

PAIUTE

PIPELINE COMPANY

Edward C. McMurtrie, Vice President/General Manager

January 27, 2005

Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Dear Ms. Salas:

Re: Paiute Pipeline Company
Docket No. RP05- -000

Paiute Pipeline Company (Paiute), pursuant to Section 4 of the Natural Gas Act and Part 154 of the regulations issued thereunder by the Federal Energy Regulatory Commission (Commission), particularly Section 154.301 of such regulations, hereby gives notice of a change in rates for natural gas service rendered to jurisdictional customers served under all rate schedules contained in Second Revised Volume No. 1-A of Paiute's FERC Gas Tariff. In order to implement this notice of change in rates, as well as certain other tariff changes described herein, Paiute herewith tenders for filing and acceptance, to be a part of Second Revised Volume No. 1-A, the tariff sheets listed on Appendix A.

Paiute respectfully requests that its proposed rates and tariff sheets be permitted to become effective on March 1, 2005.

**Statement of the Nature,
the Reasons, and the Basis for Paiute's Filing**

As explained more fully below, based upon the test period cost of service and the projected throughput quantities employed in

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this filing, Paiute projects an overall deficiency of \$1,701,092 in annual revenues under its existing rates which were established in Docket No. RP96-306-000.¹ Paiute is therefore proposing to modify its rates for its jurisdictional transportation and storage services in a manner that is sufficient to eliminate the revenue deficiency and recover the full cost of service reflected in this filing. Paiute proposes to increase its transportation service rates and to decrease its LNG storage service rates.²

The proposed rates for which notice is given are reflected on the Statement of Rates tariff sheet designated as Thirteenth Revised Sheet No. 10 tendered herein under the tab designated "Tariff Sheets." More specific information concerning the derivation of the proposed transportation and storage rates is set forth in Statement J.

As part of this notice of rate change, Paiute proposes to:

- (i) revise the Statement of Rates tariff sheet in its FERC Gas Tariff as necessary to reflect the changes to rates; and
- (ii) revise tariff sheets to conform its LNG storage services to the requirements of Part 284 of the Commission's regulations.³

¹ Paiute's existing rates are set forth on Twelfth Revised Sheet No. 10 of Second Revised Volume No. 1-A of its FERC Gas Tariff.

² Paiute proposes herein to increase its rates applicable to the transportation services performed by Paiute under transportation rate schedules FT-1 and IT-1. Paiute proposes herein to decrease its rates applicable to contract storage services performed under Rate Schedule LGS-1. Paiute is also proposing herein, for the first time, to render interruptible storage service from its LNG storage facility under proposed new Rate Schedule LGS-2. See pp. 7-8 infra.

³ Except for proposed Thirteenth Revised Sheet No. 10, all of the proposed tariff sheets in this filing are submitted

The rates filed herein are based on a total cost of service of \$33,360,794 and an annual throughput of 36,555,424 Dth. The test period used in this notice is comprised of a base period of twelve (12) consecutive months of actual experience ending October 31, 2004, as adjusted for known and measurable changes to occur during the succeeding nine months ending July 31, 2005. The throughput estimates used in this notice are based upon recent experience during the base period and the test period and reflect a representative throughput level for the test period.

Paiute's current base tariff rates were established as the result of a filing in Docket No. RP96-306-000, which utilized cost data experienced during the twelve-month period ending March 31, 1996, as adjusted for known and measurable changes. As previously stated, under the rates established in that docket, Paiute's revenues are deficient by approximately \$1,701,092 annually. As more fully explained in the testimonies of witnesses Litwin, Moses, Wood, and Feinstein, the principal items of cost changes producing this deficiency are: (1) increases in plant and related items; (2) increases in depreciation expenses, in part due to proposed new depreciation rates; (3) increases in labor and labor-related costs; (4) increases in various other operation and maintenance expenses and in administrative and general expenses; and (5) increases in the required rate of return and related income taxes, all as related to Paiute's transmission and storage functions.

The revenue requirement which Paiute has calculated and believes justified reflects an overall claimed rate of return of 10.24 percent, with a return on common equity of 13.49 percent, in order for Paiute to be adequately compensated for the risks of transporting and storing natural gas. The overall rate of return is based on a hypothetical capital structure of 55 percent long-term debt and 45 percent common equity.

In deriving the firm transportation rates proposed in this filing, Paiute has utilized the same straight fixed-variable (SFV) method of rate design, cost classification, and cost

to conform Paiute's LNG storage services to the open-access service requirements of Part 284.

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allocation that was used to derive the transportation rates established in Docket No. RP96-306-000. The method was first approved in Paiute's Order No. 636 restructuring proceeding in Docket No. RS92-75-000, and then adopted and refined in Paiute's subsequent general rate cases in Docket Nos. RP93-6-000 and RP96-306-000.

The firm transportation rates proposed in this filing do not reflect any SFV cost shift mitigation. Pursuant to settlement agreements approved by the Commission in Docket Nos. RP93-6-000 and RP95-55-000, SFV cost shift mitigation was phased out of Paiute's firm transportation rates effective November 1, 1998.

