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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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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 UNS GAS, INC.'S SUMMARIES OF WITNESSES' TESTIMONY

UNS Gas, Inc., through undersigned counsel, hereby files the summaries of James S. Pignatelli, David G. Hutchens, Kentton C. Grant, Dallas J. Dukes, Karen G. Kissinger, Gary A. Smith, Dr. Ronald E. White, Denise A. Smith and D. Bentley Erdwurm in the above-captioned docket.

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Arizona Corporation Commission
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DOCKETED BY NR

RESPECTFULLY SUBMITTED this 13th day of April 2007.

UNS Gas, Inc.

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Summary of the Testimony
of James S. Pignatelli
Docket No. G-04230A-06-0463 et al.

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

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.

In my Rebuttal Testimony, I disagree with several of the rate base and operating income adjustments Staff and RUCO have recommended. Specifically, I take issue with: (i) the recommendations to exclude CWIP from rate base; (ii) Staff's and RUCO's cost of capital and rate of return recommendations; and (iii) Staff's and RUCO's rate design proposals because their rate design does not move UNS Gas sufficiently close to cost-based rates, and will continue the subsidies from cold-weather climate customers – including low-income cold-weather climate customers – to warm-weather climate customers.

In my Rejoinder Testimony, I address: (i) ACAA's concerns about predatory lenders; and (ii) the recent Court of Appeals decision in Chaparral City regarding fair value.

Summary of the Testimony
of David G. Hutchens
Docket No. G-04230A-06-0463 et al.

I have filed Direct and Rebuttal Testimony in this case.

In my Direct Testimony, I discussed UNS Gas' natural gas procurement and hedging policies and recommend that the Commission approve UNS Gas' Price Stabilization Policy in this rate case. I also request modifications of the current PGA mechanism to address its deficiencies. These changes include: (i) eliminating the Base Cost of Gas; (ii) eliminating the PGA Bandwidth, or at least increasing it to $0.25 per therm; (iii) changing the PGA bank interest rate to UNS Gas rate on its short debt; (iv) making the PGA bank threshold for over-collection the same as that for under-collection; (v) excluding long-term debt needed to fund bank balances from the cost of capital calculation; and (vi) when required, requesting sufficient PGA surcharges be granted by the Commission to eliminate the PGA bank balance in a reasonable time period.

In my Rebuttal Testimony, I addressed portions of Mr. Robert Gray's Direct Testimony for Commission Staff and Ms. Marylee Diaz Cortez's Direct Testimony for the Residential Utility Consumer Office ("RUCO") on the Company's proposed changes to its purchased gas adjustor ("PGA") mechanism, Mr. Wennerlyn's Direct Testimony for Commission Staff on the benefits of UNS Gas' Price Stabilization Policy; and Mr. Mendl's Direct Testimony for Commission Staff on the various comparisons of UNS Gas' Price Stabilization Policy versus other methods and timing, as well as his recommendation that the Commission not adopt UNS Gas' Price Stabilization Policy.

Summary of the Testimony
of Kentton C. Grant
Docket No. G-04230A-06-0463 et al.

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Direct, Rebuttal and Rejoinder Testimonies, I focused on two key issues. First, I estimate the cost of capital to UNS Gas and recommend a rate of return ("ROR") on invested capital that is based on this cost of capital. Second, I examine the Company's ability to attract new capital on reasonable terms, and based on this analysis, I recommend that the Company's test year balance of construction work in progress ("CWIP") be included in rate base. My recommendations are designed to provide UNS Gas with an opportunity to earn a reasonable ROR on the fair value of its properties dedicated to public service, and to ensure that the Company will have access to the capital needed to meet customer growth and to maintain a high quality of customer service.

As described in my Testimony, the largest financial challenge facing UNS Gas today is the extraordinary growth in required plant investment. Since August of 2003, when the Arizona gas properties of Citizens Communications were purchased by UNS Gas, the Company's net investment in utility plant has increased by over 40%. Over the next three years, net plant investment is expected to increase by another 37%. To-date this plant investment has been funded through the retention and reinvestment of all net income earned by UNS Gas, as well as through additional equity contributions made by UniSource Energy Corporation. Consequently, the Company has been able to improve its balance sheet over time, increasing its equity-to-capitalization ratio from 33% in August 2003 to 46% by the end of 2006. The Company anticipates receiving additional equity contributions from UniSource Energy over time in order to fund new plant investment, thereby improving the Company's equity-to-capitalization ratio to 50%. However, in order to do this, UNS Gas must be given a reasonable opportunity to actually earn a reasonable ROR.

