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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 A FAIR RETURN THEREON, AND FOR APPROVAL OF CHANGES TO ITS POLICY MANUAL.	DOCKET NO. E-01787A-01-0063 **STAFF'S NOTICE OF FILING DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission hereby files the direct testimony of Darron Carlson, and Asher Emerson, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 15th day of August, 2001.

for Janet F. Wagner

Teena Wolfe
Attorney, Legal Division
Arizona Corporation Commission
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Original and ten (10) copies of the foregoing filed this 15th day of August, 2001 with:

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

Arizona Corporation Commission
DOCKETED

AUG 15 2001

DOCKETED BY

Copies of the foregoing were mailed this 15th day of August, 2001 to:

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DIRECT TESTIMONY

OF

DARRON W. CARLSON
ASHER EMERSON

DOCKET NO. E-01787A-01-0063

August 15, 2001

CARLSON

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

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 A 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

DIRECT

TESTIMONY

OF

DARRON W. CARLSON

SENIOR RATE ANALYST

UTILITIES DIVISION

AUGUST 15, 2001

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SCHEDULES

EXECUTIVE SUMMARY
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.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Darron W. Carlson. I am a Senior Rate Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Senior Rate Analyst.

A. In my capacity as a Senior Rate Analyst, I provide recommendations to the Commission on mergers, acquisitions, financings and sales of assets. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. I analyze the financial condition of utilities and prepare reports and recommendations on financial and accounting matters, cost of capital, revenue requirements and rate design. I also review requests for financing and the financial considerations of requests for Certificates of Convenience and Necessity ("CC&N"). My responsibilities also include providing expert testimony in formal hearings before the Commission on all of the aforementioned matters.

Q. How long have you held this position?

A. I have held this position since August of 1995. Prior to that, I was a Utilities Auditor III for one and a half years and a Utilities Auditor II for two and a half years.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Arts degree in both Accounting and Business Management from Northeastern Illinois University in Chicago, Illinois. I have participated in a number of seminars and workshops related to utility rate-making, cost of capital and similar issues, sponsored by the National Association of Regulatory Utility Commissioners ("NARUC"),

Duke University, Florida State University, Michigan State University, New Mexico State University, and others.

Prior to my employment with the Commission, I was employed as a Program Compliance Auditor III with the Arizona Department of Agriculture for seven years. My other work experience ranges from Military Payroll Auditor to Controller in private corporations.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to present Utilities Division ("Staff") position and recommendations regarding the Navopache Electric Cooperative, Inc. ("Navopache" or "Company") rate application and related issues. This application, dated January 19, 2001, and docketed as sufficient on February 20, 2001, requests permanent adjustments to rates and charges for utility service. The application also includes a request for approval of policy manual changes. I believe that pursuant to Commission Decision No. 62612, dated June 9, 2000, the issue of the disposition of funds from the gain on the Plains' sale of transmission and other assets must also be considered in this proceeding.

GENERAL INFORMATION

Q. What other Staff witnesses are involved in the presentation of Staff's recommendations or have provided substantial relevant information that you relied upon?

A. Mr. Asher Emerson is responsible for the review of the Company's cost-of-service study along with being responsible for the engineering and technical analysis. He is also providing pre-filed testimony in this proceeding.

Q. Did you perform a regulatory audit of Navopache and include the results in your analysis and recommendations of the rate increase request?

A. Yes, I did. I examined the accounting books and records, tested revenue, verified selected expenditures and reviewed the asset and liability accounts. My work also included a review of the Commission's records of Navopache's filings. In addition, I made oral and written requests for data, performed an on-site audit and engaged in discussions with Navopache representatives. As a result of Staff's audit and the recommendations of the aforementioned other Staff witness, I am recommending adjustments to Navopache's rate increase request.

Q. What is the general condition of Navopache's accounting records?

A. Staff's examination revealed that the Company's accounting records are maintained in a satisfactory manner. Amounts in Navopache's general ledger are accurate and generally reliable as verified by supporting documentation.

Q. Were there any problems with Navopache's books and records?

A. Yes. Staff witness Mr. Asher Emerson was unable to properly analyze post-Test Year plant additions attributable to the end of Test Year Construction Work in Progress ("CWIP") account. Navopache was unable to identify exactly which plant accounts and which amounts were completed and in service and thereby transferable from the CWIP account, even though the job order/costing system the Company maintains for the CWIP account may be acceptable under the Rural Utilities Service ("RUS") Uniform System of Accounts – Electric. Staff Engineering was unable to perform the necessary analysis, and therefore, recommended that no post-Test Year plant additions be recognized in this proceeding.

Q. Is the Company current on its payment of property taxes and sales taxes?

A. Yes.

. . .

SUMMARY OF ADJUSTMENTS

Q. Please summarize the recommendations and adjustments that you address in this pre-filed direct testimony.

A. My pre-filed direct testimony addresses the following issues:

Operating Times Interest Earned Ratio ("OTIER") – This adjustment decreases the Company's revenue requirement by $1,140,920. Although this figure reflects the effects of all of my recommended adjustments, it primarily reflects my reduction of the Company's OTIER from 2.00 to 1.50.

Intangible Plant – (Organization) - This adjustment decreases the Company's gross utility plant by $227,777. This adjustment reflects my removal of unsubstantiated plant additions to this account in 1994 and 1995.

Intangible Plant – (Acquisition Adjustment) – This adjustment decreases the Company's gross utility plant by $224,077. This adjustment reflects my removal of an unauthorized plant valuation adjustment.

General Plant – (Land & Land Rights) – This adjustment decreases the Company's gross utility plant by $240,091. This adjustment reflects my removal of land determined to be not "used and useful".

Construction Work in Progress ("CWIP") – This adjustment decreases the Company's gross utility plant by $4,361,247. This adjustment reflects my removal of plant determined to be not "used and useful".

. . .

Accumulated Depreciation – This adjustment decreases the Company's accumulated depreciation by $362,891. This adjustment has the effect of increasing the Company's net utility plant by the same $362,891. This adjustment reflects my removal of accumulated depreciation on the disallowed acquisition adjustment and on the disallowed CWIP.

Operating Expenses – (Admin. & Gen'l.) – This adjustment decreases the Company's administrative and general expenses by $33,093. This adjustment reflects my recommended change in rate case expense amortization period and disallowance of lobbying expenses.

Operating Expenses – (Depreciation Expense) – This adjustment decreases the Company's depreciation expense by $186,142. This adjustment reflects the effects on depreciation expense attributable to the disallowance of an acquisition adjustment, to the disallowance of CWIP, and to the correction of a math error by the Company.

REVENUE REQUIREMENT

Q. Please summarize the results of your analysis of Navopache's application and state your recommended revenue requirement.

A. I am recommending a revenue requirement of $27,995,842 for Navopache. My recommended revenue requirement represents a $2,153,519 increase from the adjusted Test Year revenue of $25,842,323. My recommended revenue requirement is $1,140,920 less than the Company's proposed $29,136,762. Schedule DWC-1 presents the calculation of the recommended revenue requirement.

Q. What causes the variance between Navopache and your recommended revenue requirement?

A. I have made several minor adjustments to Test Year operating income (explained later in this testimony), which causes some difference in the revenue requirement. However, the primary difference between my recommended revenue requirement and that of the Company is due to the difference between the Company's proposed 2.00 operating times interest earned ratio ("OTIER") and my recommended 1.50 OTIER. I believe that an OTIER of 1.50 gives Navopache all the revenue they need for operations, contingencies and servicing its debt.

