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BEFORE THE ARIZONA CORPORATION COMMISSION
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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
SOUTHWEST GAS CORPORATION FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF THE PROPERTIES OF SOUTHWEST
GAS CORPORATION DEVOTED TO ITS
OPERATIONS THROUGHOUT ARIZONA.

Docket No. G-01551A-07-0504

Arizona Corporation Commission
DOCKETED

MAY 30 2008

DOCKETED BY	<i>178</i>
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**NOTICE OF FILING
REVISED SURREBUTTAL TESTIMONY
OF MARYLEE DIAZ CORTEZ**

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Revised Surrebuttal Testimony of Marylee Diaz Cortez, CPA, in the above-referenced matter, as her testimony which was filed May 27, 2008 contained typographical errors.

Please substitute the attached testimony containing the corrected changes for the testimony which was filed on May 27, 2008.

RESPECTFULLY SUBMITTED this 30th day of May 2008.

Daniel W. Pozefsky
Attorney

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2 of the foregoing filed this 30th day
3 of May 2008 with:

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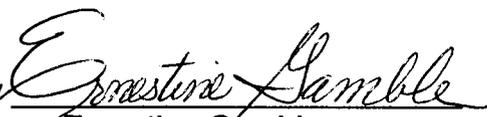
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SOUTHWEST GAS CORPORATION

DOCKET NO. G-01551A-07-0504

**REVISED
SURREBUTTAL TESTIMONY**

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 30, 2008

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1 **INTRODUCTION**

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Q. Please state your name for the record.

A. My name is Marylee Diaz Cortez.

Q. Have you previously filed testimony in this docket?

A. No. Mr. William Rigsby previously filed direct rate design testimony in this docket. I have adopted his direct testimony and will support both that testimony as well as the surrebuttal testimony I provide here.

Q. What is the purpose of your surrebuttal testimony?

A. In my surrebuttal testimony I will respond to the positions and arguments set forth by the various Arizona Water witnesses in their rebuttal testimony regarding rate design. I will show that certain arguments are without merit and demonstrate why such arguments should be rejected. I will reaffirm RUCO's positions on rate design.

Q. What rate design issues will you discuss in your surrebuttal testimony?

A. I will address the following rate design issues:

- * Revenue Decoupling Adjustment Provision
- * Weather Normalization Adjustment Provision
- * Company Proposed "Allocated" Rate Design

1 **REVENUE DECOUPLING ADJUSTMENT PROVISION (RDAP)**

2 Q. Please discuss the Company's rebuttal comments concerning RUCO's
3 recommendation to deny the proposed RDAP.

4 A. The Company rejects RUCO's recommendation to deny the RDAP and
5 claims that RUCO's reasons for advocating rejection of the RDAP are not
6 "a sound basis for rejecting it".

7

8 Q. What specifically does the Company consider "unsound" in RUCO's
9 arguments?

10 A. The Company considers RUCO's regulatory lag, single-issue ratemaking,
11 true-up, and conservation arguments to be "unsound".

12

13 Q. Do you agree with this characterization of RUCO's recommendation to
14 deny the RDAP?

15 A. No. This characterization appears to merely reflect the Company's
16 opinion, since SWG's rebuttal testimony presents no compelling evidence
17 of the "unsoundness" of RUCO's position.

18

19 Q. Please discuss the Company's arguments concerning regulatory lag.

20 A. The Company agrees that declining average consumption is only
21 problematic because of regulatory lag. However, the Company's
22 agreement ends there. Rather than recognize that regulatory lag is a two-
23 way street from which the Company also benefits (i.e. accumulated

1 depreciation, expired amortization, retirements, economies of scale, cost
2 savings etc.) and that any attempt to mitigate the regulatory lag associated
3 with declining average consumption (and ignore the above-mentioned
4 regulatory lags that accrue to the shareholder), the Company attempts to
5 turn this into a conservation issue.

6
7 Q. Please explain.

8 A. The Company claims that the loss of revenue that results from declining
9 average consumption coupled with regulatory lag creates an incentive for
10 the utility to promote increased sales, which is counter productive to the
11 conservation goals of the public and the Commission.

12
13 Q. Does this logic have merit?

14 A. No. First, there is absolutely no evidence to support this argument. In
15 fact, all evidence contradicts this argument. By the Company's own
16 acknowledgement, average consumption continues to decline, which
17 clearly demonstrates that regulatory lag has had no effect on
18 conservation. Second, in the same breath that the Company pleads
19 economic harm from regulatory lag it also acknowledges that regulatory
20 lag is "an incentive for the utility to prevent cost increases and even to
21 achieve cost decreases, because the utility retains the financial benefit of
22 any cost saving it achieves between rate cases, and it also retains the

1 financial benefit of any cost increases it avoids.”¹ This testimony supports
2 RUCO’s position that unfair and biased rates will result when extraordinary
3 ratemaking schemes such as the RDAP are adopted.

