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ARIZONA CORP. COMM
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IN THE MATTER OF THE APPLICATION OF
UNS GAS, INC. FOR 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

Notice of Filing of

Initial Brief of
Marshall Magruder,
Intervenor

5 June 2007

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

As directed in the Procedural Order of 8 September 2006, modified on 10 January
2007 and 15 February 2007 and verbal direction by the Administrative Law Judge, this Initial
Brief of Marshall Magruder is submitted to all Parties as of this date.

Respectfully submitted on this 5th day of June 2007 to all parties.

Arizona Corporation Commission
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MARSHALL MAGRUDER

By Marshall Magruder

Marshall Magruder

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INITIAL BRIEF
OF
MARSHALL MAGRUDER

June 5, 2007

In

ACC Docket No. G-04204A-06-0463
In the Matter of the Application of UNS Gas, Inc. for 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,

and

ACC Docket No. G-04204A-06-0013
In the Matter of the Application of UNS Gas, Inc. to Review and Revise its Purchased Gas Adjustor

and

ACC Docket No. G-04204A-05-0831
In the Matter of the Inquiry into Prudence of the Gas Procurement Practices of UNS Gas, Inc.

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INITIAL BRIEF BY MARSHALL MAGRUDER

Part I – Background and Key Issues

1.1 Background.

Q. What has been your involvement in this case to date?

A. On 10 January 2007, the Magruder Motion to Intervene of 16 November 2006¹ was approved and the Magruder Direct Testimony filed on 7 February 2007², Magruder Surrebuttal Testimony filed on 4 April 2007³ and Magruder Summary filed on 23 April 2007⁴. I participated in discovery with three data request sets exchanged with the Applicants.

Q. Do you have adequate information to produce this Brief?

A. Yes, however, the high cost of obtaining a transcript and its unavailability in the Docket e-files has precluded use of the Hearing Transcripts. Exhibits introduced during the hearings will be referenced. Since my notes maybe in error, each "Ex" will be fully referenced in a footnote when first used.

1.2 Key Issues and Concerns.

Q. Are there differences between your issues and those raised by the Commission Staff and RUCO?

A. Yes. Many diverse issues and concerns have emerged during the proceedings in this rate case. The other intervening parties, especially the Arizona Corporation Commission (ACC) Staff and the Residential Utility Consumer Office (RUCO) have completed explored most in depth, especially financial issues beyond my capability to completely explore. During discovery, the rounds of testimony, and the hearings, new issues were continually being introduced. Some were important to Santa Cruz County and its ratepayers, so additional emphasis in my efforts have been applied on those. In general, I am satisfied with and concur with the conclusions off all intervening parties to date.

Q. Will you summarize your concerns and the issues in your Testimony?

A. Yes. My efforts have centered on several few key issues and concerns expressed in my Direct, Surrebuttal and Summary Testimony as briefly documented herein:

1. Mandatory residential Service (or customer) Charge to vary by season, ¶2.1 below.

¹ Motion to Intervene by Marshall Magruder, of 16 November 2006, hereafter "Ex. M-5"

² Direct Testimony by Marshall Magruder, of 6 February 2007, hereafter "Ex. M-6"

³ Surrebuttal Testimony by Marshall Magruder, of 4 April 2007, hereafter "Ex. M-7"

⁴ Summary Testimony by Marshall Magruder, of 23 April 2007, hereafter "Ex. M-8"

2. Residential Service (or customer) Charge increases, ¶2.2 below.
3. Increased rates by Adding a Throughput Additional Mechanism (TAM) to shift some volumetric cost to the Service Charge, ¶2.3 below.
4. System usage charges in TAM when not using gas, ¶2.4 below
5. Internal UNS Gas "Price Stabilization Policy" to be adopted by the ACC to replace Prudency Purchase Audits for future rate cases, ¶2.5 below.

7
8 **Q. Did you respond to ACAA Testimony?**

9 **A.** Yes. The Arizona Community Action Association (ACAA) excellent Direct Testimony⁵,
10 Surrebuttal Testimony⁶, and Data Request Response to UNS Gas' First Data Request⁷ have
11 emphasized issues and concerns for the lower-income ratepayers. The issues raised by
12 ACAA exist in Santa Cruz County which identified a sixth key issue, "Changes in Past Due,
13 Penalty, Suspension, Notice of Termination Dates after Billing," ¶2.6 below.

14 **Q. Do you agree with additional issues raised by the ACC Staff and RUCO?**

15 **A.** Yes. These additional concerns, from the Testimony of the Intervenors, pose additional
16 issues and are summarized as below. They are numbered sequentially with the above six
17 issues discussed in Part II of this Brief. They are summarized in Table 1 below which
18 compares the UNS Gas proposals with the views of the Intervenors:
19
20 7. Deletion of base cost of gas and only; use Purchased Gas Adjustor (PGA) for gas prices
21 8. Change PGA bandwidth and then eliminate
22 9. Recommended costs of natural gas at **\$0.1862/therm** (with higher Service Charge)
23 compared to the present **\$0.3004/therm**
24 10. Citizens Acquisition Adjustment: amortized charges
25 11. Construction Work in Progress (CWIP) into base rate and CWIP property taxes
26 12. Rate base expenses for Geographic Information System (GIS)
27 13. Rate base working capital expenses
28 14. Accumulated Deferred Income Tax (ADIT)
29 15. Revenue Annualization
30 16. Weather Normalization

31
32 ⁵ Direct Testimony of Arizona Community Action Association. by Miquelle Scheier, of 8 February 2007,
33 hereafter "**ACAA-1**"

34 ⁶ Arizona Community Action Association's Response to UNS, Gas, Inc's First Set of Data Requests, of 27
35 February 2007, hereafter "**Ex. ACAA-2**"

⁷ Rebuttal Testimony of Arizona Community Action Association. by Miquelle Scheier, of 3 April 2007,
hereafter "**Ex. ACAA-3**"

- 1 17. Bad Debt Expenses
- 2 18. Incentive Compensation and Senior Executive Retention Plan (SERP)
- 3 19. Emergency Bill Assistance Expense
- 4 20. Nonrecurring Severance Payment Expenses
- 5 21. Overtime Payroll Expenses
- 6 22. Payroll Tax Expenses
- 7 23. Non-Recurring FERC Rate Case Legal Expenses
- 8 24. Property Tax Expenses
- 9 25. Worker's Compensation Expenses
- 10 26. Membership and Industry Association Dues
- 11 27. Fleet Fuel Expenses Based on Early 2006 Fuel Prices
- 12 28. Postage Expenses
- 13 29. Rate Case Expenses
- 14 30. Growth Percentages Used Instead of Actual Growth
- 15 31. Corporate Expenses for the Unsuccessful KKR, et al, Acquisition
- 16 32. Out of Test Year charges added to base rate expenses
- 17 33. Increased Customer Service costs from \$18,000 to \$76,000 a month at TEP Call Center
- 18 34. Non-Recurring/Atypical Expenses
- 19 35. Depreciation Expenses
- 20 36. Disallowance of Inappropriate and unnecessary expenses
- 21 37. Interest Synchronization
- 22 38. Corporate Cost Allocations
- 23 39. CARES⁸ Related Amortization

24
25 **Q. Are their significant issues that will not be included in this Brief?**

26 **A.** The Applicants proposed some details of the UNS Gas Demand Side Management (DSM)
27 Plan as a Supplemental Exhibit to the Rebuttal Testimony of UNS Gas' Denise Smith. [Ex.
28 UNSG-23, 3]⁹ Since this filing was for "informational purposes" [Ex. UNSG-23, 1] it
29 will be reviewed in Part III. My response and concerns are the limited approach being
30 considered, the lack of more programs, inaction by the Company, and additional DSM
31 coordination efforts with UNS Electric, Inc. UNSE).

32
33 ⁸ Customer Assistance Residential Energy Support (CARES) Pricing Plan (R-12) which exempts low-
34 income customers from the PGA Surcharge and freezes the proposed Service Charge at \$7/month.
35 ⁹ "Supplemental Exhibit to the Rebuttal Testimony of Denise Smith," of 23 March 2007, hereafter "Ex.
UNSG-23"

1 **1.3 Additional Concerns that remain Open.**

2 There are two concerns that have not been completed explored during the hearings.

- 3 a. Ensure no Double-Charging. One concern remains from my Motion to Intervene (Ex. M-
4 5, 2 12 to 14] It was also discussed by the ACC Staff's Mr. Layton, on the last day of the
5 hearings, as an area in which he indicated that deeper investigation may still be
6 necessary. This involves the complex internal payments between UniSource Energy Inc.
7 (UNS), UniSource Energy Services, Inc. (UES), Tucson Electric Power Company, Inc.
8 (TEP), UNSE and UNS Gas, Inc. (UNSG), to ensure that "double charging" and
9 Administrative and General Expenses (A&G) expense pancaking has not occurred. My
10 capability to ferret out such information is limited. This is best accomplished by the ACC
11 Staff and RUCO professional accounting resources. It is recommended that the
12 Commission consider for resolution of this concern that a separate Staff and RUCO
13 Review be conducted into the charging practices and implementation of the UNS Energy
14 entities. This maybe a good way to confirm or deny potential abuses that could have
15 occurred in this kind of multi-layered organization.
- 16 b. Compliance Issues from UNS Gas Annual Code Compliance Audit. [Ex. S-43]¹⁰ Late in
17 the hearing the ACC Staff provided the 2006 annual results by the ACC Pipeline Safety
18 Section for UNSG. Five noncompliance issues were reported for UNS Gas:
19 1. Failed to follow Quality Assurance Plan.
20 2. Discovery of inaccessible emergency valves.
21 3. Inadequate pipe joining qualification of contractor personnel
22 4. Testing of cathodic protection exceeding maximum timing intervals
23 5. Procedures failed to specify that the interval between manual reviews is not to exceed
24 15 months.

25 All have now been verified as compliant, but each of these is a SERIOUS SAFETY
26 concern and additional, even surprise Code Compliance Audits, might be in order to
27 ensure systemic management and administrative failures do not allow reoccurrence.

28
29 **1.4 Organization of this Initial Brief.**

30 **Q. How will your Initial Brief be organized?**

31 **A.** Each key issue will be summarized and presented in terms of

- 32 (1) UNS Gas Proposal and Testimony.

33
34
35 ¹⁰ Memorandum to Ernest Johnson, Director of Utilities, from Robert Miller, Pipeline Safety Supervisor, Re: UniSource Rate Case, of 24 April 2007, hereafter "S-43"

1 (2) Intervenor Testimony (as applicable)

2 (a) RUCO

3 (b) ACC Staff

4 (c) ACAA

5 (d) Marshall Magruder

6 (3) Recommendation(s) for Resolution of this issue.

7
8 **Q. Can you summarize what you see as differences among the Applicant and Intervenor(s)?**

9 **A.** A summary of these differences¹¹ is shown in Table 1 are in summary format to show
10 differences for these 39 issues. All are expected to be in RUCO and ACC Staff Initial Briefs in
11 detail. Their final views may differ. ACAA views and issues are discussed in Part II.
12

Table 1 – Summary of Some Key Issues and Differences Among Applicant and Intervenor(s).