Q. Why did Navopache request an OTIER of 2.00?

A. As per Company witness, Mr. Wayne A. Retzlaff, in his pre-filed direct testimony, Page 8, Lines 14 and 15: *"It is my understanding that RUS and CFC prefer rural distribution cooperatives maintain at least a 2.0 TIER."*

Q. Does RUS and/or the National Rural Utilities Cooperative Finance Corporation ("CFC") require a minimum 2.00 OTIER?

A. I could find no minimum OTIER requirement in documents supplied to me by Navopache, and Navopache personnel could find no minimum requirement in their loan documents.

The only written minimum I could find in relation to RUS and CFC was found in the Code of Federal Regulations under the RUS codes. Paragraph 1710.114(b) reads, in part, *"Coverage Ratios. (1) Distribution borrowers. The minimum coverage ratios required of distribution borrowers whether applied on an annual or average basis, are a TIER of 1.25, DSC of 1.25, OTIER of 1.1 and ODSC of 1.1. OTIER and ODSC shall apply to distribution borrowers that receive a loan approved on or after January 29, 1996."*

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I believe that since the only apparent minimum requirement is an OTIER of 1.10 and an operating debt service coverage ("ODSC") ratio of 1.10, that my recommended OTIER of 1.50 and the resultant ODSC of 1.67 are sufficient.

ORIGINAL COST RATE BASE

Original Cost Rate Base Summary

Q. What are the results of your analysis of Test Year plant and other items included in original cost rate base?

A. As shown on Schedule DWC-2, my analysis resulted in an original cost rate base of $37,360,051. My recommended original cost rate base is $4,690,301 less than the Company's proposed $42,050,352.

Gross Utility Plant in Service Summary

Q. What are the results of your analysis of Test Year gross utility plant in service?

A. As shown on Schedule DWC-3, my analysis resulted in total plant investment of $63,205,609. My recommended gross utility plant in service is $5,053,192 less than the Company's proposed $68,258,801.

Q. Did you use these determinations to analyze Navopache's rate application and to determine just and reasonable rates?

A. Yes.

Gross Utility Plant in Service Adjustment No. 1 – Organization

Q. What has Navopache proposed for the Organization account?

A. Navopache proposed an Organization account of $228,075.

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Q. Do you agree with the Company's valuation of the Organization account?

A. No. The Organization account includes $227,777 resulting from 1994 and 1995 adjusting entries ordered by the Company's external accountants. The Company has not substantiated or explained these adjusting entries.

Q. What adjustment are you recommending for the organization account?

A. As shown on Schedule DWC-4, I recommend decreasing the Organization account by $227,777.

Gross Utility Plant in Service Adjustment No. 2 – Electric Plant Acquisition Adjustment

Q. What has Navopache proposed for the Electric Plant Acquisition Adjustment account?

A. Navopache proposed $224,077 for the Electric Plant Acquisition Adjustment account.

Q. Do you agree with the Company's valuation of this account?

A. No. I believe this account recognizes an unauthorized acquisition adjustment because this Commission normally requires prior approval for any acquisition adjustment, and I could find no record of this Commission authorizing an acquisition adjustment for Navopache in the past. Further, I have been advised by the Company that this account has now been fully amortized, which indicates that this acquisition adjustment was created more than 15 years ago, about five years before Navopache's prior rate case. Under these circumstances, it would not be prudent to include this account in plant valuations for this proceeding.

Q. What adjustment are you recommending for the Electric Plant Acquisition Adjustment account?

A. As shown on Schedule DWC-5, I recommend decreasing the Electric Plant Acquisition Adjustment account by $224,077.

Gross Utility Plant in Service Adjustment No. 3 – Land and Land Rights

Q. What has Navopache proposed for land and land rights?

A. Navopache proposed land and land rights of $296,246.

Q. Do you agree with the Company's valuation of this account?

A. No. Staff Engineering has determined that a large part of this account is attributable to land that is not "used and useful".

Q. What adjustment are you recommending for land and land rights?

A. As shown on Schedule DWC-6, I recommend decreasing land and land rights by $240,091.

Gross Utility Plant in Service Adjustment No. 4 – Construction Work In Progress ("CWIP")

Q. What has Navopache proposed for construction work in progress?

A. Navopache proposed including $4,361,247 of CWIP in rate base.

Q. Do you agree with the Company's valuation of this account?

A. I do not dispute the actual valuation of this account.

Q. Do you agree that CWIP should be included in rate base?

A. No. The Commission's normal practice is to exclude CWIP from rate base. Also, CWIP by its nature is not "used and useful".

Q. What adjustment are you recommending for CWIP?

A. As shown on Schedule DWC-7, I recommend completely removing the Company's $4,361.247 CWIP proposal from rate base.

. . .

Accumulated Depreciation Summary

Accumulated Depreciation Adjustment No. 1

Q. What has Navopache proposed for Accumulated Depreciation?

A. Navopache proposed Accumulated Depreciation of $26,785,107.

Q. Do you agree with the Company's valuation of this account?

A. No. I adjusted this account to reflect the adjustments to Electric Plant Acquisition Adjustment and CWIP previously discussed.

Q. What adjustment are you recommending for Accumulated Depreciation?

A. As shown on Schedule DWC-8, I recommend decreasing the Accumulated Depreciation by $362,891.

OPERATING INCOME/MARGIN

Operating Income/Margin Summary

Q. What are the results of your analysis of Test Year operating income/margin?

A. As shown on Schedule DWC-9, my analysis resulted in Test Year operating income/margin of $746,481. My recommended Test Year operating income/margin is $219,235 more than the Company's proposed $527,246.

Operating Income/Margin Adjustment No. 1 – Administrative and General Expense

Q. What has Navopache proposed for Test Year Administrative and General expense?

A. Navopache proposed Test Year Administrative and General expense of $2,665,419.

Q. Do you agree with the Company's valuation of this account?

A. No. I have recommended a different amortization period for rate case expense. The Company used a three-year amortization period. I recommend a five-year amortization

period because it has been nine years since the Company's prior rate case. A three-year amortization period is too short in consideration of the Company's recent historical filing frequency. I also recommend the removal of fees for lobbying activities.

Q. Why did you remove fees for lobbying activities?

A. It is this Commission's policy to insulate ratepayers from subsidizing a company's political lobbying activities.

Q. What adjustment are you recommending for Administrative and General Expense?

A. As shown on Schedule DWC-10, I recommend decreasing the Administrative and General Expense by $33,093.

Operating Income/Margin Adjustment No. 2 – Depreciation Expense

Q. What has Navopache proposed for Test Year Depreciation Expense?

A. Navopache proposed Test Year Depreciation Expense of $2,223,660.

Q. Do you agree with the Company's valuation of this account?

A. No. As shown on Schedule DWC-11, I have recommended changes to this account to correct a math error in the 350 series of plan accounts and to remove depreciation claimed on an acquisition adjustment and CWIP items that I have recommended removal from plant.

Q. What adjustment are you recommending for depreciation expense?

A. As shown on Schedule DWC-11, I recommend decreasing Depreciation Expense by $186,142.

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DISTRIBUTION OF GAIN FROM SALE OF PLAINS' TRANSMISSION ASSETS

Q. What has Navopache proposed for the distribution of its share of the gain from the sale of Plains' transmission and other assets?

A. The Company has chosen to recognize the $860,670 gain as a reduction of its investment in Plains' patronage capital.

Q. Do you agree with the Company's decision in the disposition of this gain?

A. No. Article 7.5.1 of the Settlement Agreement adopted in Commission Decision No. 62612, dated June 9, 2000, states, in part, *"At this time, the parties cannot determine whether Navopache's share of the gain from Plains' sale of its transmission and other assets to PNM should apply to Navopache's distribution rates, generation rates, the CTC, or some combination of these."* The Settlement Agreement calls for the gain to provide an offset to rates. The Company should be compelled to comply with the terms of the Settlement Agreement.

