

PAIUTE PIPELINE COMPANY
Docket No. RP09-____-000

NOTICE OF RATE CHANGE

VOLUME II

STATEMENT P

PAIUTE PIPELINE COMPANY
DOCKET NO. RP09-_____

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Paiute Pipeline Company

)
) Docket No. RP09-____-000
)

Prepared Direct Testimony
of
EDWARD C. McMURTRIE

INTRODUCTION

Q. 1 Please state your name and business address.

A. 1 My name is Edward C. McMurtrie. My business address is
5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002.

Q. 2 By whom are you employed and in what capacity?

A. 2 I am employed by Southwest Gas Corporation (Southwest) as
Director/Federal Regulatory Affairs. I am also Vice
President/General Manager of Southwest's wholly-owned
subsidiary, Paiute Pipeline Company (Paiute).

Q. 3 Does Appendix A summarize your educational background and
business experience?

A. 3 Yes, it does.

Q. 4 Have you previously testified before this Commission or
other regulatory agencies?

A. 4 Yes. I submitted testimony before the Commission in
Paiute's previous general rate case proceedings in Docket
Nos. RP05-163, RP96-306, and RP93-6, and I have testified
before the Public Utilities Commission of Nevada.

Q. 5 What is the purpose of your prepared direct testimony in

1 this proceeding?

2 A. 5 I am testifying on behalf of Paiute. The instant
3 proceeding involves a general rate increase filing by
4 Paiute. The purpose of my testimony is (1) to provide an
5 overview of the rate filing and general company policy
6 considerations affecting the rate filing; (2) to explain
7 the roles of the various witnesses testifying on behalf of
8 Paiute in this proceeding; (3) to describe the Paiute
9 system and the services provided by Paiute; and (4) to
10 provide support and explanation for Paiute's rate filing
11 as to several significant changes or events which have
12 affected Paiute or the Paiute system since Paiute's
13 previous general rate case. Other witnesses for Paiute
14 will provide testimony concerning the cost of service,
15 rate design, taxes, depreciation rates, and the cost of
16 capital.

17 Q. 6 What statements or schedules included in the rate filing
18 are you supporting?

19 A. 6 I am testifying in support of Statement A, Cost of
20 Service Summary, and Statement O, Description of Company
21 Operations. I am also sponsoring all of the proposed
22 tariff sheets.

23 **OVERVIEW OF PAIUTE'S FILING**

24 Q. 7 Please describe Paiute's filing in this proceeding.

25 A. 7 This filing is Paiute's first general rate case in over
26 four years. Paiute's previous general rate change
27 application was filed in Docket No. RP05-163 on January

1 28, 2005. In that case, Paiute's rates for its storage
2 service provided under Rate Schedule LGS-1 became
3 effective, after suspension, on March 1, 2005, while its
4 rates for all other tariff services became effective,
5 after suspension, on August 1, 2005. Paiute is filing
6 the instant application because, as shown in Statement A,
7 Paiute's annual revenues are deficient by \$3,867,213
8 when compared to revenues at present rates. The
9 deficiency results in large part from increases in
10 Paiute's operating and maintenance (O&M) and
11 administrative and general (A&G) expenses since 2005,
12 along with increases that Paiute is proposing to its cost
13 of capital. With respect to cost of capital, Paiute
14 supports a rate of return on equity of 13.83 percent that
15 properly reflects the current capital market conditions
16 as well as the additional business risk now faced by
17 Paiute due to, among other things, the fact that a
18 significant percentage of Paiute's firm transportation
19 capacity is subscribed under service agreements that are
20 functioning under year-to-year evergreen provisions.

21 Q. 8 What revenue increase will be produced by the rates
22 proposed in this proceeding?

23 A. 8 The proposed rates are intended to produce an annual
24 increase in revenues from Paiute's transportation and
25 storage customers equal to the \$3,867,213 deficiency
26 under present rates. The deficiency is calculated from
27 the total cost of service supported in this filing of

1 \$34,585,930.

2 Q. 9 What test period has been used by Paiute in this rate
3 filing?

4 A. 9 The test period consists of the twelve consecutive months
5 of actual experience ended November 30, 2008, adjusted
6 for changes in revenues and costs which are known and are
7 measurable with reasonable accuracy at the time of the
8 filing, and which will become effective by August 31, 2009.

