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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR A RATE INCREASE

DOCKET NO. E-1773A-04-0528

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC. FOR A RATE INCREASE

DOCKET NO. E-04100A-04-0527

POSITION STATEMENT AND
HEARING SUMMARY

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ACC staff has set TIER, DSC, and Equity Ratio targets for AEPCO and SWTC as shown in Table 1 below.

Table 1. ACC Staff Defined Targets (surrebuttal based)		
Target	AEPCO	SWTC
TIER	1.5	1.16
DSC	0.99	1.02
Equity Ratio	30%	30%

Both AEPCO and SWTC have accepted the TIER and DSC targets, however the Equity Ratio Targets have not been accepted. William Edwards representing the RUS and CFC testified that the minimum coverage ratios required of power supply borrowers are a TIER of 1.05 and a DSC of 1.00. Edwards also advised that AEPCO and SWTC could not be rejected for new loans if they maintain these minimum coverage ratios.

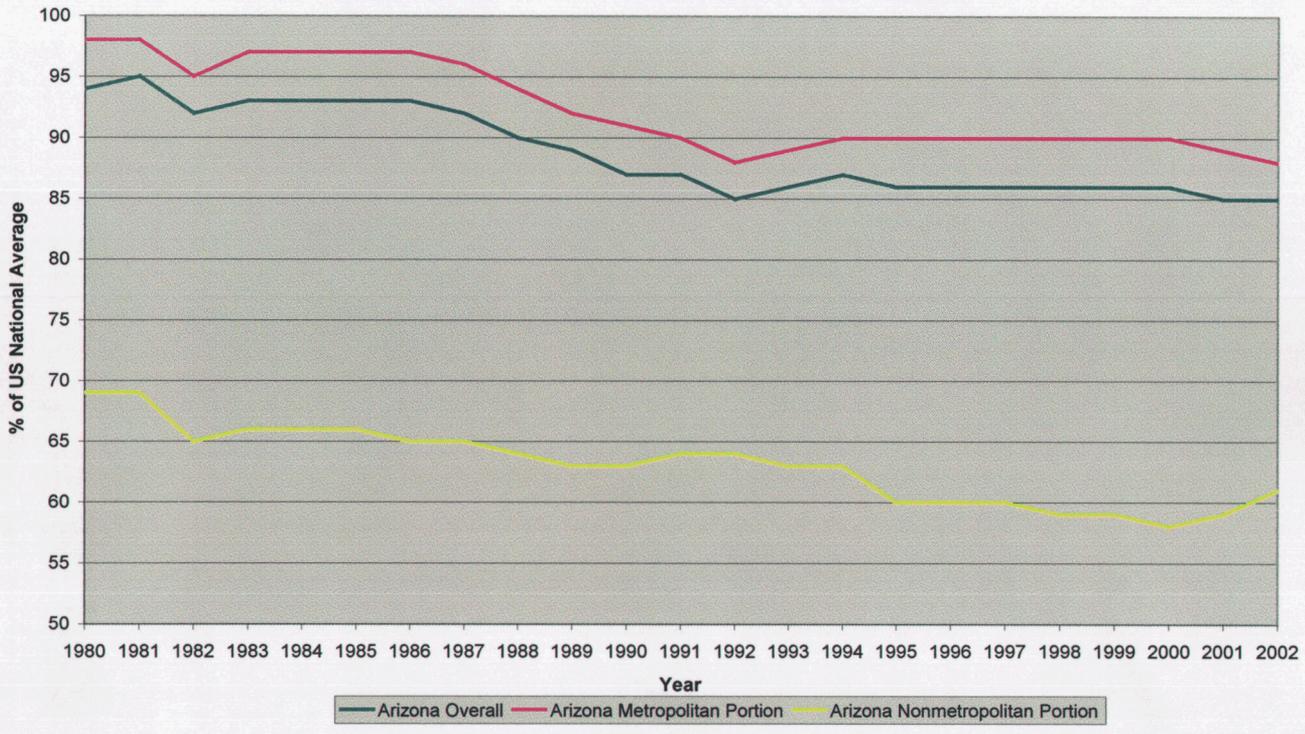
Throughout the testimonies of AEPCO, SWTC, and ACC staff, reference is made to a concept of increasing revenues while maintaining reasonable rates. However no significant efforts are present within the proceeding, that attempt to define reasonable rates. I will attempt to fill this deficiency in

