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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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- 2 KRISTIN K. MAYES
CHAIRMAN
- 3 GARY PIERCE
COMMISSIONER
- 4 SANDRA D. KENNEDY
COMMISSIONER
- 5 PAUL NEWMAN
COMMISSIONER
- 6 BOB STUMP
COMMISSIONER
- 7

8 IN THE MATTER OF THE APPLICATION OF
 9 UNS GAS, INC. FOR THE ESTABLISHMENT
 10 OF JUST AND REASONABLE RATES AND
 11 CHARGES DESIGNED TO REALIZE A
 12 REASONABLE RATE OF RETURN ON THE
 13 FAIR VALUE OF THE PROPERTIES OF
 14 UNS GAS, INC. DEVOTED TO ITS
 15 OPERATIONS THROUGHOUT THE STATE
 16 OF ARIZONA.

Docket No. G-04204A-08-0571

13 **RUCO'S NOTICE OF FILING INITIAL CLOSING BRIEF**
 14 **AND**
 15 **FINAL SCHEDULES**
 16 **(REDACTED)**

17 The Residential Utility Consumer Office ("RUCO") hereby files its Initial Closing Brief
 18 and Final Post-hearing Schedules in the above-referenced matter. A disk with electronic
 19 versions of the schedules is being provided to the Administrative Law Judge.

20 RESPECTFULLY SUBMITTED this 18th day of September, 2009.

21 Arizona Corporation Commission

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Daniel W. Pozefsky
Chief Counsel

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
 CHAIRMAN

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18 **RUCO'S**

19 **INITIAL CLOSING BRIEF**
20 **(REDACTED)**

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1 The Residential Utility Consumer Office ("RUCO") hereby submits its Closing
2 Brief on the matters raised in UNS Gas, Inc.'s ("UNSG" or "Company") recent rate
3 hearing.

4
5 **INTRODUCTION**

6 In or about November 2008, UNSG filed a rate application requesting an
7 increase in revenues of \$9.5 million. UNSG-16 at 3.¹ The test year that the Company
8 utilized in this case was the twelve months ending June 30, 2008. Id. Many of the
9 Company's recommendations in this case are attempts by the Company to get approval
10 for adjustments and/or methodologies that were rejected by the Commission in the
11 Company's last rate case or in other utility rate cases. RUCO continues to urge the
12 Commission to deny these requests. Nothing has changed and the Company has
13 presented no persuasive reason for a change. RUCO has not been persuaded by any
14 of the Company's arguments that the Commission should change its position from what
15 it previously has done. The resolved and outstanding issues are as follows.

16
17 **I. RESOLVED ISSUES AND OTHER ISSUES RUCO HAS NOT TAKEN A POSITION.**
18

19 RUCO and the Company have reached agreement on several issues that were
20 originally in dispute. Those agreements are:

- 21 • Rate Base – Unadjusted Original Cost Rate Base ("OCRB") and
22 Reconstruction Cost New Less Depreciation ("RCND"), acquisition

¹ For ease of reference, trial exhibits will be identified similar to their identification in the Transcript of Proceedings. The transcript volume number will identify references to the transcript.

1 adjustment, Southern Union acquisition adjustment, Griffith plant, build
2 out plant, Golden Valley Plant.

- 3 • Operating Income Adjustments – Original unadjusted operating
4 income, Griffith plant operations, Golden Valley revenue and
5 expenses, gas cost revenues and purchased gas costs, negotiated
6 sales program revenue and gas costs, service fees and late fees.
- 7 • Operating Expense Adjustments – Griffith plant operations, Golden
8 Valley revenue and expenses, gas cost revenues and purchased gas
9 costs, negotiated sales program revenue and gas costs, Demand Side
10 Management revenue and expense, pension and benefits expense,
11 CARES expense, CARES regulatory asset amortization, Y2K
12 amortization, bad debt expense, call center expense, synchronized
13 interest methodology² (included with RUCO's current income tax
14 adjustment), depreciation and amortization expense annualization.
- 15 • Capital Structure – RUCO and the Company agree on the Company's
16 proposed capital structure of 50.01% debt and 49.99% equity.
- 17 • Rate Design – Allocation of revenue increase, CARES, Warm Spirits
18 Roundup program (RUCO did not take a position), T-1 and T-2 pricing
19 (RUCO did not take a position).
- 20 • Other Issues that RUCO did not take a position – PGA Bank balance
21 interest rate, rules and regulations, proposed additional charges in
22 rules and regulations, gas procurement practices, use of pay day loan

² RUCO's synchronized interest adjustments amount differs from UNSG's due to RUCO's recommended rate base being different.

1 center and other issues raised by Cynthia Zwick regarding low income
2 programs.

3 **II. CONTESTED RATE BASE ISSUES**

4 **Plant-In-Service**

5 The Company's application included \$1.528 million of post test year non-revenue
6 producing plant in service. RUCO-6 at 13. The Commission rejected a similar proposal
7 in the Company's last rate case. Decision No. 70011 (November 7, 2001). The
8 investments include transportation equipment, general plant, replacement of services,
9 replacement of mains, and the relocation of facilities. UNSG -17 at 4. The Company
10 argues in its filed testimony that the plant in question is not construction work in
11 progress ("CWIP"), is non-revenue producing, is supported by previous Commission
12 decisions, and can be distinguished from the Commission's rejection of a similar
13 proposal in the Company's last rate case. Id. at 4. In this case, the Company
14 reconciles what it believes was the Commission's concern in the Company's last rate
15 case that the Company did not segregate the revenue from the non-revenue producing
16 plant. Id. In this case, the Company claims it separated the non-revenue producing
17 plant and is seeking inclusion of the non-revenue producing plant only. Id.

18 The Company's filed testimony contradicts other testimony in the record on the
19 status of the post test year plant. The Company's witness on the subject, Dallas Dukes
20 testified under cross-examination that the CWIP includes "Only the portion we've
21 identified as post test year plant, non-revenue producing." Transcript at 309. RUCO 21
22 at 13. However, it is highly questionable that the post test year plant requested by
23 UNSG is both "non-revenue producing" and "non-expense reducing." Some of the

1 CWIP that UNSG is requesting in its post test year plant adjustment would appear to
2 support growth, and some would appear to be expense reducing; however, UNSG has
3 not reflected any reduction to expenses. RUCO-21 at 15-16. Additionally, several other
4 items of post test year expense reductions have been identified, which have likewise,
5 not been reflected as pro forma reductions to operating expenses. *Id.* Consequently, it
6 would be one-sided and inappropriate to reach outside the test year for post test year
7 plant for an increase to the Company's revenue requirement when other downward
8 impacts, such as several expense reductions, are not also being reflected as reductions
9 to the Company's revenue requirement.

10 The Commission has seldom allowed for the inclusion of CWIP in rate base, and
11 does not typically allow post test year plant for energy utilities. The cases cited by
12 UNSG for post test year plant are water utilities. Water utilities have a higher capital
13 intensity than gas distribution utilities, and UNSG has not justified why it is deserving of
14 an exception to the typical Commission policy against inclusion of CWIP or post test
15 year plant in rate base for energy utilities. It is surely not the normal treatment to allow
16 CWIP or post test year plant in rate base and the Company has not met its burden of
17 showing why extraordinary treatment is appropriate in this case. The plant in question
18 was not in service at the end of the test year and corresponds at least in part to plant
19 that's purpose is to support and service growth. *Id.* at 14. Yet the Company has failed
20 to account for the corresponding revenues associated with the growth claiming that the
21 plant is non-revenue producing. Even giving the Company the benefit of the doubt on
22 the revenue issue, much of this construction can still be used to offset maintenance
23 expense which even the Company admits is a possibility. *Id.*, Transcript at 310. Yet the

1 Company has not made a corresponding adjustment for the expense reduction. The
2 Company has failed to make a compelling case for the inclusion of the post test year
3 plant and the Commission should reject the Company's request.

4 Post test year plant is not plant that was in service and/or used and useful during
5 the test year. RUCO-21 at 16. Some of the plant identified, for example, the main
6 replacements could easily result in maintenance expenditure reductions which would
7 not be included in the test year. Id. at 17. The result would be a mismatch between the
8 rate base serving the customers and the revenues received from customers taken
9 during the test year. Id. This mismatch if allowed, results in higher rates and is unfair to
10 ratepayers. This explains why the Commission stated the following in the Company's
11 last rate case:

12 We agree with Staff that post-test-year plant should not be
13 included in rate base for the same reasons stated above with respect to
14 the Company's request for CWIP. Although the Commission has
15 allowed post-test-year plant in several prior cases involving water
16 companies, it appears that the issue was developed on the record in
17 those proceedings in a manner that afforded assurance that a mismatch
18 of revenues did not occur. For example, in Decision No. 66849 (March
19 19, 2004), we stated that "we do not believe that adoption of this method
20 would result in a mismatch because the post-test-year plant additions
21 are revenue neutral (i.e., not funded by CIAC or AIAC)" (Id. at 5). In the
22 instant case, however, the Company's request appears to be simply a
23 fallback to its CWIP position, and there is no development of the record
24 to support inclusion of the post-test-year plant. The entirety of UNS's
25 argument consists of two questions in Mr. Grant's direct testimony,
26 which essentially provided that: the Commission has approved post test-
27 year plant in some prior cases, UNS is experiencing a high customer
28 growth rate, and therefore the Company is entitled to inclusion of post-
29 test-year plant if the Commission denies CWIP (Ex. A-27 at 28-29). Even
30 if we were inclined to recognize post-test-year plant in this case, there is
31 not a sufficient basis upon which to evaluate the reasonableness of the
32 request (i.e., whether a mismatch would exist). We therefore deny the
33 Company's proposal on this issue.
34

1 Decision No. 70011 at 18. Likewise, in this case, the Company has failed to present a
2 record sufficient to support its request to include the post test year plant.

3 **RELIEF REQUESTED:** The Commission should remove \$1.528 million of Post
4 Test Year Non-Revenue Producing Plant in Service from rate base.

5
6 **Customer Advances**

7 Similar to the Company's proposed adjustment for post test year plant, the
8 Company is trying to advance an argument that was rejected in the Company's last rate
9 case. In Decision No. 70011, the Commission concluded that customer advances are
10 customer-supplied funds that are properly deducted from rate base. Decision No.
11 70011 at 9. Nonetheless, the Company is attempting in this case to have a portion of its
12 customer advances excluded from the determination of rate base, using similar
13 arguments it used in its last rate case. RUCO-21 at 21.

14 The Company agrees that customer advances should be deducted from rate
15 base and that the advances are non-investor supplied capital. UNSG-17 at 6. The
16 Company believes, however, that the recognition of the reduction should not be made
17 earlier than the addition to plant in service. Id.

18 The Company's arguments are unpersuasive here for the same reason they
19 were rejected in the last case. UNSG has the use of non-investor supplied capital from
20 the moment it gets the money. RUCO-21 at 22. The Company does not have to hold it
21 in an escrow account. Id.

22 Moreover, if the Company's position were adopted, the Company's shareholders
23 would earn a return on non-investor supplied capital which is seldom, if ever justified.
24 The Company has ignored the fact that UNSG records allowances for funds used during

1 construction ("AFUDC") on construction projects. The AFUDC is calculated on the
2 CWIP balance, without any reduction for customer advances. RUCO-21 at 22. The
3 AFUDC represents the return to the Company during the construction period. If the
4 CWIP related customer advances are not deducted in full from rate base, the utility
5 would earn a return on the non-investor supplied capital. Id. This result occurs
6 because the customer advances related to CWIP have not been reflected as a
7 reduction to rate base or a reduction to CWIP. Id. In sum, if the customer advances do
8 not reduce the CWIP balance upon which AFUDC is calculated or reduce rate base, the
9 Company will inappropriately earn a return on non-investor supplied capital. The
10 Company's request to exclude customer advances from rate base should be rejected.

11 **RELIEF REQUESTED:** The Commission should increase Customer Advances
12 by \$589,152 and reduce rate base by the same amount.

13 **Prepayments**

14
15 RUCO recommended an adjustment to rate base to use the year-end balance of
16 prepayments, which was \$95,671 lower than the average amount requested by UNSG.
17 RUCO-20, Schedule B-3. The use of a year-end balance is consistent with the date for
18 other rate base balances, including Customer Deposits. This RUCO-proposed
19 adjustment was not addressed in UNSG's rebuttal and should be adopted.

20 **RELIEF REQUESTED:** The Commission should decrease rate base by \$95,671
21 to reflect the end of test year balance of prepayments.

22
23

1 **Cash Working Capital**

2 The issue here comes down to the Company's change from its direct position to
3 a much higher cash working capital request caused by the Company's revised purchase
4 gas lag payment calculation. In its direct case, the Company proposed a purchased
5 gas payment lag of 27.89 days which is close to the lag used by the Company in its last
6 rate case-30.97 days. UNSG 21 at 24. The Company's revised rebuttal position for its
7 purchased gas lag days is 19.17 days. RUCO-21, Schedule RCS-8 at page 1. In terms
8 of dollars, the Company's original proposed cash working capital allowance was
9 approximately \$1,568. Its revised working capital allowance is over \$2.18 million - over
10 a 1300 percent increase! RUCO-21 at 23.

11 The gist of the Company's basis for the revision was a change made subsequent
12 to the test year, i.e., the payment terms for purchased gas. UNSG-17 at 8. The change
13 was to a twice-monthly payment necessitated by credit limitations. Id. The Company's
14 decision to change its payment schedule was voluntary and any negative repercussions
15 in its working capital needs should not be borne by the ratepayers.

16 The Company had alternatives to changing its payment schedule as the
17 Company explained in response to a RUCO data request. RUCO-21 at 29-30,
18 Schedule RCS-8 at page 21. Among them, the Company admits that it could have
19 made more frequent payments of amounts owed, the Company could have provided a
20 standby letter of credit from a financial institution, it could have curtailed doing new
21 business with the supplier, or any combination of the above. Id. Any one or
22 combination of these alternatives to making more frequent payments could have
23 negated the impact on test year costs. Moreover, the Company failed to provide any

1 cost-benefit analysis, from the perspective of ratepayers, that the management decision
2 to make more frequent payments was the least cost option. Indeed, it appears that this
3 may have been the greatest cost option from the perspective of ratepayers, as
4 evidenced by the huge increase in UNSG's request for a cash working capital
5 allowance.

6 There is also no proof that the change in payment terms is anything other than
7 temporary. The Company made a temporary adjustment to a bi-monthly payment
8 schedule in the previous winter (December 2007-January 2008) which then reverted
9 back to the monthly schedule. RUCO-21 at 29. This change was not unusual given
10 that the Company is a winter-peaking gas distribution company, so that its exposure to
11 suppliers is greatest during the winter months. Id. The Commission should reject the
12 Company's revised cash working capital recommendation as it is unreasonable under
13 the circumstances.

14 **RELIEF REQUESTED:** The Commission should use the cash working capital
15 allowance of approximately \$1,600 in UNSG's original filing, and reject UNSG's request
16 for a revised working capital allowance of over \$2.18 million - over a 1300 percent
17 increase! RUCO-21 at 23.

18 **Customer Deposits**

19 Customer Deposits, an offset to rate base, also have fluctuated from month to
20 month, as shown in UNSG's response to a Staff data request. The test year average for
21 Customer Deposits would be approximately \$3.034 million, versus the June 30, 2008
22 balance of only \$2.609 million used by UNSG. RUCO-20 at 22-23. If Customer

1 Deposits were also to be calculated using a test year average, rather than using the
2 year-end balance, an adjustment for this would decrease rate base by approximately
3 \$425,000. Id.

