

PAIUTE PIPELINE COMPANY
Docket No. RP09-____-000

NOTICE OF RATE CHANGE

VOLUME I

STATEMENTS A through J,
L, M and O

**LETTER OF
TRANSMITTAL**

PAIUTE

PIPELINE COMPANY

Edward C. McMurtrie, Vice President/General Manager

February 27, 2009

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Dear Ms. Bose:

Re: Paiute Pipeline Company
Docket No. RP09- -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 the following tariff sheets, to be a part of Second Revised Volume No. 1-A of Paiute's FERC Gas Tariff:

Nineteenth Revised Sheet No. 10
Second Revised Sheet No. 20
Sixth Revised Sheet No. 21
Sixteenth Revised Sheet No. 161

Paiute respectfully requests that its proposed rates and tariff sheets be permitted to become effective on April 1, 2009.

**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 this filing, Paiute projects an overall deficiency of \$3,867,213 in annual revenues under its existing rates which

were established in Docket No. RP05-163-000.¹ 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 rates under all rate schedules contained in Paiute's Second Revised Volume No. 1-A.²

The proposed rates for which notice is given are reflected on the Statement of Rates tariff sheet designated as Nineteenth 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 remove from its tariff the table of firm transportation monthly billing determinants set forth on Sheet No. 161 and all references in the tariff to such table.³

The rates filed herein are based on a total cost of service of \$34,585,930 and an annual throughput of 39,877,435 Dth. The test period used in this notice is comprised of a base period of twelve (12) consecutive months of actual experience ending November 30, 2008, as adjusted for known and measurable changes to occur during the succeeding nine months ending August 31,

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

² The increase in rates is applicable to the transportation services performed by Paiute under transportation rate schedules FT-1 and IT-1 and to LNG storage services performed under storage rate schedules LGS-1 and LGS-2. Paiute performs no other jurisdictional services.

³ Second Revised Sheet No. 20, Sixth Revised Sheet No. 21, and Sixteenth Revised Sheet No. 161.

2009. 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. RP05-163-000, which utilized cost data experienced during the twelve-month period ending October 31, 2004, as adjusted for known and measurable changes. As previously stated, under the rates established in that docket, Paiute's revenues are deficient by approximately \$3,867,213 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 due to plant additions; (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 10.89 percent, with a return on common equity of 13.83 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 45.6 percent long-term debt and 54.4 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 allocation that was used to derive the transportation rates established in Docket No. RP05-163-000. 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, RP96-306-000, and RP05-163-000.

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.

Paiute currently charges four distinct incremental rates to recover certain costs related to four separate capacity expansion construction projects. In deriving the proposed new incremental rates herein, Paiute has used the same SFV methodology that was approved in the certificate orders authorizing the projects and that was used to derive such rates in Docket No. RP05-163-000, with one exception. In the settlement approved in Docket No. RP05-163-000, Paiute and the parties agreed, for ratemaking purposes, to split the cost of service and the associated billing determinants related to the Carson Lateral Incremental Facilities Surcharge. One-half of the cost of service and the billing determinants was assigned to the incremental rate, and the remainder was assigned to Paiute's systemwide firm transportation rate. Paiute has continued that treatment in this notice as to the Carson Lateral incremental facilities' costs and billing determinants.

In the case of rates for firm LNG 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. RP05-163-000. The interruptible LNG storage rate is based upon a calculated 100 percent load factor of the firm LNG storage rates.

A schedule is set forth in Appendix A 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. RP05-163-000.

Aside from its Statement of Rates tariff sheet, Paiute is proposing herein to revise three other tariff sheets⁴ so as to remove from its tariff the table of firm transportation monthly

⁴ See n.3 supra.

billing determinants set forth on Sheet No. 161 and related references. All of the information on Sheet No. 161 is available on Paiute's website, where it can be updated promptly and efficiently. Maintaining the tariff sheet, in comparison, presents unnecessary administrative burdens for Paiute, the Commission, and its shippers, due to the necessity of filing revisions to the tariff sheet whenever there is a change in a firm shipper's billing determinant. Consequently, Paiute proposes to remove Sheet No. 161 from the tariff and to revise billing determinant references as necessary on Sheet Nos. 20 and 21 of Rate Schedule FT-1.

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:

- (1) A motion to place rates into effect at the end of the suspension period;
- (2) A table of contents;
- (3) 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;
- (4) A representation of the Chief Accounting Officer of Paiute's parent company, Southwest Gas Corporation; and
- (5) 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 is a diskette containing the tendered tariff sheets to be contained in Paiute's FERC Gas Tariff, Second Revised Volume No. 1-A (File Name TF022709.ASC). The undersigned hereby certifies that the tendered tariff sheets contain the same information as the 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 diskette containing Paiute's proposed tariff sheets, Paiute is also enclosing a compact disc that contains this notice of rate change filing in its entirety.

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 April 1, 2009 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.

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.

Paiute is unaware of any specific waiver that may be necessary to effectuate this filing. However, if any 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 effective April 1, 2009 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:

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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 style with a large, stylized "E" and "M".

Edward C. McMurtrie
Vice President/General Manager

PAIUTE PIPELINE COMPANY

	<u>AS SETTLED</u> <u>RP05-163 [1]</u>	<u>AS FILED</u> <u>RP09-</u>	<u>DIFFERENCE</u>
COST OF SERVICE	\$ 29,200,000	\$ 34,585,930	\$ 5,385,930
RATE BASE	-	\$ 84,864,356	-
TOTAL THROUGHPUT (Dth)	-	39,877,435	-

[1] Rate base and total throughput amounts were not identified in the Settlement approved by the Commission in Docket No. RP05-163.