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BEFORE THE ARIZONA CORPORATION COMMISSION

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JUL 06 2005

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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 EXCEPTIONS TO
RECOMMENDED OPINION
AND ORDER**

GALLAGHER & KENNEDY, P.A.
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PHOENIX, ARIZONA 85016-9225
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Southwest Transmission Cooperative, Inc. ("SWTC" or the "Cooperative") submits these exceptions to the Recommended Opinion and Order ("ROO") pertaining to its case filed in these consolidated matters on June 27, 2005. The Arizona Electric Power Cooperative, Inc. ("AEPSCO") is also submitting separate exceptions on the ROO pertaining to its case.

SWTC supports the ROO and appreciates the efforts of both the Administrative Law Judge and the Utilities Division Staff ("Staff") in processing its rate case. Commission adoption of the ROO and implementation of the phased rates will allow the Cooperative (1) to address the substantial loss of revenues which has already occurred and which will increase on December 31 as a result of the Morenci Water & Electric Company bypass of the SWTC transmission system and (2) to remain in compliance with the requirements of its mortgage documents. These exceptions seek to clarify one issue and modify one other in the ROO.

Equity Improvement Analysis

Based upon the discussion in Findings 34-39, the ROO orders SWTC to file by March 31, 2006 an equity improvement analysis (ROO, Ordering Paragraph, p. 11, ll. 9-10).

1 SWTC supports that requirement and will perform that analysis. As discussed at time of hearing,
2 the Cooperative agrees that building equity over time is an important factor. The question,
3 therefore, is not “whether,” but rather “how much and how fast.” The analysis will provide
4 SWTC, Staff and the Commission important information to answer that question.

5 Finding 38 of the ROO discusses issues concerning the equity analysis which AEPCO
6 Class A partial-requirements member Mohave Electric Cooperative, Inc. (“Mohave”) raised for
7 the first time in its Closing Brief. Finding 39 then instructs “that the equity improvement plan
8 should also address an analysis of the effect of the equity improvement on partial [as] well as full
9 requirements members.” (ROO, p. 9, ll. 11-13.) As discussed at hearing, the Cooperative will
10 conduct a thorough analysis of all equity issues—involving in that review its lenders, its Board
11 and its members. Mohave, of course, will be part of that process and will have a full opportunity
12 to raise these issues and any others. However, while no amendment of the ROO is necessary, for
13 record purposes, SWTC does want to make it clear that it does not agree with Mohave’s
14 assertions that equity improvement impacts or benefits members differently.

15 **Anza Cost of Service Study**

16 Findings 40-45 discuss Staff’s recommendation that the Commission should order
17 SWTC to file jurisdictionally separated information for the Anza Electric Cooperative, Inc.
18 (“Anza”) in its next rate case. Anza is a small distribution cooperative in south central California
19 which has been a member on the AEPCO system for more than 25 years. In the four rate cases
20 conducted since it became a member, AEPCO and now SWTC have not filed separate cost of
21 service information for Anza. Finding 45 does not grant Staff’s request, but instead allows
22 SWTC to request a waiver of the separation requirement of R14-2-103(B)(4) in its next rate case.
23
24

1 **Original and fifteen copies** of the foregoing
filed this 6th day of July, 2005, with:

2
3 Docket Control
4 Arizona Corporation Commission
1200 West Washington
5 Phoenix, Arizona 85007

6 **Two copies** of the foregoing delivered
this 6th day of July, 2005, to:

7 Chairman Jeff Hatch-Miller
8 Arizona Corporation Commission
1200 West Washington
9 Phoenix, Arizona 85007

10 Commissioner William A. Mundell
11 Arizona Corporation Commission
1200 West Washington
13 Phoenix, Arizona 85007

14 Commissioner Marc Spitzer
15 Arizona Corporation Commission
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16 Phoenix, Arizona 85007

