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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 **NOTICE OF FILING SUMMARIES OF TESTIMONY**

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

RESPECTFULLY SUBMITTED this 6th day of August 2009.

UNS Gas, Inc.

By [signature]
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Arizona Corporation Commission
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By Mary Ippolito

Summary of the Testimony of Dallas J. Dukes Docket No. G-04204A-08-0571

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

Mr. Dukes is the Manager of Rates and Revenue Requirements for Tucson Electric Power Company. As Manager of Rates and Revenue Requirements, I am responsible for monitoring and determining revenue requirements, customer pricing and rates structures for all the regulated subsidiaries of UniSource Energy Corporation ("UniSource Energy"), including UNS Gas, Inc. ("UNS Gas" or the "Company").

My testimony addresses the Company's proposed revenue requirement and the pro forma accounting adjustments to the test year, rate base adjustments and operating income adjustments. The key issues I address that have not been accepted by Staff and Intervenors are the:

1. Rate Base Adjustments;
    a. Post Test Year Non-Revenue Plant in Service;
    b. Customer Advances; and
    c. Cash Working Capital; and

2. Operating Income Adjustments;
    a. Payroll and Payroll Tax Expense;
    b. Incentive Compensation Expense;
        1. Performance Enhancement Program ("PEP");
        2. Stock Based Compensation; and
        3. Supplemental Executive Retirement Plan ("SERP");
    c. Rate Case Expense;
    d. Membership Dues Expense – AGA;
    e. Call Center Expense;
    f. Bad Debt Expense;
    g. Outside Legal Expense; and
    h. Fleet Fuel Expense.

1. <u>Rate Base Adjustments.</u>

a. Post Test Year Non-Revenue Plant in Service – The Company proposes to include non-revenue producing post test year plant in rate case. Staff and RUCO both recommended that the Company's adjustment be disallowed on the basis that it could result in a mismatch between post-test year revenue and costs. Additionally, RUCO argues that any inclusion of plant investment in rate base that is not in service as of the end of the test year is an exception to Commission's normal practice and requires "very" compelling reasons. The Company disagrees with Staff and RUCO, arguing for the inclusion of fixed, known and measureable investments in plant that do not materially increase revenues or materially decrease cost. The

Company is arguing for treatment awarded by the Commission in other proceedings for the very reason the Company has had to file three rate cases since July 2006 – to help the Company with an improved opportunity at earning a reasonable return.

b. **Customer Advances** – The Company proposes that customer advances not related to plant in rate base should not be deducted from rate base. Staff and RUCO both oppose the adjustment on the basis that customer advances should be fully deducted from rate base and the Commission requires such a deduction. The Company does not dispute that the Commission's present practice is to deduct the test year ending customer advances balance from rate base. The point of such a reduction is to insure that the Company does not earn an unreasonable return by being allowed to earn it on investments Shareholders did not actually make. However, the issue here is that the Company is having its return reduced for cash that has already been spent as of the end of the test year on projects not in rate base. So there is no opportunity to earn a return on investments made by customers and there is no zero cost capital, because the money is already spent on the Customers' projects. The mismatch here is that the Shareholders are denied the return on investments properly included in rate base reduced by unavailable funds.

c. **Cash Working Capital** – The Company proposes a cash working capital adjustment that reflects its actual operations. Staff adjusted the payment lags associated with certain purchased gas payments to reflect a payment period of 35 days. Staff asserts that the 35 day pay period is more reflective of expected pay cycles. The Company disagrees with this adjustment as the payment lag is actually much different then the 35 days proposed by Staff. The Company had to alter its payment terms with the vendor because of credit limitations and was required to make payments twice a month and that payment requirement continues today. At the time of the Company's original filing this was only partially reflected in the Company's lead lag study. Thus the Company proposed an alternative adjustment in its rebuttal filing to fully reflect all purchased gas payments to that vendor with the proper payment lags.

