue increase by class is equal.

VIII. DEMAND SIDE MANAGEMENT COST RECOVERY.

Q. How will UNS Gas recover the costs of the Demand Side Management ("DSM") programs?

A. The Company proposes to implement an annually adjusted charge to provide cost recovery for the approved DSM program portfolio. The DSM charge will be applied to customers' bills as a per therm charge. The charge will be initially set based on total Company adjusted test year therms and expected annual DSM funding (as described in the testimony of Mr. Gary A. Smith). In subsequent years, the required charge will be adjusted based on historic and projected DSM funding and customer collections. Annually, before April 1, the Company will file a request to the Commission with supporting documentation to revise its DSM charge.

Q. What is the projected charge amount if all of the proposed programs are approved?

A. Using adjusted test year therms of 138,233,864 and proposed DSM funding of $1,051,616, the initial DSM surcharge will be $0. 007608 per therm.

Q. What specific DSM programs is UNS Gas proposing?

A. UNS Gas witness Mr. Smith discusses the specific programs and funding levels in his direct testimony.

Q. Does this conclude your testimony?

A. Yes, it does.

EXHIBIT

TVL-1

Residential Use and Margin by Location

Location	Annual Customers Billed	Average Monthly Customers Billed	Billed Usage (Therms) (1)	Average Annual Usage (Therms)	Average Annual Margin Present (2)	Difference from Average	Average Annual Margin Proposed (3)
Flagstaff	333,263	27,381	18,929,161	691	$292	$39	$333
Sedona	73,797	6,063	4,105,548	677	$287	$34	$330
Winslow	32,269	2,651	1,702,099	642	$277	$24	$324
Holbrook	23,224	1,908	1,182,361	620	$270	$17	$319
Prescott	467,420	38,403	22,267,922	580	$258	$5	$312
Show Low	125,393	10,302	5,964,771	579	$258	$5	$312
Kingman	183,190	15,051	7,139,617	474	$226	($26)	$292
Cottonwood	116,995	9,612	4,191,466	436	$215	($38)	$285
Santa Cruz	79,990	6,572	2,772,898	422	$211	($42)	$283
Lake Havasu	74,743	6,141	1,526,258	249	$159	($94)	$250
Total	1,510,284	124,085	69,782,101	562	$253		$309

(1) Does not include unbilled usage.
(2) The residential customer charge is $7.00 per month and margin rate is $0.3004 per therm.
(3) The residential customer charge is $17.00 per month and margin rate is $0.1862 per therm.

EXHIBIT

TVL-2

Example of Throughput Adjustment Calculation

Line	Residential (R-10 and R-12)	
1	Test Year Throughput (Therms)	70,234,286
2	Test Year Average Number of Customers	124,085
3	Test Year Use Per Customer (Line1/Line 2)	566.02
4	Hypothetical 2006 UPC (1)	560.92
5	Difference in UPC (Line 4 - Line 3)	(5.09)
6	Margin Rate (per Therm)	$0.1862
7	Throughput Adjustment (Line 2 x Line 5 x Line 6)	($117,699)
8	Projected 12 month Throughput (Therms) (2)	75,965,404
9	Throughput Adjustment per Therm (Line 7/Line 8)	($0.0015)

	Small Volume Commercial (C-20)	
1	Test Year Throughput (Therms)	28,801,436
2	Test Year Average Number of Customers	10,849
3	Test Year Use Per Customer (Line1/Line 2)	2654.75
4	Hypothetical 2006 UPC (3)	2617.59
5	Difference in UPC (Line 4 - Line 3)	(37.17)
6	Margin Rate (per Therm)	$0.2637
7	Throughput Adjustment (Line 2 x Line 5 x Line 6)	($106,329)
8	Projected 12 month Throughput (Therms) (4)	30,259,509
9	Throughput Adjustment per Therm (Line 7/Line 8)	($0.0035)

	Small Volume Public Authority (PA-40)	
1	Test Year Throughput (Therms)	5,743,485
2	Test Year Average Number of Customers	1,042
3	Test Year Use Per Customer (Line1/Line 2)	5511.98
4	Hypothetical 2006 UPC (5)	5407.25
5	Difference in UPC (Line 4 - Line 3)	(104.73)
6	Margin Rate (per Therm)	$0.2712
7	Throughput Adjustment (Line 2 x Line 5 x Line 6)	($29,595)
8	Projected 12 month Throughput (Therms) (6)	5,858,929
9	Throughput Adjustment per Therm (Line 7/Line 8)	($0.0051)

Notes

(1) Decline of 0.9%, based on the average year over year change in residential UPC years 1996 to 2005.
(2) Based on a 4.0% annual growth rate.
(3) Decline of 1.4%, based on the average year over year change in total commercial UPC years 1996 to 2005.
(4) Based on a 2.5% annual growth rate.
(5) Decline of 1.9%, based on the average year over year change in total public authority UPC years '96 to'05.
(6) Based on a 1.0% annual growth rate.

EXHIBIT

TVL-3

UniSourceEnergy SERVICES

UNS Gas, Inc.
Rider RR-2
Throughput Adjustment Mechanism (TAM)

APPLICABILITY
The Throughput Adjustment Mechanism ("TAM") applies to Company pricing plans R-10 Resiential Gas Service, R-12 Customer Assistance Resiential Energy Support, C-20 Small Volume Commercial Service and PA 40 Small Volume Public Authority Service.

RATE ADJUSTMENT

Each applicable Pricing Plan will be subject to an annual adjustment to the Basic Cost of Service Rate in the form of a credit or surcharge. Such adjustment shall be based on the difference between Use-Per-Customer(UPC) in the Calendar Year and the UPC for the respective Pricing Plans in the Base Year. The Base Year components for number of customers and throughput are those established in Docket No. G-04204A-06-XXX, Decision No. XXXXX. The adjustment to the Basic Cost of Service Rate will be calculated by dividing the end of Calendar Year Throughput Adjustment Bank Balance by the projected twelve month throughput.

THROUGHPUT ADJUSTMENT BANK BALANCE

The Company shall maintain accounting records that accumulate the dollar amounts to be recovered or refunded customers taking service under Pricing Plans R-10, R-12, C-20 and PA-40. The amounts that apply to Pricing Plans R-10 and R-12 will be combined, while the amounts that apply to C-20 and PA-40 will be recorded individually. Each calendar quarter, entries will be made to the three TAM bank balances. Each entry will be calculated by multiplying the difference between the Base Year UPC for the quarter and the UPC in the current quarter by the Base Year average number of customers. This total quarterly throughput volume will be multiplied by the Basic Cost of Service Rate for the respective Pricing Plan to determine the debit or credit entry for the TAM bank balance.

ANNUAL FILINGS

No later than forty-five days after the end of each Calendar Year, the Company shall make a filing with the Commission that shall include each of the four quarterly TAM bank balance entries and supporting documentation. The filing shall also include the Company's calculated adjustment to the respective Basic Cost of Service Rates in the applicable Pricing Plans, including supporting documentation.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan R-10
Residential Gas Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$7.00
Basic Cost of Service Rate per therm @	$0.7004

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

Throughput Adjustment Mechanism: The basic cost of service rate set forth above shall be increased or decreased by the amount of the throughput adjustment surcharge or credit for the billing month computed in accordance with the provisions of Rider RR-2.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan R-12
Customer Assistance Residential Energy Support
(C.A.R.E.S.)

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To gas service qualifying for billing under Residential Pricing Plan R-10 where the customer also has qualified for Pricing Plan R-12 as specified in the Company's plan for administration. All provisions of Pricing Plan R-10 will apply except as modified herein.

RATE

The monthly bill shall be in accordance with Pricing Plan R-10 except:

Basic Cost of Service Rate: ~~first 100 therms or less per month will be discounted by $0.1500 per therm for the billing months of November through April.~~ The Customer Charge will be disounted by $6.50 each month.

SPECIAL CONDITIONS

1. Eligibility requirements for C.A.R.E.S. are set forth on the Company's Application and Declaration of Eligibility for Low Income Ratepayer Assistance form. Customers who desire to qualify for this pricing plan must initially make application to the Company for qualification and must provide verification to the Company that the customer's household gross income does not exceed one hundred fifty percent (150%) of the federal poverty level. Qualified customers must have an approved application form on file with the Company. Subsequent to the initial certification, the residential customer seeking to retain eligibility for the C.A.R.E.S. must provide a personal certification that the household gross income of the residential dwelling unit involved does not exceed one hundred fifty percent (150%) of the federal poverty level.

2. Samples of the existing CARES participants will be re-certified every two years prior to October 1 and when a customer changes residence.

3. Eligible customers shall be billed under this pricing plan during the winter season, commencing with the next regularly scheduled billing period after the Company has received the customer's properly completed application form or re-certification.

4. Eligibility information provided by the customer on the application form may be subject to verification by the Company. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Company, upon request of the Company, shall result in removal from or ineligibility for this pricing plan

PRICING PLAN R-12 (continued)

5. Customers who wrongfully declare eligibility or fail to notify the Company when they no longer meet the eligibility requirements may be rebilled for the period of ineligibility under their otherwise applicable residential pricing plan.

6. It is the responsibility of the customer to notify the Company within thirty (30) days of any changes in the customer's eligibility status.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan C-20
Small Volume Commercial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all commercial customers whose primary business activity at the location served is not provided for under any other pricing plan, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery, and whose gas is metered through one meter.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$11.00
Basic Cost of Service Rate per therm @	$0.6420

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

Throughput Adjustment Mechanism: The basic cost of service rate set forth above shall be increased or decreased by the amount of the throughput adjustment surcharge or credit for the billing month computed in accordance with the provisions of Rider RR-2.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan PA-40
Small Volume Public Authority Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery and gas is metered through one meter.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$11.00
Basic Cost of Service Rate per therm @	$0.6354

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

Throughput Adjustment Mechanism: The basic cost of service rate set forth above shall be increased or decreased by the amount of the throughput adjustment surcharge or credit for the billing month computed in accordance with the provisions of Rider RR-2.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

EXHIBIT

TLV-4

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan I-30
Small Volume Industrial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all customers whose gas usage does not exceed 120,000 therms per year, who are served through a single meter, and whose primary business activity at the location served is included in one of the following classifications of the North American Classification System, United States:

Sector 11. Agriculture, Forestry, Fishing and Hunting: Subsector 111. Crop Production only;
Sector 21. Mining: All Subsectors
Sector 22. Utilities: Power Generation Subsectors only: and
Sectors 31-33. Manufacturing: All Subsectors

Deleted: Standard Industrial Classification Manual of the U.S. Government
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Deleted: Division B – Mining: All Major Groups
Deleted: Division D – Manufacturing: All Groups; and
Deleted: Division E – Utility: Power Generation only

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$11.00
Basic Cost of Service Rate per therm @	$0.6122

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan I-32
Large Volume Industrial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all customers whose gas usage over the preceding twelve (12) months exceeded 120,000 therms, and whose primary business activity at the location served is included in one of the following classifications of the Northern American Industry Classification System, United States:

- Sector 11. Agriculture, Forestry, Fishing and Hunting: Subsector 111. Crop Production only;
- Sector 21. Mining: All Subsectors;
- Sector 22. Utilities: Power Generation Subsectors only; and
- Sectors 31 – 33. Manufacturing: All Subsectors.

Service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.

Any customer transferring from this pricing plan may not return for a period of twelve (12) billing months.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$85.00
Basic Cost of Service Rate per therm @	$0.4864

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

PRICING PLAN I-32 (continued)

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan PA-40
Small Volume Public Authority Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery and gas is metered through one meter.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$11.00
Basic Cost of Service Rate per therm @	$0.6354

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract. Under this pricing plan, usage over the preceding twelve (12) months must exceed 120,000 therms when all service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.

Any customer transferring from this pricing plan may not return for a period of twelve (12) billing months.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$85.00
Basic Cost of Service Rate per therm @	$0.5084

(Base cost of gas of $0.4000 per therm is included in the basic cost of service rate)

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. 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 UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-06-____

UNS GAS, INC. SCHEDULES A THROUGH H

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July 13, 2006

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UNS Gas, Inc.Tucson Electric Power Company
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Schedule A

UNS Gas, Inc.
Computation of Increase in Gross Revenue Requirements
Test Year Ended December 31, 2005

		ACC Jurisdiction						
Line No.	Description	Original Cost		RCND		Fair Value		Line No.
1	Adjusted Rate Base	$161,661,362	(a)	$221,197,435	(a)	$191,429,398		1
2	Adjusted Operating Income	$8,428,981	(b)	$8,428,981	(b)	$8,428,981		2
3	Current Rate of Return (2/1)	5.21%		3.81%		4.40%		3
4	Required Operating Income	$14,223,179		$14,223,179		$14,223,179		4
5	Required Rate of Return (4/1)	8.80%	(c)	6.43%		7.43%		5
6	Operating Income Deficiency	$5,794,198		$5,794,198		$5,794,198		6
7	Gross Revenue Conversion Factor	1.6649	(d)	1.6649	(d)	1.6649	(d)	7
8	Increase in Gross Revenue Requirement	$9,646,901		$9,646,901		$9,646,901		8

Customer Classification	Projected Revenue Increase (e)	% Dollar Increase (e)
Residential Service	$6,788,619	21.11%
Commercial Gas Service	1,846,097	21.11%
Industrial Gas Service	66,562	21.23%
Public Authority Gas Service	347,338	21.11%
Special Gas Light Service	15,220	20.83%
Irrigation Service	4,975	21.11%
Transportation Customers	578,089	21.11%
Total	$9,646,901	21.11%

Supporting Schedules
(a) B-1
(b) C-1
(c) D-1
(d) C-3
(e) H-1

UNS Gas, Inc.
Summary Results of Operations
Prior Years Ended December 31, 2003 and 2004, Test Year Ended December 31, 2005,
and Projected Year Ended December 31, 2006
(Thousands of Dollars)

Line No.	Description	Prior Years Ended December 31, 2003 (a)	Prior Years Ended December 31, 2004 (a)	Test Year Ended December 31, 2005 Actuals (b)	Test Year Ended December 31, 2005 Adjusted (b)	Projected Year Ended December 31, 2006 Present Rates (c)	Projected Year Ended December 31, 2006 Proposed Rates (c)	Line No.
1	Operating Revenues	$47,297	$128,956	$138,279	$47,170	$168,647	$178,393	1
2	Operating Expenses (includes income taxes)	43,855	117,090	127,689	38,741	159,124	163,026	2
3	Operating Income	3,443	11,866	10,590	8,429	9,523	15,367	3
4	Other Income and Deductions	71	132	791	791	619	716	4
5	Income Before Interest Expense	3,513	11,998	11,381	9,220	10,142	16,083	5
6	Interest Expense	2,449	6,294	6,336	6,521 (d)	6,446	6,440	6
7	Net Income	$1,064	$5,703	$5,046	$2,699	$3,696	$9,643	7
8	Earnings Per Average Common Share	N/A (2)	N/A	N/A	N/A	N/A	N/A	8
9	Dividends Per Common Share	N/A (2)	N/A	N/A	N/A	N/A	N/A	9
10	Payout Ratio	0%	0%	0%	0%	0%	0%	10
11	Return on Year-End Invested Capital	N/A (1)	10.02%	8.11%	6.35%	6.79%	11.89%	11
12	Return on Average Invested Capital	N/A (1)	10.21%	8.61%	6.71%	6.91%	12.21%	12
13	Return on Year-End Common Equity	N/A (1)	9.71%	6.32%	3.48%	4.43%	10.78%	13
14	Return on Average Common Equity	N/A (1)	10.20%	7.28%	3.96%	4.53%	11.39%	14
15	Times Total Interest Earned - Before Income Taxes	N/A (1)	2.51	2.29	1.72	1.95	3.48	15
16	Times Total Interest Earned - After Income Taxes	N/A (1)	1.91	1.80	1.41	1.57	2.50	16

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed; thus, such information is not meaningful.
(2) UNS Gas, Inc. is a subsidiary of UniSource Energy Corporation and has no publicly traded stock; thus, such information is not meaningful.

Supporting Schedules
(a) E-2
(b) C-1
(c) F-1
(d) D-2

UNS Gas, Inc.
Summary of Capital Structure
Prior Years Ended December 31, 2003 and 2004, Test Year Ended December 31, 2005,
and Projected Year Ended December 31, 2006
(Thousands of Dollars)

Line No.	Description	Prior Years Ended December 31, 2003 (a)	Prior Years Ended December 31, 2004 (a)	Test Year Ended December 31, 2005 Actuals (b)	Projected Year December 31, 2006 Present Rates (b)	Projected Year December 31, 2006 Proposed Rates (b)	Line No.
	Capitalization						
1	Short-Term Debt	N/A	N/A	N/A	$2,578	N/A	1
2	Long-Term Debt (Net of Issuance Costs)	$98,716	$98,856	$98,859	$99,060	$99,060	2
	Total Debt	98,716	98,856	98,859	101,638	99,060	
3	Common Stock Equity	53,085	58,759	79,804	83,500	89,447	3
4	Total Capital	$151,801	$157,615	$178,663	$185,138	$188,507	4
	Capitalization Ratios						
5	Short-Term Debt	N/A	N/A	N/A	1.39%	N/A	5
6	Long-Term Debt (Net of Issuance Costs)	65.03%	62.72%	55.33%	53.51%	52.55%	6
7	Common Stock Equity	34.97%	37.28%	44.67%	45.10%	47.45%	7
8	Total Capital	100.00%	100.00%	100.00%	100.00%	100.00%	8
9	Weighted Cost of Short-Term Debt	N/A	N/A	N/A	0.09%	N/A	9
10	Weighted Cost of Long-Term Debt	4.29%	4.14%	3.65%	3.52%	3.46%	10
11	Weighted Cost of Common Equity	3.85%	4.10%	4.91%	4.96%	5.22%	11

Supporting Schedules
(a) E-1
(b) D-1

UNS Gas, Inc.
Construction Expenditures and Gross Utility Plant in Service
Prior Years Ended December 31, 2003 and 2004, Test Year Ended December 31, 2005,
and Projected Years Ended December 31, 2006, 2007 and 2008
(Thousands of Dollars)

Line No.	Year			Construction Expenditures	Net Plant In Service	Gross Utility Plant in Service	Line No.
1	Prior Year Ended December 31, 2003	(1)	(a)	$8,595	$143,563	$207,296	1
2	Prior Year Ended December 31, 2004		(a)	$19,137	$159,461	$229,318	2
3	Test Year Ended December 31, 2005		(a)	$23,578	$174,730	$248,744	3
4	Projected Year Ended December 31, 2006		(b)	$30,287	$196,097	$277,191	4
5	Projected Year Ended December 31, 2007		(b)	$26,423	$213,261	$302,732	5
6	Projected Year Ended December 31, 2008		(b)	$21,725	$224,625	$323,556	6

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Supporting Schedules
(a) E-1 & E-3
(b) F-3

UNS Gas, Inc.
Summary Changes in Financial Position
Prior Years Ended December 31, 2003 and 2004, Test Year Ended December 31, 2005,
and Projected Year Ended December 31, 2006
(Thousands of Dollars)

		Prior Years Ended December 31,		Test Year Ended December 31,	Projected Years Ended December 31, 2006		
Line No.	Description	2003 (a) (1)	2004 (a)	2005 (a)	Present Rates (b)	Proposed Rates (b)	Line No.
1	Net Cash Flows from Operating Activities	$5,224	$20,361	$13,946	$15,851	$20,405	1
2	Net Cash Flows From Investing Activities	(145,891)	(18,959)	(23,225)	(29,859)	(29,859)	2
3	Net Cash Flows from Financing Activities	148,607	(773)	14,763	4,955	2,377	3
4	Net Increase (Decrease) in Cash	$7,940	$629	$5,484	($9,053)	($7,077)	4

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Supporting Schedules
(a) E-3
(b) F-2

Schedule B

UNS Gas, Inc.
Summary of Original Cost and RCND Rate Base
Test Year Ended December 31, 2005

Line No.	Description	Total: Adjusted Original Cost Rate Base (a)	Total: Adjusted RCND Rate Base (b)	ACC Jurisdiction: Adjusted Original Cost Rate Base (a)	ACC Jurisdiction: Adjusted RCND Rate Base (b)	Line No.
1	Gross Utility Plant in Service	$279,169,694	$374,243,421	$279,169,694	$374,243,421	1
2	Less: Accumulated Depreciation	72,006,708	97,114,865	72,006,708	97,114,865	2
3	Net Utility Plant in Service	207,162,986	277,128,556	207,162,986	277,128,556	3
4	Southern Union Acquisition Premium	0	0	0	0	
5	Less: Accum. Amort. - So. Union Acq. Premium	0	0	0	0	
6	Net Southern Union Acquisition Premium	0	0	0	0	
7	Citizens Acquisition Discount	(30,709,738)	(41,822,562)	(30,709,738)	(41,822,562)	7
8	Less: Accum. Amort. - Citizens Acq. Discount	(1,876,981)	(2,560,308)	(1,876,981)	(2,560,308)	8
9	Net Citizens Acquisition Discount	(28,832,757)	(39,262,254)	(28,832,757)	(39,262,254)	9
10	Total Net Utility Plant	178,330,229	237,866,302	178,330,229	237,866,302	10
11	Customer Advances for Construction	(7,283,595)	(7,283,595)	(7,283,595)	(7,283,595)	11
12	Customer Deposits	(3,040,484)	(3,040,484)	(3,040,484)	(3,040,484)	12
13	Accumulated Deferred Income Taxes	(6,484,809)	(6,484,809)	(6,484,809)	(6,484,809)	13
14	Total Deductions	(16,808,888)	(16,808,888)	(16,808,888)	(16,808,888)	14
15	Allowance for Working Capital	(1,045,146)	(1,045,146)	(1,045,146)	(1,045,146)	15
16	Regulatory Assets	1,204,887	1,204,887	1,204,887	1,204,887	16
17	Regulatory Liabilities	(19,721)	(19,721)	(19,721)	(19,721)	17
18	Total Rate Base	$161,661,362	$221,197,435	$161,661,362	$221,197,435	18

Supporting Schedules
(a) B-2
(b) B-3

Recap Schedules
A-1

UNS Gas, Inc.
Pro Forma Adjustments to Original Cost Rate Base
Test Year Ended December 31, 2005

Line No.	Description		Actual at End of Test Period	Total Adjustments (a)	Adjusted at End of Test Period	ACC Jurisdiction	Line No.
1	Gross Utility Plant in Service		$291,005,954	($11,836,260)	$279,169,694	$279,169,694	1
2	Less: Accumulated Depreciation		77,077,541	(5,070,833)	72,006,708	72,006,708	2
3	Net Utility Plant in Service		213,928,413	(6,765,427)	207,162,986	207,162,986	3
4	Southern Union Acquisition Premium		18,271,348	(18,271,348)	0	0	4
5	Less: Accum. Amort. - So. Union Acq. Premium		1,217,595	(1,217,595)	0	0	5
6	Net Southern Union Acquisition Premium		17,053,753	(17,053,753)	0	0	6
7	Citizens Acquisition Discount		(68,391,293)	37,681,555	(30,709,738)	(30,709,738)	7
8	Less: Accum. Amort. - Citizens Acq. Discount		(4,280,947)	2,403,966	(1,876,981)	(1,876,981)	8
9	Net Citizens Acquisition Discount		(64,110,346)	35,277,589	(28,832,757)	(28,832,757)	9
10	Total Net Utility Plant		166,871,820	11,458,409	178,330,229	178,330,229	10
11	Customer Advances for Construction		(7,283,595)	0	(7,283,595)	(7,283,595)	11
12	Customer Deposits		(3,040,484)	0	(3,040,484)	(3,040,484)	12
13	Accumulated Deferred Income Taxes		(9,292,701)	2,807,892	(6,484,809)	(6,484,809)	13
14	Total Deductions		(19,616,780)	2,807,892	(16,808,888)	(16,808,888)	14
15	Working Capital	(b)	2,246,357	(3,291,503)	(1,045,146)	(1,045,146)	15
16	Regulatory Assets		309,481	895,406	1,204,887	1,204,887	16
17	Regulatory Liabilities		(19,721)	0	(19,721)	(19,721)	17
18	Total Original Cost Rate Base		$149,791,158	$11,870,204	$161,661,362	$161,661,362	18

Supporting Schedules
(a) B-2 (P2-3)
(b) B-5

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to Original Cost Rate Base
As of December 31, 2005

Line No.	Description	Pro Forma Adjustments: Acquisition Adjustment	So. Union Acq. Premium	Griffith Power Plant	CWIP	Build-Out Plant	CARES Asset	GIS Deferral	Total Page Adjustments	Line No.
1	Gross Utility Plant in Service	$0	$0	($6,184,402)	$7,189,231	($12,841,089)	$0	$0	($11,836,260)	1
2	Less: Accumulated Depreciation	0	0	(930,316)	0	(4,140,517)	0	0	(5,070,833)	2
3	Net Utility Plant in Service	0	0	(5,254,086)	7,189,231	(8,700,572)	0	0	(6,765,427)	3
4	Southern Union Acquisition Premium	0	(18,271,348)	0	0	0	0	0	(18,271,348)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	(1,217,595)	0	0	0	0	0	(1,217,595)	5
6	Net Southern Union Acquisition Premium	0	(17,053,753)	0	0	0	0	0	(17,053,753)	6
7	Citizens Acquisition Discount	37,681,555	0	0	0	0	0	0	37,681,555	7
8	Less: Accum. Amort. - Citizens Acq. Discount	2,403,966	0	0	0	0	0	0	2,403,966	8
9	Net Citizens Acquisition Discount	35,277,589	0	0	0	0	0	0	35,277,589	9
10	Total Net Utility Plant	35,277,589	(17,053,753)	(5,254,086)	7,189,231	(8,700,572)	0	0	11,458,409	10
11	Customer Advances for Construction	0	0	0	0	0	0	0	0	11
12	Customer Deposits	0	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	0	0	0	0	0	0	0	0	13
14	Total Deductions	0	0	0	0	0	0	0	0	14
15	Allowance for Working Capital	0	0	0	0	0	0	0	0	15
16	Regulatory Assets	0	0	0	0	0	(1,662)	897,068	895,406	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	0	17
18	Total Original Cost Rate Base	$35,277,589	($17,053,753)	($5,254,086)	$7,189,231	($8,700,572)	($1,662)	$897,068	$12,353,815	18

Supporting Schedules
N/A

Recap Schedules
B-1

Tucson Electric Power Company
Pro Forma Adjustments to Original Cost Rate Base
As of December 31, 2005

Line No.	Description	Pro Forma Adjustments: Accumulated Deferred Income Taxes	Working Capital (a)				Total Page Adjustments	Total Original Cost Adjustments	Line No.
1	Gross Utility Plant in Service	$0	$0	$0	$0	$0	$0	($11,836,260)	1
2	Less: Accumulated Depreciation	0	0	0	0	0	0	(5,070,833)	2
3	Net Utility Plant in Service	0	0	0	0	0	0	(6,765,427)	3
4	Southern Union Acquisition Premium	0	0	0	0	0	0	(18,271,348)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	0	0	0	0	0	(1,217,595)	5
6	Net Southern Union Acquisition Premium	0	0	0	0	0	0	(17,053,753)	6
7	Citizens Acquisition Discount	0	0	0	0	0	0	37,681,555	7
8	Less: Accum. Amort. - Citizens Acq. Discount	0	0	0	0	0	0	2,403,966	8
9	Net Citizens Acquisition Discount	0	0	0	0	0	0	35,277,589	9
10	Total Net Utility Plant	0	0	0	0	0	0	11,458,409	10
11	Customer Advances for Construction	0	0	0	0	0	0	0	11
12	Customer Deposits	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	2,807,892	0	0	0	0	2,807,892	2,807,892	13
14	Total Deductions	2,807,892	0	0	0	0	2,807,892	2,807,892	14
15	Allowance for Working Capital	0	(3,291,503)	0	0	0	(3,291,503)	(3,291,503)	15
16	Regulatory Assets	0	0	0	0	0	0	895,406	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	17
18	Total Original Cost Rate Base	$2,807,892	($3,291,503)	$0	$0	$0	($483,611)	$11,870,204	18

Supporting Schedules
(a) B-5

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to RCND Rate Base
Test Year Ended December 31, 2005

Line No.	Description	Actual at End of Test Period (a), (b)	Total Adjustments (c)	Adjusted at End of Test Period	ACC Jurisdiction	Line No.
1	Gross Utility Plant in Service	$392,483,942	($18,240,521)	$374,243,421	$374,243,421	1
2	Less: Accumulated Depreciation	104,022,814	(6,907,949)	97,114,865	97,114,865	2
3	Net Utility Plant in Service	288,461,128	(11,332,572)	277,128,556	277,128,556	3
4	Southern Union Acquisition Premium	25,628,403	(25,628,403)	0	0	4
5	Less: Accum. Amort. - So. Union Acq. Premium	1,707,867	(1,707,867)	0	0	5
6	Net Southern Union Acquisition Premium	23,920,536	(23,920,536)	0	0	6
7	Citizens Acquisition Discount	(93,139,889)	51,317,327	(41,822,562)	(41,822,562)	7
8	Less: Accum. Amort. - Citizens Acq. Discount	(5,834,197)	3,273,889	(2,560,308)	(2,560,308)	8
9	Net Citizens Acquisition Discount	(87,305,692)	48,043,438	(39,262,254)	(39,262,254)	9
10	Total Net Utility Plant	225,075,972	12,790,330	237,866,302	237,866,302	10
11	Customer Advances for Construction	(7,283,595)	0	(7,283,595)	(7,283,595)	11
12	Customer Deposits	(3,040,484)	0	(3,040,484)	(3,040,484)	12
13	Accumulated Deferred Income Taxes	(9,292,701)	2,807,892	(6,484,809)	(6,484,809)	13
14	Total Deductions	(19,616,780)	2,807,892	(16,808,888)	(16,808,888)	14
15	Allowance for Working Capital	2,246,357	(3,291,503)	(1,045,146)	(1,045,146)	15
16	Regulatory Assets	309,481	895,406	1,204,887	1,204,887	16
17	Regulatory Liabilities	(19,721)	0	(19,721)	(19,721)	17
18	Total RCND Rate Base	$207,995,310	$13,202,125	$221,197,435	$221,197,435	18

Supporting Schedules
(a) B-4
(b) B-2
(c) B-3 (P2-3)

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to RCND Rate Base
As of December 31, 2005

Line No.	Description	Pro Forma Adjustments: Acquisition Adjustment	So. Union Acq. Premium	Griffith Power Plant	CWIP	Build-Out Plant	CARES Asset	GIS Deferral	Total Page Adjustments	Line No.
1	Gross Utility Plant in Service	$0	$0	($7,509,263)	$7,189,231	($17,920,489)	$0	$0	($18,240,521)	1
2	Less: Accumulated Depreciation	0	0	(1,129,614)	0	(5,778,335)	0	0	(6,907,949)	2
3	Net Utility Plant in Service	0	0	(6,379,649)	7,189,231	(12,142,154)	0	0	(11,332,572)	3
4	Southern Union Acquisition Premium	0	(25,628,403)	0	0	0	0	0	(25,628,403)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	(1,707,867)	0	0	0	0	0	(1,707,867)	5
6	Net Southern Union Acquisition Premium	0	(23,920,536)	0	0	0	0	0	(23,920,536)	6
7	Citizens Acquisition Discount	51,317,327	0	0	0	0	0	0	51,317,327	7
8	Less: Accum. Amort. - Citizens Acq. Discount	3,273,889	0	0	0	0	0	0	3,273,889	8
9	Net Citizens Acquisition Discount	48,043,438	0	0	0	0	0	0	48,043,438	9
10	Total Net Utility Plant	48,043,438	(23,920,536)	(6,379,649)	7,189,231	(12,142,154)	0	0	12,790,330	10
11	Customer Advances for Construction	0	0	0	0	0	0	0	0	11
12	Customer Deposits	0	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	0	0	0	0	0	0	0	0	13
14	Total Deductions	0	0	0	0	0	0	0	0	14
15	Allowance for Working Capital	0	0	0	0	0	0	0	0	15
16	Regulatory Assets	0	0	0	0	0	(1,662)	897,068	895,406	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	0	17
18	Total RCND Rate Base	$48,043,438	($23,920,536)	($6,379,649)	$7,189,231	($12,142,154)	($1,662)	$897,068	$13,685,736	18

Supporting Schedules
N/A

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to RCND Rate Base
As of December 31, 2005

Line No.	Description	Pro Forma Adjustments: Accumulated Deferred Income Taxes	Working Capital (a)				Total Page Adjustments	Total Original Cost Adjustments	Line No.
1	Gross Utility Plant in Service	$0	$0	$0	$0	$0	$0	($18,240,521)	1
2	Less: Accumulated Depreciation	0	0	0	0	0	0	(6,907,949)	2
3	Net Utility Plant in Service	0	0	0	0	0	0	(11,332,572)	3
4	Southern Union Acquisition Premium	0	0	0	0	0	0	(25,628,403)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	0	0	0	0	0	(1,707,867)	5
6	Net Southern Union Acquisition Premium	0	0	0	0	0	0	(23,920,536)	6
7	Citizens Acquisition Discount	0	0	0	0	0	0	51,317,327	7
8	Less: Accum. Amort. - Citizens Acq. Discount	0	0	0	0	0	0	3,273,889	8
9	Net Citizens Acquisition Discount	0	0	0	0	0	0	48,043,438	9
10	Total Net Utility Plant	0	0	0	0	0	0	12,790,330	10
11	Customer Advances for Construction	0	0	0	0	0	0	0	11
12	Customer Deposits	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	2,807,892	0	0	0	0	2,807,892	2,807,892	13
14	Total Deductions	2,807,892	0	0	0	0	2,807,892	2,807,892	14
15	Allowance for Working Capital	0	(3,291,503)	0	0	0	(3,291,503)	(3,291,503)	15
16	Regulatory Assets	0	0	0	0	0	0	895,406	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	17
18	Total RCND Rate Base	$2,807,892	($3,291,503)	$0	$0	$0	($483,611)	$13,202,125	18

Supporting Schedules
(a) B-5

Recap Schedules
B-1

UNS Gas, Inc.
RCND By Major Plant Accounts
Test Year Ended December 31, 2005

Line No.	Function	Plant Account	Description	RCN	Percent	RCND	Line No.
1	INTANGIBLE	302	Franchises & Consents	$383,215	48.5%	$185,668	1
2		303	Misc. Intangible Plant	1,375,992	62.2%	855,867	2
3			Total Intangible Plant	1,759,207		1,041,535	3
4	TRANSMISSION	365	Land & Rights	102,606	100.0%	102,606	4
5		366	Structures & Improvements	18,473	75.5%	13,938	5
6		367	Mains	27,959,827	81.8%	22,871,138	6
7		369	Measuring and Req. Equipment	4,089,816	79.7%	3,257,538	7
8		371	Other Equipment	229,632	75.7%	173,717	8
9			Total Transmission Plant	32,400,354		26,418,937	9
10	DISTRIBUTION	374	Land & Rights	257,989	100.0%	257,989	10
11		375	Structures & Improvements	20,768	10.8%	2,233	11
12		376	Mains	206,252,648	77.1%	159,065,668	12
13		378	Meas. And Req. Equipment - General	3,082,801	53.1%	1,635,426	13
14		379	Meas. And Req. Equipment - City Gate	3,120,408	64.8%	2,022,024	14
15		380	Services	89,483,544	68.6%	61,385,711	15
16		381	Meters	18,879,290	62.3%	11,761,798	16
17		382	Meter Installation	8,963,914	84.1%	7,538,652	17
18		383	Regulators	2,867,967	58.5%	1,677,761	18
19		384	Regulator Installations	1,291,089	91.7%	1,183,283	19
20		385	Industiral Measuring Equipment	2,588,378	50.7%	1,311,013	20
21		387	Other Equipment	1,982,848	75.8%	1,502,999	21
22			Total Distribution Plant	338,791,644		249,344,556	22
23	GENERAL	389	Land & Rights	194,035	100.0%	194,035	23
24		390	Structures & Improvements	2,664,846	58.9%	1,569,594	24
25		391	Office Furniture & Equipment	7,007,232	49.2%	3,444,055	25
26		392	Transportation Equipment	5,038,076	64.9%	3,269,711	26
27		393	Stores Equipment	170,574	76.9%	131,171	27
28		394	Tools, Shop, & Garage Equipment	2,056,865	67.8%	1,394,554	28
29		395	Laboratory Equipment	700,789	60.5%	423,977	29
30		396	Power Operated Equipment	455,891	25.8%	117,620	30
31		397	Communication Equipment	938,699	96.9%	909,599	31
32		398	Misc. Equipment	305,730	66.0%	201,782	32
33		399	Other Tangible Property	0	0.0%	0	33
34			Total General Plant	19,532,737		11,656,099	34
35			Total Plant	$392,483,942	73.50%	$288,461,128	35

Supporting Schedules
N/A

Recap Schedules
B-3

UNS Gas, Inc.
RCND By Major Plant Accounts - Including General Plant
Test Year Ended December 31, 2005

Line No.	Function	Plant Account	Description	RCND	General Plant Allocation	RCND with General Plant Allocation	ACC Jurisdiction	Line No.
1	INTANGIBLE	302	Franchises & Consents	$185,668	$0	$185,668	$185,668	1
2		303	Misc. Intangible Plant	855,867	0	855,867	855,867	2
3			Total Intangible Plant	1,041,535	0	1,041,535	1,041,535	3
4	TRANSMISSION	365	Land & Rights	102,606	4,337	106,943	106,943	4
5		366	Structures & Improvements	13,938	589	14,527	14,527	5
6		367	Mains	22,871,138	966,728	23,837,866	23,837,866	6
7		369	Measuring and Req. Equipment	3,257,538	137,691	3,395,230	3,395,230	7
8		371	Other Equipment	173,717	7,343	181,059	181,059	8
9			Total Transmission Plant	26,418,937	1,116,688	27,535,625	27,535,625	9
10	DISTRIBUTION	374	Land & Rights	257,989	10,905	268,894	268,894	10
11		375	Structures & Improvements	2,233	94	2,327	2,327	11
12		376	Mains	159,065,668	6,723,461	165,789,130	165,789,130	12
13		378	Meas. And Req. Equipment - General	1,635,426	69,127	1,704,553	1,704,553	13
14		379	Meas. And Req. Equipment - City Gate	2,022,024	85,468	2,107,492	2,107,492	14
15		380	Services	61,385,711	2,594,680	63,980,391	63,980,391	15
16		381	Meters	11,761,798	497,153	12,258,951	12,258,951	16
17		382	Meter Installation	7,538,652	318,647	7,857,299	7,857,299	17
18		383	Regulators	1,677,761	70,916	1,748,677	1,748,677	18
19		384	Regulator Installations	1,183,283	50,016	1,233,299	1,233,299	19
20		385	Industiral Measuring Equipment	1,311,013	55,415	1,366,428	1,366,428	20
21		387	Other Equipment	1,502,999	63,529	1,566,528	1,566,528	21
22			Total Distribution Plant	249,344,556	10,539,411	259,883,968	259,883,968	22
23	GENERAL	389	Land & Rights	194,035	(194,035)	0	0	23
24		390	Structures & Improvements	1,569,594	(1,569,594)	0	0	24
25		391	Office Furniture & Equipment	3,444,055	(3,444,055)	0	0	25
26		392	Transportation Equipment	3,269,711	(3,269,711)	0	0	26
27		393	Stores Equipment	131,171	(131,171)	0	0	27
28		394	Tools, Shop, & Garage Equipment	1,394,554	(1,394,554)	0	0	28
29		395	Laboratory Equipment	423,977	(423,977)	0	0	29
30		396	Power Operated Equipment	117,620	(117,620)	0	0	30
31		397	Communication Equipment	909,599	(909,599)	0	0	31
32		398	Misc. Equipment	201,782	(201,782)	0	0	32
33		399	Other Tangible Property	0	0	0	0	33
34			Total General Plant	11,656,099	(11,656,099)	0	0	34
35			Total Plant	$288,461,128	$0	$288,461,128	$288,461,128	35

Supporting Schedules
N/A

Recap Schedules
B-4

UNS Gas, Inc.
Computation of Working Capital
Test Year Ended December 31, 2005

		Total		Original & RCND	
Line No.	Description	Original Cost	RCND Cost	ACC Jurisdiction	Line No.
1	Cash Working Capital	($3,280,886)	($3,280,886)	($3,280,886)	1
2	Fuel Inventory	0	0	0	2
3	Materials and Supplies	2,039,798	2,039,798	2,039,798	3
4	Prepayments	195,942	195,942	195,942	4
5	Total Working Capital Allowance	($1,045,146)	($1,045,146)	($1,045,146)	5

Supporting Schedules
B-5 (P2)

Recap Schedules
B-1

UNS Gas, Inc.
Detail of Adjustments to Working Capital
As of December 31, 2005

Line No.	Description	Actual	Adjustments: Thirteen Month Average	Adjustments: Cash Working Capital	Total Adjusted	Line No.
1	Cash Working Capital	$0	N/A	($3,280,886)	($3,280,886)	1
2	Fuel Inventory (Account 151)	0	0	N/A	0	2
3	Materials & Supplies (Accounts 154 and 163)	1,999,092	40,706	N/A	2,039,798	3
4	Prepayments	247,265	(51,323)	N/A	195,942	4
5	Total	$2,246,357	($10,617)	($3,280,886)	($1,045,146)	5

Supporting Schedules
B-5 (P3)

Recap Schedules
B-5 (P1)

UNS Gas, Inc.
Cash Working Capital - Lead/Lag Study
Test Year Ended December 31, 2005

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$722,634						1
2	Depreciation	7,950,183						2
3	Amortization	(729,791)						3
4	Deferred Income Taxes	3,178,719						4
	Other Operating Expenses							
5	Salaries and Wages	7,287,745	38.95	24.50	14.45	0.0396	$288,595	5
6	Incentive Compensation	257,895	38.95	267.00	(228.05)	(0.6248)	(161,133)	6
7	Purchased Gas Costs	78,101,248	38.95	30.97	7.98	0.0219	1,711,508	7
8	Office Supplies and Expenses	1,365,974	38.95	20.72	18.23	0.0499	68,162	8
9	Injuries and Damages	574,128	38.95	64.75	(25.80)	(0.0707)	(40,591)	9
10	Pensions and Benefits	2,452,071	38.95	54.66	(15.71)	(0.0430)	(105,439)	10
11	Support Services - TEP	4,570,692	38.95	44.91	(5.96)	(0.0163)	(74,502)	11
12	Property Taxes	4,103,376	38.95	213.00	(174.05)	(0.4768)	(1,956,490)	12
13	Payroll Taxes	537,877	38.95	19.30	19.65	0.0538	28,938	13
14	Current Income Taxes	(1,203,222)	38.95	41.42	(2.47)	(0.0068)	8,182	14
15	Interest on Customer Deposits	170,459	38.95	182.50	(143.55)	(0.3933)	(67,042)	15
16	Other Operations and Maintenance	7,501,807	38.95	53.10	(14.15)	(0.0388)	(291,070)	16
17	Total Operating Expenses	$116,841,794						17
	Other Cash Working Capital Elements:							
18	Interest On Long-Term Debt	$5,334,825	38.95	91.62	(52.67)	(0.1443)	(769,815)	18
19	Revenue Taxes and Assessments	$18,788,535	38.95	76.25	(37.30)	(0.1022)	(1,920,188)	19
20	Total Cash Working Capital						($3,280,886)	20

Supporting Schedules
N/A

Recap Schedules
B-2, B-3

Schedule C

UNS Gas, Inc.
Adjusted Test Year Income Statement
Test Year Ended December 31, 2005

Line No.	Description	Unadjusted (a)	Pro Forma Adjustments (b)	Adjusted	ACC Jurisdiction	FERC Jurisdiction	Line No.
	Operating Revenues						
1	Gas Retail Revenues	$136,798,513	($91,109,288)	$45,689,225	$45,689,225	$0	1
2	Other Operating Revenue	1,480,303	0	1,480,303	1,480,303	0	2
3	Total Operating Revenues	138,278,816	(91,109,288)	47,169,528	47,169,528	0	3
	Operating Expenses						
4	Purchased Gas	91,170,702	(90,815,174)	355,528	355,528	0	4
5	Other Operations and Maintenance Expense	23,718,127 (1)	740,908	24,459,035	24,459,035	0	5
6	Depreciation and Amortization	6,773,317	447,075	7,220,392	7,220,392	0	6
7	Taxes Other than Income Taxes	2,924,200	1,805,894	4,730,094	4,730,094	0	7
8	Income Taxes	3,102,315	(1,126,817)	1,975,498	1,975,498	0	8
9	Total Operating Expenses	127,688,661	(88,948,114)	38,740,547	38,740,547	0	9
10	Operating Income	10,590,155	($2,161,174)	$8,428,981	$8,428,981	$0	10
	Other Income and Deductions						
11	Allowance for Equity Funds	179,826					
12	Other - Net	611,456					
13	Total Other Income and Deductions	791,282					
14	Income Before Interest Expense	11,381,437					
	Interest Expense						
15	Interest on Long-Term Debt	6,413,812					
16	Other Interest Expense	153,371 (1)					
17	Allowance for Borrowed Funds	(231,384)					
18	Total Interest Expense	6,335,799					
19	Net Income Available for Common Stock	$5,045,638					

(1) Includes reclasification of $153,952 for Customer Deposit Interest Expense From Other Interest Expense to Other O&M Expense

Supporting Schedules	Recap Schedules
(a) E-2	A-1
(b) C-2	A-2

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended December 31, 2005

Line No.	Description	Griffith Plant Operations	Purchased Gas Cost & Gas Cost Revenue	Customer Annualization	Weather Normalization	NSP Revenue & Gas Cost	Payroll Expense	Total Page Adjustments	Line Line No.
	Operating Revenues								
1	Gas Retail Revenues	($865,152)	($75,545,465)	$725,682	$516,921	($15,738,093)	$0	($90,906,107)	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	(865,152)	(75,545,465)	725,682	516,921	(15,738,093)	0	(90,906,107)	3
	Operating Expenses								
4	Purchased Gas	0	(75,545,465)	0	0	(15,269,790)	0	(90,815,255)	4
5	Other Operations and Maintenance Expense	(164,614)	0	0	0	0	440,550	275,936	5
6	Depreciation and Amortization	0	0	0	0	0	0	0	6
7	Taxes Other than Income Taxes	0	0	0	0	0	0	0	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	(164,614)	(75,545,465)	0	0	(15,269,790)	440,550	(90,539,319)	9
10	Operating Income	($700,538)	$0	$725,682	$516,921	($468,303)	($440,550)	($366,788)	10

Supporting Schedules
N/A

Recap Schedules
C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended December 31, 2005

Line No.	Description	Payroll Tax Expense	Pension & Benefits	Post Retirement Medical	Worker's Comp.	Incentive Comp.	Rate Case Expenses	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	$0	$0	$0	$0	$0	$0	$0	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	0	0	0	0	0	0	0	3
	Operating Expenses								
4	Purchased Gas	0	0	0	0	0	0	0	4
5	Other Operations and Maintenance Expense	0	54,594	57,676	34,234	126,859	200,000	473,363	5
6	Depreciation and Amortization	0	0	0	0	0	0	0	6
7	Taxes Other than Income Taxes	25,907	0	0	0	10,403	0	36,310	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	25,907	54,594	57,676	34,234	137,262	200,000	509,673	9
10	Operating Income	($25,907)	($54,594)	($57,676)	($34,234)	($137,262)	($200,000)	($509,673)	10

Supporting Schedules	Recap Schedules
N/A	C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended December 31, 2005

Line No.	Description	Bad Debt Expense	Interest On Customer Deposits	Fleet Fuel Expense	Amortization of GIS Expenditures	Out of Period Expenses	Year-End Accruals	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	$0	$0	$0	$0	$0	$0	$0	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	0	0	0	0	0	0	0	3
	Operating Expenses								
4	Purchased Gas	0	0	81	0	0	0	81	4
5	Other Operations and Maintenance Expense	317,758	16,507	73,645	(840,367)	(43,743)	(125,000)	(601,200)	5
6	Depreciation and Amortization	0	0	0	299,023	0	0	299,023	6
7	Taxes Other than Income Taxes	0	0	0	0	0	0	0	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	317,758	16,507	73,726	(541,344)	(43,743)	(125,000)	(302,096)	9
10	Operating Income	($317,758)	($16,507)	($73,726)	$541,344	$43,743	$125,000	$302,096	10

Supporting Schedules	Recap Schedules
N/A	C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended December 31, 2005

Line No.	Description	Advertising & Donations	Postage Expense	CARES Expenses	Depreciation & Property Tax for CWIP	Gain on Sale of Prescott Property	Corporate Cost Allocations	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	$0	$0	($203,181)	$0	$0	$0	($203,181)	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	0	0	(203,181)	0	0	0	(203,181)	3
	Operating Expenses								
4	Purchased Gas	0	0	0	0	0	0	0	4
5	Other Operations and Maintenance Expense	(16,619)	142,707	32,349	0	0	130,471	288,908	5
6	Depreciation and Amortization	0	0	(49,248)	196,266	(12,437)	0	134,581	6
7	Taxes Other than Income Taxes	0	0	0	166,884	0	0	166,884	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	(16,619)	142,707	(16,899)	363,150	(12,437)	130,471	590,373	9
10	Operating Income	$16,619	($142,707)	($186,282)	($363,150)	$12,437	($130,471)	($793,554)	10

Supporting Schedules	Recap Schedules
N/A	C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended December 31, 2005

Line No.	Description	Customer Service Cost Allocations	Depr. and Amort. Expense Annualization	Property Tax			Income Taxes	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	$0	$0	$0	$0	$0	$0	$0	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	0	0	0	0	0	0	0	3
	Operating Expenses								
4	Purchased Gas	0	0	0	0	0	0	0	4
5	Other Operations and Maintenance Expense	303,901	0	0	0	0	0	303,901	5
6	Depreciation and Amortization	10,191	3,280	0	0	0	0	13,471	6
7	Taxes Other than Income Taxes	11,330	0	1,591,370	0	0	0	1,602,700	7
8	Income Taxes	0	0	0	0	0	(1,126,817)	(1,126,817)	8
9	Total Operating Expenses	325,422	3,280	1,591,370	0	0	(1,126,817)	793,255	9
10	Operating Income	($325,422)	($3,280)	($1,591,370)	$0	$0	$1,126,817	($793,255)	10

Supporting Schedules	Recap Schedules
N/A	C-1

UNS Gas, Inc.
Computation of Gross Revenue Conversion Factor
Test Year Ended December 31, 2005

Line No.	Description	Percentage of Incremental Gross Revenues		Line No.
1	Gross Revenue	100.00%		1
2	Less: Uncollectible Revenue	0.51%		2
3	Taxable Income as a Percent	99.49%		3
4	Less Federal and State Income Taxes (@ 39.629%)	39.43%		4
5	Change in Net Operating Income	60.06%		5
6	Gross Revenue Conversion Factor	1.6649	(a)	6

(a) Line No. 1 divided by line No. 5.

Supporting Schedules	Recap Schedules
N/A	A-1

Schedule D

UNS Gas, Inc.
Summary Cost of Capital
Test Year Ended December 31, 2005
(Thousands of Dollars)

Line No.	Capital Source		Capitalization Amount	Capitalization Percent	Cost Rate	Weighted Cost of Capital (c)	Line No.
	Actual - End of Test Period						
1	Short-Term Debt		N/A	N/A	N/A	N/A	1
2	Long-Term Debt - Net	(a)	$98,859	55.33%	6.60%	3.65%	2
3	Common Stock Equity	(b)	79,804	44.67%	11.00%	4.91%	3
4	Total Capital		$178,663	100.00%		8.56%	4
	Proposed - End of Test Period						
5	Short-Term Debt		N/A	N/A	N/A	N/A	5
6	Long-Term Debt - Net	(a)	$98,859	50.00%	6.60%	3.30%	6
7	Common Stock Equity		98,859	50.00%	11.00%	5.50%	7
8	Total Capital		$197,718	100.00%		8.80%	8

Supporting Schedules
(a) D-2
(b) E-1

Recap Schedules
(c) A-3

UNS Gas, Inc.
Summary Cost of Capital
Projected Year Ended December 31, 2006
(Thousands of Dollars)

Line No.	Capital Source		Capitalization Amount	Capitalization Percent	Cost Rate	Weighted Cost of Capital (b)	Line No.
	Projected as of December 31, 2006						
1	Short-Term Debt		$2,578	1.39%	6.70%	0.09%	1
2	Long-Term Debt - Net	(a)	99,060	53.51%	6.58%	3.52%	2
3	Common Stock Equity		83,500	45.10%	11.00%	4.96%	3
4	Total Capital		$185,138	100.00%		8.58%	4

Supporting Schedules
(a) D-2

Recap Schedules
(b) A-3

UNS Gas, Inc.
Cost of Long-Term Debt and Short-Term Debt
Test Year Ended December 31, 2005
(Thousands of Dollars)

		End of Test Period (Actual)			End of Test Period (Proposed)			
Line No.	Description	Outstanding	Annual Interest	Cost Rate	Outstanding	Annual Interest	Cost Rate	Line No.
	Guarantee Senior Notes							
1	UNS Gas Series A	$50,000	$3,115		$50,000	$3,115		1
2	UNS Gas Series B	50,000	3,115		50,000	3,115		2
3	Total Bonds	100,000	6,230	6.23%	100,000	6,230	6.23%	3
4	Total Long-Term Debt	100,000	6,230	6.23%	100,000	6,230	6.23%	4
5	Unamortized Debt Discount, Premium and Expense and Loss on Reacquired Debt	(1,141)			(1,141)			5
6	Amortization of Debt Discount and Expense and Loss on Reacquired Debt		201			201		6
7	Credit Facility Commitment Fees		90			90		7
8	Total Long-Term Debt - Net	$98,859	$6,521	6.60%	$98,859	$6,521	6.60%	8
9	Total Short-Term Debt	N/A	N/A	N/A	N/A	N/A	N/A	9

Supporting Schedules
E-1

Recap Schedules
D-1

UNS Gas, Inc.
Cost of Long-Term Debt and Short-Term Debt
Projected Period Ended December 31, 2006
(Thousands of Dollars)

Line No.	Description	Projected Period Ended December 31, 2006 Outstanding	Annual Interest	Cost Rate	Line No.
	Bonds				
1	UNS Gas Series A	$50,000	$3,115		1
2	UNS Gas Series B	50,000	3,115		2
3	Total Bonds	100,000	6,230	6.23%	3
4	Total Long-Term Debt	100,000	6,230	6.23%	4
5	Unamortized Debt Discount, Premium and Expense and Loss on Reacquired Debt	(940)			5
6	Amortization of Debt Discount and Expense and Loss on Reacquired Debt		201		6
7	Credit Facility Commitment Fees		90		7
8	Total Long-Term Debt - Net	$99,060	$6,521	6.58%	8
9	Total Short-Term Debt	2,578	173	6.70%	9

Supporting Schedules
N/A

Recap Schedules
D-1

UNS Gas, Inc.
Cost of Preferred Stock
Test Year Ended December 31, 2005

No preferred stock was outstanding during the test year.

No preferred stock is expected to be issued.

Supporting Schedules	Recap Schedules
N/A	N/A

UNS Gas, Inc.
Cost of Common Equity
Test Year Ended December 31, 2005

The cost of common equity capital for UNS Gas, Inc. is estimated to be 11.0%.

Supporting Schedules	Recap Schedules
N/A	D-1

Schedule E

UNS Gas, Inc.
Comparative Balance Sheets
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003

Line No.	Description	December 31, 2005	Prior Years Ended December 31, 2004		Prior Years Ended December 31, 2003 (1)		Line No.
	(a) Utility Plant						
1	Plant in Service	$291,005,954	$268,050,157		$243,016,571		1
2	Construction Work in Progress	7,189,231	10,786,699		9,916,507		2
3	Plant Held for Future Use	668,759	601,574		0		3
4	Southern Union Acquisition Premium	18,271,348	18,271,348	(2)	18,271,348	(2)	4
5	Citizens Acquisition Discount	(68,391,293)	(68,391,293)		(63,908,214)		5
6	Total Utility Plant	248,743,999	229,318,485		207,296,212		6
7	Accumulated Depreciation and Amortization	(77,077,541)	(71,642,150)		(64,186,276)		7
8	Accumulated Amort. - So. Union Acquisition Premium	(1,217,595)	(507,653)	(2)	(100,252)	(2)	8
9	Accumulated Amort. - Citizens Acquisition Discount	4,280,947	2,292,511		552,979		9
10	Total Utility Plant - Net	174,729,810	159,461,193		143,562,663		10
	Current Assets						
11	Cash and Cash Equivalents	14,053,477	8,569,340		7,940,064		11
12	Special Deposits & Working Funds	292,340	325,038		915,289		12
13	Accounts Receivable - Retail Customers	12,242,680	10,012,386		6,731,308		13
14	Accounts Receivable - Other	3,268	557,094		1,016,776		14
15	Allowance for Doubtful Accounts	(338,095)	(996,911)		(274,649)		15
16	Accrued Unbilled Revenues	16,735,777	14,726,156		14,600,674		16
17	Intercompany Accounts Receivable	2,661,206	2,034,970		3,816,460		17
18	Material and Supplies	1,999,092	1,579,365		828,515		18
19	Prepayments	247,265	183,616		207,834		19
20	Other	(12,806)	(14,117)		(16,772)		20
21	Total Current Assets	47,884,204	36,976,937		35,765,499		21
	Regulatory & Other Assets						
22	Under Recovered Purchased Gas Costs	5,899,390	1,862,283		3,159,530		22
23	Other Regulatory Assets	309,481	277,095		353,848		23
24	Unamortized Debt Discount and Expense	1,140,505	1,144,032		1,283,990		24
25	Accumulated Deferred Income Taxes	4,695,994	2,721,730		430,999		25
26	Other	(309)	114,874		322,092		26
27	Total Deferred Debits	12,045,061	6,120,014		5,550,459		27
28	Total Assets	$234,659,075	$202,558,144		$184,878,621		28

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.
(2) Includes manual reclass of $3,045,228 for comparability to 2005 presentation.

Supporting Schedules
(a) E-5
E-9

Recap Schedules
A-4

UNS Gas, Inc.
Comparative Balance Sheets
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003

Line No.	Description	December 31, 2005	Prior Years Ended December 31, 2004	Prior Years Ended December 31, 2003 (1)	Line No.
	Capitalization				
1	Common Stock	$1	$1	$1	
2	Additional Paid-In Capital	67,978,215	51,978,215	52,007,940	2
3	Accumulated Earnings	11,825,983	6,780,345	1,077,183	3
4	Total Common Stock Equity	79,804,199	58,758,561	53,085,124	4
5	Long-Term Debt	100,000,000	100,000,000	100,000,000	5
6	Total Capitalization	179,804,199	158,758,561	153,085,124	6
	Current Liabilities				
7	Accounts Payable - Net	20,194,949	18,000,511	11,989,197	7
8	Notes Payable	147,949	133,926	121,231	8
9	Intercompany Payables - Net	1,365,531	1,205,421	842,985	9
10	Interest Accrued	2,474,631	2,433,755	2,512,834	10
11	Income Taxes Accrued	245,785	0	(108,449)	11
12	Other Taxes Accrued	4,623,234	4,222,288	5,093,246	12
13	Customer Deposits	3,040,484	2,678,224	2,289,617	13
14	Other	432,697	499,658	184,000	14
15	Total Current Liabilities	32,525,260	29,173,783	22,924,661	15
	Deferred Credits and Other Liabilities				
16	Customer Advances for Construction	7,283,595	4,389,366	2,553,797	16
17	Accumulated Deferred Income Taxes	13,988,695	8,830,031	4,643,865	17
18	Other	1,057,326	1,406,403	1,671,174	18
19	Total Deferred Credits and Other Liabilities	22,329,616	14,625,800	8,868,836	19
20	Total Liabilities and Stockholders' Equity	$234,659,075	$202,558,144	$184,878,621	20

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Supporting Schedules
E-9

Recap Schedules
A-3

UNS Gas, Inc.
Comparative Income Statements
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003

Line No.	Description		Test Year Ended December 31, 2005	Prior Years Ended December 31, 2004	2003 (1)	Line No.
	(a) Operating Revenues					
1	Gas Retail Revenues		$136,798,513	$127,553,434	$46,824,066	1
2	Other Operating Revenue		1,480,303	1,402,683	473,359	2
3	Total Operating Revenues		138,278,816	128,956,117	47,297,425	3
	(a) Operating Expenses					
4	Purchased Gas Expenses		91,170,702	81,644,861	30,615,093	4
5	Other Operations and Maintenance Expense		23,564,175	23,007,315	8,381,400	5
6	Depreciation and Amortization		6,773,317	5,475,222	2,081,198	6
7	Taxes Other than Income Taxes		2,924,200	3,170,831	2,112,243	7
8	Income Taxes		3,102,315	3,792,038	664,722	8
9	Total Operating Expenses		127,534,709	117,090,267	43,854,656	9
10	Operating Income		10,744,107	11,865,850	3,442,769	10
	Total Other Income and Deductions					
11	Allowance for Equity Funds		179,826	206,879	52,511	11
12	Other - Net		611,456	(75,190)	18,206	12
13	Total Other Income and Deductions		791,282	131,689	70,717	13
14	Income Before Interest Expense		11,535,389	11,997,539	3,513,486	14
	Interest Expense					
15	Interest on Long Term-Debt		6,413,812	6,347,070	2,455,373	15
16	Other Interest Expense		307,323	183,600	53,840	16
17	Allowance for Borrowed Funds		(231,384)	(236,292)	(59,977)	17
18	Total Interest Expense		6,489,751	6,294,378	2,449,236	18
19	Net Income Available for Common Stock		$5,045,638	$5,703,161	$1,064,250	19
20	Earnings Per Share of Average Common Stock Outstanding	(2)	N/A	N/A	N/A	20

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.
(2) UNS Gas, Inc. is a subsidiary of UniSource Energy Corporation and has no publicly traded stock; thus such information is not meaningful.

Supporting Schedules	Recap Schedules
(a) E-6	A-2
E-9	

UNS Gas, Inc.
Comparative Statements of Cash Flows
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003
(Thousands of Dollars)

Line No.	Description	Test Year Ended December 31, 2005	Prior Years Ended December 31, 2004	Prior Years Ended December 31, 2003 (1)	Line No.
	Cash Flows from Operating Activities				
1	Cash Receipts from Retail Customers	$145,281	$136,797	$38,306	1
2	Other Cash Receipts	895	451	272	2
3	Purchased Gas Costs Paid	(91,445)	(76,868)	(24,750)	3
4	Wages Paid, Net of Amounts Capitalized	(6,872)	(6,828)	(2,205)	4
5	Payment of Other Operations and Maintenance Costs	(11,840)	(10,797)	(4,544)	5
6	Saguaro Termination Fee	0	(617)	0	6
7	Interest Paid, Net of Amounts Capitalized	(6,003)	(6,155)	0	7
8	Allowance for Other Funds Used During Construction	(353)	(180)	0	8
9	Taxes Paid, Net of Amounts Capitalized	(14,499)	(14,918)	(1,633)	9
10	Income Taxes Paid	(620)	0	0	10
11	Other Cash Payments	(598)	(524)	(222)	11
12	Net Cash Flows from Operating Activities	13,946	20,361	5,224	12
	Cash Flows From Investing Activities				
13	Capital Expenditures	(23,578)	(19,137)	(8,595)	13
14	(Less) Allowance for Other Funds Used During Construction	353	180	0	14
15	Purchase of Citizens Assets	0	(2)	(137,294)	15
16	Other	0	0	(2)	16
17	Net Cash Flows from Investing Activities	(23,225)	(18,959)	(145,891)	17
	Cash Flows from Financing Activities				
18	Proceeds from Issuance of Long-Term Debt	0	0	100,000	18
19	Payment of Debt Issuance Costs	(181)	0	(1,299)	19
20	Equity Investment from UniSource Energy Services	16,000	0	50,656	20
21	Loan from UniSource Energy	6,000	0	0	21
22	Repayment of Loan from UniSource Energy	(6,000)	0	0	22
23	Customer Advance Receipts	5,255	2,943	735	23
24	Customer Advance Refunds	(2,341)	(736)	(141)	24
25	Other	(3,970)	(2,980)	(1,344)	25
26	Net Cash Flows from Financing Activities	14,763	(773)	148,607	26
27	Net Increase (Decrease) in Cash and Cash Equivalents	5,484	629	7,940	27
28	Cash and Cash Equivalents, Beginning of Period	8,569	7,940	0	28
29	Cash and Cash Equivalents, End of Period	$14,053	$8,569	$7,940	29

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Supporting Schedules	Recap Schedules
N/A	A-5

UNS Gas, Inc.
Comparative Statements of Changes in Stockholders' Equity (Deficit)
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003
(Thousands of Dollars, except shares outstanding)

Line No.	Description	Common Stock Shares Outstanding	Common Stock Amount	Premium on Common Stock	Common Stock Expense	Accumulated Earnings or (Deficit)	Comprehensive Income	Total Common Stock Equity or (Deficit)	Line No.
1	Balance, August 11, 2003 (1)	1,000	$50,656	$0	$0	$0	$0	$50,656	1
2	Net Income for Year					$1,077		$1,077	2
3	Dividend Declared					$0		$0	3
4	Equity in Earnings					$0		$0	4
5	Equity Contribution from UniSource Energy Services		$1,352					$1,352	5
6	Other	0	$0					$0	6
7	Balance, December 31, 2003	1,000	$52,008	$0	$0	$1,077		$53,085	7
8	Net Income for Year					$5,703		$5,703	8
9	Dividend Declared					$0		$0	9
10	Equity in Earnings					$0		$0	10
11	Minimum Pension Liability Adjustment						$0	$0	11
12	Equity Contribution from UniSource Energy Services		($30)					($30)	12
13	Other	0	$0					$0	13
14	Balance, December 31, 2004	1,000	$51,978	$0	$0	$6,780	$0	$58,758	14
15	Net Income for Year					$5,046		$5,046	15
16	Dividend Declared					$0		$0	16
17	Equity in Earnings					$0		$0	17
18	Minimum Pension Liability Adjustment						$0	$0	18
19	Equity Contribution from UniSource Energy Services		$16,000					$16,000	19
20	Balance, December 31, 2005	1,000	$67,978	$0	$0	$11,826	$0	$79,804	20

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Supporting Schedules
N/A

Recap Schedules
N/A

UNS Gas, Inc.
Detail of Gas Utility Plant - Summary Statement
Test Year Ended December 31, 2005

Line No.	Description	December 31, 2005 (a)	Net Additions (a)	December 31, 2004 (a)	Line No.
	Utility Plant in Service				
1	Intangible Plant	$1,283,911	$15,100	$1,268,811	1
2	Transmission Plant	26,036,273	5,002,000	21,034,273	2
3	Distribution Plant	246,706,319	16,267,258	230,439,060	3
4	General Plant	16,979,451	1,671,439	15,308,013	4
5	Gross Plant in Service	291,005,954	22,955,797	268,050,157	5
6	Construction Work in Progress	7,189,231	(3,597,468)	10,786,699	6
7	Plant Held for Future Use	668,759	67,185	601,574	7
8	Southern Union Acquisition Premium	18,271,348	0	18,271,348	8
9	Citizens Acquisition Discount	(68,391,293)	0	(68,391,293)	9
10	Total Utility Plant	248,743,999	19,425,514	229,318,485	10
11	Accumulated Depreciation and Amortization	(77,077,541)	(5,435,391)	(71,642,150)	11
12	Accumulated Amort. - So. Union Acquisition Premium	(1,217,595)	(709,942)	(507,653)	12
13	Accumulated Amort. - Citizens Acquisition Discount	4,280,947	1,988,436	2,292,511	13
14	Total Accumulated Depreciation and Amortization	(74,014,189)	(4,156,897)	(69,857,292)	14
15	Total Net Utility Plant in Service	$174,729,810	$15,268,617	$159,461,193	15

Supporting Schedules
(a) E-5 (P2-4)

Recap Schedules
E-1

UNS Gas, Inc.
Detail of Gas Utility Plant
Test Year Ended December 31, 2005

Line No.	Acct. No.	Description	December 31, 2005	Net Additions	December 31, 2004	Line No.
		Intangible Plant				
1	302	Franchises & Consents	$383,215	$0	$383,215	1
2	303	Miscellaneous Intangible Plant	900,696	15,100	885,596	2
3		Total Intangible Plant	1,283,911	15,100	1,268,811	5
		Transmission Plant				
4	365	Land & Land Rights	102,606	0	102,606	4
5	366	Structures & Improvements	16,853	0	16,853	5
6	367	Mains	22,159,137	5,001,194	17,157,943	6
7	369	Measuring and Req. Station Equipment	3,574,097	806	3,573,290	7
8	371	Other Equipment	183,581	0	183,581	8
9		Total Transmission Plant	$26,036,273	$5,002,000	$21,034,273	9
		Distribution Plant				
10	374	Land & Land Rights	$257,989	$0	$257,989	10
11	375	Structures & Improvements	10,947	0	10,947	11
12	376	Mains	144,881,932	5,735,443	139,146,488	12
13	378	Meas. And Req. Equipment - General	2,012,458	74,523	1,937,935	13
14	379	Meas. And Req. Equipment - City Gate	2,334,480	303,733	2,030,747	14
15	380	Services	71,193,116	6,525,542	64,667,574	15
16	381	Meters	12,936,282	1,180,280	11,756,003	16
17	382	Meter Installation	6,624,931	981,154	5,643,777	17
18	383	Regulators	2,565,287	323,346	2,241,941	18
19	384	Regulator Installations	1,135,504	552,062	583,441	19
20	385	Industrial Measuring Equipment	1,212,929	162,566	1,050,362	20
21	387	Other Equipment	1,540,463	428,608	1,111,855	21
22		Total Distribution Plant	246,706,319	16,267,258	230,439,060	22
		General Plant				
23	389	Land & Land Rights	194,035	0	194,035	23
24	390	Structures & Improvements	1,270,787	156,182	1,114,605	24
25	391	Office Furniture & Equipment	6,387,395	188,683	6,198,712	25
26	392	Transportation Equipment	5,020,350	1,139,890	3,880,460	26
27	393	Stores Equipment	111,289	(2,576)	113,866	27
28	394	Tools, Shop & Garage Equipment	1,628,265	66,811	1,561,454	28
29	395	Laboratory Equipment	730,667	33,551	697,116	29
30	396	Power Operated Equipment	389,812	93,549	296,263	30
31	397	Communication Equipment	985,332	(4,650)	989,982	31
32	398	Miscellaneous Equipment	261,520	0	261,520	32
33	399	Other Tangible Property	0	0	0	33
34		Total General Plant	16,979,451	1,671,439	15,308,013	34
35		Total Gas Plant in Service	$291,005,954	$22,955,797	$268,050,157	35

Supporting Schedules	Recap Schedules
N/A	E-5 (P1)

UNS Gas, Inc.
Detail of Gas Utility Plant
Test Year Ended December 31, 2005

Line No.	Acct. No.	Description	December 31, 2005	Net Additions (1)	December 31, 2004	Line No.
		Southern Union Acquisition Premium				
		Intangible Plant				
1	302	Franchises & Consents	$20,652	$0	$20,652	1
2	303	Miscellaneous Intangible Plant	152,338	0	152,338	2
3		Total Intangible Plant	172,990	0	172,990	5
		Distribution Plant				
4	376	Mains	11,988,346	0	11,988,346	4
5	378	Meas. And Req. Equipment - General	203,438	0	203,438	5
6	379	Meas. And Req. Equipment - City Gate	266,835	0	266,835	6
7	380	Services	3,646,695	0	3,646,695	7
8	381	Meters	846,443	0	846,443	8
9	382	Meter Installation	6,102	0	6,102	9
10	383	Regulators	(109,825)	0	(109,825)	10
11	385	Industrial Measuring Equipment	272,367	0	272,367	11
12	387	Other Equipment	203,196	0	203,196	12
13		Total Distribution Plant	17,323,597	0	17,323,597	
		General Plant				0
14	389	Land and Land Rights	133,238	0	133,238	14
15	390	Structures & Improvements	173,464	0	173,464	15
16	391	Office Furniture & Equipment	21,060	0	21,060	16
17	393	Stores Equipment	26,148	0	26,148	17
18	394	Tools, Shop & Garage Equipment	434,479	0	434,479	18
19	396	Power Operated Equipment	(12,900)	0	(12,900)	19
20	398	Miscellaneous Equipment	(728)	0	(728)	
21		Total General Plant	774,761	0	774,761	21
22		Total Southern Union Acquisition Premium	$18,271,348	$0	$18,271,348	22

(1) Includes manual reclass of $3,045,228 for comparability to 2005 presentation.