UNS Gas Proposal and Issues	ACC Staff Views ¹²	RUCO Views ¹³	Magruder Views
Key Issues of Concern – Discussed in Part II of this Brief			
1. Residential Service Charge to vary by season (Dec-Mar, Apr-Nov). Design rate structure so “warmer” counties (southern) cover costs in “colder” counties.	Seasonal cost differential was not recommended	Levelized billing exists, seasonal cost differential was not recommended.	Not recommended as unfair, unreasonable, and inappropriate. Seasonal rates could be voluntary, not mandatory. See ¶2.1.
2. Increase Residential Service Charge from \$84 per year to \$204 per year (Dec-Mar at \$20/mon, Apr-Oct at \$11/mon)	Recommended an annual \$102 Service Charge (raises from \$7.00 per month to \$8.50 per month)	Recommended \$8.13 per month (\$97.56 per year)	Less than \$100 per year (or ≤\$8.50 per month) recommended. See ¶2.2.
3. Increase rates by adding a Throughput Adjusted Mechanism TAM surcharge to shift some system cost of natural gas to the Service Charge.	TAM process to protect company was not recommended due to being extremely unfair to consumers	Recommend TAM be denied ; it increases rates for lowest income users, reduces revenue recovery risk to zero	TAM was not recommended , also suggested using professional meteorologist. See ¶2.3.
4. Charges for gas system usage when not using gas (part of TAM)	Not recommended	Not recommended	Not recommended See ¶2.4.

27
28
29 ¹¹ The comments in this table are provided as generalized information and not referenced. Views by other parties may differ in detail, thus no conclusions but only general comparisons are intended by this table, as each party is independent, to show differences between the Applicant and various Intervenor(s).

30 ¹² Summary of Direct, Supplemental, and Surrebuttal Testimony of Ralph C. Smith for the Arizona Corporation Commission, of 17 April 2007, Executive Summary, 1-3. Note: NOI is net operating income.

31 ¹³ Direct Testimony of Rodney L. Moore on Behalf of the Residential Utility Consumer Office, of 17 April 2007, hereafter “**Ex. RUCO-3**”; Surrebuttal Testimony of Rodney L. Moore on Behalf of the Residential Utility Consumer Office, of 4 April 2007, hereafter “**Ex. RUCO-4**”; Direct Testimony of Marylee Diaz Cortez on Behalf of the Residential Utility Consumer Office, of 9 February 2007, hereafter “**Ex. RUCO-5**” and Surrebuttal Testimony of Marylee Diaz Cortez on Behalf of the Residential Utility Consumer Office, of 4 April 2007, hereafter “**Ex. RUCO-6**”

Table 1 – Summary of Some Key Issues and Differences Among Applicant and Intervenors.

UNS Gas Proposal and Issues	ACC Staff Views ¹²	RUCO Views ¹³	Magruder Views
5. Adopt an internal UNS Gas "Price Stability Policy" and for the ACC to adopt it and delete of prudence of purchases audit in future rate cases.	Not recommended to be adopted as prudent due to safe harbor and inability to follow market changes, Policy was not fully followed, only 20 purchases, most were higher than market.	Not recommended.	Not recommended, high liabilities for ACC if adopted, flawed policy as written. See ¶2.5.
6. Change from 15 to 10 days before Late Fee is charged and Past Due to Cut-off from 30 to 15 days	Recommended approval after a six-month transition period	NOT RECOMMENDED	Not Recommended. See ¶2.6.
Other Significant Issues and Concerns that are NOT discussed in Part II			
7. Delete basic cost of gas, use only PGA for gas prices	Agreed, set base cost to zero	Agreed	A major revision to the PGA process was recommended.
8. Change PGA bandwidth and then eliminate	Recommended retain Bandwidth	Recommend retain at twice Bandwidth	Not discussed
9. Recommended costs of natural gas at \$0.1862 /therm (+ higher \$17/month SC) was \$0.3004 /therm	Residential (R-10, R-12) at \$0.3217 /therm (+3.31% or \$3.36 per month)	Residential (R-10, R-12) at \$0.29668 /therm (+2.28% or \$1.16 per month)	Company will always recover its costs for gas costs, not discussed in detail
10. Citizens Acquisition Adjustment amortized (\$248,000) of \$30.7 million permanent reduction	Not specifically located in testimony	Amortize not approved always deny (\$248,000) (rate base adjustment #3), RBA #3	Warned this adjustment must be closely watched to ensure the acquisition customer benefits are not lost. [Ex. M-6, Part V]
11. Construction Work in Progress included in base rate and CWIP property taxes and depreciation	Staff adjustment B-1 remove \$7,189,231 from rate base, C-4 add \$222,981 to NOI	Delete \$7,189,000 as it was not used, delete \$166,000 tax, RBA #3, OA #18	Not discussed
12. Rate base expenses for GIS and amortization for deferred GIS cost	Staff adjustment B-2 remove \$897,068 from rate base, C-5 add \$183,606 to NOI	Delete \$897,000 overcharge, RBA #5, remove \$299,023 Operating Adjustment #12 (OA #12)	Not discussed
13. Rate base working capital expenses	Staff adjustment B-3 increase rate base by \$776,874	Add \$1.2 million (error), RBA #6	Not discussed
14. Accumulated deferred Income Tax (ADIT)	Staff adjustment B-4 increase rate base by \$195,336.	Increased expenses by \$1,830,390, OA #22	Not discussed.
15. Revenue Annualization	Staff adjustment C-1 add \$62,896 to NOI	Add \$110,006, OA #15	Not discussed
16. Weather normalization	Staff adjustment C-2 add \$1,205 to NOI	Not specifically located in testimony	Not discussed
17. Bad Debt expenses	Staff adjustment C-3 decrease NOI by \$776	Not specifically located in testimony	Not discussed
18. Incentive compensation and SERP	Staff adjustment C-6 add \$164,204 to NOI	Delete \$278,848, OA #2; SERP decrease \$93,075, OA #11	Not discussed

Table 1 – Summary of Some Key Issues and Differences Among Applicant and Intervenors.

UNS Gas Proposal and Issues	ACC Staff Views¹²	RUCO Views¹³	Magruder Views
19. Emergency bill assistance expenses	Staff adjustment C-7 decrease NOI by \$13,263	Not specifically located in testimony	Not discussed
20. Non-recurring severance payment expenses	Staff adjustment C-8 resolved, no change	Not specifically located in testimony	Not discussed
21 Overtime payroll expenses	Staff adjustment C-9 add \$75,531 to NOI	Not specifically located in testimony	Not discussed
22. Payroll tax expenses	Staff adjustment C-10 add \$5,740 to NOI	Not specifically located in testimony	Not discussed
23. Nonrecurring FERC rate case legal expenses	Staff adjustment C-11 add \$190,992 to NOI	Delete \$311,051 as already recovered, OA #20	Not discussed
24. Property Tax expenses	Staff adjustment C-12 add \$49,300 to NOI	Decrease \$309,309, OA #7	Not discussed
25. Worker's Compensation expenses	Staff adjustment C-13, add \$21,020 to NOI	Delete \$34,234, OA #1	Not discussed
26. Membership and industry association dues	Staff adjustment C-14 add \$16,498 to NOI	Decrease \$1,523, OA #9	Not discussed
27. Fleet fuel expenses based on early 2006 prices	Staff adjustment C-15 add \$7,772 to NOI	Delete \$67,000 overcharge, OA #17	Not discussed
28 Postage expenses	Staff adjustment C-16 add \$15,979 to NOI	Decrease \$153,379, OA #4	Not discussed
29. Rate case expenses	Staff adjustment C-19 add \$70,612 to NOI	Decrease \$116,333, OA #8	Not discussed
30. Used growth percentages instead of actual growth	Not specifically located in testimony	Add \$110,000 to revenues	Not discussed
31. Included corporate expenses for KKR acquisition	Not specifically located in testimony	Replace \$130,000 with \$13,000 (error), OA #16	Not discussed
32. Out of Test year charges added to base expenses	Not specifically located in testimony	Delete 3 invoices Decrease \$21,120, OA #19	Not discussed
33. Increase in customer service costs from \$18,000 to \$76,000 per month at TEP call center	Not specifically located in testimony	Delete \$727,000 as services are same as under Citizens, OA #5	Not discussed
34. Non-recurring/Atypical expenses	Not specifically located in testimony	Decrease \$2,584	Not discussed
35. Depreciation expenses	Not specifically located in testimony	Decrease \$324,083, OA #4	Not discussed
36. Disallowance of Inappropriate and unnecessary expenses	Not specifically located in testimony	Deny #233,347, OA #6	Not discussed
37. Interest synchronization	Staff adjustment C-17 add \$118,168 to NOI	Not specifically located in testimony	Not discussed
38. Corporate Cost allocations	Staff adjustment C-18 add \$7,838 to NOI	Not specifically located in testimony	Not discussed
39. CARES Related Amortization	Staff Adjustment C-20 add \$271,097 to NOI	Not specifically located in testimony	Not discussed

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1 **Part II – Discussion of the Issues with Recommendations**

2
3 **2.1 Proposed Residential Service Charges to Vary by Season.**

4 **Issue.** The Company proposed to raise summer and lower winter Service Charge rates. The
5 Company considers its customers in colder climates are “subsidizing” those who live in
6 desert climates.

7 (1) UNS Gas Proposal and Testimony.

8 UNS Gas proposed mandatory seasonal residential Service Charge rates to vary by
9 season. During the months of December to March the Service Charge will be \$11.00 per
10 month and during April to November raised to \$20.00 per month.¹⁴ UNS Gas' Voge stated

11 “I recognize that customers in the warmer climates have grown
12 accustomed to having their usage more steeply subsidized by
13 customers in cold climates. Therefore, we have proposed
14 setting the residential customer charge at \$20.00 in the
15 months of April through November and reducing that charge to
16 \$11.00 in the four remaining winter months. This would help
17 levelize bills across all 12 months, allowing customers to
18 more easily budget for their bills. Customers in colder
19 regions also would benefit from a lower customer charge
20 during months when the commodity portions of their bills pose
21 the largest problem.”

18 [Ex. UNSG-18, 10 at 5 to 12]¹⁵

19 Further, UNS Gas Testimony stated

20 “the average residential customer pays an annual margin of
21 \$292, \$133 more than the \$159 paid by the average residential
22 customer in Lake Havasu...the Flagstaff customer is
23 contributing a larger share of the cost.”

23 [Ibid, 8 at 16 to 20]

24 Mr. Voge stated that

25 “cross subsidization that occurs when usage within customer
26 classes varies significantly based on geography and climate.”

27 [Ibid, 8 at 16 to 20]

28
29
30 ¹⁴ The August 2006 “billing insert” to ratepayers concerning this rate case stated \$9.00 per month for the
31 four winter months of December through March and \$21.00 per month for the other eight months from
32 April through November. The annual total is the same at \$204, this averages o\$17.00 per month. The
33 present rate is \$7.00 per month, or \$84.00 per year to the proposed \$204.00 per year, an increase of
34 143%. The Service Charge prior to 11 August 2003 was \$5.00 per month or \$60.00 per year. Thus, from
35 10 August 2003 to August 2007, the Service Charge is proposed to **increase 308% or 77% per year.** [Ex.
M-7, 11 at footnote]

¹⁵ UNSG, Direct Testimony of Tobin L. Voge on Behalf of UNS Gas, Inc. of 13 July 2006, hereafter “[Ex.
UNSG-18]”

1 Mr. Pignatelli Rebuttal repeats the Company's plan to discriminate against his customers
2 who chose to live in warmer climates by stating

3 "Under UNS Gas' current rate design, cold-weather customers
4 - particularly high-use customers - subsidize warm-weather
5 customers"

6 [UNSG-2, 12 at 17 to 19]¹⁶

7 And again

8 "the company's proposal seasonal rates so that cold-weather
9 customers would not subsidize warm-weather customers to the
10 degree that subsidization is occurring now. We also want to
11 send significantly more accurate price signals through rates."

