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BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

DOCKET NO. E-01575A-08-0328

STAFF'S NOTICE OF FILING SURREBUTTAL TESTIMONY

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

RESPECTFULLY SUBMITTED this 3rd day of April, 2009.

Wesley C. Van Cleve, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies of the foregoing were filed this 3rd day of April, 2009 with:

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

Arizona Corporation Commission
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Copies of the foregoing mailed this 3^{rd} day of April, 2009 to:

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Roseann Osorio

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

STEVE IRVINE

JULIE MCNEELY-KIRWAN

JERRY E. MENDL

DOCKET NO. E-01575A-08-0328

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

APRIL 3, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 3, 2009

TABLE OF CONTENTS

SCHEDULES

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

Staff recommends total annual revenues of $100,420,597 resulting in a $15,365,515 operating margin or 11.56 percent rate of return on a $132,886,202 rate base. Staff's Surrebuttal testimony responds to Sulphur Spring's Rebuttal testimony on the following issues:

Operating Income:

a. 2008 Fort Huachuca Margin Increase
b. Employee Payroll, Benefits, and Payroll Taxes
c. Charitable Contributions and Other Expenses
d. Incentive Pay
e. Rate Case Expense
f. Debt Service Coverage Ratio
g. Equity Capitalization

INTRODUCTION

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

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

Q. Are you the same Crystal S. Brown who filed direct testimony in this case?

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

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

A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Mr. David Hedrick who represents Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs" or "Cooperative").

Q. What issues will you address?

A. I will address the issues listed below that are discussed in the rebuttal testimony of Sulphur Springs' witness Mr. David Hedrick:

Operating Income:

a. 2008 Fort Huachuca Margin Increase
b. Employee Payroll, Benefits, and Payroll Taxes
c. Charitable Contributions and Other Expenses
d. Incentive Pay
e. Rate Case Expense
f. Debt Service Coverage Ratio
g. Equity Capitalization

Q. What is Staff's recommended revenue?

A. Staff recommends total annual revenues of $100,420,597 resulting in a $15,365,515 operating margin or 11.56 percent rate of return on a $132,886,202 rate base. Staff's rate of return is not a predetermined number derived from a cost of capital analysis. Rather, because of the not-for-profit nature of the Cooperative, Staff used a cash flow analysis to set the revenue, which in turn, produced the 11.56 percent rate of return.

Operating Margin

Operating Margin – 2008 Fort Huachuca Contract Margin Increase

Q. Has Staff reviewed the Cooperative's rebuttal testimony concerning the 2008 Fort Huachuca Contract Margin Increase?

A. Yes.

Q. In recognition of the new information provided by the Cooperative in its rebuttal testimony, is Staff making any changes to its recommendation?

A. Yes. Staff is removing its adjustment to reflect the 2008 Fort Huachuca contract margin increase in test year revenues.

Q. What is Staff's surrebuttal recommendation?

A. Staff's surrebuttal recommendation reduces revenues by $918,806 as shown in Surrebuttal Schedule CSB-12.

Operating Margin – Employee Payroll, Benefits, and Payroll Taxes

Q. Please summarize Staff's recommendation concerning Employee Payroll, Benefits, and Payroll Taxes.

A. Staff recommends removing $523,570 in payroll expense for employees hired after the test year.

Q. What are the Cooperative's reasons for continuing to request recovery of expenses incurred after the test year?

A. The Cooperative's reasons can be summarized into two arguments as follows:

a. <u>Post-Test Year ("PTY") Payroll Level Is Known, Measurable, and Continuing:</u> The actual net increase in the number of employees hired after the test year is ten. The payroll level is representative of the known, measurable, and continuing level of payroll expense.

b. <u>Historical Data Support an Increase in Employees</u>: Sulphur Springs provides historical growth statistics to support the payroll costs of the ten employees. The Cooperative claims that the growth in the number of employees has been reasonable and necessary in order to provide services.

Q. Does Staff agree with any of the Cooperative's arguments?

A. No, Staff does not. Staff will address each of the Cooperative's arguments separately.

<u>Known, Measurable, and Continuing</u>

Q. Is it appropriate to reflect PTY payroll expenses simply because the amounts are "known, measurable, and continuing"?

A. No, it is not. The Cooperative chose a 2007 historical test year. Reflecting the ten additional employees hired in 2008 simply because the costs are "known, measurable, and continuing" is not appropriate because a PTY adjustment, by definition, is mismatched with the revenues, expenses and rate base components of the test year.

Q. What is the Arizona Administrative Code's definition of "test year"?

A. R14-2-103 (p) of the Administrative Code defines "test year" as follows:

> *"Test Year - the 1-year historical period used in determining rate base, operating income and rate of return. The end of the test year shall be the most recent practical date available before filing."*

Q. When is it appropriate to make pro forma adjustments to historical test year results?

A. The Administrative Code states that pro forma adjustments are:

> *"adjustments to actual test year results to obtain a normal or more realistic relationship between revenues, expenses and rate base."*

Therefore, it would be appropriate to make pro forma adjustments to test year actual results when those results are not normal or when it would provide a more realistic relationship between revenues, expenses, and rate base.

Q. Was the Cooperative's number of employees low during the test year?

A. No, the number of employees was not abnormally low during the test year. In data request CSB 1-18, Staff requested the following information:

> *State all major service objectives and indicate any areas where service levels or quality were not met in the Test Year or within the two prior years. If service or quality levels were not met, please provide documentation.*

The Cooperative did not indicate any problems with service or quality levels. Therefore, the number of employees was sufficient to provide adequate service.

Q. Did the Cooperative have any studies documenting its need for the PTY employees?

A. No, it did not. Staff asked for studies that could indicate the need for additional employees in data request CSB 2-21 (c) as follows:

> *Please provide the following information:*
> *(c) Studies documenting inadequate service levels caused by not having enough employees to perform the work.*

The Cooperative indicated that it had no such studies.

Q. Is the net impact of the 2008 payroll expense on rates "known and measurable" given that offsetting amounts in 2008 were not considered?

A. No, the net impact is not known and measurable. Matching is one of the most fundamental principles of accounting and rate making. When revenues and expenses are not matched to the same accounting period, so much pertinent information remains unknown, unmeasurable, and unconsidered that the meaning of and the usefulness of calculating operating income for purposes of setting rates becomes distorted.

Q. In regards to its requested ten PTY employees, did the Cooperative make a pro forma adjustment to reduce the test year number of over-time hours and expense?

A. No, it did not. This would be an appropriate adjustment if the Cooperative claims that its test year level of employees had to work over-time to perform work that it anticipates will be performed by the ten PTY employees.

Historical Data Support an Increase in Employees

Q. Does the historical data provided by the Cooperative support an increase to the test year actual number of employees?

A. No, it does not. The data provided shows, that as the Cooperative grows, it incurs additional costs, such as plant and employees, to serve that growth. The Cooperative requested and the Commission approved, in Decision No. 70027, dated December 4, 2007, a $70.78 million loan from the National Rural Utilities Cooperative Finance Corporation ("CFC"). The major reason for the loan was to fund the increased capital expenditures necessary to construct new facilities to serve growth. Additional employees are needed to operate and maintain the new plant construction. The cost of these new employees to serve growth should not be borne by test year customers.

Q. What type of historical data would support an increase in test year employees?

A. The type of historical data needed to support an increase in test year employees would be data that establishes a physical performance standard such as the number of labor hours needed to inspect or test overhead distribution lines and poles for the test year and an analysis showing that the test year employee level was inadequate to perform the work.

Q. Does the Cooperative's analysis to include PTY employees consider any relationship between PTY plant, customers, revenues, and expenses?

A. No it does not. In 2008, the Cooperative installed an additional 31 miles of overhead distribution lines and added about 400 customers. For each additional kilowatt-hour ("kWh") that the Cooperative sells to these 400 customers, more revenue will be available to pay for expenses such as purchased power and employees needed to serve them.

Q. Please summarize Staff's surrebuttal position.

A. Staff's position has not changed. The Cooperative did not indicate any problems with service or quality levels during the 2007 historical test year. The number of employees was not abnormally low during the test year as the Cooperative could not provide evidence such as studies or similar type of evidence documenting service or quality problems due to an inadequate level of employees. The ten PTY employees hired in 2008 were needed to serve growth that occurred in 2008 and for future years. The data provided shows that as the Cooperative grows, it incurs additional costs, such as plant and employees, to serve that growth. The cost of these new employees to serve growth should not be borne by test year customers.

Operating Margin – Charitable Contributions and Other Expenses

Q. Has Staff reviewed the Cooperative's rebuttal testimony concerning Charitable Contributions and Other Expenses?

A. Yes.

Q. Does Staff agree with the Cooperative's arguments?

A. No. The Commission, in Decision No. 58358, does not provide for automatic recovery of such costs.

Q. Is Staff recommending that the Cooperative cease charitable and similar types of expenses?

A. No.

Q. Have other cooperatives regulated by this Commission adopted Staff's recommendation to recognize charitable contributions and other expenses below the line?

A. Yes, Arizona Electric Power Cooperative, in Decision No. 68071, dated August 17, 2005.

Q. Please summarize Staff's surrebuttal recommendation concerning Charitable Contributions and Other Expenses.

A. Staff's recommendation has not changed. Contributions and donations are voluntary costs and, therefore, not needed in the provision of service. Further, Decision No. 58358 does not provide for automatic recovery of such costs.

Operating Margin – Incentive Pay

Q. Has Staff reviewed the Cooperative's rebuttal testimony concerning incentive pay?

A. Yes.

Q. Does Staff agree with the Cooperative's arguments?

A. No.

Q. Is Staff recommending that the Cooperative cease incentive pay expense?

A. No.

Q. Please summarize Staff's surrebuttal position concerning incentive pay.

A. Staff's recommendation has not changed. Sulphur Springs pays its employees competitive salary, wage and benefits packages with regular annual wage increases. These costs are designed to compensate the employees to perform work that will enable the Cooperative to provide safe and reliable service. Therefore, the cost of the employees' base salaries and wages is a required cost. The incentive pay is an optional cost and, therefore, should be not be recovered through rates. Staff is not recommending that the Cooperative cease from incurring incentive pay expenses, but rather that these expenses be paid from the approximately $8.8 million in internally generated cash flow as shown on Surrebuttal Schedule CSB-22.

