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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
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

**NOTICE OF FILING REBUTTAL
TESTIMONY**

Snell & Wilmer

LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Pursuant to the August 18, 2008, Rate Case Procedural Order in the above-captioned matter, Sulphur Springs Valley Electric Cooperative, Inc. ("Cooperative"), through counsel undersigned, hereby files the rebuttal testimonies of the following witnesses on behalf of the Cooperative:

- Jack Blair
- David M. Brian
- David Hedrick

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Arizona Corporation Commission
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RESPECTFULLY SUBMITTED this 9th day of March, 2009.

SNELL & WILMER L.L.P.

By 
Bradley S. Carroll
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202
Attorneys for Sulphur Springs Valley
Electric Cooperative, Inc.

ORIGINAL and 13 copies filed this
9th day of March, 2009, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing hand-delivered
this 9th day of March, 2009, to:

Ernest Johnson, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Wesley C. Van Cleve, Attorney
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

COPY of the foregoing sent via U.S. Mail
this 9th day of March, 2009, to:

Jane Rodda, Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
400 West Congress
Tucson, AZ 85701-1347

By 

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES—Chairman
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

PRE-FILED REBUTTAL TESTIMONY OF JACK BLAIR
ON BEHALF OF
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
March 9, 2009

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1 **I. INTRODUCTION**

2

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is John (“Jack”) Blair, Jr. My business address is 311 East Wilcox
5 Drive, Sierra Vista, AZ 85635.

6

7 **Q. MR. BLAIR, BY WHOM ARE YOU EMPLOYED AND IN WHAT**
8 **CAPACITY?**

9 A. I am the Chief Member Services Officer of Sulphur Springs Valley Electric
10 Cooperative, Inc. (“SSVEC” or “Cooperative”).

11

12 **Q. DID YOU ALSO PRE-FILE DIRECT TESTIMONY IN THIS**
13 **MATTER ON BEHALF OF SULPHUR SPRINGS VALLEY**
14 **ELECTRIC COOPERATIVE, INC. (“SSVEC” OR THE**
15 **“COOPERATIVE”).**

16 A. Yes.

17

18 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN**
19 **THIS PROCEEDING?**

20 A. The purpose of my rebuttal testimony is to set forth SSVEC’s position with
21 respect to the 16 DSM/Renewable-related recommendations of Staff witness
22 Steve Irvine set forth in his direct testimony dated January 26, 2009. I will
23 address each of these 16 recommendations in the order they appear in Mr.
24 Irvine’s direct testimony. I will also provide additional information to
25 augment SSVEC witness David Hedrick’s rebuttal testimony regarding the
26 Cooperative’s charitable contribution and sponsorship programs in relation to

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the recommendation of Staff witness Crystal Brown to disallow such expenses.

II. STAFF'S DSM/RENEWABLE PROGRAM AND COST RECOVERY RECOMMENDATIONS

DSM Recommendation No. 1

Q. STAFF HAS RECOMMENDED THAT SSVEC FILE A REVISED VERSION OF ITS DSM PROGRAM DESCRIPTION HAVING REMOVED REFERENCES TO THE TOU RATES AND CONTROLLED RATE PROGRAM FOR IRRIGATORS AND MAKE OTHER CONFORMING CHANGES WHEN FILING AN APPLICATION FOR APPROVAL OF NEW DSM PROGRAMS. DOES SSVEC ACCEPT THIS RECOMMENDATION?

A. Yes.

DSM Recommendation No. 2

Q. STAFF HAS RECOMMENDED THAT COSTS PRUDENTLY INCURRED IN CONNECTION WITH COMMISSION-APPROVED DSM ACTIVITIES BE RECOVERED ENTIRELY THROUGH A DSM ADJUSTMENT TARIFF. DOES SSVEC ACCEPT THIS RECOMMENDATION?

A. Yes.

...
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...

1 DSM Recommendation No. 3

2 **Q. STAFF HAS RECOMMENDED THAT COMMISSION-APPROVED**
3 **DSM COSTS SHOULD BE ASSESSED TO ALL SSVEC ELECTRIC**
4 **CUSTOMERS AS A CLEARLY LABELED SINGLE LINE ITEM PER**
5 **KWH CHARGE ON CUSTOMER BILLS. DOES SSVEC ACCEPT**
6 **THIS RECOMMENDATION?**

7 A. Yes.

8
9 DSM Recommendation No. 4

10 **Q. STAFF HAS RECOMMENDED THAT SHOULD THE COMMISSION**
11 **APPROVE SSVEC'S RECOMMENDATION TO INCLUDE SOME**
12 **PART OF DSM PROGRAM EXPENSE RECOVERY IN BASE**
13 **RATES, THAT THE COMMISSION ALSO CLARIFY THAT A**
14 **NEGATIVE DSM ADJUSTOR MAY BE USED TO LOWER DSM**
15 **PROGRAM EXPENSE RECOVERY BELOW THE RATE**
16 **INCLUDED IN BASE RATES. WHAT IS SSVEC'S POSITION ON**
17 **THIS RECOMMENDATION?**

18 A. SSVEC has agreed to accept Staff's DSM Recommendation No. 2 above that
19 the Cooperative recover prudently incurred DSM-related costs through a
20 DSM Adjustment Tariff. Therefore, the recommendation for a negative
21 DSM adjustor is moot.

22 ...

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1 DSM Recommendation No. 5

2 **Q. STAFF HAS RECOMMENDED THAT SSVEC CONTINUE TO**
3 **REPORT ON DSM PROGRAM EXPENSES SEMI-ANNUALLY AS IT**
4 **DOES PRESENTLY DOES. DOES SSVEC AGREE WITH THIS**
5 **RECOMMENDATION?**

6 A. Yes. However, because i) the Cooperative has limited personnel; ii) in order
7 to more properly align our various compliance deadlines and other
8 obligations with the availability of our personnel; and iii) and consistent with
9 the new annual DSM adjustor filing recommendation discussed in
10 Recommendation No. 7 below; SSVEC proposes that SSVEC would file its
11 semi-annual DSM reports on March 1st and September 1st of each year. The
12 September 1st report will report DSM program expenses from January
13 through June and the March report will report DSM program expenses from
14 July through December.

15
16 DSM Recommendation No. 6

17 **Q. STAFF HAS RECOMMENDED THAT SSVEC FILE THE DSM**
18 **PROGRAM EXPENSE REPORTS IN DOCKET CONTROL AND**
19 **THAT SSVEC REDACT ANY PERSONAL INFORMATION SUCH**
20 **AS THE NAMES AND ADDRESSES ASSOCIATED WITH**
21 **CUSTOMERS PARTICIPATING IN DSM PROGRAMS. DOES**
22 **SSVEC ACCEPT THIS RECOMMENDATION?**

23 A. Yes.

24 ...

25 ...

26 ...

1 DSM Recommendations Nos. 7, 8 and 9

2 **Q. IN DSM RECOMMENDATION NO. 7, STAFF HAS**
3 **RECOMMENDED THAT SSVEC'S PROGRAM EXPENSE REPORTS**
4 **INCLUDE CERTAIN DETAILED INFORMATION SET FORTH IN**
5 **THE RECOMMENDATION AND THAT THE COOPERATIVE**
6 **SUBMIT A FILING TO THE COMMISSION THROUGH DOCKET**
7 **CONTROL BY APRIL 1st OF EACH YEAR THAT INCLUDES ITS**
8 **PROPOSED NEW DSM ADJUSTOR RATE TO BE CONSIDERED**
9 **AND ADJUDICATED BY THE COMMISSION IN OPEN MEETING.**
10 **IN DSM RECOMMENDATION NO. 8 STAFF HAS RECOMMENDED**
11 **THAT SSVEC'S DSM ADJUSTOR RATE BE RESET ANNUALLY**
12 **ON JUNE 1st OF EACH YEAR AND PROVIDES THE**
13 **METHODOLOGY FOR THE CALCULATION OF THE RESET. IN**
14 **DSM RECOMMENDATION NO. 9, STAFF RECOMMENDS THAT**
15 **THE NEW DSM ADJUSTOR RATE BECOME EFFECTIVE ON**
16 **JUNE 1ST AFTER COMMISSION APPROVAL. AS THESE THREE**
17 **RECOMMENDATIONS ARE ALL RELATED, WHAT IS SSVEC'S**
18 **POSITION WITH RESPECT TO THESE RECOMMENDATIONS?**

19 **A.** SSVEC will agree to report semi-annual DSM program expenses to include
20 the information set forth in the recommendation. However, for the reasons
21 that I discussed in my response to Recommendation No. 5 above, SSVEC
22 proposes to file its program expense reports on March 1st (as opposed to
23 April 1st) and September 1st of each year.

24
25 Regarding the annual reset of the DSM adjustor, SSVEC proposes that it be
26 permitted to make its filing on March 1st, as opposed to April 1st as

1 recommended by Staff. The reason for this is twofold. First, SSVEC would
2 like to coordinate its DSM adjustor filing with its March 1st semi-annual
3 expense report filing, thereby having two DSM compliance deadlines instead
4 of three. Second, although SSVEC does not oppose per se Staff's
5 recommendation that the DSM adjustor be "considered and adjudicated by
6 the Commission at Open Meeting," SSVEC is concerned that two months
7 may not provide sufficient time for Staff to review the filing and prepare a
8 staff report and proposed order to meet the procedural requirements
9 necessary for the item to be considered on a May Open Meeting agenda.
10 Accordingly, SSVEC proposes that it file its adjustor reset on March 1st
11 which will provide additional time (as much as 90 days depending upon the
12 date of the Open Meeting) to ensure that the matter would be able to be
13 considered by the Commission at its May Open Meeting.

14
15 However, SSVEC believes that the Commission should treat the June 1st
16 reset date as a "hard" deadline. Although SSVEC has no objection to
17 providing the Commission with the opportunity to consider and adjudicate
18 the filing at Open Meeting as recommended by Staff, SSVEC has no control
19 as to whether a staff report and proposed order is prepared and filed in time
20 for the May Open Meeting. Given the additional 30 days of time that
21 SSVEC is willing to provide Staff for its review, SSVEC believes that it is
22 only appropriate that if the Commission does not approve the filing by June
23 1st, that the new adjustor will automatically become effective. SSVEC
24 submits this is appropriate for several reasons. First, it provides the
25 Commission the opportunity to consider and approve the matter at Open
26 Meeting to the extent Staff believes it is necessary and appropriate. Second,

1 with the additional 30 days that the Cooperative is proposing, Staff will have
2 sufficient time to review the filing and make its recommendation to the
3 Commission. If however, Staff is unable to review the filing in a given year,
4 or, after reviewing the filing determines that it is not necessary that the matter
5 be adjudicated by the Commission, SSVEC will not be placed at a
6 disadvantage by having to wait to recover additional program expenses (or
7 reduce the adjustor if appropriate) until such time that Staff and the
8 Commission act on the filing, which is completely outside of the
9 Cooperative's control. Should this occur, the Commission would still have
10 another opportunity the next year to "true-up" the adjustor to take into
11 consideration the two years that had gone by, as opposed to one year.
12 SSVEC submits that under current circumstances, this is a reasonable and
13 fair modification to the Staff recommendation.

14
15 DSM Recommendation No. 10

16 **Q. STAFF HAS RECOMMENDED THAT SSVEC SUBMIT PROPOSED**
17 **DSM PROGRAMS TO THE COMMISSION FOR APPROVAL. DOES**
18 **SSVEC ACCEPT THIS RECOMMENDATION?**

19 A. Yes. However, in order to be able to move forward and promote DSM
20 programs more quickly, SSVEC should have the ability to commence
21 offering new DSM programs prior to Commission approval and report those
22 expenses as part of its semi-annual reports. If, however, the program is not
23 subsequently approved by the Commission, SSVEC would not be permitted
24 to recover such new program expenses. Upon approval of the program,
25 SSVEC would be permitted to recover Commission-approved new program
26

1 expenses through its DSM adjustor trued-up to the date it started offering the
2 program at the next annual reset.

3
4 DSM Recommendation No. 11

5 **Q. STAFF HAS RECOMMENDED THAT SSVEC FILE A NEW**
6 **(ADDITIONAL) APPLICATION REQUESTING APPROVAL OF**
7 **THE NEW DSM PROGRAMS PROPOSED BY SSVEC IN THIS**
8 **RATE CASE APPLICATION. WHAT IS SSVEC'S POSITION**
9 **REGARDING THIS RECOMMENDATION?**

10 A. As the Commission knows, SSVEC has been very proactive with its DSM
11 programs and is, in fact, the only Arizona distribution cooperative that has
12 offered DSM programs. SSVEC filed its application in this case on June 30,
13 2008, and the Staff found the application to be sufficient on July 30, 2008.
14 Included with that application were requests for approval of three (3) new
15 DSM programs. They are the Energy efficient Water Heater Rebates,
16 Commercial and Industrial Energy Efficiency Improvement Loan Program,
17 and Energy Efficient New Home or Remodel Rebate (collectively "New
18 DSM Programs"). On December 23, 2008, SSVEC responded to Staff data
19 requests regarding its DSM programs and provided additional information
20 regarding the New Programs. In Mr. Irvine's testimony, he recommends that
21 SSVEC re-file the New DSM Programs to allow an opportunity for gathering
22 of information and consideration of the new programs in greater detail"¹ and
23 then lists additional information that should be included in the filing.

24
25 _____
26 ¹ Direct Testimony of Steve Irvine at page 16, lines 14-15.

1 Following the filing of Mr. Irvine's testimony and a meeting between the
2 Cooperative and Staff, on February 20, 2009, SSVEC provided additional
3 information to Staff responsive to the concerns raised by Mr. Irvine in his
4 testimony. Because the Cooperative believes the New DSM programs will
5 be very effective with its members, SSVEC would like to start offering these
6 programs and be eligible to recover the expenses associated therewith as
7 soon as possible. As the New DSM Programs have been on file with the
8 Commission since June 30, 2008, and with all of the additional information
9 that SSVEC has since provided, the Cooperative is hopeful that Staff will be
10 able to review and recommend approval of the New DSM Programs as part
11 of this rate case application. Otherwise, SSVEC must effectively "start over"
12 and be delayed even further before being able to offer these New DSM
13 Programs.

14
15 Given what I understand to be various recent pronouncements by some of the
16 Commissioners regarding their respective support and the need for the
17 proliferation of DSM programs in Arizona, SSVEC would be willing to work
18 with Staff in the time remaining prior to the April 21, 2009, hearing in this
19 matter, to provide any further information that it might require in order for
20 Staff to provide its recommendations in time for the hearing. Moreover, in
21 furtherance of this, and because SSVEC understands how busy Staff is at this
22 time, SSVEC would agree that Staff could provide written or oral
23 supplements to its testimony regarding the New DSM Programs up to, and
24 including, the time it presents its case at the hearing, to provide any revised
25 recommendations regarding the New DSM Programs.

26 ...

1 DSM Recommendation No. 12

2 **Q. STAFF HAS RECOMMENDED THAT THE INITIAL DSM**
3 **ADJUSTOR RATE BE SET TO RECOVER PRUDENTLY**
4 **INCURRED DSM PROGRAM COSTS ASSOCIATED ONLY WITH**
5 **APPROVED PROGRAMS PRESENTLY IN PLACE. DOES SSVEC**
6 **ACCEPT THIS RECOMMENDATION?**

7 A. Yes.

8
9 DSM Recommendation No. 13

10 **Q. STAFF HAS RECOMMENDED THAT PRUDENTLY INCURRED**
11 **COSTS ASSOCIATED WITH APPROVED DSM PROGRAMS THAT**
12 **HAVE BEEN FACTORED INTO THE WPCA ACCOUNT BALANCE**
13 **REMAIN IN THE WPCA ACCOUNT BALANCE. DOES SSVEC**
14 **ACCEPT THIS RECOMMENDATION?**

15 A. Yes. The way SSVEC understands this would work is that any previously
16 approved DSM program expenses that have not as yet been fully recovered
17 through the WPCA would remain in the WPCA and continue to be recovered
18 in that manner. With respect to 2007 and 2008 program expenses that are
19 currently being reviewed by Staff for approval pursuant to SSVEC's last rate
20 case decision (No. 58358); these expenses would also be recovered through
21 the WPCA once approved. All 2009 approved program expenses would be
22 reported and potentially recoverable through the new DSM adjustor.

23 ...
24 ...
25 ...
26 ...

1 DSM Recommendation No. 14

2 **Q. STAFF HAS RECOMMENDED THAT THE DSM ADJUSTOR RATE**
3 **BE SET AT \$0.000256 PER KWH UNTIL THE ANNUAL RESET OF**
4 **THE ADJUSTOR. DOES SSVEC ACCEPT THIS**
5 **RECOMMENDATION?**

6 A. Yes.

7
8 DSM Recommendation No. 15

9 **Q. STAFF HAS RECOMMENDED THAT THE COMMISSION**
10 **AUTHORIZE AN ADJUSTOR MECHANISM FOR SSVEC TO**
11 **REPLACE THE REST SURCHARGE. DOES SSVEC ACCEPT THIS**
12 **RECOMMENDATION?**

13 A. Yes.

14
15 DSM Recommendation No. 16

16 **Q. STAFF HAS RECOMMENDED THAT SSVEC FILE WITH THE**
17 **COMMISSION A REST TARIFF WITH CONFORMING CHANGES**
18 **WITHIN 30 DAYS OF THE DATE OF THE DECISION IN THIS**
19 **CASE TO REFLECT RECOVERY THROUGH THE ADJUSTOR**
20 **RATHER THAN THROUGH THE SURCHARGE USED**
21 **PRESENTLY. DOES SSVEC ACCEPT THIS RECOMMENDATION?**

22 A. Yes.

23 ...

24 ...

25 ...

26 ...

1 **III. RECOVERY OF EXPENSES ASSOCIATED WITH THE**
2 **COOPERATIVE'S CHARITABLE CONTRIBUTIONS AND**
3 **SPONSORSHIP PROGRAMS**

4 **Q. ON PAGE 20 OF THE DIRECT TESTIMONY OF CRYSTAL**
5 **BROWN, STAFF HAS RECOMMENDED DECREASING THE**
6 **COOPERATIVE'S OPERATING EXPENSES RELATED TO**
7 **CHARITABLE CONTRIBUTIONS AND SPONSORSHIPS BY**
8 **\$298,622 ON THE BASIS THAT THE COSTS ARE VOLUNTARY**
9 **AND NOT NECESSARY TO PROVIDE SERVICE. WHAT IS**
10 **SSVEC'S POSITION WITH RESPECT TO CHARITABLE**
11 **CONTRIBUTIONS AND SPONSORSHIPS IN RELATION TO THIS**
12 **PROPOSED ADJUSTMENT?**

13 **A.** SSVEC's disagreement with this proposed adjustment is discussed in the
14 rebuttal testimony of David Hedrick regarding operating expense
15 adjustments. However, in order to augment Mr. Hedrick's testimony on this
16 issue, it is important for the Commission to be aware of the history behind
17 the issue and the importance of charitable contributions and sponsorships to
18 the Cooperative.

19
20 Unlike a large investor-owned utility like TEP or APS, as a non-profit
21 community-based cooperative, SSVEC is owned and governed by its
22 member/ratepayers who, therefore, have a direct say in how the Cooperative
23 spends the money it collects through utility rates. In fact, all of the
24 approximately 930 electric cooperatives throughout the US abide by
25 something that is called *The 7 Cooperative Principles* (which I happen to
26

1 carry around in my wallet.) It should be noted that Principal No. 2 is called
2 “Democratic Member Control” which states:

3 Cooperatives are democratic organizations controlled by their
4 members who actively participate in setting their policies and
5 making decision. Men and women serving as elected
6 representatives are accountable to the membership. In primary
7 cooperatives, members have full voting rights – one member,
8 one vote- and cooperatives at other levels are organized in a
9 democratic manner.

10 Principle No. 3, called “Members’ Economic Participation”, states, in part
11 that:

12 Members contribute equally to, and democratically control the
13 capital of the cooperative.

14 Finally, Principle No. 7, entitled “Concern for Community”, states:

15 While focusing on member needs, cooperatives work for the
16 sustainable development of their communities through policies
17 accepted by their members.

18 Over the 70 year history of SSVEC, the Cooperative has always shown its
19 commitment to the community through charitable donations and
20 sponsorships in the areas that we serve. This ensures that member dollars
21 stay in the community. Although the dollar amount at issue is quite small,
22 (less than .3 percent of total revenue), the benefits to our members and the
23 local non-profit organizations are great. As the Commissioners heard first
24 hand at the February 11, 2009, public comment session on this rate case from
25 numerous community leaders, the donations and sponsorships that the
26 Cooperative make are integral to improving the qualify of life for our
members in our service territory. These donations and sponsorships, such as
the Boys and Girls Scouts, hospital foundations and organization, youth
sports teams, money raising events for education and medical equipment for

1 hospitals, are just a few of the kinds of organizations and sponsorships that
2 SSVEC supports.

3
4 **Q. HAS THE COMMISSION ADDRESSED THIS ISSUE WITH SSVEC**
5 **IN THE PAST?**

6 A. Most certainly. In SSVEC's last rate case, both Staff and the Residential
7 Utility Consumer Office ("RUCO") proposed similar adjustments for similar
8 reasons. In its July 22, 1993, Decision No. 58358 ("Decision"), the
9 Commission found the following:

10 In response [to the proposed adjustments], SSVEC points out: it
11 is governed by a Board of Directors elected from among the
12 member-ratepayers who must remain responsive to those voters;
13 these expenses have been considered and ratified by that Board;
14 the expenditures are traditional uses of Cooperative members'
15 funds which cannot be separated from ratepayer monies and
16 should be offset by the Cooperative's non-operating-margins;
17 and, that economic development is an appropriate activity for
18 cooperatives under Arizona statutes. SSVEC indicates that the
19 directors' dinner results in a cost savings, not additional
20 expense. It costs \$336 to hold the dinner for the directors to
21 conduct election business before the annual meeting.
22 Otherwise, it would cost \$1,950 for the 13 directors to attend a
23 directors meeting for the same purpose at a cost of \$150 each.

24 These expenses go to the difficult issue of the role of a
25 Cooperative today. We are mindful of the impassioned
26 arguments made by members of the Cooperative and its board of
directors during the public comment session who said that these
expenses are appropriate for SSVEC's rural community; that the
activities supported may be the only ones available to young
people in the area and may not otherwise take place; and, that
SSVEC's support is essential for much needed economic
development. Additionally, we recognize that the cost of
SSVEC's support for all of these expenses averages but \$1.76
per customer per year. Were this an investor-owned-utility, we
could require that the investors, not the ratepayers, bear the cost
of the corporation's community mindedness. With a
cooperative the ratepayers cannot be separated from their
member-owners. For these reasons, we will allow the costs in
the instant case. However, we share the concerns of RUCO and
Staff that members' choices are made for them. Therefore, we
will require SSVEC, in its next rate proceeding, to demonstrate

1 that a majority of its members have ratified the Board's
2 expenditure of their funds for these purposes. If it does not, we
3 will disallow the expenditures. To fairly gauge its member's
4 desires SSVEC should:

5 a. prepare a ballot for each of its members containing
6 sufficient information to explain the expenses at issue;

7 b. submit a draft of the ballot to the Director of the Utilities
8 Division for approval/modification; such approval/modification
9 shall be provided within 15 days of receipt;

10 c. mail the approved ballot to each member; and

11 d. receive the approval of a majority of the members voting
12 and returning the ballots within 30 days of SSVEC's mailing of
13 the ballots.

14 Subsequent to the issuance of the Decision, and in compliance with the
15 Commission's direction set forth in the Decision, SSVEC initiated a change
16 in its bylaws that was approved by its Board of Directors and then ratified by
17 the SSVEC membership. Attached hereto as Exhibit JB-1 is a copy of a
18 February 20, 1997, letter that the Cooperative sent to then Utilities Director
19 Carl Dabelstein, notifying the Commission of the proposed change in the
20 bylaws whereby the members would authorize the Board of Director's to
21 establish policies that specifically included donations.

22 After mailing this letter to Mr. Dabelstein, SSVEC submitted the bylaw
23 change to its members. It proposed to its members to add, to the list of
24 powers given to the Board of Directors, the power to make and adopt
25 advertising and donations. Of those Members voting on this issue, over 90
26 percent approved giving the Board this authority. SSVEC bylaw section
4.07, as amended, is attached as Exhibit JB-2.

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SSVEC submits that in the instant situation relating to this Cooperative, and in light of its previously ruling on this issue, SSVEC's contributions and sponsorships should not be considered as "voluntary" in the traditional sense and should not be excluded from the Cooperative's operating expenses. To do so would be inconsistent with its members' wishes, as well as reduce operating margin which too is inconsistent with the Commission's previous directives for the Cooperative to build equity (as discussed in more detail in Mr. Hedrick's rebuttal testimony.)

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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IV. EXHIBITS

EXHIBIT

JB-1



**Sulphur Springs Valley
Electric Cooperative, Inc.**

Creden W. Huber
Executive Vice President
and General Manager

P.O. Box 820
Willcox, AZ 85644-0820
Telephone (520) 384-2221
800-422-9288
Fax (520) 384-5223

February 20, 1997

Mr. Carl Dabelstein
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85701

Dear Mr. Dabelstein:

Per our last rate order we are proposing to make the following change to our bylaws:

"ARTICLE IV - DIRECTORS. SECTION 4.07. Rules, Regulations, Rate Schedules and Contracts. The Board of Directors shall have power to make, adopt, amend, abolish and promulgate such rules, regulations, policies, rate schedules, contracts, security deposits and any other types of deposits, payments or charges, including contributions in aid of construction, advertising, and donations not inconsistent with law or the Cooperative's Articles of Incorporation or Bylaws, as it may deem advisable for the management, administration and regulation of the business and affairs of the Cooperative."

The Board of Directors unanimously approved this change and it will be included with other recommended bylaw changes in mid-March unless we hear otherwise. Thank you.

Sincerely,

Charlene A. Bennett

for Creden W. Huber
Executive Vice President and General Manager



EXHIBIT

JB-2

SECTION 4.07. *Rules, Regulations, Rate Schedules and Contracts.*

The Board of Directors shall have power to make, adopt, amend, abolish and promulgate such rules, regulations, policies, rate schedules, contracts, security deposits and any other types of deposits, payments or charges, including contributions in aid of construction, advertising, and donations not inconsistent with law or the Cooperative's Articles of Incorporation or Bylaws, as it may deem advisable for the management, administration and regulation of the business and affairs of the Cooperative.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES—Chairman
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

**PRE-FILED REBUTTAL TESTIMONY OF DAVID M. BRIAN, P.E.
ON BEHALF OF
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
March 9, 2009**

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1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is David M. Brian. My business address is 1850 Parkway Place,
5 Suite 800, Marietta, Georgia, 30067.
6

7 **Q. MR. BRIAN, BY WHOM ARE YOU EMPLOYED AND IN WHAT**
8 **CAPACITY?**

9 A. I am employed as an engineering consultant by GDS Associates. I am a Vice
10 President in the Power Supply Planning group at GDS. GDS is a multi-
11 disciplined engineering and consulting firm primarily serving electric, gas,
12 and water utilities.
13

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
15 **WORK EXPERIENCE.**

16 A. I received a Bachelor of Industrial Engineering degree from the Georgia
17 Institute of Technology and a Master of Science degree in Finance from
18 Georgia State University, and I am a registered professional engineer in the
19 state of Georgia. I have been with GDS since 1990, during which time I
20 have provided consulting services in the areas of power supply planning,
21 financial planning, wholesale rates, and transmission access and pricing, to
22 primarily cooperative- and municipally-owned electric utility systems. My
23 resume is attached as Exhibit DMB-1.

24 ...
25 ...
26 ...

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY**
2 **COMMISSIONS?**

3 A. Yes, on several occasions. My history of providing expert testimony is
4 included in Exhibit DMB-1.

5
6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?**

7 A. I am testifying on behalf of Sulphur Springs Valley Electric Cooperative, Inc.
8 (“SSVEC” or the “Cooperative”).

9
10 **Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF SSVEC?**

11 A. Yes, I am.

12
13 **Q. IN WHAT CAPACITY ARE YOU PROVIDING TESTIMONY ON**
14 **BEHALF OF SSVEC?**

15 A. As an engineering consultant, I serve as a technical advisor to SSVEC in the
16 areas of power supply planning, wholesale power procurement, transmission
17 access and pricing, wholesale contract negotiation, and wholesale rates. I am
18 SSVEC’s principal consultant in these areas, and I have served in this role for
19 three years.

20
21 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN**
22 **THIS PROCEEDING?**

23 A. The purpose of my testimony is to respond to several issues raised by
24 Arizona Corporation Commission (“Commission”) Staff consultant Jerry
25 Mendl with respect to SSVEC's power procurement activities. I have
26 reviewed his direct testimony filed in this case, and I disagree with many of

1 his conclusions and recommendations. I believe that Mr. Mendl's
2 conclusions and recommendations are based in large part on an incomplete
3 understanding of SSVEC's history and power supply activities. My
4 testimony will clear up many of the issues raised by Mr. Mendl.
5

6 **Q. HOW HAVE YOU STRUCTURED YOUR TESTIMONY?**

7 A. I have generally structured my testimony to follow the format utilized in Mr.
8 Mendl's testimony. There are three sections that follow the corresponding
9 sections in Mr. Mendl's direct testimony, on matters involving (1)
10 organizational, policies, and procedures issues, (2) prices paid by SSVEC for
11 wholesale power, and (3) evaluation of power supply alternatives.
12

13 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.**

14 A. Pursuant to Commission authorization, SSVEC converted from an All
15 Requirements Member ("ARM") to a Partial Requirements Member
16 ("PRM") of Arizona Electric Power Cooperative ("AEPSCO") effective
17 January 1, 2008. As a PRM, SSVEC is responsible for procuring wholesale
18 power needed to supplement the power that it procures from AEPSCO. The
19 power that SSVEC takes from AEPSCO is over 80% of SSVEC's needs, and
20 so the amount of supplemental power that SSVEC is purchasing from
21 sources *other* than AEPSCO is less than 20% of SSVEC's total power
22 requirements. SSVEC has taken prudent and reasonable steps to implement
23 its supply program for procuring supplemental power from other sources, and
24 it continues to evaluate alternatives for meeting its supplemental needs in the
25 future.

26 ...

1 Market prices for wholesale power were at historically high levels in 2008
2 due to high natural gas prices and high prices for oil. These high prices
3 should not be considered representative of normal market conditions.
4 Unfortunately, these high prices were experienced during SSVEC's first year
5 as a PRM. As a result of these anomalous events, prices that SSVEC paid for
6 supplemental power in 2008 should not be used as a sole determinant of
7 whether or not SSVEC's power supply program is reasonable and prudent, or
8 whether SSVEC made the right decision when it converted to a PRM; which
9 was authorized and approved by the Commission.

10
11 **Q. WHAT DISAGREEMENTS DO YOU HAVE WITH MR. MENDEL'S**
12 **CONCLUSIONS AND RECOMMENDATIONS?**

13 A. There are several. First, SSVEC does in fact have adequate power
14 procurement procedures that are and will be effective. While they have not
15 been heavily documented, it is not my experience that they necessarily would
16 be. The formal, written power procurement procedures that Mr. Mendl
17 recommends (to the extent I understand what he is advocating) are not
18 industry standard, and would not provide the benefits that Mr. Mendl
19 ascribes to them. The processes that SSVEC uses are typical of a cooperative
20 of its size and character, work well, and have been successful. I am
21 concerned in fact that any overly rigid procedures could bind SSVEC in an
22 area where flexibility is important. In addition, SSVEC is already subject to
23 the Commission's Recommended Best Practices for Procurement (Decision
24 No. 70032) that accomplish the objectives that Mr. Mendl seeks for long-
25 term resources.

