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BEFORE THE ARIZONA CORPORATION COMMISSION

2005 MAY -9 P 3:28

COMMISSIONERS

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

AZ CORP COMMISSION  
DOCUMENT CONTROL

Arizona Corporation Commission

**DOCKETED**

MAY - 9 2005

DOCKETED BY	<i>KJ</i>
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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

**SWTC'S CLOSING BRIEF**

GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000

**INTRODUCTION**

The Southwest Transmission Cooperative, Inc. ("SWTC") submits this Closing Brief in support of its rate requests. The Arizona Electric Power Cooperative, Inc. ("AEPSCO") is filing a separate Closing Brief to assist in the preparation by the Administrative Law Judge of separate orders.

**BACKGROUND**

SWTC is a non-profit, transmission cooperative which commenced operations on August 1, 2001, following Commission approval of AEPSCO's restructuring in Decision No. 63868. It primarily provides wholesale transmission services to AEPSCO on behalf of its five all-requirements Class A member distribution cooperatives and to Mohave Electric Cooperative, Inc. Mr. Minson provides additional information on SWTC and its rate requests at pages 2-8 of his Direct Testimony (SWTC 1) and pages 4-5 of his Rebuttal Testimony (SWTC 2).

There are two primary reasons behind SWTC's need for rate relief. The first is necessary maintenance and upgrades of the transmission system—chief among these being the Winchester

1 Interconnect Project which was placed in service in May of 2004. Winchester was completed to  
2 enhance system reliability and provide for improved performance of the entire transmission  
3 system. It had a significant impact on SWTC's debt and total transmission plant. Winchester's  
4 \$15.7 million cost is about 20% of the Cooperative's total depreciated transmission plant.

5 However, the major reason for the requests is Morenci Water & Electric Company's  
6 ("MW&E") bypass of the SWTC transmission system. Last fall, MW&E, a wholly-owned  
7 subsidiary of the Phelps Dodge Corporation, completed facilities allowing it to directly  
8 interconnect to the TEP transmission system. MW&E stopped taking non-firm transmission  
9 service from SWTC on November 1, 2004 and has cancelled its firm transmission service  
10 agreement effective December 31, 2005. Those events represent a more than \$5 million dollar  
11 loss in transmission revenues—approximately 20% of SWTC's total adjusted test year operating  
12 revenues. Those revenues have been used by SWTC to reduce the overall costs which the  
13 distribution cooperatives and others have to pay for their use of the transmission system.

14 By a narrowing of issues through the testimony filing process, SWTC and Staff are in  
15 agreement on all revenue requirements and rate matters in this case. Attached hereto as  
16 Exhibits A and B are schedules which summarize those requests. SWTC estimates that the  
17 Phase 1 rates to take effect this summer would increase an average residential consumer's  
18 monthly bill by about \$1.45 and the Phase 3 and Phase 4 deferred requests would increase the  
19 average monthly bill by 22 cents over the next two years (HR TR, pp. 173-176, as corrected by  
20 the Errata Notice dated April 25, 2005.)

21 The two issues which SWTC and Staff disagree on are Staff's recommendations that:  
22 (1) the Commission establish in this Order an equity target of 30% and (2) SWTC prepare in  
23 future rate cases a cost of service study for the Anza Electric Cooperative, Inc., a small Class A  
24 member distribution cooperative located in south central California. Those issues are common to

1 both AEPCO and SWTC and have been addressed at pages 6-10 of AEPCO's Closing Brief. To  
2 avoid unnecessary repetition, that response is incorporated herein.

### 3 **SUMMARY OF REQUESTS**

#### 4 Revenue Requirements

5 Exhibit A hereto summarizes the revenue requirements, rate base and rate of return  
6 requests. Adjusted 2003 test year operating revenues were \$25,148,196 which produced an  
7 operating income of \$2,480,064 (Column A, Exhibit A). However, taking into account the loss  
8 of revenues occurring on December 31, 2005 upon cancellation of the MW&E firm transmission  
9 agreement, adjusted operating revenues drop to \$22,853,736 and operating income is only  
10 \$185,604 (Columns B, C and D, Exhibit A).