Q. What disposition are you recommending for the $860,670 gain that is currently being held in an interest bearing account, awaiting disposition in this rate case?

A. I recommend a billing credit to offset the "CTC" charge. The "CTC" charge represents the recovery of stranded costs lost in the same Plains transaction. The Commission authorized Navopache to collect $1,775,645 each year for ten years via the "CTC" charge. I recommend that a billing credit be established to offset part of the "CTC" charge in an amount that would extinguish the $860,670 (plus earned interest) over billings for twelve months.

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PROPOSED STANDARD OFFER TARIFF

Q. Has Staff reviewed Navopache's proposed standard offer tariffs?

A. Yes. Staff has reviewed the tariffs and notes that there are just two technical problems with some of the wording. Following is a listing of Staff concerns:

1. Standard Offer Tariff Schedule No. 4 fails to include the following wording in the proposed tariff: *"Service is available where the facilities of the cooperative are of adequate capacity and are adjacent to the customer's premises."* Staff recommends inclusion of this wording in the proposed tariff.

2. Standard Offer Tariff Schedule No. 7, which is the tariff for cogeneration and small power production facilities, reflects an excessively large increase in the proposed tariff. The Company did not offer cost justification for increasing Basic Service from $8.00 per month plus $24.00 per month per each generator meter under the current tariff to $125.00 per month plus $46.20 per month per each generator meter. Staff recommends a more moderate increase so as not to discourage the small co-generator or small power production facility. Staff recommends a Basic Service charge of $24.00 per month plus $46.20 per month per each generator. This will alleviate some rate shock to customers and still allow the Company reasonable recovery of its costs.

POLICY MANUAL

Q. Has Staff reviewed Navopache's proposed policy manual?

A. Yes. Staff has reviewed the policy manual and notes just two small discrepancies as follows:

1. RE: 2.10 Definitions: 49. Regular Office Hours. The new manual does not define summer months or winter months. Staff recommends that Navopache issue an addendum to the manual to include this information.

2. RE: 2.58 Complaints. The new manual does not reflect the following necessary wording: *"within five working days of receipt"* in addition to *"response shall be made twenty-four (24) hours before scheduled or proposed disconnect."* Without this wording, the Company will not have deadlines by which it must respond to complaints. Staff recommends that Navopache issue an addendum to the manual to include this information.

RATE DESIGN

Q. What are the results of your analysis of the Company's proposed rate design?

A. I find the Company's rate design to be acceptable as proposed except for two issues:

1. The previously discussed Staff recommendations regarding the proposed standard offer tariff.
2. The proposed tariff needs to be altered to reduce the total revenue by $1,140,920 to reflect my recommended revenue requirement of $27,995,842.

Q. How do you propose to alter Navopache's proposed rate design?

A. The Company designed rates based on its own cost-of-service study. I take no exception to the Company's cost-of-service study. Therefore, I recommend a 3.92 percent ($1,140,920) reduction to all of the Company's proposed rates to produce Staff's proposed revenue requirement of $27,995,842.

Q. Does this conclude your pre-filed direct testimony?

A. Yes, it does.

NAVOPACHE ELECTRIC COOPERATIVE, INC. **Schedule DWC-1**
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

SUMMARY OF FILING

LINE NO.	DESCRIPTION	[A] PER COMPANY	[B] PER STAFF
1	Adjusted Rate Base	$ 42,050,352	$ 37,360,051
2	Adjusted Operating Margin	$ 527,246	$ 746,481
3	Margin After Interest and Other Deductions	$ (1,451,539)	$ (1,232,304)
4	Test Year Long-Term Interest Expense	$ 1,845,553	$ 1,845,553
5	Proposed Increase in Operating Revenue	$ 3,294,439	$ 2,153,519
6	Adjusted Test Year Operating Revenue	$ 25,842,323	$ 25,842,323
7	Recommended Operating Revenue (Line 5 + Line 6)	$ 29,136,762	$ 27,995,842
8	Percentage Increase in Operating Revenue (Line 5 / Line 6)	12.75%	8.33%
9	Operating Tier (at current rates) (Line 3 + Line 4) / Line 4	0.21	0.33
10	Operating DSC (at current rates)	0.91	0.92
11	Rate of Return (at current rates) (Line 2 / Line 1)	1.25%	2.00%
12	Operating Tier (at proposed rates) (Line 3 + Line 4 + Line 5) / Line 4	2.00	1.50
13	Operating DSC (at proposed rates)	2.06	1.67
14	Rate of Return (at proposed rates) (Line 2 + Line 5) / Line 1	9.09%	7.76%

References:

Column [A]: Company Schedules A-1.0, B-1.0, C-1.0, C-3.0 and D-1.0

Column [B]: Staff Schedules DWC-2 and DWC-9

NAVOPACHE ELECTRIC COOPERATIVE, INC.
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

Schedule DWC-2

ORIGINAL COST RATE BASE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	REF	[C] STAFF ADJUSTED
1	Gross Utility Plant in Service	$ 63,673,477	$ (467,868)	1	$ 63,205,609
2	Plant Under Construction (short term)	4,361,247	$ (4,361,247)	1	-
3	Electric Plant Acquisition Adjustment	224,077	$ (224,077)	1	-
4	**Total Utility Plant**	**68,258,801**	**(5,053,192)**		**63,205,609**
5	Less: Accumulated Depreciation	(26,785,107)	362,891	2	(26,422,216)
6	**Net Utility Plant in Service**	**$ 41,473,694**	**$ (4,690,301)**		**$ 36,783,393**
7	Materials and Supplies	1,189,186	-		$ 1,189,186
8	Prepayments	130,598	-		130,598
9	Cash Working Capital	1,020,703	-		1,020,703
10	Consumer Deposits	(430,130)	-		(430,130)
11	Customer Advances	(1,229,846)	-		(1,229,846)
12	Customer Energy Prepayments	(103,853)	-		(103,853)
13	**Total Other Adjustments**	**$ 576,658**	**$ -**		**$ 576,658**
14	**ORIGINAL COST RATE BASE**	**$ 42,050,352**	**$ (4,690,301)**		**$ 37,360,051**

References:

Column [A]: Company Schedule B-1.0

Column [B]: Staff Schedules DWC-3 and DWC-8

Column [C]: Column [A] plus Column [B]

Adjustment No. 1: Schedule DWC-3

Adjustment No. 2: Schedule DWC-8

NAVOPACHE ELECTRIC COOPERATIVE, INC. Schedule DWC-3
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