2. **Operating Income Adjustments.**

a. **Payroll and Payroll Tax Expense** – The Company proposes to include certain known upcoming payroll and payroll tax expenses. RUCO is recommending that the Company's payroll adjustments be reduced to remove the increase anticipated to go into effect January 1, 2010. RUCO argues that this adjustment is to far from the test year and is not presently known. The Company disagrees with RUCO's exception as this adjustment is consistent with the treatments approved in the last three Southwest Gas rate orders, the last UNS Electric and Tucson Electric Power Co. rate orders. Additionally, a significant portion of the increase is for classified employees, a known contractual obligation and the unclassified employee increase can be validated prior to new rates going into effect.

b. Incentive Compensation Expense –

1. **Performance Enhancement Program ("PEP")** – The Company proposes to include this cash-based incentive. Staff and RUCO both argue that PEP expense benefits both Shareholders and Customers and thus should be shared equally. They argue that this is consistent with prior Commission action and thus is still appropriate treatment in this case. The Company argued against such treatment in the prior case and continues to strongly disagree. No party has argued the prudence of these expenses or the benefit of having a portion of employees' fair compensation put at risk for individuals and at a Company level setting goals to improve services and lower cost. The Company has provided substantial evidence to the reasonableness and benefits of its compensation structure and incentive program. The Company continues to disagree with the "who benefits" argument. The proper evaluation should be based on the reasonableness and prudency of expenses incurred that provide service to customers. To limit recovery of recurring expenses that are prudent, reasonable and incurred to provide service to customers is improper and confiscatory. Additionally, Staff and RUCO ignore a recent Commission order that allows full recovery of cash based incentive compensation expense. In the Arizona Public Service Co. ("APS"), Decision No. 69663, – the cash based incentive compensation program that is equivalent to the PEP program discussed here was approved for full recovery by APS.

2. **Stock Based Compensation** – The Company proposes to include this stock-based incentive. RUCO has removed test year Officers' compensation allocated to UNS Gas from TEP for the Officers' of UNS Gas. RUCO bases this exclusion on the recent APS Decision No. 69663 and the UNS Electric Decision No. 70360. Again with these expenses no party has questioned that the program provides benefits to customers, its prudency, and the reasonableness of the cost or that it was incurred to provide service to customers. This program, like PEP, is designed to put individual employee's compensation at risk. With the difference being a focus on long term planning and the long term success of the Company. Clearly customers benefit from the long term planning and success of the Company. T Because the Customers also benefit from this program and it does not result in un-reasonable cost to customers it should be a fully recoverable cost of providing service.

3. **Supplemental Executive Retirement Plan ("SERP")** – The Company proposes to include this element of executive compensation. Staff and RUCO have recommended the disallowance of SERP expense as an excess benefit provided to select executives. The Company strongly opposes this representation as miss-leading and incorrect. This expense and program is not an "excess" benefit or cost. It is the cost required to keep retirement benefits "equal" as a percentage of compensation for the eligible employees. Although this program applies to highly compensated employees within the organization, the compensation level limits are set by the IRS for the same reason we have a progressive tax structure, not because the pay levels themselves are imprudent or un-reasonable, but to insure recovery of tax revenues. Because the expense is a normal and recurring expense associated with compensation of employees and not producing unreasonable cost and is incurred to provide service to customers it should be fully recoverable.

c. **Rate Case Expense** – The Company has proposed to include rate case expense. RUCO believes that the rate case expense requested by the Company is "excessive and would represent an unreasonable burden on ratepayers". The basis for this argument is the amount awarded to the Company in its last rate decision – which was based on the amount awarded to SWG in a prior decision. However, this ignores the fact that SWG and UNS Gas have very different methods of allocating the cost of administrative support groups. UNS Gas has no rates group, has no legal staff, and has no support personnel for rate filings. Therefore, there is no cost built into base rates for such services. Southwest Gas has all of these support personnel and continually allocates a portion to its Arizona division and thus includes these costs in its customer's base rates. Its rate case expense is for incremental support, UNS Gas' rate case expense is for full support. With almost 150 thousand customers, if UNS Gas were an independently operated Company it would absolutely require a legal staff, a regulatory affairs staff and a pricing group to provide service to its customers and to operate as a regulated utility in this state. The Company is taking the cost effective approach of sharing these services with three other utilities based on actual demand for the services. The point being that the Company's structure and working relationship with TEP is beneficial in controlling the cost of administrative support charged to UNS Gas. The rate case support being requested by UNS Gas is reasonable and should be fully recoverable.

d. **Membership Dues Expense – AGA** – The Company has included American Gas Association ("AGA") dues as expense but has reduced the amount of the dues by 4%. RUCO is recommending the normal and recurring core dues associated with AGA be reduced well beyond the portion identified as lobbying expense by the AGA. This reduction is based on a 2001 NARUC study that is based on 1999 data. Not only is this analysis stale, but it is not relevant. The Company has provided substantial and compelling support of and for the many benefits provided by the membership and the expense sought for recovery is reasonable and should be recoverable.