4 **RELIEF REQUESTED:** RUCO recommends that a year-end balance be used for
5 Customer Deposits. However, if other rate base components, such as Prepayments, are
6 going to be adjusted using a 13-month average, then, for consistency with such an
7 adjustment, Customer Deposits, which have also fluctuated during the test year, should
8 also be reflected in rate base on a 13-month average basis.

9
10 **Accumulated Deferred Income Taxes**

11 The Company proposes to increase rate base by including some Accumulated
12 Deferred Income Tax ("ADIT") balances related to stock-based compensation and for
13 accrued liabilities. In general, if an item is disallowed for ratemaking purposes, the
14 related ADIT should also be disallowed. RUCO-21 at 33. Rate base should not be
15 increased for the ADIT on stock-based compensation because the underlying liability,
16 stock-based compensation is a stockholder expense, not a ratepayer responsibility. For
17 the ADIT on accrued liability items, rate base should not be increased for the ADIT
18 because the related accrued liability items are not deducted from rate base. Id. 31-36.

19 If these items are to be reflected in rate base, it should result in a net reduction
20 because the accrued liability items for vacation pay and pensions are larger than the
21 related ADIT. In fact the related ADIT is computed by multiplying the accrued liability
22 amounts by the combined state and federal tax rate. Id. at 34-35. There is a direct
23 relationship between the accrued liabilities and the related ADIT and it would be

1 inconsistent to include the ADIT in rate base without subtracting the accrued liability
2 amounts from rate base.

3 **RELIEF REQUESTED:** The Commission should remove the ADIT debit-balance
4 items related to their accrued liability items from rate base. Rate base should be
5 reduced by \$196,256 as shown on Schedule B-6 of RUCO's accounting schedules.

6
7 **III. CONTESTED OPERATING ISSUES**

8 **Customer Annualization**

9 The Company has proposed a negative "customer annualization" adjustment that
10 would decrease test year revenues by \$516,000. RUCO-21 at 37. The Company
11 recommends the "traditional" methodology to annualize growth where the monthly count
12 for each of the first eleven months of the test year is brought equal to the customer
13 count in the twelfth and final month of the test year. UNSG-21 at 2. The Company
14 accepted what it labels as "the Commission preferred" traditional approach because the
15 Commission adopted the traditional approach in the Company's last rate case.
16 Decision No. 70011 at 18-19, UNSG-22 at 4. However, the results of that methodology
17 – an increase in test year revenues in a situation where the utility had continued to
18 experience customer growth – made sense in the context of the last UNSG rate case.
19 However, the result of rotely applying that methodology in the current case does not
20 make sense because UNSG has continued to experience year-over-year customer
21 growth through the end of the test year, and UNSG's application of that methodology in
22 the current case would result in decreased test year revenues. The traditional approach
23 also benefits the Company under the circumstances of this case. However, decreasing
24 test year revenues where a utility has continued to experience year-over-year customer

1 growth through the test year would be unreasonable, and would result in an
2 unnecessary addition to the amount of revenue increase being inflicted upon the utility's
3 customers.

4 All things being equal, it would be hypocritical for RUCO to argue that the
5 Commission should rely on its previous decisions to reject the Company's contradictory
6 recommendations on other issues, and not rely on its previous decision to accept the
7 Company's recommendation here. But all things are not equal.

8 In the Company's last rate case, the Company had proposed to calculate
9 customer revenue annualization based on a cyclical growth pattern. Decision No. 70011
10 at 17. The Company argued that its proposal in that case was appropriate because "in
11 cases of cyclical growth, the mathematics break down and ... [the traditional method]
12 will often give you totally counterintuitive result, where you would actually have a
13 negative customer adjustment on a growing system" Id. at 18.

14 RUCO was not persuaded by the Company's argument in that case noting that
15 even though the Company's customer levels are somewhat seasonal, they do not
16 exhibit a degree of seasonality or produce an aberrational result which makes the
17 traditional approach inappropriate. Id. The Commission ultimately agreed with RUCO
18 and Staff concluding: "... that UNS has not presented a valid case for departing from the
19 traditional method of calculating customer service annualization. Although the
20 Company's arguments have some validity in a theoretical sense, adoption of the cyclical
21 methodology is not warranted in this proceeding." Id at 19.

22 RUCO believes that it would be a leap to conclude from the Commission's last
23 decision that the Commission made a policy decision favoring the "traditional method."

1 The traditional method may have made sense in that case, but it is counterintuitive in
2 this case.

3 RUCO is recommending that no adjustment should be made to test year
4 revenues for customer annualization. RUCO-21 at 39. During the test year, it is
5 undisputed that the Company experienced growth. UNSG-20 at 7. It does not make
6 sense to reduce test year revenues when UNSG has continued to grow throughout the
7 test year. RUCO-21 at 17. According to the Company, and RUCO agrees, "Customers
8 should expect a positive customer adjustment on a growing system." UNSG-20 at 7.
9 The Company's negative customer adjustment proposal is contrary to what the
10 Company admits its customers should expect.

11 When pressed why the Commission should adopt a recommendation that is
12 simply "counterintuitive" to the facts in this case, the Company's witness, Bentley
13 Erdwurm responded "Well, we have to maintain consistency even when it's
14 counterintuitive. That's what makes things fair." Transcript at 435. With all due respect
15 to Mr. Erdwurm, for whom RUCO has nothing but respect, RUCO disagrees. First, for
16 the reasons explained above, RUCO does not believe the adoption of its
17 recommendation would be inconsistent with the Commission's prior decision. Finally,
18 the Commission, as a matter of policy, should always be open to reconsidering a
19 methodology where a blanket application would be counterintuitive under the facts and
20 circumstances. RUCO urges the Commission to reject the Company's proposal to
21 adjust test year revenues for customer annualization.

1 **RELIEF REQUESTED:** The Commission should reflect actual test year
2 revenues and should reject UNSG's attempt to reduce test year revenues by \$516,000
3 to account for customer annualization.

4 **Depreciation and Property Taxes for CWIP/Post Test Year Plant**

5 This adjustment removed UNSG's request for inclusion in rate base of
6 CWIP/Post Test Year Plant. RUCO-20 at 28. It removes \$58,107 of Depreciation
7 Expense, \$11,351 of O&M Expense related to depreciation on transportation
8 equipment, and \$25,584 of Property Tax Expense related to the adjustment to remove
9 UNSG's request for CWIP/Post Test Year Plant in Service. Id. In total, UNSG's
10 expenses are reduced by \$95,042. Id.

11 This adjustment reflects the known statutory assessment ratio of 22 percent
12 applicable for 2009, when rates in this case are expected to be effective. Id. at 29.
13 Arizona Revised Statutes § 42-15001 provides the current percentages for property tax
14 assessments. Id. The assessment rate schedule provides for decreasing the 25
15 percent rate applicable in 2005 by 0.5 percent for the year 2006 and 1.0 percent each
16 year thereafter until a 20 percent rate is attained in 2011. Id. Ms. Kissinger's calculation
17 also used a 22 percent assessment rate. Id.

18 **RELIEF REQUESTED:** The Commission should reduce expenses by \$95,042
19 for depreciation and property taxes related to CWIP and Post Test Year Plant.
20
21
22

1 **Incentive Compensation, Stock Based Compensation and Supplemental**
2 **Executive Retirement Plan ("SERP")**
3

4 The Company's non-union employees participate in an incentive compensation
5 plan designed to reward them for their contributions to the Company. UNSG-16 at 21.
6 The plan is comprised of elements that relate to the Company's financial goals and cost
7 containment goals. Id. The Company's achievement of these performance targets
8 benefits both ratepayers and stockholders, however, the Company proposes that the
9 ratepayers, and not the shareholders should pay for the costs of the plan. RUCO 21 at
10 39.

11 This issue, similar to the stock based compensation and the SERP issues, has
12 been raised by numerous utilities before this Commission for a long time. As is the
13 case here, there really are no new arguments, just a rehash of the same old arguments.
14 The Company continues to disagree in its evaluation as to who benefits from incentive
15 compensation. In the Company's last rate case, the Commission determined that a
16 50% sharing in a similar program (the Company's Performance Enhancement Program)
17 provides a rebalancing of the interests between ratepayers and shareholders by
18 requiring each group to bear half the costs of the incentive program. Decision No.
19 70011 at 27. In the last UNS Electric rate case, the Commission made the exact same
20 award and applied the exact same reasoning (citing the last UNS Gas rate case)
21 regarding the incentive program. Decision No. 70360 at 21. In UNS Electric, the
22 Commission further noted "Given that the arguments raised in the UNS Gas case are
23 virtually identical to those presented in this case; we see no reason to deviate from that
24 recent Decision." Id. The same should hold true here.

1 The Commission also denied the Company's request for stock-based
2 compensation in the last UNS Electric case. Id. at 22. The Commission concluded:

3 As Staff witness Ralph Smith stated, the expense of
4 providing stock options and other stock-based compensation
5 beyond normal levels of compensation should be borne by
6 shareholders rather than ratepayers (Ex. S-58, at 34). The
7 disallowance of stock-based compensation is consistent with the
8 most recent rate case for Arizona Public Service Company
9 (Decision No. 69663).

10
11 Decision No. 70360 at 22. There is nothing new in this case, and the Commission
12 should not change its well-reasoned precedent absent a compelling reason.

13 The Commission should give the same consideration to the Company's SERP
14 proposal. UNSG offers a SERP to a select group of high-ranking officers in the
15 Company, in addition to their regular retirement plan. RUCO-21 at 49. These
16 executives are already fairly compensated for their work, and are provided a wide array
17 of benefits. Id. The additional costs of a second retirement plan for executives are not
18 essential for the provision of gas service to customers, and should be borne by
19 shareholders, not customers.

20 Nonetheless, the Company still maintains that the Commission should require
21 ratepayers to pay for the cost of its SERP. UNSG-17 at 18. There has been a plethora
22 of recent cases where the Commission has disallowed expenses related to SERP. The
23 reason is the same – the Commission has made it clear that it does not believe that it is
24 reasonable for ratepayers to pay for additional compensation to the utilities' highest paid
25 employees to remedy what the utility perceives as a deficiency in retirement benefits
26 relative to the utilities' other employees. See the Company's last rate case (Decision
27 No. 70011 at 28-29), Southwest Gas' last rate case (Decision No. 70665 at 17-18

1 December 24, 2008), Southwest Gas' prior rate case (Decision No. 68487 at 17-18,
2 February 23, 2006), and UNS Electric's rate case (Decision No. 70360 at 22, May 27,
3 2008). Once again, there is nothing new in this case, and the Commission should not
4 change its well-reasoned precedent absent a compelling reason.

5 **RELIEF REQUESTED:** The Commission should reject the Company's
6 request for the recovery of stock based incentives, SERP expenses and provide for
7 a 50/50 sharing of incentive compensation.

8
9 **American Gas Association ("AGA") Dues**

10 RUCO proposes the removal of 40 percent of the cost of AGA dues. RUCO-20
11 at 43. The Company proposes the removal of only 4 percent of the AGA dues. Id.
12 RUCO's recommendation relied, in part, on the two most recent National Association of
13 Utility Regulatory Commissioners' ("NARUC") sponsored Audit Reports of the
14 Expenditures of the AGA, and an analysis of components of the AGA's 2007 and 2008
15 budget. RUCO-21 at 54. The Company's criticism of RUCO's analysis is simply
16 misplaced.

17 The Company claims that RUCO's recommendation is based on a 2001 NARUC
18 study that is based on 1999 data. UNSG-17 at 21. This is not true – RUCO made note
19 that in a June 2001 memo to the Chairs and Chief Accountants of the State Regulatory
20 Commissions included with the NARUC-sponsored audit of 1999 AGA expenditures, it
21 was stated that state commissioners often review the costs of the association and apply
22 the policies of their commission when determining the treatment of the costs. RUCO-21
23 at 54. In fact in making its recommendations, RUCO relied on the two most recent

1 NARUC Audits, the AGA's 2007 and 2008 budgets and how this Commission handled
2 this issue in the most recent Southwest Gas rate case.

3 In the Southwest Gas case, the Commission determined:

4 We find that Staff's recommended disallowance of 40 percent of
5 AGA dues represents a reasonable approximation of the amount
6 for which ratepayers receive no supportable benefit.
7

8 Decision 70665 at 12. The Company in this case has failed to demonstrate why
9 ratepayers should fund activities conducted through an industry organization that would
10 be subject to disallowance if conducted by the utility. RUCO-21 at 53. The Commission
11 made it clear in the Company's last rate case that the Commission expected the
12 Company to make such a demonstration in this case:

13 Mr. Smith raises a valid point regarding the nature of AGA dues and
14 whether a higher percentage of such dues should be disallowed as
15 related to activities that are not necessary for the provision of
16 services to UNS customers. However, we believe it is reasonable, in
17 this case, to allow \$40,311 (\$41,854 - \$1,523), in accordance with
18 RUCO's recommendation. As we indicated in the Southwest Gas
19 Order, however, we expect UNS in its next rate case to provide
20 more detailed support for the allowance of AGA dues and how the
21 AGA's activities benefit the Company's customers aside from
22 marketing and lobbying efforts.
23

24 Decision No. 70011 at 33-34. RUCO's recommendation is a reasonable approximation
25 of the amount which ratepayers receive no supportable benefit.

26 **RELIEF REQUESTED:** The Commission should disallow 40% or \$18,678 from
27 the \$46,694 of test year expense for AGA dues.

28
29 **Outside Legal Expense**

30 The Company's test year expense for Outside Legal Expense is \$83,555.
31 RUCO-20 at 48. The Company has made a pro forma adjustment to increase outside

1 legal expense by \$305,984 to normalize this expense in the test year based on a three
2 year average of 2005-2007 expenses. RUCO-21 at 56. RUCO believes that the
3 Company's pro forma adjustment is inflated and removes a portion of the Company's
4 recommended increase.

5 The Company considered in its calculation the actual Outside Legal Expense for
6 2005, 2006 and 2007. UNSG-16 at 25. In 2005, 2006 and 2007 the Company spent
7 \$488,000, \$439,000 and \$242,000 respectively. Id. The Company claims that the three
8 year average of \$390,000 is reflective of normal and recurring levels of legal expense.
9 Id. RUCO disagrees. In the Company's last rate case, Dallas Dukes, the same witness
10 in the current case stated that the actual legal expenses incurred by the Company were
11 \$373,174 for 2004, \$488,380 for 2005, \$425,540 for 2006 and projected legal expenses
12 for 2007 at \$425,208. Decision No. 70011.

13 Obviously, the Company's projections for 2007 were high, and the Commission's
14 approval³ of an amount, based in part, on the projected 2007 expense allowed the
15 Company to over earn. The Commission also noted that

16 RUCO and Staff make a valid argument that the legal
17 expenses incurred during the 2005 were higher than normal due
18 to the Company's participation in the El Paso rate case and that
19 such expenses are likely non-recurring in nature.
20

21 Decision No. 70011 at 20. Despite the Commission's conclusion acknowledging the
22 validity of the argument that 2005 actual legal expenses were higher than normal, the

³ The Commission stated that if 2005 expenses were removed as an anomaly, and only 2004, 2006 and projected 2007 expenses were considered the average would be slightly greater than \$400,000. On that basis, the Commission allowed legal expenses in that case of \$400,000. Decision No. 70011 at 20.

