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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE COMPLAINT OF
BUREAU OF INDIAN AFFAIRS, UNITED
STATES OF AMERICA, AGAINST
MOHAVE ELECTRIC COOPERATIVE,
INC. AS TO SERVICES TO THE
HAVASUPAI AND HUALAPAI INDIAN
RESERVATIONS.

DOCKET NO. E-01750A-05-0579

**SUPPLEMENTAL TESTIMONY OF DAN L. NEIDLINGER
ON BEHALF OF MOHAVE ELECTRIC COOPERATIVE, INC.**

Arizona Corporation Commission

DOCKETED

DEC 15 2008

DOCKETED BY

Bryan Cave LLP
Two North Central Avenue, Suite 2200
Phoenix, Arizona 85004-4406
(602) 364-7000

1 **Q. Please state your name, address and occupation.**

2 A. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive,
3 Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm
4 specializing in utility rate economics.
5

6 **Q. Please describe your professional qualifications and experience.**

7 A. A summary of my professional qualifications and experience is included in the
8 Statement of Qualifications attached to my testimony as Exhibit DLN - 1. In addition to the
9 Arizona Corporation Commission ("ACC" or "Commission"), I have presented expert
10 testimony before regulatory commissions and agencies in Alaska, California, Colorado,
11 Guam, Idaho, New Mexico, Nevada, Texas, Utah, Wyoming and the Province of Alberta,
12 Canada.
13

14 **Q. On whose behalf are you appearing in this proceeding?**

15 A. I have been retained by the attorneys for Mohave Electric Cooperative, Inc.
16 ("MEC"), to answer certain questions that arose during the instant proceeding related to the
17 cost of service study ("1989 COSS") that I prepared in conjunction with MEC's 1989 rate
18 filing (Docket No. U-1750-89-231), the rates approved by the Commission in that Docket
19 and the current effect of these rates on the Bureau of Indian Affairs ("BIA"). I was engaged
20 by MEC in the 1989 case as its COSS and rate design consultant. The Cost of Service
21 Summary of the 1989 COSS to which I will be referring throughout my testimony is
22 attached as Exhibit DLN- 2. A complete copy of the 1989 COSS was attached to Exhibit
23 C-1 (Mr. Gold's direct testimony) as Exhibit 10.

24 **Q. What areas of inquiry were you requested to explain?**

25 A. I was asked to respond to the following questions:

- 26 1. Was the 70 mile line constructed by MEC from the Nelson Substation to the Long
27 Mesa transformer ("BIA Line") included in rate base in the 1989 case?
28

- 1 2. Why were BIA revenues, related cost of service and book value of the BIA Line
2 shown in the 1989 COSS as a separate customer class?
- 3 3. Was the indicated BIA percentage return on rate base under rates in effect at that
4 time excessive in relationship to the system average return or the indicated returns of
5 other customer classes?
- 6 4. Did billing the BIA a contract Facilities Charge plus MEC's standard Large
7 Commercial & Industrial Rate ("LC&I Rate") during the 1989 test year result in an
8 over-collection of depreciation, property taxes and other operating and maintenance
9 expenses?
- 10 5. Are any of the costs of the BIA Line currently being recovered through MEC's
11 standard tariffs?
- 12 6. Is the BIA currently subsidizing other classes of customers served by MEC?
13

14
15 **Q. What materials did you examine in preparing your testimony?**

16 **A.** I examined the following documents in preparing my testimony:

- 17
 - 18 ● Stipulated Statement of Facts and Issues in Dispute
 - 19 ● Application for Approval of Financing, October 1, 1980
 - 20 ● Decision No. 51491, dated October 22, 1980
 - 21 ● Decision No. 53174, dated August 11, 1982 approving rates
 - 22 ● Application for new Rate dated September 26, 1989 (1989 Rate Case)
 - 23 ● The 1989 COSS
 - 24 ● Staff Report for 1989 Rate Case
 - 25 ● Decision No. 57172, dated November 29, 1990 approving new rates
 - 26 ● BIA tariff filed per Decision No. 57172
 - 27 ● April 8, 1982 billing statement
 - 28 ● Billing statements for the 1989 test year

1 higher than the overall system average return of 5.41% and lower than the overall system
2 return of 8.59% authorized by Commission Decision No. 57172. Other classes exhibited
3 much larger disparities in percentage returns: Large C&I (9.89%), Irrigation (39.48%),
4 Chemstar (14.39%), Cyprus Bagdad (46.94%) and Lighting (negative 5.44%).

5
6 **Q. Did you recommend an increase in rates for the BIA in the 1989 case?**

7 A. No. I recommended no change in the BIA rates. The Commission however, in
8 Decision No. 57172 increased the rates charged to the BIA by 2.34%.

