



0000025865

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

OCT 06 2003

COMMISSIONERS

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

DOCKETED BY [nr]

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. FOR A RATE INCREASE.

DOCKET NO. E-01749A-02-0701

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF LONG-TERM DEBT.

DOCKET NO. E-01749A-02-0926

DECISION NO. 66382

OPINION AND ORDER

DATE OF HEARING: August 14, 2003
PLACE OF HEARING: Tucson, Arizona
ADMINISTRATIVE LAW JUDGE: Jane L. Rodda
APPEARANCES: Mr. Russ Barney and Mr. Steve Lines; on behalf of Applicant; and
Mr. David Ronald, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

- 1. On September 13, 2002, Graham County Electric Cooperative, Inc. ("GCE" or "Cooperative") filed with the Arizona Corporation Commission ("Commission") an application for rate increase.
- 2. On October 11, and October 28, 2002, the Commission's Utilities Division Staff ("Staff") notified the Cooperative that its rate application was not sufficient.
- 3. In response to Staff's request for additional information, GCE supplemented its application on October 18, 2002 and November 1, 2002.

1 4. On November 22, 2002, Staff filed a letter indicating the Company's rate application
2 was sufficient and classifying the Company as a Class A utility.

3 5. Our Procedural Order dated December 16, 2002, provided the form of notice,
4 established a schedule for filing testimony and set the matter for hearing.

5 6. On December 24, 2002, GCE filed an application for approval to borrow \$10.8 million
6 in long-term debt from the National Rural Utilities Cooperative Finance Corporation ("CFC").

7 7. GCE published notice of the financing application on December 18, 2002.

8 8. On March 3, 2002, Staff filed its Staff Report for the financing application. Staff
9 recommended that GCE be given authority to borrow up to \$7.0 million because its current earnings
10 were not sufficient to support the larger request.

11 9. Staff filed testimony in the rate proceeding on May 21, 2003, recommending
12 different rates than originally proposed by the Cooperative.

13 10. On July 11, 2003, the Administrative Law Judge issued a Procedural Order seeking
14 input on whether the matters should be consolidated and whether the March 3, 2003 Staff Report on
15 the financing request should be updated based on Staff's later recommendation the rate proceeding.

16 11. On July 18, 2003, Staff filed its position in response to the July 11, 2003 Procedural
17 Order, and agreed that it was in the public interest to consider both the rate and finance matters at the
18 August 14, 2003 hearing.

19 12. On July 25, 2003, Staff filed an Addendum to its Staff Report in the financing matter,
20 and recommended that GCE be given authority to borrow \$10.8 million contingent upon
21 Commission approval of total revenue no less than Staff recommends in the pending rate proceeding.

22 13. Pursuant to the December 16, 2002 Procedural Order, a pre-hearing conference
23 convened on August 6, 2003. During the pre-hearing conference, the Administrative Law Judge
24 consolidated the two matters. At that time, the Cooperative indicated it had no opposition to Staff's
25 position in either the rate or the financing applications.

26 14. Following the August 6, 2003 pre-hearing conference, the Cooperative discovered that
27 it had inadvertently neglected to send notice of the hearing to its members as required by the
28 December 16, 2002 Procedural Order.

1 15. On August 6, 2003, the Administrative Law Judge issued a Procedural Order that
2 required GCE to send notice of the hearing to its members by August 8, 2003 and extended the
3 opportunity for a party to intervene and request the hearing be re-opened until August 29, 2003.

4 16. On August 11, 2003, GCE provided documentation that it mailed the notice set forth
5 in the August 6, 2003 Procedural Order to each of its members on August 7, 2003.

6 17. The hearing convened as scheduled on August 14, 2003, in Tucson, Arizona.

7 18. GCE was formed in 1944 and is a certificated Arizona-based non-profit rural electric
8 distribution cooperative. It provides electric service to approximately 8,700 customers in Graham
9 County, Arizona.

10 19. GCE's current rates were set in Decision No. 61795 (June 29, 1999).