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the following analysis. First consider the per capita income of Arizona since 1980 shown here in Chart

1. Data shown is taken from the U.S. Bureau of Economic Analysis available at www.bea.gov.

Chart 1. Arizona's Overall Per Capita Income (All Counties Combined)
(Source: US Bureau of Economic Analysis, www.bea.gov)



Several distinct conclusions may be drawn from Chart 1. First the income of Arizona Citizens has declined significantly from 1980 to the present. Second, there is a tremendous income gap present between the metropolitan and non-metropolitan portions of Arizona. Note that AEPCO and SWTC do not significantly serve the metropolitan areas of Arizona, rather they supply power to the smallest cooperatives throughout Arizona. Table 2 below provides a year 2000 perspective of the electric industry distribution of service throughout the state. Note that only one cooperative served by AEPCO and SWTC is listed, that being Sulphur Springs Valley Electrical Cooperative.

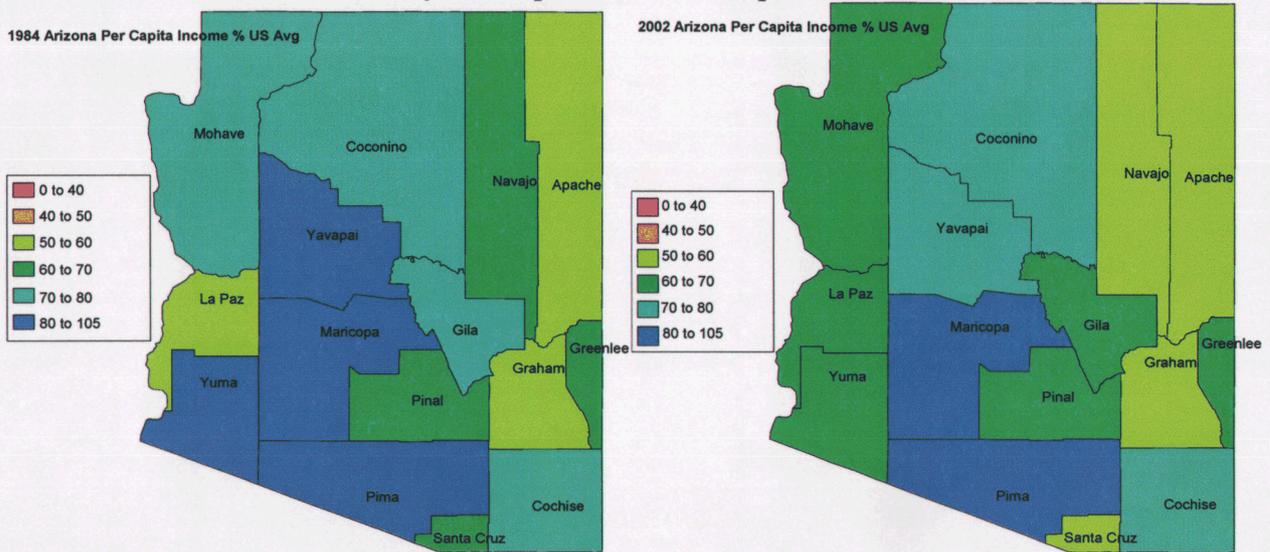
Table 2. Top 5 Arizona Electric Distribution Companies, Ranked by number of Customers in 2000*

Provider	Customers	Pct of State	Revenue (000 s)	Pct of State	Sales (000 kWh)	Pct of State	Average \$/kWh
Arizona Public Service	836,129	38%	1,803,321	42%	22,411,486	39%	\$0.0805
Salt River Project	715,714	33%	1,386,986	32%	21,446,691	37%	\$0.0647
Tucson Electric Power	338,705	16%	645,738	15%	7,927,544	14%	\$0.0815
Citizens Communications	70,622	3%	93,634	2%	1,052,596	2%	\$0.0890
Sulphur Springs Valley Electrical Cooperative	40,220	2%	47,647	1%	492,703	2%	\$0.0967
Balance of the state	174,805	8%	317,881	7%	4,769,626	8%	\$0.0666

*Source: Energy Information Administration, Form EIA-861, "Annual Electric Utility Report".

