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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner

2001 OCT 26 P 3:57
AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF)
NAVOPACHE ELECTRIC COOPERATIVE,)
INC., AN ARIZONA NON-PROFIT)
CORPORATION FOR A FINDING OF FAIR)
VALUE OF ITS PROPERTIES AND FAIR)
RATE OF RETURN THEREON, AND FOR)
APPROVAL OF RATES AND CHARGES,)
AND FOR APPROVAL OF CHANGES TO ITS)
POLICY MANUAL.)

DOCKET NO. E-01787A-01-0063

STAFF'S NOTICE OF FILING
TESTIMONY

Staff of the Arizona Corporation Commission hereby files the direct and surrebuttal testimony of Darron W. Carlson, of the Utilities Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of October, 2001.

for
Stephen A. Gibelli, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

The original and ten (10) copies of the foregoing filed this 26th day of October, 2001, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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Arizona Corporation Commission
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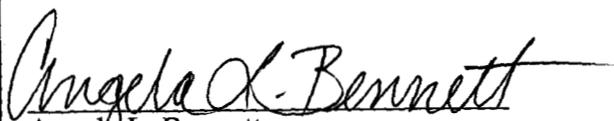
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**SUMMARY OF DIRECT TESTIMONY OF
STAFF WITNESS
DARRON W. CARLSON
NAVOPACHE ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01787A-01-0063**

Navopache Electric Cooperative, Inc., ("Navopache" or "Company") is a non-profit electric distribution cooperative providing services to member-customers in Navajo, Apache, Greenlee and Gila Counties, in Arizona, with a small contingent of member-customers in Catron County, New Mexico. Navopache services approximately 27,000 residential and 2,700 commercial member-customers.

Navopache's previous rate case was nine years ago. The Company is requesting an increase of 12.75 percent in total revenues. The Company is seeking enough revenue increase to reverse a deteriorating financial condition. The Company's requested revenue increase is based on the Company's target of a 2.00 operating times interest earned ratio ("OTIER").

Other than removing the effects of the Company including construction work in progress in rate base, Mr. Carlson made only a few minor changes to the Company's claimed Test Year results. However, Mr. Carlson's analysis shows that the Company's financial condition can be adequately improved to cover operations, contingencies and debt service with an OTIER of only 1.50. This translates to an increase in revenues of 8.33 percent, or \$1,140,920 less than the Company's proposal.

Mr. Carlson recommends a \$2,153,519, or 8.33 percent increase in revenue over Test Year revenues of \$25,842,323. Staff's recommendation produces an OTIER of 1.50 and an operating debt service coverage ("ODSC") ratio of 1.67.

**SUMMARY OF SURREBUTTAL TESTIMONY OF
STAFF WITNESS
DARRON W. CARLSON
NAVOPACHE ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01787A-01-0063**

The surrebuttal testimony of Staff witness, Darron W. Carlson, addresses the following issues in the rebuttal testimonies of the Company witnesses:

Operating Times Interest Earned Ratio ("OTIER") – I recommend reducing Navopache's requested OTIER of 2.00 to an OTIER of 1.50. I believe that the 1.50 OTIER provides Navopache with adequate revenue to fund its operations, contingencies, and its projected debt service.

Lobbying Fees – I recommend removing all lobbying fees from Navopache's requested operating expenses. This is the Commission's normal operating procedure that I believe should include cooperatives along with all other utility entities.

Treatment of the Gain from the Sale of Plains' Assets – I recommend following the Commission's prior order. Navopache wishes to account for the gain in a bookkeeping procedure recommended by the United States Agriculture Department and confirmed by the Company's outside accountants. I believe the prior order requires that the gain should be applied to rates.

Standard Offer Tariff Schedule No. 7 – I recommend a more modest increase than the Company to the rates for cogeneration and small power production facilities. I believe the 400-500 percent increase could cause rate shock and discourage this class of customer.

Construction Work in Progress ("CWIP") – I recommend disallowance of all end of Test Year CWIP, as it is not known and measurable nor used and useful. Navopache attempts to reclassify most of the CWIP to plant in service, not when Staff could verify it, but only in rebuttal testimony – too late for Staff to audit or verify the information.

Depreciation Expense – I recommend the corresponding disallowance of depreciation expense associated with the above mentioned CWIP.

Accumulated Depreciation – Navopache contends that a portion of my pro forma adjustment is incorrect, ignores the larger portion of my adjustment, and then recommends a rebuttal adjustment that almost equals my total adjustment without clarification. Although this does not affect revenue requirement or OTIER, I will pursue clarification.

I continue to recommend my revenue requirement, original cost rate base, and operating income as reflected in Schedules DWC-1, DWC-2, and DWC-9, respectively.