Operating Margin – Rate Case Expense

Q. Has Staff reviewed the Cooperative's rebuttal testimony concerning rate case expense?

A. Yes.

Q. By what amount is the Cooperative proposing to increase rate case expense?

A. The Cooperative is proposing to increase rate case expense by $59,522 per year, from $20,000 requested in its direct testimony to $79,522 requested in its rebuttal testimony.

Q. What types of costs are appropriate for rate case expense?

A. Actual and reasonable costs are appropriate for rate case expense.

Q. Does all of the $79,522 in rate case expense represent actual costs?

A. No, a portion of the cost is based on estimates as anticipated costs for the Cooperative's rejoinder testimony, hearing, and open meeting are included in the amount.

Q. Does Staff agree that the proposed $79,522 is reasonable?

A. No, Staff does not agree. Appropriately managing the rate case process involves (1) determining a rate case budget (2) evaluating the strength of the issues in the case and (3) assessing the marginal benefit of each cost, such as but not limited to, issues, experts, consultants, and attorneys.

Q. Did the Cooperative develop a budget, evaluate strengths, and assess marginal benefits of costs in the development of its requested rate case expense?

A. It provided no evidence in support of such efforts. Staff determined through the Cooperative's response to data request CSB 1.49, that the Cooperative did not prepare a budget that itemized anticipated costs. A detailed budget is a management tool that helps control costs. Actual costs are compared to budgeted costs and any variances are investigated in order to determine necessary management control action. Further, Staff determined through the Cooperative's response to data request CSB 1.48 that it did not go through a process of evaluating the strength and assessing the marginal benefit of each cost. Lack of a budget and careful analysis of costs is indicative of lack of control over costs and of poor planning.

Q. Please summarize Staff's recommendation.

A. Staff's position has not changed. The $59,522 increase represents a quadrupling of the rate case expense. The amount is excessive and unreasonable because it was caused by a lack of control over costs. Recognizing the costs below the line is not harmful because the customers of the Cooperative are also the owners of the Cooperative.

DEBT SERVICE COVERAGE RATIO ("DSC")

Q. Has Staff reviewed the Cooperative's rebuttal testimony concerning DSC?

A. Yes.

Q. Has Staff made any changes to its recommended increase in gross revenue?

A. Yes, Staff increased its recommended increase in gross revenue by $1,241,821, from $6,353,795 in its direct testimony to $7,595,616 in its surrebuttal testimony.

Q. Did Staff prepare a schedule showing the cash flow resulting from Staff's recommendation?

A. Yes, Staff's cash flow is presented on Surrebuttal Schedule CSB-22.

Q. How much cash flow would result from Staff's recommended rates?

A. Before debt payments, the Cooperative would have $22.9 million available. After debt payments, the Cooperative would have $8.8 million available.

Q. What times interest earned ratio ("TIER") and DSC result from Staff's recommendation?

A. Staff's recommended level of increase results in a 2.34 operating TIER and a 2.12 DSC. Staff's recommended DSC of 2.12 promotes the financial soundness of the Cooperative and is adequate, under efficient and economical management, to maintain and support its credit and enable it to obtain the money necessary to provide safe and reliable electric service.

CAPITAL STRUCTURE

Q. Did Staff review the Cooperative's rebuttal testimony concerning capital structure?

A. Yes.

Q. Does Staff agree that the year 2016 is a reasonable period in which to obtain a 30 percent equity to long-term debt capitalization ratio?

A. Yes.

Q. How does Staff's recommended increase in gross revenue enable the Cooperative to obtain a 30 percent equity capitalization ratio by 2016?

A. Staff has recommended an operating margin increase of $322,715, from $15,042,800 in Staff's direct testimony to $15,365,515 in Staff's surrebuttal testimony. This additional operating margin will increase the Cooperative's equity. Further, the Cooperative can utilize approximately $3 million of the $8.8 million available to lower the amount of its anticipated long-term debt. Further, Staff assumes that the Cooperative's level of long-term debt will begin to fall by at least 10 percent per year after the Commission approved $70.78 million has been fully drawn which is projected to be in the year 2013. This is because the nation is in a recession and may take several years to recover. There is slowed job growth, job losses, and rising unemployment. New home construction is down and is not expected to continue at the same rate.

Q. Did Staff prepare a schedule showing its equity and long-term debt projections?

A. Yes. Staff's equity and long-term debt projections are shown on Schedule CSB-23.

Q. Does this conclude Staff's surrebuttal testimony?

A. Yes, it does.

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

Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION		[A] COMPANY ORIGINAL COST		[B] STAFF ORIGINAL COST
1	Adjusted Operating Margin (Loss)	$	6,251,098	$	7,770,199
2	Depreciation and Amortization	$	7,574,650	$	7,574,650
3	Income Tax Expense		-		-
4	Long-term Interest Expense	$	6,994,249	$	6,567,948
5	Principal Repayment	$	4,269,396	$	4,269,396
6a	**Recommended Increase in Operating Revenue**	$	10,881,590	**$**	**7,595,316**
6b	**Percent Increase (Line 6a / Line 7) - Per Staff**		N/A		**8.18%**
6c	Percent Increase (Line 6a / $92,613,559) - Per Cooperative		11.75%		N/A
7	Adjusted Test Year Operating Revenue	$	92,613,559	$	92,825,281
8	**Recommended Annual Operating Revenue**	$	103,495,149	**$**	**100,420,597**
9a	**Recommended Operating Margin**	$	17,132,688	**$**	**15,365,515**
9b	Recommended Net Margin	$	12,990,628	$	8,259,260
10a	**Recommended Operating TIER (L3+L9)/L4 - Per Staff**		N/A		**2.34**
10b	Recommended Net TIER - Per Cooperative		2.86		N/A
11a	**Recommended DSC (L2+L3+L9a)/(L4+L5) - Per Staff**		N/A		**2.12**
11b	Recommended DSC (L2+L4+L9b)/(L4+L5) - Per Cooperative		2.45		N/A
12	**Adjusted Rate Base**	$	136,903,293	**$**	**132,886,202**
13	Rate of Return (L9a / L12)		12.51%		11.56%

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

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

Surrebuttal Schedule CSB-2

RATE BASE - ORIGINAL COST

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

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

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

SUMMARY OF RATE BASE ADJUSTMENTS

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

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

Surrebuttal Schedule CSB-4

RATE BASE ADJUSTMENT NO. 1 - ACCUMULATED DEPRECIATION, AMR

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

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

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

Surrebuttal Schedule CSB-5

RATE BASE ADJUSTMENT NO. 2 - CONSUMER DEPOSITS AND ADVANCES

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

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

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

Surrebuttal Schedule CSB-6

RATE BASE ADJUSTMENT NO. 3 - DEFERRED CREDITS

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

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

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

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

Surrebuttal Schedule CSB-7

RATE BASE ADJUSTMENT NO. 4 - WORKING CAPITAL

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

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

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

Surrebuttal Schedule CSB-8

OPERATING MARGIN - TEST YEAR AND STAFF PROPOSED

Line No.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
	REVENUES:					
1	Margin Revenue (Non-Base Cost of Power)	$ 30,530,901	$ 303,312	$ 30,834,213	$ 7,250,351	$ 38,084,564
2	Rounding	$ 3	$ -	$ 3		$ 3
3	Margin Revenue	$ 30,530,904	$ 303,312	$ 30,834,216	$ 7,250,351	$ 38,084,567
4						
5	Base Cost of Power Revenue	$ 47,167,753	$ 10,523,837	$ 57,691,590	$ -	$ 57,691,590
6	Wholesale Power Cost Adjustor (WPCA)	$ 10,523,837	$ (10,523,837)	$ -	$ -	$ -
7	Rounding	$ (3)	$ -	$ (3)	$ -	$ (3)
8	Base Cost of Power and Adjustor Revenue	$ 57,691,587	$ -	$ 57,691,587	$ -	$ 57,691,587
9						
10	**Total Revenue from Sales of Electricity**	**$ 88,222,491**	**$ 303,312**	**$ 88,525,803**	**$ 7,250,351**	**$ 95,776,154**
11	Other Revenues	$ 4,391,068	$ (91,590)	$ 4,299,478	$ 344,965	$ 4,644,443
12	2008 Ft Huachuca Margin	$ -	$ -	$ -	$ -	$ -
13	**Total Revenues**	**$ 92,613,559**	**$ 211,722**	**$ 92,825,281**	**$ 7,595,316**	**$ 100,420,597**
14						
15	*EXPENSES:*					
16	Purchased Power	$ 57,691,587	$ 0	$ 57,691,587	$ -	$ 57,691,587
17	Transmission Operation and Maintenance	$ 253,985	$ (1,354)	$ 252,631	$ -	$ 252,631
18	Distribution - Operations	$ 8,524,851	$ (155,438)	$ 8,369,413	$ -	$ 8,369,413
19	Distribution - Maintenance	$ 2,532,504	$ (47,196)	$ 2,485,308	$ -	$ 2,485,308
20	Consumer Accounting	$ 3,024,637	$ (54,014)	$ 2,970,623	$ -	$ 2,970,623
21	Customer Service	$ 680,691	$ (13,743)	$ 666,948	$ -	$ 666,948
22	Sales	$ 562,326	$ (3,831)	$ 558,495	$ -	$ 558,495
23	Administrative and General	$ 4,226,472	$ (1,031,803)	$ 3,194,669	$ -	$ 3,194,669
24	Depreciation and Amortization	$ 7,574,650	$ -	$ 7,574,650	$ -	$ 7,574,650
25	Taxes	$ 1,290,758	$ -	$ 1,290,758	$ -	$ 1,290,758
26	**Total Operating Expenses**	$ 86,362,461	$ (1,307,380)	$ 85,055,081	$ -	$ 85,055,081
27						
28	**Operating Margin Before Interest on L.T.- Debt**	$ 6,251,098	$ 1,519,101	$ 7,770,199	$ -	$ 15,365,515
29						
30	***INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS***					
31	Interest on Long-term Debt	$ 6,994,249	$ (426,301)	$ 6,567,948	$ -	$ 6,567,948
32	Interest - Other	$ 366,551	$ -	$ 366,551	$ -	$ 366,551
33	Other Dedcutions	$ 171,756	$ -	$ 171,756	$ -	$ 171,756
34	**Total Interest & Other Deductions**	$ 7,532,556	$ (426,301)	$ 7,106,255	$ -	$ 7,106,255
35						
36	***MARGINS (LOSS) AFTER INTEREST EXPENSE***	$ (1,281,458)	$ 1,945,402	$ 663,944	$ -	$ 8,259,260
37						
38	***NON-OPERATING MARGINS***					
39	Interest Income	$ 141,825	$ -	$ 141,825	$ -	$ 141,825
40	Other Margins	$ 138,168	$ -	$ 138,168	$ -	$ 138,168
41	G&T Capital Credits	$ 2,592,402	$ (2,592,402)	$ -	$ -	$ -
42	Other Capital Credits	$ 518,101	$ (130,414)	$ 387,687	$ -	$ 387,687
43	**Total Non-Operating Margins**	$ 3,390,496	$ (2,722,816)	$ 667,680	$ -	$ 667,680
44						
45	***EXTRAORDINARY ITEMS***	$ -	$ -	$ -	$ -	$ -
46						
47	***NET MARGINS (LOSS)***	$ 2,109,038	$ (777,414)	$ 1,331,624	$ -	$ 8,926,940
48						
49						