e. **Call Center Expense** – The Company has included its actual allocated Call Center expense. Staff has chosen to reduce the test year level of expense associated with the call center that serves UNS Gas. Staff asserts that the expense has unreasonably increased since the last rate filing and they have reduced the cost o the same level as the last rate filing. The last rate filing was for a 2005 test year and the level of expense in that test year was an annualized amount as the call center was only serving UNS Gas for part of the year. Because that annualization adjustment was based on very little actual experience at the time – it was simply understated. The total cost of the call center itself is not the primary reason for the increased cost being incurred by UNS Gas those cost have only increased by 22% since 2005. The increase is because of demand by UNS Gas customers. The call volume and duration of calls handled by the call center on behalf of the UNS Gas customers is 150+% greater today than it was in 2005. Similar to rate case support, UNS Gas as an independent company would need a facility, phone lines, computer systems, phone systems, call center employees, supervisors, a manager and etc... The Company is doing the more cost effective thing by partnering to share the significant fixed cost with two other utilities and should not be denied full recovery of the reasonable cost to serve the demands of its customers.

f. **Bad Debt Expense** – The Company has included a Bad Debt Expense based on a three year historical average. Staff has reduced the Company's pro forma bad debt expense asserting that the Company has overstated its historical actual expense levels. Staff asserts that because of this over expensing the pro forma adjustment is distorted. That assertion is just flat out incorrect. The financial statements of UNS Gas are audited by the independent accounting firm PricewaterhouseCoopers LLP, both on a standalone basis and as a part of the consolidated statements of UniSource Energy Corporation. The Company used a three year average for the percentage of bad debt expense as a percentage of revenue in its adjustment. This allows for a smoothing and normalization of the pro forma bad debt expense. Which can fluctuate because of things like a large customer going bankrupt or the local economy might hit a rough patch causing defaults to significantly increase. The resulting three year average percentage of bad debt expense to revenue used in the Company's adjustment is 4.9%. For comparison to the most recent actual results UNS Gas has incurred net write-offs in the calendar year 2008 of 4.3%. The expense level being requested by the Company is reflective of anticipated levels of net write-offs and is reasonable.

g. **Outside Legal Expense** – The Company has proposed an Outside Legal Expense to cover ongoing litigation and FERC matters, using a three year historical average. Staff and RUCO have opposed the Company's adjustment to outside legal cost to normalize the test year to reflect on-going levels of legal expense based on historical experience. Staff excluded the entire normalization adjustment with no explanation as to why. RUCO excluded essentially 2/3 of the adjustment leaving an amount they believed represented of an on-going level of outside legal expense. RUCO's difference is primarily the exclusion of cost associated with the El Paso Natural Gas ("EPNG") pipeline case with FERC within the three year period. The Company believes the historical average is still a better indicator of on-going expense then RUCO's analysis that excludes activity deemed as non-recurring. The reality is that all legal activity is non-recurring on an individual basis, but in aggregate the Company continues to see recurring levels commensurate with its request and continues to anticipate considerable levels of involvement on behalf of the customers in the EPNG and Transwestern Pipeline FERC proceedings. It is reasonable to allow the recovery requested by the Company for a normal and recurring level of outside legal cost.

h. **Fleet Fuel Expense** – The Company is seeking a fleet fuel expense based on a three year historical average. Staff and RUCO have adjusted the fleet fuel expense of the Company to reflect the recent decreases in fuel cost since the test year period. The Company does not oppose the adjustment of test year expense as fuel costs have materially reduced from the test year. The Company does oppose the fuel cost estimate being used by Staff as it is not reflective of the actual cost being incurred by the Company. The Company proposed a revised adjustment in Rebuttal reflecting the average cost incurred over the last three years – that is known and reasonable.

Summary of the Testimony of Kentton C. Grant Docket No. G-04204A-08-0571

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

My Testimony addresses the cost of capital to UNS Gas, the rate of return (ROR) to be applied to fair value rate base (FVRB) and the interest rate to be applied to the balance of under- and over-recovered gas costs under the Company's Purchased Gas Adjustor (PGA) mechanism.