1 Company has still used it in its calculations in this case. The Company's proposed pro
2 forma expense of \$305,984 is too high in this case and should be rejected.

3 Moreover, what the Company argues is a normal accounting of its legal fees is
4 not normal. A significant amount of the outside legal fees related to the 2006-2007
5 years are related to the El Paso Natural Gas pipeline case before the FERC which has
6 settled. RUCO-21 at 56. In addition, it appears that both the Company and its affiliates
7 were involved in the El Paso case, and that the costs of that case were not apportioned
8 among the affiliates. Id. at 59. The costs of the last EPNG FERC rate case were not
9 apportioned to UNSG's affiliate TEP because of when TEP began using EPNG;
10 however, the costs of EPNG FERC proceedings [CONFIDENTIAL INFORMATION
11 HAS BEEN REDACTED]. This is another reason why the Commission should not use
12 the Company's prior year FERC related costs for the basis of setting a normal level in
13 the current case. [CONFIDENTIAL INFORMATION HAS BEEN REDACTED].

14 RUCO does acknowledge that the Company has on-going matters before the
15 FERC as well as legitimate FERC related costs in the prior years in question. RUCO
16 agrees that some amount of normalized and reasonable level of expense should be
17 established, but cautions against transforming this concept into a prospective cost
18 recovery mechanism based on abnormally high historical legal expenses.

19 **RELIEF REQUESTED:** The Commission should allow for \$171,865 for outside
20 legal expense.

21

22

23

24

1 **Fleet Fuel Expense**

2 All the parties agree that the test year level of expense needs to be adjusted to
3 normalize this expense. The dispute centers on the amount of the adjustment. RUCO-
4 21 at 61. The Company believes it is appropriate to use a backward-looking average of
5 the 2006-2008 gas prices. RUCO does not believe that a backward-looking approach is
6 representative of current and expected prices. Id. at 62.

7 In its surrebuttal testimony RUCO presented a chart showing the 60 month
8 average retail price of gas for the years 2004-2009. Id. at 63. Not surprising the gas
9 prices were volatile during this time period. However, gasoline prices hit extreme levels
10 in 2008 and have been significantly lower both prior to and after the \$4 levels
11 experienced in 2008. Id. at 62

12 RUCO's revised adjustment uses an average fuel cost of \$2.95 per gallon based
13 on more information and a longer period (January 2006 through June 2009). RUCO's
14 recommendation was designed to mitigate the extreme peak of gas prices in mid-2008
15 and provide a more accurate picture of what a normalized level should be using
16 historical data.

17 **RELIEF REQUESTED:** The Commission should reduce UNSG's test year
18 amount of O&M expense of \$553,519 for fleet fuel by \$71,963. As shown on Schedule
19 C-8 revised (included with RUCO's final accounting schedules that are attached to this
20 brief), this decrease is \$20,705 more than UNSG proposed for a fleet fuel expense
21 decrease of \$51,258 in its rebuttal testimony.

22

23

1 **Rate Case Expense**

2 The Company requests rate case expense of \$500,000, to be amortized over 3
3 years. RUCO recommends recovery of \$300,000 normalized over three years.

4 In its last rate case, the Company requested \$900,000 amortized over three
5 years and was awarded \$300,000 normalized over three years. Decision No. 70011 at
6 20-22. In its last rate case the Commission noted that it was similar to the then recent
7 Southwest Gas case and that the Southwest Gas case was an appropriate measure. In
8 the Southwest Gas case, the Commission awarded \$235,000 but the Commission felt
9 that UNSG was entitled to more since it was the first case since its acquisition and there
10 was an abnormally high amount of discovery. Id.

11 Since then, the Commission decided the Company's affiliate, UNS Electric's rate
12 case (Decision No. 70360, May 27, 2008). In that case, UNS Electric requested
13 \$600,000 in rate case expense amortized over three years and the Commission
14 approved \$300,000 normalized over three years for an annual allowance of \$100,000
15 per year. Decision No. 70360 at 23 – 24. Subsequent to the UNS Electric decision, the
16 Commission decided another Southwest Gas rate case. In the most recent Southwest
17 Gas case, the amount of rate case expense requested by the Company and approved
18 by the Commission was \$276,000 normalized over a three-year period. RUCO-21 at
19 66, Decision No. 70665, December 24, 2008.

20 This case has similar characteristics to all if the cases mentioned above. The
21 majority of each application process was performed by utility in-house staff or affiliated
22 company staff. Id at 67. The length of the hearings in each proceeding was similar.
23 Perhaps one notable difference was in the Southwest Gas case because the Company

1 proposed a full decoupling rate design which was highly contentious. Rate design is not
2 nearly as contentious in this case. In all, the Company's rate expense request is
3 excessive and should be reduced as recommended by RUCO.

4 **RELIEF REQUESTED:** The Commission should allow the Company rate case
5 expense totaling \$300,000 normalized over three years for an annual allowance of
6 \$100,000 per year.

7
8 **Payroll Expense and Payroll Tax Expense**

9 The Company is proposing to recover a projected 2010 pay increase. RUCO
10 opposes the Company's request as it is not known and measureable and is too far
11 removed from the test year (1 ½ years beyond the test year). It also does not make
12 sense, given the current economy to allow for a pay increase, let alone one that is so far
13 beyond the test year. Many companies in this economy are forestalling pay increases
14 until the economy shows some significant improvement. The Company's request is
15 short-sighted and should be rejected.

16 **RELIEF REQUESTED:** The Commission should reduce the Company's payroll
17 expense by \$225,740 and related pay roll tax expense by \$24,882 to remove a
18 projected 2010 pay increase.

19
20 **Interest Synchronization**

21 This adjustment represents the difference between the Company's and RUCO's
22 interest expense deduction that is used to compute income tax expense. The interest
23 expense deduction is calculated by multiplying the recommended weighted cost of debt
24 times the recommended rate base (i.e. the interest synchronization calculation).

1 Because RUCO's recommended rate base is different from the Company's, a different
2 interest expense deduction results from the interest synchronization calculation (both
3 the Company and RUCO are in agreement on the weighted cost of debt). RUCO-21 at
4 53.

5 **RELIEF REQUESTED:** The Commission should apply the interest
6 synchronization method and should adjust income tax expense by \$30,215 to account
7 for the interest synchronization adjustment.

8 **Property Tax Expense**

9 This adjustment reflects the most current average known property tax rate for the
10 2008 tax year. The Company's response to RUCO 1.90 indicates the most current
11 average known property tax rate for the 2008 tax year is 7.6127 percent as opposed to
12 the 8.1359 percent used by the Company in calculating test year property tax expense.
13 RUCO-20 at 54. Arizona Revised Statutes § 42-15001 provides the current
14 percentages for assessed valuation of class one property for the years 2005 through
15 2010. Id. The new assessment rate schedule provides for decreasing the 25 percent
16 rate applicable in 2005 by 0.5 percent for the year 2006 and 1.0 percent each year
17 thereafter until a 20 percent rate is attained in 2011. Id.

18 The assessment rate for 2008 was 23 percent. Id. The Company's calculation
19 used the 22 percent assessment rate for 2009. Id. Since the Commission approved
20 rates are expected to become effective no later December 1, 2009, and the Company's
21 anticipated rate case interval is three years, as evidenced by the Company's and
22 RUCO's proposed normalization period for rate case expense, the property tax rate that

1 will be in effect for 2009 should be used. Id. In terms of determining the recommended
2 assessment rate, RUCO considered how its recommendation compares with property
3 tax rates approved in recent Arizona gas rate cases. Id. at 54-55. In the 2004 SWG
4 rate case, it appears that the utility, Staff and RUCO ultimately agreed on the
5 appropriateness of using a 24.5 percent assessment rate effective for 2006 in
6 conjunction with the test year in that case ending August 31, 2004. Id. at 55. In the last
7 UNS Gas rate case an assessment rate of 24 percent for 2007 was used for rates that
8 became effective in mid-2007. Id. In the most recent Southwest Gas rate case, an
9 assessment rate of 23 percent was used effective for 2008 for rates that became
10 effective on December 1, 2008. Id. RUCO's recommended adjustment reduces UNS
11 Gas' proposed property tax expense by \$230,913.

12 **RELIEF REQUESTED:** The Commission should reduce property tax expense by
13 \$230,913.

14
15 **Postage Expense**

16 RUCO's adjustment is slightly higher than UNSG's because RUCO applied it to
17 the actual test year number of customers, rather than to a reduced number of
18 customers that resulted from UNSG's attempted "customer annualization" adjustment.

19 **RELIEF REQUESTED:** The Commission should approve RUCO's postage
20 adjustment of \$22,031.

21
22
23
24

1 **IV. COST OF CAPITAL**

2 **Capital Structure**

3 RUCO and the Company agree on the Company's proposed capital structure of
4 50.01% debt and 49.99% equity.

5
6 **Cost of Debt**

7 The Company proposes a 6.49 percent cost of debt, to which RUCO agrees.
8 RUCO-14 at 3.

9
10 **Cost of Equity**

11 UNSG proposes a return on equity of 11 percent. Id. at 4. Staff's proposed cost
12 of equity is 10.00 percent. Id. RUCO's proposed cost of common equity is 8.61
13 percent. Id. All of the parties based their proposals on results obtained from the
14 Discounted Cash Flow Model ("DCF") RUCO, Staff Company) and/or the Capital Asset
15 Pricing Model ("CAPM") RUCO, Company) and/or the bond yield plus risk premium
16 (Company) and/or Comparable Earnings model (Staff). Id. at 4-17, UNSG-13 at 23-24,
17 and S-14.

18 RUCO believes that its approach to calculating the cost of common equity results
19 in the most reasonable cost of common equity recommendation under the facts and
20 circumstances of this case. There are important differences in the approaches that
21 RUCO and the Company took to calculating a cost of equity capital producing their
22 differing results. First, the Company utilized a multi-stage DCF analysis, whereas RUCO
23 used a single-stage analysis. Company witness Grant believes that the single stage

1 model cannot be applied to companies having expected short-term growth rates that are
2 significantly higher or lower than their long-term growth potential. RUCO-13 at 54.

3 RUCO's witness William Rigsby used a single-stage constant growth that relied
4 on 5-year growth projections that are specific to the local distribution companies ("LDC")
5 used in Mr. Rigsby's proxy. *Id.* at 55. The long-term growth rate used by Mr. Grant,
6 which was used in his multi-stage DCF model, assumes a long-term growth rate for
7 LDCs that will be very close to an inflation-adjusted growth rate of all goods and
8 services produced by labor and property in the US into perpetuity. RUCO-13 at 55. This
9 assumption that utility long-term growth rates will closely mirror national Gross Domestic
10 Product growth into perpetuity is suspect. *Id.*

11 Furthermore, as pointed out in the surrebuttal testimony of Mr. Rigsby, FERC
12 requires that the growth components of the multi-stage model be weighted in such a
13 way that more emphasis is placed on the short-term (i.e. 5-year estimates) as opposed
14 to long-term estimates (inflation adjusted GDP) that are calculated into perpetuity.
15 RUCO-14 at 8. The rationale for the FERC's weighting requirement is "that short-term
16 growth rates are more predictable, and thus deserve a higher weighting than long term
17 growth rate projections." *Id.* Thus the FERC places more weight on the growth
18 estimates used by Mr. Rigsby in his constant growth DCF model.

19 Using Mr. Grant's inputs and estimates, a single-stage model would produce a
20 mean average estimate of 9.17 percent, which is 223 basis points below Mr. Rigsby's
21 11.40 percent estimate. RUCO-13 at 56. Further, there were changes to stock prices
22 of proxy companies between the filing of the Company's direct testimony and RUCO's
23 direct testimony. *Id.* at 57. In general, the stock prices for the LDC's used in Mr.

1 Grant's and Mr. Rigsby's proxies have fallen since the Company filed its direct case. Id.
2 Thus, a single stage model using updated stock prices, while holding Mr. Grant's other
3 DCF component estimates constant would produce a lower single-stage DCF estimate
4 than the one Mr. Rigsby calculated. Id. at 58. It is clear that Mr. Rigsby's growth rate
5 inputs are suitable estimates of long term growth.

6 Second, the witnesses used a different proxy for the market rate of return in their
7 CAPM analyses. Mr. Rigsby used both geometric and arithmetic means of historical
8 returns. Id. at 60. Mr. Grant relied solely on the arithmetic mean of historical returns as
9 the proxy for the market rate of return. Id. Information on both the geometric and
10 arithmetic means is widely available to the investment community, and it is therefore
11 appropriate to use both means in CAPM analysis. Id., RUCO-14 at 9. Further, the
12 geometric mean provides a truer picture of the effects of compounding on the value of
13 an investment when return variability exists, and therefore it is an important metric to
14 include. Id.

15 Finally, Mr. Rigsby used updated betas for the proxy companies in his CAPM
16 analysis. RUCO-13 at 60. The mean average of Value Line betas used by Mr. Grant
17 was .87, as opposed to Mr. Rigsby's average beta of .67. Id.

18 It is not uncommon for RUCO and the Staff to also differ in their approach to cost
19 of equity. However, RUCO's approach, as will be more fully explained, is more
20 sensitive to the current economic environment. Staff's witness, David Parcell utilized
21 three methodologies in calculating Staff's return on equity recommendation. S-14 at 38.
22 Parcell's methodologies produced the following results:

23

| | | |
|---|-----------------------------|-----------|
| 1 | Discounted Cash Flow | 9.5-10.5% |
| 2 | Capital Asset Pricing Model | 7.3-7.8% |
| 3 | Comparable Earnings | 9.5-10.5% |

4 Id. Mr. Parcell recommended a cost of equity of 9.5% to 10.5% for the Company. Id.
5 This reflected the DCF and Comparable Earnings Models. Within the range, Mr. Parcell
6 recommended 10.0 percent level, which is the same level of equity approved by the
7 Commission in the Company's last rate case. Mr. Parcell's CAPM analysis was not
8 reflected in his range of recommendations for Staff's return on equity. Transcript at 832.

9 Mr. Parcell's admitted that CAPM is frequently used as a check for the DCF
10 analysis. Transcript at 833. In this case, Mr. Parcell's CAPM analysis would clearly
11 indicate that the DCF range of 9.5-10.5% would be too high. Nonetheless, Mr. Parcell's
12 gave less weight to his CAPM results calling it an "outlier". Transcript at 825. Mr.
13 Parcell attributes the low CAPM results in large part to the decline in the economy and
14 investor's "flight of quality" to more secure Treasury securities. Transcript at 824-825.
15 The result is higher priced Treasury securities and lower yields which in turn, lowered
16 the risk-free rate in the CAPM which produced lower than normal CAPM results. Id.

17 Not surprisingly, RUCO's CAPM results were also low – 5.26-6.39%. RUCO-13
18 at 32. RUCO, however, did not disregard its CAPM results. Mr. Parcell apparently
19 began disregarding the results of his CAPM calculations in other cases before this
20 Commission when the financial markets went into turmoil. Transcript at 833. While
21 there is a certain sense of logic to Mr. Parcell's dismissal of the CAPM now, it begs the
22 question what is a normal economy? Mr. Parcell did not disregard the CAPM in other

1 cases when the economy was on an upswing and the results were undoubtedly high.