50 References:
51 Column (A): Cooperative Schedule A
52 Column (B): Schedule CSB-9
53 Column (C): Column (A) + Column (B)
54 Column (D): Schedule CSB-1
55 Column (E): Column (C) + Column (D)

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

SUMMARY OF OPERATING MARGIN ADJUSTMENTS - TEST YEAR

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

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

LINE NO.	DESCRIPTION	[I] ADJ #8 Normalized Legal Expenses Ref: Sch CSB-17	[J] ADJ #9 Charitable Contributions and Other Expenses Ref: Sch CSB-18	[K] ADJ #10 Incentive Pay Ref: Sch CSB-19	[L] ADJ #11 Interest Expense on L.T. Debt Ref: Sch CSB-20	[M] ADJ #12 Capital Credits Ref: Sch CSB-21	[N] STAFF ADJUSTED
	REVENUES:						
1	Margin Revenue (Non-Base Cost of Power)	$ -	$ -	$ -	$ -	$ -	$ 30,834,213
2	Rounding	-	$ -	$ -	$ -	$ -	3
3	Margin Revenue	$ -					$ 30,834,216
4							
5	Base Cost of Power Revenue	$ -	$ -	$ -	$ -	$ -	$ 57,691,590
6	Wholesale Power Cost Adjustor (WPCA)	-	-	-	-	-	-
7	Rounding	-	-	-	-	-	(3)
8	Base Cost of Power Revenue	$ -	$ -	$ -	$ -	$ -	$ 57,691,587
9							
10	Total Revenue from Sales of Electricity	$ -	$ -	$ -	$ -	$ -	$ 88,525,803
11	Other Revenues	$ -	$ -	$ -	$ -	$ -	$ 4,299,478
12	2008 Ft Huachuca Margin	-	-	-	-	-	-
13	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	**$ 92,825,281**
14							
15	***OPERATING EXPENSES:***						
16	Purchased Power	$ -	$ -	$ -	$ -	$ -	$ 57,691,587
17	Transmission Operation and Maintenance	-	-	(307)	-	-	252,631
18	Distribution - Operations	-	-	(19,028)	-	-	8,369,413
19	Distribution - Maintenance	-	-	(5,733)	-	-	2,485,308
20	Consumer Accounting	-	-	(6,661)	-	-	2,970,623
21	Customer Service	-	-	(1,625)	-	-	666,948
22	Sales	-	-	(304)	-	-	558,495
23	Administrative and General	(52,892)	(298,622)	(11,400)	-	-	3,194,669
24	Depreciation and Amortization	-	-	-	-	-	7,574,650
25	Taxes	-	-	-	-	-	1,290,758
26	**Total Operating Expenses**	$ (52,892)	$ (298,622)	$ (45,058)	$ -	$ -	$ 85,055,081
27							
28	**Operating Margin Before Interest on L.T.- Debt**	**$ 52,892**	**$ 298,622**	**$ 45,058**	**$ -**	**$ -**	**$ 7,770,199**
29							
30	***INTEREST ON LONG-TERM DEBT & OTHER DEDUCTIONS***						
31	Interest on Long-term Debt	$ -	$ -	$ -	$ (426,301)	$ -	$ 6,567,948
32	Interest - Other	-	-	-	-	-	366,551
33	Other Dedcutions	-	-	-	-	-	171,756
34	**Total Interest & Other Deductions**	$ -	$ -	$ -	$ (426,301)	$ -	$ 7,106,255
35							
36	***MARGINS (LOSS) AFTER INTERST EXPENSE***	**$ 52,892**	**$ 298,622**	**$ 45,058**	**$ 426,301**	**$ -**	**$ 663,944**
37							
38	***NON-OPERATING MARGINS***						
39	Interest Income	$ -	$ -	$ -	$ -	$ -	$ 141,825
40	Other Margins		-	-	-	-	138,168
41	G&T Capital Credits		-	-	-	(2,592,402)	-
42	Other Capital Credits	-	-	-	-	(130,414)	387,687
43	**Total Non-Operating Margins**	$ -	$ -	$ -	$ -	$ (2,722,816)	$ 667,680
44							
45	***EXTRAORDINARY ITEMS***	-	-	-		-	-
46							
47	***NET MARGINS (LOSS)***	$ 52,892	$ 298,622	$ 45,058	$ 426,301	$ (2,722,816)	$ 1,331,624

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

Surrebuttal Schedule CSB-10

OPERATING MARGIN ADJUSTMENT NO. 1 - REVENUE AND EXPENSE ANNUALIZATIONS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Total Margin Revenues	$ 30,530,904	$ -	$ 30,530,904
2	Cooperative's Annualization for Large Pwr Cust	-	(368,953)	(368,953)
3	Total Margin Revenues to be annualized	$ 30,530,904	$ (368,953)	$ 30,161,951
4	Factor to Annualize Revenues to End of Test Year	0.00%		0.9935%
5	**Revenue Annualization Adjustment**	$ -	**$ 303,312**	$ 303,312
6				
7	**Variable Expenses Not Recovered Through Fuel Adjustor**			
8	Transmission - Operation and Maintenance	$ 253,985	$ 2,523	$ 256,508
9	Distribution - Operations	$ 8,524,851	$ 84,691	$ 8,609,542
10	Distribution - Maintenance	$ 2,532,504	$ 25,159	$ 2,557,663
11	Customer Accounting	$ 3,024,637	$ 30,049	$ 3,054,686
12	Customer Service	$ 680,691	$ 6,762	$ 687,453
13		$ 15,016,668	**$ 149,184**	$ 15,165,852
14				
15				

LINE NO.	Calculation of Annualization Factor	
16-18		
19	49,738	2007 Year-end Customer Count per Form 7
20	48,769	2006 Year-end Customer Count per Form 7
21	969	
22	1.99%	Growth Rate (969 / 48,769)
23		
24	0.9935%	Annualization Factor - 2007 Growth Rate divided by 2
25		
26		
27		
28		

Caculation of Variable Expenses
Not Recovered Through Fuel Adjustor

LINE NO.	Description	Amount	2007 Growth Rate	Adjustment to Expenses
29-32				
33	Transmission - Operation and Maintenance	$ 253,985	0.9935%	$ 2,523
34	Distribution - Operations	$ 8,524,851	0.9935%	$ 84,691
35	Distribution - Maintenance	$ 2,532,504	0.9935%	$ 25,159
36	Customer Accounting	$ 3,024,637	0.9935%	$ 30,049
37	Customer Service	$ 680,691	0.9935%	$ 6,762
38	Total Variable Expenses Not Recovered Through Fuel Adj	$ 15,016,668		$ 149,184

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

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

Surrebuttal Schedule CSB-11

OPERATING MARGIN ADJUSTMENT NO. 2 - MISCELLANEOUS SERVICE CHARGE REVENUE

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

References:

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

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

Surrebuttal Schedule CSB-12

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

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED	
1	2008 Fort Huachuca Margin Increase	$ -	$ -	$ -	Removed $918,806
2					
3					
4					
5					
6					
7		[D]	[E]	[F]	
8		2007	Increase in	2008	
9		Fort Huachuca	Fort Huachuca	Fort Huachuca	
10		**CSB 3.4**	Margins	**CSB 3.5**	
11	Revenues	$ 2,824,391	$ 5,936,956	$ 8,761,346	
12	Expenses	$ 1,447,039	$ 5,018,150	$ 6,465,189	
13	Difference	$ 1,377,351	**$ 918,806**	$ 2,296,157	

References:

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

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

Surrebuttal Schedule CSB-13

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

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

References:

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

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

Surrebuttal Schedule CSB-14

OPERATING MARGIN ADJUSTMENT NO. 5 - DSM EXPENSES

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

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

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

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

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

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

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

References:

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

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

Calculation of Staff Adjusted Payroll Expense

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

Calculation of Staff Adjusted Employee Benefits

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

Calculation of Staff Adjusted Payroll Taxes

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

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

Surrebuttal Schedule CSB-16

OPERATING MARGIN ADJUSTMENT NO. 7 - GDS EXPENSES

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

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

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

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

Surrebuttal Schedule CSB-17

OPERATING MARGIN ADJUSTMENT NO. 8 - NORMALIZED LEGAL EXPENSES

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

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

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

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

Surrebuttal Schedule CSB-18

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

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

References:

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

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

Surrebuttal Schedule CSB-19

OPERATING MARGIN ADJUSTMENT NO. 10 - INCENTIVE PAY

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

11		[D]	[E]	[G]	[H]	[I]	[J]
12							Incentive
13			Employee			Percent	Pay
14		Payroll	Benefits	Payroll Tax	Total	to Total	**$ 45,058**
15	Trans Oper & Maint	$ 5,603	$ 882	$ 479	$ 6,964	0.68%	**$ 307**
16	Distr - Operations	$ 346,904	$ 54,856	$ 29,492	$ 431,251	42.23%	**$ 19,028**
17	Distr - Maintenance	$ 104,429	$ 16,369	$ 9,146	$ 129,945	12.72%	**$ 5,733**
18	Consumer Accounting	$ 121,096	$ 19,395	$ 10,478	$ 150,970	14.78%	**$ 6,661**
19	Customer Service	$ 29,528	$ 4,715	$ 2,583	$ 36,825	3.61%	**$ 1,625**
20	Sales	$ 5,483	$ 910	$ 486	$ 6,880	0.67%	**$ 304**
21	Admin and Gen	$ 207,063	$ 33,442	$ 17,867	$ 258,372	25.30%	**$ 11,400**
22		$ 820,106	$ 130,570	$ 70,531	$ 1,021,207	100.00%	**$ 45,058**