11 20. In the Test Year ended December 31, 2001 ("Test Year" or "TY"), GCE's rate
12 application indicates that it incurred an operating margin before interest on long term debt of \$45,634
13 and a net margin deficit of \$585,868, resulting in a TIER ("Times Interest Earned Ratio") of 0.29.
14 After Staff's adjustments to TY revenue and expenses, Staff determined the Cooperative earned an
15 operating margin of \$597,643 and a net margin of \$60,861, resulting in a TIER of 0.84 and DSC
16 ("Debt Service Coverage") of 1.49, and a 4.19 percent rate of return on Staff's adjusted Original Cost
17 Rate Base ("OCRB").¹

18 21. In its rate application, GCE requested revenues sufficient to provide a TIER of 1.5.
19 The Cooperative proposed a \$994,603, or 9.81 percent, revenue increase from \$10,139,344 to
20 \$11,133,947. The proposed revenue increase would produce an operating margin of \$1,040,237 and
21 a net margin of \$410,734, for a 6.38 percent rate of return on an original cost rate base of
22 \$16,304,521.

23 22. Staff recommends a \$469,115, or 4.47 percent, revenue increase from adjusted TY
24 revenues of \$10,494,156 to \$10,963,271. Staff's proposed revenue increase would produce an
25 operating margin of \$1,066,758 and a net margin of \$529,976 for a 7.49 percent rate of return on a
26 Staff-adjusted OCRB of \$14,247,107. Staff's recommended revenue provides a TIER of 1.5.

27 _____
28 ¹ Because it is a non-profit member-owned entity, the Commission has traditionally analyzed revenue requirement based
on cash flow rather than rate of return.

1 23. Staff recommends adjusting the Cooperative's proposed rate base by \$2,057,414, from
2 \$16,304,521 to \$14,247,107. Staff removed all Construction Work in Progress ("CWIP"), all post-
3 test year plant and related accumulated depreciation. In addition, Staff deducted customer deposits to
4 be consistent with recovering the interest expense; decreased cash working capital because the
5 Cooperative did not perform a lead-lag study as required in Decision No. 58437 and removed a
6 double count of intangible plant.

7 24. Staff's adjustments to rate base are reasonable. The Cooperative does not dispute
8 them, and did not file RCND schedules. Thus, we find the GCE's Fair Value Rate Base ("FVRB") to
9 be \$14,247,107 which is the same as its OCRB.

10 25. Staff increased TY margin revenue by \$4,567 to reinstate street light revenue that the
11 Cooperative removed. In addition, Staff increased the Base Cost of Power Revenue by a net of
12 \$354,812 to match the Cooperative's proposed Base Cost of Power Expense and the reduction in the
13 base cost of power from \$0.0624576 per kWh to \$0.060034 per kWh.

14 26. Staff's adjustments reduced Operating Expenses by a net of \$197,197, from
15 \$10,093,710 to \$9,896,513. Staff's adjustments included reducing the purchased power expense to
16 reflect a lower base cost of power, reducing property tax expense related to post-test year plant, and
17 reducing depreciation expense to reflect adjustments to plant accounts.

18 27. Staff also adjusted non-operating accounts, including a reduction in interest expense
19 on long-term debt by \$110,288 to remove interest expense that was not incurred in the Test Year, and
20 decreased amount of the capital credits GCE received by \$17,567 after normalizing the cash capital
21 credits received from GCE's investments over five years.

22 28. Staff's adjustments to revenue and expenses are reasonable and should be adopted.

23 29. Staff reviewed GCE's proposed Cost of Service ("COS") study and agreed that it had
24 been prepared accurately and in conformance with previous Commission orders. Staff Engineering
25 recommends that GCE should continue to pursue the accelerated wooden pole replacement and tree
26 trimming program, and other necessary improvements and additions reflected in GCE's 5-year Work
27 Plan 2002-2006; GCE should continue to use the same Cost of Service models in future rate cases as
28 used in the current rate filing; and that GCE should include the Street Light class in the unbundled

1 COS study in future rate filings.

2 30. Staff further recommends:

3 (a) that base cost of purchase power be set at \$.060034 per kWh;

4 (b) GCE should recalculate its purchased power adjustor ("PPA") rate to reduce its
5 over or under collections when the bank balance becomes over or under collected by \$275,000;

6 (c) Rates proposed by Staff, as set forth in Exhibit A hereto be approved;

7 (d) Changes to GCE's service related charges be approved;

8 (e) Unbundled rates as set forth on Exhibit B hereto be approved; and

9 (f) GCE's Environmental Portfolio Surcharge tariff approved in Decision No. 63357
10 (February 8, 2001) become permanent.

