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Arizona Corporation Commission  
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8 BEFORE THE ARIZONA CORPORATION COMMISSION

9 **COMMISSIONERS**

10 KRISTIN K. MAYES, Chairman  
11 GARY PIERCE  
12 PAUL NEWMAN  
13 SANDRA KENNEDY  
14 BOB STUMP

13 IN THE MATTER OF THE  
14 APPLICATION OF TRICO ELECTRIC  
15 COOPERATIVE, INC., AN ARIZONA  
16 NONPROFIT CORPORATION, FOR A  
17 PERMANENT RATE INCREASE, FOR A  
18 DETERMINATION OF THE FAIR  
19 VALUE OF THE CORPORATION'S  
20 ELECTRIC SYSTEM FOR RATE  
21 MAKING PURPOSES, FOR A FINDING  
22 OF A JUST AND REASONABLE RATE  
23 OF RETURN THEREON AND A JUST  
24 AND REASONABLE RETURN, AND  
25 FOR APPROVAL OF RATE  
26 SCHEDULES DESIGNED TO DEVELOP  
SUCH RETURN.

Docket No. E-01461A-08-0430

**TRICO ELECTRIC COOPERATIVE,  
INC.'S NOTICE OF FILING  
SUMMARIES OF THE PRE-FILED  
TESTIMONY OF ITS WITNESSES**

21 Pursuant to the Procedural Order entered by the Administrative Law Judge on  
22 September 18, 2008, in the above proceeding, Trico Electric Cooperative, Inc. hereby gives  
23 notice of the filing of the Summaries of the Pre-Filed Testimony of its witnesses, Vincent  
24 Nitido, Mark W. Schwirtz, Caroline Gardiner, Charles Emerson, Marsha Regrutto, David  
25 Hedrick and Mike Searcy, attached hereto, in the above proceeding.



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7 Commissioners  
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## Unresolved Issues Trico Electric Cooperative

Docket No. E-01461A-08-0430

### Issue One – Residential Time of Use

<b>Residential TOU</b>	<b>Trico's Original Position</b>	<b>Staff's Position</b>	<b>Trico's Compromise Proposed in Rebuttal</b>
Monthly Customer Charge	\$21.00	\$16.00	\$19.00
On-Peak Cents/kWh	\$.204	\$.198	\$.1964
Off-Peak Cents/kWh	\$.079	\$.061	\$.074
On Peak Hours	Seven Days/Wk	Mon-Fri	Seven Days/Wk
Existing Billing	\$3,797,341	\$3,797,341	\$3,797,341
Proposed Billing	\$5,231,848	\$4,493,671	\$4,959,187
Increased Revenues	\$1,434,507	\$696,330	\$1,144,792
Increase Percent	37.78%	18.23%	30.01%
Cost of Service	\$4,978,677	\$4,978,677	\$4,978,677
Return	\$253,171	(\$485,006)	(\$19,490)

### Issue Two – Monthly Customer Charge

<b>Customer Class</b>	<b>Cost of Service (in \$'s)</b>	<b>Existing Charges (in \$'s)</b>	<b>Trico's Original Proposed Tariff (in \$'s)</b>	<b>Staff's Position (in \$'s)</b>	<b>Trico's Compromise Proposed in Rebuttal (in \$'s)</b>
Residential	35.18	12.00	17.00	13.50	15.00
Residential TOU	43.49	16.00	21.00	16.00	19.00
GS-1	40.49	15.00	20.00	16.80	18.00
GS-2	43.84	15.00	20.00	16.80	18.00
GS-3	207.97	15.00	20.00	16.80	18.00
Water Pumping	95.87	15.00	20.00	17.25	18.00
Irrigation	131.94	15.00	20.00	17.25	18.00
TOD Pumping	177.27	15.00	20.00	17.25	18.00
IS-1	314.94	32.00	37.00	36.80	36.00
IS-2	324.69	32.00	37.00	36.80	36.00

### Issue Number Three – Interruptible Tariff Language

Customer Class	Current Language	Decision No. 68073 Finding Fact # 47	Trico's Position	Staff's Position (in \$'s)
IS-1 and IS-2	In the event the customer has metered demand at the time of AEPCO peak more than twice in a calendar year, the Cooperative <b>MAY</b> disconnect the controlling device and discontinue interruptible Service.	The Commission Stated: “...We believe that Trico's proposed language discussed above, that allows it to remove a customer at its discretion if it has meter demand during AEPCO's peak is a reasonable solution and balances the equities.”	Retain current language	Change the word <b>MAY</b> to <b>WILL</b>
Penalty Charge	\$29.50/kw/month	\$29.50/kw/month	\$29.50/kw/month	\$29.50/kw/month

