



UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Paiute Pipeline Company ) Docket No. RP09-\_\_\_\_-000  
)

Prepared Direct Testimony  
of  
MARK A. LITWIN

**INTRODUCTION**

Q. 1 Please state your name and business address.

A. 1 My name is Mark A. Litwin. 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  
Senior Manager/Federal Regulatory Affairs.

Q. 3 On whose behalf are you testifying in this proceeding?

A. 3 I am testifying on behalf of Paiute Pipeline Company  
(Paiute), which is a wholly-owned subsidiary of  
Southwest.

Q. 4 Does Appendix A summarize your educational background and  
business experience?

A. 4 Yes, it does.

Q. 5 Have you previously testified before any regulatory  
commission?

A. 5 Yes. I have testified before the Public Service  
Commission of Nevada and the Arizona Corporation  
Commission. I have also submitted testimony before the

1 FERC and the California Public Utilities Commission.

2 Q. 6 What is the purpose of your prepared direct testimony in  
3 this proceeding?

4 A. 6 On behalf of Paiute, I am presenting testimony in support  
5 of the following statements and schedules submitted as  
6 part of this rate application:

7 **STATEMENT/  
8 SCHEDULE NO.**

**DESCRIPTION**

9 **Statement A Cost of Service Summary**

10 **Statement B Rate Base and Return Summary**

11 Schedule B-2 Regulatory Assets and Liabilities

12 **Statement C Gas Plant**

13 Schedules C-1, C-2, C-3, C-4, and C-5

14 **Statement D Accumulated Provision for Depreciation  
15 and Amortization**

16 Schedules D-1 and D-2

17 **Statement E Working Capital**

18 Schedules E-1, E-2, and E-3

19 **Statement H-1 Operation and Maintenance Expenses,  
20 Administrative and General Expenses, and  
21 Depreciation and Amortization Expense**

22 Schedules H-1 and H-2

23 Schedule I-1(d) Allocation of Common Costs

24 **Statement L Balance Sheet**

25 **Statement M Income Statement**

26 Q. 7 Were these statements and schedules prepared by you or  
27 under your supervision?

1 A. 7 Yes.

2 Q. 8 Please describe Statement A.

3 A. 8 Statement A is a summary of Paiute's overall cost of  
4 service. It is shown by function for the 12-month base  
5 period ended November 30, 2008, as adjusted for the test  
6 period (adjustment period) ending August 31, 2009. As  
7 shown in Statement A, based on a cost of service of  
8 \$34,585,930, Paiute's revenues at present rates are  
9 deficient by \$3,867,213. In addition to the cost of  
10 service summary, Statement A includes a summary of  
11 adjustments schedules detailing the impact of the proposed  
12 adjustments made to Paiute's overall cost of service.

13 **RATE BASE**

14 Q. 9 Please explain Statement B.

15 A. 9 Statement B provides a summary of rate base and return on  
16 rate base in total and by function, including the  
17 functionalization related to incrementally priced  
18 facilities. This statement was prepared from information  
19 provided on other statements and schedules included in  
20 the filing.

21 Q. 10 Please describe Statement C and its supporting schedules  
22 that you are sponsoring.

23 A. 10 Statement C and its supporting schedules detail Paiute's  
24 base period gas plant balances in total and by function  
25 as adjusted for the test period. General and intangible  
26 plant is allocated between the storage and transmission  
27 functions based on the test period percentage

1 relationship of each function's gas plant to total  
2 storage and transmission gas plant.

3 Q. 11 Please explain the adjustments made to Paiute's base  
4 period gas plant balances.

5 A. 11 Adjustment No. 2 reflects estimated plant additions that  
6 are expected to be placed in service and closed to gas  
7 plant during the test period.

8 Adjustment No. 3 removes from gas plant in service  
9 capital costs incurred by Paiute that were in excess of  
10 the agreed upon project cost cap amount set forth in the  
11 related transportation service agreements between Paiute  
12 and the Lake Tahoe Expansion Project shippers.

13 Q. 12 Please describe Statement D and its supporting schedules.

14 A. 12 Statement D and its supporting schedules detail Paiute's  
15 base period accumulated provision for depreciation and  
16 amortization balances in total and by function as  
17 adjusted for the test period. General and intangible  
18 accumulated provision for depreciation and amortization  
19 is allocated between storage and transmission functions  
20 based on the test period percentage relationship of each  
21 function's gas plant to total storage and transmission  
22 gas plant.

23 Q. 13 Please describe the adjustments made to Paiute's base  
24 period accumulated provision for depreciation and  
25 amortization balances.

