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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
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COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR A RATE INCREASE.	DOCKET NO. E-01773A-04-0528
IN THE MATTER OF THE APPLICATION OF SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR A RATE INCREASE.	DOCKET NO. E-04100A-04-0527 **NOTICE OF FILING TESTIMONY SUMMARIES**

In relation to the Arizona Electric Power Cooperative, Inc. ("AEPCO") rate matter, AEPCO has filed the testimony summaries of Messrs. Minson, Pierson, Edwards and Daniel.

In relation to the Southwest Transmission Cooperative, Inc. ("SWTC") rate matter, SWTC has filed the testimony summaries of Messrs. Minson, Pierson and Edwards.

RESPECTFULLY SUBMITTED this 8th day of April, 2005.

GALLAGHER & KENNEDY, P.A.

By Michael M. Grant

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Testimony Summary
of
Dirk Minson

AEPCO Rate Case
Docket No. E-01773A-04-0528

Direct Testimony

Mr. Minson is the Chief Financial Officer of AEPCO, serves as part of the Executive Management Team and reports directly to the Chief Executive Officer. He has spent his entire 29-year career working directly or indirectly for electric cooperatives.

In his direct testimony, Mr. Minson testifies in support of AEPCO's rate application and also provides background information concerning the cooperative, its membership, its power resources and the eight-month Board of Directors and member review and approval process which led to the filing of the application. He points out that this will be the first rate increase on the AEPCO system since 1984. In fact, he notes that, since 1986, AEPCO has instead reduced member rates by approximately 22% plus refunding or forgiving more than $27 million in fuel costs over the same period.

Mr. Minson explains that there are three primary reasons for the requested rate increase—(1) higher coal and natural gas costs, (2) increased maintenance costs associated with aging generation units and (3) necessary capital additions including the costs associated with the new Gas Turbine #4 which commenced commercial operation in October, 2002. These factors were the primary reason AEPCO suffered an adjusted test year net margin loss of $4.5 million and had a DSCR of only .70, which is well below the RUS mortgage minimum requirement of 1.0.

Mr. Minson requests Commission approval of revised lower depreciation rates as set forth in his Exhibit DCM-1 and that the Commission also approve a purchased power and fuel adjustment clause as described in greater detail in Mr. Pierson's direct testimony. In conclusion, he asks for prompt and favorable Commission action on the rate requests—particularly in light of AEPCO's negative margin experience in 2003 and expected similar operating results in 2004.

Rebuttal Testimony

In his rebuttal testimony, Mr. Minson updates the Commission on AEPCO's 2004 operating loss which totaled $2.6 million and points out that the 2004 results have further eroded AEPCO's equity position after more than ten years of positive improvement. He also notes that AEPCO and Class A member Sulphur Springs Valley Electric Cooperative ("SSVEC") have completed a draft agreement acceptable to them in response to SSVEC's request to become a partial requirements member. Mr. Minson states that AEPCO plans to seek Commission approval of the revised contracts and any required partial- and all-requirements rate changes associated with it once RUS approval has been secured.

Having reviewed Staff's testimony and in light of both Staff's positive approach on several issues as well as AEPCO's need for rapid rate relief, Mr. Minson testifies that AEPCO has attempted as much as possible to narrow issues in dispute to speed further evaluation and action by the Administrative Law Judge and Commission. He summarizes AEPCO's revised requests for Commission approval: (1) an increase in operating revenues of about $9.446 million and a return on rate base of 10.50%, (2) rates as set forth in Mr. Pierson's Exhibit GEP-4, (3) a fuel and purchased power clause adjustor and (4) the revised lower depreciation rates discussed in his direct testimony.

Mr. Minson discusses the reasons why AEPCO recommends that the Commission not establish 30% or any other firm percentage as a target equity goal as recommended by Staff. He also states AEPCO's reasons for (1) not including in the fuel and purchased power clause adjustor ("FPPCA") the margins received from economy sales and (2) its opposition to Staff's suggestion that a DSM program be established at the wholesale level—recommending instead that such programs are better conducted at the retail distribution cooperative level. Further, he urges the Commission not to order a separate cost of service study in the future for the Anza Electric Cooperative as suggested by Staff. Mr. Minson's Exhibit DCM-3 is a tariff reflecting the rates and FPPCA which AEPCO asks that the Commission approve.

Taking into account the revised generation and transmission rate requests reflected in AEPCO and Southwest Transmission's rebuttal cases, Mr. Minson notes that, because rates have declined about 22% in the past 20 years, average Class A member rates will still be about 17% below what they were in 1985. He also estimates that the average residential consumer would see about a $3.30 monthly bill increase attributable to AEPCO's generation case and a $1.45 bill increase in relation to SWTC's transmission case.

