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BEFORE THE ARIZONA CORPORATION COMMISSION

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3 JEFF HATCH-MILLER
4 Chairman
5 WILLIAM A. MUNDELL
6 Commissioner
7 MARC SPITZER
8 Commissioner
9 MIKE GLEASON
10 Commissioner
11 KRISTIN K. MAYES
12 Commissioner
13

14
15 IN THE MATTER OF THE APPLICATION
16 OF ARIZONA ELECTRIC POWER
17 COOPERATIVE, INC. FOR A RATE
18 INCREASE

DOCKET NO.E-01773A-04-0528

19
20 IN THE MATTER OF THE
21 APPLICATION OF SOUTHWEST
22 TRANSMISSION COOPERATIVE, INC.
23 FOR A RATE INCREASE.

DOCKET NO. E-04100A-04-0527

NOTICE OF FILING OF TESTIMONY SUMMARIES

24
25 Staff hereby provides notice of filing the summaries of testimony for Staff Witnesses,
26 Barbara Keene, Erin Casper, Alejandro Ramirez, Crystal Brown, and Jerry D. Smith.

27 RESPECTFULLY SUBMITTED this 12 day of April 2005.

28
29 Timothy J. Sabo
30 Attorney, Legal Division
31 Arizona Corporation Commission
32 1200 West Washington Street
33 Phoenix, Arizona 85007
34 (602) 542-3402

Arizona Corporation Commission

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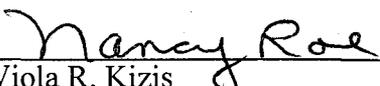
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WITNESS SUMMARY
Testimony of Barbara Keene
Arizona Electric Power Cooperative, Inc.
Docket No. E-01773A-04-0528

Ms. Keene's testimony recommends that a fuel and purchased power cost adjustor be established for AEPCO but only with certain features and conditions. The base cost of fuel and purchased power be set at \$0.01687 per kWh for full requirements customers and \$0.01603 per kWh for the partial requirements customer.

Ms. Keene's testimony recommends that AEPCO engage in cost-effective DSM programs. AEPCO should be allowed to recover its program costs for pre-approved DSM projects through a DSM adjustment mechanism. AEPCO should submit annual and quarterly DSM reports to the Commission.

Ms. Keene's testimony recommends new rates for AEPCO in order for AEPCO to recover Staff's recommended revenue requirements. These rates would result in an overall increase for Class A members of 10.9 percent. Mohave Electric's increase would be 15.5 percent, while the increase for the other distribution cooperatives would range from 8.6 to 8.9 percent each.

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WITNESS SUMMARY
Testimony of Alejandro Ramirez
Arizona Electric Power Cooperative, Inc.
Docket No. E-01773A-04-0528

The testimony of Staff witness Mr. Alejandro Ramirez's addresses Arizona Electric Power Cooperative, Inc.'s ("AEPCO" or "Applicant") recommended operating income, APECO's times interest earned ("TIER") and debt service coverage ("DSC") ratios that result from of the recommended operating income and the Applicant's capital structure.

Operating Income – Staff recommends operating revenues no less than the \$148,397,723 proposed by AEPCO.

TIER and DSC Ratios – AEPCO's proposed revenues would provide a TIER of 1.50 and a DSC ratio of 0.99. The Applicant's proposed revenue fails to provide sufficient internally generated operating cash flow to meet its debt service obligations.

Capital Structure – Staff recommends that the Applicant improve its equity position to 30 percent of the capital structure in a reasonable timeframe.

Staff also recommends that the Commission adopt a patronage distribution restriction for AEPCO that is no less restrictive than the Applicant's existing debt covenants.

Staff further recommends that the Commission require AEPCO to file another rate case within five (5) years after the effective date of a decision in this proceeding.

1 **WITNESS SUMMARY**
2 Testimony of Crystal Brown
3 Arizona Electric Power Cooperative, Inc.
4 Docket No. E-01773A-04-0528

5 I will appear on behalf of the Arizona Corporation Commission Staff and will testify
6 concerning Staff's position and recommendations regarding Arizona Electric Power Cooperative,
7 Inc.'s ("AEPSCO") application for a permanent rate increase in the areas of rate base, operating
8 income, and revenue requirement. My testimony is summarized below:

9 Staff recommends total annual operating revenue of no less than that proposed by AEPSCO,
10 which is \$148,397,723, an increase of \$9,477,998, or 6.82 percent, over Staff adjusted Test Year
11 revenues of \$138,919,725. The recommended revenue would produce an operating margin of
12 \$19,903,441 for a 10.50 percent rate of return on the original cost and fair value rate base of
13 \$189,637,810 to provide a 1.50 times interest earned ratio ("TIER") and a 0.99 debt service
14 coverage ratio ("DSC").
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WITNESS SUMMARY
Testimony of Jerry D. Smith
Arizona Electric Power Cooperative, Inc.
Docket No. E-01773A-04-0528

Commission witness, Jerry D. Smith's direct testimony deals solely with Arizona Electric Power Cooperative's ("AEPCO") rate based utility plant. AEPCO adjusted its 2003 rate based utility plant to include a coal blending facility constructed following the test-year but preceding its July 2004 rate application. The justification of need for all AEPCO rate based utility plant constructed since October 2002 is addressed in Mr. Smith's testimony. Mr. Smith also reaffirms the justification of need for such facilities established in prior Commission proceedings. His testimony concludes that all utility plant contained in AEPCO's rate application is used and useful.