17 Commissioner Mike Gleason
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20 Commissioner Kristin K. Mayes
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1200 West Washington
22 Phoenix, Arizona 85007

23 **Copy** of the foregoing delivered
this 6th day of July, 2005, to:

24 Timothy J. Sabo
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Phoenix, Arizona 85007

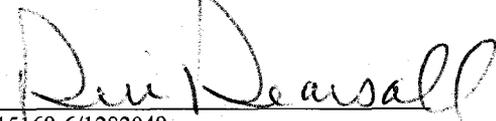
1 **Copies** of the foregoing mailed/faxed*
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EXHIBIT A

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 MARC SPITZER
Chairman
3 WILLIAM A. MUNDELL
Commissioner
4 JEFF HATCH-MILLER
Commissioner
5 MIKE GLEASON
Commissioner
6 KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

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8 IN THE MATTER OF SOUTHWEST
TRANSMISSION COOPERATIVE, INC. -
9 WAIVER REQUEST CONCERNING
10 CERTAIN COST OF SERVICE STUDY
REQUIREMENTS

DOCKET NO. E-04100A-04-0356

DECISION NO. 67216

ORDER

12 Open Meeting
13 August 19, 2004
14 Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 1. Southwest Transmission Cooperative, Inc. ("Southwest" or "Company") is
18 certificated to provide electric service as a public service corporation in the State of Arizona.

19 2. On May 10, 2004, Southwest filed a waiver request concerning certain cost of
20 service study requirements.

21 Background

22 3. The Decision in Arizona Electric Power Cooperative's ("AEPCO") last rate case
23 (Decision No. 58405, September 3, 1993) ordered AEPCO to conduct a fully allocated embedded
24 cost-of-service study in conjunction with its next rate filing.

25 4. Decision No. 63868 (July 25, 2001) approved the restructuring of AEPCO,
26 including the transfer of transmission assets to Southwest. The Decision ordered that AEPCO and
27 Southwest file an "informational submission" to the Utilities Director within 35 months of the date
28 of closing.

1 5. Decision No. 65367 (November 4, 2002) approved Southwest's Open Access
2 Transmission Tariff ("OATT"). This Decision clarifies that Decision No. 63868 ordered AEPCO
3 and Southwest to file rate case and cost of service informational submissions with the Director by
4 July 1, 2004. The filings would contain all information outlined in A.A.C. R14-2-103. A.A.C.
5 R14-2-103 requires Class A utilities to file cost of service information when costs incurred by the
6 utility are likely to vary significantly from one defined segment of customers to another.
7 Southwest is a Class A utility.

8 6. Southwest filed a rate case application on July 23, 2004, in Docket No. E-04100A-
9 04-0527. A.A.C. R14-2-103 requires Staff to determine the sufficiency of a utility's rate case
10 application within 30 days after receipt of the filing.

11 Southwest's Request for Waiver

12 7. On May 10, 2004, Southwest filed a request for a waiver of the fully allocated,
13 embedded cost of service study requirement in relation to its rate case filing. Instead, Southwest
14 has filed schedules reflecting the cost of service method employed in its current OATT.

15 8. In its request, Southwest explains that AEPCO has always had uniform rates for its
16 Class A member distribution cooperatives. These distribution cooperatives represent one class of
17 customers, consistent with the reason why generation and transmission ("G&T") systems were
18 formed. Direct Assignment Facilities ("DAF") are facilities built to benefit only one distribution
19 cooperative. Southwest anticipated in its rate filing to grandfather DAF constructed prior to
20 September 30, 1999. DAF constructed after that date would be directly assigned to individual
21 distribution cooperatives.

