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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	Docket No. G-04204A-08-0571

Arizona Corporation Commission
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RUCO'S NOTICE OF ERRATA

The Residential Utility Consumer Office ("RUCO") hereby files this Notice of Erratta in the above-referenced matter. Attached are pages 7, 20, 31 and 49 of the direct testimony of William A. Rigsby, which should be substituted for the pages of Mr. Rigsby's direct testimony that was filed on June 8, 2009.

RESPECTFULLY SUBMITTED this 22nd day of June, 2009.

Daniel W. Pozefsky
Chief Counsel

AN ORIGINAL AND THIRTEEN COPIES
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of June, 2009 with:

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By Ernestine Gamble
Ernestine Gamble
Secretary to Daniel W. Pozefsky

FVROR figure RUCO considered a range of possible returns that could be applied to the Company's fair value rate base. The method that RUCO used to arrive at its recommended 5.38 percent FVROR comports with the provisions of Decision No. 70441, dated July 28, 2008, which resulted from a prior remand proceeding which involved Chaparral City Water Company.[2] The methodology that RUCO relied on to arrive at its recommended FVROR figure is explained fully in the testimony of RUCO witness Ralph Smith.

Q. Please explain why RUCO is recommending two different rates of return in this case?

A. UNSG Gas has chosen to use an average of the Company's original cost rate base ("OCRB"), which is based on the original book value of plant assets, and a rate base derived from a reconstruction cost new study ("RCND"), which takes general inflation into consideration, to arrive at a fair value rate base ("FVRB") which reflects the current dollar value of UNSG's original cost rate base. Because general inflation is also reflected in my OCROR figure, it is inappropriate to apply it to a FVRB. To do so would result in a double counting of inflation. For this reason RUCO has derived a FVROR which reduces my recommended OCROR by an inflation factor of 217 basis points.

[2] Chaparral City Water Company has appealed that Decision. The appeal is currently pending before the Arizona Court of Appeals.

used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

Q. How did you develop your dividend growth rate estimate?

A. I analyzed data on a proxy group consisting of ten natural gas local distribution companies ("LDC").

Q. Why did you use a proxy group methodology as opposed to a direct analysis of UNSG?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with UNSG itself. Consequently it was necessary to create a proxy by analyzing publicly traded LDC's with similar risk characteristics.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical total returns on the S&P 500 index from 1926 to 2007 as the proxy for the market rate of return (r_m). For the risk-free portion of the risk premium component (rf), I used both the arithmetic and geometric means of the total returns of intermediate government bonds for the same eighty-one year period. The market risk premium (r_m - r_f) that results by using these inputs is 5.10 percent (10.40% - 5.30% = 5.10%). The market risk premium that results by using the arithmetic mean calculation is 6.80 percent (12.30% - 5.50% = 6.80%).

Q. How did you select the beta coefficients that were used in your CAPM analysis?

A. The beta coefficients (ß), for the individual utilities used in both my proxies, were calculated by Value Line and were current as of March 13, 2009. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the LDC's included in my sample ranged from 0.60 to 0.75 with an average beta of 0.67.

Mr. Gallagher concluded:

> The Natural Gas Utility sector has climbed near the top of our industry spectrum in recent months. Indeed, it features numerous timely stocks. In fact, UGI holds our highest rank (1) for Timeliness. However, various other companies are ranked to outperform the market over the coming six to 12 months. What's more, the majority of the equities in this industry offer above-average yields. Most notably, Nicor, AGL Resources and Atmos Energy all offer attractive payouts supported by steady cash flows. Therefore, investors looking for a good play in the year ahead should consider some of the names in this group.

Q. After weighing the economic information that you've just discussed, do you believe that the cost of equity that you have estimated is reasonable for UNSG?

A. I believe that my recommended cost of equity will provide UNSG with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are still low by historical standards) and a low and stable outlook for inflation are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my cost of equity analysis has produced such a return.

COST OF DEBT

Q. Have you reviewed UNSG's testimony on the Company-proposed cost of long-term debt?

A. Yes, I have reviewed the testimony prepared by Mr. Grant.