9 **ROLES OF PAIUTE'S WITNESSES**

10 Q. 10 Please describe the roles of Paiute's various witnesses
11 in this proceeding.

12 A. 10 Paiute is presenting six witnesses in its direct case. In
13 addition to me, they are: Mark A. Litwin, Lisa E. Moses,
14 Theodore K. Wood, Edward H. Feinstein, and Edward B.
15 Giesecking.

16 Mr. Litwin is Paiute's chief witness on overall
17 cost of service matters. Ms. Moses addresses tax aspects
18 associated with the proposed cost of service. Mr. Wood
19 supports Paiute's cost of capital. Mr. Feinstein
20 addresses Paiute's proposed depreciation rates. Mr.
21 Giesecking is Paiute's witness for the design of the
22 proposed rates and the volume levels used in developing
23 the proposed rates.

24 **DESCRIPTION OF PAIUTE'S SYSTEM AND SERVICES**

25 Q. 11 Please describe Paiute's system.

26 A. 11 Paiute is a wholly-owned subsidiary of Southwest. As
27 described in Statement O, Paiute commenced operations on

1 August 1, 1988, providing sales services to four local
2 distribution company (LDC) customers: CP National
3 Corporation, predecessor in interest to Avista
4 Corporation (Avista); Sierra Pacific Power Company
5 (Sierra); and two of Southwest's LDC divisions,
6 Southwest-Northern California and Southwest-Northern
7 Nevada. Paiute commenced operations as an open-access
8 transporter in November 1988, providing transportation
9 service to a number of interruptible transportation
10 customers under a blanket certificate under Part 284 of
11 the Commission's regulations. On June 1, 1991, as the
12 result of a settlement in Paiute's initial general rate
13 case, Paiute unbundled its system operations, terminated
14 all of its sales services, and began providing only
15 transportation and storage services. In April 2005
16 Southwest acquired Avista's service area rights with
17 respect to the community of South Lake Tahoe, California,
18 and merged the area into its northern California
19 operations.

20 Paiute's facilities originally were the same
21 facilities which Southwest had previously been authorized
22 to construct or acquire as a result of certificates of
23 public convenience and necessity issued by the Federal
24 Power Commission and the FERC. Since 1988, Paiute has
25 completed a major system capacity expansion in 1993, as
26 well as several capacity expansions on portions of its
27 system, and has made other minor modifications to its

1 transmission system. Paiute's system consists of pipeline
2 facilities that start at an interconnection with
3 Northwest Pipeline Corporation (Northwest) at the
4 Idaho-Nevada border and traverse generally in a
5 southwestern direction for about 300 miles to the
6 California-Nevada border at the northern and southern
7 ends of Lake Tahoe, where Paiute delivers gas into
8 California to Southwest-Northern California. In December
9 2002, Paiute established an interconnection with a second
10 upstream pipeline, Tuscarora Gas Transmission Company
11 (Tuscarora), at the Wadsworth Junction, near the town of
12 Wadsworth, Nevada. Near the town of Lovelock, Nevada,
13 Paiute operates a peak-shaving LNG storage facility.

14 Gas received into Paiute's system from Northwest at
15 the Idaho-Nevada border is transported down Paiute's
16 mainline to the Wadsworth Junction. Along the way, Paiute
17 delivers gas at several offloading points, including its
18 Elko Lateral. Paiute can also receive gas into its
19 mainline from its LNG storage facility, which is located
20 approximately 61 miles upstream of the Wadsworth
21 Junction. At the Wadsworth Junction, where Tuscarora's
22 facilities interconnect with Paiute's transmission
23 system, Paiute's mainline divides into two mainline
24 extensions, the Reno Lateral and the Carson Lateral. Most
25 of the market requirements served by Paiute are located
26 downstream of the Wadsworth Junction. Paiute's Reno
27 Lateral extends to the cities of Sparks and Reno, Nevada.

1 Paiute's Carson Lateral extends to the Carson City area,
2 where the lateral further divides into Paiute's North
3 Tahoe and South Tahoe Laterals. Along the Carson Lateral,
4 Paiute delivers gas at various delivery points and into
5 several other lateral pipelines.

6 Q. 12 Please describe the transportation and storage capacity
7 available on the Paiute system.

8 A. 12 The maximum winter design day firm transportation
9 capacity from Northwest is 157,848 Dth/day. Due to
10 atmospheric conditions, the maximum summer day reliable
11 firm transportation capacity is 138,780 Dth/day. During
12 the winter the daily delivery, or withdrawal, capacity
13 from the LNG storage facility is 71,959 Dth. The LNG
14 storage facility and associated downstream pipeline
15 capacity serve to supplement the winter design day
16 capacity from Northwest, such that the maximum winter
17 design day firm transportation capacity from Northwest
18 and the LNG storage facility totals 229,807 Dth. In
19 addition, Paiute has constructed five capacity expansion
20 projects downstream of the Wadsworth Junction in recent
21 years that enable Paiute to provide design day firm
22 transportation service from Tuscarora totaling 39,989
23 Dth. All of Paiute's firm transportation and storage
24 service capacities currently are fully subscribed.

