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BEFORE THE ARIZONA CORPORATIC

IN THE MATTER OF THE APPLICATION OF)
TRICO ELECTRIC COOPERATIVE, INC., AN)
ARIZONA NONPROFIT CORPORATION, FOR A)
PERMANENT RATE INCREASE, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
THE CORPORATION'S ELECTRIC SYSTEM FOR)
RATEMAKING PURPOSES, FOR A FINDING OF)
A JUST AND REASONABLE RATE OF RETURN)
THEREON, AND FOR APPROVAL OF RATE)
SCHEDULES DESIGNED TO DEVELOP SUCH)
RETURN.)

DOCKET NO.
E-01461A-08-0430

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At: Tucson, Arizona

Date: May 20, 2009

Filed: JUN 03 2009

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

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Arizona Corporation Commission

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1 BE IT REMEMBERED that the above-entitled and
2 numbered matter came on regularly to be heard before the
3 Arizona Corporation Commission, in Hearing Room 222 of
4 said Commission, 400 West Congress Street, Tucson,
5 Arizona, commencing at 11:10 a.m., on the 20th day of May,
6 2009.

7

8 BEFORE: JANE L. RODDA, Administrative Law Judge

9

10 APPEARANCES:

11 For the Arizona Corporation Commission Staff:

12 Mr. Kevin Torrey
13 Staff Attorney, Legal Division
14 1200 West Washington Street
15 Phoenix, Arizona 85007

16 For the Applicant:

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18 VILLAMANA, PC
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23 For the Intervenor IBEW Local 1116:

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28 KATE E. BAUMGARTH, RPR
29 Certified Reporter
30 Certificate No. 50582

1 ALJ RODDA: Let's go on the record.

2 This is the time set for the hearing in Docket
3 No. E-01461A-08-0430, which is the matter of the
4 application of Trico Electric Cooperative, Inc., for a
5 rate case.

6 Good morning everyone, and welcome to the Arizona
7 Corporation Commission. My name is Jane Rodda, and I'm
8 the ALJ assigned to this matter.

9 And the first thing I would like to do is take
10 appearances of the parties. I will start with the
11 applicant, Trico.

12 MR. JONES: Russell Jones of the law firm of
13 Waterfall Economidis, attorneys for Trico Electric
14 Cooperative, Inc.

15 ALJ RODDA: Okay. And I will remind the parties,
16 make sure that the green light is lit up on your
17 microphone. It really helps.

18 And on behalf of the intervenor, the
19 International Brotherhood of Electrical Workers,
20 Local 1116.

21 MR. ENOCH: Good morning, Judge Rodda. This is
22 Nicholas C. Enoch from the law firm of Lubin & Enoch
23 appearing on behalf of Local 1116.

24 ALJ RODDA: Okay. And on behalf of Commission
25 Staff?

1 MR. TORREY: Good morning, Your Honor.

2 Kevin Torrey on behalf of Commission Staff.

3 ALJ RODDA: Well, welcome all to Tucson. I am
4 glad you made it safely.

5 Before I get started with public comment, do the
6 parties have anything preliminarily? I'm not aware of
7 anything.

8 MR. TORREY: I don't have anything on behalf of
9 Staff, Your Honor.

10 MR. JONES: Nothing.

11 ALJ RODDA: All right. Then I will note that
12 this is the time for public comment in this matter, and if
13 you wish to make public comment, if you will indicate by
14 raising your hand, and then I will have you come forward
15 and you can sit at this chair here.

16 We will start here at the second row back. I
17 will just ask, just state your name and if you could spell
18 it for us.

19 MR. GODLEWSKI: Absolutely. David Godlewski,
20 G-o-d-l-e-w-s-k-i.

21 Good morning. My name David Godlewski I am the
22 government liaison for the Southern Arizona Homeowners
23 Association.

24 I'm here today to express our concerns with Trico
25 Electric Cooperative's requested changes to the rules,

1 regulations and line extension policy.