26 A. 13 Adjustment No. 4 removes from the accumulated provision  
27 for depreciation and amortization the accumulated

1 depreciation associated with the gas plant removed from  
2 gas plant in service in Adjustment No. 3.

3 Adjustment No. 5 reflects the estimated additions  
4 to the accumulated provision for depreciation and  
5 amortization projected to occur during the test period.  
6 The estimated additions are composed of depreciation of  
7 existing plant as of the end of the base period along  
8 with depreciation related to plant additions expected to  
9 be placed in service and closed to plant during the test  
10 period.

11 Q. 14 Please describe Statement E and its supporting schedules.

12 A. 14 Statement E is a summary of the working capital that  
13 Paiute is claiming in rate base. Paiute is not including  
14 a cash working capital component in working capital. The  
15 working capital claimed is composed of the 13-month  
16 average balance of materials and supplies and the 13-  
17 month average balance of the cushion gas in the LNG tank  
18 maintained by Paiute to ensure the adequate operation of  
19 the facility.  
20

21 **OPERATION & MAINTENANCE AND ADMINISTRATIVE & GENERAL EXPENSES**

22 Q. 15 Please describe Statement H-1 and Schedule H-1.

23 A. 15 Statement H-1 details the operation and maintenance (O&M)  
24 and administrative and general (A&G) expenses by account,  
25 by month for the base period and as adjusted for the test  
26 period. In addition, schedules are included showing the  
27 impact to each account of each proposed O&M and A&G

adjustment.

Schedule H-1 categorizes the O&M and A&G expenses by account, between labor cost and materials and supplies, by month for the base period and as adjusted for the test period. As Paiute has no employees, the O&M labor represents Southwest employees charging their time directly to Paiute for the work performed on its behalf and the A&G labor is allocated from Paiute's parent, Southwest. These schedules also provide greater detail on the costs contained in the A&G expense accounts.

Q. 16 Please describe how A&G expenses are allocated from Southwest to Paiute.

A. 16 A&G expenses originating at the corporate level (Southwest) are either charged directly to a rate jurisdiction of Southwest's local distribution company (LDC) operations or to Paiute if the cost is directly incurred on their behalf, or is allocable to all LDC rate jurisdictions and Paiute if the cost is common or beneficial to all and cannot be directly assigned. Costs that are common to all are referred to as common or system allocable costs.

System allocable A&G expenses are allocated and charged to Paiute through the use of the Modified Massachusetts Formula (MMF), with the exception of Account 924, Property Insurance, which is allocated using a factor based on insurable property. The MMF, as shown in Schedule I-1(d), Sheet 2, is the arithmetic average of

1 three equally weighted components: direct operating  
2 labor, margin (revenue less gas cost), and gross plant.  
3 The property insurance allocation percentage is  
4 calculated on Schedule I-1(d), Sheets 4 and 5, and is  
5 based on the ratio of Paiute insurable property to total  
6 Southwest insurable property.

7 Q. 17 Please describe the adjustments made to Paiute's O&M and  
8 A&G expenses.

9 A. 17 Adjustment No. 7 increases recorded base period labor and  
10 labor loading (paid time-off, benefits and payroll taxes)  
11 costs to reflect annualized amounts as of November 30,  
12 2008, adjusted to reflect known and measurable events.  
13 The recorded amounts were adjusted to reflect: 1) a 3%  
14 wage increase expected to become effective in June 2009;  
15 2) the annualized cost associated with new employees  
16 projected to be hired in the test year to fill vacant  
17 positions as of the end of the base period; 3) pension  
18 and other post-employment related expenses based on the  
19 latest actuarial study; 4) replacement of the December  
20 2007 medical expense true-up journal entry with the  
21 December 2008 medical expense true-up journal entry to  
22 reflect current medical costs; and 5) the increase to the  
23 FICA and state unemployment insurance (SUI) wage base and  
24 a decrease to the SUI rate, all of which were effective  
25 January 1, 2009.

26 Adjustment No. 8 reflects the projected 3% increase  
27 to other non-labor related operation & maintenance



1 expenses during the test year. It is anticipated that  
2 expenses related to outside contractors, refrigerants,  
3 chemicals, materials & supplies, utilities, and other  
4 miscellaneous expenditures associated with operating the  
5 LNG Plant and pipeline transmission facilities will  
6 increase in the test year.

7 Adjustment No. 9 reflects the increased level of  
8 maintenance expense associated with the LNG facility that  
9 is expected to be incurred during the test year. These  
10 maintenance project expenditures are not reflected in the  
11 base period and must be added to the test year to achieve  
12 representative levels of LNG Plant maintenance expense in  
13 rates.