Given the very small number of customers of AEPCO and SWTC, it is highly unlikely that any major Arizona metropolis receives service/power from AEPCO and SWTC. Of the five AEPCO customers in Arizona, only SSVEC is identified in Table 2. Therefore, it may be concluded that AEPCO and SWTC primarily serve the non-metropolitan portions of Arizona. In this light, Chart 2 below presents the county based per capita income comparing 1984 vs. 2002 (source: U.S. Bureau of Economic Analysis).

Chart 2. County Per Capita Income Comparison 1984 vs. 2002



The year 1984 was chosen for comparison, being the year of the last increase request of AEPCO. Per capita income as compared to the U.S. average is a useful approach to identify the financial strength of the ratepayer. From Chart 2, almost all counties of Arizona experienced a significant drop in per

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1 capita income from 1984 to 2002. Maricopa and Pima, being the most metropolitan counties of this
2 State, managed to maintain their per capita income levels from 1984 to 2002. However from Chart 1,
3 it is clear that even those metropolitan regions suffered from significant decline over this same period.
4 From the above data, it is clear that today's ratepayer does not have the financial strength of the
5 ratepayer in 1984.

6 The definition of reasonable is a vital component of the ACC's function as defined in Article
7 15 Section 3 of the State Constitution stating;

8 "The Corporation Commission shall have full power to, and shall, prescribe just and reasonable
9 classifications to be used and just and reasonable rates and charges to be made and collected, by public
10 service corporations within the State for service rendered therein, and make reasonable rules,
11 regulations, and orders, by which such corporations shall be governed in the transaction of business
12 within the State"

13 Consider the State Supreme Court decision of 1979. *See Arizona Cmty. Action Ass'n v.*
14 *Arizona Corp. Comm'n* , 123 Ariz. 228, 231, 599 P.2d 184, 187 (1979). In deciding that the
15 Commission cannot authorize a utility to increase rates based solely on a decline on the return on a
16 utility's common stock, our supreme court explained the interests that must be considered when setting
17 rates:

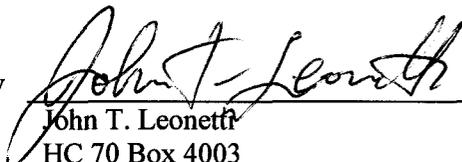
18 In determining what is a reasonable price to be charged for services by a public-service
19 corporation, an examination must be made not only from the point of view of the
20 corporation, but from that of the one served, also. A reasonable rate is not one
21 ascertained solely from considering the bearing of the facts upon the profits of the
22 corporation. The effect of the rate upon persons to whom services are rendered is as
23 deep a concern in the fixing thereof as is the effect upon the stockholders or
24 bondholders. A reasonable rate is one which is as possible to all whose interests are
25 involved.

26 Obviously, the ACC must exert diligent effort to establish the definition of reasonable, and apply that
27 definition to each and every rate case that comes before it. Where in the record of this case has the
ACC demonstrated this diligence? Given the ratepayer's decline in financial health from 1984 to the
present, how can the ACC justify a rate increase at this time? Moreover, how can the ACC set such

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high TIER, DSC and Equity Ratio targets knowing fully the significant unreasonable impact on already overburdened ratepayers? Despite Mr. Minson's testimony to the contrary, AEPCO has exhibited exceptional survival skills during very, very poor financial conditions of the past. Such historical achievements would indicate that AEPCO and SWTC would also survive if the ACC did not approve today's proposed rate increases. It is my position, as a ratepayer, that the ACC must not approve a rate increase for AEPCO and SWTC at this time. I must also state that if 20 years must pass between rate increase cases, and member rates have fallen 22% over 20 years, then perhaps the last increase was much too high, and therefore unreasonable for its time.

By 

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