References:

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

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

Surrebuttal Schedule CSB-20

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

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

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

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

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

Surrebuttal Schedule CSB-21

OPERATING MARGIN ADJUSTMENT NO. 12 - CAPITAL CREDITS

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

References:

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

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

Surrebuttal Schedule CSB-22

CASH FLOW ANALYSIS

As of 12/31/2007

Line No.			
1	Staff Adjusted Recommended Revenue	$	100,420,597
2	Staff Recommended Purchased Power	$	(57,691,587)
3	**Operating Revenue Excluding Pur Pwr:**	$	**42,729,010**
4			
5			
6	Purchased Power	$	57,691,587
7	Transmission Operation and Maintenance	$	252,631
8	Distribution - Operations	$	8,369,413
9	Distribution - Maintenance	$	2,485,308
10	Consumer Accounting	$	2,970,623
11	Customer Service	$	666,948
12	Sales	$	558,495
13	Administrative and General	$	3,194,669
14	Depreciation and Amortization	$	7,574,650
15	Payroll and Property Taxes	$	1,290,758
16	**Total Staff Adj Operating Expenses**	**$**	**85,055,081**
17	Less: Purchased Power	**$**	**(57,691,587)**
18	**Total Staff Adj Operating Expenses Excluding Pur Power**	**$**	**27,363,494**
19			
20	**Total Operating Margin Excl Pur Pwr**	**$**	**15,365,516**
21	Add back Depreciation Expense		$7,574,650
22	**Total Cash Available to Pay Principal and Interest on L.T. Debt**	**$**	**22,940,166**
23	**Total Debt Service for Total Annual Loans (from line 42)**	**$**	**(14,122,976)**
24	**Net Margin Excl Pur Pwr**	**$**	**8,817,190**
25			
26			
27			
28			
29	***Existing Debt Service on $97.76 Million Loan Balances:***		
30	Annual Principal Payment Per Form 7 and Coop Sch A-14		$4,269,396
31	Annual Interest Payment Per Form 7 and Coop Sch A-14		$5,620,981
32	**TotalDebt Service for Existing Loan**		**$9,890,377**
33			
34	***2007 Commission Approved $70 Million Loan***		
35	Annual Principal Payment		$781,781
36	Annual Interest Payment		$3,450,818
37	**Total Debt Service on 2007 Commission Approved $70 Million Loan**		**$4,232,599**
38			
39	**Total Debt Service for Existing and $97.76 Million and 2007 $70 Million**		
40	Total Annual Principal Payments		$5,051,177
41	Total Annual Interest Payment		$9,071,799
42	**Total Debt Service for Existing and $97.76 Million and 2007 $70 Million (L32+L37)**		**$14,122,976**

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

Surrebuttal Schedule CSB-23

Increase In Equity

From Cooperative Rebuttal Exhibit DH-9:

	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	$ 168,147,573	$ 195,912,372	$ 223,677,171	$ 251,441,970	$ 279,206,769	$ 306,971,568	$ 334,736,367	$ 362,501,166	$ 390,265,965
L.T-Debt Increases Per Coop	$ 27,521,073	$ 24,896,724	$ 19,160,574	$ 19,160,574	$ 19,160,574	$ 19,160,574	$ 19,160,574	$ 19,160,574	$ 19,160,574
Equity Increases Per Coop		$ 2,868,075	$ 8,604,225	$ 8,604,225	$ 8,604,225	$ 8,604,225	$ 8,604,225	$ 8,604,225	$ 8,604,225

	Per Staff			
	Equity	Long-term Debt	Total	Pecentage
Year-end 2008	$ 42,836,486	$ 125,311,087		
Increases Per Coop	$ 2,868,075	$ 24,896,724		
Year-end 2009	$ 45,704,561	$ 150,207,811	$ 195,912,372	23.33%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Year-end 2010	$ 54,631,501	$ 168,449,579	$ 223,081,080	24.49%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Increases/(Decreases) Per Staff	$ -	$ (2,081,194)		
Year-end 2011	$ 63,558,441	$ 184,610,153	$ 248,168,594	25.61%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Increases/(Decreases) Per Staff	$ -	$ (2,081,194)		
Year-end 2012	$ 72,485,381	$ 200,770,727	$ 273,256,108	26.53%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Increases/(Decreases) Per Staff		$ (2,081,194)		
Increases/(Decreases) Per Staff	$ -	$ (1,916,057)		
Year-end 2013	$ 81,412,321	$ 215,015,244	$ 296,427,565	27.46%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Increases/(Decreases) Per Staff		$ (2,081,194)		
Increases/(Decreases) Per Staff	$ -	$ (1,916,057)		
Year-end 2014	$ 90,339,261	$ 229,259,760	$ 319,599,021	28.27%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Increases/(Decreases) Per Staff		$ (2,081,194)		
Increases/(Decreases) Per Staff	$ -	$ (1,916,057)		
Year-end 2015	$ 99,266,201	$ 243,504,277	$ 342,770,478	28.96%
Increases Per Coop	$ 8,604,225	$ 19,160,574		
Increases/(Decreases) Per Staff	$ 322,715	$ (918,806)		
Increases/(Decreases) Per Staff		$ (2,081,194)		
Increases/(Decreases) Per Staff	$ -	$ (1,916,057)		
Year-end 2016	$ 108,193,141	$ 257,748,793	$ 365,941,934	29.57%

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

SURREBUTTAL

TESTIMONY

OF

STEVE IRVINE

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 3, 2009

TABLE OF CONTENTS

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

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

Staff makes the following conclusions and recommendations in response to SSVEC's rebuttal testimony:

- Staff agrees that Staff Recommendation No. 4 is now moot.
- Staff recommends that the Company file the DSM program expense reports **by** March 1st and September 1st rather than **on** March 1st and September 1st.
- Staff continues to support Recommendation No. 9, which is that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.
- Regarding the Company's response to Recommendation No. 10, it appears to Staff that the proposal by the Company envisions that a new program's expenses would be reported in the semi-annual reports but not included in the DSM adjustor for recovery until such time as the program was approved by the Commission. Should this interpretation of the Company's proposal be accurate, Staff agrees with the Company's proposal.
- Staff will endeavor to analyze the proposed programs including the information provided by the Company in support of its proposals and subsequently make recommendations regarding the proposed programs by way of supplemental testimony. Should time not permit sufficient analysis, Staff continues to recommend that the Company file a new application requesting approval of the new DSM programs that SSVEC is proposing in the instant application.
- Staff agrees with the Company's description of the appropriate treatment of the existing program expenses, 2007 and 2008 program expenses under Staff review, and 2009 expenses.

INTRODUCTION

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

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

Q. Have you previously docketed pre-filed written direct testimony in this case?

A. Yes.

Q. What is the scope of your surrebuttal testimony?

A. My surrebuttal testimony provides Staff's response to the rebuttal testimony of Sulphur Springs Valley Electric Cooperative, Inc.'s ("SSVEC" or "Company") witness Jack Blair regarding its Demand-side Management ("DSM") program and Renewable Energy Standard and Tariff ("REST").

DISCUSSION

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

A. Yes. I reviewed Company witness Mr. Jack Blair's rebuttal testimony which responds to Staff's DSM and REST proposals.

Q. Does the Company agree with all of Staff's recommendations with regard to DSM and REST?

A. No. The Company states in rebuttal testimony that it agrees with many of Staff's DSM and REST recommendations; however, the Company disagrees with some of Staff's DSM recommendations.

Q. Please indicate which Staff recommendations on DSM and REST the Company disagrees with.

A. In rebuttal testimony, the Company has assigned numbers to the list of Staff recommendations included in Staff's direct testimony. This numbering system is helpful in identifying and dealing with contested recommendations. This testimony will make use of the Company's numbering system. The Company's rebuttal testimony mentions concerns with Staff's DSM Recommendation No. 4, DSM Recommendation No. 5, DSM Recommendations Nos. 7 – 11, and DSM Recommendation No. 13.

Q. What is Staff recommendation No. 4?

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

Q. What is the Company's response to this recommendation?

A. The Company comments that the recommendation is now moot because the Company has accepted Staff's recommendation that costs prudently incurred in connection with Commission-approved DSM activities be recovered entirely through a DSM adjustment tariff.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 4?

A. Staff agrees that Staff Recommendation No. 4 is now moot because the Company's previous recommendation has changed.

Q. What is Staff Recommendation No. 5?

A. Staff recommends that SSVEC continue to report on DSM program expenses semi-annually.

Q. What is the Company's response to this recommendation?

A. The Company agrees to continue semi-annual reporting, but asks that it be able to file on March 1^{st} and September 1^{st} of each year. The September 1^{st} report would report on DSM program expenses from January through June and the March report would report DSM program expenses from July through December.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 5?

A. Staff agrees with this proposal since it would not result in a material change to the reporting, but recommends that the reports be filed *by* March 1^{st} and September 1^{st} of each year rather than *on* those dates. This recommendation contrasts with the Company's proposal to file *on* March 1^{st} and September 1^{st}. An order that directs a filing be made on a particular day can be burdensome for any Company. Unexpected circumstances can arise that make filing a document on a prescribed day difficult. The ability to file a document a day before, or several days before some benchmark date provides more flexibility to the applicant and gives the applicant the ability to file early if it is convenient. For this reason, Staff recommends that the Company file the DSM program expense reports **by** March 1^{st} and September 1^{st} rather than **on** March 1^{st} and September 1^{st}.

Q. What is Staff Recommendation No. 7?

A. Staff recommends that SSVEC's DSM program expense reports include the following: (i) the number of measures installed/homes built/participation levels; (ii) copies of marketing materials; (iii) estimated cost savings to participants; (iv) gas and electric savings as determined by the monitoring and evaluation process; (v) estimated environmental savings; (vi) the total amount of the program budget spent during the previous six months and, in the end of year report, during the calendar year; (vii) the amount spent since the inception of the program; (viii) any significant impacts on program cost-effectiveness; (ix) descriptions of any problems and proposed solutions, including movements of funding from one program to another; (x) any major changes, including termination of the program. Staff recommends SSVEC submit to the Commission, through Docket Control, a filing by April 1st of each year that includes its proposed new DSM adjustor rate and that the filing be considered and adjudicated by the Commission in Open Meeting.