14 Adjustment No. 10 normalizes Transmission Integrity  
15 Management Program (TRIMP) contractor related costs to  
16 reflect the most recent three-year average of such costs.  
17 The base period level of contractor related expenses is  
18 not representative of on going levels. The adjustment is  
19 limited to outside contractor related costs and does not  
20 include any internal company related expenditures.

21 Adjustment No. 11 annualizes the A&G expenses  
22 allocated to Paiute from Southwest. This adjustment  
23 annualizes the recorded A&G expenses to reflect the MMF  
24 allocation percentage at the end of the base period, as  
25 adjusted.

26 Adjustment No. 12 annualizes the rent expense  
27 charged to Paiute for its use of Southwest's Northern

1 Nevada Division and system allocable general plant.

2 Paiute is charged a rental charge for its share of  
3 system allocable intangible and general plant used to  
4 support the Corporate Administrative staff. The rental  
5 charge for system allocable plant is calculated by  
6 multiplying the revenue requirement associated with  
7 system allocable plant by the MMF, as shown on Schedule  
8 I-1(d), Sheet 10.

9 In Northern Nevada, Paiute's operations are  
10 conducted mainly from Paiute's Operations facility in  
11 Carson City. However, due to the vast geographic area  
12 that Paiute operates in, Paiute does utilize some of  
13 Southwest's employees located in the Winnemucca District  
14 office to perform O&M activities on Paiute's facilities  
15 that are located significant distances from Paiute's  
16 Carson City Operations Center and its LNG Facility in  
17 Lovelock. In addition, Paiute receives administrative  
18 support from some Southwest employees located at the  
19 Southwest Gas Operations Center in Carson City. A rental  
20 calculation similar to the system allocable rental  
21 calculation is performed to determine the appropriate  
22 rental amount for Paiute's use of the Southwest  
23 facilities located in Winnemucca and Carson City, Nevada.  
24 However, instead of using the MMF as the allocator,  
25 square footage and a labor ratio are used as allocators.  
26 These calculations are shown on Schedule I-1(d), Sheets 7  
27 through 9.

Adjustment No. 13 increases regulatory commission expenses to reflect the three-year amortization of the estimated costs associated with this rate change filing.

Adjustment No. 14 removes the FERC Annual Charge Adjustment (ACA) expenses from Account 928, Regulatory Commission Expenses, as these costs are recovered from Paiute's customers through a separate surcharge rate that is not determined in a rate change application.

**DEPRECIATION AND AMORTIZATION EXPENSE**

Q. 18 Please describe Statement H-2.

A. 18 Statement H-2 is a summary of base period depreciation and amortization expense in total and by function as adjusted for the test period.

Q. 19 Please describe the adjustments made to Paiute's depreciation and amortization expense.

A. 19 Adjustment No. 14 annualizes test period depreciation and amortization expense based on currently-authorized depreciation rates.

Paiute is not proposing any change to its currently authorized depreciation rates. The current depreciation rates were the subject of intense review and negotiation in Paiute's last general rate case, Docket No. RP05-163. Paiute witness Edward Feinstein has performed an analysis of Paiute's existing rates. His analysis generally concludes that Paiute could support higher depreciation rates than the currently authorized depreciation rates. However, for business purposes, Paiute has chosen to keep

1 its depreciation rates the same and not seek an increase  
2 to them at this time even though witness Feinstein's  
3 analysis supports the higher depreciation rates. Mr.  
4 Feinstein's analysis further supports the reasonableness  
5 of the depreciation rates proposed in this application.  
6 Paiute reserves the right at hearing to pursue the higher  
7 depreciation rates derived from witness Feinstein's  
8 analysis.

9 Adjustment No. 15 represents the amortization of  
10 preliminary survey and investigation charges related to  
11 two recent studies performed for Paiute's LNG Facility.  
12 The first study, the LNG Plant Integrity Study, was to  
13 review key plant processes, systems and components, and  
14 identify equipment additions, modifications, repairs  
15 and/or replacements at the LNG Plant to help ensure the  
16 continued safe and reliable operations and to maximize  
17 the life of the facility. The second, the Ethane  
18 Extraction System Study, was to evaluate the feasibility  
19 and cost for the design and construction of a system to  
20 extract ethane gas at the LNG Plant for use in plant  
21 operations. An ethane extraction system would eliminate  
22 or reduce the need to purchase ethane gas for use in the  
23 plant's mixed refrigerant loop and ensure that ethane gas  
24 is available when needed. Based on the study results,  
25 the cost to design and construct an ethane extraction  
26 system was significantly higher than anticipated and  
27 Paiute does not plan on proceeding with the project at

1 this time. The purpose of performing the studies was to  
2 identify potential plant and/or process modifications  
3 that could maintain and/or increase the operational  
4 efficiencies, availability, and reliability of the LNG  
5 facility. The LNG customers receive a direct benefit  
6 from studies such as these and Paiute is seeking to  
7 amortize the costs related to these studies over a three-  
8 year period rather than incorporating them as an O&M  
9 expense in the application.