GROSS UTILITY PLANT IN SERVICE

LINE NO.	ACCOUNT NUMBER	PLANT DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	REF	[C] STAFF ADJUSTED
		INTANGIBLE PLANT				
1	301.00	Organization	$ 228,075	$ (227,777)	1	$ 298
2	114.00	Electric Plant Acquisition Adjustment	$ 224,077	$ (224,077)	2	$ -
3		**Total Intangible Plant**	**$ 452,152**	**$ (451,854)**		**$ 298**
		TRANSMISSION PLANT				$ -
4	350.00	Land & Land Rights	$ 9,301			$ 9,301
5	353.00	Station Equipment	$ 951,048			$ 951,048
6	354.00	Poles, Towers	$ 2,507,823			$ 2,507,823
7	356.00	Overhead Conductors	$ 2,934,814			$ 2,934,814
8	359.00	Rails and Trails	$ 8,736			$ 8,736
9		**Total Transmission Plant**	**$ 6,411,722**			**$ 6,411,722**
		DISTRIBUTION PLANT				
10	360.00	Land & Land Rights	$ 56,326			$ 56,326
11	361.00	Structures	$ 996			$ 996
12	362.00	Station Equipment	$ 4,336,653			$ 4,336,653
13	364.00	Poles, Towers & Fixtures	$ 9,824,359			$ 9,824,359
14	365.00	Conductor & Devices	$ 9,798,151			$ 9,798,151
15	367.00	Underground Conductor & Devices	$ 4,523,727			$ 4,523,727
16	368.00	Transformer	$ 11,186,971			$ 11,186,971
17	369.00	Overhead Services	$ 3,780,635			$ 3,780,635
18	370.00	Meters	$ 4,825,532			$ 4,825,532
19	373.00	Street Lighting	$ 359,501			$ 359,501
20		**Total Distribution Plant**	**$ 48,692,851**			**$ 48,692,851**
		GENERAL PLANT				
21	389.00	Land & Land Rights	$ 296,246	$ (240,091)	3	$ 56,155
22	390.00	Structures and Improvement	$ 1,182,375			$ 1,182,375
23	391.00	Office Furniture and Fixtures	$ 1,046,560			$ 1,046,560
24	392.00	Transportation Equipment	$ 1,495,146			$ 1,495,146
25	393.00	Stores Equipment	$ 67,411			$ 67,411
26	394.00	Tools, Shop and Garage	$ 248,890			$ 248,890
27	395.00	Laboratory Equipment	$ 435,949			$ 435,949
28	396.00	Power Operated Equipment	$ 1,209,046			$ 1,209,046
29	397.00	Communications Equipment	$ 2,248,896			$ 2,248,896
30	398.00	Miscellaneous	$ 110,310			$ 110,310
31		**Total General Plant**	**$ 8,340,829**	**$ (240,091)**		**$ 8,100,738**
32	107.00	Construction Work in Progress	$ 4,361,247	$ (4,361,247)	4	$ -
33		**TOTAL PLANT INVESTMENT**	**$ 68,258,801**	**$ (5,053,192)**		**$ 63,205,609**

References:

Column [A]: Company Schedule C-2.0

Column [B]: Staff Schedules DWC-4, DWC-5, DWC-6 and DWC-7

Column [C]: Column [A] plus Column [B]

Adjustment No. 1: Schedule DWC-4

Adjustment No. 2: Schedule DWC-5

Adjustment No. 3: Schedule DWC-6

Adjustment No. 4: Schedule DWC-7

NAVOPACHE ELECTRIC COOPERATIVE, INC. **Schedule DWC-4**
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

UTILITY PLANT IN SERVICE ADJUSTMENT NO. 1
ACCOUNT NO. 301.00 ORGANIZATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Organization	$ 228,075	$ (227,777)	$ 298
	Explanation of Adjustment:			
2	Remove unsubstantiated 1994 plant addition as per Staff Engineering.		$ (144,386)	
3	Remove unsubstantiated 1995 plant addition as per Staff.		$ (83,391)	
4		TOTAL:	$ (227,777)	

References:

Column [A]: Company Schedule C-2.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

NAVOPACHE ELECTRIC COOPERATIVE, INC. Schedule DWC-5
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

UTILITY PLANT IN SERVICE ADJUSTMENT NO. 2
ACCOUNT NO. 114.00 ELECTRIC PLANT ACQUISITION ADJUSTMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Acquisition Adjustment	$ 224,077	$ (224,077)	$ -

Explanation of Adjustment:

2 To remove unauthorized electric plant acquisition adjustment.

References:

Column [A]: Company Schedule C-2.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

NAVOPACHE ELECTRIC COOPERATIVE, INC.
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

Schedule DWC-6

UTILITY PLANT IN SERVICE ADJUSTMENT NO. 3
ACCOUNT NO. 389.00 LAND & LAND RIGHTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Land & Land Rights	$ 296,246	$ (240,091)	$ 56,155

Explanation of Adjustment:

2 To remove land deemed not "used and useful" as per Staff Engineering.

References:

Column [A]: Company Schedule C-2.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

NAVOPACHE ELECTRIC COOPERATIVE, INC.
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

Schedule DWC-7

UTILITY PLANT IN SERVICE ADJUSTMENT NO. 4
ACCOUNT NO. 107.00 CONSTRUCTION WORK IN PROGRESS ("CWIP")

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company CWIP	$ 4,361,247	$ (4,361,247)	$ -
	Explanation of Adjustment:			
2	To remove CWIP deemed not "used and useful" as per Staff Engineering.		$ (2,905,625)	
3	To remove CWIP not yet "used and useful" as per Staff.		$ (1,455,622)	
4		TOTAL:	$ (4,361,247)	

References:

Column [A]: Company Schedule C-2.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

NAVOPACHE ELECTRIC COOPERATIVE, INC. Schedule DWC-8
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

ACCUMULATED DEPRECIATION ADJUSTMENT NO. 1
ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Accumulated Depreciation	$ (26,785,107)	$ 362,891	$ (26,422,216)
	Explanation of Adjustment:			
2	To remove accumulated depreciation associated with unauthorized electric plant acquisition adjustment.		$ 221,587	
3	To remove accumulated depreciation associated with CWIP deemed not "used and useful".		$ 141,304	
4	TOTAL:		$ 362,891	

References:

Column [A]: Company Schedule C-3.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

Line 2: Schedule DWC-5 and Company's response (08/02/01) to Staff data request

Line 3: Schedule DWC-7 and Company Schedule A-10.0

NAVOPACHE ELECTRIC COOPERATIVE, INC. SCHEDULE DWC-9
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

OPERATING INCOME/MARGIN STATEMENT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJS	REF	[C] STAFF ADJUSTED
	OPERATING REVENUES:				
1	Base Revenue	$ 31,324,285	$ -		$ 31,324,285
2	PCA Revenue	(5,811,952)	-		(5,811,952)
3	PCA Over/Under Recovery	-	-		-
4	Other	329,990	-		329,990
5	**Total Operating Revenues**	**$ 25,842,323**	$ -		**$ 25,842,323**
	OPERATING EXPENSES:				
6	Purchased Power	$ 14,423,830	-		$ 14,423,830
7	Transmission O & M	79,022	-		79,022
8	Distribution - Operations	1,799,737	-		1,799,737
9	Distribution - Maintenance	1,211,473	-		1,211,473
10	Consumer Accounting	2,000,091	-		2,000,091
11	Customer Service	339,252	-		339,252
12	Sales	70,633	-		70,633
13	Administrative & General	2,665,419	(33,093)	1	2,632,326
14	Depreciation Expense	2,223,660	(186,142)	2	2,037,518
15	Tax	501,960	-		501,960
16	**TOTAL OPERATING EXPENSES**	**$ 25,315,077**	**$ (219,235)**		**$ 25,095,842**
17	**TOTAL OPERATING INCOME/MARGIN**	**$ 527,246**	**$ 219,235**		**$ 746,481**
	INTEREST AND OTHER DEDUCTIONS:				
18	Interest on Long-term Debt	$ 1,845,553	$ -		$ 1,845,553
19	Other Interest	125,779	-		125,779
20	Other Deductions	7,453	-		7,453
21	**TOTAL INTEREST AND OTHER DEDUCT.**	**$ 1,978,785**	**$ -**		**$ 1,978,785**
22	**MARGIN AFTER INTEREST & OTHER**	**$ (1,451,539)**	**$ 219,235**		**$ (1,232,304)**
	NON-OPERATING MARGINS:				
23	Interest Income	$ 141,045	$ -		$ 141,045
24	Other Margins	(143,392)	-		(143,392)
25	Other Capital Credits	117,567	-		117,567
26	**TOTAL NON-OPERATING MARGINS**	**$ 115,220**	**$ -**		**$ 115,220**
27	**NET INCOME/MARGINS**	**$ (1,336,319)**	**$ 219,235**		**$ (1,117,084)**

References:

Column [A]: Company Schedule A-1.0

Column [B]: Staff Schedules DWC-10 and DWC-11

Column [C]: Column [A] plus Column [B]

Adjustment No. 1: Schedule DWC-10

Adjustment No. 2: Schedule DWC-11

NAVOPACHE ELECTRIC COOPERATIVE, INC.
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

Schedule DWC-10

OPERATING INCOME ADJUSTMENT NO. 1
ADMINISTRATIVE AND GENERAL EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Admin. & Gen'l. Expense	$ 2,665,419	$ (33,093)	$ 2,632,326

Explanation of Adjustment:

2 To decrease Test Year pro forma rate case expense to reflect Staff's use of a 5-year amortization period rather than the Company's 3-year amortization period. ($150,000/3 = $50,000 versus $150,000/5 = $30,000) = $ (20,000)

To remove portion of Test Year membership fee expense paid to organizations for lobbying activities.

