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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

Arizona Corporation Commission

DOCKETED

APR 29 2005

DOCKETED BY	<i>[Signature]</i>
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IN THE MATTER OF THE APPLICATION OF
DUNCAN RURAL SERVICES CORPORATION
FOR A RATE INCREASE

DOCKET NO. G-02528A-05-_____

APPLICATION

G-02528A-05-0314

Duncan Rural Services Corporation ("DRSC") in support of its Application states as follows:

1. DRSC is a non-profit, gas distribution corporation that provides service to about 760 consumers in Greenlee County.
2. DRSC is a Class C Utility as defined by A.A.C. R14-2-103, filed herewith and incorporated herein by this reference, are the Schedules, direct testimony of Mr. Jack Shilling and Mr. John V. Wallace and other materials in support of this Application. DRSC stipulates that the Commission may use its original cost less depreciation rate base for purposes of determining a return on fair value in this Application. DRSC's requested rate relief is premised upon its Times Interest Earned Ratio ("TIER").

AZ CORP COMMISSION
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1 3. By this Application, the DRSC seeks a rate increase of 27.25 percent over
2 current rates. This proposed revenue increase will produce a rate of return of 8.12 percent on its
3 rate base of \$827,522. The proposed revenue increase would yield an operating margin of
4 \$67,154.

5 4. By way of background, DRSC acquired the gas system in 1989 from
6 General Utilities, Inc. ("General"). As the Commission found in Decision No. 58356, General's
7 system at time of purchase was in serious disrepair and had been cited numerous times by the
8 Staff's Pipeline Safety Section.

9 5. Since 1989, DRSC has been replacing pipe and meters and making repairs
10 in its gas distribution system that have resulted in a significant reduction in the number of gas
11 leaks.

12 6. Duncan Valley Electric Cooperative, Inc. ("DVEC") manages the
13 operations of DRSC including its operational and capital expenditures and then keeps track of
14 these expenditures on a company-by-company basis.

15 7. In DRSC's last rate case, the Commission authorized a 24 percent increase
16 in gross annual revenues based on a test year ending December 31, 2000 (Decision No. 64869
17 dated June 5, 2002). In this case, the Commission found that DRSC had suffered a net loss in the
18 test year of approximately \$19,000.

19 8. DRSC's financial condition has not improved since its last case because it's
20 purchased gas costs have significantly increased during the Test Year and other costs have
21 increased as well. In addition, during the years 2001 to 2004, DRSC invested over \$331,000 in
22 plant additions. DRSC's customer base is decreasing not growing, which allows expenses to
23 outpace revenues.

24

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1 9. DRSC also requests that its Application be consolidated with its
2 application to incur additional long-term debt (Docket No. G-02528A-03-0205). Shortly after
3 making this filing, DRSC requested that Commission Staff not process this case until it filed a
4 rate case. DRSC made this request because it would not be able to repay this additional debt
5 without a rate increase.

6 10. DRSC had originally intended to file its rate case in 2004 with a Test Year
7 ending December 31, 2003. However, due to the amount of man hours needed to complete a rate
8 case for DVEC in Arizona and New Mexico, the DRSC rate case application was not able to be
9 completed until April of 2005.

10
11 WHEREFORE, having fully stated its Application, DRSC requests that the
12 Commission enter its Order approving the requested rate increase, the new rates, fees and
13 charges set forth in the Application. DRSC also requests that its Application be consolidated
14 with its application to incur additional long-term debt (Docket No. G-02528A-03-0205).
15 Finally, DRSC requests that the Commission approve its request to incur long-term debt as set
16 forth in its Application.

17
18 Further communications and notices concerning these Dockets should be directed

19 to:

20 John Wallace
21 GCSECA
22 120 North 44th Street, Suite 100
 Phoenix, AZ 85034
 Email: jwallace@gcseca.coop

 Mike Grant
 Gallagher & Kennedy, P.A.
 2575 E. Camelback Rd.
 Phoenix, AZ 85016-9225
 E-mail: mmg@gknet.com

1 RESPECTFULLY SUBMITTED this 29th day of April, 2005.

2
3 By 

4 John Wallace
5 Grand Canyon State Electric Cooperative Assn. Inc.
6 Consultant for Duncan Valley Electric
7 Cooperative, Inc.
8
9

10 **Original** and fifteen (15) copies filed this
11 29th day of April 2005, with:

12 Docket Control
13 Arizona Corporation Commission
14 1200 W. Washington
15 Phoenix, AZ 85007

16 By 
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DUNCAN RURAL SERVICES CORPORATION

DOCKET NO. G-02528A-05-

Before the Arizona Corporation Commission

**Application for an Increase in Gas
Rates Based on the Test Year
Ended December 31, 2004**

And

**Application to Request Permission to
Incur Additional Long-Term Debt
Docket No. G-02528A-03-0205**

April 2005

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

RATE FILING INDEX

Test Year Ended December 31, 2004

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	Direct Testimony of John V. Wallace - Rate Consultant to Duncan Rural Services Corporation		
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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICES CORPORATION)
FOR A RATE INCREASE)
_____)

DOCKET NO. G-02528A-05-

IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICES CORPORATION)
FOR APPROVAL OF A LOAN IN THE)
AMOUNT OF \$400,000)
_____)

DOCKET NO. G-02528A-03-0205

DIRECT

TESTIMONY

OF

JACK SHILLING

CHIEF EXECUTIVE OFFICER
DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

April 29, 2005

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	Financial Forecast	1 - 8

1 **I. INTRODUCTION**

2 Q. Please state your name, address and occupation.

3 A. My name is Jack Shilling. My business address is 222 Highway 75, P.O. Box 440,
4 Duncan, Arizona. I am Chief Executive Officer of Duncan Valley Electric Cooperative,
5 Inc. ("DVEC"). Through an Operations and Management Agreement, Duncan Valley
6 manages the day-to-day operations of Duncan Rural Services Corporation ("DRSC").
7

8 Q. Please describe the nature of DRSC's Operations.

9 A. DRSC is a non-profit corporation that provides service to about 760 consumers in
10 Greenlee County. The gas system was acquired in 1989 from General Utilities, Inc.
11 ("General"). The vast majority of DRSC's consumers are rural, residential users that heat
12 their homes with natural gas. Approximately 56% of the utility's annual sales occur
13 during the five winter months of November through March.
14

15 **II. REVENUE REQUIREMENTS**

16 Q. Please summarize DRSC's rate request in this proceeding.

17 A. We are requesting Commission approval to increase our overall revenues by 27.25%.
18 The proposed rates contained in the filing schedules are designed to provide additional
19 annual revenues of approximately \$177,000. In the test year ending December 31, 2004,
20 DRSC sustained an adjusted net/total margin loss of slightly less than \$99,000.
21

22 A detailed discussion of all aspects of the request is provided in the testimony of Mr.
23 John Wallace, Director of Regulatory and Strategic Services for Grand Canyon State
24 Electric Cooperative Association.
25
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28

1 Q. When did DRSC last increase its rates?

2 A. In Decision No. 64869 (June 5, 2002), the Commission authorized a 24 percent increase
3 in gross annual revenues based on a test year ending December 31, 2000. In this case, the
4 Commission found that DRSC had suffered a net loss in the test year of approximately
5 \$19,000.

6
7 In Decision No. 59539, dated February 21, 1996, the Commission authorized a 31%
8 increase in gross annual revenues based on a test year ending December 31, 1994. In the
9 1995 case, the Commission found that DRSC had suffered an adjusted \$52,508 operating
10 margin loss in the test year.

11
12 Q. Has DRSC's financial position improved in years after its most recent rate case?

13 A. Not significantly. Given the fact that DRSC has a lower number of customers now
14 approximately 760 versus 820 customers in the last rate case, DRSC's capital
15 requirements of approximately \$55,000 to \$108,000 per year and the increases in
16 purchased gas and other expenses, DRSC's revenues have not kept pace with its costs.
17 As DRSC's audited financial statements indicate, DRSC's total margins have declined
18 from a negative \$18,859 on December 31, 2003 to a negative \$49,639 on December 31,
19 2004.

20
21 Q. What are the reasons why DRSC's financial performance has not improved?

22 A. There are two primary reasons. First, DRSC's customer base is decreasing not growing,
23 which allows expenses to outpace revenues. Second, as mentioned above, purchased gas
24 costs have significantly increased during the Test Year and other costs have increased
25 since DRSC's last rate case.

26

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1 **III. CAPITAL IMPROVEMENTS & FINANCING**

2 Q. Please describe the major capital improvements DRSC has made to the system since its
3 acquisition in late 1989.

4 A. As the Commission found in Decision No. 58356, General's system at time of purchase
5 was in serious disrepair and had been cited numerous times by the Staff's pipeline safety
6 section. DRSC's efforts have been primarily directed to bringing the system into
7 substantial safety compliance and also reducing large system gas losses. In consultation
8 with the pipeline safety section, a meter replacement program was begun in 1993. Of
9 course, normal repairs, replacements and additions to the system have also been
10 necessary over the past fifteen years. The major construction project remaining is the
11 PVC pipe replacement project, which also was discussed at pages 18-19 of Decision No.
12 58356. In compliance with that Decision, a finance application was filed with the
13 Commission to fund that project on April 19, 1995 that was approved in Decision No.
14 59271, (September 20, 1995). Since that time, DRSC has been replacing pipe and
15 making repairs in its gas distribution system that have resulted in a significant reduction
16 in the number of gas leaks.

17
18 Since its last rate case with a Test Year ended of December 31, 2000, DRSC has made
19 the following plant additions by year:

20 2001 - \$108,087

21 2002 - \$106,194

22 2003 - \$62,393

23 2004 - \$54,620

24 According to DRSC's financial forecast, capital additions will continue to average
25 approximately \$80,000 for the next five years.
26
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28

1 Q. How have the costs of these projects been met?

2 A. DRSC was completely debt funded at its inception. As of December 31, 2004, DRSC had
3 negative equity of \$148,072. Therefore, other than cash available from depreciation (a
4 non-cash expense), there have been no funds available from DRSC to meet these
5 construction needs. Duncan Valley manages the operations of DRSC including its
6 operational and capital expenditures and then keeps track of these expenditures on a
7 company-by-company basis. As of March 2004, the account payable from DRSC to
8 DVEC had grown to approximately \$455,000. This obviously is not a satisfactory long-
9 term situation for the members of either DRSC or DVEC.

10

11 Q. Please explain how DRSC proposes to address and remedy this situation.

12 A. As discussed further in the financing section of Mr. Wallace's direct testimony, DRSC
13 plans to borrow \$311,000 from Duncan Valley for completed construction and
14 correspondingly will reduce DRSC's account payable to DVEC. An adjustment to reflect
15 interest and principal charges associated with the debt has been made in the schedules
16 Mr. Wallace has prepared. The rates requested in this proceeding would then allow
17 DRSC to meet these obligations and provide some positive margins on a going forward
18 basis.

19

20 Q. Has DRSC previously requested approval of this \$311,000 of additional debt?

21 A. Yes. On April 4, 2003, DRSC filed an application that requested that a loan in the
22 amount of \$400,000 be approved by the Commission (Docket No. G-02528A-03-0205).
23 Shortly after making this filing, DRSC requested that Commission Staff not process this
24 case until it filed a rate case. DRSC made this request because it would not be able to
25 repay this additional debt without a rate increase. DRSC had originally intended to file
26 its rate case in 2004 with a Test Year ending December 31, 2003. However, due to the
27 amount of man hours needed to complete a rate case for DVEC in Arizona and New
28 Mexico, the DRSC rate case application was not able to be completed until April of 2005.

1 DRSC is requesting that the financing application (Docket No. G-02528A-03-0205) be
2 consolidated with this rate case docket for the reasons stated above.

3
4 Q. Can DVEC continue to advance funds to DRSC at the levels it has in previous years.

5 A. No. DVEC can not continue to advance funds to DRSC in the amounts that it has in
6 previous years. DVEC's cash account has been significantly reduced due to DRSC's
7 advances and the amounts borrowed. DVEC can no longer sustain this level of advances.
8 DRSC must be financially self-sufficient and must stop relying on the funds of DVEC.

9
10 Q. Have DVEC and DRSC considered other measures to address these financial concerns?

11 A. Yes. The DVEC and DRSC Board of Directors have considered reorganizing DRSC
12 such that DRSC would become a department/division of DVEC as well as other
13 alternatives to address DRSC's financial situation. If DRSC would become a
14 department/division of DVEC, this would allow DRSC access to CFC's low cost
15 financing and restore DRSC's non-taxable status. However, there are many other factors
16 (i.e. income tax issues, debt issues, regulatory approvals, etc.) that must be considered
17 and resolved before any reorganization is approved and can occur.

18
19 Q. Does such reorganization completely address the financial concerns of DRSC?

20 A. No. DRSC will still need to be financially responsible for all expenses, debt service and
21 construction expenditures that it incurs. Consequently, the first step is to improve
22 DRSC's financial condition by increasing rates to a level that interest and debt coverage
23 ratios will be acceptable to outside lenders and where enough cash-flow is being provided
24 through rates to fund expenses, debt payments and construction without the continued
25 need for advances from outside sources.

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1 Q. If DRSC's proposed revenue increase is granted, will DRSC be on the road to financial
2 recovery?

3 A. Yes. According to DRSC's financial forecast, if DRSC's proposed increase is granted,
4 DRSC will be in the financial position to pay its expenses, debt service and fund the
5 majority of its construction without having to rely on major advances from DVEC
6 (Please refer to the schedule entitled Financial Forecast that is attached to this testimony).
7 Also according to this financial forecast, DRSC should remain in this financial position
8 for the next several years.

9
10 Q. Does that conclude your direct testimony?

11 A. Yes, it does.
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ITEM	FINANCIAL FORECAST FORM 325A - FINANCIAL RATIOS													
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
1. EQUITY RATIO (WITH ADD REVENUE) (%)	-10.27%	-11.28%	-16.31%	-22.96%	-32.11%	-22.54%	-16.83%	-12.54%	-9.54%	-7.91%	-7.76%	-5.91%	-4.13%	
2. DSC (WITH ADD REVENUE)	1.36	0.88	0.34	0.14	-0.16	2.93	2.60	2.41	2.20	1.94	1.64	1.95	1.94	
3. TIER (WITH ADD REVENUE)	0.04	-0.52	-2.24	-2.69	-3.23	4.15	3.51	3.04	2.51	1.84	1.04	2.00	2.00	
4. AVERAGE REV PER THERM SOLD (DOLLARS)	0.82	0.98	1.13	1.15	1.15	1.42	1.42	1.42	1.42	1.42	1.42	1.47	1.49	
5. INCREASE IN AVER REV PER THERM SOLD (%)	XXX	19.19%	15.02%	1.90%	0.03%	23.31%	0.00%	0.01%	-0.01%	-0.01%	-0.01%	3.87%	1.41%	
6. TOT UTIL PLANT PER THERM SOLD (DOLLARS)	2.01	1.99	2.30	2.42	2.55	2.69	2.83	2.97	3.11	3.24	3.38	3.52	3.66	
7. NET GENER FUNDS TO TOT UTIL PLANT (%)	0.80%	0.40%	0.41%	-1.89%	-5.05%	0.00%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
8. ACCUM DEPR & AMORT TO TOT UTIL PLANT (%)	42.53%	43.42%	45.17%	46.09%	47.10%	48.19%	49.34%	50.54%	51.80%	53.09%	54.43%	55.79%	57.19%	
9. OPER & MAIN COST PER CONSUMER (\$)	189.79	234.22	263.80	250.28	258.74	266.57	273.77	282.60	291.01	299.00	309.14	319.07	326.01	
10. ADMIN & GENER EXP PER CONSUMER (\$)	48.68	59.23	72.31	71.77	73.93	75.87	79.76	81.39	82.81	86.49	90.17	91.16	94.74	
11. PLANT REVENUE RATIO	4.21	3.96	4.07	4.34	4.58	3.26	3.43	3.60	3.76	3.93	4.10	4.00	4.06	
12. RATE OF RETURN ON RATE BASE (%)	0.65%	-2.30%	-7.78%	-5.63%	-6.98%	10.29%	8.49%	6.88%	5.39%	3.81%	2.12%	4.11%	4.02%	
13. RATEBASE = 104% OF NET UTIL PLANT	710,517	743,539	752,960	785,183	814,494	840,893	864,380	884,954	902,617	917,368	929,207	938,134	944,149	
14.% INCR OVER PRESENT RATES REQ	XXX	XXX	XXX	XXX	0.03%	0.02%	0.02%	0.03%	0.02%	0.01%	0.00%	3.88%	5.34%	
15. MODIFIED DSC	1.52	0.65	-0.19	0.14	-0.16	2.93	2.60	2.41	2.20	1.94	1.64	1.95	1.94	
16. MOD. TIER	0.20	-1.37	-3.81	-2.69	-3.23	4.15	3.51	3.04	2.51	1.84	1.04	2.00	2.00	

	FINANCIAL FORECAST FORM 325B - BALANCE SHEET													
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
1. ASSETS AND OTHER DEBITS														
A. TOTAL UTILITY PLANT	1,188,833	1,263,675	1,320,470	1,400,470	1,480,470	1,560,470	1,640,470	1,720,470	1,800,470	1,880,470	1,960,470	2,040,470	2,120,470	
B. ACCUM DEPR AND AMORT	505,644	548,734	596,470	645,486	697,303	751,919	809,336	869,552	932,569	998,385	1,067,002	1,138,418	1,212,635	
C. NET UTILITY PLANT	683,189	714,941	724,000	754,984	783,167	808,551	831,134	850,918	867,901	882,085	893,468	902,052	907,836	
D. NET GENERAL FUNDS	9,564	5,094	5,458	(26,456)	(74,800)	0	656	0	0	0	0	0	0	
E. GENERAL FUNDS EXCLUDABLE ITEMS	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	
F. OTHER ASSETS AND DEBITS	80,731	151,813	177,511	177,511	177,511	177,511	177,511	177,511	177,511	177,511	177,511	177,511	177,511	
G. TOTAL ASSETS AND OTHER DEBITS	774,484	872,848	907,969	907,039	886,878	987,062	1,010,301	1,029,429	1,046,412	1,060,596	1,071,979	1,080,563	1,086,347	
2. LIABILITIES AND OTHER CREDITS														
A. TOTAL MARGINS AND EQUITIES	(79,574)	(98,435)	(148,072)	(208,298)	(284,808)	(222,507)	(170,012)	(129,136)	(99,866)	(83,893)	(83,134)	(63,853)	(44,893)	
B. LONG TERM DEBT	608,229	562,263	516,958	576,253	632,604	670,486	641,230	619,482	607,195	605,405	616,030	605,333	592,157	
C. LONG TERM DEBT- OTHER	245,829	409,020	539,083	539,083	539,083	539,083	539,083	539,083	539,083	539,083	539,083	539,083	539,083	
D. OTHER LIABILITIES AND CREDITS														
E. TOTAL LIABILITIES AND CREDITS	774,484	872,848	907,969	907,039	886,878	987,062	1,010,301	1,029,429	1,046,412	1,060,596	1,071,979	1,080,563	1,086,347	

ITEM	FINANCIAL FORECAST FORM 325C - STATEMENT OF OPERATIONS													
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
1. ACCRUAL BASIS														
A1. ADD REV REQ'D TO MEET TIER GOALS	0	0	0	0	168	169	132	234	176	70	2	31,843	43,882	
A2. OPER REV & PAT CAP (PRESENT RATES)	486,060	622,515	649,378	667,119	667,119	822,640	822,640	822,640	822,640	822,640	822,640	822,640	822,640	
B. COST OF GAS	203,481	303,644	325,260	344,388	344,388	344,388	344,388	344,388	344,388	344,388	344,388	344,388	344,388	
C. OPER REV LESS COST OF GAS	282,579	318,871	324,118	322,731	322,899	478,421	478,383	478,486	478,427	478,322	477,254	510,095	522,133	
EXPENSES LESS COST OF GAS	301,395	348,332	398,011	383,284	387,822	411,632	425,888	437,650	449,157	462,348	477,495	490,814	503,173	
D. OPER & MAIN EXPENSE	150,310	180,119	200,490	190,464	196,903	202,861	208,340	215,059	221,458	227,537	235,256	242,816	248,095	
E. CONSUMER ACC & SALES EXPENSE	47,702	45,826	58,103	53,270	54,031	54,792	55,553	56,314	57,075	57,836	58,597	59,358	60,119	
F. ADM & GEN & OTHER DEDUCTIONS EXPENSE	38,557	45,546	54,952	56,618	56,258	57,737	57,416	57,937	57,836	57,816	58,517	59,376	60,119	
G. DEPRECIATION & AMORT EXPENSE	29,340	46,807	49,645	49,016	51,816	54,616	57,416	60,216	63,016	65,816	68,616	71,416	72,096	
H. TAX EXPENSE	12,048	17,642	19,481	19,607	20,727	21,847	22,967	24,087	25,207	26,327	27,447	28,567	29,687	
I. INTEREST EXPENSE	23,438	12,392	15,340	16,309	18,088	19,778	20,915	20,037	19,384	19,016	18,962	19,281	18,960	
J. TOTAL COST OF GAS SERVICE	504,876	651,976	723,271	727,672	742,210	756,020	770,276	782,038	793,545	806,736	821,883	835,202	847,561	
K. PATRONAGE CAPITAL & OPER MARGINS	(18,816)	(29,461)	(73,893)	(60,553)	(74,923)	(74,923)	(74,923)	(74,923)	(74,923)	(74,923)	(74,923)	(74,923)	(74,923)	
L. NONOPERATING MARGINS	51	110	110	327	(1,587)	(4,489)	0	39	0	0	0	0	0	
M. OTHER EXTRAORDINARY ITEMS	(3,658)	10,490	24,146	(60,226)	(76,511)	62,301	52,496	40,875	29,271	15,973	758	19,281	18,960	
N. TOTAL ACCRUAL MARGINS	(22,423)	(18,861)	(49,637)	(60,226)	(76,511)	62,301	52,496	40,875	29,271	15,973	758	19,281	18,960	
GOAL: TIER	XXX	XXX	XXX	XXX	-3.23	4.15	3.51	3.04	2.51	1.84	1.04	2.00	2.00	
2. CASH BASIS														
A. CASH BEFORE DEBT SERVICE	34,013	29,848	(8,798)	5,099	(6,606)	136,696	130,827	121,129	111,671	100,806	88,337	109,978	112,136	
B. TOTAL DEBT SERVICE	22,362	45,966	45,305	37,013	41,737	46,602	50,318	50,327	50,818	51,917	53,704	56,310	57,822	
C. CASH MARGINS AFTER DEBT SERVICE	11,651	(16,118)	(54,103)	(31,914)	(48,344)	90,093	80,508	70,801	60,854	48,888	34,633	53,669	54,315	
1. SOURCES OF GENERAL FUNDS														
A. NET GENERAL FUNDS (FIRST OF YEAR)	XXX	XXX	XXX	5,458	(26,456)	(74,800)	0	656	0	0	0	0	0	
B. CASH MARGINS AFTER DEBT SERVICE	XXX	XXX	XXX	(31,914)	(48,344)	90,093	80,508	70,801	60,854	48,888	34,633	53,669	54,315	
C. OTHER PROCEEDS	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0	
D.	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
E. REIMBURSEMENTS	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0	
F. REIMBURSEMENTS FROM SPECIAL LOANS	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0	
2. TOTAL GENERAL FUNDS AVAILABLE	XXX	XXX	XXX	(26,456)	(74,800)	15,293	80,508	71,457	60,854	48,888	34,633	53,669	54,315	
3. PROPOSED USES OF GENERAL FUNDS														
A.	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
B. CAPITAL CREDIT RETIREMENTS	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0	
C. GEN FUNDS INVESTED IN PLANT	XXX	XXX	XXX	0	0	15,293	79,852	71,457	60,854	48,888	34,633	53,669	54,315	
D. OTHER USES OF GENERAL FUNDS	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0	
4. TOTAL PROPOSED USES OF GENERAL FUNDS	XXX	XXX	XXX	0	0	15,293	79,852	71,457	60,854	48,888	34,633	53,669	54,315	
5. NET GENERAL FUNDS(END OF YEAR)	9,564	5,094	5,458	(26,456)	(74,800)	0	656	0	0	0	0	0	0	
GENERAL FUNDS GOAL - PERCENTAGE	XXX	XXX	XXX	0.00%	0.00%	0.00%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
GEN FUNDS REQUIRED FOR PLANT INVEST														
ADDL GEN FUNDS AVAIL FOR PLANT INVEST	XXX	XXX	XXX	0	0	15,293	79,852	71,457	60,854	48,888	34,633	53,669	54,315	

FINANCIAL FORECAST FORM 325D - GENERAL FUNDS SUMMARY

FINANCIAL FORECAST FORM 325E - DETERMINATION OF LOAD

ITEM	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. NUMBER OF CONSUMERS													
A. 250 chf and below	766	746	739	740	740	740	740	740	740	740	740	740	740
B. 251 chf and 425 chf	0	0	0	0	0	0	0	0	0	0	0	0	0
C. 256 chf and 425 chf	24	20	19	19	19	19	19	19	19	19	19	19	19
D. 426 chf and 1000 chf	2	3	2	2	2	2	2	2	2	2	2	2	2
K. TOTAL CONSUMERS	792	769	760	761	761	761	761	761	761	761	761	761	761
2. AVERAGE MONTHLY USE PER CONSUMER													
A. 250 chf and below	41	44	44	44	44	44	44	44	44	44	44	44	44
B. 251 chf and 425 chf	#DIV/0!	#DIV/0!	#DIV/0!	0	0	0	0	0	0	0	0	0	0
C. 256 chf and 1000 chf	576	863	746	750	750	750	750	750	750	750	750	750	750
D. 426 chf and 1000 chf	2,000	1,028	750	750	750	750	750	750	750	750	750	750	750
3. ANNUAL SALES (THERMS)													
A. 250 chf and below	376	390	387	391	391	391	391	391	391	391	391	391	391
B. 251 chf and 425 chf	0	0	0	0	0	0	0	0	0	0	0	0	0
C. 251 chf and 425 chf	166	207	170	171	171	171	171	171	171	171	171	171	171
D. 426 chf and 1000 chf	48	37	18	18	18	18	18	18	18	18	18	18	18
4. ANNUAL GAS REQUIREMENTS													
A. TOTAL THERMS SOLD	590	634	575	580	580	580	580	580	580	580	580	580	580
A1. THERMS SOLD NOT SUBJECT TO LINE LOSS	0	0	0	0	0	0	0	0	0	0	0	0	0
B. SYSTEMS OWN USE	0	0	0	0	0	0	0	0	0	0	0	0	0
C. SYSTEM LOSS PERCENTAGE	-0.042403	-0.070946	-0.043557	-0.010000	-0.010000	-0.010000	-0.010000	-0.010000	-0.010000	-0.010000	-0.010000	-0.010000	-0.010000
D. THERMS REQUIREMENTS	566	592	551	574	574	574	574	574	574	574	574	574	574

