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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
KRISTIN K. MAYES
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS.	DOCKET NO. E-01575A-08-0328 **STAFF'S NOTICE OF FILING DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Staff Witnesses Crystal Brown, Julie McNeely-Kirwan and Steve Irvine in the above-referenced matter.

RESPECTFULLY SUBMITTED this 26th day of January, 2009.

Arizona Corporation Commission
DOCKETED
JAN 26 2009
DOCKETED BY

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DIRECT

TESTIMONY

OF

CRYSTAL S. BROWN

JULIE MCNEELY-KIRWAN

STEVE IRVINE

DOCKET NO. E-01575A-08-0328

IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS

JANUARY 26, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner
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PAUL NEWMAN
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IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS.	DOCKET NO. E-01575A-08-0328

DIRECT

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 26, 2009

TABLE OF CONTENTS

SCHEDULES

EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC, INC.
DOCKET NO. E-01575A-08-0328

Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs" or "Cooperative") is a certificated Arizona-based non-profit rural electric distribution cooperative. Sulphur Springs provides power and energy to approximately 50,000 customers in most of Cochise County and portions of Santa Cruz, Pima, and Graham counties, Arizona.

Sulphur Springs proposed a $10,881,590, or 11.75 percent, revenue increase from $92,613,559 to $103,495,149. The proposed revenue requirement would produce an operating margin of $17,132,688 for a 12.51 percent rate of return on an original cost rate base of $136,903,293. Sulphur Springs requests a 2.86 times interest earned ratio ("TIER").

Staff recommends a $6,353,795, or 6.78 percent, revenue increase from a Staff adjusted $93,744,087 to $100,097,882. This recommended revenue requirement would produce an operating margin of $15,042,800 for an 11.32 percent rate of return on a Staff adjusted original cost rate base of $132,886,202 and produces a 2.29 TIER.

STAFF RECOMMENDATIONS

1. Staff recommends revenue requirement of $100,097,882.

2. Staff further recommends denial of the Cooperative's request for a Debt Cost Adjustment Mechanism.

INTRODUCTION

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

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst V.

A. I am responsible for the examination and verification of financial and statistical information included in utility rate applications. In addition, I develop revenue requirements, prepare written reports, testimonies, and schedules that include Staff recommendations to the Commission. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Business Administration from the University of Arizona and a Bachelor of Science Degree in Accounting from Arizona State University.

Since joining the Commission in August 1996, I have participated in numerous rate cases and other regulatory proceedings involving electric, gas, water, and wastewater utilities. I have testified on matters involving regulatory accounting and auditing. Additionally, I have attended utility-related seminars sponsored by the National Association of Regulatory Utility Commissioners ("NARUC") on ratemaking and accounting designed to provide continuing and updated education in these areas.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations in the areas of rate base, operating revenues and expenses and revenue requirement regarding Sulphur Springs Valley Electric Cooperative, Inc.'s ("Sulphur Springs" or "Cooperative") application for a permanent rate increase. I am also presenting Staff's recommendation concerning the Cooperative's request for a new Debt Cost Adjustment Mechanism.

Q. Who else is providing Staff testimony and what issues will they address?

A. Staff witness Julie McNeely-Kirwan is presenting Staff's base cost of power recommendation. Ms. McNeely-Kirwan is also presenting Staff's recommendation concerning the Cooperative's requested tariff revisions and its request to include the pass-through of future generation and transmission costs associated with the Cooperative-owned generation and transmission facilities in its Wholesale Power Cost Adjustor. Staff witness Steve Irvine is presenting Staff's recommendations concerning the Cooperative's DSM program and its requested new DSM Adjustment Mechanism. Staff witness William Musgrove is presenting Staff's rate design recommendations. Staff witness Prem Bahl is presenting Staff's cost of service and engineering analysis and recommendations.

BACKGROUND

Q. Please review the background of this application.

A. Sulphur Springs is a certificated Arizona-based non-profit rural electric distribution cooperative. Sulphur Springs provides power and energy to approximately 50,000 customers in most of Cochise County and portions of Santa Cruz, Pima, and Graham counties, Arizona.

Sulphur Springs filed an application for a permanent rate increase on June 30, 2008. On July 30, 2008, Staff filed a letter declaring the application sufficient. Sulphur Springs' current rates were authorized in Decision No. 58358, dated July 23, 1993.

Q. What are the primary reasons for the Cooperative's requested permanent rate increase?

A. The Cooperative states that its adjusted test year operating income was $6,251,098 resulting in a 4.48 percent rate of return and a 0.82 operating times interest earned ratio ("TIER"). According to the Cooperative, the primary reasons it filed the application are to increase equity, increase annual cash flows, and to meet its financial objectives regarding the addition of new generation sources resulting from continuing growth within its service territory.

Q. Is Sulphur Springs requesting any other approvals?

A. Yes, Sulphur Springs is requesting:

1. A revision to its Wholesale Power Cost Adjustment to include the pass-through of future generation and transmission costs associated with the Cooperative-owned generation and transmission facilities;
2. A new Debt Cost Adjustment Mechanism that will permit the Cooperative to recover increases in interest costs associated with Commission-approved financing of plant additions;
3. Approval of its DSM Program (to the extent not already approved);
4. The inclusion of a portion of approved DSM program expenses in base rates with additional expenses and new DSM programs to be recovered through a new DSM Adjustment Mechanism and approval process; and
5. Approval of the revisions to its Tariffs and Service Conditions

CONSUMER SERVICES

Q. Please provide a brief history of customer complaints received by the Commission regarding Sulphur Springs.

A. Staff reviewed the Commission's records for the period of January 3, 2005 through November 25, 2008, and found 84 complaints and 73 inquiries. One complaint and two inquiries remain open pending final investigative results. All others have been resolved and closed. There were 13 opinions docketed opposing, and none favoring, the rate increase for the period of May 13, 2008 through November 25, 2008.

SUMMARY OF PROPOSED REVENUES

Q. Please summarize the Cooperative's filing.

A. The Cooperative proposes total annual revenue of $103,495,149 as shown on Schedule CSB-1. This proposed revenue provides a $10,881,590, or 11.75 percent, revenue increase over adjusted Test Year revenues of $92,613,559. Operating revenue of $103,495,149 would produce an operating margin of $17,132,688 for a 12.51 percent rate of return on an original cost rate base of $136,903,293 and produces a 2.86 net TIER.

Q. Please summarize Staff's recommended revenue.

A. Staff recommends total annual revenue of $100,097,882 as shown on Schedule CSB-1. This proposed revenue provides a $6,353,795 or 6.78 percent revenue increase over Staff adjusted Test Year revenues of $93,744,087. Operating revenue of $100,097,882 would produce an operating margin of $15,042,800 for an 11.32 percent rate of return on a Staff adjusted original cost rate base of $132,886,202 and produces a 2.29 operating TIER.

Q. Did Staff prepare a comparative analysis showing the details of the Cooperative proposed and the Staff recommended margin increase?

A. Yes. Staff's analysis is shown in the following table:

	Cooperative Proposed	Difference	Staff Recommended
Margin Revenue	$41,412,494	$(4,569,448)	$ 36,843,046
Other Revenue	$ 4,391,068	$ 253,375	$ 4,644,443
2008 Ft. Huachuca Rev	$ 0	$ 918,806	$ 918,806
Base Cost of Power Rev	$57,691,587	$ 0	$ 57,691,587
Total Annual Revenue	**$103,495,149**	**$(3,397,267)**	**$100,097,882**
Purchased Power Exp	$57,691,587	$ 0	$57,691,587
All Other Expenses	$28,670,874	$(1,307,380)	$27,363,494
Total Annual Expenses	**$86,362,461**	**$(1,307,380)**	**$85,055,081**
Oper Margin Before Int Exp	**$17,132,688**	**$(2,089,887)**	**$15,042,801**
Interest Exp on L.T. Debt	$ $7,532,556	$(426,301)	$ 7,106,255
Oper Margin After Int Exp	**$ 9,600,132**	**$(1,663,586)**	**$ 7,936,546**

Q. What test year did Sulphur Springs utilize in this filing?

A. Sulphur Springs' rate filing is based on the twelve months ended December 31, 2007 ("test year").

Q. Please summarize the rate base and operating margin recommendations and adjustments addressed in your testimony for Sulphur Springs.

A. My testimony addresses the following issues:

Rate Base Adjustments

Accumulated Depreciation, Automatic Meter Readers ("AMR's") – This adjustment increases rate base by $190,405 to remove accelerated depreciation not approved by the Commission.

Consumer Deposits and Advances – This adjustment decreases rate base by $459,598 to reflect test year-end consumer deposits and advances balances.

Deferred Credits – This adjustment decreases rate base by $917,955 to reflect non-Cooperative provided capital.

Materials and Prepayments – This adjustment decreases rate base by $2,829,944 to eliminate the Cooperative's recognition of working capital components that only increase rate base.

Operating Margin Adjustments

Revenue and Expense Annualizations – This adjustment increases revenues and expenses by $303,312 and 149,184, respectively, to reflect the revenues and expenses at the test year-end customer level.

Miscellaneous Service Charges – This adjustment decreases operating revenue by $91,590 to remove monies received for advances and/or contributions in aid of construction.

2008 Fort Huachuca Margin Increase – This adjustment increases operating revenue by $918,806 to reflect known and measurable Fort Huachuca contract changes.

Base Cost of Power and Wholesale Power Cost Adjustor ("WPCA") – This adjustment increases revenues as a result of matching the Base Cost of Power Revenue to the Staff proposed Base Cost of Power Expense and eliminating the WPCA revenues from operating revenues.

<u>Demand Side Management Expenses</u> – This adjustment decreases operating expenses by $484,996 to remove costs that Staff recommends to flow through an adjustor mechanism.

<u>Employee Payroll, Benefits, and Payroll Taxes</u> – This adjustment decreases operating expenses by $523,570 to remove payroll expenses for employees hired after the test year.

<u>GDS Expenses</u> – This adjustment decreases operating expenses by $51,427 to reflect consultant expenses incurred during the test year.

<u>Normalized Legal Expenses</u> – This adjustment decreases operating expenses by $52,892 to reflect legal expenses at a normalized level.

<u>Charitable Contributions and Other Expenses</u> – This adjustment decreases operating expenses by $298,622 to remove expenses that are voluntary and not needed for the provision of service.

<u>Incentive Pay</u> – This adjustment decreases operating expenses by $45,048 to remove optional expenses that are not needed for the provision of service.

<u>Interest on Long-term Debt</u> – This adjustment decreases net margins by $426,301 to reflect Staff's calculation of interest expense on long-term debt.

<u>Capital Credits</u> – This adjustment decreases net margins by $2,722,816 to reflect the portion of reported capital credits that are cash.

RATE BASE

Fair Value Rate Base

Q. Did the Cooperative prepare a schedule showing the elements of Reconstruction Cost New Rate Base?

A. No, the Cooperative did not. The Cooperative's filing treats the OCRB the same as the fair value rate base.

Rate Base Summary

Q. Please summarize Staff's adjustments to Sulphur Springs' rate base shown on Schedules CSB-2 and CSB-3.

A. Staff's adjustments to Sulphur Springs' rate base resulted in a net decrease of $4,017,091, from $136,903,293 to $132,886,202. This decrease was primarily due to Staff: (1) reflecting consumer deposits and advances at test year-end levels; (2) reflecting certain portions of the deferred credits recorded in the Cooperative's general ledger; and (3) removing the Cooperative's selective recognition of working capital components.

Rate Base Adjustment No. 1 – Accumulated Depreciation, Automated Meter Readers

Q. What is the Cooperative proposing for accumulated depreciation?

A. The Cooperative is proposing $72,528,240. As shown on Schedule CSB-4, the amount is composed of $72,337,835 of accumulated depreciation calculated using Commission approved depreciation rates and $190,405 of accumulated depreciation calculated using an accelerated depreciation rate not approved by the Commission.

Q. What is Staff's recommended treatment for the portion of the accumulated depreciation calculated with the accelerated depreciation rate?

A. The accelerated depreciation rate was not approved by the Commission, therefore, Staff recommends that the related depreciation expense be removed.

Q. What is Staff recommending?

A. Staff recommends that accumulated depreciation be decreased by $190,405 as shown on Schedule CSB-3 and CSB-4.

Rate Base Adjustment No. 2 – Consumer Deposits and Advances

Q. What are the Cooperative's actual test year-end consumer deposits and advances balances?

A. The Cooperative's actual test year-end consumer deposits and advances balances are $1,675,774 and $4,914,615, respectively.

Q. When is it appropriate to adjust actual test year-end balances?

A. It is appropriate to adjust actual test year-end balances when the adjustments provide a more realistic relationship between revenues, expenses, and rate base than the actual test year results.

Q. What adjustments to the consumer deposits and advances balances is the Cooperative proposing?

A. The Cooperative is proposing to decrease consumer deposits and advances by $169,231 and $290,367, respectively as a result of averaging the balances.

Q. What is the effect of averaging the balances?

A. The effect is that the capital provided by customers in the form of advances and deposits is understated which, in turn, results in an over-stated rate base.

Q. Does Sulphur Springs' adjustment to the consumer deposits and advances balances provide a more realistic relationship between revenues, expenses, and rate base?

A. No, it does not. The actual plant in service balance, which is the most significant component of rate base, was not averaged. Therefore, to be consistent with plant in service, the actual balances of consumer deposits and advances should also be used.

Q. What is Staff recommending?

A. Staff recommends decreasing rate base by $459,598 to reflect the actual test year end balances for consumer deposits and consumer advances as shown on Schedules CSB-3 and CSB-5.

Rate Base Adjustment 3 – Deferred Credit

Q. What was the Cooperative's deferred credit balance at the end of the test year?

A. The Cooperative's test year-end balance was $13,941,885. The individual amounts composing the total are shown on Schedule CSB-6.

Q. What deferred credits did the Cooperative include in rate base?

A. The Cooperative included $4,914,615 in deferred credits. The amount is reported as a separate item entitled "Consumer Advances" on Schedule CSB-2, line 5.

Q. Did Staff identify additional deferred credits that should be included in rate base?

A. Yes. Staff reviewed the Cooperative's response to data request CSB 2.3 and identified $917,955 in deferred credits. The amount consists of monies received for removing temporary power structures, pole attachments, joint use revenue, line extension payments, and uncashed patronage capital checks. This non-Cooperative provided capital decreases at the level of capital required to operate the utility and, therefore, should be recognized as a deduction from rate base.

Q. What is Staff recommending?

A. Staff recommends decreasing rate base by $917,955, which are deferred credits as shown on Schedules CSB-3 and CSB-6.

Rate Base Adjustment 4 – Materials and Prepayments

Q. What are the components of working capital?

A. The components of working capital as prescribed by the Arizona Administrative Code are cash working capital, materials and supplies, and prepaid expenses.

Q. Can total working capital be a negative amount that is deducted from rate base?

A. Yes, this can happen when cash working capital ("CWC") is negative and is larger than the sum of the materials, supplies, and prepayments.

Q. Does the Cooperative's proposal to include materials, supplies, and prepayments in working capital represent an inequitable adjustment to increase rate base?

A. Yes. The Cooperative chose not to conduct a lead-lag study, and accordingly, failed to reflect any customer provided capital in its working capital requirement.

It is inequitable for a company the size of Sulphur Springs to calculate working capital by using a method that ignores customer provided capital while guaranteeing a positive working capital result for Sulphur Springs. Had a lead-lag study been conducted, it might have shown that working capital is a negative component of rate base.

Q. What is Staff recommending?

A. Staff recommends removing $2,157,124 and $672,820 for materials and prepayments respectively as shown on Schedules CSB-3 and CSB-7.

Operating Margin

Operating Margin Summary

Q. What are the results of Staff's analysis of test year revenues, expenses and operating margin?

A. As shown on Schedules CSB-8 and CSB-9 Staff's analysis resulted in test year revenues of $93,744,087, expenses of $92,161,337 and operating margin after interest expense of $1,582,750.

Operating Margin Adjustment No. 1 – Revenue and Expense Annualizations

Q. What is the purpose of revenue and expense annualizations?

A. Revenue and expense annualizations are made to achieve matching with the year end rate base measurement date. The adjustments reflect the known and measurable changes to customer counts during the test year. Revenues are annualized to reflect sales that would have occurred if customers on the system at the end of the test year had taken service for the entire year. Likewise, variable expenses are annualized to reflect the increased costs to provide the level of sales related to year end customers.

Q. Has Staff analyzed growth in the number of customers served by Sulphur Springs?

A. Yes. Staff's analysis found that the number of customers grew at a rate of 1.99 percent from 2006 to 2007.

Q. How was the 1.99 growth rate used to annualize the revenues and expenses to end of year level?

A. Assuming the growth rate of 1.99 percent takes place evenly over the course of the year, then a 0.9935 percent adjustment is needed to annualize sales growth to the end of the test year.

To illustrate: At the beginning of the year, Sulphur Springs had a total of 48,769 customers as shown on Schedule CSB-10 line 20. At the end of the year, the actual number of customers was 49,738 as shown on Schedule CSB-10, line 19. To annualize the sales based on year-end customers, an adjustment of 0.9935 percent [((49,738-48,769)/ 48,769) / 2] is necessary.

Q. What is Staff recommending?

A. Staff recommends increasing revenues by $303,312 and expenses by $149,184 as shown on Schedules CSB-9 and CSB-10.

Operating Margin Adjustment No. 2 – Miscellaneous Service Charges

Q. What is the Cooperative proposing for Miscellaneous Service Charges?

A. The Cooperative is proposing $738,402 as shown on Schedule CSB-11, line 3.

Q. Did the Cooperative include advances and/or contributions in aid of construction in miscellaneous service charge revenue?

A. Yes. The Cooperative included $91,590.

Q. Is it appropriate to include advances and/or contributions in aid of construction in miscellaneous service charge revenue?

A. No, it is not. The RUS USOA indicates that monies received for advances or contributions should be treated as an offset to plant. Therefore, for ratemaking purposes, Staff is recommending that the advances and contributions be removed from operating revenue.

Q. What is Staff recommending?

A. Staff recommends decreasing revenues by $91,590 as shown on Schedules CSB-9 and CSB-11.

Operating Margin Adjustment No. 3 – 2008 Fort Huachuca Contract Margin Increase

Q. What is the Fort Huachuca Contract?

A. The Fort Huachuca contract is an operations, maintenance, and construction contract that the Cooperative has with the federal government.

Q. Were there known and measurable changes to the contract in 2008?

A. Yes. The Cooperative prepared a summary of the changes to revenues and expenses based upon known and measurable contract changes to prices and quantities as shown on Schedule CSB-12, column F.

Q. What is the increase in margin based upon these known and measurable changes?

A. The increase in margin (i.e., revenues less expenses) from 2007 is $918,806.

Q. What is Staff recommending?

A. Staff recommends increasing revenues by $918,806 as shown on Schedules CSB-9 and CSB-12.

Operating Margin Adjustment 4 – Base Cost of Power Revenue and Wholesale Power Cost Adjustor

Q. Explain the purpose of the break-out of the total revenue from sales of electricity into components as shown on Schedules CSB-9 and -13.

A. The purpose is to show the portion of revenue that is generated from base rates separately from revenue that is generated from margin revenue, and the wholesale power cost adjustor.