3 1. G.C.S.E.C.A. $ (11,362)

4 2. N.R.E.C.A. $ (1,731)

5 TOTAL: $ (33,093)

References:

Column [A]: Company Schedule A-1.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

Line 3: Schedule DWC-9 and Company's response (06/14/01) to Staff data request DWR 3-34

Line 4: Schedule DWC-9 and Company's supplemental response (07/27/01) to Staff data request DWR 3-34

NAVOPACHE ELECTRIC COOPERATIVE, INC. **Schedule DWC-11**
Docket No. E-01787A-01-0063
Test Year Ended October 31, 1999

OPERATING INCOME ADJUSTMENT NO. 2
DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENT	[C] STAFF AS ADJUSTED
1	Total Company Depreciation Expense	$ 2,223,660	$ (186,142)	$ 2,037,518
	Explanation of Adjustment:			
2	To remove Test Year depreciation expense on unauthorized electric plant acquisition adjustment. ($224,077 @6.67%).		$ (14,946)	
3	To decrease Test Year depreciation expense to correct Company mathematical error in addition of sub-total of the 350 series plant accounts' depreciation expense. (Company filed as $205,718 but should be $175,826).		$ (29,892)	
4	To remove depreciation expense on Construction Work in Progress ("CWIP"). ($4,361,247 @ 3.24%).		$ (141,304)	
5		TOTAL:	$ (186,142)	

References:

Column [A]: Company Schedule A-1.0

Column [B]: DWC Direct Testimony

Column [C]: Column [A] plus Column [B]

Line 2: Schedule DWC-5 and Company Schedule A-10.0

Line 3: Company Schedule A-10.0

Line 4: Schedule DWC-7 and Company Schedule A-10.0

EMERSON

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

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 A 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

DIRECT

TESTIMONY

OF

ASHER EMERSON

ELECTRICAL ENGINEER

UTILITIES DIVISION

August 15, 2001

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CHARTS

EXECUTIVE SUMMARY
DIRECT TESTIMONY OF ASHER EMERSON
IN THE MATTER OF THE APPLICATION OF
NAVOPACHE ELECTRICAL COOPERATIVE, INC.
DOCKET NO. E-01787A-01-0063

The Direct Testimony of Engineering Staff (Engineering) witness, Asher Emerson, addresses the cost of service study the Company filed in this proceeding. In Staff's opinion, Navopache Electric Cooperative, Inc.'s ("Navopache" or "Cooperative") cost of service study used appropriate methods to functionalize, classify, and allocate costs. The weighting factors Navopache used were reasonable. Engineering recommends the Commission accept Navopache's cost of service study.

Engineering performed an inspection of Navopache's electric system and concludes that Navopache's facilities are being adequately operated and maintained. There is a low voltage problem with Arizona Public Service (APS) transmission delivery. Navopache should be required to resolve the low voltage problem with APS, and if it is not able to resolve the low voltage problem within six months, then Navopache should report such to the Commission.

Navopache proposed moving $2,905,624 of Construction Work in Progress ("CWIP") to post Test Year plant additions. Since the essential information of when and if the plant was placed in service and the accounts to which the costs will be transferred from construction were not provided, Engineering cannot determine if these projects are used and useful for providing reliable, efficient, and safe electric service to Navopache customers. Engineering recommends disallowing $2,905,624 of CWIP.

Navopache listed $144,386 in 1994 to Account 301 - Organization. Since Navopache has not provided what the charge was for, Engineering can not determine if the item is used and useful for providing reliable, efficient, and safe electric service to Navopache customers.

Navopache also listed $240,091 in 1993 to Account 389 - Land & Land Rights. The charge was to purchase land for new office and warehouse facilities. Navopache's present offices are old and crowded, and the warehouse facilities are on leased land that Navopache would have to vacate on a month's notice. While Engineering believes that the land will be utilized in the future, the land is not being used at this time.

INTRODUCTION

Q. Please state your name and business address.

A. Asher D. Emerson, 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what capacity are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission") as a Utilities Engineer - Electrical in the Utilities Division.

Q. Please state your educational background.

A. I graduated from New Mexico State University in 1974, with a Bachelor of Science degree in Electrical Engineering. I also completed the Management Institution Course through Arizona State University's Center for Executive Development in 1993.

Q. Please state your pertinent work experience.

A. I worked as an Electrical Engineer for Salt River Project for over 23 years. In addition, I managed the Federal Government Contracting section for a Phoenix firm, A. R. Utility Specialists. In May 2000, I joined the Commission as a Utilities Engineer for the Utilities Division. While at the Commission, I have been involved in utility financing and rate cases, power plant and transmission line siting cases, utility reporting procedure reviews, utility safety issues and accidents investigations. I have reviewed applications and prepared staff reports for various electric utility cases.

Q. As part of your assigned duties at the Commission, did you perform an analysis of the application that is the subject of this proceeding?

A. Yes.

Q. Is your testimony herein based upon that analysis?

A. Yes.

Q. What is the purpose of your direct testimony in this proceeding?

A. I will be providing testimony regarding my analysis of the cost of service study ("COSS") filed in this docket by Navopache Electric Cooperative, Inc. ("Navopache") and results of my inspection of the electric system. Also, I will address the company's proposed additions to plant in service.

COST OF SERVICE STUDY

Q. Did Navopache file a cost of service study in this proceeding?

A. Yes, Navopache filed an embedded cost of service study.

Q. What is an embedded cost of service study?

A. An embedded cost of service study is an analysis that distributes the costs included in a utility's revenue requirement among the various classes of customers. There are three primary steps to the process: functionalization, classification, and allocation. Functionalization consists of identifying whether costs are related to production, transmission, distribution, or other cost areas. Classification of costs is the determination of whether particular costs are related to the number of kilowatts of peak demand, to the number of kilowatt-hours of energy consumption, or to the number of customers served. Allocation is the process of distributing the costs between the customer classes based on usage characteristics for each class.

The end result of an embedded cost of service study is a measure of revenue, expenses, and rate base by customer class. These results permit calculation of a rate of return for each class, a profit margin for each class, and some indices of return, such as a return index (class rate of return divided by system rate of return) and a revenue to cost ratio (revenue divided by revenue requirement).

. . .

. . .

Q. How are costs within a cost of service study allocated?

A. All costs are ultimately allocated based on indices of usage. For production plant and power supply costs, the appropriate indices are peak demand usage and energy usage. In the classification step, production and power supply costs are categorized as either "demand" or "energy" related. In selecting an allocation methodology, some combination of demand measures and energy usage are used to allocate those costs; in many cases, energy usage is utilized to allocate the costs that are classified as demand-related.