Q. What is the Company's response to this recommendation?

A. The Company agrees to report semi-annual DSM program expenses and include the information set forth in the Staff recommendation. However, as mentioned previously in discussion of Recommendation No. 5, the Company reiterates its proposal to file its program expense reports on March 1st (as opposed to April 1st) and September 1st of each year. The Company also proposes that its annual adjustor reset also be made in the March 1st filing rather than on April 1st.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 7?

A. Staff agrees with the Company's proposal in regard to the format of the DSM program expense reporting. Staff also agrees in principal with the Company's proposal regarding its timing of the filing of the expense and adjustor reset reports. As discussed previously, Staff notes that the Company is proposing that the expense reports and adjustor reset be filed on March 1st. Staff has a concern related to using a specific filing date. As discussed previously, an order that directs a filing be made on a particular day can be burdensome for any Company. The ability to file a document a day before, or several days before some benchmark date gives the applicant the flexibility to file early if it is convenient. For this reason, Staff's recommends that the Company file the expense reports and adjustor reset filing **by** March 1st and September 1st rather than **on** March 1st and September 1st.

Q. What is Staff Recommendation No. 8?

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

Q. What is the Company's response to this recommendation?

A. The Company in its rebuttal, comments on Staff Recommendations Nos. 7, 8, and 9 in a single response. For ease of discussion, Staff refers to the Company's single response to Staff Recommendations Nos. 7, 8, and 9 made in rebuttal testimony as the 'conjoined response'. Part of the conjoined response dealt directly with recommendation number 7, and has been discussed above. The remainder of the conjoined response deals with Staff Recommendation No. 9. In the conjoined response the Company agrees to the June 1st reset date, but proposes certain conditions that would apply to the treatment of the reset. These conditions are contained in the excerpt from the Company's rebuttal testimony below. The Company's conjoined response does not appear to address the second part of Staff's Recommendation No. 8 that "the per kWh rate be based upon currently projected

DSM costs for that year (the year for which the calculation is being made), adjusted by the previous year's over- or under-collection, divided by projected retail sales (kWh) for that same year."

In the conjoined response, the Company includes the following (from pages 6 and 7 of Rebuttal Testimony of Company witness Jack Blair):

> However, SSVEC believes that the Commission should treat the June 1st reset date as a "hard" deadline. Although SSVEC has no objection to providing the Commission with the opportunity to consider and adjudicate the filing at Open Meeting as recommended by Staff, SSVEC has no control as to whether a staff report and proposed order is prepared and filed in time for the May Open Meeting. Given the additional 30 days of time that SSVEC is willing to provide Staff for its review, SSVEC believes that it is only appropriate that if the Commission does not approve the filing by June 1st, that the new adjustor will automatically become effective. SSVEC submits this is appropriate for several reasons. First, it provides the Commission the opportunity to consider and approve the matter at Open Meeting to the extent Staff believes it is necessary and appropriate. Second, with the additional 30 days that the Cooperative is proposing, Staff will have sufficient time to review the filing and make its recommendation to the Commission. If however, Staff is unable to review the filing in a given year, or, after reviewing the filing determines that it is not necessary that the matter be adjudicated by the Commission, SSVEC will not be placed at a disadvantage by having to wait to recover additional program expenses (or reduce the adjustor if appropriate) until such time that Staff and the Commission act on the filing, which is completely outside of the Cooperative's control. Should this occur, the Commission would still have another opportunity the next year to "true-up" the adjustor to take into consideration the two years that had gone by, as opposed to one year. SSVEC submits that under current circumstances, this is a reasonable and fair modification to the Staff recommendation.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 8?

A. It appears that the Company agrees to Staff's Recommendation No. 8, with certain conditions placed on the June 1st reset. These conditions are addressed below in discussion of Staff Recommendation No. 9.

Q. What is Staff Recommendation No. 9?

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

Q. What is the Company's response to this recommendation?

A. The response is seen above in the excerpt from the Company's rebuttal testimony. The Company's response describes that implementation of the proposed DSM adjustor rate on June 1st should be automatic rather than contingent on Commission approval.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 9?

A. Staff does not recommend that the DSM adjustor rate take effect automatically. As mentioned previously in Direct Testimony, adjudication of the filing by the Commission will allow the Commission to directly manage recovery of the DSM adjustor rate and the impact it has on ratepayers. Since changes to the DSM adjustor rate have a direct impact on customer bills, it is appropriate that the adjustor rate be set pursuant to Order of the Commission. Automatic implementation as a result of the Commission not issuing an order is not consistent with setting the rate pursuant to Order of the Commission. Staff continues to support Recommendation No. 9, which is that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.

Q. What is Staff Recommendation No. 10?

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

Q. What is the Company's response to this recommendation?

A. The Company agrees with this recommendation, but requests that certain conditions apply. The Company argues that it should be permitted to operate any newly proposed programs prior to their approval by the Commission and report their expenses as part of its semi-annual reports. The Company suggests that should the Commission subsequently not approve the programs, the Company would not be permitted to recover such new program expenses. Upon approval of the program, the Company would be permitted to recover Commission-approved new program expenses through its DSM adjustor trued-up to the date it started offering the program at the next annual reset.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 10?

A. It appears to Staff that this proposal by the Company envisions that a new program's expenses would be reported in the semi-annual reports but not included in the DSM adjustor for recovery until such time as the program was approved by the Commission. Should this interpretation of the Company's proposal be accurate, Staff agrees with the Company's proposal.

Q. What is Staff Recommendation No. 11?

A. Staff recommends that SSVEC file an application requesting approval of the new DSM programs SSVEC is proposing in the instant application.

Q. What is the Company's response to this recommendation?

A. The Company suggests that Staff endeavor to analyze and make recommendations on the new programs within this rate case and do so by providing written or oral supplements to testimony up to, and including, the time Staff presents its case at hearing.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 11?

A. Staff will endeavor to analyze the proposed programs including the information provided by the Company in support of its proposals and subsequently make recommendations regarding the proposed programs by way of supplemental testimony. Should time not permit sufficient analysis, Staff continues to recommend that the Company file an application requesting approval of the new DSM programs that SSVEC is proposing in this application.

Q. What is Staff Recommendation No. 13?

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

Q. What is the Company's response to this recommendation?

A. The Company agrees with the recommendation and further clarifies its understanding of the treatment of account balances. The Company states that its understanding is that DSM program expenses that have not as yet been fully recovered through the wholesale power cost adjustor would remain in the wholesale power cost adjustor and continue to be recovered in that manner. The Company further states that with respect to 2007 and 2008 program expenses, that are currently being reviewed by Staff for approval pursuant to the

Company's last rate case decision (No. 58358), would also be recovered through the wholesale power cost adjustor once approved. Finally, the Company states that all 2009 approved program expenses would be reported and potentially recoverable through the new DSM adjustor.

Q. What response does Staff have to the Company's rebuttal comments regarding Staff Recommendation No. 13?

A. Staff agrees with the Company's description of the appropriate treatment of the existing program expenses, 2007 and 2008 program expenses under Staff review, and 2009 expenses.

Q. Does the Company respond to Staff's REST recommendations?

A. No.

SUMMARY OF STAFF CONCLUSIONS AND RECOMMENDATIONS

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

- Staff agrees that Staff Recommendation No. 4 is now moot.
- Staff recommends that the Company file the DSM program expense reports **by** March 1st and September 1st rather than **on** March 1st and September 1st.
- Staff continues to support Recommendation No. 9, which is that SSVEC's annually proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.
- Regarding the Company's response to Recommendation No. 10, it appears to Staff that the proposal by the Company envisions that a new program's expenses would be reported in the semi-annual reports but not included in the DSM adjustor for recovery until such time

as the program was approved by the Commission. Should this interpretation of the Company's proposal be accurate, Staff agrees with the Company's proposal.

- Staff will endeavor to analyze the proposed programs including the information provided by the Company in support of its proposals and subsequently make recommendations regarding the proposed programs by way of supplemental testimony. Should time not permit sufficient analysis, Staff continues to recommend that the Company file an application requesting approval of the new DSM programs SSVEC is proposing in the instant application.
- Staff agrees with the Company's description of the appropriate treatment of the existing program expenses, 2007 and 2008 program expenses under Staff review, and 2009 expenses.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF SULPHUR SPRINGS ELECTRIC COOPERATIVE, INC.FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF SULPHUR SPRINGS ELECTRIC COOPERATIVE, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. E-01575A-08-0328

SURREBUTTAL

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 3, 2009

TABLE OF CONTENTS

Page

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

This Surrebuttal Testimony addresses issues raised by Sulphur Springs Valley Electric Cooperative ("SSVEC"), in its Rebuttal Testimony, including the Cooperative's counter-proposals concerning Staff's recommendations regarding the Wholesale Power Cost Adjustment mechanism.

It is Staff's position that SSVEC's future power costs are unpredictable and may prove volatile, and that requiring Commission approval for future increases would aid in limiting rate shocks to SSVEC's customers. Approval should be required for all increases, but not for decreases; over-collections should be limited by instituting an upper threshold of $1 million for the SSVEC bank balance. The threshold for under-collections should remain at the $2 million limit recommended in Staff's Direct Testimony, but the Cooperative should be allowed to file for an increase based on reasonable projections that the upper threshold would be reached within six months and remain at or over that threshold for two months.

INTRODUCTION

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

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

Q. Have you previously filed testimony in this docket?

A. Yes. I filed Direct Testimony addressing SSVEC's base cost of purchased power, its wholesale power cost adjustment ("WPCA") mechanism, and its service conditions.

Q. What is the subject matter of this Surrebuttal Testimony?

A. Staff's Surrebuttal Testimony will address the Cooperative's objection to Staff's recommendation that SSVEC be required to obtain approval from the Commission in order to increase its WPCA rate. Staff's Surrebuttal Testimony will also address the Cooperative's issues and counter-proposal concerning thresholds recommended by Staff for the SSVEC fuel bank.

STAFF'S PROPOSAL THAT SSVEC BE REQUIRED TO SEEK COMMISSION APPROVAL FOR INCREASES TO ITS ADJUSTOR RATE

Q. SSVEC contends that the Commission's regulation of AEPCO, along with its authority to address the WPCA mechanism in this rate filing, make requiring Commission approval for increases to the WPCA rate "an unnecessary duplication of regulation." Does Staff concur?