Management's own forecasts reveal that UNS Gas will not be able to earn the requested 11% return on equity, even if the Company's rate request is granted in its entirety. These financial forecasts have been shared with Staff and the intervenors in this case, and have been summarized in my Testimony as well. If the revenue requirement adjustments recommended by Staff or RUCO are adopted in their entirety, the Company's earned return on equity capital would fall far below the cost of equity capital recommended by any witness in this proceeding. As a result, the Company's ability to attract new capital would be jeopardized. Such a result would not be in the interest of either UNS Gas or its customers. In order to ensure that UNS Gas is able to attract capital on reasonable terms, and to make the investments needed to continue providing high quality service, the Company needs a rate order granting all, or substantially all, of the rate relief requested in its application.

Summary of the Testimony of Kentton C. Grant Docket No. G-04230A-06-0463 et al.

A key part of the Company's rate request is the proposal to include the test year balance of CWIP in rate base. The Company agrees with Staff and RUCO that this ratemaking approach has not been used in some time, and that the circumstances in this case are different from the circumstances in prior cases where CWIP was allowed in rate base. However, as described in my Testimony, the Company's high rate of growth in plant investment certainly qualifies as an extraordinary circumstance. Additionally, when the negative financial impact of growth and regulatory lag on UNS Gas is considered, the Company clearly needs to earn a return on this test year investment in order to maintain its financial integrity. As a result, I strongly recommend that the Commission allow the inclusion of test year CWIP in rate base, or in the alternative, to include that portion of test year CWIP that has been placed into service as of December 2006.

As for the allowed ROR on invested capital, I recommend an overall ROR of 8.80%. This ROR is based on a capital structure consisting of 50% common equity and 50% long-term debt, with a cost of equity capital of 11% and a cost of long-term debt of 6.6%. Relative to larger and more established publicly traded gas utilities, the 11% cost of equity capital is reasonable in light of the Company's small size, extremely high plant growth and lack of any common dividend payout.

With respect to the ROR to be allowed on fair value rate base, I recommend in my Rebuttal Testimony that the Commission apply the weighted average cost of capital to fair value rate base. This recommendation was made in light of a recent Court of Appeals ruling that came out after the Company filed its rate application. Since the Company is not seeking any more rate relief than was requested in its July 2006 rate application, this change in the ROR to be applied to fair value rate base would not result in a higher rate increase than originally requested by UNS Gas.

Summary of the Testimony
of Dallas J. Dukes
Docket No. G-04230A-06-0463 et al.

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

My Testimony addresses the Company's proposed revenue requirement and the operating expense adjustments to the test year, excluding depreciation expense and taxes. The key issues I address that have not been accepted by Staff and Intervenors are the:

- Performance Enhancement Plan ("PEP")
- Executive Compensation Programs
- Recurring Legal Expenses
- GIS Expenditures
- Customer Service Cost
- Rate Case Expense

The Company's PEP plan is a valuable management tool that provides a means to remain competitive in the hiring and retention of employees. That tool allows the Company to mitigate a portion of the rising cost of employee compensation and benefits. At the same time, it provides Company Management with additional means to encourage employees to work together to impact specific goals. It also provides Company Management with some additional flexibility to reward higher-performing employees in a manner other than increasing base wages, thus avoiding the corresponding increases associated with base wage increases. The Company believes that the PEP program should be supported by the Commission and that the request to include an average of the prior two years PEP payouts as a cost of service is fair and reasonable.

Executive compensation programs like "Long Term Incentives", "Deferred Compensation" and "Supplemental Executive Retirement" are often compared to "average" employee compensation. However, the attraction and retention of executives is subject to market forces and those forces must be considered to provide reasonable assurance that the Company has the best individuals possible in those positions. The Company believes that its executive compensation programs are a fair and reasonable cost of providing service to the customers of the Company and the Commission should allow them as an unadjusted cost of service.