Testimony Summary
of
Gary E. Pierson

AEPCO Rate Case
Docket No. E-01773A-04-0528

Direct Testimony

Mr. Pierson is the Manager of Financial Services, holds a Bachelor of Arts Degree specializing in Accounting and Business Administration and, since 1974, has been employed by cooperatives in, among other things, the areas of rate-making, budgeting, treasury, cash management, financial forecasting and the preparation of rate filings. He has previously testified before this Commission, the Public Utilities Commission of the State of Colorado and the United States Bankruptcy Court in Colorado.

Mr. Pierson testifies in support of AEPCO's general rate filing and is the primary sponsor of the Schedules A-H that are described in A.A.C. R14-2-103. His direct testimony summarizes AEPCO's revenue requirements, rate base and rate requests and discusses various reclassification and adjustment issues which impact the Schedules. Mr. Pierson also describes in greater detail AEPCO's proposal for a fuel and purchased energy adjustor which would allow recovery or refund of changes in these costs over which AEPCO has little control. He testifies that Commission approval of such a clause will provide increased financial stability for AEPCO and will reduce general rate case regulatory costs for both its members and the Commission.

Rebuttal Testimony

In his rebuttal testimony, Mr. Pierson states that in order to reduce complexity and narrow issues in dispute, AEPCO accepts all of the rate base adjustments and nine of the twelve operating income adjustments proposed by Staff in its direct testimony. In relation to the remaining three operating income adjustments—the revenue and expense annualization, the overhaul accrual expense and the tracker mechanism for AEPCO's base power cost—Mr. Pierson explains AEPCO's position for modifications to these Staff adjustments.

Mr. Pierson sponsors several exhibits which explain AEPCO's revised rebuttal requests concerning its adjustments to Staff's recommendations and its revised revenue requirements, rate base and rate of return positions. His Exhibit GEP-4 sets forth the proposed rates which AEPCO asks that the Commission approve.

Testimony Summary
of
William K. Edwards

AEPCO Rate Case
Docket No. E-01773A-04-0528

Mr. Edwards is an economist and Vice President of Regulatory Affairs for the National Rural Utilities Cooperative Finance Corporation ("CFC"). For more than 20 years, he has been involved in rate, regulatory accounting and related matters in both the private utility sector and for CFC. CFC is a non-profit cooperative association whose principal purpose is to provide its members, including AEPCO, with a dependable source of low-cost capital and related financial products and services.

In his direct testimony, Mr. Edwards testifies in support of AEPCO's request for a Debt Service Coverage Ratio ("DSCR") of 1.05, which he states will provide financial stability and allow for resumed equity improvement. He notes that while AEPCO has been steadily improving its equity ratio in recent years, that progress was halted in the 2003 test year. Mr. Edwards points out that AEPCO's equity ratio at the end of 2003 was slightly more than 4%, while G&T cooperatives collectively, as of the end of 2002, had a median equity ratio of 13.22%.

Mr. Edwards also states that the requested 1.05 DSCR underlying AEPCO's rate application would allow it to qualify for continued lending from both CFC and the Rural Utilities Service. In conclusion, Mr. Edwards urges the Commission to take prompt and adequate action on the rate request.

Testimony Summary
of
Stephen Page Daniel

AEPCO Rate Case
Docket No. E-01773A-04-0528

Mr. Daniel is the Executive Vice President and a founding principal of GDS Associates, Inc. ("GDS"), a multi-disciplined engineering and consulting firm. He is a member of the Institute of Electrical and Electronics Engineers and has provided revenue requirements, allocated cost-of-service, rate design and other consulting services to AEPCO since the mid-1970s.

In his direct testimony, Mr. Daniel discusses the analysis which GDS performed on the AEPCO system in order to determine the appropriate demand cost allocation methodology to be used in allocating power supply fixed costs to its Class A members. The analysis included a review of monthly system peak load data for a five-year period, member distribution cooperative and other load data for that same period, patterns of scheduled generation maintenance and timing of new power supply resources.

Based on the analysis, Mr. Daniel reaches several conclusions. While AEPCO's system peak occurs during the summer, its monthly non-summer peak loads are at or above 70% of its annual peak and many of those non-summer months' peaks are 85-95% of the annual system peak. Seasonal long-term purchases are relatively modest and the timing of the commercial operation of a new generator in October 2002 also indicates that the summer peak is not the sole driver of new resource installations.

In light of these factors, Mr. Daniel testifies that AEPCO should adopt the 12-CP demand cost allocation method as the most appropriate for determining its cost of service.

Testimony Summary
of
Dirk Minson

SWTC Rate Case
Docket No. E-04100A-04-0527

Direct Testimony

Mr. Minson is the Chief Financial Officer of SWTC, serves as part of the Executive Management Team and reports directly to the Chief Executive Officer. He has spent his entire 29-year career working directly or indirectly for electric cooperatives.

In his direct testimony, Mr. Minson testifies in support of SWTC's rate application and provides background information on the cooperative, its members and the Board of Directors and member review and approval process which preceded the rate filing. He states that Commission approval of the revised rates will keep SWTC in compliance with its RUS mortgage requirements and also provide modest margins and working capital coverage.