## Issue Number Four – Rules, Regulations and Line Extension Policies

Rule 203, Part D	Staff's Position	Trico's Position
Clarify language concerning "dedicated solely"	Staff recommends that Trico specify that a customer shall only pay for those facilities <b>"dedicated solely to serve that particular customer."</b>	<p>The language for those facilities dedicated solely to serve that particular customer should be changed to:</p> <p><b>"for those minimum size economic standard facilities to serve that particular customer."</b></p> <p>Normally Trico's line extension facilities serve multiple customers and very few are dedicated to serve only one customer. The language change protects the customer as well as Trico.</p>
Strike language Trico previously submitted		Trico proposes to strike the following language: "The Cooperative may use the average of the previous 12 months when the average matches the type of line being constructed."
<b>Rule 219</b> Clarify Language concerning nearest Trico Facility	<p>Staff's witness proposed that a line extension customer pay for a line extension:</p> <p><b>"from the nearest Trico Power facility to the customer's point of delivery."</b></p>	<p>Change the reference to:</p> <p><b>"the nearest Trico power facility to the nearest existing Trico power facility capable of providing the customer's load less any oversized or rerouted facilities for the Cooperative system needs."</b></p>

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY DAVID HEDRICK  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**I. DIRECT TESTIMONY FILED ON AUGUST 15<sup>TH</sup>, 2008**

Mr. Hedrick's direct testimony discusses the following:

- A. A discussion of TRICO's objectives in this filing and an overview of the rate filing package:
  - 1. Increase the revenue requirement by an amount sufficient to improve the Cooperative's financial condition. The increase in revenue is projected to increase the equity as a percent of capitalization to 30% by the year 2014.
  - 2. Revise the line extension policy to eliminate all free allowances, thereby requiring new customers to contribute a higher share of the costs and reducing the Cooperative's capital costs.
  - 3. Modify the RS-1 TOU rate to correct a large unintended subsidy currently being provided to the RS-1 TOU rate class.
  - 4. Increase the Cooperative's margins and cash general funds in order to fund more of the Cooperative's distribution plant additions from internally generated margins instead of long-term debt.
- B. A discussion of the development of the revenue requirement for TRICO based on the cash needed to meet the financial objectives.
- C. A discussion of the rate design and the impact on Members:
  - 1. Based on the cost of providing service,
  - 2. Reflect unbundled costs of providing service,
  - 3. Reflect a consideration of the impact of the rate change on the members,
  - 4. Reduce the unintended subsidy for the Residential TOU class in three phases to minimize customer impact.
  - 5. Implement a Demand Side Management Adjustment.
- D. A description of the proposed tariff changes.

## **II. REBUTTAL TESTIMONY FILED ON APRIL 24, 2009**

Mr. Hedrick's rebuttal testimony discusses:

- A. TRICO's request that Commission Staff re-evaluate its recommended rate design for the Residential TOU class. TRICO believes that Staff's proposed TOU rate will result in a continued ineffective rate which will have a negative rate of return and does not promote energy efficiency. TRICO proposes a revised Residential TOU rate as a compromise.
- B. TRICO's disagreement with Staff's proposed customer charge recommendations. TRICO supports a higher increase in the customer charges based on the cost of service and prior Commission action. TRICO proposed a compromise rate design.
- C. TRICO's request that Staff reconsider a wording change in the IS-1 and IS-2 tariff requiring that customers be removed from the rate if there are more than two overrides in a twelve-month period. TRICO contends that this requirement is not necessary because of the penalties imposed and the benefits that both the customer and the Cooperative gain from all interruptions.
- D. TRICO clarifies several areas of the line extension policy to ensure that the language does not put TRICO in a difficult financial position.

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY VINCENT NITIDO  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**I. DIRECT TESTIMONY FILED ON APRIL 24, 2009**

Vincent Nitido is the Chief Executive Officer/General Manager of Trico.

Mr. Nitido's testimony discusses the following:

- Effective March 30, 2009, Mr. Nitido replaced Mark W. Schwartz as the CEO/General Manager of Trico who resigned in December, 2008.
- The purpose of his testimony is to adopt the Pre-Filed Direct Testimony of Mr. Schwartz filed August 15, 2008.
- Attached is a Summary of Mr. Schwartz's Pre-Filed Testimony which provides a general overview of the rate application, a summary of the primary issue that led Trico to file for a rate increase, and a discussion of Trico's growth and current financial condition.
- He has reviewed Mr. Schwartz's testimony, has investigated each of the matters addressed in such testimony, is satisfied of the accuracy thereof and adopts it as his own.