4
5 Q. Please respond to the Company’s rebuttal arguments regarding RUCO’s
6 objection to the RDAP being single-issue ratemaking?

7 A. The Company agrees in its rebuttal testimony that single issue ratemaking
8 is biased yet then takes the stance that the “general objection to single
9 issue ratemaking vanishes when a regulatory commission considers and
10 then adopts an automatic adjustment clause in a general rate case,
11 providing rate adjustments for changes in specific cost elements identified
12 in advances of the changes in those elements. The RDAP fits this latter
13 situation.”²

14
15 Q. Is this true?

16 A. No. First, the proposed RDAP is not an automatic adjustment clause
17 that provides for rate adjustments for changes in specific costs. In fact,
18 the RDAP as proposed has nothing to do with specific cost increases or
19 decreases. The RDAP would merely adjust the billing determinants used
20 in assigning rates. Further, the RDAP would only adjust billing
21 determinants for therms lost to conservation and ignore any gains in billing

¹ Rebuttal testimony of Ralph E. Miller, page 20, lines 5 through 8.

² Rebuttal testimony of Ralph E. Miller, page 19, lines 1 through 14.

1 determinants due to growth. In this respect it truly is biased and a perfect
2 example of single issue ratemaking at its worst.

3

4 Q. Please discuss the Company's rebuttal comments concerning RUCO's
5 position that the regulatory process already provides true-up of any
6 changes in billing determinants are via rate cases.

7 A. The Company argues that RUCO is incorrect that billing determinants are
8 trued-up during the rate case process.

9

10 Q. Why does the Company believe that RUCO is incorrect in this position?

11 A. The Company argues that because there is no retroactive reimbursement
12 for its perceived under-recoveries related to decreases in average
13 consumption that there is no true-up.

14

15 Q. Do you agree?

16 A. No. Every time the Company files a rate case the bill determinants used
17 in prior years to set rates are restated to the current bill determinants.
18 Given the prohibition of retroactive ratemaking the Company is neither
19 reimbursed for under-recoveries nor is it required to refund any over-
20 recoveries. Nonetheless, the billing determinants used in the prior case to
21 set rates are trued-up to the existing billing determinants, so that the new
22 rates are based on the current level of billing determinants. RUCO made
23 this point to simply demonstrate that the declines in average consumption

1 over the last 20 years are not detrimentally affecting the Company since
2 the declines are trued-up in each subsequent rate case.

3

4 Q. Please discuss the Company's rebuttal comments regarding the RDAP
5 and conservation.

6 A. The Company argues that, contrary to RUCO's assertion that the RDAP
7 requires customers to pay for gas they didn't use and therefore is
8 counterproductive to conservation, the RDAP does in fact deliver a
9 conservation message because customers do avoid the pure gas
10 commodity charge under the RDAP, albeit not the gas margin on therms
11 not used.

12

13 Q. Please respond.

14 A. The Company is correct that conservation will save the customer the pure
15 commodity charge for gas under the RDAP; however, it still would require
16 the customer to pay the margin on any therms not used (i.e. conserved).
17 Thus, the price message as it relates to incenting conservation is diluted
18 so that the customer will not see as compelling of a conservation price
19 message under the proposed RDAP as they otherwise would absent the
20 RDAP.

21

22 ...

23

1 Q. Do any of the Company's rebuttal arguments regarding the proposed
2 RDAP change RUCO's recommendations?

3 A. No. None of the Company's rebuttal arguments are compelling, let alone
4 new arguments that have not already been presented in prior cases and
5 forums. Further, to-date, the AAC has rejected these arguments as well
6 as all of the decoupling proposals that have been offered. The ACC has
7 reached the appropriate conclusion in rejecting the previous decoupling
8 proposals and RUCO recommends that it do so here again.

9

10 **WEATHER NORMALIZATION ADJUSTMENT PROVISION (WNAP)**

11 Q. Please discuss the Company's rebuttal comments concerning RUCO
12 recommendation to reject the proposed WNAP.

13 A. The Company does not agree with RUCO's recommendation to reject the
14 WNAP, arguing that on a year-to-year basis fluctuations in weather have
15 historically caused under and over recoveries of SWG's authorized
16 revenue requirement. SWG believes that such fluctuations in weather
17 warrant a WNAP that would guarantee the Company revenue requirement
18 recovery regardless of weather.

19

20

21 ...