Q. Is a cost of service study an exact science?

A. No. Although the principles are the same for each system, the allocations may differ on a company-to-company basis. Based on the design and operation of a system, one may allocate more costs to demand and less to commodity and vice versa. This is one of the reasons that a cost of service study should not be used as the sole criteria for rate design purposes. The cost of service study should only be a guide for rate design.

Q. What was the process you used in your review of the COSS submitted by Navopache?

A. There were three steps in my review. First, I reviewed the rate base and expense numbers that Navopache used in its COSS to determine if these numbers matched those in the appropriate schedules of its application. Next, I studied the COSS to gain an understanding of exactly how Navopache had organized the study. I reviewed how the costs were functionalized and classified.

Finally, I reviewed the cost allocations used by Navopache to determine whether, in my opinion, these were the appropriate methods to use.

Q. What did you determine from your review of the cost of service study?

A. Navopache's cost of service study used appropriate methods to functionalize, classify, and allocate costs. The weighting factors Navopache used were reasonable. Navopache

appropriately used the "Sum of 12 Monthly Peaks" to allocate demand charges to each customer classes. A 12-month demand allocation factor was developed using the monthly purchased demand values during the test year as the system monthly total. The allocation of monthly demand responsibility was made to all of the classes with metered demand by applying the appropriate losses and coincidence factor to metered demand values for that class. After the allocation of demand responsibility was made to the classes with metered demand, the remainder of the Coincident Peak (CP) demand was assigned to the non-demand metered classes based on kWh sales and a load factor differential of 5 percent between Residential and Small Commercial.

Q. Did the methods used by Navopache comply with industry standards?

A. Navopache used procedures and methodology that are generally accepted standards throughout the utility industry for the cost of service study. Allocation of invested capital and operating expenses were allocated to the respective customer charges on the basis of demand, energy and customer factors.

RECOMMENDATIONS

Q. Do you have a recommendation concerning Navopache's cost of service study?

A. I recommend the Commission accept Navopache's cost of service study in this case.

EVALUATION OF ELECTRIC SYSTEM

Q. What is Navopache's service area?

A. Navopache serves portions of Navajo, Apache, Greenlee, and Gila Counties in Arizona and Catron County in New Mexico. Navopache's service area encompasses 10,000 square miles. Navopache's Pinetop/Lakeside service area represents the area of greatest density of customers.

. . .

. . .

Q. What was the growth rate for Navopache's electric system?

A. From 1990 to 1999, Navopache experienced a 30 percent increase in customers. The peak demand for the system increased 16 percent from 1996 to 1999. See Chart 1 for growth in peak demand.

Q. What were the system losses for Navopache's electric system?

A. System losses for 1999 were 7.15 percent, which is less than the Rural Utility Services ("RUS") guideline of 8.5 percent for this type of system. See Chart 2 for annual system losses.

Q. What price, per kWh, has Navopache been paying for power?

A. In 1993, the price was approximately 64 mills per kWh and in 1999, the price was approximately 54.5 mills per kWh, which is a reduction of 15 percent. Navopache presently purchases all of its power from Public Service Company of New Mexico. See Chart 3 for the price paid for power.

Q. What is the outage history for Navopache's system?

A. The five-year Average Outage Hours per Customer was 3.77, which is below the RUS guideline of 5. The year 1995 exceeded the RUS guideline of 5 outage hours per customer with a 9.09. This was due primarily to a storm, with heavy wet snow, hitting the western side of the system. See Chart 4 for Average Outage Hours per Customer.

Q. Did you inspect Navopache's Electric System?

A. Yes, I visited Navopache on July 17, 2001, and met with Mr. Wayne Retzlaff, General Manager, and Mr. Kent Rhoton, Manager of Engineering Services. I was accompanied by Mr. Rhoton when I inspected the system.

. . .

. . .

Q. What did you discover during the inspection?

A. Navopache operates their electric system via a sophisticated Supervisory Control and Data Acquisition ("SCADA") system. Navopache's SCADA system lowers operational costs by giving the Cooperative the ability to monitor and remotely control its transmission and distribution system 24 hours a day, seven days a week. Navopache's SCADA system effectively lowers operational costs by allowing a single operator to remotely control power system circuit breakers and restore service within minutes of a power outage. Remote operations eliminate the need to send a person to remote sites to do the operating. The ability to operate remotely is extremely valuable, especially during major storms and with Navopache's rough terrain. Navopache continues to make enhancements to its SCADA system.

Navopache also has a pole inspection program that treats poles on an ongoing basis. This program reduces the number of poles that rot below grade and ultimately fail. Navopache also has substation maintenance. In one of the substations, it appeared that several breakers had minor oil leaks. The maintenance records identified the staining as surface rust, which is being monitored. The Company has assured Staff that it will take the necessary corrective action, if needed.

While discussing system performance, Navopache identified that there was a problem with the Arizona Public Service Company ("APS") transmission service to Navopache. Planning studies show that the transmission voltage could drop to as low as 92 percent of normal voltage, which is below the industry minimum standard of 95 percent. This low voltage indicates a problem with APS' local transmission system. APS' electric system operations department has requested that Navopache reconfigure its system or switch on capacitors to provide voltage support since 1997. Navopache has met with APS in an effort to get APS to upgrade its transmission system to avoid low voltage problems. On July 17, 2001, Navopache faxed Engineering a copy of a letter Navopache had sent to the

Commission, on May 3, 2001, stating that "[a]nything the Commission can do to encourage APS to be proactive in reviewing and upgrading its transmission lines interfacing with the Westerly portion of Navopache's distribution system would be appreciated." Since Navopache is working with APS to resolve the low voltage problem, Engineering recommends that if Navopache is not able to resolve the low voltage problem within six months, then Navopache should report such to the Commission.

INSPECTION CONCLUSIONS

Q. What were the conclusions you reached from your inspection of Navopache's electric system?

A. My review indicates that the Cooperative's facilities are being adequately operated and maintained.

DETERMINATION OF USED AND USEFUL PLANT

Q. Did Navopache request any inclusion of post test year plant additions?

A. Yes, Navopache has proposed moving $2,905,624.56 of CWIP to post Test Year plant additions.

Q. What did Navopache provide in support of its proposal?

A. Navopache provided a list of jobs with job numbers, description of work, close date, accounting identification number, and dollar amount. However, the essential information of when and if the plant was placed in service and the accounts to which the costs will be transferred from construction were not provided. Therefore, Engineering cannot determine if these projects are used and useful for providing reliable, efficient, and safe electric service to Navopache customers. Therefore, Engineering recommends that Navopache's request to include post test year plant additions in plant in service at this time be denied.

. . .

Q. Were there any other items Navopache requested be included that should be disallowed?

A. Yes, there were two other charges. Navopache listed $144,386 in 1994 to Account 301 - Organization. Since Navopache has not provided what the charge was for, Engineering cannot determine if the item is used and useful for providing reliable, efficient, and safe electric service to Navopache customers.

Also Navopache listed $240,091 in 1993 to Account 389 - Land & Land Rights. The charge was to purchase land for new office and warehouse facilities. Navopache's present offices are old and crowded, and the warehouse facilities are on leased land that Navopache would have to vacate on 90 days notice. While Engineering believes that the land will be utilized in the future, the land is not being used at this time.