11 The recommended 29.08% increase in operating revenues of \$6,646,740 produces an  
12 operating TIER of 1.29 and DSC of 1.07 on a test year adjusted basis. This results in a requested  
13 8.95% rate of return on the adjusted rate base of \$76,345,655 (Column D, Exhibit A).

14 However, as discussed at hearing, SWTC requests that 14.5% or \$2,980,072 of the  
15 increase be deferred for implementation in three phases: (1) 11.5% on January 1, 2006 to  
16 compensate for the loss of the MW&E firm transmission service revenues at the end of this year,  
17 (2) 1.5% on July 1, 2006, and (3) 1.5% on July 1, 2007—the latter 1.5% deferred requests are  
18 designed to address Staff's concerns that the SWTC Phase 1 request is not adequate to allow  
19 SWTC "to service its current outstanding debt, finance future capital projects, and improve its  
20 equity position" (Ramirez Surrebuttal, S-14, p. 2, ll. 8-9).

21 As Mr. Minson testified, these requests are reasonable and adequate TIER, DSC and rate  
22 of return levels given the circumstances of this case (HR TR, p. 104, ll. 16-20). Similarly,  
23 Mr. Edwards testified that if approved by the Commission the requests would allow SWTC to  
24

1 continue to qualify for borrowing from the Rural Utilities Service and the National Rural  
2 Utilities Cooperative Finance Corporation (HR TR, p. 38, ll. 17-21).

3 Rates

4 Assuming the Commission enters its Order in this case in June, attached as Exhibit B is a  
5 summary of requested rates and the proposed timing of their implementation. The increases are  
6 staged in phases:

7 1. Column A sets forth the rates which SWTC asks that the Commission authorize  
8 on July 1, 2005. They produce an operating TIER and DSC of 1.16 and 1.02, respectively.

9 2. Column B sets forth the rates which SWTC asks that the Commission authorize  
10 for implementation on January 1, 2006. They are designed to compensate for the large loss of  
11 MW&E transmission revenues occurring upon cancellation of its firm transmission service  
12 agreement on December 31, 2005. They simply return SWTC to the authorized TIER, DSC and  
13 rate of return levels based on the 2003 test year results as indicated in Columns A and B of  
14 Exhibit A.

15 3. Finally, Columns C and D set forth the rates which SWTC asks that the  
16 Commission authorize for implementation on July 1, 2006 and 2007, respectively. The deferred  
17 1.5% increases are designed to address Staff's concerns that the Cooperative's current requests  
18 are not adequate to support current and future financing requests and to improve its equity  
19 structure.

20 The requests are phased to minimize to the maximum extent possible the impact of  
21 increases on SWTC's members and their retail owners. They stabilize SWTC's current financial  
22 condition in light of the large loss of MW&E non-firm revenues last November and address the  
23 additional large loss of revenues at the end of this year when the cancellation of the MW&E firm  
24 transmission service agreement takes effect. Finally, they provide small incremental increases

1 over the next two years to address current and future debt financing needs and equity  
2 improvement concerns.

3 **CONCLUSION**

4 SWTC requests that the Commission promptly enter its Order authorizing the revenue  
5 requirements and rate requests described above. As discussed in AEPCO's Closing Brief,  
6 SWTC requests that the Commission take no action concerning equity levels in this Order.  
7 SWTC will prepare and file an equity analysis as Staff has recommended by March 31, 2006.  
8 The Commission and the parties can address that subject in SWTC's next rate case. Finally, the  
9 Cooperative requests that it not be required to file a separate cost of service study for the Anza  
10 Electric Cooperative in its next rate case for the reasons discussed in AEPCO's Closing Brief.