22

1 Q. What rebuttal arguments does the Company present in its support for the
2 proposed WNAP?

3 A. The Company makes three arguments in its rebuttal testimony. First, it
4 argues that the WNAP does not require customers to pay for gas they do
5 not use. Second, that the WNAP does not inappropriately shift risks from
6 shareholders to ratepayers and third, that the primary cause for the
7 Company's under-recoveries is not weather.

8
9 Q. Please address the first of these arguments.

10 A. The Company's first argument that the WNAP does not require customers
11 to pay for gas they do not use is the same argument I addressed
12 regarding the RDAP. To reiterate, when weather is warmer than normal
13 the customer will save the pure commodity charge for gas under the
14 WNAP; however, the customer still would be required to pay the margin
15 on any therms not used.

16
17 Q. Please address the second argument.

18 A. The Company argues that because the WNAP works in favor of the
19 shareholder when weather is warmer than normal and it favors ratepayers
20 when weather is colder than normal it therefore does not shift the weather
21 risk to ratepayers.

22

23

1 Q. Do you agree with this argument?

2 A. No. Both the RDAP and the WNAP would result in ratepayers bearing
3 certain operational risks that currently are borne by shareholders. The
4 cost of equity determined by the parties compensates for risk, and thus
5 adoption of the WNAP or RDAP would warrant a reduction in the cost of
6 equity to reflect the reduction in risk that these mechanisms would create.

7

8 Q. Has the Company proposed such an adjustment to the cost of equity?

9 A. No. The Company has proposed the same cost of equity with or without
10 the RDAP and WNAP. In SWG's last case it proposed a lower cost of
11 equity if a decoupling mechanism were adopted, in recognition of the
12 decreased risk. The Company, in the instant case fails to recognize or
13 adjust for the decreased risks inherent in the RDAP and the WNAP.

14

15 Q. Please discuss the Company's third rebuttal argument.

16 A. The Company argues that over a ten year period, 1998 through 2007 the
17 net effect of variations in weather was an increase in average use per
18 customer as opposed to RUCO's position that the primary contributor of
19 SWG's under-recoveries was weather related.

20

21

22 ...

23

1 Q. How does this information serve to strengthen the Company's case
2 supporting the need for the WNAP?

3 A. It does not. As discussed in RUCO's direct testimony, the Company's rate
4 case revenues are adjusted to annualize for a ten-year weather
5 normalization. The Company now admits that this ten-year normalization
6 has not only recovered the necessary weather related average use per
7 customer, but has exceeded that amount. This information simply
8 confirms that there is no justification for a WNAP since the ten-year
9 weather normalization mechanism is already ensuring cost recovery due
10 to variations in weather related consumption.

11

12 **COMPANY PROPOSED ALLOCATED RATE DESIGN**

13 Q. Please address the Company's proposed Allocated/Volumetric rate
14 design³.

15 A. The Company has proposed a somewhat unusual rate design, which
16 SWG claims will alleviate some of its perceived declining consumption
17 problems. SWG's proposed allocated rate design is characterized by a
18 higher than normal non-gas commodity charge in the first tier and a \$0.00
19 non-gas commodity charge in the second tier. The gas charge in the
20 Company proposed allocated rate design is lower in the first tier than the
21 actual estimated base cost of gas and higher in the second tier than the

³ The Company proposed rate design is called an "allocated" rate design in its direct testimony and a "volumetric" rate design in its rebuttal testimony. Both terms refer to the same rate design. In my testimony I refer to the Company's proposed rate design using the "allocated" terminology.

1 actual estimated cost of gas. The Company proposed allocated rate
2 design compares with a more traditional type rate design as follows:

	<u>Traditional</u>	<u>"Allocated"</u>
4 Fixed Monthly Charge	\$12.80	\$12.80
5 Non-gas Commodity		
6 All Usage	.55376	
7 First 35 Therms		.88069
8 Second 35 Therms		.00000
9 PGA Base		
10 All Therms	.93689	
11 First 35 Therms		.60996
12 Second 35 Therms		1.49065

13
14
15 The Company argues that the allocated rate design is fair to customers
16 because the allocated rate design has a commodity cost of \$1.49065 in
17 both the first and second tiers ($.60996 + .88069 = 1.49065$) and so does
18 the traditional rate design ($.55376 + .93689 = 1.49065$).