A. No. The Commission's regulation of AEPCO and authority over the WPCA mechanism do not guarantee that SSVEC's future power costs will be passed through its adjustor in a just and reasonable fashion, particularly in light of its transition to partial requirements status. This transition has increased chances that SSVEC's future power costs will be more unpredictable, making additional regulatory oversight important.

Q. Why does this transition require more regulatory oversight, given that SSVEC obtains most of its power from AEPCO?

A. Although increases from AEPCO were a factor in increased costs for SSVEC during 2008, it is by no means clear that increases from AEPCO were the primary cause of SSVEC's increased power costs (as SSVEC contends). What is clear is that SSVEC's third party power purchases, made because it transitioned to a partial requirements contract, played a very significant role in SSVEC's increased power costs. (Please see the Direct and Surrebuttal Testimony of Staff Witness Jerry Mendl.)

Clearly, the transition to partial requirements status made the cost of SSVEC's power supply more volatile. Since these costs are passed on to SSVEC's customers, requiring Commission approval for increases in its adjustor rate would assist in ensuring that SSVEC recovers these less-predictable fuel and purchased power costs in a manner that limits rate shocks to SSVEC's customers.

Q. How would requiring Commission approval for increases in its adjustor rate assist in ensuring that SSVEC recovers its fuel and purchased power costs in a manner that would limit rate shocks to SSVEC customers?

A. First, review of an application seeking an increase to the adjustor rate would allow the Commission to ensure that the request was appropriate, and that the supporting projections, if any, were reasonable. Second, the Commission could assist in designing cost recovery to limit rate shocks, for example, by instituting graduated increases and by limiting increases during peak-usage months.

Q. Is Staff aware of any recent events that support the conclusion that SSVEC should seek Commission approval for increases to its WPCA rate?

A. Yes. SSVEC transitioned to a partial requirements contract in January 2008. By July 2008, SSVEC's under-collection grew to over $4.3 million and, to pay down this balance, SSVEC instituted large increases to its adjustor rate during high-usage months, significantly impacting ratepayer bills.

Q. Does Staff believe that SSVEC's cost of power purchases could become even less predictable over time?

A. Yes. First, even now a significant portion – approximately 20 percent -- of SSVEC's power is purchased in the wholesale market, meaning that one-fifth of its supply comes from sources that may not be regulated by the Commission. Second, although SSVEC is currently taking approximately 80 percent of its supplies from AEPCO, under the partial requirements contract SSVEC is only obligated to purchase its Minimum Base Capacity, or approximately 47 percent of its energy needs. (SSVEC is also obligated to purchase a variable minimum demand each month.) SSVEC, therefore, has the option of greatly reducing its reliance on AEPCO, should it decide to do so, and this could make SSVEC's cost of power purchases even less predictable.

Q. Has SSVEC indicated that it plans to decrease its reliance on AEPCO?

A. No. SSVEC has indicated that over the next five years (2009-2013) it "intends to purchase its full entitlement to Schedule A energy from AEPCO" as long as "Schedule A energy remains the lowest cost energy available to SSVEC." (See response to STF 17.4) Based on this cost assumption, SSVEC estimates that it will purchase between 75.3 percent and 88.3 percent of its power supply from AEPCO during those years.

It should be noted that Schedule A energy may not remain the lowest cost energy. Should Schedule A power increase in cost relative to other sources, SSVEC would presumably reduce its reliance on AEPCO as a result. Staff also notes that as SSVEC experiences growth, acquires unit ownership interest, or self-builds peaking projects, it may buy a smaller percentage of its power supply from AEPCO.

Whatever SSVEC's current intentions, changing market conditions, including changes in demand, price or availability, could cause the Cooperative to shift from its reliance on AEPCO. As indicated above, SSVEC already has the ability to decrease its reliance under the partial requirements contract, should it elect to do so. It is Staff's position that there are too many variables to reliably predict what SSVEC's future purchasing patterns will be, since its purchasing must be conditioned on what is prudent and in the best interests of rate payers.

Q. What are the possible impacts of changes in SSVEC's purchasing patterns?

A. Purchases from the wholesale market are likely to increase the amount of power purchased from sources that are unregulated by the Arizona Corporation Commission, and the future costs of power from unit ownership interests or self-built peaking projects are unknown at this time.

In general, a decreased reliance on AEPCO as a supplier makes SSVEC's future cost of power more unpredictable and potentially more volatile.

Q. Does Staff agree with SSVEC's proposal that "SSVEC be allowed to adjust its WPCA rate without Commission approval unless such adjustment would result in a cumulative annual increase in the total average rate collected from customers per kWh greater than 10%"?

A. No. Staff opposes SSVEC's proposal. SSVEC provided information and an example to clarify the question of how such a limit would work in practice, indicating how the 10 percent would be based and calculated. However, without knowing what future power costs will actually be, the potential impact on customer bills of the SSVEC proposal remains unclear.

Staff's recommendation that SSVEC be required to seek Commission approval for all adjustor rate increases remains unchanged.

Q. Does Staff agree with SSVEC's proposal that "[i]ncreases submitted to the Commission for approval . . . would become effective in 60 days unless the Commission took action."

A. No. Market conditions can change or new questions can arise concerning an application. Under such circumstances, a 60-day limit could potentially limit the Commission's ability to fully consider an increase before it automatically went into effect.

SSVEC'S PROPOSAL TO INCREASE THE THRESHOLD FOR UNDER-COLLECTION TO $4 MILLION

Q. Why has Staff recommended a threshold for under-collection?

A. Because, as an under-collection becomes larger, the increase to the WPCA adjustor rate required to resolve it is also likely to be larger, and this may result in rate shock for customers. Setting a threshold ensures that SSVEC will address the under-collection at a point where the increase to the WPCA rate required to resolve it will be smaller, and therefore limit the impact on customers.

Q. Does Staff agree with SSVEC's proposal that its under-collected threshold should be set at $4 million.

A. No. As discussed earlier in this testimony, an only slightly larger under-collected bank balance of $4.3 million resulted in increases to the adjustor rate that had a significant negative impact on customer bills. Staff also notes that SSVEC has expressed concern over timely cost recovery (discussed further herein). However, filing for an increase when the balance is at $2 million, as Staff is recommending, would produce more timely cost recovery for SSVEC than waiting until the balance is at $4 million.

Q. The Cooperative has expressed concern regarding the requirement for approval resulting in an inability to recover its costs in a timely manner. Please comment.

A. Staff notes that SSVEC need not wait until under-collections reach $2 million in order to file for an increase. Staff has recommended that SSVEC file an application to increase the bank balance when under-collections reach $2 million, *or when SSVEC reasonably projects that this threshold will be reached within six months and continue at or above the threshold for two or more consecutive months.* This latitude allows the Cooperative more timely recovery, in cases where the Cooperative can reasonably anticipate that its bank balance will exceed the upper threshold in the near future.

Q. What if sudden, unanticipated increases in the cost of power cause SSVEC to exceed its under-collected bank balance threshold?

A. Staff has recommended that SSVEC be required to file an application for approval of an increase to its adjustor rate whenever it exceeds the $2 million threshold on under-collections for its bank balance. Energy costs can be volatile and there could be sudden, unanticipated increases in the cost of power, resulting in SSVEC exceeding its threshold for under-collection in a relatively short period of time. In such a case, SSVEC would be filing for approval when its bank balance was already at $2 million, or more. However, while the approval process would slow cost recovery, the Cooperative's interest in timely cost recovery must be balanced against the Commission's obligation to limit rate shocks for SSVEC's customers.

Q. Staff has recommended that SSVEC be required to seek Commission approval for increases to the adjustor rate, but not for decreases. Would requiring Commission approval for only increases to the adjustor rate mean that over-collections could remain unresolved?

A. No. Staff has recommended that both upper and lower thresholds be imposed on the SSVEC bank balance. This would mean that, once the upper threshold is reached, SSVEC must make changes to the adjustor designed to return over-collections to ratepayers and reduced over-collections in a timely manner.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

SURREBUTTAL

TESTIMONY

OF

JERRY E. MENDL

ON BEHALF OF

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 3, 2009

TABLE OF CONTENTS

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

This Surrebuttal Testimony supports the conclusions and recommendations from my Direct Testimony. In addition, I am recommending that Staff conduct a prudence review in the next rate case or within three years, whichever comes first.

INTRODUCTION

Q. Are you the same Jerry E. Mendl who filed Direct Testimony in this docket on February 9, 2009?

A. Yes.

Q. What is the purpose of your Surrebuttal Testimony today?

A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony submitted by Mr. David M. Brian. Mr. Brian commented regarding three topics that I discussed in my Direct Testimony, namely institutional factors, purchase power prices relative to market prices, and alternative approaches. I will address the three principal matters Mr. Brian raised on pages 4-5 of his Rebuttal Testimony. Specifically I will address Mr. Brian's:

- Assertion that Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") has adequate power procurement procedures which are and will be effective.
- Assertion that I have presented an unfair analysis of SSVEC's purchasing activities and third party purchases in particular.
- Assertion that my consideration of alternative approaches is neither complete not relevant, at least as it relates to Arizona Electric Power Cooperative, Inc. ("AEPCO") all requirements service.

Q. Mr. Brian testifies on page 3 that your "conclusions and recommendations are based in large part on an incomplete understanding of SSVEC's history and power supply activities." He goes on to state that his testimony will clear up many of the issues that you raised. Has Mr. Brian's testimony, in conjunction with the materials and analyses you have previously evaluated, caused you to modify your conclusions and recommendations as expressed in your Direct Testimony?

A. No. While Mr. Brian's testimony in some instances provided additional information, it mostly provided opinion and argument. Ultimately, it did not substantially change my understanding of SSVEC's history and power supply activities, and it did not cause me to materially modify my conclusions and recommendations.

Q. Do you have any additional recommendations?

A. Yes. I recommend that the Commission Staff conduct a prudence review of SSVEC's purchased power procurement processes in the next rate case or within three years, whichever comes first. This would give SSVEC time to fully develop and implement its power purchase procurement process. It would also ensure that the issue would be revisited in a reasonable time frame to ensure that SSVEC's customers are not paying excessive prices for electric energy.