FINANCIAL FORECAST FORM 325F - DETERMINATION OF OPERATING PAGE 1 OF 2

ITEM	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
3. BY "REV PER THERM SOLD METHOD"													
A. TOTAL ANNUAL THERMS SOLD													
B. AVERAGE REVENUE PER THERM SOLD	0.68336	0.76546	0.86602	0.95765	0.95765	1.18000	1.18000	1.18000	1.18000	1.18000	1.18000	1.18000	1.18000
C. FIXED MONTHLY CHARGE PER CONS	14.00	15.00	15.00	15.00	15.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
D. AVG NUMBER OF CONSUMERS	766	746	739	740	740	740	740	740	740	740	740	740	740
E. ANNUAL REV LESS FLOWTHRU ADJ	385,631	432,810	468,170	507,373	507,373	638,650	638,650	638,650	638,650	638,650	638,650	638,650	638,650
CONSUMER CLASS -----> 250 chf and below													
CONSUMER CLASS ----->													
A. TOTAL ANNUAL THERMS SOLD	0	0	0	0	0	0	0	0	0	0	0	0	0
B. AVERAGE REVENUE PER THERM SOLD	#DIV/0!	#DIV/0!	#DIV/0!	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
C. FIXED MONTHLY CHARGE PER CONS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D. AVG NUMBER OF CONSUMERS	0	0	0	0	0	0	0	0	0	0	0	0	0
E. ANNUAL REV LESS FLOWTHRU ADJ	0	0	0	0	0	0	0	0	0	0	0	0	0
CONSUMER CLASS -----> 251 chf and 425 chf													
CONSUMER CLASS ----->													
A. TOTAL ANNUAL THERMS SOLD	166	207	170	171	171	171	171	171	171	171	171	171	171
B. AVERAGE REVENUE PER THERM SOLD	0.50646	0.62451	0.68653	0.78564	0.78564	0.89000	0.89000	0.89000	0.89000	0.89000	0.89000	0.89000	0.89000
C. FIXED MONTHLY CHARGE PER CONS	20.00	22.50	22.50	22.50	22.50	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
D. AVG NUMBER OF CONSUMERS	24	20	19	19	19	19	19	19	19	19	19	19	19
E. ANNUAL REV LESS FLOWTHRU ADJ	89,833	134,674	121,840	139,474	139,474	159,030	159,030	159,030	159,030	159,030	159,030	159,030	159,030
CONSUMER CLASS -----> 426 chf and 1000 chf													
CONSUMER CLASS ----->													
A. TOTAL ANNUAL THERMS SOLD	48	37	18	18	18	18	18	18	18	18	18	18	18
B. AVERAGE REVENUE PER THERM SOLD	0.76096	0.68946	0.89089	1.00286	1.00286	1.25000	1.25000	1.25000	1.25000	1.25000	1.25000	1.25000	1.25000
C. FIXED MONTHLY CHARGE PER CONS	25.00	30.00	30.00	30.00	30.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
D. AVG NUMBER OF CONSUMERS	2	3	2	2	2	2	2	2	2	2	2	2	2
E. ANNUAL REV LESS FLOWTHRU ADJ	37,126	26,590	16,756	18,771	18,771	23,460	23,460	23,460	23,460	23,460	23,460	23,460	23,460
4. FLOWTHRU ADJUSTMENTS													
A. THERMS SOLD SUBJECT TO ADJ-1													
B. FLOWTHRU ADJ-1 PER THERM	590	634	575	580	580	580	580	580	580	580	580	580	580
C. REV FROM ADJUSTMENT-1	0	0	0	0	0	0	0	0	0	0	0	0	0
D. THERMS SOLD SUBJECT TO ADJ-2	0	0	0	0	0	0	0	0	0	0	0	0	0
E. FLOWTHRU ADJ-2 PER THERM	0	0	0	0	0	0	0	0	0	0	0	0	0
F. REV FROM ADJUSTMENT-2	0	0	0	0	0	0	0	0	0	0	0	0	0
G. TOTAL REV FROM ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0	0	0
5. TOTAL REV FROM SALE OF GAS ENERGY													
6. OTHER OPERATING REVENUE	512,590	594,074	606,766	665,619	665,619	821,140	821,140	821,140	821,140	821,140	821,140	821,140	821,140
7. TOTAL OPERATING REVENUE	(26,530)	28,441	42,612	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
	486,060	622,515	649,378	667,119	667,119	822,640	822,640	822,640	822,640	822,640	822,640	822,640	822,640

FINANCIAL FORECAST FORM 325G - DETERMINATION OF PLANT INVESTMENT & LOAN REQUIREMENTS

ITEM	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. A. TOTAL UTILITY PLANT (BEGIN YEAR)	748,893	1,188,833	1,263,675	1,320,470	1,400,470	1,480,470	1,560,470	1,640,470	1,720,470	1,800,470	1,880,470	1,960,470	2,040,470
B. PLANT ADDITIONS AND REPLACEMENTS	439,940	74,842	56,795	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
C. CONTRIBUTIONS IN AID OF CONST.	0	0	0	0	0	0	0	0	0	0	0	0	0
D. RETIREMENTS	0	0	0	0	0	0	0	0	0	0	0	0	0
E. TOTAL UTILITY PLANT (END OF YEAR)	1,188,833	1,263,675	1,320,470	1,400,470	1,480,470	1,560,470	1,640,470	1,720,470	1,800,470	1,880,470	1,960,470	2,040,470	2,120,470
2. ANALYSIS OF PRIORITY FUNDS.													
A. DISTR.- NEW CONSTRUCTION	439,940	74,842	56,795	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
B. DISTR.- SYSTEM IMPROVEMENT	0	0	0	0	0	0	0	0	0	0	0	0	0
C. DISTR.- ORDINARY REPLACEMENT	0	0	0	0	0	0	0	0	0	0	0	0	0
D. DISTR.- SUBTRANSMISSION	0	0	0	0	0	0	0	0	0	0	0	0	0
E. DISTR.- WAREHOUSE, ETC.	0	0	0	0	0	0	0	0	0	0	0	0	0
F. REIMBURSEMENT OF GENERAL FUNDS	0	0	0	0	0	0	0	0	0	0	0	0	0
G. TOTAL OF PRIORITY ITEMS.	439,940	74,842	56,795	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
LESS: H. CONTR. IN AID OF CONST.	0	0	0	0	0	0	0	0	0	0	0	0	0
I. GEN. FUNDS INVESTED IN PLANT	0	0	0	0	0	15,293	79,852	71,457	60,854	48,888	34,633	53,669	54,315
J. LOAN FUNDS REQD FOR PRIORITY ITEMS	XXX	XXX	XXX	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
K. PRIOR LOAN FUNDS REQUIRED	XXX	XXX	XXX	0	0	64,707	148	8,543	19,146	31,112	45,367	26,331	25,685
N. NEW LOANS FROM OTHER SOURCES	XXX	XXX	XXX	80,000	80,000	64,707	148	8,543	19,146	31,112	45,367	26,331	25,685
3. ANALYSIS OF NON-PRIORITY FUNDS													
A. OFFICE HEADQUARTERS	0	0	0	0	0	0	0	0	0	0	0	0	0
B. GENERAL PLANT ADDITIONS	0	0	0	0	0	0	0	0	0	0	0	0	0
C. GENERATION AND TRANSMISSION	0	0	0	0	0	0	0	0	0	0	0	0	0
D. OTHER NEEDS (E. G. SCADA)	0	0	0	0	0	0	0	0	0	0	0	0	0
E. TOTAL NON-PRIORITY FUNDS REQ.	0	0	0	0	0	0	0	0	0	0	0	0	0
LESS: F. SPECIAL LOAN FUNDS USED	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0
G. GEN. FUNDS INVESTED IN PLANT	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0
H. LOAN FUNDS REQ.-OTHER	XXX	XXX	XXX	0	0	0	0	0	0	0	0	0	0
4. TOTAL NEW LOANS REQ. FROM OTHERS	XXX	XXX	XXX	80,000	80,000	64,707	148	8,543	19,146	31,112	45,367	26,331	25,685
INTEREST RATE ON LOANS													
				3.00%									
EXISTING LOAN FUNDS AVAILABLE:													
AMOUNT	0	0	0	0	0	0	0	0	0	0	0	0	0

FINANCIAL FORECAST FORM 325I - SUPPLEMENTAL DEBT SERVICE

SUPPLEMENTAL LOANS

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. A. DATE OF LOAN													
B. AMOUNT OF LOAN	630,591												
C. AMORTIZATION PERIOD	25												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	516,958												
F. PLUS: INTEREST	15,509												
G. LESS: PAYMENTS	36,213												
H. BAL. END OF YEAR	496,253												
2. A. DATE OF LOAN													
B. AMOUNT OF LOAN	80,000												
C. AMORTIZATION PERIOD	24												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	80,000												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	2,400												
G. LESS: PAYMENTS	4,724												
H. BAL. END OF YEAR	80,000												
3. A. DATE OF LOAN													
B. AMOUNT OF LOAN	80,000												
C. AMORTIZATION PERIOD	23												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	0												
G. LESS: PAYMENTS	0												
H. BAL. END OF YEAR	80,000												
4. A. DATE OF LOAN													
B. AMOUNT OF LOAN	64,707												
C. AMORTIZATION PERIOD	25												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	0												
G. LESS: PAYMENTS	0												
H. BAL. END OF YEAR	64,707												
5. A. DATE OF LOAN													
B. AMOUNT OF LOAN	148												
C. AMORTIZATION PERIOD	25												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	0												
G. LESS: PAYMENTS	0												
H. BAL. END OF YEAR	148												
6. A. DATE OF LOAN													
B. AMOUNT OF LOAN	8,543												
C. AMORTIZATION PERIOD	25												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	0												
G. LESS: PAYMENTS	0												
H. BAL. END OF YEAR	8,543												
7. A. DATE OF LOAN													
B. AMOUNT OF LOAN	19,146												
C. AMORTIZATION PERIOD	25												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	0												
G. LESS: PAYMENTS	0												
H. BAL. END OF YEAR	19,146												
8. A. DATE OF LOAN													
B. AMOUNT OF LOAN	31,112												
C. AMORTIZATION PERIOD	25												
D. INTEREST RATE	3.00%												
TYPE:													
ADVANCE	0												
E. BAL. 1ST OF YEAR	0												
F. PLUS: INTEREST	0												
G. LESS: PAYMENTS	0												
H. BAL. END OF YEAR	31,112												

FINANCIAL FORECAST FORM 3251 - SUPPLEMENTAL DEBT SERVICE

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

9. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

10. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

11. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

12. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

13. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

14. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

15. A. DATE OF LOAN
 B. AMOUNT OF LOAN
 C. AMORTIZATION PERIOD
 D. INTEREST RATE
 TYPE:

99. TOTAL DEBT & DEBT SERVICE OTHER

A. DEBT FIRST OF YEAR
 B. FUNDS ADVANCED
 C. INTEREST
 D. DEBT PAYMENTS
 E. DEBT END OF YEAR

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

1. A. TOTAL THERMS REQUIREMENTS
 B. COST PER THERM PURCHASED (\$)
 B1. FLOW THROUGH PURCHASED THERMS FROM BROADCAST R.F. XIS

FINANCIAL FORECAST FORM 325K - DETERMINATION OF OPERATING EXPENSE

XXX	XXX	XXX	516,958	576,253	632,604	670,486	641,230	619,482	607,195	605,405	616,030	605,333
XXX	XXX	XXX	80,000	80,000	64,707	148	8,543	19,146	31,112	45,367	26,331	25,685
XXX	XXX	XXX	15,509	17,288	18,978	20,115	19,237	18,584	18,216	18,162	18,481	18,160
XXX	XXX	XXX	36,213	40,937	45,802	49,518	49,527	50,018	51,117	52,904	55,510	57,022
XXX	XXX	XXX	576,253	632,604	670,486	641,230	619,482	607,195	605,405	616,030	605,333	592,157

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICES CORPORATION)
FOR A RATE INCREASE)
_____)

DOCKET NO. G-02528A-05-

IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICES CORPORATION)
FOR APPROVAL OF A LOAN IN THE)
AMOUNT OF \$400,000)
_____)

DOCKET NO. G-02528A-03-0205

DIRECT
TESTIMONY
OF
JOHN V. WALLACE
DUNCAN RURAL SERVICES CORPORATION

APRIL 29, 2005

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1 **I. INTRODUCTION**

2 Q. Please state your name address and occupation.

3 A. My name is John V. Wallace. I am the Director of Regulatory and Strategic
4 Services of Grand Canyon State Electric Cooperative Association (GCSECA). I
5 represent Duncan Rural Services, Inc. (DRSC or the Company).

6
7 Q. Please describe your professional qualifications and experience.

8 A. I have been the Director of Regulatory and Strategic Services since August 1, 2000. In
9 this position, I am responsible for preparing rate, financial and other utility related
10 analysis and testimony for all of the GCSECA member Arizona Electric Cooperatives.
11 Before I accepted a position with GCSECA, I worked for the Arizona Corporation
12 Commission (ACC) for approximately 10 years. While working for the ACC, I held a
13 number of positions within the Accounting and Rates Section of the Utilities Division of
14 the ACC; the last of these positions was Manager, Revenue Requirements Analysis. In
15 this capacity, I was responsible for managing six analysts and preparing staff reports and
16 testimony on Certificate of Convenience and Necessity (CC&N), financing, rate and
17 other utility matters. In addition to my work experience, I have a Masters Degree in
18 Business Administration from the University of North Dakota.

19
20 Q. On whose behalf are you appearing in this proceeding?

21 A. I am appearing on behalf of the applicant, DRSC. As discussed by Mr. Shilling in his
22 direct testimony, DRSC provides gas service to approximately 760 customers in Greenlee
23 County, Arizona.

24
25 Q. Was this testimony prepared by you or under your direction?

26 A. Yes, it was.
27

1 Q. What exhibits are you sponsoring in this case?

2 A. In addition to the schedules attached to this testimony, I am responsible for the
3 preparation of all the test year materials contained in DRSC's filing, except for the
4 historical financial statements prepared by DRSC and the report of its Certified Public
5 Accountants. I will be referring to these materials from time to time throughout my
6 direct testimony.

7
8 Q. What areas does your testimony address?

9 A. My testimony addresses four primary areas: revenue requirements, cost of service and
10 class revenue allocations, rate design, additional long-term debt, and reorganization.

11
12 Q. Please summarize your recommendations.

13 A. Mr. Shilling has discussed in his testimony the reasons underlying the Company's request
14 for an overall 27.25% increase in revenues. An increase of this magnitude is needed to
15 eliminate the large negative margins produced by the current rates, to provide adequate
16 interest and debt service coverage's and to provide the internally generated cash flows
17 required to support the utility's on-going plant improvement program.

18
19 Q. Please explain Schedule A-2 of the filing.

20 A. Schedule A-2, page 1 of 2, summarizes operating results at present and proposed rates for
21 the 12 months ended December 31, 2004, the test year in this case. The present rates
22 produced a net/total margin deficit, or loss, of \$98,714 on an adjusted test year basis. The
23 proposed \$176,978 increase in revenues produces a positive net/total margin of \$33,657
24 and a corresponding times interest earned ratio (TIER) of 2.00 in contrast to the current
25 negative net TIER of 1.94.

26

27

1 Q. Do you view the indicated net TIER of 2.00 at proposed rates as a reasonable ratio in this
2 case?

3 A. Yes. The 2.00 TIER requested in this case is, in my view, at the lower end of a
4 reasonable TIER range for this utility in view of its negative equity, the need to reverse
5 the losses it is experiencing most every month, and as discussed later in my testimony,
6 the need to produce positive cash flows.

7
8 Q. Why is an increase in revenues of this magnitude needed?

9 A. This revenue increase is needed primarily to pay for the higher cost of purchased gas. In
10 its previous rate case, the Commission approved a base cost of gas of \$0.36 per therm.
11 As of the December 31, 2004, DRSC's base cost of gas per therm was \$0.56. This results
12 in an \$118,666 increase in the Test Year Purchased Gas Expense and accounts for the
13 majority of the \$176,978 proposed increase in revenues. DRSC has experienced major
14 price increases in the spot price of natural gas during and after the Test Year.

15
16 According to DRSC's audited financial statements, DRSC also had a deficiency in total
17 margins of \$18,859 at December 31, 2003 and a deficiency in total margins of \$49,639 at
18 December 31, 2004. At current revenue levels, this deficiency will likely increase to
19 approximately \$70,000 before new rates can be approved by the Commission. Moreover,
20 DRSC filed with this rate application a request for approval to borrow an additional
21 \$311,000 thereby increasing its long-term indebtedness to approximately \$828,000. The
22 proposed \$176,978 increase in revenues is needed to provide adequate TIER and debt
23 service coverage ratios on the increased debts and expenses and to eliminate the
24 deficiency in margins and equities.

25
26
27

1 Q. Why is DRSC seeking to incur more indebtedness at this time?

2 A. In general, this additional debt is needed to reimburse Duncan Valley Electric
3 Cooperative, Inc. ("DVEC") for funds supplied to DRSC over the past 4 years for
4 improvements to the gas distribution system. A more detailed discussion of this
5 requested borrowing is contained in the financing portion of my testimony. This long-
6 term debt would have a variable interest rate (assumed 6 percent) with repayment over 25
7 years.

8

9 Q. Would DRSC be able to borrow long-term debt directly from National Rural Utilities
10 Cooperative Finance Corporation ("CFC") or another third party lender on its own credit?

11 A. No. CFC or any other lender will require all lending to DRSC to be guaranteed by
12 DVEC since DRSC is not a full member of CFC and, in any event, the Company's poor
13 financial condition does not enable it to incur additional debt on its own credit. The
14 increase in revenues sought in this case will be an important step towards restoring the
15 credit worthiness of the utility.

16

17 Q. Please summarize your rate design recommendations.

18 A. As approved in DRSC's last rate case, I am recommending customer classes be based on
19 three-meter size ranges rather than by residential, irrigation and commercial. I believe
20 that a rate design based on meter size is more equitable for all customers. I am also
21 recommending that winter and summer per therm rates be continued for each of the three-
22 meter classes. I am recommending monthly service charges that were based on the cost
23 and demand associated with the different meter sizes. Finally, I am recommending that
24 all three-meter classes pay same per therm winter and summer rates.

25

26

27

1 I am recommending no change to the three customer classes based on meter size:

2 250 cubic feet per hour (cfh) & below

3 Above 250 cfh to 425 cfh

4 425 cfh to 1,000 cfh

5
6 I set the monthly service charges at \$20 for the 250 cfh & below meter size, \$30 for
7 above 250 cfh and up to 425 cfh meter size and \$40 for above 425 cfh to 1,000 cfh the
8 largest meter size. Meter sizes above 1,000 cfh would be provided service on a
9 contractual basis. (Refer to Schedule H-3)

10
11 After determining the amount of additional revenue that resulted from the increase in the
12 monthly service charges listed above, I increased the per therm rates for summer and
13 winter by an equal percentage to collect the remainder of the revenue requirement. I am
14 recommending that the per therm rates for summer and winter be the same for all three
15 classes. The DRSC recommended summer rate is \$0.84510 per therm, and the winter
16 rate is \$1.31520.

17
18 I am recommending that the Commission approve the same interest rate on customer
19 deposits (Three Month Non-Financial Commercial Paper Rate as published by the
20 Federal Reserve) and late/deferred payment percentage of 1.5 percent per month that was
21 approved in DVEC's recent rate case (Decision No. 67433, dated December 3, 2004). I
22 am not recommending any other changes to the current service charges. The present and
23 proposed service charges are detailed on the bottom of Schedule H-3.

24
25
26
27

1 **II. REVENUE REQUIREMENTS**

2 Q. Please explain the Original Cost Rate Base (OCRB) calculation shown on Schedule B-1.

3 A. I have made no pro forma adjustments to rate base. I have subtracted \$20,064 of
4 customer deposits and \$19,554 of net deferred taxes from DRSC's rate base. DRSC is
5 recommending an OCRB of \$827,522.

6
7 Q. Why hasn't DRSC included its Reconstruction Cost New less Depreciation (RCND)
8 information (Schedules B-3 and B-4) in its application?

9 A. DRSC stipulates that the Commission may use its original cost data for the calculation of
10 a rate of return on fair value for this proceeding. Therefore, the RCND information
11 contained on Schedules B-3 and B-4 is unnecessary for a determination of this matter.

12
13 Q. Why hasn't a provision for working capital (Schedule B-5) been included in the
14 development of rate base?

15
16 A. The Company decided not to incur the additional expense required to conduct a lead/lag
17 study since its revenue request is based on Times Interest Earned Ratio (TIER),
18 consistent with the method used by the Commission in deciding revenue requirements in
19 the last case, and not a return on rate base approach to ratemaking. Accordingly, no
20 working capital allowance is sought in this case.

21
22 Q. Please explain Schedule C-1 of the filing.

23 A. Schedule C-1 shows the actual and adjusted operating income statement for the test year.
24 As described on Schedule C-2, actual test year results were adjusted as follows:

25
26
27

1 Adjustment A. increased revenues to reflect \$118,453 of purchased gas fuel cost that was
2 collected through DRSC's fuel adjustor mechanism during the Test Year. As a result of
3 DRSC's recommendation to raise its base gas cost to \$0.56 per therm in this case, base
4 rate revenues will be increasing by approximately \$118,000.

5
6 Adjustment B. increased several expenses were increased by a total of \$13,068 to
7 annualize the 4 percent increase in salary and related benefits that occurred in July 2004.

8
9 Adjustment C. increased Regulatory Commission Expense by \$5,281 for actual and
10 estimated rate case expenses that will be incurred in the preparation and completion of
11 this case. I have estimated the total amount of rate case expense and ongoing regulatory
12 expenses to be approximately \$16,000 per year.

13
14 Adjustment D. increases Interest Expense on Long-term Debt (LTD) by \$18,634 to
15 account for the additional interest of 6% on the \$311,000 of additional LTD to be used to
16 pay down the accounts payable to DVEC that DRSC has used to fund its construction
17 expenditures and plant additions.

18
19 These adjustments in total increase net margin for the test year by \$81,470 resulting in an
20 adjusted deficit in total/net margins of \$98,714.

21
22 Q. Please explain the DRSC's Income Tax Expense for its proposed level of revenues and
23 expenses as contained on Schedule A-2, page 2 of 2.

24 A. DRSC is a "C" Corporation and subject to federal and state income taxes. Based on the
25 operating income level that results from DRSC's proposed rates, DRSC will have an
26 Income Tax Expense of approximately \$44,658 as shown on Schedule A-2, page 2 of 2.

27

1 **III COST OF SERVICE AND RATE DESIGN**

2 Q. Why should gas rates be based upon cost of service?

3 A. Cost of service is an important criterion in the development of revenues by class of
4 consumer and the development of rates that will produce those revenues. If rates are not
5 cost based, the inevitable results are subsidies among the classes of consumers and
6 consumers within a class. This is not only perceived as inequitable, but may result in
7 distorted consumer decisions concerning the use of utility services. Other factors, such as
8 spot gas prices in winter vs. summer, continuity, simplicity and stability are valid
9 considerations in the rate design process and had to be considered given DRSC's
10 circumstances.

11
12 Q. Did you prepare the class cost of service analysis contained in the filing?

13 A. Yes. The study was prepared to provide guidance in setting class revenue targets and
14 designing the rates required to meet these targets. The costing methodology used is
15 essentially the same as that used in the last rate proceeding. As recommended by Staff in
16 DRSC's last rate case and to limit the differences between DRSC and Staff in this case, I
17 am using Staff's 100 percent demand allocation for mains. Additionally, the rate design I
18 am recommending relies less on the cost of service analysis and more on other rate
19 design factors as explained later in my testimony.

20
21 Q. Would you briefly describe the approach used to develop the study?

22 A. The basic method used in the study is commonly known as the embedded or average cost
23 method as contrasted with the marginal cost method. This method, properly applied,
24 produces a guide for ratemaking purposes.

25
26 The initial step was to establish, for costing purposes, consumer classes with similar
27 usage characteristics. For the purposes of present rates these classes are: 250 cubic feet

1 per hour (cfh) & below (residential and small commercial), Above 250 cfh to 425 cfh
2 (commercial and irrigation) and 425 cfh to 1,000 cfh (schools and large commercial).
3 The next step in the study was to classify all elements of rate base and classifications of
4 operating expenses as demand-related, commodity-related or customer-related. The
5 results of this process are shown on Schedules G-6 and G-7. The final step in the
6 analysis was to allocate rate base and operating expenses to each class of consumer. The
7 results of these allocations are shown on Schedules G-4 and G-5. Functionalization and
8 class allocation factors used in the study are provided on Schedule G-8.

9
10 Q. How were the class allocation factors developed?

11 A. DRSC is a winter-peaking system, primarily due to the increased space heating
12 requirements during the winter months. Due to historically low class usage in 2004,
13 Class demand allocation factors were developed based on total therm sales for the five-
14 month period of January through March and November through December 2004 as well
15 as previous years. Average commodity usage was used as a proxy for class peak
16 demands since peak-day measurements were not available. Class commodity allocation
17 factors were based on total therm sales for the test year. Two customer allocation factors
18 were developed: one based on total bills by class (unweighted) and the other (weighted)
19 based on meter size.

20
21 Q. Please summarize the results of your study.

22 A. The results of my study, at present and proposed rates, are summarized on Schedules G-1
23 and G-2. At present rates, the 250 cubic feet per hour (cfh) & below, Above 250 cfh to
24 425 cfh and 425 cfh to 1,000 cfh classes are producing sizable negative returns. The
25 return indices show the 250 cubic feet per hour (cfh) & below with a negative return of
26 6.79% and a return index of 0.86, or 86% of the system average return (a return index of
27 1.00) which is a negative 7.88%. The Above 250 cfh to 425 cfh class has a negative

1 return of 16.32% and a return index of 2.07; the 425 cfh to 1,000 cfh class shows a
2 negative return of 16.79% and a return index of 2.13.

3
4 Q. Please explain the rate of return index concept.

5 A. The rate of return index is a relative measure of class contribution to the system average
6 rate of return. When the system rate of return is positive, an index below 1.00 indicates
7 that a class's revenues are not sufficient to recover its cost of service, while an index
8 exceeding 1.00 indicates that a class is over-recovering its cost of service. When the
9 system rate of return is negative, an index below 1.00 indicates that a class is over-
10 recovering its cost of service, while an index exceeding 1.00 indicates that a class's
11 revenues are not sufficient to recover its cost of service.

12
13 Q. Typically the cost of service study is used as the basis to allocate revenues among
14 customer classes. Did you use the cost of service study to allocate revenues to customer
15 classes?

16 A. No. DRSC's circumstances merit a deviation from strictly using the cost of service study
17 to set rates for the reasons discussed below.

18
19 Q. How did you allocate revenues to the customer classes?

20 A. The rate design that I am recommending resulted in an allocation of revenues to customer
21 classes as explained further below. The 250 cubic feet per hour (cfh) & below class
22 revenues were increased by approximately 29 percent. The Above 250 cfh to 425 cfh
23 class revenues were increased by approximately 21 percent. Finally, the 425 cfh to 1,000
24 cfh class revenues were increased by approximately 29.5 percent (See Schedule H-1).
25 The Above 250 cfh to 425 cfh class revenue increase of 21 percent is less than the other
26 two classes because the majority of customers in this class use very little gas in the peak
27 winter months.

1 Q. What changes in the existing rate design are you recommending?

2 A. I believe that a rate design based on meter sizes is more equitable for all customers and
3 should be continued. I am also recommending that winter and summer per therm rates be
4 continued for each of the three-meter classes. I am recommending monthly service
5 charges that were based on the cost and demand associated with the different meter sizes.
6 Finally, I am recommending that all three-meter classes pay the same per therm winter
7 and summer rates. All of these rate recommendations affected the revenue allocation to
8 each customer class.

9

10 Q. Why are you recommending that the customer classes be based on meter size be
11 continued?

12 A. The cost and demand that a customer places on the gas system is more closely related to
13 meter size than whether a customer is a residential, irrigation or commercial customer.
14 The demand that any customer can place on the gas system is directly related to how
15 much gas can flow through the gas system to the customer during peak winter months.
16 The larger the meter, service line and mains, the larger the peak flow demand that a
17 customer places on the system. Residential, irrigation and commercial customers with
18 the same main, service line and meter size have the potential to place the same peak
19 demand on the system, assuming that each of these customers use gas during peak
20 periods.

21

22 Q. Do each of the customer's classes place a similar demand on the system during the five
23 peak winter months?

24 A. No. The irrigation customers in the Above 250 cfh to 425 cfh class primarily uses gas
25 during the off peak summer months. The Above 250 cfh to 425 cfh customers used
26 20,980 therms in the five peak winter months compared to 148,600 therms used by these
27 customers in the other months. During the Test Year, DRSC's peak month for therm

1 usage was February. In that month, irrigation customers used only 3,751 therms of the
2 83,019 therms sold to all DRSC customers.

3
4 Q. Please explain the new customer classes by meter sizes and how existing residential,
5 commercial and irrigation customers will fit into these classes.

6 A. I am recommending the following three customer classes based on meter sizes:

7 250 cubic feet per hour (cfh) & below

8 Above 250 cfh to 425 cfh

9 425 cfh to 1,000 cfh.