19

20 Q. Do you agree?

21 A. No. The impact of the allocated rate design is not revenue neutral to the
22 customer when compared to a traditional rate design. The Company
23 proposed allocated rate design has the effect of shifting a portion of the
24 non-gas costs of large users to small users. I have prepared Surrebuttal
25 Exhibit (A), which compares a residential customer's bill under a typical
26 rate design to the Company-proposed allocated rate design. Under the
27 allocated rate design small users (less than 55 therms consumption) will
28 pay more than they would have under a traditional rate design. This is

1 demonstrated on lines 1 – 10 of Surrebuttal Exhibit A. Users over 55
2 therms will pay less than they would have under a traditional rate design.
3 Thus, the Company's proposed rate design shifts costs from large users to
4 small users. This phenomena benefits the Company because it
5 guarantees recovery of non-gas costs via the low usage blocks and SWG
6 is thus financially indifferent to loss of consumption from high usage
7 customers. The proposed allocated rate design results in small users
8 paying more than they otherwise would have and large users paying less
9 than they otherwise would have. This is certainly a perverse result that
10 sends an undesirable message to ratepayers.

11
12 Q. Does RUCO's proposed rate design result in a fairer distribution of costs
13 than the Company-proposed allocated rate design?

14 A. Yes. First, RUCO's proposed rate design does not shift costs from large
15 users to small users, as does the Company's allocated rate design
16 described immediately above. Second, RUCO's proposed rate design
17 charges the same price for each therm, which sends a better conservation
18 message to consumers than SWG's current rate design which features a
19 declining commodity price structure, where higher users pay less per
20 therm than low users. Third, RUCO's proposed rate design assigns a
21 slightly greater percentage of costs to the fixed charge than does SWG's
22 current rate design. In this manner RUCO has addressed some of the
23 Company's declining consumption and inability to recover cost concerns

1 by essentially guaranteeing a greater fixed cost recovery. RUCO's rate
2 design is fair to both the Company and ratepayer, as well as sends the
3 correct conservation message.

4

5 Q. Doe this conclude your surrebuttal testimony?

6 A. Yes.

SOUTHWEST GAS CORPORATION
 COMPARISON OF THE RESIDENTIAL BILL IMPACTS OF
 A TYPICAL RATE DESIGN VS. THE COMPANY-PROPOSED
 "ALLOCATED" RATE DESIGN

SURREBUTTAL EXHIBIT A

LINE NO.	CONSUMPTION	AVERAGE (NORMAL) RATE DESIGN	COMPANY PROPOSED "ALLOCATED" RATE DESIGN
20 THERMS			
1	MONTHLY MINIMUM	\$12.80	12.80
2	BASE COMMODITY	11.08	17.61
3	PGA	18.74	12.20
4	PGA ADJUSTOR	0.00	6.54
5	TOTAL	42.61	49.15
40 THERMS			
6	MONTHLY MINIMUM	\$12.80	12.80
7	BASE COMMODITY	22.15	30.82
8	PGA	37.48	28.80
9	PGA ADJUSTOR	0.00	8.67
10	TOTAL	72.43	81.10
55 THERMS			
11	MONTHLY MINIMUM	\$12.80	12.80
12	BASE COMMODITY	30.46	30.82
13	PGA	51.53	51.16
14	PGA ADJUSTOR	0.00	0.37
15	TOTAL	94.79	95.15
60 THERMS			
16	MONTHLY MINIMUM	\$12.80	12.80
17	BASE COMMODITY	33.23	30.82
18	PGA	56.21	58.61
19	PGA ADJUSTOR	0.00	(2.40)
20	TOTAL	102.24	99.84
80 THERMS			
21	MONTHLY MINIMUM	\$12.80	12.80
22	BASE COMMODITY	44.30	30.82
23	PGA	74.95	88.43
24	PGA ADJUSTOR	0.00	(13.48)
25	TOTAL	132.05	118.58
100 THERMS			
26	MONTHLY MINIMUM	\$12.80	12.80
27	BASE COMMODITY	55.38	30.82
28	PGA	93.69	118.24
29	PGA ADJUSTOR	0.00	(24.55)
30	TOTAL	161.87	137.31
120 THERMS			
31	MONTHLY MINIMUM	\$12.80	12.80
32	BASE COMMODITY	66.45	30.82
33	PGA	112.43	148.05
34	PGA ADJUSTOR	0.00	(35.63)
35	TOTAL	191.68	156.05
140 THERMS			
36	MONTHLY MINIMUM	\$12.80	12.80
37	BASE COMMODITY	77.53	30.82
38	PGA	131.16	177.87
39	PGA ADJUSTOR	0.00	(46.70)
40	TOTAL	221.49	174.79
		<u>AVERAGE RATES</u>	<u>"ALLOCATED" RATES</u>
BASIC SERVICE CHRG.		12.8	12.80
BASE COMMODITY			
ALL USAGE		0.55376	
FIRST 35 THERMS			0.88069
SECOND 35 THERMS			0.00000
PGA			
ALL THERMS		0.93689	
FIRST 35 THERMS			0.60996
SECOND 35 THERMS			1.49065