26 ...

1 Second, I believe Mr. Mendl presents an unfair analysis with respect to
2 SSVEC's purchasing activities and in particular, third party purchases. His
3 analysis suggests that SSVEC should not have entered into the APS and
4 PNM purchases, but it is an "apples and oranges" approach that should be
5 ignored for purposes of determining whether those purchases were prudent
6 and reasonable.

7
8 Lastly, Mr. Mendl's comparison to AEPCO all requirements service is neither
9 complete nor relevant. SSVEC received Commission approval in December
10 of 2007 to become a PRM effective January 1, 2008. It is my understanding
11 that converting back to an ARM is not an option for SSVEC, even if it
12 wanted to pursue this, as there is no provision in SSVEC's agreement with
13 AEPCO that would allow SSVEC to exercise this option. One summer
14 (2008) is only a snapshot in time in power supply planning terms, and
15 SSVEC's decision to convert to a PRM should not be gauged after-the-fact
16 using a brief and anomalous period of time during which wholesale market
17 prices spiked.

18
19 **II. ORGANIZATIONAL STRUCTURE AND POWER PROCUREMENT**
20 **PROCEDURES**

21
22 **Q. MR. MENDEL STATES THAT IN HIS OPINION, SSVEC'S EXISTING**
23 **ORGANIZATIONAL STRUCTURE AND POWER PROCUREMENT**
24 **PROCEDURES ARE NOT ADEQUATE AND APPROPRIATE. DO**
25 **YOU AGREE WITH THIS STATEMENT?**

26 **A. No.**

1 **Q. PLEASE EXPLAIN WHY NOT.**

2 A. First, with regard to SSVEC's organizational structure, SSVEC did make
3 organizational changes in light of the changes in power procurement
4 responsibility as a PRM. As discussed below, these changes were adequate,
5 and I do not believe that any further organizational changes are needed.
6

7 **Q. WHAT CHANGES IN ORGANIZATIONAL STRUCTURE DOES MR.**
8 **MENDL RECOMMEND?**

9 A. In his response to SSVEC data request 2.8 attached hereto as Exhibit DMB-
10 2, Mr. Mendl recommends that SSVEC define and document the
11 responsibilities and limits of authority to make decisions about power
12 supplies and purchases. He also recommends that SSVEC establish and
13 document a clearly enforceable set of checks and balances on the authority of
14 personnel involved in power supply planning and power procurement.
15 SSVEC did, however, make these organizational changes after converting to
16 a PRM. The SSVEC Board passed amendments to its policies that defined
17 management's authority with regard to making power supply decisions.
18 Other existing policies limit decisions that members of the management team
19 can make by dollar amount. In fairness to Mr. Mendl, he had not been
20 provided copies of these policies until after his direct testimony was filed.
21 These policies are discussed below.
22

23 **Q. DID SSVEC MAKE ADDITIONAL ORGANIZATIONAL CHANGES**
24 **AS PART OF ITS CONVERSION TO A PRM?**

25 A. Yes. There were both internal changes, as well as changes in SSVEC's
26 outside services. With regard to the internal changes, the CEO took on

1 overall power planning and procurement responsibility. The policy adopted
2 by the SSVEC Board outlined the CEO's new responsibilities and
3 authorities. Also, the Chief Financial and Administrative Officer was given
4 the responsibility over the day-to-day management of power planning and
5 procurement. In addition, the new controller that SSVEC hired in 2006
6 became responsible for activities and functions for which the CFO was
7 previously responsible, allowing the CFO to take on the power procurement
8 responsibilities. The new controller also took on some of the accounting
9 functions that accompany partial requirements status. SSVEC also hired
10 Western Area Power Administration ("WAPA") and my firm, GDS
11 Associates, to assist in the conversion to a PRM.
12

13 **Q. PLEASE DESCRIBE THE NEW BOARD POLICIES ADDRESSING**
14 **POWER PROCUREMENT.**

15 A. SSVEC Board Policy A-20, which assigns certain responsibilities to the
16 CEO, was amended in July 2008 to include the following language:

17 The Executive Vice President is hereby delegated the authority
18 to sign, on behalf of the Board, all documents pertaining to
19 supplemental purchased power agreements with terms of one
20 year or less. Due to the market timing and pricing for
21 supplemental purchased power agreements with terms longer
22 than one year, the Executive Vice President is authorized to sign
the agreements if the Board has previously reviewed and
approved the agreements in substantially similar form. The
Executive Vice President will report back to the Board on the
final pricing.

23 This policy defines the authority that the CEO has in order to enter into
24 purchased power agreements with third parties, such as APS and PNM.
25 Long-term agreements (one year or greater) must be approved by the Board
26

1 prior to execution by the CEO. Policy A-20, as amended, is attached as
2 Exhibit DMB-3.

3
4 There is also another Board policy which limits decisions that can be made
5 by dollar amount. This Board policy, B-1, is attached as Exhibit DMB-4,
6 and it limits decisions that the CFO can make to those purchases less than
7 \$50,000. It was not necessary to change this policy when SSVEC converted
8 to a PRM, as the policy extends automatically to power procurement; so for
9 example, if a purchase authorization was needed by WAPA for a transaction
10 for \$49,000, the CFO could authorize that decision.

11
12 **Q. PLEASE DESCRIBE WAPA.**

13 A. WAPA is one of the four power marketing administrations within the U.S.
14 Department of Energy. WAPA generates and transmits wholesale power that
15 it markets and delivers to state agencies, cities and towns, rural electric
16 cooperatives, public utility districts, irrigation districts and Native American
17 tribes in a 15 state region of the central and western U.S. WAPA transmits
18 power through 17,000 miles of transmission lines and 296 substations. Its
19 transmission system carries electricity from 57 power plants with an installed
20 capacity of 10,395 megawatts.

21
22 **Q. WHAT SERVICES DOES WAPA PROVIDE TO SSVEC?**

23 A. SSVEC decided to retain WAPA to provide scheduling agent services in
24 2006, well before its PRM conversion actually took place. WAPA has been
25 instrumental in the conversion. It has significant experience in providing a
26 number of wholesale customers with these types of services. For example, it

1 provides these same services to Mohave Electric Cooperative, the other
2 Commission-approved PRM of AEPCO. WAPA provides 24 hour
3 scheduling services as agent for SSVEC. WAPA i) schedules the power
4 available from AEPCO under the SSVEC/AEPCO partial requirements
5 agreement; ii) purchases supplemental short-term power or sells excess
6 power as needed to match generation to hourly loads; iii) arranges for
7 transmission service needed to make market purchases; and iv) generally
8 manages SSVEC's real time needs. WAPA has also conducted SSVEC's
9 competitive power supply solicitations or Requests for Proposals ("RFPs")
10 that SSVEC has used in each of its decisions to purchase forward term power
11 from third party suppliers, and it has provided market monitoring services
12 including spot and term market price analysis, monitoring market cost trends,
13 and evaluating forward price curves. It also applies credit policies to trading
14 counterparties and maintains authority limits for WAPA trading personnel.
15 In short, WAPA serves as SSVEC's trading desk, performing all the day-to-
16 day activities associated with managing SSVEC's generation needs under the
17 direction of SSVEC management. Unlike a large investor-owned utility that
18 may have its own personnel perform this function, SSVEC decided to
19 outsource this function rather than do it in-house, as it was clearly in the best
20 interest of SSVEC to have an organization with an experienced 24 hour desk
21 serving in this role.

22
23 **Q. WHAT SERVICES DOES GDS PROVIDE TO SSVEC?**

24 A. GDS is an engineering consulting firm, and we have served as a technical
25 advisor to SSVEC in the areas of power supply planning and procurement for
26 three years. GDS was hired to assist SSVEC with the conversion to a PRM,

1 and we have assisted SSVEC in making decisions with regard to power
2 supplies, analyzing capacity and energy needs, recommending transactions,
3 participating in joint unit development efforts through the SPPR Group,
4 negotiating with power plant developers about a possible ownership interest
5 or off-take arrangement, negotiating enabling agreements with various
6 counterparties, negotiating various agreements with AEPCO and SWTC
7 relating to the implementation of SSVEC becoming a PRM, and evaluating
8 and negotiating various wholesale rate issues involving AEPCO.
9

10 **Q. WHAT TYPE OF EXPERIENCE DOES GDS BRING TO SSVEC?**

11 A. Power supply planning is one of the original and more significant practice
12 areas in the firm. We have been in business since 1986, and we specialize in,
13 among other things, providing power supply planning services to electric
14 cooperatives and public power utilities. We have approximately fifteen
15 professionals in our 150 person firm that provide these services on a full time
16 basis. I personally began working in the electric utility industry as a part
17 time college student in 1984. I have been with GDS in its power supply
18 planning area since 1990. My entire career with GDS has consisted of
19 providing power supply planning services to electric cooperatives and
20 municipal electric systems.
21

22 **Q. ARE YOU FAMILIAR WITH OTHER COOPERATIVE**
23 **ORGANIZATIONS IN THE COUNTRY THAT HAVE POWER**
24 **PROCUREMENT RESPONSIBILITY?**

25 A. Yes, I am.

26 ...

1 **Q. HOW DO THEY COMPARE TO SSVEC'S ORGANIZATION?**

2 A. I would characterize SSVEC's organizational structure as very typical in the
3 industry. For a utility of the size and character of SSVEC, it is common for
4 the responsibilities to be assigned as they are at SSVEC, with existing
5 officers taking on the responsibilities associated with power planning and
6 procurement and the outsourcing technical support and scheduling agent
7 functions.

8
9 **Q. MR. MENDEL RECOMMENDS THAT THE COMMISSION DIRECT
10 SSVEC TO DEFINE AND DOCUMENT THE RESPONSIBILITIES
11 AND LIMITS OF AUTHORITY TO MAKE POWER SUPPLY
12 DECISIONS. DO YOU THINK THIS IS NEEDED?**

13 A. No. As discussed above, the SSVEC Board has adopted policies which
14 adequately define responsibilities and limits of authority for the CEO and
15 CFO.

16
17 **Q. MR. MENDEL RECOMMENDS THAT THE COMMISSION DIRECT
18 SSVEC TO ESTABLISH AND DOCUMENT A CLEARLY
19 ENFORCEABLE SET OF CHECKS AND BALANCES ON THE
20 AUTHORITY OF PERSONNEL INVOLVED IN POWER SUPPLY
21 PLANNING AND PROCUREMENT. DO YOU THINK THIS IS
22 NEEDED?**

23 A. No. Again, SSVEC has adequately defined the authority of personnel
24 through the adoption of Board policies A-20 and B-1 attached hereto.

25 ...

26 ...

1 **Q. WHAT IS YOUR UNDERSTANDING OF WHAT MR. MENDEL**
2 **RECOMMENDS WITH REGARD TO POWER PROCUREMENT**
3 **PROCEDURES?**

4 A. While there is a recommendation for written procedures, Mr. Mendl
5 identifies no specific procedures that he recommends. Also he offers no
6 particular criticism of the procedures that SSVEC actually followed. As a
7 result, I am not entirely clear with regard to the types of procedures that Mr.
8 Mendl is recommending. He refers to procedures throughout his testimony
9 and describes them in abstract terms, but he does not provide a lot in the way
10 of specifics. In addition he has provided no examples of similar power
11 procurement procedures that may be in use elsewhere to provide an
12 indication of what he expects SSVEC to have in place. As a result, I assume
13 that what he is suggesting is that there be some set of stated goals, processes,
14 and guidelines that would dictate how SSVEC goes about procuring short-
15 term power. His focus appears to be on the short-term market and the power
16 that SSVEC buys in that market. For example, the procedures might suggest
17 how much power should be purchased at fixed prices on a forward basis for
18 an upcoming summer period and how much should be left out to the spot
19 market.

20
21 **Q. WHY DO YOU DISAGREE WITH MR. MENDEL'S OPINION THAT**
22 **SSVEC'S POWER PROCUREMENT PROCEDURES ARE NOT**
23 **ADEQUATE AND APPROPRIATE?**

24 A. Several reasons. Formal written procedures could not have improved on how
25 SSVEC purchased power in 2008. In fact they may have resulted in *higher*
26 costs for SSVEC in 2008. It is also not standard in the industry to have these

1 types of procedures, and they might unduly burden SSVEC in an area where
2 adaptability is extremely important. SSVEC is already subject to
3 Commission guidelines for procuring long-term resources, and the short-term
4 resources that Mr. Mendl suggests be subject to procedures represent only a
5 small portion of the power that SSVEC procures.

6
7 I don't believe Mr. Mendl is fully aware of the processes that SSVEC has in
8 place. For example, when his direct testimony was prepared, he had not seen
9 the two SSVEC Board policies mentioned previously which provide some
10 definition to SSVEC's process, nor has he seen the agreement between
11 SSVEC and WAPA. He was brought in to examine these issues fairly late in
12 the rate case procedural schedule. I believe a fuller understanding of the
13 process that SSVEC follows and the issues that SSVEC typically faces will
14 clear up many of the issues raised by Mr. Mendl.

15
16 **Q. WHY WOULD FORMAL WRITTEN PROCEDURES NOT HAVE**
17 **IMPROVED HOW SSVEC PROCURED POWER IN 2008?**

18 A. The process used by SSVEC to procure power in 2008 was consistent with
19 any formal written procedures it could have developed, had it done so.
20 SSVEC did follow a process in procuring power in 2008, and it continues to
21 follow a process looking forward to its 2009 needs and beyond. While the
22 process is not heavily documented or regimented in the form of procedures, it
23 has worked well, and it continues to work well. Formal written procedures
24 had they been developed would still have been flexible enough to allow the
25 decision makers to respond to changing market conditions such as what we
26

1 experienced in 2008. So my expectation is that procedures would not have
2 altered what SSVEC did, and in fact, could have led to worse results.
3

4 **Q. HOW COULD PROCEDURES HAVE LED TO WORSE RESULTS?**

5 A. Overly rigid procedures, had SSVEC been required to have them in place,
6 might have dictated that SSVEC lock in more power on a forward basis for
7 the summer of 2008. For example, a procedure might have dictated that
8 SSVEC lock in 50% or maybe 75% of its summer needs prior to the summer
9 season. Forward prices for the summer period 2008 were much higher than
10 actual spot prices turned out to be, as Mr. Mendl points out. So, had SSVEC
11 locked in more power on a forward basis than it actually did for the summer
12 of 2008, it would have experienced higher costs than it actually did.
13

14 **Q. WHY DO YOU SAY THAT PROCEDURES OF THE TYPE THAT**
15 **MR. MENDEL IS SUGGESTING ARE NOT INDUSTRY STANDARD?**

16 A. Formal written power procurement procedures such as what Mr. Mendl is
17 suggesting are not commonplace for short-term resources in my experience,
18 particularly among smaller utilities. I have never seen them used in practice.
19 Likewise it does not appear that Mr. Mendl has ever seen the type of
20 procedures he is suggesting used in practice. When asked whether he could
21 cite examples of these types of procedures, Mr. Mendl could not provide a
22 single instance where he had seen these types of procedures used for power
23 procurement, for any type of utility, let alone a small rural cooperative. (See
24 Mr. Mendl's response to SSVEC data requests 2.1 and 2.2, attached as
25 Exhibit DMB-5.) The three examples he cites in response to SSVEC 2.1
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appear to all be natural gas-related, rather than electric power-related, given the description of work provided in his resume.

Q. WHY DO YOU DISTINGUISH SMALLER UTILITIES?

A. Smaller utilities, such as SSVEC, are generally not-for-profit entities such as electric cooperatives or municipal electric systems. These types of utilities are owned by their member-customers, and there are no stockholders. Stockholders of course are interested in profits and returns which could put them at odds with the customers who have to pay the rates, driving the need for further regulation of the utility. Since the owners and customers are one and the same with cooperatives and municipal systems, these utilities are generally less regulated in terms of customer protection mechanisms such as procurement procedures. Many states in the country do not even regulate electric cooperatives for purposes of setting rates.

It appears that Mr. Mendl has traditionally not worked with smaller utilities, and in particular he has never worked either for an electric cooperative or on a project dealing with power supply matters involving an electric cooperative. The larger, for-profit utilities that Mr. Mendl is accustomed to seeing and working with generally have different rules and greater regulation. Moreover, in SSVEC's case, the amount of power procurement that is at issue is very small given that SSVEC still obtains the vast majority of its power supply from AEPCO.

...
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...

1 **Q. HAVE YOU SEEN PROCEDURES SIMILAR TO WHAT MR.**
2 **MENDL SUGGESTS?**

3 A. I have seen something similar used in fuel procurement, but not power. The
4 cost of fuel (natural gas, coal, etc.) generally makes up as much as a third to a
5 half of an electric customer's bill, and for that reason, and also because they
6 are typically pass-through items on the customers' bill, fuel purchases are
7 more heavily regulated. I have also seen trading controls that govern what
8 third party asset managers or trading desks are permitted to do by contract,
9 but if I understand Mr. Mendl's testimony, that is not what he is addressing
10 in this case.

11
12 **Q. PLEASE DESCRIBE THE PROCUREMENT REGULATIONS THAT**
13 **SSVEC IS SUBJECT TO ALREADY.**

14 A. It is not uncommon to see regulated utilities be required to comply with
15 procurement regulations *for long-term resources*. For example, a utility may
16 be required to perform an independently-monitored solicitation for long term
17 resources. This is the case in Arizona, where utilities have to go through
18 such a process. SSVEC has to comply with these requirements, which are
19 embodied in Commission Decision 70032 from December 2007, attached for
20 reference as Exhibit DMB-6. These requirements are entitled
21 "Recommended Best Practices for Procurement." The need for any purchase
22 of *two years or longer*, or any self-build proposal, must be supported by a
23 power supply solicitation where alternative suppliers are given the
24 opportunity to bid and compete for the utility's business. An independent
25 monitor approved by the Commission oversees the process to ensure that the
26 utility is acting in a prudent and fair manner.

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Q. HOW MUCH POWER DOES SSVEC PURCHASE IN THE SHORT-TERM MARKETS?

A. SSVEC buys less than 20% of its power from sources other than AEPCO today. That figure is not expected to increase over the next several years, and in fact is expected to drop when supplies available from AEPCO increase in 2011. Exhibit DMB-7 illustrates SSVEC's projected energy needs and the available supply from AEPCO for the next ten years. Currently SSVEC supplies the non-AEPCO needs from the short-term markets, but that will not always be the case. As described below, SSVEC is evaluating several options for longer term resources that will reduce its reliance on the short-term markets. These longer term resources, which include unit ownership interests and self-build peaking projects, are subject to the Commission's Recommended Best Practices for Procurement, and SSVEC will follow the Commission-adopted procedure in Decision 70032 for procuring those resources.

Q. PLEASE EXPLAIN THE PROCESS BY WHICH SSVEC HAS MADE POWER SUPPLY DECISIONS SINCE IT BECAME A PRM OF AEPCO.

A. SSVEC has been exploring options for longer term supplies since before it became a PRM. It has spoken with power plant developers and also participated in the SPPR Group process that is expected to lead to a new power plant. These types of options are attractive in the sense that they offer long term stability of cost and less reliance on wholesale markets that can be expensive and unpredictable. Given the uncertainty of longer term options

1 and in particular the date they would be available, SSVEC decided to utilize
2 short term markets (monthly to quarterly) to meet its needs in 2008. By not
3 committing to longer term purchases, SSVEC has been able to keep options
4 open to participate in longer term opportunities that hopefully will come to
5 fruition. 2008 was also SSVEC's first year as a PRM, and SSVEC was
6 reluctant to make commitments other than to monthly to quarterly
7 transactions. Having determined that it would purchase in the short-term
8 markets for 2008, SSVEC first secured a firm transmission path from Four
9 Corners to the SWTC system for the summer 2008 period. This was
10 completed in February 2008. The strategy for the summer involved having a
11 firm transmission path secured to a major, liquid hub that could provide
12 SSVEC with competitive options for meeting its needs. SSVEC then set
13 about putting in place enabling agreements that would allow it to trade on its
14 own without having to procure power through WAPA. SSVEC also began to
15 evaluate, with WAPA's assistance, power purchasing options for the summer
16 2008 period. SSVEC divided a total need of approximately 75 megawatts
17 into 25 megawatt increments to diversify the price risk as part of a laddering
18 strategy. Ultimately SSVEC did not purchase the first 25 megawatt tranche
19 until the first of May. This was a 7x16 purchase from PNM for the month of
20 May. SSVEC purchased another 25 megawatt 7x16 product for the June-
21 August time period from APS in early June. These purchases were made
22 pursuant to competitive solicitations conducted by WAPA on SSVEC's
23 behalf. SSVEC refrained from purchasing more forward power for the
24 summer period as wholesale power prices for the summer rose dramatically
25 during the spring months. In hindsight (which is always twenty-twenty), it
26 turned out that SSVEC made a good decision to limit forward purchases to

1 the two contracts with APS and PNM. Spot market prices, as Mr. Mendl
2 points out, turned out to be much less expensive than the forward prices
3 leading up to the summer. However, Mr. Mendl did not give SSVEC any
4 credit for this decision.

5
6 **III. PRICES PAID BY SSVEC FOR PURCHASED POWER**

7
8 **Q. PLEASE DESCRIBE YOUR CONCERNS WITH RESPECT TO MR.**
9 **MENDL'S REVIEW OF THE PRICES PAID BY SSVEC FOR**
10 **PURCHASED POWER.**

11 A. Mr. Mendl implies with his analysis that SSVEC paid too much for the third
12 party purchases from APS and PNM. He compares spot prices to the pricing
13 under those two contracts and concludes that the vast majority of the time
14 that spot prices were less expensive. However, Mr. Mendl's analysis is
15 flawed. It is an "apples and oranges" comparison of prices. In addition, even
16 if the analysis were done correctly, I don't believe the approach he uses to be
17 fair.

18
19 **Q. HOW IS MR. MENDL'S ANALYSIS FLAWED?**

20 A. Mr. Mendl compares on-peak pricing to off-peak pricing in his comparison.
21 The APS and PNM purchases are on-peak purchases six days a week, and
22 Mr. Mendl included off-peak spot prices in his comparison for those days.
23 This leads to a significant distortion in his results. It is incorrect to say, as he
24 does, that ninety percent of the spot market transactions were done at prices
25 less than the prices paid by SSVEC for third party purchases. In each of the
26 months that Mr. Mendl evaluates, he compares both on-peak and off-peak

1 prices to the APS and PNM purchases, and he uses each of the spot price data
2 points in conclusions he makes about the number of hours that spot prices
3 were above or below the price paid to APS or PNM. For example, for June
4 2008, Mr. Mendl states that "of the 287 WAPA balancing transactions in
5 June 2008, only 42 were at prices greater than the price SSVEC paid under
6 its third party contract with Arizona Public Service Company." However if
7 off-peak prices are eliminated, so that on-peak prices are compared to on-
8 peak prices, only 35 of 138 balancing transactions are at prices greater than
9 the price paid to APS - significantly different results. This same mistake was
10 repeated in the other months that Mr. Mendl analyzed.

11
12 **Q. WHY DO YOU SAY THE ANALYSIS, EVEN IF IT WERE**
13 **CORRECT, IS UNFAIR?**

14 A. As I said before, hindsight is always twenty-twenty. The decisions that
15 SSVEC made to enter into the APS and PNM purchases were based on the
16 information that SSVEC had before it at the time. The PNM purchase was
17 entered into at the beginning of May 2008, and the APS purchase was
18 entered into at the beginning of June 2008. We refer to these types of
19 contracts as forward term contracts because prices are locked into ahead of
20 time for a specified term. Prices at the time that the APS and PNM purchases
21 were executed were higher than spot prices turned out to be. I agree with Mr.
22 Mendl as far as this is concerned. In the April-June time frame when the
23 APS and PNM contracts were executed, crude oil prices were climbing,
24 leading to higher natural gas prices and higher prices for wholesale power in
25 the electric markets, as wholesale prices for electricity are significantly
26 correlated with natural gas prices. Exhibit DMB-8 illustrates how oil, natural

1 gas, and electricity prices climbed through the early part of 2008, reaching
2 their peak and then falling off dramatically after early July 2008. SSVEC
3 was concerned that prices were going to continue to climb, and it was
4 looking to hedge its exposure to the spot market. Based on a comparison of
5 competitively bid responses to two RFPs that were conducted by SSVEC
6 (one for the PNM purchase and one for the APS purchase), SSVEC selected
7 the best available options at the time for 7x16 products delivered for those
8 periods of time.
9

10 **Q. HOW SHOULD MR. MENDEL HAVE ANALYZED THE**
11 **REASONABLENESS OF THE PRICING?**

12 A. The fair way to evaluate a decision such as this is to review the information
13 that the utility had before it at the time the decision was made. SSVEC
14 conducted a competitive RFP that produced several proposals. SSVEC
15 evaluated the various proposals and selected the best option. A fair analysis
16 of the reasonableness of SSVEC's decision making would involve evaluating
17 the RFP, the way it was conducted, and its results. To use spot prices as a
18 basis for evaluation is "Monday morning quarterbacking." To satisfy Mr.
19 Mendl's analysis, SSVEC would have had to predict what prices were going
20 to do well in advance. In fact, SSVEC would have had to predict what all the
21 markets that affect wholesale prices were going to do well in advance. Of
22 course SSVEC had no way of knowing what prices were going to do with
23 any degree of accuracy. Wholesale electricity prices are a function of a
24 number of forces, some of which are global in nature and impossible to
25 predict.

26 ...

1 Mr. Mendl also fails to recognize that fixed price contracts can serve to
2 protect the Cooperative when there is price volatility in the wholesale market.
3 While prices generally fell after the APS and PNM purchases were executed,
4 the opposite could have also happened. Wholesale spot prices could have
5 been higher than the locked-in prices under the APS and PNM contracts.
6 Had this happened, I have to wonder if Mr. Mendl would have come to the
7 same conclusions.
8

9 **Q. PLEASE EXPLAIN YOUR EARLIER STATEMENT THAT MR.**
10 **MENDL DID NOT GIVE SSVEC PROPER CREDIT FOR LEAVING**
11 **AS MUCH POWER AS IT DID TO THE SPOT MARKET.**

12 A. The PNM purchase in May and the APS purchases in June, July, and August
13 were for 25 megawatts. SSVEC had needs of approximately 75 megawatts
14 for the summer period, and so it could have locked in another 50 megawatts
15 with PNM, APS, or others. SSVEC decided not to lock in more than it did,
16 recognizing that wholesale prices were at historically high levels. Forward
17 prices for the summer turned out to be well above spot prices for the summer,
18 as spot prices fell significantly during the summer. Had SSVEC locked in
19 the remaining 50 megawatt need at the forward prices as of late April, I
20 estimate SSVEC would have paid another \$1.8 million for power in 2008
21 over and above what it actually paid.

22 ...

23 ...

24 ...

25 ...

26 ...

1 **Q. MR. MENDEL RECOMMENDS THE COMMISSION FIND THAT THE**
2 **THIRD PARTY POWER SUPPLIES SECURED BY SSVEC, IN LIEU**
3 **OF REMAINING AN ARM OF AEPCO, WERE AT**
4 **SUBSTANTIALLY HIGHER PRICES THAN POWER SUPPLIES**
5 **FROM AEPCO. DO YOU AGREE?**

6 A. No, this is another example of "apples and oranges." Yes, the prices paid by
7 SSVEC for third party supplies were higher than the prices paid by SSVEC
8 to AEPCO as a PRM, or what SSVEC would have paid to AEPCO as an
9 ARM. However, the third party purchases were summertime peaking
10 contracts. The quantities delivered were limited to the 16 hour on-peak
11 period during the day, in the summer months of the year. Supplies from
12 AEPCO, whether full or partial requirements, are for the entire year, and they
13 include a significant amount of low cost base load coal and hydro power.
14 Any summertime peaking resource will cost more than the AEPCO rates on a
15 per kilowatt-hour basis. Peaking units that drive summertime pricing use
16 high cost natural gas, and they are inefficient units. For this reason, the
17 Commission should not reach such a finding.

18
19 **Q. MR. MENDEL RECOMMENDS THAT THE COMMISSION DIRECT**
20 **SSVEC TO VERIFY AND DOCUMENT THAT WAPA BALANCING**
21 **TRANSACTIONS ARE CONDUCTED AT MARKET PRICES AND**
22 **THAT THEY ARE DONE IN A MANNER CONSISTENT WITH**
23 **SSVEC'S INTERESTS. DO YOU AGREE?**

24 A. SSVEC already does this. SSVEC staff routinely sits down with WAPA and
25 reviews the purchase and sales activities to look for areas of improvement
26 and to ensure that WAPA is performing to the level that SSVEC expects.

1 The contract between WAPA and SSVEC requires WAPA to provide power
2 accounting for all the activities under the contract on a monthly basis and
3 issue itemized monthly transaction statements.

4
5 **IV. ALTERNATIVE APPROACHES**

6
7 **Q. MR. MENDEL STATES THAT THERE ARE ALTERNATIVE**
8 **APPROACHES THAT WOULD BE MORE APPROPRIATE TO**
9 **ENSURE THAT SSVEC'S PURCHASED POWER COSTS ARE**
10 **PRUDENT AND REASONABLE. DO YOU AGREE?**

11 A. No. SSVEC already considers all alternatives in its planning process. We
12 leave no stones unturned, and there are no beneficial alternatives available to
13 SSVEC that would be more appropriate than the alternatives that SSVEC has
14 considered or is pursuing. All of the alternatives that Mr. Mendl mentions
15 have either been considered by SSVEC, are still being considered, or they are
16 not feasible.

17
18 **Q. MR. MENDEL REITERATES THE NEED FOR POWER**
19 **PROCUREMENT PROCEDURES. DO YOU AGREE?**

20 A. As I discussed above, formal written power procurement procedures would
21 not provide the benefits that Mr. Mendl ascribes. Mr. Mendl states that
22 having planning and procurement processes "would enable SSVEC to
23 efficiently take advantage of market opportunities." In my view procedures
24 would not enable SSVEC to better take advantage of market opportunities.
25 In fact I would be concerned that the opposite would be true. I would be
26 concerned that any formal written procedures would be overly rigid and

1 prescriptive such that SSVEC would be foreclosed from taking advantage of
2 "market opportunities." A good example is last summer, where SSVEC left
3 much of its need to the spot market rather than locking it in ahead of time as
4 a procedure might have dictated.

5
6 **Q. MR. MENDEL RECOMMENDS THAT SSVEC CONTINUE TO**
7 **EVALUATE PHYSICAL HEDGES SUCH AS LONG-TERM**
8 **PURCHASED POWER ALTERNATIVES, OWNERSHIP IN POWER**
9 **PROJECTS, AND THE DEVELOPMENT OF A LOCAL PEAKING**
10 **FACILITY. DO YOU AGREE WITH THIS?**

11 A. Yes, and SSVEC will continue these activities. SSVEC is currently
12 participating in a long-term power supply solicitation that AEPCO (on behalf
13 of the SPPR Group) is conducting. SSVEC also continues to fully participate
14 in the SPPR Group power plant development process that will hopefully lead
15 to an ownership position in a combined cycle project. SSVEC is also
16 exploring the development of a peaking generation facility in its service
17 territory as referred to in the direct testimony of Creden Huber and described
18 in more detail below.