2 In particular our concerns relate to the
3 unintended consequences that would be caused by
4 eliminating free-footage allowances to new customers --

5 ALJ RODDA: David, can I just get you to slow
6 down a little bit?

7 MR. GODLEWSKI: Sure, and I have a copy that I
8 would be happy to submit as well.

9 ALJ RODDA: Great.

10 MR. GODLEWSKI: Let me go back.

11 In particular our concerns relate to the
12 unintended consequences that would be caused by
13 eliminating free-footage allowances to new customers and
14 eliminating the current financing options for line
15 extensions. If approved, the changes would have an
16 adverse impact on the home building industry, ratepayers,
17 and the local economy.

18 Placing the construction costs squarely on the
19 home building industry would pose a significant hardship
20 on an already decreased industry, but even in good times
21 builders simply cannot absorb these costs. They would be
22 passed on to ratepayers in the price of a new home.
23 Increasing the cost of new homes by several thousand
24 dollars would be cost prohibitive for many new consumers
25 and could forestall the recovery of the local housing

1 market.

2 It is also important to note that while we see
3 the merits in changing the policy in the testimony
4 provided by Trico, the financial burdens this policy
5 allegedly caused were based upon boom in the residential
6 construction that none of us will likely see again in our
7 lifetimes. It is more likely that new house construction
8 numbers that we saw in 2008 will be the new norm. The
9 high construction and material costs seen during this boom
10 were overpriced and have since declined dramatically.

11 The current RR&LLP policy has been in place for
12 nearly 30 years. During the majority of this time the
13 policy has worked for Trico and the home building
14 industry. Only in the past few years during an
15 unprecedented growth period has this policy become a
16 problem with Trico.

17 In conclusion, we respectfully ask that our
18 concerns be taken into consideration and that the
19 unintended consequences we outlined be fully examined.
20 SAHBA is available and willing to work with Trico and the
21 ACC on possible alternatives. Our hopes is that a
22 win-win-win solution could be found to benefit Trico, the
23 home building industry, and consumers. Thank you.

24 ALJ RODDA: Okay. Well, thank you very much.

25 MR. GODLEWSKI: Would you like me to provide a

1 copy?

2 ALJ RODDA: Yes. Thank you.

3 And then there was a gentleman behind.

4 If you would state your name and spell it.

5 MR. LANARO: Good morning.

6 ALJ RODDA: Good morning.

7 THE WITNESS: My name is Pasqual Lanaro,

8 P-a-s-q-u-a-l L-a-n-a-r-o.

9 I'm a retired electrician living and being served
10 in the Trico area, South Sierrita Mountain Road.

11 I'm here today to state on some of the problems
12 I have been having.

13 There has been no problem with the service with
14 Trico. The service has been very good. I moved in the
15 area around March of 2007, and I have been with Trico
16 since about mid March. And the service has been good.
17 There has been no problems there.

18 My problem is with this power cost adjustment
19 that is passed on to the consumers, supposedly directly,
20 to the cost that the utilities have with the power that
21 they use, the fuel that they use for generating their
22 power.

23 Because my understanding is that Trico doesn't
24 generate any power. It just buys its power from other
25 generating companies and plants. So I called to ask them

1 about the power cost adjustment and how it's determined,
2 and they referred me to Arizona Electric Power Cooperative
3 down by Benson.

4 I called them and spoke to some people there.
5 Connie was one, and she kept putting me on hold to go
6 refer to her supervisors. And eventually she came back
7 and told me to call a Jim MacDonald at APS up in Phoenix
8 because it seemed that they get quite a bit of their power
9 buying it from APS; although, they do have a generating
10 plant of their own.

11 So the power that Trico gets seem to be partially
12 from Arizona Electric Power Cooperative and partially from
13 APS, which I believe is Arizona Public Service
14 Corporation.

15 And so I spoke with Mr. MacDonald for about
16 15 minutes, and what it boiled down to was that the power
17 cost adjustment is, of course, based on the past, what the
18 costs have been in the past because no one knows the
19 future. But as to how it's determined he could not
20 exactly say, except that there are many factors involved
21 and they have -- Arizona Public Service has a nuclear
22 plant at Palo Verde. It has a coal-fired plant. It has
23 plants that are fired by natural gas.