12 [Ibid. 12 at 21 to 24]

13 UNS Gas Rebuttal Testimony by Mr. Erdwurm missed the Magruder comments on the winter
14 versus summer rates and continues Mr. Voge rate design:

15 "because the [UNS Gas] rate design proposals made by the
16 company were aimed at helping reduce a grossly unfair subsidy
17 to customer in low-use, desert communities from customers in
18 higher use communities like Flagstaff. The public interest
19 demand an end of this inequity."

20 [Ex. UNSG-19, 13 at 22 to 25]¹⁷

21 "...This means that residents in the colder community of
22 Flagstaff will end up paying more than the Company requires
23 to serve them, because customers in desert communities use
24 little gas, and pay less than the cost to serve them."

25 [Ibid. 4, at 2 to 6]

26 The Erdwurm Rebuttal Testimony responses to a question and implies that no
27 intervenors have addressed the geographic subsidy by stating:

28 "Q. Did any intervenor witness address the geographic subsidy that
29 you identified in your Direct Testimony?

30 A. No, neither Staff nor RUCO directly address this rate design
31 inequity in their Direct Testimonies. Both RUCO and Staff
32 state that their respective proposals generate more revenues
33 through the customer charge than is currently generated.
34 However, the proposed \$1.50 per month increase by Staff and
35 the \$1.13 per month by RUCO for residential customers
results in the continued subsidization of fixed costs by
customers in cold climates."

[Ibid. 11, at 22 to 27]

16 Rebuttal Testimony by James S. Pignatelli on Behalf of UNS Gas, Inc. of 16 March 2007, hereafter "Ex.
UNSG-2"

17 Rebuttal Testimony of D. Bentley Erdwurm on Behalf of UNS Gas, of 16 March 2007, hereafter "Ex.
UNSG-19"

1 (2) Intervenor Testimony

2 (a) RUCO stated any seasonal rates could be voluntary, not mandatory. Ms Diez stated
3 that the proposed Winter/Summer rate structure

4 "This aspect of the Company-proposed rate design further
5 exacerbates the perverse price signal that results from nearly
6 doubling the percentage fixed revenue and decreasing the
7 commodity charge...The higher summer fixed charges will
8 further flatten any price signal possible from the Company's
9 rate design by equalizing summer and winter bills. UNS Gas
10 already offers a levelized billing program and RUCO believes
11 the choice of whether a customer prefers a levelized program
12 should be left with the customer and UNS Gas should
13 concentrate greater efforts to ensure that customers are
14 aware of the availability and advantages of the levelized
15 bill option." [emphasis added]

16 [Ex. RUCO-5, 29 at 19 to 30 at 6]

17 Further, RUCO recommended

18 "eliminate the Company-proposed summer and winter rate structure
19 differential."

20 [Ibid. 33 at 19 and 20]

21 (b) ACC Staff did not recommend higher fixed rates, for example, Mr. Steven Ruback Direct
22 Testimony stated:

23 "The composite residential charge is \$17.00 a month; this is
24 a 143% increase the existing Residential charge of \$7.00. The
25 Commission should not accept the Company's proposals to
26 increase the customer charges as UNS has requested, or to
27 create a seasonal charge. The composite residential charge of
28 \$17.00 violates the basic rate design criterion of
29 gradualism. The seasonal customer charges are also not
30 appropriate because customer costs included in the customer
31 charge does not change by season."

32 [Ex. S-23, 5 at 1 to 9]¹⁹

33 Mr. Ruback recommended

34 "UNS proposed rate design proposes to recover more of its
35 costs from higher fixed charges. I recommend that the rates
36 proposed by UNS' be rejected."

37 [Ibid, ES 1, 1st subparagraph]

38 (c) ACAA stated:

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¹⁹ Direct Testimony of Steven W. Ruback on Behalf of the Arizona Corporation Commission Utilities Division Staff, of 23 February 2007, hereafter "Ex. S-23"

1 "As to the question of whether ACC agrees that the proposed
2 rate design avoids having customers in colder climates
3 subsidize those in warmer climates, we have not undertaken
4 that analysis in this case except in the context of large
5 versus lower consumer of gas."

6 [Ex. ACAA-2, 4]

7 The below ACAA statement shows all seasons are important to ratepayers:

8 "Utility bill assistance is the only resource available for a
9 family to stay warm in the winter and cool in the summer."

10 [Ex. ACAA-1, 7 at 3rd paragraph]

11 (d) Marshall Magruder was concerned about this issue in his Motion to Intervene. [Ex. M-5,
12 2 at 1 to 4] He stated seasonal rates could be voluntary and the negative impacts of
13 mandatory summer/winter rate differences, as beneficial for "those who have
14 higher usage costs in the winter" [Ex. M-6, 9 at 22] The proposed rates
15 discriminate against low-usage ratepayers and also those using energy efficiency
16 measures.

17 Magruder also stated:

18 "The factors mentioned in Part IX of the Pignatelli Testimony
19 [Ex. UNSG-1, 19 at 20 to 22 at 9]²⁰ are extremely detrimental to
20 residents in warmer parts of the UNS Gas service area, in
21 particular Santa Cruz County...Cost of utilities is an
22 important factor for potential new customers...deliberately
23 designing a rate structure that goes against the climate
24 reality of southern Arizona is [unreasonable] ..."

25 [Ex. M-6, 10 at 6 to 13]

26 UNS Gas has a voluntary "level" rate plan for residential ratepayers. A second "levelization"
27 function fails to send the right pricing signal to high-usage customers. He concluded

28 "Only an "annual" rate should be approved by the Commission
29 with the Company authorized to charge higher "summer" or
30 "winter" or "level" or "actual" monthly charges...let the
31 customers chose how they prefer to pay the bill...Mandated
32 seasonal charges discriminate against a large number of
33 customers in warmer areas to benefit other who choose to live
34 where it is colder."

35 [Ibid. 14 at 7 to 12]

(3) Recommendations for Resolution of this issue:

UNSG continues to push to discriminate against those who live in warmer areas.

²⁰ Direct Testimony by James Pignatelli on Behalf of UNS Gas, Inc. of 13 Jul 2006, hereafter "Ex. UNSG-1"

1 Ratepayers choose to live in warm or cold climates. Concerns about seasonal rate
2 discrimination in Magruder's Testimony [Ex. M-6, 8 at 24 to 11 at 14] were not discussed in
3 UNS Gas' Rebuttal or Rejoinder.

4 The geographic inequity issue and rate design philosophy is wrong and should be
5 denied. The proposed rate structure sends the wrong signal to high-use customers by
6 rewarding high-users by penalizing low-users. [Ex. M-5, 1 at 31 to 34]

7 It is recommended:

- 8 1. That the proposed mandatory seasonal residential Service Charge be denied.
- 9 2. That the existing voluntary annually levelized payments scheme, that includes
10 Service Charge, be retained
- 11 3. That the existing non-varying monthly service charge be retained.

12 **2.2. Proposed Residential Service Charge Increases.**

13 **Issue.** UNS Gas proposed removal of some volumetric-related gas transportation charges
14 from the purchase gas (PGA) costs and added to the fixed-part of the bill or Service Charge.
15 Customers in colder climates have higher winter gas bills than those in warmer climates but
16 UNS Gas proposed to lower the higher volume bills by increasing the Service Charge for the
17 lower volume ratepayers. The opposite should be true. Natural gas is a limited natural
18 resource. Those who use more should pay more than those who use less. This is a principle
19 of energy efficiency, economics, and demand reduction programs.

20
21 (1) UNS Gas Proposal and Testimony:

22
23 UNS Gas witness Mr. Voge Direct Testimony stated:

24 "The proposed average customer charges of \$17 for residential
25 customers, \$20 for commercial customers and \$120 for industrial
26 customers would align more closely to the true costs of
27 providing monthly distribution service to those classes. In this
28 way, these higher charges would reduce the inequities borne by
29 high usage customers. Under our proposed rate design, the
30 average residential customer in Flagstaff would pay an annual
31 margin of \$333, while the average Lake Havasu customer would pay
32 \$250 - just \$83 less than the Flagstaff customer. This
33 represents a significant reduction from the cross subsidy that
34 Flagstaff customers currently bear."

35 [UNSG-18, 9 at 18 to 25]

UNS Gas witness Mr. Erdworm Rebuttal supported the proposed rate structure by stating:

"The UNS Gas proposal to shift more cost recovery from a
volumetric rate to a monthly customer charge is an attempt to
send the appropriate price signal and alleviate the disparity

1 that currently exists between our cold and warm climate
2 customers."

3 [Ex. UNSG-19, 10 at 20 to 23]

4 Mr. Erdwurm Rejoinder stated disagreed with Magruder Surrebuttal, where

5 "Q. In his surrebuttal, Mr. Marshall Magruder states on line 19,
6 page 15 [sic. page 14] that the Company's proposed rate design
7 rewards high users by penalizing low users. Do you agree?

8 A. No. Currently, low-use customers are being subsidized.
9 Customers in colder climates like Flagstaff are paying more
10 than their fair share. The Company's proposal merely helps
11 eliminate this inequity. The Company could have justified
12 even higher [than \$17/month] customer charges, but moderated
13 them in the interest of 'gradualism.' [emphasis added]

14 [Ex. UNSG-20, at 18 to 24]

15 (2) Intervenor Testimony.

16 (a) **RUCO witness Ms. Diaz Cortez Testimony stated**

17 "RUCO recommends the Commission reject the biased winter/summer
18 rates, doubling of the revenue allocated to the fix charge, and
19 the TAM."

20 [Ex. RUCO-5, 34 at 2 to 4]

21 RUCO also proposed a new Service Charge rate schedule which stated

22 "An in-depth discussion of RUCO's proposed rate design is
23 contained in the testimony of Ms Diaz Cortez. In summary, for
24 residential customers, RUCO proposes a single basic service
25 charge (not season differentiated) of \$8.13 and a commodity
26 based charge of \$0.2892 per therm."

27 [Ex. S-23, 3 at 9 to 11]

28 (b) **ACC Staff witness Mr. Ruback clearly stated**

29 "The Company is proposing a staggering increase in the fixed
30 customer charges for all classes of service. The most extreme
31 customer charge proposal is the Company's request to increase
32 the Residential customer charge by more than 185%, during the
33 summer period and 57% percent in the winder period. "I
34 recommended that UNS' rate design be rejected for the reasons
35 stated in my testimony."

[Ibid. 11 at 5]

ACC Staff witness Mr. Ruback also stated

"The purpose of my rate design testimony is to provide an
overview as to why UNS' proposal should be rejected."

[Ibid. 11 at 8 to 10]

1 ACC Staff witness Mr. Ralph Smith presented a new rate structure. For residential
2 customers,

3 "the recommended customer charge of \$8.50 per month, would
4 result in UNS Gas collecting approximately 36 percent of the
5 revenue via fixed charges."