10

11 Residential, commercial and irrigation customers will take service under one of these
12 three classes on the basis of the size of their existing meter. Based on existing meter
13 sizes, all residential customers (692) and most (47) commercial customers take service
14 under the 250 cfh & below customer class. The 18 irrigation customers and one
15 commercial customer will take service under the Above 250 cfh to 425 cfh customer
16 class. Currently, only two meters of the school fit into the 425 cfh to 1,000 cfh customer
17 class.

18

19 Q. What monthly service charges are you recommending by meter size and why?

20 A. I set the monthly service charges at \$20 for the 250 cfh & below meter size, \$30 for
21 Above 250 cfh and up to 425 cfh meter size and \$40 for Above 425 cfh to 1,000 cfh the
22 largest meter size. Meter sizes above 1,000 cfh would be provided service on a
23 contractual basis. (Refer to Schedule H-3)

24

25 I am recommending the monthly service charges be different by meter size because the
26 fixed costs (meter cost, main size, etc.) to provide gas service generally are more as the
27 size of the meter increases and larger meter sizes also place a larger demand on the

1 system during the peak winter months (i.e. the 425 cfh meter costs approximately three
2 times more than the 250 cfh meter, the 1,000 cfh meter is approximately 10 times the cost
3 of the 425 cfh meter).

4

5 Q. What is the increase in revenues that will result from your proposed increase in monthly
6 service charges?

7

8 A. The increases in the monthly service charges that I am recommending result in an
9 additional \$46,308 of revenues. The remainder of the \$176,958 revenue requirement
10 increase, approximately \$131,000, was collected from the increase in per therm usage
11 charges that are discussed below.

11

12 Q. What winter and summer per therm rates are you recommending for all three customer
13 classes?

14

15 A. I am recommending the winter per therm rate be set at \$1.3152, and the summer per
16 therm rate be set at \$0.8451 for all three customer classes.

16

17 Q. Why is the winter per therm rate that you are recommending significantly higher than the
18 summer per therm rate?

19

20 A. During the Test Year, DRSC's customers' peak monthly usage was 83,019 therms in
21 February versus 25,644 therms in lowest month, October. DRSC gas system is built to
22 meet its peak demand (capacity) in the winter months like December, January and
23 February. Customers who use the gas system during peak winter months should pay a
24 higher share of the demand (capacity) related costs than customers who predominantly
25 use gas during summer months.

25

26

27 In addition, historically the spot price of natural gas has been considerably lower in the
summer months versus the winter months, because the demand for natural gas nationally

1 is the highest during the winter months. DRSC's purchased gas costs in October 2004
2 were approximately \$0.51 per therm versus an average of approximately \$0.70 per therm
3 in the peak winter months of November and December. For the reasons stated above, it
4 would be unfair to customers who primarily use gas during the off-peak summer months
5 to use a rate structure that only has one therm rate per customer class.

6
7 Q. Why are you recommending the same winter and summer per therm rates apply to all
8 customers?

9 A. I am recommending that the per therm rates for summer and winter be the same for all
10 three classes because each customer class regardless of the type of customer that uses gas
11 during summer months should experience a lower cost of gas during the off-peak summer
12 months. There is very little difference in per unit variable costs of service 250 cfh &
13 below versus Above 250 cfh and up to 425 cfh versus Above 425 cfh to 1,000 cfh
14 customers. The only difference in the rates and charges to the three customer classes will
15 be the monthly service charge.

16
17 Q. How were the summer per therm and winter per therm rates calculated?

18 A. The summer and winter per therm rates were increased by an equal percentage until the
19 remaining revenue requirement increase of \$130,000 (the remainder of the \$176,958
20 revenue requirement increase after the proposed increases in the monthly service charges)
21 was collected from the proposed summer and winter per therm rates.

22
23 Q. What is the effect of the proposed rates on the average monthly bill of a 250 cfh & below
24 customer?

25 A. As shown on Schedule H-4, page 1 of 3, the monthly bill for a 250 cfh & below customer
26 who uses 76 therms in the winter will increase by \$28.25 (30.62%), from \$92.28 to
27 \$120.53. These bill calculations include the PGA rate of \$0.211 per therm in present

1 rates, and the PGA rate has been eliminated in DRSC's proposed rates.

2
3 Q. What is the effect of the proposed rates on the average monthly bill of an Above 250 cfh
4 and up to 425 cfh customer as well as other customers?

5 A. As shown on Schedule H-4, page 2 of 3, the monthly bill for an Above 250 cfh and up to
6 425 cfh customer who uses 262 therms in the winter will increase by \$87.28 (30.34%),
7 from \$287.63 to \$374.91. These bill calculations include the PGA rate of \$0.211 per
8 therm in present rates, and the PGA rate has been eliminated in DRSC's proposed rates.

9
10 Q. What is the effect of the proposed rates on the average monthly bill of an Above 425 cfh
11 to 1,000 cfh customer as well as other customers?

12 A. As shown on Schedule H-4, page 3 of 3, the monthly bill for an Above 425 cfh to 1,000
13 cfh customer who uses 1,430 therms in the winter will increase by \$445.01 (30.15%),
14 from \$1,475.73 to \$1,920.74. These bill calculations include the PGA rate of \$0.211 per
15 therm in present rates, and the PGA rate has been eliminated in DRSC's proposed rates.

16
17 Q. What changes are you recommending to service charges?

18 A. I am recommending that the Commission approve the same interest rate on customer
19 deposits (Three Month Non-Financial Commercial Paper Rate as published by the
20 Federal Reserve) and late/deferred payment percentage of 1.5 percent per month that was
21 approved in DVEC's recent rate case (Decision No. , dated November 2004). I am not
22 recommending any other changes to the current service charges

23
24 **IV. BASE COST OF GAS, PGA AND BANK BALANCE**

25 Q. What are your recommendations regarding the base cost of gas?

26 A. I am recommending that DRSC's base cost of gas be set at \$0.56678 per therm
27 (purchased gas costs on Schedule C-1 of \$325,260 divided by the total number of therms

1 sold of 573,869 as found on Schedule H-1. The current base cost of gas approved by the
2 Commission is \$0.36 per therm. As mentioned previously, DRSC has experienced a
3 significant increase in its purchased gas costs. The proposed level of base cost of gas is
4 closer to the level that DRSC will pay for future purchased gas costs.

5
6 Q. Are you recommending that the PGA charge which is \$0.211 per therm as of March 31,
7 2005 be set to zero?

8 A. Yes. DRSC's current bank balance as of March 31, 2005 is only approximately \$20,000.
9 Therefore, I am recommending that DRSC's fuel adjustor rate that is \$0.211 as of March
10 31, 2005 be set at zero. If approved, the proposed base cost of gas of \$0.56678 should
11 continue to gradually reduce the current under-collected bank balance of approximately
12 \$20,000 in the months that the purchased gas cost is below the proposed base cost of gas.

13
14 **V. FINANCING**

15 Q. Why is DRSC seeking to incur more indebtedness at this time?

16 A. In general, this additional debt is needed to reimburse Duncan Valley Electric
17 Cooperative, Inc. ("DVEC") for funds supplied to DRSC over the past four years for
18 improvements to the gas distribution system. Over this four year period, DVEC has
19 advanced funds to DRSC as needed for cash flow needs related to construction and
20 paying expenses. Since its last rate case in 2000, DRSC has made the following plant
21 additions by year:

22 2001 - \$108,087

23 2002 - \$106,194

24 2003 - \$62,393

25 2004 - \$54,620

26
27

1 This long-term debt would have an interest rate equivalent to the Arizona Electric Power
2 Cooperative, Inc. (AEPCO) variable interest rate earned on funds with repayment over 25
3 years. AEPCO pays this interest rate to DVEC on funds that DVEC has deposited with
4 AEPCO. DVEC has chosen this rate to charge DRSC because this is the rate of interest
5 that DVEC would have earned on funds that were advanced to DRSC. This interest rate
6 is variable and will depend on market conditions. DRSC's revenue requirement
7 calculation in this case assumes a 6% interest rate because the loan is over a 25 year
8 period. DRSC chose a 25 year term because that is the term of one of its other loans from
9 DVEC and because of the revenue increase necessary to enable DRSC to pay the
10 additional debt service that resulted from the 25 year term was affordable.

11
12 Q. DRSC's total accounts payable to DVEC equaled \$455,352 on February 28, 2005. Why
13 hasn't DRSC requested a higher loan be approved in this case to repay this amount?

14 A. The maximum loan that DRSC has requested is equal to its current recommended rate
15 base of \$827,522 minus its existing approved debt of \$516,968 which equals
16 approximately \$311,000. DRSC did not want to request a loan that would result in its
17 total debt exceeding its proposed rate base of \$827,522.

18
19 Q. Will DRSC be able to pay the additional debt service on the additional \$311,000 loan
20 with the rate increase that DRSC is requesting?

21 A. Yes. The rates requested by DRSC in this rate application are predicated on the
22 repayment of DRSC's existing debts as well as the \$311,000 of additional debt.
23 According to Schedule A-2, page 1 of 2, DRSC will maintain a TIER of 2.00 and a Debt
24 Service Coverage Ratio of 1.24 even with the additional debt service from the \$311,000
25 loan assuming a 6% interest rate.
26
27

1 Q. Would DRSC be able to borrow long-term debt directly from CFC or Rural Utilities
2 Service (RUS) on its own credit?

3 A. No. As mentioned previously, CFC will require all lending to DRSC to be guaranteed by
4 DVEC since DRSC is not a full member of CFC and, in any event, the Company's poor
5 financial condition does not enable it to incur additional debt on its own credit. DRSC is
6 not an eligible borrower of RUS. The increase revenues sought in this case will provide
7 an important first step towards restoring the credit worthiness of the utility.

8
9 Q. What are the cash flow ramifications of this rate and financing application?

10 A. I urge the Commission to be mindful of this precarious cash flow condition when
11 considering any modifications to the average increase in revenues requested in this case.
12 While the increase requested by DRSC in this case is substantial, DRSC must collect this
13 recommended level of revenues to pay its expenses, debts and fund future construction
14 projects. As mentioned in Jack Shilling's testimony, DRSC can no longer rely on DVEC
15 to advance DRSC funds for these purposes.

16
17 Q. Does that conclude your direct testimony?

18 A. Yes, it does.
19
20
21
22
23
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25
26
27

Duncan Rural Services Corporation
Docket No. G-02528A-05-
Test Year Ended December 31, 2004

Schedule A-1

REVENUE REQUIREMENT

<u>LINE</u> <u>NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY ORIGINAL <u>COST</u>
1	Adjusted Operating Income (Loss)	\$ (65,217)
2	Required Operating Income	\$ 67,103
3	Operating Income Deficiency (L2 - L1)	\$ 132,320
4	Gross Revenue Conversion Factor	1.33750
5	Increase In Gross Revenue (L3 * L4)	\$ 176,978
6	Adjusted Test Year Revenue	\$ 649,377
7	Proposed Annual Revenue (L5 + L6)	\$ 826,355
8	Required Increase in Revenue (%) (L6/L7)	27.25%

**PROPOSED REVENUE INCREASE
SUMMARY**

Line

No.	Description	Per Books	Test Year As Adjusted	Proposed Rates
1a.	Total Base Rate Revenue	\$ 525,714	\$ 644,167	\$ 821,145
1b.	Total Other Revenue*	\$ 5,210	\$ 5,210	\$ 5,210
1c.	Total Base Rate Revenue and Other Revenue	\$ 530,924	\$ 649,377	\$ 826,355
1d.	Plus: Fuel Adjustor Revenue	\$ -	\$ -	\$ -
1e.	Total Revenue Before Other Contract Margin Revenue	\$ 530,924	\$ 649,377	\$ 826,355
1f.	Other Contract Margin Revenue	\$ -	\$ -	\$ -
1g.	Total Revenue	\$ 530,924	\$ 649,377	\$ 826,355
2.	Operating Expense Before Interest Exp. On L.T. Debt	\$ 696,245	\$ 714,594	\$ 759,202
3.	Operating Margin Before Interest Exp. On L.T. Debt	\$ (165,321)	\$ (65,217)	\$ 67,154
4.	Interest Expense on Long-Term Debt	\$ 14,973	\$ 33,607	\$ 33,607
5.	Non-Operating Margins	\$ 110	\$ 110	\$ 110
6.	Total/Net Margin	\$ (180,184)	\$ (98,714)	\$ 33,657
7.	Total Long-Term Debt Principal Payment	\$ 45,305	\$ 50,683	\$ 50,683
8.	Net TIER (Intr Exp on L.T. Debt + Net Margin)/Total Intr Exp on L.T. Debt	(11.03)	(1.94)	2.00
9.	DSC (Net Margin + Depr Exp + Intr Exp on L.T. Debt)/ Prin&Int on L.T. Debt	(2.12)	(0.77)	1.24
10.	Rate Base	\$ 827,522	\$ 827,522	\$ 827,522
11.	% Return on Rate Base (Operating Margin / Rate Base)	-19.98%	-7.88%	8.12%
12.	Total Proposed Revenue Increase Over Total Present Rates (Does not include Fuel Adjustor Revenue)	-		\$ 176,978
14.	% Increase In Total Adjusted Test Year Revenues			27.25%

SUMMARY OF FILING				
	PRESENT RATES		PROPOSED RATES	
	Per	TY as		
	Books	Adjusted	Proposed	
Revenues				
Sales Revenue of Gas - Base Rates	\$ 525,714	\$ 644,167	\$ 821,145	
Other Operating Revenue	\$ 5,210	\$ 5,210	5,210	
Total Revenue	\$ 530,924	649,377	\$ 826,355	
Expenses				
Purchased Gas	\$ 325,260	\$ 325,260	\$ 325,260	
Distribution Expense - Operation	\$ 147,723	\$ 154,097	\$ 154,097	
Distribution Expense - Maintenance	\$ 52,766	\$ 54,824	\$ 54,824	
Consumer Accounts Expense	\$ 58,103	\$ 60,129	\$ 60,129	
Administrative and General Expense	\$ 54,952	\$ 62,843	\$ 62,843	
Depreciation and Amortization Expense	\$ 37,542	\$ 37,542	\$ 37,542	
Tax Expense - Property	\$ 19,639	\$ 19,639	\$ 19,639	
Tax Expense - Other	\$ (158)	\$ (158)	\$ (158)	
Tax Expense - Income taxes*	\$ 50	\$ 50	\$ 44,658	
Interest Expense - Other	\$ 367	\$ 367	\$ 367	
Total Operating Expenses	\$ 696,245	\$ 714,594	\$ 759,202	
Interest Expense - Long-term Debt	\$ 14,973	\$ 33,607	\$ 33,607	
Total Operating Expenses and Int on L.T. Debt	\$ 711,218	\$ 748,201	\$ 792,808	
OPERATING MARGIN after Intr Exp on L.T. Debt	\$ (180,294)	\$ (98,823)	\$ 33,547	
Non-Operating Margin				
Interest and Dividend Income	\$ 110	\$ 110	\$ 110	
Capital Credits	\$ -	\$ -	\$ -	
	\$ 110	\$ 110	\$ 110	
TOTAL/NET MARGINS	\$ (180,184)	\$ (98,714)	\$ 33,657	

* For a calculation of Proposed Tax Expense-Income taxes, refer to
WORKPAPER FILENAME: DRSC ACC Schedules 5-12-04.xls, Worksheet: GRFC

RATE BASE

	ORIGINAL COST		
	Per Books	Adjustment	Test Year As Adjusted
Gross Utility Plant In Service	\$ 1,393,950	\$ -	\$ 1,393,950
Less: Accumulated Depreciation	568,703	-	568,703
NET PLANT	<u>\$ 825,247</u>	<u>\$ -</u>	<u>\$ 825,247</u>
DEDUCTIONS			
Advances in Aid of Construction	\$ -	\$ -	\$ -
Contributions in Aid of Construction	-	-	-
Less: Amortization of CIAC	-	-	-
Net Contributions in Aid of Construction	-	-	-
Deferred Taxes	19,554	-	19,554
Customer Deposits	20,064	-	20,064
TOTAL DEDUCTIONS	<u>\$ 39,618</u>	<u>\$ -</u>	<u>\$ 39,618</u>
ADDITIONS			
Construction Work In Progress	\$ -	\$ -	\$ -
Materials and Supplies	27,542	-	27,542
Prepayments	14,351	-	14,351
TOTAL ADDITIONS	<u>\$ 41,893</u>	<u>\$ -</u>	<u>\$ 41,893</u>
RATE BASE	<u>\$ 827,522</u>	<u>\$ -</u>	<u>\$ 827,522</u>

Detail of Utility Plant

<u>INTANGIBLE PLANT:</u>	<u>Per Test Year</u>	<u>Adjustment</u>	<u>Adjusted TY</u>
301 ORGANIZATION	\$ -	-	\$ -
303 MISC. INTANGIBLE PLANT	\$ -	-	\$ -
SUBTOTAL INTANGIBLE	\$ -	-	\$ -
<u>DISTRIBUTION PLANT:</u>			
374 LAND & LAND RIGHTS	\$ -	-	\$ -
376 MAINS	\$ 757,940	-	\$ 757,940
377 MAINS - ANODES	\$ 139,920	-	\$ 139,920
379 CITY GATES	\$ 26,923	-	\$ 26,923
380 SERVICES	\$ 211,824	-	\$ 211,824
382 METERS, REGULATORS & INSTALL	\$ 212,653	-	\$ 212,653
SUBTOTAL DISTRIBUTION	\$ 1,349,259	-	\$ 1,349,259
<u>GENERAL PLANT</u>			
389 LAND & LAND RIGHTS	\$ -	-	\$ -
390 STRUCTURES & IMPROVEMENTS	\$ -	-	\$ -
391 OFFICE FURNITURE & IMPROVEMENTS	\$ 2,000	-	\$ 2,000
392 TRANSPORTATION EQUIPMENT	\$ -	-	\$ -
393 STORES EQUIPMENT	\$ 1,413	-	\$ 1,413
394 TOOLS & SHOP EQUIPMENT	\$ 22,553	-	\$ 22,553
395 LABORATORY EQUIPMENT	\$ 13,369	-	\$ 13,369
396 POWER OPERATED EQUIPMENT	\$ 1,116	-	\$ 1,116
397 COMMUNICATION EQUIPMENT	\$ 788	-	\$ 788
398 MISCELLANEOUS EQUIPMENT	\$ 3,452	-	\$ 3,452
SUBTOTAL GENERAL	\$ 44,691	-	\$ 44,691
TOTAL PLANT IN SERVICE	\$ 1,393,950	-	\$ 1,393,950
CWIP	\$ -	-	\$ -
TOTAL PLANT IN SERVICE AND CWIP	\$ 1,393,950	-	\$ 1,393,950

		INCOME STATEMENT		
		<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted TY</u>
Acct. No.	Revenues			
480-481	Sales Revenue of Gas - Base Rates	\$ 525,714	\$ 118,453 A	\$ 644,167
451	Other Operating Revenue	\$ 5,210	-	\$ 5,210
	Total Revenue	\$ 530,924	118,453	\$ 649,377
Acct. No.	Expenses			
804.10	Gas Purchases	\$ 325,260	-	\$ 325,260
	Distribution Expense - Operations			
870.00	Supervision	\$ -	950 B	\$ 950
874.00	Mains & Services	\$ 105,889	4,137 B	\$ 110,026
877.00	Measuring & Regulation Stations	\$ 13,213	540 B	\$ 13,753
878.00	Meters & House Regulators	\$ 19,467	747 B	\$ 20,214
880.00	Other Expenses	\$ 3,116		\$ 3,116
881.00	Rents	\$ 6,039	-	\$ 6,039
	Distribution Expense - Operations	\$ 147,723	6,374	\$ 154,097
	Distribution Expense - Maintenance			
885.00	Supervision	\$ -		\$ -
887.00	Mains & Services	\$ 44,287	1,811 B	\$ 46,098
891.00	Measuring & Regulation Stations	\$ -		\$ -
892.00	Services	\$ -		\$ -
893.00	Meters & House Regulators	\$ 8,479	247 B	\$ 8,726
894.00	Other Equipment	\$ -		\$ -
	Distribution Expense - Maintenance	\$ 52,766	2,058	\$ 54,824
	Consumer Accounts Expense			
902.00	Meter Reading Expense	\$ 24,148	900 B	\$ 25,048
903.00	Consumer Expense	\$ 29,397	1,126 B	\$ 30,523
904.00	Reserve for Uncollectible Accounts	\$ 1,500	-	\$ 1,500
909.00	Information & Instruction ads	\$ 3,058	-	\$ 3,058
	Consumer Accounts Expense	\$ 58,103	2,026	\$ 60,129
	Administrative and General Expense			
920.00	Salaries	\$ 5,881	2,610 B	\$ 8,491
921.00	Office Supplies and Expenses	\$ 3,606	-	\$ 3,606
923.00	Outside Services Employed	\$ 11,826	-	\$ 11,826
923.00	Rate Case	\$ -		\$ -
924.00	Property Insurance	\$ -		\$ -
925.00	Injuries and Damages Ins.	\$ 17,568	-	\$ 17,568
928.00	Regulatory Commission Expense	\$ 10,521	5,281 C	\$ 15,802
930.00	Miscellaneous General	\$ 5,550	-	\$ 5,550
		\$ -		\$ -
		\$ -		\$ -
		\$ -		\$ -
	Administrative and General Expense	\$ 54,952	7,891	\$ 62,843
	Interest Expense - Other			
		\$ -		\$ -
427.21	Interest Expense - Due to/Due from	\$ -		\$ -
431.00	Interest Expense - Customer Deposits	\$ 367	-	\$ 367
	Interest Expense - Other	\$ 367	-	\$ 367
403.00	Depreciation and Amortization Expense	\$ 37,542	-	\$ 37,542
408.00	Tax Expense - Property	\$ 19,639		\$ 19,639
408.50	Tax Expense - Other	\$ (158)	-	\$ (158)
408.50	Tax Expense - Income Taxes	\$ 50	-	\$ 50
	Total Expenses	\$ 696,245	18,349	\$ 714,594
	OPERATING MARGIN	\$ (165,321)	100,104	\$ (65,217)
427.10	Interest on Long Term Debt	\$ 14,973	18,634 D	\$ 33,607
428.00	Amortization of Debt Discount and Expense	\$ -	-	\$ -
	Total Interest Expense on LT Debt	\$ 14,973	18,634	\$ 33,607
	Non-Operating Margin			
419.00	Interest and Dividend Income	\$ 110	-	\$ 110
424.00	Capital Credits	\$ -		\$ -
		\$ 110	-	\$ 110
	TOTAL/NET MARGINS	\$ (180,184)	\$ 81,470	\$ (98,714)

For the explanation to the income statement adjustments see Schedule C-2.

EXPLANATION OF INCOME ADJUSTMENTS

A -	Sales Revenue of Gas	- Per Books	\$	525,714	
		- Per Adjusted	\$	644,167	\$ 118,453
				<u> </u>	<u> </u>

To reflect a higher base gas cost of \$0.56 per therm and the \$0.21 fuel adjustor per therm.

B -	Salaries & Related Expenses	- Per Books	\$	135,525	
		- Per Adjusted	\$	148,593	\$ 13,068
				<u> </u>	<u> </u>

To annualize salaries, salary increases and related benefits that occurred in the Test Year

(WORKPAPER FILENAME: DRSC ACC Schedules 5-12-04.xls, Worksheet: SalaryAdj)

C -	Regulatory Commission Expense	- Per Books	\$	10,521	
		- Per Adjusted	\$	15,802	\$ 5,281
				<u> </u>	<u> </u>

To reflect increased rate case expense and ongoing regulatory expenses

D -	Interest On Long-Term Debt	- Per Books	\$	14,973	
		- Per Adjusted	\$	33,607	\$ 18,634
				<u> </u>	<u> </u>

To reflect interest on additional Long-Term Debt of \$312,000

PROOF OF REVENUE - PRESENT AND PROPOSED RATES

	Present	Proposed	Adj. TV Revenue		Revenue	Add. Rev.		Add. Rev.	Difference %
			Present Rates	Proposed Rates		From Prop. CC.	From Prop Usage		
250 cfh and Below									
Monthly Customer Charge:	\$15.00	\$20.00	\$133,020	\$177,360	\$44,340	\$146,501			
Winter Cost Per Therm:	\$0.80000	\$1.31520	\$227,486	\$373,986		\$33,903			
Summer Cost Per Therm:	\$0.51405	\$0.84510	\$52,644	\$66,547					
5148 Summer Therms Used:	102,410	102,410	\$413,149	\$637,893	\$44,340	\$180,403			
3720 Winter Therms Used:	284,357	284,357	\$55,021						
Total Therms Used:	386,767	386,767	\$25,404						
8868 Total Billings:	8,868	8,868	\$493,574		\$44,340	\$99,979		\$144,319	29.2396%
	386,767	386,767							
Above 250 cfh and Less Than 425 cfh									
Monthly Customer Charge:	\$22.50	\$30.00	\$5,153	\$6,870	\$1,718	\$10,809			
Winter Cost Per Therm:	\$0.80000	\$1.31520	\$16,784	\$27,593		\$49,194			
Summer Cost Per Therm:	\$0.51405	\$0.84510	\$76,388	\$125,582					
149 Summer Therms Used:	148,600	148,600	\$98,324	\$160,044	\$1,718	\$60,003			
80 Winter Therms Used:	20,980	20,980	\$23,516						
Total Therms Used:	169,580	169,580	\$10,858						
229 Total Billings:	229	229	\$132,698		\$1,718	\$25,629		\$27,347	20.6085%
	169,580	169,580							
Above 425 cfh and Less Than 1,000 cfh									
Monthly Customer Charge:	\$30.00	\$40.00	\$750	\$1,000	\$250	\$8,104			
Winter Cost Per Therm:	\$0.80000	\$1.31520	\$12,584	\$20,688		\$593			
Summer Cost Per Therm:	\$0.51405	\$0.84510	\$921	\$1,514					
14 Summer Therms Used:	1,792	1,792	\$14,255	\$23,203	\$250	\$8,697			
11 Winter Therms Used:	15,730	15,730	\$2,501						
Total Therms Used:	17,522	17,522	\$1,155		\$250	\$5,042		\$5,292	29.5458%
25 Total Billings:	25	25	\$17,911						
	17,522	17,522							
Total Bills From Billing Deter.	9,122								
Avg. no. of customers	760								
			644,182	821,140	46,308	130,650		\$176,958	27.47%
Miscellaneous Service Charges			\$5,210	\$5,210				\$0	0.00%
TOTAL REVENUES			\$649,392	\$826,350	\$46,308	\$130,650		\$176,958	27.25%

1.644

\$826,355
826,350

RATE DESIGN

METER SIZES

250 cfh & Below

	Present Rates	Proposed Rates
Monthly Service Charge	\$15.00	\$20.00
Winter Commodity Rate per Therm	\$0.80000	\$1.31520
Summer Commodity Rate per Therm	\$0.51405	\$0.84510

Above 250 cfh to 425 cfh

Monthly Service Charge	\$22.50	\$30.00
Winter Commodity Rate per Therm	\$0.80000	\$1.31520
Summer Commodity Rate per Therm	\$0.51405	\$0.84510

Above 425 cfh to 1,000 cfh

Monthly Service Charge	\$30.00	\$40.00
Winter Commodity Rate per Therm	\$0.80000	\$1.31520
Summer Commodity Rate per Therm	\$0.51405	\$0.84510

Service Charges:

	Present Rates	Proposed Rates
Establishment of Service (Regular Hours)	\$ 35.00	\$ 35.00
Establishment of Service (After Hours)	\$ 50.00	\$ 50.00
Re-establishment/Reconnection of Service (Regular Hours)	\$ 50.00	\$ 50.00
Re-establishment/Reconnection of Service (After Hours)	\$ 75.00	\$ 75.00
After Hours Service Calls - Consumer Caused (Per Hour)*	\$ 50.00	\$ 50.00
Meter Re-read Charge (No Charge for Read Error)	\$ 30.00	\$ 30.00
Meter Test Fee	\$ 50.00	\$ 50.00
Insufficient Funds Check	\$ 20.00	\$ 20.00
Interest Rate on Customer Deposits**	3.0%	Variable
Late/Deferred Payment (Per Month)	0.0%	1.5%