24 He was able to tell me about 30 percent of their
25 electricity is powered by gas -- natural gas, and I think

1 it was 20 or 25, if I remember correctly, by nuclear
2 power, the rest by various other fuels.

3 ALJ RODDA: And so you want to learn how the
4 adjustor is determined or what is your --

5 MR. LANARO: Well, one of my questions here is,
6 the primary question is, does the Arizona Corporation
7 Commission know exactly the formula that is being used by
8 the various utilities in Arizona to determine their
9 post-cost adjustment or is it just a matter of saying you
10 can only pass on the actual cost to the consumer and you
11 leave it at that with them?

12 ALJ RODDA: The Arizona Corporation Commission
13 approves the adjustor, so it definitely knows what the
14 formula is.

15 MR. LANARO: And would I be able to get that
16 information from the Corporation Commission?

17 ALJ RODDA: I'm sure you can.

18 Mr. Irvine, who at the Commission would be the
19 best source?

20 MR. IRVINE: Well, first let me say, I believe
21 that the information is public. Occasionally there is
22 certain contracts which, you know, are not public, but for
23 the most part they are.

24 ALJ RODDA: Well, the formula should be; right?

25 MR. IRVINE: I mentioned that it would be. I

1 can't imagine why it wouldn't be.

2 And the Commission does track monthly filings and
3 reviews them for accuracy and works if the company needs
4 to make corrections.

5 And to answer your original question, in light of
6 not knowing who to contact, I will get with this gentleman
7 and offer my own number, and I will track down whoever
8 that might be, if I can't help personally.

9 ALJ RODDA: I appreciate that, Mr. Irvine. It
10 seems like we should be able to answer his question.

11 MR. LANARO: And the other thing I wanted to
12 mention as far as that is concerned, is that since I have
13 been with Trico, they have a -- it was originally at 0.018
14 per kilowatt hour; it was that way for eight months. And
15 then it went to 0.02 cents per hour, which was a
16 5.6 percent increase; and it was that way for six months.
17 And then it went to 0.021 cents per kilowatt hour and was
18 that way for two months. And then it went to 0.28 cents
19 per kilowatt hour for three months. And then it went to
20 0.038 percent, which is what it is now and has been for
21 the past four months.

22 So what that boils down to is an increase of
23 10.6 percent in 15 months -- the first 15 months, and then
24 a 60.7 percent increase in the last seven months. Now, in
25 that last seven months, we have had the economy drop down,

1 as everyone knows, to a very deep recession, and everyone
2 is feeling the pinch.

3 So what I would like to say here is, first, the
4 increase can be directly related to increases in power
5 costs. I have a letter here from November 2008 from
6 general manager Mark Schwartz of Trico's CEO and general
7 manager, who states that the power cost adjustments are,
8 rather than adjusting it whenever the costs rise there,
9 they are "levelized" over the course of a year. And they
10 try to implement incremental increases rather than a
11 one-time drastic increase. And if we didn't levelize, we
12 might see huge PCA increases during the summer months.
13 Well, we have had 60.7 percent in the past seven months.
14 That seems to me a huge increase.

15 On the flip side he states, when costs decrease,
16 Trico credits your bill. Unfortunately, this hasn't
17 happened in some time. Well, it hasn't been in any of the
18 time I have been with Trico. And so it seems that the
19 seven-month period going back into the past has been the
20 point where they probably were using the power cost
21 figures from the prior, let's say year. So I'm expecting
22 to see a decrease now because this seven months the prices
23 have dropped. I have been following the cost of the
24 various types of fuels.

25 Of course, I can't locate how they determine the

1 cost on a nuclear plant, but I would assume that the only
2 thing they are paying for is the rods they use as their
3 nuclear fuel, and I don't know how that goes up. And I
4 would like the Corporation Commission to, if they know,
5 let me know that also. If they don't know, let me know,
6 please.

