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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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Arizona Corporation Commission  
**DOCKETED**

APR 16 2007

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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-06-0463

IN THE MATTER OF THE APPLICATION OF  
UNS GAS, INC. TO REVIEW AND REVISE  
ITS PURCHASED GAS ADJUSTOR.

Docket No. G-04204A-06-0013

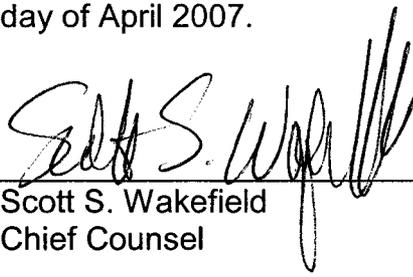
IN THE MATTER OF THE INQUIRY INTO  
THE PRUDENCE OF THE GAS  
PROCUREMENT PRACTICES OF UNS  
GAS, INC.

Docket No. G-04204A-05-0831

**NOTICE OF FILING**

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

1 RESPECTFULLY SUBMITTED this 16<sup>th</sup> day of April 2007.

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4   
Scott S. Wakefield  
Chief Counsel

5 AN ORIGINAL AND SEVENTEEN COPIES  
6 of the foregoing filed this 16th day  
7 of April 2007 with:

8 Docket Control  
9 Arizona Corporation Commission  
10 1200 West Washington  
11 Phoenix, Arizona 85007

12 COPIES of the foregoing hand delivered/  
13 mailed this 16<sup>th</sup> day of April 2007 to:

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17 Arizona Corporation Commission  
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Arizona Corporation Commission

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2  
3 Commissioner Mundell  
Arizona Corporation Commission

4 Adam Stafford  
Aide to Commissioner Mundell

5  
6 Commissioner Mayes  
Arizona Corporation Commission

7 Matthew Derr  
Aide to Commissioner Mayes

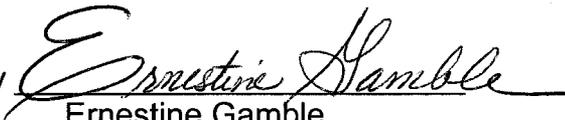
8  
9 Commissioner Pierce  
Arizona Corporation Commission

10 John LeSueur  
Aide to Commissioner Pierce

11

12

13

14 By   
Ernestine Gamble  
Secretary to Scott Wakefield

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**UNS Gas, Inc.**  
**Docket No. G-04204A-06-0463**  
**Rate Application**

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

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

**Rate Base**

Citizens Acquisition Adjustment – This adjustment decreases rate base by \$248,887 to restate the accumulated amortization of the acquisition adjustment to reflect the current Commission authorized depreciation rate. The Company has been amortizing the acquisition adjustment utilizing rates that never were approved by the Commission.

Construction Work in Progress - This adjustment decreases rate base by \$7,189,230 to remove CWIP balances that are not used and useful in the provision of gas service.

Amortization of Geographic Information System (GIS) – This adjustment removes expenses associated with a GIS from rate base. The Company did not obtain an accounting order from the Commission allowing them to establish a regulatory asset for these expenses.

## SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

Working Capital – This adjustment increases working capital by \$1,200,152 and is necessary to correct an error the Company has identified as well as to calculate the effect RUCO's recommended level of expense has on cash working capital.

### **Operating Income**

Amortization of GIS Expenses – This adjustment decreases operating income by \$299,023 in amortization expense related to a regulatory asset that was never established or approved by the Commission.

Fleet Fuel Expense – This adjustment increases operating income by \$67,502 to correct certain errors the Company made in its calculation of normalized fleet fuel expense.

Customer Annualization – This adjustment increases test year revenues by \$110,006 to restate the Company revenue annualization using the Commission-accepted methodology of utilizing the test year-end level of customers.

Corporate Cost Allocation – This adjustment increases operating income by \$12,765 to remove additional non-recurring merger expenses that the Company failed to include in its adjustment.

Uncollectible Expense – This adjustment increases operating income by \$95,583 to exclude the bad debt expense that the Company erroneously included related to Griffith Plant revenue and to reflect RUCO's recommended level of revenue.

## SUMMARY OF THE TESTIMONY OF MARYLEE DIAZ CORTEZ (Cont.)

CWIP Property Taxes – This adjustment increases operating income by \$166,884 to remove the proforma property taxes the Company has computed as attributable to its CWIP balances.

Out-of-Period Expenses – This adjustment increases operating income by \$21,120 to remove accounting fees related to periods prior to the test year.

Legal Expenses – This adjustment increases operating income by \$311,051 to removes non-recurring legal expenses.

Other Issues

Changes to the PGA – This section discusses the Company's proposed changes to its PGA and sets forth RUCO's recommendations.

Rate Design – This section discusses the Company-proposed rate design modifications and the Company-proposed decoupling mechanism and sets forth RUCO's recommendations.