2 So when then, should the CAPM stop being a check to the DCF analysis?

3 According to Mr. Parcell, the current economic conditions influence the inputs for
4 the CAPM model. Transcript at 834. Likewise, economic conditions also affect the
5 inputs in the DCF model through the dividend yield and growth rates. Id. Mr. Parcell
6 testified that if the Commission were inclined to consider the economy in its
7 deliberations, the "cleanest and most direct way" would be through the cost of capital
8 rather than the revenue requirement. Id. at 842. So for example, Mr. Parcell testified
9 that if the Commission were inclined to give specific consideration to the economic
10 conditions, the Commission could move to the low end of the cost of capital range. Id.
11 at 843.

12 In general, this Commission has made it clear that the current state of the
13 economy and the impact on ratepayers that will result from a rate increase is a priority.
14 The Commission is focused on the impact of the economy on ratepayers and, at the
15 very least should focus on the low end of the cost of capital range. There are also other
16 reasons why the Commission should focus on the low end of the range.

17 According to Mr. Parcell, the Company's credit ratio has improved since its last
18 rate case. Transcript at 835. The Company has also been able to secure an
19 investment grade bond rating since its last rate case and overall the Company is more
20 financially sound and less risky since its last rate case Id. Given all these positives, it is
21 difficult to argue that it would be unreasonable for the Commission to consider a lower
22 cost of equity figure than what the Company was awarded in its last rate case. RUCO's

1 recommendation of a cost of equity or 8.61% and fair value rate of return of 5.38% are
2 reasonable and fair in today's economy.

3 **RELIEF REQUESTED:** The Commission should adopt RUCO's 8.61% return on
4 equity and a 5.38% percent rate of return on FVRB.

5
6 **V. FAIR VALUE RATE OF RETURN**

7 Based on a 50.01% debt - 49.99% equity capital structure, a 6.49 percent cost of
8 debt and an 8.61 percent cost of equity, RUCO recommends a weighted average cost
9 of capital ("WACC") of 7.55 percent. RUCO-13 at 6, RUCO-14 at 3-5. The Company,
10 using all the same inputs except its proposed cost of equity of 10 percent, proposes a
11 WACC of 8.75 percent. RUCO-14 at 4.

12 RUCO is recommending a FVROR of 5.38% which would increase the
13 Company's revenue by \$38,000 more than an OCRB result. RUCO-13 at 3. Whereas
14 the Company seeks an additional \$3.62 million fair value difference on top of Staff's
15 recommendation and an additional \$3.808 million fair value difference beyond RUCO's
16 direct filing. RUCO-21 at 3-4. While the Commission has discretion in determining the
17 FVROR, in the present economic environment, burdening ratepayers with an additional
18 revenue increase of well over \$3 million for FVROR is unwarranted under any
19 circumstances.

20 RUCO considered four methodologies used and/or considered in other rate
21 cases before the Commission since the Court of Appeals ruled on this issue and
22 remanded the case back to the Commission for consideration. Id. at 4. RUCO
23 considered reducing the recommended OCRB based return on equity ("OCROE") for

1 estimated inflation, reducing the recommended OCRB overall rate of return ("OCROR")
2 for estimated inflation, the calculation with the fair value rate base increment at zero
3 cost and the calculation with the fair value rate base increment at 1.25%. Id. Reducing
4 the OCROE for inflation resulted in an overall revenue increase of \$4,649,000. RUCO-
5 20, Schedule A, page 2. This result is way too high. Id. Reducing the OCROR for
6 inflation resulted in a revenue decrease of (\$524,000") which RUCO felt was much too
7 low. Id. The third proposal considered – the calculation with the FVRB increment as
8 zero cost resulted in an \$800,000 increase which RUCO felt is also too low. Id. The
9 last calculation – with a FVRB increment at 1.25% resulted in a revenue increase of
10 \$2,290,000 which RUCO felt was still far too high.

11 Similar to its practice in determining cost of equity, RUCO considered the range
12 that resulted from the four calculations. RUCO recognized that the determination of the
13 FVROR is not an exact science and at best an estimation. RUCO-21 at 10. The
14 estimation, however, must have reasonable basis in order to derive a result that is both
15 fair to the Company and fair to the ratepayer. Of course, the current state of the
16 economy, as bad as it is, must also be factored into the equation. RUCO based its
17 recommendation on how the FVROR has been developed since the Court of Appeals
18 decision, the current economy and what makes sense and is fair and reasonable under
19 the circumstances of this case. Id. RUCO used its discretion in recommending what it
20 believes would be in the Commission's discretion a fair and reasonable rate of return in
21 this matter.

22 **RELIEF REQUESTED:** The Commission should adopt RUCO's 5.38%
23 FVROR.

1 **VI. RATE DESIGN**

2 The Company proposes to increase residential customer charges from the
3 current \$8.50 per month to \$10.00 per month when new rates are implemented. UNSG-
4 20 at 15. A second phase would begin one year after implementation when a \$2.00 per
5 month residential customer charge will occur bringing the total customer charge to
6 \$12.00 per month. Id. In phase 3, which will commence two years after rates go into
7 effect, the customer charge is increased to \$14.00. At that time rates per therm would
8 be lowered from \$0.3920 to \$0.3039. On the non-residential side, the Company is
9 proposing an increase from \$13.50 to \$15.50 for small commercial/industrial users and
10 \$105.00 from \$100.00 for large commercial/industrial users. Id.

11 The Company's proposal to increase rates on a phased in basis of \$5.50 over
12 three years results in a total 65% increase. RUCO-12 at 1. RUCO believes that this
13 increase is simply too much, too fast, when compared to the Company's overall rate
14 increase of 6%.

15 The Company's rate design concern appears to be aligning the customer
16 charges with the cost of service. UNSG-20 1t 14-15. Unfortunately, the Company's
17 proposal is drastic and is likely to result in rate shock. RUCO's proposal will increase
18 the customer charge from \$8.50 to \$10.00 per month in the rate year. RUCO-12 at 2.
19 The \$1.50 per month increase will result in a 17.6% increase will move the Company to
20 cost of service without resulting in rate shock. Id. RUCO believes that the focus
21 should be not on moving the customer charge closer to cost of service. The focus
22 needs to be on the pace that the Commission moves the charges towards cost of
23 service. Id. A phased in approach does not resolve the bill impact issue.

1 **CONCLUSION**

2 RUCO recommends that the Commission approve a revenue increase of no
3 more than \$1,265,000, based on the above discussion and as reflected in its final
4 schedules. The Commission should adopt RUCO's 8.61% return on equity and 5.38%
5 percent FVROR. Further, RUCO recommends that the Commission adopt RUCO's
6 rate design that will increase the customer charge from \$8.50 to \$10.00 per month in
7 the rate year.

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
CHAIRMAN
GARY PIERCE
COMMISSIONER
SANDRA D. KENNEDY
COMMISSIONER
PAUL NEWMAN
COMMISSIONER
BOB STUMP
COMMISSIONER

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

RUCO'S

**FINAL SCHEDULES
(REDACTED)**

RUCO Brief - Final Accounting Schedules - Revenue Requirement Reconciliation Table

| | Reconciliation of Revenue Requirement | Adjustment | Conversion Factor | Estimated Revenue Requirement Impact |
|------|---------------------------------------------------------------------------|------------------------------|-------------------|--------------------------------------|
| | | | | |
| | Rate of Return Difference | -1.99% | | |
| | UNS Gas Proposed Rate Base | \$ 182,293,106 | 1.636582 | |
| | ROR Difference | | | \$ (5,936,919) |
| | | | | |
| | RUCO ROR x GRCF | 7.55% | 1.636582 | |
| Adj. | RUCO Rate Base Adjustments | | 0.123561941 | |
| No. | Description | RB Adjustment | | |
| B-1 | Construction Work in Progress/Post Test Year Plant | \$ (1,527,588) | 0.123561941 | \$ (188,752) |
| B-2 | Customer Advances | \$ (589,152) | 0.123561941 | \$ (72,797) |
| B-3 | Prepayments | \$ (95,671) | 0.123561941 | \$ (11,821) |
| B-4 | Cash Working Capital | \$ - | 0.123561941 | \$ - |
| B-5 | Customer Deposits | \$ - | 0.123561941 | \$ - |
| B-6 | Accumulated Deferred Income Taxes | \$ (196,256) | 0.123561941 | \$ (24,250) |
| | Total of RUCO Adjustments | \$ (2,408,667) | | |
| | Company Proposed Rate Base | \$ 182,293,106 | | |
| | Rounding | \$ - | | |
| | RUCO Proposed Rate Base | \$ 179,884,439 | | |
| | | | | |
| | RUCO Net Operating Income Adjustments | | | |
| Adj. | Description | NOI Adjustment | GRCF | |
| C-1 | Gas Retail Revenue | \$ 316,836 | 1.636582 | \$ (518,528) |
| C-2 | Depreciation & Property Taxes for CWIP | \$ 58,358 | 1.636582 | \$ (95,507) |
| C-3 | Incentive Compensation | \$ 93,645 | 1.636582 | \$ (153,258) |
| C-4 | Stock-Based Compensation Expense | \$ 163,574 | 1.636582 | \$ (267,702) |
| C-5 | Supplemental Executive Retirement Plan Expense | \$ 62,029 | 1.636582 | \$ (101,516) |
| C-6 | American Gas Association Dues | \$ 10,292 | 1.636582 | \$ (16,844) |
| C-7 | Outside Services Legal Expense | \$ 133,656 | 1.636582 | \$ (218,739) |
| C-8 | Fleet Fuel Expense - Revised in Surrebuttal | \$ 44,187 | 1.636582 | \$ (72,316) |
| C-9 | Rate Case Expense | \$ 97,220 | 1.636582 | \$ (159,109) |
| C-10 | Interest Synchronization | \$ (30,215) | 1.636582 | \$ 49,449 |
| C-11 | Property Tax Expense | \$ 141,785 | 1.636582 | \$ (232,043) |
| C-12 | 2010 Pay Increase | \$ 153,886 | 1.636582 | \$ (251,847) |
| C-13 | Postage Expense Rate Increase - added in Surrebuttal | \$ (13,527) | 1.636582 | \$ 22,139 |
| | Total of RUCO Adjustments | \$ 1,231,726 | | |
| | Company Proposed Net Operating Income | \$ 11,600,004 | | |
| | Rounding | \$ - | | |
| | RUCO Proposed Net Operating Income | \$ 12,831,730 | | |
| | | | | |
| | Reconciliation of Revenue Requirement (Continued) | \$ - | Conversion Factor | Estimated Revenue Requirement Impact |
| | Gross Revenue Conversion Factor difference: | \$ - | | |
| | Per RUCO | \$ - | 1.6365820 | |
| | Per Company | | 1.6365816 | |
| | Difference | | 0.0000004 | |
| | Company adjusted NOI deficiency | | 5,790,758 | |
| | GRCF difference | | | \$ 2 |
| | RUCO REVENUE REQUIREMENT ADJUSTMENTS IDENTIFIED ABOVE | | | \$ (8,250,358) |
| | Company Requested Base Rate Revenue Increase | | | 9,477,048 |
| | Adjusted revenue requirement, per above | | | \$ 1,226,690 |
| | RUCO Adjusted revenue requirement per Attachment RCS-2, Schedule A | | | \$ 1,227,000 |
| | Unidentified | | | \$ (310) |
| | DIFFERENCE BETWEEN RUCO ORIGINAL COST AND FAIR VALUE | | | |
| | Base Rate Revenue Increase Using FVRB | Final Acctg Schs, Schedule A | | \$ 1,265,000 |
| | Base Rate Revenue Increase Using OCRB | Final Acctg Schs, Schedule A | | \$ 1,227,000 |
| | Additional Base Rate Revenue Increase from FVRB | | | \$ 38,000 |

Attachment to RUCO's Brief
RUCO Final Accounting Schedules

| Schedule | Description | Pages | Note |
|----------|----------------------------------------------------|-----------|---------|
| | Revenue Requirement Summary Schedules | | |
| A | Calculation of Revenue Deficiency (Sufficiency) | 2 | Revised |
| A-1 | Gross Revenue Conversion Factor | 1 | |
| B | Adjusted Rate Base | 1 | Revised |
| B.1 | Summary of Adjustments to Rate Base | 1 | |
| C | Adjusted Net Operating Income | 1 | Revised |
| C.1 | Summary of Net Operating Income Adjustments | 2 | Revised |
| D | Capital Structure and Cost Rates | 2 | |
| | Rate Base Adjustments | | |
| B-1 | Construction Work in Progress/Post Test Year Plant | 1 | |
| B-2 | Customer Advances | 1 | |
| B-3 | Prepayments | 1 | |
| B-4 | Cash Working Capital | | [A-1] |
| B-5 | Customer Deposits | | [A-2] |
| B-6 | Accumulated Deferred Income Taxes | 1 | |
| | Net Operating Income Adjustments | | |
| C-1 | Gas Retail Revenue | 1 | |
| C-2 | Depreciation & Property Taxes for CWIP | 2 | |
| C-3 | Incentive Compensation | 1 | |
| C-4 | Stock-Based Compensation Expense | 1 | [B] |
| C-5 | Supplemental Executive Retirement Plan Expense | 1 | |
| C-6 | American Gas Association Dues | 2 | |
| C-7 | Outside Services Legal Expense | 1 | |
| C-8 | Fleet Fuel Expense | 3 | [C] |
| C-9 | Rate Case Expense | 1 | |
| C-10 | Interest Synchronization | 1 | |
| C-11 | Property Tax Expense | 1 | |
| C-12 | 2010 Pay Increase | 2 | |
| C-13 | Postage Expense Rate Increase | 1 | [D] |
| | Total Pages (including Contents page) | 33 | |

[A-1] For the reasons explained in RUCO's direct and surrebuttal testimony a cash working capital allowance no larger than the \$1,600 in UNSG's original filing is recommended

[A-2] For the reasons explained in RUCO's direct testimony, an adjustment to Customer Deposits in rate base should be made, for consistency, if RUCO's adjustment B-3 for Prepayments is not adopted

[B] Contains Company-designated CONFIDENTIAL INFORMATION

[C] Revised in Surrebuttal - See Attachment RCS-7, Schedule C-8 Revised

[D] Added in Surrebuttal - See Attachment RCS-7, Schedule C-13

UNS Gas Inc.
 Computation of Increase in Gross Revenue Requirement
 Test Year Ended June 30, 2008

Docket No. G-04204A-08-0571
 Schedule A Revised
 Page 1 of 2

| Line No. | Description | Reference | UNS Proposed | | RUCO Proposed | |
|----------|-----------------------------------------------|-----------|-------------------|----------------|-------------------|----------------|
| | | | Original Cost (A) | Fair Value (B) | Original Cost (C) | Fair Value (D) |
| 1 | Adjusted Rate Base | Sch. B | \$ 182,293,106 | \$ 255,779,939 | \$ 179,884,439 | \$ 252,877,851 |
| 2 | Rate of Return | Sch D | 9.54% | 6.80% | 7.55% | 5.38% |
| 3 | Operating Income Required | | \$ 17,390,762 | \$ 17,390,762 | \$ 13,581,275 | \$ 13,604,828 |
| 4 | Net Operating Income Available | Sch. C | \$ 11,600,004 | \$ 11,600,004 | \$ 12,831,730 | \$ 12,831,730 |
| 5 | Operating Income Excess/Deficiency | | \$ 5,790,758 | \$ 5,790,758 | \$ 749,545 | \$ 773,098 |
| 6 | Gross Revenue Conversion Factor | Sch. A-1 | 1.6366 | 1.6366 | 1.636582 | 1.636582 |
| 7 | Overall Revenue Requirement | | \$ 9,477,048 | \$ 9,477,048 | \$ 1,227,000 | \$ 1,265,000 |
| 8 | Difference between OCRB and FVRB calculations | | \$ - | \$ - | \$ - | \$ 38,000 |

Notes and Source
 Cols. A & B taken from UNS Gas, Inc. filing, Schedule A-1

| | | | | | | |
|---|---------------------|--------|---------------|---------------|---------------|---------------|
| 8 | Gas Retail Revenue | Sch. C | \$ 51,157,763 | \$ 51,157,763 | \$ 51,673,766 | \$ 51,673,766 |
| 9 | Percentage Increase | | 18.53% | 18.53% | 2.37% | 2.45% |

See page 2 for additional Fair Value calculations RUCO is presenting for the Commission's consideration. RUCO's amounts on line 7 are rounded to the nearest thousand.