25 Q. 13 Please describe the services provided by Paiute.

26 A. 13 Paiute provides firm transportation service to its three
27 LDC customers, one marketer, and nine commercial and

1 industrial end users. Paiute also provides interruptible
2 transportation service. In addition, Paiute provides firm
3 LNG storage service to its three LDC customers. Paiute
4 also offers interruptible LNG storage service, although
5 Paiute has not performed any such service since it first
6 became available in August 2005.

7 The table below lists Paiute's firm transportation
8 service customers, along with their respective daily
9 winter period firm transportation capacity entitlements
10 from each of Paiute's three receipt points, as of March
11 1, 2009. The three LDC customers are those customers who
12 have firm transportation rights from the LNG Plant
13 receipt point. Their firm transportation rights from that
14 receipt point are equal to their daily LNG withdrawal
15 capacity entitlements under their LNG storage service
16 agreements.

Customer	Daily Reserved Capacity (Dth)		
	Owyhee (Northwest)	LNG Plant	Wadsworth (Tuscarora)
Cyanco Company	2,000	0	0
Eagle-Picher	1,530	0	0
Harrah's Tahoe	500	0	0
Harvey's Resort	380	0	0
IGI Resources	582	0	722
Lake Tahoe Horizon	225	0	0
MontBleu Resort	300	0	0
Newmont	1,100	0	0
Premier Services	850	0	0
Sierra	68,696	23,000	0
Southwest-			
Northern California	19,041	11,400	11,558
Southwest-			
Northern Nevada	62,494	37,559	27,709
Winnemucca Farms	150	0	0
Total	<u>157,848</u>	<u>71,959</u>	<u>39,989</u>

1 During the summer period, the daily reliable
2 pipeline capacity of 138,780 Dth/day is allocated among
3 Paiute's 13 firm transportation customers on the basis
4 of their respective daily summer period firm
5 transportation capacity entitlements.

6 **SIGNIFICANT CHANGES OR EVENTS SINCE PREVIOUS RATE CASE**

7 Q. 14 What significant changes or events affecting Paiute or
8 the Paiute system have occurred since Paiute's previous
9 general rate case?

10 A. 14 Since the conclusion of the test period in Paiute's
11 previous rate case in 2005, Paiute has constructed two
12 projects which increased the capacity downstream of
13 Paiute's Wadsworth Junction. Paiute refers to these
14 projects as its 2005 Expansion Project and its 2007
15 Expansion Project.

16 In addition, the primary terms of the base, year-
17 round firm transportation service agreements between
18 Paiute and its two largest shippers, Sierra and
19 Southwest-Northern Nevada, expired in 2008. These two
20 service agreements, which cover more than half of
21 Paiute's capacity and annual billing determinants, are
22 now functioning under evergreen provisions and can be
23 terminated on one year's notice, which has dramatically
24 increased Paiute's business risk.

25 Q. 15 Please describe the Paiute 2005 Expansion Project.

26 A. 15 Paiute constructed the 2005 Expansion Project in the fall
27 of 2005. The project consisted of the modification

1 and/or rebuild of delivery point facilities at seven
2 existing delivery point locations served by the Carson
3 Lateral. As the result of two open seasons by which
4 Paiute invited requests for new or additional firm
5 transportation capacity on its system, the only shipper
6 that ultimately sought new capacity was Southwest-
7 Northern Nevada. Southwest-Northern Nevada requested
8 additional capacity on the Carson Lateral, along with
9 increases and decreases in its maximum daily delivery
10 entitlements at various delivery points served by the
11 Carson Lateral. Paiute determined that it could fulfill
12 Southwest-Northern Nevada's request for additional firm
13 transportation capacity simply by the shifting of
14 Southwest-Northern Nevada's delivery point entitlements
15 along the Carson Lateral. The shift in delivery point
16 entitlements resulted in the creation of additional firm
17 transportation capacity of 4,396 Dth per day from the
18 Wadsworth Junction receipt point to various delivery
19 points served by the Carson Lateral. Paiute only needed
20 to modify and/or rebuild its facilities at the seven
21 existing delivery points, and did not need to construct
22 or modify any pipeline facilities. The delivery point
23 construction work was performed pursuant to Paiute's
24 blanket certificate authority under Part 157 of the
25 Commission's regulations.