11 DATED this 9<sup>th</sup> day of May, 2005.

12 GALLAGHER & KENNEDY, P.A.

13  
14 By   
15 Michael M. Grant  
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18 **Original and fifteen** copies filed  
19 this 9<sup>th</sup> day of May, 2005, with:

20 Docket Control  
21 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

1 **Copy** of the foregoing faxed and  
mailed this 9<sup>th</sup> day of May, 2005, to:

2 Administrative Law Judge Jane L. Rodda  
3 Hearing Division  
4 Arizona Corporation Commission  
400 West Congress  
Tucson, Arizona 85701-1347  
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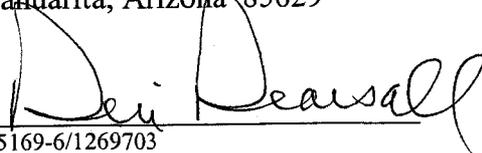
6 **Copies** of the foregoing mailed  
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**EXHIBIT A**

# Southwest Transmission Cooperative, Inc.

Docket No. E-04100A-04-0527

Test Year Ended December 31, 2003

## REVENUE REQUIREMENT - COMPANY FINAL POSITION

LINE NO.	DESCRIPTION	[A] COMPANY FINAL POSITION PHASE 1	[B] COMPANY FINAL POSITION PHASE 2	[C] COMPANY FINAL POSITION PHASE 3	[D] COMPANY FINAL POSITION PHASE 4
1	Adjusted Operating Income (Loss)	\$ 2,480,064	\$ 185,604	\$ 185,604	\$ 185,604
2	Depreciation and Amortization	\$ 4,144,985	\$ 4,144,985	\$ 4,144,985	\$ 4,144,985
3	Income Tax Expense	-	-	-	-
4	Interest Expense on Long-term Debt	\$ 5,302,088	\$ 5,302,088	\$ 5,302,088	\$ 5,302,088
5	Principal Repayment	\$ 7,358,610	\$ 7,358,610	\$ 7,358,610	\$ 7,358,610
6	Recommended Increase in Operating Revenue	\$ 3,666,668	\$ 5,961,128	\$ 342,806	\$ 342,806
7	Percent Increase (Line 6 / Line 10)	14.58%	26.08% (1)	1.50%	1.50%
8	Network Service and Other Revenue	\$ 25,148,196	\$ 22,853,736	\$ 22,853,736	\$ 22,853,736
9	Regulatory Asset Charge ("RAC")	\$ -	\$ -	\$ -	\$ -
10	Adjusted Test Year Operating Revenue	\$ 25,148,196	\$ 22,853,736	\$ 22,853,736	\$ 22,853,736
11	Total Annual Operating Revenue	\$ 28,814,864	\$ 28,814,864	\$ 29,157,670	\$ 29,500,476
12	Margins Before Interest on Long Term Debt	\$ 6,146,732	\$ 6,146,732	\$ 6,489,538	\$ 6,832,344
13	Net Margin	\$ 893,486	\$ 893,486	\$ 1,236,292	\$ 1,579,098
14a	Regulatory Asset Charges:				
14b	Normalized RAC Revenue	\$ 2,559,926	\$ 2,559,926	\$ 2,559,926	\$ 2,559,926
14c	Normalized RAC Expense	\$ 2,559,926	\$ 2,559,926	\$ 2,559,926	\$ 2,559,926
14d	Net Normalized RAC Margin	\$ -	\$ -	\$ -	\$ -
15	Total Operating Revenue and RAC Margins	\$ 6,146,732	\$ 6,146,732	\$ 6,489,538	\$ 6,832,344
16	Staff Operating TIER (L3+L12+L14b) / L4	1.16	1.16	1.22	1.29
17	Staff Operating DSC (L2+L3+L12+14b)/(L4+L5)	1.02	1.02	1.04	1.07
18	Adjusted Rate Base	\$ 76,345,655	\$ 76,345,655	\$ 76,345,655	\$ 76,345,655
19	Rate of Return (L12 / L20)	8.05%	8.05%	8.50%	8.95%