6 [Ex. S-26, 6 at 9 to 10]²¹

7 (c) **ACAA** responded to the Service Charge concern with

8 "to urge the Commission to hold low-income customers harmless
9 in the rate case by increasing the [CARES] R12 discount to an
10 amount commensurate with an residential rate increase the
11 Company may be awarded, and in particular to reject the
12 Company's proposed structure for R12, which reduces the
13 discount to larger, colder climate users."

14 [Ex. ACAA-1, 2 at 1st paragraph]

15 (d) **Magruder** Testimony noted four years ago in August 2003, the

16 "Service Charge was increased by 40% [from \$5.00 per month to
17 \$7.00 per month] when the company transitioned from Citizens
18 UNS Gas. At that time there was also a 22% rate increase for
19 the cost of natural gas."

20 [Ex. M-5, 1 at 26 to 29 and Ex. M-6, 9 at 7 to 9]

21 The applicant proposed to increase the Service Charge for all customer categories. The
22 Residential Service Charge changes from prior to 11 August 2003 and the Company and
23 Intervenor recommendations are shown in Table 2.
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33 ²¹ Supplemental Direct Testimony of Ralph C. Smith on Behalf of The Arizona Corporation Commission,
34 Utilities Division Staff, Concerning Rate Design and Bill Impact Analysis, of 23 February 2007, hereafter
35 "Ex. S-26"

1 **Table 2 – Residential Service Charges from August 2003 Compared to the Proposed**
 2 **New Service Charges including Recommendations by RUCO, ACC Staff, and Magruder.**
 3 [RUCO-4, Supp Table RLM-15; Ex. S-26 (entire), and Ex. M-6, 9 at 2 to 6]

Effective Dates	Monthly Service Charge	Annual	Organization
Prior to 11 August 2003	\$ 5.00	\$ 60.00	Citizens
11 August 2003 ~July 2007	\$ 7.00	\$ 84.00	UNS Gas
After Approval, about August 2007			
Proposed by UNS Gas	December – March \$11.00 April – November \$20.00	\$ 204.00	UNS Gas
Recommended by RUCO	\$8.34 (R10)	\$100.08	RUCO
Recommended by ACC Staff	\$8.50 (R10)	\$102.00	ACC Staff
Recommended by Magruder	≤\$8.33 (R10)	≤\$100.00	Magruder
CARES Recommendations	\$7.00 (R12)	\$84.00	All but RUCO ²²

11 The Magruder Direct Testimony stated:

12 "The proposed 340% Service Charge increase over the 3 to 4
 13 years under UNS Gas ownership is not justified or explainable
 14 to ANY ratepayer. There has not been that amount of
 15 significant capital improvement. In Pignatelli Testimony, he
 16 states 'we project that the number of UNS Gas customers will
 17 increase as much as 5-10% annually.' [Pignatelli Testimony, 1
 18 at 26]" [emphasis as in original]

[Ex. M-6, 9 at 9 to 14]

19 Magruder Direct Testimony concludes

20 "the proposed Service Charge is clearly too high"
 21 [Ibid. 14 at 6]

22 And he recommended

23 "reduce the proposed Service Charge to the order of \$100 per
 24 year or less."
 25 [Ibid. 15 at 11]

26 (3) Recommendations for Resolution of this Issue.

27 UNSG wants increase the Service Charge to \$17.00 or higher according to Mr.
 28 Erdworm's Rejoinder, well above that recommended by RUCO, ACC Staff and Magruder for
 29 residential customers (see Table 2). The proposal remains unacceptable and sends the
 30 wrong price signals to the customers. The Company would receive a higher rate of return
 31 because this is a percentage of the fixed rate. This is a backdoor way to increase the

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 34 ²² RUCO recommended \$8.34 or \$100.08 per year Service Charge for CARES (R-12). [Ex. RUCO-4, Supp
 35 Table RLM-15, lines 4 and 5]

1 company's profits. Nothing in the rate structure can reduce the rate disparity between cold
2 and warm climates. Only the weather can do that...

3 A Service Charge increase of \$1.50 per month for residential customers (R10) is a
4 21.4% increase (1.50/7.00) since the August 2003 rate case and a 70.0% increase
5 (3.50/7.00) since before August 2003. This remains a significant Service Charge increase.

6 It is recommended that

- 7 1. The Service Charge for residential customers (R-10) increase \$1.50 per month to \$8.50
8 per month for a 21.4% increase.
9 2. The CARES (R-12) Service Charge (R12) to remain at \$7.00 a month or zero change.
10 3. That either RUCO [Ex. RUCO-3, Supp RLM-15] or ACC Staff rate structures [Ex. S-26,
11 entire] determine all other rates for all customer categories.

12
13 **2.3 Rate Increased by Adding a Throughput Additional Mechanism (TAM) to Shift some**
14 **volumetric Costs to the Fixed Service Charge.**

15 **Issue.** The Applicants want higher fixed rate charges than the customary Service Charge to
16 include a volumetric-related cost for customers. The proposed rate schedules show
17 customer savings for higher monthly usage per therm as discussed in the Magruder request
18 to intervene. [Ex. M-5, 1 at 31 to 34]

19 (1) UNS Gas Proposal and Testimony:

20 The UNS Gas Application in the rate case stated

21 "the proposed rate design and related Throughput Adjustor
22 Mechanism ("TAM") will better align the fixed and variable
23 costs of service with the rates paid by the customers causing
24 those costs [sic] and is in the public interest."

25 [UNSG Application, 4 at 20 to 22]²³

26 **Mr. Pignatelli testified about how TAM would work**

27 "Just as the PGA fluctuates to account for variations in the
28 cost of gas, the TAM would be adjusted to account for changes
29 in usage per customer ("UPC"). The under-recovery of costs due
30 to reduced UPC in any period would be "trued-up" in future
31 periods through use of a volumetric surcharge. Similarly, any
32 over-recovery would be refunded to customers through a
33 volumetric credit on future bills. In this way, both the
34 Company and its customers would enjoy a more equitable,
35 reliable and balanced collection of volumetric costs."

[Ex. UNSG-1, 22 at 1 to 19]

23 UNS Gas "Application, of 13 July 2007, ACC Docket No. G-04204A-06-0463, 4 at 20 to 22, hereafter
"UNSG Application" This document does not appear to have been formally entered as an Exhibit.

1 Mr. Voge testified

2 "...the continued use of a volumetric charge to recover a
3 portion of the Company's fixed costs carries another concern:
4 the uncertainty of recovery. If actual usage strays from the
5 anticipated level used to establish that volumetric rate,
6 customers could end up paying too much or too little for that
7 portion of their service. Since usage is driven largely by
8 weather trends during home heating season, particularly cold
9 winters typically produce a swell in UNS Gas' margin revenues.
10 Meanwhile, warm weather, effective conservation efforts or
11 anything else that reduces consumption below anticipated levels
12 leads to an under-recovery of the Company's costs. Eliminating
13 such uncertainty would benefit both the Company and its
14 customers..."

15 [Ex. UNSG-18, 11 at 6 to 14]

16 Mr. Voge also testified the TAM

17 "...in the period following a colder than normal period,
18 customers will receive a credit to the volumetric margin rate.
19 This credit reimburses the customer for the non-commodity
20 portion of the relatively high cold winter gas bill."

21 [Ibid, 14 at 20 to 23]

22 Mr. Pignatelli's Rebuttal Testimony stated

23 "UNS Gas has provided substantial evidence to justify approval
24 of its proposed Throughput Adjustment Mechanism ("TAM") that
25 decouples the Company's dependence on natural gas consumption
26 to meet its revenue requirement and allows it the opportunity
27 to earn its authorized rate of return."

28 [Ex. UNSG-2, 3 at 1 to 4]

29 Mr. Erdwurm's Rebuttal Testimony has lots of words about "decoupling" but none were
30 significant enough to quote. [Ex. UNSG-19, 14 at 21 to 19 at 15; M-7, 20 at 27 to 28]

31 Mr. Erdwurm stated that this adjustment mechanism [TAM] is almost insignificant:

32 "...the annual [TAM] adjustment to the margin rate will likely
33 be less than one cent per therm. The cost of natural gas at 60
34 to 70 cents per therm will continue to provide strong incentive
35 for conservation."

[Ibid. 16 at 5 to 7]

36 (2) Intervenor Testimony

37 (a) **RUCO** testified that

38 "The TAM would true-up customer usage to match the billing
39 determinants authorized in this rate case. In other words,
40 customers would pay for a fixed amount of consumption
41 regardless of how much they actually consumed. The Company
42 claims it needs this mechanism to "mitigate" the risk of
43 revenue recovery."

1 [Ex. RUCO-5, 30 at 15 to 20]

2 RUCO, in responding to the question would TAM "mitigate" the risk of revenue recovery,
3 RUCO stated:

4
5 "No. This mechanism would *entirely remove* any risk associated
6 with revenue recovery, not just merely mitigate it. In
7 combination with the proposed fixed charge shift, and the
8 biased summer/winter rate proposal, it would also send a
9 perverse price signal that tells customers they will pay the
10 same whether they use large quantities of gas or no gas at all.
11 It also would guarantee UNS Gas' revenue recovery."

12 [Ibid. 31 at 2 to 7]

13 In response to the question of appropriateness for the regulator of a monopoly public service
14 company to "guarantee" revenues, RUCO's response was "No." [Ibid. 15 at 9 to 11]

15 RUCO stated "the Commission denied the proposed [Southwest Gas]
16 decoupling mechanism" in ACC Decision No. 64887." [Ibid. 32 at 18 to 22]²⁴ RUCO also
17 recommended denial of the TAM decoupling mechanism. [Ibid. 33 at 14 to 16]

18 (b) ACC Staff witness Ruback Testimony stated in the Executive Summary

19 "The Commission should reject the proposed Throughput
20 Adjustment Mechanism ("TAM"), because it is inequitable to
21 ratepayers. The TAM shifts the risk of declining usage
22 attributable to weather, economics and conservation from UNS
23 Gas to ratepayers. There is a precedent for rejection of a
24 Rate Decoupling Mechanism such as TAM. I also recommend that
25 the Commission reject the implementation of the TAM because it
26 is piecemeal ratemaking."

27 [Ex. S-23, iii at 2nd paragraph]

28 ACC Staff witness testified

29 "The proposed regulator mechanism [TAM] is risk-reducing to
30 the company as it transfers a portion of the risk from
31 shareholders to ratepayers."

32 [Ex. S-36, 15 at 6 to 11]²⁵

33 (c) ACAA testified

34 ²⁴ It is noted that a Southwest "'decoupling' mechanism (CMT) was rejected by the ACC as CMT was
35 inconsistent with the public interest and was not sound regulatory policy (Southwest Gas; Decision No.
68487; Docket No. G-01551A-04-0876)." [Ex. S-23, 17 at 18 to 21]

²⁵ Direct Testimony and Exhibit of David C. Parcell on Behalf of the Commission Staff, of 9 February 2007,
hereafter "Ex. S-36"

1 "...customers eligible for the R12 discount should also be held
2 harmless from any increases in the Throughput Adjustor
3 Mechanism (TAM)."

4 [Ex. ACAA-1, 10 at 1st paragraph]

5 (d) **Magruder testified**

6 "It is not the Commission's responsibility to manage risk for
7 seasonal variations. Weather temperature risk factors are
8 foreseen, expected, and predicable; good management always
9 takes all factors into account when making decisions. Any rate
10 structure, based on passing the responsibility of risk
11 management of seasonal variations to the Commission should not
12 be considered. In other hearings, I have asked his employees if
13 there were a meteorologist on staff at UniSource. The response
14 ...there has not been one, but that [the Operations Center] staff
15 did check the Internet for weather information. Without such
16 expertise used daily for risk management decisions, this
17 corporation will continue to be ill-informed about the
18 operational environment in short- and long-term planning and
19 decision making."