#### 10 **ALLOCATIONS**

11 Q. 20 Please describe Schedule I-1(d).

12 A. 20 Schedule I-1(d) contains the allocation factors utilized  
13 by Paiute. These allocation factors include: (1) the  
14 Kansas/Nebraska (K-N) Method, used for the functional  
15 allocation of Paiute's A&G expenses; (2) Plant  
16 Allocators, used for functional allocation of Paiute's  
17 general and intangible plant; (3) MMF, used to allocate  
18 A&G expenses from Southwest to Paiute; (4) Property  
19 Insurance Allocation, used to allocate property insurance  
20 to Paiute from its parent, Southwest; and (5) the Paiute  
21 Rental Charge, which calculates the rent expense charged  
22 to Paiute for its use of Southwest's Northern Nevada  
23 Division and system allocable general plant.

24 Q. 21 Why are these allocation methods reasonable?

25 A. 21 First, the K-N method is a long-standing Commission-  
26 approved methodology utilized in many proceedings before  
27 the FERC for allocating A&G expenses between Company

1 functions.

2 Second, the use of Plant Allocators for the  
3 functional allocation of Paiute's general and intangible  
4 plant and related accumulated depreciation and  
5 amortization is proper because it reasonably assigns  
6 general and intangible plant and accumulated provisions  
7 between Paiute's storage and transmission functions based  
8 upon the test period relationship between storage and  
9 transmission plant.

10 Third, the MMF is a Commission-approved methodology  
11 for allocating A&G expenses from a parent company  
12 (Southwest) to a subsidiary (Paiute).

13 Fourth, it is reasonable to allocate property  
14 insurance from Southwest to Paiute on the basis of the  
15 Property Insurance Allocation, because this reflects the  
16 ratio of Paiute's insurable property to Southwest's  
17 insurable property.

18 Fifth, the Paiute Rental Charge for use of system  
19 allocable plant allocates the revenue requirement of  
20 system allocable plant based upon the Commission-approved  
21 MMF. The Paiute Rental Charge for use of Northern Nevada  
22 Division facilities reasonably allocates expense to Paiute  
23 based on the relationship of square footage utilized by  
24 Paiute in relation to that utilized by Southwest LDC  
25 operations or based on a labor ratio of Paiute labor to  
26 Southwest LDC labor at that particular facility.

1 **FINANCIAL STATEMENTS**

2 Q. 22 Please describe Statement L and Statement M.

3 A. 22 Statement L is Paiute's balance sheet as of the beginning  
4 and end of the base period. Statement M includes Paiute's  
5 income statement for the 12-month periods ended  
6 November 30, 2007 and November 30, 2008, and a statement  
7 of retained earnings.

8 Q. 23 Does this conclude your prepared direct testimony?

9 A. 23 Yes, it does.

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APPENDIX A  
SUMMARY OF QUALIFICATIONS  
MARK A. LITWIN

I graduated from the Pennsylvania State University in 1983 with a Bachelor of Science degree in Accounting. I am a Certified Public Accountant from the State of Pennsylvania and a member of the American Institute of Certified Public Accountants.

Upon graduation from college, I accepted employment with the Federal Energy Regulatory Commission (FERC) as an auditor in the Office of Chief Accountant, Division of Audits. My principal responsibilities included the auditing of the books and records of major natural gas pipelines and electric utilities for compliance with the Uniform System of Accounts, rate orders, and other orders issued by the Commission.

In May 1988, I joined the Rate Department of Southwest as a Regulatory Specialist. In June 1990, I was promoted to Senior Rate Specialist and subsequently promoted to Supervisor/Revenue Requirements in February 1992, and to Manager/Revenue Requirements in April 1997. In May 2001, I was promoted to my present position. My responsibilities include assisting the Vice President/General Manager of Paiute Pipeline Company (Paiute) in conducting the business operations of Paiute, and coordinating regulatory activities for Southwest and Paiute before the FERC and the U.S. Department of Energy.



AFFIDAVIT OF MARK A. LITWIN

LAS VEGAS, NV            )

Mark A. Litwin, being duly sworn, deposes and says:  
that he has read and is familiar with the contents of the  
foregoing "Prepared Direct Testimony of Mark A. Litwin";  
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.

  
Mark A. Litwin

SUBSCRIBED AND SWORN TO BEFORE ME on this 23<sup>rd</sup> day  
of February 2009.

  
Notary Public