Q. What amount is Sulphur Springs proposing for Base Cost of Power Revenue and for its wholesale power cost adjustor ("WPCA")?

A. The Cooperative proposes $47,167,753 and $10,523,837 for its base cost of power revenue and WPCA respectively as shown on Schedules CSB-9 and CSB-13.

Q. Is it appropriate to include monies from the Cooperative's wholesale power cost adjustor in operating revenues?

A. No, it is not appropriate. The WPCA revenues are set using a mechanism that is different from that used to set base rates. Further, the WPCA can change outside of a rate case based on over or under collections in the Cooperative's fuel bank.

Q. Does Sulphur Springs' base cost of power revenue match its purchased power expense?

A. No. The Cooperative's filing reflects a $47,167,753 test year base cost of power revenue and a $57,691,587 test year purchased power expense.

Q. What is the cause of the mismatch?

A. The Cooperative made a pro forma adjustment to increase its purchased power expense by $10,523,837 but did not reflect this same increase in its base cost of power revenue.

Q. Should Sulphur Springs' test year base cost of power revenue equal purchased power expense?

A. Yes. The Cooperative has a purchased power adjustor mechanism that facilitates full recovery of all purchased power costs. The adjustor mechanism ensures that the Cooperative neither over nor under recovers purchased power cost. This means that changes in the cost of purchased power do not affect income. The difference between the amount collected from customers and the amount paid to power suppliers for purchased power in any year due to timing differences is reflected on the balance sheet as an asset or liability, not on the income statement.

Failure to recognize equal amounts for the revenue and expense associated with purchased power when an adjustor mechanism is in effect is inconsistent with the USOA. This mismatch results in a misstatement of income. Therefore, any pro forma adjustment to purchased power expense must be offset by an equal adjustment to base cost of power revenue.

Q. What is Staff recommending?

A. Staff recommends increasing base cost of power revenue by $10,523,837 to match the Cooperative's $57,691,587 purchased power expense and eliminating the $10,523,837 WPCA as shown on Schedules CSB-9 and CSB-13.

Operating Margin Adjustment 5 – Demand Side Management ("DSM") Expenses

Q. What are DSM expenses?

A. DSM expenses are incurred to reduce the amount of usage through customer education and other programs.

Q. What amount in DSM costs did the Cooperative report in the test year?

A. The Company reported $484,996 in DSM costs as shown on Schedule CSB-14.

Q. Is Staff recommending an adjustor mechanism for the Cooperative's DSM costs?

A. Yes. As discussed in the testimony of Steve Irvine, Staff is recommending an adjustor mechanism that will allow the Cooperative to recover or refund changes in its DSM costs without filing a permanent rate increase application. Therefore, these costs should be removed from the revenue requirement.

Q. What is Staff recommending?

A. Staff recommends decreasing operating expense by $484,996 as shown on Schedule CSB-9 and CSB-14.

Operating Margin Adjustment No. 6 – Employee Payroll, Benefits, and Payroll Taxes

Q. What adjustment did the Cooperative propose for employee payroll, benefits, and payroll taxes?

A. The Cooperative proposed to increase operating expenses by $1,021,207 to reflect the employee payroll, benefits, and payroll taxes of 189 full-time employees and 16 part-time employees using 2008 wage levels. The full-time employee count of 189 included 10 employees that were employed by April 2008.

Q. Is recognition of the increased payroll costs of employees that were employed during the test year appropriate?

A. Yes, recognition is appropriate because the increased payroll cost of its test year employees is known and measurable and not based upon customer growth.

Q. Is recognition of the ten employees hired after the test year appropriate?

A. No, it is not. Staff determined through the Cooperative's response to data request CSB 2.21 that the additional cost of the ten new employees hired in 2008 would be offset by ten employees who would be leaving the Cooperative in 2008.

Q. What is Staff recommending?

A. Staff recommends decreasing operating expense by $523,570 as shown on Schedules CSB-9 and CSB-15.

Operating Margin Adjustment No. 7 – GDS Expenses

Q. What services does GDS provide to Sulphur Springs?

A. Sulphur Springs has been working toward becoming a partial requirements member of Arizona Electric Power Cooperative ("AEPCO"). Sulphur Springs employs GDS to provide assistance with evaluating and negotiating power contracts and dealing with related power procurements issues.

Q. What amount was included in test year expenses for GDS?

A. The Cooperative included $212,217 in test year expenses as shown on Schedule CSB-16.

Q. What adjustment did Staff make?

A. Staff removed $71,305 to remove costs that did not occur during the test year and added $19,879 to reflect two invoices that were incurred during the test year but were not included in the $212,217 total.

Q. What is Staff recommending?

A. Staff recommends decreasing administrative and general expense by $51,427 as shown on Schedules CSB-9 and CSB-16.

Operating Margin Adjustment No. 8 – Normalized Legal Expenses

Q. What did the Cooperative propose for legal expenses?

A. The Cooperative proposed $95,837 as shown on Schedule CSB-17.

Q. What adjustment did Staff make?

A. Staff identified legal expenses incurred for financings, tariffs, and litigation over easements that are not expected to be ongoing in future years at the same level. Therefore, Staff normalized the amounts over three years.

Q. What is Staff recommending?

A. Staff recommends decreasing administrative and general expense by $52,892 as shown on Schedules CSB-9 and CSB-17.

Operating Margin Adjustment No. 9 – Charitable Contributions and Other Expenses

Q. What is Sulphur Springs proposing for charitable contributions and other expenses?

A. Sulphur Springs is proposing $343,752 for charitable contributions and other expenses as shown on Schedule CSB-18. The amount is composed of $298,622 for charitable contributions, sponsorships, food, entertainment, and similar expenses; $137,970 for dues and memberships to industry organizations; $21,616 for employee meals during work-related travel; and $100,138 for advertising that educates the public on safety and other issues.

Q. What ratemaking treatment does Staff recommend for the expenses?

A. Since charitable contributions, sponsorships, food, entertainment, and similar expenses are voluntary costs, the $298,622 expense is not necessary to provide service. Consequently, Staff recommends that it be recognized as non-operating expenses and excluded from the revenue requirement. The remaining $45,130 in expenses are needed in the provision.

Q. What is Staff recommending?

A. Staff recommends decreasing operating expense by $298,622 as shown on Schedules CSB-9 and CSB-18.

Operating Margin Adjustment No. 10 – Incentive Pay

Q. What is Sulphur Springs proposing for incentive pay?

A. Sulphur Springs is proposing $46,241 for incentive pay as shown on Schedule CSB-19.

Q. Are incentive pay costs necessary to provide safe and reliable service?

A. No, incentive pay costs are not necessary to provide safe and reliable service. Sulphur Springs pays its employees competitive salary, wage and benefits packages with regular annual wage increases. These costs are designed to compensate the employees to perform work that will enable the Cooperative to provide safe and reliable service. Therefore, the cost of the employees' base salaries and wages is a required cost. The incentive pay is an optional cost and, therefore, should be recognized below-the-line (i.e., removed from rates).

Q. What is Staff recommending?

A. Staff recommends decreasing operating expense by $45,057 as shown on Schedules CSB-9 and CSB-19.

Operating Margin No. 11 – Interest Expense on Long-term Debt

Q. What is the Cooperative proposing for Interest Expense on Long-term Debt?

A. Sulphur Springs is proposing $6,994,249 for Interest Expense on Long-term Debt. The debt is financed through the National Rural Utilities Cooperative Finance Cooperation ("CFC"). The interest expense amount was calculated by applying the applicable interest rate to (1) the outstanding principal at the end of the test year, plus (2) an additional CFC draw of $10,067,666 subsequent to the end of the test year, plus (3) an anticipated CFC draw of $18 million at 4.9 percent.

Q. What adjustment did Staff make to Interest Expense on Long-term Debt?

A. Staff adjusted the interest expense on the "anticipated CFC draw of $18 million" to reflect the interest expense on the actual CFC draw of $9.3 million as of November 7, 2008[1].

[1] The most recent date available that would allow Staff sufficient time to prepare its direct case.

Q. What is Staff recommending?

A. Staff recommends decreasing Interest Expense on Long-term Debt by $426,301 as shown on Schedules CSB-9 and CSB-20.

Operating Margin Adjustment No. 12 – Capital Credits

Q. What are capital credits?

A. Capital credits are ownership interests cooperatives receive as a result of doing business with another cooperative. For example, the net margins (or profit) of generation and transmission cooperatives are distributed through capital credits to the distribution cooperatives that buy power from them. Capital credits are required to be reported in the income statement as non-operating revenue.

Q. What amount is Sulphur Springs proposing for Capital Credits?

A. The Cooperative proposes $3,110,503 for Capital Credits as shown on Schedule CSB-21.

Q. Do Capital Credits necessarily represent cash receipts?

A. No. Capital credits are earnings from another cooperative, only some of which might be received in cash as a distribution. Capital credits are accounting income. The dollar amount cooperatives report as capital credits on the income statement will differ from the cash amount they actually receive because capital credits received in one year are generally paid in a subsequent year.

Q. What adjustment did Staff make?

A. Staff removed non-cash capital credits to only reflect actual cash received.

Q. What is Staff recommending?

A. Staff recommends decreasing capital credits account by $2,722,816 as shown on Schedules CSB-9 and CSB-21.

REVENUE REQUIREMENT – DEBT SERVICE COVERAGE

Q. What are the primary factors considered in determining the Cooperative's revenue requirement?

A. Staff's revenue requirement is primarily driven by the revenues needed to pay the principal and interest on long-term debt, and to meet the minimum 1.35 debt service coverage ("DSC") ratio required by the CFC. Additionally, Staff's revenue requirement provides sufficient cash flow to pay operating expenses and to build equity.

Q. What was the amount of the Cooperative's outstanding long-term debt at the end of the test year, and what was the test year interest expense incurred?

A. At the end of the test year, the Cooperative had $97,760,014 in long-term debt, and it incurred $5,800,108 in interest expense.

Q. Has the Commission recently approved a $70 million CFC loan?

A. Yes, in Decision No. 70027, dated December 4, 2007.

Q. Did Staff consider this loan in the determination of the Cooperative's revenue requirement?

A. Yes, Staff's revenue is sufficient to pay the principal and interest payments on the loan when fully drawn.

Q. Would you please briefly define the debt service coverage ratio ("DSC") and the times interest earned ratio ("TIER")?

A. DSC measures an entity's ability to generate cash flow to pay its debt service obligations (interest and principal) from operating activities. It is calculated by dividing (1) earnings before interest, taxes, and depreciation expense by (2) the principal and interest payments. When DSC is greater than 1.0, operating cash flow is sufficient to cover debt obligations.

TIER measures the number of times operating income will cover interest on long-term debt. It is calculated by dividing (1) operating margin after interest on long-term debt plus interest on long-term debt by (2) interest on long-term debt. When TIER is greater than 1.0, operating income is sufficient to cover interest expense.

Q. What are Sulphur Springs' DSC and TIER requirements?

A. For the loan agreements Sulphur Springs has with the CFC, the DSC ratio requirement is 1.35. This requirement is contained in the mortgage agreement between the CFC and the Cooperative. There is no stated TIER requirement.

Q. Did Staff calculate the DSC differently than the Cooperative?

A. Yes.

Q. How does Sulphur Springs calculate DSC?

A. Sulphur Springs uses the DSC calculation prescribed by the CFC. The CFC includes revenues derived from activities that are not a part of the Cooperative's core electric retail sales business (i.e. non-operating margin interest revenue and cash capital credit revenue). The CFC calculation is as follows:

> For any calendar year add (1) Operating Margins, (2) Non-Operating Margins-Interest, (3) Interest Expense on long-term debt, (4) Depreciation and Amortization Expense, and (5) cash received from capital credits. Divide the sum so obtained by the sum of all payments of Principal and Interest on long-term debt.

Q. How does Staff's DSC calculation differ from the Cooperative's?

A. Staff's calculation is similar but excludes non-operating revenue from interest and capital credits.

Q. Why does Staff exclude non-operating revenue in its DSC calculation?

A. Non-operating revenue tends to be inconsistent from year to year. Staff's calculation measures the Cooperative's ability to make principal and interest payments based solely on the Cooperative's core operating results. Since operating results are generally more consistent than non-operating results, Staff's calculation provides a more reliable indication of ability to service debt.

Q. What revenue is Staff recommending to satisfy Sulphur Springs's DSC and TIER requirements?

A. Staff recommends revenue of $100,097,882 to provide a 2.09 DSC and a 2.29 TIER. Staff's proposed revenue would generate enough cash flow to service the Cooperative's debt and comply with CFC debt coverage requirements, allow for reasonable contingencies, and build equity.

Q. What is Staff's recommended increase over the Staff adjusted test year revenue?

A. Staff's recommended revenue of $100,097,882 is a $6,353,795 (or a 6.78 percent) increase over the Staff adjusted test year revenue of $93,744,087.

Q. Is 6.78 percent representative of the increase to customer bills on average with Staff's recommended revenue requirement?

A. Customer bills are comprised of margin costs and the cost of purchased power. The margin cost portion of customer bills would increase on average by 6.78 percent. The cost of power portion of customer bills reflects, on average, the Cooperative's actual cost of purchased power. The cost of purchased power fluctuates and might result in a different increase or decrease in customers' bills.

DEBT COST ADJUSTMENT MECHANISM

Q. Please describe the Cooperative's request for a Debt Cost Adjustment Mechanism.

A. The Cooperative proposes to recover increases in interest costs associated with Commission-approved financing of plant through a Debt Cost Adjustment Mechanism.

Q. When is an adjustor mechanism appropriate?

A. An adjustor mechanism is appropriate when the cost to the utility is significantly large compared to the other expenses; when there are large changes to the expense from month to month that could seriously impact the Cooperative's financial health; and when the expense is not within the Cooperative's control such as mandated state or federal programs.

Q. Does the Cooperative currently have a Commission approved adjustor mechanism?

A. Yes, the Cooperative currently has a wholesale power cost adjustor for its purchased power expense.

Q. Would you please discuss why the Cooperative's wholesale power cost adjustor is appropriate?

A. Yes. The Cooperative's purchased power expense compared to its total operating expense is significantly large. Staff's recommended $57,691,587 in purchased power expense represents approximately 68 percent of the Cooperative's $91,224,329 in test year operating expenses. Further, the Cooperative cannot control the short-term customer demands for purchased power from month to month. During the summer months the differences between revenues collected from customers and the purchased power costs paid to its suppliers may be so large that it could seriously impact the Cooperative's financial health. The purchased power adjustor mechanism helps to ensure that the Cooperative recovers all of its purchased power costs.

Q. Does Staff agree that an interest adjustor is appropriate?

A. No, Staff does not. Interest expense does not change from month to month like purchased power expense and the interest payments are usually fixed over a specified number of years. The timing of interest expense is within the control of the Cooperative such that a rate application could be filed simultaneously with additional draw downs on approved debt. Moreover, the additional revenue needed to cover interest expense on long-term debt should be determined in a rate proceeding in which all costs are evaluated by the Commission. This is because increases in costs in one area may be offset by decreases in costs in another.

Q. What is Staff recommending?

A. Staff recommends that the interest adjustor not be approved.

Q. Does this conclude Staff's direct testimony?

A. Yes, it does.

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION		[A] COMPANY ORIGINAL COST		[B] STAFF ORIGINAL COST
1	Adjusted Operating Margin (Loss)	$	6,251,098	$	8,689,005
2	Depreciation and Amortization	$	7,574,650	$	7,574,650
3	Income Tax Expense		-		-
4	Long-term Interest Expense	$	6,994,249	$	6,567,948
5	Principal Repayment	$	4,269,396	$	4,269,396
6a	**Recommended Increase in Operating Revenue**	$	10,881,590	**$**	**6,353,795**
6b	**Percent Increase (Line 6a / Line 7) - Per Staff**		N/A		**6.78%**
6c	Percent Increase (Line 6a / $92,613,559) - Per Cooperative		11.75%		N/A
7	Adjusted Test Year Operating Revenue	$	92,613,559	$	93,744,087
8	**Recommended Annual Operating Revenue**	$	103,495,149	**$**	**100,097,882**
9a	**Recommended Operating Margin**	$	17,132,688	**$**	**15,042,800**
9b	Recommended Net Margin	$	12,990,628	$	7,936,545
10a	**Recommended Operating TIER (L3+L9)/L4 - Per Staff**		N/A		**2.29**
10b	Recommended Net TIER - Per Cooperative		2.86		N/A
11a	**Recommended DSC (L2+L3+L9)/(L4+L5) - Per Staff**		N/A		**2.09**
11b	Recommended DSC (L2+L4+L9b)/(L4+L5) - Per Cooperative		2.45		N/A
12	**Adjusted Rate Base**	$	136,903,293	**$**	**132,886,202**
13	Rate of Return (L9a / L12)		12.51%		11.32%

References:
Column [A]: Company Schedules A-1, C-1, C-3
Column [B]: Staff Schedules CSB-2, CSB-11, Testimony

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-2

RATE BASE - ORIGINAL COST

LINE NO.		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Plant in Service	$ 212,732,380	$ -	$ 212,732,380
2	Less: Acc Depreciation & Amortization	(72,528,240)	190,405	(72,337,835)
3	Net Plant in Service	$ 140,204,140	$ 190,405	$ 140,394,545
	LESS:			
4	Consumer Deposits	$ (1,506,543)	$ (169,231)	$ (1,675,774)
5	Consumer Advances	$ (4,624,248)	$ (290,367)	$ (4,914,615)
6	Deferred Credits	$ -	$ (917,955)	$ (917,955)
7	Total	(6,130,791)	(1,377,552)	(7,508,343)
	ADD:			
8	Cash Working Capital	$ -	$ -	$ -
9	Materials and Supplies	$ 2,157,124	$ (2,157,124)	$ -
10	Prepayments	$ 672,820	$ (672,820)	$ -
11	Total	$ 2,829,944	$ (2,829,944)	$ -
12	**Total Rate Base**	$ 136,903,293	$ (4,017,091)	$ 132,886,202

References:
Column [A], Cooperative Schedule B-1
Column [B]: Schedules CSB-2 through CSB-7
Column [C]: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-3