* One hour minimum

** Variable Rate based on the Three Month Non-Financial Commercial Paper Rate as published by the Federal Reserve

TYPICAL BILL ANALYSIS
250 cfh & Below

	Avg Therms Used Per Bill	Present Rates*	Proposed Rates	Dollar Increase	Percent Increase
Winter	76	\$92.28	\$120.53	\$ 28.25	30.62%
Summer	20	\$29.42	\$36.81	\$ 7.39	25.11%

Therm Consumption	Winter			Summer		
	Present Rates*	Proposed Rates	% Change	Present Rates*	Proposed Rates	% Change
0	\$ 15.00	\$ 20.00	33.33%	\$ 15.00	\$ 20.00	33.33%
25	\$ 40.28	\$ 52.88	31.30%	\$ 33.13	\$ 41.13	24.15%
50	\$ 65.55	\$ 85.76	30.83%	\$ 51.25	\$ 62.25	21.47%
60	\$ 75.66	\$ 98.91	30.73%	\$ 58.50	\$ 70.71	20.86%
70	\$ 85.77	\$ 112.06	30.66%	\$ 65.75	\$ 79.16	20.38%
75	\$ 90.83	\$ 118.64	30.62%	\$ 69.38	\$ 83.38	20.18%
80	\$ 95.88	\$ 125.22	30.60%	\$ 73.00	\$ 87.61	20.00%
90	\$ 105.99	\$ 138.37	30.55%	\$ 80.25	\$ 96.06	19.69%
100	\$ 116.10	\$ 151.52	30.51%	\$ 87.51	\$ 104.51	19.43%
125	\$ 141.38	\$ 184.40	30.43%	\$ 105.63	\$ 125.64	18.94%
150	\$ 166.65	\$ 217.28	30.38%	\$ 123.76	\$ 146.76	18.59%
175	\$ 191.93	\$ 250.16	30.34%	\$ 141.88	\$ 167.89	18.33%
200	\$ 217.20	\$ 283.04	30.31%	\$ 160.01	\$ 189.02	18.13%
250	\$ 267.75	\$ 348.80	30.27%	\$ 196.26	\$ 231.27	17.84%
300	\$ 318.30	\$ 414.56	30.24%	\$ 232.52	\$ 273.53	17.64%
350	\$ 368.85	\$ 480.32	30.22%	\$ 268.77	\$ 315.78	17.49%
400	\$ 419.40	\$ 546.08	30.21%	\$ 305.02	\$ 358.04	17.38%
450	\$ 469.95	\$ 611.84	30.19%	\$ 341.27	\$ 400.29	17.29%
500	\$ 520.50	\$ 677.60	30.18%	\$ 377.53	\$ 442.55	17.22%
750	\$ 773.25	\$ 1,006.40	30.15%	\$ 558.79	\$ 653.82	17.01%
1000	\$ 1,026.00	\$ 1,335.20	30.14%	\$ 740.05	\$ 865.10	16.90%

NOTE:

Fuel Adjustor Included in Present Rates
Fuel Adjustor Included in Proposed Rates

\$ 0.2110
\$ -

TYPICAL BILL ANALYSIS
Above 250 cfh to 425 cfh

	Avg Therms Used Per Bill	Present Rates*	Proposed Rates	Dollar Increase	Percent Increase
Winter	262	\$287.63	\$374.91	\$ 87.28	30.34%
Summer	997	\$745.60	\$872.83	\$ 127.23	17.06%

Irrigation

Therm Consumption	Winter			Summer		
	Present Rates*	Proposed Rates	% Change	Present Rates*	Proposed Rates	% Change
0	\$ 22.50	\$ 30.00	33.33%	\$ 22.50	\$ 30.00	33.33%
25	\$ 47.78	\$ 62.88	31.62%	\$ 40.63	\$ 51.13	25.85%
50	\$ 73.05	\$ 95.76	31.09%	\$ 58.75	\$ 72.25	22.98%
60	\$ 83.16	\$ 108.91	30.97%	\$ 66.00	\$ 80.71	22.28%
70	\$ 93.27	\$ 122.06	30.87%	\$ 73.25	\$ 89.16	21.71%
75	\$ 98.33	\$ 128.64	30.83%	\$ 76.88	\$ 93.38	21.47%
80	\$ 103.38	\$ 135.22	30.80%	\$ 80.50	\$ 97.61	21.25%
90	\$ 113.49	\$ 148.37	30.73%	\$ 87.75	\$ 106.06	20.86%
100	\$ 123.60	\$ 161.52	30.68%	\$ 95.01	\$ 114.51	20.53%
125	\$ 148.88	\$ 194.40	30.58%	\$ 113.13	\$ 135.64	19.89%
150	\$ 174.15	\$ 227.28	30.51%	\$ 131.26	\$ 156.76	19.43%
175	\$ 199.43	\$ 260.16	30.46%	\$ 149.38	\$ 177.89	19.08%
200	\$ 224.70	\$ 293.04	30.41%	\$ 167.51	\$ 199.02	18.81%
250	\$ 275.25	\$ 358.80	30.35%	\$ 203.76	\$ 241.27	18.41%
300	\$ 325.80	\$ 424.56	30.31%	\$ 240.02	\$ 283.53	18.13%
350	\$ 376.35	\$ 490.32	30.28%	\$ 276.27	\$ 325.78	17.92%
400	\$ 426.90	\$ 556.08	30.26%	\$ 312.52	\$ 368.04	17.77%
450	\$ 477.45	\$ 621.84	30.24%	\$ 348.77	\$ 410.29	17.64%
500	\$ 528.00	\$ 687.60	30.23%	\$ 385.03	\$ 452.55	17.54%
750	\$ 780.75	\$ 1,016.40	30.18%	\$ 566.29	\$ 663.82	17.22%
1000	\$ 1,033.50	\$ 1,345.20	30.16%	\$ 747.55	\$ 875.10	17.06%
1250	\$ 1,286.25	\$ 1,674.00	30.15%	\$ 928.81	\$ 1,086.37	16.96%
1500	\$ 1,539.00	\$ 2,002.80	30.14%	\$ 1,110.08	\$ 1,297.65	16.90%
1750	\$ 1,791.75	\$ 2,331.60	30.13%	\$ 1,291.34	\$ 1,508.92	16.85%
2000	\$ 2,044.50	\$ 2,660.40	30.12%	\$ 1,472.60	\$ 1,720.20	16.81%
2500	\$ 2,550.00	\$ 3,318.00	30.12%	\$ 1,835.13	\$ 2,142.75	16.76%
3000	\$ 3,055.50	\$ 3,975.60	30.11%	\$ 2,197.65	\$ 2,565.29	16.73%
4000	\$ 4,066.50	\$ 5,290.80	30.11%	\$ 2,922.70	\$ 3,410.39	16.69%
5000	\$ 5,077.50	\$ 6,606.00	30.10%	\$ 3,647.75	\$ 4,255.49	16.66%

NOTE:

Fuel Adjustor Included in Present Rates \$ 0.2110
Fuel Adjustor Included in Proposed Rates \$ -

TYPICAL BILL ANALYSIS
Above 425 cfh to 1,000 cfh

	Avg Therms Used Per Bill	Present Rates*	Proposed Rates	Dollar Increase	Percent Increase
Winter	1,430	\$1,475.73	\$1,920.74	\$ 445.01	30.15%
Summer	128	\$122.81	\$148.17	\$ 25.37	20.66%

Therm Consumption	Winter			Summer		
	Present Rates*	Proposed Rates	% Change	Present Rates*	Proposed Rates	% Change
0	\$ 30.00	\$ 40.00	33.33%	\$ 30.00	\$ 40.00	33.33%
10	\$ 40.11	\$ 53.15	32.52%	\$ 37.25	\$ 48.45	30.07%
20	\$ 50.22	\$ 66.30	32.03%	\$ 44.50	\$ 56.90	27.87%
50	\$ 80.55	\$ 105.76	31.30%	\$ 66.25	\$ 82.25	24.15%
100	\$ 131.10	\$ 171.52	30.83%	\$ 102.51	\$ 124.51	21.47%
150	\$ 181.65	\$ 237.28	30.62%	\$ 138.76	\$ 166.76	20.18%
200	\$ 232.20	\$ 303.04	30.51%	\$ 175.01	\$ 209.02	19.43%
250	\$ 282.75	\$ 368.80	30.43%	\$ 211.26	\$ 251.27	18.94%
300	\$ 333.30	\$ 434.56	30.38%	\$ 247.52	\$ 293.53	18.59%
350	\$ 383.85	\$ 500.32	30.34%	\$ 283.77	\$ 335.78	18.33%
400	\$ 434.40	\$ 566.08	30.31%	\$ 320.02	\$ 378.04	18.13%
450	\$ 484.95	\$ 631.84	30.29%	\$ 356.27	\$ 420.29	17.97%
500	\$ 535.50	\$ 697.60	30.27%	\$ 392.53	\$ 462.55	17.84%
750	\$ 788.25	\$ 1,026.40	30.21%	\$ 573.79	\$ 673.82	17.43%
1000	\$ 1,041.00	\$ 1,355.20	30.18%	\$ 755.05	\$ 885.10	17.22%
1250	\$ 1,293.75	\$ 1,684.00	30.16%	\$ 936.31	\$ 1,096.37	17.09%
1500	\$ 1,546.50	\$ 2,012.80	30.15%	\$ 1,117.58	\$ 1,307.65	17.01%
1750	\$ 1,799.25	\$ 2,341.60	30.14%	\$ 1,298.84	\$ 1,518.92	16.94%
2000	\$ 2,052.00	\$ 2,670.40	30.14%	\$ 1,480.10	\$ 1,730.20	16.90%
2500	\$ 2,557.50	\$ 3,328.00	30.13%	\$ 1,842.63	\$ 2,152.75	16.83%
3000	\$ 3,063.00	\$ 3,985.60	30.12%	\$ 2,205.15	\$ 2,575.29	16.79%
3500	\$ 3,568.50	\$ 4,643.20	30.12%	\$ 2,567.68	\$ 2,997.84	16.75%
4000	\$ 4,074.00	\$ 5,300.80	30.11%	\$ 2,930.20	\$ 3,420.39	16.73%
4500	\$ 4,579.50	\$ 5,958.40	30.11%	\$ 3,292.73	\$ 3,842.94	16.71%
5000	\$ 5,085.00	\$ 6,616.00	30.11%	\$ 3,655.25	\$ 4,265.49	16.69%
5500	\$ 5,590.50	\$ 7,273.60	30.11%	\$ 4,017.78	\$ 4,688.04	16.68%
6000	\$ 6,096.00	\$ 7,931.20	30.10%	\$ 4,380.30	\$ 5,110.59	16.67%

NOTE:

Fuel Adjustor Included in Present Rates \$ 0.2110
Fuel Adjustor Included in Proposed Rates \$ -

BILL COUNT
250 cfh & Below

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	1,872	8,880	1,872	21.11%	8,880	2.30%
11-30	3,275	61,184	5,147	58.05%	70,064	18.11%
31-50	1,175	46,173	6,322	71.30%	116,237	30.04%
51-100	1,586	115,086	7,908	89.18%	231,323	59.79%
101-150	610	73,711	8,518	96.06%	305,034	78.84%
151-200	208	35,428	8,726	98.41%	340,462	88.00%
OVER 201	141	46,431	8,867	100.00%	386,893	100.00%
	<u>8,867</u>	<u>386,893</u>				

AVERAGE NUMBER OF CUSTOMERS
AVERAGE THERMS USED PER YEAR

739
523.59

**BILL COUNT
 ABOVE 250 CFH TO 425 CFH**

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	93	61	93	40.61%	61	0.04%
11-100	10	588	103	44.98%	649	0.38%
101-200	9	1,352	112	48.91%	2,001	1.18%
201-300	8	1,999	120	52.40%	4,000	2.36%
301-500	10	4,322	130	56.77%	8,322	4.91%
501-1000	31	22,878	161	70.31%	31,200	18.40%
1001-2000	40	57,330	201	87.77%	88,530	52.21%
2001-3000	17	41,314	218	95.20%	129,844	76.57%
3001-4000	9	30,549	227	99.13%	160,393	94.58%
OVER 4000	2	9,187	229	100.00%	169,580	100.00%
	229	169,580				

AVERAGE NUMBER OF CUSTOMERS
AVERAGE THERMS USED PER YEAR

19
8,886.29

**BILL COUNT
 ABOVE 425 CFH TO 1,000 CFH**

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	1	-	1	4.00%	-	0.00%
11-100	10	568	11	44.00%	568	3.24%
101-200	2	254	13	52.00%	822	4.69%
201-300	1	210	14	56.00%	1,032	5.89%
301-500	-	-	14	56.00%	1,032	5.89%
501-1000	3	2,123	17	68.00%	3,155	18.01%
1001-2000	5	6,423	22	88.00%	9,578	54.66%
2001-3000	3	7,944	25	100.00%	17,522	100.00%
3001-4000	-	-	25	100.00%	17,522	100.00%
	25	17,522				

AVERAGE NUMBER OF CUSTOMERS 2
AVERAGE THERMS USED PER YEAR 8,410.56

DUNCAN RURAL SERVICES CORPORATION

RATE SCHEDULE 1 – 250 cfh & Below

I. Availability

Available to all customers with meter sizes 250 cubic feet per hour and below within the corporation's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

II. Applicability

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

III. Rates

Monthly Service Charge	\$20.00
Winter Commodity Charge (November –March)- Per Therm for all gas	\$1.3152
Summer Commodity Charge (April-October)- Per Therm for all gas	\$0.8451

IV. Purchased Gas Adjustment

The base cost of purchased gas is \$0.56678 per therm. Pursuant to the corporation's gas adjustment procedure, it may from time to time flow through to customers increases or decreases in this cost, as approved by the Arizona Corporation Commission (ACC).

V. Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

VI. Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

VII. Effective Date

This rate schedule is effective for all service on or after _____, as authorized by the ACC in Decision No. _____ dated _____.

DUNCAN RURAL SERVICES CORPORATION

RATE SCHEDULE 2 – Above 250 cfh to 425 cfh

I. Availability

Available to all customers with meter sizes above 250 cfh up to and including 425 cfh within the corporation's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

II. Applicability

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

III. Rates

Monthly Service Charge	\$30.00
Winter Commodity Charge (November –March)- Per Therm for all gas	\$1.3152
Summer Commodity Charge (April-October)- Per Therm for all gas	\$0.8451

IV. Purchased Gas Adjustment

The base cost of purchased gas is \$0.56678 per therm. Pursuant to the corporation's gas adjustment procedure, it may from time to time flow through to customers increases or decreases in this cost, as approved by the Arizona Corporation Commission (ACC).

V. Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

VI. Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

VII. Effective Date

This rate schedule is effective for all service on or after _____, as authorized by the ACC in Decision No. _____ dated _____.

DUNCAN RURAL SERVICES CORPORATION

RATE SCHEDULE 3 – Above 425 cfh to 1,000 cfh

I. Availability

Available to all customers with meter sizes above 425 cfh up to and including 1,000 cfh within the corporation's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

II. Applicability

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

III. Rates

Monthly Service Charge	\$40.00
Winter Commodity Charge (November –March)- Per Therm for all gas	\$1.3152
Summer Commodity Charge (April-October)- Per Therm for all gas	\$0.8451

IV. Purchased Gas Adjustment

The base cost of purchased gas is \$0.56678 per therm. Pursuant to the corporation's gas adjustment procedure, it may from time to time flow through to customers increases or decreases in this cost, as approved by the Arizona Corporation Commission (ACC).

V. Tax Adjustments and Regulatory Assessments

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

VI. Conditions of Service

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

VII. Effective Date

This rate schedule is effective for all service on or after _____, as authorized by the ACC in Decision No. _____ dated _____.

DUNCAN RURAL SERVICES CORPORATION

RATES AND CHARGES FOR OTHER SERVICES

I. <u>Description of Service</u>	<u>Rate</u>
Establishment of Service - (Normal)	\$35.00
Establishment of Service - (After)	\$50.00
Re-establishment/Reconnection of Service - (Normal)	\$50.00
Reestablishment/Reconnection of Service - (After)	\$75.00
After Hours Service Calls- Consumer Caused (Per Hour)*	\$50.00
Meter Reread Charge (No Charge for Read Error)	\$30.00
Meter Test Fee	\$50.00
Insufficient Funds Check	\$20.00
Interest Rate on Customer Deposits**	Variable %
Late/Deferred Payment (Per Month)	1.5%

* One hour minimum.

** Variable interest rate based on the Three Month Non-Financial Commercial Paper Rate as published by the Federal Reserve

II. Effective Date

This rate schedule is effective for all service on or after _____, as authorized by the ACC in Decision No. _____ dated _____.

DUNCAN RURAL SERVICES CORPORATION

RATE SCHEDULE PGA - PURCHASED GAS ADJUSTOR

I. Applicability

Applicable to all Therm sales of gas provided to all customers within the corporation's certificated service area.

II. Gas Adjustment Procedure

The Corporation may increase or decrease customer's bills due to variance in the cost of purchased gas from the base cost of purchased included in its rate schedules. All such increases or decreases must filed with the Arizona Corporation Commission (ACC) Utilities Division. The base cost of gas in current rates is \$0.56678 per therm, as authorized by the ACC in Decision No. _____ dated _____.

III. Purchased Gas Adjustor

Purchased Gas Adjustment - Per therm charge for all gas sold that may vary monthly because of increases or decreases in cost of gas and transportation, as approved by the Arizona Corporation Commission.

IV. Effective Date

This rate schedule is effective for all service on or after _____, as authorized by the ACC in Decision No. _____ dated _____.

DUNCAN RURAL SERVICES CORPORATION
COST OF SERVICE SUMMARY - PRESENT RATES
TEST YEAR ENDED DECEMBER 31, 2004

DESCRIPTION	TOTAL	250cfh & Below	>250 & < 425 cfh	>425 & < 1k cfh
Operating Revenues	649,377	498,624	132,828	17,925
Operating Expenses:				
Purchased Gas	325,260	199,886	115,443	9,931
Distribution Expense - Operations	154,097	134,924	12,508	6,665
Distribution Expense - Maintenance	54,824	48,107	4,413	2,304
Customer Account Expense	60,129	58,455	1,509	165
Administrative & General Expense	62,843	56,615	4,768	1,460
Depreciation	37,542	33,213	2,926	1,403
Property Taxes	19,639	17,020	1,657	962
Tax Expense - Other (Income, etc.)	(108)	(97)	(9)	(2)
Interest Expense -Other	367	357	9	1
Total Operation Expenses	714,593	548,480	143,224	22,889
Operating Income (Loss)	(65,216)	(49,856)	(10,396)	(4,964)
Rate Base	827,522	734,258	63,693	29,571
% Return - Present Rates	-7.88%	-6.79%	-16.32%	-16.79%
Return Index	1.00	0.86	2.07	2.13
Allocated Interest - Long-Term	33,607	29,819	2,587	1,201
Operating TIER - Present Rates	(1.94)	(1.67)	(4.02)	(4.13)

**DUNCAN RURAL SERVICES CORPORATION
COST OF SERVICE SUMMARY - PROPOSED RATES
TEST YEAR ENDED DECEMBER 31, 2004**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>250cfh & Below</u>	<u>>250 & < 425 cfh</u>	<u>>425 & < 1k cfh</u>
Operating Revenues	826,355	642,963	160,175	23,217
<u>Operating Expenses:</u>				
Purchased Gas	325,260	199,886	115,443	9,931
Distribution Expense - Operations	154,097	134,924	12,508	6,665
Distribution Expense - Maintenance	54,824	48,107	4,413	2,304
Customer Account Expense	60,129	58,455	1,509	165
Administrative & General Expense	62,843	56,615	4,768	1,460
Depreciation	37,542	33,213	2,926	1,403
Property Taxes	19,639	17,020	1,657	962
Tax Expense - Other (Income, etc.)	44,501	40,232	3,388	1,037
Interest Expense -Other	367	357	9	1
Total Operation Expenses	759,202	588,809	146,621	23,928
Operating Income (Loss)	67,153	54,154	13,554	(711)
Rate Base	827,522	734,258	63,693	29,571
% Return - Proposed Rates	8.11%	7.38%	21.28%	-2.41%
Return Index	1.00	0.91	2.62	(0.30)
Allocated Interest - Long-Term	33,607	29,819	2,587	1,201
Operating TIER - Proposed Rates	2.00	1.82	5.24	(0.59)

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
ALLOCATION OF RATE BASE

CONSUMER CLASS

DESCRIPTION	FACTOR	TOTAL	CONSUMER CLASS		
			250cft & Below	>250 & < 425 cft	>425 & < 1k cft
GROSS PLANT IN SERVICE:					
Demand	D-1	957,612	829,949	80,747	46,916
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	436,338	407,718	26,321	2,299
Customer - Unweighted	C-2	-	-	-	-
Total		1,393,950	1,237,667	107,068	49,215
ACCUMULATED DEPRECIATION:					
Demand	D-1	390,686	338,602	32,943	19,141
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	178,017	166,340	10,739	938
Customer - Unweighted	C-2	-	-	-	-
Total		568,703	504,942	43,682	20,079
NET PLANT IN SERVICE					
		825,247	732,725	63,386	29,136
Customer Deposits & Def. Tax:					
Demand	D-1	19,554	16,947	1,649	958
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	20,064	18,748	1,210	106
Customer - Unweighted	C-2	-	-	-	-
Total		39,618	35,695	2,859	1,064
WORKING CAPITAL:					
Demand	D-1	29,330	25,420	2,473	1,437
Commodity	CM-1	125	77	44	4
Customer - Weighted	C-1	9,564	8,937	577	50
Customer - Unweighted	C-2	2,874	2,794	72	8
Total		41,893	37,228	3,166	1,499
TOTAL RATE BASE					
		827,522	734,258	63,693	29,571

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
ALLOCATION OF INCOME STATEMENT

DESCRIPTION	FACTOR	TOTAL	CONSUMER CLASS		
			250cfh & Below	>250 & < 425 cfh	>425 & < 1k cfh
REVENUES:					
Gas Sales - Adjusted		525,729	413,149	98,324	14,255
Service Charges & Other Revenues		5,210	5,065	131	14
Total		530,939	418,214	98,455	14,269
OPERATING EXPENSE:					
Purchased Gas					
	CM-1	325,258	199,884	115,443	9,931
Distribution Expense - Operations:					
Demand	D-1	133,883	116,035	11,289	6,559
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	20,213	18,888	1,219	106
Customer - Unweighted	C-2	-	-	-	-
Total		154,096	134,923	12,508	6,665
Distribution Expense - Maintenance:					
Demand	D-1	46,097	39,952	3,887	2,258
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	8,726	8,154	526	46
Customer - Unweighted	C-2	-	-	-	-
Total		54,823	48,106	4,413	2,304
Customer Accounts Expense:					
Demand	D-1	-	-	-	-
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	-	-	-	-
Customer - Unweighted	C-2	60,128	58,454	1,509	165
Total		60,128	58,454	1,509	165
Admin. & General Expense:					
Demand	D-1	24,884	21,567	2,098	1,219
Commodity	CM-1	3,383	2,079	1,201	103
Customer - Weighted	C-1	17,077	15,957	1,030	90
Customer - Unweighted	C-2	17,498	17,011	439	48
Total		62,842	56,614	4,768	1,460

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
ALLOCATION OF INCOME STATEMENT

CONSUMER CLASS

DESCRIPTION	FACTOR	TOTAL	250cfn & Below	>250 & <425 cfn	>425 & <1k cfn
Depreciation:					
Demand	D-1	27,579	23,903	2,325	1,351
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	9,963	9,310	601	52
Customer - Unweighted	C-2	-	-	-	-
Total		37,542	33,213	2,926	1,403
Property Taxes:					
Demand	D-1	14,427	12,503	1,217	707
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	5,212	4,517	440	255
Customer - Unweighted	C-2	-	-	-	-
Total		19,639	17,020	1,657	962
ADJUSTED TV Tax Expense - Other:					
Demand	D-1	(43)	(37)	(4)	(2)
Commodity	CM-1	(6)	(4)	(2)	-
Customer - Weighted	C-1	(29)	(27)	(2)	-
Customer - Unweighted	C-2	(30)	(29)	(1)	-
Total		(108)	(97)	(9)	(2)
PROPOSED Tax Expense - Other:					
Demand	D-1	17,683	15,326	1,491	866
Commodity	CM-1	2,404	1,478	853	73
Customer - Weighted	C-1	12,136	11,340	732	64
Customer - Unweighted	C-2	12,434	12,088	312	34
Total		44,657	40,232	3,388	1,037
Interest Expense - Other:					
Demand	D-1	-	-	-	-
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	-	-	-	-
Customer - Unweighted	C-2	-	-	-	-
Total		367	357	9	1
TOTAL OPERATING EXPENSES		714,593	548,480	143,224	22,889
OPERATING INCOME (LOSS)		(65,216)	(49,856)	(10,396)	(4,964)
OPERATING INCOME PERCENT		-10.04%	-10.00%	-7.83%	-27.69%

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
FUNCTION OF RATE BASE COMPONENTS

DESCRIPTION	FACTOR	TOTAL	FUNCTION	SPECIFIC	DEMAND	COMMODITY	CUST.-WT	CUST.
GROSS UTILITY PLANT IN SERVICE								
<u>Distribution Plant:</u>								
Distribution Mains	F-3	897,859	897,859	-	897,859	-	-	-
City Gates	F-3	26,923	26,923	-	26,923	-	-	-
Services	F-4	211,824	211,824	-	-	-	211,824	-
Meters & Regulators	F-5	212,653	212,653	-	-	-	212,653	-
Total Distribution Plant	F-7	1,349,259	1,349,259	-	924,782	-	424,477	-
Percent		100.00%	100.00%	0.00%	68.54%	0.00%	31.46%	0.00%
<u>General Plant:</u>								
Office Furniture & Improvements		2,000	2,000	-	1,469	-	531	-
Tools & Shop Equipment		22,553	22,553	-	16,567	-	5,986	-
Lab Equipment		13,369	13,369	-	9,821	-	3,548	-
Stores, Power, Communication & Misc. Equip.		6,769	6,769	-	4,973	-	1,796	-
Total General Plant	F-7	44,691	44,691	-	32,830	-	11,861	-
Percent		100.00%	100.00%	0.00%	25.35%	0.00%	74.65%	0.00%
GROSS PLANT IN SERVICE		1,393,950	1,393,950	-	957,612	-	436,338	-
PERCENT		100.00%	100.00%	0.00%	68.70%	0.00%	31.30%	0.00%
<u>ACCUMULATED DEPRECIATION:</u>								
Distribution Plant	F-7	546,509	546,509	-	375,439	-	171,070	-
General Plant	F-7	22,194	22,194	-	15,247	-	6,947	-
Total Accumulated Depreciation		568,703	568,703	-	390,686	-	178,017	-
Customer Deposits & Deferred Taxes		39,618	39,618		19,554		20,064	
<u>WORKING CAPITAL:</u>								
Materials & Supplies Inventory	F-7	27,542	27,542	-	20,232	-	7,310	-
Prepays	F-9	14,351	14,351	-	9,098	124	2,255	2,874
Total Working Capital		41,893	41,893	-	29,330	124	9,564	2,874
TOTAL RATE BASE		827,522	827,522		596,257	124	287,950	2,874

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
FUNCTION OF OPERATING EXPENSES