19
20 **Q. PLEASE DESCRIBE SSVEC'S PARTICIPATION IN SPPR GROUP**
21 **ACTIVITIES.**

22 A. SSVEC began participating in the SPPR Group discussions in 2007, prior to
23 becoming a PRM of AEPCO. It has been a full participant independently of
24 AEPCO since becoming a PRM.

25 ...

26 ...

1 The SPPR Group, or Southwest Public Power Resources Group, is a group
2 that includes roughly thirty electric cooperatives, municipal utilities,
3 electrical districts, and tribal utilities. In short it is a group of non-profit
4 utilities that jointly purchase power and that collectively would like to
5 develop and build a power project. The SPPR Group formed approximately
6 two years ago and is currently engaged in development activities relating to a
7 proposed power project in south central Arizona. SSVEC as a member has
8 invested approximately \$120,000 in SPPR Group activities. The group's
9 expenses are collected pro rata from the membership based on a subscription
10 for future capacity, and to date the group has funded engineering studies,
11 design work, water supply studies, initial permitting studies, and site
12 evaluation studies. AEPCO serves as the project manager for the SPPR
13 Group, and it provides much of the management and staffing services needed
14 by the group, conducting meetings, managing design and site acquisition, et
15 cetera.

16
17 **Q. PLEASE DESCRIBE WHAT SSVEC IS DOING WITH REGARD TO**
18 **DEVELOPING A PEAKING GENERATION PROJECT.**

19 A. SSVEC's power supply deficits, defined as the shortfalls between expected
20 load and the supply from AEPCO under the partial requirements agreement
21 with AEPCO, fall primarily in the summer months. In other words, the
22 AEPCO contract can be viewed generally as a base load resource, and
23 SSVEC has needs in the peaking and intermediate or cycling categories. The
24 intermediate needs could be supplied through a natural gas-fired combined
25 cycle project such as the SPPR project or possibly a purchased power
26 agreement or ownership interest in an independently developed project such

1 as the Bowie plant. Most likely the best resource to meet SSVEC's peaking
2 needs, long-term, is a peaking generation facility in its service territory.
3 SSVEC is actively pursuing the development of such a facility, evaluating
4 sites, technology, and developer partnerships. Such a facility offers benefits
5 in terms of reduced power cost, certainty of supply in the face of shrinking
6 reserve margins in the state, and reduced reliance on the congested
7 transmission system serving southeast Arizona.

8
9 **Q. MR. MENDEL RECOMMENDS THAT SSVEC EVALUATE DEMAND**
10 **RESPONSE AND ENERGY EFFICIENCY PROGRAMS. DO YOU**
11 **AGREE?**

12 A. Yes, and I agree that both supply-side and demand-side opportunities must be
13 considered. As more fully described in the direct testimony of Jack Blair,
14 SSVEC has had demand-side programs for many years, and its current DSM
15 program is being considered as part of this rate case.

16
17 **Q. MR. MENDEL RECOMMENDS THAT SSVEC EVALUATE**
18 **FINANCIAL HEDGES AS AN ALTERNATIVE TO WHAT IT IS**
19 **DOING. DO YOU AGREE WITH THIS?**

20 A. We have considered financial hedges in the past, however we have not
21 pursued the use of financial hedges because there are physical products that
22 provide the same benefits. With physical products, SSVEC is able to avoid
23 the additional contracts, credit requirements, and other complexities that
24 come with the use of derivatives. SSVEC accomplishes price hedging
25 through the use of physical products such as the 2008 APS and PNM
26 purchases. These purchases locked in prices for the 7x16 quantities and

1 hedged SSVEC's exposure to the spot market just as a financial swap would
2 have done. In addition, a financial hedge will not "keep the lights on" in the
3 sense that it is not a firm physical delivery of power.
4

5 **Q. MR. MENDEL RECOMMENDS THAT SSVEC EVALUATE**
6 **LADDERED PURCHASING STRATEGIES. DO YOU AGREE?**

7 A. Yes and SSVEC already does this. Laddering refers to layering in purchases
8 over time, building up the layers until the needs for a future period have been
9 fully procured. For example, SSVEC might procure a quarter of its summer
10 needs in each of the four quarters leading up to that summer. The benefits of
11 a laddering approach are that the ultimate price paid for the power represents
12 the blend of the layers procured over time, and it ensures that the price paid is
13 not an extreme but rather an average over time. SSVEC used this technique
14 in 2008 and will continue to use it in 2009 and beyond.
15

16 **Q. HOW HAS SSVEC USED THIS LADDERING APPROACH?**

17 A. In 2008, SSVEC had summer needs of approximately 75 megawatts. By
18 needs I mean that the SSVEC summer peak was approximately 75 megawatts
19 above the power provided by AEPCO under the AEPCO/SSVEC partial
20 requirements contract. For planning purposes SSVEC broke that into three
21 25 megawatt increments and planned to procure such 25 megawatt
22 increments in a staggered manner, so that the entire 75 megawatt need was
23 not locked into at one time. The APS and PNM purchases were 25 megawatt
24 purchases reflecting the first layer in this plan. Later it was decided not to do
25 more than the first layer because SSVEC correctly projected that spot prices
26 would be less expensive than forward locked-in prices. SSVEC is taking the

1 same "laddered" approach for its 2009 needs. SSVEC entered into a 25
2 megawatt purchase with Shell for June-July 2009 in September 2008.
3 SSVEC then entered into a second 25 megawatt purchase with Powerex for
4 May-September 2009 in January 2009. SSVEC continues to study
5 alternatives for the last 40 megawatts or so that it needs for summer peak
6 2009.

7
8 **Q. MR. MENDEL RECOMMENDS THAT SSVEC EVALUATE**
9 **RETURNING TO ARM STATUS IF SSVEC CANNOT**
10 **DEMONSTRATE AN ACTUAL BENEFIT FROM USING**
11 **ELECTRICITY MARKETS TO SUPPLEMENT PARTIAL**
12 **REQUIREMENTS SUPPLY FROM AEPCO.**

13 **A.** It is my understanding that returning to an ARM of AEPCO is not an option
14 that is unilaterally available to SSVEC pursuant to its agreement with
15 AEPCO. Even if it were, SSVEC does not believe that option is in the best
16 interest of its member-customers. AEPCO does not have excess capacity
17 available for the ARMs or PRMs. AEPCO would have to go to the same
18 market as SSVEC to purchase power for SSVEC and pass that cost to
19 SSVEC through the AEPCO fuel adjuster. In addition, one year is a snapshot
20 in time. Energy prices for much of 2008 were at record levels. Oil prices
21 reached record highs due to a weak dollar and concerns about Iran. This led
22 to historically high natural gas prices and therefore historically high power
23 prices. As a result this single year is not a valid basis for determining
24 whether PRM status is better than ARM status for SSVEC. For example
25 SSVEC has purchased forward power for the summer of 2009 for much less
26 than was paid in 2008, and for less than the AEPCO all-in rate. In the long

1 run SSVEC continues to believe that PRM status will offer its member-
2 customers the lowest overall cost. SSVEC has independent control to
3 establish its own strategy and decide how it will meet future needs and future
4 challenges, while it continues to work with AEPCO and others on joint future
5 generation projects and joint power procurement opportunities. This is the
6 best of both worlds from a power supply planning and procurement
7 perspective.

8
9 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

10 A. Yes. As I discuss throughout my testimony, SSVEC has a power
11 procurement program in place that it is following, and this program is
12 working well. At this juncture I do not believe that it is necessary for the
13 Commission to take any action with respect to Mr. Mendl's
14 recommendations. SSVEC only purchases less than 20% of its needs from
15 the wholesale market, as AEPCO still supplies in excess of 80%. SSVEC
16 has adequate power procurement procedures in place and is also subject to
17 the resource procurement procedures required already by this Commission.
18 In addition, SSVEC has procurement policies in place that govern CEO and
19 CFO limits of authority. Entering into the APS and PNM purchases was a
20 reasonable, partial hedge of summer 2008 exposure, and those decisions
21 should not be second-guessed after the fact using twenty-twenty hindsight.
22 The year 2008 was anomalous in terms of high energy prices (\$147/barrel
23 oil, \$13/mmBtu natural gas, \$125/MWh power), and SSVEC has already
24 locked into power for summer 2009 that costs less than half that of 2008.
25 SSVEC is already actively pursuing, or already has considered, all the
26 alternatives Mr. Mendl recommends such as DSM, long-term options such as

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the SPPR project, purchased power, or development of a peaking facility, and laddering and financial hedges. Returning to ARM service is not in SSVEC's interest because as a PRM, SSVEC retains control over its destiny while still maintaining the option to work with AEPCO on future projects.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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V. EXHIBITS

EXHIBIT

DMB-1

SUMMARY:

Mr. Brian is a professional engineer and a Vice President in the firm of GDS Associates, Inc., a firm that provides consulting services to the electric power industry. Since joining GDS in 1990, Mr. Brian has been involved primarily in wholesale power supply matters for generation and transmission cooperatives and municipal utilities. His work experience has been in the areas of power supply analysis and contract negotiation, wholesale rate regulation, financial analysis and debt placement, market power analysis, and transmission access and pricing.

EMPLOYMENT:

GDS Associates, Inc., Marietta, GA
Electric Industry Consultant
1990-2009

EDUCATION:

Master of Science in Finance
Georgia State University, 1998

Bachelor of Science in Industrial Engineering
Georgia Institute of Technology, 1990

ENGINEERING REGISTRATION:

Georgia

SIGNIFICANT CONSULTING EXPERIENCE:

Evaluation and negotiations associated with wholesale rate issues involving a G&T cooperative in Arizona, 2007-2009

Development of financing arrangements for a G&T cooperative's participation in a coal project in Arkansas, 2007-2009

Evaluation of participation in a proposed nuclear generation facility for several municipal utilities in Georgia, 2008.

Participation in project development activities relating to a proposed power plant in Arizona, 2007-2009.

Expert witness services in a binding arbitration matter for a municipal power authority in Oklahoma, 2007.

Negotiation of a partial requirements wholesale supply contract for a G&T cooperative in ERCOT, 2007.

Project coordination associated with the development of two peaking power plants in east Texas, 2006-2009

Negotiation of wholesale power and transmission agreements for an electric cooperative in Arizona, 2006-2007

Expert witness services in a FERC proceeding regarding the establishment of new transmission owners under the Southwest Power Pool Regional Transmission Tariff, 2006-2007

Evaluation of energy hedging and long term power supply options for a municipal utility in Georgia, 2006-2008

Power supply planning and negotiations for an electric cooperative in Arizona, 2006-2009

Assistance with base load and peaking facilities financing for a G&T cooperative in east Texas, 2005-2009

Evaluation of transmission alternatives for a proposed resource acquisition for a municipal power authority in Oklahoma, 2006-2007

Regulatory support associated with a proposal to separate a utility and transfer assets to an adjacent reliability council, 2005-2009

Development of scheduling agent arrangements for a hydro power project in ERCOT on behalf of a G&T cooperative in east Texas, 2003-2005

Negotiation of terms and conditions associated with a proposed transmission interconnection between two G&T cooperatives in Texas, 2005

Administration of a solicitation for partial requirements power supply in ERCOT on behalf of a G&T cooperative in east Texas, 2005

Regulatory support associated with regional transmission activities in the Entergy region on behalf of a G&T cooperative in east Texas, 2004-2006

Preparation of a natural gas hedging program for an electric cooperative in Georgia, 2004-2005

Obtaining interim and permanent financing for a combined cycle generation facility on behalf of a G&T cooperative in east Texas, 2004

Evaluation of power supply proposals received in response to a solicitation for a Georgia G&T cooperative, 2003

Participation in Southwest Power Pool tariff development on behalf of a G&T cooperative in east Texas, 2003-2009

Development of a natural gas hedging program for a G&T cooperative in east Texas, 2003-2005

Development of supply arrangements for several large industrial loads for G&T and distribution cooperatives in east Texas, 2001-2007

Solicitation and evaluation of power supply proposals for a G&T cooperative in east Texas, Winter 2001-2002.

Solicitation and evaluation of power supply proposals for electric membership cooperatives in Georgia, 2002.

Financial support in connection with the construction of a natural gas-fired power plant in east Texas for a G&T cooperative in Texas, 1999-2002.

Negotiation of a partial requirements power supply agreement for electric membership cooperatives in Georgia, 2001-2002.

Solicitation and evaluation of power supply proposals for electric membership cooperatives in Georgia, 2001-2002.

Negotiation of power pooling arrangements for hydroelectric power purchased from the Southwestern Power Administration for a G&T cooperative in Texas, 2000.

Solicitation and evaluation of power supply proposals for electric membership cooperatives in Georgia, 2000.

Technical support in a rulemaking involving development of guidelines for market power studies for an Arkansas G&T cooperative, 2000.

Negotiating contract terms with the SWPA and reviewing and critiquing SWPA rates for a G&T cooperative in Texas, 1999.

Evaluation of the market power effects of the proposed merger between NSP & NCE for a G&T cooperative in Texas, 1999.

Evaluation of the market power effects of the proposed merger between Carolina Power & Light and Florida Progress for a G&T cooperative in Florida, 1999.

Evaluation of the market power effects of the proposed acquisition of St. Joseph Power & Light and Empire District Electric by UtiliCorp for a G&T cooperative in Kansas, 1999.

Evaluation of the market power effects of the proposed acquisition of Central and South West by American Electric Power for several G&T cooperatives, 1998.

Financial support in connection with the financing of a \$30 million purchase of a minority ownership position in a power plant, 1998.

Wholesale cost projection, dispersed generation feasibility analysis, and load duration curve resource need analysis for electric membership cooperatives in Georgia, 1998.

Negotiation and implementation of a long term firm power supply transaction involving the use of the east HVDC intertie between ERCOT and the SPP for a G&T cooperative in Texas, 1997.

Financial support in connection with the refinancing of approximately \$95 million of long term debt for a G&T cooperative in Texas, 1997.

Evaluation of the acquisition of a minority ownership interest in Independence Steam Electric Station Unit 2 for a G&T cooperative in Texas, 1997-1998.

Negotiation and implementation of changes to a wholesale power contract to unbundle transmission and ancillary service charges for a G&T cooperative in Texas, 1997.

Evaluation of power supply alternatives for electric membership cooperatives in Georgia, 1997-2000.

Formation and implementation of retail competitive rate tariffs for distribution cooperatives in east Texas, 1996-1999.

Technical support in a FPA Section 211 application before FERC against TU Electric, for a G&T cooperative in Texas, 1993-1999.

Evaluation of the feasibility of a 180 mile transmission project in east Texas for a G&T cooperative in Texas, 1992-1997.

Daily load forecasting and power supply resource scheduling and development of a PC-based scheduling program for a G&T cooperative in Texas, 1990-1993.

PRIOR TESTIMONY OFFERED:

Public Utility Commission of Texas, Docket 33687, Application of Entergy Gulf States, Inc. for Approval of a Transition to Competition Plan, April 2007.

Federal Energy Regulatory Commission, Docket No. EL07-27, Application of East Texas Electric Cooperative, Tex-La Electric Cooperative of Texas, Inc., Deep East Electric Cooperative, Inc. for Approval as Transmission Owners under the SPP Regional Tariff, December 2006.

Public Utility Commission of Texas, Docket 30254, Application of Wood County Electric Cooperative for a Certificate of Convenience and Necessity, June 2005.

Arkansas Public Service Commission, Docket No. 00-048-R, In the Matter of a Generic Proceeding to Establish Filing Requirements and Guidelines Applicable to Market Power Analyses, April & June 2000.

Public Utilities Commission of Colorado, Docket No. 99A-377EG, Application of Public Service Company of Colorado for New Century Energies, Inc. to Merge with Northern States Power Company, December 1999.

Federal Energy Regulatory Commission, Docket No. EC99-101-000, Application of Northern States Power and New Century Energies for Approval of Merger, October 1999.

Public Utility Commission of Texas, Docket 19265, Application of American Electric Power and Central and South West for Approval of Merger, July 1999.

Federal Energy Regulatory Commission, Dockets EC98-40-000, ER98-2770-00, and ER98-2786-000, Application of American Electric Power and Central and South West for Approval of Merger, April 1999.

Federal Energy Regulatory Commission, Docket No. EL99-6-000, Sam Rayburn G&T Electric Cooperative, Inc. vs. Entergy Services, Inc. Relating to Transmission Equalization Credits, October 1998.

Federal Energy Regulatory Commission, Docket No. EC98-40-000, Application of American Electric Power and Central and South West for Approval of Merger, June 1998.

Public Utility Commission of Texas, Docket 19462, Application of East Texas Electric Cooperative, Inc. for Approval of Power Supply Contract, June 1998.

Public Utility Commission of Texas, Docket 15638, Compliance Filing of Texas Utilities Electric Company to Substantive Rules 23.67 and 23.70, September 1996.

Public Utility Commission of Texas, Docket No. 14045, Rulemaking Regarding the Formation of Open Access Transmission Rules in ERCOT, July 1995.

Public Utility Commission of Texas, Docket 12289, Application of Tex-La Electric Cooperative of Texas, Inc. for Approval of Revised Wholesale Rates, September 1993.

EXHIBIT

DMB-2

STAFF'S RESPONSES TO
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
SECOND SET OF DATA REQUESTS
DOCKET NO. E-01575A-08-0328
FEBRUARY 23, 2009

SSVEC 2.8 Referencing page 6, lines 1-2 of Mr. Mendl's direct testimony, is Mr. Mendl of the opinion that SSVEC should have made changes in its organizational structure when it converted to a partial requirements member? If so please describe what changes in SSVEC's organizational structure Mr. Mendl would recommend. Also please provide the basis for the recommendations.

Response: Yes. Please refer to Mr. Mendl's testimony on page 5, beginning on line 9. Mr Mendl's testimony on pages 6-8 further details his assessment of the Cooperative relative to the three organizational factors Mr. Mendl identified on page 2, line 25 through page 3, line 17. Mr. Mendl's concerns and recommendations are summarized on page 13, with recommendations b and c noteworthy relative to organizational structure. The basis for the recommendations is that moving from a full requirements service to a partial requirements service constitutes a substantial change in responsibilities of the Cooperative staff.

Respondent: Jerry E. Mendl

EXHIBIT

DMB-3

| | | |
|--|---|-----------------------------------|
| Sulphur Springs Valley Electric Cooperative, Inc. POLICIES BOARD OF DIRECTORS | Division BOARD OF DIRECTORS | |
| | Subject Designation of Executive Vice President | |
| | Effective Date September 16, 1986 | Number A-20 Page 1 of 2 |

I. Objective:

To state the policy of the Sulphur Springs Valley Electric Cooperative Inc. (SSVEC) in designating the Chief Executive Officer (CEO) as Executive Vice President.

II. Policy:

- A. The Board of Directors (Board) delegates to the CEO responsibility to act on behalf of SSVEC in the routine execution of certain contracts and agreements and to establish his/her job title as Executive Vice President, in addition to that of the CEO.
- B. The Executive Vice President is hereby delegated the authority to sign on behalf of the Board all documents pertaining to all items in the approved budget including SSVEC retirement programs, member loans, line extension and service agreements and contracts, engineering and construction contracts, reports to various governmental agencies, and emergency expenditures.
- C. The Executive Vice President is hereby delegated the authority to sign, on behalf of the Board, all documents pertaining to supplemental purchased power agreements with terms of one year or less. Due to the market timing and pricing for supplemental purchased power agreements with terms longer than one year, the Executive Vice President is authorized to sign the agreements if the Board has previously reviewed and approved the agreements in substantially similar form. The Executive Vice President will report back to the Board on the final pricing.
- D. Unless the Board otherwise in specific instances so provides, the CEO shall execute, in the name or on behalf of the Cooperative, all legal documents the execution of which is not otherwise, by law, by board action or by the requirement of others, conferred upon or delegated or reserved exclusively to one or more of the other board-elected or board-appointed officers.

These documents include but are not limited to the following: deeds, deeds of trusts, mortgages, bills of sale, conditional sales agreements, chattel mortgages, or leases (as lessor or lessee); local, state and federal property listings or filings, income tax withholding and other related forms and tax returns.

Document applications, proxies, stock certificates, and documents relating to financial transactions, including deposits, withdrawals, investments, checks, and similar documents.

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| Sulphur Springs Valley Electric Cooperative, Inc. POLICIES BOARD OF DIRECTORS | Division <p style="text-align: center;">BOARD OF DIRECTORS</p> | |
| | Subject <p style="text-align: center;">Designation of Executive Vice President</p> | |
| | Effective Date <p style="text-align: center;">September 16, 1986</p> | Number A-20 <p style="text-align: center;">Page 2 of 2</p> |

III. Responsibility:

This policy shall be reviewed periodically with any revisions being recommended by the Policy Committee.

SECRETARY'S CERTIFICATE

This is to certify that the foregoing policy of the Board of Directors of Sulphur Springs Valley Electric Cooperative, Inc., entitled "Designation of Executive Vice President", Policy No. A-20, consisting of 2 pages, including this page, has been reviewed and re-approved, with amendments as required, from time to time on the following dates: February 21, 1989; April 27, 1994; November 20, 1996; August 26, 1998; March 20, 2002; January 28, 2005; and July 23, 2008.

Secretary, Sulphur Springs Valley Electric Cooperative, Inc.

EXHIBIT

DMB-4

| | | |
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| Sulphur Springs Valley Electric Cooperative, Inc. POLICIES BOARD OF DIRECTORS | Division FINANCIAL MANAGEMENT | |
| | Subject Cash Management Program | |
| | Effective Date February 21, 1989 | Number B-1 Page 1 of 4 |

I. Objective:

- A. To designate the depositories for the General Fund Account of Sulphur Springs Valley Electric Cooperative, Inc., (SSVEC).
- B. To state the policy of the Board of Directors (Board) of SSVEC on General Fund checks and delegate the authority to approve purchases and expenditures.
- C. To implement a Cash Management Program to develop more efficient credit management and cash utilization practices and procedures.

II. Policy:

A. Depositories and Authorized Agents

Wells Fargo in Tucson and Sierra Vista, Arizona, is designated as the main depository for the General Fund Account, Patronage Fund Account, Accounts Payable Account, Merchant Account, 125 Flex Medical Account, and Payroll Fund Account of SSVEC. In addition, Bank of America, Benson, Arizona, and JP Morgan Chase and Company, Willcox, Arizona, are also designated as depositories for the General Fund Account. Checks drawn on these accounts will be signed by any two of the following persons: Treasurer or Secretary and Chief Executive Officer (CEO) or President or Chief Financial Officer (CFO). The use of facsimile signatures may be used for all checks less than \$250,000. Withdrawals of \$250,000 and more will bear the signature of the Board Treasurer and the CEO.

The CEO will designate certain employees of SSVEC to receive monies due SSVEC and deposit said monies into designated depository banks. The SSVEC employees, so designated, are responsible to the CEO for such actions.

Repetitive bank wire transfers can be made only for the purposes of long and short-term loan payments, investments, internal fund transfers between General Fund depositories and purchased power transactions. Bank wire transfers are authorized to be made by the following individuals:

- 1. Chief Executive Officer
- 2. Chief Finance and Administrative Officer
- 3. Controller

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| Sulphur Springs Valley Electric Cooperative, Inc. POLICIES BOARD OF DIRECTORS | Division FINANCIAL MANAGEMENT | |
| | Subject Cash Management Program | |
| | Effective Date February 21, 1989 | Number B-1 Page 2 of 4 |

4. Accountant
5. Third-Party Administrator (125 Flex Medical Account)

Non-repetitive bank wire transfers will be authorized by the CEO.

Funds may be transferred between and from SSVEC General Funds deposited with Wells Fargo, in Tucson and Sierra Vista, Arizona, JP Morgan Chase and Company in Willcox, Arizona, and/or Bank of America in Benson, Arizona to the designated accounts of the following organizations:

1. The National Rural Utilities Cooperative Finance Corporation (CFC)
2. Arizona Electric Power Cooperative, Inc. (AEPCO)
3. Southwest Transmission Cooperative, Inc. (SWTC)
4. U.S. Department of Energy Western Area Power Administration (WAPA)

Electronic fund transfers through the Automated Clearing House (ACH) are authorized for employee and director reimbursements, employee and director per diem payments, director fees, tax, retirement, medical payments, purchase power transactions, and internal General Fund transfers to:

1. National Rural Electric Cooperative Association (NRECA)
2. Arizona Department of Revenue
3. Internal Revenue Service (IRS)
4. Cochise County Treasurer
5. Foundation and Charitable Trust Accounts
6. Credit Unions and Banks (as directed by employee and director direct deposits)
7. U.S. Department of Energy Western Area Power Administration (WAPA)

B. General Fund Checks and Purchases

It shall be the policy of SSVEC that the General Funds checks may be drawn for the purpose of paying all accounts payable at such time as they may become due. All checks will be supported by proper invoices and statements, a certification from the purchasing section or other designated employee as to

| | | |
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| Sulphur Springs Valley Electric Cooperative, Inc. POLICIES BOARD OF DIRECTORS | Division FINANCIAL MANAGEMENT | |
| | Subject Cash Management Program | |
| | Effective Date February 21, 1989 | Number B-1 Page 3 of 4 |

the receipt; and an authorization for payment by the Board, CEO, or departmental managers authorized to approve such purchases.

The CEO is authorized to approve the purchase of and payment for all items in the approved budget. Cost overruns on budget line items over 10% will be reported to the Board.

The CEO will present to the Finance Committee for approval the CEO's and Directors' Fees and/or expenses and checks in amounts over \$250,000.

The CEO may delegate to subordinates authority to authorize the purchase of approved budgeted items up to the following amounts:

| | |
|--|----------|
| Chief Financial and Administrative Officer | \$50,000 |
| Chief Marketing Officer | \$50,000 |
| Chief Operations and Engineering Officer | \$50,000 |

The Chief Officers (Finance, Marketing, & Operations) may delegate the purchase of budgeted items up to \$1,000 to employees who report directly to them. Contracts and agreements may be signed by the appropriate employee based on the same dollar limits for the total value of the contract. The Purchasing Manager is authorized to approve purchase orders for approved budgeted items up to \$50,000 and may delegate the purchase of budgeted items up to \$1,000 to employees that report to him/her.

C. Power Fund Transactions

The CEO is authorized to approve the purchase of and payment for all purchased power transactions related to procuring power for SSVEC and/or for third-party sale.

D. Cash Management Program

The primary purpose of the cash management program is to improve SSVEC's margins through more effective utilization of surplus funds in short-term investments and while simultaneously maintaining and utilizing short-term credit sources, such as CFC's line of credit, to meet any cash demands.

In implementing the Cash Management Program, a target balance for the General Fund Account shall be computed periodically and any funds in excess of this amount shall be transferred to short-term investments utilizing weekly cash flow projections as a means of determining cash demands.

| | | |
|--|-------------------------------------|---------------------------|
| Sulphur Springs Valley Electric Cooperative, Inc. POLICIES BOARD OF DIRECTORS | Division FINANCIAL MANAGEMENT | |
| | Subject Cash Management Program | |
| | Effective Date February 21, 1989 | Number B-1 Page 4 of 4 |

Funds which accumulate in the General Fund and exceed the immediate cash needs of SSVEC may be invested in CFC commercial paper, Certificates of Deposit, Treasury Bills, SWTC's or AEPCO's member investment programs at the most favorable rate of interest for periods of time ranging from one day to one year, depending upon SSVEC's projected cash requirements.

SSVEC shall establish a line of credit and authorize short-term borrowing from CFC in amounts which shall not at one time exceed 12 months at such interest rate or rates as shall be prescribed in the Note or Notes executed by and on behalf of SSVEC and delivered to CFC, the proceeds of such loan or loans to be used for proper corporate purposes and consistent with the requirements of outstanding security documents of SSVEC. The President of the Board is hereby authorized to execute, on behalf of SSVEC, an Agreement for a Line of Credit for short-term loans and to execute, in the name of SSVEC, a Note or Notes not to exceed the amount authorized by the Board.

The CEO of SSVEC is hereby authorized, on behalf of SSVEC, to request and receive funds under such Note or Notes and is directed to deposit such funds in the General Fund Account at Wells Fargo, Tucson and/or Sierra Vista, Arizona.

III. Responsibility:

The Policy Committee shall periodically review and recommend any revisions to this policy.

SECRETARY'S CERTIFICATE

This is to certify that the foregoing policy of the Board of Directors of Sulphur Springs Valley Electric Cooperative, Inc., entitled "Cash Management Program", Policy No. B-1, consisting of 4 pages, including this page, has been reviewed and re-approved, with amendments as required, from time to time on the following dates: December 19, 1989; December 22, 1993; May 25, 1994; October 29, 1997; January 21, 1998; February 18, 1998; June 21, 2000; August 21, 2002; April 23, 2003; December 17, 2003; July 14, 2005; June 23, 2006; May 23, 2007; September 19, 2007; December 19, 2007; and December 17, 2008.

Secretary, Sulphur Springs Valley Electric Cooperative, Inc.

EXHIBIT

DMB-5

STAFF'S RESPONSES TO
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
SECOND SET OF DATA REQUESTS
DOCKET NO. E-01575A-08-0328
FEBRUARY 23, 2009

SSVEC 2.1 Referencing page 3, lines 23-24 of Mr. Mendl's direct testimony, is Mr. Mendl aware of other electric utilities that have power procurement procedures of the type that he is recommending for SSVEC? If so please provide copies of such procedures and identify the utilities involved.

Response: Yes. Mr. Mendl is aware of at least three utilities in the Southwest that utilized written and documented formal fuel and power procurement procedures, Nevada Power Company, Sierra Pacific Power Company, and UNS Gas Company. Copies, to the extent that they are public, would be available from those utilities.

Respondent: Jerry E. Mendl

SSVEC 2.2 Referencing page 3, lines 23-24 of Mr. Mendl's direct testimony, is Mr. Mendl aware of other electric cooperatives of the size and character of SSVEC having similar procurement procedures? If so, please provide the names of such electric cooperatives and copies of such procedures.

Response: No. It should be noted that most Arizona electric cooperatives are full requirements customers of a generation cooperative. Many of them buy from AEPCO, which is regulated by the Arizona Corporation Commission.

Respondent: Jerry E. Mendl

EXHIBIT

DMB-6

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 MIKE GLEASON
Chairman
3 WILLIAM A. MUNDELL
Commissioner
4 JEFF HATCH-MILLER
Commissioner
5 KRISTIN K. MAYES
Commissioner
6 GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

DEC - 4 2007

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| DOCKETED BY | ne |
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7
8 IN THE MATTER OF COMPETITIVE
9 PROCUREMENT ISSUES IN THE
10 GENERIC INVESTIGATION INTO
11 ELECTRIC RESOURCE PLANNING

DOCKET NO. E-00000E-05-0431

DECISION NO. 70032

ORDER

12
13 Open Meeting
14 November 27 and 28, 2007
Phoenix, Arizona

15 BY THE COMMISSION:

16 FINDINGS OF FACT

17 Introduction

18 1. Commission Decision No. 67744 directed Staff to schedule workshops on resource
19 planning issues. Additionally, as part of the Settlement Agreement of that case, it was agreed that
20 "the Commission Staff will schedule workshops on resource planning issues to focus on
21 developing needed infrastructure and developing a flexible, timely, and fair competitive
22 procurement process." (Paragraph 79, Settlement Agreement).

23 2. On April 5, 2007, Staff docketed a Request for Meetings Notice, and indicated that
24 a series of three workshops specifically related to issues of competitive procurement would be
25 held, and that the remaining issues related to resource planning would be conducted in other
26 workshops and noticed separately. Three workshops on competitive procurement were held on
27 April 25, 2007; May 23, 2007; and July 13, 2007. Eight entities filed nine sets of written
28 comments.