INSTITUTIONAL FACTORS

Adequacy of power procurement procedures

Q. What is your understanding of Mr. Brian's testimony regarding the adequacy of SSVEC's power procurement procedures?

A. Mr. Brian asserts that SSVEC's power procurement procedures are and will continue to be adequate, and that the recommendations I made to improve SSVEC's purchase power procurement procedures are not necessary. He makes four arguments in support of his assertions:

1. SSVEC has written policies in place.
2. SSVEC follows adequate procedures and policies to ensure prudent and reasonable power procurement, but they are unwritten and not formalized.
3. Written or formalized procedures would have no benefit, and could have led to worse results.
4. SSVEC is too small to require well documented written procedures.

Q. Do SSVEC's written policies eliminate the concerns you raised in your Direct Testimony regarding the lack of purchase power procurement procedures?

A. No. To put it into perspective, the SSVEC Board adopted policies setting forth the general responsibilities of the Chief Executive Officer and Executive Vice President in 1986, with periodic amendments. The policy established that the CEO also had the job title of Executive Vice President, and that the Executive Vice President had the authority to enter into purchased power agreements with terms of one year or less, or longer than one year with prior Board approval of contracts of similar form. In 1989, with periodic amendments, the SSVEC Board authorized the CEO to approve the purchase of and payment for items, and to delegate to subordinates the purchase of items within certain limits. The CEO can delegate authority to the Chief Financial Officer to purchase approved budget items up to $50,000. The CEO is authorized to purchase and pay for all purchased power transactions. These policies help clarify the roles and responsibilities of the CEO and CFO, and SSVEC should be given credit for that.

However, clarifying the spending authorities at some general level is only a small part of the power procurement procedures that I found lacking.

The mere existence of the Board policies does not necessarily mean that they are regularly and vigorously implemented. To that end, though Mr. Brian appears to suggest that I may have come to a different conclusion had I been aware of the policies. However, he does not acknowledge that SSVEC procurement personnel were either unaware of the policies or did not believe them to be relevant. I had requested such information in data requests JM 14.18, 14.19 and 14.20. See Exhibit JEM-4. The response to JM 14.18 indicated that SSVEC did not have "a formal power procurement plan in place." In data request JM 14.19 I asked whether "a manual, guideline, policy, risk-management policy, or any other written documents to guide its electric power procurement personnel" existed, and requested copies. SSVEC did not indicate the existence of any such documents, and did not provide the SSVEC Board policies in response to the request. This raises doubt about how the Board policies are implemented, or whether SSVEC personnel even consider them in their day-to-day operations.

In summary, the SSVEC Board policies clarify only a small part of the overall issue that I raised, and still leave the question as to whether, and how they are implemented. SSVEC did not initially recognize them as relevant to their power procurement procedures. The existence of the SSVEC Board policies does not materially alter my previous recommendations.

Q. Do Mr. Brian's assertions that SSVEC has an adequate power procurement process alleviate your concerns about the lack of a documented and enforceable procurement process?

A. No. Mr. Brian testifies (page 13) that the "process used by SSVEC to procure power in 2008 was consistent with any formal written procedures it could have developed, had it done so." He continues, "While the process is not heavily documented or regimented in the form of procedures, it has worked well, and continues to work well."

I have two main problems with this assertion. First, he implies that there is a reasonable, well conceived procurement process in place, but that it is simply not well documented. I have no reliable evidence that SSVEC is following a reasonable, well conceived, but informal and undocumented procurement process. In fact, I asked whether SSVEC had any informal or unwritten guidelines or strategies for purchasing electricity and for a description of them in data request JM 14.20. See Exhibit JEM-4. I received the answer prior to drafting my Direct Testimony, and concluded that SSVEC did not have concrete well defined procedures. Rather, SSVEC's process appears to be *ad hoc*, and Mr. Brian's testimony only reinforces that appearance. I do not believe that an *ad hoc* process will be as effective in dealing with changing conditions and volatile markets as an organized process that has been designed to address contingencies as they occur.

Second, Mr. Brian asserts that the process has worked well, and continues to work well. There is no evidence that it has worked well in terms of keeping down the cost of power for SSVEC's customers. SSVEC converted to partial requirements service in order to avail itself of market opportunities to secure power at costs below those charged by AEPCO. My analysis of SSVEC's power cost through October 2008 showed that the opportunities that SSVEC availed itself of were substantially more costly than the cost of power from AEPCO. They also were substantially more costly than spot market prices. This is not evidence that SSVEC's process has worked well.

Q. Do you agree with Mr. Brian's opinion that the written or formalized procedures would have no benefit?

A. No. Having written or formalized procedures adds discipline to the purchasing strategy, as well as accountability. It also provides guidance to the procurement personnel, and a benchmark against which to assess performance and make improvements. I addressed those points in my Direct Testimony, and with due consideration to the assertions of Mr. Brian to the contrary, I have seen nothing in Mr. Brian's rebuttal that would cause me to modify my conclusions and recommendations regarding the need for and appropriateness of a well documented and formalized procurement process.

Q. Do you agree with Mr. Brian's opinion that the written or formalized procedures may have led to worse results?

A. No. Mr. Brian appears to base that opinion on a concept of the procedures as being inflexible and forcing SSVEC to purchase power when prices were high. First of all, well crafted procedures will retain some flexibility while providing discipline and accountability. Established procedures will increase the likelihood of a rational and reasoned response to changing circumstances because the responsible personnel are operating within an existing framework rather than in a panic crisis mode. Within the framework, well crafted procedures will also provide guidance on how to address contingency conditions and how to monitor performance to modify the procedures. In other words, well crafted procedures give advance thought to situations and circumstances that may occur, and thus prepare the responsible personnel for reasonably dealing with them if and when they do occur.

Second, Mr. Brian assumes that written or formalized procurement procedures could have resulted in a requirement to purchase more power through forward purchase arrangements at a time when prices were high rather than to purchase more electricity on the spot market. This is an extreme assumption. Mr. Brian assumes that the formalized procurement procedures would have required SSVEC to lock in all of its power needs when prices were high within weeks before deliveries were to start, and thus not get the benefit from reduced spot market prices. In reality, the procurement procedures may have secured some of the power before electric forward prices rose. The procurement procedure may have also intentionally left an open position subject to specific conditions rather than making that decision on an *ad hoc* basis.

Q. Does the informal procurement process described by Mr. Brian instill confidence that SSVEC's power procurement process reasonable and appropriate?

A. No. It is very *ad hoc* and reactionary in nature, and is not as likely to give consistently good results over time.

By way of background, SSVEC's actual approach identified a need to purchase power for summer 2008, but as prices were rising, put off locking into power purchases until days before delivery began in May. At that point, SSVEC locked in one third of its remaining power need for May. For the June – August period, SSVEC locked up one third of its remaining power need in early June. Mr. Brian indicates (page 18) that "SSVEC refrained from purchasing more forward power for the summer period as wholesale power prices for the summer rose dramatically during the spring months." He goes on to laud SSVEC for having made the good decision to limit its forward purchases because spot market prices turned out to be much lower later in the summer.

This illustrates the *ad hoc* nature of SSVEC's power procurement method. SSVEC knew long before the summer of 2008 that it would need additional power supply resources. Rather than purchase at least some of the power in an orderly and organized fashion in advance, SSVEC waited until days before the power delivery was to begin to purchase part of its needs, and left the rest to supply from the spot market. Over this period, prices were generally rising. Rather than making an organized purchase under a conscious decision, it appears that SSVEC waited to the last minute and panicked – it's "process" left it with no option to buy early or buy over time.

The *ad hoc* nature of SSVEC's power procurement method is further illustrated by Mr. Brian on page 21, where he explains why SSVEC entered into the forward contracts for about one third of its remaining summer power requirement in May and June 2008. He states, "SSVEC was concerned that prices were going to continue to climb, and it was looking to hedge its exposure to the spot market."

In other words, SSVEC knew it needed additional power supplies for the summer. SSVEC considered forward purchases, but took no action (relying on the spot market by default) while prices rose. At least until May and June, after the forward prices and spot market prices had risen, when SSVEC purchased now expensive forward power supplies to hedge exposure to the spot market. As it turned out, deviating at the last moment from SSVEC's *de facto* policy of relying on the spot market by buying some forward supplies was expensive because the spot prices declined. Had spot market prices stayed high or continued to climb, buying forward supplies may have appeared less expensive, especially if done earlier before the prices rose. But then that raises the question of why SSVEC didn't purchase more power on forward supply contracts, and why not earlier?

Q. Is it fair to judge the prudence of SSVEC's power purchases measured against 20-20 hindsight?

A. No. No one knows the future. What is needed is to have a procedure in place to guide decisions in an uncertain future. SSVEC's current informal "procedure" gives no guidance. What were SSVEC's criteria for choosing not to enter into forward purchases earlier (*de facto* riding the spot market)? What were SSVEC's criteria for limiting exposure to the spot market that prompted it to enter into what became expensive forward purchase contracts? What were SSVEC's criteria for choosing a third of its remaining requirements on a forward basis? If it had planned to ladder its remaining requirements in three tranches, why did it not have a disciplined purchase strategy to secure those over time, rather than to purchase the first tranche days before delivery was to begin?

Without a formalized and documented written power procurement procedure, any review invites 20-20 hindsight. One can always look at the results and identify how they could have been better or worse if different decisions had been made or if circumstances had played out differently. But that is not particularly useful, either to determine prudence and reasonableness or to identify changes and improvements to the power procurement process. The benchmarks and guidance provided by a well conceived and written procedure not only counter the temptation to rely exclusively on 20-20 hindsight, but also provide opportunities to get consistent and reproducible good results.

By establishing the procedures, you define what a reasonable person would do. Prudence, and job performance, becomes a question of how well the responsible personnel executed the procedures in light of the circumstances during the review period.

Q. Mr. Brian distinguishes smaller utilities in his testimony, arguing that written procedures are not appropriate for smaller utilities. Do you agree?

A. No. While I do recognize that smaller utilities generally will have fewer resources and fewer personnel to fulfill its responsibilities, and may have fewer options available to it (e.g., it is not likely that SSVEC would build a nuclear power plant to serve its loads), that does not translate into the conclusion that written procedures are not appropriate for smaller utilities. To the contrary, the responsibility to reliably serve customers at reasonable cost is common to both large and small utilities. The decisions regarding power supply, including whether, when and how much power to purchase are made by responsible personnel in larger utilities and smaller utilities alike. SSVEC entered that realm when it chose to become a partial requirements customer and took on the responsibility of securing its own power supplies.