UNSG Gas Inc.
 Computation of Increase in Gross Revenue Requirement

Docket No. G-04204A-08-0571
 Schedule A Revised
 Page 2 of 2

Test Year Ended June 30, 2008

| Line No. | Description | Reference | Fair Value Calculation 1 (A) | Fair Value Calculation 2 (B) | Fair Value Calculation 3 (C) | Fair Value Calculation 4 (D) | RUCO Recommended (E) |
|----------|------------------------------------|-------------|------------------------------|------------------------------|------------------------------|------------------------------|----------------------|
| 1 | Adjusted Rate Base | Sch. B | \$ 252,877,851 | \$ 252,877,851 | \$ 252,877,851 | \$ 252,877,851 | \$ 252,877,851 |
| 2 | Rate of Return | Sch. D | 6.30% | 5.05% | 5.37% | 5.73% | 5.38% [a] |
| 3 | Operating Income Required | | \$ 15,931,305 | \$ 12,770,331 | \$ 13,579,541 | \$ 14,489,901 | \$ 13,604,828 |
| 4 | Net Operating Income Available | Sch. C | \$ 12,831,730 | \$ 12,831,730 | \$ 12,831,730 | \$ 12,831,730 | \$ 12,831,730 |
| 5 | Operating Income Excess/Deficiency | | \$ 3,099,575 | \$ (61,399) | \$ 747,811 | \$ 1,658,171 | \$ 773,098 |
| 6 | Gross Revenue Conversion Factor | Sch. A-1 | 1.636582 | 1.636582 | 1.636582 | 1.636582 | 1.636582 |
| 7 | Overall Revenue Requirement | | \$ 5,073,000 | \$ (100,000) | \$ 1,224,000 | \$ 2,714,000 | \$ 1,265,000 [b] |
| | | Evaluation: | way too high | too low | too low | too high | recommendation |
| 8 | Gas Retail Revenue | Sch. C | \$ 51,673,766 | \$ 51,673,766 | \$ 51,673,766 | \$ 51,673,766 | \$ 51,673,766 |
| 9 | Percentage Increase | | 9.82% | -0.19% | 2.37% | 5.25% | 2.45% |

Notes and Source

RUCO's amounts on line 7 are rounded to the nearest thousand.

Explanation of Fair Value Calculations (See Schedule D, page 2, for details):

- Calculation 1 - Reduce Recommended OCRB-Based Return on Equity for Estimated Inflation
- Calculation 2 - Reduce Recommended OCRB-Based Overall Rate of Return for Estimated Inflation
- Calculation 3 - With Fair Value Rate Base Increment at Zero Cost
- Calculation 4 - With Fair Value Rate Base Increment at 1.25 Percent

[a] Recommended FVROR selected based on informed judgment after reviewing OCRB and FVRB calculations

[b] See page 1 of this schedule for how this recommendation compares with an OCRB-based calculation

UNS Gas, Inc.

Computation of Gross Revenue Conversion Factor

Test Year Ended June 30, 2008

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Schedule A-1
Page 1 of 1

| Line No. | Description | Company Proposed (A) | RUCO Proposed (B) |
|----------|--------------------------------------|----------------------|-------------------|
| 1 | Gross Revenue | 100.00% | 100.000000% |
| 2 | Less: Uncollectible Revenue | 0.487000% | 0.487000% |
| 3 | Taxable Income as a Percent | 99.51% | 99.513000% |
| 4 | Less: Federal and State Income Taxes | 38.41% | 38.41003% |
| 5 | Change in Net Operating Income | 61.10% | 61.10297% |
| 6 | Gross Revenue Conversion Factor | 1.6366 | 1.636582 |

Notes and Source

Col.A: UNS Gas Inc. Filing, Schedule C-3

7 Combined Income Tax Rate 38.5980%

Test Year Ended June 30, 2008

| Line No. | Description | Original Cost | | RCND | | |
|----------|----------------------------------------------|------------------------|----------------------|------------------------|----------------------|-------------------------|
| | | As Adjusted by UNS (A) | RUCO Adjustments (B) | As Adjusted by UNS (D) | RUCO Adjustments (E) | As Adjusted by RUCO (F) |
| 1 | Gross Utility Plant in Service | \$ 318,227,624 | \$ (1,527,588) | \$ 561,025,858 | \$ (2,514,427) | \$ 558,511,431 |
| 2 | Less: Accumulated Depreciation | \$ (87,543,544) | \$ - | \$ (152,278,962) | \$ - | \$ (152,278,962) |
| 3 | Net Utility Plant in Service | \$ 230,684,080 | \$ (1,527,588) | \$ 408,746,896 | \$ (2,514,427) | \$ 406,232,469 |
| 4 | Southern Union Acquisition Premium | \$ - | \$ - | \$ - | \$ - | \$ - |
| 5 | Less: Accum. Amort. - So. Union Acq. Premium | \$ - | \$ - | \$ (3,553) | \$ - | \$ (3,553) |
| 6 | Net Southern Union Acquisition Premium | \$ - | \$ - | \$ (3,553) | \$ - | \$ (3,553) |
| 7 | Citizens Acquisition Discount | \$ (30,709,738) | \$ - | \$ (55,126,579) | \$ - | \$ (55,126,579) |
| 8 | Less: Accum. Amort. - Citizens Acq. Discount | \$ (3,935,647) | \$ - | \$ (6,658,438) | \$ - | \$ (6,658,438) |
| 9 | Net Citizens Acquisition Discount | \$ (26,774,091) | \$ - | \$ (48,468,141) | \$ - | \$ (48,468,141) |
| 10 | Total Net Utility Plant | \$ 203,909,989 | \$ (1,527,588) | \$ 360,275,202 | \$ (2,514,427) | \$ 357,760,775 |
| 11 | Customer Advances for Construction | \$ (11,235,876) | \$ (589,152) | \$ (12,759,773) | \$ (589,152) | \$ (13,348,925) |
| 12 | Customer Deposits | \$ (2,609,271) | \$ - | \$ (2,609,271) | \$ - | \$ (2,609,271) |
| 13 | Accumulated Deferred Income Taxes | \$ (10,606,875) | \$ (196,256) | \$ (18,474,527) | \$ (196,256) | \$ (18,670,783) |
| 14 | Total Deductions | \$ (24,452,022) | \$ (785,408) | \$ (33,843,571) | \$ (785,408) | \$ (34,628,979) |
| 15 | Allowance for Working Capital | \$ 2,364,921 | \$ (95,671) | \$ 2,364,921 | \$ (95,671) | \$ 2,269,250 |
| 16 | Regulatory Assets | \$ 492,590 | \$ - | \$ 492,590 | \$ - | \$ 492,590 |
| 17 | Regulatory Liabilities | \$ (22,372) | \$ - | \$ (22,372) | \$ - | \$ (22,372) |
| 18 | Total Rate Base | \$ 182,293,106 | \$ (2,408,667) | \$ 329,266,770 | \$ (3,395,506) | \$ 325,871,264 |

Notes and Source

Cols. A and D: UNS Gas Inc. filing, Schedule B-1

| Fair Value Calculation (Per Company) | |
|--------------------------------------|---------------------------|
| Original Cost | \$ 182,293,106 |
| RCND | \$ 329,266,770 |
| Total | \$ 511,559,876 |
| Average (Fair Value) | \$ 255,779,939 See Sch. A |
| Fair Value Calculation (Per RUCO) | |
| Original Cost | \$ 179,884,439 |
| RCND | \$ 325,871,264 |
| Total | \$ 505,755,703 |
| Average (Fair Value) | \$ 252,877,851 See Sch. A |

| Line No. | Description | RUCO Adjustments | Construction Work in Progress/Post Test Year Plant | | | Cash Working Capital | Customer Advances | Prepayments | Customer Deposits | Accumulated Deferred Income Taxes |
|----------|----------------------------------------------|------------------|----------------------------------------------------|--------------|-------------|----------------------|-------------------|-------------|-------------------|-----------------------------------|
| | | | B-1 | B-2 | B-3 | | | | | |
| 1 | Gross Utility Plant in Service | \$ (1,527,588) | \$ (1,527,588) | | | | | | | |
| 2 | Less: Accumulated Depreciation | \$ - | | | | | | | | |
| 3 | Net Utility Plant in Service | \$ (1,527,588) | \$ (1,527,588) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 4 | Southern Union Acquisition Premium | \$ - | | | | | | | | |
| 5 | Less: Accum. Amort. - So. Union Acq. Premium | \$ - | | | | | | | | |
| 6 | Net Southern Union Acquisition Premium | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 7 | Citizens Acquisition Discount | \$ - | | | | | | | | |
| 8 | Less: Accum. Amort. - Citizens Acq. Discount | \$ - | | | | | | | | |
| 9 | Net Citizens Acquisition Discount | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 10 | Total Net Utility Plant | \$ (1,527,588) | \$ (1,527,588) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 11 | Customer Advances for Construction | \$ (589,152) | | | | | \$ (589,152) | | | |
| 12 | Customer Deposits | \$ - | | | | | | | | |
| 13 | Accumulated Deferred Income Taxes | \$ (196,256) | | | | | | | | \$ (196,256) |
| 14 | Total Deductions | \$ (785,408) | | | | | \$ (589,152) | \$ - | \$ - | \$ (196,256) |
| 15 | Allowance for Working Capital | \$ (95,671) | | | | | \$ (95,671) | | | |
| 16 | Regulatory Assets | \$ - | | | | | | | | |
| 17 | Regulatory Liabilities | \$ - | | | | | | | | |
| 18 | Total Rate Base | \$ (2,408,667) | \$ (1,527,588) | \$ (589,152) | \$ (95,671) | \$ - | \$ - | \$ - | \$ - | \$ (196,256) |

UNS Gas, Inc.
Adjusted Net Operating Income
Test Year Ended June 30, 2008

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Schedule C Revised
Page 1 of 1

| Line No. | Description | As Adjusted by UNS (A) | RUCO Adjustments (B) | As Adjusted by RUCO (C) |
|---------------------------|-------------------------------|------------------------|----------------------|-------------------------|
| Operating Revenues | | | | |
| 1 | Gas Retail Revenues | \$ 51,157,763 | \$ 516,003 | \$ 51,673,766 |
| 2 | Other Operating Revenues | \$ 1,744,743 | \$ - | \$ 1,744,743 |
| 3 | Total Operating Revenues | \$ 52,902,506 | \$ 516,003 | \$ 53,418,509 |
| Operating Expenses | | | | |
| 4 | Purchased Gas | \$ 397,635 | \$ - | \$ 397,635 |
| 5 | Other O&M Expenses | \$ 24,719,113 | \$ (1,187,696) | \$ 23,531,417 |
| 6 | Depreciation & Amortization | \$ 8,240,005 | \$ (58,107) | \$ 8,181,898 |
| 7 | Taxes Other Than Income Taxes | \$ 4,342,078 | \$ (293,405) | \$ 4,048,673 |
| 8 | Income Taxes | \$ 3,603,671 | \$ 823,485 | \$ 4,427,156 |
| 9 | Total Operating Expenses | \$ 41,302,502 | \$ (715,723) | \$ 40,586,779 |
| 10 | Net Operating Income | \$ 11,600,004 | \$ 1,231,726 | \$ 12,831,730 |

Notes and Source

Col. A: UNS Gas Inc. filing, Schedule C-1

Col. B: Staff Schedule C.1

UNS Gas, Inc.
 Summary of Net Operating Income Adjustments

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 Schedule C.1 Revised
 Page 1 of 2

Test Year Ended June 30, 2008

| Line No. | Description | RUCO Adjustments | Gas Retail Revenue | Depreciation & Property Taxes for CWIP | Incentive Compensation | Stock-Based Compensation Expense | Supplemental Executive Retirement Plan Expense | American Gas Association Dues |
|---------------------------|-------------------------------|------------------|--------------------|----------------------------------------|------------------------|----------------------------------|------------------------------------------------|-------------------------------|
| | | | | | | | | |
| Operating Revenues | | | | | | | | |
| 1 | Gas Retail Revenues | \$ 516,003 | \$ 516,003 | | | | | |
| 2 | Other Operating Revenues | \$ - | | | | | | |
| 3 | Total Operating Revenues | \$ 516,003 | \$ 516,003 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Operating Expenses | | | | | | | | |
| 4 | Purchased Gas | \$ - | | | | | | |
| 5 | Other O&M Expenses | \$ (1,187,696) | | \$ (11,351) | \$ (140,484) | \$ (266,399) | \$ (101,021) | \$ (16,762) |
| 6 | Depreciation & Amortization | \$ (58,107) | | \$ (58,107) | | | | |
| 7 | Taxes Other Than Income Taxes | \$ (293,405) | | \$ (25,584) | \$ (12,027) | | | |
| 9 | PRE-TAX OPERATING EXPENSES | \$ (1,539,208) | \$ - | \$ (95,042) | \$ (152,511) | \$ (266,399) | \$ (101,021) | \$ (16,762) |
| 10 | PRE-TAX OPERATING INCOME | \$ 2,055,211 | \$ 516,003 | \$ 95,042 | \$ 152,511 | \$ 266,399 | \$ 101,021 | \$ 16,762 |
| 11 | Income Taxes | \$ 823,485 | \$ 199,167 | \$ 36,684 | \$ 58,866 | \$ 102,825 | \$ 38,992 | \$ 6,470 |
| 11 | TOTAL OPERATING EXPENSES | \$ (715,723) | \$ 199,167 | \$ (58,358) | \$ (93,645) | \$ (163,574) | \$ (62,029) | \$ (10,292) |
| 12 | OPERATING INCOME | \$ 1,231,726 | \$ 316,836 | \$ 58,358 | \$ 93,645 | \$ 163,574 | \$ 62,029 | \$ 10,292 |

Notes and Source
 Combined Effective Tax Rate 38.5980%

| Line No. | Capital Source | Capitalization Amount (A) | Capitalization Percent (B) | Cost Rate (C) | Weighted Avg. Cost of Capital (D) |
|------------------------------------------------------------------------|-------------------------|---------------------------|----------------------------|---------------|-----------------------------------|
| I. UNS Gas - Proposed | | | | | |
| 1 | Short-Term Debt | n/a | n/a | 3.95% | n/a |
| 2 | Long-Term Debt | \$ 99,265 | 50.01% | 6.49% | 3.25% |
| 3 | Common Stock Equity | \$ 99,242 | 49.99% | 11.00% | 5.50% |
| 4 | Total Capital | \$ 198,507 | 100.00% | | 8.75% |
| 5 | Fair Value Adjustment | | | | 0.79% |
| 6 | UNS Gas Proposed Return | | | | 9.54% |
| II. UNS Gas Proposed to Show Equivalent Requested ROE | | | | | |
| 7 | Short-Term Debt | \$ - | 0.00% | 3.95% | n/a |
| 8 | Long-Term Debt | \$ 99,265 | 50.01% | 6.49% | 3.25% |
| 9 | Common Stock Equity | \$ 99,242 | 49.99% | 12.58% | 6.29% |
| 10 | Total Capital | \$ 198,507 | 100.00% | | 9.54% |
| III. RUCO - Proposed Rate of Return for Original Cost Rate Base | | | | | |
| 11 | Short-Term Debt | n/a | n/a | 3.95% | n/a |
| 12 | Long-Term Debt | \$ 99,265 | 50.01% | 6.49% | 3.25% |
| 13 | Common Stock Equity | \$ 99,242 | 49.99% | 8.61% | 4.30% |
| 14 | Total Capital | \$ 198,507 | 100.00% | | 7.55% |
| 15 | Difference | | | | -1.99% |
| 16 | Weighted Cost of Debt | | | | 3.25% |

