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1 ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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EXCEPTION

2010 MAR 18 A 9:45

AZ CORP COMMISSION
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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

Arizona Corporation Commission
DOCKETED

MAR 18 2010

DOCKETED BY	<i>MM</i>
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RUCO'S EXCEPTIONS

15 The Residential Utility Consumer Office ("RUCO") files these exceptions to the
16 Recommended Opinion and Order ("ROO") issued on March 9, 2010 regarding UNS Gas,
17 Inc.'s ("UNS Gas" or "Company") rate application. RUCO believes that overall, the ROO is
18 fair, well-reasoned and should be approved by the Commission. While not every position
19 advocated by RUCO was adopted, RUCO's exceptions are limited to only a single issue —
20 increased rate base for Accumulated Deferred Income Tax ("ADIT") on stock-based
21 compensation. The ROO provides for the exclusion of stock-based compensation for UNS
22 Gas' test year expenses. ROO at page 32, lines 19-28. The ROO, however, erroneously
23 allows the Company to increase rate base by \$253,257 for the ADIT associated with stock-
24 based compensation. ROO pages 14-15. In order to be consistent, the Commission should

1 reduce the Company's rate base by \$253,257 to remove the ADIT associated with the
 2 Company's stock-based compensation.

3 RUCO witness, Ralph Smith, recommended a net rate base reduction for ADIT of
 4 \$196,256 consisting of the following components (some positive, some negative) of which
 5 ADIT related to stock-based compensation amounted to \$253,257 as summarized below:

Line No.	Description	Per UNS Gas (A)	Per RUCO (B)	RUCO Proposed Adjustment (C)	[RUCO Exception] Remove ADIT Related to Stock-Based Compensation (D)
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)	\$ (17,952)
5	Restricted Stock	\$ 24,316		\$ (24,316)	\$ (24,316)
6	Restricted Stock - Directors	\$ 55,281		\$ (55,281)	\$ (55,281)
7	Stock Options	\$ 155,708		\$ (155,708)	\$ (155,708)
8	Vacation	\$ 169,367		\$ (169,367)	
9	Total Account 190	<u>\$ 7,035,076</u>	<u>\$ 6,839,864</u>	<u>\$ (195,211)</u>	<u>\$ (253,257)</u>
Account 282					
10	Net Plant ADIT	<u>\$ (17,452,856)</u>	<u>\$ (17,452,856)</u>	<u>\$ -</u>	
Account 283					
11	CARES Reg Asset	\$ (190,140)	\$ (190,140)	\$ -	
12	Pension	\$ 1,045		\$ (1,045)	
13	Total Account 283	<u>\$ (189,095)</u>	<u>\$ (190,140)</u>	<u>\$ (1,045)</u>	
14	Net ADIT	<u>\$ (10,606,875)</u>	<u>\$ (10,803,131)</u>	<u>\$ (196,256)</u>	

17 Notes and Source

A: UNS Gas workpaper UNSG0571/02839

B: Testimony of RUCO witness Ralph Smith (Ex. R-20) and RUCO Final Accounting Schedules, Schedule B-6

19 Moreover, and in order to be consistent, the Commission should change the language
 20 of the ROO starting on page 15, line 6, which states: "Based on the record before us, we do
 21 not believe that RUCO's position should be adopted on this issue because it would represent
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1 a departure from the ADIT adopted in prior cases for UNS Gas and its affiliate companies.”¹

2 This statement, as it applies to the ADIT related to stock-based compensation, is not
3 accurate.

4 The record is clear that ADIT related to stock-based compensation was in fact
5 removed in UNS Gas’ last rate case. UNS Gas witness, Karen Kissinger, testified in her
6 rebuttal (Ex A-12) at pages 3-4 that ADIT related to stock-based compensation was not
7 allowed by the Commission as a component in UNS Gas’ last rate case because such ADIT
8 related to an underlying expense – stock-based compensation expense – that was
9 disallowed. Ms. Kissinger admitted that, in those circumstances, where the underlying
10 expense was disallowed, the related adjustment to remove the ADIT was appropriate. See,
11 UNS Gas witness Kissinger rebuttal (Ex. A-12) at pages 3-4; RUCO witness Ralph Smith
12 surrebuttal (Ex. R-21) at pages 31-32.

13 It is therefore uncontested that the ADIT related to stock-based compensation was
14 removed in UNS Gas’ last rate case. It is also uncontested that, under circumstances where
15 the underlying expense is disallowed, the related ADIT should also be disallowed.

16 As noted above, the ROO at page 32, lines 19-28, appropriately removes stock-based
17 compensation from UNS Gas’ test year expenses. Consequently, removing the ADIT related
18 to stock-based compensation is not only consistent with the treatment applied in UNS Gas’
19 last rate case, it is also consistent with the removal of stock-based compensation in the
20 current UNS Gas case. As both RUCO witness, Ralph Smith, and UNS Gas witness, Karen

21 ¹ It appears that the ALJ may have intended this statement to apply only to the ADIT components related to
22 pension and vacation, as RUCO’s recommended removal of those ADIT components was contested by UNS
23 Gas on the basis that they had not been removed in the prior UNS Gas rate case. See, e.g., R Smith
24 surrebuttal (Ex. R-21) at pages 31-32; Kissinger rebuttal (Ex. A-12) at page 3. Although the ROO did not adopt
RUCO’s recommendation on other ADIT components, for pension or accrued vacation, other than the clarifying
revision to footnote 9, described below, RUCO is not excepting to that part of the ROO concerning ADIT relating
to pension or vacation because the ROO states at page 15 that those issues should be more fully addressed in
the Company’s next rate case. However, the removal of the ADIT for stock-based compensation would appear
to be in accord with other statements in the ROO because it is consistent with the prior UNS Gas rate case (not
a departure) and the related expense is being disallowed.