Supporting Schedules	Recap Schedules
N/A	E-5 (P1)

UNS Gas, Inc.
Detail of Gas Utility Plant
Test Year Ended December 31, 2005

Line No.	Acct. No.	Description	December 31, 2005	Net Additions	December 31, 2004	Line No.
		Citizens Acquisition Discount				
		Intangible Plant				
1	302	Franchises & Consents	($81,207)	$0	($81,207)	1
2	303	Miscellaneous Intangible Plant	(80,488)	0	(80,488)	2
3		Total Intangible Plant	(161,695)	0	(161,695)	5
		Transmission Plant				
4	365	Land & Land Rights	(34,352)	0	(34,352)	4
5	366	Structures & Improvements	(5,238)	0	(5,238)	5
6	367	Mains	(3,573,586)	0	(3,573,586)	6
7	369	Measuring and Req. Station Equipment	(945,245)	0	(945,245)	7
8	371	Other Equipment	(53,866)	0	(53,866)	8
9		Total Transmission Plant	(4,612,287)	0	(4,612,287)	9
		Distribution Plant				
10	374	Land & Land Rights	(86,374)	0	(86,374)	10
11	375	Structures & Improvements	(550)	0	(550)	11
12	376	Mains	(39,243,723)	0	(39,243,723)	12
13	378	Meas. And Req. Equipment - General	(419,801)	0	(419,801)	13
14	379	Meas. And Req. Equipment - City Gate	(533,526)	0	(533,526)	14
15	380	Services	(14,788,354)	0	(14,788,354)	15
16	381	Meters	(2,585,551)	0	(2,585,551)	16
17	382	Meter Installation	(1,658,681)	0	(1,658,681)	17
18	383	Regulators	(397,969)	0	(397,969)	18
19	384	Regulator Installations	(183,202)	0	(183,202)	19
20	385	Industrial Measuring Equipment	(237,062)	0	(237,062)	20
21	387	Other Equipment	(325,252)	0	(325,252)	21
22		Total Distribution Plant	(60,460,045)	0	(60,460,045)	22
		General Plant				
23	389	Land & Land Rights	(109,571)	0	(109,571)	23
24	390	Structures & Improvements	(273,962)	0	(273,962)	24
25	391	Office Furniture & Equipment	(1,433,870)	0	(1,433,870)	25
26	392	Transportation Equipment	(190,332)	0	(190,332)	26
27	393	Stores Equipment	(39,585)	0	(39,585)	27
28	394	Tools, Shop & Garage Equipment	(513,773)	0	(513,773)	28
29	395	Laboratory Equipment	(175,657)	0	(175,657)	29
30	396	Power Operated Equipment	(12,272)	0	(12,272)	30
31	397	Communication Equipment	(342,300)	0	(342,300)	31
32	398	Miscellaneous Equipment	(65,944)	0	(65,944)	32
33		Total General Plant	(3,157,266)	0	(3,157,266)	33
34		Total Gas Plant in Service	($68,391,293)	$0	($68,391,293)	34

UNS Gas, Inc.
Comparative Departmental Operating Income Statements
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003

Line No.	Description	December 31, 2005	Prior Years Ended December 31, 2004	Prior Years Ended December 31, 2003 (1)	Line No.
	Operating Revenues				
1	Gas Retail Revenues				1
2	Residential	$79,442,146	$76,333,903	$25,505,636	2
3	Commercial	29,346,494	27,357,686	10,671,046	3
4	Industrial	2,286,042	1,955,289	801,569	4
5	Lighting	103,661	90,315	43,690	5
6	Public Authorities	6,278,015	6,092,220	1,969,558	6
7	Negotiated Sales Program (NSP)	15,738,094	12,356,100	6,516,332	7
8	Transportation	3,604,061	3,367,921	1,316,235	8
9	Total Retail Revenues	136,798,513	127,553,434	46,824,066	9
10	Other Operating Revenue	1,480,303	1,402,683	473,359	10
11	Total Operating Revenues	138,278,816	128,956,117	47,297,425	11
	Operating Expenses				
12	Purchased Gas Expenses (includes NSP)	91,170,702	81,644,861	30,615,093	12
13	Other Operations and Maintenance Expense	23,564,175	23,007,315	8,381,400	13
14	Depreciation and Amortization	6,773,317	5,475,222	2,081,198	14
15	Taxes Other than Income Taxes	2,924,200	3,170,831	2,112,243	15
16	Income Taxes	3,102,315	3,792,038	664,722	16
17	Total Operating Expenses	127,534,709	117,090,267	43,854,656	17
18	Operating Income	$10,744,107	$11,865,850	$3,442,769	18

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Supporting Schedules
N/A

Recap Schedules
E-2

UNS Gas, Inc.
Gas Operating Statistics
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003

Line No.	Description	December 31, 2005	Prior Years Ended December 31, 2004	2003 (1)	Line No.
	Therm Sales				
1	Residential	68,956,730	70,976,734	25,165,503	1
2	Commercial	29,703,122	29,666,757	12,276,097	2
3	Industrial	2,808,853	2,559,079	1,151,286	3
4	Lighting	101,855	91,834	49,747	4
5	Public Authorities	6,729,668	7,092,567	2,410,990	5
6	Total	108,300,228	110,386,971	41,053,623	6
	Average Number of Customers				
7	Residential	124,086	118,616	114,961	7
8	Commercial	10,865	10,638	10,303	8
9	Industrial	20	19	19	9
10	Lighting	3	3	3	10
11	Public Authorities	1,052	1,009	989	11
12	Total	136,026	130,285	126,275	12
	Average Annual Therm Use				
13	Residential	556	598	219	13
14	Commercial	2,734	2,789	1,192	14
15	Industrial	140,443	134,688	60,594	15
16	Lighting	33,952	30,611	16,582	16
17	Public Authorities	6,397	7,029	2,438	17
18	Total	796	847	325	18

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Note: The above statistics exclude Negotiated Sales Program (NSP) and Transportation. The following data summarizes NSP statistics:

Therm Sales	20,747,558	20,823,789	12,608,915
Average Number of Customers	14	17	18
Average Annual Therm Use	1,481,968	1,224,929	700,495

Supporting Schedules
N/A

Recap Schedules
N/A

UNS Gas, Inc.
Taxes Charged to Operations
Test Year Ended December 31, 2005 and Prior Years Ended December 31, 2004 and 2003

Line No.	Description	Test Year Ended 2005	Prior Years Ended December 31, 2004	2003 (1)	Line No.
	Federal Taxes				
1	Income	($93,142)	$1,128,139	($2,918,370)	1
2	Unemployment	10,349	7,770	12,014	2
3	FICA	455,907	512,265	199,991	3
4	Deferred Income Taxes	2,639,235	1,968,514	3,463,912	4
5	Total	3,012,349	3,616,688	757,547	5
	State Taxes				
6	Income	200,142	768,465	(637,551)	6
7	Unemployment	25,021	25,619	38,875	7
8	Premium Receipts Tax	0	0	0	8
9	Real and Personal Property	0	0	0	9
10	Deferred Income Taxes	356,079	(73,080)	756,731	10
11	Total	581,242	721,004	158,055	11
	Local Taxes				
12	Income	0	0	0	12
13	Real and Personal Property	2,344,296	2,544,641	1,829,691	13
14	Indian Tribal Taxes - PIT and BAT	0	0	0	14
15	Other	88,567	80,536	31,672	15
16	Total	2,432,863	2,625,177	1,861,363	16
17	Total Taxes Charged to Operating Expenses	$6,026,454	$6,962,869	$2,776,965	17

(1) The data for the year ended December 31, 2003 begins with August 11, 2003, the date that the Citizens acquisition closed.

Note: Taxes and assessments related to sales of energy are not included in revenues or other tax expense categories.

Supporting Schedules	Recap Schedules
N/A	E-2

UNS Gas, Inc.
Test Year Ended December 31, 2005
Notes to Financial Statements

See the attached UNS Gas, Inc. Power Company Audited Financials

Supporting Schedules	Recap Schedules
N/A	N/A

NOTE 1. NATURE OF OPERATIONS

UNS Gas, Inc. (UNS Gas) is a gas distribution company serving approximately 139,000 retail customers in Mohave, Yavapai, Coconino, and Navajo Counties in northern Arizona, as well as Santa Cruz County in southeast Arizona. UniSource Energy Services, Inc. (UES), an intermediate holding company, established UNS Gas on April 14, 2003, and owns all of the common stock of UNS Gas and UNS Electric. UniSource Energy Corporation (UniSource Energy) owns all of the common stock of UES. On August 11, 2003, UNS Gas and UNS Electric, Inc. (UNS Electric) completed the purchase of the Arizona gas and electric system assets from Citizens Communications Company (Citizens).

References to "we" and "our" are to UNS Gas.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Our accounting policies conform to accounting principles generally accepted in the United States of America (GAAP), including the accounting principles for rate-regulated enterprises. Certain amounts reported in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on Net Income.

ACCOUNTING FOR RATE REGULATION

UNS Gas is regulated by the Arizona Corporation Commission (ACC) with respect to retail gas rates, the issuance of securities, and transactions with affiliated parties.

UNS Gas generally uses the same accounting policies and practices used by unregulated companies for financial reporting under GAAP. However, sometimes these principles, such as the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation* (FAS 71), require special accounting treatment for regulated companies to show the effect of regulation. For example, in setting UNS Gas' retail rates, the ACC may not allow UNS Gas to currently charge their customers to recover certain expenses, but instead may require that these expenses be charged to customers in the future. In this situation, FAS 71 requires that UNS Gas defer these items and show them as regulatory assets on the balance sheet until we are allowed to charge our customers. UNS Gas then amortizes these items as expense to the income statement as those charges are recovered from customers. Similarly, certain revenue items may be deferred as regulatory liabilities, which are also eventually amortized to the income statement as rates to customers are reduced.

The conditions a regulated company must satisfy to apply the accounting policies and practices of FAS 71 include:

- an independent regulator sets rates;
- the regulator sets the rates to recover specific costs of delivering service; and
- the service territory lacks competitive pressures to reduce rates below the rates set by the regulator.

FAS 71 may, at some future date, be discontinued due to changes in the regulatory and competitive environments. If UNS Gas stopped applying FAS 71 to its regulated operations, it would write off the related balances of its regulatory assets as an expense and would write off its regulatory liabilities as income on its income statement. UNS Gas' cash flows would not be affected if it stopped applying FAS 71 unless a regulatory order limited its ability to recover the cost of its regulatory assets. We believe our gas operations continue to meet the criteria for FAS 71.

UTILITY PLANT

UNS Gas reports utility plant at cost. Utility plant includes material and labor costs, contractor costs, construction overhead costs, and an allowance for funds used during construction (AFUDC). We charge maintenance and repairs to operating expense as incurred.

AFUDC represents the estimated cost of debt and equity funds that finance utility plant construction. AFUDC is also allowed on certain in service gas division assets prior to their inclusion in rate base. We recover AFUDC in rates through depreciation expense over the useful life of the related asset. UNS Gas imputed the cost of capital on construction expenditures at an average of 7.83% for 2005 and 7.85% for 2004. The component of AFUDC attributable to borrowed funds is included as a reduction of Other Interest Expense on the income statement and totaled $0.2 million in both 2005 and 2004. The equity component is included in Interest Income and totaled $0.2 million in both 2005 and 2004.

We compute depreciation of utility plant on a straight-line basis over the service lives of the assets. The average annual depreciation rates for UNS Gas' utility plant were 3.15% in 2005 and 2.81% in 2004.

During 2005, it was determined that depreciation of certain UNS Gas assets had been overstated in prior periods. An adjustment was recorded which reduced Other Operations and Maintenance Expense by $0.3 million.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

MATERIALS AND SUPPLIES

UNS Gas carries transmission and distribution materials and supplies in inventory at the lower of average cost or market.

COMPUTER SOFTWARE COSTS

UNS Gas capitalizes all costs incurred to purchase computer software and amortizes those costs over the estimated economic life of the product. We would immediately expense capitalized computer software costs if the software were determined to be no longer useful.

DEBT

We defer costs related to the issuance of debt. These costs include underwriters' commissions, discounts or premiums, and other costs such as legal, accounting and regulatory fees and printing costs. We amortize the costs over the life of the debt using the straight-line method, which approximates the effective interest method. Unamortized debt issuance costs totaled $1.1 million at December 31, 2005 and at December 31, 2004. See Note 5.

UTILITY OPERATING REVENUES

UNS Gas records revenues from customers when the gas is delivered to our customers. Gas Revenue includes unbilled revenues which are earned (service has been provided) but not billed by the end of an accounting period. Unbilled sales are estimated for the month by reviewing the meter reading schedules and determining the number of billed and unbilled therms for each billing cycle. Current month estimated unbilled therms are allocated by customer class. New unbilled revenue estimates are recorded and unbilled revenue estimates from the prior month are reversed.

We record an allowance for our estimate of revenues billed for which collection is doubtful. UNS Gas establishes an allowance for doubtful accounts based on historical experience and any specific customer collection issues.

Other Revenues primarily consist of miscellaneous fees, including service connection and late fees, and revenue from transportation of gas purchased from other providers.

PURCHASED GAS COSTS

UNS Gas defers differences between actual gas purchase costs and the recovery of such costs in revenues under a Purchase Gas Adjustor (PGA) mechanism. The PGA mechanism addresses the volatility of natural gas prices and allows UNS Gas to recover its costs through a price adjustor. The PGA charge may be changed monthly based on an ACC approved mechanism that compares the twelve-month rolling average gas cost to the base cost of gas, subject to limitations on how much the price per therm may change in a twelve month period. UNS Gas defers and recovers through the PGA mechanism the difference between the actual cost of UNS Gas' gas supply and transportation contracts and that currently allowed by the ACC. When under or over recovery trigger points are met, UNS Gas may request a PGA surcharge or surcredit with the goal of collecting or returning the amount deferred from or to customers over a twelve month period.

RELATED PARTY TRANSACTIONS

UNS Gas receives certain corporate and administrative support services from affiliates. These costs consist primarily of employee compensation and benefits. Services from Tucson Electric Power Company (TEP) totaled $2.8 million in 2005 and $2.4 million in 2004. Services from UNS Electric totaled $0.6 million in 2005 and $0.7 million in 2004. TEP, a regulated public utility serving retail electric customers in southern Arizona, is UniSource Energy's largest operating subsidiary.

INCOME TAXES

GAAP requires us to report some of our assets and liabilities differently in our financial statements than we do for income tax purposes. We report the tax effects of differences in these items as deferred income tax assets or liabilities in our balance sheet. We measure these tax assets and liabilities using current income tax rates.

UNS Gas is a member of the UniSource Energy consolidated income tax filing. UNS Gas is allocated income taxes based on its taxable income and deductions as reported in the UniSource Energy consolidated and/or combined tax return filings. The tax liability is allocated in accordance with the Income Tax Regulations. As a result, the regular tax liability of the company is calculated on a stand alone basis and the liability is then owed to UNS through intercompany accounts. UNS has the ultimate responsibility for payment of consolidated tax liabilities to taxing authorities and maintaining intercompany tax accounts with its subsidiaries. The Alternative Minimum Tax (AMT) liability of the company is also computed in accordance with Proposed Income Tax Regulations. This method for allocating consolidated

AMT among group members considers the contribution that one member's AMT attributes provide in offsetting the consolidated AMT liability that would otherwise result if the member were not included in the consolidated group.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

UNS Gas applies Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (FAS 133). Under FAS 133, all derivative instruments, except those meeting specific exceptions, are recognized in the balance sheet at their fair value. Changes in fair value are recognized immediately in earnings unless specific hedge accounting criteria are met. For derivatives that qualify for hedge accounting, depending on the nature of the hedge, changes in fair value are either offset by changes in the fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. At December 31, 2005 and December 31, 2004, UNS Gas had no derivatives accounted for as cash flow hedges.

Management has determined that UNS Gas' physical gas purchases qualify for the normal purchases and normal sales exception provided by FAS 133. This exception applies to physical sales and purchases of gas supply where it is probable that physical delivery will occur, the pricing provisions are clearly and closely related to the contracted prices and the FAS 133 documentation requirements are met.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of our current assets and liabilities approximate fair value because of the short maturity of these instruments.

UNS Gas' senior unsecured notes of $100 million outstanding at December 31, 2005 and December 31, 2004, have estimated fair values of $105 million and $108 million, respectively. UNS Gas determined the fair value of the senior unsecured notes by calculating the present value of the cash flows of each note, using a discount rate consistent with market yields generally available as of December 31, 2005 and December 31, 2004, for bonds with similar characteristics with respect to credit rating and time-to-maturity. The use of different market assumptions and/or estimation methodologies may yield different estimated fair value amounts.

EVALUATION OF ASSETS FOR IMPAIRMENT

UNS Gas evaluates its Utility Plant and other long-lived assets for impairment whenever events or circumstances occur that may indicate the carrying value of the assets may be impaired. If the fair value of the asset determined based on the undiscounted expected future cash flows from the long-lived asset is less than the carrying value of the asset, an impairment would be recorded.

ASSET RETIREMENT OBLIGATIONS

FASB Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (FAS 143) requires entities to record the fair value of a liability for a legal obligation to retire an asset in the period in which the liability is incurred. FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), requires entities to record the fair value of a liability regarding a legal obligation to perform asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. We record a liability when we are able to reasonably estimate the fair value of any future obligation to retire as a result of an existing or enacted law, statute, ordinance or contract. We also record a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. When the liability is initially recorded, we capitalize a cost by increasing the carrying amount of the related long-lived asset. Over time, we adjust the liability to its present value by recognizing accretion expense as an operating expense in the income statement each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we either settle the obligation for its recorded amount or incur a gain or loss if the actual costs differ from the recorded amount.

Under FAS 143, only the costs to remove an asset with legally binding retirement obligations will be accrued over time through accretion of the asset retirement obligation and depreciation of the capitalized asset retirement cost.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATION OF CREDIT RISK

As of December 31, 2005, UNS Gas had a total credit exposure related to its gas supply contracts of $9 million, primarily related to its relationship with one counterparty. Counterparty credit exposure is calculated by adding any outstanding receivables (net of amounts payable if a netting agreement exists) to the mark-to-market value of any forward contracts.

NOTE 3. REGULATORY MATTERS

UNS Gas is regulated by the ACC with respect to retail gas rates, the issuance of securities, and transactions with affiliated parties. UNS Gas' retail gas rates include a monthly customer charge, a base rate charge for delivery services and the cost of gas (expressed in cents per therm), and a PGA mechanism.

Concurrent with the closing of the acquisition, a retail rate increases for customers of UNS Gas went into effect in August 2003. The rate increase was approved by the ACC in July 2003, when it approved the acquisition and the terms of the April 2003 settlement agreement (UES Settlement Agreement) among UniSource Energy, Citizens, and the ACC Staff.

The related ACC order and the UES Settlement Agreement include the following terms related to UNS Gas rates:

- An increase in retail delivery base rates, effective August 11, 2003, equivalent to a 20.9% overall increase over 2001 test year retail revenues through a base rate increase.

- Fair value rate base of $142 million and allowed rate of return of 7.49%, based on a cost of capital of 9.05%, derived from a cost of equity of 11.00% and a cost of debt of 7.75% (based on a capital structure of 60% debt and 40% equity).

- The existing PGA rate may not change more than $0.15 per therm through July 2004. Thereafter, the PGA rate may not change more than $0.10 per therm.

Under the terms of the ACC order, UNS Gas may not file a general rate increase until July 2006 and any resulting rate increase shall not become effective prior to August 1, 2007.

The UES Settlement Agreement also limits dividends payable by UNS Gas to UES and UniSource Energy to 75% of earnings until the ratio of common equity to total capitalization reaches 40%. The ratio of common equity to total capitalization for UNS Gas was 44% at December 31, 2005 and was 37% at December 31, 2004.

The following table shows the balance of under recovered purchased gas costs as of December 31:

	2005	2004
	-Thousands of Dollars-	
Under Recovered Purchased Gas Costs – Regulatory Basis as Billed	$15,700	$ 9,281
Recovered Purchased Gas Costs – Unbilled Revenue Accrued	(9,801)	(7,419)
Under Recovered Purchased Gas Costs per Financial Statements	$ 5,899	$ 1,862

In August 2005, UNS Gas filed a request with the ACC to approve an increase in the PGA surcharge from $0.03 per therm to $0.27 per therm to be effective October 1, 2005. An increase was necessary to allow for the recovery of the existing PGA bank balance and recover projected costs of gas during the winter season.

On October 19, 2005, the ACC approved the following PGA surcharges:

Surcharge Amount Per Therm	Period In Effect
$0.15	November 2005 – February 2006
$0.25	March 2006 – April 2006
$0.30	May 2006 – June 2006
$0.35	July 2006 – September 2006
$0.25	October 2006 – November 2006
$0.20	December 2006 – February 2007
$0.25	March 2007 – April 2007

Currently, this PGA surcharge is predicted to stem the growth of the PGA bank balance. However, if gas prices increase, the PGA bank balance may continue to grow despite this surcharge. Sources to fund the growing balance could include an additional surcharge, draws on the revolving credit facility, additional credit lines or the investment of additional capital by UniSource Energy. Based on market prices for gas at February 28, 2006, which range from $6 to $9 per MMBtu through the end of 2006, the PGA bank balance on a billed basis is expected to drop below zero by the end of May 2006 and stay below zero for the balance of the year. Changes in the market price for gas, sales volumes and surcharge changes could significantly change the PGA bank balance in the future.

REGULATORY ASSETS AND LIABILITES

Regulatory assets and liabilities consist of the following at December 31:

	2005	2004
	-Thousands of Dollars-	
Regulatory Assets:		
Deferred Year 2000 Costs	$ 200	$ 277
CARES Deferral	109	-
Under Recovered Purchased Gas Costs	5,899	1,862
Regulatory Liabilities:		
Net Cost of Removal for Interim Retirements	(2,690)	(1,517)
Regulatory Assets, Net of Regulatory Liabilities	$ 3,518	$ 622

FUTURE IMPLICATIONS OF DISCONTUING APPLICATION OF FAS 71

UNS Gas regularly assesses whether it can continue to apply FAS 71 to its operations. If UNS Gas stopped applying FAS 71 to its regulated operations, UNS Gas would write off the related balance of its regulatory assets as an expense and would write off its regulatory liabilities as income on its income statement. Based on the regulatory asset and liability balances, if UNS Gas had stopped applying FAS 71 to its regulated operations, UNS Gas would have recorded an extraordinary after-tax loss of $2 million at December 31, 2005. UNS Gas's cash flows would not be affected if it stopped applying FAS 71.

NOTE 4. UTILITY PLANT

The following table shows Utility Plant in Service and depreciable lives by major class at December 31:

	2005	2004	Depreciable Lives
	-Thousands of Dollars-		
Plant in Service:			
Gas Distribution Plant	$ 151,678	$ 135,343	17 – 48 years
Gas Transmission Plant	17,510	12,508	37 – 55 years
General Plant	9,949	8,912	3 – 31 years
Intangible Plant	970	321	5 – 25 years
Total Plant in Service	$ 180,107	$ 157,084	

Intangible Plant primarily represents computer software costs.

NOTE 5. DEBT

SENIOR UNSECURED NOTES

UNS Gas has $100 million of senior unsecured notes outstanding consisting of $50 million of 6.23% Notes due in 2011 and $50 million of 6.23% Notes due in 2015 that are guaranteed by UES. The note purchase agreements for UNS Gas contain certain restrictive covenants, including restrictions on transactions with affiliates, mergers, liens to secure indebtedness, restricted payments, incurrence of indebtedness, and minimum net worth. Consolidated Net Worth, as defined by the note purchase agreement for UNS Gas, is approximately equal to the balance sheet line item, Common Stock Equity.

The table below outlines the actual and required minimum net worth levels of UES and UNS Gas at December 31, 2005.

	Required Minimum Net Worth	**Actual Net Worth**
	-Thousands of Dollars-	
UES	$ 50,000	$ 130,000
UNS Gas	43,000	80,000

The incurrence of indebtedness covenant requires UNS Gas to meet certain tests before additional indebtedness may be incurred. These tests include:

- A ratio of Consolidated Long-Term Debt to Consolidated Total Capitalization of no greater than 65%.
- An Interest Coverage Ratio (a measure of cash flow to cover interest expense) of at least 2.50 to 1.00.

However, UNS Gas may, without meeting these tests, refinance indebtedness and incur short-term debt in an amount not to exceed $7 million. UNS Gas may not declare or make distributions or dividends (restricted payments) on its common stock unless (a) immediately after giving effect to such action no default or event of default would exist under its note purchase agreement and (b) immediately after giving effect to such action, it would be permitted to incur an additional dollar of indebtedness under the debt incurrence test. As of December 31, 2005, UNS Gas was in compliance with the terms of its note purchase agreement.

The senior unsecured notes may be accelerated upon the occurrence and continuance of an event of default under the note purchase agreement. Events of default under the note purchase agreement include failure to make payments required thereunder, certain events of bankruptcy or commencement of similar liquidation or reorganization proceedings or a change of control of UES or UNS Gas. In addition, an event of default may occur if UNS Gas, UES or UNS Electric defaults on any payments required in respect of certain indebtedness that is outstanding in an aggregate principal amount of at least $4 million or if any such indebtedness becomes due or capable of being called for payment prior to its scheduled payment date or if there is a default in the performance or compliance with the other terms of such indebtedness and, as a result of such default, such indebtedness has become, or has been declared, due and payable, prior to its scheduled payment date.

REVOLVING CREDIT AGREEMENT

In April 2005, UNS Gas and UNS Electric entered into a $40 million three-year unsecured revolving credit agreement due in April 2008, with a group of lenders (the UNS Gas/UNS Electric Revolver). Either borrower may borrow up to a maximum of $30 million; however, the total combined amount borrowed cannot exceed $40 million.

UNS Gas is only liable for UNS Gas' borrowings, and similarly, UNS Electric is only liable for UNS Electric's borrowings under the UNS Gas/UNS Electric Revolver. UES guarantees the obligations of both UNS Gas and UNS Electric.

The borrowers have the option of paying interest at LIBOR plus 1.50% or at the agent bank's reference rate plus 0.50%. UNS Gas and UNS Electric also pay a commitment fee of 0.45% on the unused portion of the revolving credit facility.

The UNS Gas/UNS Electric Revolver contains restrictions on additional indebtedness, liens, mergers and sales of assets. The UNS Gas/UNS Electric Revolver also contains a maximum leverage ratio and a minimum cash flow to interest coverage ratio for each borrower. As of December 31, 2005, UES, UNS Gas and UNS Electric were each in compliance with the terms of the UNS Gas/UNS Electric Revolver.

If an event of default occurs, the UNS Gas/UNS Electric Revolver may become immediately due and payable. An event of default includes failure to make required payments under the UNS Gas/UNS Electric Revolver; certain change in control transactions, certain bankruptcy events of UNS Gas or UNS Electric, or failure of UES, UNS Gas or UNS Electric to make payments or default on debt greater than $4 million.

As of December 31, 2005, UNS Gas had no borrowings outstanding and UNS Electric had $5 million of borrowings outstanding under the UNS Gas/UNS Electric Revolver. As of March 31, 2006, UNS Gas had no borrowings outstanding under the UNS Gas/UNS Electric Revolver.

NOTE 6. COMMITMENTS AND CONTINGENCIES

We record liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties and other sources when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

TRANSPORTATION COMMITMENTS

UNS Gas has firm transportation agreements with El Paso Natural Gas (EPNG) and Transwestern Pipeline Company (Transwestern) with combined capacity sufficient to meet its load requirements. The EPNG and Transwestern contracts expire in August 2011 and January 2007, respectively. EPNG provides gas transportation service under a converted full requirements contract in which UNS Gas pays a fixed reservation charge. In July 2003, FERC required the conversion of UNS Gas' full requirements status under the EPNG agreement to contract demand starting on September 1, 2003. Upon conversion to contract demand status, UNS Gas now has specific volume limits in each month and specific receipt point rights from the available supply basins (San Juan and Permian). EPNG filed a rate case in 2005 with new, higher rates to be effective January 2006, subject to refund. UNS Gas made payments under these contracts of $7 million in both 2005 and 2004. In February 2006, UNS Gas extended its firm transportation contract with Transwestern through February 2012; the minimum expected annual payment is $2 million from the end of the current contract until contract expiration.

At December 31, 2005, UNS Gas estimates its future minimum payments under these contracts to be:

	Minimum Purchase Obligations
	-Thousands of Dollars-
2006	$ 10,565
2007	7,447
2008	7,000
2009	7,000
2010	7,000
Total 2006 – 2010	39,012
Thereafter	7,000
Total	$ 46,012

UniSource Energy has guaranteed $5 million of these natural gas transportation and supply payments.

OPERATING LEASES

UNS Gas has entered into operating leases, primarily for office facilities and office equipment, with varying terms, provisions, and expiration dates. UNS Gas' estimated future minimum payments under non-cancelable operating leases at December 31, 2005 were:

	Operating Leases
	-Thousands of Dollars-
2006	$ 542
2007	455
2008	437
2009	431
2010	457
Total 2006-2010	2,322
Thereafter	2,347
Total	$ 4,669

UNS Gas' operating lease expense was $0.5 million in 2005 and $0.6 million in 2004.

UniSource Energy has guaranteed $2 million in building lease payments for UNS Gas.

RESOLUTION OF CONTINGENCIES

Subsequent to the acquisition of the Arizona gas system assets from Citizens, UNS Gas paid certain property taxes and other expenses incurred prior to the acquisition date on behalf of Citizens. UNS Gas had fully reserved this receivable of $0.6 million at December 31, 2004 by adjusting the acquisition price. In 2005, Citizens made a payment of $0.5 million in full settlement to UNS Gas which UNS Gas recorded as Other Income in its income statement.

NOTE 7. ACCOUNTING FOR ASSET RETIREMENT OBLIGATIONS

As of December 31, 2005, UNS Gas implemented FIN 47. The implementation of FIN 47 required UNS Gas to update an existing inventory, originally created for the implementation of FAS 143, and to determine which, if any, of the conditional asset retirement obligations could be reasonably estimated. No significant conditional asset retirement obligations were identified.

The ability to reasonably estimate conditional asset retirement obligations was a matter of management judgment, based upon management's ability to estimate a settlement date or range of settlement dates, a method or potential method of settlement and probabilities associated with the potential dates and methods of settlement of UNS Gas' conditional asset retirement obligations. In determining whether its conditional asset retirement obligations could be reasonably estimated, management considered UNS Gas' past practices, industry practices, management's intent and the estimated economic life of the assets.

UNS Gas has various transmission and distribution lines that operate under land leases and rights of way that contain end dates and restorative clauses. UNS Gas operates its transmission and distribution systems as if they will be operated in perpetuity and would continue to be used or sold without land remediation. As a result, UNS Gas is not recognizing the costs of final removal of the transmission and distribution lines in its financial statements. UNS Gas had accrued $2.7 million at December 31, 2005 and $1.5 million at December 31, 2004, for the net cost of removal for interim retirements from its transmission, distribution and general plant. These amounts have been recorded as a regulatory liability.

Amounts recorded under FAS 143 are subject to various assumptions and determinations, such as determining whether a legal obligation exists to remove assets, estimating the fair value of the costs of removal, estimating when final removal will occur, and the credit-adjusted risk-free interest rates to be used to discount future liabilities. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as expense for asset retirement obligations.

NOTE 8. INCOME AND OTHER TAXES

INCOME TAXES

We record deferred tax liabilities for amounts that will increase income taxes on future tax returns. We record deferred tax assets for amounts that could be used to reduce income taxes on future tax returns. UNS Gas has determined that a valuation allowance on the deferred income tax assets for the years ended December 31, 2005 and December 31, 2004 is not necessary. We reached this conclusion based on our interpretation of tax rules, tax planning strategies, scheduled reversals of temporary differences, and projected future taxable income.

UniSource Energy includes UNS Gas' taxable income in its consolidated federal income tax return. Deferred tax assets (liabilities) consist of the following:

	2005	2004
	-Thousands of Dollars-	
Gross Deferred Income Tax Liabilities		
Plant	$ (11,456)	$ (7,966)
Purchase Gas Adjuster (PGA)	(2,336)	(737)
Other	(387)	(107)
Gross Deferred Income Tax Liabilities	(14,179)	(8,810)
Gross Deferred Income Tax Assets		
Customer Advances	2,931	1,431
Contributions in Aid of Construction	1,421	737
Compensation and Benefits	391	360
Reserve for Uncollectible Accounts	132	174
Other	11	-
Gross Deferred Income Tax Assets	4,886	2,702
Net Deferred Income Tax Liability	$ (9,293)	$ (6,108)

The net deferred income tax liability is included in the balance sheet in the following accounts:

	2005	2004
	-Thousands of Dollars-	
Deferred Income taxes – Current Liabilities	$ (2,071)	$ (392)
Deferred Income Taxes – Noncurrent Liabilities	(7,222)	(5,716)
Net Deferred Income Tax Liability	$ (9,293)	$ (6,108)

Income tax expense (benefit) included in the income statement includes amounts both payable currently and deferred for payment in future periods as indicated below:

	2005	2004
	-Thousands of Dollars-	
Current Tax Expense (Benefit)		
Federal	$ (80)	$ (1,501)
State	244	194
Deferred Tax Expense (Benefit)		
Federal	2,828	4,594
State	357	500
Total Federal and State Income Tax Expense	$ 3,349	$ 3,787

The following reconciles the provision for income taxes at the federal statutory rate of 35% to the effective rate:

	2005	2004
	-Thousands of Dollars-	
Federal Income Tax Expense at Statutory Rate	$ 2,938	$ 3,322
State Income Tax Expense, Net of Federal Deduction	387	438
Other	24	27
Total Federal and State Income Tax Expense	$ 3,349	$ 3,787

OTHER TAX MATTERS

On its 2003 tax return, UNS Gas elected to utilize an accounting method relating to the capitalization of indirect costs to production activities and self-constructed assets.

In August 2005, the Internal Revenue Service (IRS) issued a ruling which draws into question the ability of electric and gas utilities to use the accounting method. UNS Gas believes the IRS position is without merit, and intends to vigorously pursue this issue. However, if the IRS were to prevail and disallow the method in its entirety, UNS Gas would be required to pay up to $1 million in taxes and interest in the first half of 2006. Such payment would not affect total tax expense.

OTHER TAXES

UNS Gas acts as a conduit or collection agent for excise tax (sales tax) as well as franchise fees and regulatory assessments. It records liabilities payable to governmental agencies when it bills its customers for these amounts. Neither amounts billed nor payable are reflected in the income statement.

NOTE 9. PENSION AND POSTRETIREMENT BENEFIT PLANS

UNS Gas does not maintain a separate pension plan or other postretirement benefit plan for its employees. All regular employees are eligible to participate in the pension plan maintained by UES. A small group of active employees are also eligible to participate in a postretirement medical benefit plan. UES allocates net periodic benefit cost based on service cost for participating employees.

PENSION PLAN

UES established a noncontributory, defined benefit pension plan for substantially all regular employees on August 11, 2003. Benefits are based on years of service and the employee's average compensation. UES funds the plan by contributing at least the minimum amount required under Internal Revenue Service regulations.

OTHER POSTRETIREMENT BENEFIT PLAN

UNS Gas assumed a $0.8 million liability for postretirement medical benefits for current retirees and a small group of active employees at the acquisition of the Arizona gas system assets from Citizens. The select active employees participate in the TEP Postretirement Benefit Plan.

The ACC allows UNS Gas to recover postretirement benefit costs through rates only as benefit payments are made to or on behalf of retirees. We fund postretirement benefits entirely on a pay-as-you-go basis. Under current accounting guidance, UES cannot record a regulatory asset for the excess of expense calculated per Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, over actual benefit payments.

UNS GAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FASB Staff Position No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2), provides guidance related to accounting for the federal subsidy available to certain employers providing retirees with prescription drug benefits. For nonpublic companies, FSP 106-2 is effective for the first annual period beginning after December 15, 2004. Adoption of FSP 106-2 did not have a significant impact on our postretirement benefit costs or cash flows.

The actuarial present values of the pension benefit obligations and other postretirement benefit plans were measured at December 1. UES' benefit obligation, plan assets, and funded status for both UNS Gas and UNS Electric follow:

	Pension Benefits		**Other Postretirement Benefits**	
	Years Ended December 31,			
	2005	**2004**	**2005**	**2004**
	-Thousands of Dollars-			
Benefit Obligation at End of Year	$(6,104)	$(5,350)	$(1,709)	$(1,516)
Fair Value of Plan Assets at End of Year	2,543	1,216	-	-
Funded Status	$(3,561)	$(4,134)	$(1,709)	$(1,516)

Amounts recognized in UNS Gas' Balance Sheet include:

	Pension Benefits		**Other Postretirement Benefits**	
	Years Ended December 31,			
	2005	**2004**	**2005**	**2004**
	-Thousands of Dollars-			
Accrued Benefit Liability Included in Other Liabilities	$ (292)	$ (397)	$ (641)	$ (699)
Intangible Asset Included in Other Assets	-	106	-	-
Net Amount Recognized in the Balance Sheet	$ (292)	$ (291)	$ (641)	$ (699)

UNS Gas' net periodic benefit cost, employer contributions and benefits paid for the years ended December 31, 2005 and 2004 were:

	Pension Benefits		**Other Postretirement Benefits**	
	2005	**2004**	**2005**	**2004**
	-Thousands of Dollars-			
Net Periodic Benefit Cost	$ 775	$ 729	$ 23	$ 17
Employer Contribution	774	655	82	96
Benefits Paid	72	28	114	128

Weighted-Average Assumptions Used to Determine Benefit Obligations as of December 1,	**Pension Benefits**		**Other Postretirement Benefits**	
	2005	**2004**	**2005**	**2004**
Discount Rate	5.90%	6.10%	5.80%	5.90%
Rate of Compensation Increase	3.00 – 4.00%	3.75%	-	-

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Costs for Period Ended December 31,	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Discount Rate	6.10%	6.25%	5.90%	5.50%
Rate of Compensation Increase	3.00 - 4.00%	4.00%	-	-
Expected Return on Plan Assets	8.50%	8.75%	-	-

Net periodic benefit cost is subject to various assumptions and determinations, such as the discount rate, the rate of compensation increase, and the expected return on plan assets. We estimated the expected return on plan assets based on a review of the plans' asset allocations and consultations with a third-party investment consultant and the plans' actuary considering market and economic indicators, historical market returns, correlations and volatility, central banks' and government treasury departments' forecasts and objectives, and recent professional or academic research. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as net periodic benefit cost.

For measurement purposes, the per capita cost of covered health care benefits was assumed to increase 10 percent for employees who have not reached the age of 65 and 12 percent for employees who have reached the age of 65 in 2006. The rate was assumed to decrease gradually to 5 percent for 2013 and remain at that level thereafter.

Pension Plan Assets

UES calculates the market-related value of plan assets using the fair value of plan assets on the measurement date. The UES pension plan was initially funded during 2004. UES' pension plan asset allocations by asset category are as follows:

	Plan Assets December 31,	
	2005	2004
Asset Category		
Equity Securities	63.00%	68.25%
Debt Securities	37.00%	18.23%
Real Estate	-	13.52%
Total	100.00%	100.00%

The policy for the UES pension plan is to provide exposures to equity and debt securities by investing in a balanced fund. The fund will hold no more than 75% of its total assets in stocks.

Pension Plan Contributions

UNS Gas expects to contribute $0.7 million to the pension plan in 2006.

Estimated Future Benefit Payments

The following benefit payments, which reflect future service, as appropriate, are expected to be paid by UES for both UNS Gas and UNS Electric:

	Pension Benefits	Other Benefits
	- Thousands of Dollars -	
2006	$ 9	$ 154
2007	19	155
2008	36	158
2009	63	156
2010	109	153
Years 2011-2015	1,384	705

DEFINED CONTRIBUTION PLANS

UES sponsors a defined contribution savings plan that is offered to all eligible employees. The plan is a qualified 401(k) plan under the Internal Revenue Code. In a defined contribution plan, the benefits a participant receives result from regular contributions to a participant account. Participants direct the investment of contributions to certain funds in their account. UES makes matching contributions to participant accounts under this plan. Matching contributions to this plan for UNS Gas' participating employees were approximately $165,000 in 2005 and $163,000 in 2004.

NOTE 10. COMMON STOCK EQUITY

DIVIDEND RESTRICTIONS

As discussed in Note 3, the UES Settlement Agreement limits dividends payable by UNS Gas to UES and UniSource Energy to 75% of earnings until the ratio of common equity to total capitalization reaches 40%. UNS Gas met this ratio requirement at December 31, 2005. Additionally, the terms of the senior unsecured note agreements entered into by UNS Gas contain dividend restrictions. See Note 5.

CAPITAL CONTRIBUTIONS

In January 2005, UNS Gas established a short-term inter-company promissory note to UniSource Energy, by which it could borrow up to $10 million for general corporate purposes. In March 2005, UniSource Energy contributed an additional $6 million in capital to UNS Gas. UNS Gas used the proceeds of this contribution to repay the $6 million outstanding on the inter-company promissory note. In December 2005, UniSource Energy contributed $10 million in capital to UNS Gas.

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

A reconciliation of net income to net cash flows from operating activities follows:

	Years Ended December 31,	
	2005	**2004**
	-Thousand of Dollars-	
Net Income	$ 5,046	$ 5,703
Adjustments to Reconcile Net Income to Net Cash Flows		
Depreciation and Amortization Expense	6,773	5,475
Amortization of Deferred Debt-Related Costs Included in Interest Expense	184	140
Provision for Bad Debts	405	715
Deferred Income Taxes	3,185	5,094
Other	1,250	(2,616)
Changes in Assets and Liabilities which Provided (Used) Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(3,391)	(1,154)
Materials and Supplies Inventory	(420)	(750)
Under Recovered Purchased Gas Costs	(4,037)	1,298
Accounts Payable	4,395	9,906
Interest Accrued	41	(79)
Taxes Accrued	639	(4,076)
Other Current Assets	(32)	611
Other Current Liabilities	261	274
Net Cash Flows – Operating Activities	$14,299	$20,541

Schedule F

UNS Gas, Inc.
Income Statement - Test Year Ended December 31, 2005 and
Projected Year Ended December 31, 2006 at Present and Proposed Rates
(Thousands of Dollars Except Return on Average Common Equity)

Line No.	Description		Test Year Ended December 31, 2005 (a)	Projected Year Ended December 31, 2006 Present Rates	Projected Year Ended December 31, 2006 Proposed Rates	Line No.
1	Operating Revenues		$138,279	$168,647	$178,393	1
	Operating Expenses					
2	Purchased Gas		91,171	120,495	120,495	2
3	Other Operations and Maintenance Expense		23,564	26,532	26,532	3
4	Depreciation and Amortization		6,773	6,499	6,499	4
5	Taxes Other than Income Taxes		2,924	3,167	3,167	5
6	Total Operating Expenses		124,432	156,693	156,693	6
7	Pre-Tax Operating Income		13,847	11,954	21,700	7
	Other Income and Deductions					
8	Allowance for Equity Funds		180	159	159	8
9	Other - Net		611	460	557	9
10	Total Other Income and Deductions		791	619	716	10
11	Income Before Interest Expense		14,638	12,573	22,416	11
	Interest Expense					
12	Interest on Long-Term Debt		6,414	6,332	6,332	12
13	Other Interest Expense		307	261	255	13
14	Allowance for Borrowed Funds		(231)	(147)	(147)	14
15	Total Interest Expense		6,490	6,446	6,440	15
16	Income Before Income Tax Expense		8,148	6,127	15,976	16
17	Income Tax Expense		3,102	2,431	6,333	17
18	Net Income Available for Common Stock		$5,046	$3,696	$9,643	18
19	Earnings Per Share of Average Common Stock Outstanding	(1)	N/A	N/A	N/A	19
20	Return on Average Common Equity		7.28%	4.53%	11.39%	20

(1) UNS Gas, Inc. is a subsidiary of UniSource Energy Corporation and has no publicly traded stock; thus such information is not meaningful.

Supporting Schedules
(a) E-2

Recap Schedules
A-2

UNS Gas, Inc.
Statement of Cash Flows - Test Year Ended December 31, 2005 and
Projected Year Ended December 31, 2006 at Present and Proposed Rates
(Thousands of Dollars)

Line No.	Description	Test Year Ended December 31, 2005 (a)	Projected Year Ended December 31, 2006 Present Rates	Projected Year Ended December 31, 2006 Proposed Rates	Line No.
	Cash Flows from Operating Activities				
1	Cash Receipts from Retail Customers	$145,281	$170,873	$179,776	1
2	Other Cash Receipts	895	4,028	4,125	2
3	Purchased Gas Costs Paid	(98,317)	(109,618)	(109,618)	3
4	Payment of Other Operations and Maintenance Costs	(11,840)	(22,359)	(22,359)	4
5	Interest Paid, Net of Amounts Capitalized	(6,356)	(6,512)	(6,513)	5
6	Taxes Paid, Net of Amounts Capitalized	(14,499)	(15,555)	(16,098)	6
7	Income Taxes Paid	(620)	(5,006)	(8,908)	7
8	Other Cash Payments	(598)	0	0	8
9	Net Cash Flows from Operating Activities	13,946	15,851	20,405	9
	Cash Flows from Investing Activities				
10	Capital Expenditures	(23,578)	(30,287)	(30,287)	10
11	Other	353	428	428	11
12	Net Cash Flows from Investing Activities	(23,225)	(29,859)	(29,859)	12
	Cash Flow from Financing Activities				
13	Payment of Debt Issuance Costs	(181)	0	0	13
14	Equity Investments from UniSource Energy Servies	16,000	0	0	14
15	Loan from Unisource Energy	6,000	0	0	15
16	Repayment of Loan from UniSource Energy	(6,000)	0	0	16
17	Borrowing under Revolving Credit Facility	0	2,578	0	17
18	Other	(1,056)	2,377	2,377	18
19	Net Cash Flows from Financing Activities	14,763	4,955	2,377	19
20	Net Increase (Decrease) in Cash	$5,484	($9,053)	($7,077)	20

Supporting Schedule
(a) E-3

Recap Schedules
A-5

UNS Gas, Inc.
Projected Construction Requirements
Test Year Ended December 31, 2005 and Projected Years 2006 through 2008
(Thousands of Dollars)

Line No.	Description	Test Year Ended December 31, 2005 (a), (b)	Projected Year Ended December 31, 2006 (a), (b)	2007 (a)	2008 (a)	Total 2006-2008	Line No.
1	Transmission Plant	0	0	0	0	0	1
2	Distribution Plant	19,114	24,015	24,283	19,865	68,163	2
3	General Plant	4,464	6,272	2,140	1,860	10,272	3
4	Total Construction Expenditures	$23,578	$30,287	$26,423	$21,725	$78,435	4

Supporting Schedules
N/A

Recap Schedules
(a) A-4
(b) F-2

UNS Gas, Inc.
Key Assumptions Used in Preparing Forecasts

Customer Growth and Sales
Retail customer growth is forecasted to be 3.6% in 2006.
Retail sales growth is forecasted to be 4.5% in 2006.

Purchased Gas Costs
Natural gas costs are forecasted using forward market projections and completed hedging transactions as of April 11, 2006.
PGA pricing and gas cost recovery are based on the PGA mechanism and surcharge in effect as of July 2006.

Operations and Maintenance Expenses
O&M Expenses for 2006 are based on the operating budget approved in December 2005.

Construction Expenditures
Construction expenditures for 2006 are based on the capital budget approved in December 2005, net of forecasted CIAC.

Interest Rate Assumptions
The interest rate on temporary investments is forecasted at 5.3% in 2006.
The interest rate on short-term borrowing is forecasted at 6.7% in 2006.

Capital Structure Changes
The balance of common equity is forecasted to grow in 2006 due to continued retention of earnings (no dividend is assumed).
External financing needs are assumed to be met with borrowings under the UNS Gas revolving credit facility.

Schedule G

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	SUMMARY AT PRESENT RATES								
2									
3	DEVELOPMENT OF RATE BASE								
4	GAS PLANT IN SERVICE		$248,459,957	$172,449,400	$47,421,599	$15,137,981	$13,295,438	$88,252	$67,287
5	DEPREC & AMORT RESERVE		70,129,727	50,218,524	12,810,979	3,694,460	3,367,260	21,423	17,082
6	NET PLANT IN SERVICE		178,330,230	122,230,876	34,610,620	11,443,522	9,928,178	66,828	50,206
7									
8	ADDITIONS & DEDUCTIONS								
9	CASH WORKING CAPITAL		(3,280,886)	(2,277,175)	(626,197)	(199,895)	(175,565)	(1,165)	(889)
10	MATERIALS & SUPPIES		2,039,798	1,415,769	389,320	124,279	109,152	725	552
11	PREPAYMENTS		195,942	135,998	37,398	11,938	10,485	70	53
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(7,283,595)	(5,055,348)	(1,390,163)	(443,769)	(389,755)	(2,587)	(1,973)
13	CUSTOMER DEPOSITS		(3,040,483)	(2,110,318)	(580,313)	(185,248)	(162,700)	(1,080)	(823)
14	OTHER		1,185,166	900,081	196,749	47,967	39,868	258	242
15	ACCUM DEFERRED INCOME TAXES		(6,484,809)	(4,500,932)	(1,237,705)	(395,102)	(347,011)	(2,303)	(1,756)
16	TOTAL ADDITIONS & DEDUCTIONS		(16,668,867)	(11,491,925)	(3,210,910)	(1,039,830)	(915,526)	(6,083)	(4,593)
17									
18	TOTAL RATE BASE		$161,661,362	$110,738,951	$31,399,710	$10,403,692	$9,012,651	$60,745	$45,613
19									
20	DEVELOPMENT OF RETURN								
21	OPERATING REVENUES								
22	SALES OF GAS TO ULTIMATE CUST		45,689,224	32,152,423	9,709,553	1,639,719	2,090,889	73,078	23,562
23	OTHER OPERATING REVENUES		1,480,303	1,256,411	137,913	25,172	59,937	173	697
24	TOTAL GAS OPERATING REVENUES		47,169,527	33,408,834	9,847,465	1,664,891	2,150,826	73,251	24,260
25									
26	OPERATING EXPENSES								
27	OPER & MAINT EXPENSE		24,814,565	19,141,078	3,951,669	887,154	821,464	8,026	5,173
28	AMORTIZATION & DEPRECIATION EXP		7,220,392	5,228,678	1,282,981	368,964	335,914	2,147	1,707
29	TAXES OTHER THAN INCOME		4,730,094	3,321,941	887,839	274,619	242,859	1,601	1,235
30	TAX EXPENSE		1,975,498	797,315	1,055,574	(83,967)	177,371	23,439	5,766
31	TOTAL OPERATING EXPENSES		38,740,548	28,489,013	7,178,063	1,446,770	1,577,609	35,213	13,880
32									
33	OPERATING INCOME		$8,428,979	$4,919,822	$2,669,402	$218,121	$573,217	$38,038	$10,380
34									
35	RATE OF RETURN		5.21%	4.44%	8.50%	2.10%	6.36%	62.62%	22.76%
36	INDEX RATE OF RETURN		1.000	0.852	1.630	0.402	1.220	12.010	4.365
37									
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
SUMMARY AT PRESENT RATES							
DEVELOPMENT OF RATE BASE							
GAS PLANT IN SERVICE		$42,783,998	$4,637,601	$499,982	$14,637,999	$8,237,129	$5,058,308
DEPREC & AMORT RESERVE		11,660,933	1,150,046	122,640	3,571,820	2,129,789	1,237,471
NET PLANT IN SERVICE		31,123,066	3,487,555	377,342	11,066,179	6,107,340	3,820,837
ADDITIONS & DEDUCTIONS							
CASH WORKING CAPITAL		(564,958)	(61,239)	(6,602)	(193,293)	(108,770)	(66,794)
MATERIALS & SUPPIES		351,247	38,074	4,105	120,175	67,625	41,528
PREPAYMENTS		33,741	3,657	394	11,544	6,496	3,989
CUSTOMER ADVANCES FOR CONSTRUCTION		(1,254,211)	(135,951)	(14,657)	(429,112)	(241,471)	(148,284)
CUSTOMER DEPOSITS		(523,561)	(56,752)	(6,118)	(179,130)	(100,800)	(61,900)
OTHER		183,767	12,982	1,440	46,528	25,395	14,473
ACCUM DEFERRED INCOME TAXES		(1,116,663)	(121,041)	(13,050)	(382,052)	(214,989)	(132,022)
TOTAL ADDITIONS & DEDUCTIONS		(2,890,639)	(320,271)	(34,489)	(1,005,341)	(566,515)	(349,011)
TOTAL RATE BASE		$28,232,426	$3,167,284	$342,854	$10,060,838	$5,540,825	$3,471,827
DEVELOPMENT OF RETURN							
OPERATING REVENUES							
SALES OF GAS TO ULTIMATE CUST		8,531,880	1,177,672	109,190	1,530,529	1,527,532	563,357
OTHER OPERATING REVENUES		130,072	7,841	960	24,212	51,498	8,439
TOTAL GAS OPERATING REVENUES		8,661,952	1,185,513	110,150	1,554,741	1,579,030	571,796
OPERATING EXPENSES							
OPER & MAINT EXPENSE		3,638,470	313,200	29,620	857,534	529,805	291,660
AMORTIZATION & DEPRECIATION EXP		1,168,936	114,045	12,258	356,706	212,676	123,238
TAXES OTHER THAN INCOME		803,480	84,360	9,080	265,539	151,142	91,717
TAX EXPENSE		831,539	224,034	18,827	(102,794)	197,344	(19,973)
TOTAL OPERATING EXPENSES		6,442,424	735,639	69,785	1,376,985	1,090,967	486,642
OPERATING INCOME		$2,219,528	$449,874	$40,365	$177,757	$488,063	$85,154
RATE OF RETURN		7.86%	14.20%	11.77%	1.77%	8.81%	2.45%
INDEX RATE OF RETURN		1.508	2.724	2.258	0.339	1.689	0.470

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	SUMMARY AT PRESENT RATES						
2							
3	DEVELOPMENT OF RATE BASE						
4	GAS PLANT IN SERVICE		$165,488,636	$6,960,764	$42,783,998	$1,386,015	$3,251,586
5	DEPREC & AMORT RESERVE		48,185,355	2,033,169	11,660,933	350,087	799,960
6	NET PLANT IN SERVICE		117,303,281	4,927,595	31,123,066	1,035,928	2,451,627
7							
8	ADDITIONS & DEDUCTIONS						
9	CASH WORKING CAPITAL		(2,185,259)	(91,916)	(564,958)	(18,302)	(42,937)
10	MATERIALS & SUPPIES		1,358,623	57,146	351,247	11,379	26,695
11	PREPAYMENTS		130,509	5,489	33,741	1,093	2,564
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(4,851,294)	(204,055)	(1,254,211)	(40,631)	(95,320)
13	CUSTOMER DEPOSITS		(2,025,137)	(85,181)	(523,561)	(16,961)	(39,791)
14	OTHER		868,125	31,956	183,767	4,212	8,769
15	ACCUM DEFERRED INCOME TAXES		(4,319,256)	(181,676)	(1,116,663)	(36,175)	(84,866)
16	TOTAL ADDITIONS & DEDUCTIONS		(11,023,689)	(468,236)	(2,890,639)	(95,385)	(224,886)
17							
18	TOTAL RATE BASE		$106,279,592	$4,459,359	$28,232,426	$940,543	$2,226,741
19							
20	DEVELOPMENT OF RETURN						
21	OPERATING REVENUES						
22	SALES OF GAS TO ULTIMATE CUST		31,176,937	975,486	8,531,880	211,649	966,024
23	OTHER OPERATING REVENUES		1,225,837	30,573	130,072	2,619	5,221
24	TOTAL GAS OPERATING REVENUES		32,402,775	1,006,059	8,661,952	214,268	971,245
25							
26	OPERATING EXPENSES						
27	OPER & MAINT EXPENSE		18,528,597	612,481	3,638,470	82,407	230,793
28	AMORTIZATION & DEPRECIATION EXP		5,020,179	208,499	1,168,936	34,430	79,615
29	TAXES OTHER THAN INCOME		3,189,076	132,865	803,480	25,288	59,072
30	TAX EXPENSE		835,392	(38,076)	831,539	16,071	207,963
31	TOTAL OPERATING EXPENSES		27,573,244	915,769	6,442,424	158,196	577,444
32							
33	OPERATING INCOME		$4,829,531	$90,290	$2,219,528	$56,073	$393,801
34							
35	RATE OF RETURN		4.54%	2.02%	7.86%	5.96%	17.69%
36	INDEX RATE OF RETURN		0.87	0.39	1.51	1.14	3.39
37							
38							
39							
40							
41			4,521,087				
42			7,527,267				
43			3,006,180				
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	SUMMARY AT PRESENT RATES				
2					
3	DEVELOPMENT OF RATE BASE				
4	GAS PLANT IN SERVICE		$499,982	$2,161,146	$12,476,853
5	DEPREC & AMORT RESERVE		122,640	531,882	3,039,938
6	NET PLANT IN SERVICE		377,342	1,629,264	9,436,916
7					
8	ADDITIONS & DEDUCTIONS				
9	CASH WORKING CAPITAL		(6,602)	(28,538)	(164,755)
10	MATERIALS & SUPPIES		4,105	17,743	102,432
11	PREPAYMENTS		394	1,704	9,840
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(14,657)	(63,354)	(365,759)
13	CUSTOMER DEPOSITS		(6,118)	(26,447)	(152,683)
14	OTHER		1,440	6,352	40,176
15	ACCUM DEFERRED INCOME TAXES		(13,050)	(56,406)	(325,646)
16	TOTAL ADDITIONS & DEDUCTIONS		(34,489)	(148,946)	(856,396)
17					
18	TOTAL RATE BASE		$342,854	$1,480,318	$8,580,520
19					
20	DEVELOPMENT OF RETURN				
21	OPERATING REVENUES				
22	SALES OF GAS TO ULTIMATE CUST		109,190	204,407	1,326,122
23	OTHER OPERATING REVENUES		960	4,177	20,035
24	TOTAL GAS OPERATING REVENUES		110,150	208,585	1,346,157
25					
26	OPERATING EXPENSES				
27	OPER & MAINT EXPENSE		29,620	113,848	743,686
28	AMORTIZATION & DEPRECIATION EXP		12,258	52,941	303,765
29	TAXES OTHER THAN INCOME		9,080	39,268	226,271
30	TAX EXPENSE		18,827	(18,477)	(84,318)
31	TOTAL OPERATING EXPENSES		69,785	187,580	1,189,405
32					
33	OPERATING INCOME		$40,365	$21,005	$156,752
34					
35	RATE OF RETURN		11.77%	1.42%	1.83%
36	INDEX RATE OF RETURN		2.26	0.27	0.35
37					
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	SUMMARY AT PRESENT RATES						
2							
3	DEVELOPMENT OF RATE BASE						
4	GAS PLANT IN SERVICE		$8,237,129	$1,206,328	$3,851,981	$88,252	$67,287
5	DEPREC & AMORT RESERVE		2,129,789	296,812	940,659	21,423	17,082
6	NET PLANT IN SERVICE		6,107,340	909,515	2,911,322	66,828	50,206
7							
8	ADDITIONS & DEDUCTIONS						
9	CASH WORKING CAPITAL		(108,770)	(15,929)	(50,865)	(1,165)	(889)
10	MATERIALS & SUPPIES		67,625	9,904	31,624	725	552
11	PREPAYMENTS		6,496	951	3,038	70	53
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(241,471)	(35,363)	(112,921)	(2,587)	(1,973)
13	CUSTOMER DEPOSITS		(100,800)	(14,762)	(47,138)	(1,080)	(823)
14	OTHER		25,395	3,184	11,289	258	242
15	ACCUM DEFERRED INCOME TAXES		(214,989)	(31,485)	(100,537)	(2,303)	(1,756)
16	TOTAL ADDITIONS & DEDUCTIONS		(566,515)	(83,502)	(265,509)	(6,083)	(4,593)
17							
18	TOTAL RATE BASE		$5,540,825	$826,014	$2,645,813	$60,745	$45,613
19							
20	DEVELOPMENT OF RETURN						
21	OPERATING REVENUES						
22	SALES OF GAS TO ULTIMATE CUST		1,527,532	117,541	445,816	73,078	23,562
23	OTHER OPERATING REVENUES		51,498	2,254	6,185	173	697
24	TOTAL GAS OPERATING REVENUES		1,579,030	119,795	452,001	73,251	24,260
25							
26	OPERATING EXPENSES						
27	OPER & MAINT EXPENSE		529,805	60,797	230,862	8,026	5,173
28	AMORTIZATION & DEPRECIATION EXP		212,676	29,414	93,824	2,147	1,707
29	TAXES OTHER THAN INCOME		151,142	21,861	69,856	1,601	1,235
30	TAX EXPENSE		197,344	(7,822)	(12,151)	23,439	5,766
31	TOTAL OPERATING EXPENSES		1,090,967	104,251	382,391	35,213	13,880
32							
33	OPERATING INCOME		$488,063	$15,544	$69,610	$38,038	$10,380
34							
35	RATE OF RETURN		8.81%	1.88%	2.63%	62.62%	22.76%
36	INDEX RATE OF RETURN		1.69	0.36	0.50	12.01	4.36
37							
38							
39							
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43							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	EQUALIZED RETURN AT PROPOSED ROR								
2									
3	UNADJUSTED RATE BASE		$161,661,362	$110,738,951	$31,399,710	$10,403,692	$9,012,651	$60,745	$45,613
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0	0	0
7	ADJUSTED RATE BASE		161,661,362	110,738,951	31,399,710	10,403,692	9,012,651	60,745	45,613
8	RATE OF RETURN ON RATE BASE		8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
9	RETURN		14,223,180	9,742,959	2,762,588	915,331	792,945	5,344	4,013
10									
11	OPERATING EXPENSES								
12	PRESENT OPER & MAINT EXPENSE		24,814,565	19,141,078	3,951,669	887,154	821,464	8,026	5,173
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		24,814,565	19,141,078	3,951,669	887,154	821,464	8,026	5,173
16	AMORTIZATION & DEPRECIATION EXP		7,220,392	5,228,678	1,282,981	368,964	335,914	2,147	1,707
17	TAXES OTHER THAN INCOME		4,730,094	3,321,941	887,839	274,619	242,859	1,601	1,235
18	TAX EXPENSE		5,828,200	4,004,334	1,117,535	379,624	323,474	1,701	1,532
19	TOTAL OPERATING EXPENSES		42,593,250	31,696,032	7,240,025	1,910,361	1,723,711	13,474	9,646
20									
21	COST OF SERVICE		$56,816,430	$41,438,991	$10,002,613	$2,825,691	$2,516,656	$18,819	$13,659
22									
23	PROPOSED REVENUE @ EQUALIZED ROR								
24	FIRM SALES OF GAS		55,336,126	40,250,648	9,836,658	2,777,603	2,439,689	18,807	12,720
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0	0	0
29	TOTAL SALES OF GAS		55,336,126	40,250,648	9,836,658	2,777,603	2,439,689	18,807	12,720
30									
31	OTHER OPERATING REVENUES								
32	FORFEITED DISCOUNTS	FORFDISC	398,966	207,023	106,939	45,989	38,646	0	367
33	MISCELLANEOUS SERVICE REV	CUST487B	1,046,891	957,410	52,441	0	36,477	0	563
34	OTHER REVENUE	PLANT	34,447	23,908	6,575	2,099	1,843	12	9
35	OTHER REVENUE	PLANT	0	0	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		1,480,303	1,188,342	165,955	48,088	76,967	12	939
38									
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$56,816,430	$41,438,991	$10,002,613	$2,825,691	$2,516,656	$18,819	$13,659
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45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	EQUALIZED RETURN AT PROPOSED ROR							
2								
3	UNADJUSTED RATE BASE		$28,232,426	$3,167,284	$342,854	$10,060,838	$5,540,825	$3,471,827
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0	0
7	ADJUSTED RATE BASE		28,232,426	3,167,284	342,854	10,060,838	5,540,825	3,471,827
8	RATE OF RETURN ON RATE BASE		8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
9	RETURN		2,483,926	278,662	30,165	885,166	487,489	305,456
10								
11	OPERATING EXPENSES							
12	PRESENT OPER & MAINT EXPENSE		3,638,470	313,200	29,620	857,534	529,805	291,660
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		3,638,470	313,200	29,620	857,534	529,805	291,660
16	AMORTIZATION & DEPRECIATION EXP		1,168,936	114,045	12,258	356,706	212,676	123,238
17	TAXES OTHER THAN INCOME		803,480	84,360	9,080	265,539	151,142	91,717
18	TAX EXPENSE		1,007,344	110,191	12,045	367,579	196,963	126,511
19	TOTAL OPERATING EXPENSES		6,618,229	621,796	63,003	1,847,358	1,090,585	633,126
20								
21	COST OF SERVICE		$9,102,155	$900,458	$93,168	$2,732,524	$1,578,074	$938,582
22								
23	PROPOSED REVENUE @ EQUALIZED ROR							
24	FIRM SALES OF GAS		8,957,772	878,886	90,956	2,686,647	1,527,213	912,477
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0	0
29	TOTAL SALES OF GAS		8,957,772	878,886	90,956	2,686,647	1,527,213	912,477
30								
31	OTHER OPERATING REVENUES							
32	FORFEITED DISCOUNTS	FORFDISC	86,010	20,929	2,142	43,847	13,242	25,404
33	MISCELLANEOUS SERVICE REV	CUST487B	52,441	0	0	0	36,477	0
34	OTHER REVENUE	PLANT	5,932	643	69	2,029	1,142	701
35	OTHER REVENUE	PLANT	0	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		144,383	21,572	2,212	45,877	50,861	26,105
38								
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$9,102,155	$900,458	$93,168	$2,732,524	$1,578,074	$938,582
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44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	EQUALIZED RETURN AT PROPOSED ROR						
2							
3	UNADJUSTED RATE BASE		$106,279,592	$4,459,359	$28,232,426	$940,543	$2,226,741
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0
7	ADJUSTED RATE BASE		106,279,592	4,459,359	28,232,426	940,543	2,226,741
8	RATE OF RETURN ON RATE BASE		0.0880	0.0880	0.0880	0.0880	0.0880
9	RETURN		9,350,618	392,340	2,483,926	82,750	195,912
10							
11	OPERATING EXPENSES						
12	PRESENT OPER & MAINT EXPENSE		18,528,597	612,481	3,638,470	82,407	230,793
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		18,528,597	612,481	3,638,470	82,407	230,793
16	AMORTIZATION & DEPRECIATION EXP		5,020,179	208,499	1,168,936	34,430	79,615
17	TAXES OTHER THAN INCOME		3,189,076	132,865	803,480	25,288	59,072
18	TAX EXPENSE		3,841,570	162,764	1,007,344	33,810	76,382
19	TOTAL OPERATING EXPENSES		30,579,422	1,116,609	6,618,229	175,934	445,862
20							
21	COST OF SERVICE		$39,930,041	$1,508,950	$9,102,155	$258,684	$641,774
22							
23	PROPOSED REVENUE @ EQUALIZED ROR						
24	FIRM SALES OF GAS		38,765,358	1,485,290	8,957,772	256,176	622,710
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0
29	TOTAL SALES OF GAS		38,765,358	1,485,290	8,957,772	256,176	622,710
30							
31	OTHER OPERATING REVENUES						
32	FORFEITED DISCOUNTS	FORFDISC	202,859	4,165	86,010	2,316	18,613
33	MISCELLANEOUS SERVICE REV	CUST487B	938,880	18,530	52,441	0	0
34	OTHER REVENUE	PLANT	22,943	965	5,932	192	451
35	OTHER REVENUE	PLANT	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		1,164,682	23,660	144,383	2,508	19,063
38							
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$39,930,041	$1,508,950	$9,102,155	$258,684	$641,774
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	INDUSTRIAL SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	EQUALIZED RETURN AT PROPOSED ROR				
2					
3	UNADJUSTED RATE BASE		$342,854	$1,480,318	$8,580,520
4	CHANGE IN WC - PLANT	PLANT	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0
7	ADJUSTED RATE BASE		342,854	1,480,318	8,580,520
8	RATE OF RETURN ON RATE BASE		0.0880	0.0880	0.0880
9	RETURN		30,165	130,240	754,925
10					
11	OPERATING EXPENSES				
12	PRESENT OPER & MAINT EXPENSE		29,620	113,848	743,686
13	CHANGE IN GAS COSTS	GASSALES	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0
15	TOTAL O&M AT PROPOSED		29,620	113,848	743,686
16	AMORTIZATION & DEPRECIATION EXP		12,258	52,941	303,765
17	TAXES OTHER THAN INCOME		9,080	39,268	226,271
18	TAX EXPENSE		12,045	54,157	313,422
19	TOTAL OPERATING EXPENSES		63,003	260,213	1,587,145
20					
21	COST OF SERVICE		$93,168	$390,453	$2,342,070
22					
23	PROPOSED REVENUE @ EQUALIZED ROR				
24	FIRM SALES OF GAS		90,956	385,726	2,300,922
25	INTERR SALES GAS COST REV	GASSALES	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0
29	TOTAL SALES OF GAS		90,956	385,726	2,300,922
30					
31	OTHER OPERATING REVENUES				
32	FORFEITED DISCOUNTS	FORFDISC	2,142	4,428	39,419
33	MISCELLANEOUS SERVICE REV	CUST487B	0	0	0
34	OTHER REVENUE	PLANT	69	300	1,730
35	OTHER REVENUE	PLANT	0	0	0
36	OTHER REVENUE	PLANT	0	0	0
37	TOTAL OTHER OPERATING REV		2,212	4,728	41,149
38					
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$93,168	$390,453	$2,342,070
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	EQUALIZED RETURN AT PROPOSED ROR						
2							
3	UNADJUSTED RATE BASE		$5,540,825	$826,014	$2,645,813	$60,745	$45,613
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0
7	ADJUSTED RATE BASE		5,540,825	826,014	2,645,813	60,745	45,613
8	RATE OF RETURN ON RATE BASE		0.0880	0.0880	0.0880	0.0880	0.0880
9	RETURN		487,489	72,674	232,782	5,344	4,013
10							
11	OPERATING EXPENSES						
12	PRESENT OPER & MAINT EXPENSE		529,805	60,797	230,862	8,026	5,173
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		529,805	60,797	230,862	8,026	5,173
16	AMORTIZATION & DEPRECIATION EXP		212,676	29,414	93,824	2,147	1,707
17	TAXES OTHER THAN INCOME		151,142	21,861	69,856	1,601	1,235
18	TAX EXPENSE		196,963	30,166	96,346	1,701	1,532
19	TOTAL OPERATING EXPENSES		1,090,585	142,238	490,888	13,474	9,646
20							
21	COST OF SERVICE		$1,578,074	$214,912	$723,670	$18,819	$13,659
22							
23	PROPOSED REVENUE @ EQUALIZED ROR						
24	FIRM SALES OF GAS		1,527,213	211,722	700,754	18,807	12,720
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0
29	TOTAL SALES OF GAS		1,527,213	211,722	700,754	18,807	12,720
30							
31	OTHER OPERATING REVENUES						
32	FORFEITED DISCOUNTS	FORFDISC	13,242	3,023	22,382	0	367
33	MISCELLANEOUS SERVICE REV	CUST487B	36,477	0	0	0	563
34	OTHER REVENUE	PLANT	1,142	167	534	12	9
35	OTHER REVENUE	PLANT	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		50,861	3,190	22,916	12	939
38							
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$1,578,074	$214,912	$723,670	$18,819	$13,659
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	RETURN AT PROPOSED RATES								
2									
3	SALES REVENUE								
4	FIRM SALES OF GAS		55,336,125	38,941,042	11,134,951	2,520,648	2,622,649	88,298	28,537
5	INTERR SALES GAS COST REV		0	0	0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0	0	0
9	TOTAL SALES OF GAS		55,336,125	38,941,042	11,134,951	2,520,648	2,622,649	88,298	28,537
10									
11	OTHER OPERATING REVENUES								
12	FORFEITED DISCOUNTS		398,966	207,023	106,939	45,989	38,646	0	367
13	MISCELLANEOUS SERVICE REV		1,046,891	957,410	52,441	0	36,477	0	563
14	OTHER REVENUE		34,447	23,908	6,575	2,099	1,843	12	9
15	OTHER REVENUE		0	0	0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0	0	0
17	TOTAL OTHER OPERATING REV		1,480,303	1,188,342	165,955	48,088	76,967	12	939
18									
19	TOTAL GAS OPERATING REVENUE		$56,816,429	$40,129,384	$11,300,905	$2,568,736	$2,699,616	$88,311	$29,477
20									
21	OPERATING EXPENSES								
22	OPERATION & MAINT EXPENSE		$24,814,565	$19,141,078	$3,951,669	$887,154	$821,464	$8,026	$5,173
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		24,814,565	19,141,078	3,951,669	887,154	821,464	8,026	5,173
26	AMORTIZATION & DEPRECIATION EXP		7,220,392	5,228,678	1,282,981	368,964	335,914	2,147	1,707
27	TAXES OTHER THAN INCOME		4,730,094	3,321,941	887,839	274,619	242,859	1,601	1,235
28	TAX EXPENSE		5,828,200	4,004,334	1,117,535	379,624	323,474	1,701	1,532
29	TOTAL OPERATING EXPENSES		$42,593,250	$31,696,032	$7,240,025	$1,910,361	$1,723,711	$13,474	$9,646
30									
31	RETURN AT PROPOSED RATES		$14,223,179	$8,433,353	$4,060,880	$658,375	$975,904	$74,836	$19,830
32									
33	RATE OF RETURN		8.80%	7.62%	12.93%	6.33%	10.83%	123.20%	43.48%
34	INDEX RATE OF RETURN		1.000	0.866	1.470	0.719	1.231	14.003	4.941
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	RETURN AT PROPOSED RATES							
2								
3	SALES REVENUE							
4	FIRM SALES OF GAS		10,333,290	801,661	132,244	2,388,404	1,850,053	772,596
5	INTERR SALES GAS COST REV		0	0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0	0
9	TOTAL SALES OF GAS		10,333,290	801,661	132,244	2,388,404	1,850,053	772,596
10								
11	OTHER OPERATING REVENUES							
12	FORFEITED DISCOUNTS		86,010	20,929	2,142	43,847	13,242	25,404
13	MISCELLANEOUS SERVICE REV		52,441	0	0	0	36,477	0
14	OTHER REVENUE		5,932	643	69	2,029	1,142	701
15	OTHER REVENUE		0	0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0	0
17	TOTAL OTHER OPERATING REV		144,383	21,572	2,212	45,877	50,861	26,105
18								
19	TOTAL GAS OPERATING REVENUE		$10,477,673	$823,233	$134,455	$2,434,280	$1,900,914	$798,702
20								
21	OPERATING EXPENSES							
22	OPERATION & MAINT EXPENSE		$3,638,470	$313,200	$29,620	$857,534	$529,805	$291,660
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		3,638,470	313,200	29,620	857,534	529,805	291,660
26	AMORTIZATION & DEPRECIATION EXP		1,168,936	114,045	12,258	356,706	212,676	123,238
27	TAXES OTHER THAN INCOME		803,480	84,360	9,080	265,539	151,142	91,717
28	TAX EXPENSE		1,007,344	110,191	12,045	367,579	196,963	126,511
29	TOTAL OPERATING EXPENSES		$6,618,229	$621,796	$63,003	$1,847,358	$1,090,585	$633,126
30								
31	RETURN AT PROPOSED RATES		$3,859,444	$201,437	$71,452	$586,922	$810,329	$165,576
32								
33	RATE OF RETURN		13.67%	6.36%	20.84%	5.83%	14.62%	4.77%
34	INDEX RATE OF RETURN		1.554	0.723	2.369	0.663	1.662	0.542