- 1 D. Bilateral contracts with non-affiliated entities.
- 2 E. Bilateral contracts with affiliated entities, provided that non-affiliated entities are
3 provided notice of and an opportunity to beat any proposed contract before
4 executing the transaction.
- 5 F. Any other competitive procurement process approved by the Commission.
- 6 2. Utilities should seek to use an RFP as the primary acquisition process. Exceptions may
7 include the following:
- 8 A. For emergencies. An emergency is an unknown and unforeseeable condition (i) not
9 arising from acts or omissions by the utility which are not in accord with good utility
10 practice, (ii) that is temporary in nature, (iii) that threatens reliability or poses some
11 other significant risk to the system, and (iv) where the subject procurement is not
12 greater in quantity or duration than what is necessary for the utility to restore the
13 system to a safe and reliable condition.
- 14 B. For short-term acquisitions to maintain system reliability.
- 15 C. For other components of energy procurement, such as transmission projects, fuels,
16 and fuel transportation.
- 17 D. When the planning horizon is two years or less.
- 18 E. When a utility encounters a genuine, unanticipated opportunity to acquire a power
19 supply resource at a clear and significant discount when compared with the cost of
20 acquiring new generating facilities that will provide unique value to customers.
- 21 F. For transactions that satisfy obligations under the Renewable Energy Standard rules
22 and for demand-side management/demand response programs.

20 Independent Monitor

- 21 1. An independent monitor should be used in all RFP processes for procurement of new
22 resources.
- 23 2. The utility should consult with Commission Staff and jointly select three to five
24 companies or consultants ("vendor list") who can serve as an independent monitor.
- 25 3. The utility will file its vendor list in this docket for interested parties' review. Parties
26 will have 30 days to object to a vendor's inclusion on the list.
- 27 4. Within 60 days of the filing of the vendor list, Staff will endorse the vendors it
28 determines are appropriate. Once the vendors are endorsed by Staff, the utility would
be able to retain any of the authorized vendors for future RFPs. The utility is required
to provide written notice to Staff of its retention of the independent monitor.

- 1 5. The utility should enter into a contract with the monitor and should pay the monitor. Reasonable bidders' fees may be used to help offset these costs. When appropriate, the
- 2 utility may request recovery of its payments to the monitor in customer rates.
- 3
- 4 6. One week prior to the deadline for submitting bids, the utility should provide the
- 5 independent monitor with a copy of any bid proposal prepared by the utility or its
- 6 affiliate, or any benchmark or reference cost the utility has developed against which to
- 7 evaluate the bids. The independent monitor should take steps to secure the utility bid or
- 8 benchmark price in a location not known or accessible to any of the bidders or the
- 9 utility or its affiliate.
- 10
- 11 7. The independent monitor should provide reports (at least monthly) to Commission Staff
- 12 throughout the RFP process.

CONCLUSIONS OF LAW

- 10 1. The Commission has jurisdiction the subject matter of the application.
- 11 2. The Commission, having reviewed the application and Staff's Memorandum dated
- 12 November 6, 2007, concludes that it is in the public interest to adopt the Recommended Best
- 13 Practices for Procurement.

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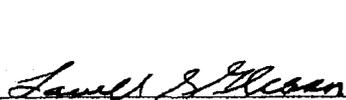
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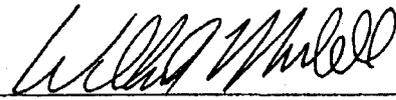
ORDER

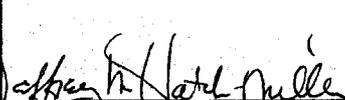
IT IS THEREFORE ORDERED that the Recommended Best Practices for Procurement is adopted.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

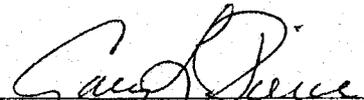
BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

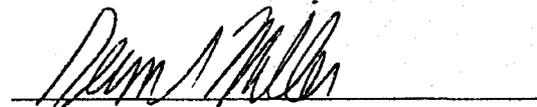

COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 4th day of December, 2007.


DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:BEK:lm\KT

1 SERVICE LIST FOR: Generic Investigation
2 DOCKET NO. E-00000E-05-0431

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4 Sweep
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6 Tucson, Arizona 85704

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Mr. Stephen Ahearn
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11 Mr. John Wallace
12 Grand Canyon State Electric Cooperative
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17 Benson, Arizona 85602

18 Ms. Jana Brandt
Ms. Kelly Barr
19 Salt River Project
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26 Tubac, Arizona 85646

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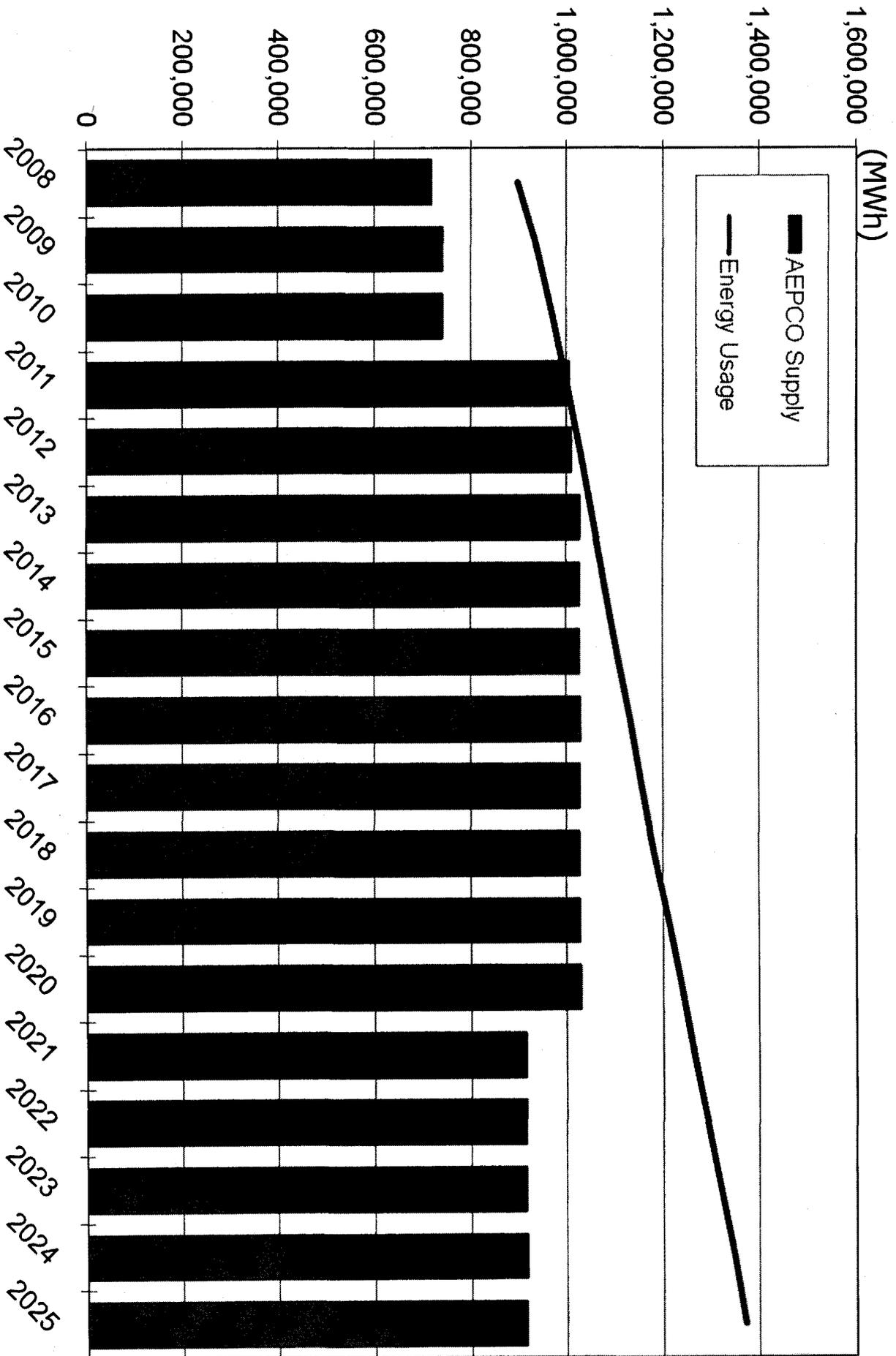
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EXHIBIT

DMB-7

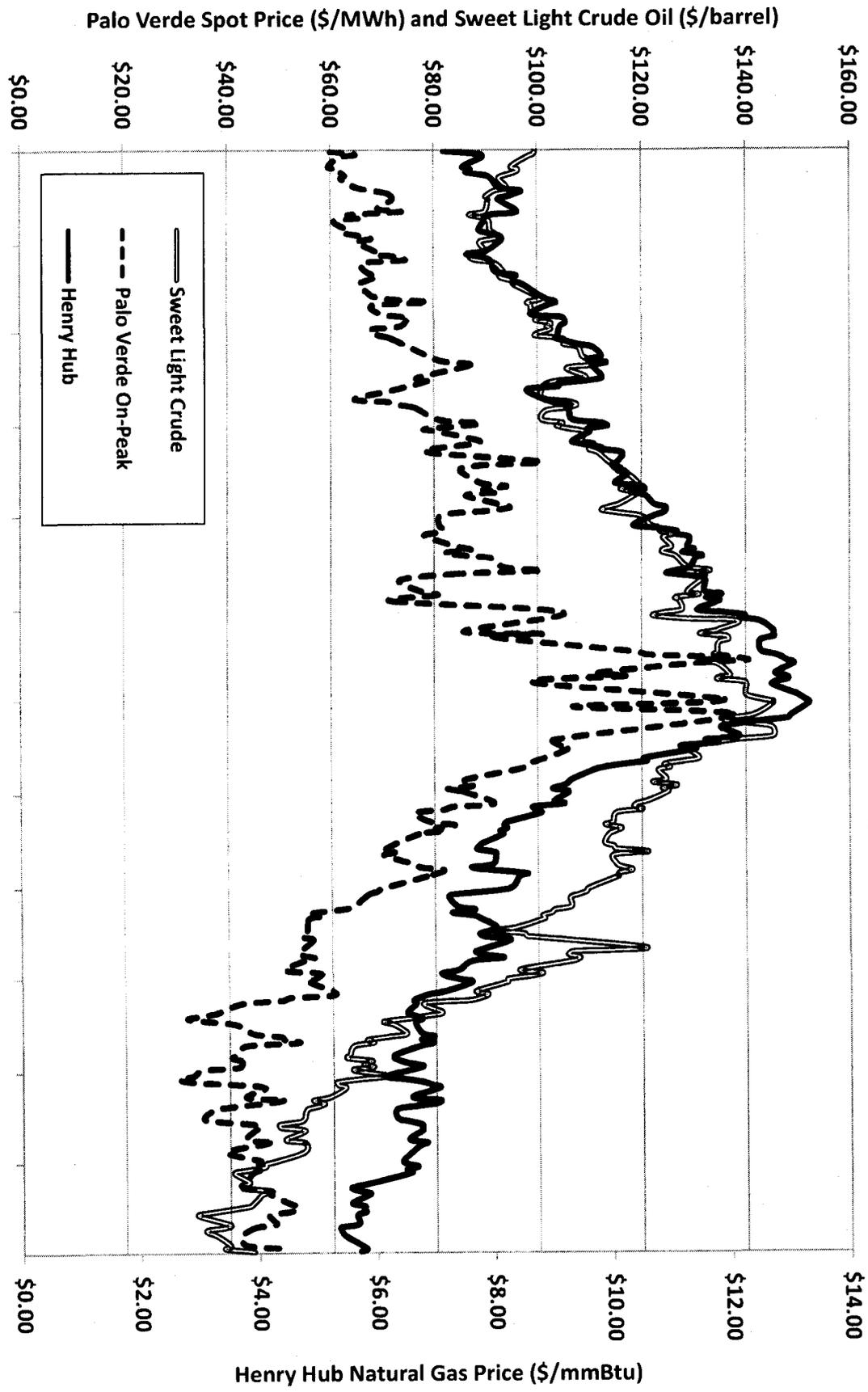
SSVEC Energy Needs vs. AEPCCO Supply



EXHIBIT

DMB-8

2008 Index Pricing



Palo Verde Spot Price (\$/MWh) and Sweet Light Crude Oil (\$/barrel)

Sources
 1) Energy Information Administration (<http://www.eia.doe.gov>) - Historical Sweet Light Crude Oil spot prices
 2) SNL Financial, Inc. (<http://www.snl.com>) - Historical Palo Verde spot prices and Henry Hub Natural Gas spot prices

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES—Chairman
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

**PRE-FILED REBUTTAL TESTIMONY OF DAVID HEDRICK
ON BEHALF OF
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
March 9, 2009**

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II. REBUTTAL SUMMARY.....2
III. SSVEC’S REBUTTAL ANALYSIS5
IV. EXHIBITS26

1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is David W. Hedrick and my business address is 5555 North Grand
5 Boulevard, Oklahoma City, Oklahoma 73112-5507.

6
7 **Q. MR. HEDRICK, BY WHOM ARE YOU EMPLOYED AND IN WHAT**
8 **CAPACITY?**

9 A. I am employed by C. H. Guernsey & Company, Engineers, Architects and
10 Consultants. I am Vice-President and Manager of the Analytical Services
11 group.

12
13 **Q. DID YOU ALSO PRE-FILE DIRECT TESTIMONY IN THIS**
14 **MATTER ON BEHALF OF SULPHUR SPRINGS VALLEY**
15 **ELECTRIC COOPERATIVE, INC. ("SSVEC" OR THE**
16 **"COOPERATIVE")?**

17 A. Yes.

18
19 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN**
20 **THIS PROCEEDING?**

21 A. The purpose of my rebuttal testimony is to provide the Cooperative's
22 dissenting position with regard to certain recommendations made by Arizona
23 Corporation Commission ("Commission") Staff witnesses Crystal S. Brown,
24 Julie Mcneely-Kirwan and William Musgrove. Only those recommendations
25 made by Staff with which SSVEC disagrees are included in my testimony.
26 SSVEC accepts the other recommendations made by Crystal S. Brown, Julie

1 Mcneeley-Kirwan and William Musgrove not addressed in my testimony.
2 Additionally, SSVEC accepts the recommendations of Staff witness Prem
3 Bahl.

4
5 SSVEC's other rebuttal witnesses, Jack Blair and David Brian will address
6 the Cooperative's dissenting position with regard to recommendations made
7 by other Staff witnesses.

8
9 **II. REBUTTAL SUMMARY**

10
11 **Q. PLEASE STATE SSVEC'S POSITION WITH REGARD TO THE**
12 **RECOMMENDATIONS MADE BY STAFF WITNESS CRYSTAL S.**
13 **BROWN WITH WHICH SSVEC DOES NOT AGREE.**

14 **A. SSVEC'S positions are:**

15 1. The adjustment to increase revenue by \$918,806 for additional margins
16 related to the Fort Huachuca contract is not appropriate. The evidence
17 does not support Staff's assumption that contract amounts for 2008 are
18 known, measurable and of a continuing nature and therefore reflective of
19 future contract amounts. The Fort Huachuca contract margins fluctuate
20 significantly from year to year. SSVEC contends that no adjustment
21 should be made.

22 2. The adjustment to remove \$523,570 in payroll related expenses
23 associated with 10 employees added in 2008 is not appropriate. The
24 evidence does not support Staff's assumption that 10 employees added in
25 2008 will be offset by 10 employees leaving. Additional evidence is
26 provided in this testimony indicating that the number of employees

1 included by SSVEC is appropriate and is supported by the actual number
2 of employees in 2008.

3 3. The adjustment to remove \$298,622 of charitable contributions expense is
4 not appropriate. The basis for SSVEC's objection is provided in this
5 testimony and the testimony of Jack Blair.

6 4. The adjustment to remove \$45,058 related to compensation provided to
7 employees for achieving safety objectives and Christmas bonus is not
8 appropriate. SSVEC believes this expense is reasonable given the
9 purpose and objective of the expense.

10 5. Staff did not make an adjustment to reflect the projected level of rate case
11 expense that will be incurred by SSVEC in this rate filing. Evidence is
12 provided in this testimony showing the actual rate case expense incurred
13 to date and the total projected amount through the conclusion of the
14 proceedings in this case.

15 6. The margin component of the Staff's recommended revenue requirement
16 is based on a DSC of 2.09 (Staff's calculation). SSVEC's proposed
17 revenue requirement is based on the cash margin required to build equity
18 (as % of assets) and cash levels. Staff's position is not supported by
19 analysis showing the effect on equity (as % of assets) or cash levels. Staff
20 has also denied the proposed Debt Cost Adjustment ("DCA") which
21 would have provided a recovery of additional interest expense incurred
22 and also help to improve equity and cash levels. In the absence of the
23 proposed DCA, the margins produced by the staff's revenue requirement
24 do not result in an increase in SSVEC's equity position (as % of assets).
25 SSVEC proposes a revised revenue requirement which reflects the
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revenue and expense adjustments in the Cooperative's rebuttal plus a margin component equal to the company's original request.

Q. PLEASE STATE SSVEC'S POSITION WITH REGARD TO THE RECOMMENDATIONS MADE BY STAFF WITNESS JULIE MCNEELEY-KIRWAN WITH WHICH SSVEC DOES NOT AGREE.

- A. SSVEC'S position are:
1. SSVEC opposes the levels of the recommended fuel bank thresholds. SSVEC will recommend alternate thresholds.
 2. SSVEC opposes the recommendation to require SSVEC to obtain approval from the Commission when it is necessary to increase the fuel adjustor. SSVEC does not believe this recommendation is workable. SSVEC will propose an alternate approach to address the concerns raised by Staff.

Q. PLEASE STATE SSVEC'S POSITION WITH REGARD TO THE RECOMMENDATIONS MADE BY STAFF WITNESS WILLIAM MUSGROVE WITH WHICH SSVEC DOES NOT AGREE.

- A. SSVEC's positions are:
1. The recommended changes to the customer charge component of the rate are not appropriate and are not supported by the evidence. The cost data included in the cost of service supports the higher level of customer charges and the higher customer charges send the proper pricing signal. In addition, higher customer charges have been approved by the

1 Commission for other cooperatives. SSVEC continues to support the
2 higher customer charges originally proposed.

3 2. The recommended rate design for the Residential Time of Use (“TOU”)
4 is not appropriate. Staff’s recommended rate for Residential TOU does
5 not reflect the appropriate price signal. The Staff’s proposed Residential
6 TOU rate will result in a rate which will be ineffective.

7 3. The recommended service charges are not appropriate and do not reflect
8 the actual cost of providing the service. SSVEC continues to support its
9 originally proposed service charges.

10
11 **III. SSVEC’S REBUTTAL ANALYSIS**

12
13 **Q. WHAT IS SSVEC’S UNDERSTANDING OF STAFF’S ADJUSTMENT**
14 **TO REVENUE ASSOCIATED WITH THE FORT HUACHUCA**
15 **CONTRACT?**

16 A. Staff’s adjustment to increase revenue by \$918,806 is based on Staff’s
17 determination that the revenues and expenses experienced by SSVEC in 2008
18 are representative of expected future revenues and expenses under the
19 contract. The testimony of Crystal S. Brown on Schedule CSB -12 shows the
20 calculation of Staff’s adjustment. Staff’s adjustment is based on data request
21 responses CSB 3.4 and CSB 3.5. Data request response CSB 3.4 and 3.5 are
22 attached as Exhibit DH-1 and Exhibit DH-2. Additionally, in response to
23 SSVEC’s first request for information SSVEC 1.8, Crystal S. Brown,
24 responded, “In 2008, Sulphur Springs received a price increase. Therefore,
25 the revenues and expenses are of a continuing nature. There will be some
26 years in which the profit is higher or lower than the Staff recommended \$2.3

1 million. Staff estimates that the average of the yearly profit for 2008, 2009,
2 and 2010 will approximate the 2008 level of profit. Therefore, in the Staff's
3 assessment, the 2008 profit is representative of future years' average level."
4

5 **Q. WHY DOES SSVEC DISAGREE WITH THE ADJUSTMENT MADE**
6 **BY STAFF TO INCREASE REVENUE BY \$918,806 RELATED TO**
7 **THE FORT HUACHUCA CONTRACT?**

8 A. Staff's calculation of the adjustment incorrectly assumes the 2008 level of
9 revenues and expenses is known, measurable and of a continuing nature.
10 There is nothing in the data response CSB 3.5 that indicates that the data for
11 2008 is reflective of the expected amounts for 2009 or 2010. The revenues
12 and expenses shown on the response to CSB 3.5 for 2008 are not
13 representative of expected future revenues and expenses under the contract.
14 As shown on data request response CSB 3.5, there are several different
15 components of the contract. Not all of the components of the contract are
16 consistent from year to year. The two items shown as "Initial Capital
17 Upgrades" and the one item shown as "Blanket Purchasing Agreement for
18 Special Projects" are not consistent from year to year. Attached as Exhibit
19 DH-3 are the projected 2009-2013 revenue and expenses for the Fort
20 Huachuca contract. The projected 2009-2013 revenue and expenses reflect
21 the variable nature of the contract. The item "Initial Capital Upgrades" is
22 reduced in 2009 and 2010. The item "Blanket Purchasing Agreement for
23 Special Projects" ("BPA") reflects projects that are awarded by bid. These
24 are not contractual obligations. There is no guarantee that SSVEC will be
25 awarded a project or the dollar amount of potential projects if awarded.
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Exhibit DH-4 is a letter from The Department of the Army explaining the nature of the BPA.

Based on the data the margins from the contract are:

| | <u>Revenue</u> | <u>Expense</u> | <u>Margin</u> |
|------|----------------|----------------|---------------|
| 2007 | \$2,824,390 | \$1,447,039 | \$1,377,351 |
| 2008 | \$8,761,346 | \$6,465,189 | \$2,296,157 |
| 2009 | \$4,839,752 | \$4,208,480 | \$ 631,272 |
| 2010 | \$3,207,872 | \$2,789,454 | \$ 418,418 |
| 2011 | \$1,618,205 | \$1,407,135 | \$ 211,070 |
| 2012 | \$1,618,205 | \$1,407,135 | \$ 211,070 |
| 2013 | \$1,618,205 | \$1,407,135 | \$ 211,070 |

The data indicates that the revenues, expenses and resulting margin produced from the contract fluctuate considerably. The future amounts are significantly less than those in the test year. The average margin for 2008 – 2010 is \$1,115,282 which is also less than the margin from the contract in the test year. SSVEC did not propose any adjustment for the Fort Huachuca contract in the filing. Due to the variable nature of the contract, SSVEC does not believe it is appropriate to make an adjustment to increase margins. The effect of Staff's adjustment to increase margins for the Fort Huachuca contract is to overstate the amount of margins that SSVEC will receive. SSVEC recommends that no adjustment for the Fort Huachuca contract be included.

...

1 **Q. WHAT IS SSVEC'S UNDERSTANDING OF STAFF'S ADJUSTMENT**
2 **TO REDUCE EXPENSES BY \$523,570 TO REMOVE PAYROLL**
3 **RELATED COSTS FOR 10 EMPLOYEES HIRED BY APRIL 2008?**

4 A. The Staff's adjustment to payroll, benefits and payroll taxes is discussed on
5 page 18 of Crystal S. Brown's testimony. Staff determined that the payroll
6 costs for these 10 employees should not be allowed because there would be a
7 corresponding reduction in staff by employees leaving the Cooperative.
8

9 **Q. WHY DOES SSVEC DISAGREE WITH STAFF'S ADJUSTMENT?**

10 A. The premise for the adjustment made by Staff is incorrect. The actual net
11 increase in the number of employees in 2008 was 10. As evidence, SSVEC
12 submits its quarterly payroll filings (Form 941) as Exhibit DH-5, showing the
13 number of employees receiving compensation in each quarter from the fourth
14 quarter 2007 through the fourth quarter 2008. The data is summarized
15 below.

16

| | <u>No. of Employees</u> |
|------------|-------------------------|
| 17 Q4 2007 | 191 |
| 18 Q1 2008 | 188 |
| 19 Q2 2008 | 199 |
| 20 Q3 2008 | 198 |
| 21 Q4 2008 | 201 |

22

23 The number of employees shown on Form 941 represents the total number of
24 employees receiving compensation in the quarter. The calculation of payroll
25 expense provided by SSVEC in the rate filing shows the total number of
26 employees receiving compensation for the year. Due to seasonal part-time

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employees, the number of employees receiving compensation during any quarter is less than the number of employees receiving compensation for the year. The staffing level included in the filing by SSVEC is representative of the actual level for 2008 which is a net gain of 10 employees.

Staff's adjustment to remove the payroll expense is based on the SSVEC's response to CSB 2.21 (d) listing the employees who had left or would be leaving in 2008. SSVEC's response is attached as Exhibit DH-6. The Staff made no request to determine whether these employees would be replaced. Employees leave and are replaced throughout the year.

The actual growth in the number of employees shown on the quarterly payroll reports (Form 941) supports SSVEC's inclusion of the 10 employees hired prior to the filing of this application. The payroll level proposed by SSVEC is representative of the known, measurable and continuing level of payroll expense needed to provide quality service to its members.

Additionally, SSVEC has provided historical growth statistics in support of the request level of payroll expenses. Exhibit DH-6.1 shows the growth in the number of employees, total plant and energy sales by year since 2003. SSVEC has experienced significant growth over the past five years. The growth in the number of employees has been reasonable and necessary in order to provide service to members.

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1 SSVEC recommends that the Staff's adjustment to remove \$523,570 related
2 to the 10 employees be denied. The full amount of payroll, benefits and
3 other payroll related expense requested by SSVEC should be allowed.
4

5 **Q. WHAT IS SSVEC'S UNDERSTANDING OF THE ADJUSTMENT**
6 **MADE BY STAFF TO REDUCE EXPENSES BY \$298,622**
7 **ASSOCIATED WITH CHARITABLE EXPENSES?**

8 A. The Staff has proposed to remove \$298,622 for charitable contributions,
9 sponsorships, food, entertainment and similar expenses. Staff claims that
10 these costs are voluntary costs that are not necessary for the provision of
11 service.
12

13 **Q. WHY DOES SSVEC DISAGREE WITH THIS ADJUSTMENT?**

14 A. The Staff's removal of these expenses is not appropriate since SSVEC is a
15 cooperative. The Commission anticipated the inclusion of these costs in
16 SSVEC's last rate case pending a change in the bylaws at the Cooperative
17 that has been approved by SSVEC members. SSVEC is a not for profit
18 cooperative whose rate payers are member-owners that democratically elect
19 directors to set policy. The members have expressed their approval of
20 charitable contributions through bylaw changes and in public forums. The
21 testimony of Jack Blair provides the history and detail of the provisions from
22 the last rate case as well as the changes to the bylaws.
23

24 SSVEC recommends Staff's adjustment to remove \$298,622 for charitable
25 contributions be denied. The total amount of charitable contributions is less
26 than 0.3% of the total requested revenue requirement and is considered by

1 members to have a significantly positive impact on the community. The full
2 amount of charitable contributions should be allowed.

3
4 **Q. WHAT IS SSVEC'S UNDERSTANDING OF THE ADJUSTMENT**
5 **MADE BY STAFF TO REDUCE EXPENSES BY \$45,058**
6 **ASSOCIATED WITH INCENTIVE PAY?**

7 A. Staff characterizes the \$45,048 as incentive pay that is not necessary to
8 provide safe and reliable service.

9
10 **Q. WHY DOES SSVEC DISAGREE WITH THIS ADJUSTMENT?**

11 A. The Staff's removal of these expenses is not appropriate because these costs
12 represent reasonable compensation. There are two components to the
13 amount that staff has removed. The first component of \$24,557 is related to
14 safety performance. Maintaining the highest level of safety is an important
15 objective for the cooperative. The small amount that is provided to promote
16 safety is a reasonable measure. The \$24,557 was the amount paid during
17 2007 to all 195 employees. The average per employee was \$126. The safety
18 pay was allowed by the Commission in SSVEC's last rate case in Decision
19 No. 58358. (Reference page 13, line 11 to page 14, line 7).

20
21 The second component of \$20,500 is a \$100 per employee Christmas bonus
22 that is paid annually to all employees. This is a routine component of
23 compensation that is paid and not an incentive bonus.

24
25 SSVEC recommends the Staff's adjustment to remove \$45,058 for incentive
26 pay be denied. The full \$45,058 should be allowed.

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Q. IS IT APPROPRIATE TO INCLUDE AN ADJUSTMENT TO REFLECT THE ADDITIONAL RATE CASE EXPENSE INCURRED BY SSVEC?

A. Yes. Typically, the total amount of rate case expense incurred is allowed to be recovered. An adjustment is necessary to reflect the additional amount incurred by SSVEC above the amount already included in the adjusted test year expenses.

Q. PLEASE EXPLAIN THE ADJUSTMENT SSVEC IS PROPOSING.

A. SSVEC included an adjustment for \$100,000 for rate case expense in the original application. Amortized over a 5 year period, the annual increase included in test year expenses is \$20,000.

As of February 27, 2009, SSVEC has incurred \$310,608 for legal and consulting rate case expenses. In addition to the actual rate case expense incurred to date, SSVEC estimates there will be an additional cost of \$87,000 through the completion of the hearing. SSVEC requests rate case expense of \$397,608 be allowed. Amortized over a five year period, the adjusted rate case expense is \$79,522. SSVEC requests expenses be increased by \$59,522 to reflect the additional rate case expense. Schedule Exhibit DH-7 is provided in support of this adjustment.

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1 **Q. WHAT IS SSVEC'S UNDERSTANDING OF STAFF'S**
2 **DETERMINATION OF THE MARGIN COMPONENT OF THE**
3 **STAFF'S PROPOSED REVENUE REQUIREMENT?**

4 A. Staff witness Crystal S. Brown states on page 23 of her testimony that:
5 "Staff's revenue requirement is primarily driven by the revenues needed to
6 pay the principal and interest on long-term debt, and to meet the minimum
7 1.35 debt service coverage ("DSC") ratio required by the CFC. Additionally,
8 Staff's revenue requirement provides sufficient cash flow to pay operating
9 expenses and to build equity."

10
11 Additionally, on page 28 Ms. Brown states:

12 "Staff's proposed revenue would generate enough cash flow to service the
13 Cooperative's debt and comply with CFC debt coverage requirements, allow
14 for reasonable contingencies, and build equity."

15
16 **Q. HAS THE STAFF AND COMMISSION PREVIOUSLY PROVIDED**
17 **DIRECTION REGARDING SSVEC'S FINANCIAL POSITION?**

18 A. Yes. In Docket No. E-01575A-07-0446, SSVEC's recent \$70 million
19 financing request, Finding of Fact #20 of Commission Decision No. 70027
20 states:

21 Staff noted further that it typically recommends that
22 cooperatives try to maintain a capital structure with a minimum
23 of 30 percent equity of total capital, as Staff believes 30 percent
24 equity is appropriate to provide a balance between cost and
25 financial risk for regulated utilities and ratepayers. Staff notes
26 that in this case, it is recommending approval of the debt that
would, all else being equal, reduce equity from 34.2 percent of
total capital to 21.3 percent of total capital. Staff explains that it

1 makes its recommendation because there is no other known
2 immediate option to finance the 2008-2009 CWP. Staff notes
3 further that in the long-term, increased rates would provide
4 additional equity.