Notes and Source

Lines 1-4 taken from UNS Gas Inc. filing, Schedule D-1

Lines 5&6: UNS Gas filing, Schedule A

Lines 11-14: RUCO witness William Rigsby

Test Year Ended June 30, 2008

| Line No. | Capital Source | Capitalization | | Cost Rate | Weighted Avg. Cost of Capital |
|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------|-------------|-----------|-------------------------------|
| | | Amount (A) | Percent (B) | | |
| Calculation 1 - Reduce Recommended OCRB-Based Return on Equity for Estimated Inflation | | | | | |
| 1 | Short-Term Debt | n/a | n/a | 3.95% | n/a |
| 2 | Long-Term Debt | \$ 99,265 | 50.01% | 6.49% | 3.25% |
| 3 | Common Stock Equity | \$ 99,242 | 49.99% | 6.11% [a] | 3.05% |
| 4 | Total Capital | \$ 198,507 | 100.00% | | 6.30% |
| Calculation 2 - Reduce Recommended OCRB-Based Overall Rate of Return for Estimated Inflation | | | | | |
| 5 | Short-Term Debt | \$ - | 0.00% | 3.95% | n/a |
| 6 | Long-Term Debt | \$ 99,265 | 50.01% | 6.49% | 3.25% |
| 7 | Common Stock Equity | \$ 99,242 | 49.99% | 8.61% | 4.30% |
| 8 | Total Capital | \$ 198,507 | 100.00% | | 7.55% |
| 9 | Fair Value Adjustment | | | | -2.50% [b] |
| 10 | UNS Gas Proposed Return | | | | 5.05% |
| Calculation 3 - With Fair Value Rate Base Increment at Zero Cost | | | | | |
| 11 | Short-Term Debt | \$ - | 0.00% | 3.95% | 0.00% |
| 12 | Long-Term Debt | \$ 89,952,641 | 35.57% | 6.49% | 2.31% |
| 13 | Common Stock Equity | \$ 89,931,798 | 35.56% | 8.61% | 3.06% |
| 14 | Capital financing OCRB | \$ 179,884,439 | | | |
| 15 | Appreciation above OCRB not recognized on utility's books | \$ 72,993,413 | 28.87% | 0% [c] | 0.00% |
| 16 | Total capital supporting FVRB | \$ 252,877,852 | 100.00% | | 5.37% |
| Calculation 4 - With Fair Value Rate Base Increment at 1.25 Percent | | | | | |
| 17 | Short-Term Debt | \$ - | 0.00% | 3.95% | 0.00% |
| 18 | Long-Term Debt | \$ 89,952,641 | 35.57% | 6.49% | 2.31% |
| 19 | Common Stock Equity | \$ 89,931,798 | 35.56% | 8.61% | 3.06% |
| 20 | Capital financing OCRB | \$ 179,884,439 | | | |
| 21 | Appreciation above OCRB not recognized on utility's books | \$ 72,993,413 | 28.87% | 1.25% [d] | 0.36% |
| 22 | Total capital supporting FVRB | \$ 252,877,852 | 100.00% | | 5.73% |

Notes and Source

- [a] Per RUCO witness William Rigsby, inflation to remove from OCRB-based ROE: -2.50%
- [b] Per RUCO witness Rigsby, inflation to remove from OCRB-based Overall Rate of Return: -2.50%
- [c] The appreciation of Fair Value over Original Cost has not been recognized on the utility's books. Such off-book appreciation has not been financed by debt or equity capital recorded on the utility's books. The appreciation over Original Cost book value is therefore recognized for cost of capital purposes at zero cost.
- [d] Approximates the mid-point of a range from zero to 2.5 percent, with 2.5 percent representing an approximate real risk-free rate of return

Lines 11-22, Col.A:

| | | |
|-------------------------|----------------|------------|
| Fair Value Rate Base | \$ 252,877,851 | Schedule A |
| Original Cost Rate Base | \$ 179,884,439 | Schedule A |
| Difference | \$ 72,993,413 | |

Difference is appreciation of Fair Value over Original Cost that is not recognized on the utility's books.

UNS Gas, Inc.

Construction Work in Progress/Post Test Year Plant

Test Year Ended June 30, 2008

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Schedule B-1

Page 1 of 1

| <u>Line</u> | <u>No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|-------------|------------|--------------------------------------|-----------------------|------------------|
| 1 | | Remove Construction Work in Progress | <u>\$ (1,527,588)</u> | A&B |

Notes and Source

A: UNS Gas Filing, Schedule B-2, page 2, line 1

B: Testimony of RUCO witness Ralph Smith

UNS Gas, Inc.
Customer Advances

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Schedule B-2
Page 1 of 1

Test Year Ended June 30, 2008

| <u>Line</u> | <u>No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|-------------|------------|---------------------------|---------------------|------------------|
| 1 | | Use Test Year End Balance | \$ <u>(589,152)</u> | A&B |

Notes and Source

A: UNS Gas Filing, Schedule B-2, page 3, Line 11

B: Testimony of RUCO witness Ralph Smith

UNS Gas, Inc.
Prepayments

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Schedule B-3
Page 1 of 1

Test Year Ended June 30, 2008

| <u>Line</u> <u>No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|---------------------------|---------------------------|--------------------|------------------|
| 1 | Use Test Year End Balance | \$ <u>(95,671)</u> | A&B |

Notes and Source

A: UNS Gas Filing, Schedule B-5, page 2, line 3

B: Testimony of RUCCO witness Ralph Smith

Test Year Ended June 30, 2008

| Line No. | Description | Per UNS Gas (A) | Per RUCO (B) | Adjustment (C) |
|--------------------|------------------------------|--------------------|-----------------|-------------------|
| Account 190 | | | | |
| 1 | CIAC | \$ 2,436,909 | \$ 2,436,909 | \$ - |
| 2 | Customer Advances | \$ 4,402,955 | \$ 4,402,955 | \$ - |
| 3 | Customer Advances - CWIP | \$ (227,413) | | \$ 227,413 |
| 4 | Dividend Equivalents | \$ 17,952 | | \$ (17,952) |
| 5 | Restricted Stock | \$ 24,316 | | \$ (24,316) |
| 6 | Restricted Stock - Directors | \$ 55,281 | | \$ (55,281) |
| 7 | Stock Options | \$ 155,708 | | \$ (155,708) |
| 8 | Vacation | \$ 169,367 | | \$ (169,367) |
| 9 | Total Account 190 | \$ 7,035,076 | \$ 6,839,864 | \$ (195,211) |
| Account 282 | | | | |
| 10 | Net Plant ADIT | \$ (17,452,856) | \$ (17,452,856) | \$ - |
| Account 283 | | | | |
| 11 | CARES Reg Asset | \$ (190,140) | \$ (190,140) | \$ - |
| 12 | Pension | \$ 1,045 | | \$ (1,045) |
| 13 | Total Account 283 | \$ (189,095) | \$ (190,140) | \$ (1,045) |
| 14 | Net ADIT | \$ (10,606,875) | \$ (10,803,131) | \$ (196,256) |

Notes and Source

A: UNS Gas workpaper UNSG0571/02839

B: Testimony of RUCO witness Ralph Smith

| Line No. | Description | Amount | Reference |
|----------|--------------------------------------------------------------|-------------------|-----------|
| 1 | UNS Gas Adjustment to Annualize Gas Retail Revenue | \$ (516,003) | A |
| 2 | RUCO Recommended Adjustment to Annualized Gas Retail Revenue | \$ - | B |
| 3 | Adjustment to Annualize Gas Retail Revenue | <u>\$ 516,003</u> | L2 - L1 |

Notes and Source

A: UNS Gas Filing, Schedule C-2, page 1, line 1
 B: See testimony

FERC 480/481/482

UNS Gas, Inc.
 Remove Depreciation & Property Taxes for CWIP

Docket No. G-04204A-08-0571
 Schedule C-2
 Page 1 of 2

Test Year Ended June 30, 2008

| Line No. | Description | Account | Amount | Reference |
|----------|--------------------------------------------------|---------|--------------------|------------|
| 1 | CWIP Related Depreciation Expense | 403 | \$ (58,107) | See page 2 |
| 2 | Transportation Equip Depreciation Charged to O&M | various | \$ (11,351) | See page 2 |
| 3 | CWIP Related Property Taxes | 408 | \$ (25,584) | A |
| 4 | Total Adjustments | | <u>\$ (95,042)</u> | |

Notes and Source

| | | |
|------------------------------------------|---------------------------------------------------|-----------------------------|
| A: Testimony of RUCO witness Ralph Smith | | |
| 5 | CWIP included in Plant in Service Full Cash Value | \$ (1,527,588) Schedule B-1 |
| 6 | Assessment Ratio | 22.0% Schedule C-11 |
| 7 | Taxable Value | \$ (336,069) |
| 8 | Average Tax Rate | 7.6127% Schedule C-11 |
| 9 | Property Tax | <u>\$ (25,584)</u> |

Test Year Ended June 30, 2008

| Line No. | Description | FERC Acct | Adjustment (A) | Depreciation Rate (B) | Depreciation Expense (C) |
|---------------------------------------------------------------------------------------|------------------------------------------------------|-----------|----------------|-----------------------|--------------------------|
| I. Adjustment to Depreciation Expense | | | | | |
| 1 | Mains - Replacements & Public Improvements | 376 | \$ (817,127) | 2.07% | \$ (16,915) |
| 2 | Services - Replacements | 380 | \$ (271,433) | 2.82% | \$ (7,654) |
| 3 | Structures and Improvements | 390 | \$ (39,408) | 4.89% | \$ (1,927) |
| 4 | Office Furniture | 391 | \$ (12,493) | 4.55% | \$ (568) |
| 5 | Office Furniture | 391 | \$ (5,548) | 20.00% | \$ (1,110) |
| 6 | Transportation Equipment Class 1 | 392 | \$ (10,744) | 14.71% | \$ (1,580) |
| 7 | Transportation Equipment Class 2 | 392 | \$ (34,232) | 17.87% | \$ (6,117) |
| 8 | Transportation Equipment Class 3 | 392 | \$ (17,568) | 22.68% | \$ (3,984) |
| 9 | Transportation Equipment Class 4 | 392 | \$ (15,608) | 13.04% | \$ (2,035) |
| 10 | Transportation Equipment Class 5 | 392 | \$ (14,770) | 11.83% | \$ (1,747) |
| 11 | Tools & Shop Equipment | 394 | \$ (9,431) | 4.00% | \$ (377) |
| 12 | Laboratory Equipment | 395 | \$ (186,174) | 11.11% | \$ (20,684) |
| 13 | Power Operated Equipment | 396 | \$ (69,759) | 10.49% | \$ (7,318) |
| 14 | Communication Equipment | 397 | \$ (23,293) | 6.67% | \$ (1,554) |
| 15 | TOTAL | | \$ (1,527,589) | | \$ (73,571) |
| 16 | Less Transportation Equipment | | \$ 92,922 | | \$ 15,465 |
| 17 | Plant Adjustment Other than Transportation Equipment | | \$ (1,434,667) | | |
| 18 | Depreciation Expense Adjustment | | | | \$ (58,107) |
| II. Adjustment to O&M Expense for Depreciation on Transportation Equipment | | | | | |
| 19 | Depreciation on Transportation Equipment | Line 16 | | | \$ (15,465) |
| 20 | Transportation Equipment Charged to O&M | | | | 73.40% |
| 21 | Adjustment to O&M Expense | | | | \$ (11,351) |

Source:

Company Depreciation Workbook UNSG0571/02244 and related Excel file

| Line No. | Description | Amount | Reference |
|----------|----------------------------------------------|--------------|-----------|
| 1 | Adjustment to Incentive Compensation Expense | \$ (140,484) | A |
| 2 | Adjustment to Taxes Other Than Income | \$ (12,027) | A |

Notes and Source

A: Per Company's workpapers showing calculation of Incentive Compensation adjustment (except where noted)

| FERC Acct | FERC Account Description | Company Amount | Disallowance Percentage | RUCO Adjusted Amount |
|-----------|------------------------------------------------------|-------------------|-------------------------|----------------------|
| 870 | Transportation Operation Supervision and Engineering | \$ 26,217 | 50% | \$ (13,109) |
| 874 | Distribution - Mains & Services Expense | \$ 48,980 | 50% | \$ (24,490) |
| 878 | Distribution - Meter Expense | \$ - | 50% | \$ - |
| 880 | Distribution Other Expenses | \$ 31,315 | 50% | \$ (15,658) |
| 887 | Distribution - Maintenance of Mains | \$ 35,188 | 50% | \$ (17,594) |
| 903 | Customer Records/Collections Expense | \$ - | 50% | \$ - |
| 920 | Administrative & General Salaries | \$ 139,268 | 50% | \$ (69,634) |
| | | <u>\$ 280,968</u> | | <u>\$ (140,484)</u> |
| 408 | Taxes Other Than Income Taxes | \$ 24,054 | 50% | \$ (12,027) |

Test Year Ended June 30, 2008

| Line No. | Description | Amount | Reference |
|----------|---------------------------------------|---------------------|-----------|
| 1 | Stock Based Compensation Expense | <u>\$ (266,399)</u> | A |
| 2 | Adjustment to Taxes Other Than Income | <u>N/A</u> | B |

| Notes and Source | | Company Amount | Disallowance Percentage | RUCO Adjustment Amount |
|------------------|------------------------------------|----------------|-------------------------|------------------------|
| A | Supplemental Response to RUCO 1.46 | | | |
| FERC Acct | Description | | | |

CONFIDENTIAL INFO HAS BEEN REDACTED

Total \$ 266,399 **END UNSG CONFIDENTIAL**
\$ (266,399)

UNS Gas, Inc.
Supplemental Executive Retirement Plan Expense

Docket No. G-04204A-08-0571
Schedule C-5
Page 1 of 1

Test Year Ended June 30, 2008

| <u>Line</u> <u>No.</u> | <u>Description</u> | <u>Amount</u> | <u>Reference</u> |
|---------------------------|------------------------------------------------|---------------------|------------------|
| 1 | Supplemental Executive Retirement Plan Expense | <u>\$ (101,021)</u> | A |

Notes and Source

A Response to Staff data request TF 6.64

FERC Account 926

| Line No. | Description | RUCO Adjustment (A) | Company Adjustment (B) | Net RUCO Adjustment (C) | Reference |
|----------|-------------------------------|---------------------|------------------------|-------------------------|-----------|
| 1 | Test Year AGA Dues Per Filing | \$ 46,694 | \$ 46,694 | | A |
| 2 | Recommended AGA Dues | \$ 28,016 | \$ 44,779 | | B |
| 3 | Recommended disallowance | \$ (18,678) | \$ (1,915) | \$ (16,762) | C |