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	RETURN AT PROPOSED RATES						
2							
3	SALES REVENUE						
4	FIRM SALES OF GAS		37,759,594	1,181,449	10,333,290	256,336	545,325
5	INTERR SALES GAS COST REV		0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0
9	TOTAL SALES OF GAS		37,759,594	1,181,449	10,333,290	256,336	545,325
10							
11	OTHER OPERATING REVENUES						
12	FORFEITED DISCOUNTS		202,859	4,165	86,010	2,316	18,613
13	MISCELLANEOUS SERVICE REV		938,880	18,530	52,441	0	0
14	OTHER REVENUE		22,943	965	5,932	192	451
15	OTHER REVENUE		0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0
17	TOTAL OTHER OPERATING REV		1,164,682	23,660	144,383	2,508	19,063
18							
19	TOTAL GAS OPERATING REVENUE		$38,924,276	$1,205,108	$10,477,673	$258,844	$564,388
20							
21	OPERATING EXPENSES						
22	OPERATION & MAINT EXPENSE		$18,528,597	$612,481	$3,638,470	$82,407	$230,793
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		18,528,597	612,481	3,638,470	82,407	230,793
26	AMORTIZATION & DEPRECIATION EXP		5,020,179	208,499	1,168,936	34,430	79,615
27	TAXES OTHER THAN INCOME		3,189,076	132,865	803,480	25,288	59,072
28	TAX EXPENSE		3,841,570	162,764	1,007,344	33,810	76,382
29	TOTAL OPERATING EXPENSES		$30,579,422	$1,116,609	$6,618,229	$175,934	$445,862
30							
31	RETURN AT PROPOSED RATES		8,344,854	88,499	3,859,444	82,910	118,526
32							
33	RATE OF RETURN		7.85%	1.98%	13.67%	8.82%	5.32%
34	INDEX RATE OF RETURN		89.24%	22.56%	155.38%	100.19%	60.50%
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	RETURN AT PROPOSED RATES				
2					
3	SALES REVENUE				
4	FIRM SALES OF GAS		132,244	247,916	2,140,488
5	INTERR SALES GAS COST REV		0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0
8	SALES FOR RESALE		0	0	0
9	TOTAL SALES OF GAS		132,244	247,916	2,140,488
10					
11	OTHER OPERATING REVENUES				
12	FORFEITED DISCOUNTS		2,142	4,428	39,419
13	MISCELLANEOUS SERVICE REV		0	0	0
14	OTHER REVENUE		69	300	1,730
15	OTHER REVENUE		0	0	0
16	OTHER REVENUE		0	0	0
17	TOTAL OTHER OPERATING REV		2,212	4,728	41,149
18					
19	TOTAL GAS OPERATING REVENUE		$134,455	$252,643	$2,181,637
20					
21	OPERATING EXPENSES				
22	OPERATION & MAINT EXPENSE		$29,620	$113,848	$743,686
23	CHANGE IN GAS COSTS	GASSALES	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0
25	TOTAL O&M AT PROPOSED		29,620	113,848	743,686
26	AMORTIZATION & DEPRECIATION EXP		12,258	52,941	303,765
27	TAXES OTHER THAN INCOME		9,080	39,268	226,271
28	TAX EXPENSE		12,045	54,157	313,422
29	TOTAL OPERATING EXPENSES		$63,003	$260,213	$1,587,145
30					
31	RETURN AT PROPOSED RATES		71,452	(7,569)	594,492
32					
33	RATE OF RETURN		20.84%	-0.51%	6.93%
34	INDEX RATE OF RETURN		236.87%	-5.81%	78.75%
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	RETURN AT PROPOSED RATES						
2							
3	SALES REVENUE						
4	FIRM SALES OF GAS		1,850,053	142,359	630,238	88,298	28,537
5	INTERR SALES GAS COST REV		0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0
9	TOTAL SALES OF GAS		1,850,053	142,359	630,238	88,298	28,537
10							
11	OTHER OPERATING REVENUES						
12	FORFEITED DISCOUNTS		13,242	3,023	22,382	0	367
13	MISCELLANEOUS SERVICE REV		36,477	0	0	0	563
14	OTHER REVENUE		1,142	167	534	12	9
15	OTHER REVENUE		0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0
17	TOTAL OTHER OPERATING REV		50,861	3,190	22,916	12	939
18							
19	TOTAL GAS OPERATING REVENUE		$1,900,914	$145,548	$653,154	$88,311	$29,477
20							
21	OPERATING EXPENSES						
22	OPERATION & MAINT EXPENSE		$529,805	$60,797	$230,862	$8,026	$5,173
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		529,805	60,797	230,862	8,026	5,173
26	AMORTIZATION & DEPRECIATION EXP		212,676	29,414	93,824	2,147	1,707
27	TAXES OTHER THAN INCOME		151,142	21,861	69,856	1,601	1,235
28	TAX EXPENSE		196,963	30,166	96,346	1,701	1,532
29	TOTAL OPERATING EXPENSES		$1,090,585	$142,238	$490,888	$13,474	$9,646
30							
31	RETURN AT PROPOSED RATES		810,329	3,310	162,266	74,836	19,830
32							
33	RATE OF RETURN		14.62%	0.40%	6.13%	123.20%	43.48%
34	INDEX RATE OF RETURN		166.23%	4.55%	69.71%	1400.26%	494.15%
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE								
2									
3	**GAS PLANT IN SERVICE**								
4									
5	INTANGIBLE PLANT								
6	302-FRANCHISES & CONSENTS	LABOR	$392,682	$309,982	$60,486	$10,886	$11,203	$63	$62
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(36,464)	(28,785)	(5,617)	(1,011)	(1,040)	(6)	(6)
8	303-MISC. INTANGIBLE PLANT	LABOR	922,947	728,571	142,164	25,586	26,332	148	145
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(36,142)	(28,530)	(5,567)	(1,002)	(1,031)	(6)	(6)
10	TOTAL INTANGIBLE PLANT		1,243,023	981,238	191,466	34,459	35,464	200	196
11									
12	TRANSMISSION PLANT								
13	365-LAND & LAND RIGHTS	TRANS	87,625	50,133	21,265	8,960	7,177	53	36
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(15,425)	(8,825)	(3,743)	(1,577)	(1,263)	(9)	(6)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	16,047	9,181	3,894	1,641	1,314	10	7
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(2,352)	(1,346)	(571)	(241)	(193)	(1)	(1)
17	367-MAINS	TRANS	17,678,612	10,114,575	4,290,372	1,807,800	1,447,918	10,633	7,314
18	367-MAINS - ACQ ADJ	TRANS	(1,604,647)	(918,077)	(389,427)	(164,090)	(131,424)	(965)	(664)
19	369-MEASURING & REG STATION EQUIP.	TRANS	846,096	484,082	205,337	86,521	69,297	509	350
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(424,444)	(242,840)	(103,007)	(43,403)	(34,763)	(255)	(176)
21	371-OTHER EQUIPMENT	TRANS	(8,778)	(5,022)	(2,130)	(898)	(719)	(5)	(4)
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(24,187)	(13,838)	(5,870)	(2,473)	(1,981)	(15)	(10)
23	TOTAL TRANSMISSION PLANT		16,548,546	9,468,024	4,016,119	1,692,241	1,355,363	9,953	6,846
24									
25	DISTRIBUTION PLANT								
26	374-LAND & LAND RIGHTS	DISTR	245,654	140,548	59,617	25,120	20,120	148	102
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(38,784)	(22,190)	(9,412)	(3,966)	(3,177)	(23)	(16)
28	375-STRUCTURES & IMPROV	DISTR	10,423	5,964	2,530	1,066	854	6	4
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(247)	(141)	(60)	(25)	(20)	(0)	(0)
30	376-MAINS	DISTMAIN	137,954,659	78,928,864	33,479,822	14,107,130	11,298,797	82,973	57,072
31	376-MAINS - ACQ ADJ	DISTMAIN	(17,621,606)	(10,081,960)	(4,276,537)	(1,801,971)	(1,443,249)	(10,599)	(7,290)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	1,916,236	1,096,348	465,046	195,953	156,944	1,153	793
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(188,503)	(107,849)	(45,747)	(19,276)	(15,439)	(113)	(78)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	2,222,861	1,271,779	539,460	227,308	182,057	1,337	920
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(239,569)	(137,066)	(58,140)	(24,498)	(19,621)	(144)	(99)
36	380-SERVICES	CUST380	72,951,925	66,170,791	5,802,812	23,007	952,116	0	3,200
37	380-SERVICES - ACQ ADJ	CUST380	(6,640,414)	(6,023,165)	(528,198)	(2,094)	(86,666)	0	(291)
38	381-METERS	CUST381	13,255,870	10,635,950	2,465,772	39,257	113,552	0	1,340
39	381-METERS - ACQ ADJ	CUST381	(1,160,990)	(931,529)	(215,960)	(3,438)	(9,945)	0	(117)
40	382-METER INSTALLATIONS	CUST382	6,788,598	5,446,884	1,262,772	20,104	58,152	0	686
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(744,797)	(597,593)	(138,542)	(2,206)	(6,380)	0	(75)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE							
2								
3	**GAS PLANT IN SERVICE**							
4								
5	INTANGIBLE PLANT							
6	302-FRANCHISES & CONSENTS	LABOR	$56,930	$3,556	$369	$10,517	$7,607	$3,596
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(5,287)	(330)	(34)	(977)	(706)	(334)
8	303-MISC. INTANGIBLE PLANT	LABOR	133,807	8,357	868	24,718	17,880	8,452
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(5,240)	(327)	(34)	(968)	(700)	(331)
10	TOTAL INTANGIBLE PLANT		180,211	11,256	1,169	33,290	24,080	11,383
11								
12	TRANSMISSION PLANT							
13	365-LAND & LAND RIGHTS	TRANS	18,588	2,677	292	8,668	4,185	2,991
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(3,272)	(471)	(51)	(1,526)	(737)	(527)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	3,404	490	54	1,587	766	548
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(499)	(72)	(8)	(233)	(112)	(80)
17	367-MAINS	TRANS	3,750,250	540,122	58,963	1,748,837	844,403	603,515
18	367-MAINS - ACQ ADJ	TRANS	(340,402)	(49,026)	(5,352)	(158,738)	(76,644)	(54,780)
19	369-MEASURING & REG STATION EQUIP.	TRANS	179,486	25,850	2,822	83,699	40,413	28,884
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(90,039)	(12,968)	(1,416)	(41,988)	(20,273)	(14,490)
21	371-OTHER EQUIPMENT	TRANS	(1,862)	(268)	(29)	(868)	(419)	(300)
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(5,131)	(739)	(81)	(2,393)	(1,155)	(826)
23	TOTAL TRANSMISSION PLANT		3,510,523	505,596	55,194	1,637,047	790,426	564,937
24								
25	DISTRIBUTION PLANT							
26	374-LAND & LAND RIGHTS	DISTR	52,112	7,505	819	24,301	11,733	8,386
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(8,228)	(1,185)	(129)	(3,837)	(1,853)	(1,324)
28	375-STRUCTURES & IMPROV	DISTR	2,211	318	35	1,031	498	356
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(52)	(8)	(1)	(24)	(12)	(8)
30	376-MAINS	DISTMAIN	29,264,990	4,214,832	460,115	13,647,015	6,589,278	4,709,520
31	376-MAINS - ACQ ADJ	DISTMAIN	(3,738,157)	(538,381)	(58,773)	(1,743,198)	(841,680)	(601,569)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	406,500	58,545	6,391	189,562	91,527	65,417
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(39,988)	(5,759)	(629)	(18,647)	(9,004)	(6,435)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	471,546	67,914	7,414	219,894	106,173	75,884
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(50,821)	(7,319)	(799)	(23,699)	(11,443)	(8,178)
36	380-SERVICES	CUST380	5,785,431	17,381	6,755	16,252	944,140	7,976
37	380-SERVICES - ACQ ADJ	CUST380	(526,616)	(1,582)	(615)	(1,479)	(85,940)	(726)
38	381-METERS	CUST381	2,422,162	43,611	1,258	37,999	105,023	8,528
39	381-METERS - ACQ ADJ	CUST381	(212,140)	(3,820)	(110)	(3,328)	(9,198)	(747)
40	382-METER INSTALLATIONS	CUST382	1,240,438	22,334	644	19,460	53,785	4,367
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(136,092)	(2,450)	(71)	(2,135)	(5,901)	(479)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE**						
4							
5	INTANGIBLE PLANT						
6	302-FRANCHISES & CONSENTS	LABOR	$298,577	$11,405	$56,930	$1,136	$2,420
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(27,726)	(1,059)	(5,287)	(105)	(225)
8	303-MISC. INTANGIBLE PLANT	LABOR	701,765	26,806	133,807	2,670	5,688
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(27,481)	(1,050)	(5,240)	(105)	(223)
10	TOTAL INTANGIBLE PLANT		945,136	36,102	180,211	3,596	7,660
11							
12	TRANSMISSION PLANT						
13	365-LAND & LAND RIGHTS	TRANS	48,178	1,955	18,588	777	1,900
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(8,481)	(344)	(3,272)	(137)	(335)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	8,823	358	3,404	142	348
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(1,293)	(52)	(499)	(21)	(51)
17	367-MAINS	TRANS	9,720,130	394,446	3,750,250	156,726	383,396
18	367-MAINS - ACQ ADJ	TRANS	(882,274)	(35,803)	(340,402)	(14,226)	(34,800)
19	369-MEASURING & REG STATION EQUIP.	TRANS	465,204	18,878	179,486	7,501	18,349
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(233,369)	(9,470)	(90,039)	(3,763)	(9,205)
21	371-OTHER EQUIPMENT	TRANS	(4,826)	(196)	(1,862)	(78)	(190)
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(13,299)	(540)	(5,131)	(214)	(525)
23	TOTAL TRANSMISSION PLANT		9,098,792	369,232	3,510,523	146,708	358,888
24							
25	DISTRIBUTION PLANT						
26	374-LAND & LAND RIGHTS	DISTR	135,067	5,481	52,112	2,178	5,327
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(21,325)	(865)	(8,228)	(344)	(841)
28	375-STRUCTURES & IMPROV	DISTR	5,731	233	2,211	92	226
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(136)	(6)	(52)	(2)	(5)
30	376-MAINS	DISTMAIN	75,850,817	3,078,047	29,264,990	1,223,010	2,991,822
31	376-MAINS - ACQ ADJ	DISTMAIN	(9,688,786)	(393,174)	(3,738,157)	(156,221)	(382,160)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	1,053,593	42,755	406,500	16,988	41,557
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(103,643)	(4,206)	(39,988)	(1,671)	(4,088)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	1,222,183	49,597	471,546	19,706	48,207
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(131,721)	(5,345)	(50,821)	(2,124)	(5,196)
36	380-SERVICES	CUST380	63,363,598	2,807,193	5,785,431	9,255	8,126
37	380-SERVICES - ACQ ADJ	CUST380	(5,767,641)	(255,523)	(526,616)	(842)	(740)
38	381-METERS	CUST381	10,184,736	451,214	2,422,162	23,221	20,389
39	381-METERS - ACQ ADJ	CUST381	(892,010)	(39,519)	(212,140)	(2,034)	(1,786)
40	382-METER INSTALLATIONS	CUST382	5,215,808	231,076	1,240,438	11,892	10,442
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(572,241)	(25,352)	(136,092)	(1,305)	(1,146)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE				
2					
3	**GAS PLANT IN SERVICE**				
4					
5	INTANGIBLE PLANT				
6	302-FRANCHISES & CONSENTS	LABOR	$369	$1,614	$8,902
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(34)	(150)	(827)
8	303-MISC. INTANGIBLE PLANT	LABOR	868	3,794	20,924
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(34)	(149)	(819)
10	TOTAL INTANGIBLE PLANT		1,169	5,110	28,180
11					
12	TRANSMISSION PLANT				
13	365-LAND & LAND RIGHTS	TRANS	292	1,262	7,406
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(51)	(222)	(1,304)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	54	231	1,356
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(8)	(34)	(199)
17	367-MAINS	TRANS	58,963	254,589	1,494,248
18	367-MAINS - ACQ ADJ	TRANS	(5,352)	(23,108)	(135,629)
19	369-MEASURING & REG STATION EQUIP.	TRANS	2,822	12,185	71,514
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(1,416)	(6,112)	(35,875)
21	371-OTHER EQUIPMENT	TRANS	(29)	(126)	(742)
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(81)	(348)	(2,044)
23	TOTAL TRANSMISSION PLANT		55,194	238,315	1,398,732
24					
25	DISTRIBUTION PLANT				
26	374-LAND & LAND RIGHTS	DISTR	819	3,538	20,763
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(129)	(559)	(3,278)
28	375-STRUCTURES & IMPROV	DISTR	35	150	881
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(1)	(4)	(21)
30	376-MAINS	DISTMAIN	460,115	1,986,683	11,660,332
31	376-MAINS - ACQ ADJ	DISTMAIN	(58,773)	(253,768)	(1,489,430)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	6,391	27,596	161,966
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(629)	(2,715)	(15,933)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	7,414	32,011	187,883
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(799)	(3,450)	(20,249)
36	380-SERVICES	CUST380	6,755	6,320	9,932
37	380-SERVICES - ACQ ADJ	CUST380	(615)	(575)	(904)
38	381-METERS	CUST381	1,258	14,000	24,000
39	381-METERS - ACQ ADJ	CUST381	(110)	(1,226)	(2,102)
40	382-METER INSTALLATIONS	CUST382	644	7,170	12,291
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(71)	(787)	(1,348)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE**						
4							
5	INTANGIBLE PLANT						
6	302-FRANCHISES & CONSENTS	LABOR	$7,607	$847	$2,749	$63	$62
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(706)	(79)	(255)	(6)	(6)
8	303-MISC. INTANGIBLE PLANT	LABOR	17,880	1,991	6,461	148	145
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(700)	(78)	(253)	(6)	(6)
10	TOTAL INTANGIBLE PLANT		24,080	2,682	8,702	200	196
11							
12	TRANSMISSION PLANT						
13	365-LAND & LAND RIGHTS	TRANS	4,185	710	2,282	53	36
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(737)	(125)	(402)	(9)	(6)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	766	130	418	10	7
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(112)	(19)	(61)	(1)	(1)
17	367-MAINS	TRANS	844,403	143,178	460,338	10,633	7,314
18	367-MAINS - ACQ ADJ	TRANS	(76,644)	(12,996)	(41,784)	(965)	(664)
19	369-MEASURING & REG STATION EQUIP.	TRANS	40,413	6,852	22,032	509	350
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(20,273)	(3,438)	(11,052)	(255)	(176)
21	371-OTHER EQUIPMENT	TRANS	(419)	(71)	(229)	(5)	(4)
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(1,155)	(196)	(630)	(15)	(10)
23	TOTAL TRANSMISSION PLANT		790,426	134,025	430,912	9,953	6,846
24							
25	DISTRIBUTION PLANT						
26	374-LAND & LAND RIGHTS	DISTR	11,733	1,990	6,397	148	102
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(1,853)	(314)	(1,010)	(23)	(16)
28	375-STRUCTURES & IMPROV	DISTR	498	84	271	6	4
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(12)	(2)	(6)	(0)	(0)
30	376-MAINS	DISTMAIN	6,589,278	1,117,284	3,592,236	82,973	57,072
31	376-MAINS - ACQ ADJ	DISTMAIN	(841,680)	(142,716)	(458,853)	(10,599)	(7,290)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	91,527	15,519	49,897	1,153	793
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(9,004)	(1,527)	(4,908)	(113)	(78)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	106,173	18,003	57,882	1,337	920
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(11,443)	(1,940)	(6,238)	(144)	(99)
36	380-SERVICES	CUST380	944,140	5,267	2,709	0	3,200
37	380-SERVICES - ACQ ADJ	CUST380	(85,940)	(479)	(247)	0	(291)
38	381-METERS	CUST381	105,023	528	8,000	0	1,340
39	381-METERS - ACQ ADJ	CUST381	(9,198)	(46)	(701)	0	(117)
40	382-METER INSTALLATIONS	CUST382	53,785	271	4,097	0	686
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(5,901)	(30)	(449)	0	(75)
42							
43							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE								
2									
3	**GAS PLANT IN SERVICE CONTINUED**								
4									
5	DISTRIBUTION PLANT CONTINUED								
6	383-REGULATORS	CUST383	2,628,662	2,109,127	488,967	7,785	22,517	0	266
7	383-REGULATORS - ACQ ADJ	CUST383	(178,700)	(143,382)	(33,241)	(529)	(1,531)	0	(18)
8	384-REGULATOR INSTALLATIONS	CUST384	1,163,556	933,588	216,437	3,446	9,967	0	118
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(82,263)	(66,004)	(15,302)	(244)	(705)	0	(8)
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	1,230,284	0	1,061,608	45,169	122,769	0	739
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(106,448)	0	(91,854)	(3,908)	(10,622)	0	(64)
12	387-OTHER EQUIPMENT	DISTMAIN	1,466,810	839,215	355,976	149,995	120,135	882	607
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(146,048)	(83,559)	(35,444)	(14,935)	(11,962)	(88)	(60)
14	TOTAL DISTRIBUTION PLANT		214,687,170	149,384,620	40,752,380	12,968,249	11,448,664	75,531	57,727
15									
16	GENERAL PLANT								
17	389-LAND & LAND RIGHTS	LABOR	198,829	156,955	30,626	5,512	5,673	32	31
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(49,200)	(38,839)	(7,578)	(1,364)	(1,404)	(8)	(8)
19	390-STRUCTURES & IMPROVE	LABOR	1,302,181	1,027,937	200,579	36,099	37,151	209	205
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(123,018)	(97,110)	(18,949)	(3,410)	(3,510)	(20)	(19)
21	391-OFFICE FURN & EQUIPMENT	LABOR	6,545,194	5,166,754	1,008,175	181,446	186,736	1,052	1,031
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(643,851)	(508,254)	(99,174)	(17,849)	(18,369)	(103)	(101)
23	392-TRANSPORTATION EQUIP	LABOR	5,144,377	4,060,954	792,403	142,613	146,770	826	811
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(85,465)	(67,466)	(13,164)	(2,369)	(2,438)	(14)	(13)
25	393-STORES EQUIPMENT	LABOR	114,038	90,022	17,566	3,161	3,254	18	18
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(17,774)	(14,031)	(2,738)	(493)	(507)	(3)	(3)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	1,668,491	1,317,101	257,002	46,254	47,602	268	263
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(230,699)	(182,113)	(35,535)	(6,395)	(6,582)	(37)	(36)
29	395-LABORATORY EQUIPMENT	LABOR	748,718	591,036	115,327	20,756	21,361	120	118
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(78,875)	(62,264)	(12,149)	(2,187)	(2,250)	(13)	(12)
31	396-POWER OPERATED EQUIP	LABOR	399,442	315,318	61,527	11,073	11,396	64	63
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(5,510)	(4,350)	(849)	(153)	(157)	(1)	(1)
33	397-COMMUNICATION EQUIP	LABOR	1,009,674	797,033	155,523	27,990	28,806	162	159
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(153,703)	(121,333)	(23,675)	(4,261)	(4,385)	(25)	(24)
35	398-MISCELLANEOUS EQUIP	LABOR	267,981	211,543	41,278	7,429	7,646	43	42
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(29,611)	(23,375)	(4,561)	(821)	(845)	(5)	(5)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0	0	0
38	TOTAL GENERAL PLANT		15,981,218	12,615,519	2,461,634	443,033	455,947	2,567	2,518
39									
40	COMMON PLANT	LABOR	0	0	0	0	0	0	0
41									
42	TOTAL GAS PLANT IN SERVICE		248,459,957	172,449,400	47,421,599	15,137,981	13,295,438	88,252	67,287
43									
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(30,709,737)	(20,555,812)	(6,180,614)	(2,130,189)	(1,821,460)	(12,452)	(9,210)
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE							
2								
3	**GAS PLANT IN SERVICE CONTINUED**							
4								
5	DISTRIBUTION PLANT CONTINUED							
6	383-REGULATORS	CUST383	480,319	8,648	249	7,535	20,826	1,691
7	383-REGULATORS - ACQ ADJ	CUST383	(32,653)	(588)	(17)	(512)	(1,416)	(115)
8	384-REGULATOR INSTALLATIONS	CUST384	212,609	3,828	110	3,335	9,219	749
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(15,031)	(271)	(8)	(236)	(652)	(53)
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	1,004,540	57,068	1,689	43,480	92,876	29,893
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(86,916)	(4,938)	(146)	(3,762)	(8,036)	(2,586)
12	387-OTHER EQUIPMENT	DISTMAIN	311,161	44,814	4,892	145,103	70,061	50,074
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(30,982)	(4,462)	(487)	(14,448)	(6,976)	(4,986)
14	TOTAL DISTRIBUTION PLANT		36,776,343	3,976,037	428,587	12,539,662	7,113,030	4,335,633
15								
16	GENERAL PLANT							
17	389-LAND & LAND RIGHTS	LABOR	28,826	1,800	187	5,325	3,852	1,821
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(7,133)	(446)	(46)	(1,318)	(953)	(451)
19	390-STRUCTURES & IMPROVE	LABOR	188,787	11,791	1,225	34,874	25,226	11,925
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(17,835)	(1,114)	(116)	(3,295)	(2,383)	(1,127)
21	391-OFFICE FURN & EQUIPMENT	LABOR	948,907	59,268	6,157	175,290	126,795	59,940
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(93,344)	(5,830)	(606)	(17,243)	(12,473)	(5,896)
23	392-TRANSPORTATION EQUIP	LABOR	745,820	46,583	4,839	137,774	99,658	47,112
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(12,391)	(774)	(80)	(2,289)	(1,656)	(783)
25	393-STORES EQUIPMENT	LABOR	16,533	1,033	107	3,054	2,209	1,044
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(2,577)	(161)	(17)	(476)	(344)	(163)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	241,894	15,108	1,569	44,685	32,322	15,280
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(33,446)	(2,089)	(217)	(6,178)	(4,469)	(2,113)
29	395-LABORATORY EQUIPMENT	LABOR	108,547	6,780	704	20,052	14,504	6,857
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(11,435)	(714)	(74)	(2,112)	(1,528)	(722)
31	396-POWER OPERATED EQUIP	LABOR	57,910	3,617	376	10,698	7,738	3,658
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(799)	(50)	(5)	(148)	(107)	(50)
33	397-COMMUNICATION EQUIP	LABOR	146,380	9,143	950	27,041	19,560	9,247
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(22,283)	(1,392)	(145)	(4,116)	(2,978)	(1,408)
35	398-MISCELLANEOUS EQUIP	LABOR	38,851	2,427	252	7,177	5,191	2,454
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(4,293)	(268)	(28)	(793)	(574)	(271)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0	0
38	TOTAL GENERAL PLANT		2,316,921	144,713	15,032	428,000	309,593	146,355
39								
40	COMMON PLANT	LABOR	0	0	0	0	0	0
41								
42	TOTAL GAS PLANT IN SERVICE		42,783,998	4,637,601	499,982	14,637,999	8,237,129	5,058,308
43								
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(5,533,081)	(647,533)	(70,094)	(2,060,096)	(1,109,902)	(711,558)
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE CONTINUED**						
4							
5	DISTRIBUTION PLANT CONTINUED						
6	383-REGULATORS	CUST383	2,019,651	89,476	480,319	4,605	4,043
7	383-REGULATORS - ACQ ADJ	CUST383	(137,299)	(6,083)	(32,653)	(313)	(275)
8	384-REGULATOR INSTALLATIONS	CUST384	893,982	39,606	212,609	2,038	1,790
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(63,204)	(2,800)	(15,031)	(144)	(127)
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	0	0	1,004,540	32,610	24,458
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	0	0	(86,916)	(2,822)	(2,116)
12	387-OTHER EQUIPMENT	DISTMAIN	806,488	32,727	311,161	13,004	31,811
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(80,301)	(3,259)	(30,982)	(1,295)	(3,167)
14	TOTAL DISTRIBUTION PLANT		143,293,346	6,091,274	36,776,343	1,189,484	2,786,553
15							
16	GENERAL PLANT						
17	389-LAND & LAND RIGHTS	LABOR	151,180	5,775	28,826	575	1,225
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(37,410)	(1,429)	(7,133)	(142)	(303)
19	390-STRUCTURES & IMPROVE	LABOR	990,117	37,820	188,787	3,767	8,025
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(93,537)	(3,573)	(17,835)	(356)	(758)
21	391-OFFICE FURN & EQUIPMENT	LABOR	4,976,656	190,098	948,907	18,933	40,335
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(489,554)	(18,700)	(93,344)	(1,862)	(3,968)
23	392-TRANSPORTATION EQUIP	LABOR	3,911,541	149,413	745,820	14,881	31,702
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(64,984)	(2,482)	(12,391)	(247)	(527)
25	393-STORES EQUIPMENT	LABOR	86,709	3,312	16,533	330	703
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(13,515)	(516)	(2,577)	(51)	(110)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	1,268,641	48,459	241,894	4,826	10,282
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(175,413)	(6,700)	(33,446)	(667)	(1,422)
29	395-LABORATORY EQUIPMENT	LABOR	569,290	21,746	108,547	2,166	4,614
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(59,973)	(2,291)	(11,435)	(228)	(486)
31	396-POWER OPERATED EQUIP	LABOR	303,717	11,601	57,910	1,155	2,462
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(4,190)	(160)	(799)	(16)	(34)
33	397-COMMUNICATION EQUIP	LABOR	767,708	29,325	146,380	2,921	6,222
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(116,868)	(4,464)	(22,283)	(445)	(947)
35	398-MISCELLANEOUS EQUIP	LABOR	203,760	7,783	38,851	775	1,651
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(22,515)	(860)	(4,293)	(86)	(182)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0
38	TOTAL GENERAL PLANT		12,151,362	464,157	2,316,921	46,228	98,485
39							
40	COMMON PLANT	LABOR	0	0	0	0	0
41							
42	TOTAL GAS PLANT IN SERVICE		165,488,636	6,960,764	42,783,998	1,386,015	3,251,586
43							
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(19,730,187)	(825,625)	(5,533,081)	(191,788)	(455,745)
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE				
2					
3	**GAS PLANT IN SERVICE CONTINUED**				
4					
5	DISTRIBUTION PLANT CONTINUED				
6	383-REGULATORS	CUST383	249	2,776	4,759
7	383-REGULATORS - ACQ ADJ	CUST383	(17)	(189)	(324)
8	384-REGULATOR INSTALLATIONS	CUST384	110	1,229	2,107
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(8)	(87)	(149)
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	1,689	16,305	27,175
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(146)	(1,411)	(2,351)
12	387-OTHER EQUIPMENT	DISTMAIN	4,892	21,124	123,979
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(487)	(2,103)	(12,344)
14	TOTAL DISTRIBUTION PLANT		428,587	1,852,028	10,687,634
15					
16	GENERAL PLANT				
17	389-LAND & LAND RIGHTS	LABOR	187	817	4,508
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(46)	(202)	(1,115)
19	390-STRUCTURES & IMPROVE	LABOR	1,225	5,353	29,522
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(116)	(506)	(2,789)
21	391-OFFICE FURN & EQUIPMENT	LABOR	6,157	26,905	148,385
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(606)	(2,647)	(14,597)
23	392-TRANSPORTATION EQUIP	LABOR	4,839	21,147	116,627
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(80)	(351)	(1,938)
25	393-STORES EQUIPMENT	LABOR	107	469	2,585
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(17)	(73)	(403)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	1,569	6,859	37,826
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(217)	(948)	(5,230)
29	395-LABORATORY EQUIPMENT	LABOR	704	3,078	16,974
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(74)	(324)	(1,788)
31	396-POWER OPERATED EQUIP	LABOR	376	1,642	9,056
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(5)	(23)	(125)
33	397-COMMUNICATION EQUIP	LABOR	950	4,150	22,890
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(145)	(632)	(3,485)
35	398-MISCELLANEOUS EQUIP	LABOR	252	1,102	6,075
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(28)	(122)	(671)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0
38	TOTAL GENERAL PLANT		15,032	65,693	362,307
39					
40	COMMON PLANT	LABOR	0	0	0
41					
42	TOTAL GAS PLANT IN SERVICE		499,982	2,161,146	12,476,853
43					
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(70,094)	(302,824)	(1,757,272)
45					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE CONTINUED**						
4							
5	DISTRIBUTION PLANT CONTINUED						
6	383-REGULATORS	CUST383	20,826	105	1,586	0	266
7	383-REGULATORS - ACQ ADJ	CUST383	(1,416)	(7)	(108)	0	(18)
8	384-REGULATOR INSTALLATIONS	CUST384	9,219	46	702	0	118
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(652)	(3)	(50)	0	(8)
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	92,876	13,588	16,305	0	739
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(8,036)	(1,176)	(1,411)	0	(64)
12	387-OTHER EQUIPMENT	DISTMAIN	70,061	11,880	38,195	882	607
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(6,976)	(1,183)	(3,803)	(88)	(60)
14	TOTAL DISTRIBUTION PLANT		7,113,030	1,035,141	3,300,492	75,531	57,727
15							
16	GENERAL PLANT						
17	389-LAND & LAND RIGHTS	LABOR	3,852	429	1,392	32	31
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(953)	(106)	(344)	(8)	(8)
19	390-STRUCTURES & IMPROVE	LABOR	25,226	2,809	9,116	209	205
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(2,383)	(265)	(861)	(20)	(19)
21	391-OFFICE FURN & EQUIPMENT	LABOR	126,795	14,121	45,819	1,052	1,031
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(12,473)	(1,389)	(4,507)	(103)	(101)
23	392-TRANSPORTATION EQUIP	LABOR	99,658	11,099	36,013	826	811
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(1,656)	(184)	(598)	(14)	(13)
25	393-STORES EQUIPMENT	LABOR	2,209	246	798	18	18
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(344)	(38)	(124)	(3)	(3)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	32,322	3,600	11,680	268	263
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(4,469)	(498)	(1,615)	(37)	(36)
29	395-LABORATORY EQUIPMENT	LABOR	14,504	1,615	5,241	120	118
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(1,528)	(170)	(552)	(13)	(12)
31	396-POWER OPERATED EQUIP	LABOR	7,738	862	2,796	64	63
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(107)	(12)	(39)	(1)	(1)
33	397-COMMUNICATION EQUIP	LABOR	19,560	2,178	7,068	162	159
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(2,978)	(332)	(1,076)	(25)	(24)
35	398-MISCELLANEOUS EQUIP	LABOR	5,191	578	1,876	43	42
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(574)	(64)	(207)	(5)	(5)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0
38	TOTAL GENERAL PLANT		309,593	34,479	111,875	2,567	2,518
39							
40	COMMON PLANT	LABOR	0	0	0	0	0
41							
42	TOTAL GAS PLANT IN SERVICE		8,237,129	1,206,328	3,851,981	88,252	67,287
43							
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(1,109,902)	(169,412)	(542,146)	(12,452)	(9,210)
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE CONT.								
2									
3	**DEPRECIATION RESERVE CONTINUED**								
4									
5	**DEPRECIATION RESERVE**								
6	INTANGIBLE RESERVE								
7	302-FRANCHISES & CONSENTS	PLT302	197,465	155,878	30,416	5,474	5,634	32	31
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(3,352)	(2,646)	(516)	(93)	(96)	(1)	(1)
9	303-MISC. INTANGIBLE PLANT	PLT303	340,154	268,517	52,395	9,430	9,705	55	54
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(3,245)	(2,561)	(500)	(90)	(93)	(1)	(1)
11	TOTAL INTANGIBLE PLANT		531,023	419,188	81,795	14,721	15,150	85	84
12									
13	TRANSMISSION RESERVE								
14	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0	0	0
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0	0	0
16	366-STRUCTURES & IMPROVEMENTS	PLT366	3,705	2,120	899	379	303	2	2
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(400)	(229)	(97)	(41)	(33)	(0)	(0)
18	367-MAINS	PLT367	3,082,012	1,763,331	747,965	315,164	252,424	1,854	1,275
19	367-MAINS - ACQ ADJ	PLT367	(59,513)	(34,049)	(14,443)	(6,086)	(4,874)	(36)	(25)
20	369-MEASURING & REG STATION EQUIP.	PLT369	234,313	134,059	56,865	23,961	19,191	141	97
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(15,972)	(9,138)	(3,876)	(1,633)	(1,308)	(10)	(7)
22	371-OTHER EQUIPMENT	PLT371	(4,641)	(2,655)	(1,126)	(475)	(380)	(3)	(2)
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(2,828)	(1,618)	(686)	(289)	(232)	(2)	(1)
24	TOTAL TRANSMISSION PLANT		3,236,677	1,851,821	785,500	330,980	265,091	1,947	1,339
25									
26	DISTRIBUTION RESERVE								
27	374.1-LAND	PLT374	0	0	0	0	0	0	0
28	374.1-LAND - ACQ ADJ	PLT374	0	0	0	0	0	0	0
29	375-STRUCTURES & IMPROV	PLT375	8,751	5,007	2,124	895	717	5	4
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(19)	(11)	(5)	(2)	(2)	(0)	(0)
31	376-MAINS	PLT376	29,504,348	16,880,508	7,160,326	3,017,090	2,416,473	17,745	12,206
32	376-MAINS - ACQ ADJ	PLT376	(879,393)	(503,133)	(213,417)	(89,926)	(72,024)	(529)	(364)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	846,473	484,298	205,428	86,560	69,328	509	350
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(13,445)	(7,692)	(3,263)	(1,375)	(1,101)	(8)	(6)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	735,949	421,063	178,605	75,257	60,276	443	304
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(13,417)	(7,676)	(3,256)	(1,372)	(1,099)	(8)	(6)
37	380-SERVICES	PLT380	22,263,336	20,193,882	1,770,892	7,021	290,565	0	976
38	380-SERVICES - ACQ ADJ	PLT380	(449,039)	(407,299)	(35,718)	(142)	(5,861)	0	(20)
39	381-METERS	PLT381	4,875,854	3,912,179	906,975	14,440	41,767	0	493
40	381-METERS - ACQ ADJ	PLT381	(55,706)	(44,696)	(10,362)	(165)	(477)	0	(6)
41	382-METER INSTALLATIONS	PLT382	1,053,528	845,306	195,971	3,120	9,025	0	106
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(42,231)	(33,884)	(7,855)	(125)	(362)	0	(4)
43									
44									
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE CONT.							
2								
3	**DEPRECIATION RESERVE CONTINUED**							
4								
5	**DEPRECIATION RESERVE**							
6	INTANGIBLE RESERVE							
7	302-FRANCHISES & CONSENTS	PLT302	28,628	1,788	186	5,288	3,825	1,808
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(486)	(30)	(3)	(90)	(65)	(31)
9	303-MISC. INTANGIBLE PLANT	PLT303	49,315	3,080	320	9,110	6,590	3,115
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(470)	(29)	(3)	(87)	(63)	(30)
11	TOTAL INTANGIBLE PLANT		76,986	4,808	499	14,222	10,287	4,863
12								
13	TRANSMISSION RESERVE							
14	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0	0
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0	0
16	366-STRUCTURES & IMPROVEMENTS	PLT366	786	113	12	367	177	126
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(85)	(12)	(1)	(40)	(19)	(14)
18	367-MAINS	PLT367	653,802	94,163	10,279	304,885	147,209	105,214
19	367-MAINS - ACQ ADJ	PLT367	(12,625)	(1,818)	(198)	(5,887)	(2,843)	(2,032)
20	369-MEASURING & REG STATION EQUIP.	PLT369	49,706	7,159	781	23,179	11,192	7,999
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(3,388)	(488)	(53)	(1,580)	(763)	(545)
22	371-OTHER EQUIPMENT	PLT371	(985)	(142)	(15)	(459)	(222)	(158)
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(600)	(86)	(9)	(280)	(135)	(97)
24	TOTAL TRANSMISSION PLANT		686,612	98,888	10,795	320,185	154,597	110,494
25								
26	DISTRIBUTION RESERVE							
27	374.1-LAND	PLT374	0	0	0	0	0	0
28	374.1-LAND - ACQ ADJ	PLT374	0	0	0	0	0	0
29	375-STRUCTURES & IMPROV	PLT375	1,856	267	29	866	418	299
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(4)	(1)	(0)	(2)	(1)	(1)
31	376-MAINS	PLT376	6,258,900	901,426	98,405	2,918,686	1,409,248	1,007,224
32	376-MAINS - ACQ ADJ	PLT376	(186,550)	(26,867)	(2,933)	(86,993)	(42,003)	(30,021)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	179,566	25,862	2,823	83,736	40,431	28,897
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(2,852)	(411)	(45)	(1,330)	(642)	(459)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	156,120	22,485	2,455	72,803	35,152	25,124
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(2,846)	(410)	(45)	(1,327)	(641)	(458)
37	380-SERVICES	PLT380	1,765,587	5,304	2,061	4,960	288,131	2,434
38	380-SERVICES - ACQ ADJ	PLT380	(35,611)	(107)	(42)	(100)	(5,811)	(49)
39	381-METERS	PLT381	890,934	16,041	463	13,977	38,630	3,137
40	381-METERS - ACQ ADJ	PLT381	(10,179)	(183)	(5)	(160)	(441)	(36)
41	382-METER INSTALLATIONS	PLT382	192,505	3,466	100	3,020	8,347	678
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(7,717)	(139)	(4)	(121)	(335)	(27)
43								
44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4							
5	**DEPRECIATION RESERVE**						
6	INTANGIBLE RESERVE						
7	302-FRANCHISES & CONSENTS	PLT302	150,143	5,735	28,628	571	1,217
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(2,549)	(97)	(486)	(10)	(21)
9	303-MISC. INTANGIBLE PLANT	PLT303	258,637	9,879	49,315	984	2,096
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(2,467)	(94)	(470)	(9)	(20)
11	TOTAL INTANGIBLE PLANT		403,765	15,423	76,986	1,536	3,272
12							
13	TRANSMISSION RESERVE						
14	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0
16	366-STRUCTURES & IMPROVEMENTS	PLT366	2,037	83	786	33	80
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(220)	(9)	(85)	(4)	(9)
18	367-MAINS	PLT367	1,694,565	68,766	653,802	27,323	66,840
19	367-MAINS - ACQ ADJ	PLT367	(32,722)	(1,328)	(12,625)	(528)	(1,291)
20	369-MEASURING & REG STATION EQUIP.	PLT369	128,831	5,228	49,706	2,077	5,082
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(8,782)	(356)	(3,388)	(142)	(346)
22	371-OTHER EQUIPMENT	PLT371	(2,552)	(104)	(985)	(41)	(101)
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(1,555)	(63)	(600)	(25)	(61)
24	TOTAL TRANSMISSION PLANT		1,779,604	72,217	686,612	28,694	70,194
25							
26	DISTRIBUTION RESERVE						
27	374.1-LAND	PLT374	0	0	0	0	0
28	374.1-LAND - ACQ ADJ	PLT374	0	0	0	0	0
29	375-STRUCTURES & IMPROV	PLT375	4,811	195	1,856	78	190
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(11)	(0)	(4)	(0)	(0)
31	376-MAINS	PLT376	16,222,206	658,302	6,258,900	261,565	639,861
32	376-MAINS - ACQ ADJ	PLT376	(483,512)	(19,621)	(186,550)	(7,796)	(19,071)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	465,411	18,887	179,566	7,504	18,357
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(7,392)	(300)	(2,852)	(119)	(292)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	404,642	16,421	156,120	6,524	15,961
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(7,377)	(299)	(2,846)	(119)	(291)
37	380-SERVICES	PLT380	19,337,188	856,694	1,765,587	2,824	2,480
38	380-SERVICES - ACQ ADJ	PLT380	(390,020)	(17,279)	(35,611)	(57)	(50)
39	381-METERS	PLT381	3,746,211	165,968	890,934	8,541	7,500
40	381-METERS - ACQ ADJ	PLT381	(42,800)	(1,896)	(10,179)	(98)	(86)
41	382-METER INSTALLATIONS	PLT382	809,446	35,861	192,505	1,846	1,620
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(32,447)	(1,437)	(7,717)	(74)	(65)
43							
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE CONT.				
2					
3	**DEPRECIATION RESERVE CONTINUED**				
4					
5	**DEPRECIATION RESERVE**				
6	INTANGIBLE RESERVE				
7	302-FRANCHISES & CONSENTS	PLT302	186	812	4,477
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(3)	(14)	(76)
9	303-MISC. INTANGIBLE PLANT	PLT303	320	1,398	7,712
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(3)	(13)	(74)
11	TOTAL INTANGIBLE PLANT		499	2,183	12,039
12					
13	TRANSMISSION RESERVE				
14	365-LAND & LAND RIGHTS	PLT365	0	0	0
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0
16	366-STRUCTURES & IMPROVEMENTS	PLT366	12	53	313
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(1)	(6)	(34)
18	367-MAINS	PLT367	10,279	44,384	260,501
19	367-MAINS - ACQ ADJ	PLT367	(198)	(857)	(5,030)
20	369-MEASURING & REG STATION EQUIP.	PLT369	781	3,374	19,805
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(53)	(230)	(1,350)
22	371-OTHER EQUIPMENT	PLT371	(15)	(67)	(392)
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(9)	(41)	(239)
24	TOTAL TRANSMISSION PLANT		10,795	46,611	273,573
25					
26	DISTRIBUTION RESERVE				
27	374.1-LAND	PLT374	0	0	0
28	374.1-LAND - ACQ ADJ	PLT374	0	0	0
29	375-STRUCTURES & IMPROV	PLT375	29	126	740
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(0)	(0)	(2)
31	376-MAINS	PLT376	98,405	424,892	2,493,794
32	376-MAINS - ACQ ADJ	PLT376	(2,933)	(12,664)	(74,329)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	2,823	12,190	71,546
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(45)	(194)	(1,136)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	2,455	10,598	62,205
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(45)	(193)	(1,134)
37	380-SERVICES	PLT380	2,061	1,929	3,031
38	380-SERVICES - ACQ ADJ	PLT380	(42)	(39)	(61)
39	381-METERS	PLT381	463	5,149	8,828
40	381-METERS - ACQ ADJ	PLT381	(5)	(59)	(101)
41	382-METER INSTALLATIONS	PLT382	100	1,113	1,907
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(4)	(45)	(76)
43					
44					
45					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4							
5	**DEPRECIATION RESERVE**						
6	INTANGIBLE RESERVE						
7	302-FRANCHISES & CONSENTS	PLT302	3,825	426	1,382	32	31
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(65)	(7)	(23)	(1)	(1)
9	303-MISC. INTANGIBLE PLANT	PLT303	6,590	734	2,381	55	54
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(63)	(7)	(23)	(1)	(1)
11	TOTAL INTANGIBLE PLANT		10,287	1,146	3,717	85	84
12							
13	TRANSMISSION RESERVE						
14	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0
16	366-STRUCTURES & IMPROVEMENTS	PLT366	177	30	96	2	2
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(19)	(3)	(10)	(0)	(0)
18	367-MAINS	PLT367	147,209	24,961	80,253	1,854	1,275
19	367-MAINS - ACQ ADJ	PLT367	(2,843)	(482)	(1,550)	(36)	(25)
20	369-MEASURING & REG STATION EQUIP.	PLT369	11,192	1,898	6,101	141	97
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(763)	(129)	(416)	(10)	(7)
22	371-OTHER EQUIPMENT	PLT371	(222)	(38)	(121)	(3)	(2)
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(135)	(23)	(74)	(2)	(1)
24	TOTAL TRANSMISSION PLANT		154,597	26,214	84,281	1,947	1,339
25							
26	DISTRIBUTION RESERVE						
27	374.1-LAND	PLT374	0	0	0	0	0
28	374.1-LAND - ACQ ADJ	PLT374	0	0	0	0	0
29	375-STRUCTURES & IMPROV	PLT375	418	71	228	5	4
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(1)	(0)	(1)	(0)	(0)
31	376-MAINS	PLT376	1,409,248	238,953	768,271	17,745	12,206
32	376-MAINS - ACQ ADJ	PLT376	(42,003)	(7,122)	(22,899)	(529)	(364)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	40,431	6,856	22,042	509	350
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(642)	(109)	(350)	(8)	(6)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	35,152	5,960	19,164	443	304
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(641)	(109)	(349)	(8)	(6)
37	380-SERVICES	PLT380	288,131	1,607	827	0	976
38	380-SERVICES - ACQ ADJ	PLT380	(5,811)	(32)	(17)	0	(20)
39	381-METERS	PLT381	38,630	194	2,943	0	493
40	381-METERS - ACQ ADJ	PLT381	(441)	(2)	(34)	0	(6)
41	382-METER INSTALLATIONS	PLT382	8,347	42	636	0	106
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(335)	(2)	(25)	0	(4)
43							
44							
45							

UNS GAS COMPANY
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		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE CONT.								
2									
3	**DEPRECIATION RESERVE CONTINUED**								
4	DISTRIBUTION RESERVE CONTINUED								
5	383-REGULATORS	PLT383	1,063,986	853,697	197,916	3,151	9,114	0	108
6	383-REGULATORS - ACQ ADJ	PLT383	(10,992)	(8,819)	(2,045)	(33)	(94)	0	(1)
7	384-REGULATOR INSTALLATIONS	PLT384	94,352	75,704	17,551	279	808	0	10
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(5,443)	(4,367)	(1,012)	(16)	(47)	0	(1)
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	597,058	0	515,199	21,920	59,580	0	359
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(6,447)	0	(5,564)	(237)	(643)	0	(4)
11	387-OTHER EQUIPMENT	PLT387	333,544	190,833	80,947	34,108	27,318	201	138
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(10,778)	(6,166)	(2,616)	(1,102)	(883)	(6)	(4)
13	TOTAL DISTRIBUTION RESERVE		59,890,270	42,838,733	10,946,820	3,169,348	2,902,378	18,351	14,639
14									
15	GENERAL PLANT RESERVE								
16	389-LAND AND LAND RIGHTS	PLT389	0	0	0	0	0	0	0
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	0	0	0	0	0	0	0
18	390-STRUCTURES & IMPROVE	PLT390	521,758	411,874	80,368	14,464	14,886	84	82
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(10,840)	(8,557)	(1,670)	(301)	(309)	(2)	(2)
20	391-OFFICE FURN & EQUIPMENT	PLT391	3,247,867	2,563,855	500,278	90,038	92,662	522	512
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(178,962)	(141,272)	(27,566)	(4,961)	(5,106)	(29)	(28)
22	392-TRANSPORTATION EQUIP	PLT392	1,760,750	1,389,930	271,213	48,812	50,235	283	277
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(49,951)	(39,431)	(7,694)	(1,385)	(1,425)	(8)	(8)
24	393-STORES EQUIPMENT	PLT393	25,675	20,268	3,955	712	733	4	4
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(1,267)	(1,000)	(195)	(35)	(36)	(0)	(0)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	523,919	413,580	80,701	14,524	14,948	84	83
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(21,139)	(16,687)	(3,256)	(586)	(603)	(3)	(3)
28	395-LABORATORY EQUIPMENT	PLT395	288,256	227,549	44,401	7,991	8,224	46	45
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(17,255)	(13,621)	(2,658)	(478)	(492)	(3)	(3)
30	396-POWER OPERATED EQUIPMENT	PLT396	289,124	228,234	44,535	8,015	8,249	46	46
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(678)	(535)	(104)	(19)	(19)	(0)	(0)
32	397-COMMUNICATION EQUIP	PLT397	30,282	23,905	4,664	839	864	5	5
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(21,895)	(17,284)	(3,373)	(607)	(625)	(4)	(3)
34	398-MISCELLANEOUS EQUIP	PLT398	88,888	70,168	13,692	2,464	2,536	14	14
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(2,775)	(2,191)	(427)	(77)	(79)	(0)	(0)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		6,471,757	5,108,783	996,864	179,411	184,641	1,040	1,020
38									
39	COMMON PLANT	PLTCOMN	0	0	0	0	0	0	0
40									
41	TOTAL DEPRECIATION RESERVE		70,129,727	50,218,524	12,810,979	3,694,460	3,367,260	21,423	17,082
42									
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(1,876,981)	(1,314,564)	(352,175)	(111,175)	(97,922)	(649)	(496)
44									
45	NET PLANT IN SERVICE		$178,330,230	$122,230,876	$34,610,620	$11,443,522	$9,928,178	$66,828	$50,206
46									

UNS GAS COMPANY
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12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE CONT.							
2								
3	**DEPRECIATION RESERVE CONTINUED**							
4	DISTRIBUTION RESERVE CONTINUED							
5	383-REGULATORS	PLT383	194,415	3,500	101	3,050	8,430	685
6	383-REGULATORS - ACQ ADJ	PLT383	(2,008)	(36)	(1)	(32)	(87)	(7)
7	384-REGULATOR INSTALLATIONS	PLT384	17,240	310	9	270	748	61
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(995)	(18)	(1)	(16)	(43)	(4)
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	487,504	27,695	820	21,101	45,073	14,507
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(5,264)	(299)	(9)	(228)	(487)	(157)
11	387-OTHER EQUIPMENT	PLT387	70,756	10,191	1,112	32,996	15,931	11,387
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(2,286)	(329)	(36)	(1,066)	(515)	(368)
13	TOTAL DISTRIBUTION RESERVE		9,959,073	987,747	105,258	3,064,091	1,839,532	1,062,846
14								
15	GENERAL PLANT RESERVE							
16	389-LAND AND LAND RIGHTS	PLT389	0	0	0	0	0	0
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	0	0	0	0	0	0
18	390-STRUCTURES & IMPROVE	PLT390	75,643	4,725	491	13,973	10,108	4,778
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(1,572)	(98)	(10)	(290)	(210)	(99)
20	391-OFFICE FURN & EQUIPMENT	PLT391	470,868	29,410	3,055	86,983	62,919	29,744
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(25,946)	(1,621)	(168)	(4,793)	(3,467)	(1,639)
22	392-TRANSPORTATION EQUIP	PLT392	255,270	15,944	1,656	47,155	34,110	16,125
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(7,242)	(452)	(47)	(1,338)	(968)	(457)
24	393-STORES EQUIPMENT	PLT393	3,722	232	24	688	497	235
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(184)	(11)	(1)	(34)	(25)	(12)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	75,957	4,744	493	14,031	10,150	4,798
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(3,065)	(191)	(20)	(566)	(410)	(194)
28	395-LABORATORY EQUIPMENT	PLT395	41,791	2,610	271	7,720	5,584	2,640
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(2,502)	(156)	(16)	(462)	(334)	(158)
30	396-POWER OPERATED EQUIPMENT	PLT396	41,917	2,618	272	7,743	5,601	2,648
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(98)	(6)	(1)	(18)	(13)	(6)
32	397-COMMUNICATION EQUIP	PLT397	4,390	274	28	811	587	277
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(3,174)	(198)	(21)	(586)	(424)	(201)
34	398-MISCELLANEOUS EQUIP	PLT398	12,887	805	84	2,381	1,722	814
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(402)	(25)	(3)	(74)	(54)	(25)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		938,261	58,603	6,087	173,323	125,373	59,268
38								
39	COMMON PLANT	PLTCOMN	0	0	0	0	0	0
40								
41	TOTAL DEPRECIATION RESERVE		11,660,933	1,150,046	122,640	3,571,820	2,129,789	1,237,471
42								
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(318,150)	(34,025)	(3,675)	(107,499)	(60,798)	(37,124)
44								
45	NET PLANT IN SERVICE		$31,123,066	$3,487,555	$377,342	$11,066,179	$6,107,340	$3,820,837
46								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4	DISTRIBUTION RESERVE CONTINUED						
5	383-REGULATORS	PLT383	817,480	36,217	194,415	1,864	1,637
6	383-REGULATORS - ACQ ADJ	PLT383	(8,445)	(374)	(2,008)	(19)	(17)
7	384-REGULATOR INSTALLATIONS	PLT384	72,492	3,212	17,240	165	145
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(4,182)	(185)	(995)	(10)	(8)
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	0	0	487,504	15,826	11,869
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	0	0	(5,264)	(171)	(128)
11	387-OTHER EQUIPMENT	PLT387	183,391	7,442	70,756	2,957	7,234
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(5,926)	(240)	(2,286)	(96)	(234)
13	TOTAL DISTRIBUTION RESERVE		41,081,169	1,757,564	9,959,073	301,136	686,611
14							
15	GENERAL PLANT RESERVE						
16	389-LAND AND LAND RIGHTS	PLT389	0	0	0	0	0
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	0	0	0	0	0
18	390-STRUCTURES & IMPROVE	PLT390	396,720	15,154	75,643	1,509	3,215
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(8,243)	(315)	(1,572)	(31)	(67)
20	391-OFFICE FURN & EQUIPMENT	PLT391	2,469,524	94,331	470,868	9,395	20,015
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(136,074)	(5,198)	(25,946)	(518)	(1,103)
22	392-TRANSPORTATION EQUIP	PLT392	1,338,791	51,139	255,270	5,093	10,851
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(37,980)	(1,451)	(7,242)	(144)	(308)
24	393-STORES EQUIPMENT	PLT393	19,522	746	3,722	74	158
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(963)	(37)	(184)	(4)	(8)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	398,363	15,217	75,957	1,515	3,229
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(16,073)	(614)	(3,065)	(61)	(130)
28	395-LABORATORY EQUIPMENT	PLT395	219,176	8,372	41,791	834	1,776
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(13,120)	(501)	(2,502)	(50)	(106)
30	396-POWER OPERATED EQUIPMENT	PLT396	219,836	8,397	41,917	836	1,782
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(516)	(20)	(98)	(2)	(4)
32	397-COMMUNICATION EQUIP	PLT397	23,025	880	4,390	88	187
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(16,648)	(636)	(3,174)	(63)	(135)
34	398-MISCELLANEOUS EQUIP	PLT398	67,587	2,582	12,887	257	548
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(2,110)	(81)	(402)	(8)	(17)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		4,920,818	187,965	938,261	18,720	39,882
38							
39	COMMON PLANT	PLTCOMN	0	0	0	0	0
40							
41	TOTAL DEPRECIATION RESERVE		48,185,355	2,033,169	11,660,933	350,087	799,960
42							
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(1,262,132)	(52,433)	(318,150)	(10,157)	(23,868)
44							
45	NET PLANT IN SERVICE		$117,303,281	$4,927,595	$31,123,066	$1,035,928	$2,451,627
46							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE CONT.				
2					
3	**DEPRECIATION RESERVE CONTINUED**				
4	DISTRIBUTION RESERVE CONTINUED				
5	383-REGULATORS	PLT383	101	1,124	1,926
6	383-REGULATORS - ACQ ADJ	PLT383	(1)	(12)	(20)
7	384-REGULATOR INSTALLATIONS	PLT384	9	100	171
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(1)	(6)	(10)
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	820	7,913	13,188
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(9)	(85)	(142)
11	387-OTHER EQUIPMENT	PLT387	1,112	4,803	28,192
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(36)	(155)	(911)
13	TOTAL DISTRIBUTION RESERVE		105,258	456,485	2,607,606
14					
15	GENERAL PLANT RESERVE				
16	389-LAND AND LAND RIGHTS	PLT389	0	0	0
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	0	0	0
18	390-STRUCTURES & IMPROVE	PLT390	491	2,145	11,829
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(10)	(45)	(246)
20	391-OFFICE FURN & EQUIPMENT	PLT391	3,055	13,351	73,632
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(168)	(736)	(4,057)
22	392-TRANSPORTATION EQUIP	PLT392	1,656	7,238	39,918
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(47)	(205)	(1,132)
24	393-STORES EQUIPMENT	PLT393	24	106	582
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(1)	(5)	(29)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	493	2,154	11,878
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(20)	(87)	(479)
28	395-LABORATORY EQUIPMENT	PLT395	271	1,185	6,535
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(16)	(71)	(391)
30	396-POWER OPERATED EQUIPMENT	PLT396	272	1,188	6,555
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(1)	(3)	(15)
32	397-COMMUNICATION EQUIP	PLT397	28	124	687
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(21)	(90)	(496)
34	398-MISCELLANEOUS EQUIP	PLT398	84	365	2,015
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(3)	(11)	(63)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0
37	TOTAL GENERAL PLANT RESERVE		6,087	26,603	146,720
38					
39	COMMON PLANT	PLTCOMN	0	0	0
40					
41	TOTAL DEPRECIATION RESERVE		122,640	531,882	3,039,938
42					
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(3,675)	(15,865)	(91,634)
44					
45	NET PLANT IN SERVICE		$377,342	$1,629,264	$9,436,916
46					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4	DISTRIBUTION RESERVE CONTINUED						
5	383-REGULATORS	PLT383	8,430	42	642	0	108
6	383-REGULATORS - ACQ ADJ	PLT383	(87)	(0)	(7)	0	(1)
7	384-REGULATOR INSTALLATIONS	PLT384	748	4	57	0	10
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(43)	(0)	(3)	0	(1)
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	45,073	6,594	7,913	0	359
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(487)	(71)	(85)	0	(4)
11	387-OTHER EQUIPMENT	PLT387	15,931	2,701	8,685	201	138
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(515)	(87)	(281)	(6)	(4)
13	TOTAL DISTRIBUTION RESERVE		1,839,532	255,490	807,356	18,351	14,639
14							
15	GENERAL PLANT RESERVE						
16	389-LAND AND LAND RIGHTS	PLT389	0	0	0	0	0
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	0	0	0	0	0
18	390-STRUCTURES & IMPROVE	PLT390	10,108	1,126	3,653	84	82
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(210)	(23)	(76)	(2)	(2)
20	391-OFFICE FURN & EQUIPMENT	PLT391	62,919	7,007	22,736	522	512
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(3,467)	(386)	(1,253)	(29)	(28)
22	392-TRANSPORTATION EQUIP	PLT392	34,110	3,799	12,326	283	277
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(968)	(108)	(350)	(8)	(8)
24	393-STORES EQUIPMENT	PLT393	497	55	180	4	4
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(25)	(3)	(9)	(0)	(0)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	10,150	1,130	3,668	84	83
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(410)	(46)	(148)	(3)	(3)
28	395-LABORATORY EQUIPMENT	PLT395	5,584	622	2,018	46	45
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(334)	(37)	(121)	(3)	(3)
30	396-POWER OPERATED EQUIPMENT	PLT396	5,601	624	2,024	46	46
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(13)	(1)	(5)	(0)	(0)
32	397-COMMUNICATION EQUIP	PLT397	587	65	212	5	5
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(424)	(47)	(153)	(4)	(3)
34	398-MISCELLANEOUS EQUIP	PLT398	1,722	192	622	14	14
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(54)	(6)	(19)	(0)	(0)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		125,373	13,963	45,305	1,040	1,020
38							
39	COMMON PLANT	PLTCOMN	0	0	0	0	0
40							
41	TOTAL DEPRECIATION RESERVE		2,129,789	296,812	940,659	21,423	17,082
42							
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(60,798)	(8,845)	(28,280)	(649)	(496)
44							
45	NET PLANT IN SERVICE		$6,107,340	$909,515	$2,911,322	$66,828	$50,206
46							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
DEVELOPMENT OF RATE BASE CONT.								
OTHER RATE BASE ITEMS								
WORKING CAPITAL								
CASH WORKING CAPITAL								
PLANT	PLANT	($3,280,886)	($2,277,175)	($626,197)	($199,895)	($175,565)	($1,165)	($889)
COMMODITY	WCGC	0	0	0	0	0	0	0
OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0	0	0
OTHER	WCOTH	0	0	0	0	0	0	0
TOTAL CASH WORKING CAPITAL		(3,280,886)	(2,277,175)	(626,197)	(199,895)	(175,565)	(1,165)	(889)
MATERIALS & SUPPLIES	PLANT	2,039,798	1,415,769	389,320	124,279	109,152	725	552
PREPAYMENTS	PLANT	195,942	135,998	37,398	11,938	10,485	70	53
TOTAL WORKING CAPITAL		(1,045,146)	(725,408)	(199,479)	(63,678)	(55,927)	(371)	(283)
LESS: CUSTOMER CONTRIBUTIONS								
CUST ADVANCES FOR CONSTRUCTION	PLANT	(7,283,595)	(5,055,348)	(1,390,163)	(443,769)	(389,755)	(2,587)	(1,973)
CUSTOMER DEPOSITS	PLANT	(3,040,483)	(2,110,318)	(580,313)	(185,248)	(162,700)	(1,080)	(823)
OTHER RATE BASE								
CWIP	DISTRPLT	0	0	0	0	0	0	0
Y2K COSTS & GIC DEF	PAYXAG	1,097,410	864,004	171,269	30,768	31,015	179	175
C.A.R.E.S.	THERMS	107,477	55,798	25,479	17,200	8,853	79	67
OTHER - WARM SPIRIT	RESNTPT	(19,721)	(19,721)	0	0	0	0	0
TOTAL OTHER		1,185,166	900,081	196,749	47,967	39,868	258	242
LESS								
ACCUMULATED DEFERRED INC. TAXES	PLANT	(6,484,809)	(4,500,932)	(1,237,705)	(395,102)	(347,011)	(2,303)	(1,756)
TOTAL RATE BASE		$161,661,362	$110,738,951	$31,399,710	$10,403,692	$9,012,651	$60,745	$45,613

