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COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

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 CORPORATION COMMISSIONON.	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 **STAFF'S NOTICE OF FILING TESTIMONY SUMMARIES**

Staff of the Arizona Corporation Commission ("Commission") hereby files the Testimony Summaries of Robert G. Gray (Utilities Division); Julie McNeely-Kirwan (Utilities Division); Ralph C. Smith (Consultant - Larkin & Associates, Inc.); Jerry Mendl (Consultant – MSB Energy Associates, Inc.); and George Wennerlyn (Consultant – Select Energy Consulting) in the above-referenced matter.

RESPECTFULLY SUBMITTED this 17th day of April 2007.

Arizona Corporation Commission
DOCKETED
APR 17 2007
DOCKETED BY nr

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR JUST AND REASONABLE RATES AND CHARGES.	DOCKET NOS. G-04204A-06-0463, G-04204A-06-0013, G-04204A-06-0831

TESTIMONY SUMMARY

OF

ROBERT G. GRAY

PUBLIC UTILITIES ANALYST 5

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

April 17, 2007

Q. Please summarize your recommendations.

A. My testimony contains the following recommendations:

1. The base cost of gas should be set at zero.
2. UNS, as part of implementing any change in how gas costs are shown on customer bills, should provide specific customer education materials to explain this change. I further recommend that UNS represent the cost of gas as a specific and separate line item on customers bills, noting in a footnote any temporary PGA surcharge or credit that may be in effect.
3. During application of the PGA bandwidth for the first 12 months following the implementation of new rates UNS should compare the new monthly PGA rate to the sum of the base cost of gas and the monthly PGA rate in prior months.
4. The bandwidth on the monthly PGA rate should be expanded to $.015 per therm.
5. The threshold on the PGA bank balance for undercollected balances should be eliminated.
6. The threshold on the PGA bank balance for overcollected balances should be set at $10 million.
7. The currently applicable interest rate for the PGA bank balance should be retained.

Summary of Testimony of Staff Witness Julie McNeely-Kirwan
UNS Gas, Inc.
Docket Nos. G-04204A-06-0463, G-04204A-06-0013 and G-04204A-05-0831

Staff's direct and surrebuttal testimony makes recommendations regarding UNS Gas' low-income and DSM programs.

Recommendations in direct testimony.

1. UNS should continue to work toward expanding participation in the CARES program to additional eligible households.

2. The CARES program monthly customer charge should remain at its current level, and the current per therm discount should be retained.

3. The deferred account for the CARES program should be discontinued.

4. UNS should submit detailed DSM program proposals to the Commission as soon as possible, rather than waiting for the conclusion of the UNS Electric rate case.

5. Emergency bill assistance should not be included in the DSM portfolio. Emergency bill assistance, in the amount of $21,600, should be funded from base rates and combined, as an additional funding source, with the existing Warm Spirit emergency bill assistance program.

6. UNS should file a comprehensive DSM portfolio plan for Commission approval, along with detailed program proposals for each of the new DSM programs it wishes to pursue.

7. When filing its detailed DSM program proposals, UNS should include the data required to calculate the cost-effectiveness of each program on a Societal Test basis.

8. As part of its DSM portfolio filing, UNS should provide information for the LIW program, including marketing, verification and inspection, and cost-effectiveness.

9. UNS should create a monitoring plan for each DSM program and describe these plans in each program proposal.

10. UNS should recover its costs for all of its DSM programs through a separate DSM adjustment mechanism.

Recommendations in surrebuttal testimony

11. The cost of the baseline study should be recovered through the adjustor, but not until the estimated cost has been submitted, reviewed and approved by the Commission.

12. The $441,511 adjustment for the CARES discount proposed by UNS should be removed from Operating Expenses.

13. Any amount accrued in the deferred account from the end of the test year through conclusion of the current UNS Gas rate case should be considered for recovery during the next UNS Gas rate case.

14. Staff recommends that the LIW funding and one quarter of the proposed budget for the remaining DSM program be included in the DSM adjustor at the conclusion of the UNS Gas case, and that the per-therm DSM charge should be $0.0025.