20 [Ex. M-6, 10 at 20 to 28]

21 **Magruder also testified**

22 "Using the proposed mechanism, a Throughput Adjustment
23 Mechanism (TAM), UNS Electric states that the TAM "will allow
24 UNS Gas to implement the comprehensive energy conservation
25 program proposed in this filing." This statement is without
26 merit. Customers notice higher and lower bills and when too
27 high, conservation is the easiest way to lower bills.
28 Lowering the thermostat, full loads in gas clothes dryers,
29 less hot water usage are all understood. UNS Gas can't expect
30 customers to understand TAM or anything equivalent. They
31 understand "cost of service" and "cost of natural gas" and
32 the present billing makes that distinction; however the PGA
33 and surcharges are not very clear. Mr. Voge's Testimony also
34 failed to resolve these difficulties."

35 [Ibid. 12 at 19 to 26]

Magruder's concluded that

"mixing cost of service and product cost is contrary to best
practices, common sense, and will make tracking costs too
difficult...transmission and distribution operational costs are
dependent upon volumetric demand...the conceptual process
presented is without merit...the proposed rate structure using
Throughput Adjustment Mechanism (TAM) is not sound...there is
no relationship between TAM and conservation...TAM does not
dampen the swing of natural gas prices...use of TAM will make
billing costs less comprehensible than the present process."

[Ibid. 25 at 22 to 34]

Magruder recommended to

1 "will not result in customers having to pay for therms they did
2 not use and adheres to the undesirability of the proposed
3 decoupling mechanism."

4 [Ex. RUCO-5, 34 at 23 to 35 at 3]

5 (b) **ACC Staff** witness Ruback responded to the question "do customer charges impede
6 the ability of customers to control their bills" using the proposed rate structure?" with

7 "Customer charges are inelastic. Inelasticity is an
8 inappropriate concept to build into a tariff design. Unlike
9 commodity charges, which provide customers the opportunity to
10 control their bills by changing the amount of gas used or peak
11 demand imposed on the system, a customer charge does not change
12 with reduced consumption or less demand. The only way a
13 customer can avoid customer charges is to discontinue all gas
14 service." [emphasis added]

15 [Ex. S-23, 8 at 17 to 21]

16 Mr. Ruback quoted from the ACC Decision No. 68487 where the Commission
17 disapproved the Southwest decoupling mechanism

18 "The likely effect of adopting the proposed CMT would be a
19 disincentive to undertake conservation efforts because
20 ratepayers would be required to pay for gas not used in prior
21 years... There is also concern that there could be a dramatic
22 impact that could be experienced by customers faced with a
23 surcharge for not using enough gas the prior year." [emphasis
24 added]

25 [Ibid. 18 at 4 to 9]

26 And

27 "The Company is requesting that customers provide a guaranteed
28 method of recovering authorized revenues, thereby virtually
29 eliminating the Company's attendant risk. Neither law nor sound
30 public policy requires such a result and we [ACC Staff] decline
31 to adopt the Company's CMT in this case.'" [emphasis added]

32 [Ibid. 18 at 10 to 13]

33 (c) **ACAA** did not respond directly to this issue.

34 (d) **Magruder** Testimony showed in Table 3 that some ratepayers have **higher rates without**
35 consumption; some have **lower rates without consumption**, and some have **adjusting rates**
without consumption and other billing impacts. This is not reasonable for part-year winter or
summer residents, as high percentage throughout the UNSG service area. [Ex. M-6, 9 at 33
to 35 and Ex. M-7, 22 at 11 to 17]

**Table 3. Impact of Service Charge Rate Changes with TAM
for Full Year and Part-Time Seasonal Residents.**

[Ex. M-6, 9 at 24 to 31 and Ex. M-7, 22 at 11 to 17]

<u>Resident</u> \ <u>Season</u>	Winter	Spring and Fall	Summer
Full year	Lower Monthly rate to reduce winter bill	Rate adjusted to lower winter bill	Higher Monthly rate reduce winter bill
Part-Time Summer only	Higher Monthly rate without gas consumed	Rate adjusted without consumption	Higher Monthly rate when gas is consumed
Part-Time Winter only	Lower Monthly rate to reduce winter bill	Rate adjusted without consumption	Lower Monthly rate without consumed

Magruder Testimony illustrated this with an example:

"For a practicable example, I can see from my window the El Paso Natural Gas (EPNG) line easement and the interconnecting substation to the local UNS Gas main and service lines for my home. EPNG is paid by UNS Gas to supply natural gas to the substation for local distribution. When natural gas is consumed it is reasonable to pay EPNG transmission and distribution charges for the volume of natural gas delivered to my home. Conversely, it is not reasonable, fair or just to charge for transporting gas via EPNG's line when I use no natural gas...The combining of any transportation (or volumetric charges) that are not absolutely fixed UNS Gas infrastructure expenses in the "fixed" part of the billing mixes and muddles the entire billing process which then will not be objective, auditable, or traceable." [emphasis added]

[Ex. M-6, 11 at 25 to 35 and Ex. M-7, 22 at 17 to 26]

(3) Recommendations for Resolution of this issue.

Under no circumstances should a ratepayer pay natural gas costs when the rate-payer is not using gas, such as when on vacation, only a fixed Service Charge applies.

It is recommended that

- (1) That the resultant rate structure eliminates any mixing of the cost of service and the cost of product and
- (2) That any future rate structures continue separate service and cost of gas charges.

[Ex. M-6, 15 at 22 to 23 and Ex. M-7, 23 at 3 to 4]

2.5 Adopt UNS Gas "Price Stability Policy" by the ACC to Replace Prudency Purchase Audits.

Issue: UNS Gas wants the ACC to adopt an internal policy to replace prudency purchase audits in future Rate Cases.

(1) Applicant Proposal and Testimony:

1 The UNSG Application requested that

2 "The Company's Price Stabilization Policy concerning gas
3 purchases should be prospectively approved to provide
4 Commission guidance for the Company's gas procurement
practices."

5 [Ex. UNSG-Application 5 at 1 to 3]

6 And that the ACC

7 "Issue a final order approving UNS Gas' Price Stabilization
8 Policy."

9 [*ibid.* 6 at 4]

10 Mr. Pignatelli testified why his Company wants this document approved by the ACC?

11 "We recommend that the Commission prospectively approve the
12 Price Stabilization Policy. As I have indicated, prudence
13 reviews are "after-the-fact" events that try to recreate the
14 circumstances that existed at the time of the investment or
15 expenditure. This can be very difficult when the period or
16 activities in question were volatile and quickly unfolding.
17 Rather than look at UNS Gas' procurement practices in
18 hindsight, UNS Gas recommends that its Price Stabilization
19 Policy be reviewed and approved by the Commission during this
20 case for future implementation. This way the Commission can
21 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." [Underlined in
original]

22 [Ex. UNSG-1, 14 at 25 to 15 at 8]

23 And Mr. Pignatelli further requested that

24 "A finding that UNS Gas' past gas procurement practices and
25 current UNS Gas Price Stabilization Policy are prudent."
[Underlined for emphasis]

26 [*ibid.* 25 at 21 to 22]

27 And Mr. Hutchens testified that

28 "We believe that instead of the Commission attempting to
29 second guess, after the fact, the individual acts that UNS
30 Gas transacted in connection with gas procurement and
31 hedging, it is more productive and beneficial to customers
32 that the Commission review the policies and approve them
33 prospectively. That way the Company will know the clear
34 direction of the Commission and act accordingly. If the
35 Company acts within the approved policies, its transactions
will be conclusively prudent." [emphasis added]

[Ex. UNSG-4, 7 at 3 to 8]

1 Mr. Pignatelli's Rebuttal stated

2 "I am disappointed that Staff is recommending that UNS Gas'
3 Price Stabilization Policy not be approved."

4 [Ex. UNSG-2, 11 at 16 to 17]

5 And

6 "We would re-urge our original request that the Commission
7 approve its [UNSG] Price Stabilization Policy."

8 [Ex. UNSG-2, 11 at 23 and 24]

9 Mr. Hutchens' Rebuttal Testimony responded to ACC witness Mr. Mendl concern that
10 approval of the Policy would put the Company on "autopilot" and its purchasing strategy
11 would not be continuously reviewed: "This is inconsistent with the Company's
12 behavior and the Policy itself" and he then describes interaction with
13 Company's internal policies. [Ex. UNSG-5, 10 at 18 to 11 at 4]

14 (2) Intervenor Testimony.

15 (a) **RUCO** did not directly discuss adoption of this plan as proof of prudent purchases.

16 (b) **ACC** Staff witness Mr. Jerry Mendl testified and in his Executive Summary stated

- 17
- 18 • "UNS Gas did not precisely carry out its 2005 Price
19 Stabilization Policy.
 - 20 • All the fixed price gas delivered during the 28-month
21 audit period was purchased on only 20 days."

22 [Ex. S-20, ES 1]²⁶

23 And Mr. Mendl's Executive Summary recommended that:

24 "The Commission should not approve UNS Gas' request to
25 approve its 2006 Gas Price Stabilization Policy.

- 26 • The 2006 Price Stabilization Policy would allow UNS Gas to
27 stabilize prices using call options and collars which could
28 add to the cost without commensurate benefit to ratepayers.
- 29 • Approval of the Policy would create a safe harbor that
30 would increase the resistance of UNS Gas to change policies
31 when conditions warranted.
- 32 • If the Commission considers approving the Price
33 Stabilization Policy, it should require UNS Gas to provide
34 a detailed explanation of how it would monitor the markets
35 and make changes for the ratepayers' benefit.
- If the Commission considers approving the Price
Stabilization Policy, it should condition the approval to

²⁶ Redacted Direct Testimony of Jerry E. Mendl on Behalf of Arizona Corporation Commission Staff, of 16 February 2007, hereafter 'Ex. S-20'

1 be valid only as long as the conditions underlying the
2 policy are valid.

- 3 • If the Commission considers approving the Price
4 Stabilization Policy, it should require UNS Gas to show
5 that any premiums anticipated for hedging instruments are
6 reasonable and serve the objectives of stabilizing prices
7 while minimizing costs.
- 8 • If the Commission considers approving the Price
9 Stabilization Policy, it should require UNS Gas to provide
10 a corrected copy of the Policy."

11 [Ibid. ES 2]

12 (c) **ACAA** did not discuss this issue.

13 (d) **Magruder** testified that the Price Stabilization Policy

14 "UNS Gas is proposing that the Commission 'approve' UNS Gas'
15 Price Stabilization Policy. This is an internal policy, under
16 internal control. It could be modified at any time by the
17 company; no assurance that this will not be the case is given.
18 Exhibit DGH-1 is for 2006 thus is already outdated by a newer
19 2007 version. Their Application needs updating. The mandatory
20 compliance verb "shall" is used once in the entire document.
21 Exhibit DGH-1 is vague..."