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	Acct. No.	DESCRIPTION	[A] COOPERATIVE AS FILED	[B] Accumulated Depreciation AMR's ADJ No.1 Ref: Sch CSB-4	[C] Consumer Deposits and Advances ADJ No. 2 Ref: Sch CSB-5	[D] Deferred Credits ADJ No. 3 Ref: Sch CSB-6	[E] Materials and Prepayments ADJ No. 4 Ref: Sch CSB-7	[F] STAFF ADJUSTED
		PLANT IN SERVICE:						
1	303	Intangible Plant	$ 46,500	$ -	$ -	$ -	$ -	$ 46,500
2	350	Transmission Plant - Land and Land Rights	$ 633,768	$ -	$ -	$ -	$ -	$ 633,768
3	353	Transmission Plant - Station Equipment	$ 933,201	$ -	$ -	$ -	$ -	$ 933,201
4	355	Transmission Plant - Poles and Fixtures	$ 2,774,629	$ -	$ -	$ -	$ -	$ 2,774,629
5	356	Transmission Plant - OH Conductors	$ 5,630,063	$ -	$ -	$ -	$ -	$ 5,630,063
6	360	Distribution Plant - Land and Land Rights	$ 124,706	$ -	$ -	$ -	$ -	$ 124,706
7	361	Distribution Plant - Structures and Improvements	$ 5,191	$ -	$ -	$ -	$ -	$ 5,191
8	362	Distribution Plant - Substation Equipment	$ 18,024,631	$ -	$ -	$ -	$ -	$ 18,024,631
9	364	Distribution Plant - Poles, Towers, and Fixtures	$ 34,444,295	$ -	$ -	$ -	$ -	$ 34,444,295
10	365	Distribution Plant - Conductors and Devices	$ 22,877,936	$ -	$ -	$ -	$ -	$ 22,877,936
11	366	Distribution Plant - Underground Conduit	$ 16,753,223	$ -	$ -	$ -	$ -	$ 16,753,223
12	367	Distribution Plant - Underground Conductors	$ 26,203,285	$ -	$ -	$ -	$ -	$ 26,203,285
13	368	Distribution Plant - Transformers	$ 40,732,770	$ -	$ -	$ -	$ -	$ 40,732,770
14	369	Distribution Plant - Services	$ 8,532,859	$ -	$ -	$ -	$ -	$ 8,532,859
15	370	Distribution Plant - Meters	$ 9,336,411	$ -	$ -	$ -	$ -	$ 9,336,411
16	371	Distribution Plant - Install. On Customers Premises	$ 1,316,138	$ -	$ -	$ -	$ -	$ 1,316,138
17	373	Distribution Plant - Street Lighting and Signal Syst	$ 2,135,425	$ -	$ -	$ -	$ -	$ 2,135,425
18	389	General Plant - Land and Land Rights	$ 807,670	$ -	$ -	$ -	$ -	$ 807,670
19	390	General Plant - Structures and Improvements	$ 7,019,401	$ -	$ -	$ -	$ -	$ 7,019,401
20	391	General Plant - Office Furniture and Equipment	$ 3,231,257	$ -	$ -	$ -	$ -	$ 3,231,257
21	392	General Plant - Transportation Equipment	$ 4,353,642	$ -	$ -	$ -	$ -	$ 4,353,642
22	393	General Plant - Stores Equipment	$ 293,929	$ -	$ -	$ -	$ -	$ 293,929
23	394	General Plant - Tools, Shop, & Garage Equipment	$ 1,368,880	$ -	$ -	$ -	$ -	$ 1,368,880
24	395	General Plant - Laboratory Equipment	$ 774,153	$ -	$ -	$ -	$ -	$ 774,153
25	396	General Plant - Power Operated Equipment	$ 7,085,730	$ -	$ -	$ -	$ -	$ 7,085,730
26	397	General Plant - Communications Equipment	$ 903,184	$ -	$ -	$ -	$ -	$ 903,184
27	398	General Plant - Miscellaneous	$ (3,682,314)	$ -	$ -	$ -	$ -	$ (3,682,314)
28	399	General Plant - Contributed dollars	$ 71,817	$ -	$ -	$ -	$ -	$ 71,817
29		Total Plant in Service	$ 212,732,380	$ -	$ -	$ -	$ -	$ 212,732,380
30		Less: Accumulated Depreciation	$ (72,528,240)	$ 190,405	$ -	$ -	$ -	$ (72,337,835)
31		Less: Accumulated Amortization	-	-	-	-	-	-
32		Total Accumulated Depreciation & Amortization	$ (72,528,240)	$ 190,405	$ -	$ -	$ -	$ (72,337,835)
33		Net Plant in Service	$ 140,204,140	$ 190,405	$ -	$ -	$ -	$ 140,394,545
		LESS:						
34		Consumer Deposits	$ (1,506,543)	$ -	$ (169,231)	$ -	$ -	$ (1,675,774)
35		Consumer Advances	$ (4,624,248)	$ -	$ (290,367)	$ -	$ -	$ (4,914,615)
36		Deferred Credits	$ -	$ -	$ -	$ (917,955)	$ -	$ (917,955)
37		Total	$ (6,130,791)	$ -	$ (459,598)	$ (917,955)	$ -	$ (7,508,343)
		ADD:						
38		Cash Working Capital	$ -	$ -	$ -	$ -	$ -	$ -
39		Materials and Supplies	$ 2,157,124	$ -	$ -	$ -	$ (2,157,124)	$ -
40		Prepayments	$ 672,820	$ -	$ -	$ -	$ (672,820)	$ -
41		Total	$ 2,829,944	$ -	$ -	$ -	$ (2,829,944)	$ -
42		**Total Rate Base**	$ 136,903,293	$ 190,405	$ (459,598)	$ (917,955)	$ (2,829,944)	$ 132,886,202

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-4

RATE BASE ADJUSTMENT NO. 1 - ACCUMULATED DEPRECIATION, AMR

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY AS FILED**	**STAFF ADJUSTMENTS**	**STAFF AS ADJUSTED**
1	Accumulated Depreciation before Accelerated Depr	$ 72,337,835	$ (0)	$ 72,337,835
2	Accelerated Depreciation on AMR	190,405	(190,405)	-
3	Total	$ 72,528,240	$ (190,405)	$ 72,337,835

References:
Column [A]: Cooperative Schedules B-1.0
Column [B]: Testimony, CSB; Data Request Response CSB 3.11
Column [C]: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

RATE BASE ADJUSTMENT NO. 2 - CONSUMER DEPOSITS AND ADVANCES

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY AS FILED**	**STAFF ADJUSTMENTS**	**STAFF AS ADJUSTED**
1	Consumer Deposits	$ 1,506,543	$ 169,231	$ 1,675,774
2	Consumer Advances	4,624,248	290,367	4,914,615
3	Total	$ 6,130,791	$ 459,598	$ 6,590,389

References:
Column [A]: Cooperative Schedules B-1.0
Column [B]: Column [C] + Column [A]
Column [C]: Testimony, CSB; Cooperative Schedule B-3.0

Sulphur Springs Valley Electric Cooperative — **Schedule CSB-6**
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

RATE BASE ADJUSTMENT NO. 3 - DEFERRED CREDITS

		[A]	[B]	[C]
LINE NO.	**DESCRIPDESCRIPTION**	**COMPANY AS FILED (Sch E-5)**	**STAFF ADJUSTMENTS**	**STAFF AS ADJUSTED**
1	Deferred Credits	$ -	$ 917,955	$ 917,955

Account Number			
252.10	Cost to remove temporary power structures	$ 32,464	
253.00	Poles attachments/joint use revenue	$ 251,979	
253.10	Line extension payments	$ 243,541	
253.26	Uncashed checks	$ 389,971	
		$ 917,955	**Total Deferred Credits Per Staff**
252.00	Consumer Advances for Construction	$ 4,914,615	Separate rate base deduction
253.25	Alternative engergy collections	$ 1,209,296	DSM costs
253.50	Over-collections of fuel adjustor	$ 1,585,042	Fuel adjustor collections
253.97	Fort Huachuca - Deferred Revenue	$ 5,314,977	Revenue billed but not received
	Total Staff Adjusted Deferred Credits	$ 13,941,885	Total Deferred Credits Per G/L

References:
Column [A]: Cooperative Schedule B-1.0
Column [B]: Testimony, CSB; Cooperative Schedule C-1.0, Data Request 2.3
Column [C]: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-7

RATE BASE ADJUSTMENT NO. 4 - WORKING CAPITAL

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY AS FILED**	**STAFF ADJUSTMENTS**	**STAFF AS ADJUSTED**
1	Cash Working Capital	$ -	$ -	$ -
2	Materials and Supplies	$ 2,157,124	$ (2,157,124)	$ -
3	Prepayments	$ 672,820	$ (672,820)	$ -
4	**Total Working Capital**	**$ 2,829,944**	**$ (2,829,944)**	**$ -**

References:
Column [A]: Cooperative Schedules B-1.0 and B-3.0
Column [B]: Column [C] + Column [A]
Column [C]: Testimony, CSB

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-8

OPERATING MARGIN - TEST YEAR AND STAFF PROPOSED

Line No.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Margin Revenue (Non-Base Cost of Power)	$ 30,530,901	$ 303,312	$ 30,834,213	$ 6,008,830	$ 36,843,043
2	Rounding	$ 3	$ -	$ 3		$ 3
3	Margin Revenue	$ 30,530,904	$ 303,312	$ 30,834,216	$ 6,008,830	$ 36,843,046
4						
5	Base Cost of Power Revenue	$ 47,167,753	$ 10,523,837	$ 57,691,590	$ -	$ 57,691,590
6	Wholesale Power Cost Adjustor (WPCA)	$ 10,523,837	$ (10,523,837)	$ -	$ -	$ -
7	Rounding	$ (3)	$ -	$ (3)	$ -	$ (3)
8	Base Cost of Power and Adjustor Revenue	$ 57,691,587	$ -	$ 57,691,587	$ -	$ 57,691,587
9						
10	**Total Revenue from Sales of Electricity**	**$ 88,222,491**	**$ 303,312**	**$ 88,525,803**	**$ 6,008,830**	**$ 94,534,633**
11	Other Revenues	$ 4,391,068	$ (91,590)	$ 4,299,478	$ 344,965	$ 4,644,443
12	2008 Ft Huachuca Margin	$ -	$ 918,806	$ 918,806	$ -	$ 918,806
13	**Total Revenues**	**$ 92,613,559**	**$ 1,130,528**	**$ 93,744,087**	**$ 6,353,795**	**$ 100,097,882**
14						
15	*EXPENSES:*					
16	Purchased Power	$ 57,691,587	$ 0	$ 57,691,587	$ -	$ 57,691,587
17	Transmission Operation and Maintenance	$ 253,985	$ (1,354)	$ 252,631	$ -	$ 252,631
18	Distribution - Operations	$ 8,524,851	$ (155,438)	$ 8,369,413	$ -	$ 8,369,413
19	Distribution - Maintenance	$ 2,532,504	$ (47,196)	$ 2,485,308	$ -	$ 2,485,308
20	Consumer Accounting	$ 3,024,637	$ (54,014)	$ 2,970,623	$ -	$ 2,970,623
21	Customer Service	$ 680,691	$ (13,743)	$ 666,948	$ -	$ 666,948
22	Sales	$ 562,326	$ (3,831)	$ 558,495	$ -	$ 558,495
23	Administrative and General	$ 4,226,472	$ (1,031,803)	$ 3,194,669	$ -	$ 3,194,669
24	Depreciation and Amortization	$ 7,574,650	$ -	$ 7,574,650	$ -	$ 7,574,650
25	Taxes	$ 1,290,758	$ -	$ 1,290,758	$ -	$ 1,290,758
26	**Total Operating Expenses**	$ 86,362,461	$ (1,307,380)	$ 85,055,081	$ -	$ 85,055,081
27						
28	**Operating Margin Before Interest on L.T.- Debt**	$ 6,251,098	$ 2,437,907	$ 8,689,005	$ -	$ 15,042,800
29						
30	***INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS***					
31	Interest on Long-term Debt	$ 6,994,249	$ (426,301)	$ 6,567,948	$ -	$ 6,567,948
32	Interest - Other	$ 366,551	$ -	$ 366,551	$ -	$ 366,551
33	Other Dedcutions	$ 171,756	$ -	$ 171,756	$ -	$ 171,756
34	**Total Interest & Other Deductions**	$ 7,532,556	$ (426,301)	$ 7,106,255	$ -	$ 7,106,255
35						
36	***MARGINS (LOSS) AFTER INTEREST EXPENSE***	$ (1,281,458)	$ 2,864,208	$ 1,582,750	$ -	$ 7,936,545
37						
38	***NON-OPERATING MARGINS***					
39	Interest Income	$ 141,825	$ -	$ 141,825	$ -	$ 141,825
40	Other Margins	$ 138,168	$ -	$ 138,168	$ -	$ 138,168
41	G&T Capital Credits	$ 2,592,402	$ (2,592,402)	$ -	$ -	$ -
42	Other Capital Credits	$ 518,101	$ (130,414)	$ 387,687	$ -	$ 387,687
43	**Total Non-Operating Margins**	$ 3,390,496	$ (2,722,816)	$ 667,680	$ -	$ 667,680
44						
45	***EXTRAORDINARY ITEMS***	$ -	$ -	$ -	$ -	$ -
46						
47	***NET MARGINS (LOSS)***	$ 2,109,038	$ 141,392	$ 2,250,430	$ -	$ 8,604,225
48						
49						
50	References:					
51	Column (A): Cooperative Schedule A					
52	Column (B): Schedule CSB-9					
53	Column (C): Column (A) + Column (B)					
54	Column (D): Schedule CSB-1					
55	Column (E): Column (C) + Column (D)					

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

SUMMARY OF OPERATING MARGIN ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Revenue and Expense Annualizations Ref: Sch CSB-10	[C] ADJ #2 Miscellaneous Service Charge Revenue Ref: Sch CSB-11	[D] ADJ #3 2008 Fort Huachuca Margin Increase Ref: Sch CSB-12	[E] ADJ #4 Base Cost of Power and Wholesale Pwr Cost Adjustor Ref: Sch CSB-13	[F] ADJ #5 Demand Side Management Expenses Ref: Sch CSB-14	[G] ADJ #6 Employee Payroll, Benefits and Payroll Taxes Ref: Sch CSB-15	[H] ADJ #7 GDS Expenses Ref: Sch CSB-16
	REVENUES:								
1	Margin Revenue (Non-Base Cost of Power)	$ 30,530,901	$ 303,312	$ -	$ -	$ -	$ -	$ -	$ -
2	Rounding	3	-	-	-	-	-	-	-
3	Margin Revenue	$ 30,530,904	$ 303,312	$ -	$ -	$ -	$ -	$ -	$ -
4									
5	Base Cost of Power Revenue	$ 47,167,753	$ -	$ -	$ -	$ 10,523,837	$ -	$ -	$ -
6	Wholesale Power Cost Adjustor (WPCA)	10,523,837	-	-	-	(10,523,837)	-	-	-
7	Rounding	(3)	-	-	-	-	-	-	-
8	Base Cost of Power and Adjustor Revenue	$ 57,691,587	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9									
10	Total Revenue from Sales of Electricity	$ 88,222,491	$ 303,312	$ -	$ -	$ -	$ -	$ -	$ -
11	Other Revenues	$ 4,391,068	$ -	$ (91,590)	$ -	$ -	$ -	$ -	$ -
12	2008 Ft Huachuca Margin	-	-	-	918,806	-	-	-	-
13	**Total Revenues**	**$ 92,613,559**	**$ 303,312**	**$ (91,590)**	**$ 918,806**	**$ -**	**$ -**	**$ -**	**$ -**
14									
15	***OPERATING EXPENSES:***								
16	Purchased Power	$ 57,691,587	$ -	$ -	$ -	$ 0	$ -	$ -	$ -
17	Transmission Operation and Maintenance	253,985	2,523	-	-	-	-	(3,570)	-
18	Distribution - Operations	8,524,851	84,691		-	-	-	(221,101)	-
19	Distribution - Maintenance	2,532,504	25,159	-	-	-	-	(66,622)	-
20	Consumer Accounting	3,024,637	30,049	-	-	-	-	(77,402)	-
21	Customer Service	680,691	6,762	-	-	-	-	(18,880)	-
22	Sales	562,326	-	-	-	-	-	(3,527)	-
23	Administrative and General	4,226,472	-	-	-	-	(484,996)	(132,467)	(51,427)
24	Depreciation and Amortization	7,574,650	-	-	-	-	-	-	-
25	Taxes	1,290,758	-	-	-	-	-	-	-
26	**Total Operating Expenses**	$ 86,362,461	$ 149,184	$ -	$ -	$ 0	$ (484,996)	$ (523,570)	$ (51,427)
27									
28	**Operating Margin Before Interest on L.T.- Debt**	**$ 6,251,098**	**$ 154,128**	**$ (91,590)**	**$ 918,806**	**$ (0)**	**$ 484,996**	**$ 523,570**	**$ 51,427**
29									
30	***INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS***								
31	Interest on Long-term Debt	$ 6,994,249	$ -	$ -	$ -	$ -	$ -	$ -	$ -
32	Interest - Other	$ 366,551	-	-	-	-	-	-	-
33	Other Dedcutions	171,756	-	-	-	-	-	-	-
34	**Total Interest & Other Deductions**	$ 7,532,556	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35									
36	***MARGINS (LOSS) AFTER INTEREST EXPENSE***	**$ (1,281,458)**	**$ 154,128**	**$ (91,590)**	**$ 918,806**	**$ (0)**	**$ 484,996**	**$ 523,570**	**$ 51,427**
37									
38	***NON-OPERATING MARGINS***								
39	Interest Income	$ 141,825	$ -	$ -	$ -	$ -	$ -	$ -	$ -
40	Other Margins	$ 138,168							
41	G&T Capital Credits	$ 2,592,402							
42	Other Capital Credits	518,101	-	-	-	-	-	-	-
43	**Total Non-Operating Margins**	$ 3,390,496	$ -	$ -	$ -	$ -	$ -	$ -	$ -
44									
45	***EXTRAORDINARY ITEMS***	$ -	-	-	-	-	-	-	-
46									
47	***NET MARGINS (LOSS)***	$ 2,109,038	$ 154,128	$ (91,590)	$ 918,806	$ (0)	$ 484,996	$ 523,570	$ 51,427