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY MARK W. SCHWIRTZ  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**II. DIRECT TESTIMONY FILED ON AUGUST 15, 2008**

Mr. Schwartz was CEO/General Manager of Trico Electric Cooperative, Inc.

Mr. Schwartz' direct testimony discusses the following:

- Trico is an Arizona nonprofit corporation and electric public service corporation having been issued certificates of convenience and necessity ("CC&Ns") by the Arizona Corporation Commission ("Commission") in portions of Pima, Pinal and Santa Cruz Counties.
- Trico is one of the fastest growing electric distribution cooperatives in the United States having, when the Application was filed, approximately 38,000 customers of which approximately 36,000 are in the residential class. Over the past 10 years it has averaged an increase of 6% annually.
- It has 3,500 miles of underground and overhead lines and employs 125 full time employees.
- Trico's growth pursuant to its Rules, Regulations and Line Extension Policies ("RR&LEP") has required it to finance most of the line extensions and to obtain materials, labor and capital at highly increasing costs requiring Trico to borrow substantial sums of money increasing its principal and interest payments and incurring increasing depreciation. This has resulted in Trico's surplus to decrease below 25% and in reducing its Operating Time Interest Earned Ratio ("OTIER") and to fall below the requirements of its primary lender, the Rural Utilities Service ("RUS") impairing its ability to continue financing its capital growth.
- The primary objectives of this Rate Case are
  1. Increase revenue by approximately 8.8%
  2. Substantially revise Trico's RR&LEP
  3. Modify its Residential Time of Use tariff which is ineffectual and has resulted in a loss of approximately \$800,000 per year over the last few years.
  4. Accelerate its increase to equity to 30% and greater over the next few years and substantially improve the OTIER to 1.85-2.00.

5. Implement a new Demand Side Management portfolio collecting its costs through a Demand Side Management Adjustor mechanism.
- Trico's Board of Directors has approved this rate filing and it has engaged David Hedrick and Mike Searcy of the firm of CH Guernsey & Company as expert witnesses.
  - The rate filing is in the public interest to permit Trico to provide service to a large and growing service area with reliable electric service at reasonable rates.

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY CAROLINE GARDINER  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**I. DIRECT TESTIMONY FILED ON AUGUST 15<sup>TH</sup>, 2008**

Ms. Gardiner is Trico's Manager of Finance and Administration.

Ms. Gardiner's direct testimony discusses the following in this rate proceeding:

- A. A discussion of TRICO's financial requirements:
  - 1. Increase the revenue requirement by \$6,542,728.
  - 2. Increase Trico's rates by 8.81%.
  - 3. Determine Trico's rate base to be \$154,546,824 in the 2007 Test Year.
  - 4. Determine return and rate of return to be \$11,761,982 and 7.61%.
- B. A discussion of the Trico's significant strategic positions:
  - 1. Since Trico's last rate increase in 2005 Trico has grown 6%-7% annually,
  - 2. Trico has spent over \$145 million in capital investment from 1997 – 2007, \$45 million in the last two years,
  - 3. Trico's fixed costs for interest and depreciation have increased \$1.8 million from 2006 to 2007,
  - 4. Trico's Operating TIER has decreased to 1.05 in 2007, below RUS standards, thus impairing Trico's borrowing ability,
  - 5. Trico's equity to capitalization ratio has decreased to 25% in 2007.
- C. A discussion of Trico's proposed revisions in its Rules, Regulations and Line Extension Policies ("RR&LEP") and how such revisions help meet Trico's financial goals:
  - 1. The proposed Line Extension policy stabilizes interest expense,
  - 2. The proposed Line Extension policy requires full payment of costs for the line extension and thus will reduce the need for future rate increases for all customer classes.
- D. A discussion of trends that have contributed to the need for a rate increase:
  - 1. Increased number of customers on an ineffective Residential Time of Use rate reducing revenues over \$800,000 in 2007,

2. A lenient Line Extension policy that excessively increases Trico's borrowing costs,
  3. Total borrowing from 2006 – 2007 of almost \$45 million,
  4. Averaging 6% - 7% growth rates in kWh sales and number of new customers,
  5. Failure to meet annual Operating TIER requirements from RUS
- E. A discussion on how the requested rate increase will move TRICO towards meeting RUS and ACC requirements for a stronger equity position and higher Operating TIER and will greatly improve Trico's financial condition.

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY MARSHA REGRUTTO  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**I. DIRECT TESTIMONY FILED ON AUGUST 15<sup>TH</sup>, 2008**

Ms. Regrutto is Trico's Manager of Marketing and Services.