5 In the same docket, the Commission indicated its concern regarding
6 SSVEC's equity position by requiring the filing of a rate application and
7 additional reporting regarding the equity ratio.

8
9 **Q. WHY DOES SSVEC DISAGREE WITH STAFF'S PROPOSED DSC**
10 **RATIO OF 2.09?**

11 A. Staff's proposed revenue requirement based on a DSC of 2.09 does not
12 provide sufficient cash to build equity to the recommended 30% level. In
13 data request SSVEC 1.3 the Cooperative requested the detailed analysis
14 showing how SSVEC will be able to build equity under Staff's proposal.
15 The response of Crystal Brown to SSVEC 1.3 was: "Staff did not perform a
16 detailed analysis. Staff's recommended \$15,042,800 in operating margin
17 would "build" equity by contributing to the Cooperative's existing equity."
18

19 Exhibit DH-8 is a restatement of the capitalization for 2002 through 2008
20 removing the assigned G&T capital credits as recommended by Staff. The
21 removal of the non-cash G&T assignment provides a more accurate
22 reflection of SSVEC's actual equity. The equity as a percent of
23 capitalization dropped from 30.36% in 2007 to 25.48% in 2008.

24 ...
25 ...

1 Exhibit DH-9 shows the projected increase in equity provided under the
2 Staff's proposed revenue requirement and under SSVEC's rebuttal revenue
3 requirement. Staff's proposed revenue requirement produces a net margin of
4 \$8,604,225 and SSVEC's proposed revenue requirement produces a net
5 margin of \$10,267,812. The increase in capitalization is the growth in the
6 total capitalization from 2007 to 2008 shown on schedule Exhibit DH-8. The
7 equity added as a percent of capitalization added is higher under SSVEC's
8 proposal.

9
10 In addition, Exhibit DH-9 shows the projected impact on SSVEC's equity
11 ratio through 2016 with Staff's revenue requirement and with SSVEC's
12 revenue requirement. The projection assumes that the growth in total
13 capitalization is constant at the 2008 level and that the margins earned are
14 constant at the respective proposed amount. For 2009, the margins added to
15 equity were reduced to 1/3rd of the total proposed margins since new rates
16 will not go into effect until September of this year at the earliest. The
17 analysis indicates that the Staff proposed revenue requirement does produce
18 some growth in the equity ratio but it is very slow and does not approach the
19 30% recommended level. SSVEC's revenue requirement provides more
20 growth in the equity ratio and reaches 30% in 2016. The analysis shows that
21 all other things equal, SSVEC's revenue requirement moves the company
22 toward the recommended equity level more quickly.

23
24 SSVEC proposed in its application a DCA to recover additional interest costs
25 incurred and margin requirement. Also, SSVEC proposed to recover certain
26 operating costs associated with owned resources in the WPCA factor. Staff

1 has recommended that the DCA adjustment be denied and only fuel and
2 purchased power costs be recovered in the WPCA. SSVEC understands the
3 reluctance of Staff and likely the Commission to approve an adjustment
4 factor to recover these expenses. Therefore, SSVEC has chosen not to seek
5 approval of these items. However, these adjustment factors would have
6 provided a mechanism by which SSVEC could have improved its equity and
7 cash reserves. Absent these adjustment mechanisms, it is all the more
8 important that the approved revenue requirement provide sufficient margins
9 to improve SSVEC's equity position.

10
11 It is very important to SSVEC to build equity and cash reserves to build and
12 maintain infrastructure and have funds available to support renewable
13 resources and build infrastructure for renewable resources. SSVEC
14 recognizes that its current equity position is not strong and is seeking to
15 fulfill the Commission staff's and Commission's recommended 30% equity
16 objective. Staff's revenue requirement does not satisfy that objective.
17 SSVEC recommends that its rebuttal revenue requirement be approved.

18
19 **Q. HAVE YOU PROVIDED A SUMMARY OF THE IMPACT OF**
20 **SSVEC'S REBUTTAL RECOMMENDATIONS ON THE STAFF'S**
21 **PROPOSED REVENUE REQUIREMENT?**

22 A. Yes. Exhibit DH-10 is the income statement showing the impact of the
23 adjustments recommended in rebuttal of staff's position. Exhibit DH-11 is a
24 summary of SSVEC's rebuttal expense adjustments. Exhibit DH-12 is the
25 summary of proposed rate changes by class. Exhibit DH-13 is the
26 calculation of proposed revenue. Exhibit DH-14 is a comparison of the

1 existing and proposed Residential rate. Under SSVEC's proposed rates, the
2 increase for the average residential consumer using 728 kWh is \$8.68 per
3 month or 9.80%. SSVEC believes that this is reasonable given that retail
4 rates have not been changed for 17 years.

5
6 **Q. WHAT IS SSVEC'S UNDERSTANDING OF THE STAFF'S**
7 **RECOMMENDATION WITH REGARD TO THE WHOLESALE**
8 **POWER COST ADJUSTMENT AND FUEL BANK?**

9 A. Staff witness Julie Mcneeley-Kirwan states in the executive summary of her
10 testimony:

11 "To limit potential future rate shocks, SSVEC should be required to submit
12 future increases in its Wholesale Power Cost Adjustment ("WPCA") rate to
13 the Commission for approval. SSVEC should also be required to establish
14 positive and negative thresholds for its bank balance."
15

16 **Q. WHY DOES SSVEC DISAGREE WITH THIS RECOMMENDATION?**

17 A. SSVEC does not disagree entirely with the establishment of thresholds for its
18 bank balance. SSVEC does, however, disagree with the Staff recommended
19 \$2 million threshold for under-collections. While SSVEC has become a
20 partial requirements member of AEPCO, over 80% of its power supply costs
21 still come from AEPCO. SSVEC does not have control over the level of fuel
22 and other power cost charged by AEPCO. Because of the fluctuation and
23 magnitude of the wholesale fuel cost, an increase in AEPCO's fuel adjustor
24 could cause SSVEC to become under-collected by more than \$2 million in a
25 short period of time.
26

1 In Docket No. E-01049A-04-0936, Decision No. 68438 (Morenci Water &
2 Electric Company), paragraph 9 of the findings of fact states:

3
4 “Staff believes that it is reasonable that the threshold level
5 should be based to some extent upon the size of the company.”
6 And, “Companies that have had trigger levels set under the
7 jurisdiction of the Commission have trigger levels of about three
8 to six percent of current annual sales.

9
10 SSVEC agrees with these principles. The intent is to ensure that the under-
11 recovered fuel cost does not reach a level which causes the need for a large
12 percentage increase to the customer’s bill. SSVEC proposes that the under-
13 recovered threshold level be set at \$4 million which is roughly 3.8% of
14 SSVEC’s 2008 annual sales.

15
16 SSVEC does not agree with Staff’s recommendation that all future increases
17 in the WPCA rate be submitted to the Commission for approval. As noted
18 above, the primary cause of increases in fuel cost for SSVEC is AEPCO.
19 Unlike an investor owned utility that typically sets its WPCA factor for an
20 annual period, it is sometimes necessary for SSVEC to increase its WPCA
21 rate multiple times during the course of an annual period in response to the
22 fuel cost increases that are passed on from AEPCO. Requesting and
23 obtaining approval from the Commission each time an increase is necessary
24 would cause significant delay in the Cooperative’s ability to recover costs.
25 The adjustor mechanism was established for the very purpose of providing
26 recovery of approved costs without having to come to the Commission.
Requiring Commission approval defeats the purpose of the adjustor

1 mechanism which is to allow timely recovery of wholesale costs incurred
2 that are outside the Cooperative's control. AEPCO's fuel cost adjustor is
3 under the jurisdiction of the Commission. The Commission therefore already
4 has control over the fuel costs passed on by AEPCO to its distribution
5 cooperatives such as SSVEC. Therefore, the Commission has, in effect,
6 already reviewed and approved the fuel and purchased power expenses that
7 will be passed through to the distribution cooperatives and ultimately passed
8 on to the end use consumer. There is no reason for the Commission to then
9 have to look at the same fuel expenses for SSVEC that were previously
10 found to be prudent and reasonable. Additionally, the Commission also will
11 set and approve the WPCA mechanism in this rate filing. Requiring SSVEC
12 submit all increases in the WPCA rate for approval is an unnecessary
13 duplication of regulation.

14
15 SSVEC understands the concerns of Staff regarding the level of increase that
16 can result from an increase in the WPCA rate. In order to address these
17 concerns, SSVEC proposes the following:

18 That SSVEC be allowed to adjust its WPCA rate without Commission
19 approval unless such adjustment would result in a cumulative annual increase
20 in the total average rate collected from customers per kWh greater than 10%.
21 Increases submitted to the Commission for approval in excess of the 10%
22 limit would become effective in 60 days unless the Commission took action.

23
24 This provision would allow SSVEC a timely recovery of the routine
25 fluctuations in fuel cost without Commission approval. It would also ensure
26

1 that no significant increase or "rate shock" is implemented unless approved
 2 by the Commission.

3
 4 **Q. WHY DOES SSVEC DISAGREE WITH STAFF'S RECOMMENDED**
 5 **CUSTOMER CHARGES?**

6 A. Staff's recommended increases in the customer charges do not provide
 7 sufficient movement toward rates which are reflective of the cost of
 8 providing service. Schedule M-1.0 in the rate filing provides the unbundled
 9 costs of providing service to each rate class. The "Total Customer" cost
 10 shown on Schedule M-1.0 reflects SSVEC's fixed customer related costs.
 11 Schedule M-1.0 from the rate filing is attached as Exhibit DH-15.

| | SSVEC Existing | SSVEC Proposed | Staff Proposed | M-1.0 Cost |
|--------------------|-------------------|-------------------|-------------------|---------------|
| 13 Residential | \$ 7.50 | \$ 12.50 | \$ 8.25 | \$ 23.31 |
| 14 Residential TOU | \$11.40 | \$ 16.50 | \$13.25 | \$ 23.31 |
| 15 GS (Non-Demand) | \$11.50 | \$ 17.50 | \$13.50 | \$ 41.78 |
| 16 GS Demand | \$11.50 | \$ 17.50 | \$13.35 | \$ 41.78 |
| 17 GS TOU | \$12.72 | \$ 21.50 | \$14.45 | \$109.42 |
| Large Power | \$42.00 | \$ 75.00 | \$44.25 | \$173.14 |
| LP Seasonal | \$50.00 | \$ 75.00 | \$56.25 | \$173.14 |
| LP TOU | \$43.84 | \$100.00 | \$44.25 | \$224.52 |

18
 19 The costs shown on Schedule M-1.0 are costs SSVEC incurs to make service
 20 available prior to any kWh being sold. Included in this cost are customer
 21 related overhead line costs, customer related transformer cost, meter costs,
 22 meter reading, billing and customer service costs. In order to send the proper
 23 pricing signal, the fixed customer charge component of the rate should be
 24 increased closer to the actual cost. The cooperative's proposed customer
 25 charges are more appropriate.

26 ...

1 The increase in the customer charge promotes the de-coupling of rates. By
2 increasing the customer charge component of the rate, SSVEC is less
3 dependent upon the sale of energy to recover its distribution costs. As the
4 customer charge is increased, energy efficiency and conservation programs
5 have less of a negative impact on the cooperative's ability to recover its
6 costs.

7
8 The Commission has approved increases in customer charges which are
9 similar to those requested by SSVEC. TRICO Electric Cooperative and
10 Navopache Electric Cooperative both received substantial increases in the
11 customer charge component of the rate in their last rate filings before the
12 Commission. The approved change in the residential rate for these
13 cooperatives is provided:

| | <u>Existing</u> | <u>Approved</u> |
|--------------|-----------------|-----------------|
| 15 TRICO | \$ 8.00 | \$12.00 |
| 16 Navopache | \$11.25 | \$18.30 |

18
19 SSVEC's proposed customer charges should be adopted.

20
21 **Q. WHY DOES SSVEC DISAGREE WITH STAFF'S PROPOSED RATE**
22 **DESIGN FOR THE RESIDENTIAL TOU RATE?**

23 A. Staff's proposed Residential TOU rate does not send the proper price signal
24 and would not be effective. Staff's proposed rate design reduces the on peak
25 energy charge and places too much of the cost recovery in the off peak
26 component of the rate. It is very important that the on peak component of the

1 rate send a clear price signal to avoid consumption during the on peak period
2 and provide a sufficient penalty for on peak consumption.

3
4 Exhibit DH-16 is a comparison of the existing Residential TOU rate and the
5 Staff proposed TOU rate. The percentage increase for customers that use
6 more energy in the off peak periods is much higher than for customers that
7 use energy in the on peak periods. The more kWh that are used in the on
8 peak period the lower the percentage increase. In fact, a customer with 65%
9 of their consumption in the on peak period would experience a decrease. The
10 price signal that needs to be delivered is that consumption during the on peak
11 period should be avoided. The Staff's rate would encourage consumption
12 during the on peak period.

13
14 Exhibit DH-17 is a comparison of SSVEC's existing TOU rate with
15 SSVEC's proposed TOU rate. As on peak consumption increases, the
16 percentage change also increases. The increases at the lower levels of on
17 peak consumption are slightly lower.

18
19 Exhibit DH-18 is a billing comparison between SSVEC's standard residential
20 proposed rate and Staff's proposed residential TOU. This comparison shows
21 a customer on Staff's proposed rate would see a reduction in their bill in
22 comparison with the standard residential rate with as much as 40% of their
23 consumption in the on peak period. With 65% of consumption in the on peak
24 period the customer would pay only 5% more than on the standard residential
25 rate. Again, this is not the correct signal. The benefit of the pricing on the
26 TOU rate should be limited only to those customers that actually change their

1 usage and have the majority of their consumption in the off peak periods.
2 Staff's proposed rate does not impose enough of a penalty for consumption
3 during the on peak period. There is neither an adequate incentive to move
4 consumption to the off peak period nor or a disincentive to stay out of the on
5 peak period. The Staff's rate would not encourage energy efficiency or
6 conservation.

7
8 Exhibit DH-19 is a billing comparison between SSVEC's standard residential
9 proposed rate and SSVEC's proposed residential TOU rate. This comparison
10 shows a substantial benefit is provided for those customers that have on peak
11 consumption less than approximately 30% of the total load. Customers with
12 on peak consumption greater than 30% would pay more on the TOU rate
13 than on the standard rate. This sends a clear price incentive to consume
14 energy in the off peak periods and a clear disincentive if the customer
15 consumes energy in the on peak period.

16
17 The level of the on peak charge in SSVEC's proposed Residential TOU rate
18 is similar to that of other utilities in Arizona. The off-peak charge of \$0.086
19 per kWh is sufficient to recover the wholesale energy costs plus the
20 distribution costs not recovered in the proposed customer charge.

21 SSVEC also disagrees with Staff's recommendation to exclude Sundays in
22 the on peak period definition. Exhibit DH-20 shows the AEPCO peak times
23 and dates for the past three years. The AEPCO peak has occurred on
24 Sunday, therefore it is appropriate to include that day in the definition.
25 SSVEC would prefer not to have to include Sunday but the potential cost to
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the Cooperative of incurred AEPSCO demand charges warrants the inclusion of Sunday in the on peak definition.

SSVEC recommends that the Residential TOU rate as proposed by the Cooperative shown on Exhibit DH-13, page 1 of 9, be approved. SSVEC also recommends that Sunday be included in the definition of on-peak hours.

Q. WHY DOES SSVEC DISAGREE WITH STAFF'S PROPOSED SERVICE RELATED CHARGES?

A. Staff's proposed service related charges are less reflective of the cost of providing the service than the charges proposed by SSVEC. SSVEC provided the cost justifications for the proposed service charges in response to data request WM 4.03 which is attached as Exhibit DH-21. For each charge, SSVEC's proposed charge is more reflective of the actual cost to provide the service. Staff's recommendation is based on an index of labor cost increases. This approach assumes that the service charges were reflective of the cost when originally approved in 1992 and that labor is the only component of the cost. SSVEC believes that it is more appropriate to use the actual costs that SSVEC has identified. SSVEC's proposed service charges resulted in a proposed increase in service charges of \$904,772. Staff's proposed service charges result in an increase in service charges of \$344,965. Under the staff's proposed service charges, \$559,807 which would have been directly recovered for these services in SSVEC's proposal must instead be recovered through rates.

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SSVEC understands that the changes requested are significant but also realizes that it has been 17 years since these charges were last adjusted. It is more fair and equitable to recover these costs from the customers that cause these costs than to subsidize these charges through rates charged to all members. SSVEC requests that the originally proposed service charges be adopted.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

9627276.2

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IV. EXHIBITS

EXHIBIT

DH-1

**RESPONSE OF SSVEC
TO ARIZONA CORPORATION COMMISSION
STAFF'S THIRD SET OF DATA REQUESTS
DOCKET NO. E-01575A-08-0328
September 22, 2008**

CSB 3.4 **Unregulated Business Activities** – Please identify all unregulated businesses and subsidiary companies in existence during the test year. Also, please provide the revenues generated by and expenses incurred for each unregulated business during the test year. Your response should include, but not be limited to, the following: Ft. Huachuca contract, electric grills, water heaters, phone cards, fire places, surge protection, internet sales, and all merchandising activities.

Response: The following table provides the revenues generated and expenses incurred for each unregulated business during the test year.

2007 Non-Operational Revenue and Expenses

| | Merchandising | Phone Cards | Fireplace | Grills | Surge | Wireless Internet | Merch/Tech Services | Outside Services | Fort Huachuca |
|----------|---------------|-------------|-----------|--------|------------|-------------------|---------------------|------------------|---------------|
| Revenue | 214,135.37 | 2,142.28 | 21,345.54 | 346.54 | 107,159.40 | 101,598.24 | 1,352.50 | 21,832.78 | 2,824,390.65 |
| Expenses | 83,318.75 | 4,342.45 | 17,632.35 | 391.84 | 180,173.70 | 19,548.13 | 258.00 | 16,280.84 | 1,447,039.21 |

Prepared by: Kirby Chapman, Chief Financial Officer
Sulphur Springs Valley Electric Cooperative
311 E Wilcox Ave
Sierra Vista, AZ 85635

EXHIBIT

DH-2

**RESPONSE OF SSVEC
TO ARIZONA CORPORATION COMMISSION
STAFF'S THIRD SET OF DATA REQUESTS
DOCKET NO. E-01575A-08-0328
September 22, 2008**

CSB 3.5 **Changes to Contracts and/or Agreements** – This is a follow-up to CSB 1.9. Staff reviewed the Fort Huachuca contract and found scheduled price increases for 2008. Also, the Board minutes discussed a “price re-determination.” Please state the total amount of revenue you anticipate will be generated from this contract in 2008. As part of your response, please provide a calculation showing how the amount was derived and identify (a) the contract period (b) the item number, for example, “0004AA,” “0004AB,” etc., and (c) the quantity and price (or re-determined price if applicable).

Response: The following table shows expected gross revenue and expenses from SSVEC's Fort Huachuca Contract in 2008. Each year of this contract runs from January 1 through December 31. 2008 is Contract Year 4.

| 2008 Anticipated Fort Huachuca Contract Gross Revenue | | | | |
|---|---|-------------------------|-------------------------|---------------------|
| Contract Item No. | Description | Projected Gross Revenue | Projected Total Expense | Projected Margins |
| 0004AA * | Operation and Maintenance | 1,455,653.76 | 1,265,785.88 | 189,867.88 |
| 0004AE * | Credit for Purchase Price of Infrastructure | (242,101.92) | (210,523.41) | (31,578.51) |
| 0004AB ** | Return - Renewals & Replacements | 343,656.86 | 298,832.05 | 44,824.81 |
| 0004AB ** | Price Re-determination Increase | 184,701.75 | 160,610.22 | 24,091.53 |
| 0002AF ** | Initial Capital Upgrades | 2,163,753.11 | 1,881,524.44 | 282,228.67 |
| 0003AF ** | Initial Capital Upgrades | 2,133,352.58 | 1,855,089.20 | 278,263.38 |
| BPA *** | Blanket Purchasing Agreement for Special Projects | 2,722,330.20 | 1,213,870.73 | 1,508,459.47 |
| | Total 2008 Anticipated Gross Revenue | 8,761,346.34 | 6,465,189.11 | 2,296,157.23 |

Footnotes on how projected margins were determined:

* Revenue is calculated per the stated amount in the contract terms.

** Margin is calculated as 15% of the invoiced amount.

*** Firm fixed price projects where revenue and margins vary depending upon the project..

Prepared by: Kirby Chapman, Chief Financial Officer
Sulphur Springs Valley Electric Cooperative
311 E Wilcox Ave
Sierra Vista, AZ 85635

EXHIBIT

DH-3

Response: The following tables show the expected Fort Huachuca margins for the years 2009 thru 2013. Each year of this contract runs from January 1 through December 31. This shows the Special Projects awarded against SSVEC's Blanket Purchase Agreement to date. Special Projects are not contractually guaranteed and are awarded on an as-needed basis.

| 2009 Anticipated Fort Huachuca Contract Gross Revenue | | | | |
|---|---|-------------------------|-------------------------|-------------------|
| Contract Item No. | Description | Projected Gross Revenue | Projected Total Expense | Projected Margins |
| 0005AA | Operations and Maintenance (Year 5) | 1,484,767 | 1,291,102 | 193,665 |
| 0003AF | Initial Capital Upgrades (Year 5) | 2,641,276 | 2,296,761 | 344,514 |
| 0005AB | Renewals and Replacements (Year 5) | 589,926 | 512,979 | 76,947 |
| 0005AE | Credit for Purchase Price of Infrastructure | (242,102) | (210,523) | (31,579) |
| N/A | Special Projects (Year 5) | 365,886 | 318,162 | 47,724 |
| TOTAL 2009 | | 4,839,752 | 4,208,480 | 631,272 |

| 2010 Anticipated Fort Huachuca Contract Gross Revenue | | | | |
|---|---|-------------------------|-------------------------|-------------------|
| Contract Item No. | Description | Projected Gross Revenue | Projected Total Expense | Projected Margins |
| 0006AA | Operations and Maintenance (Year 6) | 1,484,767 | 1,291,102 | 193,665 |
| 0004AF | Initial Capital Upgrades (Year 6) | 1,589,666 | 1,382,319 | 207,348 |
| 0006AB | Renewals and Replacements (Year 6) | 375,541 | 326,557 | 48,984 |
| 0006AE | Credit for Purchase Price of Infrastructure | (242,102) | (210,523) | (31,579) |
| TOTAL 2010 | | 3,207,872 | 2,789,454 | 418,418 |

| 2011 Anticipated Fort Huachuca Contract Gross Revenue | | | | |
|---|---|-------------------------|-------------------------|-------------------|
| Contract Item No. | Description | Projected Gross Revenue | Projected Total Expense | Projected Margins |
| 0007AA | Operations and Maintenance (Year 7) | 1,484,767 | 1,291,102 | 193,665 |
| 0007AB | Renewals and Replacements (Year 7) | 375,541 | 326,557 | 48,984 |
| 0007AE | Credit for Purchase Price of Infrastructure | (242,102) | (210,523) | (31,579) |
| TOTAL 2011 | | 1,618,205 | 1,407,135 | 211,070 |

| 2012 Anticipated Fort Huachuca Contract Gross Revenue | | | | |
|---|---|-------------------------|-------------------------|-------------------|
| Contract Item No. | Description | Projected Gross Revenue | Projected Total Expense | Projected Margins |
| 0008AA | Operations and Maintenance (Year 8) | 1,484,767 | 1,291,102 | 193,665 |
| 0008AB | Renewals and Replacements (Year 8) | 375,541 | 326,557 | 48,984 |
| 0008AE | Credit for Purchase Price of Infrastructure | (242,102) | (210,523) | (31,579) |
| TOTAL 2012 | | 1,618,205 | 1,407,135 | 211,070 |

| 2013 Anticipated Fort Huachuca Contract Gross Revenue | | | | |
|---|---|-------------------------|-------------------------|-------------------|
| Contract Item No. | Description | Projected Gross Revenue | Projected Total Expense | Projected Margins |
| 0009AA | Operations and Maintenance (Year 9) | 1,484,767 | 1,291,102 | 193,665 |
| 0009AB | Renewals and Replacements (Year 9) | 375,541 | 326,557 | 48,984 |
| 0009AE | Credit for Purchase Price of Infrastructure | (242,102) | (210,523) | (31,579) |
| TOTAL 2013 | | 1,618,205 | 1,407,135 | 211,070 |

EXHIBIT

DH-4



DEPARTMENT OF THE ARMY
US ARMY GARRISON
DIRECTORATE OF PUBLIC WORKS
3040 BUTLER ROAD
FORT HUACHUCA, AZ 85613-7010

5 March 2009

Office of the Director

Sulphur Springs Valley Electric Cooperative
Kirby Chapman
311 E. Willcox St.,
Sierra Vista, Arizona 85635

SUBJECT: Contract # W1924A-05-A-0001

Dear Mr. Chapman:

To confirm our discussion, on 3 March, the Blanket Purchase Agreement (BPA) is a separate contract, and not part of the exterior electrical distribution privatization contract with Sulphur Springs Valley Electric Cooperative (SSVEC). This BPA, is not a guaranteed stream of work (i.e.:revenue) for SSVEC.

The BPA is a means for Ft. Huachuca to award firm fixed price contracts for specific individual projects to SSVEC that are beyond their normal operation and maintenance requirements of the exterior electrical distribution system. The BPA does not require these projects to be competitively bid.

However, the Ft. Huachuca Directorate of Public Works (DPW) is required to determine that if SSVEC is requested to provide a proposal, that the proposal is technically adequate and the cost is reasonable in order to award a contract. The DPW is not required to award the project to SSVEC.

Sincerely,

A handwritten signature in black ink, appearing to read "John A. Ruble", is written over a horizontal line.

John A. Ruble
Director, DPW

EXHIBIT

DH-5

990107

Form 941 for 2007: Employer's QUARTERLY Federal Tax Return
(Rev. January 2007) Department of the Treasury -- Internal Revenue Service

OMB No. 1545-0029

(EIN) Employer identification number **4 6 - 0 0 5 9 7 2 8**

Name (not your trade name) **Sulphur Springs Valley Electric**

Trade name (if any)

Address **311 E WILCOX DRIVE**
Number Street State or room number
SIERRA VISTA AZ 85635
City State ZIP code

Report for this Quarter of 2007
(Check one)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

| | | | |
|----|---|--|--------------|
| 1 | Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), Dec. 12 (Quarter 4) | 1 | 191 |
| 2 | Wages, tips, and other compensation | 2 | 2,378,873 73 |
| 3 | Total income tax withheld from wages, tips, and other compensation | 3 | 388,720 59 |
| 4 | If no wages, tips, and other compensation are subject to social security or Medicare tax | <input type="checkbox"/> Check and go to line 6. | |
| 5 | Taxable social security and Medicare wages and tips: | | |
| | | Column 1 | Column 2 |
| 5a | Taxable social security wages | 2,888,948 86 | 370,0629 65 |
| 5b | Taxable social security tips | 0 00 | 0 00 |
| 5c | Taxable Medicare wages & tips | 3,209,969 98 | 93,089 12 |
| 5d | Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) | | 463,718 77 |
| 6 | Total taxes before adjustments (lines 3 + 5d = line 6) | | 852,439 36 |
| 7 | TAX ADJUSTMENTS (Read the instructions for line 7 before completing lines 7a through 7h.): | | |
| 7a | Current quarter's fractions of cents | | |
| 7b | Current quarter's sick pay | | (321 79) |
| 7c | Current quarter's adjustments for tips and group-term life insurance | | |
| 7d | Current year's income tax withholding (attach Form 941c) | | |
| 7e | Prior quarters' social security and Medicare taxes (attach Form 941c) | | |
| 7f | Special additions to federal income tax (attach Form 941c) | | |
| 7g | Special additions to social security and Medicare (attach Form 941c) | | |
| 7h | TOTAL ADJUSTMENTS (Combine all amounts: lines 7a through 7g.) | | (321 79) |
| 8 | Total taxes after adjustments (Combine lines 6 and 7h.) | | 852,117 57 |
| 9 | Advance earned income credit (EIC) payments made to employees | | 0 00 |
| 10 | Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) | | 0 00 |
| 11 | Total deposits for this quarter, including overpayment applied from a prior quarter | | 1152,117 57 |
| 12 | Balance due (If line 10 is more than line 11, write the difference here.) Follow the instructions for Form 941-V, Payment Voucher. | | 0 00 |
| 13 | Overpayment (If line 11 is more than line 10, write the difference here.) | | |

Check one Apply to next return.
 Send a refund.

For Privacy Act and Paperwork Reduction Act Notice, see the back of the Payment Voucher.

Cat. No. 17001Z Form 941 (Rev. 1-2007)

Next →

Form **941 for 2008: Employer's QUARTERLY Federal Tax Return**
(Rev. January 2008) Department of the Treasury — Internal Revenue Service

950108

OMB No. 1545-0029

(EIN) Employer identification number **8 6 - 0 0 5 9 7 2 8**

Name (not your trade name) **Sulphur Springs Valley Electric Cooperative**

Trade name (if any) _____

Address **PO Box 820**
Number Street Suite or room number
Willcox **AZ** **85644**
City State ZIP code

Report for this Quarter of 2008
(Check one.)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

| | | | |
|----|---|--|-----------------------|
| 1 | Number of employees who received wages, tips, or other compensation for the pay period including: <i>Mar. 12</i> (Quarter 1), <i>June 12</i> (Quarter 2), <i>Sept. 12</i> (Quarter 3), <i>Dec. 12</i> (Quarter 4) | 1 | 199 |
| 2 | Wages, tips, and other compensation | 2 | 2,929,925 . 43 |
| 3 | Total income tax withheld from wages, tips, and other compensation | 3 | 368,664 . 34 |
| 4 | If no wages, tips, and other compensation are subject to social security or Medicare tax | <input type="checkbox"/> Check and go to line 6. | |
| 5 | Taxable social security and Medicare wages and tips: | | |
| | | Column 1 | Column 2 |
| 5a | Taxable social security wages | 3,154,500 . 55 | 391,158 . 06 |
| 5b | Taxable social security tips | | |
| 5c | Taxable Medicare wages & tips | 3,180,880 . 39 | 92,245 . 53 |
| 5d | Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) | | 483,403 . 59 |
| 6 | Total taxes before adjustments (lines 3 + 5d = line 6) | | 852,067 . 93 |
| 7 | TAX ADJUSTMENTS (read the instructions for line 7 before completing lines 7a through 7g): | | |
| 7a | Current quarter's fractions of cents | | 31 |
| 7b | Current quarter's sick pay | | |
| 7c | Current quarter's adjustments for tips and group-term life insurance | | |
| 7d | Current year's income tax withholding (attach Form 941c) | | |
| 7e | Prior quarters' social security and Medicare taxes (attach Form 941c) | | |
| 7f | Special additions to federal income tax (attach Form 941c) | | |
| 7g | Special additions to social security and Medicare (attach Form 941c) | | |
| 7h | TOTAL ADJUSTMENTS (combine all amounts: lines 7a through 7g) | | 31 |
| 8 | Total taxes after adjustments (combine lines 6 and 7h) | | 852,068 . 24 |
| 9 | Advance earned income credit (EIC) payments made to employees | | 0 . 00 |
| 10 | Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) | | 852,068 . 24 |
| 11 | Total deposits for this quarter, including overpayment applied from a prior quarter | | 852,068 . 24 |
| 12 | Balance due (If line 10 is more than line 11, write the difference here.) For information on how to pay, see the instructions. | | 0 . 00 |
| 13 | Overpayment (If line 11 is more than line 10, write the difference here.) | | |

▶ You MUST fill out both pages of this form and SIGN it.