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

LINE NO.	DESCRIPTION	[I] ADJ #8 Normalized Legal Expenses Ref: Sch CSB-17	[J] ADJ #9 Charitable Contributions and Other Expenses Ref: Sch CSB-18	[K] ADJ #10 Incentive Pay Ref: Sch CSB-19	[L] ADJ #11 Interest Expense on L.T. Debt Ref: Sch CSB-20	[M] ADJ #12 Capital Credits Ref: Sch CSB-21	[N] STAFF ADJUSTED
	REVENUES:						
1	Margin Revenue (Non-Base Cost of Power)	$ -	$ -	$ -	$ -	$ -	$ 30,834,213
2	Rounding	-	$ -	$ -	$ -	$ -	3
3	Margin Revenue	$ -					$ 30,834,216
4							
5	Base Cost of Power Revenue	$ -	$ -	$ -	$ -	$ -	$ 57,691,590
6	Wholesale Power Cost Adjustor (WPCA)	-	-	-	-	-	-
7	Rounding	-	-	-	-	-	(3)
8	Base Cost of Power Revenue	$ -	$ -	$ -	$ -	$ -	$ 57,691,587
9							
10	Total Revenue from Sales of Electricity	$ -	$ -	$ -	$ -	$ -	$ 88,525,803
11	Other Revenues	$ -	$ -	$ -	$ -	$ -	$ 4,299,478
12	2008 Ft Huachuca Margin	-	-	-	-	-	918,806
13	**Total Revenues**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 93,744,087**
14							
15	***OPERATING EXPENSES:***						
16	Purchased Power	$ -	$ -	$ -	$ -	$ -	$ 57,691,587
17	Transmission Operation and Maintenance	-	-	(307)	-	-	252,631
18	Distribution - Operations	-	-	(19,028)	-	-	8,369,413
19	Distribution - Maintenance	-	-	(5,733)	-	-	2,485,308
20	Consumer Accounting	-	-	(6,661)	-	-	2,970,623
21	Customer Service	-	-	(1,625)	-	-	666,948
22	Sales	-	-	(304)	-	-	558,495
23	Administrative and General	(52,892)	(298,622)	(11,400)	-	-	3,194,669
24	Depreciation and Amortization	-	-	-	-	-	7,574,650
25	Taxes	-	-	-	-	-	1,290,758
26	**Total Operating Expenses**	$ (52,892)	$ (298,622)	$ (45,058)	$ -	$ -	$ 85,055,081
27							
28	**Operating Margin Before Interest on L.T.- Debt**	**$ 52,892**	**$ 298,622**	**$ 45,058**	**$ -**	**$ -**	**$ 8,689,005**
29							
30	***INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS***						
31	Interest on Long-term Debt	$ -	$ -	$ -	$ (426,301)	$ -	$ 6,567,948
32	Interest - Other	-	-	-	-	-	366,551
33	Other Dedcutions	-	-	-	-	-	171,756
34	**Total Interest & Other Deductions**	$ -	$ -	$ -	$ (426,301)	$ -	$ 7,106,255
35							
36	***MARGINS (LOSS) AFTER INTERST EXPENSE***	**$ 52,892**	**$ 298,622**	**$ 45,058**	**$ 426,301**	**$ -**	**$ 1,582,750**
37							
38	***NON-OPERATING MARGINS***						
39	Interest Income	$ -	$ -	$ -	$ -	$ -	$ 141,825
40	Other Margins		-	-	-	-	138,168
41	G&T Capital Credits		-	-	-	(2,592,402)	-
42	Other Capital Credits	-	-	-	-	(130,414)	387,687
43	**Total Non-Operating Margins**	$ -	$ -	$ -	$ -	$ (2,722,816)	$ 667,680
44							
45	***EXTRAORDINARY ITEMS***	-	-	-		-	-
46							
47	***NET MARGINS (LOSS)***	$ 52,892	$ 298,622	$ 45,058	$ 426,301	$ (2,722,816)	$ 2,250,430

Sulphur Springs Valley Electric Cooperative **Schedule CSB-10**
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

OPERATING MARGIN ADJUSTMENT NO. 1 - REVENUE AND EXPENSE ANNUALIZATIONS

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY AS FILED**	**STAFF ADJUSTMENTS**	**STAFF AS ADJUSTED**
1	Total Margin Revenues	$ 30,530,904	$ -	$ 30,530,904
2	Cooperative's Annualization for Large Pwr Cust	-	(368,953)	(368,953)
3	Total Margin Revenues to be annualized	$ 30,530,904	$ (368,953)	$ 30,161,951
4	Factor to Annualize Revenues to End of Test Year	0.00%		0.9935%
5	**Revenue Annualization Adjustment**	$ -	**$ 303,312**	$ 303,312
6				
7	**Variable Expenses Not Recovered Through Fuel Adjustor**			
8	Transmission - Operation and Maintenance	$ 253,985	$ 2,523	$ 256,508
9	Distribution - Operations	$ 8,524,851	$ 84,691	$ 8,609,542
10	Distribution - Maintenance	$ 2,532,504	$ 25,159	$ 2,557,663
11	Customer Accounting	$ 3,024,637	$ 30,049	$ 3,054,686
12	Customer Service	$ 680,691	$ 6,762	$ 687,453
13		$ 15,016,668	**$ 149,184**	$ 15,165,852
14				
15				
16		Calculation of		
17		Annualization		
18		Factor		
19		49,738	2007 Year-end Customer Count per Form 7	
20		48,769	2006 Year-end Customer Count per Form 7	
21		969		
22		1.99%	Growth Rate (969 / 48,769)	
23				
24		0.9935%	Annualization Factor - 2007 Growth Rate divided by 2	
25				
26				
27				
28				

29	**Caculation of Variable Expenses**			
30	**Not Recovered Through Fuel Adjustor**			
31			**2007**	**Adjustment**
32	**Description**	**Amount**	**Growth Rate**	**to Expenses**
33	Transmission - Operation and Maintenance	$ 253,985	0.9935%	$ 2,523
34	Distribution - Operations	$ 8,524,851	0.9935%	$ 84,691
35	Distribution - Maintenance	$ 2,532,504	0.9935%	$ 25,159
36	Customer Accounting	$ 3,024,637	0.9935%	$ 30,049
37	Customer Service	$ 680,691	0.9935%	$ 6,762
38	Total Variable Expenses Not Recovered Through Fuel Adj	$ 15,016,668		$ 149,184

References:
Column A: Schedule CSB-9
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-11

OPERATING MARGIN ADJUSTMENT NO. 2 - MISCELLANEOUS SERVICE CHARGE REVENUE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Fort Huachuca	$ 2,822,220	$ -	$ 2,822,220
2	Electric Plant - Leased	$ 10,011	$ -	$ 10,011
3	Misc Service Charge Revenue	$ 738,402	$ (91,590)	$ 646,812
4	Rent from Electric Property	$ 819,651	$ -	$ 819,651
5	Other Electric Revenues	$ 783	$ -	$ 783
6	Total Other Revenues	$ 4,391,068	$ (91,590)	$ 4,299,478
7				
8				
9		Miscellaneous Service Charges		
10	Existing Member Connect Fee - Regular Hrs	$ 253,775	-	$ 253,775
11	Connect Fee - After Hours	$ 2,835	-	$ 2,835
12	Non-Pay Trip Fee - Regular Hours	$ 160,650	-	$ 160,650
13	Non-Pay Trip Fee - After Hours	$ 29,880	-	$ 29,880
14	Pump and Equipment Test	$ 480	-	$ 480
15	Radio Control Install Fee	$ 7,125	-	$ 7,125
16	Temporary Meter	$ 2,185	-	$ 2,185
17	Special After Hours Connect Fee	$ 620	-	$ 620
18	Aid to Construction - Line Extension	$ 91,590	(91,590)	$ -
19	Revenue from Lump Sum ISAC Payments	$ 34,117	-	$ 34,117
20	Late Charge	$ 124,033	-	$ 124,033
21	Penalty for Irrigation Override	$ 584	-	$ 584
22	Collection Service Charges Removed	$ (1,537)	-	$ (1,537)
23	Taxes Included in Service Charges in GL	$ 28,974	-	$ 28,974
24	Mileage Included in Service Charges in GL	$ 3,076	-	$ 3,076
25	NSF Check Reclassified	$ 15	-	$ 15
26	Total Misc Service Charge Revenue	$ 738,402	(91,590)	$ 646,812

References:

Column A: Cooperative provided workpaper
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative **Schedule CSB-12**
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

OPERATING MARGIN ADJUSTMENT NO. 3 - 2008 FORT HUACHUCA MARGIN INCREASE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	2008 Fort Huachuca Margin Increase	$ -	$ 918,806	$ 918,806
2				
3				
4				
5				
6				
7		[D]	[E]	[F]
8		$ 2,007	Increase in	$ 2,008
9		Fort Huachuca	Fort Huachuca	Fort Huachuca
10		**CSB 3.4**	Margins	**CSB 3.5**
11	Revenues	$ 2,824,391	$ 5,936,956	$ 8,761,346
12	Expenses	$ 1,447,039	$ 5,018,150	$ 6,465,189
13	Difference	$ 1,377,351	**$ 918,806**	$ 2,296,157

References:

Column A: Cooperative Schedule A-1
Column B: Testimony, CSB; Data Request Response CSB 3.4 and CSB 3.5
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-13

OPERATING MARGIN ADJUSTMENT NO. 4 - BASE COST OF POWER AND WHOLESALE POWER COST ADJUSTOR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	***Revenues***			
2	Base Cost of Power Revenue ("BCOP")	$ 47,167,753	$ 10,523,834	$ 57,691,587
3	Rounding	(3)	3	-
4	Base Cost of Power Revenue Per Company	$ 47,167,750	$ 10,523,837	$ 57,691,587
5	Staff Recommended Increase To BCOP	-	-	-
6		$ 47,167,750	$ 10,523,837	$ 57,691,587
7	Wholesale Power Cost Adjustor ("WPCA")	10,523,837	(10,523,837)	-
8	Total Base Cost of Power and WPCA	57,691,587	-	57,691,587
9	***Expenses***			
10	Purchased Power	$ 57,691,587	$ 0	$ 57,691,587
11	**Operating Margin (Line 8 - Line 10)**	**$ -**	**$ (0)**	**$ (0)**
12				
13				
14				
15				
16				
17	Test Year Sales (In kWhs)	799,860,156	-	799,860,156
18	Multiplied by: Base Cost of Power per kWh	0.072127092	-	0.072127092
19	Total Base Cost of Power	$ 57,691,587	$ -	$ 57,691,587

References:

Column A: Cooperative Schedule A-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-14

OPERATING MARGIN ADJUSTMENT NO. 5 - DSM EXPENSES

LINE NO.	Acct. No.	DESCRIPTION	[A] COMPANY AS FILED CSB 5-2	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	909.00	Production costs for Co-op Connection	$ 228	$ (228)	$ -
2	909.10	Printing costs for Co-op Connection	$ 8,634	$ (8,634)	$ -
3	909.10	Costs for Currents Magazine	$ 5,174	$ (5,174)	$ -
4	912.20	Rebates to existing homeowners	$ 94,800	$ (94,800)	$ -
5	912.40	Inspections on Touchstone Energy homes	$ 6,857	$ (6,857)	$ -
6	912.40	Manpower costs	$ 24,544	$ (24,544)	$ -
7	912.40	Newspaper costs to Tyau Advertising	$ 5,143	$ (5,143)	$ -
8	912.40	Radio advertising to Tyau Advertising	$ 4,582	$ (4,582)	$ -
9	912.40	TV advertising to Tyau Advertising	$ 6,290	$ (6,290)	$ -
10	912.55	Newspaper costs to Tyau Advertising	$ 6,523	$ (6,523)	$ -
11	912.55	Radio advertising to Tyau Advertising	$ 3,839	$ (3,839)	$ -
12	912.55	TV advertising to Tyau Advertising	$ 2,056	$ (2,056)	$ -
13	913.00	TV advertising to Tyau Advertising	$ 2,871	$ (2,871)	$ -
14	921.00	Newspaper costs to Tyau Advertising	$ 3,643	$ (3,643)	$ -
15	921.00	Radio advertising to Tyau Advertising	$ 4,575	$ (4,575)	$ -
16	921.00	TV advertising to Tyau Advertising	$ 21,814	$ (21,814)	$ -
17		Variance with amounts reported to ACC	$ 2,823	$ (2,823)	$ -
18		2007 DSM Costs reported to the ACC	$ 204,396	$ (204,396)	$ -
19	912.50	All Electric Rebates	$ 280,600	$ (280,600)	$ -
20		TOTAL	$ 484,996	$ (484,996)	$ -

References:
Column A: Cooperative Data Request Response CSB 5-2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

OPERATING MARGIN ADJUSTMENT NO. 6 - EMPLOYEE PAYROLL, BENEFITS, & PAYROLL TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Transmission Operation and Maintenance	$ 6,964	$ (3,570)	$ 3,394
2	Distribution - Operations	$ 431,251	$ (221,101)	$ 210,150
3	Distribution - Maintenance	$ 129,945	$ (66,622)	$ 63,322
4	Consumer Accounting	$ 150,970	$ (77,402)	$ 73,568
5	Customer Service	$ 36,825	$ (18,880)	$ 17,945
6	Sales	$ 6,880	$ (3,527)	$ 3,353
7	Administrative and General	$ 258,372	$ (132,467)	$ 125,906
8		**$ 1,021,207**	$ (523,570)	**$ 497,637**
9				

LINE NO.	DESCRIPTION	Payroll	Employee Benefits	Payroll Tax	Total
10					
11					
12	Transmission Oper & Maint	$ 3,003	$ 138	$ 253	$ 3,394
13	Distribution - Operations	$ 185,955	$ 8,541	$ 15,654	$ 210,150
14	Distribution - Maintenance	$ 56,032	$ 2,574	$ 4,717	$ 63,322
15	Consumer Accounting	$ 65,098	$ 2,990	$ 5,480	$ 73,568
16	Customer Service	$ 15,879	$ 729	$ 1,337	$ 17,945
17	Sales	$ 2,967	$ 136	$ 250	$ 3,353
18	Administrative and General	$ 111,410	$ 5,117	$ 9,378	$ 125,906
19		$ 440,343	$ 20,226	$ 37,068	**$ 497,637**
20					
21					

LINE NO.	DESCRIPTION	Payroll	Employee Benefits	Payroll Tax	Total	Percent to Total
22						
23						
24	Transmission Oper & Maint	$ 5,603	$ 882	$ 479	$ 6,964	0.68%
25	Distribution - Operations	$ 346,904	$ 54,856	$ 29,492	$ 431,251	42.23%
26	Distribution - Maintenance	$ 104,429	$ 16,369	$ 9,146	$ 129,945	12.72%
27	Consumer Accounting	$ 121,096	$ 19,395	$ 10,478	$ 150,970	14.78%
28	Customer Service	$ 29,528	$ 4,715	$ 2,583	$ 36,825	3.61%
29	Sales	$ 5,483	$ 910	$ 486	$ 6,880	0.67%
30	Administrative and General	$ 207,063	$ 33,442	$ 17,867	$ 258,372	25.30%
31		$ 820,106	$ 130,570	$ 70,531	**$ 1,021,207**	100.00%

References:

Column A: Cooperative Schedule A-3.0, Page 3 of 3;
Column B: Testimony, CSB; Data Request Response CSB 2.21
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Line No.	Description	Company as Filed Sch A-7.0	Staff Adjustments	Staff as Adjusted
	Calculation of Staff Adjusted Payroll Expense			
1	Actual test year payroll	$ 10,693,957	$ -	$ 10,693,957
2	Actual test year overtime	944,963	-	944,963
3		11,638,920	-	11,638,920
4				
5	Payroll for employees hired after test year	433,826	(433,826)	-
6	Adjustment to actual test year overtime	169,944	(169,944)	-
7	Reconciling item	18,134	(18,134)	-
8		621,904	(621,904)	-
9				
10	Adjusted total payroll	12,260,825	(621,904)	11,638,920
11	x Payroll expensed ratio	1	-	1
12	Adjusted Payroll Expenses	7,487,011	(379,763)	7,107,248
13	Less: Test year payroll expensed	6,666,905	-	6,666,905
14	**Test year adjusted payroll expense**	**820,106**	**(379,763)**	**440,343**

Line No.	Description	Company as Filed Sch A-8.0	Staff Adjustments	Staff as Adjusted
	Calculation of Staff Adjusted Employee Benefits			
1	Medical and Prescription	$ 1,030,671	$ (64,378)	$ 966,293
2	Vision	$ 20,457	$ (1,160)	$ 19,297
3	Dental	$ 64,986	$ (4,028)	$ 60,958
4	Life Insurance	$ 47,150	$ (1,805)	$ 45,345
5	Long-Term Disability	$ 93,347	$ -	$ 93,347
6	401K Plan	$ 328,225	$ -	$ 328,225
7	Defined Benefit Pension Plan	$ 1,987,943	$ -	$ 1,987,943
8	Retiree Benefits	$ 47,500	$ (91,537)	$ (44,037)
9	Postretirement Benefits	$ 526,067	$ -	$ 526,067
10	Workers Compensation	$ 176,234	$ -	$ 176,234
11	Total	$ 4,322,581	$ (162,908)	$ 4,159,673
12	x Expensed Ratio	67.734%		67.734%
13	Adjusted Benefits Expensed	$ 2,927,838	$ (110,344)	$ 2,817,495
14	Less: Test Year Expense	$ 2,797,269	$ -	$ 2,797,269
15	**Adjustment**	**$ 130,570**	**$ (110,344)**	**$ 20,226**

Line No.	Description	Company as Filed Sch A-13.0	Staff Adjustments	Staff as Adjusted
	Calculation of Staff Adjusted Payroll Taxes			
1	FICA	$ 907,617		$ 859,120
2	Federal Unemployment Taxes	$ 11,468		$ 10,908
3	State Unemployment Taxes	$ 7,454		$ 7,090
4	Total	$ 926,539		$ 877,118
5	x Payroll Expensed Ratio	$ 1		$ 1
6	Adjusted Payroll Taxes Expensed	$ 627,372		$ 593,909
7	Test Year Amount	$ 556,841		$ 556,841
8	Adjustment	$ 70,531		$ 37,068

Sulphur Springs Valley Electric Cooperative **Schedule CSB-16**
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

OPERATING MARGIN ADJUSTMENT NO. 7 - GDS EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED CSB 3.13	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Administrative and General Expenses	$ 4,014,255	$ -	$ 4,014,255
2	Admin and General Exp, GDS Associates	$ 212,217	$ (51,427)	$ 160,790
3	Total Administrative and General Expenses	$ 4,226,472	$ (51,427)	$ 4,175,045
4			-	-
5				

6				[D]	[E]	[F]
7				COMPANY		
8	Invoice	Invoice		AS FILED	STAFF	STAFF
9	No.	Date	DESCRIPTION	CSB 3.13	ADJUSTMENTS	AS ADJUSTED
10	52193	9/18/2006	GDS Associates, Inc.	$ 14,706	$ (14,706)	$ -
11	52759	10/18/2006	GDS Associates, Inc.	$ 20,767	$ (20,767)	$ -
12	53381	11/21/2006	GDS Associates, Inc.	$ 23,738	$ (23,738)	$ -
13	54020	12/18/2006	GDS Associates, Inc.	$ 12,094	$ (12,094)	$ -
14				$ 71,305	$ (71,305)	$ -
15						
16	54463	1/19/2007	GDS Associates, Inc.	$ 12,878	$ -	$ 12,878
17	55226	2/26/2007	GDS Associates, Inc.	$ 11,645	$ -	$ 11,645
18	55652	3/19/2007	GDS Associates, Inc.	$ 14,497	$ -	$ 14,497
19	56194	4/19/2007	GDS Associates, Inc.	$ 12,068	$ -	$ 12,068
20	56748	5/11/2007	GDS Associates, Inc.	$ 8,961	$ -	$ 8,961
21	57238	6/12/2007	GDS Associates, Inc.	$ 10,854	$ -	$ 10,854
22	57775	7/19/2007	GDS Associates, Inc.	$ 19,422	$ -	$ 19,422
23	58526	8/17/2007	GDS Associates, Inc.	$ 8,306	$ -	$ 8,306
24	59146	9/14/2007	GDS Associates, Inc.	$ 8,318	$ -	$ 8,318
25	59876	10/18/2007	GDS Associates, Inc.	$ 9,127	$ -	$ 9,127
26	60690	11/29/2007	GDS Associates, Inc.	$ 21,842	$ -	$ 21,842
27	61020	12/12/2007	GDS Associates, Inc.	$ 7,120	$ -	$ 7,120
28	81707	8/17/2007	GDS Associates, Inc.	$ (4,126)	$ -	$ (4,126)
29				$ 140,912	$ -	$ 140,912
30						
31				$ 212,217	$ (71,305)	$ 140,912
32						
33	61146	12/18/2007	GDS Associates, Inc.	$ -	$ 18,644	$ 18,644
34	61200	12/21/2007	GDS Associates, Inc.	$ -	$ 1,235	$ 1,235
35				$ -	$ 19,879	$ 19,879
36						
37			Total	$ 212,217	$ (51,427)	$ 160,790

