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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF )  
GRAHAM COUNTY ELECTRIC COOPERATIVE )  
INC. FOR A DETERMINATION OF THE FAIR )  
VALUE OF ITS PROPERTY AND FOR AN )  
ORDER SETTING JUST AND REASONABLE )  
RATES )

DOCKET NO. E-01749A-07-0236

**SUMMARIES OF TESTIMONY**

Graham County Electric Cooperative, Inc. ("GCEC") hereby files the summaries of Direct, Supplemental, Rebuttal and Rejoinder Testimony of Mr. John V. Wallace.

RESPECTFULLY SUBMITTED this 29<sup>th</sup> day of January, 2008.

By

John Wallace  
Grand Canyon State Electric Cooperative Assn. Inc.  
Consultant for Graham County Electric  
Cooperative, Inc.

**Original** and thirteen (13) copies filed this 29<sup>th</sup> day of January, 2008, with:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

By

Arizona Corporation Commission  
**DOCKETED**

JAN 29 2008

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BEFORE THE ARIZONA CORPORATION COMMISSION

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SUMMARY

OF

DIRECT

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

1 Q. Please summarize your recommendations.

2 A. The reasons underlying the Company's request for an overall 23.61 percent increase in  
3 revenues are as follows. GCEC's request to decrease its positive purchased power  
4 adjutor from \$0.015 per kWh to zero and corresponding increase in its base cost results  
5 in an increase in base rates of 16.3 percent (approximately \$2.0 million) of the 24 percent  
6 increase. The purchased power adjutor of \$0.015 per kWh is currently being collected  
7 from GCEC's customers and remitted to GCEC's power supplier, Arizona Electric Power  
8 Cooperative, Inc. ("AEPCO"), because of increases in AEPCO's rates.

9  
10 The remaining 7.31 percent (approximately \$900,000) increase is due to the fact that  
11 since its last Test Year ending December 31, 2001, GCEC has been investing over \$7.5  
12 million in plant improvements and replacements. Since its last Test year GCEC has  
13 incurred approximately \$4.5 million in long-term debt to fund its investments in plant  
14 improvements. As a result, the amount of GCEC's debt service payments (principle and  
15 interest) has increased significantly. GCEC has also experienced increases in its other  
16 expenses since its last Test Year. An increase of this magnitude is needed to eliminate  
17 negative margins produced by the current rates, to provide adequate interest and debt  
18 service coverage's and to provide the internally generated cash flows required to support  
19 the utility's on-going operations and plant improvements.

20  
21 Q. Please explain Schedule A-2 of the filing.

22 A. Schedule A-2, page 2 of 2, summarizes operating results at present and proposed rates for  
23 the 12 months ended September 30, 2006, the test year in this case. The present rates  
24 produced an operating margin deficit or loss of approximately \$1,142,520 on an adjusted  
25 test year basis. The proposed \$2,909,074 increase in revenues produces a positive  
26 operating margin of \$1,766,554.

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1 Q. Do you view the indicated increase in revenues of approximately 24 percent at proposed  
2 rates as a reasonable in this case?

3 A. Yes. Cooperatives' revenue requirements are normally determined by the level of  
4 operating expenses plus an additional amount of margin for interest coverage. GCEC has  
5 used a Net Times Interest Earned Ratio ("TIER") of 2.0 to determine the required level of  
6 revenues and revenue increase. Since GCEC's amount of interest on long term debt has  
7 and will continue to increase from its previous Test Year amount, it is necessary for  
8 GCEC to use a Net TIER of 2.0 to set its revenue requirement. In addition, customers  
9 will actually only experience an increase of approximately 5 to 7 percent due to the fact  
10 that GCEC currently has been charging customers a positive purchased power adjustor of  
11 \$0.015 per kWh that it is recommending be set to zero as a part of this application.  
12 Finally, a Net TIER of 2.0 is necessary to maintain GCEC's equity level above 30  
13 percent which has been required by the Commission in other cooperatives' rate and  
14 financing cases.

15  
16 Q. What factors besides its Net TIER did GCEC use to determine its revenue requirement in  
17 this case?

18 A. GCEC has determined its proposed revenue requirement by considering the amount of  
19 revenue necessary to maintain a Net TIER of 2.0, to maintain a positive cash flow after  
20 operating expenses, to fund plant improvements and maintenance, to maintain its equity  
21 level and to fund contingencies. The requested increase in this case is reasonable given  
22 its recent history of negative margins, and the need to produce positive cash flows and  
23 maintain its equity level. GCEC has considered and balanced these financial  
24 considerations with a reasonable overall increase in revenues for its members.  
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1 Q. Please summarize your rate design recommendations.