Notes and Source

A: Response to TF 6.54, UNS Gas Workpaper UNSG0571/02500, RUCO 1.48
 2007 Invoice \$ 45,508 50% \$ 22,754
 2008 Invoice \$ 47,879 50% \$ 23,940
 \$ 46,694

B: 2007 AGA Dues Per Filing Per RUCO Per UNS Gas
 \$ 46,694 \$ 46,694
 Recommended disallowance \$ (18,678)
 Recommended AGA Dues \$ 28,016 \$ 44,779

C: 2007 AGA Dues Per Filing Per RUCO Per UNS Gas
 \$ 46,694 \$ 47,879
 Recommended disallowance % 40% D 4%
 Recommended disallowance \$ (18,678) \$ (1,915)
 \$ (16,762)

D: See testimony and page 2 of this schedule

| Line No. | NARUC Operating Expense Category | March 2005 NARUC Audit Report for Year Ended 12/31/02 | | AGA 2007 Budget | | AGA 2008 Budget | |
|----------|--------------------------------------|-------------------------------------------------------|------------------------------|-----------------|------------------------|------------------------|------------------------------|
| | | % of Dues (A) | Recommended Disallowance (B) | % of Dues (C) | With G&A Allocated (D) | With G&A Allocated (G) | Recommended Disallowance (H) |
| 1 | Public Affairs | 24.13% | 24.13% | 23.29% | 28.67% | 24.44% | 30.63% |
| 2 | Advertising | | | 1.39% | 1.71% | 1.18% | 1.48% |
| 3 | Communications | 15.53% | | | | | |
| 4 | Corporate Affairs and International | 10.54% | 10.54% | 8.44% | 10.39% | 9.14% | 11.46% |
| 5 | General Counsel & Corp Secretary | 5.20% | 2.60% | 4.09% | 5.04% | 4.17% | 5.23% |
| 6 | Regulatory Affairs | 15.51% | | | | | |
| 7 | Policy Planning & Regulatory Affairs | | | 14.76% | 18.17% | 15.78% | 19.78% |
| 8 | Marketing Department | 2.37% | 2.37% | | | | |
| 9 | Operating & Engineering Services | 15.85% | | 24.11% | 29.68% | 21.71% | 27.21% |
| 10 | Policy & Analysis | 12.94% | | | | | |
| 11 | Industry Finance & Admin. Programs | 4.75% | | 5.16% | 6.35% | 3.36% | 4.21% |
| 12 | General & Administrative | | | 18.77% | | 20.22% | |
| 13 | Total Expenses | 106.82% | 39.64% | 100.01% | 100.01% | 100.00% | 100.00% |
| 14 | Lobbying per IRC Section 162 | | | 2% | | 4% | 46.19% |

Notes and Source

Col.A: March 2005 Annual Audit Report on the Expenditures of the American Gas Association for the 12 month period ended December 31, 2002
 Col.C: From Docket No. G-01551A-07-0504, Southwest Gas' Response to Staff data request STF-6-52; also see UNSG0571/07347
 Col.F: From Docket No. G-01551A-07-0504, Southwest Gas' Response to Staff data request STF-6-50(b); also see UNSG0571/07348

UNS Gas, Inc.
Outside Services Legal Expense

Docket No. G-04204A-06-0463
Schedule C-7
Page 1 of 1

Test Year Ended June 30, 2008

| Line No. | Description | Amount | Reference |
|-------------------------|--------------------------------------------------------------------------|-------------------------------|-----------|
| 1 | UNS Gas Request for Non-Rate Case Legal Expense | \$ 389,539 | A |
| 2 | RUCO recommendation | \$ 171,865 | B |
| 3 | Adjustment to Outside Services Legal Expense | <u>\$ (217,674)</u> | |
| Notes and Source | | | |
| A | UNS Gas Workpapers including UNSG0571/02563 - 02574 | | |
| B | Amount of past El Paso Gas legal expense included in UNS Gas' request: | | |
| 4 | | 2005 \$ 361,233 | |
| 5 | | 2006 \$ 395,247 | |
| 6 | | 2007 \$ 196,203 | |
| 7 | | Total \$ 952,683 | |
| 8 | | Three-Year Average \$ 317,561 | |
| 9 | Test Year Amount | \$ 99,887 | |
| 10 | Company request for past El Paso Gas legal expense over test year actual | <u>\$ 217,674</u> | |
| 11 | Company Normalized Amount without past El Paso Gas Legal Cost | \$ 71,978 | |
| 12 | Increase over Test Year Actual for Past El Paso Gas Legal Expense | \$ 217,674 | |
| 13 | Test Year Actual without Legal Expense for 2006 Rate Case | \$ 83,555 | |
| 14 | Amount over Test Year to Normalize other legal costs (not El Paso Gas) | \$ 88,310 | |
| 15 | Recommended normalized level | <u>\$ 171,865</u> | |

UNSG GAS, INC.
FLEET FUEL EXPENSE
 Updated Adjustment

Docket No. G-04204A-08-0571
 Attachment RCS-7
 Schedule C-8 Revised
 Page 1 of 3

| Line No. | Description | 2006 (A) | 2007 (B) | 2008 (C) | YTD June 2009 (D) | Normalized Based Upon Average (E) | Test Yr. (F) | Pro Forma Fuel Adjustment (G) |
|----------------------------------------|-----------------------------|-------------|-------------|-------------|----------------------|--------------------------------------|-----------------|----------------------------------|
| <u>I. Per UNSG Rebuttal</u> | | | | | | | | |
| 1 | Gallons | 221,734 | 228,106 | 221,120 | | 223,653 | 228,369 | |
| 2 | Miles Driven | 3,607,551 | 3,607,551 | 2,314,954 | | 3,176,685 | 2,960,186 | |
| 3 | Fuel Cost | \$608,781 | \$664,365 | \$779,691 | | \$684,279 | \$753,931 | |
| 4 | Cost per Gallon | \$2.73 | \$2.92 | \$3.50 | | \$3.06 | \$3.30 | |
| 5 | Percentage Allocated to O&M | 73.4% | 73.4% | 73.4% | | 73.4% | 73.4% | |
| 6 | Expense Level | \$ 446,845 | \$ 487,644 | \$ 572,293 | | \$ 502,261 | \$ 553,519 | \$ (51,258) |
| <u>II. Per RUCO Surrebuttal</u> | | | | | | | | |
| 7 | Gallons | 221,734 | 228,106 | 221,120 | 107,241 | 222,343 | 228,369 | |
| 8 | Miles Driven | 3,607,551 | 3,607,551 | 2,314,954 | 1,132,843 | 3,046,543 | 2,960,186 | |
| 9 | Fuel Cost | \$ 608,781 | \$ 664,365 | \$ 779,691 | \$ 243,414 | \$ 656,071 | \$ 753,931 | |
| 10 | Cost per Gallon | \$ 2.75 | \$ 2.91 | \$ 3.53 | \$ 2.27 | \$ 2.95 | \$ 3.30 | |
| 11 | Percentage Allocated to O&M | 73.4% | 73.4% | 73.4% | 73.4% | 73.4% | 73.4% | |
| 12 | Expense Level | \$ 446,845 | \$ 487,644 | \$ 572,293 | \$ 178,666 | \$ 481,556 | \$ 553,519 | \$ (71,963) |
| 13 | Difference | | | | | \$ (20,705) | | \$ (20,705) |

Notes and Source

Per UNSG: Response to RUCO 10.1 - Income - Fleet Fuel Expense (Excel file)

Line 4: Per UNSG workpaper provided in response to RUCO 10.1; difference between this and results of Line 3 / Line 1 attributable to UNSG showing a simple average, rather than a weighted average

Line 10: Line 9 / Line 7

Col.D: UNSG response to RUCO 11-36 - see summary at page 2 of this Schedule

Col.E: Sum of Columns A-D / 3.5 years

UNS GAS, INC.
CALENDAR YEAR 2006
RUCO 1.94 DATA - CORRECTED

Docket No. G-04204A-08-0571
Attachment RCS-7
Schedule C-8 Revised
Page 2 of 3

Fleet Fuel Expense by Month, January 2006 through June 2009

Included in "RUCO 10.1 - Income - Fleet Fuel Expense.xls" as backup for Dukes rebuttal testimony

| Month | Amount | \$/Gal | Gallons | Miles |
|---------------|---------------------|---------------|----------------|----------|
| Jan-06 | \$52,838.48 | \$2.51 | 21,019 | |
| Feb-06 | \$42,722.90 | \$2.51 | 17,029 | |
| Mar-06 | \$49,847.40 | \$2.59 | 19,210 | |
| Apr-06 | \$54,739.50 | \$2.94 | 18,609 | |
| May-06 | \$61,607.25 | \$3.13 | 19,672 | |
| Jun-06 | \$57,594.59 | \$3.02 | 19,066 | |
| Jul-06 | \$58,480.84 | \$3.01 | 19,439 | |
| Aug-06 | \$58,787.62 | \$2.98 | 19,698 | |
| Sep-06 | \$52,430.22 | \$2.67 | 19,618 | |
| Oct-06 | \$44,502.16 | \$2.46 | 18,113 | |
| Nov-06 | \$42,569.04 | \$2.47 | 17,257 | |
| Dec-06 | \$32,660.68 | \$2.51 | 13,004 | |
| Totals | \$608,780.68 | \$2.73 | 221,734 | 0 |

Supplemental Response to RUCO 1.94

The "Miles" column in the Excel file RUCO 1.94 2006 was left blank when submitted to RUCO, without explanation. The reason this column is blank is that in 2006 the UNS Gas vehicles had not been fully loaded into the Tucson Electric Power Fleet Management system. UNS Gas is unable to give an accurate mileage account for 2006. The miles traveled in 2007 should be close to what was traveled in 2006.

| | | | | |
|---------------|---------------------|---------------|----------------|------------------|
| Jan-07 | \$47,254.96 | \$2.43 | 19,413 | 287,170 |
| Feb-07 | \$43,322.76 | \$2.48 | 17,468 | 286,775 |
| Mar-07 | \$56,357.48 | \$2.74 | 20,549 | 315,877 |
| Apr-07 | \$55,147.78 | \$2.99 | 18,445 | 332,610 |
| May-07 | \$60,392.52 | \$3.09 | 19,551 | 273,648 |
| Jun-07 | \$58,311.73 | \$3.07 | 18,999 | 357,882 |
| Jul-07 | \$62,799.71 | \$3.00 | 20,954 | 310,803 |
| Aug-07 | \$58,317.27 | \$2.85 | 20,436 | 352,954 |
| Sep-07 | \$52,494.63 | \$2.85 | 18,441 | 281,905 |
| Oct-07 | \$58,071.08 | \$3.00 | 19,349 | 299,792 |
| Nov-07 | \$58,494.37 | \$3.26 | 17,947 | 328,348 |
| Dec-07 | \$53,400.33 | \$3.23 | 16,554 | 179,787 |
| Totals | \$664,364.62 | \$2.92 | 228,106 | 3,607,551 |

| | | | | |
|---------------|---------------------|---------------|----------------|------------------|
| Jan-08 | \$74,435.43 | \$3.17 | 23,502 | 216,237 |
| Feb-08 | \$62,546.23 | \$3.26 | 19,215 | 220,381 |
| Mar-08 | \$67,434.32 | \$3.58 | 18,843 | 207,156 |
| Apr-08 | \$73,497.80 | \$3.73 | 19,685 | 178,971 |
| May-08 | \$79,282.01 | \$4.05 | 19,568 | 200,136 |
| Jun-08 | \$66,565.85 | \$4.35 | 15,302 | 183,716 |
| Jul-08 | \$83,015.15 | \$4.32 | 19,234 | 171,416 |
| Aug-08 | \$73,090.59 | \$3.97 | 18,392 | 210,901 |
| Sep-08 | \$70,153.68 | \$3.78 | 18,552 | 166,329 |
| Oct-08 | \$61,567.95 | \$3.24 | 18,993 | 217,413 |
| Nov-08 | \$39,643.15 | \$2.50 | 15,859 | 147,355 |
| Dec-08 | \$28,458.38 | \$2.04 | 13,975 | 194,943 |
| Totals | \$779,690.54 | \$3.50 | 221,120 | 2,314,954 |

| | | | | |
|---------------|---------------------|---------------|----------------|------------------|
| Jan-09 | \$43,261.78 | \$2.12 | 20,439 | 191,693 |
| Feb-09 | \$36,315.38 | \$2.20 | 16,500 | 163,407 |
| Mar-09 | \$37,587.88 | \$2.12 | 17,693 | 204,036 |
| Apr-09 | \$41,342.35 | \$2.32 | 17,794 | 190,434 |
| May-09 | \$42,135.68 | \$2.28 | 18,506 | 182,493 |
| Jun-09 | \$42,770.81 | \$2.62 | 16,309 | 200,780 |
| Totals | \$243,413.88 | \$2.28 | 107,241 | 1,132,843 |

Source: UNSG Response to RUCO 11-36

UNS GAS, INC.
FLEET FUEL EXPENSE
 Updated Adjustment
 Allocation to FERC Expense Accounts

Docket No. G-04204A-08-0571
 Attachment RCS-7
 Schedule C-8 Revised
 Page 3 of 3

| Line No. | FERC Account | Percent | Allocation UNSG Reb. Adjustment | Allocation RUCO Surreb. Adjustment | Difference |
|----------|-------------------------------------|---------|---------------------------------|------------------------------------|--------------------|
| | | (A) | (B) | (C) | (D) |
| 1 | 0807 | 0.08% | \$ (41) | \$ (58) | \$ (17) |
| 2 | 0856 | 0.15% | \$ (75) | \$ (105) | \$ (30) |
| 3 | 0870 | 3.28% | \$ (1,682) | \$ (2,362) | \$ (680) |
| 4 | 0874 | 15.18% | \$ (7,779) | \$ (10,922) | \$ (3,142) |
| 5 | 0875 | 2.14% | \$ (1,098) | \$ (1,542) | \$ (444) |
| 6 | 0876 | 1.97% | \$ (1,012) | \$ (1,421) | \$ (409) |
| 7 | 0877 | 0.31% | \$ (160) | \$ (224) | \$ (64) |
| 8 | 0878 | 14.28% | \$ (7,321) | \$ (10,278) | \$ (2,957) |
| 9 | 0879 | 5.55% | \$ (2,844) | \$ (3,993) | \$ (1,149) |
| 10 | 0880 | 7.11% | \$ (3,646) | \$ (5,118) | \$ (1,473) |
| 11 | 0885 | 2.69% | \$ (1,377) | \$ (1,934) | \$ (556) |
| 12 | 0887 | 5.83% | \$ (2,989) | \$ (4,196) | \$ (1,207) |
| 13 | 0889 | 0.17% | \$ (85) | \$ (119) | \$ (34) |
| 14 | 0891 | 0.03% | \$ (15) | \$ (21) | \$ (6) |
| 15 | 0892 | 4.77% | \$ (2,443) | \$ (3,430) | \$ (987) |
| 16 | 0893 | 1.51% | \$ (773) | \$ (1,085) | \$ (312) |
| 17 | 0894 | 0.09% | \$ (48) | \$ (67) | \$ (19) |
| 18 | 0901 | 0.55% | \$ (283) | \$ (397) | \$ (114) |
| 19 | 0902 | 8.97% | \$ (4,598) | \$ (6,455) | \$ (1,857) |
| 20 | 0903 | 11.20% | \$ (5,740) | \$ (8,058) | \$ (2,318) |
| 21 | 0905 | 0.03% | \$ (13) | \$ (19) | \$ (5) |
| 22 | 0908 | 1.01% | \$ (520) | \$ (729) | \$ (210) |
| 23 | 0921 | -0.28% | \$ 146 | \$ 205 | \$ 59 |
| 24 | 0921 | 13.20% | \$ (6,767) | \$ (9,500) | \$ (2,733) |
| 25 | 0930 | 0.01% | \$ (3) | \$ (4) | \$ (1) |
| 26 | 0932 | 0.19% | \$ (96) | \$ (134) | \$ (39) |
| 27 | Totals | 100.00% | \$ (51,260) | \$ (71,965) | \$ (20,705) |
| 28 | Total Adjustment from page 1 | | \$ (51,258) | \$ (71,963) | \$ (20,705) |