**UNS Gas, Inc.**  
**Docket No. G-04204A-06-0463**  
**Rate Application**

**SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY, CRRA  
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE**

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

**COST OF CAPITAL:**

Capital Structure – Mr. Rigsby is recommending that the Commission adopt the Company-proposed hypothetical capital structure comprised of 50 percent debt and 50 percent common equity. Mr. Rigsby's recommended hypothetical capital structure is in line with the capital structures of the local distribution companies ("LDC") included in his discounted cash flow ("DCF") and capital asset pricing model ("CAPM") analyses, which were comprised of approximately 48 percent debt and 52 percent common equity.

Weighted Cost of Capital – Mr. Rigsby is recommending an 8.22 percent weighted cost of capital. Mr. Rigsby's recommended weighted cost of capital is

## SUMMARY OF THE TESTIMONY OF WILLIAM A. RIGSBY (Cont.)

based on his revised weighted hypothetical cost of debt and weighted cost of equity contained in his recommended capital structure for UNS.

Cost of Debt – Mr. Rigsby is recommending that the Commission adopt the Company-proposed cost of debt of 6.60 percent.

Cost of Common Equity – Mr. Rigsby is recommending a revised 9.84 percent cost of common equity. Mr. Rigsby's 9.84 percent figure is based on the results of his cost of equity analysis, which used both the discounted cash flow ("DCF") and capital asset pricing model ("CAPM") methodologies. The data inputs for both of these models were obtained from the March 16, 2007 natural gas (distribution) industry update published by The Value Line Investment Survey.

**UNS Gas, Inc.**  
**Docket No. G-04204A-06-0463**  
**Rate Application**

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

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

The Company and RUCO are in substantial agreement with the adjustments to the:

- Southern Union Acquisition;
- Griffith Power Plant;
- Build-Out Plant;
- Customer Assistance Residential Energy Support Assets;
- Accumulated Deferred Income Taxes;
- Griffith Plant Operations;
- Purchased Gas Cost and Gas Cost Revenue;
- NSP Revenue and Gas Costs;
- Payroll Expense;
- Payroll Tax Expense;
- Post Retirement Medical Expense;
- Worker's Compensation;
- Bad Debt Expense;
- Interest On Customer Deposits;
- Out of Period Expenses;
- Year-End Accruals;
- Advertising and Donation Expenses;

## SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

Postage Expense;  
Customer Assistance Residential Energy Support Expense;  
Gain on Sale of Property;  
Corporate Cost Allocations; and  
Membership and Industry Association Dues.

RUCO's aggregate adjustment was corroborated between Mr. Moore and RUCO witnesses Ms. Diaz Cortez and Mr. Rigsby. Please see Ms. Diaz Cortez' and Mr. Rigsby's testimonies for additional adjustments.

The testimonies of Mr. Moore address the following outstanding issues:

### **Rate Base**

Pre-Acquisition Unsubstantiated Gross Plant and Accumulated Depreciation – This adjustment disallows the value of plant UNS was unable to verify as part of the rate base acquired from Citizens Communications Company on August 11, 2003.

### **Operating Income**

Incentive Compensation Expense – This adjustment removes all test-year wage bonuses, because these awards were unique, non-recurring, discriminatory and did not provide additional benefits to ratepayers.

Customer Service Cost Allocations – This adjustment disallows the Company's increased customer service expenditures, because the

## **SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)**

additional costs were imprudent and created an increase in customer service complaints.

RUCO Adjustments To Test-Year Operating Expenses – This adjustment to operating expenses removes inappropriate expenditure not necessary in the provisioning of gas service.

Property Tax Expense – This adjustment reflects the appropriate level of property tax expense given RUCO's recommended level of net plant in service.

Rate Case Expense – This adjustment recommends RUCO's level of rate case expense that reflects a reasonable financial burden for the ratepayers in this rate application process.

Non-Recurring/Atypical Expenses – This adjustment removes costs not expected to recur and considered non-typical for inclusion in test year expenses.

Pension and Benefit Expenses – This adjustment reflects RUCO's disallowance of the supplemental executive retirement plan.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

### **Rate Design**

Mr. Moore was responsible to produce an accurate set of bill determinants (i.e. test-year customer bill counts and therms consumed). Mr. Moore

## SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)

adjusted the bill determinants to reflect the annualized customer count as calculated by Ms. Diaz Cortez in her workpapers. Mr. Moore made adjustments to remove the Company's proposed "Summer/Winter" basic service charge differential. However, Mr. Moore maintained the same percentage of revenue contribution from each class of service as the Company proposes, but equalized the ratio between revenue generated from the fixed and variable rate components. Ms. Diaz Cortez will discuss RUCO's proposed rate design in her testimony.

### Conclusions And Recommendations

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

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
1. Percentage Increase In Average Typical Residential Customer's Monthly Bill	1.18%	2.28%

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
2. Recommended Increase In Revenue Requirement	\$1,505,003	\$2,734,443

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
3. Recommended FVRB	\$171,223,175	\$171,189,139

**SUMMARY OF THE TESTIMONY OF RODNEY L. MOORE (Cont.)**

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
4. Recommended Required Operating Income		
	\$11,480,374	\$11,889,9147

	<u>DIRECT TESTIMONY</u>	<u>REVISED SURREBUTTAL</u>
5. Recommended Percentage Increase In Revenue Requirement		
	3.18%	5.78%