1 Kissinger, testified, removal of an ADIT component from rate base is appropriate when the
2 underlying expense is disallowed.

3 RUCO has prepared a proposed amendment to reflect the removal of ADIT related to
4 stock based compensation. (See Proposed Amendment 1)

5 Finally, RUCO recommends the following technical correction to footnote 9 (this does
6 not impact the amount of UNS Gas' revenue requirement) which more accurately describes
7 the alternative recommendation relating to the ADIT for accrued pension and vacation that
8 was made by RUCO witness, Ralph Smith, in his surrebuttal (which was not adopted in the
9 ROO):

Footnote 9 in the ROO reads:

10 ⁹ It appears that RUCO's position on brief reflects the direct testimony of its witness, Ralph Smith (Ex. R-20, at
11 24), rather than Mr. Smith's subsequent surrebuttal testimony (Ex. R-21, at 36), which proposed reducing rate
base by \$271,069 to reflect ADIT on accrued vacation and pension liabilities.

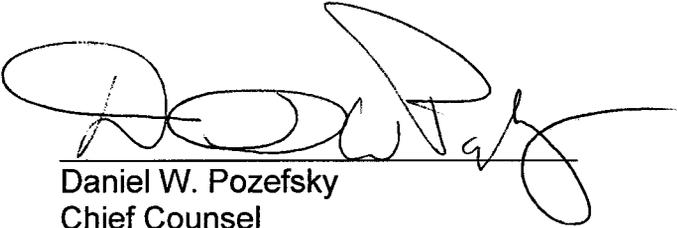
12 Footnote 9 should read:

13 ⁹ RUCO's position on brief reflects the direct testimony of its witness, Ralph Smith (Ex. R-20, at 24). Mr. Smith's
14 subsequent surrebuttal testimony (Ex. R-21, at 36) pointed out that for UNS Gas there are accrued liability
15 balances of \$438,776 and \$2,707 (totaling \$441,483) related to the \$169,369 and \$1,045 ADIT on accrued
16 vacation and pensions, respectively; so, if the \$170,414 ADIT for vacation and pension was not removed, an
alternative adjustment could be made to reduce rate base for the related liability balances of \$441,483. That
would produce a net rate base reduction of \$271,069. [Accrued Liabilities of \$441,483 less related ADIT of
\$170,414 = net rate base reduction of \$271,069]

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18 RUCO has attached a proposed amendment reflecting this change. (See Proposed
19 Amendment 2).

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RESPECTFULLY SUBMITTED this 18th day of March, 2010.



Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
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3 of March, 2010 with:

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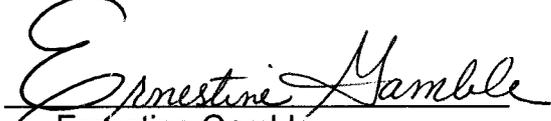
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RUCO'S

PROPOSED AMENDMENTS

1 RUCO PROPOSED AMENDMENT 1

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3 Page 15, line 6

4 DELETE:

5 Based on the record before us, we do not believe that RUCO's position should be
6 adopted on this issue because it would represent a departure from the ADIT adopted in prior
7 cases for UNS Gas and its affiliate companies.

8 INSERT:

9 Based on the record before us, with the following exception, we do not believe that
10 RUCO's position should be adopted on this issue because it would represent a departure
11 from the ADIT adopted in prior cases for UNS Gas and its affiliate companies. The exception
12 applies to the ADIT associated with the Company's stock-based compensation which should
13 be removed from rate base since we are not allowing the recovery of stock-based
14 compensation and it would be consistent with our prior decision in the Company's last rate
15 case. The Company's rate base should be reduced by \$253,257 to remove the ADIT
16 associated with the Company's stock-based compensation.

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MAKE ALL CONFORMING CHANGES

1 RUCO PROPOSED AMENDMENT 2

2
3 Page 14, Footnote 9

4 DELETE:

5 ⁹ It appears that RUCO's position on brief reflects the direct testimony of its witness, Ralph Smith (Ex.
6 R-20, at 24), rather than Mr. Smith's subsequent surrebuttal testimony (Ex. R-21, at 36), which proposed
reducing rate base by \$271,069 to reflect ADIT on accrued vacation and pension liabilities.

7 INSERT:

8 ⁹ RUCO's position on brief reflects the direct testimony of its witness, Ralph Smith (Ex. R-20, at 24). Mr.
9 Smith's subsequent surrebuttal testimony (Ex. R-21, at 36) pointed out that for UNS Gas there are accrued
10 liability balances of \$438,776 and \$2,707 (totaling \$441,483) related to the \$169,369 and \$1,045 ADIT on
accrued vacation and pensions, respectively; so, if the \$170,414 ADIT for vacation and pension was not
11 removed, an alternative adjustment could be made to reduce rate base for the related liability balances of
\$441,483. That would produce a net rate base reduction of \$271,069. [Accrued Liabilities of \$441,483 less
12 related ADIT of \$170,414 = net rate base reduction of \$271,069]

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MAKE ALL CONFORMING CHANGES