DESCRIPTION	FACTOR	TOTAL	FUNCTION	SPECIFIC	DEMAND	COMMODITY	CUST. - WT	CUST.
	F-2	325,260	325,260			325,260		
Distribution Operating Expenses:								
Purchased Gas								
Supervision & Engineering	F-3	950	950		950			
Mains & Services	F-3	110,026	110,026		110,026			
Measuring & Reg Stations	F-1	13,753	13,753		13,753			
Meters and House Regulators	F-4	20,214	20,214				20,214	
Other Operating Expenses	F-3	9,155	9,155		9,155			
Total Operating Expenses		154,097	154,097	-	133,884	-	20,214	-
Distribution Maint. Expenses:								
Supervision & Engineering	F-3	-	-		-			
Mains & Services	F-3	46,098	46,098		46,098			
Measuring & Reg Stations	F-1	-	-		-			
Services	F-4	-	-		-			
Meters and House Regulators	F-5	8,726					8,726	
Other Equipment	F-3	-	-		-			
Total Maint. Expenses		54,824	46,098	-	46,098	-	8,726	-
Meter Reading Expenses	F-6	25,048	25,048					25,048
Consumer Expense	F-6	30,523	30,523					30,523
Info. and Instructional Ads & Uncollectibles	F-6	4,558	4,558					4,558
Total Customer Accounts Expenses:		60,129	60,129	-	-	-	-	60,129
Administrative & General Exp.	F-8	62,843	59,460	3,383	24,885	3,383	17,078	17,498
Depreciation	F-7	37,542	37,542		27,578		9,964	
Property Taxes	F-7	19,639	19,639		14,427		5,212	
Taxes - Other	F-8	(108)	(108)		(43)	(6)	(29)	(30)
Interest Expense - Other	F-6	367	367					367
TOTAL OPERATING EXPENSES		714,594	702,485	3,383	246,829	328,637	61,164	77,964
FUNCT. OF SALARIES & WAGES								
Operating Expenses	F-3	61,411	55,876	5,535	27,938	5,535	27,938	
Maintenance Expenses	F-3	12,772	12,772		12,772			
Meter Reading & Installation	F-6	11,067	11,067					11,067
Customer Accounting	F-6	17,558	17,558					17,558
Total		102,808	97,273	5,535	40,710	5,535	27,938	28,625
Percent	F-8	100.00%	94.62%	5.38%	39.60%	5.38%	27.17%	27.84%
FUNCTION OF O&M LESS PG		389,334	377,225	3,383	246,829	3,378	61,164	77,964
Percent	F-9	100.00%	96.89%	0.87%	63.40%	0.87%	15.71%	20.02%
Percent		100.00%			63.95%		15.85%	20.20%

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
ALLOCATION FACTORS

FUNCTION FACTOR	DESCRIPTION	TOTAL	DEMAND	COMMODITY	WEIGHTED CUSTOMER	CUSTOMER
F-1	Demand	100.00%	100.00%			
F-2	Commodity	100.00%		100.00%		
F-3	Distribution Mains	100.00%	100.00%			
F-6	Customer Accounts	100.00%				100.00%
DERIVED FUNCTION FACTOR						
F-7	Gross Plant in Service	100.00%	73.46%		26.54%	
F-8	Salaries & Wages	100.00%	39.60%	5.38%	27.17%	27.84%
F-9	O & M Less Purchased gas	100.00%	63.40%	0.87%	15.71%	20.02%
CLASS ALLOCATION FACTORS						
FACTORS	DESCRIPTION	TOTAL	CUSTOMER CLASS			
			250cfh & Below	>250 & < 425 cfh	>425 & < 1k cfh	
D-1	Winter Peak Demand	100.000%	86.669%	8.432%	4.899%	
CM-1	Commodity	100.000%	61.454%	35.493%	3.053%	
C-1	Customer - Weighted	100.000%	93.441%	6.032%	0.527%	
C-2	Customer - Unweighted	100.000%	97.216%	2.510%	0.274%	

DUNCAN RURAL SERVICES CORPORATION
TEST YEAR ENDED DECEMBER 31, 2004
ALLOCATION FACTORS

WINTER PEAK

<u>Dec-04</u>	<u>Therms</u>	<u>%</u>
250cfh & Below	63,271	92.38%
>250 & < 425 cfh	1,464	2.14%
>425 & < 1k cfh	3,755	5.48%
TOTAL	68,490	100.00%

Nov-04

250cfh & Below	38,812	90.71%
>250 & < 425 cfh	2,099	4.91%
>425 & < 1k cfh	1,874	4.38%
TOTAL	42,785	100.00%

Mar-04

250cfh & Below	37,845	76.79%
>250 & < 425 cfh	9,560	19.40%
>425 & < 1k cfh	1,881	3.82%
TOTAL	49,286	100.00%

Feb-04

250cfh & Below	74,961	90.29%
>250 & < 425 cfh	3,751	4.52%
>425 & < 1k cfh	4,307	5.19%
TOTAL	83,019	100.00%

Jan-04

250cfh & Below	69,468	89.65%
>250 & < 425 cfh	4,106	5.30%
>425 & < 1k cfh	3,913	5.05%
TOTAL	77,487	100.00%

PEAK SUMMARY

	2004	2003	Average of 2003 & 2004	Mix of 2003 & 2004
250cfh & Below	284,357	86.67%	87.62%	86.67%
>250 & < 425 cfh	20,980	6.53%	7.43%	8.43%
>425 & < 1k cfh	15,730	4.90%	4.95%	4.90%
TOTAL	321,067	100.00%	100.00%	100.00%

YEAR

250cfh & Below	386,767	67.40%	61.45%	64.43%	61.45%	102,410
>250 & < 425 cfh	169,580	29.55%	32.76%	31.15%	35.49%	11,54826
>425 & < 1k cfh	17,522	3.05%	5.79%	4.42%	3.05%	
TOTAL	573,869	100.00%	100.00%	100.00%	100.00%	

TOTAL BILLS

	<u>%</u>
8,868	97.216%
229	2.510%
25	0.274%
9,122	100.000%

%

8,868	8,868	93.44%
229	573	6.03%
25	50	0.53%
9,122	9,491	100.00%

FINANCIAL AND STATISTICAL REPORT	NAME AND ADDRESS	
	DUNCAN RURAL SERVICES CORPORATION DUNCAN, AZ 85534	
	YEAR ENDING	
	December 31, 2004	

SIGNATURE OF OFFICE MANAGER OR ACCCOUNTANT	03/02/2005 DATE
SIGNATURE OF MANAGER	3/2/05 DATE

PART A. STATEMENT OF OPERATIONS				December
ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	622,515	649,377	660,354	95,552
	0	-		
3. Cost of Purchased Gas	303,644	325,260	327,963	53,175
	0	-		
5. Distribution Expense-Operation	135,861	138,569	135,000	24,467
6. Distribution Expense-Maintenance	44,258	61,921	45,000	6,864
7. Consumer Accounts Expense	44,021	55,045	45,000	7,452
8. Customer Service and Informational Expense	1,805	3,058	2,000	353
9. Sales Expense	0	-		
10. Administrative and General Expense	45,546	54,952	50,000	8,233
11. Total Operation & Maintenance Expense (2 - 10)	575,134	638,803	604,963	100,545
12. Depreciation and Amortization Expense	46,807	49,645	45,000	4,213
13. Tax Expense - Property	16,651	19,639	17,000	2,130
14. Tax Expense - Other	991	(158)	1,000	(208)
15. Interest on Long-Term Debt	11,748	14,973	12,000	1,636
16. Interest Charged to Construction - Credit	0	-		
17. Interest Expense - Other	644	367	1,000	41
18. Other Deductions	(10,489)	(24,146)	0	(13,052)
19. Total Cost of Gas Service (11 - 18)	641,486	699,124	680,963	95,305
20. Operating Margins (1 - 19)	(18,971)	(49,747)	(20,609)	247
21. Non Operating Margins - Interest	110	110	50	13
23. Non Operating Margins - Other	0	-		
27. Total Margins (20 - 26)	(18,861)	(49,637)	(20,559)	261

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT						
ITEM	Month	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
		LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connect	1	7	9			
2. Services Retired	0	4	2			
3. Total Services in Place	922	915	922	7. Miles Distribution Underground	50	50
4. Idle Services (Exclude Seasonal)	169	162	169	8. Total Miles of Line	50	50

FINANCIAL AND STATISTICAL REPORT	NAME DUNCAN RURAL SERVICE CORPORATION		
	MONTH ENDING December 31, 2004		
PART C. BALANCE SHEET			
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,310,308	26. Membership	5,000
2. Construction Work in Progress	10,161	27. Patronage Capital	
3. Total Utility Plant (1 + 2)	1,320,470	28. Operating Margins - Prior Years	(103,435)
4. Accum. Provision for Depreciation & Amort	596,470	29. Operating Margins - Current Year	(49,747)
5. Net Utility Plant (3 - 4)	724,000	30. Non Operating Margins	110
6. Nonutility Property - Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	(148,072)
8. Invest in Assoc Org - Other	1,000	33a. Long-Term Debt-DVEC 25 Year	60,412
9. Invest in Assoc Org - Nongeneral Funds		33b. Long-Term Debt-DVEC 35 Year	115,962
10. Other Investments		33c. Long-Term Debt-DVEC 25 Year	340,584
11. Special Funds			
12. Total Other Property & Investments (6 thru 11)	1,000	34. Total Long-Term Debt	516,958
13. Cash - General Funds	5,458	35. Notes Payable	
14. Cash - Construction Funds - Trustee		36. Accounts Payable	496,758
15. Special Deposits		37. Consumers Deposits	16,925
16. Temporary Investments		38. Other Current & Accrued Liabilities	25,400
17. Notes Receivable - Net		39. Total Current & Accrued Liabilities (36 thru 39)	539,083
18. Accounts Receivable - Net Sales of Energy	88,534	40. Deferred Credits	
19. Accounts Receivable - Net Other		41. Miscellaneous Operating Reserves	
20. Materials & Supplies	27,542	42. Total Liabilities & Other Credits (32 + 34 + 39 thru 41)	907,969
21. Prepayments	14,351		
22. Other Current & Accrued Assets		ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	135,885	Balance Beginning of Year	0
24. Deferred Debits	47,084	Amounts Received This Year (Net)	
25. Total Assets & Other Debits (5+12+23+24)	907,969	TOTAL Contributions in Aid of Construction	0
PART D. NOTES TO FINANCIAL STATEMENTS			
<p>THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. (IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)</p>			

DUNCAN RURAL SERVICES CORPORATION

FINANCIAL AND STATISTICAL REPORT

**YEAR ENDING
December 31, 2004**

PART R. POWER REQUIREMENTS DATA BASE

(Continued)

LINE ITEM NUMBER	JULY (g)	AUGUST (h)	SEPTEMBER (i)	OCTOBER (j)	NOVEMBER (k)	DECEMBER (l)	TOTAL (Columns a - l)
1	a.	729	735	734	730	740	747
	b.	15,106	12,309	12,520	13,942	38,979	62,788
	c.	20,596	19,196	19,408	20,264	48,755	72,711
2	a.	23	23	20	20	20	15
	b.	30,747	18,385	19,161	11,405	2,099	1,457
	c.	20,361	12,811	13,388	8,105	2,477	1,765
3	a.	2	2	2	2	2	25
	b.	68	91	130	297	1,874	3,737
	c.	104	121	148	259	1,870	3,721
10.	754	760	756	752	762	764	
11.	45,921	30,785	31,811	25,644	42,952	67,982	574,136
12.	41,061	32,128	32,944	28,628	53,102	78,197	606,765
13.	6,907	1,100	(2,170)	762	10,447	17,355	42,612
14.							0
15.	47,180	27,330	26,770	26,420	44,930	78,230	550,580
16.	29,121	16,595	13,922	13,548	32,440	53,175	325,260

FINANCIAL AND STATISTICAL REPORT	NAME AND ADDRESS	
	DUNCAN RURAL SERVICES CORPORATION DUNCAN, AZ 85534	
	YEAR ENDING	
	December 31, 2003	

Howard Hunt
 SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

2-17-2004
 DATE

Jack Hilling
 SIGNATURE OF MANAGER

2-17-04
 DATE

PART A. STATEMENT OF OPERATIONS

December

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
	1. Operating Revenue and Patronage Capital	486,060	622,515	
	0	-		
3. Cost of Purchased Gas	203,481	303,644	237,535	41,682
	0	-		
5. Distribution Expense-Operation	109,334	135,861	115,000	12,139
6. Distribution Expense-Maintenance	40,976	44,258	45,000	5,094
7. Consumer Accounts Expense	45,858	44,021	45,000	4,654
8. Customer Service and Informational Expense	1,844	1,805	3,500	110
9. Sales Expense	0	-		
10. Administrative and General Expense	38,557	45,546	50,000	4,260
11. Total Operation & Maintenance Expense (2 - 10)	440,050	575,134	496,035	67,939
12. Depreciation and Amortization Expense	29,340	46,807	29,000	4,029
13. Tax Expense - Property	12,900	16,651	13,000	9,051
14. Tax Expense - Other	(852)	991	1,000	1,235
15. Interest on Long-Term Debt	22,411	11,748	30,000	1,007
16. Interest Charged to Construction - Credit	0	-	0	
17. Interest Expense - Other	1,027	644	1,000	40
18. Other Deductions	3,658	(10,489)	0	605
19. Total Cost of Gas Service (11 - 18)	508,534	641,486	570,035	83,906
20. Operating Margins (1 - 19)	(22,474)	(18,971)	(13,394)	203
21. Non Operating Margins - Interest	51	110	50	4
23. Non Operating Margins - Other	0	-		
27. Total Margins (20 - 26)	(22,423)	(18,861)	(13,344)	206

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	Month	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
		LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connect	0	1	7			
2. Services Retired	0	0	4			
3. Total Services in Place	915	912	915	7. Miles Distribution Underground	50	50
4. Idle Services (Exclude Seasonal)	162	101	162	8. Total Miles of Line	50	50

FINANCIAL AND STATISTICAL REPORT	NAME DUNCAN RURAL SERVICE CORPORATION	
	MONTH ENDING December 31, 2003	

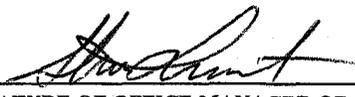
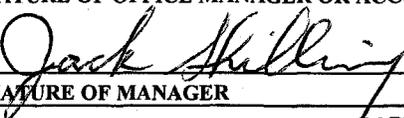
PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,244,775	26. Membership	5,000
2. Construction Work in Progress	18,900	27. Patronage Capital	
3. Total Utility Plant (1 + 2)	1,263,675	28. Operating Margins - Prior Years	(84,575)
4. Accum. Provision for Depreciation & Amort	548,734	29. Operating Margins - Current Year	(18,971)
5. Net Utility Plant (3 - 4)	714,941	30. Non Operating Margins	111
6. Nonutility Property - Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	(98,435)
8. Invest in Assoc Org - Other	1,000	33. Long-Term Debt-DVEC 25 Year	71,662
9. Invest in Assoc Org - Nongeneral Funds		34. Long-Term Debt-DVEC 35 Year	125,147
10. Other Investments		34a. Long-Term Debt-DVEC 25 Year	365,454
11. Special Funds			
12. Total Other Property & Investments (6 thru 11)	1,000	35. Total Long-Term Debt (33+34)	562,263
13. Cash - General Funds	5,094	36. Notes Payable	
14. Cash - Construction Funds - Trustee		37. Accounts Payable	353,400
15. Special Deposits		38. Consumers Deposits	16,065
16. Temporary Investments		39. Other Current & Accrued Liabilities	24,429
17. Notes Receivable - Net		40. Total Current & Accrued Liabilities (36 thru 39)	393,894
18. Accounts Receivable - Net Sales of Energy	91,369	41. Deferred Credits	15,126
19. Accounts Receivable - Net Other		42. Miscellaneous Operating Reserves	
20. Materials & Supplies	24,562	43. Total Liabilities & Other Credits (32 + 35 + 40 thru 42)	872,848
21. Prepayments	29,535		
22. Other Current & Accrued Assets		ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	150,559	Balance Beginning of Year	0
24. Deferred Debits	6,348	Amounts Received This Year (Net)	
25. Total Assets & Other Debits (5+12+23+24)	872,848	TOTAL Contributions in Aid of Construction	0

PART D. NOTES TO FINANCIAL STATEMENTS

THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. (IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)

FINANCIAL AND STATISTICAL REPORT	NAME AND ADDRESS	
	DUNCAN RURAL SERVICES CORPORATION DUNCAN, AZ 85534	
	YEAR ENDING	
	December 31, 2002	

	<u>3/17/03</u>
SIGNATURE OF OFFICE MANAGER OR ACCCOUNTANT	DATE
	<u>3-17-03</u>
SIGNATURE OF MANAGER	DATE

ITEM	PART A. STATEMENT OF OPERATIONS			December
	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	589,980	486,060	647,757	73,659
	0	-		
3. Cost of Purchased Gas	337,039	203,481	354,389	33,223
	0	-		
5. Distribution Expense-Operation	110,594	109,334	90,000	3,615
6. Distribution Expense-Maintenance	30,190	40,976	60,000	3,417
7. Consumer Accounts Expense	38,121	45,858	37,000	2,838
8. Customer Service and Informational Expense	3,432	1,844	3,600	110
9. Sales Expense	0	-		
10. Administrative and General Expense	41,316	38,557	55,000	(7,919)
11. Total Operation & Maintenance Expense (2 - 10)	560,692	440,050	599,989	35,284
12. Depreciation and Amortization Expense	24,178	29,340	26,000	(3,521)
13. Tax Expense - Property	10,636	12,900	10,000	3,151
14. Tax Expense - Other	(2,884)	(852)	5,000	(660)
15. Interest on Long-Term Debt	35,142	22,411	40,000	1,866
16. Interest Charged to Construction - Credit	0	-		
17. Interest Expense - Other	1,068	1,027	1,000	91
18. Other Deductions	(4,822)	3,658		3,658
19. Total Cost of Gas Service (11 - 18)	624,010	508,534	681,989	39,869
20. Operating Margins (1 - 19)	(34,030)	(22,474)	(34,232)	33,790
21. Non Operating Margins - Interest	0	51	100	8
23. Non Operating Margins - Other	0	-		
27. Total Margins (20 - 26)	(34,030)	(22,423)	(34,132)	33,798

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT						
ITEM	Month	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
		LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connect	1	1	8			
2. Services Retired		0	4			
3. Total Services in Place	916	912	916	7. Miles Distribution Underground	50	50
4. Idle Services (Exclude Seasonal)	135	101	135	8. Total Miles of Line	50	50

FINANCIAL AND STATISTICAL REPORT	NAME DUNCAN RURAL SERVICE CORPORATION	
	MONTH ENDING December 31, 2002	

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,173,819	26. Membership	5,000
2. Construction Work in Progress	15,014	27. Patronage Capital	
3. Total Utility Plant (1 + 2)	1,188,833	28. Operating Margins - Prior Years	(62,151)
4. Accum. Provision for Depreciation & Amort	505,644	29. Operating Margins - Current Year	(22,474)
5. Net Utility Plant (3 - 4)	683,189	30. Non Operating Margins	51
6. Nonutility Property - Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	(79,574)
8. Invest in Assoc Org - General Funds	1,000	33. Long-Term Debt-DVEC 25 Year	217,399
9. Invest in Assoc Org - Nongeneral Funds		(Payments-Unapplied \$ _____)	
10. Other Investments		34. Long-Term Debt-DVEC 35 Year	390,830
11. Special Funds		(Payments-Unapplied \$ _____)	
12. Total Other Property & Investments (6 thru 11)	1,000	35. Total Long-Term Debt (33+34)	608,229
13. Cash - General Funds	9,564	36. Notes Payable	
14. Cash - Construction Funds - Trustee		37. Accounts Payable	207,851
15. Special Deposits		38. Consumers Deposits	17,845
16. Temporary Investments		39. Other Current & Accrued Liabilities	20,133
17. Notes Receivable - Net		40. Total Current & Accrued Liabilities (36 thru 39)	245,829
18. Accounts Receivable - Net Sales of Energy	71,110	41. Deferred Credits	
19. Accounts Receivable - Net Other	126	42. Miscellaneous Operating Reserves	
20. Materials & Supplies	25,276	43. Total Liabilities & Other Credits (32 + 35 +	
21. Prepayments	13,035	40 thru 42)	774,484
22. Other Current & Accrued Assets		ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	119,111	Balance Beginning of Year	0
24. Deferred Debits	(28,816)	Amounts Received This Year (Net)	
25. Total Assets & Other Debits (5+12+23+24)	774,484	TOTAL Contributions in Aid of Construction	0

PART D. NOTES TO FINANCIAL STATEMENTS

THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. (IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)

FINANCIAL AND STATISTICAL REPORT	NAME AND ADDRESS	
	DUNCAN RURAL SERVICES CORPORATION DUNCAN, AZ 85534	

YEAR ENDING December 31, 2001

[Signature] 3/5/2002

SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT DATE

[Signature] 3-27-02

PART A. STATEMENT OF OPERATIONS December

ITEM	YEAR-TO-DATE			THIS MONTH (d)
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
	1. Operating Revenue and Patronage Capital	527,700	589,980	
	0	-		
3. Cost of Purchased Gas	272,567	337,039	193,550	37,205
	0	-		
5. Distribution Expense-Operation	72,889	110,594	90,000	12,778
6. Distribution Expense-Maintenance	44,954	30,190	60,000	2,914
7. Consumer Accounts Expense	31,725	38,121	37,000	5,491
8. Customer Service and Informational Expense	2,592	3,432	3,600	169
9. Sales Expense	0	-		
10. Administrative and General Expense	65,248	41,316	65,000	2,277
11. Total Operation & Maintenance Expense (2 - 10)	489,975	560,692	449,150	60,834
12. Depreciation and Amortization Expense	21,418	24,178	22,000	2,158
13. Tax Expense - Property	10,024	10,636	14,000	(1,178)
14. Tax Expense - Other	4,858	(2,884)	5,000	(2,636)
15. Interest on Long-Term Debt	32,317	35,142	40,000	2,863
16. Interest Charged to Construction - Credit	0	-		
17. Interest Expense - Other	1,078	1,068	1,000	83
18. Other Deductions	(3,203)	(4,822)		(4,822)
19. Total Cost of Gas Service (11 - 18)	556,467	624,010	531,150	57,302
20. Operating Margins (1 - 19)	(28,767)	(34,030)	(103,634)	8,561
21. Non Operating Margins - Interest	62	-	100	
23. Non Operating Margins - Other	0	-		
27. Total Margins (20 - 26)	(28,705)	(34,030)	(103,534)	8,561

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	Month	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
		LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connect	1	27	23			
2. Services Retired	0	7	10			
3. Total Services in Place	924	911	924	7. Miles Distribution Underground	50	50
4. Idle Services (Exclude Seasonal)	113	84	113	8. Total Miles of Line	50	50

FINANCIAL AND STATISTICAL REPORT	NAME DUNCAN RURAL SERVICE CORPORATION	
	MONTH ENDING December 31, 2001	

PART C. BALANCE SHEET

ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	732,850	26. Membership	5,000
2. Construction Work in Progress	16,043	27. Patronage Capital	
3. Total Utility Plant (1 + 2)	748,893	28. Operating Margins - Prior Years	(28,120)
4. Accum. Provision for Depreciation & Amort	149,955	29. Operating Margins - Current Year	(34,030)
5. Net Utility Plant (3 - 4)	598,938	30. Non Operating Margins	0
6. Nonutility Property - Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	(57,150)
8. Invest in Assoc Org - General Funds	1,000	33. Long-Term Debt-DVEC 25 Year	91,222
9. Invest in Assoc Org - Nongeneral Funds		(Payments-Unapplied \$ _____)	
10. Other Investments		34. Long-Term Debt-DVEC 35 Year	139,369
11. Special Funds		(Payments-Unapplied \$ _____)	
12. Total Other Property & Investments (6 thru 11)	1,000	35. Total Long-Term Debt (33+34)	230,591
13. Cash - General Funds	7,177	36. Notes Payable	
14. Cash - Construction Funds - Trustee		37. Accounts Payable	533,941
15. Special Deposits		38. Consumers Deposits	18,520
16. Temporary Investments		39. Other Current & Accrued Liabilities	22,914
17. Notes Receivable - Net		40. Total Current & Accrued Liabilities (36 thru 39)	575,375
18. Accounts Receivable - Net Sales of Energy	98,438	41. Deferred Credits	
19. Accounts Receivable - Net Other		42. Miscellaneous Operating Reserves	
20. Materials & Supplies	23,996	43. Total Liabilities & Other Credits (32 + 35 +	
21. Prepayments	12,590	40 thru 42)	748,816
22. Other Current & Accrued Assets		ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
23. Total Current & Accrued Assets (13 thru 22)	142,201	Balance Beginning of Year	0
24. Deferred Debits	6,677	Amounts Received This Year (Net)	
25. Total Assets & Other Debits (5+12+23+24)	748,816	TOTAL Contributions in Aid of Construction	0

PART D. NOTES TO FINANCIAL STATEMENTS

THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. (IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)

DUNCAN RURAL SERVICES CORPORATION

FINANCIAL AND STATISTICAL REPORT

**YEAR ENDING
December 31, 2001**

PART R. POWER REQUIREMENTS DATA BASE

(Continued)

LINE ITEM NUMBER		JULY <i>(g)</i>	AUGUST <i>(h)</i>	SEPTEMBER <i>(i)</i>	OCTOBER <i>(j)</i>	NOVEMBER <i>(k)</i>	DECEMBER <i>(l)</i>	TOTAL <i>(Columns a - l)</i>
1.	a.	751	752	765	758	761	760	
	b.	10,467	11,183	10,200	14,918	24,618	59,931	388,300
	c.	16,944	17,804	16,680	22,172	33,772	76,315	467,148
3.	a.	25	25	25	24	22	18	
	b.	20,776	8,934	9,299	18,720	8,798	124	131,926
	c.	18,445	8,125	8,404	16,834	8,195	336	116,839
4.	a.	34	33	35	35	33	33	
	b.	1,243	1,185	1,232	1,873	2,572	11,632	64,860
	c.	1,662	1,590	1,651	2,359	3,147	13,476	67,017
10.		810	810	825	817	816	811	
11.		32,486	21,302	20,731	35,511	35,988	71,687	585,086
12.		37,051	27,519	26,735	41,366	45,114	90,127	651,004
13.		(21,148)	(6,493)	(3,660)	(12,746)	(9,985)	(24,264)	(61,024)
14.								
15.		31,570	22,420	24,480	37,010	40,000	87,890	582,590
16.		2,885	8,948	11,135	14,166	17,877	37,205	337,039

DUNCAN RURAL SERVICES CORPORATION

DUNCAN, ARIZONA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

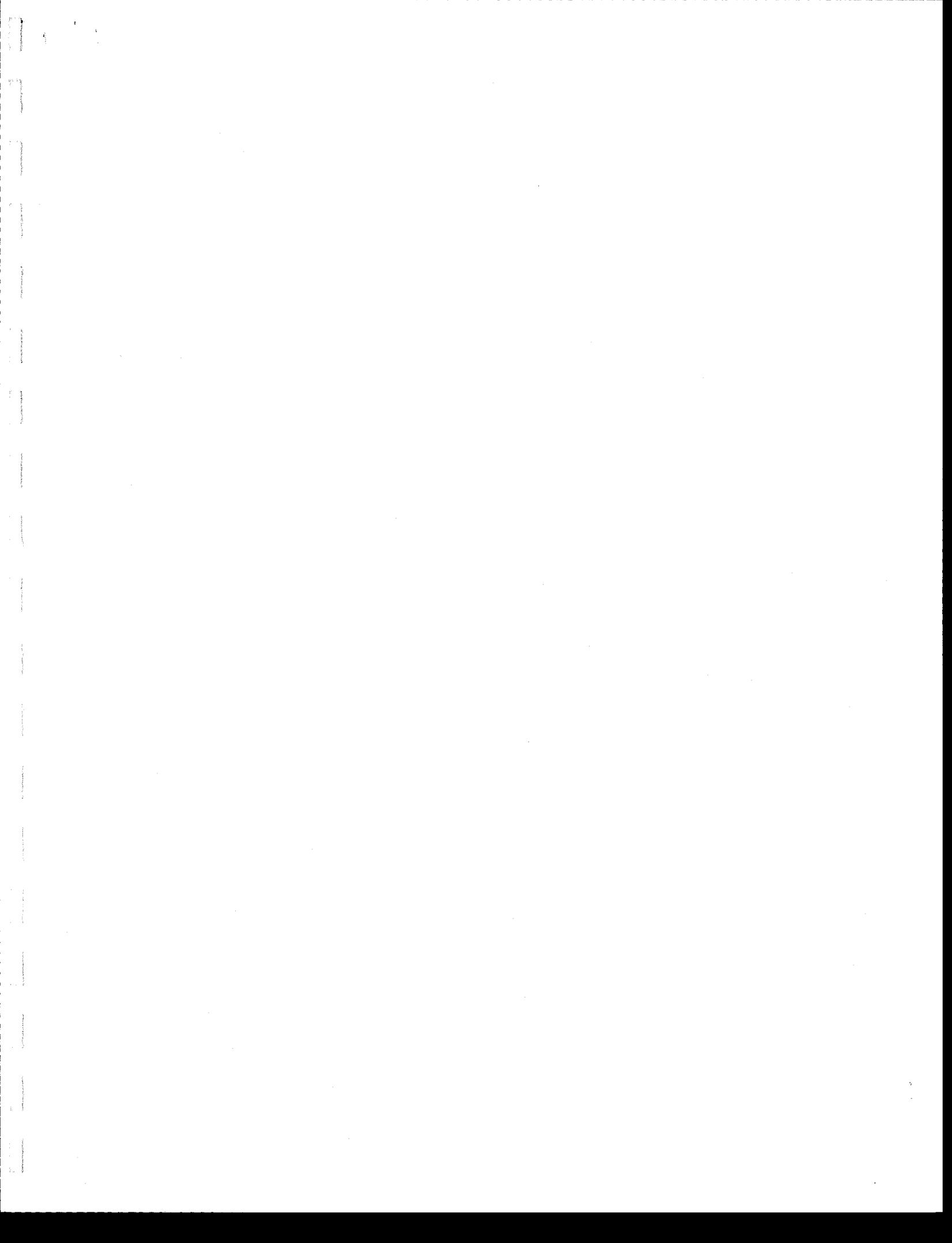
AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS



DUNCAN RURAL SERVICES CORPORATION

DUNCAN, ARIZONA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

DUNCAN RURAL SERVICES CORPORATION
DUNCAN, ARIZONA

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Duncan Rural Services Corporation
Duncan, Arizona

We have audited the accompanying balance sheet of Duncan Rural Services Corporation as of December 31, 2004 and 2003, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duncan Rural Services Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

January 27, 2005

DUNCAN RURAL SERVICES CORPORATION

Exhibit A

BALANCE SHEET
DECEMBER 31, 2004 AND 2003

ASSETS

	December 31,	
	2004	2003
UTILITY PLANT AT COST		
Plant in Service	\$ 1,286,102	\$ 1,232,672
Construction Work in Progress	10,161	18,900
	\$ 1,296,263	\$ 1,251,572
Less: Accumulated Provision for Depreciation	572,264	536,631
	\$ 723,999	\$ 714,941
OTHER PROPERTY AND INVESTMENTS - AT COST		
Membership - National Rural Utilities Cooperative Finance Corporation (CFC)	\$ 1,000	\$ 1,000
CURRENT ASSETS		
Cash - General	\$ 5,458	\$ 5,094
Accounts Receivable - Consumers (Less Allowance for Uncollectible Accounts of \$4,506 in 2004 and \$3,846 in 2003)	88,535	91,369
Power Cost Adjustments - Underbilled	22,277	
Materials and Supplies	27,542	24,562
Prepaid Expenses	14,351	14,409
	\$ 158,163	\$ 135,434
DEFERRED CHARGES	\$ 24,807	\$ 21,473
	\$ 907,969	\$ 872,848

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 5,000	\$ 5,000
Retained Earnings (Deficit)	(153,074)	(103,435)
	\$ (148,074)	\$ (98,435)
OTHER LIABILITIES		
Notes Payable Less Current Maturities Duncan Valley Electric Cooperative, Inc.	\$ 472,858	\$ 515,563
CURRENT LIABILITIES		
Current Portion of Notes Payable	\$ 44,100	\$ 46,700
Accounts Payable - Duncan Valley Electric Cooperative, Inc.	443,584	311,718
Accounts Payable - Other	53,175	41,682
Power Cost Adjustments - Overbilled		15,125
Accrued Sales and Property Taxes	15,661	14,825
Accrued Interest	3,140	3,305
Consumer Deposits	16,925	16,065
Other Current and Accrued Liabilities	6,600	6,300
	\$ 583,185	\$ 455,720
	\$ 907,969	\$ 872,848

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

Exhibit B

STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Years Ended December 31,				Increase (Decrease)
	2004		2003		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 417,785	64.3	\$ 395,818	63.6	\$ 21,967
Commercial	75,478	11.6	69,639	11.2	5,839
Irrigation	113,502	17.5	128,617	20.7	(15,115)
Power Cost Under (Over) Billed	37,402	5.8	23,866	3.8	13,536
Other Operating Revenues	5,210	0.8	4,575	0.7	635
Total Operating Revenues	<u>\$ 649,377</u>	<u>100.0</u>	<u>\$ 622,515</u>	<u>100.0</u>	<u>\$ 26,862</u>
OPERATING EXPENSES					
Natural Gas Purchases	\$ 325,260	50.1	\$ 303,645	48.8	\$ 21,615
Distribution - Operations	138,569	21.3	135,860	21.8	2,709
Distribution - Maintenance	61,921	9.5	44,258	7.1	17,663
Consumer Accounts and Services	58,103	8.9	45,825	7.4	12,278
Administration and General	55,320	8.5	46,190	7.4	9,130
Depreciation and Amortization	37,542	5.8	34,704	5.6	2,838
Taxes - Other than Income	19,639	3.0	16,334	2.6	3,305
Total Operating Expenses	<u>\$ 696,354</u>	<u>107.1</u>	<u>\$ 626,816</u>	<u>100.7</u>	<u>\$ 69,538</u>
OPERATING INCOME (LOSS) - BEFORE FIXED CHARGES	<u>\$ (46,977)</u>	<u>(7.1)</u>	<u>\$ (4,301)</u>	<u>(0.7)</u>	<u>\$ (42,676)</u>
FIXED CHARGES					
Interest Expense	<u>14,973</u>	<u>2.3</u>	<u>11,748</u>	<u>1.9</u>	<u>3,225</u>
OPERATING LOSS - AFTER FIXED CHARGES	<u>\$ (61,950)</u>	<u>(9.4)</u>	<u>\$ (16,049)</u>	<u>(2.6)</u>	<u>\$ (45,901)</u>
NONOPERATING INCOME					
Interest	<u>\$ 110</u>	<u>0.0</u>	<u>\$ 111</u>	<u>0.0</u>	<u>\$ (1)</u>
	<u>\$ 110</u>	<u>0.0</u>	<u>\$ 111</u>	<u>0.0</u>	<u>\$ (1)</u>
NET LOSS - Before Income Tax	<u>\$ (61,840)</u>	<u>(9.4)</u>	<u>\$ (15,938)</u>	<u>(2.6)</u>	<u>\$ (45,902)</u>
INCOME TAX BENEFIT (EXPENSE)	<u>12,201</u>	<u>1.9</u>	<u>(2,921)</u>	<u>(0.5)</u>	<u>15,122</u>
NET LOSS	<u>\$ (49,639)</u>	<u>(7.5)</u>	<u>\$ (18,859)</u>	<u>(3.1)</u>	<u>\$ (30,780)</u>
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	<u>(103,435)</u>		<u>(84,576)</u>		
RETAINED EARNINGS (DEFICIT) - END OF YEAR	<u>\$ (153,074)</u>		<u>\$ (103,435)</u>		

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	December 31,	
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (49,639)	\$ (18,859)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities		
Depreciation and Amortization	37,542	34,704
Deferred Charges	(3,334)	(11,299)
Accounts Receivable	2,834	(20,133)
Materials and Supplies	(2,980)	714
Prepaid Expenses	58	(1,374)
Payables and Accrued Expenses	145,190	148,064
Advance Billings - Fuel Costs	(37,402)	(23,865)
Net Cash Provided by Operating Activities	<u>\$ 92,269</u>	<u>\$ 107,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (45,881)	\$ (66,280)
Cost of Removal - Plant Retired	(760)	(217)
Salvage Value - Plant Retired	41	41
Net Cash Used in Investing Activities	<u>\$ (46,600)</u>	<u>\$ (66,456)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances- Duncan Valley Electric Cooperative		
Payment on Notes - Duncan Valley Electric Cooperative, Inc.	\$ (45,305)	\$ (45,966)
Net Cash Used in Financing Activities	<u>\$ (45,305)</u>	<u>\$ (45,966)</u>
INCREASE (DECREASE) IN CASH	\$ 364	\$ (4,470)
CASH - BEGINNING OF YEAR	<u>5,094</u>	<u>9,564</u>
CASH - END OF YEAR	<u>\$ 5,458</u>	<u>\$ 5,094</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 14,973	\$ 11,748
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Principles

Nature of Operations

Duncan Rural Services Corporation was incorporated September 15, 1988. The company acquired the gas and water utility systems serving the town of Duncan, Arizona and surrounding area from Graham County Utilities, Inc. on November 1, 1989. Subsequently, the water system was transferred to the town of Duncan for the original purchase price.

Utility Plant

The utility plant was capitalized on the records of Duncan Rural Services Corporation at the purchase price paid for the assets. Prior accumulated depreciation and acquisition adjustments were not recorded.

Maintenance and repairs, including the removal of minor items of plant, are charged to expense. Major renewals and improvements which substantially extend the useful life of the property are capitalized.

Operating Revenues

Substantially all of the operating revenue is derived from sales of natural gas within the service area. The rates are under the jurisdiction of the Arizona Corporation Commission.

The company's rates include an adjustment for flow-through of purchased natural gas costs. The amount of underbilled fuel cost reflected as a current asset at December 31, 2004, was \$22,277. The amount of overbilled fuel cost reflected as a current liability at December 31, 2003, was \$15,125.

Inventories

Materials and supplies inventories are valued at average unit cost.

Income Taxes

In 1993, the company adopted Financial Accounting Standard 109 - Accounting for Income Taxes. See Footnote 7 for information on income taxes.

Group Concentrations of Credit Risk

The company's headquarters facility is located in Duncan, Arizona. The service area includes consumers located in and around the town of Duncan, Arizona. The company records a receivable for gas sales as billed on a monthly basis. The company requires a deposit from some consumers upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually. As of December 31, 2004 and 2003, deposits on hand totaled \$16,925 and \$16,065, respectively.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

2. Utility Plant

Major classes of utility plant are as follows:

	December 31,	
	2004	2003
Distribution Plant	\$ 1,297,704	\$ 1,244,274
General Plant	44,692	44,692
Plant Acquisition Adjustment	(56,294)	(56,294)
Total Plant in Service	\$ 1,286,102	\$ 1,232,672
Construction Work in Progress	10,161	18,900
	<u>\$ 1,296,263</u>	<u>\$ 1,251,572</u>

By order of the Arizona Corporation Commission the company was required to write-up assets acquired when the company was formed. The resulting entry added \$393,091 to plant assets and \$336,797 to accumulated depreciation. The difference of \$56,294 was recognized as an acquisition adjustment and is being amortized over the estimated remaining life of the assets acquired.

Provision has been made for depreciation on straight-line rates as follows:

Distribution Plant	3.60%
General Plant	
Laboratory	12.00% - 20.00%
Shop and Garage – Fully Depreciated	12.00% - 20.00%
Stores – Fully Depreciated	12.00% - 20.00%
Acquisition Adjustment	21.50%

Depreciation for the years ended December 31, 2004 and 2003, was \$49,645 and \$46,807, respectively.

Amortization of acquisition adjustment was \$(12,103) and \$(12,103) for the periods ended December 31, 2004 and 2003, respectively.

3. Memberships

Membership in the corporation consists of three classes - (1) Class A membership held by Duncan Valley Electric Cooperative, Inc., representing 1,000 votes, with payment of a one-time membership fee of \$5,000; (2) Class B memberships representing all qualified members of Duncan Valley Electric Cooperative, Inc., who are members and receiving service from this corporation, each entitled to one vote; and (3) Class C - all others who receive service from this corporation who do not qualify under (1) or (2) above, are entitled to one vote each.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

The balance in the account represents the membership fee paid by Duncan Valley Electric Cooperative, Inc., as required for their Class A membership. At December 31 2004, there were 685 Class B memberships and 19 Class C memberships.

4. Notes Payable – Duncan Valley Electric Cooperative, Inc.

The balances due Duncan Valley Electric Cooperative, Inc. are represented by the following:

	December 31,	
	<u>2004</u>	<u>2003</u>
Note #1 - Original amount \$154,605, agreement dated April 1989, due on or before 11-1-2014, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., member investment variable rate - Currently 2.1%	\$ 60,412	\$ 71,662
Note #2 - Original amount \$156,000, agreement dated December 1995, due on or before 9-19-2030, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., 270 day fixed rate notes - Currently 2.1%	115,962	125,147
Note #3 - Original amount \$400,000, agreement dated July 1, 2002, due on or before 7-1-2027, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., 270 day fixed rate notes - Currently 2.1%	<u>340,584</u>	<u>365,454</u>
Total Notes Payable	\$ 516,958	\$ 562,263
Less: Current Maturities	<u>44,100</u>	<u>46,700</u>
Notes Payable - Less Current Maturities	<u>\$ 472,858</u>	<u>\$ 515,563</u>

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

At the current interest rate, maturities for the next five years on notes payable are estimated as follows:

2005	\$ 44,100
2006	45,100
2007	46,000
2008	47,100
2009	48,000

5. Operations and Management Agreement

The corporation is managed and operated under an agreement between the corporation and Duncan Valley Electric Cooperative, Inc. The corporation is billed for these services at actual cost plus applicable overheads in standard use by Duncan Valley Electric Cooperative, Inc.

6. Litigation, Commitments, and Contingencies

There are no material or threatened lawsuits, claims, or assessments pending against the company.

As part of the acquisition of General Utilities Gas assets, Duncan Rural Services Corporation remains subject to the Arizona Corporation Commission (ACC) order to bring the system into compliance to the satisfaction of ACC's Pipeline Safety Division.

Duncan Valley Electric Cooperative, Inc. provides working capital to the company as needed throughout the year. The company's continued ability to meet its obligations is dependent on this source of working capital.

7. Income Taxes

The company uses the asset and liability method to account for income taxes, as required by Statement of Financial Accounting Standards (Statement) No. 109, "Accounting for Income Taxes". The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary difference between the financial reporting basis and the tax basis of the company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the investment in the Utility Plant for financial and income tax reporting and for an alternative minimum tax credit carryover. The deferred tax liability represents the future tax return consequences of those differences, which will be taxable when the liability is settled.

Duncan Rural Services is a "C" Corporation and files a federal tax return Form 1120.

DUNCAN RURAL SERVICES CORPORATION

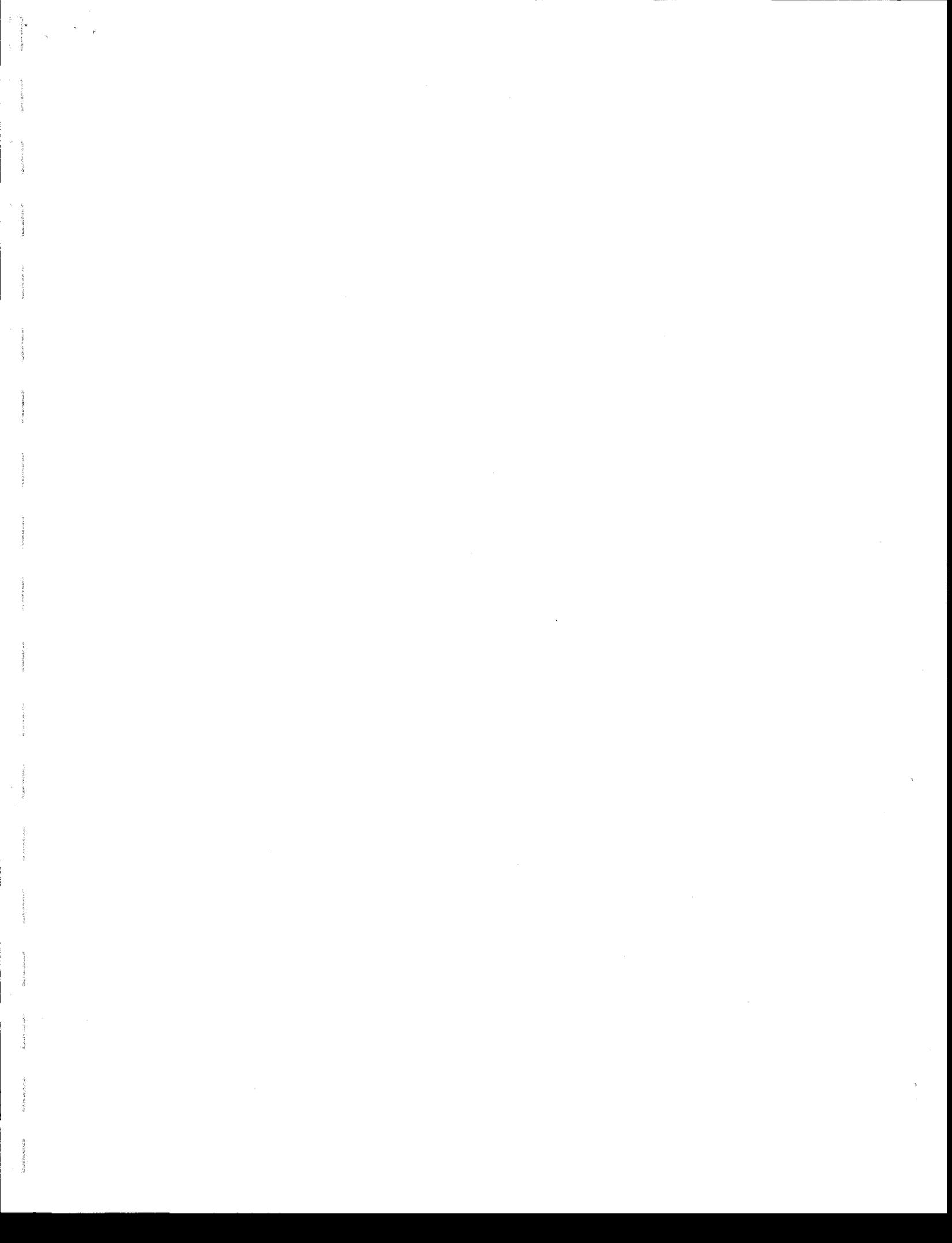
NOTES TO FINANCIAL STATEMENTS

The net deferred tax asset is shown as deferred charges in the accompanying balance sheet and includes the following components:

	December 31,	
	<u>2004</u>	<u>2003</u>
Deferred Tax Assets	\$ 83,985	\$ 74,376
Deferred Tax Liabilities	<u>64,431</u>	<u>67,073</u>
Net Noncurrent Deferred Tax Asset	<u>\$ 19,554</u>	<u>\$ 7,303</u>

The components of income tax expense (benefit) are as follows:

	December 31,	
	<u>2004</u>	<u>2003</u>
Deferred Benefit (Expense)	<u>\$ 12,201</u>	<u>\$ (2,921)</u>



DUNCAN RURAL SERVICES CORPORATION

DUNCAN, ARIZONA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

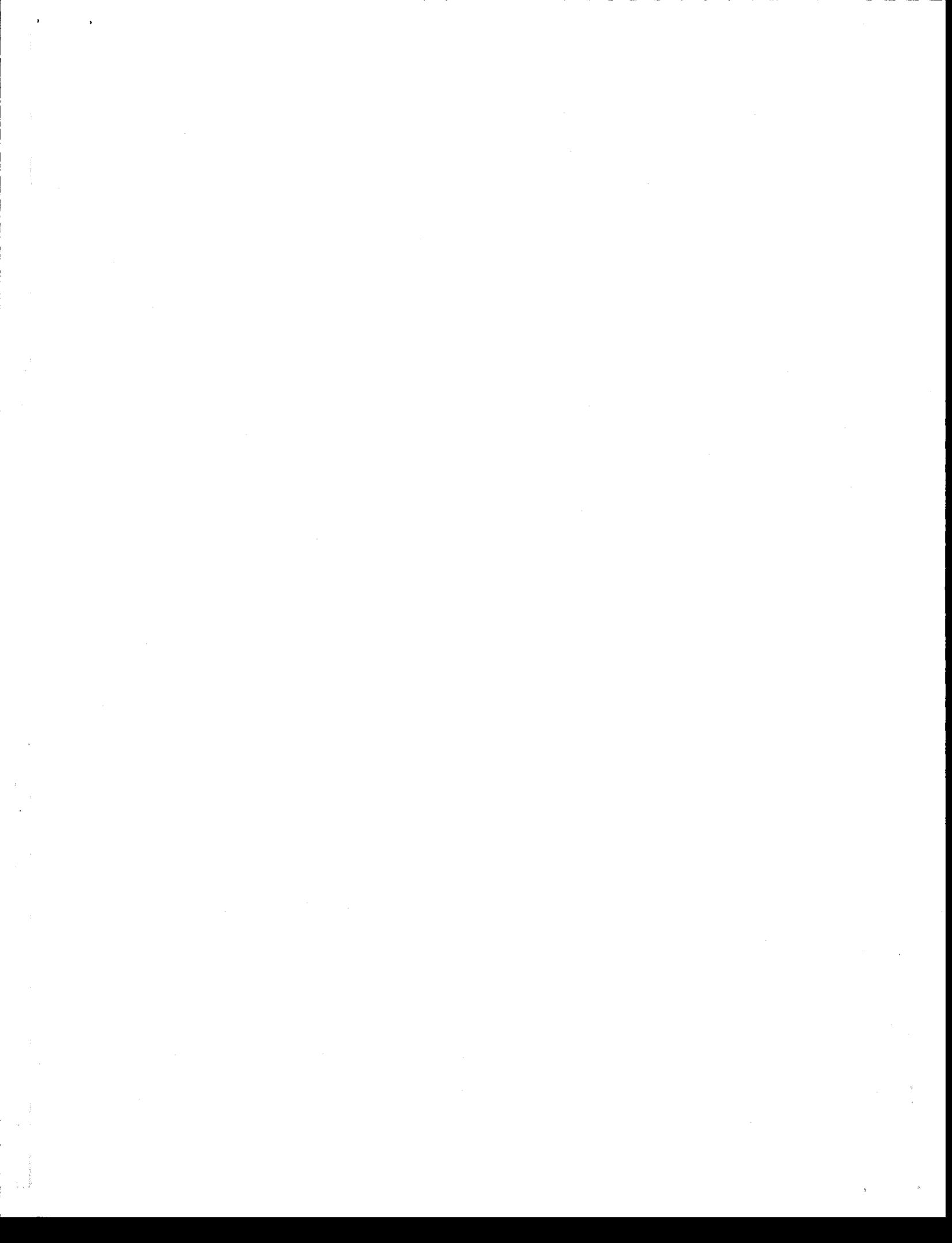
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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS



DUNCAN RURAL SERVICES CORPORATION

DUNCAN, ARIZONA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

DUNCAN RURAL SERVICES CORPORATION
Duncan, Arizona

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Duncan Rural Services Corporation
Duncan, Arizona

We have audited the accompanying balance sheet of Duncan Rural Services Corporation as of December 31, 2003 and 2002, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duncan Rural Services Corporation as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

January 30, 2004

DUNCAN RURAL SERVICES CORPORATION

Exhibit A

BALANCE SHEET
DECEMBER 31, 2003 AND 2002

ASSETS

	December 31,	
	<u>2003</u>	<u>2002</u>
UTILITY PLANT AT COST		
Plant in Service	\$ 1,232,672	\$ 837,022
Construction Work in Progress	18,900	15,014
	<u>\$ 1,251,572</u>	<u>\$ 852,036</u>
Less: Accumulated Provision for Depreciation	536,631	168,847
	<u>\$ 714,941</u>	<u>\$ 683,189</u>
OTHER PROPERTY AND INVESTMENTS - AT COST		
Membership - National Rural Utilities Cooperative Finance Corporation (CFC)	\$ 1,000	\$ 1,000
CURRENT ASSETS		
Cash - General	\$ 5,094	\$ 9,564
Accounts Receivable - Consumers (Less Allowance for Uncollectible Accounts of \$3,846 in 2003 and \$2,941 in 2002)	91,369	71,236
Materials and Supplies	24,562	25,276
Prepaid Expenses	14,409	13,035
	<u>\$ 135,434</u>	<u>\$ 119,111</u>
DEFERRED CHARGES	<u>\$ 21,473</u>	<u>\$ 10,174</u>
	<u>\$ 872,848</u>	<u>\$ 813,474</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 5,000	\$ 5,000
Retained Earnings (Deficit)	(103,435)	(84,576)
	<u>\$ (98,435)</u>	<u>\$ (79,576)</u>
OTHER LIABILITIES		
Notes Payable Less Current Maturities Duncan Valley Electric Cooperative, Inc.	\$ 515,563	\$ 572,829
CURRENT LIABILITIES		
Current Portion of Notes Payable	\$ 46,700	\$ 35,400
Accounts Payable - Duncan Valley Electric Cooperative, Inc.	311,718	174,629
Accounts Payable - Other	41,682	33,224
Power Cost Adjustments - Overbilled	15,125	38,990
Accrued Sales and Property Taxes	14,825	11,348
Accrued Interest	3,305	3,635
Consumer Deposits	16,065	17,845
Other Current and Accrued Liabilities	6,300	5,150
	<u>\$ 455,720</u>	<u>\$ 320,221</u>
	<u>\$ 872,848</u>	<u>\$ 813,474</u>

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

Exhibit B

STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Years Ended December 31,				Increase (Decrease)
	2002		2002		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 395,818	63.6	\$ 367,227	75.6	\$ 28,591
Commercial	69,639	11.2	57,105	11.7	12,534
Irrigation	128,617	20.7	88,258	18.2	40,359
Power Cost Under (Over) Billed	23,866	3.8	(32,470)	(6.7)	56,336
Other Operating Revenues	4,575	0.7	5,940	1.2	(1,365)
Total Operating Revenues	<u>\$ 622,515</u>	<u>100.0</u>	<u>\$ 486,060</u>	<u>100.0</u>	<u>\$ 136,455</u>
OPERATING EXPENSES					
Natural Gas Purchases	\$ 303,645	48.8	\$ 203,481	41.9	\$ 100,164
Distribution - Operations	135,860	21.8	109,334	22.5	26,526
Distribution - Maintenance	44,258	7.1	40,975	8.4	3,283
Consumer Accounts and Services	45,825	7.4	47,702	9.8	(1,877)
Administration and General	46,190	7.4	39,584	8.1	6,606
Depreciation	34,704	5.6	29,339	6.0	5,365
Taxes - Other than Income	16,334	2.6	12,633	2.6	3,701
Total Operating Expenses	<u>\$ 626,816</u>	<u>100.7</u>	<u>\$ 483,048</u>	<u>99.3</u>	<u>\$ 143,768</u>
OPERATING INCOME (LOSS) - BEFORE FIXED CHARGES	<u>\$ (4,301)</u>	<u>(0.7)</u>	<u>\$ 3,012</u>	<u>0.7</u>	<u>\$ (7,313)</u>
FIXED CHARGES					
Interest Expense	<u>11,748</u>	<u>1.9</u>	<u>22,412</u>	<u>4.6</u>	<u>(10,664)</u>
OPERATING INCOME (LOSS) - AFTER FIXED CHARGES	<u>\$ (16,049)</u>	<u>(2.6)</u>	<u>\$ (19,400)</u>	<u>(3.9)</u>	<u>\$ 3,351</u>
NONOPERATING INCOME					
Interest	<u>\$ 111</u>	<u>0.0</u>	<u>\$ 51</u>	<u>0.0</u>	<u>\$ 60</u>
	<u>\$ 111</u>	<u>0.0</u>	<u>\$ 51</u>	<u>0.0</u>	<u>\$ 60</u>
NET INCOME (LOSS) - Before Income Tax	<u>\$ (15,938)</u>	<u>(2.6)</u>	<u>\$ (19,349)</u>	<u>(3.9)</u>	<u>\$ 3,411</u>
INCOME TAX BENEFIT (EXPENSE)	<u>(2,921)</u>	<u>(0.5)</u>	<u>(3,074)</u>	<u>(0.6)</u>	<u>153</u>
NET INCOME (LOSS)	<u>\$ (18,859)</u>	<u>(3.1)</u>	<u>\$ (22,423)</u>	<u>(4.5)</u>	<u>\$ 3,564</u>
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	<u>(84,576)</u>		<u>(62,153)</u>		
RETAINED EARNINGS (DEFICIT) - END OF YEAR	<u>\$ (103,435)</u>		<u>\$ (84,576)</u>		

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

Exhibit C

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	December 31,	
	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (18,859)	\$ (22,423)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	34,704	29,339
Deferred Charges	(11,299)	3,024
Accounts Receivable	(20,133)	27,202
Materials and Supplies	714	(1,284)
Prepaid Expenses	(1,374)	(445)
Payables and Accrued Expenses	148,064	(329,543)
Advance Billings - Fuel Costs	(23,865)	32,469
Net Cash Provided by (Used in) Operating Activities	<u>\$ 107,952</u>	<u>\$ (261,661)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (66,280)	\$ (105,164)
Cost of Removal - Plant Retired	(217)	(8,959)
Salvage Value - Plant Retired	41	532
Net Cash Used in Investing Activities	<u>\$ (66,456)</u>	<u>\$ (113,591)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances- Duncan Valley Electric Cooperative	\$	\$ 400,000
Payment on Notes - Duncan Valley Electric Cooperative, Inc.	\$ (45,966)	\$ (22,361)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (45,966)</u>	<u>\$ 377,639</u>
INCREASE (DECREASE) IN CASH	\$ (4,470)	\$ 2,387
CASH - BEGINNING OF YEAR	<u>9,564</u>	<u>7,177</u>
CASH - END OF YEAR	<u><u>\$ 5,094</u></u>	<u><u>\$ 9,564</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 11,748	\$ 22,800
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Principles

Nature of Operations

Duncan Rural Services Corporation was incorporated September 15, 1988. The company acquired the gas and water utility systems serving the town of Duncan, Arizona and surrounding area from Graham County Utilities, Inc. on November 1, 1989. Subsequently, the water system was transferred to the town of Duncan for the original purchase price.