22 9. Southwest requests a waiver of the requirement to submit a cost of service study
23 because: (1) a cost of service study is not wanted by the distribution cooperatives; (2) it would be
24 expensive (\$150,000-\$200,000); (3) because of the age of facilities and the state of property
25 records, a study could not be performed with any degree of reliability; (4) rate shock would result
26 from shifting costs among distribution cooperatives; (5) fully allocated, embedded cost of service
27 rates would complicate retail access; (6) Commission approval of differentiated transmission rates
28 would necessitate redrafting the OATT, transmission service agreements, and a new Federal

1 Energy Regulatory Commission ("FERC") "safe harbor" filing; and (7) FERC may not approve the
2 new rates.

3 10. Without addressing the validity of all of Southwest's claims, Staff supports
4 Southwest's request for a waiver of the filing of a fully allocated, embedded cost of service study.
5 Cost of service information by distribution cooperative is unnecessary. However, Staff's support
6 of the waiver is conditioned on Southwest providing some additional information. That
7 information is: (1) costs for ancillary services, broken down by FERC-defined types of ancillary
8 service; and (2) a breakdown of DAF cost allocations and the associated charges for transmission
9 construction, by distribution cooperative. Staff has discussed this needed information with the
10 Company, and the Company has agreed to provide it.

11 11. Therefore, Staff has recommended that the Commission grant a waiver of the filing
12 of a fully allocated, embedded cost of service study, but that the additional information requested
13 by Staff in Findings of Fact No. 10 be provided as a condition of sufficiency of Southwest's rate
14 case application.

15 12. Staff also recommends that the Commission retroactively extend the deadline for
16 Southwest's rate informational filing from July 1, 2004 to July 23, 2004.

17 CONCLUSIONS OF LAW

18 1. Southwest is an Arizona public service corporation within the meaning of Article
19 XV, Section 2, of the Arizona Constitution.

20 2. The Commission has jurisdiction over Southwest and over the subject matter of the
21 application.

22 3. The Commission, having reviewed the application and Staff's Memorandum dated
23 August 9, 2004, concludes that it is in the public interest to approve the application.

24 4. It is also in the public interest to retroactively extend the deadline for Southwest's
25 rate informational filing from July 1, 2004 to July 23, 2004.

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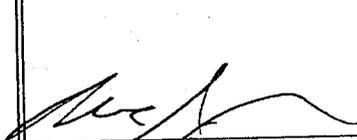
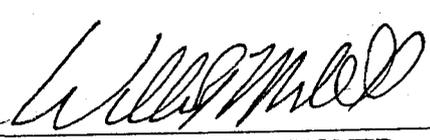
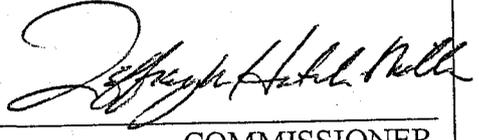
ORDER

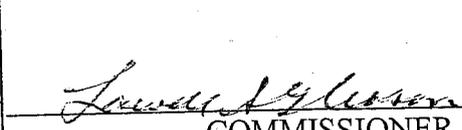
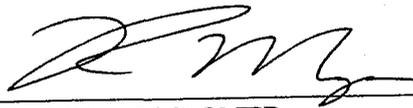
THEREFORE, IT IS ORDERED that Southwest Transmission Cooperative, Inc., be granted a waiver of the requirement to file a fully allocated, embedded cost of service study with the condition that Southwest Transmission Cooperative, Inc., provide the information listed in Findings of Fact No. 10.

IT IS FURTHER ORDERED that the deadline for Southwest's rate informational filing is retroactively extended to July 23, 2004.

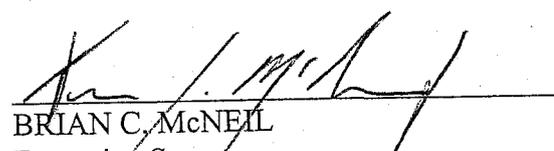
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

		
CHAIRMAN	COMMISSIONER	COMMISSIONER

	
COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 24th day of August, 2004.


BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:BEK:lhm\TS

1 SERVICE LIST FOR: Southwest Transmission Cooperative, Inc.
2 DOCKET NOS. E-04100A-04-0356

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