22 [Ex. M-6, 10 at 29 to 34]

23 **And Magruder further testified**

24 "Without mandatory provisions, an internal practice such as
25 this is unsatisfactory and definitely should not replace the
26 detailed audits accomplished by ACC Staff and RUCO in all rate
27 proceedings. In fact, suggesting that this weak document
28 replace the prudence audit has no merit. If the Commission
29 allows this document to replace their reviews, liability for
30 any poor decisions or losses based on this practice could cause
31 significant liabilities to the Commission instead of
32 shareholders. Shareholders are the ones who should absorb
33 losses." [Underlined for emphasis]

34 [Ibid. 11 at 2 to 8]

35 **And Magruder concluded**

36 "The proposed internal "UNS Gas Price Stabilization Policy" is
37 under total UNS Gas control; therefore, any Commission approval
38 might incur inappropriate liability to the Commission. Further,
39 significant clarification as to the applicability of this
40 policy is missing."

41 [Ibid. 14 at 15 to 17]

42 **And Magruder recommended:**

43 "Make major changes to the UNS Gas Price Stability [sic,
44 Stabilization] Policy including adding an ACC reasonableness
45

1 process review. Eliminate any indication that the ACC will
2 approve the UNS Gas Price Stability [sic, Stabilization]
3 Policy."

4 [Ibid. 15 at 17 to 19]

5 And Magruder, in his Surrebuttal, with a bit of scorn, hypothesized

6 "After reviewing the Pignatelli and Hutchens' Rebuttals, in
7 summary, they say 'Trust me...Believe me...Everything will be
8 A-OK...hurray, we don't have to do any more prudency audits
9 ...This company plan will cover both us...if you approve...we
10 can sue...if we lose money...oh well, the ACC approved...it.'"

11 [Ex. M-7, 26 at 2 to 6]

12 (3) Recommendations for Resolution of this issue.

13 The Company has no profit interest in achieving the lowest gas prices for its
14 customers. Cost of gas is about two-thirds of a customer's bill, then, as a customer and
15 ratepayer, I expect and demand the Commission continue its sound policy of holding
16 prudency reviews and audits for all gas purchases that impact customer's rates. Anything
17 else, in my opinion, is neither wise nor prudent.

18 The UNSG Rebuttals did not respond to the impact of "ACC approval" and potential
19 liability for ratepayers and the Commission if and/or when the "policy" was not followed, as
20 has already been shown in ACC witness Mendl Testimony. [Ex. S-20, ES 1 and 2]

21 It is recommended

- 22 1. That the UNS Price Stabilization Policy be reviewed by the Commission for
23 reasonableness and
- 24 2. That this Company document should NOT be approved or specified as a substitute
25 for prudency audits of all gas purchases in future rate cases.

26 **2.6 Changes in Past Due, Penalty, Suspension, Notice of Termination Dates after Billing.**

27 **Issue.** Both RUCO and ACC testified this important change in the "Rules and Regulations"
28 (R&R) will have serious impacts for lower income customers.

29 (1) UNS Gas Proposal and Testimony:

30 The Testimony of UNS Gas witness Mr. Gary Smith stated

31 "'billing terms', the due date for bills for gas service was
32 changed to ten days from the date the bill is rendered. Any
33 payment not received within this time shall be considered past
34 due and may be subject to a late payment penalty charge. The
35 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 to align UNS Gas' Rules and Regulations with the Arizona Administrative Code."

[Ex. UNSG-15, 19 at 15 to 21²⁷

Mr. Smith included a clean and redline versions of the proposed the Rules and Regulations (R&R) as Exhibit GAS-2. [Ex. UNSG-15, Exhibit GAS-2, Sections 10.C and 11.E]

Table 4 compares the present and proposed policy changes. The result is a change from 40 to 20 days, after the Due Date, before termination of service, with other actions also occurring earlier as shown.

The Due Date is defined at date bill is rendered, or later of (1) postmark date, (2) mailing date, or (3) billing date shown on bill; however the billing date shall not differ from postmark or billing date by more than two days.

Table 4 – Changes in Proposed Termination Dates for UNS Customers.²⁸

Action**	Notice	Present Policy	Proposed Policy	R&R Reference
Bill Due	Bill	15 days after Due Date	10 days after Due Date	Sec. 10.C.1 page 51
Penalty Charge Starts (Assessed)	None	15 days after Due Date	10 days after Due Date	Sec. 10.C.1 page 51
Bill is Past Due	None	No payment within 30 days after Due Date	15 days after Due Date	Sec. 10.C.3 page 51
Suspension of Service Notice/ Termination Notice	Written notice by 1 st Class Mail	No payment within 30 days after Due Date	No payment within 15 days after Due Date	Sec. 10.C.3 page 51
		And 10 days prior to Termination Date**	And 5 days prior to Termination Date**	Sec. 11.E page 62
Service can be Terminated	None	No payment within 40 days after Due Date	No payment within 20 days of Due Date	Sec. 10.C.4 page 51

** A bankruptcy court may require a more stringent schedule.

Also in the proposed Rules and Regulations (R&R) in 11.B.1.d, under "Termination of Service Without Notice" the fourth condition "d" was proposed to read as follows (in redline form):

"d. The Customer has failed to comply with the curtailment procedures imposed by the Company ~~during supply shortages in accordance with Company's Pricing Plans Tariffs.~~"

[Ex. UNSG-15, JAS-2, 59, at para 11.B.1.d (redlined version)]

²⁷ Direct Testimony by Gary A. Smith on Behalf of UNS Gas, Inc, of 13 July 2006, hereafter "Ex. UNSG-15"
²⁸ This table was derived to understand these R&R sections. No simple timeline is shown the R&R and definitions are inconsistent. It is very difficult to understand this procedure. Basic principles used for human factors engineering and public communications are not being followed.

1 The Rebuttal Testimony by Gary Smith stated these due dates met the specifications of
2 Arizona Administrative Code R-14-2-310.C. He testified one has 10 days to pay the bill
3 before it is late and another 15 days before a late fee applies.

4 "Only then would the bill be considered delinquent...and the
5 Company would not commence suspension of service procedures
6 unless it did not receive payment for a delinquent bill after
7 five days. So the Customer has a total of 30 days after a bill
8 receipt to pay his or her bill before a notice of shut-off is
9 issued, a customer could have several days before gas is
10 actually disconnected."

11 [Ex. UNSG-16, 4 at 19 to 25]²⁹

12 The billing term section in A.A.C R-14-2-310.C was last updated in 1982, 25-years ago, and
13 for this quarter of a century, the existing billing date structure has been in place without undue
14 impacts on the Company or the customer. This issue made the first page of the *Arizona Daily Star*
15 [Ex. M-1, A-1]³⁰ when first being implemented by TEP after 25-years on a slightly relaxed billing
16 schedule. This section of the A.A.C. is quoted below and is substantially the same as the proposed
17 rewording [Ex. M-2]³¹ in the R&Rs:

18 "C. Billing terms

- 19 1. All bills for utility services are due and payable no later than
20 10 days from the date the bill is rendered. Any payment not
21 received within this time-frame shall be considered past due.
- 22 2. For purposes of this rule, the date a bill is rendered may be
23 evidenced by:
 - 24 a. The postmark date
 - 25 b. The mailing date
 - 26 c. The billing date shown on the bill (however, the billing date
27 shall not differ from the postmark or mailing date by more than
28 two days).
- 29 3. All past due bills for utility services are due and payable within
30 15 days. Any payment not received within this time-frame shall be
31 considered delinquent.
- 32 4. All delinquent bills for which payment has not been received
33 within five days shall be subject to the provisions of the
34 utility's termination procedures.
- 35 5. All payments shall be made at or mailed to the office of the
utility's duly authorized representative."³²

36 In Mr. Gary Smith's Rejoinder, he stated:

37 "In response to Mr. Magruder's specific recommendations:

38 ²⁹ UNSG Rebuttal Testimony of Gary A. Smith on Behalf of UNS Gas, Inc, hereafter "Ex. UNSG-16"
39 ³⁰ *Arizona Daily Star*, "Save Utilities? Earlier shutoff, deposit lurk?" 30 April 2007, hereafter "Ex. M-1"
40 ³¹ UNS Gas, Inc. Rules and Regulations, Section No. 10, Billing and Collection, C. Billing Terms, page 45 of
41 66, Draft, hereafter "Ex. M-2"
42 ³² Arizona Administrative Code R-14-310.C, obtained 3 April 2007 from
43 http://www.azsos.gov/public_services/Table_of_Contents.htm [Ex. M-7, 28, footnote 89]

1 (1) The Company believes that the Rules and Regulations,
2 especially in their modified form, are reader-friendly,
3 accurate and helpful to the customer.

4 (2) The Company has considered the impact of its changes. To
5 that end, it has agreed with the Staff recommendation that a
6 six month waiver would be implemented with regarding to billing
7 timeframe changes.

8 (3) Again, the proposed change to Section 11.B.1.d is not
9 substantive and was made to make the Rules and Regulations
10 easier to read and understand.

11 (4) With regard to the recommendation that a Spanish-version of
12 the new Rules and Regulations also be approved by the
13 Commission, the Company would be happy to translate the Rules
14 and Regulations. As they will be the same as the English
15 version, assuming the Commission approves the Rules and
16 Regulations in this proceeding, further approval will not be
17 necessary.

18 (5) With regard to Mr. Magruder's recommendation that all
19 customers receive a copy of the new Rules and Regulations
20 within 30 days of ACC approval or upon becoming a new customer,
21 to do so would be extremely costly and such cost would
22 ultimately be borne by the ratepayer. The Rules and Regulations
23 are available publicly on both the Company's and the
24 Commission's websites."

25 [Ex. UNSG-17, 7 at 12 to 8 at 2]³³

26 (2) Intervenor Testimony

27 (a) **RUCO stated the proposed Rules and Regulations**

28 "Shortened the period of time customers have to pay their gas
29 bills before a late fee is assessed from 15 days to 10 days and
30 to short[en] the time customers have to pay a past due bill
31 prior to notice of shut-off from 30-days to 15-days."

32 [Ex. RUCO-5, 35 at 15 to 18]

33 **RUCO proposed action for this concern was:**

34 "The proposed changes are unreasonable. The proposed payment due
35 dates are so short that a UNS Gas customer on vacation could
36 foreseeably come home and find their gas shut-off. Since gas is a
37 vital service to many, a more flexible payment schedule should
38 prevail. As a regulated utility UNS Gas already receives a
39 working capital allowance to bridge differences between receipt
40 of revenues and payment of expenses, and should not have to
41 impose unreasonable payment terms on its customers. RUCO
42 recommends the Commission deny the proposed changes in payment
43 due dates." [underlined for emphasis]

44 [*ibid.* 35 at 21 to 36 at 6]

34 ³³ Rejoinder Testimony of Gary A. Smith on Behalf of UNS Gas, Inc., of 11 April 2007, hereafter "Ex. UNSG-
35 17"

1 (b) **ACC Staff** witness Ralph Smith stated for the proposed changes to Section 10.C of the
2 proposed R&R

3 "Staff agrees with the UNS Gas-proposed changes to Section
4 10.C. In order that these changes not present a hardship on UNS
5 Gas customers, there should be a six month waiver in the late
6 penalty charge. The company has proposed to reduce the number
7 of days, from 15 to 10, as the period a customer may avoid a
8 late payment penalty. For the first six months, the penalty
9 should be waived for day 10. After the initial 6 months, the
Company should be able to charge the penalty after day 10. This
temporary six-month transition period should help alleviate any
hardship on customers from this change in billing terms."