1 **WITNESS SUMMARY**
2 Testimony of Erin Casper
3 Southwest Transmission Cooperative, Inc.
4 Docket No. E-04100A-04-0527

5 Ms Casper's testimony will address Staff's cost allocation and rate recommendations for
6 Southwest Transmission Cooperative's ("Southwest" or "Southwest Transmission" or
7 "Cooperative") application for a general rate increase. In particular, Ms Casper will explain the
8 calculation of the point-to-point and network transmission rates, ancillary service rates, and
9 adjustments to recognize certain grandfathered and discounted point-to-point contracts. Ms
10 Casper's testimony will also describe the process by which ancillary services are offered to
11 customers by Southwest via Arizona Electric Power Cooperative ("AEPSCO").

12 Southwest has requested that the Commission authorize initial rates to be effective through
13 December 31, 2005 followed by a second set of rates to reflect the termination of the MW&E 60
14 MW firm point-to-point contract to be effective beginning January 1, 2006. Staff has
15 recommended that the Commission approve a rate phase-in plan.

16 Ms Casper's testimony will provide Staff's rate recommendations using Staff's
17 recommended revenue requirement to be effective through December 31, 2005. Her testimony
18 will also provide a second set of recommended rates consistent with Staff's recommendation that,
19 effective January 1, 2006, Southwest's rates should increase to reflect the loss of revenue resulting
20 from the termination of the Morenci Water & Electric 60 MW firm point-to-point contract. Both
21 sets of recommended rates are designed to recover Staff's recommended revenue requirement of
22 \$28,814,864.

23 Finally, Ms. Casper will address Staff's recommendation that the Commission require
24 Southwest to provide annual status reports that detail how much revenue has been collected
25 through the RAC since December, 1999. The report should detail the billing kWh, RAC rate, and
26 revenues collected through the RAC by Class A member, by year. Southwest should file the report
27 on February 1 of each year beginning February 1, 2006. Staff has also recommended that the
28 Commission order that Southwest discontinue the assessment of the Regulatory Asset Charge at
such time as it has collected the full \$21,849,000 regardless of whether that event coincides with

1 the projected schedule set forth in Decision No. 62758.

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WITNESS SUMMARY
Testimony of Alejandro Ramirez
Southwest Transmission Cooperative, Inc.
Docket No. E-04100A-04-0527

The testimony of Staff witness Mr. Alejandro Ramirez's addresses Southwest Transmission cooperative, Inc.'s ("SWTCO" or "Applicant") recommended operating income, SWTCO's times interest earned ("TIER") and debt service coverage ("DSC") ratios that result from the recommended operating income and the Applicant's capital structure.

Operating Income – Staff recommends operating revenues no less than the \$28,814,864 proposed by SWTCO.

TIER and DSC Ratios – SWTCO's proposed revenues and the Regulatory Asset Charge ("RAC") would provide a TIER of 1.64 and a DSC ratio of 1.02. The Applicant's proposed revenue barely provides sufficient internally generated cash flow to meet its debt service obligations.

Capital Structure – Staff recommends that the Applicant improve its equity position to 30 percent of the capital structure in a reasonable timeframe.

Staff also recommends that the Commission adopt a patronage distribution restriction for SWTCO that is no less restrictive than the Applicant's existing debt covenants.

Staff further recommends that the Commission require SWTCO to file another rate case within five (5) years of the effective date of a decision in this proceeding.

WITNESS SUMMARY
Testimony of Jerry D. Smith
Southwest Transmission Cooperative, Inc.
Docket No. E-04100A-04-0527

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5 Commission witness, Jerry D. Smith's direct testimony deals solely with Southwest
6 Transmission Cooperative's ("SWTC") rate based utility plant. SWTC adjusted its 2003 rate
7 based utility plant to include a Winchester Transmission Project constructed following the test-
8 year but preceding its July 2004 rate application. The justification of need for all SWTC rate based
9 utility plant constructed since October 2002 is addressed in Mr. Smith's testimony. Mr. Smith also
10 reaffirms the justification of need for such facilities established in prior Commission proceedings.
11 His testimony concludes that all utility plant contained in SWTC's rate application is used and
12 useful.
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