The prudent and recurring legal expenses of the Company are challenging to determine because company-wide legal expenses, by their very nature, are driven by a continuing series of multiple non-recurring individual issues. Therefore, the Company believes its proposal to use a two-year average is reasonable and reflective of actual recurring legal costs.

The Company has been able to greatly expand services provided to its customers by consolidating customer service activities with UNS Electric and with Tucson Electric

Power Company ("TEP") to insure effective customer service for a rapidly growing customer base, as well as to take advantage of the synergies that come from spreading fixed costs across a much larger combined customer base. As a result, the Company's requested customer service expense should be reflected as a cost of service.

The cost of conducting a rate case can be high, especially, when the review and audit of the utility's rate case by Staff and intervenors is performed completely through the formal discovery process. The Company does not have the necessary internal technical or legal workforce dedicated to rate cases and, therefore, does not have the cost of such workforce included in its unadjusted test year expenses. The Company has had to have the work performed by individuals that work outside of UNS Gas. The majority of that work was performed by employees of TEP and their incremental cost was charged to UNS Gas. The Company is asking the Commission to include those incremental costs incurred in the course of this rate case as a portion of its cost of service without adjustment.

Summary of the Testimony
of Karen G. Kissinger
Docket No. G-04230A-06-0463 et al.

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

In my Testimony, I support the underlying historical financial information of the Company presented in this case. I also provide support for various rate base and operating income adjustments requested by UNS Gas in this case. With respect to the calculation of rate base, I provide support for the following adjustments:

A. Acquisition Discount Adjustment
B. Griffith Plant Adjustment
C. Build Out Plant Write-Down Adjustment
D. Accumulated Deferred Income Tax Adjustment
E. Customer Advance and Deposit Adjustments
F. Working Capital Adjustment
G. Warm Spirit and Customer Assistance Residential Energy Support (CARES) Deferral Accounts
H. Geographic Information System Deferral Account

With respect to operating income adjustments, I provide support for the adjustments for Depreciation Expense, Amortization Expense, Property Tax expense and Income Tax expense.

Summary of the Testimony
of Gary A. Smith
Docket No. G-04230A-06-0463 et al.

I have filed Direct, Rebuttal and Rejoinder Testimony in this case.

My Testimony provides an overview of UNS Gas operations, including: (i) the substantial customer growth that UNS Gas has experienced and anticipates it will continue to experience; (ii) capital spending since UNS Gas' acquisition of the gas company assets from Citizens in 2003; (iii) the significant productivity gains that UNS Gas has experienced through the implementation of a number of programs; (iv) technology improvements, including the implementation of a GIS system that substantially improves safety and reliability in the operation of the Company's system; and (v) various cost containment strategies that have been implemented.

My Testimony also includes descriptions of UNS Gas low-income assistance programs, a proposal for Demand-Side Management programs and proposed changes to UNS Gas Rules and Regulations.

Summary of the Testimony
of Dr. Ronald E. White
Docket No. G-04230A-06-0463 et al.

I have filed Direct Testimony in this case.

In my testimony, I sponsor and describe the depreciation study conducted by Foster Associates.

Summary of the Testimony
of Denise A. Smith
Docket No. G-04230A-06-0463 et al.

I have filed Rebuttal and Rejoinder Testimony in this case. My Testimony responds to Demand-Side Management ("DSM") testimony filed by other parties.

In response to a request by Staff, UNS Gas submitted detailed DSM program proposals. Although these detailed DSM program proposals were submitted as an informational filing, UNS Gas would prefer to have the Commission approve the DSM program portfolio in this case.

UNS Gas' DSM program portfolio includes a range of programs designed to provide all of UNS Gas' customer segments with opportunities to reduce demand, save energy and reduce energy costs. The programs are designed to provide options for improving the energy efficiency of existing residential homes, residential new construction projects, residential low-income homes, commercial and industrial ("C&I") Gas Efficiency, and non-residential new construction and renovation projects.

UNS Gas has submitted four plans for approval: (1) a continuation and enhancement of the existing LIW program, (2) a new home construction program that meets DOE's Energy Star requirements, (3) a residential HVAC program providing incentives to encourage the replacement to energy-efficient gas-fueled furnaces, and (4) a Commercial and Industrial program providing incentives to owners and operators for non-residential facilities for energy efficient improvements in gas-fueled systems and equipment.