The firm transportation rates proposed herein reflect use of the SFV method of demand-commodity classification. Under the SFV methodology, 100% of the equity-related costs (return and taxes), plus all other fixed costs, are classified to the transmission demand component. The interruptible transportation rate is based upon a calculated 100 percent load factor of the firm transportation rate. The billing determinants for interruptible transportation service have been adjusted to reflect changes in customer consumption patterns, as discussed in the testimony of witness Giesecking.

In the case of rates for firm LNG contract storage service under Rate Schedule LGS-1, Paiute has utilized the same SFV rate design used in deriving the LNG storage service rates established in Docket No. RP96-306-000.

A schedule is set forth in Appendix B to this transmittal letter that compares the cost of service, rate base, and throughput underlying the rates proposed herein to the same information that underlies the rates established in Docket No. RP96-306-000.

Materials Included in This Filing

In accordance with the applicable provisions of Part 154 of the Commission's regulations, Paiute is submitting an original and twelve (12) copies of this filing, comprised of two volumes, which includes the following materials:

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- (1) A motion to place rates into effect at the end of the suspension period;
- (2) A form of notice of change of rates suitable for publication in the Federal Register;
- (3) A table of contents;
- (4) The proposed revised tariff sheets identified above, along with red-lined versions of the tariff sheets showing the proposed revisions to the presently effective tariff sheets;
- (5) A representation of the Chief Accounting Officer of Paiute's parent company, Southwest Gas Corporation; and
- (6) Statements A through J, inclusive, and Statements L, M, O, and P, which are the required statements to be submitted under Section 154.312 of the Commission's regulations.

Statement P, consisting of Paiute's prepared direct testimony, is contained in Volume 2. All other materials are contained in Volume 1. Workpapers and supporting data as required by Part 154 of the Commission's regulations are included behind the Statements and Schedules to which they relate.

In addition, enclosed herewith are two magnetic diskettes. One diskette contains the form of notice of filing (File Name TF012705.NOT). The other diskette contains the tendered tariff sheets to be contained in Paiute's FERC Gas Tariff, Second Revised Volume No. 1-A (File Name TF012705.ASC). The undersigned hereby certifies that the tendered tariff sheets contain the same information as the magnetic diskette being submitted herewith, that the undersigned has read and knows the contents of said tariff sheets, and that the matters and facts set forth therein are true to the best of his information, knowledge and belief.

In addition to the magnetic diskettes containing Paiute's proposed tariff sheets and the proposed notice of filing,

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Paiute is also enclosing a compact disc that contains all of the materials included in Volume 1.

The above-referenced volumes contain all applicable material required by Sections 154.301 and 154.312 of the Commission's regulations. Pursuant to Section 154.312(j)(2) of the Commission's regulations, Schedules G-1 through G-6 are included in this filing, and Paiute is today serving complete copies of this filing upon all of its customers and all state commissions having jurisdiction over the affected customers. Paiute will also serve these schedules on other parties that request such service within fifteen days of Paiute's rate case filing.

As required by Section 154.201 of the Commission's regulations, the information provided in Paiute's rate case filing includes all applicable material, including supporting documentation and step-by-step mathematical calculations, and sufficient written narrative, including testimony, to allow the Commission and interested parties to duplicate Paiute's calculations. All statements and schedules contained in Paiute's rate filing were prepared in accordance with the classifications of the Commission's Uniform System of Accounts. Paiute's workpapers in support of its adjustments, computations, and other information are indexed and cross-referenced to the filing and other workpapers as well.

Paiute thus has made every effort to comply with the Commission's regulations in Part 154. Paiute has prepared all applicable statements, schedules and other documentation required to implement its proposed rate and tariff provisions as prescribed by the Commission's regulations.

Motion to Place the Proposed Rates into Effect

Pursuant to Section 154.7(a)(9) of the Commission's regulations, Paiute has enclosed a motion to place into effect as of March 1, 2005 the rates proposed in this filing. However, should the Commission determine to suspend the instant filing beyond that date, Paiute reserves its right to file a later motion to place the proposed rates into effect at the end of the suspension period.

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Paiute is proposing in this proceeding to increase its jurisdictional transportation service rates and to decrease its jurisdictional LNG storage service rates. On December 22, 2004, the Commission issued an order in Docket Nos. CP04-343-000, et al. (Order) authorizing Paiute to acquire and operate the LNG storage facility and approximately 61 miles of associated loop pipeline which Paiute had leased for many years and has operated as an integral part of its jurisdictional transmission system.⁴ Among other things, the Order approved a settlement offer sponsored by Paiute and six other parties, including all of Paiute's LNG storage service customers (LNG Settlement). Under the LNG Settlement, Paiute committed to file a general rate change application on January 28, 2005. Paiute further committed that if, in that filing, Paiute were to propose a reduction in its LNG storage service rates, Paiute would seek permission to implement such reduced rates effective March 1, 2005.