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE CONT.							
2								
3	**OTHER RATE BASE ITEMS**							
4								
5	WORKING CAPITAL							
6	CASH WORKING CAPITAL							
7	PLANT	PLANT	($564,958)	($61,239)	($6,602)	($193,293)	($108,770)	($66,794)
8	COMMODITY	WCGC	0	0	0	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0	0
10	OTHER	WCOTH	0	0	0	0	0	0
11	TOTAL CASH WORKING CAPITAL		(564,958)	(61,239)	(6,602)	(193,293)	(108,770)	(66,794)
12	MATERIALS & SUPPLIES	PLANT	351,247	38,074	4,105	120,175	67,625	41,528
13	PREPAYMENTS	PLANT	33,741	3,657	394	11,544	6,496	3,989
14	TOTAL WORKING CAPITAL		(179,971)	(19,508)	(2,103)	(61,575)	(34,649)	(21,278)
15								
16	LESS: CUSTOMER CONTRIBUTIONS							
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(1,254,211)	(135,951)	(14,657)	(429,112)	(241,471)	(148,284)
18	CUSTOMER DEPOSITS	PLANT	(523,561)	(56,752)	(6,118)	(179,130)	(100,800)	(61,900)
19								
20	OTHER RATE BASE							
21	CWIP	DISTRPLT	0	0	0	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	161,209	10,061	1,042	29,726	20,863	10,151
23	C.A.R.E.S.	THERMS	22,558	2,921	398	16,802	4,531	4,322
24	OTHER - WARM SPIRIT	RESNTPT	0	0	0	0	0	0
25	TOTAL OTHER		183,767	12,982	1,440	46,528	25,395	14,473
26								
27	LESS							
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(1,116,663)	(121,041)	(13,050)	(382,052)	(214,989)	(132,022)
29								
30								
31	TOTAL RATE BASE		$28,232,426	$3,167,284	$342,854	$10,060,838	$5,540,825	$3,471,827
32								
33								
34								
35								
36								
37								
38								
39								
40								
41								
42								
43								
44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**OTHER RATE BASE ITEMS**						
4							
5	WORKING CAPITAL						
6	CASH WORKING CAPITAL						
7	PLANT	PLANT	($2,185,259)	($91,916)	($564,958)	($18,302)	($42,937)
8	COMMODITY	WCGC	0	0	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0
10	OTHER	WCOTH	0	0	0	0	0
11	TOTAL CASH WORKING CAPITAL		(2,185,259)	(91,916)	(564,958)	(18,302)	(42,937)
12	MATERIALS & SUPPLIES	PLANT	1,358,623	57,146	351,247	11,379	26,695
13	PREPAYMENTS	PLANT	130,509	5,489	33,741	1,093	2,564
14	TOTAL WORKING CAPITAL		(696,127)	(29,280)	(179,971)	(5,830)	(13,678)
15							
16	LESS: CUSTOMER CONTRIBUTIONS						
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(4,851,294)	(204,055)	(1,254,211)	(40,631)	(95,320)
18	CUSTOMER DEPOSITS	PLANT	(2,025,137)	(85,181)	(523,561)	(16,961)	(39,791)
19							
20	OTHER RATE BASE						
21	CWIP	DISTRPLT	0	0	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	833,441	30,563	161,209	3,217	6,843
23	C.A.R.E.S.	THERMS	53,610	2,188	22,558	995	1,926
24	OTHER - WARM SPIRIT	RESNTPT	(18,926)	(795)	0	0	0
25	TOTAL OTHER		868,125	31,956	183,767	4,212	8,769
26							
27	LESS						
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(4,319,256)	(181,676)	(1,116,663)	(36,175)	(84,866)
29							
30							
31	TOTAL RATE BASE		$106,279,592	$4,459,359	$28,232,426	$940,543	$2,226,741
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE CONT.				
2					
3	**OTHER RATE BASE ITEMS**				
4					
5	WORKING CAPITAL				
6	CASH WORKING CAPITAL				
7	PLANT	PLANT	($6,602)	($28,538)	($164,755)
8	COMMODITY	WCGC	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0
10	OTHER	WCOTH	0	0	0
11	TOTAL CASH WORKING CAPITAL		(6,602)	(28,538)	(164,755)
12	MATERIALS & SUPPLIES	PLANT	4,105	17,743	102,432
13	PREPAYMENTS	PLANT	394	1,704	9,840
14	TOTAL WORKING CAPITAL		(2,103)	(9,091)	(52,484)
15					
16	LESS: CUSTOMER CONTRIBUTIONS				
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(14,657)	(63,354)	(365,759)
18	CUSTOMER DEPOSITS	PLANT	(6,118)	(26,447)	(152,683)
19					
20	OTHER RATE BASE				
21	CWIP	DISTRPLT	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	1,042	4,566	25,160
23	C.A.R.E.S.	THERMS	398	1,786	15,016
24	OTHER - WARM SPIRIT	RESNTPT	0	0	0
25	TOTAL OTHER		1,440	6,352	40,176
26					
27	LESS				
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(13,050)	(56,406)	(325,646)
29					
30					
31	TOTAL RATE BASE		$342,854	$1,480,318	$8,580,520
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**OTHER RATE BASE ITEMS**						
4							
5	WORKING CAPITAL						
6	CASH WORKING CAPITAL						
7	PLANT	PLANT	($108,770)	($15,929)	($50,865)	($1,165)	($889)
8	COMMODITY	WCGC	0	0	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0
10	OTHER	WCOTH	0	0	0	0	0
11	TOTAL CASH WORKING CAPITAL		(108,770)	(15,929)	(50,865)	(1,165)	(889)
12	MATERIALS & SUPPLIES	PLANT	67,625	9,904	31,624	725	552
13	PREPAYMENTS	PLANT	6,496	951	3,038	70	53
14	TOTAL WORKING CAPITAL		(34,649)	(5,074)	(16,203)	(371)	(283)
15							
16	LESS: CUSTOMER CONTRIBUTIONS						
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(241,471)	(35,363)	(112,921)	(2,587)	(1,973)
18	CUSTOMER DEPOSITS	PLANT	(100,800)	(14,762)	(47,138)	(1,080)	(823)
19							
20	OTHER RATE BASE						
21	CWIP	DISTRPLT	0	0	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	20,863	2,384	7,767	179	175
23	C.A.R.E.S.	THERMS	4,531	800	3,522	79	67
24	OTHER - WARM SPIRIT	RESNTPT	0	0	0	0	0
25	TOTAL OTHER		25,395	3,184	11,289	258	242
26							
27	LESS						
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(214,989)	(31,485)	(100,537)	(2,303)	(1,756)
29							
30							
31	TOTAL RATE BASE		$5,540,825	$826,014	$2,645,813	$60,745	$45,613
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
OPERATING REVENUES								
REVENUES								
GAS OPERATING REVENUES								
SALES REVENUES								
FIRM SALES OF GAS		$45,689,224	$32,152,423	$9,709,553	$1,639,719	$2,090,889	$73,078	$23,562
INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0	0	0
INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0	0	0
INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0	0	0
SALES FOR RESALE	DEMGAS	0	0	0	0	0	0	0
TOTAL SALES OF GAS		45,689,224	32,152,423	9,709,553	1,639,719	2,090,889	73,078	23,562
OTHER OPERATING REVENUES								
FORFEITED DISCOUNTS	PLANT	398,966	276,911	76,147	24,308	21,349	142	108
MISCELLANEOUS SERVICE REV	CUST487B	1,046,891	957,410	52,441	0	36,477	0	563
OTHER REVENUE	DEMGAS	34,447	22,089	9,324	865	2,110	31	27
OTHER REVENUE	PLANT	0	0	0	0	0	0	0
OTHER REVENUE	PLANT	0	0	0	0	0	0	0
TOTAL OTHER OPERATING REV		1,480,303	1,256,411	137,913	25,172	59,937	173	697
TOTAL GAS OPERATING REVENUE		$47,169,527	$33,408,834	$9,847,465	$1,664,891	$2,150,826	$73,251	$24,260

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	OPERATING REVENUES							
2								
3	**REVENUES**							
4								
5	GAS OPERATING REVENUES							
6								
7	SALES REVENUES							
8	FIRM SALES OF GAS		$8,531,880	$1,177,672	$109,190	$1,530,529	$1,527,532	$563,357
9	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0	0
10	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0	0
11	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0	0
12	SALES FOR RESALE	DEMGAS	0	0	0	0	0	0
13	TOTAL SALES OF GAS		8,531,880	1,177,672	109,190	1,530,529	1,527,532	563,357
14								
15	OTHER OPERATING REVENUES							
16	FORFEITED DISCOUNTS	PLANT	68,701	7,447	803	23,505	13,227	8,122
17	MISCELLANEOUS SERVICE REV	CUST487B	52,441	0	0	0	36,477	0
18	OTHER REVENUE	DEMGAS	8,930	394	158	707	1,794	317
19	OTHER REVENUE	PLANT	0	0	0	0	0	0
20	OTHER REVENUE	PLANT	0	0	0	0	0	0
21	TOTAL OTHER OPERATING REV		130,072	7,841	960	24,212	51,498	8,439
22								
23	TOTAL GAS OPERATING REVENUE		$8,661,952	$1,185,513	$110,150	$1,554,741	$1,579,030	$571,796

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	OPERATING REVENUES						
2							
3	**REVENUES**						
4							
5	GAS OPERATING REVENUES						
6							
7	SALES REVENUES						
8	FIRM SALES OF GAS		$31,176,937	$975,486	$8,531,880	$211,649	$966,024
9	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0
10	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0
11	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0
12	SALES FOR RESALE	DEMGAS	0	0	0	0	0
13	TOTAL SALES OF GAS		31,176,937	975,486	8,531,880	211,649	966,024
14							
15	OTHER OPERATING REVENUES						
16	FORFEITED DISCOUNTS	PLANT	265,734	11,177	68,701	2,226	5,221
17	MISCELLANEOUS SERVICE REV	CUST487B	938,880	18,530	52,441	0	0
18	OTHER REVENUE	DEMGAS	21,223	866	8,930	394	0
19	OTHER REVENUE	PLANT	0	0	0	0	0
20	OTHER REVENUE	PLANT	0	0	0	0	0
21	TOTAL OTHER OPERATING REV		1,225,837	30,573	130,072	2,619	5,221
22							
23	TOTAL GAS OPERATING REVENUE		$32,402,775	$1,006,059	$8,661,952	$214,268	$971,245
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	OPERATING REVENUES				
2					
3	**REVENUES**				
4					
5	GAS OPERATING REVENUES				
6					
7	SALES REVENUES				
8	FIRM SALES OF GAS		$109,190	$204,407	$1,326,122
9	INTERR SALES GAS COST REV	GASSALES	0	0	0
10	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0
11	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0
12	SALES FOR RESALE	DEMGAS	0	0	0
13	TOTAL SALES OF GAS		109,190	204,407	1,326,122
14					
15	OTHER OPERATING REVENUES				
16	FORFEITED DISCOUNTS	PLANT	803	3,470	20,035
17	MISCELLANEOUS SERVICE REV	CUST487B	0	0	0
18	OTHER REVENUE	DEMGAS	158	707	0
19	OTHER REVENUE	PLANT	0	0	0
20	OTHER REVENUE	PLANT	0	0	0
21	TOTAL OTHER OPERATING REV		960	4,177	20,035
22					
23	TOTAL GAS OPERATING REVENUE		$110,150	$208,585	$1,346,157
24					
25					
26					
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	OPERATING REVENUES						
2							
3	**REVENUES**						
4							
5	GAS OPERATING REVENUES						
6							
7	SALES REVENUES						
8	FIRM SALES OF GAS		$1,527,532	$117,541	$445,816	$73,078	$23,562
9	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0
10	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0
11	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0
12	SALES FOR RESALE	DEMGAS	0	0	0	0	0
13	TOTAL SALES OF GAS		1,527,532	117,541	445,816	73,078	23,562
14							
15	OTHER OPERATING REVENUES						
16	FORFEITED DISCOUNTS	PLANT	13,227	1,937	6,185	142	108
17	MISCELLANEOUS SERVICE REV	CUST487B	36,477	0	0	0	563
18	OTHER REVENUE	DEMGAS	1,794	317	0	31	27
19	OTHER REVENUE	PLANT	0	0	0	0	0
20	OTHER REVENUE	PLANT	0	0	0	0	0
21	TOTAL OTHER OPERATING REV		51,498	2,254	6,185	173	697
22							
23	TOTAL GAS OPERATING REVENUE		$1,579,030	$119,795	$452,001	$73,251	$24,260

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	OPERATION & MAINTENANCE EXPENSE								
2									
3	**OPERATION & MAINTENANCE EXPENSE**								
4	PRODUCTION EXPENSE								
5	421-PURCHASED POWER	DEMGAS	0	0	0	0	0	0	0
6	805-PURCHASED GAS EXPENSES	DEMGAS	0	0	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES								
8	NON-RECONCILABLE	DEMGAS	355,528	227,986	96,238	8,923	21,782	324	276
9	CAPACITY RELATED	DEMGAS	0	0	0	0	0	0	0
10	COMMODITY RELATED	GASSALES	0	0	0	0	0	0	0
11	TOTAL ACCOUNT 807		355,528	227,986	96,238	8,923	21,782	324	276
12	TOTAL PURCHASED GAS SUPPLY		355,529	227,986	96,238	8,923	21,782	324	276
13									
14	TRANSMISSION EXPENSE								
15	856-MAINS EXPENSE	TRANS	11,280	6,454	2,737	1,153	924	7	5
16	857-MEASURING & REG. STATION	TRANS	(52,221)	(29,877)	(12,673)	(5,340)	(4,277)	(31)	(22)
17	864-MAINTENANCE OF COMPRESSOR STATION EC	TRANS	19	11	5	2	2	0	0
18	870-OPERATION SUPERVISION AND ENGINEERING	TRANS	315,983	180,785	76,685	32,312	25,880	190	131
19	TOTAL TRANSMISSION		275,061	157,372	66,754	28,127	22,528	165	114
20									
21	DISTRIBUTION EXPENSE								
22	431-INTEREST ON CUSTOMER DEPOSITS	LABDO	170,459	126,837	32,519	5,649	5,390	31	32
23	871-LOAD DISPATCHING	DISTR	162	93	39	17	13	0	0
24	874-MAINS & SERVICING EXPENSE	PLT376380	1,337,349	924,274	247,042	88,319	76,818	519	378
25	875-MEAS./REG. STATION EXPENSE	PLT378	244,463	139,866	59,328	24,999	20,022	147	101
26	876-MEAS./REG. STATION EXPENSE	PLT379	150,536	86,127	36,533	15,394	12,329	91	62
27	877-MEAS./REG. STATION EXPENSE	PLT383	56,529	45,356	10,515	167	484	0	6
28	878-METER EXPENSE	PLT381	1,349,114	1,082,472	250,954	3,995	11,557	0	136
29	879-CUSTOMER INSTALL EXP	PLT38284	539,082	432,536	100,277	1,596	4,618	0	54
30	880-OTHER EXPENSES	EXP87479	1,090,666	804,007	209,007	39,886	37,322	224	219
31	881-RENTS	DISTR	44,510	25,466	10,802	4,552	3,645	27	18
32	885-MAINT. SUPERV. & ENG.	LABDM	243,170	172,068	43,807	14,397	12,751	84	63
33	886-MAINT. OF STRUCTURES	PLT375	0	0	0	0	0	0	0
34	887-MAINT. OF MAINS	PLT376	1,084,194	620,307	263,120	110,869	88,798	652	449
35	889-MAINT. MEAS./REG	PLT378	25,623	14,660	6,218	2,620	2,099	15	11
36	890-MAINT. MEAS./REG	PLT379	2,072	1,186	503	212	170	1	1
37	891-MAINT. MEAS./REG	PLT383	850	682	158	3	7	0	0
38	892-MAINT. OF SERVICES	PLT380	465,066	421,837	36,993	147	6,070	0	20
39	893-MAINT. OF METER	PLT381	167,015	134,006	31,067	495	1,431	0	17
40	894-MAINT. OF OTHER EQUIP.	PLT387	96,826	55,398	23,498	9,901	7,930	58	40
41	TOTAL DISTRIBUTION EXP		7,067,687	5,087,177	1,362,381	323,217	291,454	1,850	1,608
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43									
44									
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	OPERATION & MAINTENANCE EXPENSE							
2								
3	**OPERATION & MAINTENANCE EXPENSE**							
4	PRODUCTION EXPENSE							
5	421-PURCHASED POWER	DEMGAS	0	0	0	0	0	0
6	805-PURCHASED GAS EXPENSES	DEMGAS	0	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES							
8	NON-RECONCILABLE	DEMGAS	92,172	4,065	1,626	7,297	18,515	3,267
9	CAPACITY RELATED	DEMGAS	0	0	0	0	0	0
10	COMMODITY RELATED	GASSALES	0	0	0	0	0	0
11	TOTAL ACCOUNT 807		92,172	4,065	1,626	7,297	18,515	3,267
12	TOTAL PURCHASED GAS SUPPLY		92,173	4,065	1,626	7,297	18,515	3,267
13								
14	TRANSMISSION EXPENSE							
15	856-MAINS EXPENSE	TRANS	2,393	345	38	1,116	539	385
16	857-MEASURING & REG. STATION	TRANS	(11,078)	(1,595)	(174)	(5,166)	(2,494)	(1,783)
17	864-MAINTENANCE OF COMPRESSOR STATION EC	TRANS	4	1	0	2	1	1
18	870-OPERATION SUPERVISION AND ENGINEERING	TRANS	67,031	9,654	1,054	31,258	15,093	10,787
19	TOTAL TRANSMISSION		58,350	8,404	917	27,210	13,138	9,390
20								
21	DISTRIBUTION EXPENSE							
22	431-INTEREST ON CUSTOMER DEPOSITS	LABDO	30,593	1,926	186	5,463	3,538	1,852
23	871-LOAD DISPATCHING	DISTR	34	5	1	16	8	6
24	874-MAINS & SERVICING EXPENSE	PLT376380	220,586	26,456	2,920	85,399	47,332	29,486
25	875-MEAS./REG. STATION EXPENSE	PLT378	51,859	7,469	815	24,183	11,677	8,346
26	876-MEAS./REG. STATION EXPENSE	PLT379	31,934	4,599	502	14,892	7,190	5,139
27	877-MEAS./REG. STATION EXPENSE	PLT383	10,329	186	5	162	448	36
28	878-METER EXPENSE	PLT381	246,515	4,438	128	3,867	10,689	868
29	879-CUSTOMER INSTALL EXP	PLT38284	98,503	1,774	51	1,545	4,271	347
30	880-OTHER EXPENSES	EXP87479	195,683	13,324	1,312	38,574	24,205	13,117
31	881-RENTS	DISTR	9,442	1,360	148	4,403	2,126	1,519
32	885-MAINT. SUPERV. & ENG.	LABDM	39,456	4,351	477	13,920	7,949	4,801
33	886-MAINT. OF STRUCTURES	PLT375	0	0	0	0	0	0
34	887-MAINT. OF MAINS	PLT376	229,995	33,125	3,616	107,253	51,786	37,012
35	889-MAINT. MEAS./REG	PLT378	5,436	783	85	2,535	1,224	875
36	890-MAINT. MEAS./REG	PLT379	440	63	7	205	99	71
37	891-MAINT. MEAS./REG	PLT383	155	3	0	2	7	1
38	892-MAINT. OF SERVICES	PLT380	36,882	111	43	104	6,019	51
39	893-MAINT. OF METER	PLT381	30,518	549	16	479	1,323	107
40	894-MAINT. OF OTHER EQUIP.	PLT387	20,540	2,958	323	9,578	4,625	3,305
41	TOTAL DISTRIBUTION EXP		1,258,901	103,480	10,635	312,582	184,514	106,940
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	OPERATION & MAINTENANCE EXPENSE						
2							
3	**OPERATION & MAINTENANCE EXPENSE**						
4	PRODUCTION EXPENSE						
5	421-PURCHASED POWER	DEMGAS	0	0	0	0	0
6	805-PURCHASED GAS EXPENSES	DEMGAS	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES						
8	NON-RECONCILABLE	DEMGAS	219,047	8,939	92,172	4,065	0
9	CAPACITY RELATED	DEMGAS	0	0	0	0	0
10	COMMODITY RELATED	GASSALES	0	0	0	0	0
11	TOTAL ACCOUNT 807		219,047	8,939	92,172	4,065	0
12	TOTAL PURCHASED GAS SUPPLY		219,047	8,939	92,173	4,065	0
13							
14	TRANSMISSION EXPENSE						
15	856-MAINS EXPENSE	TRANS	6,202	252	2,393	100	245
16	857-MEASURING & REG. STATION	TRANS	(28,712)	(1,165)	(11,078)	(463)	(1,133)
17	864-MAINTENANCE OF COMPRESSOR STATION EC	TRANS	10	0	4	0	0
18	870-OPERATION SUPERVISION AND ENGINEERING	TRANS	173,735	7,050	67,031	2,801	6,853
19	TOTAL TRANSMISSION		151,235	6,137	58,350	2,438	5,965
20							
21	DISTRIBUTION EXPENSE						
22	431-INTEREST ON CUSTOMER DEPOSITS	LABDO	121,559	5,278	30,593	638	1,288
23	871-LOAD DISPATCHING	DISTR	89	4	34	1	4
24	874-MAINS & SERVICING EXPENSE	PLT376380	886,753	37,521	220,586	7,704	18,752
25	875-MEAS./REG. STATION EXPENSE	PLT378	134,412	5,454	51,859	2,167	5,302
26	876-MEAS./REG. STATION EXPENSE	PLT379	82,768	3,359	31,934	1,335	3,265
27	877-MEAS./REG. STATION EXPENSE	PLT383	43,432	1,924	10,329	99	87
28	878-METER EXPENSE	PLT381	1,036,550	45,922	246,515	2,363	2,075
29	879-CUSTOMER INSTALL EXP	PLT38284	414,187	18,350	98,503	944	829
30	880-OTHER EXPENSES	EXP87479	770,629	33,378	195,683	4,334	8,990
31	881-RENTS	DISTR	24,473	993	9,442	395	965
32	885-MAINT. SUPERV. & ENG.	LABDM	165,042	7,025	39,456	1,280	3,071
33	886-MAINT. OF STRUCTURES	PLT375	0	0	0	0	0
34	887-MAINT. OF MAINS	PLT376	596,116	24,191	229,995	9,612	23,513
35	889-MAINT. MEAS./REG	PLT378	14,088	572	5,436	227	556
36	890-MAINT. MEAS./REG	PLT379	1,140	46	440	18	45
37	891-MAINT. MEAS./REG	PLT383	653	29	155	1	1
38	892-MAINT. OF SERVICES	PLT380	403,941	17,896	36,882	59	52
39	893-MAINT. OF METER	PLT381	128,321	5,685	30,518	293	257
40	894-MAINT. OF OTHER EQUIP.	PLT387	53,237	2,160	20,540	858	2,100
41	TOTAL DISTRIBUTION EXP		4,877,391	209,787	1,258,901	32,329	71,151
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	OPERATION & MAINTENANCE EXPENSE				
2					
3	**OPERATION & MAINTENANCE EXPENSE**				
4	PRODUCTION EXPENSE				
5	421-PURCHASED POWER	DEMGAS	0	0	0
6	805-PURCHASED GAS EXPENSES	DEMGAS	0	0	0
7	807-PURCHASED GAS COST EXPENSES				
8	NON-RECONCILABLE	DEMGAS	1,626	7,297	0
9	CAPACITY RELATED	DEMGAS	0	0	0
10	COMMODITY RELATED	GASSALES	0	0	0
11	TOTAL ACCOUNT 807		1,626	7,297	0
12	TOTAL PURCHASED GAS SUPPLY		1,626	7,297	0
13					
14	TRANSMISSION EXPENSE				
15	856-MAINS EXPENSE	TRANS	38	162	953
16	857-MEASURING & REG. STATION	TRANS	(174)	(752)	(4,414)
17	864-MAINTENANCE OF COMPRESSOR STATION EC	TRANS	0	0	2
18	870-OPERATION SUPERVISION AND ENGINEERING	TRANS	1,054	4,550	26,708
19	TOTAL TRANSMISSION		917	3,961	23,249
20					
21	DISTRIBUTION EXPENSE				
22	431-INTEREST ON CUSTOMER DEPOSITS	LABDO	186	859	4,604
23	871-LOAD DISPATCHING	DISTR	1	2	14
24	874-MAINS & SERVICING EXPENSE	PLT376380	2,920	12,458	72,941
25	875-MEAS./REG. STATION EXPENSE	PLT378	815	3,521	20,663
26	876-MEAS./REG. STATION EXPENSE	PLT379	502	2,168	12,724
27	877-MEAS./REG. STATION EXPENSE	PLT383	5	60	102
28	878-METER EXPENSE	PLT381	128	1,425	2,443
29	879-CUSTOMER INSTALL EXP	PLT38284	51	569	976
30	880-OTHER EXPENSES	EXP87479	1,312	5,992	32,583
31	881-RENTS	DISTR	148	641	3,762
32	885-MAINT. SUPERV. & ENG.	LABDM	477	2,041	11,879
33	886-MAINT. OF STRUCTURES	PLT375	0	0	0
34	887-MAINT. OF MAINS	PLT376	3,616	15,613	91,639
35	889-MAINT. MEAS./REG	PLT378	85	369	2,166
36	890-MAINT. MEAS./REG	PLT379	7	30	175
37	891-MAINT. MEAS./REG	PLT383	0	1	2
38	892-MAINT. OF SERVICES	PLT380	43	40	63
39	893-MAINT. OF METER	PLT381	16	176	302
40	894-MAINT. OF OTHER EQUIP.	PLT387	323	1,394	8,184
41	TOTAL DISTRIBUTION EXP		10,635	47,359	265,222
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	OPERATION & MAINTENANCE EXPENSE						
2							
3	**OPERATION & MAINTENANCE EXPENSE**						
4	PRODUCTION EXPENSE						
5	421-PURCHASED POWER	DEMGAS	0	0	0	0	0
6	805-PURCHASED GAS EXPENSES	DEMGAS	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES						
8	NON-RECONCILABLE	DEMGAS	18,515	3,267	0	324	276
9	CAPACITY RELATED	DEMGAS	0	0	0	0	0
10	COMMODITY RELATED	GASSALES	0	0	0	0	0
11	TOTAL ACCOUNT 807		18,515	3,267	0	324	276
12	TOTAL PURCHASED GAS SUPPLY		18,515	3,267	0	324	276
13							
14	TRANSMISSION EXPENSE						
15	856-MAINS EXPENSE	TRANS	539	91	294	7	5
16	857-MEASURING & REG. STATION	TRANS	(2,494)	(423)	(1,360)	(31)	(22)
17	864-MAINTENANCE OF COMPRESSOR STATION EC	TRANS	1	0	0	0	0
18	870-OPERATION SUPERVISION AND ENGINEERING	TRANS	15,093	2,559	8,228	190	131
19	TOTAL TRANSMISSION		13,138	2,228	7,162	165	114
20							
21	DISTRIBUTION EXPENSE						
22	431-INTEREST ON CUSTOMER DEPOSITS	LABDO	3,538	429	1,423	31	32
23	871-LOAD DISPATCHING	DISTR	8	1	4	0	0
24	874-MAINS & SERVICING EXPENSE	PLT376380	47,332	7,017	22,469	519	378
25	875-MEAS./REG. STATION EXPENSE	PLT378	11,677	1,980	6,366	147	101
26	876-MEAS./REG. STATION EXPENSE	PLT379	7,190	1,219	3,920	91	62
27	877-MEAS./REG. STATION EXPENSE	PLT383	448	2	34	0	6
28	878-METER EXPENSE	PLT381	10,689	54	814	0	136
29	879-CUSTOMER INSTALL EXP	PLT38284	4,271	21	325	0	54
30	880-OTHER EXPENSES	EXP87479	24,205	3,053	10,064	224	219
31	881-RENTS	DISTR	2,126	360	1,159	27	18
32	885-MAINT. SUPERV. & ENG.	LABDM	7,949	1,141	3,660	84	63
33	886-MAINT. OF STRUCTURES	PLT375	0	0	0	0	0
34	887-MAINT. OF MAINS	PLT376	51,786	8,781	28,232	652	449
35	889-MAINT. MEAS./REG	PLT378	1,224	208	667	15	11
36	890-MAINT. MEAS./REG	PLT379	99	17	54	1	1
37	891-MAINT. MEAS./REG	PLT383	7	0	1	0	0
38	892-MAINT. OF SERVICES	PLT380	6,019	34	17	0	20
39	893-MAINT. OF METER	PLT381	1,323	7	101	0	17
40	894-MAINT. OF OTHER EQUIP.	PLT387	4,625	784	2,521	58	40
41	TOTAL DISTRIBUTION EXP		184,514	25,109	81,830	1,850	1,608
42							
43							
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45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	OPERATION & MAINT EXP CONT.								
3	**OPERATION & MAINTENANCE EXPENSE CONTINUED**								
4	CUSTOMER ACCOUNT								
5	901-SUPERVISION	LABCA	74,309	67,770	5,936	19	580	1	3
6	902-METER READING EXPENSE	CUST902	719,037	656,293	56,925	214	5,575	0	31
7	903-CUST RECORDS & COLLECT	CUST903	5,462,173	4,979,822	437,984	1,268	42,738	120	240
8	904-UNCOLLECTIBLE ACCOUNTS	BADDEBT	722,634	415,866	128,129	136,915	41,597	0	126
9	905-MISC CUST ACCTS EXP	EXP9024	34,381	30,139	3,103	689	448	1	2
10	906-CUSTOMER SERVICE & INFO	CUST10	0	0	0	0	0	0	0
11	907-SUPERV. CUSTOMER SERV.	LABCS	14,743	13,459	1,165	3	114	0	1
12	908-CUSTOMER ASSISTANCE	CUST10	(34,228)	(31,248)	(2,706)	(8)	(264)	(1)	(1)
13	909-INFO & INSTRUCTIONAL ADVERT.	CUST10	65,794	60,066	5,201	15	507	1	3
14	910-MISC. CUST. SERV. & INFO.	EXP9089	22,602	20,634	1,787	5	174	0	1
15	CARES DISCOUNTS	THERMS	0	0	0	0	0	0	0
16	CARES EXPENSES	THERMS	0	0	0	0	0	0	0
17	TOTAL CUSTOMER ACCTS EXP		7,081,444	6,212,801	637,524	139,122	91,469	123	406
19	SALES EXPENSE								
20	912-DEMONSTRATING & SELLING	CDA912	558	507	46	0	4	0	0
21	913-ADVERTISING EXPENSES	CDA913	0	0	0	0	0	0	0
22	TOTAL SALES EXPENSE		558	507	46	0	4	0	0
24	ADMINISTRATIVE & GENERAL EXPENSE								
25	920-ADMIN & GENERAL SALARY	PAYXAG	1,529,696	1,204,348	238,735	42,887	43,232	250	244
26	921-OFFICE SUPPLIES & EXP	PAYXAG	1,365,974	1,075,448	213,183	38,297	38,605	223	218
27	923-OUTSIDE SERV EMPLOYED	PAYXAG	(152,817)	(120,315)	(23,850)	(4,284)	(4,319)	(25)	(24)
28	924-PROPERTY INSURANCE	PLANT	2,696,531	1,871,590	514,666	164,292	144,295	958	730
29	925-INJURIES & DAMAGES	PAYXAG	7,415	5,838	1,157	208	210	1	1
30	926-EMPLOYED PENSION & BENF	PAYXAG	574,128	452,018	89,602	16,097	16,226	94	92
31	928-REGULATORY COMM EXPENSE	TOTREV	2,452,071	1,736,732	511,913	86,548	111,809	3,808	1,261
32	930-MISCELLANEOUS GEN EXP	PAYXAG	1,282,411	1,009,658	200,142	35,954	36,243	209	204
33	931-RENTS	PAYXAG	109,053	85,858	17,020	3,057	3,082	18	17
34	932-MAINT OF GENERAL PLT	GENPLT	169,826	134,060	26,159	4,708	4,845	27	27
35	TOTAL ADMIN & GEN EXPENSE		10,034,287	7,455,235	1,788,727	387,764	394,227	5,563	2,770
37	TOTAL GAS O & M EXPENSE		$24,814,565	$19,141,078	$3,951,669	$887,154	$821,464	$8,026	$5,173

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	OPERATION & MAINT EXP CONT.							
2								
3	**OPERATION & MAINTENANCE EXPENSE CONTINUED**							
4	CUSTOMER ACCOUNT							
5	901-SUPERVISION	LABCA	5,925	11	7	12	574	6
6	902-METER READING EXPENSE	CUST902	56,794	131	66	148	5,502	73
7	903-CUST RECORDS & COLLECT	CUST903	437,313	671	507	761	42,364	373
8	904-UNCOLLECTIBLE ACCOUNTS	BADDEBT	88,630	39,499	63	136,852	0	41,597
9	905-MISC CUST ACCTS EXP	EXP9024	2,902	201	3	686	238	209
10	906-CUSTOMER SERVICE & INFO	CUST10	0	0	0	0	0	0
11	907-SUPERV. CUSTOMER SERV.	LABCS	1,164	2	1	2	113	1
12	908-CUSTOMER ASSISTANCE	CUST10	(2,702)	(4)	(3)	(5)	(262)	(2)
13	909-INFO & INSTRUCTIONAL ADVERT.	CUST10	5,193	8	6	9	503	4
14	910-MISC. CUST. SERV. & INFO.	EXP9089	1,784	3	2	3	173	2
15	CARES DISCOUNTS	THERMS	0	0	0	0	0	0
16	CARES EXPENSES	THERMS	0	0	0	0	0	0
17	TOTAL CUSTOMER ACCTS EXP		597,004	40,520	653	138,469	49,205	42,263
18								
19	SALES EXPENSE							
20	912-DEMONSTRATING & SELLING	CDA912	46	0	0	0	4	0
21	913-ADVERTISING EXPENSES	CDA913	0	0	0	0	0	0
22	TOTAL SALES EXPENSE		46	0	0	0	4	0
23								
24	ADMINISTRATIVE & GENERAL EXPENSE							
25	920-ADMIN & GENERAL SALARY	PAYXAG	224,711	14,024	1,452	41,435	29,082	14,150
26	921-OFFICE SUPPLIES & EXP	PAYXAG	200,661	12,523	1,297	37,001	25,969	12,635
27	923-OUTSIDE SERV EMPLOYED	PAYXAG	(22,449)	(1,401)	(145)	(4,139)	(2,905)	(1,414)
28	924-PROPERTY INSURANCE	PLANT	464,334	50,332	5,426	158,866	89,397	54,898
29	925-INJURIES & DAMAGES	PAYXAG	1,089	68	7	201	141	69
30	926-EMPLOYED PENSION & BENF	PAYXAG	84,339	5,263	545	15,552	10,915	5,311
31	928-REGULATORY COMM EXPENSE	TOTREV	450,285	61,628	5,726	80,822	82,085	29,724
32	930-MISCELLANEOUS GEN EXP	PAYXAG	188,385	11,757	1,217	34,737	24,381	11,863
33	931-RENTS	PAYXAG	16,020	1,000	104	2,954	2,073	1,009
34	932-MAINT OF GENERAL PLT	GENPLT	24,621	1,538	160	4,548	3,290	1,555
35	TOTAL ADMIN & GEN EXPENSE		1,631,996	156,731	15,788	371,976	264,427	129,800
36								
37	TOTAL GAS O & M EXPENSE		$3,638,470	$313,200	$29,620	$857,534	$529,805	$291,660
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	OPERATION & MAINT EXP CONT.						
2							
3	**OPERATION & MAINTENANCE EXPENSE CONTINUED**						
4	CUSTOMER ACCOUNT						
5	901-SUPERVISION	LABCA	66,186	1,584	5,925	7	4
6	902-METER READING EXPENSE	CUST902	628,450	27,842	56,794	84	47
7	903-CUST RECORDS & COLLECT	CUST903	4,904,509	75,313	437,313	430	240
8	904-UNCOLLECTIBLE ACCOUNTS	BADDEBT	400,520	15,346	88,630	2,535	36,964
9	905-MISC CUST ACCTS EXP	EXP9024	29,549	590	2,902	15	186
10	906-CUSTOMER SERVICE & INFO	CUST10	0	0	0	0	0
11	907-SUPERV. CUSTOMER SERV.	LABCS	12,856	603	1,164	1	1
12	908-CUSTOMER ASSISTANCE	CUST10	(29,848)	(1,400)	(2,702)	(3)	(1)
13	909-INFO & INSTRUCTIONAL ADVERT.	CUST10	57,374	2,692	5,193	5	3
14	910-MISC. CUST. SERV. & INFO.	EXP9089	19,709	925	1,784	2	1
15	CARES DISCOUNTS	THERMS	0	0	0	0	0
16	CARES EXPENSES	THERMS	0	0	0	0	0
17	TOTAL CUSTOMER ACCTS EXP		6,089,306	123,495	597,004	3,076	37,444
18							
19	SALES EXPENSE						
20	912-DEMONSTRATING & SELLING	CDA912	499	8	46	0	0
21	913-ADVERTISING EXPENSES	CDA913	0	0	0	0	0
22	TOTAL SALES EXPENSE		499	8	46	0	0
23							
24	ADMINISTRATIVE & GENERAL EXPENSE						
25	920-ADMIN & GENERAL SALARY	PAYXAG	1,161,745	42,603	224,711	4,485	9,539
26	921-OFFICE SUPPLIES & EXP	PAYXAG	1,037,405	38,043	200,661	4,005	8,518
27	923-OUTSIDE SERV EMPLOYED	PAYXAG	(116,059)	(4,256)	(22,449)	(448)	(953)
28	924-PROPERTY INSURANCE	PLANT	1,796,045	75,545	464,334	15,042	35,289
29	925-INJURIES & DAMAGES	PAYXAG	5,631	207	1,089	22	46
30	926-EMPLOYED PENSION & BENF	PAYXAG	436,028	15,990	84,339	1,683	3,580
31	928-REGULATORY COMM EXPENSE	TOTREV	1,684,433	52,299	450,285	11,139	50,489
32	930-MISCELLANEOUS GEN EXP	PAYXAG	973,942	35,716	188,385	3,760	7,997
33	931-RENTS	PAYXAG	82,821	3,037	16,020	320	680
34	932-MAINT OF GENERAL PLT	GENPLT	129,127	4,932	24,621	491	1,047
35	TOTAL ADMIN & GEN EXPENSE		7,191,119	264,116	1,631,996	40,498	116,233
36							
37	TOTAL GAS O & M EXPENSE		$18,528,597	$612,481	$3,638,470	$82,407	$230,793
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	OPERATION & MAINT EXP CONT.				
2					
3	**OPERATION & MAINTENANCE EXPENSE CONTINUED**				
4	CUSTOMER ACCOUNT				
5	901-SUPERVISION	LABCA	7	4	8
6	902-METER READING EXPENSE	CUST902	66	55	94
7	903-CUST RECORDS & COLLECT	CUST903	507	280	481
8	904-UNCOLLECTIBLE ACCOUNTS	BADDEBT	63	268	136,583
9	905-MISC CUST ACCTS EXP	EXP9024	3	3	683
10	906-CUSTOMER SERVICE & INFO	CUST10	0	0	0
11	907-SUPERV. CUSTOMER SERV.	LABCS	1	1	1
12	908-CUSTOMER ASSISTANCE	CUST10	(3)	(2)	(3)
13	909-INFO & INSTRUCTIONAL ADVERT.	CUST10	6	3	6
14	910-MISC. CUST. SERV. & INFO.	EXP9089	2	1	2
15	CARES DISCOUNTS	THERMS	0	0	0
16	CARES EXPENSES	THERMS	0	0	0
17	TOTAL CUSTOMER ACCTS EXP		653	614	137,855
18					
19	SALES EXPENSE				
20	912-DEMONSTRATING & SELLING	CDA912	0	0	0
21	913-ADVERTISING EXPENSES	CDA913	0	0	0
22	TOTAL SALES EXPENSE		0	0	0
23					
24	ADMINISTRATIVE & GENERAL EXPENSE				
25	920-ADMIN & GENERAL SALARY	PAYXAG	1,452	6,364	35,071
26	921-OFFICE SUPPLIES & EXP	PAYXAG	1,297	5,683	31,318
27	923-OUTSIDE SERV EMPLOYED	PAYXAG	(145)	(636)	(3,504)
28	924-PROPERTY INSURANCE	PLANT	5,426	23,455	135,411
29	925-INJURIES & DAMAGES	PAYXAG	7	31	170
30	926-EMPLOYED PENSION & BENF	PAYXAG	545	2,389	13,163
31	928-REGULATORY COMM EXPENSE	TOTREV	5,726	10,843	69,979
32	930-MISCELLANEOUS GEN EXP	PAYXAG	1,217	5,335	29,402
33	931-RENTS	PAYXAG	104	454	2,500
34	932-MAINT OF GENERAL PLT	GENPLT	160	698	3,850
35	TOTAL ADMIN & GEN EXPENSE		15,788	54,616	317,360
36					
37	TOTAL GAS O & M EXPENSE		$29,620	$113,848	$743,686
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	OPERATION & MAINT EXP CONT.						
2							
3	**OPERATION & MAINTENANCE EXPENSE CONTINUED**						
4	CUSTOMER ACCOUNT						
5	901-SUPERVISION	LABCA	574	3	3	1	3
6	902-METER READING EXPENSE	CUST902	5,502	42	31	0	31
7	903-CUST RECORDS & COLLECT	CUST903	42,364	213	160	120	240
8	904-UNCOLLECTIBLE ACCOUNTS	BADDEBT	0	0	41,597	0	126
9	905-MISC CUST ACCTS EXP	EXP9024	238	1	208	1	2
10	906-CUSTOMER SERVICE & INFO	CUST10	0	0	0	0	0
11	907-SUPERV. CUSTOMER SERV.	LABCS	113	1	0	0	1
12	908-CUSTOMER ASSISTANCE	CUST10	(262)	(1)	(1)	(1)	(1)
13	909-INFO & INSTRUCTIONAL ADVERT.	CUST10	503	3	2	1	3
14	910-MISC. CUST. SERV. & INFO.	EXP9089	173	1	1	0	1
15	CARES DISCOUNTS	THERMS	0	0	0	0	0
16	CARES EXPENSES	THERMS	0	0	0	0	0
17	TOTAL CUSTOMER ACCTS EXP		49,205	262	42,001	123	406
18							
19	SALES EXPENSE						
20	912-DEMONSTRATING & SELLING	CDA912	4	0	0	0	0
21	913-ADVERTISING EXPENSES	CDA913	0	0	0	0	0
22	TOTAL SALES EXPENSE		4	0	0	0	0
23							
24	ADMINISTRATIVE & GENERAL EXPENSE						
25	920-ADMIN & GENERAL SALARY	PAYXAG	29,082	3,323	10,827	250	244
26	921-OFFICE SUPPLIES & EXP	PAYXAG	25,969	2,968	9,668	223	218
27	923-OUTSIDE SERV EMPLOYED	PAYXAG	(2,905)	(332)	(1,082)	(25)	(24)
28	924-PROPERTY INSURANCE	PLANT	89,397	13,092	41,805	958	730
29	925-INJURIES & DAMAGES	PAYXAG	141	16	52	1	1
30	926-EMPLOYED PENSION & BENF	PAYXAG	10,915	1,247	4,063	94	92
31	928-REGULATORY COMM EXPENSE	TOTREV	82,085	6,227	23,497	3,808	1,261
32	930-MISCELLANEOUS GEN EXP	PAYXAG	24,381	2,786	9,076	209	204
33	931-RENTS	PAYXAG	2,073	237	772	18	17
34	932-MAINT OF GENERAL PLT	GENPLT	3,290	366	1,189	27	27
35	TOTAL ADMIN & GEN EXPENSE		264,427	29,931	99,868	5,563	2,770
36							
37	TOTAL GAS O & M EXPENSE		$529,805	$60,797	$230,862	$8,026	$5,173
38							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEPRECIATION & AMORT EXPENSE								
2									
3	**DEPRECIATION AND AMORITIZATION EXPENSE**								
4									
5	407-AMOR Y2K EXP; GPS & PRESC GAIN	PAYXAG	363,339	286,061	56,705	10,187	10,269	59	58
6	407-AMORTIZATION OF C.A.R.E.S.	PLANT	477,337	331,307	91,106	29,083	25,543	170	129
7									
8	INTANGIBLE PLT DEPRECIATION EXPENSE								
9	302-FRANCHISES & CONSENTS	PLT302	13,489	10,648	2,078	374	385	2	2
10	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(1,284)	(1,014)	(198)	(36)	(37)	(0)	(0)
11	303-MISC. INTANGIBLE PLANT	PLT303	75,438	59,551	11,620	2,091	2,152	12	12
12	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(1,934)	(1,527)	(298)	(54)	(55)	(0)	(0)
13	TOTAL INTANGIBLE PLT DEPR EXP		85,709	67,658	13,202	2,376	2,445	14	14
14									
15	TRANSMISSION PLT DEPR EXP								
16	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0	0	0
17	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0	0	0
18	366-STRUCTURES & IMPROVEMENTS	PLT366	1,416	810	344	145	116	1	1
19	366-STRUCTURES & IMPROVE - ACQ ADJ	PLT366	(249)	(142)	(60)	(25)	(20)	(0)	(0)
20	367-MAINS	PLT367	272,433	155,869	66,116	27,859	22,313	164	113
21	367-MAINS - ACQ ADJ	PLT367	(24,551)	(14,046)	(5,958)	(2,511)	(2,011)	(15)	(10)
22	369-MEASURING & REG STATION EQ.	PLT369	11,670	6,677	2,832	1,193	956	7	5
23	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(6,536)	(3,740)	(1,586)	(668)	(535)	(4)	(3)
24	371-OTHER EQUIPMENT	PLT371	(332)	(190)	(81)	(34)	(27)	(0)	(0)
25	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(602)	(345)	(146)	(62)	(49)	(0)	(0)
26	TOTAL TRANS PLT DEPR EXP		253,249	144,893	61,460	25,897	20,742	152	105
27									
28	DISTRIBUTION PLT DEPR EXP								
29	375-STRUCTURES & IMPROV	PLT375	2,126	1,216	516	217	174	1	1
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(318)	(182)	(77)	(33)	(26)	(0)	(0)
31	376-MAINS	PLT376	2,867,976	1,640,873	696,021	293,277	234,894	1,725	1,186
32	376-MAINS - ACQ ADJ	PLT376	(364,767)	(208,696)	(88,524)	(37,301)	(29,875)	(219)	(151)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	55,436	31,717	13,454	5,669	4,540	33	23
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(5,598)	(3,203)	(1,359)	(572)	(459)	(3)	(2)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	51,099	29,235	12,401	5,225	4,185	31	21
36	379-MEAS. & REG. EQ-CITY GATE - ACQ ADJ	PLT379	(5,653)	(3,235)	(1,372)	(578)	(463)	(3)	(2)
37	380-SERVICES	PLT380	2,063,965	1,872,112	164,174	651	26,937	0	91
38	380-SERVICES - ACQ ADJ	PLT380	(187,260)	(169,854)	(14,895)	(59)	(2,444)	0	(8)
39	381-METERS	PLT381	261,313	209,666	48,608	774	2,238	0	26
40	381-METERS - ACQ ADJ	PLT381	(23,452)	(18,817)	(4,362)	(69)	(201)	0	(2)
41									
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEPRECIATION & AMORT EXPENSE							
2								
3	**DEPRECIATION AND AMORITIZATION EXPENSE**							
4								
5	407-AMOR Y2K EXP; GPS & PRESC GAIN	PAYXAG	53,374	3,331	345	9,842	6,908	3,361
6	407-AMORTIZATION OF C.A.R.E.S.	PLANT	82,196	8,910	961	28,122	15,825	9,718
7								
8	INTANGIBLE PLT DEPRECIATION EXPENSE							
9	302-FRANCHISES & CONSENTS	PLT302	1,956	122	13	361	261	124
10	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(186)	(12)	(1)	(34)	(25)	(12)
11	303-MISC. INTANGIBLE PLANT	PLT303	10,937	683	71	2,020	1,461	691
12	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(280)	(18)	(2)	(52)	(37)	(18)
13	TOTAL INTANGIBLE PLT DEPR EXP		12,426	776	81	2,295	1,660	785
14								
15	TRANSMISSION PLT DEPR EXP							
16	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0	0
17	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0	0
18	366-STRUCTURES & IMPROVEMENTS	PLT366	300	43	5	140	68	48
19	366-STRUCTURES & IMPROVE - ACQ ADJ	PLT366	(53)	(8)	(1)	(25)	(12)	(8)
20	367-MAINS	PLT367	57,792	8,323	909	26,950	13,013	9,300
21	367-MAINS - ACQ ADJ	PLT367	(5,208)	(750)	(82)	(2,429)	(1,173)	(838)
22	369-MEASURING & REG STATION EQ.	PLT369	2,476	357	39	1,154	557	398
23	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(1,387)	(200)	(22)	(647)	(312)	(223)
24	371-OTHER EQUIPMENT	PLT371	(70)	(10)	(1)	(33)	(16)	(11)
25	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(128)	(18)	(2)	(60)	(29)	(21)
26	TOTAL TRANS PLT DEPR EXP		53,723	7,737	845	25,052	12,096	8,645
27								
28	DISTRIBUTION PLT DEPR EXP							
29	375-STRUCTURES & IMPROV	PLT375	451	65	7	210	102	73
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(68)	(10)	(1)	(32)	(15)	(11)
31	376-MAINS	PLT376	608,398	87,623	9,565	283,711	136,986	97,907
32	376-MAINS - ACQ ADJ	PLT376	(77,380)	(11,144)	(1,217)	(36,084)	(17,423)	(12,452)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	11,760	1,694	185	5,484	2,648	1,892
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(1,188)	(171)	(19)	(554)	(267)	(191)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	10,840	1,561	170	5,055	2,441	1,744
36	379-MEAS. & REG. EQ-CITY GATE - ACQ ADJ	PLT379	(1,199)	(173)	(19)	(559)	(270)	(193)
37	380-SERVICES	PLT380	163,682	492	191	460	26,712	226
38	380-SERVICES - ACQ ADJ	PLT380	(14,851)	(45)	(17)	(42)	(2,424)	(20)
39	381-METERS	PLT381	47,748	860	25	749	2,070	168
40	381-METERS - ACQ ADJ	PLT381	(4,285)	(77)	(2)	(67)	(186)	(15)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEPRECIATION & AMORT EXPENSE						
2							
3	**DEPRECIATION AND AMORITIZATION EXPENSE**						
4							
5	407-AMOR Y2K EXP; GPS & PRESC GAIN	PAYXAG	275,942	10,119	53,374	1,065	2,266
6	407-AMORTIZATION OF C.A.R.E.S.	PLANT	317,934	13,373	82,196	2,663	6,247
7							
8	INTANGIBLE PLT DEPRECIATION EXPENSE						
9	302-FRANCHISES & CONSENTS	PLT302	10,256	392	1,956	39	83
10	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(977)	(37)	(186)	(4)	(8)
11	303-MISC. INTANGIBLE PLANT	PLT303	57,360	2,191	10,937	218	465
12	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(1,471)	(56)	(280)	(6)	(12)
13	TOTAL INTANGIBLE PLT DEPR EXP		65,169	2,489	12,426	248	528
14							
15	TRANSMISSION PLT DEPR EXP						
16	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0
17	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0
18	366-STRUCTURES & IMPROVEMENTS	PLT366	779	32	300	13	31
19	366-STRUCTURES & IMPROVE - ACQ ADJ	PLT366	(137)	(6)	(53)	(2)	(5)
20	367-MAINS	PLT367	149,790	6,079	57,792	2,415	5,908
21	367-MAINS - ACQ ADJ	PLT367	(13,499)	(548)	(5,208)	(218)	(532)
22	369-MEASURING & REG STATION EQ.	PLT369	6,416	260	2,476	103	253
23	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(3,594)	(146)	(1,387)	(58)	(142)
24	371-OTHER EQUIPMENT	PLT371	(183)	(7)	(70)	(3)	(7)
25	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(331)	(13)	(128)	(5)	(13)
26	TOTAL TRANS PLT DEPR EXP		139,242	5,650	53,723	2,245	5,492
27							
28	DISTRIBUTION PLT DEPR EXP						
29	375-STRUCTURES & IMPROV	PLT375	1,169	47	451	19	46
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(175)	(7)	(68)	(3)	(7)
31	376-MAINS	PLT376	1,576,883	63,990	608,398	25,425	62,198
32	376-MAINS - ACQ ADJ	PLT376	(200,558)	(8,139)	(77,380)	(3,234)	(7,911)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	30,480	1,237	11,760	491	1,202
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(3,078)	(125)	(1,188)	(50)	(121)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	28,095	1,140	10,840	453	1,108
36	379-MEAS. & REG. EQ-CITY GATE - ACQ ADJ	PLT379	(3,108)	(126)	(1,199)	(50)	(123)
37	380-SERVICES	PLT380	1,792,691	79,421	163,682	262	230
38	380-SERVICES - ACQ ADJ	PLT380	(162,648)	(7,206)	(14,851)	(24)	(21)
39	381-METERS	PLT381	200,772	8,895	47,748	458	402
40	381-METERS - ACQ ADJ	PLT381	(18,019)	(798)	(4,285)	(41)	(36)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEPRECIATION & AMORT EXPENSE				
2					
3	**DEPRECIATION AND AMORITIZATION EXPENSE**				
4					
5	407-AMOR Y2K EXP; GPS & PRESC GAIN	PAYXAG	345	1,512	8,330
6	407-AMORTIZATION OF C.A.R.E.S.	PLANT	961	4,152	23,970
7					
8	INTANGIBLE PLT DEPRECIATION EXPENSE				
9	302-FRANCHISES & CONSENTS	PLT302	13	55	306
10	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(1)	(5)	(29)
11	303-MISC. INTANGIBLE PLANT	PLT303	71	310	1,710
12	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(2)	(8)	(44)
13	TOTAL INTANGIBLE PLT DEPR EXP		81	352	1,943
14					
15	TRANSMISSION PLT DEPR EXP				
16	365-LAND & LAND RIGHTS	PLT365	0	0	0
17	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0
18	366-STRUCTURES & IMPROVEMENTS	PLT366	5	20	120
19	366-STRUCTURES & IMPROVE - ACQ ADJ	PLT366	(1)	(4)	(21)
20	367-MAINS	PLT367	909	3,923	23,027
21	367-MAINS - ACQ ADJ	PLT367	(82)	(354)	(2,075)
22	369-MEASURING & REG STATION EQ.	PLT369	39	168	986
23	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(22)	(94)	(552)
24	371-OTHER EQUIPMENT	PLT371	(1)	(5)	(28)
25	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(2)	(9)	(51)
26	TOTAL TRANS PLT DEPR EXP		845	3,647	21,405
27					
28	DISTRIBUTION PLT DEPR EXP				
29	375-STRUCTURES & IMPROV	PLT375	7	31	180
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(1)	(5)	(27)
31	376-MAINS	PLT376	9,565	41,302	242,410
32	376-MAINS - ACQ ADJ	PLT376	(1,217)	(5,253)	(30,831)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	185	798	4,686
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(19)	(81)	(473)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	170	736	4,319
36	379-MEAS. & REG. EQ-CITY GATE - ACQ ADJ	PLT379	(19)	(81)	(478)
37	380-SERVICES	PLT380	191	179	281
38	380-SERVICES - ACQ ADJ	PLT380	(17)	(16)	(25)
39	381-METERS	PLT381	25	276	473
40	381-METERS - ACQ ADJ	PLT381	(2)	(25)	(42)
41					
42					
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEPRECIATION & AMORT EXPENSE						
2							
3	**DEPRECIATION AND AMORITIZATION EXPENSE**						
4							
5	407-AMOR Y2K EXP; GPS & PRESC GAIN	PAYXAG	6,908	789	2,572	59	58
6	407-AMORTIZATION OF C.A.R.E.S.	PLANT	15,825	2,318	7,400	170	129
7							
8	INTANGIBLE PLT DEPRECIATION EXPENSE						
9	302-FRANCHISES & CONSENTS	PLT302	261	29	94	2	2
10	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(25)	(3)	(9)	(0)	(0)
11	303-MISC. INTANGIBLE PLANT	PLT303	1,461	163	528	12	12
12	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(37)	(4)	(14)	(0)	(0)
13	TOTAL INTANGIBLE PLT DEPR EXP		1,660	185	600	14	14
14							
15	TRANSMISSION PLT DEPR EXP						
16	365-LAND & LAND RIGHTS	PLT365	0	0	0	0	0
17	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0	0
18	366-STRUCTURES & IMPROVEMENTS	PLT366	68	11	37	1	1
19	366-STRUCTURES & IMPROVE - ACQ ADJ	PLT366	(12)	(2)	(6)	(0)	(0)
20	367-MAINS	PLT367	13,013	2,206	7,094	164	113
21	367-MAINS - ACQ ADJ	PLT367	(1,173)	(199)	(639)	(15)	(10)
22	369-MEASURING & REG STATION EQ.	PLT369	557	95	304	7	5
23	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(312)	(53)	(170)	(4)	(3)
24	371-OTHER EQUIPMENT	PLT371	(16)	(3)	(9)	(0)	(0)
25	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(29)	(5)	(16)	(0)	(0)
26	TOTAL TRANS PLT DEPR EXP		12,096	2,051	6,594	152	105
27							
28	DISTRIBUTION PLT DEPR EXP						
29	375-STRUCTURES & IMPROV	PLT375	102	17	55	1	1
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(15)	(3)	(8)	(0)	(0)
31	376-MAINS	PLT376	136,986	23,228	74,680	1,725	1,186
32	376-MAINS - ACQ ADJ	PLT376	(17,423)	(2,954)	(9,498)	(219)	(151)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	2,648	449	1,444	33	23
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(267)	(45)	(146)	(3)	(2)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	2,441	414	1,331	31	21
36	379-MEAS. & REG. EQ-CITY GATE - ACQ ADJ	PLT379	(270)	(46)	(147)	(3)	(2)
37	380-SERVICES	PLT380	26,712	149	77	0	91
38	380-SERVICES - ACQ ADJ	PLT380	(2,424)	(14)	(7)	0	(8)
39	381-METERS	PLT381	2,070	10	158	0	26
40	381-METERS - ACQ ADJ	PLT381	(186)	(1)	(14)	0	(2)
41							
42							
43							
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEPREC & AMORT EXP CONT.								
2	DISTRIBUTION PLT DEPR EXP CONTINUED								
3	382-METER INSTALLATIONS	PLT382	156,349	125,448	29,083	463	1,339	0	16
4	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(17,577)	(14,103)	(3,270)	(52)	(151)	0	(2)
5	383-REGULATORS	PLT383	65,671	52,692	12,216	194	563	0	7
6	383-REGULATORS - ACQ ADJ	PLT383	(4,574)	(3,670)	(851)	(14)	(39)	0	(0)
7	384-REGULATOR INSTALLATIONS	PLT384	31,794	25,511	5,914	94	272	0	3
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(2,303)	(1,848)	(428)	(7)	(20)	0	(0)
9	385-INDUSTRIAL MEAS. EQUIP.	PLT385	32,408	0	27,965	1,190	3,234	0	19
10	385-INDUSTRIAL MEAS. EQUIP. - ACQ ADJ	PLT385	(2,874)	0	(2,480)	(106)	(287)	0	(2)
11	387-OTHER EQUIPMENT	PLT387	43,005	24,605	10,437	4,398	3,522	26	18
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(4,396)	(2,515)	(1,067)	(450)	(360)	(3)	(2)
13	TOTAL DISTRIBUTION PLT DEPR EXP		5,012,368	3,586,952	902,102	272,912	247,575	1,587	1,239
14									
15	GENERAL PLANT DEPR EXP								
16	390-STRUCTURES & IMPROVE	PLT390	70,345	55,530	10,835	1,950	2,007	11	11
17	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(8,730)	(6,891)	(1,345)	(242)	(249)	(1)	(1)
18	391-OFFICE FURN & EQUIPMENT	PLT391	638,907	504,351	98,413	17,712	18,228	103	101
19	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(61,588)	(48,617)	(9,487)	(1,707)	(1,757)	(10)	(10)
20	392-TRANSPORTATION EQUIP	PLT392	146,461	115,616	22,560	4,060	4,179	24	23
21	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	22,952	18,118	3,535	636	655	4	4
22	393-STORES EQUIPMENT	PLT393	2,916	2,302	449	81	83	0	0
23	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(466)	(368)	(72)	(13)	(13)	(0)	(0)
24	394-TOOLS, SHOP & GARAGE EQ	PLT394	63,503	50,129	9,781	1,760	1,812	10	10
25	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(8,997)	(7,102)	(1,386)	(249)	(257)	(1)	(1)
26	395-LABORATORY EQUIPMENT	PLT395	65,249	51,507	10,051	1,809	1,862	10	10
27	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(7,044)	(5,560)	(1,085)	(195)	(201)	(1)	(1)
28	396-POWER OPERATED EQUIPMENT	PLT396	40,891	32,279	6,299	1,134	1,167	7	6
29	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(579)	(457)	(89)	(16)	(17)	(0)	(0)
30	397-COMMUNICATION EQUIP	PLT397	65,623	51,802	10,108	1,819	1,872	11	10
31	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(10,237)	(8,081)	(1,577)	(284)	(292)	(2)	(2)
32	398-MISCELLANEOUS EQUIP	PLT398	10,357	8,175	1,595	287	295	2	2
33	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(1,173)	(926)	(181)	(33)	(33)	(0)	(0)
34	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0	0	0
35	TOTAL GENERAL PLT DEPR EXP		1,028,390	811,808	158,406	28,509	29,340	165	162
36									
37	TOTAL DEPRECIATION & AMORTIZATION EXPENSE		$7,220,392	$5,228,678	$1,282,981	$368,964	$335,914	$2,147	$1,707
38									
39	TOTAL ACQUISITION ADJUSTMENT DEPR EXPENSE		(729,791)	(506,821)	(138,617)	(44,698)	(39,196)	(261)	(198)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEPREC & AMORT EXP CONT.							
2	DISTRIBUTION PLT DEPR EXP CONTINUED							
3	382-METER INSTALLATIONS	PLT382	28,569	514	15	448	1,239	101
4	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(3,212)	(58)	(2)	(50)	(139)	(11)
5	383-REGULATORS	PLT383	12,000	216	6	188	520	42
6	383-REGULATORS - ACQ ADJ	PLT383	(836)	(15)	(0)	(13)	(36)	(3)
7	384-REGULATOR INSTALLATIONS	PLT384	5,810	105	3	91	252	20
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(421)	(8)	(0)	(7)	(18)	(1)
9	385-INDUSTRIAL MEAS. EQUIP.	PLT385	26,462	1,503	44	1,145	2,447	787
10	385-INDUSTRIAL MEAS. EQUIP. - ACQ ADJ	PLT385	(2,347)	(133)	(4)	(102)	(217)	(70)
11	387-OTHER EQUIPMENT	PLT387	9,123	1,314	143	4,254	2,054	1,468
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(933)	(134)	(15)	(435)	(210)	(150)
13	TOTAL DISTRIBUTION PLT DEPR EXP		818,123	83,979	9,060	263,852	156,265	91,311
14								
15	GENERAL PLANT DEPR EXP							
16	390-STRUCTURES & IMPROVE	PLT390	10,198	637	66	1,884	1,363	644
17	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(1,266)	(79)	(8)	(234)	(169)	(80)
18	391-OFFICE FURN & EQUIPMENT	PLT391	92,627	5,785	601	17,111	12,377	5,851
19	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(8,929)	(558)	(58)	(1,649)	(1,193)	(564)
20	392-TRANSPORTATION EQUIP	PLT392	21,234	1,326	138	3,922	2,837	1,341
21	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	3,328	208	22	615	445	210
22	393-STORES EQUIPMENT	PLT393	423	26	3	78	56	27
23	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(68)	(4)	(0)	(12)	(9)	(4)
24	394-TOOLS, SHOP & GARAGE EQ	PLT394	9,206	575	60	1,701	1,230	582
25	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(1,304)	(81)	(8)	(241)	(174)	(82)
26	395-LABORATORY EQUIPMENT	PLT395	9,460	591	61	1,747	1,264	598
27	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(1,021)	(64)	(7)	(189)	(136)	(65)
28	396-POWER OPERATED EQUIPMENT	PLT396	5,928	370	38	1,095	792	374
29	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(84)	(5)	(1)	(16)	(11)	(5)
30	397-COMMUNICATION EQUIP	PLT397	9,514	594	62	1,757	1,271	601
31	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(1,484)	(93)	(10)	(274)	(198)	(94)
32	398-MISCELLANEOUS EQUIP	PLT398	1,501	94	10	277	201	95
33	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(170)	(11)	(1)	(31)	(23)	(11)
34	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0	0
35	TOTAL GENERAL PLT DEPR EXP		149,094	9,312	967	27,542	19,922	9,418
36								
37	TOTAL DEPRECIATION & AMORTIZATION EXPENSE		$1,168,936	$114,045	$12,258	$356,706	$212,676	$123,238
38								
39	TOTAL ACQUISITION ADJUSTMENT DEPR EXPENSE		(124,958)	(13,660)	(1,477)	(43,222)	(24,263)	(14,933)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEPREC & AMORT EXP CONT.						
2	DISTRIBUTION PLT DEPR EXP CONTINUED						
3	382-METER INSTALLATIONS	PLT382	120,126	5,322	28,569	274	240
4	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(13,505)	(598)	(3,212)	(31)	(27)
5	383-REGULATORS	PLT383	50,457	2,235	12,000	115	101
6	383-REGULATORS - ACQ ADJ	PLT383	(3,514)	(156)	(836)	(8)	(7)
7	384-REGULATOR INSTALLATIONS	PLT384	24,428	1,082	5,810	56	49
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(1,769)	(78)	(421)	(4)	(4)
9	385-INDUSTRIAL MEAS. EQUIP.	PLT385	0	0	26,462	859	644
10	385-INDUSTRIAL MEAS. EQUIP. - ACQ ADJ	PLT385	0	0	(2,347)	(76)	(57)
11	387-OTHER EQUIPMENT	PLT387	23,645	960	9,123	381	933
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(2,417)	(98)	(933)	(39)	(95)
13	TOTAL DISTRIBUTION PLT DEPR EXP		3,439,953	146,999	818,123	25,234	58,745
14							
15	GENERAL PLANT DEPR EXP						
16	390-STRUCTURES & IMPROVE	PLT390	53,487	2,043	10,198	203	434
17	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(6,638)	(254)	(1,266)	(25)	(54)
18	391-OFFICE FURN & EQUIPMENT	PLT391	485,794	18,556	92,627	1,848	3,937
19	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(46,828)	(1,789)	(8,929)	(178)	(380)
20	392-TRANSPORTATION EQUIP	PLT392	111,362	4,254	21,234	424	903
21	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	17,452	667	3,328	66	141
22	393-STORES EQUIPMENT	PLT393	2,217	85	423	8	18
23	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(354)	(14)	(68)	(1)	(3)
24	394-TOOLS, SHOP & GARAGE EQ	PLT394	48,284	1,844	9,206	184	391
25	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(6,841)	(261)	(1,304)	(26)	(55)
26	395-LABORATORY EQUIPMENT	PLT395	49,612	1,895	9,460	189	402
27	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(5,356)	(205)	(1,021)	(20)	(43)
28	396-POWER OPERATED EQUIPMENT	PLT396	31,091	1,188	5,928	118	252
29	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(440)	(17)	(84)	(2)	(4)
30	397-COMMUNICATION EQUIP	PLT397	49,896	1,906	9,514	190	404
31	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(7,784)	(297)	(1,484)	(30)	(63)
32	398-MISCELLANEOUS EQUIP	PLT398	7,875	301	1,501	30	64
33	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(892)	(34)	(170)	(3)	(7)
34	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0
35	TOTAL GENERAL PLT DEPR EXP		781,939	29,868	149,094	2,975	6,338
36							
37	TOTAL DEPRECIATION & AMORTIZATION EXPENSE		$5,020,179	$208,499	$1,168,936	$34,430	$79,615
38							
39	TOTAL ACQUISITION ADJUSTMENT DEPR EXPENSE		(486,480)	(20,341)	(124,958)	(4,071)	(9,589)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEPREC & AMORT EXP CONT.				
2	DISTRIBUTION PLT DEPR EXP CONTINUED				
3	382-METER INSTALLATIONS	PLT382	15	165	283
4	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(2)	(19)	(32)
5	383-REGULATORS	PLT383	6	69	119
6	383-REGULATORS - ACQ ADJ	PLT383	(0)	(5)	(8)
7	384-REGULATOR INSTALLATIONS	PLT384	3	34	58
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(0)	(2)	(4)
9	385-INDUSTRIAL MEAS. EQUIP.	PLT385	44	430	716
10	385-INDUSTRIAL MEAS. EQUIP. - ACQ ADJ	PLT385	(4)	(38)	(63)
11	387-OTHER EQUIPMENT	PLT387	143	619	3,635
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(15)	(63)	(372)
13	TOTAL DISTRIBUTION PLT DEPR EXP		9,060	39,050	224,802
14					
15	GENERAL PLANT DEPR EXP				
16	390-STRUCTURES & IMPROVE	PLT390	66	289	1,595
17	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(8)	(36)	(198)
18	391-OFFICE FURN & EQUIPMENT	PLT391	601	2,626	14,485
19	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(58)	(253)	(1,396)
20	392-TRANSPORTATION EQUIP	PLT392	138	602	3,320
21	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	22	94	520
22	393-STORES EQUIPMENT	PLT393	3	12	66
23	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(0)	(2)	(11)
24	394-TOOLS, SHOP & GARAGE EQ	PLT394	60	261	1,440
25	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(8)	(37)	(204)
26	395-LABORATORY EQUIPMENT	PLT395	61	268	1,479
27	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(7)	(29)	(160)
28	396-POWER OPERATED EQUIPMENT	PLT396	38	168	927
29	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(1)	(2)	(13)
30	397-COMMUNICATION EQUIP	PLT397	62	270	1,488
31	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(10)	(42)	(232)
32	398-MISCELLANEOUS EQUIP	PLT398	10	43	235
33	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(1)	(5)	(27)
34	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0
35	TOTAL GENERAL PLT DEPR EXP		967	4,227	23,314
36					
37	TOTAL DEPRECIATION & AMORTIZATION EXPENSE		$12,258	$52,941	$303,765
38					
39	TOTAL ACQUISITION ADJUSTMENT DEPR EXPENSE		(1,477)	(6,373)	(36,849)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEPREC & AMORT EXP CONT.						
2	DISTRIBUTION PLT DEPR EXP CONTINUED						
3	382-METER INSTALLATIONS	PLT382	1,239	6	94	0	16
4	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(139)	(1)	(11)	0	(2)
5	383-REGULATORS	PLT383	520	3	40	0	7
6	383-REGULATORS - ACQ ADJ	PLT383	(36)	(0)	(3)	0	(0)
7	384-REGULATOR INSTALLATIONS	PLT384	252	1	19	0	3
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(18)	(0)	(1)	0	(0)
9	385-INDUSTRIAL MEAS. EQUIP.	PLT385	2,447	358	430	0	19
10	385-INDUSTRIAL MEAS. EQUIP. - ACQ ADJ	PLT385	(217)	(32)	(38)	0	(2)
11	387-OTHER EQUIPMENT	PLT387	2,054	348	1,120	26	18
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(210)	(36)	(114)	(3)	(2)
13	TOTAL DISTRIBUTION PLT DEPR EXP		156,265	21,853	69,458	1,587	1,239
14							
15	GENERAL PLANT DEPR EXP						
16	390-STRUCTURES & IMPROVE	PLT390	1,363	152	492	11	11
17	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(169)	(19)	(61)	(1)	(1)
18	391-OFFICE FURN & EQUIPMENT	PLT391	12,377	1,378	4,473	103	101
19	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(1,193)	(133)	(431)	(10)	(10)
20	392-TRANSPORTATION EQUIP	PLT392	2,837	316	1,025	24	23
21	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	445	50	161	4	4
22	393-STORES EQUIPMENT	PLT393	56	6	20	0	0
23	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(9)	(1)	(3)	(0)	(0)
24	394-TOOLS, SHOP & GARAGE EQ	PLT394	1,230	137	445	10	10
25	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(174)	(19)	(63)	(1)	(1)
26	395-LABORATORY EQUIPMENT	PLT395	1,264	141	457	10	10
27	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(136)	(15)	(49)	(1)	(1)
28	396-POWER OPERATED EQUIPMENT	PLT396	792	88	286	7	6
29	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(11)	(1)	(4)	(0)	(0)
30	397-COMMUNICATION EQUIP	PLT397	1,271	142	459	11	10
31	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(198)	(22)	(72)	(2)	(2)
32	398-MISCELLANEOUS EQUIP	PLT398	201	22	73	2	2
33	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(23)	(3)	(8)	(0)	(0)
34	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0
35	TOTAL GENERAL PLT DEPR EXP		19,922	2,219	7,199	165	162
36							
37	TOTAL DEPRECIATION & AMORTIZATION EXPENSE		$212,676	$29,414	$93,824	$2,147	$1,707
38							
39	TOTAL ACQUISITION ADJUSTMENT DEPR EXPENSE		(24,263)	(3,560)	(11,373)	(261)	(198)
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	STATE & FED TAXES & OTHER EXPENSE								
2									
3	**TAXES OTHER THAN INCOME**								
4	PROPERTY TAXES - TRANSMISSION	TRANPLT	$295,707	$169,185	$71,764	$30,239	$24,219	$178	$122
5	PROPERTY TAXES - DISTRIBUTION	DISTRPLT	3,625,714	2,522,861	688,241	219,012	193,349	1,276	975
6	PROPERTY TAXES - GENERAL	GENPLT	181,954	143,634	28,027	5,044	5,191	29	29
7	PAYROLL TAXES	LABOR	537,877	424,598	82,851	14,911	15,346	86	85
8	OTHER TAXES	PLANT	88,841	61,662	16,956	5,413	4,754	32	24
9	TOTAL TAX OTHER THAN INCOME		4,730,094	3,321,941	887,839	274,619	242,859	1,601	1,235
10									
11	TOTAL OPERATING EXPENSE BEFORE INCOME TAX		$36,765,050	$27,691,697	$6,122,490	$1,530,737	$1,400,238	$11,774	$8,114
12	**FEDERAL & STATE TAX CALCULATION**								
13									
14	OPERATING REVENUES		$47,169,527	$33,408,834	$9,847,465	$1,664,891	$2,150,826	$73,251	$24,260
15	OPERATING EXPENSES								
16	OPERATION & MAINTENANCE EXP		24,814,565	19,141,078	3,951,669	887,154	821,464	8,026	5,173
17	DEPRECIATION		7,220,392	5,228,678	1,282,981	368,964	335,914	2,147	1,707
18	TAXES OTHER THAN INCOME		4,730,094	3,321,941	887,839	274,619	242,859	1,601	1,235
19	OPERATING INCOME BEFORE INCOME TAXES		10,404,477	5,717,137	3,724,975	134,154	750,588	61,477	16,146
20									
21	INTEREST EXPENSE		(5,393,917)	(3,694,864)	(1,047,668)	(347,125)	(300,712)	(2,027)	(1,522)
22									
23	BOOK TAXABLE INCOME		5,010,560	2,022,273	2,677,307	(212,970)	449,876	59,450	14,624
24									
25	STATE TAX @ 0.00%		0	0	0	0	0	0	0
26									
27	STATE AND FEDERAL TAXABLE BASIS		5,010,560	2,022,273	2,677,307	(212,970)	449,876	59,450	14,624
28									
29	STATE AND FEDERAL INCOME TAX @ 39.43%		1,975,498	797,315	1,055,574	(83,967)	177,371	23,439	5,766
30	AMORTIZATION OF ITC	PLANT	0	0	0	0	0	0	0
31	BLANK.	PLANT	0	0	0	0	0	0	0
32	TOTAL STATE AND FEDERAL TAXES		1,975,498	797,315	1,055,574	(83,967)	177,371	23,439	5,766
33									
34	TOTAL STATE & FEDERAL INCOME TAX		1,975,498	797,315	1,055,574	(83,967)	177,371	23,439	5,766
35									
36	NET INCOME AFTER TAX		$8,428,979	$4,919,822	$2,669,402	$218,121	$573,217	$38,038	$10,380
37									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	STATE & FED TAXES & OTHER EXPENSE							
2								
3	**TAXES OTHER THAN INCOME**							
4	PROPERTY TAXES - TRANSMISSION	TRANPLT	$62,730	$9,035	$986	$29,253	$14,124	$10,095
5	PROPERTY TAXES - DISTRIBUTION	DISTRPLT	621,092	67,149	7,238	211,774	120,127	73,222
6	PROPERTY TAXES - GENERAL	GENPLT	26,379	1,648	171	4,873	3,525	1,666
7	PAYROLL TAXES	LABOR	77,980	4,871	506	14,405	10,420	4,926
8	OTHER TAXES	PLANT	15,298	1,658	179	5,234	2,945	1,809
9	TOTAL TAX OTHER THAN INCOME		803,480	84,360	9,080	265,539	151,142	91,717
10								
11	TOTAL OPERATING EXPENSE BEFORE INCOME TAX		$5,610,885	$511,605	$50,958	$1,479,779	$893,622	$506,615
12	**FEDERAL & STATE TAX CALCULATION**							
13								
14	OPERATING REVENUES		$8,661,952	$1,185,513	$110,150	$1,554,741	$1,579,030	$571,796
15	OPERATING EXPENSES							
16	OPERATION & MAINTENANCE EXP		3,638,470	313,200	29,620	857,534	529,805	291,660
17	DEPRECIATION		1,168,936	114,045	12,258	356,706	212,676	123,238
18	TAXES OTHER THAN INCOME		803,480	84,360	9,080	265,539	151,142	91,717
19	OPERATING INCOME BEFORE INCOME TAXES		3,051,067	673,908	59,192	74,962	685,407	65,181
20								
21	INTEREST EXPENSE		(941,990)	(105,678)	(11,439)	(335,685)	(184,873)	(115,839)
22								
23	BOOK TAXABLE INCOME		2,109,077	568,230	47,753	(260,723)	500,535	(50,659)
24								
25	STATE TAX @ 0.00%		0	0	0	0	0	0
26								
27	STATE AND FEDERAL TAXABLE BASIS		2,109,077	568,230	47,753	(260,723)	500,535	(50,659)
28								
29	STATE AND FEDERAL INCOME TAX @ 39.43%		831,539	224,034	18,827	(102,794)	197,344	(19,973)
30	AMORTIZATION OF ITC	PLANT	0	0	0	0	0	0
31	BLANK.	PLANT	0	0	0	0	0	0
32	TOTAL STATE AND FEDERAL TAXES		831,539	224,034	18,827	(102,794)	197,344	(19,973)
33								
34	TOTAL STATE & FEDERAL INCOME TAX		831,539	224,034	18,827	(102,794)	197,344	(19,973)
35								
36	NET INCOME AFTER TAX		$2,219,528	$449,874	$40,365	$177,757	$488,063	$85,154
37								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	STATE & FED TAXES & OTHER EXPENSE						
2							
3	**TAXES OTHER THAN INCOME**						
4	PROPERTY TAXES - TRANSMISSION	TRANPLT	$162,587	$6,598	$62,730	$2,622	$6,413
5	PROPERTY TAXES - DISTRIBUTION	DISTRPLT	2,419,990	102,872	621,092	20,088	47,060
6	PROPERTY TAXES - GENERAL	GENPLT	138,349	5,285	26,379	526	1,121
7	PAYROLL TAXES	LABOR	408,976	15,622	77,980	1,556	3,315
8	OTHER TAXES	PLANT	59,173	2,489	15,298	496	1,163
9	TOTAL TAX OTHER THAN INCOME		3,189,076	132,865	803,480	25,288	59,072
10							
11	TOTAL OPERATING EXPENSE BEFORE INCOME TAX		$26,737,852	$953,845	$5,610,885	$142,124	$369,480
12	**FEDERAL & STATE TAX CALCULATION**						
13							
14	OPERATING REVENUES		$32,402,775	$1,006,059	$8,661,952	$214,268	$971,245
15	OPERATING EXPENSES						
16	OPERATION & MAINTENANCE EXP		18,528,597	612,481	3,638,470	82,407	230,793
17	DEPRECIATION		5,020,179	208,499	1,168,936	34,430	79,615
18	TAXES OTHER THAN INCOME		3,189,076	132,865	803,480	25,288	59,072
19	OPERATING INCOME BEFORE INCOME TAXES		5,664,923	52,214	3,051,067	72,144	601,764
20							
21	INTEREST EXPENSE		(3,546,075)	(148,789)	(941,990)	(31,382)	(74,296)
22							
23	BOOK TAXABLE INCOME		2,118,848	(96,575)	2,109,077	40,762	527,468
24							
25	STATE TAX @ 0.00%		0	0	0	0	0
26							
27	STATE AND FEDERAL TAXABLE BASIS		2,118,848	(96,575)	2,109,077	40,762	527,468
28							
29	STATE AND FEDERAL INCOME TAX @ 39.43%		835,392	(38,076)	831,539	16,071	207,963
30	AMORTIZATION OF ITC	PLANT	0	0	0	0	0
31	BLANK.	PLANT	0	0	0	0	0
32	TOTAL STATE AND FEDERAL TAXES		835,392	(38,076)	831,539	16,071	207,963
33							
34	TOTAL STATE & FEDERAL INCOME TAX		835,392	(38,076)	831,539	16,071	207,963
35							
36	NET INCOME AFTER TAX		$4,829,531	$90,290	$2,219,528	$56,073	$393,801
37							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	STATE & FED TAXES & OTHER EXPENSE				
2					
3	**TAXES OTHER THAN INCOME**				
4	PROPERTY TAXES - TRANSMISSION	TRANPLT	$986	$4,258	$24,994
5	PROPERTY TAXES - DISTRIBUTION	DISTRPLT	7,238	31,278	180,497
6	PROPERTY TAXES - GENERAL	GENPLT	171	748	4,125
7	PAYROLL TAXES	LABOR	506	2,211	12,194
8	OTHER TAXES	PLANT	179	773	4,461
9	TOTAL TAX OTHER THAN INCOME		9,080	39,268	226,271
10					
11	TOTAL OPERATING EXPENSE BEFORE INCOME TAX		$50,958	$206,056	$1,273,723
12	**FEDERAL & STATE TAX CALCULATION**				
13					
14	OPERATING REVENUES		$110,150	$208,585	$1,346,157
15	OPERATING EXPENSES				
16	OPERATION & MAINTENANCE EXP		29,620	113,848	743,686
17	DEPRECIATION		12,258	52,941	303,765
18	TAXES OTHER THAN INCOME		9,080	39,268	226,271
19	OPERATING INCOME BEFORE INCOME TAXES		59,192	2,528	72,434
20					
21	INTEREST EXPENSE		(11,439)	(49,392)	(286,294)
22					
23	BOOK TAXABLE INCOME		47,753	(46,863)	(213,860)
24					
25	STATE TAX @ 0.00%		0	0	0
26					
27	STATE AND FEDERAL TAXABLE BASIS		47,753	(46,863)	(213,860)
28					
29	STATE AND FEDERAL INCOME TAX @ 39.43%		18,827	(18,477)	(84,318)
30	AMORTIZATION OF ITC	PLANT	0	0	0
31	BLANK.	PLANT	0	0	0
32	TOTAL STATE AND FEDERAL TAXES		18,827	(18,477)	(84,318)
33					
34	TOTAL STATE & FEDERAL INCOME TAX		18,827	(18,477)	(84,318)
35					
36	NET INCOME AFTER TAX		$40,365	$21,005	$156,752
37					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	STATE & FED TAXES & OTHER EXPENSE						
2							
3	**TAXES OTHER THAN INCOME**						
4	PROPERTY TAXES - TRANSMISSION	TRANPLT	$14,124	$2,395	$7,700	$178	$122
5	PROPERTY TAXES - DISTRIBUTION	DISTRPLT	120,127	17,482	55,740	1,276	975
6	PROPERTY TAXES - GENERAL	GENPLT	3,525	393	1,274	29	29
7	PAYROLL TAXES	LABOR	10,420	1,160	3,765	86	85
8	OTHER TAXES	PLANT	2,945	431	1,377	32	24
9	TOTAL TAX OTHER THAN INCOME		151,142	21,861	69,856	1,601	1,235
10							
11	TOTAL OPERATING EXPENSE BEFORE INCOME TAX		$893,622	$112,073	$394,542	$11,774	$8,114
12	**FEDERAL & STATE TAX CALCULATION**						
13							
14	OPERATING REVENUES		$1,579,030	$119,795	$452,001	$73,251	$24,260
15	OPERATING EXPENSES						
16	OPERATION & MAINTENANCE EXP		529,805	60,797	230,862	8,026	5,173
17	DEPRECIATION		212,676	29,414	93,824	2,147	1,707
18	TAXES OTHER THAN INCOME		151,142	21,861	69,856	1,601	1,235
19	OPERATING INCOME BEFORE INCOME TAXES		685,407	7,722	57,459	61,477	16,146
20							
21	INTEREST EXPENSE		(184,873)	(27,560)	(88,279)	(2,027)	(1,522)
22							
23	BOOK TAXABLE INCOME		500,535	(19,838)	(30,820)	59,450	14,624
24							
25	STATE TAX @ 0.00%		0	0	0	0	0
26							
27	STATE AND FEDERAL TAXABLE BASIS		500,535	(19,838)	(30,820)	59,450	14,624
28							
29	STATE AND FEDERAL INCOME TAX @ 39.43%		197,344	(7,822)	(12,151)	23,439	5,766
30	AMORTIZATION OF ITC	PLANT	0	0	0	0	0
31	BLANK.	PLANT	0	0	0	0	0
32	TOTAL STATE AND FEDERAL TAXES		197,344	(7,822)	(12,151)	23,439	5,766
33							
34	TOTAL STATE & FEDERAL INCOME TAX		197,344	(7,822)	(12,151)	23,439	5,766
35							
36	NET INCOME AFTER TAX		$488,063	$15,544	$69,610	$38,038	$10,380
37							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	DEVELOPMENT OF RATE BASE					
2						
3	**GAS PLANT IN SERVICE**					
4						
5	INTANGIBLE PLANT					
6	302-FRANCHISES & CONSENTS	LABOR	$392,682	$102,545	$0	$290,137
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(36,464)	(9,522)	(0)	(26,942)
8	303-MISC. INTANGIBLE PLANT	LABOR	922,947	241,018	0	681,930
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(36,142)	(9,438)	(0)	(26,704)
10	TOTAL INTANGIBLE PLANT		1,243,023	324,602	0	918,421
11						
12	TRANSMISSION PLANT					
13	365-LAND & LAND RIGHTS	TRANS	87,625	87,625	0	0
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(15,425)	(15,425)	0	0
15	366-STRUCTURES & IMPROVEMENTS	TRANS	16,047	16,047	0	0
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(2,352)	(2,352)	0	0
17	367-MAINS	TRANS	17,678,612	17,678,612	0	0
18	367-MAINS - ACQ ADJ	TRANS	(1,604,647)	(1,604,647)	0	0
19	369-MEASURING & REG STATION EQUIP.	TRANS	846,096	846,096	0	0
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(424,444)	(424,444)	0	0
21	371-OTHER EQUIPMENT	TRANS	(8,778)	(8,778)	0	0
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(24,187)	(24,187)	0	0
23	TOTAL TRANSMISSION PLANT		16,548,546	16,548,546	0	0
24						
25	DISTRIBUTION PLANT					
26	374-LAND & LAND RIGHTS	DISTR	245,654	245,654	0	0
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(38,784)	(38,784)	0	0
28	375-STRUCTURES & IMPROV	DISTR	10,423	10,423	0	0
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(247)	(247)	0	0
30	376-MAINS	DISTMAIN	137,954,659	137,954,659	0	0
31	376-MAINS - ACQ ADJ	DISTMAIN	(17,621,606)	(17,621,606)	0	0
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	1,916,236	1,916,236	0	0
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(188,503)	(188,503)	0	0
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	2,222,861	2,222,861	0	0
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(239,569)	(239,569)	0	0
36	380-SERVICES	CUST380	72,951,925	0	0	72,951,925
37	380-SERVICES - ACQ ADJ	CUST380	(6,640,414)	0	0	(6,640,414)
38	381-METERS	CUST381	13,255,870	0	0	13,255,870
39	381-METERS - ACQ ADJ	CUST381	(1,160,990)	0	0	(1,160,990)
40	382-METER INSTALLATIONS	CUST382	6,788,598	0	0	6,788,598
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(744,797)	0	0	(744,797)
42						
43						
44						
45						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	DEVELOPMENT OF RATE BASE					
2						
3	**GAS PLANT IN SERVICE CONTINUED**					
4						
5	DISTRIBUTION PLANT CONTINUED					
6	383-REGULATORS	CUST383	2,628,662	0	0	2,628,662
7	383-REGULATORS - ACQ ADJ	CUST383	(178,700)	0	0	(178,700)
8	384-REGULATOR INSTALLATIONS	CUST384	1,163,556	0	0	1,163,556
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(82,263)	0	0	(82,263)
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	1,230,284	0	0	1,230,284
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(106,448)	0	0	(106,448)
12	387-OTHER EQUIPMENT	DISTMAIN	1,466,810	1,466,810	0	0
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(146,048)	(146,048)	0	0
14	TOTAL DISTRIBUTION PLANT		214,687,170	125,581,886	0	89,105,284
15						
16	GENERAL PLANT					
17	389-LAND & LAND RIGHTS	LABOR	198,829	51,922	0	146,907
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(49,200)	(12,848)	(0)	(36,352)
19	390-STRUCTURES & IMPROVE	LABOR	1,302,181	340,050	0	962,131
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(123,018)	(32,125)	(0)	(90,893)
21	391-OFFICE FURN & EQUIPMENT	LABOR	6,545,194	1,709,206	0	4,835,988
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(643,851)	(168,135)	(0)	(475,716)
23	392-TRANSPORTATION EQUIP	LABOR	5,144,377	1,343,398	0	3,800,979
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(85,465)	(22,318)	(0)	(63,147)
25	393-STORES EQUIPMENT	LABOR	114,038	29,780	0	84,259
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(17,774)	(4,642)	(0)	(13,133)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	1,668,491	435,708	0	1,232,783
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(230,699)	(60,244)	(0)	(170,454)
29	395-LABORATORY EQUIPMENT	LABOR	748,718	195,520	0	553,199
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(78,875)	(20,597)	(0)	(58,278)
31	396-POWER OPERATED EQUIP	LABOR	399,442	104,310	0	295,132
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(5,510)	(1,439)	(0)	(4,071)
33	397-COMMUNICATION EQUIP	LABOR	1,009,674	263,665	0	746,009
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(153,703)	(40,138)	(0)	(113,565)
35	398-MISCELLANEOUS EQUIP	LABOR	267,981	69,980	0	198,000
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(29,611)	(7,733)	(0)	(21,879)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0
38	TOTAL GENERAL PLANT		15,981,218	4,173,320	0	11,807,898
39						
40	COMMON PLANT	LABOR	0	0	0	0
41						
42	TOTAL GAS PLANT IN SERVICE		248,459,957	146,628,354	0	101,831,603
43						
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(30,709,737)	(20,694,991)	(0)	(10,014,746)
45						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line	Description		TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	DEVELOPMENT OF RATE BASE CONT.					
2						
3	**DEPRECIATION RESERVE CONTINUED**					
4						
5	**DEPRECIATION RESERVE**					
6	INTANGIBLE RESERVE					
7	302-FRANCHISES & CONSENTS	PLT302	197,465	51,566	0	145,899
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(3,352)	(875)	(0)	(2,477)
9	303-MISC. INTANGIBLE PLANT	PLT303	340,154	88,828	0	251,327
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(3,245)	(847)	(0)	(2,397)
11	TOTAL INTANGIBLE PLANT		531,023	138,671	0	392,352
12						
13	TRANSMISSION RESERVE					
14	365-LAND & LAND RIGHTS	PLT365	0	0	0	0
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0
16	366-STRUCTURES & IMPROVEMENTS	PLT366	3,705	3,705	0	0
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(400)	(400)	0	0
18	367-MAINS	PLT367	3,082,012	3,082,012	0	0
19	367-MAINS - ACQ ADJ	PLT367	(59,513)	(59,513)	0	0
20	369-MEASURING & REG STATION EQUIP.	PLT369	234,313	234,313	0	0
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(15,972)	(15,972)	0	0
22	371-OTHER EQUIPMENT	PLT371	(4,641)	(4,641)	0	0
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(2,828)	(2,828)	0	0
24	TOTAL TRANSMISSION PLANT		3,236,677	3,236,677	0	0
25						
26	DISTRIBUTION RESERVE					
27	374.1-LAND	PLT374	0	0	0	0
28	374.1-LAND - ACQ ADJ	PLT374	0	0	0	0
29	375-STRUCTURES & IMPROV	PLT375	8,751	8,751	0	0
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(19)	(19)	0	0
31	376-MAINS	PLT376	29,504,348	29,504,348	0	0
32	376-MAINS - ACQ ADJ	PLT376	(879,393)	(879,393)	0	0
33	378-MEAS. & REG. EQUIP-GEN	PLT378	846,473	846,473	0	0
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(13,445)	(13,445)	0	0
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	735,949	735,949	0	0
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(13,417)	(13,417)	0	0
37	380-SERVICES	PLT380	22,263,336	0	0	22,263,336
38	380-SERVICES - ACQ ADJ	PLT380	(449,039)	0	0	(449,039)
39	381-METERS	PLT381	4,875,854	0	0	4,875,854
40	381-METERS - ACQ ADJ	PLT381	(55,706)	0	0	(55,706)
41	382-METER INSTALLATIONS	PLT382	1,053,528	0	0	1,053,528
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(42,231)	0	0	(42,231)
43						
44						
45						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	DEVELOPMENT OF RATE BASE CONT.					
2						
3	**DEPRECIATION RESERVE CONTINUED**					
4	DISTRIBUTION RESERVE CONTINUED					
5	383-REGULATORS	PLT383	1,063,986	0	0	1,063,986
6	383-REGULATORS - ACQ ADJ	PLT383	(10,992)	0	0	(10,992)
7	384-REGULATOR INSTALLATIONS	PLT384	94,352	0	0	94,352
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(5,443)	0	0	(5,443)
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	597,058	0	0	597,058
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(6,447)	0	0	(6,447)
11	387-OTHER EQUIPMENT	PLT387	333,544	333,544	0	0
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(10,778)	(10,778)	0	0
13	TOTAL DISTRIBUTION RESERVE		59,890,270	30,512,013	0	29,378,257
14						
15	GENERAL PLANT RESERVE					
16	389-LAND AND LAND RIGHTS	PLT389	0	0	0	0
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	0	0	0	0
18	390-STRUCTURES & IMPROVE	PLT390	521,758	136,251	0	385,507
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(10,840)	(2,831)	(0)	(8,010)
20	391-OFFICE FURN & EQUIPMENT	PLT391	3,247,867	848,145	0	2,399,722
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(178,962)	(46,734)	(0)	(132,228)
22	392-TRANSPORTATION EQUIP	PLT392	1,760,750	459,800	0	1,300,949
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(49,951)	(13,044)	(0)	(36,907)
24	393-STORES EQUIPMENT	PLT393	25,675	6,705	0	18,971
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(1,267)	(331)	(0)	(936)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	523,919	136,816	0	387,103
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(21,139)	(5,520)	(0)	(15,619)
28	395-LABORATORY EQUIPMENT	PLT395	288,256	75,275	0	212,981
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(17,255)	(4,506)	(0)	(12,749)
30	396-POWER OPERATED EQUIPMENT	PLT396	289,124	75,502	0	213,622
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(678)	(177)	(0)	(501)
32	397-COMMUNICATION EQUIP	PLT397	30,282	7,908	0	22,374
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(21,895)	(5,718)	(0)	(16,177)
34	398-MISCELLANEOUS EQUIP	PLT398	88,888	23,212	0	65,676
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(2,775)	(725)	(0)	(2,050)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		6,471,757	1,690,028	0	4,781,729
38						
39	COMMON PLANT	PLTCOMN	0	0	0	0
40						
41	TOTAL DEPRECIATION RESERVE		70,129,727	35,577,390	0	34,552,338
42						
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(1,876,981)	(1,077,072)	(0)	(799,909)
44						
45	NET PLANT IN SERVICE		$178,330,230	$111,050,964	$0	$67,279,265
46						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
DEVELOPMENT OF RATE BASE CONT.					
OTHER RATE BASE ITEMS					
WORKING CAPITAL					
CASH WORKING CAPITAL					
PLANT	PLANT	($3,280,886)	($1,936,211)	($0)	($1,344,675)
COMMODITY	WCGC	0	0	0	0
OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0
OTHER	WCOTH	0	0	0	0
TOTAL CASH WORKING CAPITAL		(3,280,886)	(1,936,211)	(0)	(1,344,675)
MATERIALS & SUPPLIES	PLANT	2,039,798	1,203,785	0	836,014
PREPAYMENTS	PLANT	195,942	115,635	0	80,307
TOTAL WORKING CAPITAL		(1,045,146)	(616,791)	(0)	(428,354)
LESS: CUSTOMER CONTRIBUTIONS					
CUST ADVANCES FOR CONSTRUCTION	PLANT	(7,283,595)	(4,298,405)	(0)	(2,985,190)
CUSTOMER DEPOSITS	PLANT	(3,040,483)	(1,794,338)	(0)	(1,246,146)
OTHER RATE BASE					
CWIP	DISTRPLT	0	0	0	0
Y2K COSTS & GIC DEF	PAYXAG	1,097,410	289,673	0	807,736
C.A.R.E.S.	THERMS	107,477	0	107,477	0
OTHER - WARM SPIRIT	RESNTPT	(19,721)	(10,251)	(0)	(9,470)
TOTAL OTHER		1,185,166	279,422	107,477	798,267
LESS					
ACCUMULATED DEFERRED INC. TAXES	PLANT	(6,484,809)	(3,827,002)	(0)	(2,657,807)
TOTAL RATE BASE		$161,661,362	$100,793,850	$107,477	$60,760,036