Q. Does this conclude your direct testimony?

A. Yes, it does.

CHART 1

NAVOPACHE ELECTRIC COOPERATIVE

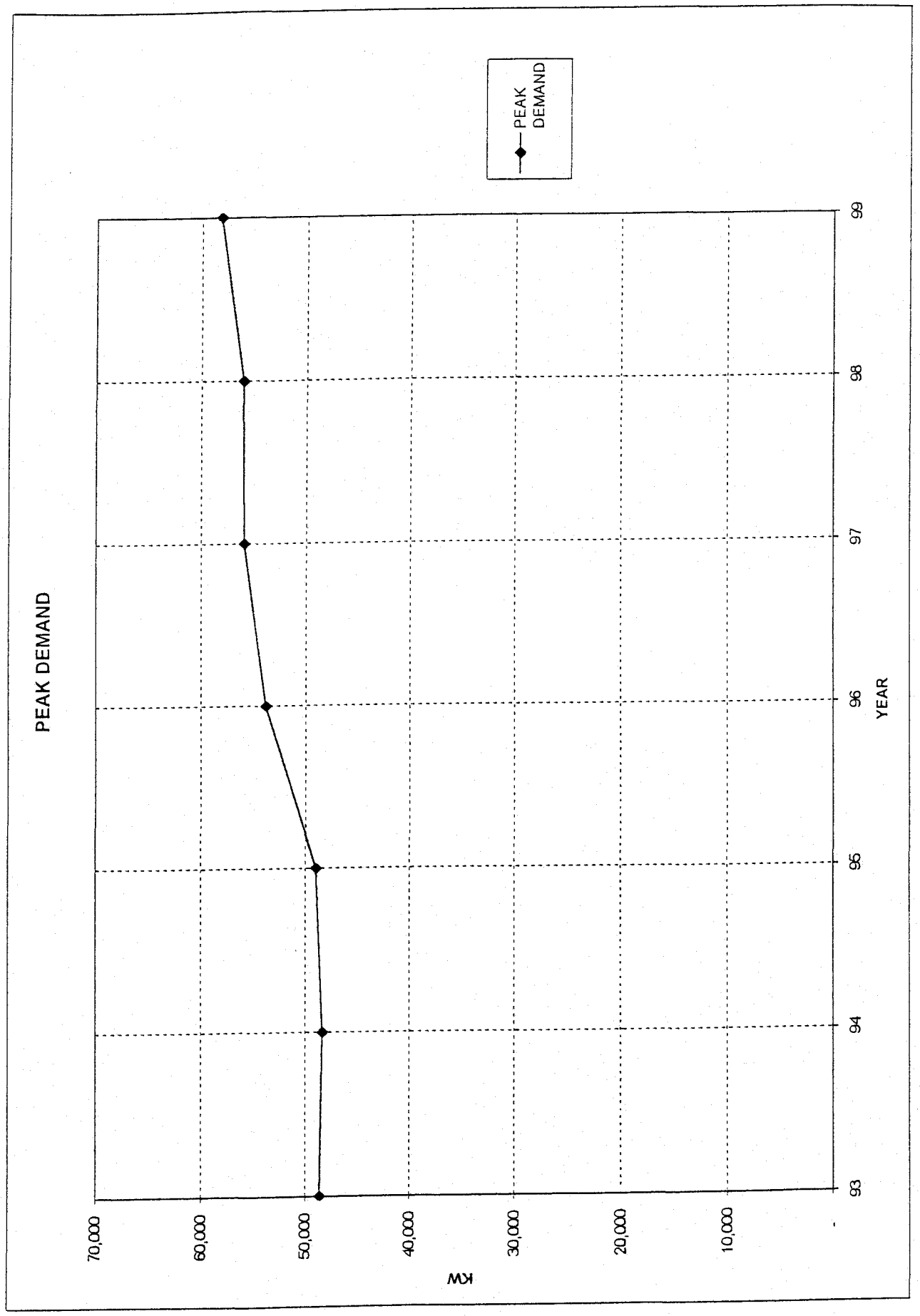
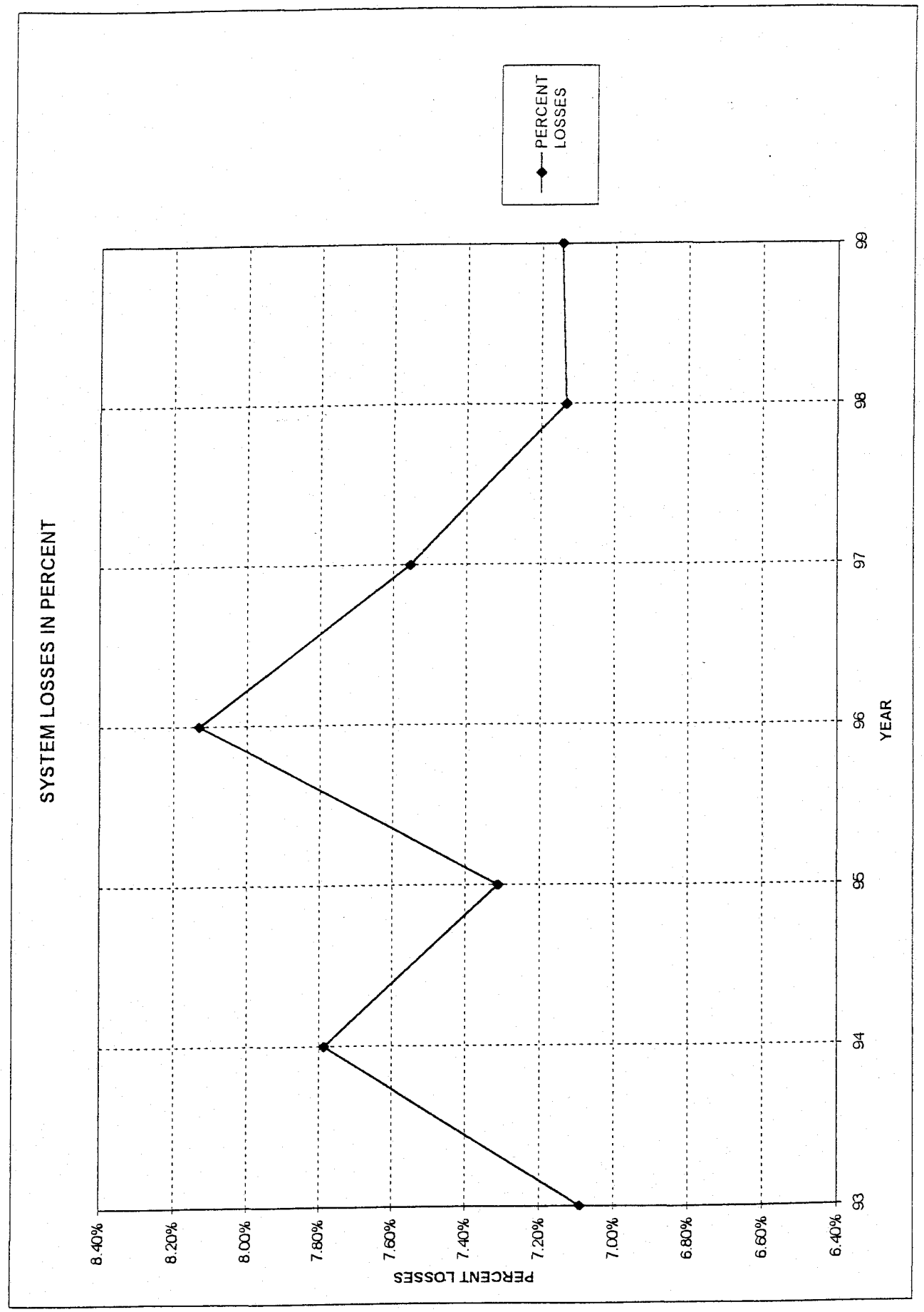
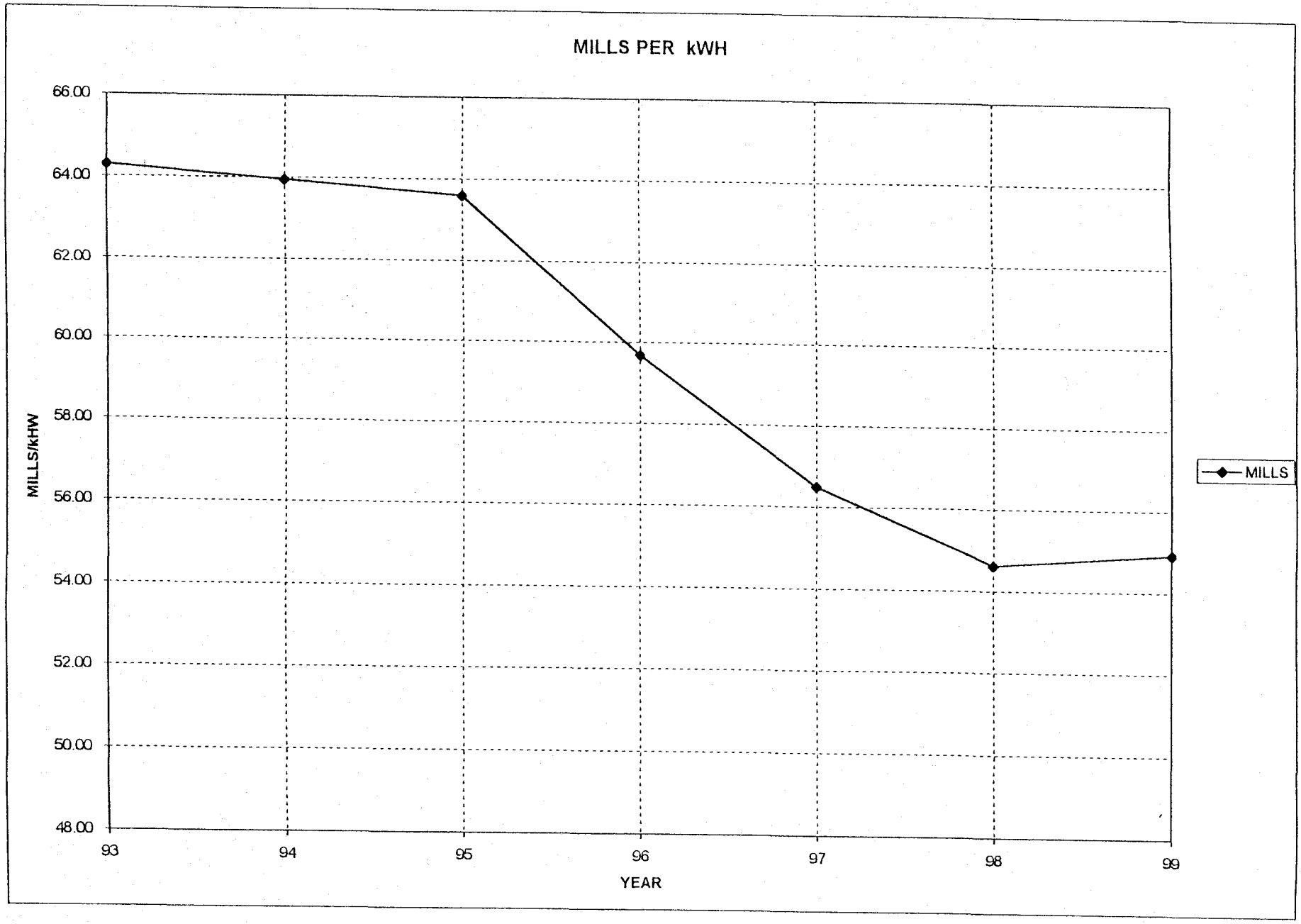