Notes and Source

Per UNSG: Response to RUCO 10.1 - Income - Fleet Fuel Expense (Excel file)

Line 27: difference between amount on line 21 and amount from page 1 due to rounding

Test Year Ended June 30, 2008

| Line No. | Description | Amount | Reference |
|-----------------------------------------------------------------------|---------------------------------------------------------|---------------------|-----------|
| I. Normalized Allowance for Rate Case Cost | | | |
| 1 | UNS Gas Rate Case Expense per Company Filing | \$ 200,000 | A |
| 2 | RUCO Recommended Rate Case Expense | \$ 100,000 | B |
| 3 | Adjustment for Normalized Rate Case Expense Allowance | <u>\$ (100,000)</u> | L.2 - L.1 |
| II. Remove Prior Rate Case Cost from Test Year | | | |
| 4 | Remove Prior Rate Case Cost from Test Year | <u>\$ (58,333)</u> | C |
| III. Total Adjustment to UNS Gas' Proposed Rate Case Expense | | | |
| 5 | Total Adjustment to UNS Gas' Proposed Rate Case Expense | <u>\$ (158,333)</u> | L.3 + L.4 |
| Notes and Source | | | |
| A: UNS Gas filing, Schedule C-2, page 3, line 5 | | | |
| B: RUCO Recommended Annual Allowance for Normalized Rate Case Expense | | | |
| 6 | Recommended Total Allowance for Current Rate Case | \$ 300,000 | |
| 7 | Normalized Over Three Years | 3 | |
| 8 | Normalized Annual Allowance for Rate Case Expense | <u>\$ 100,000</u> | |

C: Response to Staff data request TF 6.68

UNS Gas, Inc.
Interest Synchronization

Docket No. G-04204A-06-0463
Schedule C-10
Page 1 of 1

Test Year Ended June 30, 2008

| Line No. | Description | Amount | Reference |
|----------|-----------------------------------------------------|----------------|-----------------|
| 1 | Adjusted rate base | \$ 179,884,439 | Schedule B |
| 2 | Weighted cost of debt | 3.25% | Schedule D |
| 3 | Synchronized interest deduction | \$ 5,846,244 | Line 1 x Line 2 |
| 4 | Synchronized interest deduction per UNS Gas | \$ 5,924,526 | Note A |
| 5 | Difference (decreased) increased interest deduction | \$ (78,282) | Line 3 - Line 4 |
| 6 | Combined federal and state income tax rates | 38.598% | B |
| 7 | Increase (decrease) to income tax expense | \$ 30,215 | |

Notes and Source

- A UNS Gas filing, Schedule B-5, page 3 of 3, line 18
- B Schedule A-1

Test Year Ended June 30, 2008

| Line No. | Description | Amount | Reference |
|----------|---------------------------------------------------|---------------------|-----------|
| 1 | UNS Gas Proposed Increase to Property Tax Expense | \$ 1,354,074 | A |
| 2 | RUCO Proposed Increase to Property Tax Expense | \$ 1,123,161 | B |
| 3 | Adjustment to Property Tax Expense | <u>\$ (230,913)</u> | L2 - L1 |

Notes and Source

A: UNS Gas Filing, Schedule C-2, page 4, line 7

B: Amounts taken from Company workpapers used to calculate its property tax expense adjustment

| | Transmission | Distribution | General/ Intangible | Total |
|--------------------------------------------------------|----------------------|-----------------------|------------------------|-----------------------|
| Utility Plant in Service Taxes | | | | |
| 4 Total Net Plant in Service - Rate Base | \$ 12,465,045 | \$ 177,788,678 | \$ 13,656,266 | \$ 203,909,989 |
| 5 Less: Licensed Transportation in Rate Base | | | \$ (3,786,247) | \$ (3,786,247) |
| 6 Less: Land Cost & Rights of Way in Rate Base | \$ (55,514) | \$ (171,343) | \$ (332,698) | \$ (559,555) |
| 7 Less: Environmental Property in Rate Base | \$ (539,039) | \$ (3,264,648) | \$ (238,708) | \$ (4,042,395) |
| 8 Plus: Land FCV Per Arizona Dept. of Revenue | | \$ 966,162 | \$ 93,000 | \$ 1,059,162 |
| 9 Plus: Materials & Supplies in Rate Base | | \$ 2,010,060 | | \$ 2,010,060 |
| 10 Plant in Service Full Cash Value | <u>\$ 11,870,492</u> | <u>\$ 177,328,909</u> | <u>\$ 9,391,613</u> | <u>\$ 198,591,014</u> |
| 11 Assessment Ratio* | 22.0% | 22.0% | 22.0% | |
| 12 Taxable Value | \$ 2,611,508 | \$ 39,012,360 | \$ 2,066,155 | \$ 43,690,023 |
| 13 Average Tax Rate | 7.6127% | 7.6127% | 7.6127% | |
| 14 Property Tax | <u>\$ 198,806</u> | <u>\$ 2,969,894</u> | <u>\$ 157,290</u> | <u>\$ -</u> |
| 15 Environmental Property in Rate Base | \$ 539,039 | \$ 3,264,648 | \$ 238,708 | |
| 16 Statutory Full Cash Value Adjustment | 50% | 50% | 50% | |
| 17 Environmental Full Cash Value | \$ 269,520 | \$ 1,632,324 | \$ 119,354 | \$ - |
| 18 Assessment Ratio* | 22.0% | 22.0% | 22.0% | 22.0% |
| 19 Taxable Value | \$ 59,294 | \$ 359,111 | \$ 26,258 | \$ - |
| 20 Average Tax Rate | 7.6127% | 7.6127% | 7.6127% | |
| 21 Property Tax | <u>\$ 4,514</u> | <u>\$ 27,338</u> | <u>\$ 1,999</u> | <u>\$ -</u> |
| 22 Total Property Taxes | \$ 203,320 | \$ 2,997,232 | \$ 159,289 | \$ 3,359,841 |
| 23 Property Taxes on Leased Property | \$ - | \$ - | \$ 19,325 ^a | \$ 19,325 |
| 24 Total Property Tax Expense | <u>\$ 203,320</u> | <u>\$ 2,997,232</u> | <u>\$ 178,614</u> | <u>\$ 3,379,166</u> |
| 25 Less: Recorded Property Taxes Excluding Call Center | <u>\$ (167,683)</u> | <u>\$ (1,981,552)</u> | <u>\$ (106,770)</u> | <u>\$ (2,256,005)</u> |
| 26 Property Tax Expense Adjustment | <u>\$ 35,637</u> | <u>\$ 1,015,680</u> | <u>\$ 71,844</u> | <u>\$ 1,123,161</u> |

a: Property Tax for Leases calculated as follows (amounts taken from Company workpaper)

| | Primary Value | Secondary Value | Total |
|------------------------------------|------------------|-----------------|------------------|
| Cottonwood Lease | | | |
| 27 Full Cash Value | \$ 962,504 | \$ 1,145,159 | |
| 28 Assessment Ratio* | 22.0% | 22.0% | |
| 29 Taxable Value | \$ 211,751 | \$ 251,935 | |
| 30 Tax Rate | 5.6883% | 1.3479% | |
| 31 Property Tax | <u>\$ 12,045</u> | <u>\$ 3,396</u> | \$ 15,441 |
| Nogales Lease | | | |
| 32 Full Cash Value | \$ 432,493 | | |
| 33 Assessment Ratio* | 22.0% | | |
| 34 Taxable Value | \$ 95,148 | | |
| 35 Tax Rate | 10.2038% | | |
| 36 Property Tax | \$ 9,709 | | |
| 37 Percentage Allocated to UNS Gas | 40% | | |
| 38 Property Taxes Allocated | <u>\$ 3,884</u> | | \$ 3,884 |
| 39 Total Lease Taxes | | | <u>\$ 19,325</u> |

* 2009 Arizona Statutory Assessment Ratio 22.0%

Test Year Ended June 30, 2008

| Line No. | Description | Amount (A) | Reference |
|----------|------------------------------------------------------------------|---------------|-----------|
| 1 | Total Adjusted O&M Payroll Expense Including Overtime Per Filing | \$ 7,750,405 | A |
| 2 | RUCO Recommended Adjusted O&M Payroll Expense Including Overtime | \$ 7,524,665 | B |
| 3 | RUCO Adjustment to Adjusted O&M Payroll Expense | \$ (225,740) | L2 - L1 |
| 4 | Total Pro Forma Payroll Tax Expense Per Filing | \$ 888,084 | page 2 |
| 5 | RUCO Recommended Pro Forma Payroll Tax Expense | \$ 863,202 | page 2 |
| 6 | RUCO Adjustment to Payroll Tax Expense | \$ (24,882) | L5 - L4 |

Notes and Source

Company workpaper UNSG0571/02586 and related Excel file

A: Amount from Company workpaper UNSG0571/02586 calculated from the following amounts:

| | | |
|----|------------------------------------------------------------------|--------------|
| 7 | 2009 & 2010 Wage Increase | \$ 6,034,999 |
| 8 | Adjusted Overtime | \$ 914,247 |
| 9 | Estimate Allocated from CLR Accounts | \$ 801,159 |
| 10 | Total Adjusted O&M Payroll Expense Including Overtime Per Filing | \$ 7,750,405 |

B: RUCO recommended amount calculated as follows:

| | | |
|----|--------------------------------------------------------------------|--------------|
| 11 | 2009 Wage Increase (reflects removal of 3% wage increase for 2010) | \$ 5,859,222 |
| 12 | Adjusted Overtime | \$ 887,618 |
| 13 | Estimate Allocated from CLR Accounts | \$ 777,824 |
| 14 | RUCO Recommended Adjusted O&M Payroll Expense Including Overtime | \$ 7,524,665 |

Test Year Ended June 30, 2008

| Line No. | Description | Per UNS Gas (A) | Per RUCO (B) | RUCO Adjustment (C) |
|---------------------------------------|-------------------------------------------|--------------------|-----------------|---------------------------|
| Medicare | | | | |
| 1 | Total Adjusted Payroll Including Overtime | \$ 11,166,981 | \$ 10,841,729 | |
| 2 | Medicare Tax Rate | 1.45% | 1.45% | |
| 3 | Pro Forma Medicare Tax Per Filing | \$ 161,921 | \$ 157,205 | \$ (4,716) |
| OASDI | | | | |
| 4 | Total Adjusted Payroll Including Overtime | \$ 11,166,981 | \$ 10,841,729 | |
| 5 | Less: Wages in Excess of \$102,000 | \$ (99,577) | \$ (99,577) | |
| 6 | OASDI Tax Base | \$ 11,067,404 | \$ 10,742,152 | |
| 7 | OASDI Tax Rate | 6.20% | 6.20% | |
| 8 | Pro Forma OASDI Tax | \$ 686,179 | \$ 666,013 | \$ (20,166) |
| Federal/State Unemployment Tax | | | | |
| Number of Employees | | | | |
| 9 | UNSG Classified | 118 | 118 | |
| 10 | UNSG Unclassified | 86 | 86 | |
| 11 | Total Employees | 204 | 204 | |
| 12 | Taxable Wages | \$ 7,000 | \$ 7,000 | |
| 13 | Tax Base | \$ 1,428,000 | \$ 1,428,000 | |
| 14 | Tax Rate | 2.80% | 2.80% | |
| 15 | Pro Forma FUI/SUI | \$ 39,984 | \$ 39,984 | \$ - |
| 16 | Total Pro Forma Payroll Tax Expense | \$ 888,084 | \$ 863,202 | \$ (24,882) |

Notes and Source

Col. A: Amounts from Company workpaper UNSG0571/02608

Col. B: Total adjusted payroll including overtime on Line 1 reflects 3% increase for 2009 only

| Line No. | Description | Amount | Reference |
|----------|--------------------------------------------------------------------------------------------------------|------------------|-------------------------|
| 1 | Number of Customer Bills - Unadjusted | 1,739,076 | Co. Schedule H-2 |
| 2 | Increase in Postage Rates '09 | \$0.02 | |
| 3 | 09 increase in postage rates/Unadjusted customers | \$ 34,782 | Line 1 * Line 2 |
| 4 | UNSG Customer Annualization | | UNSG Schedule H2 P1 |
| 5 | RUCO Customer Annualization Postage | \$ - | Line 4 * .44 |
| 6 | Postage Expense Adjustment - Increase Expense | \$ 34,782 | Line 3 + Line 5 |
| 7 | Less: UNSG Postage Expense Adjustment As Filed (Bates Nos. UNSG0571/02494 & UNSG0571/02555 - 02562) | <u>\$12,750</u> | Misc Expenses Pro Forma |
| 8 | Incremental RUCO Postage Expense Adjustment | <u>\$ 22,031</u> | Line 6 - Line 7 |

Notes and Source

UNSG's response to RUCO 11-46

Line 4: RUCO recommends rejection of UNSG's proposed Customer Annualization, which would decrease test year revenue.

1 AN ORIGINAL AND THIRTEEN COPIES
of the foregoing filed this 18th day
2 of September, 2009 with:

3 Docket Control
Arizona Corporation Commission
4 1200 West Washington
Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 e-mailed this 18th day of September, 2009 to:

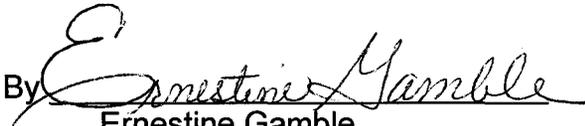
7 Dwight D. Nodes
Asst. Chief Administrative Law Judge
8 Hearing Division
Arizona Corporation Commission
9 1200 West Washington
Phoenix, Arizona 85007

Nicholas J. Enoch, Esq.
Jarrett J. Haskovec
Lubin & Enoch, P.c.
349 North Fourth Avenue
Phoenix, AZ 85003

10 Janice Alward, Chief Counsel
11 Legal Division
Arizona Corporation Commission
12 1200 West Washington
Phoenix, Arizona 85007

Cynthia Zwick
1940 E. Luke Avenue
Phoenix, AZ 85016

13 Steve Olea, Director
14 Utilities Division
Arizona Corporation Commission
15 1200 West Washington
Phoenix, Arizona 85007

By 
Ernestine Gamble
Secretary to Daniel W. Pozefsky

16 Raymond S. Heyman, Esq.
17 Phillip J. Dion, Esq.
Michelle Livengood, Esq.
18 UniSource Energy Corporation
One South Church, Suite 200
19 Tucson, Arizona 85701

20 Michael W. Patten, Esq.
Jason D. Gellman, Esq.
21 Roshka, DeWulf & Patten, PLC
One Arizona Center
22 400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

23
24