15. Staff recommends that the DSM adjustor reset filing be done on April 1 of each year, with the annual adjustment moved to June 1.

16. Staff recommends that the semi-annual reports be filed on March 1 and September 1 of each year.

EXECUTIVE SUMMARY
OF THE
DIRECT, SUPPLEMENTAL AND SURREBUTTAL TESTIMONY
OF RALPH C. SMITH

My direct testimony addresses the following issues:

- The Company's proposed revenue requirement.
- Adjustments to test year data
- Rate base, including construction work in progress
- Test year revenues (including number of customers and usage) and expenses.
- Depreciation rates
- Rules and regulations, including line extensions.

My supplemental testimony addresses the following issues:

- Staff's recommended rate design.
- Staff's bill impact analysis

My surrebuttal testimony addresses the following issues:

- The Company's proposed revenue requirement
- Adjustments to test year data
- Rate base, including construction work in progress
- Test year revenues (including number of customers and usage) and expenses
- Staff's updated proposed rate design, based on changes to the base rate revenue requirement reflected in my surrebuttal testimony

My findings and recommendations for each of these areas are as follows:

- The Company's proposed revenue requirement on a base rate increase of $9.647 million is overstated. As described in my surrebuttal testimony, based on the information received and reviewed to date, I recommend that UNS Gas be authorized a base rate increase of $4.312 million. This represents a net decrease of $409 thousand from the $4.721 million base rate increase described in my direct testimony. Staff's surrebuttal recommendation for the amount of base rate revenue increase is based upon applying an appropriately adjusted weighted cost of capital to Staff's adjusted Fair Value Rate Base. The comparable base rate increase, applying Staff's recommended weighted cost of capital to adjusted Original Cost Rate Base, is $4.336 million.

- The following table shows Staff's recommended adjustments to UNS Gas' proposed original cost and fair value rate base that should be made, and identifies the changes from Staff's direct to Staff's surrebuttal position:

Summary of Staff Adjustments to Rate Base		Staff Rebuttal	Staff Direct		
Adj. No.	Description	Increase (Decrease)	Increase (Decrease)	Difference	Revised
B-1	Remove Construction Work in Progress	$ (7,189,231)	$ (7,189,231)	$ -	
B-2	Remove GIS Deferral	$ (897,068)	$ (897,068)	$ -	
B-3	Cash Working Capital - Lead/Lag Study	$ 776,874	$ 770,960	$ 5,914	Yes
B-4	Accumulated Deferred Income Taxes	$ 195,336	$ 195,336	$ -	
	Total of Staff Adjustments	**$ (7,114,089)**	**$ (7,120,003)**	$ 5,914	Yes
	UNS Proposed Rate Base (Original Cost)	$ 161,661,361	$ 161,661,361	$ -	
	Staff Proposed Rate Base (Original Cost)	**$ 154,547,272**	**$ 154,541,358**	$ 5,914	**Yes**

- The following table shows Staff's recommended adjustments to UNS Gas' proposed revenues, expenses and net operating income that should be made, and identifies the changes from Staff's direct to Staff's surrebuttal position:

Summary of Staff Adjustments to Net Operating Income

		Staff Rebuttal	Staff Direct		
Adj. No.	Description	Increase (Decrease)	Increase (Decrease)	Difference	Revised
C-1	Revenue Annualization	$ 62,896	$ 62,896	$ -	
C-2	Weather Normalization	$ 1,205	$ 1,205	$ -	
C-3	Adjustment to Bad Debt Expense	$ (776)	$ (776)	$ -	
C-4	Remove Depreciation & Property Taxes for CWIP	$ 222,981	$ 222,981	$ -	
C-5	Remove Amortization of Deferred GIS Cost	$ 183,606	$ 183,606	$ -	
C-6	Incentive Compensation and SERP	$ 164,204	$ 164,204	$ -	
C-7	Emergency Bill Assistance Expense	$ (13,263)	$ (13,263)	$ -	
C-8	Nonrecurring Severance Payment Expense	$ -	$ 32,167	$ (32,167)	Yes
C-9	Overtime Payroll Expense	$ 75,531	$ 75,531	$ -	
C-10	Payroll Tax Expense	$ 5,740	$ 8,201	$ (2,461)	Yes
C-11	Nonrecurring FERC Rate Case Legal Expense	$ 190,992	$ 190,992	$ -	
C-12	Property Tax Expense	$ 49,300	$ 49,300	$ -	
C-13	Worker's Compensation Expense	$ 21,020	$ 21,020	$ -	
C-14	Membership and Industry Association Dues	$ 16,498	$ 16,498	$ -	
C-15	Fleet Fuel Expense	$ 7,772	$ 32,199	$ (24,427)	Yes
C-16	Postage Expense	$ 15,979	$ 70,671	$ (54,692)	Yes
C-17	Interest Synchronization	$ 118,168	$ 118,085	$ 83	Yes
C-18	Corporate Cost Allocations	$ 7,838		$ 7,838	Added
C-19	Rate Case Expense	$ 70,612		$ 70,612	Added
C-20	CARES Related Amortization	$ 271,097		$ 271,097	Added
Total of Staff's Adjustments to Net Operating Income		**$ 1,471,399**	**$ 1,235,516**	$ 235,883	Yes
	Adjusted Net Operating Income per UNS Gas	$ 8,428,981	$ 8,428,981	$ -	
	Adjusted Net Operating Income per Staff	$ 9,900,380	$ 9,664,497	$ 235,883	Yes

- Based on a base rate revenue increase of $4.312 million, Staff proposes the revised rates shown on Attachment RCS-S1(R) to my surrebuttal testimony The customer charge rates are the same as those contained in my supplemental testimony. The difference in the amount of base rate revenue increase has resulted in slightly lower volumetric charges than were proposed in my supplemental testimony. Staff's proposed rates from my surrebuttal testimony exhibits are summarized in the following table:

Summary of Staff Recommended Rate Design			
Class of Service	**Current Rates**	**Proposed Rates**	**Change**
Residential Service (R10)			
Customer Charge	$ 7.00	$ 8.50	$ 1.50
Distribution Margin Therms	$ 0.3004	$ 0.3177	$ 0.0173
Residential Service Cares (R12)			
Customer Charge	$ 7.00	$ 7.00	$ -
Distribution Margin Therms	$ 0.3004	$ 0.3177	$ 0.0173
Winter Discount (up to 100 Therms)	$(0.1500)	$(0.1500)	$ -
Small Volume Commercial Service (C20)			
Customer Charge	$ 11.00	$ 13.50	$ 2.50
Distribution Margin Therms	$ 0.2420	$ 0.2625	$ 0.0205
Large Volume Commercial Service (C22) and Commercial Transportation			
Customer Charge	$ 85.00	$ 100.00	$ 15.00
Distribution Margin Therms	$ 0.1551	$ 0.1717	$ 0.0166
Small Volume Industrial Service (I-30)			
Customer Charge	$ 11.00	$ 13.50	$ 2.50
Distribution Margin Therms	$ 0.2122	$ 0.2349	$ 0.0227
Large Volume Industrial Service (I-32) and Industrial Transportation			
Customer Charge	$ 85.00	$ 100.00	$ 15.00
Distribution Margin Therms	$ 0.0864	$ 0.0958	$ 0.0094
Small Volume Public Authority (PA-40)			
Customer Charge	$ 11.00	$ 13.50	$ 2.50
Distribution Margin Therms	$ 0.2354	$ 0.2582	$ 0.0228
Large Volume Public Authority (PA-42) and Public Authority Transportation			
Customer Charge	$ 85.00	$ 100.00	$ 15.00
Distribution Margin Therms	$ 0.1084	$ 0.1201	$ 0.0117
Special Gas Light Service (PA-44)			
Customer Charge Lighting Group A	$ 13.57	$ 15.05	$ 1.48
Customer Charge Lighting Group B	$ 16.28	$ 18.06	$ 1.78
Irrigation Service (IR-60)			
Customer Charge	$ 11.00	$ 13.50	$ 2.50
Distribution Margin Therms	$ 0.2876	$ 0.3179	$ 0.0303

- Staff's updated bill impact analysis relating to such rates is shown on Attachment RCS-S2(R) to my surrebuttal testimony.