7 And the other last thing I would like to say on
8 that matter is on the power cost adjustments, if these
9 costs are so complicated and so difficult to determine
10 that a person named Jim MacDonald up at APS who was
11 referred to me by Arizona Electric Power Cooperative -- he
12 is not able to tell me himself how it's determined. I
13 know they must have accountants and other people, but I
14 only ask this: Is there a way that the formula could be
15 determined that wouldn't be quite so difficult that you
16 can't call a power company and get an answer to them as to
17 how it's done?

18 Thank you.

19 ALJ RODDA: I agree. I think that Trico should
20 be able to answer questions about the power adjustor. And
21 I'm not quite sure why you were talking to somebody from
22 APS about Trico's power adjustor, but we will try to find
23 someone at the Commission to talk to you.

24 MR. LANARO: Well, it was a matter of just who
25 was purchasing power. When they purchase power from other

1 companies, those companies have various generating plants,
2 and so that complicates the procedure.

3 ALJ RODDA: Okay. Well, thank you very much for
4 your time this morning.

5 MR. LANARO: Thank you.

6 ALJ RODDA: Anyone else who wishes to make public
7 comment this morning?

8 All right. Then we will let the record reflect
9 that there is no one else present this morning wishing to
10 make comment.

11 And with that we will get started with the
12 evidentiary portion of the proceeding. I will ask,
13 Mr. Jones, do you have an opening statement you would like
14 to make this morning.

15 MR. JONES: A very brief one.

16 Trico's financial condition has really
17 deteriorated over the last few years. It's equity to
18 capitalization ratio has dropped from 38 percent in 2002
19 to approximately 23 percent at the present time in the
20 test year of 2007. Its operating tier has dropped from
21 approximately 1.40 five years ago to now 1.05 in the 2007
22 test year. And this is extremely important because it
23 does not meet the rural utility service operating tier
24 test, which is 1.10, which means that Trico may have a
25 very difficult time in borrowing funds through the RUS,

1 which is its principal lender.

2 The causes of this financial condition are rapid
3 growth over the last few years coupled with very
4 ineffective rules and regulations and line extension
5 policies. And in addition to that there has been a high
6 rise in the cost of both material and labor, which has
7 really made it very difficult for Trico to finance it.
8 They have to go to RUS and borrow the funds, and that
9 increases the interest rate tremendously and the
10 depreciation. In the year 2006 to 2007 the total of the
11 interest and depreciation increased \$1,800,000, which is
12 very difficult for Trico to undertake.

13 We also need a general increase from the other
14 rate classes.

15 Trico sincerely appreciates Staff's position that
16 they recognize Trico needs a substantial revenue increase,
17 which they have testified should be in the neighborhood of
18 approximately \$6.5 million. And Trico further is
19 appreciative of the Staff's position concerning the major
20 overhaul of its line extension policy.

21 In this case Trico has acknowledged and accepted
22 the various adjustments and comments that Staff requested,
23 and there are only three contested issues of which our
24 witnesses will deal with. The first is residential
25 time-of-use tariff. At the end of the test year 2007 that

1 tariff cost Trico over a \$1 million loss. And it's
2 continuing to be a very troublesome matter, and it's one
3 of the reasons we were required to file a rate case.

4 We also have requested an increase in customer
5 service charges that our witnesses will testify to.

6 And finally the third contested issue yields with
7 our interruptible rates, IS-1 and IS-2. And the same
8 issue came up at the last rate case that Trico had, and
9 the Commission adopted Trico's position that it had
10 discretion in determining whether it should require
11 customers on these classes to be removed from the class if
12 they overrode Trico's interruption during an up-flow peak
13 time more than twice in two years, leaving discretion.
14 The Commission wants it mandatory, and our witness will
15 deal with this.

16 That is the conclusion of my opening statement.

17 ALJ RODDA: Okay. Thank you.

18 Mr. Enoch, do you have an opening here?

19 MR. ENOCH: Just a few brief comments.

20 And we wholeheartedly agree with Mr. John's
21 comments regarding the financial underpinning of Trico's
22 request in why it's necessary, in particular the
23 financing, for the future growth.