Being a smaller utility does not negate the importance or the consequence of the decisions that the utility must make to secure power supplies. Although the total dollar cost may be less than a corresponding decision for a large utility, the cost per customer or cost per kWh is probably similar. Therefore, for all the reasons I have previously mentioned, having written and documented procedures is important for small utilities as well as large utilities.

Q. If a small utility contracts out some of its power procurement activities, to WAPA and GDS, for example, does that eliminate the need for written procedures?

A. No. The decisions are ultimately still made by the responsible utility personnel, and thus the written procedures should still be in place to guide those decisions. The written procedures would guide the key utility personnel, but also communicate the authorities and objectives to the contract personnel.

Q. Mr. Brian asserts that the procedures you are recommending are not commonplace, and alleges that you have not seen the types of procedures that you are suggesting used in practice (page 14). What is your reaction?

A. Perhaps Mr. Brian has not seen these types of procedures, but I have. Mr. Brian states that I could not provide a single instance where I had seen these types of procedures used for power procurement. I provided three examples in the Southwest in response to SSVEC 2.1 which he attached as Exhibit DMB-5. He dismisses those as natural gas related, which is simply not true. Nevada Power Company and Sierra Pacific Power Company procedures apply to electric power resources, including purchased power. In those utilities, the procurement procedures and strategies are documented in the integrated resource plans ("IRP") and energy supply plans ("ESP") filed with the Public Utilities Commission. In addition, these utilities have written manuals and procedures to provide guidance and performance benchmarks. I am currently engaged in a docket with these two utilities addressing resource optimization strategies, which includes the purchase and sale of electric power to potential buyers such as SSVEC.

Mr. Brian also apparently did not consider my rather detailed response to SSVEC 3.1 when he determined that my experience was not relevant to electric power purchases. In my response to SSVEC 3.1, I provided two work assignments within the past ten years, as requested by SSVEC, where the subject matter involved power supply planning for an electric cooperative. I also provided thirteen work assignments within the past ten years grouped by client and utility involving power supply planning for an electric utility other than an electric cooperative. These groupings sometimes included multiple dockets. At the top of that list were Nevada Power and Sierra Pacific Power, which described the resource optimization strategy, electric power sales and electric resource mix among the issues. I also attached copies of about 25 pieces of testimony that I had given, as requested by SSVEC, that were pertinent to electric power supply planning. This included the testimony relative to resource optimization strategy and electric power planning and purchases referenced in my response to SSVEC 2.1.

Finally, Mr. Brian asserts that I have not worked with smaller utilities or on projects dealing with power supply matters for an electric power cooperative (page 15). I worked on power supply matters related to two electric power cooperatives as indicated in my response to SSVEC 3.1. Although it occurred more than ten years ago, and was thus not included in my response to SSVEC 3.1, I have worked for the American Public Power Association regarding power supply resources. I have also worked on projects involving power supplies for Wisconsin Public Power, Inc., Western Wisconsin Municipal Power Group, the Marshfield municipal utility, the Menasha municipal utility, Dairyland Power Cooperative, and several other small utilities. It would be illogical to dismiss my experience as irrelevant to small utilities or public (not-for-profit) power.

Q. Has Mr. Brian's testimony regarding SSVEC's organizational structure and power procurement procedures caused you to modify your recommendations and conclusions?

A. No, I have not modified my recommendations pertaining to organizational structure and power procurement procedures based on my review of Mr. Brian's testimony.

However, Mr. Brian's testimony has caused me to modify my conclusions. My initial review of SSVEC's organizational structure and power procurement procedures led me to conclude that some improvements were required, but that SSVEC was in transition and was in the process of developing, implementing and refining its power procurement procedures. I believed that SSVEC was open to upgrading and documenting its power procurement procedures, and would be making a good faith effort to do so as it gained more experience with its new responsibilities.

Mr. Brian's testimony suggests otherwise, namely his belief that formalized, written and documented power procurement procedures are inappropriate. If Mr. Brian has his way, I now conclude that SSVEC will not make the improvements to its organizational structure and power procurement procedures.

Therefore, I am now augmenting my recommendations to suggest that the Commission Staff conduct a prudence review of SSVEC's purchased power procurement activities in the next rate case, or within three years, whichever comes first.

PRICES PAID BY SSSVEC FOR PURCHASED POWER

Q. Mr. Brian asserts that your analysis of the prices paid for purchased power is flawed because you compared on-peak pricing to off-peak pricing in your comparison. Please comment.

A. Mr. Brian makes that assertion, and then goes on to state that "the APS and PNM purchases are on-peak purchases six days a week." (Page 19, line 21) Mr. Brian is wrong. The APS and PNM purchases are for 16 hours per day, seven days per week including NERC holidays. As such, SSVEC purchased power from APS and PNM during off-peak hours as well as on peak-hours.

At least 16 hours per week, SSVEC was purchasing power during the off-peak period at on-peak prices. In addition, SSVEC also purchased power during the off-peak NERC holidays at on-peak prices on Monday, May 26, 2008 (Memorial Day) and Friday, July 4, 2008 (Independence Day).

It is disingenuous of Mr. Brian to criticize my analysis, which was based on using balancing transactions prices as a proxy for market prices. I requested market price information in data requests to SSVEC. SSVEC responded that it did not maintain any such data base, and did not have access to any such data base.

Q. Mr. Brian indicates that correcting your "mistake" by only comparing the third party contracts to on-peak prices yields significantly different results. Do you agree?

A. No. First, his analysis ignores that fact that SSVEC purchases some of the power from APS and PNM during the off-peak period.

However, even making the assumption that Mr. Brian makes and ignoring the off-peak purchases, he points out that in June, of the 138 balancing transactions made during the on-peak period, 35 were at prices greater than what SSVEC paid under the APS contract. Stated differently, the prices SSVEC paid were above the market in 75 percent of the transactions in June.

Furthermore, he suggested that similar results would occur in the other months that I analyzed. In May, 20 of the 106 on-peak balancing transactions were at prices greater than what SSVEC paid under the third party contract. Thus the prices SSVEC paid were above the market in 81 percent of the transactions in May.

In July, 19 of the 103 on-peak balancing transactions were at prices greater than what SSVEC paid under the third party contract. Thus the prices SSVEC paid were above the market in 82 percent of the transactions in July.

In August, 1 of the 97 on-peak balancing transactions were at prices greater than what SSVEC paid under the third party contract. Thus the prices SSVEC paid were above the market in 99 percent of the transactions in August.

For the four-month period in which SSVEC made third party purchases, the on-peak market prices, as measured by the on-peak balancing transactions, were greater than the third party purchase prices on 77 of 444 occasions. For the summer 2008 season, SSVEC third party purchased power prices were above the on-peak market price in 83 percent of the on-peak balancing transactions. By comparison, my direct testimony, which included both on-peak and off-peak balancing transactions, indicated that SSVEC third party purchased power prices were above the price of all balancing power transactions in 90 percent of the balancing transactions. While the numbers change given the assumption that Mr. Brian made, it is hardly a vindication of SSVEC's power purchase results.

Q. **Do you agree with Mr. Brian that the fair way to evaluate the reasonableness of the pricing is to review the information that the utility had before it at the time the decision was made? (Page 21, line 12)**

A. It depends on the purpose of the evaluation. I would agree that it is a typical standard in prudence review. However, it is not only a question of what information a utility had, but what it should have had and how it processed that information.

In my analysis, I concluded that SSVEC does not have a documented process by which to secure and utilize information which would lead to an orderly and systematic method for securing power cost effectively. I also concluded that SSVEC does not collect the data necessary to monitor and evaluate its performance, and to modify its procurement process to improve its performance. Both of these are factors affecting a prudence determination that go beyond simply reviewing what information a utility had at the time it made a decision.

Q. Why did you develop an analysis comparing third party purchase prices to spot market conditions?

A. First, spot market conditions are a benchmark against which to assess the performance of SSVEC's approach to power procurement. In effect, buying power from the market is an option that exists. If buying from the market would consistently yield lower prices than whatever approach SSVEC was using to procure power, it would suggest to me that SSVEC should reassess its purchased power procurement practices.

Second, I also compared third party purchase prices to power supplied under the AEPCO partial requirements contract. One reason is that AEPCO represents a competing source of power supply. Another reason for doing that analysis is that SSVEC was publicly stating that AEPCO costs were the reason for high power prices charged to SSVEC customers in early summer 2008. My analysis found that SSVEC customers were experiencing rate increases resulting from third party purchases and higher market prices, not AEPCO cost increases. Costs paid to AEPCO were essentially constant, both in total dollars and average cost per kWh purchased. Balancing power (spot market) and third party power prices were significantly higher.

ALTERNATIVE APPROACHES

Q. Do you agree with Mr. Brian that SSVEC already utilizes laddered purchasing strategies? (Page 28, line 13)

A. No. SSVEC may have considered laddering, and may have planned to procure electricity on a laddered approach in 2008, but it did not do so. Mr. Brian stated that SSVEC planned to purchase 75 MWs in three staggered 25 MW increments (page 28, line 20). I would agree that would have constituted laddering, if done over a reasonable period of time. Mr. Brian goes on to state that the APS and PNM purchases were 25 megawatt purchases reflecting the first layer of this plan, and that it was later decided not to do more than the first layer. Thus, Mr. Brian admits that SSVEC did not actually ladder its purchases in 2008, although they may have considered doing so.

Furthermore, Mr. Brian states that the APS and PNM purchases were the first layer of the laddered approach. Yet, SSVEC entered into those contracts literally days before delivery started. Since they were the first layer, it would have been impossible to buy the other two layers in advance with the purchases staggered over time.

Q. Despite higher costs in 2008, Mr. Brian states that SSVEC believes the partial requirement status with AEPCO is better because SSVEC has independent control to establish its own strategy for part of its power supply requirements (page 30, line 1). Do you agree?

A. Yes, SSVEC could reduce its power supply costs through independently managing part of its power procurement, but <u>only if</u> SSVEC takes the appropriate steps. Thus far, I have not seen evidence that SSVEC has taken the organizational and procedural steps to help ensure independent power procurement success. The process laid out so far is *ad hoc* in nature, and is not well documented. My analysis of the costs incurred in 2008 indicates that SSVEC power procurement led to higher rather than lower costs.

While the partial requirements service from AEPCO offers SSVEC the potential to reduce its costs, those results are not at all assured at this time. I believe it is reasonable to give

SSVEC the opportunity to fully implement and document a purchase power procurement process, and revisit the prudence of that process within three years.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes it does.