Testimony Summary – Jerry Mendl

MSB Energy Associates and Select Energy Consulting were contracted to assess the prudence of UNS Gas' natural gas procurement policies and practices. The period for the review was September 2003 through December 2005.

Our review indicated that UNS Gas' natural gas procurement strategy, as set forth in its Price Stabilization Policies and using low cost hedging instruments, was reasonable over the review period. We also concluded that the updated strategy, if it continued to use low cost hedges, appears to be reasonable into the foreseeable future.

We noted that as actually implemented, the natural gas purchases made by UNS Gas for the review period were somewhat concentrated in time. However, the updated Price Stabilization Policy should alleviate that concern by increasing the number of purchase dates over time, thereby stabilizing the costs of natural gas. In addition, our analysis showed that concentrating the purchases for the review period did not materially increase the cost of gas given the specific circumstances in the review period.

Based on UNS Gas' rebuttal testimony and rejoinder, it appears that the only outstanding issue regarding UNS Gas' procurement policies and practices is regarding the Company's request for Commission approval of UNS Gas' Price Stabilization Policy. We recommend that the Commission not approve the Company's Price Stabilization Policy for the following reasons:

- The Company's proposed Gas Price Stabilization Policy allows for the use of expensive hedging instruments, although the Company did not use them in the review period. Approval of the Price Stabilization Policy could unreasonably insulate the Company from the consequences of adding to the cost of natural gas without commensurate benefit to the ratepayers.

- The Company's offer to categorically exclude certain types of hedging instruments in an attempt to address the above concern also misses the point. Because the gas markets are volatile, there may be circumstances under which the excluded hedging instruments may be beneficial. The Company should not be insulated from the responsibility to make changes when appropriate. The Price Stabilization Policy, even if altered as the Company offered in its Rebuttal testimony, would insulate the Company from its responsibility to modify its procurement process as circumstances warrant.

- The Commission's approval of the Price Stabilization Policy would give it a presumption of prudence that would inhibit the Company from deviating from the Policy even when changed conditions warranted such a deviation. Since it is not practical for the Commission to review and re-approve or modify the Company's natural gas procurement policy each time before the Company goes to procure natural gas, the Company must be held accountable for procuring gas in the best way in light of changing market conditions.

GEORGE WENNERLYN - WITNESS SUMMARY

George Wennerlyn of Select Energy Consulting, an independent contractor to MSB Energy Associates, Inc., addressed issues relating to the UNS Gas PGA including preparation of an historical record of prices paid by the Company, comparing supply purchases to hub pricing, evaluating the UNS Gas decision making process to supply selection. This assessment of prudence and reasonableness covered the period of September 1, 2003 and ending December 31, 2005.

From this review came the following findings and recommendations:

1. The UNS Gas natural gas procurement, practices, and policies achieved the appropriate objectives of a purchasing strategy which balances reliability, cost, and price stability. The purchases were reasonable and prudent for the review period.

   UNS Gas Response: The Company agreed with my findings of savings achieved, through their gas purchasing strategy, but disputed the calculations stating that actual results were understated due to the pipeline fuel adjustment factor.

2. There are a number of improvements which the Company can make on a going-forward basis that should enhance the Commission Staff's purchasing review process and understanding, involving the monthly Purchase Gas Adjustor filings. The Commission should require UNS Gas to include the additional pieces of information outlined in my testimony.

   UNS Gas Response: The Company did not take issue with my recommendations.

3. UNS Gas needs to complete a study of the costs and benefits of the present gas supply arrangement with BP Energy as compared to other market suppliers, and present their findings to the Commission for review and complete understanding.

   UNS Gas Response: The Company did not take issue with my recommendations.