26 Q. 16 Please describe the Paiute 2007 Expansion Project.

27 A. 16 Paiute constructed the 2007 Expansion Project during 2007

1 and implemented new firm transportation service as a
2 result of the project on November 1, 2007. The project
3 created an additional 8,592 Dth per day of firm
4 transportation capacity from the Wadsworth Junction to
5 various delivery points served by the Carson Lateral. As
6 the result of an open season process, this capacity was
7 subscribed to three shippers, Southwest-Northern Nevada,
8 Southwest-Northern California, and IGI Resources, Inc.,
9 under long-term firm transportation service agreements.
10 The project consisted of the construction of pipeline
11 loop and replacement pipeline facilities along Paiute's
12 Carson and Yerington Laterals and the modification of
13 certain pressure regulating and delivery point facilities
14 downstream of the Wadsworth Junction. All work was
15 performed pursuant to Paiute's blanket certificate
16 authority under Part 157 of the Commission's regulations,
17 including certain specific authorization obtained by
18 means of a prior notice request for authorization in
19 Docket No. CP07-102.

20 Q. 17 What rate treatment has Paiute accorded to the 2005 and
21 2007 Expansion Projects?

22 A. 17 Paiute is proposing in this rate change application to
23 roll the costs associated with the 2005 and 2007
24 Expansion Projects in with the costs used to derive
25 Paiute's systemwide rates under its Rate Schedule FT-1.
26 The costs associated with both the 2005 and the 2007
27 Expansion Projects are such that none of Paiute's

1 existing shippers who did not participate in the projects
2 will be subsidizing the costs of either project. In fact,
3 Paiute's other shippers will benefit by a roll-in of such
4 costs, because a roll-in produces a slight reduction of
5 the systemwide rates. Moreover, the addition of capacity
6 along the Carson Lateral mainline of Paiute's system, as
7 provided by both projects, provides additional
8 flexibility and reliability of service for the benefit of
9 most, if not all, of Paiute's shippers. Consequently, it
10 is both reasonable and consistent with the Commission's
11 pipeline certification policy statement in Docket No.
12 PL99-3 to accord rolled-in ratemaking treatment to the
13 costs of the facilities associated with both projects.

14 Q. 18 Describe Paiute's contract circumstances that are
15 creating significant business risk for Paiute.

16 A. 18 As I mentioned earlier, Paiute's firm transportation
17 capacity currently is fully subscribed under service
18 agreements that are subject to Rate Schedule FT-1.
19 However, of Paiute's 28 currently effective firm
20 transportation service agreements, thirteen are
21 functioning under year-to-year evergreen provisions, and
22 can be terminated upon one year's notice. The thirteen
23 agreements cover approximately 67% of Paiute's annual
24 contract demand and billing determinants. Thus, a
25 substantial portion of Paiute's revenue requirement is at
26 risk for recovery due to potential contract terminations.
27 As I mentioned earlier, this situation was greatly

1 exacerbated during the past year because of the
2 expiration of the primary terms of Paiute's two largest
3 service agreements, which together represent
4 approximately 56% of Paiute's annual contract demand and
5 billing determinants.

6 Q. 19 Why is Paiute at risk if its service agreements can be
7 terminated upon short notice?

8 A. 19 Over 96% of Paiute's annual firm transportation capacity
9 is subscribed to Paiute's three LDC shippers. Paiute's
10 LDC shippers, particularly Sierra, potentially have
11 access to other interstate pipelines for delivery of
12 their gas supply requirements. Almost half of the
13 capacity on Paiute's system that is currently subject to
14 evergreen contract provisions is held by Sierra. Sierra
15 serves as the LDC for the Reno, Nevada area, and is also
16 the retail electric utility for much of northern Nevada
17 and portions of northern California. In addition to
18 being a shipper on Paiute's system, Sierra is the
19 predominate shipper on Tuscarora's pipeline system.
20 While Tuscarora is a vital upstream pipeline transporter
21 of gas supplies to Paiute's system, Tuscarora is also a
22 potential competitor to Paiute, because it also delivers
23 gas directly to Sierra's LDC system and to Sierra's
24 largest electric generation plant. With an expansion of
25 Tuscarora's existing system, Sierra has the potential to
26 switch to Tuscarora a significant portion of its gas
27 transportation service requirements that currently are