In connection with these programs, UNS Gas has provided information regarding: (1) program concepts; (2) target markets; (3) baseline conditions; (4) customer eligibility; (5) program rationales; (6) program objectives; (7) products and services provided; (8) delivery strategy and administration; (9) marketing and communications; (10) implementation schedules; (11) monitoring and evaluation plans; (12) program costs; (13) estimated energy savings; and (14) program cost effectiveness.

This proposed DSM program plan will save (over the five year program portfolio) approximately six million therms, 5200 kW of non-coincident demand, and over three million kWhs. Over the same five years there is a net benefit to society of twenty-five million dollars. The portfolio also reduces carbon dioxide emissions by over 72 million pounds and reduces fresh water consumption by almost 600,000 gallons.

Finally, UNS Gas has requested approval of a DSM adjustor mechanism. The adjustor mechanism is an essential component of the DSM portfolio. UNS Gas has already incurred expenses that will be placed in the DSM adjustor mechanism. Those expenses include the low-income weatherization program and expenses incurred in the formulation of the proposed DSM portfolio plan.

Summary of the Testimony
of D. Bentley Erdwurm
Docket No. G-04230A-06-0463 et al.

I have filed Rebuttal and Rejoinder Testimony in this case. I am also adopting the Direct Testimony of Tobin Voge. My Testimony also supports the weather normalization and customer annualization adjustments, the Throughput Adjustment Mechanism ("TAM"), the proposed de-coupler, and the structure of the CARES discount.

The weather adjustment is performed to restate sales and revenues to typical weather conditions. The weather adjustment is performed using a standard methodology previously approved by the Commission.

The customer annualization is performed to represent sales, the number of customers, and revenues at levels consistent with the number of customers at test year-end. Because of cyclical growth due to the comings and goings of seasonal visitors, the "traditional" customer adjustment approach does not work well on the Company's system. To address the shortcomings of the traditional approval in the particular circumstances faced by UNS Gas, the Company has proposed a customer adjustment method that produces more reliable and consistent results.

UNS Gas has proposed an increase in the monthly customer charges. Customer charge increases are appropriate because they recognize the fact that distribution costs are generally insensitive to volume. Increasing the customer charge also addresses a geographical inequity in UNS Gas' service area. Currently, cold-weather customers (e.g., from Flagstaff and Prescott) subsidize warm weather customers from the desert communities. Under the current rate design, revenue recovery is overly dependent on volumetric rates. Moreover, lower use does not necessarily imply a commitment to conservation. Customers tend to be "high-use" on the UNS Gas system because they live in colder climate zones. There are significant differences in climate on the system. It is unfair to view the high-use customer as necessarily wasteful or unconcerned about conservation. Similarly, many low-use customers may be unconcerned about conservation. A Flagstaff customer struggling to conserve may still use twice as much gas as a low-use customer in the desert. Also, low-income customers are not necessarily low-use customers as they may occupy sub-standard housing. In light of the above, the "fairest" approach to rate design is to tie it to cost causation. The Company's proposed rate design reflects costs. Lowering the volumetric components and raising the fixed customer components will bring rates more in line with costs. Commission acceptance of the Company proposal will help lessen increases in the highest bills experienced by cold weather customers in Flagstaff and Prescott.

The Company has also proposed the TAM to help adjust for over- and under-recovery of fixed costs; the current dependence on volumetric recovery makes recovery of fixed cost uncertain. In the event that sales are low, and revenues fall short of fixed costs, the TAM will establish an additional charge recovered in a subsequent period to make up the shortfall. Likewise, if sales are unusually high, the TAM will result in a subsequent credit to customers. Both the Company and customers can benefit from the

TAM. The Company enjoys increased revenue stability; the customer sees some leveling and increased predictability in bills. Moreover, commodity costs are not recovered through the TAM. Therefore, customers do not pay for gas they do not use. The TAM increases revenue stability, but does not guarantee that the Company will earn its authorized rate of return. The TAM only affects revenue; the Company must still control costs. The TAM does not reduce the Company's incentive to operate efficiently.