Utility Plant

The utility plant was capitalized on the records of Duncan Rural Services Corporation at the purchase price paid for the assets. Prior accumulated depreciation and acquisition adjustments were not recorded.

Maintenance and repairs, including the removal of minor items of plant, are charged to expense. Major renewals and improvements which substantially extend the useful life of the property are capitalized.

Operating Revenues

Substantially all of the operating revenue is derived from sales of natural gas within the service area. The rates are under the jurisdiction of the Arizona Corporation Commission.

The company's rates include an adjustment for flow-through of purchased natural gas costs. The amount of overbilled fuel cost reflected as a current liability at December 31, 2003, was \$15,125. The amount of overbilled fuel cost reflected as a current liability at December 31, 2002, was \$38,990.

Inventories

Materials and supplies inventories are valued at average unit cost.

Income Taxes

In 1993, the company adopted Financial Accounting Standard 109 - Accounting for Income Taxes. See Footnote 7 for information on income taxes.

Group Concentrations of Credit Risk

The company's headquarters facility is located in Duncan, Arizona. The service area includes consumers located in and around the town of Duncan, Arizona. The company records a receivable for gas sales as billed on a monthly basis. The company requires a deposit from some consumers upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually. As of December 31, 2003 and 2002, deposits on hand totaled \$16,065 and \$17,845, respectively.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

2. Utility Plant

Major classes of utility plant are as follows:

	December 31,	
	2003	2002
Distribution Plant	\$ 1,244,274	\$ 813,234
General Plant	44,692	23,788
Plant Acquisition Adjustment	<u>(56,294)</u>	
Total Plant in Service	\$ 1,232,672	\$ 837,022
Construction Work in Progress	<u>18,900</u>	<u>15,014</u>
	<u>\$ 1,251,572</u>	<u>\$ 852,036</u>

By order of the Arizona Corporation Commission the company was required to write-up assets acquired when the company was formed. The resulting entry added \$393,091 to plant assets and \$336,797 to accumulated depreciation. The difference of \$56,294 was recognized as an acquisition adjustment and is being amortized over the estimated remaining life of the assets acquired.

Provision has been made for depreciation on straight-line rates as follows:

Distribution Plant	3.60%
General Plant	
Laboratory	12.00% - 20.00%
Shop and Garage – Fully Depreciated	12.00% - 20.00%
Stores – Fully Depreciated	12.00% - 20.00%
Acquisition Adjustment	21.50%

Depreciation for the years ended December 31, 2003 and 2002, was \$46,807 and \$29,339, respectively.

Amortization of acquisition adjustment was \$(12,103) and \$0 for the periods ended December 31, 2003 and 2002, respectively.

3. Memberships

Membership in the corporation consists of three classes - (1) Class A membership held by Duncan Valley Electric Cooperative, Inc., representing 1,000 votes, with payment of a one-time membership fee of \$5,000; (2) Class B memberships representing all qualified members of Duncan Valley Electric Cooperative, Inc., who are members and receiving service from this corporation, each entitled to one vote; and (3) Class C - all others who receive service from this corporation who do not qualify under (1) or (2) above, are entitled to one vote each.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

The balance in the account represents the membership fee paid by Duncan Valley Electric Cooperative, Inc., as required for their Class A membership. At December 31, 2003, there were 615 Class B memberships and 85 Class C memberships.

4. Notes Payable - Duncan Valley Electric Cooperative, Inc.

The balances due Duncan Valley Electric Cooperative, Inc. are represented by the following:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Note #1 - Original amount \$154,605, agreement dated April 1989, due on or before 11-1-2014, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., member investment variable rate - Currently 1.3%	\$ 71,662	\$ 82,905
Note #2 - Original amount \$156,000, agreement dated December 1995, due on or before 9-19-2030, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., 270 day fixed rate notes - Currently 1.3%	125,147	134,494
Note #3 - Original amount \$400,000, agreement dated July 1, 2002, due on or before 7-1-2027, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., 270 day fixed rate notes - Currently 1.3%	<u>365,454</u>	<u>390,830</u>
Total Notes Payable	\$ 562,263	\$ 608,229
Less: Current Maturities	<u>46,700</u>	<u>35,400</u>
Notes Payable - Less Current Maturities	<u>\$ 515,563</u>	<u>\$ 572,829</u>

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DUNCAN RURAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS

At the current interest rate, maturities for the next five years on notes payable are estimated as follows:

2004	\$ 46,700
2005	47,400
2006	48,100
2007	48,800
2008	49,500

5. Operations and Management Agreement

The corporation is managed and operated under an agreement between the corporation and Duncan Valley Electric Cooperative, Inc. The corporation is billed for these services at actual cost plus applicable overheads in standard use by Duncan Valley Electric Cooperative, Inc.

6. Litigation, Commitments, and Contingencies

There are no material or threatened lawsuits, claims, or assessments pending against the company.

As part of the acquisition of General Utilities Gas assets, Duncan Rural Services Corporation remains subject to the Arizona Corporation Commission (ACC) order to bring the system into compliance to the satisfaction of ACC's Pipeline Safety Division.

Duncan Valley Electric Cooperative, Inc. provides working capital to the company as needed throughout the year. The company's continued ability to meet its obligations is dependent on this source of working capital.

7. Income Taxes

The company uses the asset and liability method to account for income taxes, as required by Statement of Financial Accounting Standards (Statement) No. 109, "Accounting for Income Taxes". The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary difference between the financial reporting basis and the tax basis of the company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the investment in the Utility Plant for financial and income tax reporting and for an alternative minimum tax credit carryover. The deferred tax liability represents the future tax return consequences of those differences, which will be taxable when the liability is settled.

Duncan Rural Services is a "C" Corporation and files a federal tax return Form 1120.

DUNCAN RURAL SERVICES CORPORATION

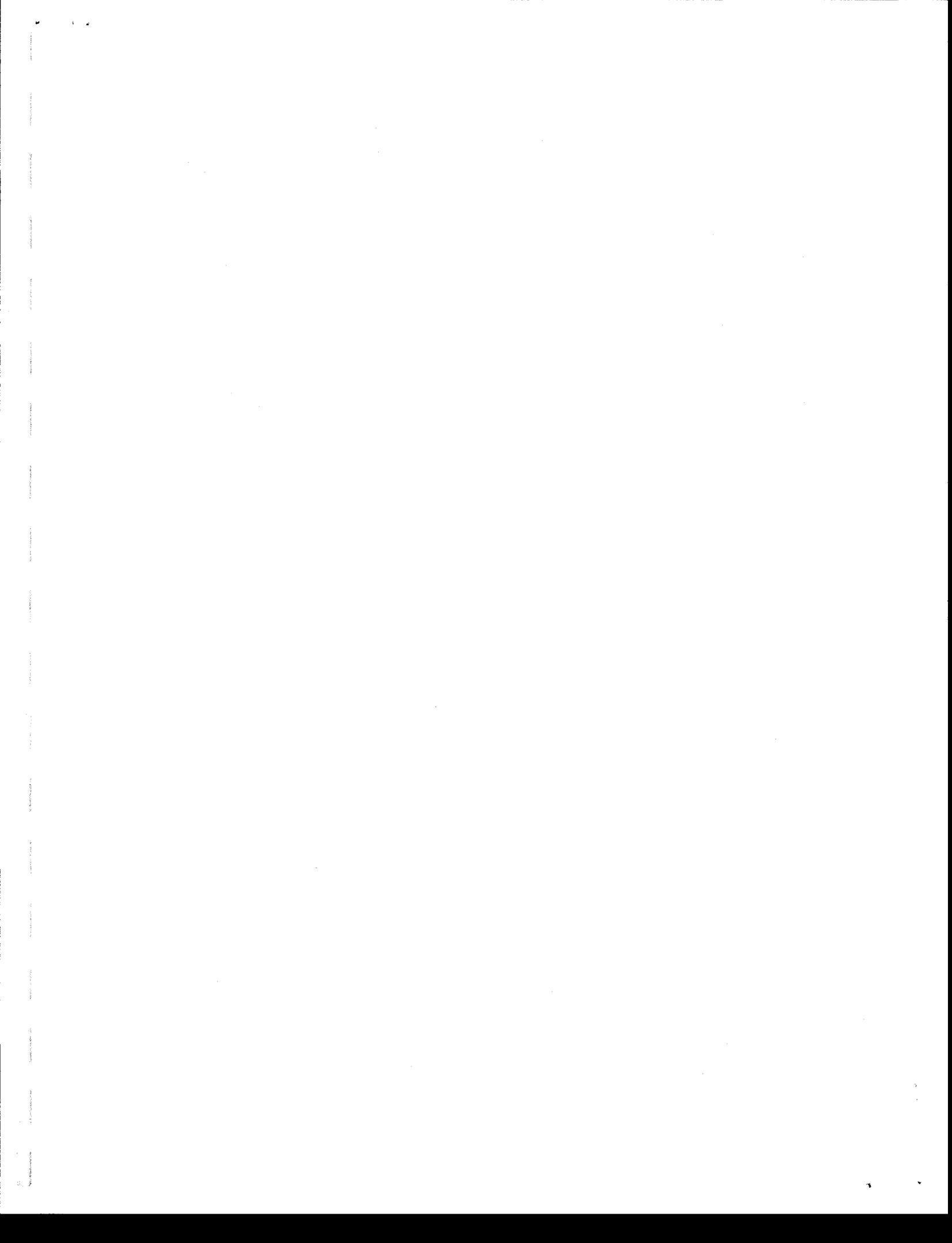
NOTES TO FINANCIAL STATEMENTS

The net deferred tax asset is shown as deferred charges in the accompanying balance sheet and includes the following components:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Deferred Tax Assets	\$ 74,376	\$ 69,982
Deferred Tax Liabilities	<u>67,073</u>	<u>59,808</u>
Net Noncurrent Deferred Tax Asset	<u>\$ 7,303</u>	<u>\$ 10,174</u>

The components of income tax expense (benefit) are as follows:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
Deferred Expense (Benefit)	<u>\$ 2,921</u>	<u>\$ 3,074</u>



DUNCAN RURAL SERVICES CORPORATION

DUNCAN, ARIZONA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

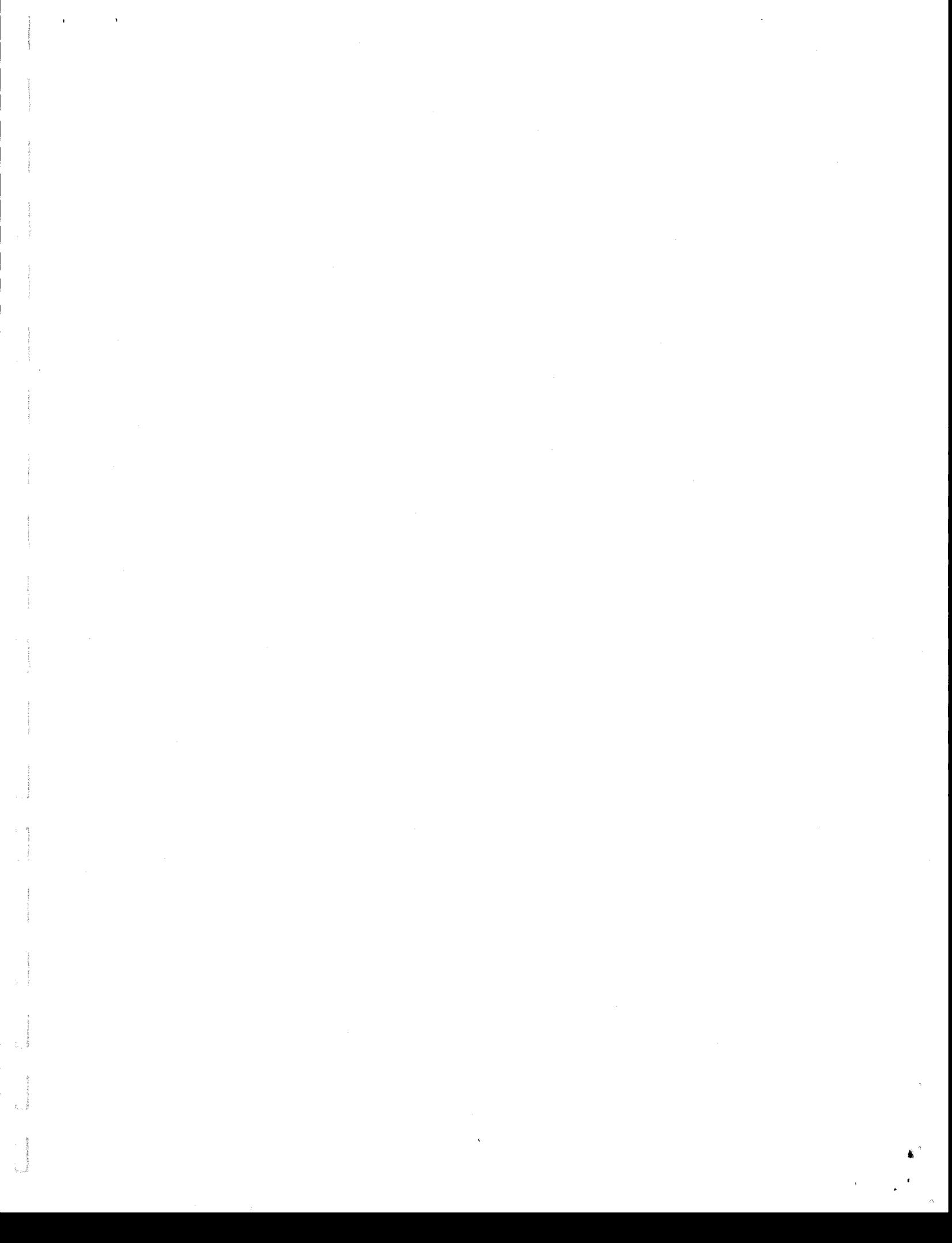
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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS



DUNCAN RURAL SERVICES CORPORATION

DUNCAN, ARIZONA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

and

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

DUNCAN RURAL SERVICES CORPORATION
Duncan, Arizona

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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Statement of Cash Flows	Exhibit C	4
Notes to Financial Statements		5

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

INDEPENDENT AUDITORS' REPORT

Board of Directors
Duncan Rural Services Corporation
Duncan, Arizona

We have audited the accompanying balance sheet of Duncan Rural Services Corporation as of December 31, 2002 and 2001, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duncan Rural Services Corporation as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

January 31, 2003

DUNCAN RURAL SERVICES CORPORATION

Exhibit A

BALANCE SHEET
DECEMBER 31, 2002 AND 2001

ASSETS

	December 31,	
	<u>2002</u>	<u>2001</u>
UTILITY PLANT AT COST		
Plant in Service	\$ 837,022	\$ 732,850
Construction Work in Progress	15,014	16,043
	<u>\$ 852,036</u>	<u>\$ 748,893</u>
Less: Accumulated Provision for Depreciation	168,847	149,955
	<u>\$ 683,189</u>	<u>\$ 598,938</u>
OTHER PROPERTY AND INVESTMENTS - AT COST		
Membership - National Rural Utilities Cooperative Finance Corporation (CFC)	<u>\$ 1,000</u>	<u>\$ 1,000</u>
CURRENT ASSETS		
Cash - General	\$ 9,564	\$ 7,177
Accounts Receivable - Consumers (Less Allowance for Uncollectible Accounts of \$2,941 2002 and \$2,500 2001)	71,236	98,438
Materials and Supplies	25,276	23,992
Prepaid Expenses	13,035	12,590
	<u>\$ 119,111</u>	<u>\$ 142,197</u>
DEFERRED CHARGES	<u>\$ 10,174</u>	<u>\$ 13,198</u>
	<u>\$ 813,474</u>	<u>\$ 755,333</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 5,000	\$ 5,000
Retained Earnings (Deficit)	(84,576)	(62,153)
	<u>\$ (79,576)</u>	<u>\$ (57,153)</u>
OTHER LIABILITIES		
Notes Payable Less Current Maturities Duncan Valley Electric Cooperative, Inc.	<u>\$ 572,829</u>	<u>\$ 218,148</u>
CURRENT LIABILITIES		
Current Portion of Notes Payable	\$ 35,400	\$ 12,443
Accounts Payable - Duncan Valley Electric Cooperative, Inc.	174,629	480,785
Accounts Payable - Other	33,224	53,155
Power Cost Adjustments - Overbilled	38,990	6,521
Accrued Sales and Property Taxes	11,348	12,391
Accrued Interest	3,635	4,023
Consumer Deposits	17,845	18,520
Other Current and Accrued Liabilities	5,150	6,500
	<u>\$ 320,221</u>	<u>\$ 594,338</u>
	<u>\$ 813,474</u>	<u>\$ 755,333</u>

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

Exhibit B

STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Years Ended December 31,				Increase (Decrease)
	2002		2001		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 367,227	75.6	\$ 467,147	79.1	\$ (99,920)
Commercial	57,105	11.7	67,017	11.4	(9,912)
Irrigation	88,258	18.2	116,839	19.8	(28,581)
Power Cost Under (Over) Billed	(32,470)	(6.7)	(66,868)	(11.3)	34,398
Other Operating Revenues	5,940	1.2	5,845	1.0	95
Total Operating Revenues	<u>\$ 486,060</u>	<u>100.0</u>	<u>\$ 589,980</u>	<u>100.0</u>	<u>\$ (103,920)</u>
OPERATING EXPENSES					
Natural Gas Purchases	\$ 203,481	41.9	\$ 337,039	57.1	\$ (133,558)
Distribution - Operations	109,334	22.5	110,594	18.7	(1,260)
Distribution - Maintenance	40,975	8.4	30,191	5.1	10,784
Consumer Accounts and Services	47,702	9.8	41,553	7.0	6,149
Administration and General	39,584	8.1	42,383	7.2	(2,799)
Depreciation	29,339	6.0	24,178	4.1	5,161
Taxes - Other than Income	12,633	2.6	10,311	1.7	2,322
Total Operating Expenses	<u>\$ 483,048</u>	<u>99.3</u>	<u>\$ 596,249</u>	<u>100.9</u>	<u>\$ (113,201)</u>
OPERATING INCOME (LOSS) - BEFORE FIXED CHARGES	<u>\$ 3,012</u>	<u>0.7</u>	<u>\$ (6,269)</u>	<u>(0.9)</u>	<u>\$ 9,281</u>
FIXED CHARGES					
Interest Expense	<u>22,412</u>	<u>4.6</u>	<u>35,143</u>	<u>6.0</u>	<u>(12,731)</u>
OPERATING INCOME (LOSS) - AFTER FIXED CHARGES	<u>\$ (19,400)</u>	<u>(3.9)</u>	<u>\$ (41,412)</u>	<u>(6.9)</u>	<u>\$ 22,012</u>
NONOPERATING INCOME					
Interest	<u>\$ 51</u>	<u>0.0</u>	<u>\$ 0</u>	<u>0.0</u>	<u>\$ 51</u>
	<u>\$ 51</u>	<u>0.0</u>	<u>\$ 0</u>	<u>0.0</u>	<u>\$ 51</u>
NET INCOME (LOSS) - Before Income Tax	<u>\$ (19,349)</u>	<u>(3.9)</u>	<u>\$ (41,412)</u>	<u>(6.9)</u>	<u>\$ 22,063</u>
INCOME TAX BENEFIT (EXPENSE)	<u>(3,074)</u>	<u>(0.6)</u>	<u>7,380</u>	<u>1.3</u>	<u>(10,454)</u>
NET INCOME (LOSS)	<u>\$ (22,423)</u>	<u>(4.5)</u>	<u>\$ (34,032)</u>	<u>(5.6)</u>	<u>\$ 11,609</u>
RETAINED EARNINGS (DEFICIT) - BEGINNING OF YEAR	<u>(62,153)</u>		<u>(28,121)</u>		
RETAINED EARNINGS (DEFICIT) - END OF YEAR	<u>\$ (84,576)</u>		<u>\$ (62,153)</u>		

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

Exhibit C

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	December 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ (22,423)	\$ (34,032)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	29,339	24,178
Deferred Charges	3,024	(7,432)
Accounts Receivable	27,202	(29,634)
Materials and Supplies	(1,284)	(1,049)
Prepaid Expenses	(445)	(2,771)
Payables and Accrued Expenses	(329,543)	91,956
Advance Billings - Fuel Costs	32,469	66,868
Net Cash Provided by (Used in) Operating Activities	\$ (261,661)	\$ 108,084
 CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (105,164)	\$ (88,621)
Cost of Removal - Plant Retired	(8,959)	(7,348)
Salvage Value - Plant Retired	532	617
Net Cash Used in Investing Activities	\$ (113,591)	\$ (95,352)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Advances- Duncan Valley Electric Cooperative	\$ 400,000	\$ 0
Payment on Notes - Duncan Valley Electric Cooperative, Inc.	\$ (22,361)	\$ (11,725)
Net Cash Provided by (Used in) Financing Activities	\$ 377,639	\$ (11,725)
 INCREASE IN CASH	\$ 2,387	\$ 1,007
CASH - BEGINNING OF YEAR	7,177	6,170
CASH - END OF YEAR	\$ 9,564	\$ 7,177
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 22,800	\$ 36,211
Income Taxes	\$ 0	\$ 0

See accompanying notes to financial statements.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Principles

Nature of Operations

Duncan Rural Services Corporation was incorporated September 15, 1988. The company acquired the gas and water utility systems serving the town of Duncan, Arizona and surrounding area from Graham County Utilities, Inc. on November 1, 1989. Subsequently, the water system was transferred to the town of Duncan for the original purchase price.

Utility Plant

The utility plant was capitalized on the records of Duncan Rural Services Corporation at the purchase price paid for the assets. Prior accumulated depreciation and acquisition adjustments were not recorded.

Maintenance and repairs, including the removal of minor items of plant, are charged to expense. Major renewals and improvements which substantially extend the useful life of the property are capitalized.

Operating Revenues

Substantially all of the operating revenue is derived from sales of natural gas within the service area. The rates are under the jurisdiction of the Arizona Corporation Commission.

The company's rates include an adjustment for flow-through of purchased natural gas costs. The amount of overbilled fuel cost reflected as a current liability at December 31, 2002, was \$38,990. The amount of overbilled fuel cost reflected as a current liability at December 31, 2001, was \$6,521.

Inventories

Materials and supplies inventories are valued at average unit cost.

Income Taxes

In 1993, the company adopted Financial Accounting Standard 109 - Accounting for Income Taxes. See Footnote 7 for information on income taxes.

Group Concentrations of Credit Risk

The company's headquarters facility is located in Duncan, Arizona. The service area includes consumers located in and around the town of Duncan, Arizona. The company records a receivable for gas sales as billed on a monthly basis. The company requires a deposit from some consumers upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually. As of December 31, 2002 and 2001, deposits on hand totaled \$17,845 and \$18,520, respectively.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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DUNCAN RURAL SERVICES CORPORATION
NOTES TO FINANCIAL STATEMENTS

2. Utility Plant

Major classes of utility plant are as follows:

	December 31,	
	2002	2001
Distribution Plant	\$ 813,234	\$ 709,062
General Plant	23,788	23,788
Total Plant in Service	\$ 837,022	\$ 732,850
Construction Work in Progress	15,014	16,043
	\$ 852,036	\$ 748,893

Provision has been made for depreciation on straight-line rates as follows:

Distribution Plant	3.60%
General Plant	
Laboratory	12.00% - 20.00%
Shop and Garage – Fully Depreciated	12.00% - 20.00%
Stores – Fully Depreciated	12.00% - 20.00%

Depreciation for the years ended December 31, 2002 and 2001, was \$29,339 and \$24,178, respectively.

3. Memberships

Membership in the corporation consists of three classes - (1) Class A membership held by Duncan Valley Electric Cooperative, Inc., representing 1,000 votes, with payment of a one-time membership fee of \$5,000; (2) Class B memberships representing all qualified members of Duncan Valley Electric Cooperative, Inc., who are members and receiving service from this corporation, each entitled to one vote; and (3) Class C - all others who receive service from this corporation who do not qualify under (1) or (2) above, are entitled to one vote each.

The balance in the account represents the membership fee paid by Duncan Valley Electric Cooperative, Inc., as required for their Class A membership. At December 31, 2002, there were 633 Class B memberships and 89 Class C memberships.

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

4. Notes Payable - Duncan Valley Electric Cooperative, Inc.

The balances due Duncan Valley Electric Cooperative, Inc. are represented by the following:

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Note #1 - Original amount \$154,605, agreement dated April 1989, due on or before 11-1-2014, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., member investment variable rate - Currently 5.05%	\$ 82,905	\$ 91,222
Note #2 - Original amount \$156,000, agreement dated December 1995, due on or before 9-19-2030, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., 270 day fixed rate notes - Currently 5.05%	134,494	139,369
Note #3 - Original amount \$400,000, agreement dated July 1, 2002, due on or before 7-1-2027, interest rate variable, based upon Arizona Electric Power Cooperative, Inc., 270 day fixed rate notes - Currently 2.25%	<u>390,830</u>	<u> </u>
Total Notes Payable	\$ 608,229	\$ 230,591
Less: Current Maturities	<u>35,400</u>	<u>12,443</u>
Notes Payable - Less Current Maturities	<u>\$ 572,829</u>	<u>\$ 218,148</u>

At the current interest rate, maturities for the next five years on notes payable are estimated as follows:

2003	\$ 35,400
2004	36,700
2005	38,000
2006	39,300
2007	40,600

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

5. Operations and Management Agreement

The corporation is managed and operated under an agreement between the corporation and Duncan Valley Electric Cooperative, Inc. The corporation is billed for these services at actual cost plus applicable overheads in standard use by Duncan Valley Electric Cooperative, Inc.

6. Litigation, Commitments, and Contingencies

There are no material or threatened lawsuits, claims, or assessments pending against the company.

As part of the acquisition of General Utilities Gas assets, Duncan Rural Services Corporation remains subject to the Arizona Corporation Commission (ACC) order to bring the system into compliance to the satisfaction of ACC's Pipeline Safety Division.

Duncan Valley Electric Cooperative, Inc. provides working capital to the company as needed throughout the year. The company's continued ability to meet its obligations is dependent on this source of working capital.

7. Income Taxes

The company uses the asset and liability method to account for income taxes, as required by Statement of Financial Accounting Standards (Statement) No. 109, "Accounting for Income Taxes". The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary difference between the financial reporting basis and the tax basis of the company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the investment in the Utility Plant for financial and income tax reporting and for an alternative minimum tax credit carryover. The deferred tax liability represents the future tax return consequences of those differences, which will be taxable when the liability is settled.

Duncan Rural Services is a "C" Corporation and files a federal tax return Form 1120.