24 It's stunning, the last Trico case when they
25 sought 80-some-odd million dollars when one raised the

1 projections for customer growth in the service territory,
2 which has probably slowed down a little bit now but that
3 is only a little bit and only temporary, how fast this
4 company is going to grow moving forward.

5 And the one portion Mr. Jones did talk about was
6 the rising labor costs, and I do want to make clear that
7 the rising labor costs are attributable to the fact that
8 many of the employees, especially the high-secured
9 employees in the utilities these days, even during the
10 economic downturn, this is actually one area of the labor
11 market where the demand still out pays the supply. And
12 you can be assured, and the Commission can be assured,
13 that Trico has been, will be, and in the future will be
14 competing for highly-skilled utilities workers. And they
15 are not an island in of themselves, and when employees
16 like this are somewhat fungible, they can move around, and
17 they can make decisions to their own benefit.

18 So Trico, based on its compensation package and
19 its benefit package, needs to remain competitive if it's
20 going to meet its current needs, let alone those that it
21 faces in the years to come. It's upon that basis that the
22 Union, Local 1116, fully supports Trico's application in
23 this case. And really we don't have any -- the parts that
24 Mr. Jones says are still contested issues, we don't have
25 any additional contested issues to throw out today.

1 Thank you.

2 ALJ RODDA: Thank you, Mr. Enoch.

3 Mr. Torrey, do you have any?

4 MR. TORREY: Thank you, Your Honor.

5 Well, while everything good has already been
6 said, Staff did appreciate all the work that Trico did
7 preparing this case and working with Staff and making sure
8 that all of our data requests were timely and we were able
9 to get this thing taken as soon as possible.

10 Again, as the company has already stated, there
11 are just those few remaining issues that we need to sort
12 of flush out on the record for a decision for you. And
13 other than that, we are just going to have Mr. Irvine
14 speak to those issues, and we believe it will be a very
15 straightforward proceeding this morning.

16 ALJ RODDA: Thank you much.

17 With that, Mr. Jones, I guess Mr. Nitido is your
18 first witness?

19 MR. JONES: Yes.

20

21 VINCENT NITIDO,
22 called as a witness herein, appearing on behalf of the
23 Applicant, having been first duly sworn, was examined and
24 testified as follows:

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DIRECT EXAMINATION

BY MR. JONES:

Q. Would you state your name and business address, please.

A. Vincent Nitido.

ALJ RODDA: Is the light on? Try pushing it.

THE WITNESS: Vincent Nitido.

Q. BY MR. JONES: And your business address?

A. My business address is 8600 West Tangerine Road, Marana, Arizona.

Q. Who is your present employer, and what is your position with your present employer?

A. My employer is Trico Electric Cooperative, Inc., and my position is chief executive officer and general manager.

Q. And how long have you been chief executive officer and general manager of Trico?

A. Since March 30th of 2009.

Q. And who is your predecessor in that office?

A. My immediate predecessor was Charlie Emerson, the acting CEO. Prior to, Charlie Mark Schwartz was the CEO and general manager of Trico, and he left in December of 2008.

Q. Did Mr. Schwartz file prefile testimony -- direct

1 prefile testimony in this case?

2 A. Yes, he did.

3 Q. I hand you what the court reporter has marked as
4 Exhibit A-1 for identification. This purports to be his
5 prefiled testimony.

6 Is that his prefiled testimony?

7 A. Yes, it is.

8 Q. Have you reviewed it?

9 A. I have.

10 Q. Have you investigated the matters set forth in
11 that prefiled testimony?

12 A. Yes, I have.

13 Q. Are you satisfied that his responses in the
14 prefiled testimony are accurate and correct?

15 A. I am.

16 Q. And have you filed your own prefiled testimony in
17 this case?

18 A. Yes.

19 Q. I hand you what the court reporter has marked as
20 Exhibit A-2 for identification and ask you if this is your
21 prefiled direct testimony?