Mr. Minson explains that the major reason for the rate request is Morenci Water & Electric Company's ("MW&E") bypass of the SWTC transmission system to connect its facilities directly to the TEP transmission system. He states that the revenue loss associated with the MW&E bypass will occur in two stages: (1) about $2.8 million in non-firm revenues will be lost in late 2004 and then (2) an additional $2.3 million of firm wheeling revenues will be lost December 31, 2005. To place the significance of that loss in context, Mr. Minson explains that the first stage of $2.8 million alone is nearly 9% of SWTC's total 2003 operating revenues.

Mr. Minson requests that the Commission approve the revised rates as described in Mr. Pierson's testimony which take into account the loss of the MW&E non-firm revenues. He also asks that the Commission authorize in this Decision a further rate adjustment which will compensate for the additional MW&E firm revenue loss as of January 1, 2006.

Rebuttal Testimony

In his rebuttal testimony, Mr. Minson states that, in order to expedite the issuance of a final rate order, SWTC will accept all of Staff's recommended rate base adjustments and suggests only a companion expense change to the RAC reclassification adjustment recommended by Staff. He estimates that a residential consumer of a Class A member using 750 kWh per month would see about a $1.45 increase in the monthly bill as a result of the requested rate increase.

Responding to Staff concerns that the requested rates may not be adequate, Mr. Minson testifies that he believes SWTC's rebuttal position achieves a balance between controlling rates and assuring the cooperative's financial stability. He urges the Commission not to adopt a fixed equity target of 30% or any other level as recommended by Staff and, for the same reasons noted

in his AEPCO rebuttal testimony, states that the 30% equity level is unnecessarily high. Mr. Minson also recommends that the Commission not adopt Staff's recommendation that a separate cost of service study be required for the Anza Electric Cooperative in future rate filings.

Mr. Minson also confirms that, as expected, MW&E stopped taking any non-firm transmission service from SWTC on November 1, 2004 and that the second large loss of approximately $2.37 million in firm revenues will occur on December 31 of this year when MW&E's cancellation of the firm service agreement takes effect. He requests that the Commission authorize new rates as set forth in column C of Mr. Pierson's Exhibit GEP-11 for the balance of this year. Further, Mr. Minson asks that the Commission authorize revised rates for SWTC as set forth in column D of Exhibit GEP-11 effective January 1, 2006 to compensate for the loss of the MW&E firm service revenues at the end of this year.

Testimony Summary
of
Gary E. Pierson

SWTC Rate Case
Docket No. E-04100A-04-0527

Mr. Pierson is the Manager of Financial Services and holds a Bachelor of Arts Degree specializing in Accounting and Business Administration. Since 1974, he has been employed by cooperatives in, among other things, the areas of rate-making, budgeting, treasury, cash management, financial forecasting and the preparation of rate filings.

Mr. Pierson testifies in support of SWTC's general rate filing and sponsors the A-H schedules prepared pursuant to A.A.C. R14-2-103. His direct testimony summarizes SWTC's revenue requirements, rate base and rate requests and discusses various reclassification and adjustment issues which impact the Schedules.

Rebuttal Testimony

In his rebuttal testimony, Mr. Pierson states that SWTC will accept all of the Staff's proposed rate base adjustments and four of five of the Operating Income Adjustments proposed by Staff. Mr. Pierson asks that the Commission authorize an increase in operating revenues of approximately $3.66 million, which is the same amount recommended by Staff. This results in an 8.05% rate of return on the rate base of $76,345,655, a TIER of 1.17 and a DSCR of 1.02.

Column C of Mr. Pierson's Exhibit GEP-11 sets forth the rates SWTC asks that the Commission approve to be effective through December 31, 2005. Mr. Pierson also discusses the rates set forth in column D of that same exhibit. They are designed to compensate for the loss of the MW&E firm revenues at the end of this year and return SWTC to the same TIER, DSCR and rate of return percentages that the rates effective for the balance of this year are designed to produce. Consistent with Mr. Minson's rebuttal request, Mr. Pierson asks that the Commission approve these rates to be effective on January 1, 2006.

Testimony Summary
of
William K. Edwards

SWTC Rate Case
Docket No. E-04100A-04-0527

Mr. Edwards is an economist and Vice President of Regulatory Affairs for the National Rural Utilities Cooperative Finance Corporation ("CFC"). For more than 20 years, he has been involved in rate, regulatory accounting and related matters in both the private utility sector and for CFC. CFC is a non-profit cooperative association whose principal purpose is to provide its members, including AEPCO, with a dependable source of low-cost capital and related financial products and services.

In his direct testimony, Mr. Edwards testifies in support of SWTC's request for a Times Interest Earned Ratio of 1.15, which he states will provide financial stability and modest progress toward equity goals. He states that the requested TIER and DSCR ratios will allow SWTC to make progress toward improved financial strength and will allow SWTC to qualify for future lending from both the CFC and the Rural Utilities Service.