10 [Ex. S-25, 68 at 8 to 15]³⁴

11 And Mr. Ralph Smith stated for the proposed changes in Section 11.E of R&R

12 "In general, Staff supports the standardization of tariff
13 provisions for rules and regulations from the UniSource Energy
14 Companies, including UNS Gas. Staff does not object to the UNS
15 Gas' proposed revision to Section 11.E; however, Staff is
16 concerned that the shortening of notice time could present a
17 hardship to customers. Therefore, Staff recommends that during
18 the first six months after the notification provisions are
19 approved, the Company allow affected customers the current ten
calendar days to respond to a termination of service notice
before actually disconnecting the customers. After six months,
the new terms in Section 11.E would be enforceable as stated."

20 [Ibid. 70, 5 to 12]

21 (c) **ACAA** Testimony, briefly summarized, stated lower income customers usually do not have a
22 checking account or the ability to pay on-line. This schedule is a challenge for those who
23 have to pay in cash and need to arrange transportation. This leads to the using "payday"
24 loan services driving even more customers to predatory, onerous lenders.

25 "Twenty days is an absolutely reasonable timeframe in which
26 to pay UES, ten days simply is not."

27 [Ex. ACAA-1, 14]

28 ACAA Testimony included information about pay-day loan companies. In Arizona loans
29 totaling over \$875 million, at an average loan amount of \$325, with an average fee of
30 17.27% with an APR of 460% resulted in nearly \$155 million in loan fees collected in 2005.

31 ³⁴ Direct Testimony of Ralph C. Smith for the Arizona Corporation Commission, of 9 February 2007,
Executive Summary, hereafter "**Ex. S-25**"

32 ³⁶ I have two insurance companies (automobile and home) whose policies in "plain English." These policies
33 all legal requirements with simple, easy to understand, English. Replace the attorneys by professional
34 technical writers for these rules to language comprehensible by less-educated customers. This should
35 lead to better customer understanding and higher compliance than what is now incomprehensible for
most college graduates. Direct technical legal quotes from the A.A.C. are not acceptable for customers
and must be translated into "plain English." [Ex. M-7, 29 footnote 90]

1 [Ex. ACAA-1, "Loans: Financial Quicksand" Appendix 2] Additional evidence introduced by
2 ACAA shows that a \$325 loan costs the pay-day loan taker pays an average of \$793 total
3 payments, which is, on average, the payback is over twice the original loan. [Ex. ACAA-1,
4 "Loans: Financial Quicksand" Appendix 2, Finding #1]

5 ACAA also included a UES "Cash Payments Agents" webpage in its Testimony that
6 shows ACE Cash Express locations in Bullhead City, Camp Verde, Chino Valley,
7 Cottonwood, Kingman (\$1.00 fee), Lake Havasu, 3 in Nogales (2 with \$1.00 fees), Prescott
8 and Prescott Valley. Also Ozark 'Advanced Quick Cash' in Flagstaff, with other non-payday
9 loan payment agents in Winslow, Show Low, and Sedona. [*ibid.* "UES newsrelease
10 webpage "UES to Close Four Walk-in Lobbies; Customers will have a Variety of Options
11 Available for Payments and Customer Service" at [http://uesaz/company/news/
12 PressReleases/Release/Template.asp?idRec=284](http://uesaz/company/news/PressReleases/Release/Template.asp?idRec=284)]

13
14 (d) **Magruder** Direct Testimony did not discuss this concern; however, the Surrebuttal did and
15 included the recommendations used below. In particular, re-writing the Rules and
16 Regulations in "plain" English is necessary.³⁶ The proposed R&Rs are misleading with
17 undefined terms and very difficult to understand by a layman. As customary, when
18 communicating with the public, an eight-grade reading level skills is used by sophisticated
19 organizations.³⁷ It was noted during these hearings 19.4% of the population of Santa Cruz
20 County has less than nine years of education. [Ex. ACAA-1, "Poverty in Arizona" 22 at
21 Table] The above Rejoinder comments by Mr. Gary Smith [Ex. UNSG-20, 6 at 16 to 8 at 2]
22 are why many UNSG customers are confused about the R&Rs, make excessive phone calls
23 to the Call Center, and have difficulties knowing when they are required to pay their bills and
24 how to work with the Company.

25 The Magruder Surrebuttal requested consideration be given to continue using the
26 present billing schedule because it is more likely to be understood by the customers. There
27 are many below poverty-line struggling to make including every utility, car, medical and rent
28 payments, and, if this is not possible to deny the proposed billing schedule changes, then
29 implement after the six-month temporarily notification period while the Company informs its
30 customers several times in various media of the new billing schedule details. [Ex. M-7, 29 at
31 26 to 30 at 2]

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35 ³⁷ The *National Geographic* magazine, DoD technical manuals, and most newspapers use sixth to eight
grade reading skill levels. [Ex. M-7, 29 footnote 91]

1 Any reliance of co-located payday and expensive check cashing facilities where utility
2 bills are being paid in cash is an unethical temptation at three locations designated by the
3 Company in Nogales, Santa Cruz County, the smallest Arizona county, where 24.5% of our
4 population lives below the poverty line. [Ex. ACAA-1, "Poverty in Arizona" 13 at Table]

5 The deletion of a proposed change to R&R Section 11.B.1.d, back to the original
6 wording directly from the A.A.C. is still being contested in the Mr. Gary Smith's Rejoinder.
7 [Ex. UNSG-20, 7 at 18 to 19] Clarity is not improved by this proposed change.

8 Also, a few days prior to the Magruder Oral Testimony, I received a new formatted
9 UNS Gas bill. As a human factors educated systems engineer [Ex. M-5, Exhibit A³⁸, 17 to
10 26], I admonished the Company for reducing clarity and readability of their re-formatted
11 customer bills. The following were suggested then for implementation with this rate case:

- 12 a. The change from the san serif font "Arial" to "New Times Roman" format has reduce
13 readability as the new font is smaller and harder to read than Arial used in the prior
14 format. New Times Roman font is optimized to minimize printer's ink.
- 15 b. The center-justified paragraphs are much harder to read than standard left-justified.
16 In general, center-justified is only used for short, 2 or 3 lines, titles.
- 17 d. The backside is almost impossible to read due to the very light color used in printing
18 is almost an 'invisible ink.' Change to a darker ink color on the backside.
- 19 d. A "MESSAGE" area should be used to provide customers notices and information. It
20 should include the actual DUE DATE (based on rendered billing date), actual DATE
21 WHEN LATE PENALTY STARTS, and the actual EARLIEST CUTOFF DATE FOR
22 NON-PAYMENT in **bold** print. Ensure holidays are accounted when computing dates
- 23 e. Bill "definitions" should on the side where the bill is shown as in the prior format.
- 24 f. Company Name and physical address be returned to the upper left of the bill to
25 facilitate users' understanding of which UES utility sent the bill and the location of its
26 serving office for that customer. Most will not understand the color code differences
27 for UNSE and UNSG. The bill "return" address is for the bill and not where a
28 customer would go to pay or discuss a bill.
- 29 g. In line 1, there is a new customer 10 digit number that replaced a 7-digit customer
30 number. Lower on the bill, under "service number" a different number is used. Please
31 use only ONE customer ID number for a customer or make any other billing code
32 differences very clear, such as used for multiple accounts on the same bill. The
33 shorter the ID numbers will have lower error rates when used on a payment checks
34 or calls to the Call Center.
- 35 h. The phone numbers for local offices should be returned to the bill with office hours.
- i. The "statement information" is now on the backside and is not on the front where the
bill is shown. These two should be located next to each other.
- j. Remind customers in the Message or a note that when shutoff occurs that the two
highest monthly payments (in the prior year) are required for a 12-month deposit
before return of service. Compute and provide the Security Deposit amount in this
note. This should also reduce calls to the Call Center.

³⁸ The MS in Systems Management (USC, 1981) includes minors in Human Factors and Managing R&D which is essential for effective training system design, computer screen layouts, and cognitive engineering analyses. [Ex. M-6, 17 at 4]

- 1 k. "SNAP" is used on bills without definition for SNAP Date. Its meaning is unknown.
2 l. The new note "**To reconnect Service after Non-Payment: Pay your bill (cash
3 only) at ACE American's Case Experience or authorized agents**" appears to
4 direct customers to these pay-day loan and check-cashing companies. Recommend
5 removal of any reference to pay-day loan and check cashing companies.
6 m. The Company must provide a way for customers to use a credit or debit card for bill
7 payment on the phone without additional credit card charges to ratepayers which is
8 now required by the current credit card service agent.
9 n. And, finally, the 25% longer form should be reduced back to 8.5x11-inch paper
10 previously used to reduce paper waste. The added blank space was not used.

11 (3) Recommendations for resolution of this issue.

12 It is recommended

- 13 1. That because the Company relies on payday loan/check cashing facilities is ill-serving its
14 customers and inappropriate. Other bill payment agents should be found. If payday
15 loan/check cashing facilities are not replaced within the next six months, the Company be
16 directed to revise either the 45 cents it pays per bill to agents or determine other
17 incentives for bill payment agents, and, if not implemented within 12 months, a Company
18 employee may need to be on-location during weekdays at each customer town or city.
19 2. That the Company publish a new, completely reader-friendly, plain English UNS Gas
20 Rules and Regulations after review and approval by the ACC Staff.
21 3. That the proposed change to Section 11.B.1.d be denied and the original version remain
22 as presently stated for "Terminations Without Notification".
23 4. That A Spanish-version of the R&Rs be approved by the ACC within the next six months.
24 5. That ALL customers receive a copy of the new R&Rs, within 30 days after ACC approval
25 of this Rate Case, and by all new customers prior to providing service.
26 6. That the changes in payment schedules be denied since this A.A.C. rule has been in
27 effect since 1982 without adversely impacting this Company. If not denied, then the ACC
28 Staff's recommendation for a six month delay be imposed under the following conditions:
29 a. That at three different billing notices be included to customers before implementation.
30 b. That ALL UNS BILLS include in bold type the actual DUE DATE, DATE LATE
31 PAYMENT PENALTIES START, and EARLIEST SERVICE TERMINATION DATE
32 FOR NONPAYMENT. This should already be on customers bills.
33 7. That the suggestions for reformatting the billing statement into a more user-friendly
34 format are implemented and a new billing format submitted to the ACC Staff, RUCO,
35 ACAA, and me within 30-days for comment and review prior to implementation.
8. That the charges for using a credit or debit card be eliminated when paying by phone.

1 **Part III – Preliminary Response to the Demand Side Management Program,**

2
3 **Q. Why do you have DSM as a separate part of this Brief?**

4 **A.** The applicants have not made clear the details for the UNS Gas DSM program. Testimony is
5 conflicting, changes have occurred since the Direct Testimony by Mr. Gerry Smith on this
6 subject. A new DSM filing has been submitted after the hearings were completed.³⁹

7 **Q. In general, what are your feelings about DSM?**

8 **A.** I am a strong proponent for all three elements of DSM:

- 9 (1) Energy Conservation,
10 (2) Energy Efficiency (EE), and
11 (3) Demand Reduction (DR).

12 Conservation is using less energy by choice. One chooses to lower a thermostat to
13 reduce gas consumption before leaving home for work.

14 EE uses less energy with more efficiently-designed systems such as an automated
15 thermostat that adjusts its settings to reduce gas consumption at pre-set times.

16 DR reduces energy peak demands when the utility remotely changes a thermostat
17 setting specifically to reduce peak demand.