2 A. Considering the Cost of Service Study prepared for the case and other factors, I have  
3 based the rate design on customer class increases equal to approximately 24 percent  
4 overall increase in revenues with the exception of the security and street light classes.

5  
6 I am recommending no increases in the monthly minimum (service availability) charges.

7  
8 The kWh charges for each class were increased to a level that would result in an  
9 approximate 24 percent increase in customer class revenues with the exception of the  
10 security and street light classes.

11  
12 I am recommending no increases in the service charges. The present and proposed service  
13 charges are detailed on the bottom of Schedule H-3.

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SUMMARY

OF

SUPPLEMENTAL

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

1 Q. Please explain why you are filing supplemental testimony and summarize your  
2 recommendations.

3 A. There are two primary reasons that GCEC is filing supplemental testimony. First, GCEC  
4 has discovered after it filed its rate case Application on April 11, 2007 that it did not have  
5 a line extension policy or tariff on file with the Arizona Corporation Commission.  
6 Second, since April 11, 2007, GCEC's management has had an opportunity to further  
7 analyze the use of hook-up fees and make presentations regarding hook-up fees to  
8 GCEC's board. GCEC's board has decided to request a \$1,000 hook-up fee as a part of  
9 its rate case application. GCEC has also made minor changes to its rules and regulations.  
10 In addition, GCEC has discovered minor additions/changes that need to be made to the  
11 rate schedules included in its Application.

12  
13 Q. Please summarize your supplemental testimony recommendations.

14 A. I have attached GCEC's proposed line extension and hook-up fee tariff to this testimony.  
15 GCEC has included a hook-up fee of \$1,000 per each new service in its line extension  
16 tariff. GCEC requests that its line extension and hook-up fee tariff be approved by the  
17 Commission. GCEC has also made minor changes to its rules and regulations and rate  
18 schedules which are attached to this testimony. GCEC requests that the rules and  
19 regulations attached to this testimony be approved by the Commission.

20  
21 Q. Do the recommendations included in your supplemental testimony have any impact on  
22 the revenue requirement or other recommendations contained in GCEC's Application?

23 A. No. The recommendations included in my supplemental testimony have no impact on the  
24 revenue requirement or other recommendations contained in GCEC's Application.

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SUMMARY

OF

REBUTTAL

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

1 Q. Please summarize your rebuttal recommendations.

2 A. GCEC stipulates to the testimony of all four Staff witnesses and requests that the  
3 Commission adopt all of the recommendations in Staff's testimony. GCEC believes the  
4 Staff recommendations found in Mr. Anderson's revised direct testimony on the base cost  
5 of purchased power, purchased power adjustor issues, demand-side management and  
6 renewables programs cost recovery, qualified facility tariffs, rules and regulations, line  
7 extension tariff and hook-up fees should be adopted by the Commission. Graham also  
8 agrees to the Staff revenue requirement of \$15,968,075, total operating expenses of  
9 \$13,988,235 and operating margins of \$1,979,840 which produces a Time Interest Earned  
10 Ratio ("TIER") of 2.00 and Debt Service Coverage Ratio ("DSC") of 2.38 as found in  
11 Mr. Becker's revised direct testimony on schedule GWB-2. Staff and Graham agree to a  
12 rate base amount of \$19,076,282 as found on direct schedules GWB-3 and my direct  
13 testimony schedule B-1. GCEC also agrees to the rate design recommendations as found  
14 in Mr. Musgrove's revised direct testimony as summarized on schedule WHM-1 and  
15 unbundled rate design as summarized on schedule WHM-3. Finally, GCEC agrees with  
16 Mr. Bahl's direct and revised direct testimony on cost of service.

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REJOINDER

TESTIMONY

OF

JOHN V. WALLACE

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

1 Q. Please summarize your rejoinder testimony recommendations.

2 A. As stated in my rebuttal testimony, GCEC stipulates to the testimony of all four  
3 Staff witnesses and requests that the Commission adopt all of the recommendations in  
4 Staff's testimony. However, upon further review of Mr. Anderson's revised direct  
5 testimony, GCEC has two recommendations regarding Staff's Demand Side Management  
6 ("DSM") recommendations. The first is recommendation is that requirement in Decision  
7 No. 58437, dated October 18, 1993, that GCEC file a semi-annual DSM report with Staff  
8 be eliminated. The second recommendation is that in the future, GCEC be allowed to file  
9 an annual DSM report rather than the semi-annual DSM report as stated in Mr.  
10 Anderson's testimony.

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