Based on the results obtained from three different methodologies, I conservatively estimate the cost of equity capital for UNS Gas to be 11.0%. This value, when coupled with the Company's test year capital structure and 6.49% cost of debt, results in a weighted average cost of capital of 8.75%. Although witnesses for Staff and RUCO concur with the Company's proposed capital structure and cost of debt, the return on equity (ROE) recommended by each of these parties is much too low. As discussed in my Rebuttal Testimony, the 10.0% ROE recommended by Staff and the 8.61% ROE recommended by RUCO are based on analyses that are fundamentally flawed and fail to take into account the substantial deterioration in capital market conditions that has occurred since September 2008.

With respect to the ROR on FVRB, I recommend use of the same calculation methodology adopted by the Commission in Decision No. 70441 involving Chaparral City Water Company. In my Direct Testimony, I derived a ROR on FVRB of 7.30% using this methodology, and then discounted this value to 6.80% in order to limit the impact of the proposed rate increase on customers. However, as discussed in my Rebuttal Testimony, such a discounting would clearly be inappropriate in light of the severe revenue requirement adjustments being recommended by Staff and RUCO. These adjustments, when coupled with the unreasonably low rates of return on FVRB being proposed by Staff (6.37%) and RUCO (5.38%), would deny UNS Gas any reasonable opportunity to earn its cost of capital. Had Staff simply followed the same calculation methodology used by the Commission in Docket No. 70441, or the alternative calculation methodology recently advocated by Staff in Docket No. W-02113A-07-0551, a ROR on FVRB of 7.25% would have been obtained using Staff's cost of capital and estimated inflation rate.

Finally, in order to provide for adequate cost recovery, I recommend that the PGA interest rate be changed from the 3-month financial commercial paper to a rate that reflects the cost of short-term borrowing for UNS Gas. The rate being recommended is the 3-month London Interbank Offered Rate (LIBOR) plus one percent. In the alternative, as discussed in my Rebuttal Testimony, the Company would also be willing to use the currently applicable 3-month financial commercial paper rate plus one percent. In either case, the applicable rate should reflect the additional one percent credit spread that UNS Gas must pay when borrowing under its revolving credit facility.

Summary of the Testimony
of David G. Hutchens
Docket No. G-04204A-08-0571

I have filed Direct, Rebuttal and Rejoinder Testimony in this case. I am also adopting the Direct Testimony of Gary Smith.

In my Direct Testimony, I provided: (i) an overview of UNS Gas' operations; (ii) a summary of UNS Gas' rate request and the factors that have caused us to file our application at this time; (iii) the Company's recommended Fair Value Rate Base Rate of Return; (iv) an introduction into the rate design that UNS Gas is proposing in this case, including higher customer charges; and (v) information on developer contributions.

In the Direct Testimony of Gary Smith that I am adopting, I provide information on (i) UNS Gas' low-income assistance programs, (ii) the Company's proposed changes to its Rules and Regulation, (iii) the benefits of the American Gas Association dues, and (iv) the Commission's request for information concerning developer contributions.

In sum, in order to provide necessary rate relief, we are asking the Commission to authorize UNS Gas to increase its rates by $9.5 million. This would result in an average 6% increase to a customer's total bill compared to Test Year revenues, inclusive of gas costs. The effect on the fixed monthly and delivery charges on an average customer's bill will be an increase in those components of approximately 19% compared to Test Year revenues, <u>excluding</u> gas cost recovery.

My Rebuttal Testimony addresses several areas. First, I provide an overview of UNS Gas' response to the Direct Testimony of Arizona Corporation Commission Staff, the Residential Utility Consumer Office and the Arizona Community Action Association. In particular, I address our substantial concerns with the inadequate revenue requirements proposed by Commission Staff and RUCO. Second, I respond to the Direct Testimony of Commission Staff witness Ms. Rita R. Beale concerning gas procurement practices and agree to her recommendations. Third, I respond to the Direct Testimony of Cynthia Zwick concerning the previous use of pay day loan offices as an option for paying customer bills. Specifically, I provide information regarding the transition to the use of Walmart stores for customer payments. Fourth, I discuss the upcoming operational changes for three UNS Gas office lobbies for bill payments. Fifth, I discuss the Federal and State requirements for training of natural gas personnel, Pipeline Safety Manuals, Policies & Procedures, recordkeeping, and operations and maintenance for natural gas facilities. Finally, I request the Commission to grant the relief requested in Docket No. G-04204A-08-0050 regarding current restrictions on the Company's use of certain third-party contractors. That relief will result in reduced expenses in the future.