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
OPERATING REVENUES					
REVENUES					
GAS OPERATING REVENUES					
SALES REVENUES					
FIRM SALES OF GAS		$45,689,224	20,883,232	7,524	24,798,468
INTERR SALES GAS COST REV	GASSALES	0	0	0	0
INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0
INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0
SALES FOR RESALE	DEMGAS	0	0	0	0
TOTAL SALES OF GAS		45,689,224	20,883,232	7,524	24,798,468
OTHER OPERATING REVENUES					
FORFEITED DISCOUNTS	PLANT	398,966	235,449	0	163,517
MISCELLANEOUS SERVICE REV	CUST487B	1,046,891	0	0	1,046,891
OTHER REVENUE	DEMGAS	34,447	34,447	0	0
OTHER REVENUE	PLANT	0	0	0	0
OTHER REVENUE	PLANT	0	0	0	0
TOTAL OTHER OPERATING REV		1,480,303	269,896	0	1,210,408
TOTAL GAS OPERATING REVENUE		$47,169,527	$21,153,128	$7,524	$26,008,876

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	OPERATION & MAINTENANCE EXPENSE					
2						
3	**OPERATION & MAINTENANCE EXPENSE**					
4	PRODUCTION EXPENSE					
5	421-PURCHASED POWER	DEMGAS	0	0	0	0
6	805-PURCHASED GAS EXPENSES	DEMGAS	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES					
8	NON-RECONCILABLE	DEMGAS	355,528	355,528	0	0
9	CAPACITY RELATED	DEMGAS	0	0	0	0
10	COMMODITY RELATED	GASSALES	0	0	0	0
11	TOTAL ACCOUNT 807		355,528	355,528	0	0
12	TOTAL PURCHASED GAS SUPPLY		355,529	355,529	0	0
13						
14	TRANSMISSION EXPENSE					
15	856-MAINS EXPENSE	TRANS	11,280	11,280	0	0
16	857-MEASURING & REG. STATION	TRANS	(52,221)	(52,221)	0	0
17	864-MAINTENANCE OF COMPRESSOR STATION EC	TRANS	19	19	0	0
18	870-OPERATION SUPERVISION AND ENGINEERING	TRANS	315,983	315,983	0	0
19	TOTAL TRANSMISSION		275,061	275,061	0	0
20						
21	DISTRIBUTION EXPENSE					
22	431-INTEREST ON CUSTOMER DEPOSITS	LABDO	170,459	52,346	0	118,113
23	871-LOAD DISPATCHING	DISTR	162	162	0	0
24	874-MAINS & SERVICING EXPENSE	PLT376380	1,337,349	862,212	0	475,136
25	875-MEAS./REG. STATION EXPENSE	PLT378	244,463	244,463	0	0
26	876-MEAS./REG. STATION EXPENSE	PLT379	150,536	150,536	0	0
27	877-MEAS./REG. STATION EXPENSE	PLT383	56,529	0	0	56,529
28	878-METER EXPENSE	PLT381	1,349,114	0	0	1,349,114
29	879-CUSTOMER INSTALL EXP	PLT38284	539,082	0	0	539,082
30	880-OTHER EXPENSES	EXP87479	1,090,666	372,905	0	717,761
31	881-RENTS	DISTR	44,510	44,510	0	0
32	885-MAINT. SUPERV. & ENG.	LABDM	243,170	140,081	0	103,088
33	886-MAINT. OF STRUCTURES	PLT375	0	0	0	0
34	887-MAINT. OF MAINS	PLT376	1,084,194	1,084,194	0	0
35	889-MAINT. MEAS./REG	PLT378	25,623	25,623	0	0
36	890-MAINT. MEAS./REG	PLT379	2,072	2,072	0	0
37	891-MAINT. MEAS./REG	PLT383	850	0	0	850
38	892-MAINT. OF SERVICES	PLT380	465,066	0	0	465,066
39	893-MAINT. OF METER	PLT381	167,015	0	0	167,015
40	894-MAINT. OF OTHER EQUIP.	PLT387	96,826	96,826	0	0
41	TOTAL DISTRIBUTION EXP		7,067,687	3,075,932	0	3,991,755
42						
43						
44						
45						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line	Description	Allocator	TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	OPERATION & MAINT EXP CONT.					
2						
3	**OPERATION & MAINTENANCE EXPENSE CONTINUED**					
4	CUSTOMER ACCOUNT					
5	901-SUPERVISION	LABCA	74,309	2	0	74,307
6	902-METER READING EXPENSE	CUST902	719,037	0	0	719,037
7	903-CUST RECORDS & COLLECT	CUST903	5,462,173	0	0	5,462,173
8	904-UNCOLLECTIBLE ACCOUNTS	BADDEBT	722,634	427,498	266	294,869
9	905-MISC CUST ACCTS EXP	EXP9024	34,381	2,129	1	32,251
10	906-CUSTOMER SERVICE & INFO	CUST10	0	0	0	0
11	907-SUPERV. CUSTOMER SERV.	LABCS	14,743	0	0	14,743
12	908-CUSTOMER ASSISTANCE	CUST10	(34,228)	0	0	(34,228)
13	909-INFO & INSTRUCTIONAL ADVERT.	CUST10	65,794	0	0	65,794
14	910-MISC. CUST. SERV. & INFO.	EXP9089	22,602	0	0	22,602
15	CARES DISCOUNTS	THERMS	0	0	0	0
16	CARES EXPENSES	THERMS	0	0	0	0
17	TOTAL CUSTOMER ACCTS EXP		7,081,444	429,629	268	6,651,547
18						
19	SALES EXPENSE					
20	912-DEMONSTRATING & SELLING	CDA912	558	0	0	558
21	913-ADVERTISING EXPENSES	CDA913	0	0	0	0
22	TOTAL SALES EXPENSE		558	0	0	558
23						
24	ADMINISTRATIVE & GENERAL EXPENSE					
25	920-ADMIN & GENERAL SALARY	PAYXAG	1,529,696	403,780	0	1,125,916
26	921-OFFICE SUPPLIES & EXP	PAYXAG	1,365,974	360,564	0	1,005,410
27	923-OUTSIDE SERV EMPLOYED	PAYXAG	(152,817)	(40,338)	(0)	(112,479)
28	924-PROPERTY INSURANCE	PLANT	2,696,531	1,591,355	0	1,105,177
29	925-INJURIES & DAMAGES	PAYXAG	7,415	1,957	0	5,458
30	926-EMPLOYED PENSION & BENF	PAYXAG	574,128	151,547	0	422,580
31	928-REGULATORY COMM EXPENSE	TOTREV	2,452,071	1,099,629	391	1,352,051
32	930-MISCELLANEOUS GEN EXP	PAYXAG	1,282,411	338,507	0	943,904
33	931-RENTS	PAYXAG	109,053	28,786	0	80,267
34	932-MAINT OF GENERAL PLT	GENPLT	169,826	44,348	0	125,478
35	TOTAL ADMIN & GEN EXPENSE		10,034,287	3,980,135	391	6,053,761
36						
37	TOTAL GAS O & M EXPENSE		$24,814,565	$8,116,285	$659	$16,697,621

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE	DESCRIPTION	ALLOCATOR	TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	DEPRECIATION & AMORT EXPENSE					
2						
3	**DEPRECIATION AND AMORITIZATION EXPENSE**					
4						
5	407-AMOR Y2K EXP; GPS & PRESC GAIN	PAYXAG	363,339	95,907	0	267,431
6	407-AMORTIZATION OF C.A.R.E.S.	PLANT	477,337	281,700	0	195,637
7						
8	INTANGIBLE PLT DEPRECIATION EXPENSE					
9	302-FRANCHISES & CONSENTS	PLT302	13,489	3,522	0	9,966
10	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(1,284)	(335)	(0)	(949)
11	303-MISC. INTANGIBLE PLANT	PLT303	75,438	19,700	0	55,739
12	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(1,934)	(505)	(0)	(1,429)
13	TOTAL INTANGIBLE PLT DEPR EXP		85,709	22,382	0	63,327
14						
15	TRANSMISSION PLT DEPR EXP					
16	365-LAND & LAND RIGHTS	PLT365	0	0	0	0
17	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	0	0	0	0
18	366-STRUCTURES & IMPROVEMENTS	PLT366	1,416	1,416	0	0
19	366-STRUCTURES & IMPROVE - ACQ ADJ	PLT366	(249)	(249)	0	0
20	367-MAINS	PLT367	272,433	272,433	0	0
21	367-MAINS - ACQ ADJ	PLT367	(24,551)	(24,551)	0	0
22	369-MEASURING & REG STATION EQ.	PLT369	11,670	11,670	0	0
23	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(6,536)	(6,536)	0	0
24	371-OTHER EQUIPMENT	PLT371	(332)	(332)	0	0
25	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(602)	(602)	0	0
26	TOTAL TRANS PLT DEPR EXP		253,249	253,249	0	0
27						
28	DISTRIBUTION PLT DEPR EXP					
29	375-STRUCTURES & IMPROV	PLT375	2,126	2,126	0	0
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(318)	(318)	0	0
31	376-MAINS	PLT376	2,867,976	2,867,976	0	0
32	376-MAINS - ACQ ADJ	PLT376	(364,767)	(364,767)	0	0
33	378-MEAS. & REG. EQUIP-GEN	PLT378	55,436	55,436	0	0
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(5,598)	(5,598)	0	0
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	51,099	51,099	0	0
36	379-MEAS. & REG. EQ-CITY GATE - ACQ ADJ	PLT379	(5,653)	(5,653)	0	0
37	380-SERVICES	PLT380	2,063,965	0	0	2,063,965
38	380-SERVICES - ACQ ADJ	PLT380	(187,260)	0	0	(187,260)
39	381-METERS	PLT381	261,313	0	0	261,313
40	381-METERS - ACQ ADJ	PLT381	(23,452)	0	0	(23,452)
41						
42						
43						
44						
45						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	DEPREC & AMORT EXP CONT.					
2	DISTRIBUTION PLT DEPR EXP CONTINUED					
3	382-METER INSTALLATIONS	PLT382	156,349	0	0	156,349
4	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(17,577)	0	0	(17,577)
5	383-REGULATORS	PLT383	65,671	0	0	65,671
6	383-REGULATORS - ACQ ADJ	PLT383	(4,574)	0	0	(4,574)
7	384-REGULATOR INSTALLATIONS	PLT384	31,794	0	0	31,794
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(2,303)	0	0	(2,303)
9	385-INDUSTRIAL MEAS. EQUIP.	PLT385	32,408	0	0	32,408
10	385-INDUSTRIAL MEAS. EQUIP. - ACQ ADJ	PLT385	(2,874)	0	0	(2,874)
11	387-OTHER EQUIPMENT	PLT387	43,005	43,005	0	0
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(4,396)	(4,396)	0	0
13	TOTAL DISTRIBUTION PLT DEPR EXP		5,012,368	2,638,908	0	2,373,460
14						
15	GENERAL PLANT DEPR EXP					
16	390-STRUCTURES & IMPROVE	PLT390	70,345	18,370	0	51,975
17	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(8,730)	(2,280)	(0)	(6,450)
18	391-OFFICE FURN & EQUIPMENT	PLT391	638,907	166,843	0	472,063
19	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(61,588)	(16,083)	(0)	(45,505)
20	392-TRANSPORTATION EQUIP	PLT392	146,461	38,247	0	108,215
21	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	22,952	5,994	0	16,958
22	393-STORES EQUIPMENT	PLT393	2,916	761	0	2,155
23	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(466)	(122)	(0)	(344)
24	394-TOOLS, SHOP & GARAGE EQ	PLT394	63,503	16,583	0	46,920
25	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(8,997)	(2,349)	(0)	(6,647)
26	395-LABORATORY EQUIPMENT	PLT395	65,249	17,039	0	48,210
27	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(7,044)	(1,839)	(0)	(5,204)
28	396-POWER OPERATED EQUIPMENT	PLT396	40,891	10,678	0	30,213
29	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(579)	(151)	(0)	(428)
30	397-COMMUNICATION EQUIP	PLT397	65,623	17,137	0	48,486
31	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(10,237)	(2,673)	(0)	(7,564)
32	398-MISCELLANEOUS EQUIP	PLT398	10,357	2,705	0	7,652
33	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(1,173)	(306)	(0)	(866)
34	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0
35	TOTAL GENERAL PLT DEPR EXP		1,028,390	268,553	0	759,837
36						
37	TOTAL DEPRECIATION & AMORTIZATION EXPENSE		$7,220,392	$3,560,698	$0	$3,659,693
38						
39	TOTAL ACQUISITION ADJUSTMENT DEPR EXPENSE		(729,791)	(433,322)	(0)	(296,469)
40						
41						
42						
43						
44						
45						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			TOTAL COMPANY	CAPACITY	COMMODITY	CUSTOMER
1	STATE & FED TAXES & OTHER EXPENSE					
2						
3	**TAXES OTHER THAN INCOME**					
4	PROPERTY TAXES - TRANSMISSION	TRANPLT	$295,707	$295,707	$0	$0
5	PROPERTY TAXES - DISTRIBUTION	DISTRPLT	3,625,714	2,120,872	0	1,504,842
6	PROPERTY TAXES - GENERAL	GENPLT	181,954	47,515	0	134,439
7	PAYROLL TAXES	LABOR	537,877	140,461	0	397,416
8	OTHER TAXES	PLANT	88,841	52,429	0	36,412
9	TOTAL TAX OTHER THAN INCOME		4,730,094	2,656,985	0	2,073,109
10						
11	TOTAL OPERATING EXPENSE BEFORE INCOME TAX		$36,765,050	$14,333,968	$659	$22,430,423
12	**FEDERAL & STATE TAX CALCULATION**					
13						
14	OPERATING REVENUES		$47,169,527	$21,153,128	$7,524	$26,008,876
15	OPERATING EXPENSES					
16	OPERATION & MAINTENANCE EXP		24,814,565	8,116,285	659	16,697,621
17	DEPRECIATION		7,220,392	3,560,698	0	3,659,693
18	TAXES OTHER THAN INCOME		4,730,094	2,656,985	0	2,073,109
19	OPERATING INCOME BEFORE INCOME TAXES		10,404,477	6,819,159	6,865	3,578,453
20						
21	INTEREST EXPENSE		(5,393,917)	(3,363,040)	(3,586)	(2,027,291)
22						
23	BOOK TAXABLE INCOME		5,010,560	3,456,119	3,279	1,551,162
24						
25	STATE TAX @ 0.00%		0	0	0	0
26						
27	STATE AND FEDERAL TAXABLE BASIS		5,010,560	3,456,119	3,279	1,551,162
28						
29	STATE AND FEDERAL INCOME TAX @ 39.43%		1,975,498	1,362,633	1,293	611,572
30	AMORTIZATION OF ITC	PLANT	0	0	0	0
31	BLANK.	PLANT	0	0	0	0
32	TOTAL STATE AND FEDERAL TAXES		1,975,498	1,362,633	1,293	611,572
33						
34	TOTAL STATE & FEDERAL INCOME TAX		1,975,498	1,362,633	1,293	611,572
35						
36	NET INCOME AFTER TAX		$8,428,979	$5,456,526	$5,572	$2,966,881
37						
38						
39	EFFECTIVE STATE TAX RATE- Included in Federal		0.0000%	0.0000%	0.0000%	0.0000%
40	FEDERAL TAX RATE - CURRENT		39.4267%	39.4267%	39.4267%	39.4267%
41	UNCOLLECTIBLE FACTOR		0.5105%	0.5105%	0.5105%	0.5105%
42	1 - INCREMENTAL TAX RATE		0.608826	0.608826	0.608826	0.608826
43	FACTOR FOR TAXABLE BASIS		1.664924	1.664924	1.664924	1.664924
44	INTEREST EXPENSE PERCENTAGE		-3.34%	-3.34%	-3.34%	-3.34%
45	INCREMENTAL RETURN TAX RATE		1.50393	1.50393	1.50393	1.50393

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

CLAIMED RATE OF RETURN SUMMARY SCHEDULE - COMPONENT FORMAT

			TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
	REVENUES REQUIRED								
1	**CAPACITY COMPONENTS**	26,586,953	26,586,953	15,159,662	6,494,760	2,738,947	2,163,579	18,623	11,382
2	**PRODUCTION DEMAND COMP**		375,965	241,717	101,638	9,237	22,742	341	290
3	PROD DEM GAS COST		375,965	241,717	101,638	9,237	22,742	341	290
4									
5	**TRANSMISSION DEMAND COMP**		2,679,450	1,523,916	654,290	279,056	219,131	1,916	1,141
6	TRANSMISSION PLANT		2,679,450	1,523,916	654,290	279,056	219,131	1,916	1,141
7									
8	**DISTRIBUTION DEMAND COMP**	23,531,538	23,531,538	13,394,029	5,738,832	2,450,653	1,921,706	16,366	9,952
9	DISTRIBUTION MAINS		21,972,727	12,504,756	5,360,042	2,288,332	1,794,924	15,369	9,305
10	DISTRIBUTION REGULATORS		1,477,721	843,050	359,060	153,877	120,177	944	613
11	DISTRIBUTION OTHER		81,090	46,224	19,730	8,444	6,605	53	34
12									
13	**COMMODITY COMPONENTS**	13,911	13,911	7,143	3,326	2,268	1,151	14	9
14	COMMODITY GAS COST COMP		0	0	0	0	(0)	0	0
15	COMMODITY OTHER COMP		13,911	7,143	3,326	2,268	1,151	14	9
16									
17	**CUSTOMER COMPONENTS**	28,735,262	28,735,262	25,083,844	3,338,572	36,388	274,959	170	1,329
18	CUST SERVICE DROP COMPONENT		11,874,660	10,767,728	948,178	3,761	154,459	0	534
19	CUST METER COMPONENT		7,724,306	6,197,382	1,437,327	23,088	65,723	0	787
20	CUST REGULATOR COMPONENT		1,003,481	702,820	273,117	7,313	20,064	0	168
21	CUST DEPOSITS COMPONENT		0	0	0	0	0	0	0
22	CUST MISC REV COMP		(1,050,866)	(961,689)	(52,457)	0	(36,161)	(0)	(560)
23	CUST METER READING COMP		1,513,409	1,381,807	119,487	451	11,599	0	65
24	CUST RECORDS & COLL COMP		7,544,236	6,880,694	602,984	1,746	58,315	167	330
25	CUST SALES		126,035	115,101	9,936	29	961	3	5
26	**TOTAL COMPANY**	55,336,126	55,336,126	40,250,648	9,836,658	2,777,603	2,439,689	18,807	12,720
27									
28									
29	**TOTAL PRODUCTION**		389,876	248,860	104,963	11,506	23,894	355	299
30									
31	**TOTAL DELIVERY SERVICE**		54,946,250	40,001,789	9,731,695	2,766,098	2,415,796	18,452	12,421
32									
33	**TRAND & DISTR COMPONENT $/THERM**		$0.1896	$0.2079	$0.1951	$0.1234	$0.1880	$0.1795	$0.1278
34									
35	**CUSTOMER COMPONENT $/MO/CUST**		$17.31	$16.55	$25.44	$95.76	$21.47	$4.71	$18.46
36									
37	**TOTAL THRUPUT THERM**		138,233,864	71,765,520	32,770,803	22,121,972	11,386,911	101,855	86,803
38									
39	**TOTAL ANNUAL CUSTOMERS**		138,340	126,296	10,936	32	1,067	3	6
40									
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44									
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - COMPONENT		COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
	REVENUES REQUIRED							
1	**CAPACITY COMPONENTS**	26,586,953	5,655,415	839,345	88,008	2,650,939	1,262,274	901,305
2	**PRODUCTION DEMAND COMP**		97,348	4,290	1,686	7,551	19,377	3,366
3	PROD DEM GAS COST		97,348	4,290	1,686	7,551	19,377	3,366
4								
5	**TRANSMISSION DEMAND COMP**		568,684	85,607	8,843	270,213	127,218	91,913
6	TRANSMISSION PLANT		568,684	85,607	8,843	270,213	127,218	91,913
7								
8	**DISTRIBUTION DEMAND COMP**	23,531,538	4,989,384	749,448	77,479	2,373,175	1,115,680	806,026
9	DISTRIBUTION MAINS		4,659,795	700,247	72,381	2,215,951	1,042,069	752,855
10	DISTRIBUTION REGULATORS		312,427	46,633	4,832	149,046	69,776	50,401
11	DISTRIBUTION OTHER		17,162	2,568	266	8,178	3,835	2,770
12								
13	**COMMODITY COMPONENTS**	13,911	2,928	398	51	2,217	585	566
14	COMMODITY GAS COST COMP		0	0	0	0	0	(0)
15	COMMODITY OTHER COMP		2,928	398	51	2,217	585	566
16								
17	**CUSTOMER COMPONENTS**	28,735,262	3,299,429	39,143	2,897	33,491	264,353	10,606
18	CUST SERVICE DROP COMPONENT		945,264	2,914	1,090	2,672	153,176	1,282
19	CUST METER COMPONENT		1,411,321	26,005	721	22,367	60,705	5,018
20	CUST REGULATOR COMPONENT		264,125	8,992	254	7,059	16,426	3,638
21	CUST DEPOSITS COMPONENT		0	0	0	0	0	(0)
22	CUST MISC REV COMP		(52,457)	0	0	0	(36,161)	0
23	CUST METER READING COMP		119,209	279	136	315	11,448	151
24	CUST RECORDS & COLL COMP		602,046	938	685	1,061	57,806	508
25	CUST SALES		9,921	15	11	17	953	8
26	**TOTAL COMPANY**	55,336,126	8,957,772	878,886	90,956	2,686,647	1,527,213	912,477
27								
28								
29	**TOTAL PRODUCTION**		100,275	4,688	1,737	9,769	19,962	3,932
30								
31	**TOTAL DELIVERY SERVICE**		8,857,497	874,198	89,219	2,676,879	1,507,251	908,545
32								
33	**TRAND & DISTR COMPONENT $/THERM**		$0.1916	$0.2223	$0.1687	$0.1223	$0.2133	$0.1615
34								
35	**CUSTOMER COMPONENT $/MO/CUST**		$25.18	$194.80	$19.06	$146.89	$20.83	$94.82
36								
37	**TOTAL THRUPUT THERM**		29,014,067	3,756,736	511,826	21,610,146	5,828,186	5,558,725
38								
39	**TOTAL ANNUAL CUSTOMERS**		10,919	17	13	19	1,058	9
40								
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45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - COMPONENT		RESIDENTIAL: RESIDENTIAL SERVICE (14)	RESIDENTIAL: CARES (15)	COMMERCIAL: SM. VOL. (16)	COMMERCIAL: LG. VOL. (17)	COMMERCIAL: TRANS-PORTATION (18)
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%
	REVENUES REQUIRED						
1	**CAPACITY COMPONENTS**	26,586,953	14,571,287	588,375	5,655,415	235,391	603,954
2	**PRODUCTION DEMAND COMP**		232,221	9,496	97,348	4,290	0
3	PROD DEM GAS COST		232,221	9,496	97,348	4,290	0
4							
5	**TRANSMISSION DEMAND COMP**		1,464,857	59,059	568,684	23,628	61,979
6	TRANSMISSION PLANT		1,464,857	59,059	568,684	23,628	61,979
7							
8	**DISTRIBUTION DEMAND COMP**	23,531,538	12,874,209	519,820	4,989,384	207,473	541,976
9	DISTRIBUTION MAINS		12,019,587	485,168	4,659,795	193,735	506,512
10	DISTRIBUTION REGULATORS		810,197	32,853	312,427	13,023	33,611
11	DISTRIBUTION OTHER		44,425	1,799	17,162	715	1,853
12							
13	**COMMODITY COMPONENTS**	13,911	6,866	277	2,928	128	270
14	COMMODITY GAS COST COMP		0	0	0	0	0
15	COMMODITY OTHER COMP		6,866	277	2,928	128	270
16							
17	**CUSTOMER COMPONENTS**	28,735,262	24,187,205	896,638	3,299,429	20,657	18,486
18	CUST SERVICE DROP COMPONENT		10,312,891	454,837	945,264	1,505	1,409
19	CUST METER COMPONENT		5,934,757	262,625	1,411,321	13,492	12,513
20	CUST REGULATOR COMPONENT		673,089	29,731	264,125	4,883	4,109
21	CUST DEPOSITS COMPONENT		0	0	0	0	0
22	CUST MISC REV COMP		(943,034)	(18,654)	(52,457)	0	0
23	CUST METER READING COMP		1,323,109	58,698	119,209	176	103
24	CUST RECORDS & COLL COMP		6,776,442	104,252	602,046	592	346
25	CUST SALES		109,951	5,150	9,921	10	6
26	**TOTAL COMPANY**	55,336,126	38,765,358	1,485,290	8,957,772	256,176	622,710
27							
28							
29	**TOTAL PRODUCTION**		239,087	9,773	100,275	4,418	270
30							
31	**TOTAL DELIVERY SERVICE**		38,526,272	1,475,517	8,857,497	251,758	622,440
32							
33	**TRAND & DISTR COMPONENT $/THERM**		$0.2080	$0.2057	$0.1916	$0.1806	$0.2438
34							
35	**CUSTOMER COMPONENT $/MO/CUST**		$16.71	$13.20	$25.18	$160.21	$256.75
36							
37	**TOTAL THRUPUT THERM**		68,951,676	2,813,844	29,014,067	1,279,629	2,477,106
38							
39	**TOTAL ANNUAL CUSTOMERS**		120,636	5,660	10,919	11	6
40							
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45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
			SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - COMPONENT				
	RATE OF RETURN		8.80%	8.80%	8.80%
	REVENUES REQUIRED				
1	**CAPACITY COMPONENTS**	26,586,953	88,008	373,518	2,277,421
2	**PRODUCTION DEMAND COMP**		1,686	7,551	(0)
3	PROD DEM GAS COST		1,686	7,551	(0)
4					
5	**TRANSMISSION DEMAND COMP**		8,843	37,384	232,829
6	TRANSMISSION PLANT		8,843	37,384	232,829
7					
8	**DISTRIBUTION DEMAND COMP**	23,531,538	77,479	328,583	2,044,592
9	DISTRIBUTION MAINS		72,381	306,767	1,909,184
10	DISTRIBUTION REGULATORS		4,832	20,682	128,363
11	DISTRIBUTION OTHER		266	1,134	7,044
12					
13	**COMMODITY COMPONENTS**	13,911	51	223	1,994
14	COMMODITY GAS COST COMP		0	0	(0)
15	COMMODITY OTHER COMP		51	223	1,994
16					
17	**CUSTOMER COMPONENTS**	28,735,262	2,897	11,984	21,506
18	CUST SERVICE DROP COMPONENT		1,090	1,002	1,670
19	CUST METER COMPONENT		721	7,951	14,416
20	CUST REGULATOR COMPONENT		254	2,536	4,523
21	CUST DEPOSITS COMPONENT		0	0	(0)
22	CUST MISC REV COMP		0	0	(0)
23	CUST METER READING COMP		136	112	203
24	CUST RECORDS & COLL COMP		685	378	683
25	CUST SALES		11	6	11
26	**TOTAL COMPANY**	55,336,126	90,956	385,726	2,300,922
27					
28					
29	**TOTAL PRODUCTION**		1,737	7,774	1,994
30					
31	**TOTAL DELIVERY SERVICE**		89,219	377,951	2,298,927
32					
33	**TRAND & DISTR COMPONENT $/THERM**		$0.1687	$0.1593	$0.1179
34					
35	**CUSTOMER COMPONENT $/MO/CUST**		$19.06	$142.67	$149.35
36					
37	**TOTAL THRUPUT THERM**		511,826	2,297,027	19,313,119
38					
39	**TOTAL ANNUAL CUSTOMERS**		13	7	12
40					
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42					
43					
44					
45					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

CLAIMED RATE OF RETURN SUMMARY SCHEDULE - COMPONENT

Line			PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%
	REVENUES REQUIRED						
1	**CAPACITY COMPONENTS**	26,586,953	1,262,274	208,723	692,582	18,623	11,382
2	**PRODUCTION DEMAND COMP**		19,377	3,366	(0)	341	290
3	PROD DEM GAS COST		19,377	3,366	(0)	341	290
4							
5	**TRANSMISSION DEMAND COMP**		127,218	20,987	70,926	1,916	1,141
6	TRANSMISSION PLANT		127,218	20,987	70,926	1,916	1,141
7							
8	**DISTRIBUTION DEMAND COMP**	23,531,538	1,115,680	184,370	621,656	16,366	9,952
9	DISTRIBUTION MAINS		1,042,069	172,147	580,708	15,369	9,305
10	DISTRIBUTION REGULATORS		69,776	11,587	38,813	944	613
11	DISTRIBUTION OTHER		3,835	636	2,134	53	34
12							
13	**COMMODITY COMPONENTS**	13,911	585	100	466	14	9
14	COMMODITY GAS COST COMP		0	(0)	(0)	0	0
15	COMMODITY OTHER COMP		585	100	466	14	9
16							
17	**CUSTOMER COMPONENTS**	28,735,262	264,353	2,900	7,706	170	1,329
18	CUST SERVICE DROP COMPONENT		153,176	833	449	0	534
19	CUST METER COMPONENT		60,705	299	4,719	0	787
20	CUST REGULATOR COMPONENT		16,426	1,392	2,246	0	168
21	CUST DEPOSITS COMPONENT		0	(0)	(0)	0	0
22	CUST MISC REV COMP		(36,161)	(0)	0	(0)	(560)
23	CUST METER READING COMP		11,448	85	66	0	65
24	CUST RECORDS & COLL COMP		57,806	286	223	167	330
25	CUST SALES		953	5	4	3	5
26	**TOTAL COMPANY**	55,336,126	1,527,213	211,722	700,754	18,807	12,720
27							
28							
29	**TOTAL PRODUCTION**		19,962	3,465	466	355	299
30							
31	**TOTAL DELIVERY SERVICE**		1,507,251	208,257	700,288	18,452	12,421
32							
33	**TRAND & DISTR COMPONENT $/THERM**		$0.2133	$0.1997	$0.1529	$0.1795	$0.1278
34							
35	**CUSTOMER COMPONENT $/MO/CUST**		$20.83	$45.41	$160.55	$4.71	$18.46
36							
37	**TOTAL THRUPUT THERM**		5,828,186	1,028,395	4,530,330	101,855	86,803
38							
39	**TOTAL ANNUAL CUSTOMERS**		1,058	5	4	3	6
40							
41							
42							
43							
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45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

CLAIMED RATE OF RETURN SUMMARY SCHEDULE - FUNCTION FORMAT

Line			TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
	$/THERM								
1	**CAPACITY COMPONENTS**	0.1923	0.1923	0.2112	0.1982	0.1238	0.1900	0.1828	0.1311
2	**PRODUCTION DEMAND COMP**		0.0027	0.0034	0.0031	0.0004	0.0020	0.0034	0.0033
3	PROD DEM GAS COST		0.0027	0.0034	0.0031	0.0004	0.0020	0.0034	0.0033
4									
5	**TRANSMISSION DEMAND COMP**		0.0194	0.0212	0.0200	0.0126	0.0192	0.0188	0.0131
6	TRANSMISSION PLANT		0.0194	0.0212	0.0200	0.0126	0.0192	0.0188	0.0131
7									
8	**DISTRIBUTION DEMAND COMP**	0.1702	0.1702	0.1866	0.1751	0.1108	0.1688	0.1607	0.1146
9	DISTRIBUTION MAINS		0.1590	0.1742	0.1636	0.1034	0.1576	0.1509	0.1072
10	DISTRIBUTION REGULATORS		0.0107	0.0117	0.0110	0.0070	0.0106	0.0093	0.0071
11	DISTRIBUTION OTHER		0.0006	0.0006	0.0006	0.0004	0.0006	0.0005	0.0004
12									
13	**COMMODITY COMPONENTS**	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
14	COMMODITY GAS COST COMP		0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
15	COMMODITY OTHER COMP		0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
16									
17	**CUSTOMER COMPONENTS**	0.2079	0.2079	0.3495	0.1019	0.0016	0.0241	0.0017	0.0153
18	CUST SERVICE DROP COMPONENT		0.0859	0.1500	0.0289	0.0002	0.0136	0.0000	0.0061
19	CUST METER COMPONENT		0.0559	0.0864	0.0439	0.0010	0.0058	0.0000	0.0091
20	CUST REGULATOR COMPONENT		0.0073	0.0098	0.0083	0.0003	0.0018	0.0000	0.0019
21	CUST DEPOSITS COMPONENT		0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
22	CUST MISC REV COMP		-0.0076	-0.0134	-0.0016	0.0000	-0.0032	0.0000	-0.0064
23	CUST METER READING COMP		0.0109	0.0193	0.0036	0.0000	0.0010	0.0000	0.0008
24	CUST RECORDS & COLL COMP		0.0546	0.0959	0.0184	0.0001	0.0051	0.0016	0.0038
25	CUST SALES		0.0009	0.0016	0.0003	0.0000	0.0001	0.0000	0.0001
26	**TOTAL COMPANY**		0.4003	0.5609	0.3002	0.1256	0.2143	0.1846	0.1465

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
			SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - FUNCTION FO							
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%	8.80%
	$/THERM							
1	**CAPACITY COMPONENTS**	0.1923	0.1949	0.2234	0.1719	0.1227	0.2166	0.1621
2	**PRODUCTION DEMAND COMP**		0.0034	0.0011	0.0033	0.0003	0.0033	0.0006
3	PROD DEM GAS COST		0.0034	0.0011	0.0033	0.0003	0.0033	0.0006
4								
5	**TRANSMISSION DEMAND COMP**		0.0196	0.0228	0.0173	0.0125	0.0218	0.0165
6	TRANSMISSION PLANT		0.0196	0.0228	0.0173	0.0125	0.0218	0.0165
7								
8	**DISTRIBUTION DEMAND COMP**	0.1702	0.1720	0.1995	0.1514	0.1098	0.1914	0.1450
9	DISTRIBUTION MAINS		0.1606	0.1864	0.1414	0.1025	0.1788	0.1354
10	DISTRIBUTION REGULATORS		0.0108	0.0124	0.0094	0.0069	0.0120	0.0091
11	DISTRIBUTION OTHER		0.0006	0.0007	0.0005	0.0004	0.0007	0.0005
12								
13	**COMMODITY COMPONENTS**	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
14	COMMODITY GAS COST COMP		0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
15	COMMODITY OTHER COMP		0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
16								
17	**CUSTOMER COMPONENTS**	0.2079	0.1137	0.0104	0.0057	0.0015	0.0454	0.0019
18	CUST SERVICE DROP COMPONENT		0.0326	0.0008	0.0021	0.0001	0.0263	0.0002
19	CUST METER COMPONENT		0.0486	0.0069	0.0014	0.0010	0.0104	0.0009
20	CUST REGULATOR COMPONENT		0.0091	0.0024	0.0005	0.0003	0.0028	0.0007
21	CUST DEPOSITS COMPONENT		0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
22	CUST MISC REV COMP		-0.0018	0.0000	0.0000	0.0000	-0.0062	0.0000
23	CUST METER READING COMP		0.0041	0.0001	0.0003	0.0000	0.0020	0.0000
24	CUST RECORDS & COLL COMP		0.0208	0.0002	0.0013	0.0000	0.0099	0.0001
25	CUST SALES		0.0003	0.0000	0.0000	0.0000	0.0002	0.0000
26	**TOTAL COMPANY**		0.3087	0.2339	0.1777	0.1243	0.2620	0.1642
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
			RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - FUNCTION FO						
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%
	$/THERM						
1	**CAPACITY COMPONENTS**	0.1923	0.2113	0.2091	0.1949	0.1840	0.2438
2	**PRODUCTION DEMAND COMP**		0.0034	0.0034	0.0034	0.0034	0.0000
3	PROD DEM GAS COST		0.0034	0.0034	0.0034	0.0034	0.0000
4							
5	**TRANSMISSION DEMAND COMP**		0.0212	0.0210	0.0196	0.0185	0.0250
6	TRANSMISSION PLANT		0.0212	0.0210	0.0196	0.0185	0.0250
7							
8	**DISTRIBUTION DEMAND COMP**	0.1702	0.1867	0.1847	0.1720	0.1621	0.2188
9	DISTRIBUTION MAINS		0.1743	0.1724	0.1606	0.1514	0.2045
10	DISTRIBUTION REGULATORS		0.0118	0.0117	0.0108	0.0102	0.0136
11	DISTRIBUTION OTHER		0.0006	0.0006	0.0006	0.0006	0.0007
12							
13	**COMMODITY COMPONENTS**	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
14	COMMODITY GAS COST COMP		0.0000	0.0000	0.0000	0.0000	0.0000
15	COMMODITY OTHER COMP		0.0001	0.0001	0.0001	0.0001	0.0001
16							
17	**CUSTOMER COMPONENTS**	0.2079	0.3508	0.3187	0.1137	0.0161	0.0075
18	CUST SERVICE DROP COMPONENT		0.1496	0.1616	0.0326	0.0012	0.0006
19	CUST METER COMPONENT		0.0861	0.0933	0.0486	0.0105	0.0051
20	CUST REGULATOR COMPONENT		0.0098	0.0106	0.0091	0.0038	0.0017
21	CUST DEPOSITS COMPONENT		0.0000	0.0000	0.0000	0.0000	0.0000
22	CUST MISC REV COMP		-0.0137	-0.0066	-0.0018	0.0000	0.0000
23	CUST METER READING COMP		0.0192	0.0209	0.0041	0.0001	0.0000
24	CUST RECORDS & COLL COMP		0.0983	0.0370	0.0208	0.0005	0.0001
25	CUST SALES		0.0016	0.0018	0.0003	0.0000	0.0000
26	**TOTAL COMPANY**		0.5622	0.5279	0.3087	0.2002	0.2514
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
			SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - FUNCTION FO				
	RATE OF RETURN		8.80%	8.80%	8.80%
	$/THERM				
1	**CAPACITY COMPONENTS**	0.1923	0.1719	0.1626	0.1179
2	**PRODUCTION DEMAND COMP**		0.0033	0.0033	0.0000
3	PROD DEM GAS COST		0.0033	0.0033	0.0000
4					
5	**TRANSMISSION DEMAND COMP**		0.0173	0.0163	0.0121
6	TRANSMISSION PLANT		0.0173	0.0163	0.0121
7					
8	**DISTRIBUTION DEMAND COMP**	0.1702	0.1514	0.1430	0.1059
9	DISTRIBUTION MAINS		0.1414	0.1335	0.0989
10	DISTRIBUTION REGULATORS		0.0094	0.0090	0.0066
11	DISTRIBUTION OTHER		0.0005	0.0005	0.0004
12					
13	**COMMODITY COMPONENTS**	0.0001	0.0001	0.0001	0.0001
14	COMMODITY GAS COST COMP		0.0000	0.0000	0.0000
15	COMMODITY OTHER COMP		0.0001	0.0001	0.0001
16					
17	**CUSTOMER COMPONENTS**	0.2079	0.0057	0.0052	0.0011
18	CUST SERVICE DROP COMPONENT		0.0021	0.0004	0.0001
19	CUST METER COMPONENT		0.0014	0.0035	0.0007
20	CUST REGULATOR COMPONENT		0.0005	0.0011	0.0002
21	CUST DEPOSITS COMPONENT		0.0000	0.0000	0.0000
22	CUST MISC REV COMP		0.0000	0.0000	0.0000
23	CUST METER READING COMP		0.0003	0.0000	0.0000
24	CUST RECORDS & COLL COMP		0.0013	0.0002	0.0000
25	CUST SALES		0.0000	0.0000	0.0000
26	**TOTAL COMPANY**		0.1777	0.1679	0.1191