Apply to next return.
 Check one Send a refund.

Next →

Form **941 for 2008: Employer's QUARTERLY Federal Tax Return**
(Rev. January 2008) Department of the Treasury — Internal Revenue Service

950108

OMB No. 1545-0029

[EIN] Employer identification number **8 6 - 0 0 5 9 7 2 8**

Name (not your trade name) **Sulphur Springs Valley Electric Cooperative**

Trade name (if any) _____

Address
 Number **PO Box 820** Street _____ Suite or room number _____
 City **Willcox** State **AZ** ZIP code **85644**

Report for this Quarter of 2008
(Check one)

1: January, February, March
 2: April, May, June
 3: July, August, September
 4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

| | | |
|---|---|----------------|
| 1 | Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), Dec. 12 (Quarter 4) | 188 |
| 2 | Wages, tips, and other compensation | 2,486,924 . 67 |
| 3 | Total income tax withheld from wages, tips, and other compensation | 395,075 . 66 |

4 If no wages, tips, and other compensation are subject to social security or Medicare tax. Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

| | Column 1 | Column 2 |
|----------------------------------|----------------|--------------|
| 5a Taxable social security wages | 2,541,961 . 45 | 327,603 . 21 |
| 5b Taxable social security tips | . | . |
| 5c Taxable Medicare wages & tips | 2,541,961 . 45 | 75,616 . 88 |

| | | |
|----|---|--------------|
| 5d | Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) | 404,220 . 09 |
| 6 | Total taxes before adjustments (lines 3 + 5d = line 6) | 709,295 . 75 |

7 TAX ADJUSTMENTS (read the instructions for line 7 before completing lines 7a through 7g):

| | | |
|----|---|----|
| 7a | Current quarter's fractions of cents | 15 |
| 7b | Current quarter's sick pay | . |
| 7c | Current quarter's adjustments for tips and group-term life insurance | . |
| 7d | Current year's income tax withholding (attach Form 941c) | . |
| 7e | Prior quarters' social security and Medicare taxes (attach Form 941c) | . |
| 7f | Special additions to federal income tax (attach Form 941c) | . |
| 7g | Special additions to social security and Medicare (attach Form 941c) | . |
| 7h | TOTAL ADJUSTMENTS (combine all amounts: lines 7a through 7g) | 15 |

| | | |
|----|---|--------------|
| 8 | Total taxes after adjustments (combine lines 6 and 7h) | 709,295 . 90 |
| 9 | Advance earned income credit (EIC) payments made to employees | 0 . 00 |
| 10 | Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) | 709,295 . 90 |
| 11 | Total deposits for this quarter, including overpayment applied from a prior quarter | 709,295 . 90 |
| 12 | Balance due (If line 10 is more than line 11, write the difference here.) For information on how to pay, see the instructions. | 0 . 00 |

13 Overpayment (If line 11 is more than line 10, write the difference here.) Check one Apply to next return. Send a refund.

▶ You **MUST** fill out both pages of this form and **SIGN** it. **Next** →

Form **941 for 2008: Employer's QUARTERLY Federal Tax Return**
(Rev. January 2008) Department of the Treasury — Internal Revenue Service

950108

OMB No. 1545-0029

(EIN) Employer identification number **8 6 - 0 0 5 9 7 2 8**

Name (not your trade name) **Sulphur Springs Valley Electric Cooperative**

Trade name (if any)

Address **PO Box 820**

Number **Willcox** Street **AZ** Suite or room number **85644**

City State ZIP code

Report for this Quarter of 2008
(Check one)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

| | | | |
|----|---|--|-----------------------|
| 1 | Number of employees who received wages, tips, or other compensation for the pay period including: <i>Mar. 12</i> (Quarter 1), <i>June 12</i> (Quarter 2), <i>Sept. 12</i> (Quarter 3), <i>Dec. 12</i> (Quarter 4) | 1 | 198 |
| 2 | Wages, tips, and other compensation | 2 | 2,688,520 . 48 |
| 3 | Total income tax withheld from wages, tips, and other compensation | 3 | 334,078 . 62 |
| 4 | If no wages, tips, and other compensation are subject to social security or Medicare tax | <input type="checkbox"/> Check and go to line 6. | |
| 5 | Taxable social security and Medicare wages and tips: | | |
| | | Column 1 | Column 2 |
| 5a | Taxable social security wages | 2,786,045 . 96 | 345,469 . 69 |
| 5b | Taxable social security tips | | |
| 5c | Taxable Medicare wages & tips | 2,849,503 . 00 | 282,635 . 58 |
| 5d | Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) | | 428,105 . 27 |
| 6 | Total taxes before adjustments (lines 3 + 5d = line 6) | | 762,183 . 89 |
| 7 | TAX ADJUSTMENTS (read the instructions for line 7 before completing lines 7a through 7g): | | |
| 7a | Current quarter's fractions of cents | | 15 |
| 7b | Current quarter's sick pay | | |
| 7c | Current quarter's adjustments for tips and group-term life insurance | | |
| 7d | Current year's income tax withholding (attach Form 941c) | | |
| 7e | Prior quarters' social security and Medicare taxes (attach Form 941c) | | |
| 7f | Special additions to federal income tax (attach Form 941c) | | |
| 7g | Special additions to social security and Medicare (attach Form 941c) | | |
| 7h | TOTAL ADJUSTMENTS (combine all amounts: lines 7a through 7g) | | 15 |
| 8 | Total taxes after adjustments (combine lines 6 and 7h) | | 762,184 . 04 |
| 9 | Advance earned income credit (EIC) payments made to employees | | 0 . 00 |
| 10 | Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) | | 762,184 . 04 |
| 11 | Total deposits for this quarter, including overpayment applied from a prior quarter | | 762,184 . 04 |
| 12 | Balance due (If line 10 is more than line 11, write the difference here.) For information on how to pay, see the instructions. | | 0 . 00 |
| 13 | Overpayment (If line 11 is more than line 10, write the difference here.) | | |

▶ You **MUST** fill out both pages of this form and **SIGN** it.

Apply to next return.
 Send a refund.

Next →

941 for 2008: Employer's QUARTERLY Federal Tax Return
 (Rev. January 2008) Department of the Treasury — Internal Revenue Service

950108

OMB No. 1545-0029

(EIN) Employer identification number **8 6 - 0 0 5 9 7 2 8**

Name (not your trade name) **Sulphur Springs Valley Electric Cooperative**

Trade name (if any)

Address **PO Box 820**
 Number Street Suite or room number
Willcox **AZ** **85644**
 City State ZIP code

Report for this Quarter of 2008
 (Check one.)

1: January, February, March

2: April, May, June

3: July, August, September

4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), Dec. 12 (Quarter 4) **201**

2 Wages, tips, and other compensation **3,401,885 . 70**

3 Total income tax withheld from wages, tips, and other compensation **421,884 . 98**

4 If no wages, tips, and other compensation are subject to social security or Medicare tax Check and go to line 6.

5 Taxable social security and Medicare wages and tips:

| | Column 1 | Column 2 |
|--|-----------------------|---------------------|
| 5a Taxable social security wages | 3,316,008 . 47 | 411,185 . 05 |
| 5b Taxable social security tips | | |
| 5c Taxable Medicare wages & tips | 3,572,436 . 79 | 103,600 . 66 |
| 5d Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d) | | 514,785 . 71 |

6 Total taxes before adjustments (lines 3 + 5d = line 6) **936,670 . 69**

7 TAX ADJUSTMENTS (read the instructions for line 7 before completing lines 7a through 7g):

| | |
|--|-------------------|
| 7a Current quarter's fractions of cents | |
| 7b Current quarter's sick pay | (157 . 97) |
| 7c Current quarter's adjustments for tips and group-term life insurance | |
| 7d Current year's income tax withholding (attach Form 941c) | |
| 7e Prior quarters' social security and Medicare taxes (attach Form 941c) | |
| 7f Special additions to federal income tax (attach Form 941c) | |
| 7g Special additions to social security and Medicare (attach Form 941c) | |
| 7h TOTAL ADJUSTMENTS (combine all amounts: lines 7a through 7g) | (157 . 97) |

8 Total taxes after adjustments (combine lines 6 and 7h) **936,512 . 72**

9 Advance earned income credit (EIC) payments made to employees **0 . 00**

10 Total taxes after adjustment for advance EIC (line 8 - line 9 = line 10) **0 . 00**

11 Total deposits for this quarter, including overpayment applied from a prior quarter **936,512 . 72**

12 Balance due (if line 10 is more than line 11, write the difference here.) **0 . 00**
 For information on how to pay, see the instructions.

13 Overpayment (if line 11 is more than line 10, write the difference here.) Apply to next return.
 Send a refund.

▶ You **MUST** fill out both pages of this form and **SIGN** it.

Next →

EXHIBIT

DH-6

CSB 2.21 Ten Employees Employed After Test Year – For the ten employees employed after the test year, please provide the following information:

a. A detailed schedule of the names and titles.

b. Annual salaries or wages and employee benefits by account charged.

| | EID | LastN | FirstN | Hire Date | Term Date | Dept # | Benefits (Acct 184.84) | | | | | 242.50 | | 242.30 | |
|--------------------------------|-----|-----------|-----------|-----------|-----------|--------------|------------------------|-----------|-----------|--------------|------------|-------------|-------------|---------|--------|
| | | | | | | | Medical | Dental | Vision | Retirement* | Life & LTD | Holiday | PTO | Medical | Dental |
| Journeyman Lineman | 269 | Galloway | Matthew | 02/19/08 | \$ 34.00 | \$ 70,720.00 | \$ 9,188.16 | \$ 221.88 | \$ - | \$ 14,921.92 | \$ 294.20 | \$ 2,992.00 | \$ 4,862.00 | | |
| Journeyman Lineman | 271 | Schroeder | Douglas | 03/10/08 | \$ 34.00 | \$ 70,720.00 | \$ 9,188.16 | \$ 649.32 | \$ 169.08 | \$ 14,921.92 | \$ 294.20 | \$ 2,992.00 | \$ 4,862.00 | | |
| Mechanic | 273 | Stroupe | Jerry | 03/24/08 | \$ 22.18 | \$ 46,134.40 | \$ 2,400.00 | \$ 649.32 | \$ 169.08 | \$ 9,734.36 | \$ 191.92 | \$ 1,951.84 | \$ 3,171.74 | | |
| Apprentice Lineman | 275 | Martinez | Dusten | 04/07/08 | \$ 16.00 | \$ 33,280.00 | \$ 3,617.40 | \$ 199.20 | \$ 78.60 | \$ 7,022.08 | \$ 138.44 | \$ 1,408.00 | \$ 2,288.00 | | |
| Standards and Line Design Tech | 274 | Rice | Janice | 04/07/08 | \$ 22.95 | \$ 47,736.00 | \$ 6,402.84 | \$ 412.32 | \$ 169.08 | \$ 10,072.30 | \$ 198.58 | \$ 2,019.60 | \$ 3,281.85 | | |
| Construction Clerk | 278 | Shull | Deana | 04/14/08 | \$ 15.17 | \$ 31,553.60 | \$ 3,617.40 | \$ 199.20 | \$ 78.60 | \$ 6,657.81 | \$ 131.26 | \$ 1,334.96 | \$ 2,169.31 | | |
| Apprentice Lineman | 279 | Bojorquez | Francisco | 04/14/08 | \$ 16.00 | \$ 33,280.00 | \$ 9,188.16 | \$ 649.32 | \$ 169.08 | \$ 7,022.08 | \$ 138.44 | \$ 1,408.00 | \$ 2,288.00 | | |
| Blue Stake Locator Groundman | 281 | Deskins | Jeremy | 04/21/08 | \$ 16.73 | \$ 34,798.40 | \$ 9,188.16 | \$ 649.32 | \$ 169.08 | \$ 7,342.46 | \$ 144.76 | \$ 1,472.24 | \$ 2,392.99 | | |
| Technician Assistant | 282 | Boehm | Oliver | 04/21/08 | \$ 15.00 | \$ 31,200.00 | \$ 9,188.16 | \$ 199.20 | \$ 78.60 | \$ 6,583.20 | \$ 129.79 | \$ 1,320.00 | \$ 2,145.00 | | |
| Desktop Support Tech / Radio | 283 | Powers | Randy | 04/21/08 | \$ 16.54 | \$ 34,403.20 | \$ 2,400.00 | \$ 199.20 | \$ 78.60 | \$ 7,259.08 | \$ 143.12 | \$ 1,455.52 | \$ 2,365.22 | | |

*Retirement = base salary x (18.1% (for defined benefit) + 3% (for 401k match))

c. Studies documenting inadequate service levels caused by not having enough employees to perform the work.

No such studies have been compiled.

d. A list of all employees (excluding meter readers) who have left or who have indicated to management that they plan to leave Sulphur Springs in 2008.

| POSITION | EID | LastN | FirstN | Hire Date | Term Date | Dept # |
|------------------------------|-----|------------|----------|------------|-----------|--------|
| Journeyman Lineman | 270 | Cote | David | 2/25/2008 | 7/28/2008 | 63 |
| Apprentice Lineman | 174 | Drawbridge | James | 1/10/2005 | 7/24/2008 | 63 |
| Mechanic | 597 | Penn | Dean | 5/23/1987 | 6/11/2008 | 65 |
| Engineering Field Technician | 280 | Parker | Bill | 4/21/2008 | 6/19/2008 | 51 |
| Purchasing & WO Specialist | 816 | Heideman | Janet | 1/4/1999 | 6/6/2008 | 14 |
| Journeyman Lineman | 272 | Lewis | Stephen | 3/10/2008 | 6/3/2008 | 61 |
| Journeyman Lineman | 610 | Hodge | Nathan | 3/15/2004 | 6/2/2008 | 61 |
| O/C CSR | 232 | Heilbrun | Kimberly | 11/29/2006 | 5/15/2008 | 21 |
| Apprentice Lineman | 227 | Wilkinson | Tracy | 10/23/2006 | 3/21/2008 | 63 |
| Engineering Field Technician | 266 | Ulmer | Brian | 12/10/2007 | 3/21/2008 | 51 |
| Apprentice Lineman | 224 | Maldonado | Tanner | 10/3/2006 | 2/28/2008 | 61 |
| Apprentice Lineman | 258 | Petrosko | Dan | 9/4/2007 | 2/22/2008 | 61 |
| Apprentice Lineman | 240 | Cherry | Jacob | 4/24/2007 | 2/19/2008 | 61 |
| Substation/SCADA Technician | 880 | Rodger | Jim | 4/18/2000 | 1/4/2008 | 66 |

Construction manager, Mike Stringer, who is on pre-retirement PTO currently, will retire in 2008.

EXHIBIT

DH-6.1

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

GROWTH STATISTICS

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Number of Employees | 139 | 154 | 162 | 177 | 191 | 201 |
| Annual Growth Rate | | 11% | 5% | 9% | 8% | 5% |
| 5 Year Average Growth Rate | | | | | | 9% |
| Total Utility Plant (1000) | 155,304 | 169,729 | 187,336 | 208,335 | 230,559 | 267,468 |
| Annual Growth Rate | | 9% | 10% | 11% | 11% | 16% |
| 5 Year Average Growth Rate | | | | | | 14% |
| Energy Sales in kWh (1000) | 614,979 | 641,749 | 699,403 | 735,255 | 796,094 | 819,072 |
| Annual Growth Rate | | 4% | 9% | 5% | 8% | 3% |
| 5 Year Average Growth Rate | | | | | | 7% |

EXHIBIT

DH-7

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

RATE CASE EXPENSE

| | | |
|-----------------------------|----|----------------------|
| Rate Case Expense | \$ | 100,000 |
| Number of Years to Amortize | | <u>5</u> |
| Annual Expense | \$ | 20,000 |
| Test Year Amount | | <u>0</u> |
| Adjustment | \$ | <u><u>20,000</u></u> |

| | |
|--|---------|
| Legal Expense Through Feb. 27, 2009 | 193,000 |
| Additional Legal Expense Through Hearing | 57,000 |
| Total Legal Expenses | 250,000 |

| | |
|---|---------|
| Guernsey Costs Through Feb. 27, 2009 | 117,608 |
| Additional Consulting Costs Through Hearing | 30,000 |
| Total Consulting Costs | 147,608 |

| | |
|-----------------------------|------------------|
| Total Rate Case Expense | 397,608 |
| Number of Years to Amortize | <u>5</u> |
| Annual Expense | \$ <u>79,522</u> |

| | |
|------------------------------|-------------------------|
| Additional Rate Case Expense | \$ <u><u>59,522</u></u> |
|------------------------------|-------------------------|

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE

SUMMARY OF INVOICES FROM GUERNSEY

| <u>Invoice #</u> | <u>Date</u> | <u>Amount</u> |
|------------------|-------------|---------------|
| 99294 | 3/31/2008 | 6,962.35 |
| 99470 | 4/14/2008 | 14,510.00 |
| 99673 | 5/19/2008 | 22,055.00 |
| 100056 | 6/25/2008 | 15,609.20 |
| 100360 | 7/24/2008 | 26,045.92 |
| 100528 | 8/13/2008 | 5,408.75 |
| 100784 | 9/11/2008 | 3,425.00 |
| 101319 | 11/13/2008 | 3,705.00 |
| 101639 | 12/11/2008 | 4,125.00 |
| 101876 | 1/16/2009 | 380.00 |
| 102159 | 2/12/2009 | 6,275.00 |
| 102391 | 3/3/2009 | 9,107.50 |
| Total | | 117,608.72 |

EXHIBIT

DH-8

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
SYSTEM CAPITALIZATION

| | 2002 | 2003 | 2004 | 2005 | 2006 | Test Year 12/31/2007 | 2008 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|-------------------------|----------------|
| Long-Term Debt | \$ 60,371,982 | \$ 64,474,918 | \$ 67,842,482 | \$ 75,596,880 | \$ 90,100,504 | \$ 97,760,014 | \$ 125,311,087 |
| Equity | 29,473,008 | 30,835,306 | 33,442,388 | 37,689,484 | 40,785,573 | 42,622,760 | 42,836,486 |
| Total Capitalization | \$ 89,844,990 | \$ 95,310,224 | \$ 101,284,870 | \$ 113,286,364 | \$ 130,886,077 | \$ 140,382,774 | \$ 168,147,573 |
| Percent Capitalization | | | | | | | |
| Long-Term Debt | 67.20% | 67.65% | 66.98% | 66.73% | 68.84% | 69.64% | 74.52% |
| Equity | 32.80% | 32.35% | 33.02% | 33.27% | 31.16% | 30.36% | 25.48% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Total Assets | \$ 107,170,170 | \$ 113,380,779 | \$ 124,469,755 | \$ 137,495,912 | \$ 155,714,355 | \$ 176,184,837 | \$ 211,359,361 |
| Equity as % of Total Assets | 27.50% | 27.20% | 26.87% | 27.41% | 26.19% | 24.19% | 20.27% |

Note: Long-Term Debt includes "Current Maturities on Long-Term Debt" amounts shown on Balance Sheet.

| | | | | | | | |
|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Assigned G&T Capital Credits | 2,931,470 | 1,303,013 | 0 | 0 | 0 | 2,592,402 | 10,617,743 |
| Cumulative G&T Cap Credits | 2,931,470 | 4,234,483 | 4,234,483 | 4,234,483 | 4,234,483 | 6,826,885 | 17,444,628 |
| Growth in Capitalization | | | | | | | 27,764,799 |

EXHIBIT

DH-9

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
DOCKET NO. E-01575A-08-0328
TEST YEAR ENDING DECEMBER 31, 2007

INCREASE IN EQUITY

| | <u>Staff Proposed</u> | <u>Company Rebuttal Proposed</u> |
|--------------------------------------|---------------------------|--|
| Net Margins (Amount added to Equity) | 8,604,225 | 10,267,812 |
| Total Increase in Capitalization | 27,764,799 | 27,764,799 |
| Equity Added as % of Assets Added | 30.99% | 36.98% |

*Staff Proposed from Schedule CSB-8 in Crystal Brown's testimony

| | STAFF PROPOSED | | | | | | | | |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Long-Term Debt | \$ 125,311,087 | \$ 150,207,811 | \$ 169,368,385 | \$ 188,528,959 | \$ 207,689,533 | \$ 226,850,107 | \$ 246,010,681 | \$ 265,171,255 | \$ 284,331,829 |
| Equity | 42,836,486 | 45,704,561 | 54,308,786 | 62,913,011 | 71,517,236 | 80,121,461 | 88,725,686 | 97,329,911 | 105,934,136 |
| Total Capitalization | <u>\$ 168,147,573</u> | <u>\$ 195,912,372</u> | <u>\$ 223,677,171</u> | <u>\$ 251,441,970</u> | <u>\$ 279,206,769</u> | <u>\$ 306,971,568</u> | <u>\$ 334,736,367</u> | <u>\$ 362,501,166</u> | <u>\$ 390,265,965</u> |
| Percent Capitalization | | | | | | | | | |
| Long-Term Debt | 74.52% | 76.67% | 75.72% | 74.98% | 74.39% | 73.90% | 73.49% | 73.15% | 72.86% |
| Equity | 25.48% | 23.33% | 24.28% | 25.02% | 25.61% | 26.10% | 26.51% | 26.85% | 27.14% |
| Total | <u>100.00%</u> |

| | SSVEC REBUTTAL | | | | | | | | |
|-------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Long-Term Debt | \$ 125,311,087 | \$ 149,653,282 | \$ 167,150,269 | \$ 184,647,256 | \$ 202,144,243 | \$ 219,641,231 | \$ 237,138,218 | \$ 254,635,205 | \$ 272,132,192 |
| Equity | 42,836,486 | 46,259,090 | 56,526,902 | 66,794,714 | 77,062,526 | 87,330,337 | 97,598,149 | 107,865,961 | 118,133,773 |
| Total Capitalization | <u>\$ 168,147,573</u> | <u>\$ 195,912,372</u> | <u>\$ 223,677,171</u> | <u>\$ 251,441,970</u> | <u>\$ 279,206,769</u> | <u>\$ 306,971,568</u> | <u>\$ 334,736,367</u> | <u>\$ 362,501,166</u> | <u>\$ 390,265,965</u> |
| Percent Capitalization | | | | | | | | | |
| Long-Term Debt | 74.52% | 76.39% | 74.79% | 73.44% | 72.40% | 71.55% | 70.84% | 70.24% | 69.73% |
| Equity | 25.48% | 23.61% | 25.27% | 26.56% | 27.60% | 28.45% | 29.16% | 29.76% | 30.27% |
| Total | <u>100.00%</u> |

EXHIBIT

DH-10

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

INCOME STATEMENT - COMPANY REBUTTAL
DECEMBER 31, 2007

| | Company Adjusted Test Year (a) | Staff Adjustments (b) | Staff Test Year As Adjusted | Company Rebuttal Adjustment | Company Rebuttal As Adjusted | Company Rebuttal Rate Change (d) | Adjusted Test Year w/ Rate Change (e) |
|--|---|-----------------------------|--------------------------------------|-----------------------------------|---------------------------------------|--|--|
| Operating Revenues | | | | | | | |
| Margin Revenue (Non-Base) | \$ 30,530,901 | \$ 303,312 | \$ 30,834,213 | - | 30,834,213 | 8,958,187 | \$ 39,792,400 |
| Base Cost of Power Revenue | 47,167,753 | 10,523,837 | 57,691,590 | - | 57,691,590 | | 57,691,590 |
| WPCA | 10,523,837 | (10,523,837) | 0 | - | 0 | 0 | 0 |
| Fuel Bank | 0 | | 0 | - | 0 | 0 | 0 |
| Other | 4,391,068 | (91,590) | 4,299,478 | - | 4,299,478 | 904,772 | 5,204,250 |
| Ft Huachuca Margin | | 918,806 | 918,806 | -918,806 | 0 | | 0 |
| Total | \$ 92,613,559 | \$ 1,130,528 | \$ 93,744,087 | \$ -918,806 | \$ 92,825,281 | \$ 9,862,959 | \$ 102,688,240 |
| Operating Expenses | | | | | | | |
| Purchased Power | \$ 57,691,587 | \$ - | \$ 57,691,587 | 0 | 57,691,587 | | \$ 57,691,587 |
| Transmission O&M | 253,985 | (1,354) | 252,631 | 3,877 | 256,508 | | 256,508 |
| Distribution-Operations | 8,524,851 | (155,438) | 8,369,413 | 240,129 | 8,609,542 | | 8,609,542 |
| Distribution-Maintenance | 2,532,504 | (47,196) | 2,485,308 | 72,355 | 2,557,663 | | 2,557,663 |
| Consumer Accounting | 3,024,637 | (54,014) | 2,970,623 | 84,063 | 3,054,686 | | 3,054,686 |
| Customer Service | 680,691 | (13,743) | 666,948 | 20,505 | 687,453 | | 687,453 |
| Sales | 562,326 | (3,831) | 558,495 | 3,831 | 562,326 | | 562,326 |
| Administrative & General | 4,226,472 | (1,031,803) | 3,194,669 | 502,011 | 3,696,680 | | 3,696,680 |
| Depreciation | 7,574,650 | | 7,574,650 | 0 | 7,574,650 | | 7,574,650 |
| Tax | 1,290,758 | | 1,290,758 | 0 | 1,290,758 | | 1,290,758 |
| Total | \$ 86,362,461 | \$ -1,307,379 | \$ 85,055,082 | \$ 926,771 | \$ 85,981,853 | \$ 0 | \$ 85,981,853 |
| Return | \$ 6,251,098 | \$ 2,437,907 | \$ 8,689,005 | \$ -1,845,577 | \$ 6,843,428 | \$ 9,862,959 | \$ 16,706,387 |
| Interest & Other Deductions | | | | | | | |
| Interest L-T Debt | \$ 6,994,249 | \$ (428,301) | \$ 6,567,948 | - | 6,567,948 | | \$ 6,567,948 |
| Amortize RUS Gain | 0 | - | 0 | - | 0 | | 0 |
| Interest-Other | 366,551 | - | 366,551 | - | 366,551 | | 366,551 |
| Other Deductions | 171,756 | 0 | 171,756 | 0 | 171,756 | | 171,756 |
| Total | \$ 7,532,556 | \$ -428,301 | \$ 7,106,255 | \$ 0 | \$ 7,106,255 | \$ 0 | \$ 7,106,255 |
| Operating Margin | \$ -1,281,458 | \$ 2,864,208 | \$ 1,582,750 | \$ -1,845,577 | \$ -262,827 | \$ 9,862,959 | \$ 9,600,132 |
| Non-Operating Margins | | | | | | | |
| Interest Income | \$ 141,825 | \$ - | \$ 141,825 | - | 141,825 | | \$ 141,825 |
| Gain(Loss) Equity Investments | 0 | - | 0 | - | 0 | | 0 |
| Other Margins | 138,168 | - | 138,168 | - | 138,168 | | 138,168 |
| G&T Capital Credits | 2,592,402 | (2,592,402) | 0 | - | 0 | | 0 |
| Other Capital Credits | 518,101 | (130,414) | 387,687 | - | 387,687 | | 387,687 |
| Total | \$ 3,390,496 | \$ -2,722,816 | \$ 667,680 | \$ 0 | \$ 667,680 | \$ 0 | \$ 667,680 |
| Net Margins | \$ 2,109,038 | \$ 141,392 | \$ 2,250,430 | \$ -1,845,577 | \$ 404,853 | \$ 9,862,959 | \$ 10,267,812 |
| Operating TIER | 0.82 | | 1.24 | | 0.96 | | 2.46 |
| Net TIER | 1.30 | | 1.34 | | 1.08 | | 2.56 |
| Net TIER Excl Capital Credits | 0.86 | | 1.28 | | 1.00 | | 2.50 |
| DSC | 1.48 | | 1.51 | | 1.34 | | 2.25 |
| DSC - Staff Calculation | | | 1.50 | | 1.33 | | 2.24 |
| Rate of Return | 4.57% | | 6.54% | | 5.15% | | 12.20% |
| Rate Base | \$ 136,903,293 | | \$ 132,886,202 | | \$ 132,886,202 | \$ 0 | \$ 136,903,293 |
| Principal Payments | 4,269,396 | | 4,269,396 | | 4,269,396 | | 4,269,396 |
| Percent Change | | | | | | | 10.65% |

Note: This schedule was revised to reflect the removal of cash working capital from rate base.
Only the calculation of rate of return was affected.