11 31. The COS indicates that to varying degrees the Residential, Small Commercial,
12 Irrigation and Security Light rate classes are paying less than their cost of service. Based on the COS
13 and the rate-making principal of gradualism, Staff recommends increasing the residential class
14 revenues by 4.81 percent, Small Commercial class revenues by 3.60 percent, Irrigation class revenues
15 by 5.61 percent, and the Security Light class revenues by 1.47 percent. Because the Large
16 Commercial class is already paying more than its cost of service, Staff recommends a smaller
17 increase of 1.60 percent.

18 32. The Cooperative has agreed to Staff's recommended rates, as set forth in Exhibits A
19 and B. The evidence indicates that they are fair and reasonable and should be adopted.

20 33. At the end of the TY, GCE had \$10,175,512 in long-term debt and incurred \$711,172
21 in interest expense. GCE's loan documents with the CFC require a minimum DSC ratio of 1.35.
22 There is no stated TIER requirement.

23 34. Staff's recommended revenue level of \$10,963,271 produces a TIER of 1.50 and a
24 DSC of 2.12.

25 35. Staff's recommended rates will raise an average residential customer bill by \$5.45, or
26 8.46 percent, from \$64.41 to \$69.86; the average small commercial customers' bill by \$19.94, or 7.76
27 percent, from \$256.92 to \$276.86; the average large commercial customer's bill by \$717.89, or 5.88
28 percent, from \$12,201.57 to \$12,919.46; and the average irrigation customer's bill by \$14.07, or 7.27

1 percent, \$193.43 to \$207.50.

2 36. The Cooperative proposed to borrow \$10,813,368 from the CFC for a term of 35 years
3 at the interest rate prevailing at the time the funds are borrowed (7.0 percent as of January 27, 2003).
4 The purpose of the loan is to finance the Cooperative's five-year Construction Work Plan.

5 37. Staff examined the 2002-2006 Construction Work Plan and found the projects to be
6 both reasonable and appropriate.

7 38. Staff's analysis of the \$10.8 million financing request indicates that a draw of the
8 entire \$10.8 million would result in a 1.51 DSC. Staff states that the DSC of 1.51 exceeds the
9 mortgage covenant requirement of 1.35 and shows that the Cooperative would have sufficient cash to
10 cover its required principal and interest payments under Staff's proposed revenue increase. Thus,
11 Staff recommends GCE be given authorization to borrow \$10.8 million contingent upon the
12 Commission's approval of total revenue no less than \$10,963,271.

13 39. GCE is current on its property taxes and in compliance with past Commission Orders.

14 **CONCLUSIONS OF LAW**

15 1. GCE is a public service corporation within the meaning of Article XV of the Arizona
16 Constitution and A.R.S. §§ 40-250, 40-251, 40-252, and §§ 40-301, 40-302 and 40-303.

17 2. The Commission has jurisdiction over GCE and of the subject matter of the
18 applications.

19 3. Notice of the applications was given in accordance with the law.

20 4. The rates approved herein and set forth in Exhibits A and B hereto are reasonable and
21 should be adopted

22 5. The financing approved herein is for lawful purposes within the Cooperative's
23 corporate powers, is compatible with the public interest, with sound financial practices, and with the
24 proper performance by GCE of service as a public service corporation, and will not impair GCE's
25 ability to perform the service.

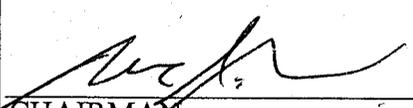
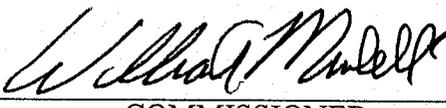
26 6. The financing approved herein is for the purposes stated in the application and is
27 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
28 chargeable to operating expenses or to income.

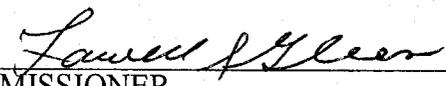
1 IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc. shall file a copy
2 of all executed loan documents with the Commission as soon as they become available.

3 IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc. shall comply
4 with the recommendations set forth in Findings of Fact Nos. 29, 30 and 38.