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
			SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
	CLAIMED RATE OF RETURN SUMMARY SCHEDULE - FUNCTION FO						
	RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%
	$/THERM						
1	**CAPACITY COMPONENTS**	0.1923	0.2166	0.2030	0.1529	0.1828	0.1311
2	**PRODUCTION DEMAND COMP**		0.0033	0.0033	0.0000	0.0034	0.0033
3	PROD DEM GAS COST		0.0033	0.0033	0.0000	0.0034	0.0033
4							
5	**TRANSMISSION DEMAND COMP**		0.0218	0.0204	0.0157	0.0188	0.0131
6	TRANSMISSION PLANT		0.0218	0.0204	0.0157	0.0188	0.0131
7							
8	**DISTRIBUTION DEMAND COMP**	0.1702	0.1914	0.1793	0.1372	0.1607	0.1146
9	DISTRIBUTION MAINS		0.1788	0.1674	0.1282	0.1509	0.1072
10	DISTRIBUTION REGULATORS		0.0120	0.0113	0.0086	0.0093	0.0071
11	DISTRIBUTION OTHER		0.0007	0.0006	0.0005	0.0005	0.0004
12							
13	**COMMODITY COMPONENTS**	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
14	COMMODITY GAS COST COMP		0.0000	0.0000	0.0000	0.0000	0.0000
15	COMMODITY OTHER COMP		0.0001	0.0001	0.0001	0.0001	0.0001
16							
17	**CUSTOMER COMPONENTS**	0.2079	0.0454	0.0028	0.0017	0.0017	0.0153
18	CUST SERVICE DROP COMPONENT		0.0263	0.0008	0.0001	0.0000	0.0061
19	CUST METER COMPONENT		0.0104	0.0003	0.0010	0.0000	0.0091
20	CUST REGULATOR COMPONENT		0.0028	0.0014	0.0005	0.0000	0.0019
21	CUST DEPOSITS COMPONENT		0.0000	0.0000	0.0000	0.0000	0.0000
22	CUST MISC REV COMP		-0.0062	0.0000	0.0000	0.0000	-0.0064
23	CUST METER READING COMP		0.0020	0.0001	0.0000	0.0000	0.0008
24	CUST RECORDS & COLL COMP		0.0099	0.0003	0.0000	0.0016	0.0038
25	CUST SALES		0.0002	0.0000	0.0000	0.0000	0.0001
26	**TOTAL COMPANY**		0.2620	0.2059	0.1547	0.1846	0.1465
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
			0						
1	DEVELOPMENT OF LABOR ALLOCATOR								
2									
3	**EXPENSED LABOR**								
4	PRODUCTION LABOR								
5	421-PURCHASED POWER	EXP421	0	0	0	0	0	0	0
6	805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES								
8	DEMAND RELATED	EXP807D	0	0	0	0	0	0	0
9	COMMODITY RELATED	EXP807C	0	0	0	0	0	0	0
10	TOTAL ACCOUNT 807		0	0	0	0	0	0	0
11	TOTAL PURCHASED GAS SUPPLY		0	0	0	0	0	0	0
12									
13	TRANSMISSION LABOR								
14	856-MAINS EXPENSE	EXP856	8,362	4,784	2,029	855	685	5	3
15	857-MEASURING & REG. STATION	EXP857	110	63	27	11	9	0	0
16	864-MAINT. OF STATION EQUIP.	EXP864	0	0	0	0	0	0	0
17	867-MAINT. OF OTHER EQUIP.	EXP867	0	0	0	0	0	0	0
18	TOTAL TRANSMISSION LABOR		8,472	4,847	2,056	866	694	5	4
19									
20	DISTRIBUTION LABOR								
21	870-OPERATION SUPERV. & ENG.	LABDO	260,572	193,889	49,711	8,635	8,239	48	50
22	871-LOAD DISPATCHING	EXP871	0	0	0	0	0	0	0
23	874-MAINS & SERVICING EXPENSE	EXP874	969,232	669,860	179,041	64,008	55,673	376	274
24	875-MEAS./REG. STATION EXPENSE	EXP875	149,128	85,321	36,191	15,250	12,214	90	62
25	876-MEAS./REG. STATION EXPENSE	EXP876	114,529	65,526	27,795	11,712	9,380	69	47
26	877-MEAS./REG. STATION EXPENSE	EXP877	15,325	12,297	2,851	45	131	0	2
27	878-METER EXPENSE	EXP878	1,084,223	869,935	201,680	3,211	9,288	0	110
28	879-CUSTOMER INSTALL EXP	EXP879	590,687	473,943	109,876	1,749	5,060	0	60
29	880-OTHER EXPENSES	EXP880	261,949	193,102	50,198	9,579	8,964	54	53
30	881-RENTS	EXP881	0	0	0	0	0	0	0
31	885-MAINT. SUPERV. & ENG.	LABDM	190,429	134,748	34,306	11,275	9,985	66	50
32	886-MAINT. OF STRUCTURES	EXP886	0	0	0	0	0	0	0
33	887-MAINT. OF MAINS	EXP887	522,694	299,052	126,851	53,450	42,810	314	216
34	889-MAINT. MEAS./REG	EXP889	8,235	4,711	1,998	842	674	5	3
35	890-MAINT. MEAS./REG	EXP890	75	43	18	8	6	0	0
36	891-MAINT. MEAS./REG	EXP891	579	464	108	2	5	0	0
37	892-MAINT. OF SERVICES	EXP892	345,392	313,287	27,474	109	4,508	0	15
38	893-MAINT. OF METER	EXP893	58,834	47,206	10,944	174	504	0	6
39	894-MAINT. OF OTHER EQUIP.	EXP894	19,066	10,908	4,627	1,950	1,562	11	8
40	TOTAL DISTRIBUTION LABOR		4,590,950	3,374,292	863,669	181,999	169,003	1,033	954
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	DEVELOPMENT OF LABOR ALLOCATOR							
2								
3	**EXPENSED LABOR**							
4	PRODUCTION LABOR							
5	421-PURCHASED POWER	EXP421	0	0	0	0	0	0
6	805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES							
8	DEMAND RELATED	EXP807D	0	0	0	0	0	0
9	COMMODITY RELATED	EXP807C	0	0	0	0	0	0
10	TOTAL ACCOUNT 807		0	0	0	0	0	0
11	TOTAL PURCHASED GAS SUPPLY		0	0	0	0	0	0
12								
13	TRANSMISSION LABOR							
14	856-MAINS EXPENSE	EXP856	1,774	255	28	827	399	285
15	857-MEASURING & REG. STATION	EXP857	23	3	0	11	5	4
16	864-MAINT. OF STATION EQUIP.	EXP864	0	0	0	0	0	0
17	867-MAINT. OF OTHER EQUIP.	EXP867	0	0	0	0	0	0
18	TOTAL TRANSMISSION LABOR		1,797	259	28	838	405	289
19								
20	DISTRIBUTION LABOR							
21	870-OPERATION SUPERV. & ENG.	LABDO	46,766	2,944	284	8,352	5,408	2,831
22	871-LOAD DISPATCHING	EXP871	0	0	0	0	0	0
23	874-MAINS & SERVICING EXPENSE	EXP874	159,868	19,174	2,116	61,892	34,303	21,370
24	875-MEAS./REG. STATION EXPENSE	EXP875	31,635	4,556	497	14,752	7,123	5,091
25	876-MEAS./REG. STATION EXPENSE	EXP876	24,296	3,499	382	11,330	5,470	3,910
26	877-MEAS./REG. STATION EXPENSE	EXP877	2,800	50	1	44	121	10
27	878-METER EXPENSE	EXP878	198,113	3,567	103	3,108	8,590	698
28	879-CUSTOMER INSTALL EXP	EXP879	107,933	1,943	56	1,693	4,680	380
29	880-OTHER EXPENSES	EXP880	46,998	3,200	315	9,265	5,814	3,150
30	881-RENTS	EXP881	0	0	0	0	0	0
31	885-MAINT. SUPERV. & ENG.	LABDM	30,899	3,407	373	10,901	6,225	3,760
32	886-MAINT. OF STRUCTURES	EXP886	0	0	0	0	0	0
33	887-MAINT. OF MAINS	EXP887	110,882	15,969	1,743	51,707	24,966	17,844
34	889-MAINT. MEAS./REG	EXP889	1,747	252	27	815	393	281
35	890-MAINT. MEAS./REG	EXP890	16	2	0	7	4	3
36	891-MAINT. MEAS./REG	EXP891	106	2	0	2	5	0
37	892-MAINT. OF SERVICES	EXP892	27,391	82	32	77	4,470	38
38	893-MAINT. OF METER	EXP893	10,750	194	6	169	466	38
39	894-MAINT. OF OTHER EQUIP.	EXP894	4,045	583	64	1,886	911	651
40	TOTAL DISTRIBUTION LABOR		804,244	59,425	6,000	175,999	108,949	60,054
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF LABOR ALLOCATOR						
2							
3	**EXPENSED LABOR**						
4	PRODUCTION LABOR						
5	421-PURCHASED POWER	EXP421	0	0	0	0	0
6	805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES						
8	DEMAND RELATED	EXP807D	0	0	0	0	0
9	COMMODITY RELATED	EXP807C	0	0	0	0	0
10	TOTAL ACCOUNT 807		0	0	0	0	0
11	TOTAL PURCHASED GAS SUPPLY		0	0	0	0	0
12							
13	TRANSMISSION LABOR						
14	856-MAINS EXPENSE	EXP856	4,598	187	1,774	74	181
15	857-MEASURING & REG. STATION	EXP857	60	2	23	1	2
16	864-MAINT. OF STATION EQUIP.	EXP864	0	0	0	0	0
17	867-MAINT. OF OTHER EQUIP.	EXP867	0	0	0	0	0
18	TOTAL TRANSMISSION LABOR		4,658	189	1,797	75	184
19							
20	DISTRIBUTION LABOR						
21	870-OPERATION SUPERV. & ENG.	LABDO	185,820	8,069	46,766	975	1,969
22	871-LOAD DISPATCHING	EXP871	0	0	0	0	0
23	874-MAINS & SERVICING EXPENSE	EXP874	642,667	27,193	159,868	5,583	13,590
24	875-MEAS./REG. STATION EXPENSE	EXP875	81,994	3,327	31,635	1,322	3,234
25	876-MEAS./REG. STATION EXPENSE	EXP876	62,971	2,555	24,296	1,015	2,484
26	877-MEAS./REG. STATION EXPENSE	EXP877	11,775	522	2,800	27	24
27	878-METER EXPENSE	EXP878	833,029	36,906	198,113	1,899	1,668
28	879-CUSTOMER INSTALL EXP	EXP879	453,836	20,106	107,933	1,035	909
29	880-OTHER EXPENSES	EXP880	185,085	8,016	46,998	1,041	2,159
30	881-RENTS	EXP881	0	0	0	0	0
31	885-MAINT. SUPERV. & ENG.	LABDM	129,247	5,501	30,899	1,002	2,405
32	886-MAINT. OF STRUCTURES	EXP886	0	0	0	0	0
33	887-MAINT. OF MAINS	EXP887	287,390	11,662	110,882	4,634	11,336
34	889-MAINT. MEAS./REG	EXP889	4,528	184	1,747	73	179
35	890-MAINT. MEAS./REG	EXP890	41	2	16	1	2
36	891-MAINT. MEAS./REG	EXP891	444	20	106	1	1
37	892-MAINT. OF SERVICES	EXP892	299,996	13,291	27,391	44	38
38	893-MAINT. OF METER	EXP893	45,204	2,003	10,750	103	90
39	894-MAINT. OF OTHER EQUIP.	EXP894	10,483	425	4,045	169	413
40	TOTAL DISTRIBUTION LABOR		3,234,510	139,782	804,244	18,925	40,500
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF LABOR ALLOCATOR				
2					
3	**EXPENSED LABOR**				
4	PRODUCTION LABOR				
5	421-PURCHASED POWER	EXP421	0	0	0
6	805-PURCHASED GAS EXPENSE	EXP805	0	0	0
7	807-PURCHASED GAS COST EXPENSES				
8	DEMAND RELATED	EXP807D	0	0	0
9	COMMODITY RELATED	EXP807C	0	0	0
10	TOTAL ACCOUNT 807		0	0	0
11	TOTAL PURCHASED GAS SUPPLY		0	0	0
12					
13	TRANSMISSION LABOR				
14	856-MAINS EXPENSE	EXP856	28	120	707
15	857-MEASURING & REG. STATION	EXP857	0	2	9
16	864-MAINT. OF STATION EQUIP.	EXP864	0	0	0
17	867-MAINT. OF OTHER EQUIP.	EXP867	0	0	0
18	TOTAL TRANSMISSION LABOR		28	122	716
19					
20	DISTRIBUTION LABOR				
21	870-OPERATION SUPERV. & ENG.	LABDO	284	1,313	7,038
22	871-LOAD DISPATCHING	EXP871	0	0	0
23	874-MAINS & SERVICING EXPENSE	EXP874	2,116	9,029	52,864
24	875-MEAS./REG. STATION EXPENSE	EXP875	497	2,148	12,605
25	876-MEAS./REG. STATION EXPENSE	EXP876	382	1,649	9,680
26	877-MEAS./REG. STATION EXPENSE	EXP877	1	16	28
27	878-METER EXPENSE	EXP878	103	1,145	1,963
28	879-CUSTOMER INSTALL EXP	EXP879	56	624	1,069
29	880-OTHER EXPENSES	EXP880	315	1,439	7,825
30	881-RENTS	EXP881	0	0	0
31	885-MAINT. SUPERV. & ENG.	LABDM	373	1,598	9,303
32	886-MAINT. OF STRUCTURES	EXP886	0	0	0
33	887-MAINT. OF MAINS	EXP887	1,743	7,527	44,180
34	889-MAINT. MEAS./REG	EXP889	27	119	696
35	890-MAINT. MEAS./REG	EXP890	0	1	6
36	891-MAINT. MEAS./REG	EXP891	0	1	1
37	892-MAINT. OF SERVICES	EXP892	32	30	47
38	893-MAINT. OF METER	EXP893	6	62	107
39	894-MAINT. OF OTHER EQUIP.	EXP894	64	275	1,612
40	TOTAL DISTRIBUTION LABOR		6,000	26,975	149,024
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF LABOR ALLOCATOR						
2							
3	**EXPENSED LABOR**						
4	PRODUCTION LABOR						
5	421-PURCHASED POWER	EXP421	0	0	0	0	0
6	805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0
7	807-PURCHASED GAS COST EXPENSES						
8	DEMAND RELATED	EXP807D	0	0	0	0	0
9	COMMODITY RELATED	EXP807C	0	0	0	0	0
10	TOTAL ACCOUNT 807		0	0	0	0	0
11	TOTAL PURCHASED GAS SUPPLY		0	0	0	0	0
12							
13	TRANSMISSION LABOR						
14	856-MAINS EXPENSE	EXP856	399	68	218	5	3
15	857-MEASURING & REG. STATION	EXP857	5	1	3	0	0
16	864-MAINT. OF STATION EQUIP.	EXP864	0	0	0	0	0
17	867-MAINT. OF OTHER EQUIP.	EXP867	0	0	0	0	0
18	TOTAL TRANSMISSION LABOR		405	69	221	5	4
19							
20	DISTRIBUTION LABOR						
21	870-OPERATION SUPERV. & ENG.	LABDO	5,408	656	2,175	48	50
22	871-LOAD DISPATCHING	EXP871	0	0	0	0	0
23	874-MAINS & SERVICING EXPENSE	EXP874	34,303	5,086	16,284	376	274
24	875-MEAS./REG. STATION EXPENSE	EXP875	7,123	1,208	3,883	90	62
25	876-MEAS./REG. STATION EXPENSE	EXP876	5,470	928	2,982	69	47
26	877-MEAS./REG. STATION EXPENSE	EXP877	121	1	9	0	2
27	878-METER EXPENSE	EXP878	8,590	43	654	0	110
28	879-CUSTOMER INSTALL EXP	EXP879	4,680	24	356	0	60
29	880-OTHER EXPENSES	EXP880	5,814	733	2,417	54	53
30	881-RENTS	EXP881	0	0	0	0	0
31	885-MAINT. SUPERV. & ENG.	LABDM	6,225	894	2,866	66	50
32	886-MAINT. OF STRUCTURES	EXP886	0	0	0	0	0
33	887-MAINT. OF MAINS	EXP887	24,966	4,233	13,611	314	216
34	889-MAINT. MEAS./REG	EXP889	393	67	214	5	3
35	890-MAINT. MEAS./REG	EXP890	4	1	2	0	0
36	891-MAINT. MEAS./REG	EXP891	5	0	0	0	0
37	892-MAINT. OF SERVICES	EXP892	4,470	25	13	0	15
38	893-MAINT. OF METER	EXP893	466	2	36	0	6
39	894-MAINT. OF OTHER EQUIP.	EXP894	911	154	496	11	8
40	TOTAL DISTRIBUTION LABOR		108,949	14,054	46,000	1,033	954
41							
42							
43							
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVEL OF LABOR ALLOC CON'T.								
2	**EXPENSED LABOR CONTINUED**								
3	CUSTOMER ACCOUNT LABOR								
4	901-SUPERVISION	LABCA	57,780	52,695	4,616	15	451	1	3
5	902-METER READING EXPENSE	EXP902	555,711	507,219	43,995	165	4,308	0	24
6	903-CUST RECORDS & COLLECT	EXP903	1,285,183	1,171,692	103,052	298	10,056	28	57
7	904-UNCOLLECTIBLE ACCOUNTS	EXP904	0	0	0	0	0	0	0
8	905-MISC CUST ACCTS EXP	EXP905	779	683	70	16	10	0	0
9	906-CUSTOMER SERVICE & INFO	EXP906	0	0	0	0	0	0	0
10	907-SUPERV. CUSTOMER SERV.	LABCS	13,342	12,180	1,055	3	103	0	1
11	908-CUSTOMER ASSISTANCE	EXP908	3,460	3,159	274	1	27	0	0
12	909-INFO & INSTRUCTIONAL ADVERT.	EXP909	24,715	22,563	1,954	6	191	1	1
13	910-MISC. CUST. SERV. & INFO.	EXP910	0	0	0	0	0	0	0
14	TOTAL CUSTOMER ACCTS LABOR		1,940,970	1,770,191	155,015	504	15,145	30	85
15									
16	SALES LABOR								
17	912-DEMONSTRATING & SELLING	EXP912	0	0	0	0	0	0	0
18	913-ADVERTISING EXPENSES	EXP913	0	0	0	0	0	0	0
19	TOTAL SALES LABOR		0	0	0	0	0	0	0
20									
21	ADMINISTRATIVE & GENERAL LABOR								
22	920-ADMIN & GENERAL SALARY	EXP920	1,295,495	1,019,959	202,184	36,321	36,613	212	206
23	921-OFFICE SUPPLIES & EXP	EXP921	0	0	0	0	0	0	0
24	923-OUTSIDE SERV EMPLOYED	EXP923	1,076,612	847,630	168,024	30,184	30,427	176	172
25	924-PROPERTY INSURANCE	EXP924	0	0	0	0	0	0	0
26	925-INJURIES & DAMAGES	EXP925	13,225	10,413	2,064	371	374	2	2
27	926-EMPLOYED PENSION & BENF	EXP926	74,902	58,971	11,690	2,100	2,117	12	12
28	928-REGULATORY COMM EXPENSE	EXP928	0	0	0	0	0	0	0
29	930-MISCELLANEOUS GEN EXP	EXP930	14,065	11,074	2,195	394	398	2	2
30	931-RENTS	EXP931	0	0	0	0	0	0	0
31	932-MAINT OF GENERAL PLT	EXP932	12,877	10,165	1,984	357	367	2	2
32	TOTAL ADMIN & GEN LABOR		2,487,178	1,958,212	388,140	69,728	70,295	406	396
33									
34	**CAPITALIZED LABOR**								
35	371	CAPLABX	22,791	18,140	3,365	609	669	3	3
36	376-MAINS	PLT376	576,791	330,003	139,980	58,982	47,241	347	239
37	378-MEAS. & REG. EQUIP-GEN	PLT378	23,826	13,632	5,782	2,436	1,951	14	10
38	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	11,621	6,649	2,820	1,188	952	7	5
39	380-SERVICES	PLT380	1,290,458	1,170,506	102,647	407	16,842	0	57
40	382-METER INSTALLATIONS	PLT382	448,397	359,775	83,408	1,328	3,841	0	45
41	384-REGULATOR INSTALLATIONS	PLT384	127,987	102,691	23,807	379	1,096	0	13
42	385-INDUSTRIAL MEAS. EQUIP.	PLT385	5,452	0	4,705	200	544	0	3
43	387-OTHER EQUIPMENT	PLT387	15,338	8,776	3,722	1,569	1,256	9	6
44	390-STRUCTURES & IMPROVE.	PLT390	41	32	6	1	1	0	0
45	391-OFFICE FURN & EQUIP	PLT391	343,980	271,537	52,984	9,536	9,814	55	54
46	TOTAL CAPITALIZED LABOR		2,866,682	2,281,740	423,227	76,636	84,208	436	435
47									
48	SUM OF ALLOCATED LABOR EXP		11,894,252	9,389,282	1,832,106	329,733	339,345	1,911	1,874

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	DEVEL OF LABOR ALLOC CON'T.							
2	**EXPENSED LABOR CONTINUED**							
3	CUSTOMER ACCOUNT LABOR							
4	901-SUPERVISION	LABCA	4,607	8	5	10	446	5
5	902-METER READING EXPENSE	EXP902	43,894	101	51	115	4,252	56
6	903-CUST RECORDS & COLLECT	EXP903	102,894	158	119	179	9,968	88
7	904-UNCOLLECTIBLE ACCOUNTS	EXP904	0	0	0	0	0	0
8	905-MISC CUST ACCTS EXP	EXP905	66	5	0	16	5	5
9	906-CUSTOMER SERVICE & INFO	EXP906	0	0	0	0	0	0
10	907-SUPERV. CUSTOMER SERV.	LABCS	1,053	2	1	2	102	1
11	908-CUSTOMER ASSISTANCE	EXP908	273	0	0	0	26	0
12	909-INFO & INSTRUCTIONAL ADVERT.	EXP909	1,951	3	2	3	189	2
13	910-MISC. CUST. SERV. & INFO.	EXP910	0	0	0	0	0	0
14	TOTAL CUSTOMER ACCTS LABOR		154,738	277	180	325	14,989	156
15								
16	SALES LABOR							
17	912-DEMONSTRATING & SELLING	EXP912	0	0	0	0	0	0
18	913-ADVERTISING EXPENSES	EXP913	0	0	0	0	0	0
19	TOTAL SALES LABOR		0	0	0	0	0	0
20								
21	ADMINISTRATIVE & GENERAL LABOR							
22	920-ADMIN & GENERAL SALARY	EXP920	190,307	11,877	1,230	35,092	24,629	11,984
23	921-OFFICE SUPPLIES & EXP	EXP921	0	0	0	0	0	0
24	923-OUTSIDE SERV EMPLOYED	EXP923	158,154	9,870	1,022	29,163	20,468	9,959
25	924-PROPERTY INSURANCE	EXP924	0	0	0	0	0	0
26	925-INJURIES & DAMAGES	EXP925	1,943	121	13	358	251	122
27	926-EMPLOYED PENSION & BENF	EXP926	11,003	687	71	2,029	1,424	693
28	928-REGULATORY COMM EXPENSE	EXP928	0	0	0	0	0	0
29	930-MISCELLANEOUS GEN EXP	EXP930	2,066	129	13	381	267	130
30	931-RENTS	EXP931	0	0	0	0	0	0
31	932-MAINT OF GENERAL PLT	EXP932	1,867	117	12	345	249	118
32	TOTAL ADMIN & GEN LABOR		365,340	22,800	2,361	67,367	47,290	23,006
33								
34	**CAPITALIZED LABOR**							
35	371	CAPLABX	3,166	198	21	588	467	202
36	376-MAINS	PLT376	122,358	17,622	1,924	57,058	27,550	19,691
37	378-MEAS. & REG. EQUIP-GEN	PLT378	5,054	728	79	2,357	1,138	813
38	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	2,465	355	39	1,150	555	397
39	380-SERVICES	PLT380	102,339	307	119	287	16,701	141
40	382-METER INSTALLATIONS	PLT382	81,933	1,475	43	1,285	3,553	288
41	384-REGULATOR INSTALLATIONS	PLT384	23,386	421	12	367	1,014	82
42	385-INDUSTRIAL MEAS. EQUIP.	PLT385	4,452	253	7	193	412	132
43	387-OTHER EQUIPMENT	PLT387	3,254	469	51	1,517	733	524
44	390-STRUCTURES & IMPROVE.	PLT390	6	0	0	1	1	0
45	391-OFFICE FURN & EQUIP	PLT391	49,870	3,115	324	9,212	6,664	3,150
46	TOTAL CAPITALIZED LABOR		398,283	24,944	2,619	74,017	58,787	25,421
47								
48	SUM OF ALLOCATED LABOR EXP		1,724,402	107,704	11,188	318,545	230,419	108,927

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	RESIDENTIAL: RESIDENTIAL SERVICE (14)	RESIDENTIAL: CARES (15)	COMMERCIAL: SM. VOL. (16)	COMMERCIAL: LG. VOL. (17)	COMMERCIAL: TRANS-PORTATION (18)
1	DEVEL OF LABOR ALLOC CON'T.						
2	**EXPENSED LABOR CONTINUED**						
3	CUSTOMER ACCOUNT LABOR						
4	901-SUPERVISION	LABCA	51,463	1,231	4,607	5	3
5	902-METER READING EXPENSE	EXP902	485,701	21,518	43,894	65	36
6	903-CUST RECORDS & COLLECT	EXP903	1,153,971	17,720	102,894	101	57
7	904-UNCOLLECTIBLE ACCOUNTS	EXP904	0	0	0	0	0
8	905-MISC CUST ACCTS EXP	EXP905	670	13	66	0	4
9	906-CUSTOMER SERVICE & INFO	EXP906	0	0	0	0	0
10	907-SUPERV. CUSTOMER SERV.	LABCS	11,634	546	1,053	1	1
11	908-CUSTOMER ASSISTANCE	EXP908	3,018	142	273	0	0
12	909-INFO & INSTRUCTIONAL ADVERT.	EXP909	21,552	1,011	1,951	2	1
13	910-MISC. CUST. SERV. & INFO.	EXP910	0	0	0	0	0
14	TOTAL CUSTOMER ACCTS LABOR		1,728,009	42,182	154,738	175	102
15							
16	SALES LABOR						
17	912-DEMONSTRATING & SELLING	EXP912	0	0	0	0	0
18	913-ADVERTISING EXPENSES	EXP913	0	0	0	0	0
19	TOTAL SALES LABOR		0	0	0	0	0
20							
21	ADMINISTRATIVE & GENERAL LABOR						
22	920-ADMIN & GENERAL SALARY	EXP920	983,879	36,080	190,307	3,798	8,079
23	921-OFFICE SUPPLIES & EXP	EXP921	0	0	0	0	0
24	923-OUTSIDE SERV EMPLOYED	EXP923	817,646	29,984	158,154	3,156	6,714
25	924-PROPERTY INSURANCE	EXP924	0	0	0	0	0
26	925-INJURIES & DAMAGES	EXP925	10,044	368	1,943	39	82
27	926-EMPLOYED PENSION & BENF	EXP926	56,885	2,086	11,003	220	467
28	928-REGULATORY COMM EXPENSE	EXP928	0	0	0	0	0
29	930-MISCELLANEOUS GEN EXP	EXP930	10,682	392	2,066	41	88
30	931-RENTS	EXP931	0	0	0	0	0
31	932-MAINT OF GENERAL PLT	EXP932	9,791	374	1,867	37	79
32	TOTAL ADMIN & GEN LABOR		1,888,927	69,284	365,340	7,291	15,509
33							
34	**CAPITALIZED LABOR**						
35	371	CAPLABX	17,393	747	3,166	63	135
36	376-MAINS	PLT376	317,134	12,869	122,358	5,113	12,509
37	378-MEAS. & REG. EQUIP-GEN	PLT378	13,100	532	5,054	211	517
38	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	6,389	259	2,465	103	252
39	380-SERVICES	PLT380	1,120,849	49,657	102,339	164	144
40	382-METER INSTALLATIONS	PLT382	344,512	15,263	81,933	785	690
41	384-REGULATOR INSTALLATIONS	PLT384	98,335	4,357	23,386	224	197
42	385-INDUSTRIAL MEAS. EQUIP.	PLT385	0	0	4,452	145	108
43	387-OTHER EQUIPMENT	PLT387	8,433	342	3,254	136	333
44	390-STRUCTURES & IMPROVE.	PLT390	31	1	6	0	0
45	391-OFFICE FURN & EQUIP	PLT391	261,546	9,991	49,870	995	2,120
46	TOTAL CAPITALIZED LABOR		2,187,722	94,018	398,283	7,940	17,004
47							
48	SUM OF ALLOCATED LABOR EXP		9,043,826	345,455	1,724,402	34,406	73,299

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVEL OF LABOR ALLOC CON'T.				
2	**EXPENSED LABOR CONTINUED**				
3	CUSTOMER ACCOUNT LABOR				
4	901-SUPERVISION	LABCA	5	3	6
5	902-METER READING EXPENSE	EXP902	51	42	72
6	903-CUST RECORDS & COLLECT	EXP903	119	66	113
7	904-UNCOLLECTIBLE ACCOUNTS	EXP904	0	0	0
8	905-MISC CUST ACCTS EXP	EXP905	0	0	15
9	906-CUSTOMER SERVICE & INFO	EXP906	0	0	0
10	907-SUPERV. CUSTOMER SERV.	LABCS	1	1	1
11	908-CUSTOMER ASSISTANCE	EXP908	0	0	0
12	909-INFO & INSTRUCTIONAL ADVERT.	EXP909	2	1	2
13	910-MISC. CUST. SERV. & INFO.	EXP910	0	0	0
14	TOTAL CUSTOMER ACCTS LABOR		180	114	211
15					
16	SALES LABOR				
17	912-DEMONSTRATING & SELLING	EXP912	0	0	0
18	913-ADVERTISING EXPENSES	EXP913	0	0	0
19	TOTAL SALES LABOR		0	0	0
20					
21	ADMINISTRATIVE & GENERAL LABOR				
22	920-ADMIN & GENERAL SALARY	EXP920	1,230	5,390	29,702
23	921-OFFICE SUPPLIES & EXP	EXP921	0	0	0
24	923-OUTSIDE SERV EMPLOYED	EXP923	1,022	4,479	24,683
25	924-PROPERTY INSURANCE	EXP924	0	0	0
26	925-INJURIES & DAMAGES	EXP925	13	55	303
27	926-EMPLOYED PENSION & BENF	EXP926	71	312	1,717
28	928-REGULATORY COMM EXPENSE	EXP928	0	0	0
29	930-MISCELLANEOUS GEN EXP	EXP930	13	59	322
30	931-RENTS	EXP931	0	0	0
31	932-MAINT OF GENERAL PLT	EXP932	12	53	292
32	TOTAL ADMIN & GEN LABOR		2,361	10,347	57,020
33					
34	**CAPITALIZED LABOR**				
35	371	CAPLABX	21	90	498
36	376-MAINS	PLT376	1,924	8,306	48,752
37	378-MEAS. & REG. EQUIP-GEN	PLT378	79	343	2,014
38	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	39	167	982
39	380-SERVICES	PLT380	119	112	176
40	382-METER INSTALLATIONS	PLT382	43	474	812
41	384-REGULATOR INSTALLATIONS	PLT384	12	135	232
42	385-INDUSTRIAL MEAS. EQUIP.	PLT385	7	72	120
43	387-OTHER EQUIPMENT	PLT387	51	221	1,296
44	390-STRUCTURES & IMPROVE.	PLT390	0	0	1
45	391-OFFICE FURN & EQUIP	PLT391	324	1,414	7,798
46	TOTAL CAPITALIZED LABOR		2,619	11,335	62,682
47					
48	SUM OF ALLOCATED LABOR EXP		11,188	48,893	269,652

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVEL OF LABOR ALLOC CON'T.						
2	**EXPENSED LABOR CONTINUED**						
3	CUSTOMER ACCOUNT LABOR						
4	901-SUPERVISION	LABCA	446	3	2	1	3
5	902-METER READING EXPENSE	EXP902	4,252	32	24	0	24
6	903-CUST RECORDS & COLLECT	EXP903	9,968	50	38	28	57
7	904-UNCOLLECTIBLE ACCOUNTS	EXP904	0	0	0	0	0
8	905-MISC CUST ACCTS EXP	EXP905	5	0	5	0	0
9	906-CUSTOMER SERVICE & INFO	EXP906	0	0	0	0	0
10	907-SUPERV. CUSTOMER SERV.	LABCS	102	1	0	0	1
11	908-CUSTOMER ASSISTANCE	EXP908	26	0	0	0	0
12	909-INFO & INSTRUCTIONAL ADVERT.	EXP909	189	1	1	1	1
13	910-MISC. CUST. SERV. & INFO.	EXP910	0	0	0	0	0
14	TOTAL CUSTOMER ACCTS LABOR		14,989	86	70	30	85
15							
16	SALES LABOR						
17	912-DEMONSTRATING & SELLING	EXP912	0	0	0	0	0
18	913-ADVERTISING EXPENSES	EXP913	0	0	0	0	0
19	TOTAL SALES LABOR		0	0	0	0	0
20							
21	ADMINISTRATIVE & GENERAL LABOR						
22	920-ADMIN & GENERAL SALARY	EXP920	24,629	2,815	9,169	212	206
23	921-OFFICE SUPPLIES & EXP	EXP921	0	0	0	0	0
24	923-OUTSIDE SERV EMPLOYED	EXP923	20,468	2,339	7,620	176	172
25	924-PROPERTY INSURANCE	EXP924	0	0	0	0	0
26	925-INJURIES & DAMAGES	EXP925	251	29	94	2	2
27	926-EMPLOYED PENSION & BENF	EXP926	1,424	163	530	12	12
28	928-REGULATORY COMM EXPENSE	EXP928	0	0	0	0	0
29	930-MISCELLANEOUS GEN EXP	EXP930	267	31	100	2	2
30	931-RENTS	EXP931	0	0	0	0	0
31	932-MAINT OF GENERAL PLT	EXP932	249	28	90	2	2
32	TOTAL ADMIN & GEN LABOR		47,290	5,403	17,602	406	396
33							
34	**CAPITALIZED LABOR**						
35	371	CAPLABX	467	48	154	3	3
36	376-MAINS	PLT376	27,550	4,671	15,019	347	239
37	378-MEAS. & REG. EQUIP-GEN	PLT378	1,138	193	620	14	10
38	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	555	94	303	7	5
39	380-SERVICES	PLT380	16,701	93	48	0	57
40	382-METER INSTALLATIONS	PLT382	3,553	18	271	0	45
41	384-REGULATOR INSTALLATIONS	PLT384	1,014	5	77	0	13
42	385-INDUSTRIAL MEAS. EQUIP.	PLT385	412	60	72	0	3
43	387-OTHER EQUIPMENT	PLT387	733	124	399	9	6
44	390-STRUCTURES & IMPROVE.	PLT390	1	0	0	0	0
45	391-OFFICE FURN & EQUIP	PLT391	6,664	742	2,408	55	54
46	TOTAL CAPITALIZED LABOR		58,787	6,049	19,372	436	435
47							
48	SUM OF ALLOCATED LABOR EXP		230,419	25,662	83,265	1,911	1,874

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
ALLOCATION FACTOR TABLE								
DEMAND RELATED								
PRODUCTION ALLOCATORS								
ANNUAL FIRM THERM THROUGHPUT	DEMGAS	111,913,308	71,765,520	30,293,696	2,808,853	6,856,581	101,855	86,803
TRANSMISSION ALLOCATORS								
PROPORTIONAL RESPONSIBILITY	TRANS	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
DISTRIBUTION ALLOCATORS								
PROPORTIONAL RESPONSIBILITY	DISTR	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
DISTRIBUTION MAINS	DISTMAIN	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
DISTRIBUTION REGULATORS	DISTREG	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
PROPORTIONAL RESPONSIBILITY		1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
	ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
ALLOCATION FACTOR TABLE							
DEMAND RELATED							
PRODUCTION ALLOCATORS							
ANNUAL FIRM THERM THROUGHPUT	DEMGAS	29,014,067	1,279,629	511,826	2,297,027	5,828,186	1,028,395
TRANSMISSION ALLOCATORS							
PROPORTIONAL RESPONSIBILITY	TRANS	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
DISTRIBUTION ALLOCATORS							
PROPORTIONAL RESPONSIBILITY	DISTR	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
DISTRIBUTION MAINS	DISTMAIN	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
DISTRIBUTION REGULATORS	DISTREG	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
PROPORTIONAL RESPONSIBILITY		0.21213	0.03055	0.00334	0.09892	0.04776	0.03414

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	ALLOCATION FACTOR TABLE						
2	DEMAND RELATED						
3	------------------------------						
4	PRODUCTION ALLOCATORS						
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	68,951,676	2,813,844	29,014,067	1,279,629	0
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22	TRANSMISSION ALLOCATORS						
23	------------------------------						
24	PROPORTIONAL RESPONSIBILITY	TRANS	0.54982	0.02231	0.21213	0.00887	0.02169
25							
26							
27							
28							
29							
30							
31	DISTRIBUTION ALLOCATORS						
32	------------------------------						
33	PROPORTIONAL RESPONSIBILITY	DISTR	0.54982	0.02231	0.21213	0.00887	0.02169
34	DISTRIBUTION MAINS	DISTMAIN	0.54982	0.02231	0.21213	0.00887	0.02169
35	DISTRIBUTION REGULATORS	DISTREG	0.54982	0.02231	0.21213	0.00887	0.02169
36							
37							
38							
39							
40							
41							
42							
43	PROPORTIONAL RESPONSIBILITY		0.54982	0.02231	0.21213	0.00887	0.02169
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	ALLOCATION FACTOR TABLE				
2	DEMAND RELATED				
4	PRODUCTION ALLOCATORS				
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	511,826	2,297,027	0
22	TRANSMISSION ALLOCATORS				
24	PROPORTIONAL RESPONSIBILITY	TRANS	0.00334	0.01440	0.08452
31	DISTRIBUTION ALLOCATORS				
33	PROPORTIONAL RESPONSIBILITY	DISTR	0.00334	0.01440	0.08452
34	DISTRIBUTION MAINS	DISTMAIN	0.00334	0.01440	0.08452
35	DISTRIBUTION REGULATORS	DISTREG	0.00334	0.01440	0.08452
43	PROPORTIONAL RESPONSIBILITY		0.00334	0.01440	0.08452

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
ALLOCATION FACTOR TABLE DEMAND RELATED						
PRODUCTION ALLOCATORS						
ANNUAL FIRM THERM THROUGHPUT	DEMGAS	5,828,186	1,028,395	0	101,855	86,803
TRANSMISSION ALLOCATORS						
PROPORTIONAL RESPONSIBILITY	TRANS	0.04776	0.00810	0.02604	0.00060	0.00041
DISTRIBUTION ALLOCATORS						
PROPORTIONAL RESPONSIBILITY	DISTR	0.04776	0.00810	0.02604	0.00060	0.00041
DISTRIBUTION MAINS	DISTMAIN	0.04776	0.00810	0.02604	0.00060	0.00041
DISTRIBUTION REGULATORS	DISTREG	0.04776	0.00810	0.02604	0.00060	0.00041
PROPORTIONAL RESPONSIBILITY		0.04776	0.00810	0.02604	0.00060	0.00041

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	ALLOCATION FACTOR TABLE CONT								
2	COMMODITY RELATED								
4	ANNUAL FIRM THERM THROUGHPUT	GASSALES	111,913,308	71,765,520	30,293,696	2,808,853	6,856,581	101,855	86,803
7	ANNUAL FIRM THERM THROUGHPUT	THERMS	138,233,864	71,765,520	32,770,803	22,121,972	11,386,911	101,855	86,803
8	CARES	CARES	135,420,020	68,951,676	32,770,803	22,121,972	11,386,911	101,855	86,803
16	CUSTOMER RELATED								
18	YEAR END NUMBER OF CUSTOMERS	CUST10	138,340	126,296	10,936	32	1,067	3	6
19	ACCT 380-SERVICES	CUST380	72,951,925	66,170,791	5,802,812	23,007	952,116	0	3,200
20	ACCT 381-METERS	CUST381	20,799,241	16,688,431	3,868,942	61,597	178,169	0	2,102
21	ACCT 382-METER INSTALLATIONS	CUST382	20,799,241	16,688,431	3,868,942	61,597	178,169	0	2,102
22	ACCT 383-HOUSE REGULATORS	CUST383	20,799,241	16,688,431	3,868,942	61,597	178,169	0	2,102
23	ACCT 384-HOUSE REG. INSTALLATION	CUST384	20,799,241	16,688,431	3,868,942	61,597	178,169	0	2,102
24	ACCT 385-INDUSTRIAL REG EQUIP	CUST385	2,444,597	0	2,109,434	89,751	243,944	0	1,468
25	CUSTOMER DEPOSITS	CUSTDEP	3,014,968	2,362,097	628,938	432	23,369	0	132
28	ACCT 487-MISC. SERVICE REVENUE	CUST487B	1,083,856	991,216	54,292	0	37,765	0	583
30	ACCT 902-METER READ EXP	CUST902	718,413	655,722	56,875	214	5,570	0	31
31	ACCT 903-CUST RECORDS & COLL	CUST903	5,384,828	4,909,308	431,782	1,250	42,132	118	237
32	ACCT 912-DEMO & SELLING	CDA912	535	487	44	0	4	0	0
33	ACCT 913-ADVERTISING EXPENSES	CDA913	535	487	44	0	4	0	0

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
ALLOCATION FACTOR TABLE CONT							
COMMODITY RELATED							
ANNUAL FIRM THERM THROUGHPUT	GASSALES	29,014,067	1,279,629	511,826	2,297,027	5,828,186	1,028,395
ANNUAL FIRM THERM THROUGHPUT	THERMS	29,014,067	3,756,736	511,826	21,610,146	5,828,186	5,558,725
CARES	CARES	29,014,067	3,756,736	511,826	21,610,146	5,828,186	5,558,725
CUSTOMER RELATED							
YEAR END NUMBER OF CUSTOMERS	CUST10	10,919	17	13	19	1,058	9
ACCT 380-SERVICES	CUST380	5,785,431	17,381	6,755	16,252	944,140	7,976
ACCT 381-METERS	CUST381	3,800,514	68,428	1,973	59,623	164,788	13,381
ACCT 382-METER INSTALLATIONS	CUST382	3,800,514	68,428	1,973	59,623	164,788	13,381
ACCT 383-HOUSE REGULATORS	CUST383	3,800,514	68,428	1,973	59,623	164,788	13,381
ACCT 384-HOUSE REG. INSTALLATION	CUST384	3,800,514	68,428	1,973	59,623	164,788	13,381
ACCT 385-INDUSTRIAL REG EQUIP	CUST385	1,996,039	113,395	3,355	86,396	184,547	59,397
CUSTOMER DEPOSITS	CUSTDEP	587,522	41,416	278	154	23,252	117
ACCT 487-MISC. SERVICE REVENUE	CUST487B	54,292	0	0	0	37,765	0
ACCT 902-METER READ EXP	CUST902	56,745	131	66	148	5,497	73
ACCT 903-CUST RECORDS & COLL	CUST903	431,121	661	500	750	41,764	368
ACCT 912-DEMO & SELLING	CDA912	44	0	0	0	4	0
ACCT 913-ADVERTISING EXPENSES	CDA913	44	0	0	0	4	0

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	RESIDENTIAL		COMMERCIAL		
		RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS- PORTATION (18)
ALLOCATION FACTOR TABLE CONT COMMODITY RELATED						
ANNUAL FIRM THERM THROUGHPUT	GASSALES	68,951,676	2,813,844	29,014,067	1,279,629	0
ANNUAL FIRM THERM THROUGHPUT	THERMS	68,951,676	2,813,844	29,014,067	1,279,629	2,477,106
CARES	CARES	68,951,676	0	29,014,067	1,279,629	2,477,106
CUSTOMER RELATED						
YEAR END NUMBER OF CUSTOMERS	CUST10	120,636	5,660	10,919	11	6
ACCT 380-SERVICES	CUST380	63,363,598	2,807,193	5,785,431	9,255	8,126
ACCT 381-METERS	CUST381	15,980,450	707,981	3,800,514	36,436	31,992
ACCT 382-METER INSTALLATIONS	CUST382	15,980,450	707,981	3,800,514	36,436	31,992
ACCT 383-HOUSE REGULATORS	CUST383	15,980,450	707,981	3,800,514	36,436	31,992
ACCT 384-HOUSE REG. INSTALLATION	CUST384	15,980,450	707,981	3,800,514	36,436	31,992
ACCT 385-INDUSTRIAL REG EQUIP	CUST385	0	0	1,996,039	64,797	48,598
CUSTOMER DEPOSITS	CUSTDEP	2,330,385	31,712	587,522	41,416	0
ACCT 487-MISC. SERVICE REVENUE	CUST487B	972,032	19,184	54,292	0	0
ACCT 902-METER READ EXP	CUST902	627,904	27,818	56,745	84	47
ACCT 903-CUST RECORDS & COLL	CUST903	4,835,061	74,247	431,121	424	237
ACCT 912-DEMO & SELLING	CDA912	479	7	44	0	0
ACCT 913-ADVERTISING EXPENSES	CDA913	479	7	44	0	0

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		INDUSTRIAL		
	ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
ALLOCATION FACTOR TABLE CONT COMMODITY RELATED				
ANNUAL FIRM THERM THROUGHPUT	GASSALES	511,826	2,297,027	0
ANNUAL FIRM THERM THROUGHPUT	THERMS	511,826	2,297,027	19,313,119
CARES	CARES	511,826	2,297,027	19,313,119
CUSTOMER RELATED				
YEAR END NUMBER OF CUSTOMERS	CUST10	13	7	12
ACCT 380-SERVICES	CUST380	6,755	6,320	9,932
ACCT 381-METERS	CUST381	1,973	21,967	37,657
ACCT 382-METER INSTALLATIONS	CUST382	1,973	21,967	37,657
ACCT 383-HOUSE REGULATORS	CUST383	1,973	21,967	37,657
ACCT 384-HOUSE REG. INSTALLATION	CUST384	1,973	21,967	37,657
ACCT 385-INDUSTRIAL REG EQUIP	CUST385	3,355	32,399	53,998
CUSTOMER DEPOSITS	CUSTDEP	278	154	0
ACCT 487-MISC. SERVICE REVENUE	CUST487B	0	0	0
ACCT 902-METER READ EXP	CUST902	66	55	94
ACCT 903-CUST RECORDS & COLL	CUST903	500	276	474
ACCT 912-DEMO & SELLING	CDA912	0	0	0
ACCT 913-ADVERTISING EXPENSES	CDA913	0	0	0

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
ALLOCATION FACTOR TABLE CONT						
COMMODITY RELATED						
--						
ANNUAL FIRM THERM THROUGHPUT	GASSALES	5,828,186	1,028,395	0	101,855	86,803
ANNUAL FIRM THERM THROUGHPUT	THERMS	5,828,186	1,028,395	4,530,330	101,855	86,803
CARES	CARES	5,828,186	1,028,395	4,530,330	101,855	86,803
CUSTOMER RELATED						
--						
YEAR END NUMBER OF CUSTOMERS	CUST10	1,058	5	4	3	6
ACCT 380-SERVICES	CUST380	944,140	5,267	2,709	0	3,200
ACCT 381-METERS	CUST381	164,788	829	12,552	0	2,102
ACCT 382-METER INSTALLATIONS	CUST382	164,788	829	12,552	0	2,102
ACCT 383-HOUSE REGULATORS	CUST383	164,788	829	12,552	0	2,102
ACCT 384-HOUSE REG. INSTALLATION	CUST384	164,788	829	12,552	0	2,102
ACCT 385-INDUSTRIAL REG EQUIP	CUST385	184,547	26,999	32,399	0	1,468
CUSTOMER DEPOSITS	CUSTDEP	23,252	117	0	0	132
ACCT 487-MISC. SERVICE REVENUE	CUST487B	37,765	0	0	0	583
ACCT 902-METER READ EXP	CUST902	5,497	41	31	0	31
ACCT 903-CUST RECORDS & COLL	CUST903	41,764	210	158	118	237
ACCT 912-DEMO & SELLING	CDA912	4	0	0	0	0
ACCT 913-ADVERTISING EXPENSES	CDA913	4	0	0	0	0

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED FACTORS								
2	--								
3	TOTAL GAS PLANT IN SERVICE	PLANT	248,459,957	172,449,400	47,421,599	15,137,981	13,295,438	88,252	67,287
4	SUM OF ALLOCATED LABOR EXP	LABOR	11,894,252	9,389,282	1,832,106	329,733	339,345	1,911	1,874
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	356,217	281,197	54,869	9,875	10,163	57	56
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	886,805	700,041	136,597	24,584	25,301	142	140
7	ACCT 365-LAND & LAND RIGHTS	PLT365	72,200	41,308	17,522	7,383	5,913	43	30
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	13,695	7,835	3,324	1,400	1,122	8	6
9	ACCT 367-MAINS	PLT367	16,073,965	9,196,498	3,900,945	1,643,710	1,316,494	9,668	6,650
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	421,652	241,242	102,330	43,118	34,534	254	174
11	ACCT 371-OTHER TRANS EQUIP	PLT371	(32,965)	(18,860)	(8,000)	(3,371)	(2,700)	(20)	(14)
12	TOTAL TRANSMISSION PLANT	TRANPLT	16,548,546	9,468,024	4,016,119	1,692,241	1,355,363	9,953	6,846
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	206,870	118,358	50,205	21,154	16,943	124	86
14	ACCT 375-STRUCTURES & IMPROV	PLT375	10,176	5,822	2,470	1,041	833	6	4
15	ACCT 376-MAINS	PLT376	120,333,053	68,846,905	29,203,285	12,305,159	9,855,548	72,374	49,782
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	1,727,734	988,499	419,299	176,677	141,505	1,039	715
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	1,983,292	1,134,713	481,319	202,810	162,436	1,193	820
18	ACCT 380-SERVICES	PLT380	66,311,511	60,147,626	5,274,614	20,913	865,450	0	2,908
19	ACCT 381-METERS	PLT381	12,094,881	9,704,421	2,249,813	35,819	103,606	0	1,222
20	ACCT 382-METER INSTALLATIONS	PLT382	6,043,802	4,849,291	1,124,229	17,899	51,772	0	611
21	ACCT 383-REGULATORS	PLT383	2,449,962	1,965,746	455,726	7,256	20,987	0	248
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	1,081,292	867,583	201,135	3,202	9,262	0	109
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	1,123,836	0	969,754	41,261	112,146	0	675
24	ACCT 387-OTHER EQUIPMENT	PLT387	1,320,762	755,656	320,532	135,060	108,173	794	546
25	ACCT 389-GEN PLT LAND	PLT389	149,628	118,116	23,048	4,148	4,269	24	24
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	1,179,163	930,828	181,630	32,689	33,642	189	186
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	5,901,343	4,658,500	909,001	163,597	168,366	948	930
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	5,058,912	3,993,488	779,239	140,244	144,332	813	797
29	ACCT 393-STORES EQUIPMENT	PLT393	96,264	75,991	14,828	2,669	2,746	15	15
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	1,437,792	1,134,988	221,467	39,859	41,020	231	227
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	669,843	528,772	103,178	18,569	19,111	108	106
32	ACCT 396-POWER OPER EQUIP	PLT396	393,932	310,968	60,678	10,921	11,239	63	62
33	ACCT 397-COMMUNICATION EQUIP	PLT397	855,971	675,701	131,848	23,729	24,421	138	135
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	238,369	188,168	36,717	6,608	6,801	38	38
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0	0	0	0	0	0	0
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	136,407,018	78,043,403	33,104,229	13,948,869	11,172,042	82,042	56,432
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	186,644,564	128,994,531	34,477,898	12,326,072	10,720,998	72,374	52,691
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	214,687,170	149,384,620	40,752,380	12,968,249	11,448,664	75,531	57,727
39									
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	3,711,026	2,123,212	900,618	379,486	303,941	2,232	1,535
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	7,125,094	5,716,874	1,325,365	21,101	61,034	0	720
42									
43									
44									
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	INTERNALLY DEVELOPED FACTORS							
2	--							
3	TOTAL GAS PLANT IN SERVICE	PLANT	42,783,998	4,637,601	499,982	14,637,999	8,237,129	5,058,308
4	SUM OF ALLOCATED LABOR EXP	LABOR	1,724,402	107,704	11,188	318,545	230,419	108,927
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	51,644	3,226	335	9,540	6,901	3,262
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	128,567	8,030	834	23,750	17,179	8,121
7	ACCT 365-LAND & LAND RIGHTS	PLT365	15,316	2,206	241	7,142	3,449	2,465
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	2,905	418	46	1,355	654	468
9	ACCT 367-MAINS	PLT367	3,409,848	491,097	53,611	1,590,100	767,758	548,736
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	89,447	12,882	1,406	41,711	20,140	14,394
11	ACCT 371-OTHER TRANS EQUIP	PLT371	(6,993)	(1,007)	(110)	(3,261)	(1,575)	(1,125)
12	TOTAL TRANSMISSION PLANT	TRANPLT	3,510,523	505,596	55,194	1,637,047	790,426	564,937
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	43,884	6,320	690	20,464	9,881	7,062
14	ACCT 375-STRUCTURES & IMPROV	PLT375	2,159	311	34	1,007	486	347
15	ACCT 376-MAINS	PLT376	25,526,833	3,676,452	401,342	11,903,817	5,747,598	4,107,950
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	366,512	52,786	5,762	170,914	82,524	58,982
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	420,725	60,594	6,615	196,195	94,730	67,706
18	ACCT 380-SERVICES	PLT380	5,258,815	15,799	6,140	14,773	858,200	7,250
19	ACCT 381-METERS	PLT381	2,210,021	39,791	1,148	34,671	95,825	7,781
20	ACCT 382-METER INSTALLATIONS	PLT382	1,104,346	19,884	573	17,325	47,884	3,888
21	ACCT 383-REGULATORS	PLT383	447,666	8,060	232	7,023	19,411	1,576
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	197,578	3,557	103	3,100	8,567	696
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	917,624	52,130	1,543	39,718	84,840	27,306
24	ACCT 387-OTHER EQUIPMENT	PLT387	280,180	40,352	4,405	130,655	63,085	45,088
25	ACCT 389-GEN PLT LAND	PLT389	21,693	1,355	141	4,007	2,899	1,370
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	170,952	10,678	1,109	31,580	22,843	10,799
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	855,563	53,438	5,551	158,047	114,322	54,044
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	733,430	45,809	4,759	135,485	98,003	46,329
29	ACCT 393-STORES EQUIPMENT	PLT393	13,956	872	91	2,578	1,865	882
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	208,448	13,019	1,352	38,506	27,853	13,167
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	97,112	6,066	630	17,939	12,976	6,134
32	ACCT 396-POWER OPER EQUIP	PLT396	57,111	3,567	371	10,550	7,631	3,608
33	ACCT 397-COMMUNICATION EQUIP	PLT397	124,097	7,751	805	22,924	16,582	7,839
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	34,558	2,158	224	6,384	4,618	2,183
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0	0	0	0	0	0
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	28,936,681	4,167,548	454,953	13,493,916	6,515,356	4,656,686
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	30,785,648	3,692,250	407,482	11,918,590	6,605,798	4,115,200
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	36,776,343	3,976,037	428,587	12,539,662	7,113,030	4,335,633
39								
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	787,238	113,380	12,377	367,109	177,254	126,688
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	1,301,924	23,441	676	20,425	56,451	4,584
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED FACTORS						
2	--						
3	TOTAL GAS PLANT IN SERVICE	PLANT	165,488,636	6,960,764	42,783,998	1,386,015	3,251,586
4	SUM OF ALLOCATED LABOR EXP	LABOR	9,043,826	345,455	1,724,402	34,406	73,299
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	270,851	10,346	51,644	1,030	2,195
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	674,285	25,756	128,567	2,565	5,465
7	ACCT 365-LAND & LAND RIGHTS	PLT365	39,697	1,611	15,316	640	1,566
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	7,530	306	2,905	121	297
9	ACCT 367-MAINS	PLT367	8,837,856	358,643	3,409,848	142,501	348,596
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	231,835	9,408	89,447	3,738	9,144
11	ACCT 371-OTHER TRANS EQUIP	PLT371	(18,125)	(736)	(6,993)	(292)	(715)
12	TOTAL TRANSMISSION PLANT	TRANPLT	9,098,792	369,232	3,510,523	146,708	358,888
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	113,742	4,616	43,884	1,834	4,486
14	ACCT 375-STRUCTURES & IMPROV	PLT375	5,595	227	2,159	90	221
15	ACCT 376-MAINS	PLT376	66,162,031	2,684,874	25,526,833	1,066,789	2,609,662
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	949,950	38,549	366,512	15,317	37,469
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	1,090,462	44,251	420,725	17,582	43,012
18	ACCT 380-SERVICES	PLT380	57,595,957	2,551,670	5,258,815	8,412	7,386
19	ACCT 381-METERS	PLT381	9,292,726	411,695	2,210,021	21,187	18,604
20	ACCT 382-METER INSTALLATIONS	PLT382	4,643,567	205,724	1,104,346	10,587	9,296
21	ACCT 383-REGULATORS	PLT383	1,882,352	83,394	447,666	4,292	3,768
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	830,777	36,806	197,578	1,894	1,663
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	0	0	917,624	29,789	22,341
24	ACCT 387-OTHER EQUIPMENT	PLT387	726,187	29,469	280,180	11,709	28,643
25	ACCT 389-GEN PLT LAND	PLT389	113,770	4,346	21,693	433	922
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	896,580	34,247	170,952	3,411	7,267
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	4,487,102	171,398	855,563	17,070	36,367
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	3,846,557	146,930	733,430	14,633	31,176
29	ACCT 393-STORES EQUIPMENT	PLT393	73,195	2,796	13,956	278	593
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	1,093,229	41,759	208,448	4,159	8,860
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	509,317	19,455	97,112	1,938	4,128
32	ACCT 396-POWER OPER EQUIP	PLT396	299,527	11,441	57,111	1,139	2,428
33	ACCT 397-COMMUNICATION EQUIP	PLT397	650,840	24,861	124,097	2,476	5,275
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	181,245	6,923	34,558	690	1,469
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0	0	0	0	0
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	74,999,887	3,043,516	28,936,681	1,209,290	2,958,258
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	123,757,988	5,236,543	30,785,648	1,075,202	2,617,049
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	143,293,346	6,091,274	36,776,343	1,189,484	2,786,553
39							
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	2,040,412	82,800	787,238	32,899	80,481
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	5,474,345	242,530	1,301,924	12,482	10,959
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED FACTORS				
2	--				
3	TOTAL GAS PLANT IN SERVICE	PLANT	499,982	2,161,146	12,476,853
4	SUM OF ALLOCATED LABOR EXP	LABOR	11,188	48,893	269,652
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	335	1,464	8,076
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	834	3,645	20,105
7	ACCT 365-LAND & LAND RIGHTS	PLT365	241	1,040	6,103
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	46	197	1,158
9	ACCT 367-MAINS	PLT367	53,611	231,481	1,358,619
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	1,406	6,072	35,639
11	ACCT 371-OTHER TRANS EQUIP	PLT371	(110)	(475)	(2,786)
12	TOTAL TRANSMISSION PLANT	TRANPLT	55,194	238,315	1,398,732
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	690	2,979	17,485
14	ACCT 375-STRUCTURES & IMPROV	PLT375	34	147	860
15	ACCT 376-MAINS	PLT376	401,342	1,732,914	10,170,902
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	5,762	24,881	146,033
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	6,615	28,561	167,634
18	ACCT 380-SERVICES	PLT380	6,140	5,745	9,028
19	ACCT 381-METERS	PLT381	1,148	12,774	21,898
20	ACCT 382-METER INSTALLATIONS	PLT382	573	6,383	10,942
21	ACCT 383-REGULATORS	PLT383	232	2,587	4,436
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	103	1,142	1,958
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	1,543	14,894	24,824
24	ACCT 387-OTHER EQUIPMENT	PLT387	4,405	19,020	111,635
25	ACCT 389-GEN PLT LAND	PLT389	141	615	3,392
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	1,109	4,847	26,733
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	5,551	24,258	133,788
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	4,759	20,795	114,690
29	ACCT 393-STORES EQUIPMENT	PLT393	91	396	2,182
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	1,352	5,910	32,596
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	630	2,753	15,186
32	ACCT 396-POWER OPER EQUIP	PLT396	371	1,619	8,931
33	ACCT 397-COMMUNICATION EQUIP	PLT397	805	3,519	19,406
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	224	980	5,404
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0	0	0
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	454,953	1,964,395	11,529,521
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	407,482	1,738,659	10,179,930
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	428,587	1,852,028	10,687,634
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40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	12,377	53,442	313,667
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	676	7,525	12,900
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line	Description	ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED FACTORS						
2							
3	TOTAL GAS PLANT IN SERVICE	PLANT	8,237,129	1,206,328	3,851,981	88,252	67,287
4	SUM OF ALLOCATED LABOR EXP	LABOR	230,419	25,662	83,265	1,911	1,874
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	6,901	769	2,494	57	56
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	17,179	1,913	6,208	142	140
7	ACCT 365-LAND & LAND RIGHTS	PLT365	3,449	585	1,880	43	30
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	654	111	357	8	6
9	ACCT 367-MAINS	PLT367	767,758	130,182	418,554	9,668	6,650
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	20,140	3,415	10,980	254	174
11	ACCT 371-OTHER TRANS EQUIP	PLT371	(1,575)	(267)	(858)	(20)	(14)
12	TOTAL TRANSMISSION PLANT	TRANPLT	790,426	134,025	430,912	9,953	6,846
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	9,881	1,675	5,387	124	86
14	ACCT 375-STRUCTURES & IMPROV	PLT375	486	82	265	6	4
15	ACCT 376-MAINS	PLT376	5,747,598	974,568	3,133,382	72,374	49,782
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	82,524	13,993	44,989	1,039	715
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	94,730	16,063	51,643	1,193	820
18	ACCT 380-SERVICES	PLT380	858,200	4,788	2,462	0	2,908
19	ACCT 381-METERS	PLT381	95,825	482	7,299	0	1,222
20	ACCT 382-METER INSTALLATIONS	PLT382	47,884	241	3,647	0	611
21	ACCT 383-REGULATORS	PLT383	19,411	98	1,479	0	248
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	8,567	43	653	0	109
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	84,840	12,412	14,894	0	675
24	ACCT 387-OTHER EQUIPMENT	PLT387	63,085	10,697	34,392	794	546
25	ACCT 389-GEN PLT LAND	PLT389	2,899	323	1,047	24	24
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	22,843	2,544	8,255	189	186
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	114,322	12,732	41,312	948	930
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	98,003	10,915	35,414	813	797
29	ACCT 393-STORES EQUIPMENT	PLT393	1,865	208	674	15	15
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	27,853	3,102	10,065	231	227
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	12,976	1,445	4,689	108	106
32	ACCT 396-POWER OPER EQUIP	PLT396	7,631	850	2,758	63	62
33	ACCT 397-COMMUNICATION EQUIP	PLT397	16,582	1,847	5,992	138	135
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	4,618	514	1,669	38	38
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0	0	0	0	0
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	6,515,356	1,104,750	3,551,936	82,042	56,432
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	6,605,798	979,356	3,135,844	72,374	52,691
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	7,113,030	1,035,141	3,300,492	75,531	57,727
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40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	177,254	30,055	96,632	2,232	1,535
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	56,451	284	4,300	0	720
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED FACTORS CONT								
2	--								
3	TOTAL GAS COSTS	GASCOSTS	355,528	227,986	96,238	8,923	21,782	324	276
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0	0	0	0	0	0	0
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0	0	0
6	ACCT 807-PUR GAS DEMAND	EXP807D	0	0	0	0	0	0	0
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0	0	0	0	0	0	0
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9									
10	ACCT 856-MAIN EXPENSE	EXP856	11,280	6,454	2,737	1,153	924	7	5
11	ACCT 857-MEAS AND REG STATION	EXP857	(52,221)	(29,877)	(12,673)	(5,340)	(4,277)	(31)	(22)
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	19	11	5	2	2	0	0
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	315,983	180,785	76,685	32,312	25,880	190	131
14	ACCT 871-LOAD DISPATCHING	EXP871	162	93	39	17	13	0	0
15	ACCT 874-MAINS & SERVICING EXP	EXP874	1,337,349	924,274	247,042	88,319	76,818	519	378
16	ACCT 875-MEAS AND REG STATION	EXP875	244,463	139,866	59,328	24,999	20,022	147	101
17	ACCT 876-MEAS AND REG STATION	EXP876	150,536	86,127	36,533	15,394	12,329	91	62
18	ACCT 877-MEAS AND REG STATION	EXP877	56,529	45,356	10,515	167	484	0	6
19	ACCT 878-METER EXPENSE	EXP878	1,349,114	1,082,472	250,954	3,995	11,557	0	136
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	539,082	432,536	100,277	1,596	4,618	0	54
21	ACCT 880-OTHER DISTR EXP	EXP880	1,090,666	804,007	209,007	39,886	37,322	224	219
22	ACCT 881-RENTS	EXP881	44,510	25,466	10,802	4,552	3,645	27	18
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0	0	0	0	0	0	0
24	ACCT 887-MAINT OF MAINS	EXP887	1,084,194	620,307	263,120	110,869	88,798	652	449
25	ACCT 889-MAINT OF MEAS/REG	EXP889	25,623	14,660	6,218	2,620	2,099	15	11
26	ACCT 890-MAINT OF MEAS/REG	EXP890	2,072	1,186	503	212	170	1	1
27	ACCT 891-MAINT OF MEAS/REG	EXP891	850	682	158	3	7	0	0
28	ACCT 892-MAINT OF SERVICES	EXP892	465,066	421,837	36,993	147	6,070	0	20
29	ACCT 893-MAINT OF METER	EXP893	167,015	134,006	31,067	495	1,431	0	17
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	96,826	55,398	23,498	9,901	7,930	58	40
31	ACCT 902-METER READING EXP	EXP902	719,037	656,293	56,925	214	5,575	0	31
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	5,462,173	4,979,822	437,984	1,268	42,738	120	240
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	722,634	415,866	128,129	136,915	41,597	0	126
34	ACCT 905-MISC CUST ACCT EXP	EXP905	34,381	30,139	3,103	689	448	1	2
35	ACCT 906-CUST SERVICE & INFO	EXP906	0	0	0	0	0	0	0
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	(34,228)	(31,248)	(2,706)	(8)	(264)	(1)	(1)
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	65,794	60,066	5,201	15	507	1	3
38	ACCT 910-MISC SERV & INFO	EXP910	22,602	20,634	1,787	5	174	0	1
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED FACTORS CONT							
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3	TOTAL GAS COSTS	GASCOSTS	92,172	4,065	1,626	7,297	18,515	3,267
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0	0	0	0	0	0
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0	0
6	ACCT 807-PUR GAS DEMAND	EXP807D	0	0	0	0	0	0
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0	0	0	0	0	0
8								
9								
10	ACCT 856-MAIN EXPENSE	EXP856	2,393	345	38	1,116	539	385
11	ACCT 857-MEAS AND REG STATION	EXP857	(11,078)	(1,595)	(174)	(5,166)	(2,494)	(1,783)
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	4	1	0	2	1	1
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	67,031	9,654	1,054	31,258	15,093	10,787
14	ACCT 871-LOAD DISPATCHING	EXP871	34	5	1	16	8	6
15	ACCT 874-MAINS & SERVICING EXP	EXP874	220,586	26,456	2,920	85,399	47,332	29,486
16	ACCT 875-MEAS AND REG STATION	EXP875	51,859	7,469	815	24,183	11,677	8,346
17	ACCT 876-MEAS AND REG STATION	EXP876	31,934	4,599	502	14,892	7,190	5,139
18	ACCT 877-MEAS AND REG STATION	EXP877	10,329	186	5	162	448	36
19	ACCT 878-METER EXPENSE	EXP878	246,515	4,438	128	3,867	10,689	868
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	98,503	1,774	51	1,545	4,271	347
21	ACCT 880-OTHER DISTR EXP	EXP880	195,683	13,324	1,312	38,574	24,205	13,117
22	ACCT 881-RENTS	EXP881	9,442	1,360	148	4,403	2,126	1,519
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0	0	0	0	0	0
24	ACCT 887-MAINT OF MAINS	EXP887	229,995	33,125	3,616	107,253	51,786	37,012
25	ACCT 889-MAINT OF MEAS/REG	EXP889	5,436	783	85	2,535	1,224	875
26	ACCT 890-MAINT OF MEAS/REG	EXP890	440	63	7	205	99	71
27	ACCT 891-MAINT OF MEAS/REG	EXP891	155	3	0	2	7	1
28	ACCT 892-MAINT OF SERVICES	EXP892	36,882	111	43	104	6,019	51
29	ACCT 893-MAINT OF METER	EXP893	30,518	549	16	479	1,323	107
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	20,540	2,958	323	9,578	4,625	3,305
31	ACCT 902-METER READING EXP	EXP902	56,794	131	66	148	5,502	73
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	437,313	671	507	761	42,364	373
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	88,630	39,499	63	136,852	0	41,597
34	ACCT 905-MISC CUST ACCT EXP	EXP905	2,902	201	3	686	238	209
35	ACCT 906-CUST SERVICE & INFO	EXP906	0	0	0	0	0	0
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	(2,702)	(4)	(3)	(5)	(262)	(2)
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	5,193	8	6	9	503	4
38	ACCT 910-MISC SERV & INFO	EXP910	1,784	3	2	3	173	2
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED FACTORS CONT						
2	--						
3	TOTAL GAS COSTS	GASCOSTS	219,047	8,939	92,172	4,065	0
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0	0	0	0	0
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0
6	ACCT 807-PUR GAS DEMAND	EXP807D	0	0	0	0	0
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0	0	0	0	0
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10	ACCT 856-MAIN EXPENSE	EXP856	6,202	252	2,393	100	245
11	ACCT 857-MEAS AND REG STATION	EXP857	(28,712)	(1,165)	(11,078)	(463)	(1,133)
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	10	0	4	0	0
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	173,735	7,050	67,031	2,801	6,853
14	ACCT 871-LOAD DISPATCHING	EXP871	89	4	34	1	4
15	ACCT 874-MAINS & SERVICING EXP	EXP874	886,753	37,521	220,586	7,704	18,752
16	ACCT 875-MEAS AND REG STATION	EXP875	134,412	5,454	51,859	2,167	5,302
17	ACCT 876-MEAS AND REG STATION	EXP876	82,768	3,359	31,934	1,335	3,265
18	ACCT 877-MEAS AND REG STATION	EXP877	43,432	1,924	10,329	99	87
19	ACCT 878-METER EXPENSE	EXP878	1,036,550	45,922	246,515	2,363	2,075
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	414,187	18,350	98,503	944	829
21	ACCT 880-OTHER DISTR EXP	EXP880	770,629	33,378	195,683	4,334	8,990
22	ACCT 881-RENTS	EXP881	24,473	993	9,442	395	965
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0	0	0	0	0
24	ACCT 887-MAINT OF MAINS	EXP887	596,116	24,191	229,995	9,612	23,513
25	ACCT 889-MAINT OF MEAS/REG	EXP889	14,088	572	5,436	227	556
26	ACCT 890-MAINT OF MEAS/REG	EXP890	1,140	46	440	18	45
27	ACCT 891-MAINT OF MEAS/REG	EXP891	653	29	155	1	1
28	ACCT 892-MAINT OF SERVICES	EXP892	403,941	17,896	36,882	59	52
29	ACCT 893-MAINT OF METER	EXP893	128,321	5,685	30,518	293	257
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	53,237	2,160	20,540	858	2,100
31	ACCT 902-METER READING EXP	EXP902	628,450	27,842	56,794	84	47
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	4,904,509	75,313	437,313	430	240
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	400,520	15,346	88,630	2,535	36,964
34	ACCT 905-MISC CUST ACCT EXP	EXP905	29,549	590	2,902	15	186
35	ACCT 906-CUST SERVICE & INFO	EXP906	0	0	0	0	0
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	(29,848)	(1,400)	(2,702)	(3)	(1)
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	57,374	2,692	5,193	5	3
38	ACCT 910-MISC SERV & INFO	EXP910	19,709	925	1,784	2	1
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED FACTORS CONT				
2	--				
3	TOTAL GAS COSTS	GASCOSTS	1,626	7,297	0
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0	0	0
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0	0	0
6	ACCT 807-PUR GAS DEMAND	EXP807D	0	0	0
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0	0	0
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10	ACCT 856-MAIN EXPENSE	EXP856	38	162	953
11	ACCT 857-MEAS AND REG STATION	EXP857	(174)	(752)	(4,414)
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	0	0	2
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	1,054	4,550	26,708
14	ACCT 871-LOAD DISPATCHING	EXP871	1	2	14
15	ACCT 874-MAINS & SERVICING EXP	EXP874	2,920	12,458	72,941
16	ACCT 875-MEAS AND REG STATION	EXP875	815	3,521	20,663
17	ACCT 876-MEAS AND REG STATION	EXP876	502	2,168	12,724
18	ACCT 877-MEAS AND REG STATION	EXP877	5	60	102
19	ACCT 878-METER EXPENSE	EXP878	128	1,425	2,443
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	51	569	976
21	ACCT 880-OTHER DISTR EXP	EXP880	1,312	5,992	32,583
22	ACCT 881-RENTS	EXP881	148	641	3,762
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0	0	0
24	ACCT 887-MAINT OF MAINS	EXP887	3,616	15,613	91,639
25	ACCT 889-MAINT OF MEAS/REG	EXP889	85	369	2,166
26	ACCT 890-MAINT OF MEAS/REG	EXP890	7	30	175
27	ACCT 891-MAINT OF MEAS/REG	EXP891	0	1	2
28	ACCT 892-MAINT OF SERVICES	EXP892	43	40	63
29	ACCT 893-MAINT OF METER	EXP893	16	176	302
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	323	1,394	8,184
31	ACCT 902-METER READING EXP	EXP902	66	55	94
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	507	280	481
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	63	268	136,583
34	ACCT 905-MISC CUST ACCT EXP	EXP905	3	3	683
35	ACCT 906-CUST SERVICE & INFO	EXP906	0	0	0
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	(3)	(2)	(3)
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	6	3	6
38	ACCT 910-MISC SERV & INFO	EXP910	2	1	2
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED FACTORS CONT						
2	--						
3	TOTAL GAS COSTS	GASCOSTS	18,515	3,267	0	324	276
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0	0	0	0	0
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0	0	0	0	0
6	ACCT 807-PUR GAS DEMAND	EXP807D	0	0	0	0	0
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0	0	0	0	0
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10	ACCT 856-MAIN EXPENSE	EXP856	539	91	294	7	5
11	ACCT 857-MEAS AND REG STATION	EXP857	(2,494)	(423)	(1,360)	(31)	(22)
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	1	0	0	0	0
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	15,093	2,559	8,228	190	131
14	ACCT 871-LOAD DISPATCHING	EXP871	8	1	4	0	0
15	ACCT 874-MAINS & SERVICING EXP	EXP874	47,332	7,017	22,469	519	378
16	ACCT 875-MEAS AND REG STATION	EXP875	11,677	1,980	6,366	147	101
17	ACCT 876-MEAS AND REG STATION	EXP876	7,190	1,219	3,920	91	62
18	ACCT 877-MEAS AND REG STATION	EXP877	448	2	34	0	6
19	ACCT 878-METER EXPENSE	EXP878	10,689	54	814	0	136
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	4,271	21	325	0	54
21	ACCT 880-OTHER DISTR EXP	EXP880	24,205	3,053	10,064	224	219
22	ACCT 881-RENTS	EXP881	2,126	360	1,159	27	18
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0	0	0	0	0
24	ACCT 887-MAINT OF MAINS	EXP887	51,786	8,781	28,232	652	449
25	ACCT 889-MAINT OF MEAS/REG	EXP889	1,224	208	667	15	11
26	ACCT 890-MAINT OF MEAS/REG	EXP890	99	17	54	1	1
27	ACCT 891-MAINT OF MEAS/REG	EXP891	7	0	1	0	0
28	ACCT 892-MAINT OF SERVICES	EXP892	6,019	34	17	0	20
29	ACCT 893-MAINT OF METER	EXP893	1,323	7	101	0	17
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	4,625	784	2,521	58	40
31	ACCT 902-METER READING EXP	EXP902	5,502	42	31	0	31
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	42,364	213	160	120	240
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	0	0	41,597	0	126
34	ACCT 905-MISC CUST ACCT EXP	EXP905	238	1	208	1	2
35	ACCT 906-CUST SERVICE & INFO	EXP906	0	0	0	0	0
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	(262)	(1)	(1)	(1)	(1)
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	503	3	2	1	3
38	ACCT 910-MISC SERV & INFO	EXP910	173	1	1	0	1
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED FACTORS CONT.								
2	------------------------------------								
3	ACCT 912-DEMO & SELLING	EXP912	558	507	46	0	4	0	0
4	ACCT 913-ADVERTISING EXP	EXP913	0	0	0	0	0	0	0
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	1,529,696	1,204,348	238,735	42,887	43,232	250	244
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	1,365,974	1,075,448	213,183	38,297	38,605	223	218
7	ACCT 923-OUTSIDE SERVICES	EXP923	(152,817)	(120,315)	(23,850)	(4,284)	(4,319)	(25)	(24)
8	ACCT 924-PROPERTY INSURANCE	EXP924	2,696,531	1,871,590	514,666	164,292	144,295	958	730
9	ACCT 925-INJURIES & DAMAGES	EXP925	7,415	5,838	1,157	208	210	1	1
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	574,128	452,018	89,602	16,097	16,226	94	92
11	ACCT 928-REG COMMISSION EXP	EXP928	2,452,071	1,736,732	511,913	86,548	111,809	3,808	1,261
12	ACCT 930-MISC GEN EXP	EXP930	1,282,411	1,009,658	200,142	35,954	36,243	209	204
13	ACCT 931-RENTS	EXP931	109,053	85,858	17,020	3,057	3,082	18	17
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	169,826	134,060	26,159	4,708	4,845	27	27
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17	LABOR ACCT 820-867	LABTM	8,472	4,847	2,056	866	694	5	4
18	LABOR ACCT 871-881	LABDO	3,185,074	2,369,983	607,632	105,555	100,710	588	606
19	LABOR ACCT 874-881 & 886-894	LABDM	954,875	675,672	172,020	56,535	50,069	331	249
20	LAROR ACCT 902-906	LABCA	1,841,673	1,679,593	147,117	480	14,374	28	81
21	LABOR ACCT 908-910	LABCS	28,175	25,722	2,227	6	217	1	1
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25	ACCTS 902-904	EXP9024	6,903,844	6,051,981	623,038	138,397	89,909	120	397
26	ACCTS 874 - 879	EXP87479	3,677,072	2,710,632	704,648	134,471	125,828	756	737
27	ACCTS 908 & 909	EXP9089	31,566	28,818	2,495	7	243	1	1
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	54,980,598	40,022,662	9,740,421	2,768,680	2,417,907	18,483	12,444
29	TOTAL GENERAL PLANT	GENPLT	15,981,218	12,615,519	2,461,634	443,033	455,947	2,567	2,518
30	WORKING CASH 1/8 OF O&M	WCOM	3,101,821	2,392,635	493,959	110,894	102,683	1,003	647
31	PRESENT REVENUE	TOTREV	47,169,527	33,408,834	9,847,465	1,664,891	2,150,826	73,251	24,260
32	PAYROLL EXCLUDING A&G	PAYXAG	6,540,392	5,149,330	1,020,739	183,370	184,842	1,068	1,042
33	COMMON PLANT	PLTCOMN	0	0	0	0	0	0	0
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	9,646,902	8,098,225	127,106	1,137,884	348,801	(54,271)	(10,842)
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	9,646,901	6,788,619	1,425,398	880,929	531,760	15,220	4,975
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	122,230,876	122,230,876	0	0	0	0	0
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	2,843,892	2,263,600	419,862	76,027	83,538	433	432
38	WORKING CASH - GAS COSTS	WCGC	355,529	227,986	96,238	8,923	21,782	324	276
39	WORKING CASH - OTHER	WCOTH	24,459,036	18,913,092	3,855,432	878,230	799,682	7,702	4,897
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4	REVENUES FIRM SALES OF GAS								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED FACTORS CONT.							
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3	ACCT 912-DEMO & SELLING	EXP912	46	0	0	0	4	0
4	ACCT 913-ADVERTISING EXP	EXP913	0	0	0	0	0	0
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	224,711	14,024	1,452	41,435	29,082	14,150
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	200,661	12,523	1,297	37,001	25,969	12,635
7	ACCT 923-OUTSIDE SERVICES	EXP923	(22,449)	(1,401)	(145)	(4,139)	(2,905)	(1,414)
8	ACCT 924-PROPERTY INSURANCE	EXP924	464,334	50,332	5,426	158,866	89,397	54,898
9	ACCT 925-INJURIES & DAMAGES	EXP925	1,089	68	7	201	141	69
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	84,339	5,263	545	15,552	10,915	5,311
11	ACCT 928-REG COMMISSION EXP	EXP928	450,285	61,628	5,726	80,822	82,085	29,724
12	ACCT 930-MISC GEN EXP	EXP930	188,385	11,757	1,217	34,737	24,381	11,863
13	ACCT 931-RENTS	EXP931	16,020	1,000	104	2,954	2,073	1,009
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	24,621	1,538	160	4,548	3,290	1,555
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17	LABOR ACCT 820-867	LABTM	1,797	259	28	838	405	289
18	LABOR ACCT 871-881	LABDO	571,643	35,990	3,471	102,084	66,102	34,608
19	LABOR ACCT 874-881 & 886-894	LABDM	154,936	17,084	1,872	54,662	31,214	18,854
20	LAROR ACCT 902-906	LABCA	146,854	263	170	309	14,225	149
21	LABOR ACCT 908-910	LABCS	2,224	3	3	4	215	2
22								
23								
24								
25	ACCTS 902-904	EXP9024	582,738	40,300	636	137,761	47,866	42,043
26	ACCTS 874 - 879	EXP87479	659,726	44,922	4,422	130,049	81,606	44,222
27	ACCTS 908 & 909	EXP9089	2,491	4	3	4	241	2
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	8,865,600	874,821	89,330	2,679.350	1,508,698	909,210
29	TOTAL GENERAL PLANT	GENPLT	2,316,921	144,713	15,032	428,000	309,593	146,355
30	WORKING CASH 1/8 OF O&M	WCOM	454,809	39,150	3,702	107,192	66,226	36,457
31	PRESENT REVENUE	TOTREV	8,661,952	1,185,513	110,150	1,554,741	1,579,030	571,796
32	PAYROLL EXCLUDING A&G	PAYXAG	960,779	59,960	6,208	177,162	124,343	60,500
33	COMMON PLANT	PLTCOMN	0	0	0	0	0	0
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	425,892	(298,786)	(18,234)	1,156,118	(319)	349,120
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	1,801,410	(376,011)	23,054	857,874	322,521	209,239
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0	0	0	0	0	0
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	395,116	24,746	2,598	73,428	58,319	25,219
38	WORKING CASH - GAS COSTS	WCGC	92,173	4,065	1,626	7,297	18,515	3,267
39	WORKING CASH - OTHER	WCOTH	3,546,297	309,135	27,994	850,237	511,290	288,393
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4	REVENUES FIRM SALES OF GAS							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED FACTORS CONT.						
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3	ACCT 912-DEMO & SELLING	EXP912	499	8	46	0	0
4	ACCT 913-ADVERTISING EXP	EXP913	0	0	0	0	0
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	1,161,745	42,603	224,711	4,485	9,539
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	1,037,405	38,043	200,661	4,005	8,518
7	ACCT 923-OUTSIDE SERVICES	EXP923	(116,059)	(4,256)	(22,449)	(448)	(953)
8	ACCT 924-PROPERTY INSURANCE	EXP924	1,796,045	75,545	464,334	15,042	35,289
9	ACCT 925-INJURIES & DAMAGES	EXP925	5,631	207	1,089	22	46
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	436,028	15,990	84,339	1,683	3,580
11	ACCT 928-REG COMMISSION EXP	EXP928	1,684,433	52,299	450,285	11,139	50,489
12	ACCT 930-MISC GEN EXP	EXP930	973,942	35,716	188,385	3,760	7,997
13	ACCT 931-RENTS	EXP931	82,821	3,037	16,020	320	680
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	129,127	4,932	24,621	491	1,047
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17	LABOR ACCT 820-867	LABTM	4,658	189	1,797	75	184
18	LABOR ACCT 871-881	LABDO	2,271,357	98,626	571,643	11,923	24,067
19	LABOR ACCT 874-881 & 886-894	LABDM	648,086	27,586	154,936	5,024	12,059
20	LAROR ACCT 902-906	LABCA	1,640,342	39,252	146,854	166	97
21	LABOR ACCT 908-910	LABCS	24,570	1,153	2,224	2	1
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25	ACCTS 902-904	EXP9024	5,933,480	118,502	582,738	3,049	37,251
26	ACCTS 874 - 879	EXP87479	2,598,101	112,530	659,726	14,613	30,309
27	ACCTS 908 & 909	EXP9089	27,526	1,292	2,491	2	1
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	38,546,311	1,476,351	8,865,600	252,111	622,710
29	TOTAL GENERAL PLANT	GENPLT	12,151,362	464,157	2,316,921	46,228	98,485
30	WORKING CASH 1/8 OF O&M	WCOM	2,316,075	76,560	454,809	10,301	28,849
31	PRESENT REVENUE	TOTREV	32,402,775	1,006,059	8,661,952	214,268	971,245
32	PAYROLL EXCLUDING A&G	PAYXAG	4,967,177	182,153	960,779	19,175	40,786
33	COMMON PLANT	PLTCOMN	0	0	0	0	0
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	7,588,421	509,804	425,892	44,527	(343,313)
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	6,582,656	205,963	1,801,410	44,687	(420,699)
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	117,303,281	4,927,595	0	0	0
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	2,170,329	93,270	395,116	7,877	16,869
38	WORKING CASH - GAS COSTS	WCGC	219,047	8,939	92,173	4,065	0
39	WORKING CASH - OTHER	WCOTH	18,309,550	603,542	3,546,297	78,342	230,793
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4	REVENUES FIRM SALES OF GAS						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	INDUSTRIAL SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED FACTORS CONT.				
2	------------------------------------				
3	ACCT 912-DEMO & SELLING	EXP912	0	0	0
4	ACCT 913-ADVERTISING EXP	EXP913	0	0	0
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	1,452	6,364	35,071
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	1,297	5,683	31,318
7	ACCT 923-OUTSIDE SERVICES	EXP923	(145)	(636)	(3,504)
8	ACCT 924-PROPERTY INSURANCE	EXP924	5,426	23,455	135,411
9	ACCT 925-INJURIES & DAMAGES	EXP925	7	31	170
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	545	2,389	13,163
11	ACCT 928-REG COMMISSION EXP	EXP928	5,726	10,843	69,979
12	ACCT 930-MISC GEN EXP	EXP930	1,217	5,335	29,402
13	ACCT 931-RENTS	EXP931	104	454	2,500
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	160	698	3,850
15					
16					
17	LABOR ACCT 820-867	LABTM	28	122	716
18	LABOR ACCT 871-881	LABDO	3,471	16,050	86,034
19	LABOR ACCT 874-881 & 886-894	LABDM	1,872	8,014	46,648
20	LAROR ACCT 902-906	LABCA	170	108	201
21	LABOR ACCT 908-910	LABCS	3	1	2
22					
23					
24					
25	ACCTS 902-904	EXP9024	636	603	137,158
26	ACCTS 874 - 879	EXP87479	4,422	20,200	109,849
27	ACCTS 908 & 909	EXP9089	3	2	3
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	89,330	378,428	2,300,922
29	TOTAL GENERAL PLANT	GENPLT	15,032	65,693	362,307
30	WORKING CASH 1/8 OF O&M	WCOM	3,702	14,231	92,961
31	PRESENT REVENUE	TOTREV	110,150	208,585	1,346,157
32	PAYROLL EXCLUDING A&G	PAYXAG	6,208	27,211	149,951
33	COMMON PLANT	PLTCOMN	0	0	0
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	(18,234)	181,318	974,800
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	23,054	43,508	814,366
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0	0	0
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	2,598	11,245	62,183
38	WORKING CASH - GAS COSTS	WCGC	1,626	7,297	0
39	WORKING CASH - OTHER	WCOTH	27,994	106,551	743,686
40					
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44					
45					
4	REVENUES FIRM SALES OF GAS				