References:
Column A: Cooperative Schedule A-1
Column B: Testimony, CSB; Data Request Response CSB 1.39, CSB 2.24, CSB 3.10, CSB 3.13
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-17

OPERATING MARGIN ADJUSTMENT NO. 8 - NORMALIZED LEGAL EXPENSES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED CSB 5-2	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Administrative and General Expenses	$ 4,130,635	-	$ 4,130,635
2	Admin and General Exp, Legal Expenses	$ 95,837	(52,892)	$ 42,945
3	Total Administrative and General Expenses	$ 4,226,472	(52,892)	$ 4,173,580

LINE NO.	DESCRIPTION		[A] COMPANY AS FILED CSB 5-2	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Babacomari Ranch Company Litigation		$ 9,500	$ (6,333)	$ 3,167
2	2007 $70 Million Financing		$ 23,738	$ (15,826)	$ 7,913
3	CREBS ACC Financing Filing		$ 9,893	$ (6,595)	$ 3,298
4	2007-2008 Rest Plan & Tariff		$ 20,612	$ (13,741)	$ 6,871
5	Labor Matters		$ 32,094	$ (10,397)	$ 21,697
6			$ 95,837	$ (52,892)	$ 42,945
7					
8					
9	Babacomari Ranch Company Litigation	CSB 2.10	$ 9,500	normalized over 3 years	$ 3,167
10	2007 $70 Million Financing	CSB 2.14	$ 23,738	normalized over 3 years	$ 7,913
11	CREBS ACC Financing Filing	CSB 2.15	$ 9,893	normalized over 3 years	$ 3,298
12	2007-2008 Rest Plan & Tariff	CSB 2.16	$ 20,612	normalized over 3 years	$ 6,871
13			$ 63,743		$ 21,248
14					
15				2006 Labor Matters	$ 22,996
16				2007 Labor Matters	$ 32,094
17				2008 Labor Matters	$ 10,002
18					$ 65,092
19				normalized over 3 years	$ 3
20					$ 21,697

References:
Column A: Cooperative Schedule A-1
Column B: Testimony, CSB; Data Request Response CSB 1.37, CSB 2.10 to CSB 2.16
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative **Schedule CSB-18**
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

OPERATING MARGIN ADJUSTMENT NO. 9 - CHARITABLE CONTRIBUTIONS & OTHER EXPENSES

LINE NO.	DATA REQUEST RESPONSE	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	CSB 1-34	Dues to Grand Canyon Electric Coop Assoc.	$ 130,697	$ (16,246)	$ 114,451
2	CSB 1-41	Dues for social and service clubs	$ 5,102	$ (5,102)	$ -
3	CSB 1-41	Memberships to Industry Associations	$ 44,880	$ (21,366)	$ 23,515
4	CSB 1-41	Charitable contributions	$ 51,876	$ (51,876)	$ -
5	CSB 1-41	Sponsorships	$ 93,461	$ (93,461)	$ -
6	CSB 1-41	Gifts, flowers, and awards	$ 42,260	$ (42,260)	$ -
7	CSB 1-41	Food and beverages	$ 29,442	$ (7,826)	$ 21,616
8	CSB 1-41	Luncheons and dinners	$ 39,147	$ (39,147)	$ -
9	CSB 1-41	Employee parties, picnics, or similar events	$ 35,120	$ (35,120)	$ -
10	CSB 1-41	Entertainment	$ 2,464	$ (2,464)	$ -
11	CSB 2-25	Advertising	$ 260,059	$ (159,921)	$ 100,138
11		TOTAL	$ 343,752	**$ (298,622)**	$ 45,130

References:

Column A: Cooperative Data Request Response CSB 1-34, 1-41, 2-25
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative **Schedule CSB-19**
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

OPERATING MARGIN ADJUSTMENT NO. 10 - INCENTIVE PAY

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Transmission Operation and Maint	$ 307	$ (307)	$ -
2	Distribution - Operations	$ 19,028	$ (19,028)	$ -
3	Distribution - Maintenance	$ 5,733	$ (5,733)	$ -
4	Consumer Accounting	$ 6,661	$ (6,661)	$ -
5	Customer Service	$ 1,625	$ (1,625)	$ -
6	Sales	$ 304	$ (304)	$ -
7	Administrative and General	$ 11,400	$ (11,400)	$ -
8		$ 45,058	$ (45,058)	$ -
9				
10				

LINE NO.	DESCRIPTION	[D] Payroll	[E] Employee Benefits	[G] Payroll Tax	[H] Total	[I] Percent to Total	[J] Incentive Pay **$ 45,058**
15	Trans Oper & Maint	$ 5,603	$ 882	$ 479	$ 6,964	0.68%	**$ 307**
16	Distr - Operations	$ 346,904	$ 54,856	$ 29,492	$ 431,251	42.23%	**$ 19,028**
17	Distr - Maintenance	$ 104,429	$ 16,369	$ 9,146	$ 129,945	12.72%	**$ 5,733**
18	Consumer Accounting	$ 121,096	$ 19,395	$ 10,478	$ 150,970	14.78%	**$ 6,661**
19	Customer Service	$ 29,528	$ 4,715	$ 2,583	$ 36,825	3.61%	**$ 1,625**
20	Sales	$ 5,483	$ 910	$ 486	$ 6,880	0.67%	**$ 304**
21	Admin and Gen	$ 207,063	$ 33,442	$ 17,867	$ 258,372	25.30%	**$ 11,400**
22		$ 820,106	$ 130,570	$ 70,531	$ 1,021,207	100.00%	**$ 45,058**

References:

Column A: Schedule CSB-19, Column J
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-20

OPERATING INCOME ADJUSTMENT NO. 11 - INTEREST EXP ON LONG-TERM DEBT

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Interest Expense on Long-term Debt	$ 6,994,249	$ (426,301)	$ 6,567,948
2				
3				

LINE NO.		Principal Per Company	Difference	Principal Per Staff	Interest Rate	Interest
6	CFC Notes	$ 7,580,857	$ -	$ 7,580,857	6.99%	$ 529,902
7	CFC Notes	$ 223,130	$ -	$ 223,130	5.69%	$ 12,696
8	CFC Notes	$ 6,679,114	$ -	$ 6,679,114	6.19%	$ 413,437
9	CFC Notes	$ 1,094,315	$ -	$ 1,094,315	5.44%	$ 59,531
10	CFC Notes	$ 4,505,110	$ -	$ 4,505,110	4.90%	$ 220,750
11	CFC Notes	$ 3,736,739	$ -	$ 3,736,739	4.60%	$ 171,890
12	CFC Notes	$ 4,704,874	$ -	$ 4,704,874	4.65%	$ 218,777
13	CFC Notes	$ 6,940,043	$ -	$ 6,940,043	5.30%	$ 367,822
14	CFC Notes	$ 8,883,720	$ -	$ 8,883,720	6.39%	$ 567,670
15	CFC Notes	$ 248,343	$ -	$ 248,343	3.84%	$ 9,536
16	CFC Notes	$ 484,009	$ -	$ 484,009	4.14%	$ 20,038
17	CFC Notes	$ 636,296	$ -	$ 636,296	4.39%	$ 27,933
18	CFC Notes	$ 784,238	$ -	$ 784,238	4.64%	$ 36,389
19	CFC Notes	$ 890,391	$ -	$ 890,391	4.84%	$ 43,095
20	CFC Notes	$ 962,025	$ -	$ 962,025	5.04%	$ 48,486
21	CFC Notes	$ 1,061,492	$ -	$ 1,061,492	5.09%	$ 54,030
22	CFC Notes	$ 2,059,876	$ -	$ 2,059,876	5.19%	$ 106,908
23	CFC Notes	$ 6,811,488	$ -	$ 6,811,488	5.24%	$ 356,922
24	CFC Notes	$ 6,511,760	$ -	$ 6,511,760	5.29%	$ 344,472
25	CFC Notes	$ 5,779,352	$ -	$ 5,779,352	5.59%	$ 323,066
26	CFC Notes	$ 5,881,037	$ -	$ 5,881,037	6.34%	$ 372,858
27	CFC Notes	$ 8,410,398	$ -	$ 8,410,398	6.59%	$ 554,245
28	CFC Notes	$ 2,976,264	$ -	$ 2,976,264	6.54%	$ 194,648
29	CFC Notes	$ 9,915,144	$ -	$ 9,915,144	6.09%	$ 603,832
30	CFC Notes	$ 2,000,000	$ -	$ 2,000,000	4.90%	$ 98,000
31	CFC Notes	$ 67,666	$ -	$ 67,666	4.90%	$ 3,316
32	CFC Notes	$ 8,000,000	$ -	$ 8,000,000	4.40%	$ 352,000
33	CFC Notes	$ 18,000,000	$ (8,700,000)	$ 9,300,000	4.90%	$ 455,700
34		$ 125,827,680	$ (8,700,000)	$ 117,127,680		$ 6,567,948

References:
Column A: Cooperative Schedule A-1.0, A-14.0
Column B: Testimony, CSB; Data Request Response STF 8.22
Column C: Column [A] + Column [B]

Sulphur Springs Valley Electric Cooperative
Docket No. E-01575A-08-0328
Test Year Ended December 31, 2007

Schedule CSB-21

OPERATING MARGIN ADJUSTMENT NO. 12 - CAPITAL CREDITS

		[A]	[B]	[C]
LINE NO.	**DESCRIPTION**	**COMPANY AS FILED**	**STAFF ADJUSTMENTS**	**STAFF AS ADJUSTED**
1	G&T Capital Credits	$ 2,592,402	$ (2,592,402)	$ -
2	Other Capital Credits	518,101	(130,414)	387,687
3		$ 3,110,503	$ (2,722,816)	$ 387,687
4				
5				
6				Cash
7				Capital Credits
8				CSB 3.16
9			G&T Capital Credits - AEPCO	$ -
10			Other Capital Credits - CFC	375,754
11			Other Capital Credits - NISC	60
12			Other Capital Credits - NRTC	3,823
13			Other Capital Credits - Federated Rural Insurance	6,041
14			Other Capital Credits - CRC	2,009
15				$ 387,687

References:

Column A: Cooperative Schedule A-1
Column B: Testimony, CSB; CSB 3.15, CSB 3.16
Column C: Column [A] + Column [B]

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS.	DOCKET NO. E-01575A-08-0328

DIRECT

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 26, 2009

TABLE OF CONTENTS

EXHIBIT

EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-08-0328

The base cost of power should be established at \$0.072127 per kWh, as proposed by Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC").

To limit potential future rate shocks, SSVEC should be required to submit future increases in its Wholesale Power Cost Adjustment ("WPCA") rate to the Commission for approval. SSVEC should also be required to establish positive and negative thresholds for its bank balance.

The WPCA mechanism should be revised to allow recovery of costs associated with owned generation. The name of the WPCA mechanism should be changed to "Wholesale Power and Fuel Cost Adjustment" ("WPFCA") mechanism to reflect this change. DSM cost recovery should be moved out of the WPCA mechanism and into a specific DSM adjustor. An officer of SSVEC should sign off on SSVEC's adjustor reports as true and accurate to the best of his or her information.

SSVEC should be allowed to eliminate the construction allowance for line extensions in all classes.

SSVEC's Service Conditions should be revised to make clear that it is impermissible to disconnect customers falling under Arizona Administrative Code R14-2-211.5.

SSVEC should make additional revisions to its Service Conditions in accordance with Staff's testimony.

INTRODUCTION

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

A. My name is Julie McNeely-Kirwan. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. In my capacity as a Public Utilities Analyst IV I review and analyze applications filed with the Commission, and prepare memoranda and proposed orders for Open Meetings. My duties include tracking monthly fuel adjustor reports and reviewing annual utility affiliated interest reports for compliance. My duties have also included preparing written testimony in the UNS Gas and UNS Electric rate cases, as well as testifying during the UNS Gas and UNS Electric rate case hearings.

Q. Please describe your educational background and professional experience.

A. In 1979, I graduated Magna Cum Laude from Arizona State University, receiving a Bachelor of Arts degree in History. In 1987, I received a Master's Degree in Political Science from the University of Wisconsin, Madison. I have been employed by the Commission since September of 2006.

Q. What is the subject matter of this testimony?

A. This testimony will present Staff's analysis and evaluation of the base cost of power, the purchased power adjustor and the Service Conditions.

BASE COST OF PURCHASED POWER

Q. What is the Cooperative's proposed base cost of power?

A. The Cooperative's proposed base cost of power is $0.072127 per kWh. This was arrived at by dividing Sulphur Springs Valley Electric Cooperative, Inc.'s ("SSVEC") Adjusted Test Year power costs by its Adjusted Test Year kWh sold. (See SSVEC's Schedule N-3.0.)

Q. Does Staff have concerns regarding the Cooperative's proposed base cost of power based on Test Year data?

A. Yes. Test Year rate increases from the Arizona Electric Power Cooperative, Inc. ("AEPCO") and Southwest Transmission Cooperative ("SWTC"), Inc., both occurring in September 2007, were included in SSVEC's base cost calculations, but not on an annualized basis. This potentially understates actual power costs going forward.

Q. Were there any changes since January that have impacted the cost of power for SSVEC?

A. In January 2008 SSVEC changed from an All Requirements Member of AEPCO to a Partial Requirements Member ("PRM"), meaning that part of SSVEC's power supply could be purchased from sources other than AEPCO. This includes purchases from the open market, where energy cost has been volatile. In addition, there have been increases since January 2008 to SSVEC's costs for power.

Staff notes that SSVEC's actual power costs since January 2008 have been consistently higher than $0.072127 per kWh.

Q. Please provide details concerning the actual cost of power since January 2008, when SSVEC became a partial requirements member.

A. During the period from January 2008 through October 2008 the actual cost of power has ranged from a low of $0.070363 per kWh in February to a high of $0.104357 per kWh in June. See the table, below:

Table 1: Unit Cost of Purchased Power (2008)

Jan-08	$0.072402
Feb-08	$0.070363
Mar-08	$0.082044
Apr-08	$0.076848
May-08	$0.079511
Jun-08	$0.104357
Jul-08	$0.092795
Aug-08	$0.089761
Sept-08	$0.07052
Oct-08	$0.08087

Q. Did Staff calculate the average cost of power for SSVEC since SSVEC became a partial requirements customers?

A. Yes. SSVEC's average cost of power from January 2008 through October 2008 was $0.08215 per kWh.

Q. How did Staff arrive at this number?

A. Staff calculated the average cost of power by totaling SSVEC's purchase power costs from its monthly adjustor reports for January through October 2008, subtracting out demand-side management ("DSM") costs, and then dividing the resulting number by the number of kilowatt hours ("kWh") sold to customers during the January through October period. This number includes SSVEC's actual, rather than projected, costs during its period as a PRM customer of AEPCO, and includes post-Test Year increases in the cost of power. (Post-Test Year data and increases are components of the actual cost of power for SSVEC since becoming a partial requirements customer.)

Q. Why did Staff subtract the DSM costs?

A. Because DSM costs arise from the funding of conservation and efficiency programs and, although currently recovered through the purchased power adjustor, are not a component of the cost of power.

Q. Based on its assessment of SSVEC's actual cost of power since January 2008, is Staff recommending a higher base cost of power than that proposed by the Cooperative?

A. No. Future fuel costs can not be predicted with sufficient certainty. Currently, there are both upward and downward pressures on energy costs. Moreover, as a partial requirements member SSVEC may be able to enter into less expensive long-term energy contracts.

Staff recommends that the base cost of power be established at $0.072127 per kWh, as proposed by SSVEC.

Q. Are there any other factors which may influence SSVEC's costs going forward?

A. A review of SSVEC's procurement practices is being conducted by Staff as part of the current rate case. This review may identify opportunities to enhance SSVEC's procurement process and positively impact costs.

Q. If power costs are in excess of the recommended base cost would SSVEC still be able to recover its fuel and purchased power costs? Alternatively, if costs decrease would SSVEC be able to return over-collections to ratepayers?

A. Yes. SSVEC would be able to resolve any difference between its base cost of power and its actual purchased power costs through its Wholesale Power Cost Adjustment ("WPCA") mechanism.

Q. Does Staff have any concerns about utilizing the WPCA mechanism to adjust for power costs that differ from the base cost?

A. Yes. Large changes to the WPCA mechanism make the cost of power less predictable for customers, and may result in rate shocks. Staff recommendations for managing the adjustor to limit unpredictability are discussed in the next section, on the Wholesale Power Cost Adjustment mechanism.

WHOLESALE POWER COST ADJUSTMENT ("WPCA") MECHANISM

Q. What is the WPCA mechanism?

A. The WPCA mechanism is a purchased power adjustor that uses charges or credits to compensate for the difference between the base cost of power and the actual cost of wholesale power. A bank balance tracks a utility's over-collections and under-collections for the cost of power and transmission. The SSVEC WPCA mechanism is adjusted periodically to reduce large positive or large negative balances, returning over-collections to ratepayers, or increasing the WPCA charge to pay down under-collections. Interest is not applied to either over- or under-collected balances.

Q. Does SSVEC have the authority to manage its bank balance by changing the WPCA rate?

A. Yes. SSVEC currently has the authority to change the WPCA rate without Commission approval.

Q. Please describe SSVEC's recent use of the WPCA mechanism.

A. From January 2006 through September 2008 the SSVEC adjustor has ranged from minus $0.00100 per kWh (which returned an over-collected bank balance to ratepayers) to the current adjustor rate of $0.04000, which adds four cents per kWh over the current base cost of $0.05897. Please see the table below for additional details:

Table 2: Changes to the WPCA Rate 4/06-8/08

Date of change	Adjustment from/to	Bank Balance[1]
April 2006	($0.00100) to $0.00881	$403,637 under-collected
November 2006	$0.00881 to $0.01106	$1,002,969 under-collected
February 2007	$0.01106 to $0.01606	$1,919,641 under-collected
April 2007	$0.01606 to $0.01975	$1,031,412 under-collected
January 2008	$0.01975 to $0.00805	$1,585,042 over-collected
May 2008	$0.00805 to $0.01975	$481,288 under-collected
August 2008	$0.01975 to $0.04000	$4,305,485 under-collected

Q. Describe the impact of changes to the WPCA mechanism on the bank balance.

A. From December 2007 through July 2008 the unit cost of purchased power, per kWh, was higher than the cost per kWh being collected from customers, despite a May increase from $0.00805 to $0.01975 in the WPCA rate. For example, in July 2008, the unit cost of purchased power per kWh was $0.09279, while the total rate being collected from customers was $0.07872. (This amount includes the current base cost of power of $0.05897 per kWh and $0.01975 collected through the WPCA mechanism.) With collections from customers below actual costs, by July 2008 the under-collected bank balance had risen to $4,305,485.48, as indicated above. (Compare this to the July 2007 bank balance of $17,340.05; however, $502,414.36, or 11.67%, of the $4,305,485.48 balance in July 2008 arose from approved DSM charges added to the bank balance in July 2008).