1 being served by Paiute. Furthermore, Ruby Pipeline,
2 L.L.C. (Ruby), a subsidiary of El Paso Corporation, has
3 applied for certificate authority in Docket No. CP09-54
4 to construct a major new interstate pipeline from Wyoming
5 to Malin, Oregon, where Ruby proposes to interconnect
6 with Tuscarora. Ruby has proposed a route for its
7 pipeline that would cross northern Nevada north of
8 Paiute's major market areas. Again, while Ruby could
9 prove to be an important upstream transporter of gas to
10 Paiute's system, the potential exists with Ruby's
11 delivery point into Tuscarora or the possible
12 construction of one or more laterals from Ruby that Ruby
13 could compete with Paiute for deliveries to Sierra or to
14 some of Paiute's other market areas. I should note that
15 no such laterals have been proposed in Ruby's certificate
16 application.

17 Q. 20 Please describe the tariff changes proposed by Paiute in
18 this proceeding.

19 A. 20 Aside from the proposed increases to Paiute's base tariff
20 rates as set forth on proposed Sheet No. 10, Paiute also
21 proposes to delete Sheet No. 161 from its tariff, along
22 with references to Sheet No. 161 contained in other
23 tariff sheets.

24 Q. 21 Why is Paiute proposing to delete Sheet No. 161 from its
25 tariff?

26 A. 21 Sheet No. 161 sets forth a table of monthly billing
27 determinants as applicable each month to Paiute's firm

1 transportation shippers. These billing determinants
2 essentially reflect the Daily Reserved Capacity and
3 Summer Daily Reserved Capacity contract entitlements set
4 forth in the shippers' service agreements. Sheet No. 161
5 is a holdover from a time when the shippers' contract
6 entitlements were not readily available from any other
7 public source. However, all of the information contained
8 on Sheet No. 161 is now available on Paiute's website.
9 Currently, Paiute must file Sheet No. 161 for processing
10 and approval by the Commission each time there is a
11 change in a firm shipper's contract entitlements. The
12 removal of Sheet No. 161 from Paiute's tariff will reduce
13 administrative burdens for Paiute, the Commission, and
14 Paiute's shippers.

15 Q. 22 Does this conclude your prepared direct testimony?

16 A. 22 Yes, it does.

APPENDIX A
SUMMARY OF QUALIFICATIONS
EDWARD C. McMURTRIE

I graduated from the University of California at Berkeley in 1971 with a Bachelor of Arts degree in Applied Mathematics. I then attended law school, and received a Juris Doctor degree from The George Washington University in Washington, D.C. in 1975.

After graduation from law school, I worked as a trial attorney in the Office of the General Counsel of the Federal Energy Regulatory Commission (FERC or Commission) for seven years. During that time I represented the Staff of the FERC in administrative hearings dealing primarily with natural gas producer rate and certificate matters. I also advised the Commissioners, other Staff members, and the public on natural gas regulatory issues, and drafted proposed orders for the Commissioners.

I joined Southwest in 1982 as Attorney in the company's Legal Department. I was promoted to Senior Attorney in 1983 and to Associate General Counsel in 1989. During my tenure in the Legal Department, my principal focus was on FERC regulation and interstate natural gas pipeline matters. I have served as Paiute's in-house counsel on FERC matters since the formation of Paiute in 1987.

In 1992 I was promoted to my present positions with

1 Southwest and Paiute. I am responsible for administering
2 the daily affairs of Paiute, particularly with respect to
3 Paiute's regulatory activities. I am also responsible for
4 directing and coordinating Southwest's regulatory
5 activities involving the FERC and the U.S. Department of
6 Energy.

7 I am a member of the State Bar of Nevada, the
8 District of Columbia Bar, the American Bar Association,
9 the Energy Bar Association, and the Clark County Bar
10 Association.

AFFIDAVIT OF EDWARD C. McMURTRIE

LAS VEGAS, NV)

Edward C. McMurttrie, being duly sworn, deposes and says: that he has read and is familiar with the contents of the foregoing "Prepared Direct Testimony of Edward C. McMurttrie"; that if asked the questions contained in said prepared direct testimony, the answers and responses thereto would be as shown in said testimony; that the facts contained in said answers are true to the best of his knowledge, information and belief; and that he adopts these matters as his own.


Edward C. McMurttrie

SUBSCRIBED AND SWORN TO BEFORE ME on this 23rd day
of February 2009.


Notary Public