22 A. Yes, it is.

23 Q. If I asked you the same questions as set forth in
24 that exhibit, would you give the same response now?

25 A. Yes, I would.

1 Q And are those responses accurate and correct to
2 the best of your knowledge and belief?

3 A Yes, they are.

4 MR. JONES: Your Honor, we offer into evidence
5 Exhibits A-1 and A-2.

6 ALJ RODDA: Any objection to A-1 or A-2?

7 (No response.)

8 ALJ RODDA: Then A-1 and A-2 are admitted.

9 (A-1 and A-2 were admitted.)

10 Q BY MR. JONES: And in your testimony you are
11 adopting Mr. Schwirtz's testimony?

12 A Yes, I am.

13 MR. JONES: I have no more questions, and you can
14 cross-examine.

15 ALJ RODDA: All right. Mr. Enoch, do you have
16 any questions for this witness?

17 MR. ENOCH: I do not.

18 ALJ RODDA: Okay. Mr. Torrey.

19 MR. TORREY: I just want to make certain,
20 Mr. Nitido, early in the opening comments the attorney
21 mentioned just a few areas where there is some
22 disagreement between Staff and the company.

23 Does any of your testimony address any of those
24 disagreements with Staff?

25 THE WITNESS: My testimony provides an overview

1 of those areas, but the specific disagreements and
2 mechanics of our position will be better dealt with
3 through the testimony of Ms. Gardiner and Mr. Hedrick.

4 MR. TORREY: Okay. Thank you. Staff has no
5 questions, Your Honor.

6 ALJ RODDA: Okay. Thank you very much.

7 And, Mr. Nitido, it is nice to see you again.

8 THE WITNESS: Thank you, Judge.

9

10 EXAMINATION

11

12 BY ALJ RODDA:

13 Q. I have a few questions which is why I wanted you
14 here today.

15 I will start with some of the areas that were
16 touched on in the public comment that we just had.

17 And you heard -- you were here, and you heard the
18 comments about the gentleman looking for information on
19 how the adjustor works?

20 A. Yes.

21 Q. There should be someone at Trico who understands
22 and could explain that to a customer, isn't there?

23 A. There are people that understand it. The
24 adjustor is a tariffed rate, and we can provide him or any
25 other member of Trico with that information.

1 Q All right. And sometimes it's a matter of
2 knowing what to ask for.

3 Is there a certain department or person that he
4 should ask for if he wants to talk to someone from Trico?

5 A If he called into our member reps, they should be
6 able to either provide him with the information or get it
7 to provide to him.

8 It's understandably a complicated scenario with
9 the pass-through coming from AEPCO and a rate that is set
10 at a different time and place than the system rates that
11 we are working on today.

12 But nonetheless we can and do provide that
13 information on request.

14 Q Okay. And with regard to that rate, it's a
15 pass-through of the cost from AEPCO; right?

16 A Correct. We are an all-requirements member of
17 AEPCO so that 100 percent of the power we provide to our
18 membership is supplied by AEPCO.

19 I do not know where APS got involved.

20 Q If AEPCO had to purchase summer-peaking power
21 from APS --

22 A That happens, but there isn't a current contract
23 or anything with APS and AEPCO.

24 Q Okay. So that is a mystery, but hopefully
25 talking to Staff we will be able to sever that problem.

1 And also, can you just describe a little bit for
2 me the Trico service territory? What areas does it
3 encompass?

4 A. The easiest way to think of Trico's service
5 territory is we're around the Tucson Electric Service
6 territory. So we have the areas ranging from Mount Lemmon
7 across to Marana, part of Oro Valley, Catalina, west and
8 south to Three Points, proceeding further south to
9 Arivaca, Green Valley, Corona de Tucson.

10 Q. So all of these areas, except maybe Mount Lemmon
11 that burned down a few years ago, about Marana, Oro
12 Valley, Green Valley -- does it include Sahuarita?