18 **Q. In general, what is your opinion of the UNS Gas DSM program?**

19 **A.** The UNS Gas DSM program focuses on EE, with little emphasis on conservation⁴⁰ and no
20 information about DR. Only four of many DSM options are proposed. However, this is a
21 natural gas company, with fewer options than an electricity company to lower consumption.
22 UNS Electricity will have a DSM program. The Integration of UNSG/UNSE DSM programs
23 may be proposed in the future. An integrated UES DSM program would achieve more results.

24 **Q. What is the status of UNS Gas DSM filings to date?**

25 **A.** In Mr. Gary Smith Direct Testimony, seven-pages discuss general DSM information and a
26 cost recovery mechanism proposal [Ex. UNSG-15, 11 at 11 to 18 at 17] with two-page
27 summary [*ibid.* Exhibit GAS-1]. Mr. Smith's 12-page Rebuttal Testimony [EX. UNSG-16] has
28 DSM related discussions on almost every page in response to ACAA, ACC Staff and RUCO.
29

30
31 ³⁹ See UNS Gas filing of 4 May 2007 with the ACC, "UNS Gas, Inc.'s Demand-Side Management Program
32 Portfolio Plan G-04204A-07-_____". This document has not been entered into the record for these
33 proceedings. Hereafter, "**UNSG filing for a new DSM Docket**"

34 ⁴⁰ An existing home energy audit is to be replaced by an online survey system. In my opinion this will be less
35 effective; however, is less expensive. My experience with home energy audits has been very positive, and
effective as actions recommended and taken did lower my energy consumption over 30%. It was that
personal interactions with the energy auditor that will be lost by an online survey, which "may" be taken by
some and not by those who do not have online services or do not speak English.

1 Mr. Smith's discussion's discussion of the details of his Direct Testimony earlier (July 2006)
2 and the DSM Programs (May 2007) brings out many differences.

3 A second source of UNS Gas DSM information is the Rebuttal Testimony of Denise
4 Smith [Ex. UNSG-21]⁴¹, her Rejoinder Testimony [Ex. UNSG-22]⁴², and an "informational
5 supplemental" filing [Ex. UNSG-23, Exhibit DAS-3].

6 The third source of UNS Gas DSM information is the "UNSG filing for a new DSM
7 Docket" on 4 May 2007. This document is

8 "substantively similar" to Ex. UNSG-23 and "reflects many of the
9 recommendations made by parties in the [UNSG] Rate Case Docket
10 and has been further refined after additional consideration by
11 the Company."

12 [UNSG filing for a New DSM Docket, 1 at first paragraph]

13 All of these DSM filings have similar and inconsistent DSM Programs, each with different
14 details. The first two sets request that UNSG DSM Programs be included in this Rate Case.

15 **Q. Can you describe the UNS Gas DSM Programs?**

16 **A.** UNSG has requested a "survey" be conducted prior to starting these programs and proposed
17 a DSM Adjustment rate charge to fund its entire DSM Program. The following UNSG DSM
18 programs are summarized from its Rebuttal Testimony.

19 a. Low-Income Weatherization (LIW) Program. UNSG has a weak LIW program for those
20 under the poverty income level in the CARES (R-12) low-income tariff rate. ACAA
21 testified that 25.4% in Santa Cruz County are eligible for CARES and LIW. [Ex. ACAA-
22 1, 5 at 2nd para] Magruder showed only 28.3% of those for eligible CARES are
23 participating. [Ex. M-9]⁴³ Only few receive up to \$2,000 in LIW home improvements to
24 make their homes more efficient. A total of 6 homes in 3 of the northern counties
25 received LIW in one year. For six months in 2004, UNSG spend \$77,600 on marketing
26 and admin while providing \$74,400 in CARES rate decreases, an over 100% for
27 overhead rate. [Ex. M-3, 5 at Table totals]⁴⁴ Management problems appear in the
28 existing LIW program. More LIW funding is proposed.

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31 ⁴¹ Rebuttal Testimony of Denise A. Smith on Behalf of UNS Gas, Inc. of 16 March 2007, hereafter "**Ex. UNSG-21**"

32 ⁴² Rejoinder Testimony of Denise A. Smith on Behalf of UNS Gas, Inc. of 11 April 2007, hereafter "**Ex. UNSG-22**"

33 ⁴³ Number of UNS Customers Living at or Below the Poverty Level and Who Could be Possible CARES
34 Participants, no date, hereafter "**Ex. M-9**"

35 ⁴⁴ UNS Gas Response to Mr. Magruder's Second Set of Data Requests of 29 March 2007, MM DR 2-9,
hereafter "**Ex. M-3**"

- 1 b. UNSG Energy Smart Home (ESH) Program, similar to TEP Guaranteed Home Program.
2 The TEP all-electric home program does not apply for natural gas customers. The UNS
3 Gas program requires DOE ENERGY STAR® Home certification. UNSG provides
4 builders a \$400 rebate. Federal and state income tax credits on federal exist for energy
5 efficient homes. The AZ income tax credit is 5% of construction cost of qualified energy
6 efficient homes, a significant tax incentive. The ESH program promotes DOE ENERGY
7 STAR® performance requirements and requires on-site inspections and field testing of a
8 random sample of homes to these ENERGY STAR® standards. These inspections are
9 to be conducted by a third-party RESNET-certified energy raters selected by the builder.
- 10 c. Efficient Home Heating Program requires 90% or greater Annual Fuel Utilization
11 Efficiency (AFUE)-rated gas-fueled furnaces for residential or multi-family homeowners.
12 Rebates are given based on cost of furnace, location, and AFUE value.
- 13 d. Commercial and Industrial (C&I) Efficiency Program has the incentives of non-residential
14 facilities with high-efficiency space heating, service water heating, and commercial
15 cooking equipment and systems.
- 16 e. On-line Energy Audits are replaced “in-home” energy audits.

17 **Q. What are your recommendations for UNSG DSM Program?**

18 **A.** At the present time, details about these programs conflict and all need improvement based on
19 the expenses planned for implementation, therefore, I recommend that:

- 20 (1) UNSG submits the “survey” details to the ACC Staff soonest, for financial review, scope of
21 the survey, and approval of the survey study and funding plan. This should be completed
22 by the ACC Staff and submit the review results prior to 1 July 2007 to all parties in this
23 docket. The ALJ should be able to include in a Recommended Opinion and Order (ROO).
24 (2) That the ACC Staff’s review recommend DSM Adjustment for each rate category so that
25 the DSM Adjustment can be included in this UNS Gas Rate Case.
26 (3) That all parties make their comments known, if different, as ROO review comments.
27 (4) That the third documentation set, either by expedited UNSG DSM hearings be planned or,
28 in the alternative, the UNSG DSM docket can be combined into the ongoing UNS Electric
29 Rate Case (E-042404A-06-0783) which is on a slower schedule. In my opinion, the latter
30 is preferred, as integration of the UNSG and UNSE programs can be assessed.
31 (5) Not to fund any actual UNSG programs until after open, public hearings have been held,
32 with all parties to this case, also designated as potential parties to the UNSG DSM docket.
33 (6) That ESH program train and qualify local county/city building inspectors to meet the
34 ENERGY STAR Home requirements, using RESNET personnel, as required.
35 (7) That in-home Energy Audits be continued not eliminated due to their value.

1 **Q. Do you recommend that the DSM Program be assessed for its effectiveness? [Ex. M4]⁴⁵**

- 2 **A.** Most definitely, yes. The standard cost-effectiveness analyses commonly used for DSM
 3 programs may not be appropriate, as determined for specific programs, including:
 4 a. Market Transformation Programs. Cost-effectiveness shall be measured by the success
 5 of a program in achieving results, such as market effects compared to its costs.
 6 b. Educational Programs. Utility shall estimate the energy and peak demand saving results
 7 from educational efforts to raise energy use awareness and energy saving opportunities.
 8 c. Research and Development (R&D) and Pilot Programs: Individual R&D and pilot
 9 programs usually do not have to demonstrate cost-effectiveness.
 10 d. Low Income Programs: Measures included in low-income programs shall be generally
 11 cost-effective.

12 Each cost-effectiveness test has a targeted audience and purpose. The Commission
 13 previously decided that the "Societal Test" will be used for its decision making. Cost-
 14 effectiveness tests should always be assessed prior to implementing any DSM program,
 15 periodically updated during implementation, and reported to the Commission in the semi-
 16 annual DSM Reports. This reporting shall include status as to meeting each cost-
 17 effectiveness goal, and if success is not being achieved, then additional investigation to
 18 determine the "value" of that DSM Program. Meeting or exceeding the test goals should be
 19 the minimum demanded for a program, and shall be used as the criteria for changes,
 20 including possible termination when unsuccessful.

21 The cost-effectiveness tests to be determined for each program include the following

22 **Table 5. Comparison of DSM Program Cost-Effectiveness (Cost-Benefit) Tests**

23 Test Attribute	Participant Test	Utility Cost Test	Total Resource Cost Test	Societal Test
24 COST	<ul style="list-style-type: none"> • Incentives received • Bill reductions 	<ul style="list-style-type: none"> • Avoided utility costs 	<ul style="list-style-type: none"> • Avoided utility costs 	<ul style="list-style-type: none"> • Avoided utility costs • Avoided environmental impacts
27 BENEFIT	<ul style="list-style-type: none"> • Bill increases • Incremental participant costs 	<ul style="list-style-type: none"> • Incremental utility costs, including incentives paid by utility 	<ul style="list-style-type: none"> • Incremental utility costs, excluding incentives paid by utility • Incremental participant costs 	<ul style="list-style-type: none"> • Incremental utility costs, excluding incentives paid by utility • Incremental participant costs

31 The utility can use all four of these or other standard cost-benefit tests; however, the
 32 common test elements should remain constant between tests for the same time frame.

34 ⁴⁵ Excerpt from ACC Staff Report on DSM Policy, Docket No. E-00000A-02-0051, et al, page 17, hereafter
 35 "Ex. M-4" This entire response is from this page.

Part IV – Initial Brief Summary

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2
3 **Q. Would you please summarize this Brief?**

4 **A.** This brief outlines six issues of significant concern and provides recommendations in Part II
5 that show the Applicant has remained immobile, stationary, and almost unresponsive to any
6 beneficial changes related to its customers since its original Application. Some final
7 thoughts:
8

- 9 • Without removal of the critical rate structural flaws, the proposed customer rates will
10 be unfair and unreasonable and should be denied.
- 11 • The approval of the RUCO or ACC Staff rate structures would be reasonable and
12 fair, to both the Company and its customers.
- 13 • The deliberate and continuous discrimination campaign in the Company's Testimony
14 against the warmer regions, such as Santa Cruz County, and Lake Havasu, is an
15 inappropriate and almost unethical way to lower rates for colder areas.
- 16 • The mixing of cost of service with product costs will make correct accounting and
17 audits almost impossible if the TAM adjustment is adopted.
- 18 • Risks must be borne by the company and not by the ratepayers in the monopolistic
19 environment, especially for reasonably predictable elements, such as weather.
- 20 • Demand Side Management requires a quality-focused implementation team, which
21 appears lacking in (informative) planning to date, to be cost-beneficial.
- 22 • Any reliance on pay-day loan centers as billing agents for a public service company
23 must be avoided as a measure to protect its most vulnerable ratepayers from
24 predatory lending which will be more significant as there is 50% less time to shutoff.
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31 **Q. Does this conclude your Initial Brief?**

32 **A.** Yes.
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