When the WPCA surcharge was increased from $0.01975 to $0.4000 in August 2008, this increased the total rate collected from customers per kWh to $0.09897, while the unit cost of purchased power per kWh was $0.089761; with collections now exceeding the unit cost

[1] Balance cited in Table 2 in for the beginning of the month in which the WPCA rate was changed.

of purchased power, SSVEC began to reduce its large under-collection. As of October 2008 SSVEC's under-collected bank balance had decreased to $1,055,935.96.

Exhibit 1, attached to this testimony, reflects the recent history of the bank balance and its increasing volatility since January 2008.

Q. What has been the impact of recent increases to the WPCA rate on SSVEC customers?

A. With an increase from $0.00805 to $0.01975 in April, and an increase from $0.01975 to $0.04000 in August, SSVEC customers experienced a total $0.03195 increase to their per kWh cost between April and August 2008.

Q. How would this impact an average residential customer's bill?

A. Average usage in August was 873 kWh for Residential customers. (40,441 Residential customers using a total of 35,319,400 kWh.) The total $0.03195 increase would add $27.90 to an average August bill for Residential customers.

The $0.01975 to $0.0400 increase in August accounted for $17.69 of the $27.90. August is a peak usage month, which magnifies the impact of a higher WPCA, but also reduces an under-collected bank balance more rapidly.

Q. Is Staff proposing any changes to the way in which SSVEC manages its WPCA mechanism?

A. Yes. Since January 2008, when SSVEC became a partial requirements member, the Cooperative's energy costs have been more volatile. The greater volatility impacts the bank balance and, consequently, the WPCA rate. In order to manage the WPCA rate, Staff recommends that, in the future, SSVEC submit proposed increases to the WPCA rate to the Commission for approval. Submitting proposed increases for approval would ensure that impacts to the Cooperative's customers are regulated.

Staff does not recommend that SSVEC be required to seek approval for decreases to its WPCA rate.

Q. Is Staff proposing any other changes to the way in which SSVEC manages its WPCA mechanism?

A. Yes. Staff is recommending that set thresholds be established to trigger changes in the WPCA mechanism rate for both over- and under-collected bank balances.

With respect to under-collected bank balances, SSVEC must file an application to increase the WPCA rate either when the bank balance reaches the threshold for under-collected balances for two consecutive months, or when it reasonably anticipates that the threshold will be reached within six months and would continue at or above the threshold for two or more consecutive months.

With respect to over-collections, SSVEC may return over-collected bank balances to its customers at any time, except it must use the WPCA mechanism to return over-collections once the threshold is reached and remains over the threshold for two consecutive months.

Q. What are the benefits of SSVEC establishing set thresholds for its WPCA mechanism?

A. With respect to under-collections, a set threshold would limit the size of any negative bank balance that could accumulate. This would have the effect of limiting increases to the WPCA mechanism, thereby limiting rate shocks to the customers.

With respect to over-collections, a set threshold would ensure that positive bank balances would be returned to customers in a timely and predictable fashion.

Another advantage to set thresholds is that a written, established policy concerning thresholds makes the functioning of the WPCA mechanism more transparent and predictable.

Q. What thresholds is Staff proposing for the WPCA mechanism?

A. Staff recommends a $2 million threshold for under-collections and a $1 million threshold for over-collections.

Q. How were these thresholds determined?

A. The $2 million limit on under-collections is designed to keep increases to the WPCA mechanism low enough to limit rate shocks, while the $1 million limit on over-collections places a reasonable limit on how much SSVEC can owe each Residential customer before it begins to refund an over-collection. Both thresholds are calculated based on how much an individual Residential customer would owe, or be owed, for that single customer's "share" of the bank balance. At $2 million, a Residential customer's share of an under-collected bank balance would be approximately $40, while at $1 million the average SSVEC customer's share of an over-collection would be approximately $20.

Q. What public interest is served by requiring SSVEC to seek Commission approval for increases to its adjustor, or for imposing thresholds on SSVEC's adjustor bank balances?

A. The Arizona Corporation Commission has the authority, and the obligation, to set fair, just, and reasonable rates for Arizona utility ratepayers, whether the utility providing service is investor-owned or a cooperative. This rate-setting includes regulating the ways in which purchased power or fuel costs are passed on to customers, because the structure of these pass-throughs have an impact on ratepayers. In this case, particularly given SSVEC's recent transition to partial requirements status, it is in the public interest to regulate the manner in which costs are passed through the WPCA mechanism, because doing so protects SSVEC's members from rate shocks. It is also in the public interest to establish thresholds; thresholds provide an additional limit on rate shocks, and ensure that the bank balance is maintained at a reasonable level, even with SSVEC's greater exposure to fluctuating market costs as a partial requirements member.

Q. Is the Cooperative proposing any changes that would affect the WPCA?

A. Yes. The Cooperative is proposing to include a pass-through of fuel costs that may arise if SSVEC were to have its own generating units.

Q. Does the inclusion of FERC Account 555 in the WCPA mechanism presume the prudency of those fuel costs?

A. No. To the extent that SSVEC were to own and operate its own generation, the fuel costs would likely be includable for pass-though; however, in no way should that be construed as a determination of prudency regarding those fuel costs.

Q. Why is the Cooperative proposing this change to the WPCA?

A. Prior to January 2008 AEPCO supplied SSVEC with all its power under a full requirements contract. In January 2008 SSVEC became a partial requirements member of AEPCO, meaning that some portion of SSVEC's future power supply may come from owned generation sources, which require fuel, or through purchased power agreements, where additional transmission costs would be incurred. The Cooperative has proposed that the WPCA mechanism be revised to allow these costs to be recovered.

Q. Does Staff agree with this proposed change?

A. Yes. It is logical for the costs associated with both acquiring and generating power to be recovered through the same adjustor mechanism. One benefit is that it clarifies the overall cost of power. Another benefit is that the adjustor mechanism can be modified to limit rate shocks to customers arising from the volatility of power costs. (Through, for example, the use of bank balance thresholds. See Staff's additional testimony on this subject, above.)

Q. What cost components does SSVEC propose to include in its WPCA?

A. The FERC Accounts SSVEC proposes to include in its WPCA mechanism consist of the following:

- Steam Power Generation – Operation, FERC Accounts 500-507;
- Steam Power Generation – Maintenance, FERC Accounts 510-514;
- Nuclear Power Generation -- Operation, FERC Accounts 517-525;
- Nuclear Power Generation -- Maintenance, FERC Accounts 528-532;
- Hydraulic Power Generation -- Operations, FERC Accounts 535-540;
- Hydraulic power Generation -- Maintenance, FERC Accounts 541-545;
- Other Power Generation – Operation, FERC Accounts 546-550;

- Other Power Generation – Maintenance, FERC Accounts 551-554; and
- Purchased Power, FERC Accounts 555-557.

Q. Does Staff agree with the list of FERC accounts SSVEC proposes to include in its revised WPCA mechanism?

A. No. SSVEC's proposed list of FERC accounts is overbroad and includes costs that do not belong in a power and fuel adjustor, such as maintenance and rent costs.

Q. What cost components should be included in the WPCA mechanism?

A. The SSVEC power and fuel adjustor should include costs directly related to the purchase, generation or transmission of power. These include the following FERC Accounts: 501 (fuel costs for steam power generation, less legal fees, less fixed fuel costs except for gas reservation), 518 (fuel costs for nuclear power generation, less Independent Spent Fuel Storage Installation ("ISFI") regulatory amortization), 547 (fuel costs for other power generation), 555 (purchased power costs – demand and energy), and 565 (transmission of electricity by others, both firm and non-firm). Power supply costs directly assignable to special contract customers would not be included in the calculation.

Q. Why does Staff include wheeling costs from FERC Account 565?

A. With respect to FERC Account 565, both firm and non-firm wheeling costs are related to the transmission of power to SSVEC for resale. As such, these costs are appropriate for recovery through the power and fuel adjustor mechanism. In addition, if only non-firm wheeling costs were included in the adjustor, the manner of cost recovery (more immediate through an adjustor) could influence the type of contract negotiated, when the only consideration in selecting and negotiating contracts should be the best deal for ratepayers.

Q. Should capital or legal costs go through the SSVEC WPCA mechanism?

A. No, and SSVEC has stated that capital costs would not be recovered through the revised adjustor mechanism. (Response to JKM 6.4) Legal costs are another example of costs that should not go through the WPCA, as these are not appropriate for a power and fuel adjustor.

Q. Is Staff recommending any changes to the WPCA mechanism, if it is revised to provide for recovery of owned-generation fuel and costs related to purchased power contracts?

A. Yes. Staff recommends that the name of the Wholesale Power Cost Adjustment mechanism be changed to the "Wholesale Power and Fuel Cost Adjustment ("WPFCA")" mechanism. The new name would be more descriptive of the types of costs recovered through the revised adjustor.

Q. Has the Cooperative proposed any other changes that would affect the WPCA?

A. Yes. SSVEC's DSM costs are currently recovered through the Cooperative's WPCA mechanism. SSVEC proposes to move recovery of its DSM costs out of the WPCA, and to create a new DSM adjustment mechanism to recover a portion of its DSM costs. (Please see Staff Witness Steve Irvine's testimony regarding SSVEC's proposal to roll a portion of Test Year DSM costs into base rates.)

Q. Is Staff opposed to moving DSM costs out of SSVEC's WPCA mechanism?

A. No. Staff concurs that DSM funding should be moved out of the WPCA mechanism and into a separate adjustor specifically designated to recover DSM costs. To include DSM funding in the WPCA mechanism obscures both the cost of power and the cost of DSM.

Separate adjustors provide specific accountings for both elements, making the actual cost of each as clear as possible for ratepayers.

Q. Are there any Staff recommendations with respect to reporting on SSVEC's fuel adjustor reports?

A. Yes. Staff recommends that an SSVEC officer sign off on SSVEC's WPFCA reports. This process is the same as Commission requirements for other entities in other rate cases. An SSVEC officer should certify that all information provided in SSVEC's purchased power and WPFCA reports is true and accurate to the best of his or her information and belief.

SERVICE CONDITIONS

Q. Has SSVEC revised its Service Conditions as part of the current rate case?

A. Yes. SSVEC states that most of its changes were intended to clarify the Service Conditions, make them consistent, ensure compliance with Commission rules and incorporate changes in technology since the last rate case. The major proposed change eliminates the construction allowance for line extensions for all classes.

Q. Does Staff agree with elimination of the construction allowance for line extensions?

A. Yes. SSVEC reports that costs associated with growth have "increased dramatically" in recent years. Eliminating free footage would reduce SSVEC's costs associated with growth, reduce the need for future rate increases and reduce the debt SSVEC incurs to provide service.

Q. Does Staff have any other concerns regarding the Service Conditions?

A. Yes. Staff recommends that SSVEC's Service Conditions be revised to make clear that it is *impermissible to disconnect* customers falling under Arizona Administrative Code R14-2-211.5. To ensure that this is understood by both employees and customers of SSVEC, Staff recommends that the phrase ", with the exception of customers falling under R14-2-211.5," be inserted on page 27 of the Service Conditions, at 2.20.3.A., after the word "reason."

Q. Why is it impermissible to disconnect customers falling under this classification?

A. Because this is a uniquely vulnerable customer class, who, if disconnected, could suffer grave impacts to health, or even die.

Q. Does Staff have any changes to recommend to SSVEC's Service Conditions with respect to identifying responsible parties?

A. Yes. On page 8, 2.3.4, <u>Identification of Responsible Party</u>, insert the word "notarized" following the phrase "shall furnish to SSVEC"; in the same sentence following the phrase "written approval from" delete the word "that" and insert the phrase "the billed." The revised sentence should read as follows: "Any Person applying for Electric Service to be connected in the name of or in care of another Customer shall furnish to SSVEC notarized written approval from the billed Customer guaranteeing payments of all bills." These changes in language should assist in limiting fraud.

Q. Does Staff have any changes to recommend to SSVEC's Service Conditions with respect to service calls?

A. Yes. On page 14, 2.5.6.A, <u>Service Calls During Regular Business Hours</u>, add the following sentence: "Reasonable efforts will be made to advise the Customer about the responsibility of such charges before the service calls starts." This language is part of the existing tariff and should be retained.

Q. Does Staff have any changes to recommend to SSVEC's Service Conditions with respect to prepaid metering services?

A. Yes. On pages 22-23, 2.16.3, Prepaid Metering Services, SSVEC should add a closing sentence directing interested customers to a source for additional information on these services.

Q. Does Staff have any changes to recommend to SSVEC's Service Conditions with respect to meter testing?

A. Yes. On page 33, 3.6.3., Metering Testing Requested By The Customer, the entry should remain unchanged from SSVEC's current tariff, which complies with the Arizona Administrative Code R14-2-409. Retaining this language makes clear that customers requesting meter testing will not be charged, if testing shows that the meters requested for testing are more than 3% inaccurate.

Q. Does this conclude your direct testimony?

A. Yes, it does.

SUMMARY OF STAFF RECOMMENDATIONS

- Staff recommends that the base cost of power be established at $0.072127per kWh, as proposed by SSVEC.
- Staff recommends that, in the future, SSVEC submit proposed increases to the power and fuel adjustor to the Commission for approval to ensure that impacts to the Cooperative's

customers are regulated. Staff does not recommend that SSVEC be required to seek approval for decreases to its power and fuel adjustor.

- Staff recommends a $2 million threshold for under-collections and a $1 million threshold for over-collections for SSVEC's power and fuel adjustor.
- Staff recommends that the power and fuel adjustor be revised to allow recovery of costs for the following FERC Accounts: 501, 518, 547, 555 and 565.
- Staff recommends that DSM funding should be moved out of the WPCA mechanism and into a separate adjustor specifically designated to recover DSM costs.
- Staff recommends that the name of the WPCA mechanism be changed to the WPFCA mechanism.
- Staff recommends that an SSVEC officer sign off on SSVEC's WPFCA reports. This process is the same as Commission requirements for other companies in other rate cases. An SSVEC officer should certify that all information provided in SSVEC's WPFCA reports is true and accurate to the best of his or her information and belief.
- Staff recommends that SSVEC revise its Service Conditions to eliminate free footage.
- Staff recommends that SSVEC's Service Conditions be revised to make clear that it is impermissible to disconnect customers falling under Arizona Administrative Code R14-2-211.5. To ensure that this is understood by both employees and customers of SSVEC, Staff recommends that the phrase ", with the exception of customers falling under R14-2-211.5," be inserted on page 27 of the Service Conditions, at 2.20.3.A., after the word "reason."
- Staff recommends that SSVEC revise its proposed Service Conditions as follows: On page 8, 2.3.4, <u>Identification of Responsible Party</u>, insert the word "notarized" following the phrase "shall furnish to SSVEC"; in the same sentence following the phrase "written approval from" delete the word "that" and insert the phrase "the billed." The revised sentence should read as follows: "Any Person applying for Electric Service to be

connected in the name of or in care of another Customer shall furnish to SSVEC notarized written approval from the billed Customer guaranteeing payments of all bills." These changes in language should assist in limiting fraud.

- Staff recommends that SSVEC revise its proposed Service Conditions as follows: On page 14, 2.5.6.A, Service Calls During Regular Business Hours, add the following sentence: "Reasonable efforts will be made to advise the Customer about the responsibility of such charges before the service calls starts." This language is part of the existing tariff and should be retained.
- Staff recommends that SSVEC revise its proposed Service Conditions as follows: On pages 22-23, 2.16.3, Prepaid Metering Services, SSVEC should add a closing sentence directing interested customers to a source for additional information on these services.
- Staff recommends that SSVEC revise its proposed Service Conditions as follows: On page 33, 3.6.3., Metering Testing Requested By The Customer, the entry should remain unchanged from SSVEC's current tariff, which complies with the Arizona Administrative Code R14-2-409.

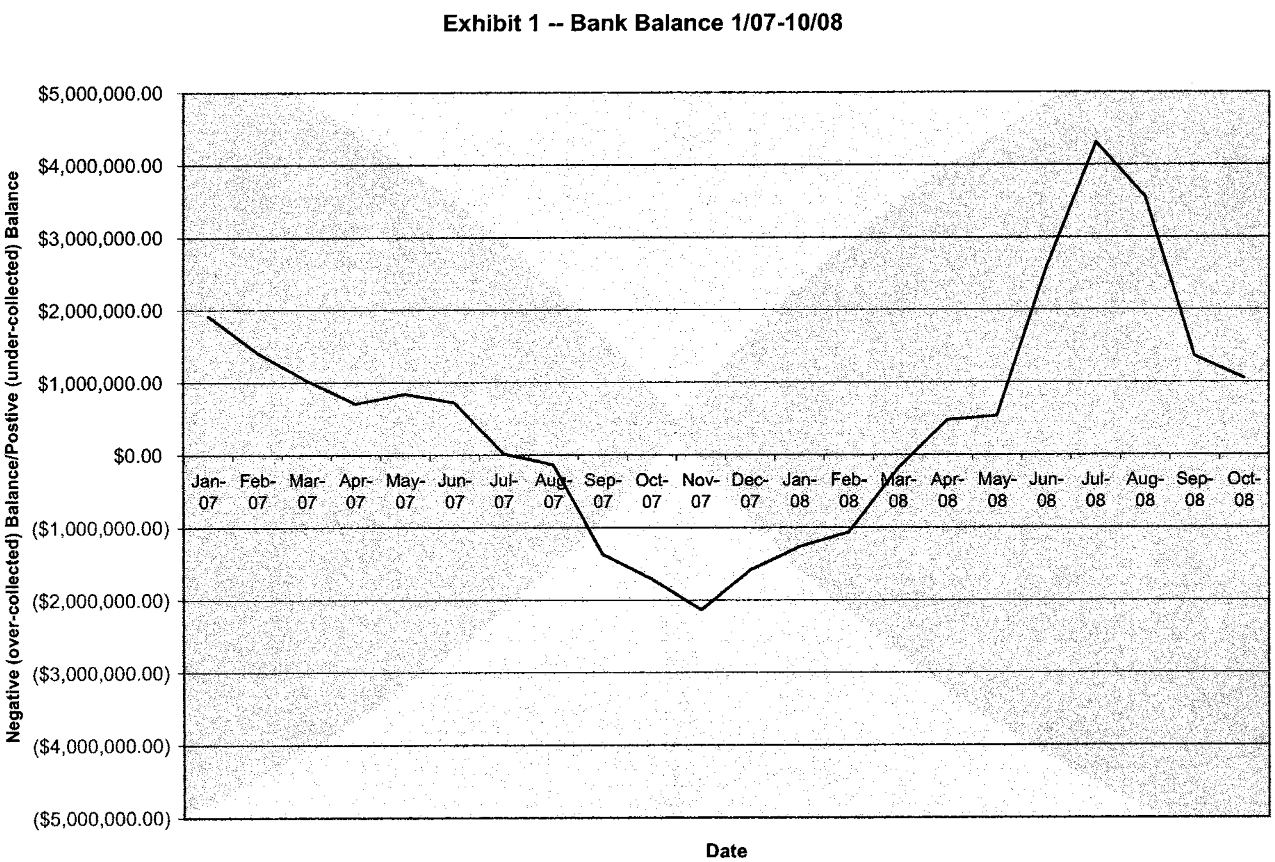
Exhibit 1 -- Bank Balance 1/07-10/08
$5,000,000.00
$4,000,000.00
$3,000,000.00
$2,000,000.00
$1,000,000.00
$0.00
($1,000,000.00)
($2,000,000.00)
($3,000,000.00)
($4,000,000.00)
($5,000,000.00)
Negative (over-collected) Balance/Postive (under-collected) Balance
Jan-07
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Date

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND FOR RELATED APPROVALS.	)	DOCKET NO. E-01575A-08-0328

DIRECT

TESTIMONY

OF

STEVE IRVINE

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 26, 2009

TABLE OF CONTENTS

EXHIBITS

EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-08-0328

This testimony addresses Sulphur Springs Valley Electric Cooperative, Inc.'s ("SSVEC") Demand-side Management ("DSM") program cost recovery and Renewable Energy Standard and Tariff ("REST") program cost recovery.