EXHIBIT

DH-11

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
DOCKET NO. E-01575A-08-0328
TEST YEAR ENDING DECEMBER 31, 2007

| <u>Company Rebuttal Expense Adjustments</u> | | | | | |
|---|--------------------------|-----------------------------|----------------------------|--------------------------------|----------------|
| | <u>Staff Payroll</u> | <u>Staff Charitable</u> | <u>Staff Incentive</u> | <u>Add'l Rate Case</u> | <u>Total</u> |
| <u>Operating Expenses</u> | | | | | |
| Purchased Power | | | | | 0 |
| Transmission O&M | 3,570 | | 307 | | 3,877 |
| Distribution-Operations | 221,101 | | 19,028 | | 240,129 |
| Distribution-Maintenance | 66,622 | | 5,733 | | 72,355 |
| Consumer Accounting | 77,402 | | 6,661 | | 84,063 |
| Customer Service | 18,880 | | 1,625 | | 20,505 |
| Sales | 3,527 | | 304 | | 3,831 |
| Administrative & General | 132,467 | 298,622 | 11,400 | 59,522 | 502,011 |
| Depreciation | | | | | |
| Tax | | | | | |
| Total | 523,569 | 298,622 | 45,058 | 59,522 | 926,771 |

EXHIBIT

DH-12

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

SUMMARY OF PROPOSED CHANGES BY RATE CLASS

| | Adjusted Consumers | Adjusted kWh Sold | Adjusted Revenue | Proposed Revenue | Change \$ | Change % |
|----------------------------------|--------------------|-------------------|------------------|------------------|-----------|----------|
| Residential | 40,440 | 353,167,734 | 42,655,886 | 47,174,757 | 4,518,871 | 10.59% |
| Residential - TOU | 17 | 210,002 | 23,487 | 27,852 | 4,365 | 18.58% |
| Residential | 40,457 | 353,377,736 | 42,679,373 | 47,202,608 | 4,523,236 | 10.60% |
| GS - Non-Demand | 6,280 | 36,407,984 | 4,586,541 | 5,592,776 | 1,006,235 | 21.94% |
| GS - Demand | 2,074 | 70,960,271 | 8,597,707 | 10,259,237 | 1,661,530 | 19.33% |
| GS - TOU | 41 | 836,583 | 93,290 | 106,411 | 13,121 | 14.07% |
| General Service | 8,396 | 108,204,838 | 13,277,537 | 15,958,424 | 2,680,887 | 20.19% |
| Irrigation - Seasonal | 253 | 37,779,578 | 4,060,272 | 4,440,506 | 380,234 | 9.36% |
| Irrigation - Load Factor | 50 | 16,244,584 | 1,469,505 | 1,695,230 | 225,725 | 15.36% |
| Irrigation - Control Daily | 73 | 10,581,835 | 954,985 | 955,579 | 595 | 0.06% |
| Irrigation - Control Weekly | 220 | 32,780,060 | 3,106,113 | 3,269,889 | 163,777 | 5.27% |
| Irrigation - Control Daily/Large | 122 | 35,167,187 | 2,980,261 | 3,114,298 | 134,037 | 4.50% |
| Irrigation - Test | 1 | 21,603 | 2,169 | 2,515 | 345 | 15.91% |
| Irrigation | 718 | 132,574,847 | 12,573,304 | 13,478,018 | 904,713 | 7.20% |
| Large Power | 324 | 124,127,579 | 12,434,020 | 12,992,955 | 558,935 | 4.50% |
| Large Power - Seasonal | 11 | 1,073,769 | 144,612 | 167,297 | 22,685 | 15.69% |
| Large Power - Industrial | 8 | 25,031,391 | 2,232,907 | 2,354,860 | 121,953 | 5.46% |
| LP - TOU | 38 | 8,528,086 | 661,177 | 666,697 | 5,521 | 0.83% |
| Large Power | 381 | 158,760,825 | 15,472,716 | 16,181,810 | 709,094 | 4.58% |
| Contract 1 | 1 | 23,475,600 | 1,703,436 | 1,707,166 | 3,730 | 0.22% |
| Contract 2 | 1 | 14,414,400 | 1,233,950 | 1,244,808 | 10,858 | 0.88% |
| RV Parks | 12 | 4,675,120 | 456,868 | 470,219 | 13,350 | 2.92% |
| Street Lights | 51 | 2,355,546 | 468,345 | 548,067 | 79,722 | 17.02% |
| Security Lights | 1,453 | 1,634,628 | 287,082 | 313,303 | 26,221 | 9.13% |
| Lighting | 1,504 | 3,990,174 | 755,427 | 861,370 | 105,943 | 14.02% |
| Unmetered | 7 | 386,616 | 68,292 | 71,384 | 3,091 | 4.53% |
| Pre-Meter Construction | 12 | 0 | 1,587 | 1,656 | 69 | 4.35% |
| Total | 51,488 | 799,860,156 | 88,222,491 | 97,177,463 | 8,954,972 | 10.15% |
| Other Revenue | | | 4,299,478 | 5,204,250 | 904,772 | 21.04% |
| Total | | | 92,521,969 | 102,381,713 | 9,859,744 | 10.66% |
| Target | | | 92,825,281 | 102,688,240 | 9,862,959 | |
| Difference | | | -303,312 | -306,527 | -3,215 | |

EXHIBIT

DH-13

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|-----------------------------|---------------|-----------------|-------------|----------|-------------------|-------------|------------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 1. RESIDENTIAL | | | | | | | |
| Base Charge (12 months sum) | 485,280 | 0.00 | 12.50 | 12.50 | 0 | 6,066,000 | 6,066,000 |
| First 750 kWh | 259,719,236 | 0.073000 | 0.043400 | 0.116400 | 18,959,504 | 11,271,815 | 30,231,319 |
| Over 750 kWh | 93,448,498 | 0.073000 | 0.043400 | 0.116400 | 6,821,740 | 4,055,665 | 10,877,405 |
| Subtotal | 353,167,734 | | | | 25,781,245 | 21,393,480 | 47,174,724 |
| WPCA | | | | | 33 | 0 | 33 |
| Total Revenue | | | | | 25,781,277 | 21,393,480 | 47,174,757 |
| Time of Use | | | | | | | |
| Base Charge (12 months sum) | 208 | 0.00 | 16.50 | 16.50 | 0 | 3,432 | 3,432 |
| On-Peak kWh | 78,470 | 0.141700 | 0.025310 | 0.167010 | 11,119 | 1,986 | 13,105 |
| Off-Peak kWh | 131,562 | 0.035000 | 0.051000 | 0.086000 | 4,605 | 6,710 | 11,314 |
| Subtotal | 210,032 | | | | 15,724 | 12,128 | 27,852 |
| WPCA | | | | | 0 | 0 | 0 |
| Total Revenue | | | | | 15,724 | 12,128 | 27,852 |
| Total Base Revenue | 353,377,766 | | | | 25,796,968 | 21,405,607 | 47,202,576 |
| Total WPCA Revenue | | | | | 33 | 0 | 33 |
| Total Revenue | | | | | 25,797,001 | 21,405,607 | 47,202,608 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|-----------------------------|------------------|-----------------|----------------|----------|-------------------|----------------|------------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 2. GENERAL SERVICE | | | | | | | |
| Non-Demand | | | | | | | |
| Base Charge (12 months sum) | 75,365 | 0.00 | 17.50 | 17.50 | 0 | 1,318,888 | 1,318,888 |
| kWh | 36,407,984 | 0.080000 | 0.036400 | 0.116400 | 2,912,639 | 1,325,251 | 4,237,889 |
| Additional Minimum | | | | | 35,996 | 0 | 35,996 |
| Subtotal | | | | | 2,948,635 | 2,644,138 | 5,592,773 |
| WPCA | | | | | 3 | 0 | 3 |
| Total Revenue | | | | | 2,948,638 | 2,644,138 | 5,592,776 |
| Demand | | | | | | | |
| Base Charge (12 months sum) | 24,887 | 0.00 | 17.50 | 17.50 | 0 | 435,523 | 435,523 |
| First 10 kW | 194,670 | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 |
| Over 10 kW | 170,742 | 6.50 | 2.50 | 9.00 | 1,109,826 | 426,856 | 1,536,682 |
| kWh | 70,960,271 | 0.064500 | 0.051900 | 0.116400 | 4,576,937 | 3,682,838 | 8,259,776 |
| Additional Minimum | | | | | 0 | 27,251 | 27,251 |
| Subtotal | | | | | 5,686,763 | 4,572,468 | 10,259,231 |
| WPCA | | | | | 7 | 0 | 7 |
| Total Revenue | | | | | 5,686,770 | 4,572,468 | 10,259,237 |
| Time of Use | | | | | | | |
| Base Charge (12 months sum) | 454 | 0.00 | 21.50 | 21.50 | 0 | 10,621 | 10,621 |
| On-Peak kW | 1,189 | 19.00 | 0.00 | 19.00 | 22,589 | 0 | 22,589 |
| kWh | 836,583 | 0.035000 | 0.052500 | 0.087500 | 29,280 | 43,921 | 73,201 |
| Subtotal | | | | | 51,869 | 54,542 | 106,411 |
| WPCA | | | | | 0 | 0 | 0 |
| Total Revenue | | | | | 51,869 | 54,542 | 106,411 |
| Total Base Revenue | 108,204,838 | | | | 8,687,267 | 7,271,147 | 15,958,414 |
| Total WPCA Revenue | | | | | 10 | 0 | 10 |
| Total Revenue | | | | | 8,687,277 | 7,271,147 | 15,958,424 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|-----------------------------|---------------|-----------------|-------------|----------|-------------------|-------------|-----------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 3. IRRIGATION | | | | | | | |
| Base Charge (12 months sum) | 3,034 | 0.00 | 25.00 | 25.00 | 0 | 75,850 | 75,850 |
| kW (April-Oct) | 122,093 | 6.00 | 2.00 | 8.00 | 732,558 | 244,186 | 976,744 |
| kWh (April-Oct) | 29,090,785 | 0.050000 | 0.034500 | 0.084500 | 1,454,539 | 1,003,632 | 2,458,171 |
| kWh (Nov-March) | | | | | | | |
| First 300 | 7,879,053 | 0.075300 | 0.034500 | 0.109800 | 593,293 | 271,827 | 865,120 |
| Over 300 | 809,740 | 0.045300 | 0.034500 | 0.079800 | 36,681 | 27,936 | 64,617 |
| Subtotal | 37,779,578 | | | | 2,817,071 | 1,623,431 | 4,440,502 |
| WPCA Revenue | | | | | 3 | 0 | 3 |
| Total Revenue | | | | | 2,817,074 | 1,623,431 | 4,440,506 |
| Load Factor | | | | | | | |
| Base Charge (12 months sum) | 320 | 0.00 | 30.00 | 30.00 | 0 | 9,600 | 9,600 |
| kWh | 16,244,564 | 0.074200 | 0.020000 | 0.094200 | 1,205,348 | 324,892 | 1,530,240 |
| Additional Minimum | | | | | 0 | 155,389 | 155,389 |
| Subtotal | | | | | 1,205,348 | 489,881 | 1,695,229 |
| WPCA Revenue | | | | | 1 | 0 | 1 |
| Total Revenue | | | | | 1,205,350 | 489,881 | 1,695,230 |
| Daily Control | | | | | | | |
| Base Charge (12 months sum) | 873 | 0.00 | 25.00 | 25.00 | 0 | 21,825 | 21,825 |
| Billing kW | 38,710 | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 |
| First 150 | 2,006,488 | 0.075300 | 0.034500 | 0.109800 | 151,089 | 69,224 | 220,312 |
| Next 150 | 587,056 | 0.075300 | 0.034500 | 0.109800 | 44,205 | 20,253 | 64,459 |
| Over 300 | 3,472,041 | 0.045300 | 0.034500 | 0.079800 | 157,283 | 119,785 | 277,069 |
| Discounted Usage | | | | | | | |
| First 150 | 2,258,126 | 0.056475 | 0.025875 | 0.082350 | 127,528 | 58,429 | 185,957 |
| Next 150 | 2,258,126 | 0.056475 | 0.025875 | 0.082350 | 127,528 | 58,429 | 185,957 |
| Subtotal | 10,581,837 | | | | 607,633 | 347,946 | 955,578 |
| WPCA Revenue | | | | | 1 | 0 | 1 |
| Total Revenue | | | | | 607,634 | 347,946 | 955,579 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|----------------------------------|---------------|-----------------|-------------|----------|-------------------|-------------|------------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 3. IRRIGATION (CONTINUED) | | | | | | | |
| Weekly Control | | | | | | | |
| Base Charge (12 months sum) | 2,637 | 0.00 | 25.00 | 25.00 | 0 | 65,925 | 65,925 |
| Billing kW | 119,961 | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 |
| First 150 | 7,050,188 | 0.075300 | 0.034500 | 0.109800 | 530,879 | 243,231 | 774,111 |
| Next 150 | 1,989,408 | 0.075300 | 0.034500 | 0.109800 | 149,802 | 68,635 | 218,437 |
| Over 300 | 10,810,048 | 0.045300 | 0.034500 | 0.079800 | 489,695 | 372,947 | 862,642 |
| Discounted Usage | | | | | | | |
| First 150 | 6,465,208 | 0.071535 | 0.032775 | 0.104310 | 462,489 | 211,897 | 674,386 |
| Next 150 | 6,465,208 | 0.071535 | 0.032775 | 0.104310 | 462,489 | 211,897 | 674,386 |
| Subtotal | 32,780,060 | | | | 2,095,354 | 1,174,532 | 3,269,886 |
| WPCA Revenue | | | | | 3 | 0 | 3 |
| Total Revenue | | | | | 2,095,357 | 1,174,532 | 3,269,889 |
| Daily Control/Large | | | | | | | |
| Base Charge (12 months sum) | 1,462 | 0.00 | 25.00 | 25.00 | 0 | 36,550 | 36,550 |
| kW | 0 | 19.00 | 0.00 | 19.00 | 0 | 0 | 0 |
| kWh | 35,167,187 | 0.040000 | 0.044600 | 0.084600 | 1,406,687 | 1,568,457 | 2,975,144 |
| Additional Minimum | | | | | 0 | 102,601 | 102,601 |
| Subtotal | | | | | 1,406,687 | 1,707,608 | 3,114,295 |
| WPCA Revenue | | | | | 3 | 0 | 3 |
| Total Revenue | | | | | 1,406,691 | 1,707,608 | 3,114,298 |
| Test | | | | | | | |
| Base Charge (12 months sum) | 1 | 0.00 | 0.00 | 0.00 | 0 | 0 | 0 |
| kWh | 21,603 | 0.080000 | 0.036400 | 0.116400 | 1,728 | 786 | 2,515 |
| Subtotal | | | | | 1,728 | 786 | 2,515 |
| WPCA | | | | | 0 | 0 | 0 |
| Total | | | | | 1,728 | 786 | 2,515 |
| Total Base Revenue | | | | | 8,133,822 | 5,344,184 | 13,478,005 |
| Total WPCA Revenue | | | | | 12 | 0 | 12 |
| Total Revenue | | | | | 8,133,834 | 5,344,184 | 13,478,018 |
| 4. LARGE POWER | | | | | | | |
| Base Charge (12 months sum) | 3,887 | 0.00 | 75.00 | 75.00 | 0 | 291,525 | 291,525 |
| kW | 447,436 | 9.80 | 0.00 | 9.80 | 4,384,871 | 0 | 4,384,871 |
| kWh | 124,127,579 | 0.036000 | 0.031000 | 0.067000 | 4,468,953 | 3,847,955 | 8,316,548 |
| Subtotal | | | | | 8,853,464 | 4,139,480 | 12,992,944 |
| WPCA | | | | | 11 | 0 | 11 |
| Total | | | | | 8,853,475 | 4,139,480 | 12,992,955 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | |
|--------------------------------------|---------------|-----------------|-------------|----------|-------------------|-------------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires |
| 5. LARGE POWER - SEASONAL | | | | | | |
| <u>Customer Owned Transformer</u> | | | | | | |
| Base Charge (12 months sum) | | | | | | |
| kW | 44 | 0.00 | 75.00 | 75.00 | 0 | 3,300 |
| kWh | 8,364.98 | 9.80 | 0.00 | 9.80 | 81,977 | 81,977 |
| Subtotal | 980,280 | 0.036000 | 0.031000 | 0.067000 | 35,290 | 65,679 |
| | | | | | 117,267 | 150,956 |
| <u>Cooperative Owned Transformer</u> | | | | | | |
| Base Charge (12 months sum) | | | | | | |
| kW | 8 | 0.00 | 75.00 | 75.00 | 0 | 600 |
| kWh | 877.60 | 9.80 | 1.00 | 10.80 | 8,600 | 9,478 |
| Subtotal | 93,489 | 0.036000 | 0.031000 | 0.067000 | 3,366 | 6,264 |
| | | | | | 11,966 | 16,342 |
| WPCA | | | | | 0 | 0 |
| Total | 1,073,769 | | | | 129,233 | 167,297 |
| 6. LARGE POWER - INDUSTRIAL | | | | | | |
| <u>Customer Owned Transformer</u> | | | | | | |
| Base Charge (12 months sum) | | | | | | |
| Billing kW | 12 | 0.00 | 250.00 | 250.00 | 0 | 3,000 |
| First | 6,003 | 0.50 | 6.00 | 6.50 | 3,001 | 39,016 |
| Next | 2,229,358 | 0.071000 | 0.004800 | 0.075800 | 158,284 | 168,985 |
| Subtotal | 0 | 0.035000 | 0.005800 | 0.040800 | 0 | 0 |
| WPCA | 2,229,358 | | | | 161,286 | 211,002 |
| Total | | | | | 2 | 2 |
| | | | | | 161,288 | 211,004 |
| <u>Cooperative Owned Transformer</u> | | | | | | |
| Base Charge (12 months sum) | | | | | | |
| Billing kW | 67 | 0.00 | 250.00 | 250.00 | 0 | 16,750 |
| First | 61,242 | 0.50 | 7.00 | 7.50 | 30,621 | 459,317 |
| Next | 21,070,456 | 0.071000 | 0.004800 | 0.075800 | 1,496,002 | 1,597,141 |
| Subtotal | 1,731,577 | 0.035000 | 0.005800 | 0.040800 | 60,605 | 70,648 |
| WPCA | 22,802,033 | | | | 1,587,229 | 2,143,856 |
| Total | | | | | 0 | 0 |
| | | | | | 1,587,229 | 2,143,856 |
| Total Base Revenue | | | | | 1,748,514 | 2,354,858 |
| Total WPCA Revenue | | | | | 2 | 2 |
| Total Revenue | 25,031,391 | | | | 1,748,517 | 2,354,860 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|-------------------------------------|---------------|-----------------|-------------|----------|-------------------|-------------|-----------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 7. LARGE POWER - TIME OF USE | | | | | | | |
| Base Charge (12 months sum) | 458 | 0.00 | 100.00 | 100.00 | 0 | 45,800 | 45,800 |
| On-Peak kW | 2,007 | 19.00 | 0.00 | 19.00 | 38,128 | 0 | 38,128 |
| Off-Peak kW | 49,795 | 0.00 | 4.75 | 4.75 | 0 | 236,528 | 236,528 |
| kWh | 8,528,086 | 0.035000 | 0.005600 | 0.040600 | 298,483 | 47,757 | 346,240 |
| Subtotal | | | | | 336,611 | 330,085 | 666,696 |
| WPCA | | | | | 1 | 0 | 1 |
| Total Revenue | | | | | 336,612 | 330,085 | 666,697 |
| 8. CONTRACT 1 | | | | | | | |
| Base Charge (12 months sum) | 12 | 0.00 | 25.00 | 25.00 | 0 | 300 | 300 |
| Billing kW | 84,291 | 0.00 | 2.50 | 2.50 | 0 | 210,728 | 210,728 |
| On-Peak kWh | 16,120,800 | 0.057400 | 0.013600 | 0.071000 | 925,334 | 219,243 | 1,144,577 |
| Off-Peak kWh | 7,354,800 | 0.037100 | 0.010700 | 0.047800 | 272,863 | 78,696 | 351,559 |
| Subtotal | 23,475,600 | | | | 1,198,197 | 508,967 | 1,707,164 |
| WPCA | | | | | 2 | 0 | 2 |
| Total Revenue | | | | | 1,198,199 | 508,967 | 1,707,166 |
| 9. CONTRACT 2 | | | | | | | |
| Base Charge (12 months sum) | 12 | 0.00 | 9,633.00 | 9,633.00 | 0 | 115,596 | 115,596 |
| Billing kW | 24,792 | 5.50 | 3.50 | 9.00 | 136,356 | 86,772 | 223,128 |
| First 400 | 9,916,800 | 0.059100 | 0.010000 | 0.069100 | 586,083 | 99,168 | 685,251 |
| Over 400 | 4,497,600 | 0.049100 | 0.000000 | 0.049100 | 220,832 | 0 | 220,832 |
| Subtotal | 14,414,400 | | | | 943,271 | 301,536 | 1,244,807 |
| WPCA | | | | | 1 | 0 | 1 |
| Total Revenue | | | | | 943,272 | 301,536 | 1,244,808 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|----------------------------------|---------------|-----------------|-------------|----------|-------------------|-------------|---------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 10. RV PARKS | | | | | | | |
| Base Charge (12 months sum) | 142 | 0.00 | 75.00 | 75.00 | 0 | 10,650 | 10,650 |
| Billing kW | 14,932 | 9.80 | 0.00 | 9.80 | 146,335 | 0 | 146,335 |
| kWh | 4,675,120 | 0.036000 | 0.031000 | 0.067000 | 168,304 | 144,929 | 313,233 |
| Subtotal | | | | | 314,639 | 155,579 | 470,218 |
| WPCA | | | | | 0 | 0 | 0 |
| Total Revenue | | | | | 314,640 | 155,579 | 470,219 |
| 11. STREET LIGHTS | | | | | | | |
| Cooperative Investment | | | | | | | |
| 70 Watt HPS | 25 | 1.32 | 10.99 | 12.31 | 222 | 1,847 | 2,069 |
| 100 Watt HPS - Single/Wood Pole | 36 | 1.90 | 9.29 | 11.19 | 2,644 | 12,929 | 15,573 |
| 100 Watt HPS - Single/Steel Pole | 36 | 1.90 | 14.07 | 15.97 | 3,054 | 22,623 | 25,677 |
| 100 Watt HPS - Double/Wood Pole | 72 | 3.80 | 16.89 | 20.69 | 91 | 405 | 497 |
| 100 Watt HPS - Double/Steel Pole | 72 | 3.80 | 19.20 | 23.00 | 91 | 461 | 552 |
| 175 Watt MV - Single/Wood Pole | 63 | 3.32 | 9.61 | 12.94 | 2,513 | 7,268 | 9,781 |
| 175 Watt MV - Single/Steel Pole | 63 | 3.32 | 12.36 | 15.69 | 2,593 | 9,644 | 12,236 |
| 175 Watt MV - Double/Wood Pole | 126 | 6.65 | 16.73 | 23.38 | 838 | 2,108 | 2,945 |
| 175 Watt MV - Double/Steel Pole | 126 | 6.65 | 18.98 | 25.63 | 80 | 228 | 308 |
| 150 Watt HPS - Single/Wood Pole | 54 | 2.85 | 11.84 | 14.69 | 10,530 | 43,755 | 54,285 |
| 150 Watt HPS - Single/Steel Pole | 54 | 2.85 | 14.84 | 17.69 | 8,376 | 43,625 | 52,001 |
| 150 Watt HPS - Double/Wood Pole | 108 | 5.70 | 21.93 | 27.63 | 68 | 263 | 332 |
| 150 Watt HPS - Double/Steel Pole | 108 | 5.70 | 24.43 | 30.13 | 479 | 2,052 | 2,531 |
| 250 Watt MV - Single/Wood Pole | 90 | 4.75 | 11.94 | 16.69 | 427 | 1,075 | 1,502 |
| 250 Watt MV - Single/Steel Pole | 90 | 4.75 | 15.00 | 19.75 | 5,983 | 18,902 | 24,885 |
| 250 Watt MV - Double/Wood Pole | 180 | 9.50 | 21.50 | 31.00 | 0 | 0 | 0 |
| 250 Watt MV - Double/Steel Pole | 180 | 9.50 | 24.00 | 33.50 | 114 | 288 | 402 |
| 250 Watt HPS - Single/Wood Pole | 90 | 4.75 | 15.81 | 20.56 | 3,633 | 12,098 | 15,730 |
| 250 Watt HPS - Single/Steel Pole | 90 | 4.75 | 18.56 | 23.31 | 14,302 | 55,915 | 70,217 |
| 250 Watt HPS - Double/Wood Pole | 180 | 9.50 | 29.75 | 39.25 | 0 | 0 | 0 |
| 250 Watt HPS - Double/Steel Pole | 180 | 9.50 | 31.75 | 41.25 | 1,026 | 3,429 | 4,455 |
| 400 Watt MV - Single/Wood Pole | 144 | 7.60 | 15.59 | 23.19 | 1,094 | 2,245 | 3,339 |
| 400 Watt MV - Single/Steel Pole | 144 | 7.60 | 18.34 | 25.94 | 1,094 | 2,641 | 3,735 |
| 400 Watt MV - Double/Wood Pole | 288 | 15.19 | 28.87 | 44.06 | 4,376 | 8,314 | 12,690 |
| 400 Watt MV - Double/Steel Pole | 288 | 15.19 | 30.93 | 46.13 | 182 | 371 | 554 |
| Subtotal | | | | | 63,627 | 252,113 | 315,740 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Unbundled Revenue | | |
|--------------------------------------|---------------|-----------------|-------------|-------|-------------------|-------------|---------|
| | | Power Supply | SSVEC Wires | Total | Power Supply | SSVEC Wires | Total |
| 11. STREET LIGHTS (Continued) | | | | | | | |
| <u>Customer Investment</u> | | | | | | | |
| 25 | 10 | 1.32 | 7.31 | 8.63 | 13 | 73 | 86 |
| 36 | 2,400 | 1.90 | 8.29 | 10.19 | 4,558 | 19,892 | 24,450 |
| 36 | 0 | 1.90 | 14.66 | 16.56 | 0 | 0 | 0 |
| 72 | 0 | 3.80 | 13.76 | 17.56 | 0 | 0 | 0 |
| 72 | 36 | 3.80 | 6.45 | 10.25 | 137 | 232 | 369 |
| 63 | 1,584 | 3.32 | 8.36 | 11.69 | 5,265 | 13,248 | 18,513 |
| 63 | 126 | 3.32 | 15.80 | 19.13 | 419 | 1,991 | 2,410 |
| 126 | 0 | 6.65 | 13.48 | 20.13 | 0 | 0 | 0 |
| 126 | 132 | 6.65 | 4.91 | 11.56 | 878 | 649 | 1,526 |
| 54 | 8,316 | 2.85 | 10.28 | 13.13 | 23,693 | 85,455 | 109,148 |
| 54 | 0 | 2.85 | 19.21 | 22.06 | 0 | 0 | 0 |
| 108 | 216 | 5.70 | 17.55 | 23.25 | 1,231 | 3,791 | 5,022 |
| 108 | 60 | 5.70 | 7.74 | 13.44 | 342 | 464 | 806 |
| 90 | 1,776 | 4.75 | 10.31 | 15.06 | 8,433 | 18,318 | 26,751 |
| 90 | 0 | 4.75 | 19.88 | 24.63 | 0 | 0 | 0 |
| 180 | 24 | 9.50 | 17.07 | 26.56 | 228 | 410 | 638 |
| 180 | 648 | 9.50 | 7.38 | 16.88 | 6,154 | 4,781 | 10,935 |
| 90 | 1,668 | 4.75 | 13.50 | 18.25 | 7,920 | 22,521 | 30,441 |
| 90 | 0 | 4.75 | 28.06 | 32.81 | 0 | 0 | 0 |
| 180 | 0 | 9.50 | 23.88 | 33.38 | 0 | 0 | 0 |
| 180 | 12 | 9.50 | 9.94 | 19.44 | 114 | 119 | 233 |
| 144 | 48 | 7.60 | 13.22 | 20.81 | 365 | 634 | 999 |
| 144 | 0 | 7.60 | 30.15 | 37.75 | 0 | 0 | 0 |
| 288 | 0 | 15.19 | 22.87 | 38.06 | 0 | 0 | 0 |
| Subtotal | | | | | 59,749 | 172,577 | 232,327 |
| Total Base Revenue | 2,355,546 | | | | 123,377 | 424,690 | 548,067 |
| Total WPCA Revenue | | | | | 0 | 0 | 0 |
| Total Revenue | | | | | 123,377 | 424,690 | 548,067 |

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF PROPOSED REVENUES

| | Billing Units | Unbundled Rate: | | | Total | Unbundled Revenue | | | Total |
|-----------------------------------|------------------|-----------------|----------------|-----------------|------------|-------------------|-------------|--|-------|
| | | Power Supply | SSVEC Wires | Power Supply | | SSVEC Wires | | | |
| 12. SECURITY LIGHTS | | | | | | | | | |
| 175 Watt MV | 60 | 2,188 | 8.23 | 11.40 | 6,926 | 18,017 | 24,943 | | |
| 100 Watt HPS | 60 | 21,664 | 7.75 | 10.92 | 68,580 | 167,991 | 236,571 | | |
| 35 Watt LPS | 60 | 3,445 | 5.65 | 8.82 | 10,906 | 19,479 | 30,385 | | |
| Additional Minimum | | | | | 0 | 21,404 | 21,404 | | |
| Subtotal | 1,634,628 | | | | 86,412 | 226,891 | 313,303 | | |
| WPCA | | | | | 0 | 0 | 0 | | |
| Total | | | | | 86,412 | 226,891 | 313,303 | | |
| 13. UNMETERED | | | | | | | | | |
| Base Charge (12 months sum) | | 2,352 | 16.00 | 16.00 | 0 | 37,632 | 37,632 | | |
| kWh | 386,616 | 0.074300 | 0.013000 | 0.087300 | 28,726 | 5,026 | 33,752 | | |
| Subtotal | | | | | 28,726 | 42,658 | 71,384 | | |
| WPCA | | | | | 0 | 0 | 0 | | |
| Total | | | | | 28,726 | 42,658 | 71,384 | | |
| 14. PRE-METER CONSTRUCTION | | | | | | | | | |
| Base Charge (12 months sum) | 138 | 0.00 | 12.00 | 12.00 | 0 | 1,656 | 1,656 | | |
| 15. TOTAL REVENUE | | | | | | | | | |
| Total Base Revenue | 799,860,188 | | | | 56,380,501 | 40,796,888 | 97,177,389 | | |
| Total WPCA Revenue | | | | | 74 | 0 | 74 | | |
| Fuel Adjustment | | | | | 0 | 0 | 0 | | |
| Other Revenue | | | | | 0 | 5,204,250 | 5,204,250 | | |
| Total Revenue | | | | | 56,380,575 | 46,001,138 | 102,381,713 | | |

EXHIBIT

DH-14

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

COMPARISON OF EXISTING AND PROPOSED RATES
RESIDENTIAL

| kWh Usage | Existing Billing | Proposed Billing | Change | Percent Change |
|----------------------------|------------------|------------------|--------------|----------------|
| Customer Charge | \$7.50 | \$12.50 | \$5.00 | 66.67% |
| First 750 kWh | \$0.098500 | \$0.116400 | \$0.017900 | 18.17% |
| Over 750 kWh | \$0.093840 | \$0.116400 | \$0.022560 | 24.04% |
| WPCA | \$0.013157 | \$0.000000 | (\$0.013157) | -100.00% |
| 50 | \$13.08 | \$18.32 | \$5.24 | 40.06% |
| 100 | \$18.67 | \$24.14 | \$5.47 | 29.30% |
| 250 | \$35.41 | \$41.60 | \$6.19 | 17.48% |
| 500 | \$63.33 | \$70.70 | \$7.37 | 11.64% |
| 750 | \$91.24 | \$99.80 | \$8.56 | 9.38% |
| 1,000 | \$117.99 | \$128.90 | \$10.91 | 9.25% |
| 1,500 | \$171.49 | \$187.10 | \$15.61 | 9.10% |
| 2,000 | \$224.99 | \$245.30 | \$20.31 | 9.03% |
| 3,000 | \$331.99 | \$361.70 | \$29.71 | 8.95% |
| 5,000 | \$545.98 | \$594.50 | \$48.52 | 8.89% |
| 728 Average | \$88.79 | \$97.24 | \$8.45 | 9.52% |
| Class Average Usage | | | | |
| 885 January | \$105.65 | \$115.48 | \$9.83 | 9.30% |
| 786 February | \$95.10 | \$104.00 | \$8.90 | 9.36% |
| 645 March | \$79.50 | \$87.55 | \$8.05 | 10.13% |
| 548 April | \$68.64 | \$76.23 | \$7.59 | 11.06% |
| 582 May | \$72.52 | \$80.28 | \$7.76 | 10.70% |
| 723 June | \$88.27 | \$96.70 | \$8.43 | 9.55% |
| 948 July | \$112.43 | \$122.84 | \$10.41 | 9.26% |
| 821 August | \$98.81 | \$108.03 | \$9.22 | 9.33% |
| 891 September | \$106.29 | \$116.17 | \$9.88 | 9.30% |
| 659 October | \$81.06 | \$89.19 | \$8.13 | 10.03% |
| 589 November | \$73.28 | \$81.08 | \$7.80 | 10.64% |
| 659 December | \$81.07 | \$89.19 | \$8.12 | 10.02% |
| 8,735 Total | \$1,062.62 | \$1,166.74 | \$104.12 | 9.80% |
| 728 Average | \$88.55 | \$97.23 | \$8.68 | 9.80% |