CHART 2

NAVOPACHE ELECTRIC COOPERTIVE

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64.00
62.00
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56.00
54.00
52.00
50.00
48.00
MILLS/kHW
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94
95
96
97
98
99
YEAR
MILLS

CHART 3

NAVOPACHE ELECTRIC COOPERATIVE

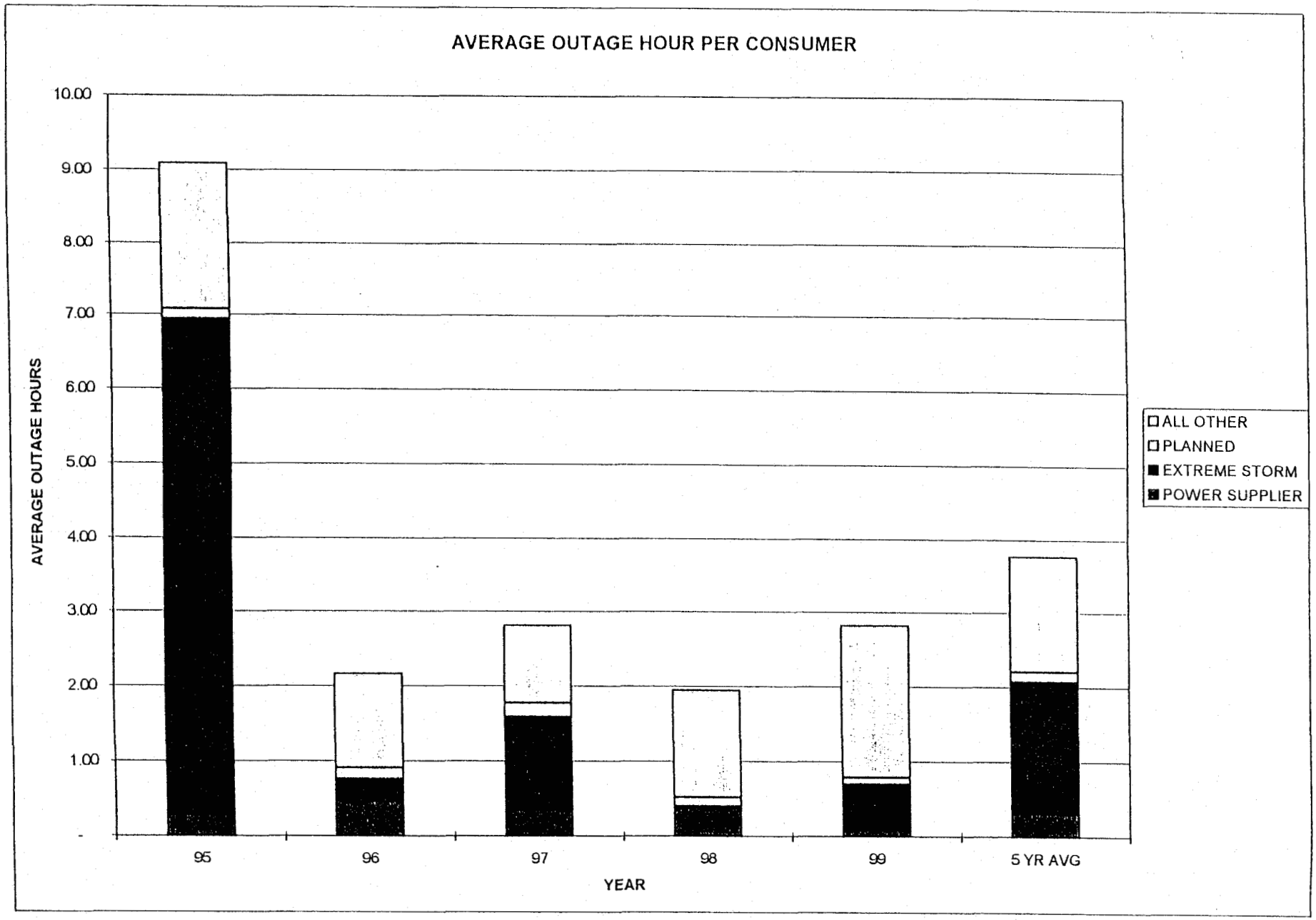

CHART 4