In my Rejoinder Testimony, I respond to certain incorrect statements and mischaracterizations by Staff witness Dr. Thomas Fish regarding the Company's capital investments made since December 2005, the end of last UNS Gas rate case. I also respond to Dr. Fish's continuing use of an estimated long-term growth rate from last fall that simply no longer reflects reality. Finally, I accept the clarifications that Ms. Rita Beale's made to her Direct Testimony recommendations on gas procurement practices.

Summary of the Testimony of Karen G. Kissinger Docket No. G-04204A-08-0571

I have filed Direct and Rebuttal Testimony in this case. My Testimony addresses the depreciation, property tax and income tax pro forma adjustments proposed by UNS Gas in this case. Further, I am the sponsoring witness for the historical accounting and tax data reflected in UNS Gas' rate case Application included in the Financial Statements and Statistical Schedules.

Summary of the Testimony of D. Bentley Erdwurm Docket No. G-04204A-08-0571

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

In my Direct Testimony, I sponsored Schedules G and H, which summarized the class cost-of-service study, rate design and proof of revenue for this filing. I also sponsored and my testimony will explain: (i) the weather normalization pro-forma adjustment; (ii) the year-end customer annualization pro-forma adjustment; (iii) the class cost-of-service study; and (iv) rate design, including phased-in residential customer charge increases. Additionally, I discussed the Company's efforts to mitigate the impact of the proposed rate increase on low-income customers.

More specifically, I explained that the customer annualization adjustment is performed using the traditional approach approved in numerous previous rate cases in Arizona and elsewhere, as well as in the Company's last general rate case, Decision No. 70011.

I explained that the Company's proposal to phase-in residential charge increases over a two-year period is cost-based and will help reduce the inequitable subsidization of low-use customers by higher-use customers who often live in cooler climate zones.

Finally I explained the Company's proposal to mitigate rate impacts on low-income customers by holding customer charges and non-gas volumetric (therm) charges at current levels.

In my Rebuttal Testimony, I addressed Staff's and RUCO's Direct Testimony on (i) the customer annualization adjustment, (ii) UNS Gas' proposal for phased-in residential customer charge increases, and (iii) the exemption of CARES customers from the DSM Surcharge.

More specifically, I explained why Staff and RUCO's proposal to move away from the accepted traditional customer annualization approach is at odds with the Order in the last general UNS Gas case, Decision No. 70011. I explain that both Staff and RUCO appear to be seeking customer annualization approaches aimed at decreasing the Company's rates, and I explain why their inconsistencies across rate cases is inequitable and is not in the public interest. Moreover, I explain flaws in Dr. Fish's customer annualization approach, and describe how he discards the "matching principle" by adjusting to a customer level that exceeds all historical counts, even after the test-year up to the filing of the Company's Rebuttal Testimony.

In my Rejoinder Testimony, I addressed Staff's and RUCO's Rebuttal Testimony on (i) the customer annualization adjustment, and (ii) UNS Gas' proposal for phased-in residential customer charge increases over a two-year period after rate implementation.

Specifically, I discuss flaws in the Staff and RUCO customer annualization approaches, and discuss why increased residential customer charges are reasonable and will help align the Company's interests with society's in promoting energy efficiency and conservation.

Summary of the Testimony
of Denise A. Smith
Docket No. G-04204A-08-0571

I have filed Direct Testimony in this case.

My testimony addresses the programs UNS Gas offers designed to assist low-income customers including the Customer Assistance Residential Energy Support ("CARES") pricing plan and the Warm Spirits Program.

I also discuss the four DSM programs for customers in the UNS Gas service territory. These programs include the Low-Income Weatherization Program ("LIW"), the Efficient Home Heating Program ("EHH"), the Energy Smart Home Program ("ESH"), and the Commercial Energy Solutions Program ("CES") and the benefits to UNS Gas customers.

In addition, UNS Gas is considering some possible program additions for future implementation, however it is uncertain at this time whether these programs will meet required cost-effectiveness tests. These potential program additions include the following: (i) envelope and duct leakage improvements; (ii) rebates for high-efficiency storage water heaters; and (iii) expanding measures for the Commercial Energy Solutions Program.