Accordingly, Paiute requests that the Commission allow its proposed LNG storage service rates to become effective March 1, 2005, after a brief suspension, if the Commission determines that Paiute's proposed rate changes should be suspended, even if the Commission decides to suspend Paiute's proposed transportation service rates for a longer period. Furthermore, in keeping with its LNG Settlement commitment, Paiute is willing to make refunds from the storage service rates proposed in this filing, back to March 1, 2005, if applicable, if the storage service rates ultimately established in this proceeding are less than the storage service rates proposed in this filing.

The Order also required that Paiute file to provide its LNG storage service under Part 284 of the Commission's regulations when Paiute submits this general rate change filing.⁵ Paiute already has a certificate to render open-access transportation and storage services under Part 284,⁶ and therefore Paiute does

⁴ 109 FERC ¶ 61,333.

⁵ Id. at P 34.

⁶ See 44 FERC ¶ 61,326 (1988).

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not believe that it requires any further certificate authority to comply with the Order's directive. Accordingly, in order to comply with the Order, Paiute is submitting proposed tariff sheets in this proceeding to conform its LNG storage services with the requirements of Part 284.⁷ Paiute will require several months to modify its gas scheduling and capacity release computer programs to accommodate the implementation of open-access storage services as provided in the proposed tariff sheets. Although Paiute is proposing an effective date of March 1, 2005 for its proposed open-access storage service tariff sheets, Paiute requests that the Commission accept the tariff sheets and suspend the effectiveness of the sheets for five months, in order to enable Paiute to perform the necessary programming revisions, especially if the Commission decides to suspend the effectiveness of Paiute's proposed transportation service rates for five months.

From time to time, Paiute may make other filings to effectuate rate adjustments and surcharges applicable to particular items of cost (e.g., the annual charge adjustment surcharge) which are not included in its general Section 4 rate increase filing. If the effectiveness of the rates proposed in this notice is suspended beyond the date that any other rate adjustment or surcharge which Paiute may be authorized to collect becomes effective, Paiute will make the appropriate filings with the Commission to reflect the effect of any such adjustments or surcharges in its rates. To facilitate such filings, Paiute requests that the Commission expressly state in any order applicable to this notice of change that the rates placed into effect in this proceeding shall reflect any rate adjustments or surcharges which become effective pursuant to Paiute's FERC Gas Tariff or any other Commission authorization issued prior to the effectiveness of the instant proposal.

Aside from the waiver discussed above, Paiute is unaware of any other waiver that may be necessary to effectuate this filing.

⁷ See n.3 supra. Among other things, the proposed tariff sheets provide for interruptible storage service, the ability to discount rates, and releases of firm service capacity entitlements.

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However, if any other waiver is, in fact, required, Paiute respectfully requests that waiver be granted of all applicable rules or regulations as may be necessary so as to implement the tendered tariff sheets and proposed rates in the manner described herein.

It is respectfully requested that correspondence and orders concerning this filing, as well as communications and pleadings with respect hereto filed by other parties, be served upon the following persons:

Edward C. McMurtrie
Vice President/General Manager
Paiute Pipeline Company
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(702) 876-7178

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McCarthy, Sweeney & Harkaway
2175 K Street, N.W, Suite 600
Washington, D.C. 20037
(202) 775-5560

Questions regarding this filing may be addressed to the undersigned at the above address and telephone number.

A copy of this filing is being posted as described in Section 154.2(d) of the Commission's regulations. A copy of the instant notice of change in rates, together with a copy of the documents being filed concurrently herewith, are, at this date, being served upon all affected customers and interested state regulatory commissions.

Respectfully submitted,

PAIUTE PIPELINE COMPANY

A handwritten signature in black ink, reading "Edward C. McMurtrie". The signature is written in a cursive, flowing style with a prominent initial "E".

Edward C. McMurtrie
Vice President/General Manager

PAIUTE PIPELINE COMPANY

FERC Gas Tariff
Second Revised Volume No. 1-A

Third Revised Sheet No. 1
Thirteenth Revised Sheet No. 10
Second Revised Sheet No. 30
Second Revised Sheet No. 31
Second Revised Sheet No. 32
First Revised Sheet No. 33
First Revised Sheet No. 34
Original Sheet No. 35
Original Sheet No. 36
Original Sheet No. 37
Original Sheet No. 38
Original Sheet No. 39
Original Sheet No. 40
Sheet Nos. 41 through 49
Fourth Revised Sheet No. 104A
Seventh Revised Sheet No. 111
Second Revised Sheet No. 141
Second Revised Sheet No. 142
First Revised Sheet No. 143

PAIUTE PIPELINE COMPANY

	<u>AS SETTLED RP96-306 [1]</u>	<u>AS FILED RP05-</u>	<u>DIFFERENCE</u>
COST-OF-SERVICE	\$ 28,200,000	\$ 33,360,794	\$ 5,160,794
RATE BASE	\$ -	\$ 85,986,135	\$ -
TOTAL THROUGHPUT (Dth)	-	36,555,424	-

[1] Rate base and total throughput amounts were not identified in the Settlement approved by the Commission in Docket No. RP96-306.