EXHIBIT

DH-15

SULPHUR SPRINGS VALLEY EC, INC.
UNBUNDLED COSTS WITH RETURN ON RATE BASE
TEST YEAR - DECEMBER 31, 2007
Summary of Components of Expenses

| Accounts | Total | Residential | Gen Service | GS-TOU | RV Parks | Lighting |
|----------------------------|--------------------|-------------------|-------------------|----------------|----------------|------------------|
| Average Consumers | 50,263 | 40,457 | 8,373 | 41 | 12 | 278 |
| kWh Sold | 799,860,156 | 353,377,736 | 107,754,871 | 836,583 | 4,675,120 | 3,990,174 |
| Metered kW | | 0 | 310,468 | 0 | 14,030 | 0 |
| Billing kW | | 0 | 365,412 | 1,189 | 14,932 | 0 |
| System Demand | 25,600,032 | 12,627,833 | 4,589,460 | 34,589 | 116,141 | 94,323 |
| Monthly Cost per Cons | 42.44 | 26.01 | 45.68 | 70.30 | 806.54 | 28.27 |
| Average Cost per kWh | | 0.035735 | 0.042592 | 0.041346 | 0.024842 | 0.023639 |
| Cost per Metered kW | | 0.00 | 14.78 | 0.00 | 8.28 | 0.00 |
| Cost per Billing kW | | 0.00 | 12.56 | 29.09 | 7.78 | 0.00 |
| Total Customer | 20,202,826 | 11,315,061 | 4,197,877 | 53,834 | 23,285 | 1,088,559 |
| Monthly Cost per Cons | 33.50 | 23.31 | 41.78 | 109.42 | 161.70 | 326.31 |
| Average Cost per kWh | | 0.032020 | 0.038958 | 0.064350 | 0.004981 | 0.272810 |
| Cost per Metered kW | | 0.00 | 13.52 | 0.00 | 1.66 | 0.00 |
| Cost per Billing kW | | 0.00 | 11.49 | 45.28 | 1.56 | 0.00 |
| Pur Pwr-Demand | 29,718,797 | 15,518,015 | 4,760,567 | 20,904 | 177,128 | 63,277 |
| Monthly Cost per Cons | 49.27 | 31.96 | 47.38 | 42.49 | 1,230.06 | 18.97 |
| Average Cost per kWh | 0.037155 | 0.043913 | 0.044180 | 0.024987 | 0.037887 | 0.015858 |
| Cost per Metered kW | | 0.00 | 15.33 | 0.00 | 12.62 | 0.00 |
| Cost per Billing kW | | 0.00 | 13.03 | 17.58 | 11.86 | 0.00 |
| Pur Pwr Energy/Fuel | 27,972,790 | 12,365,500 | 3,770,591 | 29,274 | 163,593 | 139,625 |
| Monthly Cost per Cons | 46.38 | 25.47 | 37.53 | 59.50 | 1,136.06 | 41.85 |
| Average Cost per kWh | 0.034972 | 0.034992 | 0.034992 | 0.034992 | 0.034992 | 0.034992 |
| Cost per Metered kW | | 0.00 | 12.14 | 0.00 | 11.66 | 0.00 |
| Cost per Billing kW | | 0.00 | 10.32 | 24.62 | 10.96 | 0.00 |
| Total Expenses | 103,494,445 | 51,826,407 | 17,318,495 | 138,601 | 480,147 | 1,385,783 |
| Monthly Cost per Cons | 171.59 | 106.75 | 172.36 | 281.71 | 3,334.36 | 415.40 |
| Average Cost per kWh | 0.129391 | 0.146660 | 0.160721 | 0.165676 | 0.102703 | 0.347299 |
| Cost per Metered kW | | 0.00 | 55.78 | 0.00 | 34.22 | 0.00 |
| Cost per Billing kW | | 0.00 | 47.39 | 116.57 | 32.16 | 0.00 |

SULPHUR SPRINGS VALLEY EC, INC.
UNBUNDLED COSTS WITH RETURN ON RATE BASE
TEST YEAR - DECEMBER 31, 2007
Summary of Components of Expenses

| Accounts | Total | Large Power | LP-TOU | LP Industrial | Contracts | Ft Huachuca |
|----------------------------|--------------------|-------------------|----------------|------------------|------------------|------------------|
| Average Consumers | 50,263 | 335 | 38 | 8 | 2 | 1 |
| kWh Sold | 799,860,156 | 125,201,348 | 8,528,086 | 25,031,391 | 37,890,000 | 0 |
| Metered kW | | 393,575 | 2,007 | 58,540 | 109,039 | 0 |
| Billing kW | | 456,679 | 49,795 | 73,248 | 109,063 | 0 |
| System Demand | 25,600,032 | 3,020,156 | 93,179 | 513,762 | 666,346 | 756,801 |
| Monthly Cost per Cons | 42.44 | 751.28 | 204.34 | 5,351.69 | 27,764.43 | 63,086.72 |
| Average Cost per kWh | 0.032006 | 0.024122 | 0.010926 | 0.020525 | 0.017586 | 0.000000 |
| Cost per Metered kW | | 7.67 | 46.43 | 8.78 | 6.11 | 0.00 |
| Cost per Billing kW | | 6.61 | 1.87 | 7.01 | 6.11 | 0.00 |
| Total Customer | 20,202,826 | 696,007 | 102,381 | 58,129 | 94,632 | 1,022,626 |
| Monthly Cost per Cons | 33.50 | 173.14 | 224.52 | 605.51 | 3,943.00 | 85,218.87 |
| Average Cost per kWh | 0.025258 | 0.005559 | 0.012005 | 0.002322 | 0.002498 | 0.000000 |
| Cost per Metered kW | | 1.77 | 51.01 | 0.99 | 0.87 | 0.00 |
| Cost per Billing kW | | 1.52 | 2.06 | 0.79 | 0.87 | 0.00 |
| Pur Pwr-Demand | 29,718,797 | 4,514,648 | 42,217 | 865,497 | 805,172 | 0 |
| Monthly Cost per Cons | 49.27 | 1,123.05 | 92.58 | 9,015.60 | 33,548.83 | 0.00 |
| Average Cost per kWh | 0.037155 | 0.036059 | 0.004950 | 0.034576 | 0.021250 | 0.000000 |
| Cost per Metered kW | | 11.47 | 21.03 | 14.78 | 7.38 | 0.00 |
| Cost per Billing kW | | 9.89 | 0.85 | 11.82 | 7.38 | 0.00 |
| Pur Pwr Energy/Fuel | 27,972,790 | 4,381,084 | 298,417 | 871,603 | 1,314,003 | 0 |
| Monthly Cost per Cons | 46.38 | 1,089.82 | 654.42 | 9,079.20 | 54,750.15 | 0.00 |
| Average Cost per kWh | 0.034972 | 0.034992 | 0.034992 | 0.034820 | 0.034679 | 0.000000 |
| Cost per Metered kW | | 11.13 | 148.69 | 14.89 | 12.05 | 0.00 |
| Cost per Billing kW | | 9.59 | 5.99 | 11.90 | 12.05 | 0.00 |
| Total Expenses | 103,494,445 | 12,611,894 | 536,194 | 2,308,991 | 2,880,153 | 1,779,427 |
| Monthly Cost per Cons | 171.59 | 3,137.29 | 1,175.87 | 24,052.00 | 120,006.41 | 148,285.59 |
| Average Cost per kWh | 0.129391 | 0.100733 | 0.062874 | 0.092244 | 0.076014 | 0.000000 |
| Cost per Metered kW | | 32.04 | 267.16 | 39.44 | 26.41 | 0.00 |
| Cost per Billing kW | | 27.62 | 10.77 | 31.52 | 26.40 | 0.00 |

SULPHUR SPRINGS VALLEY EC, INC.
UNBUNDLED COSTS WITH RETURN ON RATE BASE
TEST YEAR - DECEMBER 31, 2007
Summary of Components of Expenses

| Accounts | Total | Irrigation | Irrig-Daily | Irrig-Weekly | Irrig-Large | Total Irrig |
|----------------------------|--------------------|------------------|----------------|------------------|------------------|-------------------|
| Average Consumers | 50,263 | 304 | 73 | 220 | 122 | 719 |
| kWh Sold | 799,860,156 | 54,045,765 | 10,581,835 | 32,780,060 | 35,167,187 | 132,574,847 |
| Metered kW | | 225,515 | 38,710 | 119,961 | 106,805 | 490,991 |
| Billing kW | | 233,576 | 55,568 | 163,086 | 0 | 452,230 |
| System Demand | 25,600,032 | 1,339,468 | 282,486 | 765,667 | 719,821 | 3,087,441 |
| Monthly Cost per Cons | 42.44 | 367.18 | 299.64 | 290.03 | 491.68 | 357.84 |
| Average Cost per kWh | 0.032006 | 0.024784 | 0.024805 | 0.023358 | 0.020469 | 0.023288 |
| Cost per Metered kW | | 5.94 | 6.78 | 6.38 | 6.74 | 6.29 |
| Cost per Billing kW | | 5.73 | 4.72 | 4.69 | 0.00 | 6.83 |
| Total Customer | 20,202,826 | 541,734 | 156,875 | 393,962 | 457,844 | 1,550,435 |
| Monthly Cost per Cons | 33.50 | 148.50 | 179.08 | 149.24 | 312.73 | 179.70 |
| Average Cost per kWh | 0.025258 | 0.010024 | 0.014825 | 0.012019 | 0.013019 | 0.011695 |
| Cost per Metered kW | | 2.40 | 4.05 | 3.28 | 4.29 | 3.16 |
| Cost per Billing kW | | 2.32 | 2.82 | 2.42 | 0.00 | 3.43 |
| Pur Pwr-Demand | 29,718,797 | 2,079,582 | 29,632 | 746,931 | 95,227 | 2,951,372 |
| Monthly Cost per Cons | 49.27 | 570.06 | 33.83 | 282.93 | 65.05 | 342.07 |
| Average Cost per kWh | 0.037155 | 0.038478 | 0.002800 | 0.022786 | 0.002708 | 0.022262 |
| Cost per Metered kW | | 9.22 | 0.77 | 6.23 | 0.89 | 6.01 |
| Cost per Billing kW | | 8.90 | 0.53 | 4.58 | 0.00 | 6.53 |
| Pur Pwr Energy/Fuel | 27,972,790 | 1,891,186 | 370,283 | 1,147,050 | 1,230,561 | 4,639,099 |
| Monthly Cost per Cons | 46.38 | 518.42 | 422.70 | 434.49 | 840.56 | 537.68 |
| Average Cost per kWh | 0.034972 | 0.034992 | 0.034992 | 0.034992 | 0.034992 | 0.034992 |
| Cost per Metered kW | | 8.39 | 9.57 | 9.56 | 11.52 | 9.45 |
| Cost per Billing kW | | 8.10 | 6.66 | 7.03 | 0.00 | 10.26 |
| Total Expenses | 103,494,445 | 5,851,970 | 819,275 | 3,053,629 | 2,503,472 | 12,228,347 |
| Monthly Cost per Cons | 171.59 | 1,604.16 | 935.25 | 1,156.68 | 1,710.02 | 1,417.29 |
| Average Cost per kWh | 0.129391 | 0.108278 | 0.077423 | 0.093155 | 0.071188 | 0.092237 |
| Cost per Metered kW | | 25.95 | 21.16 | 25.46 | 23.44 | 24.91 |
| Cost per Billing kW | | 25.05 | 14.74 | 18.72 | 0.00 | 27.04 |

EXHIBIT

DH-16

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

**COMPARISON OF EXISTING AND STAFF PROPOSED RATES
RESIDENTIAL TIME OF USE**

| Total kWh | Block kWh | | Existing Billing | Proposed Billing | Change | Percent Change |
|------------------------|-----------|----------|------------------|------------------|------------|----------------|
| | On Peak | Off Peak | | | | |
| Existing Hours | 20.85% | 79.15% | | | | |
| Proposed Hours | 37.36% | 62.64% | | | | |
| Customer Charge | | | 11.40 | 13.25 | 1.85 | 16.23% |
| On-Peak Energy Charge | | | 0.140500 | 0.134770 | (0.005730) | -4.08% |
| Off-Peak Energy Charge | | | 0.073190 | 0.098410 | 0.025220 | 34.46% |
| WPCA | | | 0.013157 | 0.000000 | (0.013157) | -100.00% |
| <hr/> | | | | | | |
| | 0.00% | 100.00% | | | | |
| 500 | 0 | 500 | 54.57 | 62.46 | 7.88 | 14.44% |
| 1,009 Avg. | 0 | 1,009 | 98.52 | 112.55 | 14.02 | 14.23% |
| 1,500 | 0 | 1,500 | 140.92 | 160.87 | 19.94 | 14.15% |
| 3,000 | 0 | 3,000 | 270.44 | 308.48 | 38.04 | 14.07% |
| <hr/> | | | | | | |
| | 10.00% | 90.00% | | | | |
| 500 | 50 | 450 | 57.94 | 64.27 | 6.33 | 10.93% |
| 1,009 Avg. | 101 | 908 | 105.32 | 116.22 | 10.90 | 10.35% |
| 1,500 | 150 | 1,350 | 151.02 | 166.32 | 15.30 | 10.13% |
| 3,000 | 300 | 2,700 | 290.63 | 319.39 | 28.75 | 9.89% |
| <hr/> | | | | | | |
| | 20.85% | 79.15% | | | | |
| 500 | 104 | 396 | 61.57 | 66.24 | 4.66 | 7.57% |
| 1,009 Avg. | 210 | 799 | 112.66 | 120.18 | 7.52 | 6.68% |
| 1,500 | 313 | 1,187 | 161.99 | 172.25 | 10.26 | 6.33% |
| 3,000 | 626 | 2,374 | 312.58 | 331.24 | 18.66 | 5.97% |
| <hr/> | | | | | | |
| | 37.36% | 62.64% | | | | |
| 500 | 187 | 313 | 67.16 | 69.25 | 2.09 | 3.12% |
| 1,009 Avg. | 377 | 632 | 123.90 | 126.25 | 2.35 | 1.90% |
| 1,500 | 560 | 940 | 178.61 | 181.23 | 2.61 | 1.46% |
| 3,000 | 1,121 | 1,879 | 345.90 | 349.24 | 3.34 | 0.97% |
| <hr/> | | | | | | |
| | 40.00% | 60.00% | | | | |
| 500 | 200 | 300 | 68.04 | 69.73 | 1.69 | 2.49% |
| 1,009 Avg. | 404 | 605 | 125.72 | 127.24 | 1.52 | 1.21% |
| 1,500 | 600 | 900 | 181.31 | 182.68 | 1.37 | 0.76% |
| 3,000 | 1,200 | 1,800 | 351.21 | 352.11 | 0.90 | 0.26% |
| <hr/> | | | | | | |
| | 65.00% | 35.00% | | | | |
| 500 | 325 | 175 | 76.45 | 74.27 | (2.18) | -2.85% |
| 1,009 Avg. | 656 | 353 | 142.68 | 136.40 | (6.28) | -4.40% |
| 1,500 | 975 | 525 | 206.55 | 196.32 | (10.23) | -4.95% |
| 3,000 | 1,950 | 1,050 | 401.70 | 379.38 | (22.31) | -5.55% |

EXHIBIT

DH-17

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
COMPARISON OF EXISTING AND COMPANY PROPOSED RATES
RESIDENTIAL TIME OF USE

| Total kWh | Block kWh | | Existing Billing | Proposed Billing | Change | Percent Change |
|------------------------|-----------|----------|------------------|------------------|------------|----------------|
| | On Peak | Off Peak | | | | |
| Existing Hours | 20.85% | 79.15% | | | | |
| Proposed Hours | 37.36% | 62.64% | | | | |
| Customer Charge | | | 11.40 | 16.50 | 5.10 | 44.74% |
| On-Peak Energy Charge | | | 0.140500 | 0.167010 | 0.026510 | 18.87% |
| Off-Peak Energy Charge | | | 0.073190 | 0.086000 | 0.012810 | 17.50% |
| WPCA | | | 0.013157 | 0.000000 | (0.013157) | -100.00% |
| <hr/> | | | | | | |
| | 0.00% | 100.00% | | | | |
| 500 | 0 | 500 | 54.57 | 59.50 | 4.93 | 9.03% |
| 1,009 Avg. | 0 | 1,009 | 98.52 | 103.27 | 4.75 | 4.82% |
| 1,500 | 0 | 1,500 | 140.92 | 145.50 | 4.58 | 3.25% |
| 3,000 | 0 | 3,000 | 270.44 | 274.50 | 4.06 | 1.50% |
| | 10.00% | 90.00% | | | | |
| 500 | 50 | 450 | 57.94 | 63.55 | 5.61 | 9.69% |
| 1,009 Avg. | 101 | 908 | 105.32 | 111.46 | 6.13 | 5.82% |
| 1,500 | 150 | 1,350 | 151.02 | 157.65 | 6.63 | 4.39% |
| 3,000 | 300 | 2,700 | 290.63 | 298.80 | 8.17 | 2.81% |
| | 20.85% | 79.15% | | | | |
| 500 | 104 | 396 | 61.57 | 67.93 | 6.35 | 10.31% |
| 1,009 Avg. | 210 | 799 | 112.66 | 120.29 | 7.63 | 6.77% |
| 1,500 | 313 | 1,187 | 161.99 | 170.86 | 8.87 | 5.47% |
| 3,000 | 626 | 2,374 | 312.58 | 325.21 | 12.64 | 4.04% |
| | 37.36% | 62.64% | | | | |
| 500 | 187 | 313 | 67.16 | 74.65 | 7.49 | 11.15% |
| 1,009 Avg. | 377 | 632 | 123.90 | 133.81 | 9.91 | 8.00% |
| 1,500 | 560 | 940 | 178.61 | 190.87 | 12.25 | 6.86% |
| 3,000 | 1,121 | 1,879 | 345.90 | 365.31 | 19.42 | 5.61% |
| | 40.00% | 60.00% | | | | |
| 500 | 200 | 300 | 68.04 | 75.70 | 7.67 | 11.27% |
| 1,009 Avg. | 404 | 605 | 125.72 | 136.00 | 10.28 | 8.18% |
| 1,500 | 600 | 900 | 181.31 | 194.11 | 12.80 | 7.06% |
| 3,000 | 1,200 | 1,800 | 351.21 | 371.71 | 20.50 | 5.84% |
| | 65.00% | 35.00% | | | | |
| 500 | 325 | 175 | 76.45 | 85.83 | 9.38 | 12.27% |
| 1,009 Avg. | 656 | 353 | 142.68 | 156.42 | 13.74 | 9.63% |
| 1,500 | 975 | 525 | 206.55 | 224.48 | 17.94 | 8.68% |
| 3,000 | 1,950 | 1,050 | 401.70 | 432.47 | 30.77 | 7.66% |

EXHIBIT

DH-18

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

COMPARISON OF EXISTING AND PROPOSED RATES
RESIDENTIAL TIME OF USE COMPARED TO STANDARD RESIDENTIAL

| Total kWh | Block kWh | | SSVEC Resi Proposed | Staff Resi TOU Proposed | Change | Percent Change |
|------------------------|-----------|----------|---------------------------|-------------------------------|------------|-------------------|
| | On Peak | Off Peak | | | | |
| Existing Hours | 20.85% | 79.15% | | | | |
| Proposed Hours | 37.36% | 62.64% | | | | |
| Customer Charge | | | 12.50 | 13.25 | 0.75 | 6.00% |
| On-Peak Energy Charge | | | 0.116400 | 0.134770 | 0.018370 | 15.78% |
| Off-Peak Energy Charge | | | 0.116400 | 0.098410 | (0.017990) | -15.46% |
| WPCA | | | 0.000000 | 0.000000 | 0.000000 | N/A |
| | 0.00% | 100.00% | | | | |
| 500 | 0 | 500 | 70.70 | 62.46 | (8.25) | -11.66% |
| 1,009 Avg. | 0 | 1,009 | 129.95 | 112.55 | (17.40) | -13.39% |
| 1,500 | 0 | 1,500 | 187.10 | 160.87 | (26.24) | -14.02% |
| 3,000 | 0 | 3,000 | 361.70 | 308.48 | (53.22) | -14.71% |
| | 10.00% | 90.00% | | | | |
| 500 | 50 | 450 | 70.70 | 64.27 | (6.43) | -9.09% |
| 1,009 Avg. | 101 | 908 | 129.95 | 116.22 | (13.73) | -10.57% |
| 1,500 | 150 | 1,350 | 187.10 | 166.32 | (20.78) | -11.11% |
| 3,000 | 300 | 2,700 | 361.70 | 319.39 | (42.31) | -11.70% |
| | 20.85% | 79.15% | | | | |
| 500 | 104 | 396 | 70.70 | 66.24 | (4.46) | -6.31% |
| 1,009 Avg. | 210 | 799 | 129.95 | 120.18 | (9.77) | -7.52% |
| 1,500 | 313 | 1,187 | 187.10 | 172.25 | (14.85) | -7.94% |
| 3,000 | 626 | 2,374 | 361.70 | 331.24 | (30.46) | -8.42% |
| | 37.36% | 62.64% | | | | |
| 500 | 187 | 313 | 70.70 | 69.25 | (1.45) | -2.04% |
| 1,009 Avg. | 377 | 632 | 129.95 | 126.25 | (3.69) | -2.84% |
| 1,500 | 560 | 940 | 187.10 | 181.23 | (5.87) | -3.14% |
| 3,000 | 1,121 | 1,879 | 361.70 | 349.24 | (12.46) | -3.44% |
| | 40.00% | 60.00% | | | | |
| 500 | 200 | 300 | 70.70 | 69.73 | (0.97) | -1.38% |
| 1,009 Avg. | 404 | 605 | 129.95 | 127.24 | (2.71) | -2.09% |
| 1,500 | 600 | 900 | 187.10 | 182.68 | (4.42) | -2.36% |
| 3,000 | 1,200 | 1,800 | 361.70 | 352.11 | (9.59) | -2.65% |
| | 65.00% | 35.00% | | | | |
| 500 | 325 | 175 | 70.70 | 74.27 | 3.57 | 5.05% |
| 1,009 Avg. | 656 | 353 | 129.95 | 136.40 | 6.45 | 4.96% |
| 1,500 | 975 | 525 | 187.10 | 196.32 | 9.22 | 4.93% |
| 3,000 | 1,950 | 1,050 | 361.70 | 379.38 | 17.68 | 4.89% |

EXHIBIT

DH-19

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

COMPARISON OF EXISTING AND PROPOSED RATES
RESIDENTIAL TIME OF USE COMPARED TO STANDARD RESIDENTIAL

| Total kWh | Block kWh | | SSVEC Resi Proposed | SSVEC Resi TOU Proposed | Change | Percent Change |
|------------------------|-----------|----------|---------------------------|-------------------------------|------------|-------------------|
| | On Peak | Off Peak | | | | |
| Existing Hours | 20.85% | 79.15% | | | | |
| Proposed Hours | 37.36% | 62.64% | | | | |
| Customer Charge | | | 12.50 | 16.50 | 4.00 | 32.00% |
| On-Peak Energy Charge | | | 0.116400 | 0.167010 | 0.050610 | 43.48% |
| Off-Peak Energy Charge | | | 0.116400 | 0.086000 | (0.030400) | -26.12% |
| WPCA | | | 0.000000 | 0.000000 | 0.000000 | N/A |
| <hr/> | | | | | | |
| | 0.00% | 100.00% | | | | |
| 500 | 0 | 500 | 70.70 | 59.50 | (11.20) | -15.84% |
| 1,009 Avg. | 0 | 1,009 | 129.95 | 103.27 | (26.67) | -20.53% |
| 1,500 | 0 | 1,500 | 187.10 | 145.50 | (41.60) | -22.23% |
| 3,000 | 0 | 3,000 | 361.70 | 274.50 | (87.20) | -24.11% |
| <hr/> | | | | | | |
| | 10.00% | 90.00% | | | | |
| 500 | 50 | 450 | 70.70 | 63.55 | (7.15) | -10.11% |
| 1,009 Avg. | 101 | 908 | 129.95 | 111.46 | (18.49) | -14.23% |
| 1,500 | 150 | 1,350 | 187.10 | 157.65 | (29.45) | -15.74% |
| 3,000 | 300 | 2,700 | 361.70 | 298.80 | (62.90) | -17.39% |
| <hr/> | | | | | | |
| | 20.85% | 79.15% | | | | |
| 500 | 104 | 396 | 70.70 | 67.93 | (2.77) | -3.92% |
| 1,009 Avg. | 210 | 799 | 129.95 | 120.29 | (9.66) | -7.43% |
| 1,500 | 313 | 1,187 | 187.10 | 170.86 | (16.24) | -8.68% |
| 3,000 | 626 | 2,374 | 361.70 | 325.21 | (36.49) | -10.09% |
| <hr/> | | | | | | |
| | 37.36% | 62.64% | | | | |
| 500 | 187 | 313 | 70.70 | 74.65 | 3.95 | 5.59% |
| 1,009 Avg. | 377 | 632 | 129.95 | 133.81 | 3.87 | 2.98% |
| 1,500 | 560 | 940 | 187.10 | 190.87 | 3.77 | 2.01% |
| 3,000 | 1,121 | 1,879 | 361.70 | 365.31 | 3.61 | 1.00% |
| <hr/> | | | | | | |
| | 40.00% | 60.00% | | | | |
| 500 | 200 | 300 | 70.70 | 75.70 | 5.00 | 7.07% |
| 1,009 Avg. | 404 | 605 | 129.95 | 136.00 | 6.05 | 4.66% |
| 1,500 | 600 | 900 | 187.10 | 194.11 | 7.01 | 3.74% |
| 3,000 | 1,200 | 1,800 | 361.70 | 371.71 | 10.01 | 2.77% |
| <hr/> | | | | | | |
| | 65.00% | 35.00% | | | | |
| 500 | 325 | 175 | 70.70 | 85.83 | 15.13 | 21.40% |
| 1,009 Avg. | 656 | 353 | 129.95 | 156.42 | 26.47 | 20.37% |
| 1,500 | 975 | 525 | 187.10 | 224.48 | 37.38 | 19.98% |
| 3,000 | 1,950 | 1,050 | 361.70 | 432.47 | 70.77 | 19.57% |

EXHIBIT

DH-20

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
AEPCO PEAK DATES AND TIMES - HISTORICAL INFORMATION

DEFINITION OF AEPCO HISTORICAL PEAK DATES AND TIMES
(General Guide - Peak may occur at other times)

April 1 through November 14:

AEPCO peak hours have historically occurred between 1:00 PM to 7:00 PM, any day, including weekends and holidays. All other hours have historically been Off-Peak.

November 15 through March 31:

AEPCO peak hours have historically occurred between 6:30 AM to 8:30 AM and between 5:00 PM to 9:00 PM, any day, including holidays. All other hours have historically been Off-Peak.

ACTUAL HISTORICAL AEPCO PEAKS

| | <u>Day</u> | <u>Time</u> | <u>Weekday</u> |
|--|------------|-------------|----------------|
| <u>Actual 2006 AEPCO Peak Times</u> | | | |
| January | 17 | 8:00 AM | Tuesday |
| February | 21 | 8:00 AM | Tuesday |
| March | 19 | 8:00 PM | Sunday |
| April | 30 | 5:00 PM | Sunday |
| May | 25 | 5:00 PM | Thursday |
| June | 25 | 3:00 PM | Sunday |
| July | 24 | 5:00 PM | Monday |
| August | 8 | 4:00 PM | Tuesday |
| September | 1 | 2:00 PM | Friday |
| October | 3 | 4:00 PM | Tuesday |
| November | 29 | 7:00 PM | Wednesday |
| December | 19 | 7:00 PM | Tuesday |
| <u>Actual 2007 AEPCO Peak Times</u> | | | |
| January | 15 | 7:00 PM | Monday |
| February | 2 | 8:00 AM | Friday |
| March | 17 | 5:00 PM | Saturday |
| April | 30 | 5:00 PM | Monday |
| May | 31 | 5:00 PM | Thursday |
| June | 30 | 5:00 PM | Saturday |
| July | 5 | 4:00 PM | Thursday |
| August | 13 | 4:00 PM | Monday |
| September | 1 | 3:00 PM | Saturday |
| October | 4 | 2:00 PM | Thursday |
| November | 5 | 4:00 PM | Monday |
| December | 27 | 7:00 PM | Thursday |
| <u>Actual 2008 AEPCO Peak Times</u> | | | |
| January | 18 | 8:00 AM | Friday |
| February | 6 | 8:00 AM | Wednesday |
| March | 26 | 8:00 PM | Wednesday |
| April | 29 | 6:00 PM | Tuesday |
| May | 20 | 4:00 PM | Tuesday |
| June | 21 | 3:00 PM | Saturday |
| July | 3 | 4:00 PM | Thursday |
| August | 1 | 5:00 PM | Friday |
| September | 6 | 4:00 PM | Saturday |
| October | 1 | 5:00 PM | Wednesday |
| November | 1 | 4:00 PM | Saturday |
| December | 27 | 7:00 PM | Saturday |

EXHIBIT

DH-21

SERVICE CHARGES - RATE CASE

| | Average Labor Required (Hours) | | Hourly Rates w/ 50% Overhead | | | | Total Labor (AxD)+(BxE)+(Cx)F=G | Transportation Charge 60 miles @ \$.xx for Lineman or \$.XX for SvcMan H (1) (2) | Other Charges Amount I Description J | Calculated Cost I+J+K=M | Proposed Rate N |
|---------------------------------|--------------------------------|----------------------|------------------------------|----------|------------------|--------------|------------------------------------|--|--|-------------------------------|-----------------------|
| | CSR A (1) | Service Man B (1) | Lineman C (1) | CSR D | Service Man E | Lineman F | | | | | |
| Connect Fee (Normal Hours) | 0.1 | 1 | 0 | 30.00 | 31.78 | 52.60 | 34.78 | 60.00 | | 94.78 | \$50.00 |
| Connect Fee (After Hours) | 0 | 2 | 0 | 30.00 | 31.78 | 52.60 | 63.56 | 60.00 | 1.50 Call Charge | 125.06 | \$75.00 |
| New Connects | 0.15 | 0.5 | 0.5 | 30.00 | 31.78 | 52.60 | 46.69 | 105.00 | | 151.69 | \$50.00 |
| Non-Pay Fee (Normal Hours) | 0.5 | 0.75 | 0.75 | 30.00 | 31.78 | 52.60 | 78.29 | 60.00 | | 138.29 | \$50.00 |
| Non-Pay Fee (After Hours) | 0.75 | 2 | 0 | 30.00 | 31.78 | 52.60 | 86.06 | 60.00 | | 146.06 | \$150.00 |
| Service Calls (During hours) | 0 | 0 | 1 | 30.00 | 31.78 | 52.60 | 52.60 | 150.00 | | 202.60 | \$100.00 |
| Service Calls (After hours) | 0 | 0 | 3 | 30.00 | 31.78 | 52.60 | 157.80 | 150.00 | | 307.80 | \$150.00 |
| Meter Tests Service Charge | 0.1 | 2 | 1.25 | 30.00 | 49.24 (3) | 52.60 (4) | 167.23 | 210.00 | | 377.23 | \$50.00 |
| Meter Re-Reads | 0 | 1 | 0 | 30.00 | 31.78 | 52.60 | 31.78 | 60.00 | | 91.78 | \$50.00 |
| Return Check | 1 | | | 30.00 | 31.78 | 52.60 | 30.00 | | 7.00 Bank Fee (5) | 37.00 | \$35.00 |
| Pump and Equipment Tests | | | | | | | | | | | |
| Late Payment Charge | | | | | | | | | | | |

Footnotes

- (1) Some jobs are performed by either Utility Service Men of Linemen. Half the transportation rate at the utility service men's rate and half at the lineman's rate. This applies to labor and transportation charges.
- (2) Vehicles are billed at the following rates for utility service men/member service and lineman/tech services.

| | |
|--|---------|
| Rate per mile for Utility servicemen truck | \$ 1.00 |
| Rate per mile for Lineman's truck | \$ 2.50 |

 Note: The calculated cost of a utility service man's vehicle was \$1.28 per mile and \$7.38 per mile for a lineman's truck.
- (3) Labor and Time for Member Services
- (4) labor and Time for Tech Services Meterman
- (5) Bank returned Credit Card fee is \$25.00. This was not included in the calculations.