Ms. Regrutto's direct testimony discusses the following:

- A. A discussion of TRICO's demand side management program selection process:
  - 1. Are consistent with Trico's mission statement and core ideologies,
  - 2. Shift peak load to off-peak hours,
  - 3. Reduce peak demand and energy consumption.
- B. A discussion of the Trico's education and information process including Trico's Member Advisory Council and Town Hall meetings to help educate members.
- C. A discussion of Trico's existing demand side management activities:
  - 1. The member service representative energy training workshop,
  - 2. The classroom connection program,
  - 3. Residential home energy audits,
  - 4. Operation Cool Shade –trees program,
  - 5. Pima County weatherization program,
  - 6. Residential time of use tariff
  - 7. Non-Residential energy audits
  - 8. Conservation workshop program,
  - 9. Other commercial, industrial, irrigation and water pumping time of use rates currently available.
- D. A discussion of Trico's recovery of existing and future DSM costs.
  - 1. Currently Trico recovers demand side management costs through its existing revenues.
  - 2. Trico proposes to recover these costs through a DSM adjustor mechanism on a kWh basis,
- E. All demand side management programs will be pre-approved by the Commission.

1. Trico requests the Commission's pre-approval of its existing programs in this rate proceeding.
2. At such time as Trico seeks to implement new programs or expand existing programs it will seek Commission pre-approval pursuant to a process approved by the Commission.

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY CHARLIE EMERSON  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**I. DIRECT TESTIMONY FILED ON AUGUST 15<sup>TH</sup>, 2008**

Mr. Emerson has been Trico's Manager of Technical Services for the past 30 years.

Mr. Emerson's direct testimony discusses the following:

- A. A discussion of Trico's existing Rules, Regulations and Line Extension Policy ("RRLEP"):
  - 1. The Rules consist of Definitions, Part 1 dealing with the provision of electric service, Part 2 dealing with line extensions, Part 3 pertaining to meter reading, billing, collection and termination of electric service and Part 4 pertaining to Administrative and Hearing Requirements.
  - 2. The line extension Rules provide for free footage of 600 feet for single phase overhead and underground outside of subdivisions, 200 feet for three phase overhead and underground extensions outside of subdivisions and 500 feet for underground extensions in subdivisions.
  - 3. A discussion of line extensions in real estate subdivisions.
  - 4. A discussion of the customer paying refundable advancements in aid of construction and nonrefundable contributions in aid of construction.
- B. A discussion of Trico's proposed changes in the RRLEP.
  - 1. The reduction and simplification of seven types of line extensions into four types.
  - 2. The elimination of free footage
  - 3. The changes in most instances of refundable advances in aid of construction to nonrefundable contributions in aid of construction.
- C. A discussion of the reasons for the proposed changes.
  - 1. Trico's rapid growth since 2000 requiring large amounts of investments for capital improvements,
  - 2. The dramatic increase in construction costs,

3. The extensive long term borrowing to provide the capital for the line extensions resulting in greatly increased principal and interest payments and in the amount of depreciation,
4. The corresponding result in Trico's rapid decline of equity and its Operating Times Interest Earned Ratio,

D. A discussion of additional reasons for amending numerous Rules:

1. Changes to correct several typographical errors,
2. Changes in the Preface to coordinate with Rule 216 establishing how existing contracts and applications would be handled when the revised RRLEP became effective,
3. Changes to explain Trico's standard voltage,
4. Changes in various definitions to make the Rules more understandable,
5. Changes to provide greater safety for customers and their equipment,
6. Changes to explain the customer's responsibilities to obtain easements and provide access.
7. Changes to add the basis for fees the customer is responsible for during "Service Calls".
8. Changes to give more options to customers to obtain line extensions.
9. Changes to provide more options for giving notice to customers by including facsimile transmission and email.
10. Changes for clarification and simplification.
11. Changes to provide more detail to improve understandability.

**SUMMARY OF PRE-FILED TESTIMONY GIVEN BY MIKE SEARCY  
ON BEHALF OF TRICO ELECTRIC COOPERATIVE, INC.**

**I. DIRECT TESTIMONY FILED ON AUGUST 15<sup>TH</sup>, 2008**

Mr. Searcy's direct testimony discusses the following:

A. Development of financial adjustments made to establish the adjusted test year income statement. The adjustments made were known, measurable and continuing in nature necessary to provide service. The adjustments are an accurate reflection of the Cooperative's level of revenues and expenses that should be recovered. The following adjustments were made to determine the adjusted test year.

- Operating Revenue
- Purchased Power
- Bad Debts
- Payroll
- Employee Benefits
- Depreciation
- Rate Case Expense
- Payroll Taxes
- Interest on Long-Term Debt

The overall impact of the adjustments was a reduction in operating margin of \$2,299,803.

B. A discussion of the development of the Cost of Service Study.