9
10 **Q. Under the BIA contract did MEC charge both the LC&I rate and a contract
11 facilities charge?**

12 A. Yes.

13 **Q. Did MEC over-collect depreciation, property taxes and other O&M costs by
14 billing the BIA under the LC&I rate and also billing the contract facilities charge?**

15 A. No. The LC&I Rate is admittedly designed to recover a portion of these costs but on
16 a much different basis than used to recover the costs associated with serving the BIA. The
17 costs used to design the LC&I Rate are shown under the Large C&I column of the 1989
18 COSS as provided on Exhibit DLN-2. The costing of the LC&I Rate is based on an
19 integrated electric system concept whereby many customers share in the recovery of fixed
20 costs such as depreciation and property taxes on joint-use plant rather than a large,
21 specifically assigned facility like the BIA Line. As a result, the per-unit cost recovery under
22 the LC&I Rate is not sufficient to recover the costs associated with the BIA Line at the very
23 low level of electric sales from that Line. As shown on the 1989 COSS, the margin (electric
24 sales of \$119,882 less over-collected purchased power revenue of \$172 less purchased
25 power of \$100,211) from sales to the BIA during the test year was only \$19,499, whereas

26
27 _____
28 incorrectly classified approximately \$32,000 of loan principal paid by the BIA as Other
Electric Revenues. If this downward adjustment is made to revenues, BIA operating income
is reduced to \$42,960 resulting in an adjusted return on rate base of 4.00%.

1 costs associated with the BIA Line other than purchased power totaled \$130,587 – a short-
2 fall of \$111,088 just to break even and with no consideration of a return requirement on rate
3 base. Therefore, if the Facilities Charge had not been collected during the test year, the
4 LC&I Rate alone would have been insufficient to cover the costs to MEC of providing the
5 BIA service.

6
7 **Q. You earlier mentioned that the BIA rate base included other allocated**
8 **components such as transmission plant, general plant and working capital in addition**
9 **to the BIA line. Is there any provision in the facilities charge for the recovery of the**
10 **costs associated with these rate base components?**

11 A. No. The Facilities Charges were designed to recover certain costs associated solely
12 with the BIA Line. The \$19,499 in margins from electric sales under the LC&I Rate were
13 needed to recover some or all of the costs, including a return, associated with these other
14 rate base components. In summary, the revenues received from the BIA during July 31,
15 1989 test year through a combination of electric sales and facilities charges did not result in
16 an over-collection of the costs required to serve this customer. The 1989 COSS validates
17 this conclusion.

18 **Q. Were any of the costs of the BIA line included in the development of the LC&I**
19 **rate in 1989?**

20 A. No. The currently authorized LC&I rate was developed in the 1989 rate proceeding
21 and has not been changed since that case. As previously mentioned, the LC&I rate was
22 designed to recover the allocated costs to this large customer class. None of the costs
23 associated with the BIA Line were included in this allocation. All of the BIA Line costs
24 were shown in the 1989 COSS under the BIA column (see Exhibit DLN-2). Accordingly,
25 current LC&I billings are not recovering any costs associated with the BIA Line.

26
27 ...
28

1 **Q. Have you reviewed more recent billings to the BIA since abandonment of the**
2 **BIA line and the elimination of the facilities charge?**

3 A. Yes. I analyzed billings to the BIA from November 2005 through October 2006. For
4 that period MEC charged the BIA under the LC&I Rate approved by Decision No. 57172
5 and did not charge any portion of the Facilities Charge. Kilowatt hour (“kWh”) sales
6 increased by approximately 46% since 1989 due to customer growth and a change in the
7 metering location. Accordingly, the annual margins (electric sales less power costs) have
8 probably also increased by approximately 46% to \$28,000.

9 **Q. Does this increase in margins mean that the BIA is now subsidizing MEC’S**
10 **other customers?**

11 A. No. As previously indicated, the LC&I Rate approved for MEC in 1989 and still in
12 effect today did not then and does not now include any of the costs associated with the BIA
13 Line. Further, it is unlikely that this modest dollar increase in current margins from the
14 LC&I rate is adequate to recover the increases in system-wide operating costs and utility
15 plant incurred by MEC over the past 19 years needed to provide service to the BIA. If this
16 is the case, subsidies would now flow to the BIA rather than from the BIA. An updated
17 COSS would be needed to validate this conclusion.

18
19 **Q. Does this conclude your direct testimony?**

20 A. Yes, it does.
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1 **VERIFICATION STATEMENT**

2 STATE OF ARIZONA)
3) ss.
4 County of Maricopa)

5 I, Dan L. Neidlinger, being first duly sworn according to law, deposes and says:

6 That I prepared the testimony set forth above and know the contents thereof, and that
7 the responses to the questions therein are true and correct and reflect my sworn testimony in
8 the above-referenced matter.