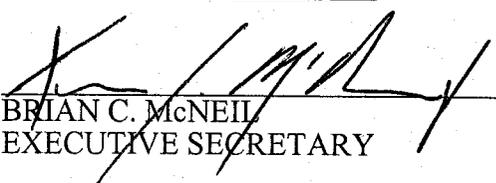
5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7
8   
9 CHAIRMAN COMMISSIONER COMMISSIONER

10 
11 COMMISSIONER

12
13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
14 Secretary of the Arizona Corporation Commission, have
15 hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 6th day of October, 2003.

18 
19 BRIAN C. McNEIL
20 EXECUTIVE SECRETARY

21 DISSENT _____
22 DISSENT _____
23 JR:mj

24
25
26
27
28

1 SERVICE LIST FOR: GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01749A-02-0701 and E-01749A-02-0926

3
4 Russ Barney
5 Graham County Electric Cooperative, Inc.
6 Post Office Drawer B
7 Pima, Arizona 85543

8 Christopher Kempley, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ernest Johnson, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18
19
20
21
22
23
24
25
26
27
28

MONTHLY MINIMUM CHARGE	RATES
Residential	\$9.00
Small Commercial	15.00
Large Commercial	50.00
Irrigation	23.00
Security Light	
Small Security Light	5.77
Large Security Light	7.06

ENERGY (COMMODITY RATE) – PER KWH

Residential	\$0.08511
Small Commercial	0.08516
Large Commercial	0.07872
Irrigation	0.08752
Security Light	0.05971
Street Light	0.08329

PURCHASED POWER FUEL ADJUSTOR – PER KWH

All Customer Classes	\$0.00200
----------------------	-----------

SERVICE RELATED CHARGES

New or Additional Service Connection	\$10.00
Service Connection Callbacks	10.00
Service Calls after Regular Business Hours	50.00
Disconnects	10.00
Reconnects During Regular Business Hours	10.00
Reconnects After Normal Working Hours	30.00
Field Collection Delinquent Accounts	10.00
Returned Check Fee	25.00
Late Payment Charge	1.5%
Meter Test	10.00
Meter Rereads (if original read was not in error)	10.00

CLASSIFICATION	CHARGES	RATES
Residential	Service Availability	\$4.64
	Metering	1.04
	Meter Reading	0.68
	Billing	1.85
	Info & Service	<u>0.79</u>
	Bundled Monthly Minimum	9.00
	KWH Delivery Charge Energy	\$0.02286
	Transmission Delivery Charge	0.00034
	Energy Charge	0.02358
	Demand Charge	0.02905
	Transmission Charge	<u>0.00928</u>
Bundled Commodity Charge per kWh	0.08511	
Small Commercial	Service Availability	\$10.50
	Metering	1.18
	Meter Reading	0.68
	Billing	1.85
	Info & Service	<u>0.79</u>
	Bundled Monthly Minimum	\$15.00
	KWH Delivery Charge Energy	\$0.02364
	Transmission Delivery Charge	0.00040
	Energy Charge	0.02358
	Demand Charge	0.02845
	Transmission Charge	<u>0.00909</u>
Bundled Commodity Charge per kWh	\$0.08516	
Large Commercial	Service Availability	\$40.12
	Metering	5.88
	Meter Reading	1.36
	Billing	1.85
	Info & Service	<u>0.79</u>
	Bundled Monthly Minimum	\$50.00
	KWH Delivery Charge Energy	0.02748
	Transmission Delivery Charge	0.00002
	Energy Charge	0.02358
	Demand Charge	0.02216
	Transmission Charge	0.00548
Bundled Commodity Charge per kWh	0.07872	
Irrigation	Service Availability	\$12.04
	Metering	6.63
	Meter Reading	1.69
	Billing	1.65
	Info & Service	<u>0.79</u>

Bundled Monthly Minimum	23.00
KWH Delivery Charge Energy	0.02498
Transmission Delivery Charge	0.00002
Energy Charge	0.02358
Demand Charge	0.02830
Transmission Charge	0.01064
Bundled Commodity Charge per kWh	0.08752

Security Lights

Bundled Monthly Minimum	
Small	\$5.77
Large	7.06
Transmission Delivery Charge	0.00034
Energy Charge	0.02358
Demand Charge	0.02820
Transmission Charge	<u>0.00759</u>
Bundled Commodity Charge per kWh	0.05971