13 A. Parts of Sahuarita, yes. The service territory
14 there is split with Tucson Electric.

15 Q. They have traditionally been fairly fast-growing
16 areas?

17 A. That's right.

18 Q. I presume in the last nine months or so -- have
19 you noticed a difference in terms of requests for service?

20 A. There has clearly been a reduction in the amount
21 of requests as compared to our experience over the
22 preceding 10 years -- or 10 years preceding the test year
23 in this case. However, if you look at 2008, we still had
24 a growth rate in excess of two and a half percent, which
25 by our standard of in excess of 6 percent is lower, it

1 still is a respectable growth rate given that many other
2 utilities are flat or even in some cases negative.

3 Q Okay. And so how has the current economic
4 downturn affected you? Have you seen -- there are any
5 number of ways that I could see how it would affect the
6 utility. There could be increases in delinquencies.
7 There could be -- it could be beneficial if the cost of
8 serving goes down.

9 Can you just talk a little bit about how the
10 current economic climate has impacted the utility?

11 A Sure. Given the growth rate that we saw in the
12 10 years preceding the test year, as Mr. Jones mentioned
13 in his opening statement, it was very difficult to keep up
14 with that growth rate and resulted in a lot of increases
15 in borrowings and diminution in our coverage ratios as
16 well as our account ratios.

17 So in some sense the break or the slowdown has
18 benefited us; it's provided us with an opportunity to
19 catch up with the system and to -- the opportunity to do
20 some maintenance that had been postponed given the hectic
21 climate that we had over the last few years.

22 Nonetheless, we still ended up with a lot of
23 system increase and a much higher level of debt and
24 associated interest expense and amortization so that the
25 carry-forward effect is still there. Given no other

1 change, we would still see a trend continuing as a
2 reduction in our equity ratios and interest-covered
3 ratios.

4 So it's been a mixed blessing. We still need
5 growth, but the fact that it slowed down somewhat given
6 the past history is favorable.

7 We have absolutely seen an increase in the amount
8 of delinquencies. And we certainly are aware that people
9 are having a harder time these days paying their electric
10 bill, which you would expect in an economy like this where
11 the unemployment rate is where it is.

12 Q Do you have a low-income tariff?

13 A I don't believe that we do.

14 Q And so some of the testimony in this case that
15 has been filed over a number of months, I think the
16 original direct -- well, when you filed the case in August
17 of 2008, do you have -- do you have growth projections for
18 2009 and 2010 yet?

19 A We have a long-term forecast that Mr. Hedrick can
20 walk through with you. I believe that our current
21 projection for this year is something around 2 percent,
22 maybe slightly below.

23 Q Okay. So then over the next five years or so,
24 what do you think are going to be the greatest challenges
25 for this utility?

1 A. I think in part it depends on whether we see the
2 return in the growth level we experienced in the past.
3 Given the economic -- if the economic conditions reverse
4 themselves -- there is no reason to believe that they
5 won't return -- but the service territory remains an
6 attractive place for people to relocate to, and we would
7 expect, given the proximity to Tucson, the availability of
8 land, the climate, the favorable climate that they
9 experience, there is no reason to believe that we won't
10 experience comparable levels in our growth. So that, we
11 believe, will continue to be a challenge for us.

12 We always have the challenge of rates and rate
13 pressure, and it's again justifiably a concern of our
14 membership that rates continue to rise. A large portion
15 of that we don't control; it's a pass-through in our fuel
16 expense through AEPCO. But nonetheless it's incumbent on
17 us to work as hard as we can to control our costs, to come
18 up with other alternatives to provide to our membership to
19 control the rates. So that will be a challenge for us as
20 well.

21 Q. Are DSM programs an issue in this case? Are they
22 being approved in the case?

23 A. We requested approval of \$115,000 in DSM expense.

24 Q. So what DSM program? Are you the witness that I
25 have that can talk to that or is there a better witness?

1 A. Well, I can tell you what the DSM programs are.
2 Marsha Regrutto filed our testimony with respect to the
3 DSM programs, and she did a comprehensive job outlining
4 what each of them are.

5 Q. And are they being approved as part of this case?

6 A. Yes. We have requested approval of expenditures.

7 Q. With the decline in your equity -- well, does the
8 cooperative -- does the cooperative have a policy about
9 the refund of capital credits?