(1) Includes the effect of the Company Phase 1 Column [A] increase of 14.58%

**EXHIBIT B**

# Southwest Transmission Cooperative, Inc.

Docket No. E-01773A-04-0527  
Test Year Ended December 31, 2003

## SUMMARY OF PROPOSED RATES - COMPANY FINAL POSITION

Line No.	Description	[A] July 1, 2005		[B] January 1, 2006		[C] July 1, 2006		[D] July 1, 2007	
		Company Final Position Phase 1	Company Final Position Phase 1	Company Final Position Phase 2	Company Final Position Phase 2	Company Final Position Phase 3	Company Final Position Phase 3	Company Final Position Phase 4	Company Final Position Phase 4
<b>Proposed Effective Dates (1)</b>									
1	Network Transmission Service:								
2	Transmission Rate - \$/Month	\$ 1,420,722	\$	\$ 1,566,081	\$	\$ 1,587,088	\$	\$ 1,608,258	
3	Ancillary Services:								
4	Schedule 1: System Control and Load Dispatch - \$/kW Mon.	\$ 0.289	\$	\$ 0.289	\$	\$ 0.289	\$	\$ 0.289	
5	Schedule 2: Cost of Reactive Power (VAR) Production - \$/kW Mon.	\$ 0.095	\$	\$ 0.107	\$	\$ 0.113	\$	\$ 0.120	
6	Schedule 3: Regulation and Frequency Response - \$/kW Mon.	\$ 0.453	\$	\$ 0.453	\$	\$ 0.463	\$	\$ 0.472	
7	Schedule 4: Energy Imbalance - \$/MWh	\$ 20.40	\$	\$ 20.40	\$	\$ 20.40	\$	\$ 20.40	
8	Schedule 5: Operating Reserves - Spinning - \$/kW Mon.	\$ 0.685	\$	\$ 0.685	\$	\$ 0.699	\$	\$ 0.713	
9	Schedule 6: Operating Reserves - Supplemental - \$/kW Mon.	\$ 0.442	\$	\$ 0.442	\$	\$ 0.451	\$	\$ 0.461	
10	Point-to-Point								
11	Firm Point-to-Point Rate - \$/ kW Month	\$ 3.022	\$	\$ 3.334	\$	\$ 3.379	\$	\$ 3.423	
12	Non-Firm Point-to-Point Rate - \$/ kW Month	\$ 3.022	\$	\$ 3.334	\$	\$ 3.379	\$	\$ 3.423	
12b	Point-to-Point Rate (MWE 60 MW Firm) - \$/ kW Month	\$ 3.004	\$	\$ -	\$	\$ -	\$	\$ -	
12c	Point-to-Point Rate (City of Thatcher Firm) - \$/ kW Month	\$ 2.605	\$	\$ 2.878	\$	\$ 2.923	\$	\$ 2.968	
13	Ancillary Services:								
14	Schedule 1: System Control and Load Dispatch - \$/kW Mon.	\$ 0.289	\$	\$ 0.289	\$	\$ 0.289	\$	\$ 0.289	
15	Schedule 2: Cost of Reactive Power (VAR) Production - \$/kW Mon.	\$ 0.076	\$	\$ 0.083	\$	\$ 0.089	\$	\$ 0.094	
16	Schedule 3: Regulation and Frequency Response - \$/kW Mon.	\$ 0.453	\$	\$ 0.453	\$	\$ 0.463	\$	\$ 0.472	
17	Schedule 4: Energy Imbalance - \$/MWh	\$ 20.40	\$	\$ 20.40	\$	\$ 20.40	\$	\$ 20.40	
18	Schedule 5: Operating Reserves - Spinning - \$/kW Mon.	\$ 0.685	\$	\$ 0.685	\$	\$ 0.699	\$	\$ 0.713	
19	Schedule 6: Operating Reserves - Supplemental - \$/kW Mon.	\$ 0.442	\$	\$ 0.442	\$	\$ 0.451	\$	\$ 0.461	

(1) Proposed effective dates are based upon the assumption that the Commission will act upon the proposed Order in this proceeding at the June 2005 Open Meeting.