Street Lights

KWH Delivery Charge Energy	\$0.02565
Transmission Delivery Charge	0.00060
Energy Charge	0.02709
Demand Charge	0.02236
Transmission Charge	0.00759
Bundled Commodity Charge per kWh	0.08329

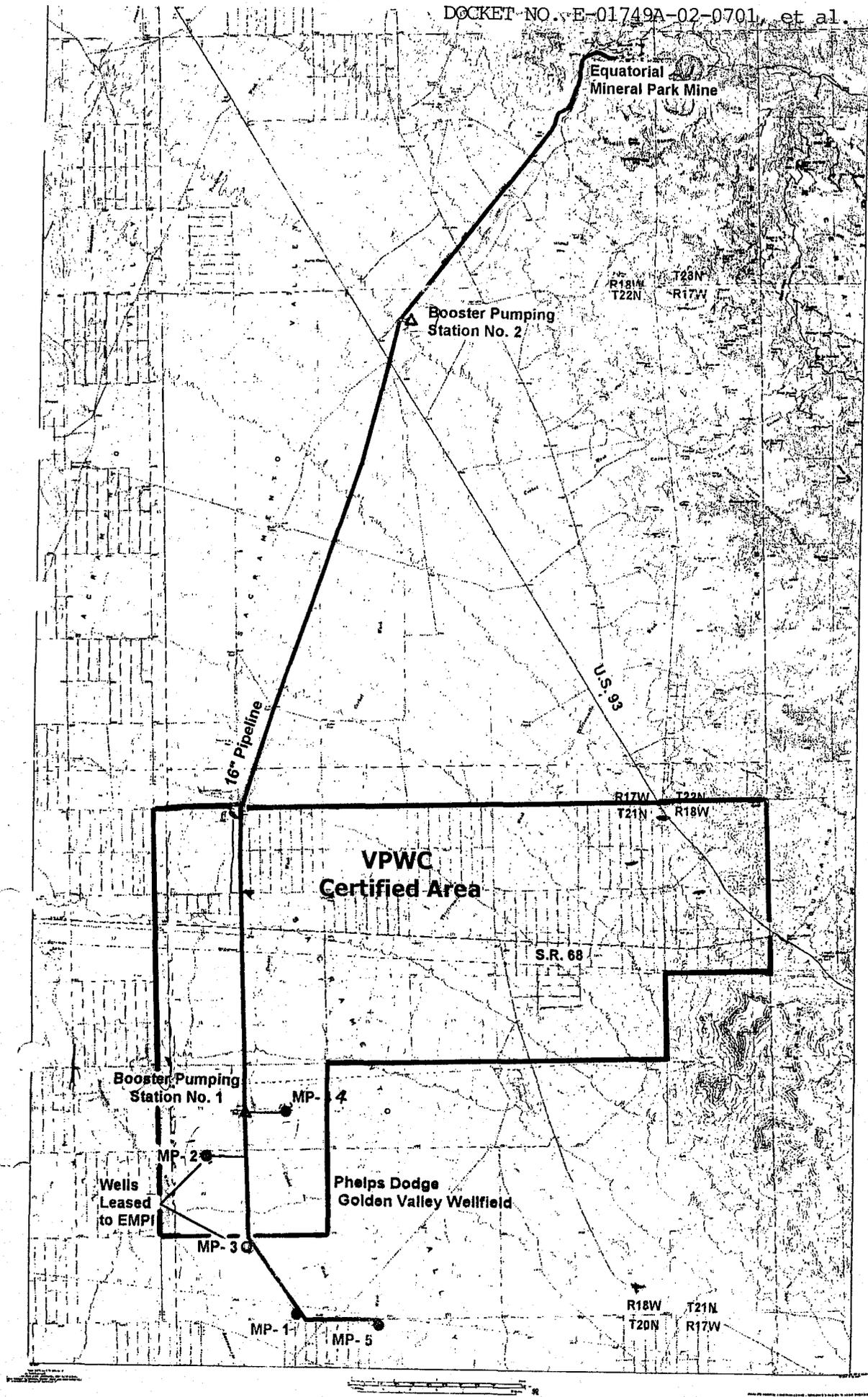


EXHIBIT A

'Golden Valley Water System.IT3'; Scale: 1" = 1.221Mi, 1,965Mt, 6,447Ft, 1 Mi = 0.819", 1 cm = 774Mt