9 

Dan L. Neidlinger

10 SUBSCRIBED AND SWORN to before me this 15th day of December, 2008, by
11 Dan L. Neidlinger.

12 
13 Notary Public

14 My Commission Expires:



KATHY J. O'REILLY
Notary Public - Arizona
Maricopa County
Expires 11/03/2012

1 **ORIGINAL and 13 COPIES** of the
2 foregoing were hand-delivered for
3 filing this 15th day of December, 2008 to:

4 Docket Control
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, AZ 85007

8 **COPY** of the foregoing hand-delivered this
9 15th day of December, 2008, to:

10 Hearing Division
11 Arizona Corporation Commission
12 1200 W. Washington
13 Phoenix, AZ 85007-2927

14 Janice M. Alward, Esq., Chief Counsel
15 Legal Division
16 Arizona Corporation Commission
17 1200 W. Washington Street
18 Phoenix, AZ 85007

19 Mark J. Wenker, Esq.
20 U.S. Attorney's Office
21 40 N. Central Avenue, Suite 1200
22 Phoenix, AZ 85004-4408
23 Attorneys for the Bureau of Indian Affairs

24
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27
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DAN L. NEIDLINGER

SUMMARY STATEMENT OF QUALIFICATIONS

I. General:

Mr. Neidlinger is President of Neidlinger & Associates, Ltd., a Phoenix consulting firm specializing in utility rate economics and financial management. During his consulting career, he has managed and performed numerous assignments related to utility ratemaking and energy management.

II. Education:

Mr. Neidlinger was graduated from Purdue University with a Bachelor of Science degree in Electrical Engineering. He also holds a Master of Science degree in Industrial Management from Purdue's Krannert Graduate School of Management. He is a licensed Certified Public Accountant in Arizona and Ohio.

III. Consulting Experience:

Mr. Neidlinger has presented expert testimony on financial, accounting, cost of service and rate design issues in regulatory proceedings throughout the western United States involving companies from every segment of the utility industry. Testimony presented to these regulatory bodies has been on behalf of commission staffs, applicant utilities, industrial intervenors and consumer agencies. He has also testified in a number of civil litigation matters involving utility ratemaking and once served as a Special Master to a Nevada court in a lawsuit involving a Nevada public utility.

Mr. Neidlinger has performed feasibility studies related to energy management including cogeneration, self-generation, peak shaving and load-shifting analyses for clients with large electric loads. In addition, he has consulted with U.S. Army installations on privatization of utility systems and assisted these and other consumer clients in contract negotiations with utility providers of electric, gas and wastewater service.

Mr. Neidlinger has extensive experience in the costing and pricing of utility services. During his consulting career, he has been responsible for the design and implementation of utility rates for numerous electric, gas, water and wastewater utility clients ranging in size from 50 to 30,000 customers.

IV. Professional Affiliations:

Professional affiliations include the American Institute of Certified Public Accountants.

MOHAVE ELECTRIC COOPERATIVE, INC. ***** TWELVE MONTHS ENDED 7-31-89

COST OF SERVICE SUMMARY

DESCRIPTION	SMALL			LARGE			IRRIGATION	BIA	CHEMSTAR	CYPRUS BAGDAD	LIGHTING
	TOTAL	RESIDENTIAL	COMMERCIAL	C & I	C & I	C & I					
REVENUES - PRESENT RATES:											
Customer Sales	25,580,874	14,787,137	5,780,612	2,105,274	440,408	119,882	1,340,684	836,823	100,000		
Other Electric Revenue	269,908	75,558	9,174	127	0	186,040	0	0	0		
PPA (Over) Under Collected	(48,231)	(33,886)	(39,786)	931	6,777	(172)	0	13,913	0		
Total Revenues	25,802,549	14,828,799	5,739,000	2,196,332	447,185	305,756	1,340,684	850,736	100,000		
OPERATING EXPENSES:											
Production	19,704,820	10,521,301	4,804,824	1,859,713	275,939	100,211	1,172,734	720,810	49,288		
Transmission	10,225	2,926	1,192	418	54	234	3,205	2,195	0		
Distribution	854,538	627,555	215,409	55,175	12,821	8,870	8,305	1,750	22,327		
Customer Accounts & Inf.	765,257	675,857	87,872	3,420	2,988	2,873	2,988	2,073	7,108		
Administrative & General	1,184,820	809,230	189,051	34,701	8,335	45,024	7,374	5,853	16,817		
Depreciation	935,882	578,602	196,235	50,733	19,258	39,835	29,246	16,020	16,752		
Property Taxes	689,000	427,027	144,840	37,368	7,940	28,595	23,133	13,379	12,916		
Other Taxes	115,385	85,887	10,159	3,351	805	4,348	708	548	1,041		
Income Taxes	0	0	0	0	0	0	0	0	0		
Total Operating Exp.	24,396,827	14,207,478	5,457,471	2,044,887	315,848	230,799	1,248,337	783,035	125,008		

OPERATING INCOME (LOSS)	1,405,822	521,323	276,830	151,468	126,335	74,950	92,357	07,500	(25,885)		
RATE BASE	25,888,341	15,739,834	6,021,027	1,531,455	325,244	1,074,241	841,818	185,417	477,517		
% RETURN - PRESENT RATES	5.41%	3.85%	4.59%	9.89%	39.45%	5.98%	14.39%	4.04%	-5.41%		
RETURN INDEX	1.00	0.73	0.85	1.83	7.30	1.29	2.86	0.88	-1.81		
ALLOCATED INTEREST EXPENSE	1,330,700	801,147	291,275	73,185	15,445	80,582	47,337	16,817	24,827		
OPERATING TIE	1.06	0.78	0.85	2.07	8.31	1.24	1.85	5.17	-1.41		