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED FACTORS CONT.						
2	--						
3	ACCT 912-DEMO & SELLING	EXP912	4	0	0	0	0
4	ACCT 913-ADVERTISING EXP	EXP913	0	0	0	0	0
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	29,082	3,323	10,827	250	244
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	25,969	2,968	9,668	223	218
7	ACCT 923-OUTSIDE SERVICES	EXP923	(2,905)	(332)	(1,082)	(25)	(24)
8	ACCT 924-PROPERTY INSURANCE	EXP924	89,397	13,092	41,805	958	730
9	ACCT 925-INJURIES & DAMAGES	EXP925	141	16	52	1	1
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	10,915	1,247	4,063	94	92
11	ACCT 928-REG COMMISSION EXP	EXP928	82,085	6,227	23,497	3,808	1,261
12	ACCT 930-MISC GEN EXP	EXP930	24,381	2,786	9,076	209	204
13	ACCT 931-RENTS	EXP931	2,073	237	772	18	17
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	3,290	366	1,189	27	27
15							
16							
17	LABOR ACCT 820-867	LABTM	405	69	221	5	4
18	LABOR ACCT 871-881	LABDO	66,102	8,022	26,587	588	606
19	LABOR ACCT 874-881 & 886-894	LABDM	31,214	4,482	14,372	331	249
20	LAROR ACCT 902-906	LABCA	14,225	82	67	28	81
21	LABOR ACCT 908-910	LABCS	215	1	1	1	1
22							
23							
24							
25	ACCTS 902-904	EXP9024	47,866	255	41,788	120	397
26	ACCTS 874 - 879	EXP87479	81,606	10,294	33,928	756	737
27	ACCTS 908 & 909	EXP9089	241	1	1	1	1
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	1,508,698	208,455	700,754	18,483	12,444
29	TOTAL GENERAL PLANT	GENPLT	309,593	34,479	111,875	2,567	2,518
30	WORKING CASH 1/8 OF O&M	WCOM	66,226	7,600	28,858	1,003	647
31	PRESENT REVENUE	TOTREV	1,579,030	119,795	452,001	73,251	24,260
32	PAYROLL EXCLUDING A&G	PAYXAG	124,343	14,209	46,290	1,068	1,042
33	COMMON PLANT	PLTCOMN	0	0	0	0	0
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	(319)	94,181	254,938	(54,271)	(10,842)
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	322,521	24,817	184,422	15,220	4,975
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0	0	0	0	0
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	58,319	6,001	19,218	433	432
38	WORKING CASH - GAS COSTS	WCGC	18,515	3,267	0	324	276
39	WORKING CASH - OTHER	WCOTH	511,290	57,530	230,862	7,702	4,897
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45							
4	REVENUES FIRM SALES OF GAS						

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED FACTORS CONT.								
2	--								
3	REVENUES FROM GAS SALES								
4	BASE REVENUES		45,689,224	32,152,423	9,709,553	1,639,719	2,090,889	73,078	23,562
5	CUSTOMER AND WEATHER ADJUSTMENT		1,242,603	1,029,390	(348,269)	441,213	120,225	0	44
6	ADJ DEMAND TO VOLUMETRIC		0	0	0	0	0	0	0
7	ADJ DEF FARM DISCOUNT CREDITS		0	0	0	0	0	0	0
8	BASE REVENUES PRESENT RATES		44,446,621	31,123,033	9,542,056	1,639,719	2,045,216	73,078	23,519
9	UNBILLED REVENUES		0	0	0	0	0	0	0
10	PGA REVENUES		0	0	0	0	0	0	0
11	LOST MARGIN ADJUSTMENT		0	0	0	0	0	0	0
12									
13	REVENUES FOR RATE DESIGN		45,689,224	32,152,423	9,193,787	2,080,932	2,165,441	73,078	23,562
14									
15									
16	REVENUE REQUIREMENT INPUTS								
17	--								
18	CLAIMED RATE OF RETURN		8.80%	8.798%	8.798%	8.798%	8.798%	8.798%	8.798%
19	ANNUAL BOOKED THERM SALES		138,233,864	71,765,520	32,770,803	22,121,972	11,386,911	101,855	86,803
20	PROPOSED SALES REVENUES		55,336,125	38,941,042	11,134,951	2,520,648	2,622,649	88,298	28,537
21	TOTAL YEAR END CUSTOMERS		138,340	126,296	10,936	32	1,067	3	6

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	INTERNALLY DEVELOPED FACTORS CONT.							
2	----------							
3	REVENUES FROM GAS SALES							
4	BASE REVENUES		8,531,880	1,177,672	109,190	1,530,529	1,527,532	563,357
5	CUSTOMER AND WEATHER ADJUSTMENT		156,080	(504,349)	0	441,213	58,763	61,462
6	ADJ DEMAND TO VOLUMETRIC		0	0	0	0	0	0
7	ADJ DEF FARM DISCOUNT CREDITS		0	0	0	0	0	0
8	BASE REVENUES PRESENT RATES		8,375,800	1,166,256	109,190	1,530,529	1,468,769	576,447
9	UNBILLED REVENUES		0	0	0	0	0	0
10	PGA REVENUES		0	0	0	0	0	0
11	LOST MARGIN ADJUSTMENT		0	0	0	0	0	0
12								
13	REVENUES FOR RATE DESIGN		8,531,880	661,907	109,190	1,971,743	1,527,532	637,909
14								
15								
16	REVENUE REQUIREMENT INPUTS							
17	----------							
18	CLAIMED RATE OF RETURN		8.798%	8.798%	8.798%	8.798%	8.798%	8.798%
19	ANNUAL BOOKED THERM SALES		29,014,067	3,756,736	511,826	21,610,146	5,828,186	5,558,725
20	PROPOSED SALES REVENUES		10,333,290	801,661	132,244	2,388,404	1,850,053	772,596
21	TOTAL YEAR END CUSTOMERS		10,919	17	13	19	1,058	9

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED FACTORS CONT.						
2	----------						
3	REVENUES FROM GAS SALES						
4	BASE REVENUES		31,176,937	975,486	8,531,880	211,649	966,024
5	CUSTOMER AND WEATHER ADJUSTMENT		909,769	119,621	156,080	11,416	(515,766)
6	ADJ DEMAND TO VOLUMETRIC		0	0	0	0	0
7	ADJ DEF FARM DISCOUNT CREDITS		0	0	0	0	0
8	BASE REVENUES PRESENT RATES		30,267,169	855,865	8,375,800	200,233	966,024
9	UNBILLED REVENUES		0	0	0	0	0
10	PGA REVENUES		0	0	0	0	0
11	LOST MARGIN ADJUSTMENT		0	0	0	0	0
12							
13	REVENUES FOR RATE DESIGN		31,176,937	975,486	8,531,880	211,649	450,258
14							
15							
16	REVENUE REQUIREMENT INPUTS						
17	----------						
18	CLAIMED RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%
19	ANNUAL BOOKED THERM SALES		68,951,676	2,813,844	29,014,067	1,279,629	2,477,106
20	PROPOSED SALES REVENUES		37,759,594	1,181,449	10,333,290	256,336	545,325
21	TOTAL YEAR END CUSTOMERS		120,636	5,660	10,919	11	6
22							
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24							
25							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	INDUSTRIAL SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
INTERNALLY DEVELOPED FACTORS CONT.				
REVENUES FROM GAS SALES				
BASE REVENUES		109,190	204,407	1,326,122
CUSTOMER AND WEATHER ADJUSTMENT		0	0	441,213
ADJ DEMAND TO VOLUMETRIC		0	0	0
ADJ DEF FARM DISCOUNT CREDITS		0	0	0
BASE REVENUES PRESENT RATES		109,190	204,407	1,326,122
UNBILLED REVENUES		0	0	0
PGA REVENUES		0	0	0
LOST MARGIN ADJUSTMENT		0	0	0
REVENUES FOR RATE DESIGN		109,190	204,407	1,767,335
REVENUE REQUIREMENT INPUTS				
CLAIMED RATE OF RETURN		8.80%	8.80%	8.80%
ANNUAL BOOKED THERM SALES		511,826	2,297,027	19,313,119
PROPOSED SALES REVENUES		132,244	247,916	2,140,488
TOTAL YEAR END CUSTOMERS		13	7	12

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
INTERNALLY DEVELOPED FACTORS CONT.						
--						
REVENUES FROM GAS SALES						
BASE REVENUES		1,527,532	117,541	445,816	73,078	23,562
CUSTOMER AND WEATHER ADJUSTMENT		58,763	(13,090)	74,552	0	44
ADJ DEMAND TO VOLUMETRIC		0	0	0	0	0
ADJ DEF FARM DISCOUNT CREDITS		0	0	0	0	0
BASE REVENUES PRESENT RATES		1,468,769	130,631	445,816	73,078	23,519
UNBILLED REVENUES		0	0	0	0	0
PGA REVENUES		0	0	0	0	0
LOST MARGIN ADJUSTMENT		0	0	0	0	0
REVENUES FOR RATE DESIGN		1,527,532	117,541	520,368	73,078	23,562
REVENUE REQUIREMENT INPUTS						
--						
CLAIMED RATE OF RETURN		8.80%	8.80%	8.80%	8.80%	8.80%
ANNUAL BOOKED THERM SALES		5,828,186	1,028,395	4,530,330	101,855	86,803
PROPOSED SALES REVENUES		1,850,053	142,359	630,238	88,298	28,537
TOTAL YEAR END CUSTOMERS		1,058	5	4	3	6

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
ALLOCATION FACTOR TABLE CONT.								
INTERNALLY DEVELOPED								
DEVELOPMENT OF UNCOLLECTABLE FACTOR								
RESIDENTIAL REVENUE	RESREV	40,250,648	40,250,648	0	0	0	0	0
COMMERCIAL REVENUE	COMREV	9,226,668	0	9,213,948	0	0	0	12,720
INDUSTRIAL REVENUE	INDREV	476,682	0	0	476,682	0	0	0
TRANSPORTATION REVENUE	TRAREV	3,624,386	0	622,710	2,300,922	700,754	0	0
ALLOCATION OF BAD DEBTS								
RESIDENTIAL	RESREV	233,001	233,001	0	0	0	0	0
COMMERCIAL	COMREV	51,148	0	51,078	0	0	0	71
INDUSTRIAL	INDREV	186	0	0	186	0	0	0
TRANSPORTATION	TRAREV	120,541	0	20,710	76,525	23,306	0	0
ALLOCATED BAD DEBTS	BADDEBT	404,876	233,001	71,788	76,710	23,306	0	71

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	ALLOCATION FACTOR TABLE CONT.							
2								
3	INTERNALLY DEVELOPED							
4	--							
5								
6								
7	DEVELOPMENT OF UNCOLLECTABLE FACTOR							
8	RESIDENTIAL REVENUE	RESREV	0	0	0	0	0	0
9	COMMERCIAL REVENUE	COMREV	8,957,772	256,176	0	0	0	0
10	INDUSTRIAL REVENUE	INDREV	0	0	90,956	385,726	0	0
11	TRANSPORTATION REVENUE	TRAREV	0	622,710	0	2,300,922	0	700,754
12								
13	ALLOCATION OF BAD DEBTS							
14	RESIDENTIAL	RESREV	0	0	0	0	0	0
15	COMMERCIAL	COMREV	49,658	1,420	0	0	0	0
16	INDUSTRIAL	INDREV	0	0	35	150	0	0
17	TRANSPORTATION	TRAREV	0	20,710	0	76,525	0	23,306
18	ALLOCATED BAD DEBTS	BADDEBT	49,658	22,130	35	76,675	0	23,306

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	RESIDENTIAL		COMMERCIAL		
			RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	ALLOCATION FACTOR TABLE CONT.						
2							
3	INTERNALLY DEVELOPED						
4	--						
5							
6							
7	DEVELOPMENT OF UNCOLLECTABLE FACTOR						
8	RESIDENTIAL REVENUE	RESREV	38,765,358	1,485,290	0	0	0
9	COMMERCIAL REVENUE	COMREV	0	0	8,957,772	256,176	0
10	INDUSTRIAL REVENUE	INDREV	0	0	0	0	0
11	TRANSPORTATION REVENUE	TRAREV	0	0	0	0	622,710
12							
13	ALLOCATION OF BAD DEBTS						
14	RESIDENTIAL	RESREV	224,403	8,598	0	0	0
15	COMMERCIAL	COMREV	0	0	49,658	1,420	0
16	INDUSTRIAL	INDREV	0	0	0	0	0
17	TRANSPORTATION	TRAREV	0	0	0	0	20,710
18	ALLOCATED BAD DEBTS	BADDEBT	224,403	8,598	49,658	1,420	20,710

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	INDUSTRIAL SM. VOL. (19)	INDUSTRIAL LG. VOL. (20)	INDUSTRIAL TRANS-PORTATION (21)
ALLOCATION FACTOR TABLE CONT.				
INTERNALLY DEVELOPED				
DEVELOPMENT OF UNCOLLECTABLE FACTOR				
RESIDENTIAL REVENUE	RESREV	0	0	0
COMMERCIAL REVENUE	COMREV	0	0	0
INDUSTRIAL REVENUE	INDREV	90,956	385,726	0
TRANSPORTATION REVENUE	TRAREV	0	0	2,300,922
ALLOCATION OF BAD DEBTS				
RESIDENTIAL	RESREV	0	0	0
COMMERCIAL	COMREV	0	0	0
INDUSTRIAL	INDREV	35	150	0
TRANSPORTATION	TRAREV	0	0	76,525
ALLOCATED BAD DEBTS	BADDEBT	35	150	76,525

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	ALLOCATION FACTOR TABLE CONT.						
3	INTERNALLY DEVELOPED						
7	DEVELOPMENT OF UNCOLLECTABLE FACTOR						
8	RESIDENTIAL REVENUE	RESREV	0	0	0	0	0
9	COMMERCIAL REVENUE	COMREV	0	0	0	0	12,720
10	INDUSTRIAL REVENUE	INDREV	0	0	0	0	0
11	TRANSPORTATION REVENUE	TRAREV	0	0	700,754	0	0
13	ALLOCATION OF BAD DEBTS						
14	RESIDENTIAL	RESREV	0	0	0	0	0
15	COMMERCIAL	COMREV	0	0	0	0	71
16	INDUSTRIAL	INDREV	0	0	0	0	0
17	TRANSPORTATION	TRAREV	0	0	23,306	0	0
18	ALLOCATED BAD DEBTS	BADDEBT	0	0	23,306	0	71

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED CONT.								
2	--								
3	487-FORFEITED DISCOUNTS								
4	REVENUE BY CLASS - RANGE NAME DEFINITION								
5	RESIDENTIAL SERVICE	REV487A	31,176,937	31,176,937	0	0	0	0	0
6									
7	RESIDENTIAL CARES	REV487C	975,486	975,486	0	0	0	0	0
8	COMMERCIAL SM. VOL.	REV487D	8,531,880	0	8,531,880	0	0	0	0
9									
10	COMMERCIAL LG. VOL.	REV487F	211,649	0	211,649	0	0	0	0
11	COMMERCIAL TRANSPORTATION	REV487G	966,024	0	966,024	0	0	0	0
12	INDUSTRIAL SM. VOL.	REV487H	109,190	0	0	109,190	0	0	0
13	INDUSTRIAL LG. VOL.	REV487I	204,407	0	0	204,407	0	0	0
14	INDUSTRIAL TRANSPORTATION	REV487J	1,326,122	0	0	1,326,122	0	0	0
15	PUBLIC AUTHORITY SM. VOL.	REV487K	1,527,532	0	0	0	1,527,532	0	0
16	PUBLIC AUTHORITY LG. VOL.	REV487L	117,541	0	0	0	117,541	0	0
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	445,816	0	0	0	445,816	0	0
18	IRRIGATION	REV487N	23,562	0	0	0	0	0	23,562
19									
20	487-FORFEITED DISCOUNTS								
21	REVENUE BY CLASS - ALLOCATION								
22	RESIDENTIAL SERVICE	REV487A	202,859	202,859	0	0	0	0	0
23									
24	RESIDENTIAL CARES	REV487C	4,165	4,165	0	0	0	0	0
25	COMMERCIAL SM. VOL.	REV487D	86,010	0	86,010	0	0	0	0
26									
27	COMMERCIAL LG. VOL.	REV487F	2,316	0	2,316	0	0	0	0
28	COMMERCIAL TRANSPORTATION	REV487G	18,613	0	18,613	0	0	0	0
29	INDUSTRIAL SM. VOL.	REV487H	2,142	0	0	2,142	0	0	0
30	INDUSTRIAL LG. VOL.	REV487I	4,428	0	0	4,428	0	0	0
31	INDUSTRIAL TRANSPORTATION	REV487J	39,419	0	0	39,419	0	0	0
32	PUBLIC AUTHORITY SM. VOL.	REV487K	13,242	0	0	0	13,242	0	0
33	PUBLIC AUTHORITY LG. VOL.	REV487L	3,023	0	0	0	3,023	0	0
34	PUBLIC AUTHORITY TRANSPORT.	REV487M	22,382	0	0	0	22,382	0	0
35	IRRIGATION	REV487N	367	0	0	0	0	0	367
36	TOTAL FOREITED DISCOUNTS	FORFDISC	398,966	207,023	106,939	45,989	38,646	0	367
37									
38									
39									
40									
41									
42									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED CONT.							
2	--							
3	487-FORFEITED DISCOUNTS							
4	REVENUE BY CLASS - RANGE NAME DEFINITION							
5	RESIDENTIAL SERVICE	REV487A	0	0	0	0	0	0
6								
7	RESIDENTIAL CARES	REV487C	0	0	0	0	0	0
8	COMMERCIAL SM. VOL.	REV487D	8,531,880	0	0	0	0	0
9								
10	COMMERCIAL LG. VOL.	REV487F	0	211,649	0	0	0	0
11	COMMERCIAL TRANSPORTATION	REV487G	0	966,024	0	0	0	0
12	INDUSTRIAL SM. VOL.	REV487H	0	0	109,190	0	0	0
13	INDUSTRIAL LG. VOL.	REV487I	0	0	0	204,407	0	0
14	INDUSTRIAL TRANSPORTATION	REV487J	0	0	0	1,326,122	0	0
15	PUBLIC AUTHORITY SM. VOL.	REV487K	0	0	0	0	1,527,532	0
16	PUBLIC AUTHORITY LG. VOL.	REV487L	0	0	0	0	0	117,541
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	0	0	0	445,816
18	IRRIGATION	REV487N	0	0	0	0	0	0
19								
20	487-FORFEITED DISCOUNTS							
21	REVENUE BY CLASS - ALLOCATION							
22	RESIDENTIAL SERVICE	REV487A	0	0	0	0	0	0
23								
24	RESIDENTIAL CARES	REV487C	0	0	0	0	0	0
25	COMMERCIAL SM. VOL.	REV487D	86,010	0	0	0	0	0
26								
27	COMMERCIAL LG. VOL.	REV487F	0	2,316	0	0	0	0
28	COMMERCIAL TRANSPORTATION	REV487G	0	18,613	0	0	0	0
29	INDUSTRIAL SM. VOL.	REV487H	0	0	2,142	0	0	0
30	INDUSTRIAL LG. VOL.	REV487I	0	0	0	4,428	0	0
31	INDUSTRIAL TRANSPORTATION	REV487J	0	0	0	39,419	0	0
32	PUBLIC AUTHORITY SM. VOL.	REV487K	0	0	0	0	13,242	0
33	PUBLIC AUTHORITY LG. VOL.	REV487L	0	0	0	0	0	3,023
34	PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	0	0	0	22,382
35	IRRIGATION	REV487N	0	0	0	0	0	0
36	TOTAL FOREITED DISCOUNTS	FORFDISC	86,010	20,929	2,142	43,847	13,242	25,404
37								
38								
39								
40								
41								
42								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED CONT.						
2	--						
3	487-FORFEITED DISCOUNTS						
4	REVENUE BY CLASS - RANGE NAME DEFINITION						
5	RESIDENTIAL SERVICE	REV487A	31,176,937	0	0	0	0
6							
7	RESIDENTIAL CARES	REV487C	0	975,486	0	0	0
8	COMMERCIAL SM. VOL.	REV487D	0	0	8,531,880	0	0
9							
10	COMMERCIAL LG. VOL.	REV487F	0	0	0	211,649	0
11	COMMERCIAL TRANSPORTATION	REV487G	0	0	0	0	966,024
12	INDUSTRIAL SM. VOL.	REV487H	0	0	0	0	0
13	INDUSTRIAL LG. VOL.	REV487I	0	0	0	0	0
14	INDUSTRIAL TRANSPORTATION	REV487J	0	0	0	0	0
15	PUBLIC AUTHORITY SM. VOL.	REV487K	0	0	0	0	0
16	PUBLIC AUTHORITY LG. VOL.	REV487L	0	0	0	0	0
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	0	0	0
18	IRRIGATION	REV487N	0	0	0	0	0
19							
20	487-FORFEITED DISCOUNTS						
21	REVENUE BY CLASS - ALLOCATION						
22	RESIDENTIAL SERVICE	REV487A	202,859	0	0	0	0
23							
24	RESIDENTIAL CARES	REV487C	0	4,165	0	0	0
25	COMMERCIAL SM. VOL.	REV487D	0	0	86,010	0	0
26							
27	COMMERCIAL LG. VOL.	REV487F	0	0	0	2,316	0
28	COMMERCIAL TRANSPORTATION	REV487G	0	0	0	0	18,613
29	INDUSTRIAL SM. VOL.	REV487H	0	0	0	0	0
30	INDUSTRIAL LG. VOL.	REV487I	0	0	0	0	0
31	INDUSTRIAL TRANSPORTATION	REV487J	0	0	0	0	0
32	PUBLIC AUTHORITY SM. VOL.	REV487K	0	0	0	0	0
33	PUBLIC AUTHORITY LG. VOL.	REV487L	0	0	0	0	0
34	PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	0	0	0
35	IRRIGATION	REV487N	0	0	0	0	0
36	TOTAL FOREITED DISCOUNTS	FORFDISC	202,859	4,165	86,010	2,316	18,613
37							
38							
39							
40							
41							
42							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		INDUSTRIAL		
	ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
INTERNALLY DEVELOPED CONT.				
--				
487-FORFEITED DISCOUNTS				
REVENUE BY CLASS - RANGE NAME DEFINITION				
RESIDENTIAL SERVICE	REV487A	0	0	0
RESIDENTIAL CARES	REV487C	0	0	0
COMMERCIAL SM. VOL.	REV487D	0	0	0
COMMERCIAL LG. VOL.	REV487F	0	0	0
COMMERCIAL TRANSPORTATION	REV487G	0	0	0
INDUSTRIAL SM. VOL.	REV487H	109,190	0	0
INDUSTRIAL LG. VOL.	REV487I	0	204,407	0
INDUSTRIAL TRANSPORTATION	REV487J	0	0	1,326,122
PUBLIC AUTHORITY SM. VOL.	REV487K	0	0	0
PUBLIC AUTHORITY LG. VOL.	REV487L	0	0	0
PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	0
IRRIGATION	REV487N	0	0	0
487-FORFEITED DISCOUNTS				
REVENUE BY CLASS - ALLOCATION				
RESIDENTIAL SERVICE	REV487A	0	0	0
RESIDENTIAL CARES	REV487C	0	0	0
COMMERCIAL SM. VOL.	REV487D	0	0	0
COMMERCIAL LG. VOL.	REV487F	0	0	0
COMMERCIAL TRANSPORTATION	REV487G	0	0	0
INDUSTRIAL SM. VOL.	REV487H	2,142	0	0
INDUSTRIAL LG. VOL.	REV487I	0	4,428	0
INDUSTRIAL TRANSPORTATION	REV487J	0	0	39,419
PUBLIC AUTHORITY SM. VOL.	REV487K	0	0	0
PUBLIC AUTHORITY LG. VOL.	REV487L	0	0	0
PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	0
IRRIGATION	REV487N	0	0	0
TOTAL FOREITED DISCOUNTS	FORFDISC	2,142	4,428	39,419

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED CONT.						
2	--						
3	487-FORFEITED DISCOUNTS						
4	REVENUE BY CLASS - RANGE NAME DEFINITION						
5	RESIDENTIAL SERVICE	REV487A	0	0	0	0	0
6							
7	RESIDENTIAL CARES	REV487C	0	0	0	0	0
8	COMMERCIAL SM. VOL.	REV487D	0	0	0	0	0
9							
10	COMMERCIAL LG. VOL.	REV487F	0	0	0	0	0
11	COMMERCIAL TRANSPORTATION	REV487G	0	0	0	0	0
12	INDUSTRIAL SM. VOL.	REV487H	0	0	0	0	0
13	INDUSTRIAL LG. VOL.	REV487I	0	0	0	0	0
14	INDUSTRIAL TRANSPORTATION	REV487J	0	0	0	0	0
15	PUBLIC AUTHORITY SM. VOL.	REV487K	1,527,532	0	0	0	0
16	PUBLIC AUTHORITY LG. VOL.	REV487L	0	117,541	0	0	0
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	445,816	0	0
18	IRRIGATION	REV487N	0	0	0	0	23,562
19							
20	487-FORFEITED DISCOUNTS						
21	REVENUE BY CLASS - ALLOCATION						
22	RESIDENTIAL SERVICE	REV487A	0	0	0	0	0
23							
24	RESIDENTIAL CARES	REV487C	0	0	0	0	0
25	COMMERCIAL SM. VOL.	REV487D	0	0	0	0	0
26							
27	COMMERCIAL LG. VOL.	REV487F	0	0	0	0	0
28	COMMERCIAL TRANSPORTATION	REV487G	0	0	0	0	0
29	INDUSTRIAL SM. VOL.	REV487H	0	0	0	0	0
30	INDUSTRIAL LG. VOL.	REV487I	0	0	0	0	0
31	INDUSTRIAL TRANSPORTATION	REV487J	0	0	0	0	0
32	PUBLIC AUTHORITY SM. VOL.	REV487K	13,242	0	0	0	0
33	PUBLIC AUTHORITY LG. VOL.	REV487L	0	3,023	0	0	0
34	PUBLIC AUTHORITY TRANSPORT.	REV487M	0	0	22,382	0	0
35	IRRIGATION	REV487N	0	0	0	0	367
36	TOTAL FOREITED DISCOUNTS	FORFDISC	13,242	3,023	22,382	0	367
37							
38							
39							
40							
41							
42							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	RATIO TABLE								
2	CAPACITY RELATED								
3	------------------------------------								
4	PRODUCTION ALLOCATORS								
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	1.00000	0.64126	0.27069	0.02510	0.06127	0.00091	0.00078
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22	TRANSMISSION ALLOCATORS								
23	------------------------------------								
24	PROPORTIONAL RESPONSIBILITY	TRANS	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
25									
26									
27									
28									
29									
30									
34	DISTRIBUTION ALLOCATORS								
35	------------------------------------								
33	PROPORTIONAL RESPONSIBILITY	DISTR	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
34	DISTRIBUTION MAINS	DISTMAIN	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
35	DISTRIBUTION REGULATORS	DISTREG	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
36									
37									
38									
39									
40									
41									
42									
43	PROPORTIONAL RESPONSIBILITY		1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
44									
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
		ALLOC						
1	RATIO TABLE							
2	CAPACITY RELATED							
3	--							
4	PRODUCTION ALLOCATORS							
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	0.25925	0.01143	0.00457	0.02053	0.05208	0.00919
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22	TRANSMISSION ALLOCATORS							
23	--							
24	PROPORTIONAL RESPONSIBILITY	TRANS	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
25								
26								
27								
28								
29								
30								
34	DISTRIBUTION ALLOCATORS							
35	--							
33	PROPORTIONAL RESPONSIBILITY	DISTR	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
34	DISTRIBUTION MAINS	DISTMAIN	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
35	DISTRIBUTION REGULATORS	DISTREG	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
36								
37								
38								
39								
40								
41								
42								
43	PROPORTIONAL RESPONSIBILITY		0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	RATIO TABLE						
2	CAPACITY RELATED						
3	----------						
4	PRODUCTION ALLOCATORS						
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	0.61612	0.02514	0.25925	0.01143	0.00000
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22	TRANSMISSION ALLOCATORS						
23	----------						
24	PROPORTIONAL RESPONSIBILITY	TRANS	0.54982	0.02231	0.21213	0.00887	0.02169
25							
26							
27							
28							
29							
30							
34	DISTRIBUTION ALLOCATORS						
35	----------						
33	PROPORTIONAL RESPONSIBILITY	DISTR	0.54982	0.02231	0.21213	0.00887	0.02169
34	DISTRIBUTION MAINS	DISTMAIN	0.54982	0.02231	0.21213	0.00887	0.02169
35	DISTRIBUTION REGULATORS	DISTREG	0.54982	0.02231	0.21213	0.00887	0.02169
36							
37							
38							
39							
40							
41							
42							
43	PROPORTIONAL RESPONSIBILITY		0.54982	0.02231	0.21213	0.00887	0.02169
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	INDUSTRIAL SM. VOL. (19)	INDUSTRIAL LG. VOL. (20)	INDUSTRIAL TRANS-PORTATION (21)
1	RATIO TABLE				
2	CAPACITY RELATED				
3	------------------------------				
4	PRODUCTION ALLOCATORS				
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	0.00457	0.02053	0.00000
22	TRANSMISSION ALLOCATORS				
23	------------------------------				
24	PROPORTIONAL RESPONSIBILITY	TRANS	0.00334	0.01440	0.08452
34	DISTRIBUTION ALLOCATORS				
35	------------------------------				
33	PROPORTIONAL RESPONSIBILITY	DISTR	0.00334	0.01440	0.08452
34	DISTRIBUTION MAINS	DISTMAIN	0.00334	0.01440	0.08452
35	DISTRIBUTION REGULATORS	DISTREG	0.00334	0.01440	0.08452
43	PROPORTIONAL RESPONSIBILITY		0.00334	0.01440	0.08452

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	RATIO TABLE						
2	CAPACITY RELATED						
4	PRODUCTION ALLOCATORS						
5	ANNUAL FIRM THERM THROUGHPUT	DEMGAS	0.05208	0.00919	0.00000	0.00091	0.00078
22	TRANSMISSION ALLOCATORS						
24	PROPORTIONAL RESPONSIBILITY	TRANS	0.04776	0.00810	0.02604	0.00060	0.00041
34	DISTRIBUTION ALLOCATORS						
33	PROPORTIONAL RESPONSIBILITY	DISTR	0.04776	0.00810	0.02604	0.00060	0.00041
34	DISTRIBUTION MAINS	DISTMAIN	0.04776	0.00810	0.02604	0.00060	0.00041
35	DISTRIBUTION REGULATORS	DISTREG	0.04776	0.00810	0.02604	0.00060	0.00041
43	PROPORTIONAL RESPONSIBILITY		0.04776	0.00810	0.02604	0.00060	0.00041

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	RATIO TABLE CONT.								
2	COMMODITY RELATED								
3									
4	ANNUAL FIRM THERM THROUGHPUT	GASSALES	1.00000	0.64126	0.27069	0.02510	0.06127	0.00091	0.00078
5			0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
6			0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7	ANNUAL FIRM THERM THROUGHPUT	THERMS	1.00000	0.51916	0.23707	0.16003	0.08237	0.00074	0.00063
8	CARES	CARES	1.00000	0.50917	0.24199	0.16336	0.08409	0.00075	0.00064
9									
10									
11									
12									
13									
14									
15									
16	CUSTOMER RELATED								
17									
18	YEAR END NUMBER OF CUSTOMERS	CUST10	1.00000	0.91294	0.07905	0.00023	0.00771	0.00002	0.00004
19	ACCT 380-SERVICES	CUST380	1.00000	0.90705	0.07954	0.00032	0.01305	0.00000	0.00004
20	ACCT 381-METERS	CUST381	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
21	ACCT 382-METER INSTALLATIONS	CUST382	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
22	ACCT 383-HOUSE REGULATORS	CUST383	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
23	ACCT 384-HOUSE REG. INSTALLATION	CUST384	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
24	ACCT 385-INDUSTRIAL REG EQUIP	CUST385	1.00000	0.00000	0.86290	0.03671	0.09979	0.00000	0.00060
25	CUSTOMER DEPOSITS	CUSTDEP	1.00000	0.78346	0.20861	0.00014	0.00775	0.00000	0.00004
26									
27									
28	ACCT 487-MISC. SERVICE REVENUE	CUST487B	1.00000	0.91453	0.05009	0.00000	0.03484	0.00000	0.00054
29									
30	ACCT 902-METER READ EXP	CUST902	1.00000	0.91274	0.07917	0.00030	0.00775	0.00000	0.00004
31	ACCT 903-CUST RECORDS & COLL	CUST903	1.00000	0.91169	0.08018	0.00023	0.00782	0.00002	0.00004
32	ACCT 912-DEMO & SELLING	CDA912	1.00000	0.90922	0.08243	0.00024	0.00804	0.00002	0.00005
33	ACCT 913-ADVERTISING EXPENSES	CDA913	1.00000	0.90922	0.08243	0.00024	0.00804	0.00002	0.00005
34									
35									
36									
37									
38									
39									
40									
41									
42									
43									
44									
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	RATIO TABLE CONT.							
2	COMMODITY RELATED							
3								
4	ANNUAL FIRM THERM THROUGHPUT	GASSALES	0.25925	0.01143	0.00457	0.02053	0.05208	0.00919
5			0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
6			0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7	ANNUAL FIRM THERM THROUGHPUT	THERMS	0.20989	0.02718	0.00370	0.15633	0.04216	0.04021
8	CARES	CARES	0.21425	0.02774	0.00378	0.15958	0.04304	0.04105
9								
10								
11								
12								
13								
14								
15								
16	CUSTOMER RELATED							
17								
18	YEAR END NUMBER OF CUSTOMERS	CUST10	0.07893	0.00012	0.00009	0.00014	0.00765	0.00007
19	ACCT 380-SERVICES	CUST380	0.07930	0.00024	0.00009	0.00022	0.01294	0.00011
20	ACCT 381-METERS	CUST381	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
21	ACCT 382-METER INSTALLATIONS	CUST382	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
22	ACCT 383-HOUSE REGULATORS	CUST383	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
23	ACCT 384-HOUSE REG. INSTALLATION	CUST384	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
24	ACCT 385-INDUSTRIAL REG EQUIP	CUST385	0.81651	0.04639	0.00137	0.03534	0.07549	0.02430
25	CUSTOMER DEPOSITS	CUSTDEP	0.19487	0.01374	0.00009	0.00005	0.00771	0.00004
26								
27								
28	ACCT 487-MISC. SERVICE REVENUE	CUST487B	0.05009	0.00000	0.00000	0.00000	0.03484	0.00000
29								
30	ACCT 902-METER READ EXP	CUST902	0.07899	0.00018	0.00009	0.00021	0.00765	0.00010
31	ACCT 903-CUST RECORDS & COLL	CUST903	0.08006	0.00012	0.00009	0.00014	0.00776	0.00007
32	ACCT 912-DEMO & SELLING	CDA912	0.08231	0.00013	0.00010	0.00014	0.00797	0.00007
33	ACCT 913-ADVERTISING EXPENSES	CDA913	0.08231	0.00013	0.00010	0.00014	0.00797	0.00007
34								
35								
36								
37								
38								
39								
40								
41								
42								
43								
44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	RESIDENTIAL		COMMERCIAL		
		RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
RATIO TABLE CONT. COMMODITY RELATED						
ANNUAL FIRM THERM THROUGHPUT	GASSALES	0.61612	0.02514	0.25925	0.01143	0.00000
		0.00000	0.00000	0.00000	0.00000	0.00000
		0.00000	0.00000	0.00000	0.00000	0.00000
ANNUAL FIRM THERM THROUGHPUT	THERMS	0.49880	0.02036	0.20989	0.00926	0.01792
CARES	CARES	0.50917	0.00000	0.21425	0.00945	0.01829
CUSTOMER RELATED						
YEAR END NUMBER OF CUSTOMERS	CUST10	0.87203	0.04092	0.07893	0.00008	0.00004
ACCT 380-SERVICES	CUST380	0.86857	0.03848	0.07930	0.00013	0.00011
ACCT 381-METERS	CUST381	0.76832	0.03404	0.18272	0.00175	0.00154
ACCT 382-METER INSTALLATIONS	CUST382	0.76832	0.03404	0.18272	0.00175	0.00154
ACCT 383-HOUSE REGULATORS	CUST383	0.76832	0.03404	0.18272	0.00175	0.00154
ACCT 384-HOUSE REG. INSTALLATION	CUST384	0.76832	0.03404	0.18272	0.00175	0.00154
ACCT 385-INDUSTRIAL REG EQUIP	CUST385	0.00000	0.00000	0.81651	0.02651	0.01988
CUSTOMER DEPOSITS	CUSTDEP	0.77294	0.01052	0.19487	0.01374	0.00000
ACCT 487-MISC. SERVICE REVENUE	CUST487B	0.89683	0.01770	0.05009	0.00000	0.00000
ACCT 902-METER READ EXP	CUST902	0.87402	0.03872	0.07899	0.00012	0.00007
ACCT 903-CUST RECORDS & COLL	CUST903	0.89790	0.01379	0.08006	0.00008	0.00004
ACCT 912-DEMO & SELLING	CDA912	0.89547	0.01375	0.08231	0.00008	0.00005
ACCT 913-ADVERTISING EXPENSES	CDA913	0.89547	0.01375	0.08231	0.00008	0.00005

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	INDUSTRIAL SM. VOL. (19)	INDUSTRIAL LG. VOL. (20)	INDUSTRIAL TRANS-PORTATION (21)
1	RATIO TABLE CONT.				
2	COMMODITY RELATED				
3	----------				
4	ANNUAL FIRM THERM THROUGHPUT	GASSALES	0.00457	0.02053	0.00000
5			0.00000	0.00000	0.00000
6			0.00000	0.00000	0.00000
7	ANNUAL FIRM THERM THROUGHPUT	THERMS	0.00370	0.01662	0.13971
8	CARES	CARES	0.00378	0.01696	0.14262
9					
10					
11					
12					
13					
14					
15					
16	CUSTOMER RELATED				
17	----------				
18	YEAR END NUMBER OF CUSTOMERS	CUST10	0.00009	0.00005	0.00009
19	ACCT 380-SERVICES	CUST380	0.00009	0.00009	0.00014
20	ACCT 381-METERS	CUST381	0.00009	0.00106	0.00181
21	ACCT 382-METER INSTALLATIONS	CUST382	0.00009	0.00106	0.00181
22	ACCT 383-HOUSE REGULATORS	CUST383	0.00009	0.00106	0.00181
23	ACCT 384-HOUSE REG. INSTALLATION	CUST384	0.00009	0.00106	0.00181
24	ACCT 385-INDUSTRIAL REG EQUIP	CUST385	0.00137	0.01325	0.02209
25	CUSTOMER DEPOSITS	CUSTDEP	0.00009	0.00005	0.00000
26					
27					
28	ACCT 487-MISC. SERVICE REVENUE	CUST487B	0.00000	0.00000	0.00000
29					
30	ACCT 902-METER READ EXP	CUST902	0.00009	0.00008	0.00013
31	ACCT 903-CUST RECORDS & COLL	CUST903	0.00009	0.00005	0.00009
32	ACCT 912-DEMO & SELLING	CDA912	0.00010	0.00005	0.00009
33	ACCT 913-ADVERTISING EXPENSES	CDA913	0.00010	0.00005	0.00009
34					
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	RATIO TABLE CONT.						
2	COMMODITY RELATED						
4	ANNUAL FIRM THERM THROUGHPUT	GASSALES	0.05208	0.00919	0.00000	0.00091	0.00078
5			0.00000	0.00000	0.00000	0.00000	0.00000
6			0.00000	0.00000	0.00000	0.00000	0.00000
7	ANNUAL FIRM THERM THROUGHPUT	THERMS	0.04216	0.00744	0.03277	0.00074	0.00063
8	CARES	CARES	0.04304	0.00759	0.03345	0.00075	0.00064
16	CUSTOMER RELATED						
18	YEAR END NUMBER OF CUSTOMERS	CUST10	0.00765	0.00004	0.00003	0.00002	0.00004
19	ACCT 380-SERVICES	CUST380	0.01294	0.00007	0.00004	0.00000	0.00004
20	ACCT 381-METERS	CUST381	0.00792	0.00004	0.00060	0.00000	0.00010
21	ACCT 382-METER INSTALLATIONS	CUST382	0.00792	0.00004	0.00060	0.00000	0.00010
22	ACCT 383-HOUSE REGULATORS	CUST383	0.00792	0.00004	0.00060	0.00000	0.00010
23	ACCT 384-HOUSE REG. INSTALLATION	CUST384	0.00792	0.00004	0.00060	0.00000	0.00010
24	ACCT 385-INDUSTRIAL REG EQUIP	CUST385	0.07549	0.01104	0.01325	0.00000	0.00060
25	CUSTOMER DEPOSITS	CUSTDEP	0.00771	0.00004	0.00000	0.00000	0.00004
28	ACCT 487-MISC. SERVICE REVENUE	CUST487B	0.03484	0.00000	0.00000	0.00000	0.00054
30	ACCT 902-METER READ EXP	CUST902	0.00765	0.00006	0.00004	0.00000	0.00004
31	ACCT 903-CUST RECORDS & COLL	CUST903	0.00776	0.00004	0.00003	0.00002	0.00004
32	ACCT 912-DEMO & SELLING	CDA912	0.00797	0.00004	0.00003	0.00002	0.00005
33	ACCT 913-ADVERTISING EXPENSES	CDA913	0.00797	0.00004	0.00003	0.00002	0.00005

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
INTERNALLY DEVELOPED RATIOS								
TOTAL GAS PLANT IN SERVICE	PLANT	1.00000	0.69407	0.19086	0.06093	0.05351	0.00036	0.00027
SUM OF ALLOCATED LABOR EXP	LABOR	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 302-FRANCHISE & CONSENTS	PLT302	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 303-MISC. INTANGIBLE PLANT	PLT303	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 365-LAND & LAND RIGHTS	PLT365	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 366-STRUCTURES & IMPROV.	PLT366	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 367-MAINS	PLT367	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 369-MEAS. & REG STATION EQ	PLT369	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 371-OTHER TRANS EQUIP	PLT371	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
TOTAL TRANSMISSION PLANT	TRANPLT	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 375-STRUCTURES & IMPROV	PLT375	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 376-MAINS	PLT376	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 378-MEAS & REG EQ - GEN	PLT378	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 380-SERVICES	PLT380	1.00000	0.90705	0.07954	0.00032	0.01305	0.00000	0.00004
ACCT 381-METERS	PLT381	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
ACCT 382-METER INSTALLATIONS	PLT382	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
ACCT 383-REGULATORS	PLT383	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
ACCT 384-REGULATOR INSTALLATIONS	PLT384	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	1.00000	0.00000	0.86290	0.03671	0.09979	0.00000	0.00060
ACCT 387-OTHER EQUIPMENT	PLT387	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 389-GEN PLT LAND	PLT389	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 390-STRUCTURES & IMPROVE	PLT390	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 391-OFFICE FURN & EQUIP	PLT391	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 392-TRANSPORTATION EQUIP	PLT392	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 393-STORES EQUIPMENT	PLT393	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 395-LABORATORY EQUIPMENT	PLT395	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 396-POWER OPER EQUIP	PLT396	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 397-COMMUNICATION EQUIP	PLT397	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 398-MISCELLANEOUS EQUIP	PLT398	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
ACCT 399-OTHER TANGIBLE PROP	PLT399	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
ACCT 367 & 376 TOTAL MAINS	PLT367376	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 376 MAINS + 380 SERVICES	PLT376380	1.00000	0.69112	0.18472	0.06604	0.05744	0.00039	0.00028
TOTAL DISTRIBUTION PLANT	DISTRPLT	1.00000	0.69582	0.18982	0.06041	0.05333	0.00035	0.00027
ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
ACCT 382 & 384 INSTALLATIONS	PLT38284	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED RATIOS							
2	--							
3	TOTAL GAS PLANT IN SERVICE	PLANT	0.17220	0.01867	0.00201	0.05891	0.03315	0.02036
4	SUM OF ALLOCATED LABOR EXP	LABOR	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
7	ACCT 365-LAND & LAND RIGHTS	PLT365	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
9	ACCT 367-MAINS	PLT367	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
11	ACCT 371-OTHER TRANS EQUIP	PLT371	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
12	TOTAL TRANSMISSION PLANT	TRANPLT	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
14	ACCT 375-STRUCTURES & IMPROV	PLT375	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
15	ACCT 376-MAINS	PLT376	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
18	ACCT 380-SERVICES	PLT380	0.07930	0.00024	0.00009	0.00022	0.01294	0.00011
19	ACCT 381-METERS	PLT381	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
20	ACCT 382-METER INSTALLATIONS	PLT382	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
21	ACCT 383-REGULATORS	PLT383	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	0.81651	0.04639	0.00137	0.03534	0.07549	0.02430
24	ACCT 387-OTHER EQUIPMENT	PLT387	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
25	ACCT 389-GEN PLT LAND	PLT389	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
29	ACCT 393-STORES EQUIPMENT	PLT393	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
32	ACCT 396-POWER OPER EQUIP	PLT396	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
33	ACCT 397-COMMUNICATION EQUIP	PLT397	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	0.16494	0.01978	0.00218	0.06386	0.03539	0.02205
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	0.17130	0.01852	0.00200	0.05841	0.03313	0.02020
39								
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
42								
43								
44								
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED RATIOS						
2	--						
3	TOTAL GAS PLANT IN SERVICE	PLANT	0.66606	0.02802	0.17220	0.00558	0.01309
4	SUM OF ALLOCATED LABOR EXP	LABOR	0.76035	0.02904	0.14498	0.00289	0.00616
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	0.76035	0.02904	0.14498	0.00289	0.00616
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	0.76035	0.02904	0.14498	0.00289	0.00616
7	ACCT 365-LAND & LAND RIGHTS	PLT365	0.54982	0.02231	0.21213	0.00887	0.02169
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	0.54982	0.02231	0.21213	0.00887	0.02169
9	ACCT 367-MAINS	PLT367	0.54982	0.02231	0.21213	0.00887	0.02169
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	0.54982	0.02231	0.21213	0.00887	0.02169
11	ACCT 371-OTHER TRANS EQUIP	PLT371	0.54982	0.02231	0.21213	0.00887	0.02169
12	TOTAL TRANSMISSION PLANT	TRANPLT	0.54982	0.02231	0.21213	0.00887	0.02169
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	0.54982	0.02231	0.21213	0.00887	0.02169
14	ACCT 375-STRUCTURES & IMPROV	PLT375	0.54982	0.02231	0.21213	0.00887	0.02169
15	ACCT 376-MAINS	PLT376	0.54982	0.02231	0.21213	0.00887	0.02169
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	0.54982	0.02231	0.21213	0.00887	0.02169
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	0.54982	0.02231	0.21213	0.00887	0.02169
18	ACCT 380-SERVICES	PLT380	0.86857	0.03848	0.07930	0.00013	0.00011
19	ACCT 381-METERS	PLT381	0.76832	0.03404	0.18272	0.00175	0.00154
20	ACCT 382-METER INSTALLATIONS	PLT382	0.76832	0.03404	0.18272	0.00175	0.00154
21	ACCT 383-REGULATORS	PLT383	0.76832	0.03404	0.18272	0.00175	0.00154
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	0.76832	0.03404	0.18272	0.00175	0.00154
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	0.00000	0.00000	0.81651	0.02651	0.01988
24	ACCT 387-OTHER EQUIPMENT	PLT387	0.54982	0.02231	0.21213	0.00887	0.02169
25	ACCT 389-GEN PLT LAND	PLT389	0.76035	0.02904	0.14498	0.00289	0.00616
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	0.76035	0.02904	0.14498	0.00289	0.00616
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	0.76035	0.02904	0.14498	0.00289	0.00616
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	0.76035	0.02904	0.14498	0.00289	0.00616
29	ACCT 393-STORES EQUIPMENT	PLT393	0.76035	0.02904	0.14498	0.00289	0.00616
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	0.76035	0.02904	0.14498	0.00289	0.00616
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	0.76035	0.02904	0.14498	0.00289	0.00616
32	ACCT 396-POWER OPER EQUIP	PLT396	0.76035	0.02904	0.14498	0.00289	0.00616
33	ACCT 397-COMMUNICATION EQUIP	PLT397	0.76035	0.02904	0.14498	0.00289	0.00616
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	0.76035	0.02904	0.14498	0.00289	0.00616
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	0.54982	0.02231	0.21213	0.00887	0.02169
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	0.66307	0.02806	0.16494	0.00576	0.01402
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	0.66745	0.02837	0.17130	0.00554	0.01298
39							
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	0.54982	0.02231	0.21213	0.00887	0.02169
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	0.76832	0.03404	0.18272	0.00175	0.00154
42							
43							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line		ALLOC	INDUSTRIAL SM. VOL. (19)	INDUSTRIAL LG. VOL. (20)	INDUSTRIAL TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED RATIOS				
2	--				
3	TOTAL GAS PLANT IN SERVICE	PLANT	0.00201	0.00870	0.05022
4	SUM OF ALLOCATED LABOR EXP	LABOR	0.00094	0.00411	0.02267
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	0.00094	0.00411	0.02267
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	0.00094	0.00411	0.02267
7	ACCT 365-LAND & LAND RIGHTS	PLT365	0.00334	0.01440	0.08452
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	0.00334	0.01440	0.08452
9	ACCT 367-MAINS	PLT367	0.00334	0.01440	0.08452
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	0.00334	0.01440	0.08452
11	ACCT 371-OTHER TRANS EQUIP	PLT371	0.00334	0.01440	0.08452
12	TOTAL TRANSMISSION PLANT	TRANPLT	0.00334	0.01440	0.08452
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	0.00334	0.01440	0.08452
14	ACCT 375-STRUCTURES & IMPROV	PLT375	0.00334	0.01440	0.08452
15	ACCT 376-MAINS	PLT376	0.00334	0.01440	0.08452
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	0.00334	0.01440	0.08452
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	0.00334	0.01440	0.08452
18	ACCT 380-SERVICES	PLT380	0.00009	0.00009	0.00014
19	ACCT 381-METERS	PLT381	0.00009	0.00106	0.00181
20	ACCT 382-METER INSTALLATIONS	PLT382	0.00009	0.00106	0.00181
21	ACCT 383-REGULATORS	PLT383	0.00009	0.00106	0.00181
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	0.00009	0.00106	0.00181
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	0.00137	0.01325	0.02209
24	ACCT 387-OTHER EQUIPMENT	PLT387	0.00334	0.01440	0.08452
25	ACCT 389-GEN PLT LAND	PLT389	0.00094	0.00411	0.02267
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	0.00094	0.00411	0.02267
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	0.00094	0.00411	0.02267
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	0.00094	0.00411	0.02267
29	ACCT 393-STORES EQUIPMENT	PLT393	0.00094	0.00411	0.02267
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	0.00094	0.00411	0.02267
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	0.00094	0.00411	0.02267
32	ACCT 396-POWER OPER EQUIP	PLT396	0.00094	0.00411	0.02267
33	ACCT 397-COMMUNICATION EQUIP	PLT397	0.00094	0.00411	0.02267
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	0.00094	0.00411	0.02267
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0.00000	0.00000	0.00000
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	0.00334	0.01440	0.08452
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	0.00218	0.00932	0.05454
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	0.00200	0.00863	0.04978
39					
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	0.00334	0.01440	0.08452
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	0.00009	0.00106	0.00181
42					
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED RATIOS						
2	--						
3	TOTAL GAS PLANT IN SERVICE	PLANT	0.03315	0.00486	0.01550	0.00036	0.00027
4	SUM OF ALLOCATED LABOR EXP	LABOR	0.01937	0.00216	0.00700	0.00016	0.00016
5	ACCT 302-FRANCHISE & CONSENTS	PLT302	0.01937	0.00216	0.00700	0.00016	0.00016
6	ACCT 303-MISC. INTANGIBLE PLANT	PLT303	0.01937	0.00216	0.00700	0.00016	0.00016
7	ACCT 365-LAND & LAND RIGHTS	PLT365	0.04776	0.00810	0.02604	0.00060	0.00041
8	ACCT 366-STRUCTURES & IMPROV.	PLT366	0.04776	0.00810	0.02604	0.00060	0.00041
9	ACCT 367-MAINS	PLT367	0.04776	0.00810	0.02604	0.00060	0.00041
10	ACCT 369-MEAS. & REG STATION EQ	PLT369	0.04776	0.00810	0.02604	0.00060	0.00041
11	ACCT 371-OTHER TRANS EQUIP	PLT371	0.04776	0.00810	0.02604	0.00060	0.00041
12	TOTAL TRANSMISSION PLANT	TRANPLT	0.04776	0.00810	0.02604	0.00060	0.00041
13	ACCT 374-DISTR LAND & LAND RIGHTS	PLT374	0.04776	0.00810	0.02604	0.00060	0.00041
14	ACCT 375-STRUCTURES & IMPROV	PLT375	0.04776	0.00810	0.02604	0.00060	0.00041
15	ACCT 376-MAINS	PLT376	0.04776	0.00810	0.02604	0.00060	0.00041
16	ACCT 378-MEAS & REG EQ - GEN	PLT378	0.04776	0.00810	0.02604	0.00060	0.00041
17	ACCT 379-MEAS & REG EQ - CITY GATE	PLT379	0.04776	0.00810	0.02604	0.00060	0.00041
18	ACCT 380-SERVICES	PLT380	0.01294	0.00007	0.00004	0.00000	0.00004
19	ACCT 381-METERS	PLT381	0.00792	0.00004	0.00060	0.00000	0.00010
20	ACCT 382-METER INSTALLATIONS	PLT382	0.00792	0.00004	0.00060	0.00000	0.00010
21	ACCT 383-REGULATORS	PLT383	0.00792	0.00004	0.00060	0.00000	0.00010
22	ACCT 384-REGULATOR INSTALLATIONS	PLT384	0.00792	0.00004	0.00060	0.00000	0.00010
23	ACCT 385-INDUSTRIAL MEAS. EQUIP	PLT385	0.07549	0.01104	0.01325	0.00000	0.00060
24	ACCT 387-OTHER EQUIPMENT	PLT387	0.04776	0.00810	0.02604	0.00060	0.00041
25	ACCT 389-GEN PLT LAND	PLT389	0.01937	0.00216	0.00700	0.00016	0.00016
26	ACCT 390-STRUCTURES & IMPROVE	PLT390	0.01937	0.00216	0.00700	0.00016	0.00016
27	ACCT 391-OFFICE FURN & EQUIP	PLT391	0.01937	0.00216	0.00700	0.00016	0.00016
28	ACCT 392-TRANSPORTATION EQUIP	PLT392	0.01937	0.00216	0.00700	0.00016	0.00016
29	ACCT 393-STORES EQUIPMENT	PLT393	0.01937	0.00216	0.00700	0.00016	0.00016
30	ACCT 394-TOOLS, SHOP & GAR EQ	PLT394	0.01937	0.00216	0.00700	0.00016	0.00016
31	ACCT 395-LABORATORY EQUIPMENT	PLT395	0.01937	0.00216	0.00700	0.00016	0.00016
32	ACCT 396-POWER OPER EQUIP	PLT396	0.01937	0.00216	0.00700	0.00016	0.00016
33	ACCT 397-COMMUNICATION EQUIP	PLT397	0.01937	0.00216	0.00700	0.00016	0.00016
34	ACCT 398-MISCELLANEOUS EQUIP	PLT398	0.01937	0.00216	0.00700	0.00016	0.00016
35	ACCT 399-OTHER TANGIBLE PROP	PLT399	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 367 & 376 TOTAL MAINS	PLT367376	0.04776	0.00810	0.02604	0.00060	0.00041
37	ACCT 376 MAINS + 380 SERVICES	PLT376380	0.03539	0.00525	0.01680	0.00039	0.00028
38	TOTAL DISTRIBUTION PLANT	DISTRPLT	0.03313	0.00482	0.01537	0.00035	0.00027
39							
40	ACCT 378 & 379 MEAS. & REG. EQUIP	PLT37879	0.04776	0.00810	0.02604	0.00060	0.00041
41	ACCT 382 & 384 INSTALLATIONS	PLT38284	0.00792	0.00004	0.00060	0.00000	0.00010
42							
43							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED RATIOS CONT.								
2	--								
3	TOTAL GAS COSTS	GASCOSTS	1.00000	0.64126	0.27069	0.02510	0.06127	0.00091	0.00078
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	1.00000	0.64126	0.27069	0.02510	0.06127	0.00091	0.00078
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
6	ACCT 807-PUR GAS DEMAND	EXP807D	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
8									
9									
10	ACCT 856-MAIN EXPENSE	EXP856	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
11	ACCT 857-MEAS AND REG STATION	EXP857	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
14	ACCT 871-LOAD DISPATCHING	EXP871	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
15	ACCT 874-MAINS & SERVICING EXP	EXP874	1.00000	0.69112	0.18472	0.06604	0.05744	0.00039	0.00028
16	ACCT 875-MEAS AND REG STATION	EXP875	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
17	ACCT 876-MEAS AND REG STATION	EXP876	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
18	ACCT 877-MEAS AND REG STATION	EXP877	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
19	ACCT 878-METER EXPENSE	EXP878	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
21	ACCT 880-OTHER DISTR EXP	EXP880	1.00000	0.73717	0.19163	0.03657	0.03422	0.00021	0.00020
22	ACCT 881-RENTS	EXP881	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
24	ACCT 887-MAINT OF MAINS	EXP887	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
25	ACCT 889-MAINT OF MEAS/REG	EXP889	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
26	ACCT 890-MAINT OF MEAS/REG	EXP890	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
27	ACCT 891-MAINT OF MEAS/REG	EXP891	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
28	ACCT 892-MAINT OF SERVICES	EXP892	1.00000	0.90705	0.07954	0.00032	0.01305	0.00000	0.00004
29	ACCT 893-MAINT OF METER	EXP893	1.00000	0.80236	0.18601	0.00296	0.00857	0.00000	0.00010
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
31	ACCT 902-METER READING EXP	EXP902	1.00000	0.91274	0.07917	0.00030	0.00775	0.00000	0.00004
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	1.00000	0.91169	0.08018	0.00023	0.00782	0.00002	0.00004
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	1.00000	0.57549	0.17731	0.18947	0.05756	0.00000	0.00017
34	ACCT 905-MISC CUST ACCT EXP	EXP905	1.00000	0.87661	0.09025	0.02005	0.01302	0.00002	0.00006
35	ACCT 906-CUST SERVICE & INFO	EXP906	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	1.00000	0.91294	0.07905	0.00023	0.00771	0.00002	0.00004
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	1.00000	0.91294	0.07905	0.00023	0.00771	0.00002	0.00004
38	ACCT 910-MISC SERV & INFO	EXP910	1.00000	0.91294	0.07905	0.00023	0.00771	0.00002	0.00004
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED RATIOS CONT.							
2	--							
3	TOTAL GAS COSTS	GASCOSTS	0.25925	0.01143	0.00457	0.02053	0.05208	0.00919
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0.25925	0.01143	0.00457	0.02053	0.05208	0.00919
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
6	ACCT 807-PUR GAS DEMAND	EXP807D	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
8								
9								
10	ACCT 856-MAIN EXPENSE	EXP856	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
11	ACCT 857-MEAS AND REG STATION	EXP857	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
14	ACCT 871-LOAD DISPATCHING	EXP871	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
15	ACCT 874-MAINS & SERVICING EXP	EXP874	0.16494	0.01978	0.00218	0.06386	0.03539	0.02205
16	ACCT 875-MEAS AND REG STATION	EXP875	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
17	ACCT 876-MEAS AND REG STATION	EXP876	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
18	ACCT 877-MEAS AND REG STATION	EXP877	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
19	ACCT 878-METER EXPENSE	EXP878	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
21	ACCT 880-OTHER DISTR EXP	EXP880	0.17942	0.01222	0.00120	0.03537	0.02219	0.01203
22	ACCT 881-RENTS	EXP881	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
24	ACCT 887-MAINT OF MAINS	EXP887	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
25	ACCT 889-MAINT OF MEAS/REG	EXP889	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
26	ACCT 890-MAINT OF MEAS/REG	EXP890	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
27	ACCT 891-MAINT OF MEAS/REG	EXP891	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
28	ACCT 892-MAINT OF SERVICES	EXP892	0.07930	0.00024	0.00009	0.00022	0.01294	0.00011
29	ACCT 893-MAINT OF METER	EXP893	0.18272	0.00329	0.00009	0.00287	0.00792	0.00064
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
31	ACCT 902-METER READING EXP	EXP902	0.07899	0.00018	0.00009	0.00021	0.00765	0.00010
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	0.08006	0.00012	0.00009	0.00014	0.00776	0.00007
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	0.12265	0.05466	0.00009	0.18938	0.00000	0.05756
34	ACCT 905-MISC CUST ACCT EXP	EXP905	0.08441	0.00584	0.00009	0.01995	0.00693	0.00609
35	ACCT 906-CUST SERVICE & INFO	EXP906	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	0.07893	0.00012	0.00009	0.00014	0.00765	0.00007
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	0.07893	0.00012	0.00009	0.00014	0.00765	0.00007
38	ACCT 910-MISC SERV & INFO	EXP910	0.07893	0.00012	0.00009	0.00014	0.00765	0.00007
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED RATIOS CONT.						
2	--						
3	TOTAL GAS COSTS	GASCOSTS	0.61612	0.02514	0.25925	0.01143	0.00000
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0.61612	0.02514	0.25925	0.01143	0.00000
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0.00000	0.00000	0.00000	0.00000	0.00000
6	ACCT 807-PUR GAS DEMAND	EXP807D	0.00000	0.00000	0.00000	0.00000	0.00000
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0.00000	0.00000	0.00000	0.00000	0.00000
8							
9							
10	ACCT 856-MAIN EXPENSE	EXP856	0.54982	0.02231	0.21213	0.00887	0.02169
11	ACCT 857-MEAS AND REG STATION	EXP857	0.54982	0.02231	0.21213	0.00887	0.02169
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	0.54982	0.02231	0.21213	0.00887	0.02169
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	0.54982	0.02231	0.21213	0.00887	0.02169
14	ACCT 871-LOAD DISPATCHING	EXP871	0.54982	0.02231	0.21213	0.00887	0.02169
15	ACCT 874-MAINS & SERVICING EXP	EXP874	0.66307	0.02806	0.16494	0.00576	0.01402
16	ACCT 875-MEAS AND REG STATION	EXP875	0.54982	0.02231	0.21213	0.00887	0.02169
17	ACCT 876-MEAS AND REG STATION	EXP876	0.54982	0.02231	0.21213	0.00887	0.02169
18	ACCT 877-MEAS AND REG STATION	EXP877	0.76832	0.03404	0.18272	0.00175	0.00154
19	ACCT 878-METER EXPENSE	EXP878	0.76832	0.03404	0.18272	0.00175	0.00154
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	0.76832	0.03404	0.18272	0.00175	0.00154
21	ACCT 880-OTHER DISTR EXP	EXP880	0.70657	0.03060	0.17942	0.00397	0.00824
22	ACCT 881-RENTS	EXP881	0.54982	0.02231	0.21213	0.00887	0.02169
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0.00000	0.00000	0.00000	0.00000	0.00000
24	ACCT 887-MAINT OF MAINS	EXP887	0.54982	0.02231	0.21213	0.00887	0.02169
25	ACCT 889-MAINT OF MEAS/REG	EXP889	0.54982	0.02231	0.21213	0.00887	0.02169
26	ACCT 890-MAINT OF MEAS/REG	EXP890	0.54982	0.02231	0.21213	0.00887	0.02169
27	ACCT 891-MAINT OF MEAS/REG	EXP891	0.76832	0.03404	0.18272	0.00175	0.00154
28	ACCT 892-MAINT OF SERVICES	EXP892	0.86857	0.03848	0.07930	0.00013	0.00011
29	ACCT 893-MAINT OF METER	EXP893	0.76832	0.03404	0.18272	0.00175	0.00154
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	0.54982	0.02231	0.21213	0.00887	0.02169
31	ACCT 902-METER READING EXP	EXP902	0.87402	0.03872	0.07899	0.00012	0.00007
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	0.89790	0.01379	0.08006	0.00008	0.00004
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	0.55425	0.02124	0.12265	0.00351	0.05115
34	ACCT 905-MISC CUST ACCT EXP	EXP905	0.85945	0.01716	0.08441	0.00044	0.00540
35	ACCT 906-CUST SERVICE & INFO	EXP906	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	0.87203	0.04092	0.07893	0.00008	0.00004
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	0.87203	0.04092	0.07893	0.00008	0.00004
38	ACCT 910-MISC SERV & INFO	EXP910	0.87203	0.04092	0.07893	0.00008	0.00004
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED RATIOS CONT.				
2	--				
3	TOTAL GAS COSTS	GASCOSTS	0.00457	0.02053	0.00000
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0.00457	0.02053	0.00000
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0.00000	0.00000	0.00000
6	ACCT 807-PUR GAS DEMAND	EXP807D	0.00000	0.00000	0.00000
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0.00000	0.00000	0.00000
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10	ACCT 856-MAIN EXPENSE	EXP856	0.00334	0.01440	0.08452
11	ACCT 857-MEAS AND REG STATION	EXP857	0.00334	0.01440	0.08452
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	0.00334	0.01440	0.08452
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	0.00334	0.01440	0.08452
14	ACCT 871-LOAD DISPATCHING	EXP871	0.00334	0.01440	0.08452
15	ACCT 874-MAINS & SERVICING EXP	EXP874	0.00218	0.00932	0.05454
16	ACCT 875-MEAS AND REG STATION	EXP875	0.00334	0.01440	0.08452
17	ACCT 876-MEAS AND REG STATION	EXP876	0.00334	0.01440	0.08452
18	ACCT 877-MEAS AND REG STATION	EXP877	0.00009	0.00106	0.00181
19	ACCT 878-METER EXPENSE	EXP878	0.00009	0.00106	0.00181
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	0.00009	0.00106	0.00181
21	ACCT 880-OTHER DISTR EXP	EXP880	0.00120	0.00549	0.02987
22	ACCT 881-RENTS	EXP881	0.00334	0.01440	0.08452
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0.00000	0.00000	0.00000
24	ACCT 887-MAINT OF MAINS	EXP887	0.00334	0.01440	0.08452
25	ACCT 889-MAINT OF MEAS/REG	EXP889	0.00334	0.01440	0.08452
26	ACCT 890-MAINT OF MEAS/REG	EXP890	0.00334	0.01440	0.08452
27	ACCT 891-MAINT OF MEAS/REG	EXP891	0.00009	0.00106	0.00181
28	ACCT 892-MAINT OF SERVICES	EXP892	0.00009	0.00009	0.00014
29	ACCT 893-MAINT OF METER	EXP893	0.00009	0.00106	0.00181
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	0.00334	0.01440	0.08452
31	ACCT 902-METER READING EXP	EXP902	0.00009	0.00008	0.00013
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	0.00009	0.00005	0.00009
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	0.00009	0.00037	0.18901
34	ACCT 905-MISC CUST ACCT EXP	EXP905	0.00009	0.00009	0.01987
35	ACCT 906-CUST SERVICE & INFO	EXP906	0.00000	0.00000	0.00000
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	0.00009	0.00005	0.00009
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	0.00009	0.00005	0.00009
38	ACCT 910-MISC SERV & INFO	EXP910	0.00009	0.00005	0.00009
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line	Description	ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED RATIOS CONT.						
2	----------						
3	TOTAL GAS COSTS	GASCOSTS	0.05208	0.00919	0.00000	0.00091	0.00078
4	ACCT 421-PURCHASED POWER EXPENSE	EXP421	0.05208	0.00919	0.00000	0.00091	0.00078
4	ACCT 805-PURCHASED GAS EXPENSE	EXP805	0.00000	0.00000	0.00000	0.00000	0.00000
6	ACCT 807-PUR GAS DEMAND	EXP807D	0.00000	0.00000	0.00000	0.00000	0.00000
7	ACCT 807-PUR GAS COMMODITY	EXP807C	0.00000	0.00000	0.00000	0.00000	0.00000
8							
9							
10	ACCT 856-MAIN EXPENSE	EXP856	0.04776	0.00810	0.02604	0.00060	0.00041
11	ACCT 857-MEAS AND REG STATION	EXP857	0.04776	0.00810	0.02604	0.00060	0.00041
12	ACCT 864-MAINT OF STATION EQUIP	EXP864	0.04776	0.00810	0.02604	0.00060	0.00041
13	ACCT 867-MAINT OF OTHER EQUIP	EXP867	0.04776	0.00810	0.02604	0.00060	0.00041
14	ACCT 871-LOAD DISPATCHING	EXP871	0.04776	0.00810	0.02604	0.00060	0.00041
15	ACCT 874-MAINS & SERVICING EXP	EXP874	0.03539	0.00525	0.01680	0.00039	0.00028
16	ACCT 875-MEAS AND REG STATION	EXP875	0.04776	0.00810	0.02604	0.00060	0.00041
17	ACCT 876-MEAS AND REG STATION	EXP876	0.04776	0.00810	0.02604	0.00060	0.00041
18	ACCT 877-MEAS AND REG STATION	EXP877	0.00792	0.00004	0.00060	0.00000	0.00010
19	ACCT 878-METER EXPENSE	EXP878	0.00792	0.00004	0.00060	0.00000	0.00010
20	ACCT 879-CUST INSTALL EXPENSE	EXP879	0.00792	0.00004	0.00060	0.00000	0.00010
21	ACCT 880-OTHER DISTR EXP	EXP880	0.02219	0.00280	0.00923	0.00021	0.00020
22	ACCT 881-RENTS	EXP881	0.04776	0.00810	0.02604	0.00060	0.00041
23	ACCT 886-MAINT OF STRUCTURES	EXP886	0.00000	0.00000	0.00000	0.00000	0.00000
24	ACCT 887-MAINT OF MAINS	EXP887	0.04776	0.00810	0.02604	0.00060	0.00041
25	ACCT 889-MAINT OF MEAS/REG	EXP889	0.04776	0.00810	0.02604	0.00060	0.00041
26	ACCT 890-MAINT OF MEAS/REG	EXP890	0.04776	0.00810	0.02604	0.00060	0.00041
27	ACCT 891-MAINT OF MEAS/REG	EXP891	0.00792	0.00004	0.00060	0.00000	0.00010
28	ACCT 892-MAINT OF SERVICES	EXP892	0.01294	0.00007	0.00004	0.00000	0.00004
29	ACCT 893-MAINT OF METER	EXP893	0.00792	0.00004	0.00060	0.00000	0.00010
30	ACCT 894-MAINT OF OTHER EQUIP	EXP894	0.04776	0.00810	0.02604	0.00060	0.00041
31	ACCT 902-METER READING EXP	EXP902	0.00765	0.00006	0.00004	0.00000	0.00004
32	ACCT 903-CUST RECORDS & COLLEC	EXP903	0.00776	0.00004	0.00003	0.00002	0.00004
33	ACCT 904-UNCOLLECTIBLE ACCTS	EXP904	0.00000	0.00000	0.05756	0.00000	0.00017
34	ACCT 905-MISC CUST ACCT EXP	EXP905	0.00693	0.00004	0.00605	0.00002	0.00006
35	ACCT 906-CUST SERVICE & INFO	EXP906	0.00000	0.00000	0.00000	0.00000	0.00000
36	ACCT 908-CUSTOMER ASSISTANCE	EXP908	0.00765	0.00004	0.00003	0.00002	0.00004
37	ACCT 909-INFO & INSTRUCT ADV	EXP909	0.00765	0.00004	0.00003	0.00002	0.00004
38	ACCT 910-MISC SERV & INFO	EXP910	0.00765	0.00004	0.00003	0.00002	0.00004
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
INTERNALLY DEVELOPED RATIOS CONT.								
ACCT 912-DEMO & SELLING	EXP912	1.00000	0.90922	0.08243	0.00024	0.00804	0.00002	0.00005
ACCT 913-ADVERTISING EXP	EXP913	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
ACCT 920-ADMIN & GENERAL SALARY	EXP920	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 921-OFFICE SUPPIES & EXP	EXP921	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 923-OUTSIDE SERVICES	EXP923	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 924-PROPERTY INSURANCE	EXP924	1.00000	0.69407	0.19086	0.06093	0.05351	0.00036	0.00027
ACCT 925-INJURIES & DAMAGES	EXP925	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 926-EMPLOYEE PENSION & BENF	EXP926	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 928-REG COMMISSION EXP	EXP928	1.00000	0.70827	0.20877	0.03530	0.04560	0.00155	0.00051
ACCT 930-MISC GEN EXP	EXP930	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 931-RENTS	EXP931	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
ACCT 932-MAINT OF GENERAL PLT	EXP932	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
LABOR ACCT 820-867	LABTM	1.00000	0.57214	0.24269	0.10226	0.08190	0.00060	0.00041
LABOR ACCT 871-881	LABDO	1.00000	0.74409	0.19077	0.03314	0.03162	0.00018	0.00019
LABOR ACCT 874-881 & 886-894	LABDM	1.00000	0.70760	0.18015	0.05921	0.05243	0.00035	0.00026
LAROR ACCT 902-906	LABCA	1.00000	0.91199	0.07988	0.00026	0.00780	0.00002	0.00004
LABOR ACCT 908-910	LABCS	1.00000	0.91294	0.07905	0.00023	0.00771	0.00002	0.00004
ACCTS 902-904	EXP9024	1.00000	0.87661	0.09025	0.02005	0.01302	0.00002	0.00006
ACCTS 874 - 879	EXP87479	1.00000	0.73717	0.19163	0.03657	0.03422	0.00021	0.00020
ACCTS 908 & 909	EXP9089	1.00000	0.91294	0.07905	0.00023	0.00771	0.00002	0.00004
REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	1.00000	0.72794	0.17716	0.05036	0.04398	0.00034	0.00023
TOTAL GENERAL PLANT	GENPLT	1.00000	0.78940	0.15403	0.02772	0.02853	0.00016	0.00016
WORKING CASH 1/8 OF O&M	WCOM	1.00000	0.77136	0.15925	0.03575	0.03310	0.00032	0.00021
PRESENT REVENUE	TOTREV	1.00000	0.70827	0.20877	0.03530	0.04560	0.00155	0.00051
PAYROLL EXCLUDING A&G	PAYXAG	1.00000	0.78731	0.15607	0.02804	0.02826	0.00016	0.00016
COMMON PLANT	PLTCOMN	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
CHANGE IN REVENUE @ EQUALIZED	REVCHGC	1.00000	0.83946	0.01318	0.11795	0.03616	-0.00563	-0.00112
CHANGE IN REVENUE @ PROPOSED	REVCHGP	1.00000	0.70371	0.14776	0.09132	0.05512	0.00158	0.00052
NET PLANT - RESIDENTIAL ONLY	RESNTPT	1.00000	1.00000	0.00000	0.00000	0.00000	0.00000	0.00000
CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	1.00000	0.79595	0.14764	0.02673	0.02937	0.00015	0.00015
WORKING CASH - GAS COSTS	WCGC	1.00000	0.64126	0.27069	0.02510	0.06127	0.00091	0.00078
WORKING CASH - OTHER	WCOTH	1.00000	0.77326	0.15763	0.03591	0.03269	0.00031	0.00020