The net deferred tax asset is shown as deferred charges in the accompanying balance sheet and includes the following components:

	December 31,	
	2002	2001
Deferred Tax Assets	\$ 69,982	\$ 66,922
Deferred Tax Liabilities	<u>59,808</u>	<u>53,724</u>
Net Noncurrent Deferred Tax Asset	<u>\$ 10,174</u>	<u>\$ 13,198</u>

DUNCAN RURAL SERVICES CORPORATION

NOTES TO FINANCIAL STATEMENTS

The components of income tax expense (benefit) are as follows:

	<u>December 31,</u>	
	<u>2002</u>	<u>2001</u>
Deferred Expense (Benefit)	\$ <u>3,074</u>	\$ <u>(7,380)</u>

1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. 36. 37. 38. 39. 40. 41. 42. 43. 44. 45. 46. 47. 48. 49. 50. 51. 52. 53. 54. 55. 56. 57. 58. 59. 60. 61. 62. 63. 64. 65. 66. 67. 68. 69. 70. 71. 72. 73. 74. 75. 76. 77. 78. 79. 80. 81. 82. 83. 84. 85. 86. 87. 88. 89. 90. 91. 92. 93. 94. 95. 96. 97. 98. 99. 100.

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
DUNCAN RURAL SERVICES CORPORATION
FOR APPROVAL OF A LOAN IN THE
AMOUNT OF \$400,000

DOCKET NO. G-02528A-03-0205
FINANCE APPLICATION

Pursuant to A.R.S. § 40-301 et seq., Duncan Rural Services Corporation ("DRSC") files this Application for authorization to borrow \$400,000 from the Duncan Valley Electric Cooperative, Inc. ("DVEC") to finance the maintenance, repair and construction of its gas distribution system. In support of its Application, DRSC states as follows:

1. DRSC holds a Certificate of Convenience and Necessity to provide gas distribution service to its customers in Greenlee County, Arizona.
2. DRSC, a non profit corporation, was formed by DVEC in 1989 to acquire the Greenlee County gas operations of General Utilities, Inc. DRSC provides gas service to approximately 780 customers in Greenlee County, Arizona. The majority of its customers are rural residential users who heat their homes with natural gas.
3. DVEC manages the daily operations of DRSC pursuant to an operations and management agreement. DVEC does not earn a profit on its services for DRSC and the agreement provides for an equitable sharing of costs and resources. The same members serve on the Boards of Directors of both non profit organizations.

1 4. Despite a rate increase granted last year in Decision No. 64869, dated June
2 5, 2002, DRSC's financial condition continues to be poor primarily as a result of lower gas sales
3 due to the warm winters of 2002 and 2003, a decrease in the number of customers in its service
4 territory and required repairs, updates and other construction to its gas distribution system.

5 5. DRSC experienced negative margins in 2001 and 2002 of \$34,032 and
6 \$22,423, respectively. DRSC has not been able to generate enough funds internally to meet
7 expenses and also pay for needed repairs, updates and other construction to its gas distribution
8 system. During 2001 and 2002, DRSC expended approximately \$214,000 on plant replacements
9 and additions.

10 6. Under the management and operations agreement, DVEC pays DRSC's
11 bills as they become due and is then reimbursed by DRSC. To the extent that DRSC is unable to
12 reimburse DVEC on a current basis, the balance owing is booked as a short term account payable
13 until DRSC's income from operations allows reimbursement. However, because of DRSC's poor
14 financial condition and the magnitude of repair and construction expense, all of the expense
15 payments made on its behalf have not been timely repaid by DRSC. Consequently, DRSC has
16 accumulated an accounts payable balance to DVEC of approximately \$199,000 as of February 28,
17 2003. DRSC anticipates it will not be able to repay DVEC for these advances within a 12 month
18 period as intended.

19 7. In order to finance this amount and anticipated additional working capital
20 and plant improvements, DRSC requests approval to execute a long term note payable to DVEC
21 in the amount of \$400,000 at a variable interest rate for a period of 25 years. This arrangement is
22 similar to the loan approved by the Commission for DRSC in Decision No. 64869 (Findings 29-
23 43). A copy of the decision is attached as Exhibit A.

24 8. DRSC expects that it will be unable to repay this long-term debt without an
25 increase in its rates. As a result, DRSC intends to file for an increase in its rates by December 31,
26 2003 and would request that the Commission delay any action on this Application until such time

1 as DRSC can file for an increase in its rates and charges. Furthermore, DRSC would request that,
2 at such time as DRSC files for a rate increase, the Commission consolidate this Application with
3 its application for a rate increase.

4 9. DVEC and DRSC continue to investigate various long term solutions to
5 these issues including the possibility of consolidating the DRSC assets and liabilities into DVEC
6 under a reorganization. Decision No. 64248, dated December 4, 2001, ordered DVEC to file for
7 an increase in its rates and charges by July 1, 2003. In this rate filing, DVEC will address its
8 financial position as well as any conclusions or recommendations to the Commission regarding
9 the reorganization of DRSC.

10 10. All Correspondence with regard to this Finance Application should be sent
11 to:

12 Michael Grant, Attorney for Duncan Rural Services Corporation
13 GALLAGHER & KENNEDY
14 2575 E. Camelback Road
15 Phoenix, Arizona 85016-8500
16 Email: mmg@gknet.com

17 With Copy to:

18 Jack Shilling, Chief Executive Officer
19 DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
20 P.O. Box 440
21 Duncan, Arizona 85534-0440
22 Email: jackshilling@dvec.org

23 John Wallace, Director of Strategic & Regulatory Services
24 GRAND CANYON STATE ELECTRIC CO-OP ASSN., INC.
25 120 N. 44th Street, Suite 100
26 Phoenix, Arizona 85034-1822
Email: jwallac@gcseca.coop

Having fully stated its Application, Duncan Rural Services Corporation requests
that the Commission defer immediate action on this Application, consolidate it with Duncan
Rural's rate application and thereafter grant the relief requested herein.

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RESPECTFULLY SUBMITTED this 4th day of April, 2003.

GALLAGHER & KENNEDY, P. A.

By Michael M. Grant
Michael M. Grant
2575 E. Camelback Road
Phoenix, Arizona 85016-8500
Attorney for Duncan Rural
Services Corporation

ORIGINAL and fifteen (15) copies of
DRSC's Finance Application
filed the 4th day of ~~March~~ April, 2003, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

By Beth Oakley

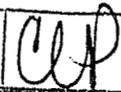
10426-0001/1092638v1

Exhibit "A"

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED

JUN 05 2002

DOCKETED BY: 

1
2 WILLIAM A. MUNDELL
CHAIRMAN
3 JIM IRVIN
COMMISSIONER
4 MARC SPITZER
COMMISSIONER
5

6 IN THE MATTER OF THE APPLICATION OF
DUNCAN RURAL SERVICES CORPORATION
7 FOR A RATE INCREASE FOR AUTHORITY TO
INCUR ADDITIONAL LONG-TERM DEBT.

DOCKET NO. G-02528A-01-0561

DECISION NO. 64869

OPINION AND ORDER

8
9 DATE OF HEARING: February 28, 2002
10 PLACE OF HEARING: Phoenix, Arizona
11 ADMINISTRATIVE LAW JUDGES: JANE RODDA
PHILIP J. DION III
12 APPEARANCES: Mr. Michael M. Grant, GALLAGHER &
13 KENNEDY, on behalf of Duncan Rural Services
Corporation; and
14 Mr. Tim Sabo, Legal Division, on behalf of the
15 Utilities Division of the Arizona Corporation
Commission.

16 **BY THE COMMISSION:**

17
18 Having considered the entire record herein and being fully advised in the premises, the
19 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

20 FINDINGS OF FACT

- 21 1. On July 13, 2001, Duncan Rural Services Corporation ("Applicant", "Duncan Rural"
22 or "Company") filed with the Commission an application for a rate increase and a request to incur
23 long-term debt.
24 2. On August 13, 2001, the Commission's Utilities Division Staff ("Staff") filed a letter
25 notifying the Company that its application met the sufficiency requirements outlined in A.A.C. R14-
26 2-103 and classified the Company as a Class C Utility.
27 3. On August 30, 2001, the Commission issued a Procedural Order that set this matter for
28 hearing on February 28, 2002.

1 4. On February 27, 2002, the Company filed a Certificate of Mailing that meets the
2 notice requirements as prescribed by law. The Company mailed notice of its rate and finance
3 application to its customers on September 28, 2001. There has been no customer response objecting
4 to the proposed rate increase and financing.

5 5. On February 28, 2002, the hearing was held as scheduled. Public comment was
6 conducted before the hearing, but no one from the public appeared for comment.¹ At the
7 commencement of the hearing, the parties informed the Administrative Law Judges that they had
8 reached a Settlement.² Witnesses for the Applicant and Staff testified in support of the Settlement.
9 At the conclusion of the hearing, the parties agreed to file late-filed exhibits that would compare the
10 present rate design with the proposed rates and with the rates that were agreed upon in the Settlement
11 and that would provide a typical bill analysis.

12 6. On April 2, 2002, the parties filed the late-filed exhibits in a Joint Notice of Filing.

13 7. Applicant is a non-profit corporation that supplies gas service to approximately 800
14 customers in Greenley County, Arizona.

15 8. Through an operations and management agreement, Duncan Valley Electric
16 Cooperative ("DVEC") manages the day-to-day operations of the Applicant.

17 9. Duncan Rural and DVEC are both member-owned cooperatives. DVEC bought 1,000
18 memberships in Duncan Rural and controls Duncan Rural's Board of Directors. DVEC provides
19 electric service to approximately 2,500 customers. Almost all of the gas customers of Duncan Rural
20 are also electric customers of DVEC.

21 10. The Commission authorized Duncan Rural's current permanent rates in Decision No.
22 59539 (February 21, 1996).

23 11. Based on the Test Year results for the year ended December 31, 2001, as presented in
24 the Settlement, Applicant realized a net loss of approximately \$153,000 and had negative equity of
25 approximately \$23,000 on an original cost rate base ("OCRB") of \$579,707.

26 _____
27 ¹ Staff made an oral motion to conduct an additional public comment hearing in Duncan Rural's service area. Based upon
the notice provided by the Company and since the rate increase agreed to in the settlement is significantly less than was
contemplated in the original notice to the customers, an additional public comment hearing is unnecessary.

28 ² No written settlement document was submitted..

1 12. Duncan Rural had originally indicated its OCRB was \$538,601. In the Settlement,
2 Duncan Rural accepted Staff's determination that gross utility plant in service and accumulated
3 depreciation should be adjusted to increase the OCRB by \$41,106.

4 13. In its application, Duncan Rural proposed that the Commission approve an increase in
5 total revenue from the Test Year level of \$458,680 to \$695,961, for an increase of \$237,281 or 51.73
6 percent. The proposed increase in revenue would result in an operating income of \$76,764, for a rate
7 of return of 13.24 percent on an OCRB of \$579,707. Duncan Rural based its proposed revenues on a
8 base cost of gas of \$0.4470 per therm.

9 14. Prior to entering the settlement, Staff recommended total revenue of \$633,924. The
10 proposed increase in revenue would result in an operating income of \$76,692, for a rate of return of
11 13.23 percent on an OCRB of \$579,707. Staff based its proposed revenues on a base cost of gas of
12 \$0.36 per therm.

13 15. The Settlement adopts Staff's calculations for Test Year revenues of \$510,397,
14 operating expenses of \$529,451 and a net loss of \$19,054.

15 16. The Settlement adopts Staff's proposed a revenue level of \$633,924 and an operating
16 income of \$76,692 for a rate of return of 13.23 percent on an OCRB of \$579,707.

17 17. Applicant's current rate design classifies its customers into three categories;
18 residential, irrigation and commercial.

19 18. Based upon a cost of service study, the Company determined that meter size was a
20 better way to classify customers. Therefore, in its application, Duncan Rural filed proposed rates
21 based upon a customer's meter size. The testimony supports a finding that the costs associated with
22 serving a customer is closely related to the size of the meter.

23 19. Staff's recommended rates are also based upon a rate design that classified customers
24 by meter sizes.

25 20. The Settlement adopts a rate design based upon meter size. The Settlement adopts the
26 Company's increase in the monthly service charge, but the amount of the increase in the winter
27
28

1 commodity rate was lower than originally proposed by both the Company and Staff.³

2 21. The present rates along with the originally proposed rates by Applicant and Staff and
3 the agreed upon rates in the Settlement are as follows:

| | <u>Present
Rates</u> |
|--|--------------------------|
| Customer Classes: | |
| Residential | |
| Monthly Service Charge | \$ 7.00 |
| Commodity Rate per Therm | 0.623930 |
| Irrigation | |
| Monthly Service Charge | 13.00 |
| Commodity Rate per Therm | 0.380200 |
| Commercial | |
| Monthly Service Charge | 10.00 |
| Commodity Rate per Therm | 0.5659400 |
| Service Charges: | |
| Establishment of Service (Normal) | \$25.00 |
| Establishment of Service (After) | 35.00 |
| Re-establishment/Reconnection of Service (Normal) | 35.00 |
| Re-establishment/Reconnection of Service (After) | 45.00 |
| Reconnection of Service (Normal) | 25.00 |
| Reconnection of Service (After) | 35.00 |
| After Hours Service Calls - Consumer Caused (Per
Hour)* | ----- |
| Meter Re-read (No charge for Read Error) | 20.00 |
| Meter Test Fee | 50.00 |
| Insufficient Funds Check | 15.00 |
| Interest Rate on Customer Deposits | 6.00% |
| Late/Deferred Payment (per month) | 0.00% |

* One hour minimum

| | <u>Proposed Rates</u> | | |
|---------------------------------|-----------------------|--------------|---------------------------------|
| | <u>Company</u> | <u>Staff</u> | <u>Settlement
Agreement</u> |
| <u>METER SIZES</u> | | | |
| 250 cfh and Below | | | |
| Monthly Service Charge | \$ 15.00 | \$ 13.02 | \$ 15.00 |
| Winter Commodity Rate per Therm | 0.960000 | 0.885656 | 0.800000 |
| Summer Commodity Rate per Therm | 0.514050 | 0.474241 | 0.514050 |

3 Staff agreed to this rate design with the understanding that it will not set a precedent for future rate cases, and Applicant accepted that condition.

| | | | | |
|---|---------------------------------|-----------|----------|----------|
| 1 | 251 cfh to 425 cfh | | | |
| | Monthly Service Charge | 22.50 | 20.67 | 22.50 |
| 2 | Winter Commodity Rate per Therm | 0.960000 | 0.885656 | 0.800000 |
| | Summer Commodity Rate per Therm | 0.514050 | 0.474241 | 0.514050 |
| 3 | 426 cfh to 1,000 cfh | | | |
| 4 | Monthly Service charge | 30.00 | 28.00 | 30.00 |
| 5 | Winter Commodity Rate per Therm | 0.9600000 | 0.885656 | 0.800000 |
| | Summer Commodity | 0.514050 | 0.474241 | 0.514050 |

| | <u>Company</u>
<u>Proposed Rates</u> | <u>Staff</u>
<u>Recommended</u> | <u>Settlement</u>
<u>Agreement</u> |
|----|---|------------------------------------|---------------------------------------|
| 8 | Service Charges: | | |
| 9 | Establishment of Service (Normal) | \$35.00 | 35.00 |
| 10 | Establishment of Service (After) | 50.00 | 50.00 |
| 11 | Re-establishment/Reconnection of Service (Normal) | 50.00 | 50.00 |
| 12 | Re-establishment/Reconnection of Service (After) | 75.00 | 75.00 |
| 13 | Reconnection of Service (Normal) | N/A | N/A |
| 14 | Reconnection of Service (After) | N/A | N/A |
| 15 | After Hours Service Calls - Consumer Caused (Per Hour)* | 50.00 | 50.00 |
| 16 | Meter Re-read (No charge for Read Error) | 30.00 | 30.00 |
| 17 | Meter Test Fee | 50.00 | 50.00 |
| 18 | Insufficient Funds Check | 20.00 | 20.00 |
| 19 | Interest Rate on Customer Deposits | 3.00% | 6.00% |
| 20 | Late/Deferred Payment (per month) | 1.50% | 1.50% |
| 21 | | | 0.00% |

- 22 * One hour minimum.
- 23 22. Residential customers make up 90 percent of Duncan Rural's customer base.
- 24 23. During the Test Year, the Company's residential customers had an average use of 100
- 25 therms per month in the winter and 15 therms per month during the summer.
- 26 24. The summer customers are primarily irrigation customers. Those customers have the
- 27 ability to either drop off Duncan Rural's system or switch to electric for pumping. The Company
- 28 stated that its desire is to keep those customers on the system and contributing something to the fixed
- cost.
- 29 25. The Company's proposed rates would increase the average residential winter bill by
- 30 8.77 percent, from \$115.80 to \$125.96.

1 26. Staff's proposed rates would increase the average residential winter bill by 46.39
2 percent, from \$69.39 to \$101.59.

3 27. The Settlement would increase the average residential winter bill by 25.61 percent,
4 from \$69.39 to \$95.00.

5 28. The Settlement, sets the base cost of gas at \$0.36 a therm. The parties also agreed that
6 the purchase gas adjustment mechanism in this matter should remain the same.

7 29. Duncan Rural also requests authority to borrow \$400,000 from DVEC for a period of
8 25 years.

9 30. DVEC will charge Duncan Rural an interest rate equal to the variable interest rate it
10 would receive from the Arizona Electric Power Cooperative ("AEPCO") if DVEC deposited those
11 funds with AEPCO.

12 31. The current rate paid by AEPCO is approximately two percent.

13 32. DVEC is a member of AEPCO. The companies agreed that DVEC would lend
14 Duncan Rural \$400,000 at the AEPCO rate because that is the rate that DVEC would earn if it
15 placed its money with AEPCO. The AEPCO rate is a variable rate.

16 33. Staff testified that the interest rate offered by DVEC is competitive in today's market
17 and beneficial to Duncan Rural because of its poor financial condition. Staff further testified that,
18 conversely, the interest rate is not disadvantageous to DVEC since an alternate investment with
19 AEPCO would yield the same rate of return. Staff testified that because the lender (DVEC) does not
20 set the rate, it does not have a profit motive in loaning the money to Duncan Rural.

21 34. John Wallace testified on behalf of Duncan Rural. He stated that the \$400,000 would
22 be used to repay debts owed by the Company for prior construction projects and working capital. He
23 further testified that the debt was owed to DVEC.

24 35. Duncan Rural received some advances from DVEC in order to replace pipe in its
25 system. The Company had intended to repay the advance within a 12-month period, thus making it a
26 short-term loan. However, because of the magnitude of the construction projects and an increase in
27 gas prices, the Company was unable to repay those advances in a timely manner.

1 36. Mr. Wallace testified that the cost of gas increased significantly and that due to the
2 limitations of the purchase gas adjustment mechanism, those costs were borne by the Company.
3 Thus, the Company suffered a severe cash flow problem and was unable to repay the advances as
4 intended.

5 37. Mr. Shilling, the chief executive officer of DVEC, testified that due to its present
6 financial situation, Duncan Rural is unable to obtain capital from banks and other traditional sources
7 of capital. He stated that it is possible that Duncan Rural might be able to obtain a loan from the
8 National Rural Utilities Cooperative Finance Corporation ("CFC"), however, it would be at a
9 significantly higher cost, and based upon Duncan Rural's financial situation, would be highly
10 unlikely. He further indicated that Duncan Rural is not eligible to borrow money from the Rural
11 Utilities Service ("RUS") because Duncan Rural does not meet the standards set in the Rural Electric
12 Act of 1936.

13 38. Staff testified that the rates agreed upon in the Settlement would provide Duncan
14 Rural with a Times Interest Earned Ratio ("TIER") of 2.00 and a Debt Service Coverage Ratio
15 ("DSC") of 2.09. Those numbers include the proposed debt of \$400,000 for a period of 25 years at
16 an interest rate of 6 percent.⁴

17 39. Staff recommends that the Commission authorize Duncan Rural to obtain long-term
18 debt in the amount of \$400,000 from DVEC at the variable interest rate offered by AEPCO for
19 deposit for a period of 25 years. Staff believes that the financing request is reasonable, for a lawful
20 purpose and in the public interest.

21 40. Staff testified that its analysis assumes that the interest rate paid on the proposed
22 financing would be six percent. Staff recommended that the Company file a rate review anytime the
23 interest rate paid to DVEC exceeds six percent and the Company determines that the increase has
24 negatively impacted its financial position.

25 41. The Company stated it would prefer to simply file a report with the Commission if the
26 rate exceeds six percent. In that report, the Company could give a description of its financial
27

28 ⁴ At the time of the application, the interest rate AEPCO was offering for deposit was 6 percent. Currently, AEPCO is offering 2 percent.

1 condition and whether or not it has any recommendations or determines that some additional action is
2 appropriate. Staff objected and stated it preferred to have the Company follow its recommendation as
3 stated above.

4 42. The Commission finds that it is prudent to have Duncan Rural file a report about its
5 financial condition anytime the interest rate paid to DVEC exceeds six percent. After the filing of the
6 report, the Commission may, among other things, request more information from the Company
7 and/or require the Company to file a rate review.

8 43. Further, we find that the interest rate should be capped at eight percent. The "AEPCO
9 rate" is not tied to any other financial indicator and carries no safeguards to prevent dramatic rate
10 increases. Additionally, the proposed debt was analyzed at an interest rate of 6 percent for a term of
11 25 years. Since the rate in this financing is variable and the term is lengthy, we find that a cap is
12 necessary to ensure the assumption that the Company can afford the debt over a long period of time.

13 44. Duncan Rural has not received any customer complaints regarding its services since
14 1998.

15 45. The Company is current on all property and sales taxes.

16 CONCLUSIONS OF LAW

17 1. Duncan Rural Services Corporation is a public service corporation within the meaning
18 of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301 and 40-302.

19 2. The Commission has jurisdiction over the Applicant and the subject matter of the
20 Application.

21 3. Notice of the Application was provided in the manner prescribed by law.

22 4. The rates and charges authorized hereinafter are just and reasonable and should be
23 approved.

24 5. The Settlement as set forth in Findings of Fact 15, 16, 21 and 28 are reasonable and
25 should be adopted.

26 6. Staff's recommendation in Finding of Fact 39 is reasonable and should be adopted.

27 7. The financing approved herein is for lawful purposes within Duncan Rural Services
28 Corporation's corporate powers, is compatible with the public interest, with sound financial practices

1 and with the proper performance by Duncan Rural Services Corporation of service as a public service
2 corporation, that will not impair Duncan Rural Service Corporation's ability to perform that service.

3 8. The financing approved herein is for the purposes stated in the Application and is
4 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
5 chargeable to operating expenses or to income.

6 **ORDER**

7 IT IS THEREFORE ORDERED that Duncan Rural Services Corporation shall file on or
8 before June 28, 2002, the following schedule of rates and charges:

9
10 METER SIZES

11 250 cfh and Below

| | | |
|------------------------------------|----|----------|
| 12 Monthly Service Charge | \$ | 15.00 |
| 13 Winter Commodity Rate per Therm | | 0.800000 |
| Summer Commodity Rate per Therm | | 0.514050 |

14 Above 250 cfh to 425 cfh

| | | |
|------------------------------------|--|----------|
| 15 Monthly Service Charge | | 22.50 |
| 16 Winter Commodity Rate per Therm | | 0.800000 |
| Summer Commodity Rate per Therm | | 0.514050 |

17 Above 425 cfh to 1,000 cfh

| | | |
|------------------------------------|--|----------|
| 18 Monthly Service charge | | 30.00 |
| 19 Winter Commodity Rate per Therm | | 0.800000 |
| Summer Commodity | | 0.514050 |

20 SEVICE CHARGES:

| | | |
|---|----|-------|
| 21 Establishment of Service (Normal) | \$ | 35.00 |
| 22 Establishment of Service (After) | | 50.00 |
| 23 Re-establishment/Reconnection of
Service (Normal) | | 50.00 |
| 24 Re-establishment/Reconnection of
Service (After) | | 75.00 |
| 25 Reconnection of Service (Normal) | | N/A |
| 26 Reconnection of Service (After) | | N/A |
| 27 After Hours Service Calls - Consumer
Caused (Per Hour)* | | 50.00 |
| 28 Meter Re-read (No charge for Read
Error) | | 30.00 |
| Meter Test Fee | | 50.00 |

| | | |
|---|------------------------------------|-------|
| 1 | Insufficient Funds Check | 20.00 |
| 2 | Interest Rate on Customer Deposits | 3.00% |

3 * One hour minimum.

4
5 IT IS FURTHER ORDERED that the aforementioned rates approved herein shall become
6 effective on July 1, 2002.

7 IT IS FURTHER ORDERED that Duncan Rural Services Corporation shall notify its
8 customers of its rates and charges authorized herein and the effective date of same by means of an
9 insert in its next regularly monthly billing and shall file a copy of said insert with the Utilities
10 Division Director within 30 days of the effective date of this Decision.

11 IT IS FURTHER ORDERED that Duncan Rural Services Corporation is authorized to borrow
12 up to \$400,000 from Duncan Valley Electric Cooperative for a period of 25 years at the variable
13 interest rate offered by the Arizona Electric Power Cooperative for deposit.

14 IT IS FURTHER ORDERED that as a condition of granting Duncan Rural Services
15 Corporation the authority to incur long-term for the purposes set forth in the application, Duncan
16 Rural Services Corporation shall file a report about its financial condition anytime the interest rate
17 paid to Duncan Valley Electric Cooperative exceeds six percent.

18 IT IS FURTHER ORDERED that the terms of all financing authorized herein shall include an
19 interest rate of not more than 8.0 percent.

20 IT IS FURTHER ORDERED that Duncan Rural Services Corporation is hereby authorized to
21 engage in any transactions and to execute any documents necessary to effectuate the authorization
22 granted herein.

23 IT IS FURTHER ORDERED that Duncan Rural Services Corporation is hereby authorized to
24 issue such liens or other security in relation to their property as may be required to secure the
25 borrowings.

26 IT IS FURTHER ORDERED that such authority is expressly contingent upon Duncan Rural
27 Services Corporation's use of the proceeds for the purposes set forth in its application.

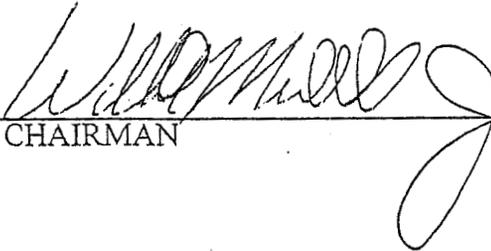
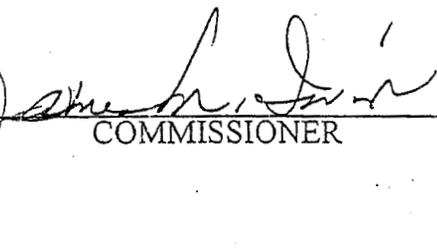
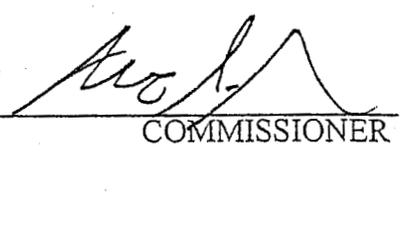
28 IT IS FURTHER ORDERED that the approval of financing set forth herein does not

1 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
2 proceeds derived thereby for purposes of establishing just and reasonable rates.

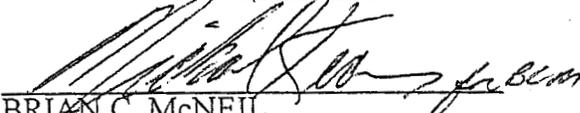
3 IT IS FURTHER ORDERED that Duncan Rural Services Corporation shall file with the
4 Commission copies of all executed financing documents setting forth the terms of financing within
5 30 days of obtaining such financing.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8
9 
10 CHAIRMAN  COMMISSIONER  COMMISSIONER
11

12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Secretary of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 5th day of June, 2002.

17 
18 BRIAN C. McNEIL
19 EXECUTIVE SECRETARY

20
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28
18 DISSENT _____
19 PJD:

1 SERVICE LIST FOR: DUNCAN RURAL SERVICE CORPORATION

2 DOCKET NO.: G-02528A-01-0561

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