Staff recommends that SSVEC file with Docket Control a revised version of the DSM program description having removed references to the Time of Use ("TOU") rates and controlled rate program for irrigators, and having made other conforming changes, when filing an application for approval of new DSM programs.

Staff recommends that costs prudently incurred in connection with Commission-approved DSM activities be recovered entirely through a DSM adjustment tariff.

Staff recommends that Commission-approved DSM costs should be assessed to all SSVEC electric customers as a clearly labeled single line item per kWh charge on customer bills.

Staff recommends, should the Commission approve SSVEC's recommendation to include some part of DSM program expense recovery in base rates, that the Commission also clarify that a negative DSM adjustor may be used to lower DSM program expense recovery below the rate included in base rates.

Staff recommends that SSVEC continue to report on DSM program expenses semi-annually as it does presently, except with revisions as discussed herein.

Staff recommends that SSVEC file the DSM program expense reports in Docket Control and that SSVEC redact any personal information such as the names and addresses associated with customers participating in DSM programs.

Staff recommends that SSVEC's DSM program expense reports include the following: (i) the number of measures installed/homes built/participation levels; (ii) copies of marketing materials; (iii) costs incurred during the reporting period disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs; (iv) gas and electric savings as determined by the monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of the program budget spent during the previous six months and, in the end of year report, during the calendar year; (ix) the amount spent since the inception of the program; (vii) any significant impacts on program cost-effectiveness; (ix) descriptions of any problems and proposed solutions, including movements of funding from one program to another; (x) any major changes, including termination of the program.

Staff recommends that SSVEC submit to the Commission, through Docket Control a filing, by April 1st of each year, that includes its proposed new DSM adjustor rate. Staff further recommends that the filing be considered and adjudicated by the Commission in Open Meeting.

Staff recommends that SSVEC's DSM adjustor rate be reset annually on June 1st of each year. Staff further recommends that the per kWh rate be based upon currently projected DSM costs for that year (the year for which the calculation is being made), adjusted by the previous year's over- or under-collection, divided by projected retail sales (kWh) for that same year.

Staff recommends that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.

Staff recommends that SSVEC submit proposed programs to the Commission for approval.

Staff recommends that SSVEC file an application requesting approval of the new DSM programs proposed by SSVEC in this application.

Staff recommends that the initial DSM adjustor rate be set to recover prudently incurred DSM costs associated only with approved programs presently in place.

Staff recommends that the initial adjustor rate be set at $0.000256 per kWh until the annual reset of the adjustor rate.

Staff recommends that prudently incurred costs associated with approved DSM programs that have been factored into the Wholesale Power Cost Adjustor ("WPCA") account balance remain in the WPCA account balance.

Staff recommends that the Commission authorize an adjustor mechanism for SSVEC to replace the REST Surcharge.

Staff recommends that SSVEC file with the Commission, within 30 days of the date of the decision in this case, a REST tariff with conforming changes to reflect recovery through the adjustor rather than through the surcharge used presently.

INTRODUCTION

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

A. My name is Steve Irvine. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my capacity as a Public Utilities Analyst, I conduct studies to estimate the cost of capital component and determine the overall revenue requirement in rate proceedings. I also design rates to generate the revenue requirement in rate proceedings. My duties have also included evaluating a variety of applications or components of applications including Demand-side Management ("DSM") programs and Renewable Energy Standard and Tariff ("REST") programs.

Q. Please describe your educational background and professional experience.

A. In 1994, I graduated from Arizona State University, receiving a Bachelor of Science degree in Business Marketing. In 1997, I received a Masters degree in Public Administration from Arizona State University. I began employment with the Commission in May of 2001 and have worked in the Utilities Division since September of 2002.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommendations regarding Sulphur Springs Valley Electric Cooperative, Inc.'s ("SSVEC" or "Company") DSM program and REST program.

Q. Have you reviewed the testimony submitted by the Company in this case?

A. Yes. I reviewed Company witness Mr. Jack Blair's testimony which addresses SSVEC's DSM proposals.

Q. Briefly summarize how your testimony is organized.

A. My testimony is organized into four sections. Section one is this Introduction section. Section two discusses DSM program Cost Recovery. Section three discusses Renewables Programs Cost Recovery. Section four is a Summary of Staff Recommendations.

Q. Mr. Blair's testimony mentions Time of Use ("TOU") rates and a controlled rate program for irrigators. Are these DSM?

A. No. TOU rates and the controlled rate program for irrigators both manage load, but these subjects are typically addressed by the Commission as a rate component dealt with in rate design rather than as a component of DSM. These matters will be addressed in the rate design testimony of Staff witness William Musgrove. Mr. Musgrove will not address their merits as their merits are not in dispute in this case.

Q. Does Staff have a recommendation in regard to the TOU rates and the controlled rate program for irrigators as they related to SSVEC's DSM proposals?

A. Yes. Attachment A to the pre-filed Direct written testimony of SSVEC witness Mr. Jack Blair is a description of SSVEC's DSM program titled "Sulphur Springs Valley Electric Cooperative Inc.'s Demand-side Management Program." The program description includes references to TOU rates and the controlled rate program for irrigators. Staff recommends that SSVEC file with Docket Control a revised version of the DSM program description having removed references to the TOU rates and controlled rate program for irrigators, and having made other conforming changes when filing an application for approval of new DSM programs.

DSM PROGRAM COST RECOVERY

Q. What is DSM?

A. DSM is the planning, implementation, and evaluation of programs to shift peak load to off-peak hours, to reduce peak demand (kW), and to reduce energy consumption (kWh) in a cost-effective manner.

Q. What DSM programs does SSVEC currently have?

A. Presently SSVEC has the following DSM programs: Touchstone Energy® Efficient Home Program, Energy Efficient Heat Pump Rebate Program, Energy Efficient Improvement Loan Program, and Commercial and Industrial Energy Management Program.

Q. What new DSM programs does SSVEC propose?

A. SSVEC proposes the Energy Efficient New Home or Remodel Rebate program, Energy Efficient Water Heater Rebates program, and Commercial and Industrial Energy Efficiency Improvement Loan Program.

Q. Is there presently a funding mechanism in place through which SSVEC recovers its prudently incurred costs for DSM programs?

A. Yes. There is currently a provision for SSVEC to include pre-approved DSM costs in its Wholesale Power Cost Adjustor ("WPCA") mechanism to allow recovery of DSM costs in the WPCA component of customers' bills.

Q. Is the practice of recovering DSM costs through the WPCA the best method of DSM cost recovery?

A. No. DSM costs are not purchased power costs and, therefore, the WPCA is not the best mechanism for recovery of DSM costs. To include such costs within the WPCA could cause confusion about the cost of DSM. Another disadvantage of this type of recovery mechanism is that, if SSVEC's service territory were opened for retail competition, customers who choose to obtain power in the competitive market would not pay for DSM which is a public benefit.

Q. What method does SSVEC propose for recovery of DSM program costs?

A. On page 17 of the pre-filed written direct testimony of SSVEC witness Jack Blair, SSVEC proposes that $485,000 of DSM be included in base rates as a component of customers' energy charge. The Company states that this amount is based on SSVEC's known and measurable DSM expenses included in the 2007 rate case test year. SSVEC further proposes that any DSM expenses above that amount be recovered through a proposed DSM Adjustment Tariff.

Q. Does SSVEC currently have a DSM Adjustment Tariff?

A. No. DSM costs are presently collected through the WPCA.

Q. Does SSVEC currently collect any DSM costs through base rates?

A. No.

Q. Has SSVEC included a sample of a proposed DSM Adjustment tariff in the application?

A. The application makes several references to a DSM Adjustment contained in Tariff Sheet No. 45; however, Staff can locate neither a proposed Tariff Sheet No. 45 nor a DSM Adjustment Tariff in the application.

Q. Does Staff support SSVEC's proposal for recovery of DSM program costs through a combination of base rates and a DSM adjustment tariff?

A. No. Recovery of DSM program costs through a combination of base rates and a DSM adjustor mechanism could lead to disorder and a lack of transparency in rates?

Q. How might recovery of DSM program costs through a combination of base rates and a DSM adjustor mechanism lead to disorder and a lack of transparency in rates?

A. Inclusion of DSM program costs in base rates combines a portion of DSM costs with other costs typically included in base rates. This has the effect of making base rates the sum of approved recoverable costs of provision of service plus a portion of DSM program costs. Dispersion of DSM program costs through multiple rate components has the effect of making DSM program costs less transparent and less identifiable because the total of DSM program costs in such a scenario would be the sum of the portion of DSM program costs recovered through base rates plus the portion of DSM program costs recovered through the DSM adjustor mechanism.

Q. Is there a rate design format that is more orderly and provides greater cost transparency?

A. Yes. Recovery of all of the DSM program costs through a DSM adjustor mechanism is both more orderly and provides greater cost transparency.

Q. How is a DSM adjuster mechanism more orderly and transparent?

A. When DSM program costs are contained solely in the DSM adjustor mechanism, there is no mixing of DSM costs with other costs. The rate charged to customers for DSM program costs can be readily identified by customers by simply referring to the DSM adjustor rate. The rate charged for DSM program costs could be even more transparent to customers if included as a line item on their bills. Consider the following hypothetical example illustrated in Table I. Imagine in this scenario that the Commission authorizes recovery of approved costs of provision of service at a rate of $5.00 per kWh. Also imagine that the Commission authorizes collection of DSM program costs at $2.00 per kWh. Should SSVEC's proposal be adopted, base rates would be $7 per kWh and the DSM adjustor rate would be $0.00 as seen in the row marked Scenario I. Should Staff's recommendation be adopted, base rates would be $5.00 per KWh and the DSM adjustor Rate would be $2.00 as seen in Scenario II. Please recall that these rates are hypothetical and used for this example because they are plain, round, and illustrative rather than representative of actual costs or rates. Please also note that this example excludes other billing components included in actual bills for purposes of simplicity.

Table I

	Base Rates	DSM Adjustor Rate	Total Rate
Scenario I SSVEC proposal: Mix DSM costs in base rates and DSM adjustor – with no DSM cost recovery in adjustor initially.	$7.00 ($2.00 of DSM costs embedded in base rates)	$0.00	$7.00
Scenario II Staff proposal: Recover DSM costs only through a DSM adjustor rate	$5.00	$2.00	$7.00

In Scenario I of Table I, customers may mistakenly conclude that no recovery for DSM program costs is occurring as the DSM adjustor rate is $0.00. In Scenario II of Table I, customers are likely to conclude that the recovery for DSM program costs is $2.00 per kWh, which is the actual DSM program cost recovery rate in this example.

Now consider what would occur in this example should subsequent to a rate case approving these rates that SSVEC secure approval to increase recovery DSM program costs by $1.00 per kWh. This change is illustrated in Table II.

Table II

	Base Rates	DSM Adjustor Rate	Total Rate
Scenario III SSVEC proposal: Mix DSM costs in base rates and DSM adjustor	$7.00 ($2.00 of DSM costs embedded in base rates)	$1.00	$8.00
Scenario IV Staff proposal: Recover DSM costs only through a DSM adjustor rate	$5.00	$3.00	$8.00

In Scenario III of Table II, customers may mistakenly conclude that recovery for DSM program costs is occurring at a rate of $1.00 per kWh. In Scenario IV of Table II, customers are likely to conclude that the recovery for DSM program costs is $3.00 per kWh, which is the actual DSM program cost recovery rate in this example.

Finally, consider what would occur should the Commission determine at a future time that recovery of DSM program costs should be reduced to a rate of $1.00 per kWh in this hypothetical example. The change is illustrated in Table III.

Table III

	Base Rates	DSM Adjustor Rate	Total Rate
Scenario V SSVEC proposal: Mix DSM costs in base rates and DSM adjustor	$7.00 ($2.00 of DSM costs embedded in base rates)	$-1.00	$6.00
Scenario VI Staff proposal: Recover DSM costs only through a DSM adjustor rate	$5.00	$1.00	$6.00

In Scenario V of Table III, customers may be confused by the negative DSM adjustor rate. In Scenario VI of Table III, customers are likely to conclude that the recovery for DSM program costs is $1.00 per kWh, which is the actual DSM program cost recovery rate in this example.

Q. What method does Staff propose for recovery of DSM program costs?

A. Staff recommends that costs prudently incurred in connection with Commission-approved DSM activities be recovered entirely through a DSM adjustment tariff. Staff makes this recommendation in order to achieve more cost transparency and order in SSVEC's rates.

Q. How should DSM costs be charged to SSVEC customers?

A. Staff recommends that Commission-approved DSM costs should be assessed to all SSVEC electric customers as a clearly labeled single line item per kWh charge on customer bills. The per kWh charge would be a result of the DSM adjustor mechanism calculation and would be re-calculated annually. Staff believes an individual DSM line-item charge would provide maximum transparency to SSVEC customers. In addition, customers who obtain power in the competitive market would continue to pay the charge.

Q. Would recovery of DSM program costs wholly through an adjustor necessarily cause a reduction in recovery of expenses?

A. No. As seen in the Total Rate column of each of the tables, the same total rate is collected whether the DSM program costs are recovered either wholly or in part through the adjustor.

Q. Would inclusion of some portion of DSM program costs in base rates help to ensure that SSVEC will recover at least that portion of DSM program costs?

A. No. As seen in Table III use of a negative adjustor rate can reduce collection of DSM program costs below the level included in base rates.

Q. Could there ever be circumstances when it was desirable to make use of a negative adjustor?

A. Yes. Many of the programs are dependent on customer participation. Should customers choose to not participate in incentive or loan programs it is possible that DSM program expenses may fall below the amounts proposed by SSVEC for inclusion in base rates. Should the Commission elect to approve SSVEC's recommendation to include a portion of DSM program cost recovery in base rates, and should expenses fall below the level included in base rates, it may be appropriate to also scale down the DSM program cost recovery by making use of a negative adjustor rate. Staff does not, however, recommend that SSVEC's proposal to include DSM program cost recovery in base rates be approved.

Q. Are there other circumstances where use of a negative adjustor is appropriate?

A. Yes. Should the Commission choose to eliminate or scale back SSVEC's DSM programs it may also be appropriate to also reduce DSM program cost recovery. Other circumstances not yet contemplated by Staff, the Commission, or SSVEC could develop in the future and necessitate a reduction to the DSM program cost recovery rate.

Q. Can the Commission make use of a negative adjustor rate in order to reduce DSM program cost recovery below the level included in base rates?

A. It is mathematically possible and there is no ratemaking imperative that precludes this. Staff would point out that some dispute about this matter could arise should SSVEC's proposal for the operation of the adjustor be approved by the Commission. SSVEC's proposal for the operation of the adjustor only mentions use of the adjustor in the context of recovery of costs above the amount contained in base rates. SSVEC's proposal does not mention use of the adjustor for the purpose of lowering total DSM program expense recovery below the level contained in base rates.

Q. What recommendation does Staff have that addresses a lack of clarity in regard to the matter of whether the Commission could make use of a negative adjustor rate?

A. Staff recommends that, should the Commission approve SSVEC's recommendation to include some part of DSM program expense recovery in base rates, that the Commission should also clarify that a negative DSM adjustor rate may be used to lower DSM program expense recovery below the rate included in base rates. Staff makes this recommendation in order to allow the Commission the flexibility to scale the operation of DSM program expense recovery to whatever level is necessary based on future circumstances. This recommendation is contingent on the Commission approving SSVEC's proposed inclusion of DSM program expense recovery in base rates. Staff does not recommend, however, that SSVEC's proposal be approved.

Q. Does Staff anticipate that it will be necessary to reduce DSM program expense recovery below the level approved by the Commission in this case?

A. No. Staff's only interest in this matter is to preserve for the Commission the flexibility to scale DSM cost recovery to levels the Commission determines is appropriate. Staff does not believe that a future reduction to the rate of DSM cost recovery will be necessary.

Q. Has the Commission ever ordered that expenses for a particular program be recovered entirely through an adjustor rate rather than through a combination of base rates and an adjustor mechanism?

A. Yes. In Decision No. 58358 the Commission did so for SSVEC's Conservation Program Account. This Decision establishes SSVEC's present DSM program expense recovery methodology. The Decision approved Staff's recommendation, which was as follows:

> Staff has proposed the elimination of the expenses of a number of SSVEC's programs from base rates and their inclusion instead in a Conservation Program Account to allow SSVEC to recover costs of programs pre-approved by Staff as the level of expenses and the programs change. The account would be added to the purchased power and fuel adjustor account and recovered as part of the purchased power adjustor. Conservation program costs would be kept and accounted for separately and SSVEC would allocate this account only those costs not recovered by AEPCO in its conservation account.[1]

This Decision is similar to Staff's recommendation in this case, in that both cause recovery of program costs to be made entirely through an adjustor mechanism rather than parceling costs between base rates and an adjustor mechanism.

[1] Decision No. 58358, July 1993. Page 31 lines 15 – 23.

Q. Why did Staff's recommendation, adopted in Decision No. 58358, prescribe recovery of program expenses as a component of the purchased power adjustor rather than through a separate adjustor dedicated specifically for that program?

A. It is likely that Staff did not contemplate the use of a variety of separate adjustors as it was not commonplace at the time. Since that time it has become customary to make use of a variety of separate adjustors for the recovery of certain distinct costs.

Q. Does Staff have any concerns with the procedure SSVEC proposes to be used for reporting on DSM program expenses and making changes to the DSM adjustor rate?

A. Yes. SSVEC's proposal is as follows:

> On or before October 1st of each year, SSVEC shall file with the Commission Staff a DSM Program Report that details all DSM Program expenses above the Base Amount for which SSVEC is seeking recovery through the DSM Adjustment Tariff. On or before December 1st of each year, Staff shall issue its approval of the expenses for which SSVEC is authorized to recover. If Staff does not respond to the DSM Program Report filing by December 1st, the expenses shall be deemed approved. SSVEC will then set/reset the DSM Adjustor as of January 1st of each year.

Since Staff does not recommend inclusion of DSM program expenses in base rates, Staff cannot support the SSVEC proposal. Furthermore, Staff has other concerns with the proposal.