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED RATIOS CONT.							
2	--							
3	ACCT 912-DEMO & SELLING	EXP912	0.08231	0.00013	0.00010	0.00014	0.00797	0.00007
4	ACCT 913-ADVERTISING EXP	EXP913	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
7	ACCT 923-OUTSIDE SERVICES	EXP923	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
8	ACCT 924-PROPERTY INSURANCE	EXP924	0.17220	0.01867	0.00201	0.05891	0.03315	0.02036
9	ACCT 925-INJURIES & DAMAGES	EXP925	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
11	ACCT 928-REG COMMISSION EXP	EXP928	0.18363	0.02513	0.00234	0.03296	0.03348	0.01212
12	ACCT 930-MISC GEN EXP	EXP930	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
13	ACCT 931-RENTS	EXP931	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
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17	LABOR ACCT 820-867	LABTM	0.21213	0.03055	0.00334	0.09892	0.04776	0.03414
18	LABOR ACCT 871-881	LABDO	0.17948	0.01130	0.00109	0.03205	0.02075	0.01087
19	LABOR ACCT 874-881 & 886-894	LABDM	0.16226	0.01789	0.00196	0.05725	0.03269	0.01975
20	LAROR ACCT 902-906	LABCA	0.07974	0.00014	0.00009	0.00017	0.00772	0.00008
21	LABOR ACCT 908-910	LABCS	0.07893	0.00012	0.00009	0.00014	0.00765	0.00007
22								
23								
24								
25	ACCTS 902-904	EXP9024	0.08441	0.00584	0.00009	0.01995	0.00693	0.00609
26	ACCTS 874 - 879	EXP87479	0.17942	0.01222	0.00120	0.03537	0.02219	0.01203
27	ACCTS 908 & 909	EXP9089	0.07893	0.00012	0.00009	0.00014	0.00765	0.00007
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	0.16125	0.01591	0.00162	0.04873	0.02744	0.01654
29	TOTAL GENERAL PLANT	GENPLT	0.14498	0.00906	0.00094	0.02678	0.01937	0.00916
30	WORKING CASH 1/8 OF O&M	WCOM	0.14663	0.01262	0.00119	0.03456	0.02135	0.01175
31	PRESENT REVENUE	TOTREV	0.18363	0.02513	0.00234	0.03296	0.03348	0.01212
32	PAYROLL EXCLUDING A&G	PAYXAG	0.14690	0.00917	0.00095	0.02709	0.01901	0.00925
33	COMMON PLANT	PLTCOMN	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	0.04415	-0.03097	-0.00189	0.11984	-0.00003	0.03619
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	0.18673	-0.03898	0.00239	0.08893	0.03343	0.02169
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	0.13894	0.00870	0.00091	0.02582	0.02051	0.00887
38	WORKING CASH - GAS COSTS	WCGC	0.25925	0.01143	0.00457	0.02053	0.05208	0.00919
39	WORKING CASH - OTHER	WCOTH	0.14499	0.01264	0.00114	0.03476	0.02090	0.01179
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UNS GAS COMPANY
COST OF SERVICE STUDY
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			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED RATIOS CONT.						
2							
3	ACCT 912-DEMO & SELLING	EXP912	0.89547	0.01375	0.08231	0.00008	0.00005
4	ACCT 913-ADVERTISING EXP	EXP913	0.00000	0.00000	0.00000	0.00000	0.00000
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	0.75946	0.02785	0.14690	0.00293	0.00624
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	0.75946	0.02785	0.14690	0.00293	0.00624
7	ACCT 923-OUTSIDE SERVICES	EXP923	0.75946	0.02785	0.14690	0.00293	0.00624
8	ACCT 924-PROPERTY INSURANCE	EXP924	0.66606	0.02802	0.17220	0.00558	0.01309
9	ACCT 925-INJURIES & DAMAGES	EXP925	0.75946	0.02785	0.14690	0.00293	0.00624
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	0.75946	0.02785	0.14690	0.00293	0.00624
11	ACCT 928-REG COMMISSION EXP	EXP928	0.68694	0.02133	0.18363	0.00454	0.02059
12	ACCT 930-MISC GEN EXP	EXP930	0.75946	0.02785	0.14690	0.00293	0.00624
13	ACCT 931-RENTS	EXP931	0.75946	0.02785	0.14690	0.00293	0.00624
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	0.76035	0.02904	0.14498	0.00289	0.00616
15							
16							
17	LABOR ACCT 820-867	LABTM	0.54982	0.02231	0.21213	0.00887	0.02169
18	LABOR ACCT 871-881	LABDO	0.71313	0.03096	0.17948	0.00374	0.00756
19	LABOR ACCT 874-881 & 886-894	LABDM	0.67871	0.02889	0.16226	0.00526	0.01263
20	LAROR ACCT 902-906	LABCA	0.89068	0.02131	0.07974	0.00009	0.00005
21	LABOR ACCT 908-910	LABCS	0.87203	0.04092	0.07893	0.00008	0.00004
22							
23							
24							
25	ACCTS 902-904	EXP9024	0.85945	0.01716	0.08441	0.00044	0.00540
26	ACCTS 874 - 879	EXP87479	0.70657	0.03060	0.17942	0.00397	0.00824
27	ACCTS 908 & 909	EXP9089	0.87203	0.04092	0.07893	0.00008	0.00004
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	0.70109	0.02685	0.16125	0.00459	0.01133
29	TOTAL GENERAL PLANT	GENPLT	0.76035	0.02904	0.14498	0.00289	0.00616
30	WORKING CASH 1/8 OF O&M	WCOM	0.74668	0.02468	0.14663	0.00332	0.00930
31	PRESENT REVENUE	TOTREV	0.68694	0.02133	0.18363	0.00454	0.02059
32	PAYROLL EXCLUDING A&G	PAYXAG	0.75946	0.02785	0.14690	0.00293	0.00624
33	COMMON PLANT	PLTCOMN	0.00000	0.00000	0.00000	0.00000	0.00000
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	0.78662	0.05285	0.04415	0.00462	(0.03559)
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	0.68236	0.02135	0.18673	0.00463	(0.04361)
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0.95969	0.04031	0.00000	0.00000	0.00000
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	0.76315	0.03280	0.13894	0.00277	0.00593
38	WORKING CASH - GAS COSTS	WCGC	0.61612	0.02514	0.25925	0.01143	0.00000
39	WORKING CASH - OTHER	WCOTH	0.74858	0.02468	0.14499	0.00320	0.00944
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED RATIOS CONT.				
2	--				
3	ACCT 912-DEMO & SELLING	EXP912	0.00010	0.00005	0.00009
4	ACCT 913-ADVERTISING EXP	EXP913	0.00000	0.00000	0.00000
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	0.00095	0.00416	0.02293
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	0.00095	0.00416	0.02293
7	ACCT 923-OUTSIDE SERVICES	EXP923	0.00095	0.00416	0.02293
8	ACCT 924-PROPERTY INSURANCE	EXP924	0.00201	0.00870	0.05022
9	ACCT 925-INJURIES & DAMAGES	EXP925	0.00095	0.00416	0.02293
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	0.00095	0.00416	0.02293
11	ACCT 928-REG COMMISSION EXP	EXP928	0.00234	0.00442	0.02854
12	ACCT 930-MISC GEN EXP	EXP930	0.00095	0.00416	0.02293
13	ACCT 931-RENTS	EXP931	0.00095	0.00416	0.02293
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	0.00094	0.00411	0.02267
15					
16					
17	LABOR ACCT 820-867	LABTM	0.00334	0.01440	0.08452
18	LABOR ACCT 871-881	LABDO	0.00109	0.00504	0.02701
19	LABOR ACCT 874-881 & 886-894	LABDM	0.00196	0.00839	0.04885
20	LAROR ACCT 902-906	LABCA	0.00009	0.00006	0.00011
21	LABOR ACCT 908-910	LABCS	0.00009	0.00005	0.00009
22					
23					
24					
25	ACCTS 902-904	EXP9024	0.00009	0.00009	0.01987
26	ACCTS 874 - 879	EXP87479	0.00120	0.00549	0.02987
27	ACCTS 908 & 909	EXP9089	0.00009	0.00005	0.00009
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	0.00162	0.00688	0.04185
29	TOTAL GENERAL PLANT	GENPLT	0.00094	0.00411	0.02267
30	WORKING CASH 1/8 OF O&M	WCOM	0.00119	0.00459	0.02997
31	PRESENT REVENUE	TOTREV	0.00234	0.00442	0.02854
32	PAYROLL EXCLUDING A&G	PAYXAG	0.00095	0.00416	0.02293
33	COMMON PLANT	PLTCOMN	0.00000	0.00000	0.00000
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	(0.00189)	0.01880	0.10105
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	0.00239	0.00451	0.08442
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0.00000	0.00000	0.00000
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	0.00091	0.00395	0.02187
38	WORKING CASH - GAS COSTS	WCGC	0.00457	0.02053	0.00000
39	WORKING CASH - OTHER	WCOTH	0.00114	0.00436	0.03041
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED RATIOS CONT.						
2	--						
3	ACCT 912-DEMO & SELLING	EXP912	0.00797	0.00004	0.00003	0.00002	0.00005
4	ACCT 913-ADVERTISING EXP	EXP913	0.00000	0.00000	0.00000	0.00000	0.00000
5	ACCT 920-ADMIN & GENERAL SALARY	EXP920	0.01901	0.00217	0.00708	0.00016	0.00016
6	ACCT 921-OFFICE SUPPIES & EXP	EXP921	0.01901	0.00217	0.00708	0.00016	0.00016
7	ACCT 923-OUTSIDE SERVICES	EXP923	0.01901	0.00217	0.00708	0.00016	0.00016
8	ACCT 924-PROPERTY INSURANCE	EXP924	0.03315	0.00486	0.01550	0.00036	0.00027
9	ACCT 925-INJURIES & DAMAGES	EXP925	0.01901	0.00217	0.00708	0.00016	0.00016
10	ACCT 926-EMPLOYEE PENSION & BENF	EXP926	0.01901	0.00217	0.00708	0.00016	0.00016
11	ACCT 928-REG COMMISSION EXP	EXP928	0.03348	0.00254	0.00958	0.00155	0.00051
12	ACCT 930-MISC GEN EXP	EXP930	0.01901	0.00217	0.00708	0.00016	0.00016
13	ACCT 931-RENTS	EXP931	0.01901	0.00217	0.00708	0.00016	0.00016
14	ACCT 932-MAINT OF GENERAL PLT	EXP932	0.01937	0.00216	0.00700	0.00016	0.00016
15							
16							
17	LABOR ACCT 820-867	LABTM	0.04776	0.00810	0.02604	0.00060	0.00041
18	LABOR ACCT 871-881	LABDO	0.02075	0.00252	0.00835	0.00018	0.00019
19	LABOR ACCT 874-881 & 886-894	LABDM	0.03269	0.00469	0.01505	0.00035	0.00026
20	LAROR ACCT 902-906	LABCA	0.00772	0.00004	0.00004	0.00002	0.00004
21	LABOR ACCT 908-910	LABCS	0.00765	0.00004	0.00003	0.00002	0.00004
22							
23							
24							
25	ACCTS 902-904	EXP9024	0.00693	0.00004	0.00605	0.00002	0.00006
26	ACCTS 874 - 879	EXP87479	0.02219	0.00280	0.00923	0.00021	0.00020
27	ACCTS 908 & 909	EXP9089	0.00765	0.00004	0.00003	0.00002	0.00004
28	REV CLAIMED ROR LESS GAS COSTS	REVCLAIM	0.02744	0.00379	0.01275	0.00034	0.00023
29	TOTAL GENERAL PLANT	GENPLT	0.01937	0.00216	0.00700	0.00016	0.00016
30	WORKING CASH 1/8 OF O&M	WCOM	0.02135	0.00245	0.00930	0.00032	0.00021
31	PRESENT REVENUE	TOTREV	0.03348	0.00254	0.00958	0.00155	0.00051
32	PAYROLL EXCLUDING A&G	PAYXAG	0.01901	0.00217	0.00708	0.00016	0.00016
33	COMMON PLANT	PLTCOMN	0.00000	0.00000	0.00000	0.00000	0.00000
34	CHANGE IN REVENUE @ EQUALIZED	REVCHGC	(0.00003)	0.00976	0.02643	(0.00563)	(0.00112)
35	CHANGE IN REVENUE @ PROPOSED	REVCHGP	0.03343	0.00257	0.01912	0.00158	0.00052
36	NET PLANT - RESIDENTIAL ONLY	RESNTPT	0.00000	0.00000	0.00000	0.00000	0.00000
37	CAPITALIZED LABOR EXCL ACCT 371	CAPLABX	0.02051	0.00211	0.00676	0.00015	0.00015
38	WORKING CASH - GAS COSTS	WCGC	0.05208	0.00919	0.00000	0.00091	0.00078
39	WORKING CASH - OTHER	WCOTH	0.02090	0.00235	0.00944	0.00031	0.00020
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

Line		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED CONT.								
2	--								
3	REVENUES FROM GAS SALES								
4	BASE REVENUES		1.00000	0.70372	0.21251	0.03589	0.04576	0.00160	0.00052

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
INTERNALLY DEVELOPED CONT.							

REVENUES FROM GAS SALES							
BASE REVENUES		0.18674	0.02578	0.00239	0.03350	0.03343	0.01233

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	RESIDENTIAL		COMMERCIAL		
		RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
INTERNALLY DEVELOPED CONT.						
REVENUES FROM GAS SALES						
BASE REVENUES		0.68237	0.02135	0.18674	0.00463	0.02114

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	INDUSTRIAL		
		SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
INTERNALLY DEVELOPED CONT.				
--				
REVENUES FROM GAS SALES				
BASE REVENUES		0.00239	0.00447	0.02902

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	INTERNALLY DEVELOPED CONT.						
2	--						
3	REVENUES FROM GAS SALES						
4	BASE REVENUES		0.03343	0.00257	0.00976	0.00160	0.00052
5							
6							
7							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
RATIO TABLE CONT.								
INTERNALLY DEVELOPED								

DEVELOPMENT OF UNCOLLECTABLE FACTOR								
RESIDENTIAL REVENUE	RESREV	1.00000	1.00000	0.00000	0.00000	0.00000	0.00000	0.00000
COMMERCIAL REVENUE	COMREV	1.00000	0.00000	0.99862	0.00000	0.00000	0.00000	0.00138
INDUSTRIAL REVENUE	INDREV	1.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000
TRANSPORTATION REVENUE	TRAREV	1.00000	0.00000	0.17181	0.63484	0.19334	0.00000	0.00000
ALLOCATION OF BAD DEBTS								
RESIDENTIAL	RESREV							
COMMERCIAL	COMREV							
INDUSTRIAL	INDREV							
TRANSPORTATION	TRAREV							
ALLOCATED BAD DEBTS	BADDEBT	1.00000	0.57549	0.17731	0.18947	0.05756	0.00000	0.00017

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
RATIO TABLE CONT.							
INTERNALLY DEVELOPED							
DEVELOPMENT OF UNCOLLECTABLE FACTOR							
RESIDENTIAL REVENUE	RESREV	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
COMMERCIAL REVENUE	COMREV	0.97086	0.02776	0.00000	0.00000	0.00000	0.00000
INDUSTRIAL REVENUE	INDREV	0.00000	0.00000	0.19081	0.80919	0.00000	0.00000
TRANSPORTATION REVENUE	TRAREV	0.00000	0.17181	0.00000	0.63484	0.00000	0.19334
ALLOCATION OF BAD DEBTS							
RESIDENTIAL	RESREV						
COMMERCIAL	COMREV						
INDUSTRIAL	INDREV						
TRANSPORTATION	TRAREV						
ALLOCATED BAD DEBTS	BADDEBT	0.12265	0.05466	0.00009	0.18938	0.00000	0.05756

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	RESIDENTIAL		COMMERCIAL		
		RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
RATIO TABLE CONT.						
INTERNALLY DEVELOPED						
--						
DEVELOPMENT OF UNCOLLECTABLE FACTOR						
RESIDENTIAL REVENUE	RESREV	0.96310	0.03690	0.00000	0.00000	0.00000
COMMERCIAL REVENUE	COMREV	0.00000	0.00000	0.97086	0.02776	0.00000
INDUSTRIAL REVENUE	INDREV	0.00000	0.00000	0.00000	0.00000	0.00000
TRANSPORTATION REVENUE	TRAREV	0.00000	0.00000	0.00000	0.00000	0.17181
ALLOCATION OF BAD DEBTS						
RESIDENTIAL	RESREV					
COMMERCIAL	COMREV					
INDUSTRIAL	INDREV					
TRANSPORTATION	TRAREV					
ALLOCATED BAD DEBTS	BADDEBT	0.55425	0.02124	0.12265	0.00351	0.05115

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	RATIO TABLE CONT.				
3	INTERNALLY DEVELOPED				
4	--				
7	DEVELOPMENT OF UNCOLLECTABLE FACTOR				
8	RESIDENTIAL REVENUE	RESREV	0.00000	0.00000	0.00000
9	COMMERCIAL REVENUE	COMREV	0.00000	0.00000	0.00000
10	INDUSTRIAL REVENUE	INDREV	0.19081	0.80919	0.00000
11	TRANSPORTATION REVENUE	TRAREV	0.00000	0.00000	0.63484
13	ALLOCATION OF BAD DEBTS				
14	RESIDENTIAL	RESREV			
15	COMMERCIAL	COMREV			
16	INDUSTRIAL	INDREV			
17	TRANSPORTATION	TRAREV			
18	ALLOCATED BAD DEBTS	BADDEBT	0.00009	0.00037	0.18901

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

LINE		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	RATIO TABLE CONT.						
2							
3	INTERNALLY DEVELOPED						
4	------------------------------						
5							
6							
7	DEVELOPMENT OF UNCOLLECTABLE FACTOR						
8	RESIDENTIAL REVENUE	RESREV	0.00000	0.00000	0.00000	0.00000	0.00000
9	COMMERCIAL REVENUE	COMREV	0.00000	0.00000	0.00000	0.00000	0.00138
10	INDUSTRIAL REVENUE	INDREV	0.00000	0.00000	0.00000	0.00000	0.00000
11	TRANSPORTATION REVENUE	TRAREV	0.00000	0.00000	0.19334	0.00000	0.00000
12							
13	ALLOCATION OF BAD DEBTS						
14	RESIDENTIAL	RESREV					
15	COMMERCIAL	COMREV					
16	INDUSTRIAL	INDREV					
17	TRANSPORTATION	TRAREV					
18	ALLOCATED BAD DEBTS	BADDEBT	0.00000	0.00000	0.05756	0.00000	0.00017
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	INTERNALLY DEVELOPED CONT.								
2	--								
3	487-FORFEITED DISCOUNTS								
4	REVENUE BY CLASS - RANGE NAME DEFINITION								
5	RESIDENTIAL SERVICE	REV487A	1.00000	1.00000	0.00000	0.00000	0.00000	0.00000	0.00000
6									
7	RESIDENTIAL CARES	REV487C	1.00000	1.00000	0.00000	0.00000	0.00000	0.00000	0.00000
8	COMMERCIAL SM. VOL.	REV487D	1.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000
9									
10	COMMERCIAL LG. VOL.	REV487F	1.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000
11	COMMERCIAL TRANSPORTATION	REV487G	1.00000	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000
12	INDUSTRIAL SM. VOL.	REV487H	1.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000
13	INDUSTRIAL LG. VOL.	REV487I	1.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000
14	INDUSTRIAL TRANSPORTATION	REV487J	1.00000	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000
15	PUBLIC AUTHORITY SM. VOL.	REV487K	1.00000	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000
16	PUBLIC AUTHORITY LG. VOL.	REV487L	1.00000	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	1.00000	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000
18	IRRIGATION	REV487N	1.00000	0.00000	0.00000	0.00000	0.00000	0.00000	1.00000
19									
20	487-FORFEITED DISCOUNTS								
21	REVENUE BY CLASS - ALLOCATION								
22	RESIDENTIAL SERVICE	REV487A							
23									
24	RESIDENTIAL CARES	REV487C							
25	COMMERCIAL SM. VOL.	REV487D							
26									
27	COMMERCIAL LG. VOL.	REV487F							
28	COMMERCIAL TRANSPORTATION	REV487G							
29	INDUSTRIAL SM. VOL.	REV487H							
30	INDUSTRIAL LG. VOL.	REV487I							
31	INDUSTRIAL TRANSPORTATION	REV487J							
32	PUBLIC AUTHORITY SM. VOL.	REV487K							
33	PUBLIC AUTHORITY LG. VOL.	REV487L							
34	PUBLIC AUTHORITY TRANSPORT.	REV487M							
35	IRRIGATION	REV487N							
36	TOTAL FOREITED DISCOUNTS	FORFDISC	1.00000	0.51890	0.26804	0.11527	0.09687	0.00000	0.00092
37									
38									
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41									
42									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	INTERNALLY DEVELOPED CONT.							
2	--							
3	487-FORFEITED DISCOUNTS							
4	REVENUE BY CLASS - RANGE NAME DEFINITION							
5	RESIDENTIAL SERVICE	REV487A	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
6								
7	RESIDENTIAL CARES	REV487C	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
8	COMMERCIAL SM. VOL.	REV487D	1.00000	0.00000	0.00000	0.00000	0.00000	0.00000
9								
10	COMMERCIAL LG. VOL.	REV487F	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000
11	COMMERCIAL TRANSPORTATION	REV487G	0.00000	1.00000	0.00000	0.00000	0.00000	0.00000
12	INDUSTRIAL SM. VOL.	REV487H	0.00000	0.00000	1.00000	0.00000	0.00000	0.00000
13	INDUSTRIAL LG. VOL.	REV487I	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000
14	INDUSTRIAL TRANSPORTATION	REV487J	0.00000	0.00000	0.00000	1.00000	0.00000	0.00000
15	PUBLIC AUTHORITY SM. VOL.	REV487K	0.00000	0.00000	0.00000	0.00000	1.00000	0.00000
16	PUBLIC AUTHORITY LG. VOL.	REV487L	0.00000	0.00000	0.00000	0.00000	0.00000	1.00000
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	0.00000	0.00000	0.00000	0.00000	0.00000	1.00000
18	IRRIGATION	REV487N	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
19								
20	487-FORFEITED DISCOUNTS							
21	REVENUE BY CLASS - ALLOCATION							
22	RESIDENTIAL SERVICE	REV487A						
23								
24	RESIDENTIAL CARES	REV487C						
25	COMMERCIAL SM. VOL.	REV487D						
26								
27	COMMERCIAL LG. VOL.	REV487F						
28	COMMERCIAL TRANSPORTATION	REV487G						
29	INDUSTRIAL SM. VOL.	REV487H						
30	INDUSTRIAL LG. VOL.	REV487I						
31	INDUSTRIAL TRANSPORTATION	REV487J						
32	PUBLIC AUTHORITY SM. VOL.	REV487K						
33	PUBLIC AUTHORITY LG. VOL.	REV487L						
34	PUBLIC AUTHORITY TRANSPORT.	REV487M						
35	IRRIGATION	REV487N						
36	TOTAL FOREITED DISCOUNTS	FORFDISC	0.21558	0.05246	0.00537	0.10990	0.03319	0.06367
37								
38								
39								
40								
41								
42								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	INTERNALLY DEVELOPED CONT.						
2	--						
3	487-FORFEITED DISCOUNTS						
4	REVENUE BY CLASS - RANGE NAME DEFINITION						
5	RESIDENTIAL SERVICE	REV487A	1.00000	0.00000	0.00000	0.00000	0.00000
6							
7	RESIDENTIAL CARES	REV487C	0.00000	1.00000	0.00000	0.00000	0.00000
8	COMMERCIAL SM. VOL.	REV487D	0.00000	0.00000	1.00000	0.00000	0.00000
9							
10	COMMERCIAL LG. VOL.	REV487F	0.00000	0.00000	0.00000	1.00000	0.00000
11	COMMERCIAL TRANSPORTATION	REV487G	0.00000	0.00000	0.00000	0.00000	1.00000
12	INDUSTRIAL SM. VOL.	REV487H	0.00000	0.00000	0.00000	0.00000	0.00000
13	INDUSTRIAL LG. VOL.	REV487I	0.00000	0.00000	0.00000	0.00000	0.00000
14	INDUSTRIAL TRANSPORTATION	REV487J	0.00000	0.00000	0.00000	0.00000	0.00000
15	PUBLIC AUTHORITY SM. VOL.	REV487K	0.00000	0.00000	0.00000	0.00000	0.00000
16	PUBLIC AUTHORITY LG. VOL.	REV487L	0.00000	0.00000	0.00000	0.00000	0.00000
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	0.00000	0.00000	0.00000	0.00000	0.00000
18	IRRIGATION	REV487N	0.00000	0.00000	0.00000	0.00000	0.00000
19							
20	487-FORFEITED DISCOUNTS						
21	REVENUE BY CLASS - ALLOCATION						
22	RESIDENTIAL SERVICE	REV487A					
23							
24	RESIDENTIAL CARES	REV487C					
25	COMMERCIAL SM. VOL.	REV487D					
26							
27	COMMERCIAL LG. VOL.	REV487F					
28	COMMERCIAL TRANSPORTATION	REV487G					
29	INDUSTRIAL SM. VOL.	REV487H					
30	INDUSTRIAL LG. VOL.	REV487I					
31	INDUSTRIAL TRANSPORTATION	REV487J					
32	PUBLIC AUTHORITY SM. VOL.	REV487K					
33	PUBLIC AUTHORITY LG. VOL.	REV487L					
34	PUBLIC AUTHORITY TRANSPORT.	REV487M					
35	IRRIGATION	REV487N					
36	TOTAL FOREITED DISCOUNTS	FORFDISC	0.50846	0.01044	0.21558	0.00581	0.04665
37							
38							
39							
40							
41							
42							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	INTERNALLY DEVELOPED CONT.				
2	--				
3	487-FORFEITED DISCOUNTS				
4	REVENUE BY CLASS - RANGE NAME DEFINITION				
5	RESIDENTIAL SERVICE	REV487A	0.00000	0.00000	0.00000
6					
7	RESIDENTIAL CARES	REV487C	0.00000	0.00000	0.00000
8	COMMERCIAL SM. VOL.	REV487D	0.00000	0.00000	0.00000
9					
10	COMMERCIAL LG. VOL.	REV487F	0.00000	0.00000	0.00000
11	COMMERCIAL TRANSPORTATION	REV487G	0.00000	0.00000	0.00000
12	INDUSTRIAL SM. VOL.	REV487H	1.00000	0.00000	0.00000
13	INDUSTRIAL LG. VOL.	REV487I	0.00000	1.00000	0.00000
14	INDUSTRIAL TRANSPORTATION	REV487J	0.00000	0.00000	1.00000
15	PUBLIC AUTHORITY SM. VOL.	REV487K	0.00000	0.00000	0.00000
16	PUBLIC AUTHORITY LG. VOL.	REV487L	0.00000	0.00000	0.00000
17	PUBLIC AUTHORITY TRANSPORT.	REV487M	0.00000	0.00000	0.00000
18	IRRIGATION	REV487N	0.00000	0.00000	0.00000
19					
20	487-FORFEITED DISCOUNTS				
21	REVENUE BY CLASS - ALLOCATION				
22	RESIDENTIAL SERVICE	REV487A			
23					
24	RESIDENTIAL CARES	REV487C			
25	COMMERCIAL SM. VOL.	REV487D			
26					
27	COMMERCIAL LG. VOL.	REV487F			
28	COMMERCIAL TRANSPORTATION	REV487G			
29	INDUSTRIAL SM. VOL.	REV487H			
30	INDUSTRIAL LG. VOL.	REV487I			
31	INDUSTRIAL TRANSPORTATION	REV487J			
32	PUBLIC AUTHORITY SM. VOL.	REV487K			
33	PUBLIC AUTHORITY LG. VOL.	REV487L			
34	PUBLIC AUTHORITY TRANSPORT.	REV487M			
35	IRRIGATION	REV487N			
36	TOTAL FOREITED DISCOUNTS	FORFDISC	0.00537	0.01110	0.09880
37					
38					
39					
40					
41					
42					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED DECEMBER 31, 2005

	ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
INTERNALLY DEVELOPED CONT.						
--						
487-FORFEITED DISCOUNTS						
REVENUE BY CLASS - RANGE NAME DEFINITION						
RESIDENTIAL SERVICE	REV487A	0.00000	0.00000	0.00000	0.00000	0.00000
RESIDENTIAL CARES	REV487C	0.00000	0.00000	0.00000	0.00000	0.00000
COMMERCIAL SM. VOL.	REV487D	0.00000	0.00000	0.00000	0.00000	0.00000
COMMERCIAL LG. VOL.	REV487F	0.00000	0.00000	0.00000	0.00000	0.00000
COMMERCIAL TRANSPORTATION	REV487G	0.00000	0.00000	0.00000	0.00000	0.00000
INDUSTRIAL SM. VOL.	REV487H	0.00000	0.00000	0.00000	0.00000	0.00000
INDUSTRIAL LG. VOL.	REV487I	0.00000	0.00000	0.00000	0.00000	0.00000
INDUSTRIAL TRANSPORTATION	REV487J	0.00000	0.00000	0.00000	0.00000	0.00000
PUBLIC AUTHORITY SM. VOL.	REV487K	1.00000	0.00000	0.00000	0.00000	0.00000
PUBLIC AUTHORITY LG. VOL.	REV487L	0.00000	1.00000	0.00000	0.00000	0.00000
PUBLIC AUTHORITY TRANSPORT.	REV487M	0.00000	0.00000	1.00000	0.00000	0.00000
IRRIGATION	REV487N	0.00000	0.00000	0.00000	0.00000	1.00000
487-FORFEITED DISCOUNTS						
REVENUE BY CLASS - ALLOCATION						
RESIDENTIAL SERVICE	REV487A					
RESIDENTIAL CARES	REV487C					
COMMERCIAL SM. VOL.	REV487D					
COMMERCIAL LG. VOL.	REV487F					
COMMERCIAL TRANSPORTATION	REV487G					
INDUSTRIAL SM. VOL.	REV487H					
INDUSTRIAL LG. VOL.	REV487I					
INDUSTRIAL TRANSPORTATION	REV487J					
PUBLIC AUTHORITY SM. VOL.	REV487K					
PUBLIC AUTHORITY LG. VOL.	REV487L					
PUBLIC AUTHORITY TRANSPORT.	REV487M					
IRRIGATION	REV487N					
TOTAL FOREITED DISCOUNTS	FORFDISC	0.03319	0.00758	0.05610	0.00000	0.00092

Schedule H

UNS Gas, Inc.
Summary of Revenues by Customer Classifications
Adjusted Present Rates And Proposed Rates
Test Year Ended December 31, 2005
(Thousands of Dollars)

Line No.	Class of Service	Adjusted Present Net Revenue	Proposed Net Revenue	Proposed Net Increase	Proposed Percent Increase (a)	Line No.
1	Residential Service	$32,152,423	$38,941,042	$6,788,619	21.11%	1
2	Commercial Gas Service	8,743,529	10,589,626	1,846,097	21.11%	2
3	Industrial Gas Service	313,597	380,160	66,562	21.23%	3
4	Public Authority Gas Service	1,645,073	1,992,411	347,338	21.11%	4
5	Special Gas Light Service	73,078	88,298	15,220	20.83%	5
6	Irrigation Service	23,562	28,537	4,975	21.11%	6
7	Transportation Customers	2,737,961	3,316,051	578,089	21.11%	7
8	Subtotal	45,689,224	55,336,125	9,646,901	21.11%	8
9	Other Operating Revenue	1,480,303	1,480,303	0	0.00%	9
10	Total	$47,169,527	$56,816,428	$9,646,901	20.45%	10

Supporting Schedules
(a) H-2 (P2)

Recap Schedules
A-1

UNS Gas, Inc.
Comparisons of Revenues by Rate Schedules
Present And Proposed Rates
Test Year Ended December 31, 2005

		Rate Schedule		Actual				Adjusted			
Line No.	Class of Service	Present	Proposed	Therm Sales	Average Number of Customers	Average Therm per Customer	Test Year End Adjustments	Therm Sales	Average Number of Customers	Average Therm per Customer	Line No.
1	Residential Service (R10)	10	10	66,430,297	118,822	559	2,521,379	68,951,676	120,636	572	1
2	Residential Service Cares (R12)	12	12	2,526,433	5,264	480	287,411	2,813,844	5,660	497	2
3	Small Volume Commercial Service (C20)	20	20	28,407,189	10,849	2,618	606,878	29,014,067	10,919	2,657	3
4	Large Volume Commercial Service (C22)	22	22	1,209,282	11	109,935	70,348	1,279,629	11	119,091	4
5	Commercial Transportation			6,181,423	9	686,825	(3,704,317)	2,477,106	6	412,851	5
6	Small Volume Industrial Service (I-30)	30	30	511,826	13	40,407	0	511,826	13	40,407	6
7	Large Volume Industrial Service (I-32)	32	32	2,297,027	7	328,147	0	2,297,027	7	328,147	7
8	Industrial Transportation			16,082,897	10	1,608,290	3,230,222	19,313,119	12	1,609,427	8
9	Small Volume Public Authority (PA-40)	40	40	5,585,336	1,046	5,341	242,850	5,828,186	1,058	5,510	9
10	Large Volume Public Authority (PA-42)	42	42	1,144,332	5	228,866	(115,937)	1,028,395	5	193,275	10
11	Public Authority Transportation			4,056,235	3	1,352,078	474,095	4,530,330	4	1,132,583	11
12	Special Gas Light Service (PA-44)	44	44	101,855	3	33,952	0	101,855	3	33,952	12
13	Irrigation Service (IR-60)	60	60	86,652	6	14,442	152	86,803	6	14,467	13
14	Total Gas Service			134,620,784	136,048	990	3,613,080	138,233,864	138,340	999	14

UNS Gas, Inc.
Comparisons of Revenues by Rate Schedules
Present And Proposed Rates
Test Year Ended December 31, 2005

Line No.	Class of Service	Actual Net Revenue	Test Year End Adjustments	Adjusted Net Revenue	Proposed Increase $	Proposed Increase %	Proposed Net Revenue	Line No.
1	Residential Service (R10)	$30,267,169	$909,769	$31,176,937	$6,582,656	21.11%	$37,759,594	1
2	Residential Service Cares (R12)	855,865	119,621	975,486	205,963	21.11%	1,181,449	2
3	Small Volume Commercial Service (C20)	8,375,800	156,080	8,531,880	1,801,410	21.11%	10,333,290	3
4	Large Volume Commercial Service (C22)	200,233	11,416	211,649	44,687	21.11%	256,336	4
5	Commercial Transportation	966,024	515,766	450,258	95,067	21.11%	545,325	5
6	Small Volume Industrial Service (I-30)	109,190	0	109,190	23,054	21.11%	132,244	6
7	Large Volume Industrial Service (I-32)	204,407	0	204,407	43,508	21.29%	247,916	7
8	Industrial Transportation	1,326,122	441,213	1,767,335	373,153	21.11%	2,140,488	8
9	Small Volume Public Authority (PA-40)	1,468,769	58,763	1,527,532	322,521	21.11%	1,850,053	9
10	Large Volume Public Authority (PA-42)	130,631	(13,090)	117,541	24,817	21.11%	142,359	10
11	Public Authority Transportation	445,816	74,552	520,368	109,870	21.11%	630,238	11
12	Special Gas Light Service (PA-44)	73,078	0	73,078	15,220	20.83%	88,298	12
13	Irrigation Service (IR-60)	23,519	44	23,562	4,975	21.11%	28,537	13
14	Total Gas Service	$44,446,621	$2,274,134	$45,689,224	$9,646,901	21.11%	$55,336,125	14

UNS Gas, Inc.
Comparison of Present And Proposed Rates
Test Year Ended December 31, 2005

	Present Rate	Proposed Rate	Increase $	Increase %
Residential Service (R10)				
Customer Charge (Sum: Apr - Nov)	$7.00	$20.00	$13.00	185.71%
Customer Charge (Win: Dec-Mar)	$7.00	$11.00	$4.00	57.14%
Distribution Margin Therms	$0.3004	$0.1862	-$0.1142	-38.00%
Residential Service Cares (R12)				
Customer Charge (Sum: Apr - Nov)	$7.00	$20.00	$13.00	185.71%
Customer Charge (Win: Present: Nov - Apr, Proposed: Dec-Mar)	$7.00	$11.00	$4.00	57.14%
Distribution Margin Therms	$0.3004	$0.1862	-$0.1142	-38.00%
Small Commercial Service (C20)				
Customer Charge	$11.00	$20.00	$9.00	81.82%
Distribution Margin Therms	$0.2420	$0.2637	$0.0217	8.95%
Large Commercial Service (C22)				
Customer Charge	$85.00	$120.00	$35.00	41.18%
Distribution Margin Therms	$0.1551	$0.1944	$0.0393	25.32%
Small Volume Industrial Service (I-30):				
Customer Charge	$11.00	$20.00	$9.00	81.82%
Distribution Margin Therms	$0.2122	$0.2556	$0.0434	20.43%
Large Volume Industrial Service (I-32):				
Customer Charge	$85.00	$120.00	$35.00	41.18%
Distribution Margin Therms	$0.0864	$0.1085	$0.0221	25.63%
Small Volume PA (PA-40)				
Customer Charge	$11.00	$20.00	$9.00	81.82%
Distribution Margin Therms	$0.2354	$0.2712	$0.0358	15.21%
Large Volume PA (PA-42)				
Customer Charge	$85.00	$120.00	$35.00	41.18%
Distribution Margin Therms	$0.1084	$0.1361	$0.0277	25.53%
Special Gas Light Service (PA-44):				
Customer Charge Lighting Group A	$13.57	$16.47	$2.90	21.36%
Customer Charge Lighting Group B	$16.28	$19.70	$3.42	21.02%
Irrigation Service (IR-60)				
Customer Charge	$11.00	$20.00	$9.00	81.82%
Distribution Margin Therms	$0.2876	$0.3435	$0.0559	19.44%

UNS Gas, Inc.
Typical Bill Comparison - Present And Proposed Rates
Test Year Ended December 31, 2005

Residential Service (R10)		
Customer Charge (Sum: Apr - Nov)	$7.00	$20.00
Distribution Margin Therms	0.3004	0.1862

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
5	$8.50	$20.93	$12.43	146.19%
10	$10.00	$21.86	$11.86	118.54%
20	$13.01	$23.72	$10.72	82.39%
35	$17.51	$26.52	$9.00	51.41%
50	$22.02	$29.31	$7.29	33.12%
75	$29.53	$33.97	$4.44	15.03%
100	$37.04	$38.62	$1.58	4.28%
250	$82.10	$66.56	($15.54)	-18.93%
500	$157.20	$113.12	($44.08)	-28.04%

Residential Service (R10)		
Customer Charge (Win: Dec-Mar)	$7.00	$11.00
Distribution Margin Therms	0.3004	0.1862

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
5	$8.50	$11.93	$3.43	40.33%
10	$10.00	$12.86	$2.86	28.57%
20	$13.01	$14.72	$1.72	13.20%
35	$17.51	$17.52	$0.00	0.03%
50	$22.02	$20.31	($1.71)	-7.75%
75	$29.53	$24.97	($4.56)	-15.45%
100	$37.04	$29.62	($7.42)	-20.02%
250	$82.10	$57.56	($24.54)	-29.89%
500	$157.20	$104.12	($53.08)	-33.76%

UNS Gas, Inc.
Typical Bill Comparison - Present And Proposed Rates
Test Year Ended December 31, 2005

Residential Service Cares (R12)		
Customer Charge (Summer)	$7.00	$20.00
Distribution Margin Therms	0.3004	0.1862
Customer Charge Monthly Discount		6.50

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
5	$8.50	$14.43	$5.93	69.74%
10	$10.00	$15.36	$5.36	53.56%
20	$13.01	$17.22	$4.22	32.42%
35	$17.51	$20.02	$2.50	14.30%
50	$22.02	$22.81	$0.79	3.60%
75	$29.53	$27.47	($2.06)	-6.98%
100	$37.04	$32.12	($4.92)	-13.27%
250	$82.10	$60.06	($22.04)	-26.84%
500	$157.20	$106.62	($50.58)	-32.17%

Residential Service Cares (R12)		
Customer Charge (Winter)	$7.00	$11.00
Distribution Margin Therms	0.3004	0.1862
- (Discount Nov - Apr up to 100 therms)	0.1500	
- (Monthly Discount		6.50

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
5	$7.75	$5.43	($2.32)	-29.92%
10	$8.50	$6.36	($2.14)	-25.15%
20	$10.00	$8.22	($1.78)	-17.75%
35	$12.25	$11.02	($1.23)	-10.05%
50	$14.50	$13.81	($0.69)	-4.74%
75	$18.25	$18.47	$0.22	1.20%
100	$22.00	$23.12	$1.12	5.11%
250	$67.06	$51.06	($16.00)	-23.86%
500	$142.16	$97.62	($44.54)	-31.33%

UNS Gas, Inc.
Typical Bill Comparison - Present And Proposed Rates
Test Year Ended December 31, 2005

Small Commercial Service (C20)		
Customer Charge	$11.00	$20.00
Distribution Margin Therms	$0.2420	$0.2637

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
50	$23.10	$33.18	$10.08	43.65%
100	$35.20	$46.37	$11.17	31.72%
500	$132.00	$151.83	$19.83	15.03%
1,000	$253.00	$283.67	$30.67	12.12%
1,500	$374.00	$415.50	$41.50	11.10%
2,500	$616.00	$679.17	$63.17	10.25%
5,000	$1,221.00	$1,338.33	$117.33	9.61%
7,500	$1,826.00	$1,997.50	$171.50	9.39%
10,000	$2,431.00	$2,656.66	$225.66	9.28%

Large Commercial Service (C22)		
Customer Charge	$85.00	$120.00
Distribution Margin Therms	$0.1551	$0.1944

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
10,001	$1,636	$2,064	$428	26.15%
12,500	$2,024	$2,550	$526	25.99%
15,000	$2,412	$3,036	$624	25.88%
17,500	$2,799	$3,522	$722	25.80%
20,000	$3,187	$4,008	$821	25.75%
25,000	$3,963	$4,979	$1,017	25.66%
30,000	$4,738	$5,951	$1,213	25.61%
45,000	$7,065	$8,867	$1,802	25.51%
75,000	$11,718	$14,698	$2,981	25.44%

UNS Gas, Inc.
Typical Bill Comparison - Present And Proposed Rates
Test Year Ended December 31, 2005

Small Volume Industrial Service (I-30):		
Customer Charge	$11.00	$20.00
Distribution Margin Therms	$0.2122	$0.2556

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
50	$21.61	$32.78	$11.17	51.68%
100	$32.22	$45.56	$13.34	41.39%
500	$117.10	$147.78	$30.68	26.20%
1,000	$223.20	$275.56	$52.36	23.46%
1,500	$329.30	$403.34	$74.04	22.48%
2,500	$541.50	$658.89	$117.39	21.68%
5,000	$1,072.00	$1,297.78	$225.78	21.06%
7,500	$1,602.50	$1,936.68	$334.18	20.85%
10,000	$2,133.00	$2,575.57	$442.57	20.75%

Large Volume Industrial Service (I-32):		
Customer Charge	$85.00	$120.00
Distribution Margin Therms	$0.0864	$0.1085

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
10,001	$949.09	$1,205.58	$256.49	27.03%
15,000	$1,381.00	$1,748.21	$367.21	26.59%
20,000	$1,813.00	$2,290.94	$477.94	26.36%
30,000	$2,677.00	$3,376.41	$699.41	26.13%
50,000	$4,405.00	$5,547.36	$1,142.36	25.93%
75,000	$6,565.00	$8,261.03	$1,696.03	25.83%
100,000	$8,725.00	$10,974.71	$2,249.71	25.78%
125,000	$10,885.00	$13,688.39	$2,803.39	25.75%
150,000	$13,045.00	$16,402.07	$3,357.07	25.73%

UNS Gas, Inc.
Typical Bill Comparison - Present And Proposed Rates
Test Year Ended December 31, 2005

Small Volume Public Authority (PA-40)		
Customer Charge	$11.00	$20.00
Distribution Margin Therms	$0.2354	$0.2712

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
50	$22.77	$33.56	$10.79	47.39%
100	$34.54	$47.12	$12.58	36.42%
500	$128.70	$155.60	$26.90	20.90%
1,000	$246.40	$291.20	$44.80	18.18%
1,500	$364.10	$426.81	$62.71	17.22%
2,500	$599.50	$698.01	$98.51	16.43%
5,000	$1,188.00	$1,376.02	$188.02	15.83%
7,500	$1,776.50	$2,054.04	$277.54	15.62%
10,000	$2,365.00	$2,732.05	$367.05	15.52%

Large Volume Public Authority (PA-42)		
Customer Charge	$85.00	$120.00
Distribution Margin Therms	$0.1084	$0.1361

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
10,001	$1,169.11	$1,480.90	$311.79	26.67%
15,000	$1,711.00	$2,161.14	$450.14	26.31%
20,000	$2,253.00	$2,841.52	$588.52	26.12%
30,000	$3,337.00	$4,202.28	$865.28	25.93%
50,000	$5,505.00	$6,923.80	$1,418.80	25.77%
75,000	$8,215.00	$10,325.71	$2,110.71	25.69%
100,000	$10,925.00	$13,727.61	$2,802.61	25.65%
125,000	$13,635.00	$17,129.51	$3,494.51	25.63%
150,000	$16,345.00	$20,531.41	$4,186.41	25.61%

UNS Gas, Inc.
Typical Bill Comparison - Present And Proposed Rates
Test Year Ended December 31, 2005

Special Gas Light Service (PA-44):		
Customer Charge Lighting Group A	$13.57	$16.47
Customer Charge Lighting Group B	$16.28	$19.70

Average Montly Customers	Annual Bill Present	Annual Bill Proposed	Proposed Increase $	Proposed Increase %
Customer Charge Lighting Group A	$162.84	$197.63	$34.79	21.36%
Customer Charge Lighting Group B	$195.36	$236.43	$41.07	21.02%

Irrigation Service (IR-60)		
Customer Charge	$11.00	$20.00
Distribution Margin Therms	$0.2876	$0.3435

Average Therms per Month	Total Bill Present Rate	Total Bill Proposed Rate	Proposed Increase $	Proposed Increase %
50	$25.38	$37.18	$11.80	46.48%
100	$39.76	$54.35	$14.59	36.70%
500	$154.80	$191.76	$36.96	23.88%
1,000	$298.60	$363.52	$64.92	21.74%
1,500	$442.40	$535.28	$92.88	21.00%
2,500	$730.00	$878.81	$148.81	20.38%
5,000	$1,449.00	$1,737.62	$288.62	19.92%
7,500	$2,168.00	$2,596.42	$428.42	19.76%
10,000	$2,887.00	$3,455.23	$568.23	19.68%

UNS Gas, Inc.
Residential (Rate 10) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	47,175		47,175	3.3%	0	0.0%
1	10	264,500	1,596,392	311,676	21.9%	1,596,392	2.4%
11	20	275,247	4,130,246	586,923	41.2%	5,726,638	8.5%
21	30	169,778	4,206,120	756,701	53.1%	9,932,758	14.8%
31	40	107,438	3,738,395	864,139	60.6%	13,671,153	20.3%
41	50	83,267	3,729,303	947,405	66.4%	17,400,456	25.9%
51	60	71,003	3,886,312	1,018,409	71.4%	21,286,767	31.7%
61	70	63,383	4,093,322	1,081,791	75.9%	25,380,089	37.7%
71	80	56,863	4,233,157	1,138,654	79.9%	29,613,246	44.0%
81	90	50,166	4,227,549	1,188,820	83.4%	33,840,795	50.3%
91	100	42,408	3,993,105	1,231,228	86.4%	37,833,900	56.3%
101	110	35,666	3,707,733	1,266,894	88.9%	41,541,634	61.8%
111	120	29,851	3,397,155	1,296,745	90.9%	44,938,788	66.8%
121	130	24,552	3,037,354	1,321,297	92.7%	47,976,142	71.3%
131	140	19,552	2,612,748	1,340,848	94.0%	50,588,890	75.2%
141	150	16,074	2,305,058	1,356,922	95.2%	52,893,948	78.7%
151	160	12,830	1,966,744	1,369,752	96.1%	54,860,693	81.6%
161	170	10,362	1,691,132	1,380,114	96.8%	56,551,824	84.1%
171	180	8,043	1,391,494	1,388,156	97.4%	57,943,319	86.2%
181	190	6,524	1,193,122	1,394,681	97.8%	59,136,441	87.9%
191	200	5,270	1,016,219	1,399,951	98.2%	60,152,660	89.5%
201	300	20,430	4,746,321	1,420,380	99.6%	64,898,981	96.5%
301	400	3,414	1,141,452	1,423,794	99.9%	66,040,434	98.2%
401	500	878	381,317	1,424,673	99.9%	66,421,751	98.8%
501	and up	1,180	825,147	1,425,853	100.0%	67,246,898	100.0%

UNS Gas, Inc.
CARES (Rate 12) Residential Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	1,204	0	1,204	1.9%	0	0.0%
1	10	12,426	79,640	13,630	21.6%	79,640	3.1%
11	20	13,963	212,869	27,593	43.7%	292,509	11.5%
21	30	7,866	197,658	35,459	56.1%	490,167	19.3%
31	40	5,045	178,560	40,504	64.1%	668,727	26.4%
41	50	4,000	182,307	44,503	70.5%	851,034	33.6%
51	60	3,583	199,363	48,086	76.1%	1,050,397	41.4%
61	70	3,230	211,943	51,316	81.2%	1,262,341	49.8%
71	80	2,626	198,330	53,943	85.4%	1,460,671	57.6%
81	90	2,184	186,910	56,127	88.9%	1,647,581	65.0%
91	100	1,751	167,512	57,877	91.6%	1,815,093	71.6%
101	110	1,296	136,793	59,173	93.7%	1,951,886	77.0%
111	120	1,014	117,106	60,187	95.3%	2,068,992	81.6%
121	130	771	96,816	60,958	96.5%	2,165,808	85.4%
131	140	524	71,073	61,482	97.3%	2,236,881	88.2%
141	150	435	63,477	61,917	98.0%	2,300,359	90.7%
151	160	349	54,338	62,267	98.6%	2,354,697	92.9%
161	170	218	36,148	62,484	98.9%	2,390,844	94.3%
171	180	169	29,615	62,653	99.2%	2,420,460	95.5%
181	190	116	21,502	62,769	99.4%	2,441,961	96.3%
191	200	88	17,191	62,857	99.5%	2,459,153	97.0%
201	300	282	64,893	63,139	100.0%	2,524,046	99.6%
301	400	27	9,033	63,166	100.0%	2,533,079	99.9%
401	500	3	1,366	63,169	100.0%	2,534,445	100.0%
501	and up	1	758	63,170	100.0%	2,535,203	100.0%

UNS Gas, Inc.
Small Volume Commercial (Rate 20) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	21,887	0	21,887	16.8%	0	0.0%
1	10	20,236	103,814	42,123	32.4%	103,814	0.4%
11	20	10,554	158,678	52,678	40.5%	262,492	0.9%
21	30	6,879	172,369	59,557	45.7%	434,861	1.5%
31	40	5,212	182,707	64,769	49.7%	617,568	2.2%
41	50	4,431	199,435	69,200	53.2%	817,002	2.9%
51	60	3,650	200,647	72,850	56.0%	1,017,650	3.6%
61	70	3,237	209,856	76,087	58.4%	1,227,506	4.3%
71	80	3,005	225,003	79,092	60.8%	1,452,509	5.1%
81	90	2,635	223,527	81,727	62.8%	1,676,036	5.9%
91	100	2,429	229,862	84,156	64.6%	1,905,899	6.7%
101	110	2,169	226,770	86,325	66.3%	2,132,668	7.5%
111	120	1,955	223,656	88,281	67.8%	2,356,324	8.2%
121	130	1,806	224,465	90,087	69.2%	2,580,789	9.0%
131	140	1,650	221,706	91,737	70.5%	2,802,495	9.8%
141	150	1,580	227,690	93,317	71.7%	3,030,185	10.6%
151	160	1,364	210,344	94,681	72.7%	3,240,529	11.3%
161	170	1,233	202,262	95,915	73.7%	3,442,790	12.0%
171	180	1,259	218,877	97,174	74.6%	3,661,667	12.8%
181	190	1,082	198,816	98,256	75.5%	3,860,484	13.5%
191	200	1,101	213,351	99,357	76.3%	4,073,834	14.2%
201	300	7,506	1,833,493	106,863	82.1%	5,907,328	20.7%
301	400	4,906	1,688,157	111,769	85.9%	7,595,484	26.6%
401	500	3,632	1,614,618	115,402	88.6%	9,210,103	32.2%
501	and up	14,787	19,384,510	130,189	100.0%	28,594,613	100.0%

UNS Gas, Inc.
Large Volume Commercial (Rate 22) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	0	0	0	0.0%	0	0.0%
1	10	0	0	0	0.0%	0	0.0%
11	20	2	35	2	1.6%	35	0.0%
21	30	0	0	2	1.6%	35	0.0%
31	40	2	61	4	3.2%	96	0.0%
41	50	1	40	5	4.0%	135	0.0%
51	60	0	0	5	4.0%	135	0.0%
61	70	1	66	6	4.8%	201	0.0%
71	80	2	144	8	6.5%	345	0.0%
81	90	1	83	9	7.3%	428	0.0%
91	100	1	89	10	8.1%	517	0.0%
101	110	0	0	10	8.1%	517	0.0%
111	120	1	109	11	8.9%	626	0.1%
121	130	2	241	13	10.5%	867	0.1%
131	140	1	129	14	11.3%	996	0.1%
141	150	2	279	16	12.9%	1,275	0.1%
151	160	0	0	16	12.9%	1,275	0.1%
161	170	1	163	17	13.7%	1,439	0.1%
171	180	0	0	17	13.7%	1,439	0.1%
181	190	0	0	17	13.7%	1,439	0.1%
191	200	0	0	17	13.7%	1,439	0.1%
201	300	2	459	19	15.3%	1,898	0.2%
301	400	3	1,114	22	17.7%	3,012	0.2%
401	500	6	2,568	28	22.6%	5,580	0.5%
501	and up	95	1,214,368	123	100.0%	1,219,948	100.0%

UNS Gas, Inc.
Small Volume Industrial (Rate 30) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	11	0	11	7.2%	0	0.0%
1	10	10	59	21	13.9%	59	0.0%
11	20	2	32	23	15.1%	92	0.0%
21	30	2	43	25	16.3%	134	0.0%
31	40	5	156	29	19.3%	291	0.1%
41	50	2	87	31	20.5%	378	0.1%
51	60	3	153	34	22.3%	530	0.1%
61	70	2	125	36	23.5%	655	0.1%
71	80	1	74	37	24.1%	729	0.1%
81	90	0	0	37	24.1%	729	0.1%
91	100	1	87	38	24.7%	816	0.2%
101	110	1	97	38	25.3%	913	0.2%
111	120	0	0	38	25.3%	913	0.2%
121	130	0	0	38	25.3%	913	0.2%
131	140	1	127	39	25.9%	1,040	0.2%
141	150	1	142	40	26.5%	1,182	0.2%
151	160	0	0	40	26.5%	1,182	0.2%
161	170	0	0	40	26.5%	1,182	0.2%
171	180	0	0	40	26.5%	1,182	0.2%
181	190	0	0	40	26.5%	1,182	0.2%
191	200	0	0	40	26.5%	1,182	0.2%
201	300	9	2,250	49	32.5%	3,432	0.7%
301	400	2	661	51	33.7%	4,093	0.8%
401	500	5	2,516	57	37.3%	6,609	1.3%
501	and up	95	498,623	152	100.0%	505,232	100.0%

UNS Gas, Inc.
Large Volume Industrial (Rate 32) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	2	0	2	2.3%	0	0.0%
1	10	0	0	2	2.3%	0	0.0%
11	20	0	0	2	2.3%	0	0.0%
21	30	0	0	2	2.3%	0	0.0%
31	40	0	0	2	2.3%	0	0.0%
41	50	0	0	2	2.3%	0	0.0%
51	60	0	0	2	2.3%	0	0.0%
61	70	0	0	2	2.3%	0	0.0%
71	80	0	0	2	2.3%	0	0.0%
81	90	0	0	2	2.3%	0	0.0%
91	100	0	0	2	2.3%	0	0.0%
101	110	0	0	2	2.3%	0	0.0%
111	120	0	0	2	2.3%	0	0.0%
121	130	0	0	2	2.3%	0	0.0%
131	140	0	0	2	2.3%	0	0.0%
141	150	0	0	2	2.3%	0	0.0%
151	160	0	0	2	2.3%	0	0.0%
161	170	0	0	2	2.3%	0	0.0%
171	180	0	0	2	2.3%	0	0.0%
181	190	7	208,120	9	10.5%	208,120	9.1%
191	200	0	0	9	10.5%	208,120	9.1%
201	300	1	206	10	11.6%	208,326	9.2%
301	400	0	0	10	11.6%	208,326	9.2%
401	500	1	418	11	12.8%	208,744	9.2%
501	and up	73	2,067,783	84	100.0%	2,276,527	100.0%

UNS Gas, Inc.
Small Volume Public Authority (Rate 40) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	1,601	0	1,601	12.8%	0	0.0%
1	10	1,696	7,224	3,297	26.4%	7,224	0.1%
11	20	935	11,907	4,231	33.9%	19,131	0.3%
21	30	593	12,561	4,824	38.6%	31,691	0.6%
31	40	476	14,049	5,300	42.4%	45,740	0.8%
41	50	438	16,632	5,738	45.9%	62,373	1.1%
51	60	309	14,316	6,047	48.4%	76,689	1.4%
61	70	288	15,759	6,335	50.7%	92,448	1.6%
71	80	250	15,758	6,585	52.7%	108,206	1.9%
81	90	215	15,336	6,800	54.4%	123,542	2.2%
91	100	222	17,655	7,022	56.2%	141,197	2.5%
101	110	159	13,989	7,181	57.5%	155,186	2.8%
111	120	193	18,606	7,373	59.0%	173,793	3.1%
121	130	176	18,513	7,550	60.4%	192,305	3.4%
131	140	146	16,607	7,696	61.6%	208,912	3.7%
141	150	128	15,568	7,823	62.6%	224,480	4.0%
151	160	121	15,786	7,944	63.6%	240,267	4.3%
161	170	121	16,842	8,066	64.5%	257,108	4.6%
171	180	124	18,249	8,190	65.5%	275,357	4.9%
181	190	103	15,951	8,293	66.3%	291,309	5.2%
191	200	95	15,637	8,388	67.1%	306,945	5.4%
201	300	784	162,518	9,172	73.4%	469,463	8.3%
301	400	559	162,650	9,731	77.9%	632,114	11.2%
401	500	397	149,413	10,128	81.0%	781,527	13.9%
501	and up	2,371	4,856,298	12,499	100.0%	5,637,825	100.0%

UNS Gas, Inc.
Large Volume Public Authority (Rate 42) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	5	0	5	7.0%	0	0.0%
1	10	1	4	6	8.5%	4	0.0%
11	20	0	0	6	8.5%	4	0.0%
21	30	0	0	6	8.5%	4	0.0%
31	40	0	0	6	8.5%	4	0.0%
41	50	0	0	6	8.5%	4	0.0%
51	60	0	0	6	8.5%	4	0.0%
61	70	0	0	6	8.5%	4	0.0%
71	80	0	0	6	8.5%	4	0.0%
81	90	1	83	7	9.9%	87	0.0%
91	100	1	92	8	11.3%	178	0.0%
101	110	1	108	9	12.7%	286	0.0%
111	120	0	0	9	12.7%	286	0.0%
121	130	1	125	10	14.1%	411	0.0%
131	140	0	0	10	14.1%	411	0.0%
141	150	0	0	10	14.1%	411	0.0%
151	160	1	157	11	15.5%	567	0.0%
161	170	0	0	11	15.5%	567	0.0%
171	180	0	0	11	15.5%	567	0.0%
181	190	0	0	11	15.5%	567	0.0%
191	200	0	0	11	15.5%	567	0.0%
201	300	0	0	11	15.5%	567	0.0%
301	400	0	0	11	15.5%	567	0.0%
401	500	0	0	11	15.5%	567	0.0%
501	and up	59	1,146,237	70	100.0%	1,146,804	100.0%

UNS Gas, Inc.
Irrigation Service (Rate 60) Bill Count
Test Year Ended December 31, 2005

Usage Range - Therms				Cumulative Bills		Cumulative Therms	
Lower	Upper	Number of Bills	Therms	Bills	Percent of Total	Therms	Percent of Total
0	0	48	0	48	66.7%	0	0.0%
1	10	2	4	50	69.4%	4	0.0%
11	20	2	29	52	72.2%	33	0.0%
21	30	0	0	52	72.2%	33	0.0%
31	40	0	0	52	72.2%	33	0.0%
41	50	1	44	53	73.6%	77	0.1%
51	60	0	0	53	73.6%	77	0.1%
61	70	2	131	55	76.4%	208	0.3%
71	80	1	79	56	77.8%	287	0.4%
81	90	1	85	57	79.2%	372	0.5%
91	100	0	0	57	79.2%	372	0.5%
101	110	0	0	57	79.2%	372	0.5%
111	120	0	0	57	79.2%	372	0.5%
121	130	0	0	57	79.2%	372	0.5%
131	140	0	0	57	79.2%	372	0.5%
141	150	0	0	57	79.2%	372	0.5%
151	160	0	0	57	79.2%	372	0.5%
161	170	0	0	57	79.2%	372	0.5%
171	180	0	0	57	79.2%	372	0.5%
181	190	0	0	57	79.2%	372	0.5%
191	200	0	0	57	79.2%	372	0.5%
201	300	0	0	57	79.2%	372	0.5%
301	400	0	0	57	79.2%	372	0.5%
401	500	0	0	57	79.2%	372	0.5%
501	and up	15	78,420	72	100.0%	78,792	100.0%

UNS Gas, Inc.
Schedule H-5 Notes
Test Year Ended December 31, 2005

The Gas Lighting Class has 36 customers and 101,640 therms for the test year.