Q. Please describe these other concerns?

A. It is unclear to Staff what information SSVEC proposes to report. SSVEC offers no further explanation about what information would be reported. Second, SSVEC's proposal appears to envision a method where it would detail "all DSM Program expenses above the Base Amount for which SSVEC is seeking recovery through the DSM

Adjustment Tariff." SSVEC offers no further explanation about how it would determine which program expenses were "above the Base Amount" and therefore detailed, and which program expenses are not "above the Base Amount" and therefore not detailed. It is difficult for Staff to contemplate a productive reason to designate any program expense as either above or below the Base Amount. One interpretation of SSVEC's proposal is that it intends only to report on the extent to which total program expenses exceed the Base Amount. Should this be SSVEC's intention, the Commission will be provided with only cursory information related to program expenses. Another interpretation is that SSVEC intends to associate particular incurred expenses with being "above the Base Amount", others as not being "above the Base Amount", and then provide information describing the activities it associates with being "above the Base Amount." Staff's concern with this interpretation is that money is fungible and any construct that assigns an incurred expense either above or below the Base Amount is subjective. More importantly, every incurred expense should be scrutinized to verify that it is an appropriate cost that should be recovered from ratepayers.

Q. How does SSVEC report on DSM program expenses presently?

A. SSVEC submits a semi-annual report that lists each DSM expense. The report includes supporting information including examples of published materials, invoices for costs, and for some programs rosters of individuals or addresses that received services.

Q. What is Staff's recommendation with regard to reporting on DSM program expenses?

A. Staff recommends that SSVEC continue to report on DSM program expenses semi-annually as it does presently. Other utilities report on DSM programs on a semi-annual basis and if SSVEC were to report annually the method would be inconsistent with other utilities' practices. Staff recommends that SSVEC file the DSM program expense reports in Docket Control in order to make the reports more widely accessible. Staff recommends that SSVEC redact any personal information such as the names and addresses associated with customers participating in DSM programs in order to not make personal information public record. In order to make the reports more informative and to make the reporting requirements more similar to those of other utilities, Staff recommends that SSVEC's DSM program expense reports include the following: (i) the number of measures installed/homes built/participation levels; (ii) copies of marketing materials; (iii) costs incurred during the reporting period disaggregated by type of cost, such as administrative costs, rebates, and monitoring costs; (iv) gas and electric savings as determined by the monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of the program budget spent during the previous six months and, in the end of year report, during the calendar year; (ix) the amount spent since the inception of the program; (vii) any significant impacts on program cost-effectiveness; (ix) descriptions of any problems and proposed solutions, including movements of funding from one program to another; (x) any major changes, including termination of the program.

Q. What proposal does SSVEC have for authorization for changes to the DSM adjustor?

A. SSVEC proposes that it provide to Staff its DSM program Report by October 1st annually and by December 1st Staff shall issue its approval of the expenses. SSVEC would then set/reset the DSM adjustor as of January 1st of each year.

Q. What procedure should be used to reset the per kWh DSM adjustor rate?

A. Staff recommends SSVEC submit to the Commission through Docket Control a filing by April 1st of each year that includes its proposed new DSM adjustor rate. This timeline will allow a complete calendar year of DSM costs to develop before resetting the adjustor. Staff recommends that the filing be considered and adjudicated by the Commission in Open Meeting. Adjudication of the filing by the Commission, rather than by Staff, will allow the Commission to directly manage recovery of the DSM rate and the impact it has on ratepayers.

Staff recommends that SSVEC's DSM adjustor rate be reset annually on June 1st of each year and that the per kWh rate be based upon currently projected DSM costs for that year (the year for which the calculation is being made), adjusted by the previous year's over- or under-collection, divided by projected retail sales (kWh) for that same year. Other consideration can be given for extenuating circumstances such as gradualism in change of the rate. This process will scale DSM cost recovery to the actual DSM costs, with any prudent adjustment being made by the Commission.

The filing should include information detailing SSVEC's DSM expenses, prudently incurred during the previous calendar year in connection with Commission-approved DSM programs and activities, and its actual DSM cost recovery collected in the previous year. The disaggregated costs placed in each DSM adjustor sub-account for the previous year should be summed to a total DSM cost and compared with documented DSM cost recovery that same year to determine the over- or under-collection adjustment needed to modify projected DSM costs for the current year adjustor rate calculation. This information will support the calculation of the proposed adjustor rate.

Staff also recommends that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission. This will provide a mechanism for SSVEC to adjust the adjustor rate in the event that the Commission is unable to address the matter in a timely fashion.

Q. What procedure would SSVEC follow in order to implement new DSM programs should it decide to do so or be required to do so?

A. Staff recommends that SSVEC submit proposed programs to the Commission for approval. This will allow the Commission to actively manage what programs are included in SSVEC's DSM efforts. After a program is approved, SSVEC may begin entering costs for that program, as they are incurred, into the DSM adjustor mechanism account.

Q. Is Staff recommending that SSVEC file an application for approval of the new DSM programs proposed by SSVEC at this time?

A. Yes. Staff recommends that SSVEC file an application requesting approval of the new DSM programs proposed by SSVEC in this application. This will allow an opportunity for gathering of information and consideration of the new programs in greater detail. The application includes some information about new programs proposed by SSVEC, but further information should be gathered in order to provide a basis for a fully informed decision. SSVEC proposes in the application a list of the information that should be detailed with each application for a new program. The list includes the following:

- Description of the program
- Purpose of the program
- Expected level of participation
- Expected kW and/or kWh savings
- Expected societal costs
- Plans for implementation, scheduling, monitoring and evaluation
- Anticipated advertising and marketing expenses

- Any customer rebates or other incentives

While the application provides much of this information, it does not address each of these matters for each newly proposed program. A more expansive and detailed explanation of the programs and expected savings would also be beneficial for the Commission's consideration of the new programs. For example, the Energy Efficient Water Heater Rebates program is characterized as offering a $150 one-time rebate for the installation of a replacement electric water heater. The application does not state whether SSVEC would or would not offer the rebate to customers replacing a gas water heater with an electric water heater. Such information is necessary so that the effects of fuel-switching can be considered when evaluating the proposed programs. More detailed information, such as this, is necessary in order for the Commission to make a more fully informed decision in regard to the new programs.

Q. In the past has Staff recommended that newly proposed DSM programs be evaluated in a separate docket following a rate case?

A. Yes. Staff made a similar recommendation in a rate case for Tucson Electric Power Company (Decision No. 70628 of December 2008). The Commission approved this recommendation. There are other examples where the Commission has considered changes to existing DSM rate recovery mechanisms within a rate case, but considered proposals for new DSM programs outside the rate case.

Q. What level of recovery does SSVEC propose for DSM costs?

A. As mentioned previously, SSVEC proposes that $485,000 of DSM expense be included in base rates as a component of customers' energy charge. While SSVEC proposes that DSM costs in excess of $485,000 be collected through the proposed DSM adjustor, Staff finds no mention in the application of a proposal by SSVEC to set the DSM adjustor rate at a specific level. On page 17 of the pre-filed direct written testimony of SSVEC witness Jack Blair, SSVEC proposes that the total dollar amount of annual DSM spending be approximately $729,500. SSVEC proposes recovery of the difference between the total annual DSM spending ($729,500) and the amount SSVEC proposed for inclusion in base rates ($485,000) through the DSM adjustor, but does not clearly describe when it proposes that the adjustor be set for recovery of that difference. SSVEC may envision that the Commission would authorize a particular DSM adjustor rate for recovery of expenses above $485,000 during the rate case, or at some later date such as at the time of SSVEC's proposed annual filing for an adjustor change.

Q. What DSM costs does Staff recommend be collected through the DSM adjustor until such time as the newly proposed programs can be evaluated for approval and recovery through the DSM adjustor?

A. As Staff recommends that SSVEC's proposed DSM programs be considered following a separate application for consideration of the new programs, Staff recommends that the initial DSM adjustor rate be set to recover prudently incurred DSM costs associated only with approved programs presently in place.

Q. How did Staff determine the level of costs associated with approved DSM programs presently in place?

A. Staff asked SSVEC in a data request to detail the level of DSM expenses it included in its proposed operating expenses. The response included a schedule of test year DSM expenses. The schedule indicated that in 2007, $204,396.17 in DSM expense was reported to the Commission. The response also included $280,600.00 expense for a line item called 'All Electric Home Rebates' that was not reported to the Commission. The portion of the data response that addresses this question is included as exhibit SPI-1. Costs associated with this program were not yet reported to the Commission as they were incurred for a program that has not yet been approved. As this program is not yet approved, Staff does not recommend that they be included for recovery at this time.

Q. How did Staff use this information in calculation of Staff's proposed DSM adjustor rate?

A. Staff divided $204,396.17 by the quantity of kWh's used in Staff's rate design to determine the rate that should be charged per kWh for recovery of presently approved program expense. The formula is as follows:

(100 percent of annual budget for presently approved programs / Staff's kWh quantity)

$204,396.17 / 799,860,156 kWh's = $0.000256 per kWh.

Q. What consideration does Staff give to recovery of previously incurred DSM costs?

A. SSVEC has dealt with recovery of previously incurred DSM costs by adding them to the balance of their WPCA account. The current WPCA account balance reflects a portion of historically incurred DSM costs. Staff recommends that prudently incurred costs associated with approved DSM programs that have been factored into the WPCA account balance remain in the WPCA account balance to facilitate recovery of those costs. This process is necessary because it would be a difficult and subjective process to determine what part of the present WPCA account balance is attributable to DSM costs. In time, any remaining DSM cost embedded in the WPCA account balance will be recovered at some future time when the WPCA account balance reduces to $0.00.

Q. Why does Staff not recommend recovery of costs associated with proposed programs at this time?

A. Staff finds that there is some lack of clarity regarding the proposed DSM programs and their budgets. Staff concludes that recovery of costs associated with proposed DSM programs should be deferred until they are approved in a subsequent application and the DSM adjustor be reset at the time of the next annual reset of the adjustor. Staff asked SSVEC in a data request to provide a budget for each of the DSM programs. The response is included as Exhibit SPI-2. The response details through line items budget amounts for each program. Collectively they total $729,500 which is the total annual DSM program budget cited in the application. Staff notes that the $280,600.00 expense for the line item called 'All Electric Home Rebates', that SSVEC proposes for inclusion as an operating expense and recovered in base rates, does not appear to correspond to a particular program title in the list of programs seen in Exhibit SPI-2. The $286,600.00 expense also does not seem to correspond with any program budget or combination of program budgets seen in Exhibit SPI-2. Furthermore, the program's title 'All Electric Home Rebates' appears, at face value, to promote the use electric appliances to the exclusion of gas appliances. Programs that promote the use of electric appliances as a replacement to gas appliances may create competition between gas utilities and electric utilities and consequently inefficiency.

Q. What initial adjustor rate does Staff recommend?

A. Staff recommends that the adjustor rate be set at $0.000256 per kWh until the annual reset of the adjustor rate.

Q. What is the bill impact of Staff's proposed adjustor rate?

A. For a residential customer on the tariff Residential Service – Schedule R using 728 kWh per month (average usage), the initial DSM adjustor rate would result in a monthly charge of $0.19 or $2.24 per year. A small commercial customer on the tariff General Service – Schedule GS using 483 kWh (average usage) in a month would pay a monthly charge of $0.12 or $1.49 per year.

RENEWABLES PROGRAM COST RECOVERY

Q. Why is Staff introducing the issue of cost recovery for renewables programs in this testimony?

A. SSVEC is subject to the REST rules contained in A.A.C. R14-2-1801 through A.A.C. R14-2-1816. These rules require SSVEC to obtain renewable energy through production or procurement. These rules require SSVEC to produce or procure a progressively larger amount of renewable energy each year until 2024. The rules direct utilities to file tariffs for the recovery of costs associated with meeting the requirements of these rules. A.A.C. R14-2-1808 (D) states "If an Affected Utility has an adjustor mechanism for the recovery of costs related to Annual Renewable Energy Requirements, the Affected Utility may file a request to reset its adjustor mechanism in lieu of a Tariff pursuant to subsection (A)." A.A.C. R14-2-1808 (D) also states "The Affected Utility's filing shall provide all the information required by subsection (B), except that it may omit information specifically related to the fair value determination." An adjustor mechanism for recovery of the costs associated with the REST would provide a more efficient means for SSVEC to annually update the rate of recovery of its REST costs rather than annually filing a new tariff and proposing a fair value finding.

Q. Does SSVEC currently have a REST adjustor?

A. No. SSVEC recovers REST costs through a REST tariff and surcharge?

Q. How would the adjustor mechanism work?

A. SSVEC would include in each annual REST Implementation Plan application a request to change its renewable adjustor rate and caps, should a change to the adjustor or caps be necessary. Each requested change to the adjustor would be reviewed by Staff. Staff would then make recommendations to the Commission. The Commission could then approve, disapprove, or modify SSVEC's requested change to the adjustor rate in an Open Meeting as a component of the Commission's consideration of each annually proposed REST Implementation Plan.

Q. If approved, how would the REST adjustor be assessed to customers?

A. An "ACC Environmental Surcharge (REST)" line item currently appears in customer bills. The REST adjustor, as approved by the Commission, would take the place of this surcharge.

Q. What is Staff's recommendation in regard to a REST adjustor?

A. Staff recommends that the Commission authorize an adjustor mechanism for SSVEC to replace the REST Surcharge in order to facilitate a more efficient process for making changes to SSVEC's REST cost recovery. Staff further recommends that SSVEC file with the Commission a REST tariff with conforming changes within 30 days of the date of the decision in this case to reflect recovery through the adjustor rather than through the surcharge used presently.

SUMMARY OF STAFF RECOMMENDATIONS

Q. Please provide a summary list of Staff's recommendations.

- Staff recommends that SSVEC file with Docket Control a revised version of the DSM program description having removed references to the TOU rates and controlled rate program for irrigators, and having made other conforming changes when filing an application for approval of new DSM programs.
- Staff recommends that costs prudently incurred in connection with Commission-approved DSM activities be recovered entirely through a DSM Adjustment Tariff.
- Staff recommends that Commission-approved DSM costs should be assessed to all SSVEC electric customers as a clearly labeled single line item per kWh charge on customer bills.
- Staff recommends that should the Commission approve SSVEC's recommendation to include some part of DSM program expense recovery in base rates, that the Commission also clarify that a negative DSM adjustor may be used to lower DSM program expense recovery below the rate included in base rates.
- Staff recommends that SSVEC continue to report on DSM program expenses semi-annually as it does presently.
- Staff recommends that SSVEC file the DSM program expense reports in Docket Control and that SSVEC redact any personal information such as the names and addresses associated with customers participating in DSM programs.
- Staff recommends that SSVEC's DSM program expense reports include the following: (i) the number of measures installed/homes built/participation levels; (ii) copies of marketing materials; (iii) estimated cost savings to participants; (iv) gas and electric savings as determined by the monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of the program budget spent during the previous six months and, in the end of year report, during the calendar year; (ix) the

amount spent since the inception of the program; (vii) any significant impacts on program cost-effectiveness; (ix) descriptions of any problems and proposed solutions, including movements of funding from one program to another; (x) any major changes, including termination of the program. Staff recommends that SSVEC submit a filing to the Commission through Docket Control by April 1st of each year that includes its proposed new DSM adjustor rate. Staff further recommends that the filing be considered and adjudicated by the Commission in Open Meeting.

- Staff recommends that SSVEC's DSM adjustor rate be reset annually on June 1st of each year and that the per kWh rate be based upon currently projected DSM costs for that year (the year for which the calculation is being made), adjusted by the previous year's over- or under-collection, divided by projected retail sales (kWh) for that same year.
- Staff recommends that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.
- Staff recommends that SSVEC submit proposed programs to the Commission for approval.
- Staff recommends that SSVEC file an application requesting approval of the new DSM programs proposed by SSVEC in the this application.
- Staff recommends that the initial DSM adjustor rate be set to recover prudently incurred DSM costs associated only with approved programs presently in place.
- Staff recommends that prudently incurred costs associated with approved DSM programs that have been factored into the WPCA account balance remain in the WPCA account balance.
- Staff recommends that the adjustor rate be set at $0.000256 per kWh until the Annual reset of the adjustor rate.

- Staff recommends that the Commission authorize an adjustor mechanism for SSVEC to replace the REST Surcharge.
- Staff recommends that SSVEC file with the Commission a REST tariff with conforming changes within 30 days of the date of the decision in this case to reflect recovery through the adjustor rather than through the surcharge used presently.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Exhibit I

Response to DSM 5.02
DSM Costs in 2007 Expenses

The following table outlines DSM expenses included in expenses. All electric home rebates are included although this cost is not approved for DSM through the ACC. The all electric home rebates were included in the DSM program in an earlier response to data.

Account	Description	Amount	Type
909.00	Production Costs for Co-op Connection	$ 228.16	Advertising Costs
909.10	Printing Costs for Co-op Connection	$ 8,633.87	Advertising Costs
909.10	Costs for Currents Magazine	$ 5,173.81	Advertising Costs
912.20	Rebates to existing homeowners	$ 94,800.00	Existing Home Rebates
912.40	Inspections on Touchstone Energy Homes	$ 6,857.20	New Home Rebates
912.40	Manpower Costs	$ 24,544.07	Manpower Costs
912.40	Newspaper Costs to Tyau Advertising	$ 5,143.49	Advertising Costs
912.40	Radio Advertising to Tyau Advertising	$ 4,582.35	Advertising Costs
912.40	TV Advertising to Tyau Advertising	$ 6,289.90	Advertising Costs
912.55	Newspaper Costs to Tyau Advertising	$ 6,522.54	Advertising Costs
912.55	Radio Advertising to Tyau Advertising	$ 3,839.18	Advertising Costs
912.55	TV Advertising to Tyau Advertising	$ 2,056.12	Advertising Costs
913.00	TV Advertising to Tyau Advertising	$ 2,871.05	Advertising Costs
921.00	Newspaper Costs to Tyau Advertising	$ 3,642.82	Advertising Costs
921.00	Radio Advertising to Tyau Advertising	$ 4,575.12	Advertising Costs
921.00	TV Advertising to Tyau Advertising	$ 21,813.99	Advertising Costs
	Variance with amounts reported to ACC	$ 2,822.50	
	2007 DSM Costs reported to the ACC	$ 204,396.17	
912.50	All Electric Rebates	$ 280,600.00	All Electric Home Rebates
		$ 484,996.17	

Exhibit II

RESPONSE OF SSVEC
TO ARIZONA CORPORATION COMMISSION
STAFF'S TWELFTH SET OF DATA REQUESTS
DOCKET NO. E-01575A-08-0328

December 11, 2008

STF 12.1 **Referring to the programs listed in Attachment A of Jack Blair's Testimony, Section I Overview under subsections A, B, C, and D, please provide a budget amount for each program listed.**

Response: **A. Residential Programs**

• Residential Energy Management	$ 50,000
• Touchstone Energy® Efficient Home Program	$175,000
• Energy Efficient Water Heater Rebates	$ 25,000
• Energy Efficient New Home or Remodel Rebate	$ 25,000
• Energy Efficient Heat Pump Rebate	$ 20,000
• Energy Efficient Improvement Loan Program	$200,000
• Time of Use Rate (tariff)	No Budget needed

B. Commercial and Industrial Programs

• Commercial and Industrial Energy Management	$ 4,500
• C and I Energy Efficiency Improvement Loan Program	$150,000
• Energy Efficient Water Heater Rebate	See above
• Energy Efficient Heat Pump Rebate	See above
• Time of Use Rates (tariff)	No Budget needed

C. Irrigation Programs

- Irrigation Energy Management (Time of Use/Control Rates – tariff)) No Budget needed

D. Advertising Program

- Advertising/ brochures $80,000

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