10 A. Do we have a policy? We do refund capital
11 credits. We do not refund them if our ratio is lower than
12 25 percent.

13 Q. All right. So not at all?

14 A. I don't believe we did capital refund -- capital
15 credit refunds last year.

16 Q. Okay. And if the account grows to above
17 25 percent, is that something that the board considers on
18 an annual basis? How much would be returned in a given
19 year? That is why I asked about a policy, if there is a
20 set formula or whether they do it ad hoc.

21 A. I think Ms. Gardiner would be better equipped to
22 answer that.

23 Q. And so today -- and this might be a Ms. Gardiner
24 question too -- are you in compliance with your lender
25 financial ratios?

1 A. Well, I can answer it. She can expound on it.

2 We are not in compliance with the requirement
3 under our RUS financing documents. The minimum operating
4 times interest earned ratio is 1.1 percent or 1.1.

5 We currently, as of 2008, had a ratio of 1.04 and
6 the preceding year a ratio of 1.05. So there are two
7 requirements. The first is that you maintain it on an
8 annual basis, the 1.1, and the second is that you
9 maintained an average over a three-year period. The high
10 two years of the last three need to be 1.1 percent.

11 So we are out compliance with those.

12 Q. What happened? What happens when you are out of
13 compliance? What does RUS do?

14 A. Well, if we are out of compliance, the RUS
15 requires that we file a plan or inform them of what our
16 plan is to put us back in compliance.

17 Q. And I presume one of the ways to get back into
18 compliance is to file a rate case?

19 A. That is the principal way, yes.

20 Q. Okay. And you have done that.

21 Do you have other things that you are going to do
22 to come back in compliance besides increase rates or is
23 she a better witness? Have you done all you can, do you
24 think, to expense?

25 A. Yes. We have had a very intensive cost-reduction

1 program in effect the last couple years.

2 We are getting to the point that I would be
3 concerned with our ongoing maintenance and our ability to
4 maintain the system. I think it would be a bad idea to
5 continue that indefinitely or to increase that.

6 So our main -- to respond to your question, our
7 main approach in getting back into compliance is seeking a
8 rate increase as well as the big impact associated with
9 eliminating the free footage associated with our line
10 extension policy as well as creating a time-of-use policy
11 that provides a better -- more closely provides a return
12 and coverage for the cost of providing that.

13 Q. Okay. And I think during our prehearing
14 conference -- if I had questions about the cost of the
15 line extensions, is that Mr. Hedrick?

16 A. It is.

17 Q. Now, the cooperative is accepting Staff's
18 recommended revenue level in this case; is that right?

19 A. That's correct.

20 Q. Is Staff recommending a higher revenue level than
21 the cooperative originally requested; do you know?

22 A. I don't know.

23 Q. Okay.

24 A. The Staff's recommended increase is 8.1 percent
25 compared to our request of 8.8 percent. But I don't know

1 the exact number on the revenue requirement.

2 Q So it sort of depends where you start from?

3 A It does.

4 ALJ RODDA: Okay. All right. I don't think I
5 have any further questions for this witness.

6 Did you have anything in addition, Mr. Jones?

7 MR. JONES: No, Your Honor.

8 ALJ RODDA: All right. Thank you very much.

9 MR. TORREY: Actually, Your Honor, if I could
10 follow up on one question you asked.

11 ALJ RODDA: I'm sorry. Yes.

12

13

CROSS-EXAMINATION

14

15 BY MR. TORREY:

16 Q Mr. Nitido, you mentioned that the company was
17 not in compliance with the revenue requirements from RUS?

18 A Correct.

19 Q If the Commission were to adopt Staff's
20 recommendations as they appear in the Staff report, do you
21 believe that that would provide the company with the
22 financial wherewithal to be in compliance with your
23 lenders?

24 A Yes. Our projections indicate that we would be
25 in compliance. It would put us back into compliance.

1 MR. TORREY: Nothing further, Your Honor.

2 ALJ RODDA: I appreciate that, Mr. Torrey.

3 All right. Mr. Nitido, now you may be excused.

4 THE WITNESS: Thank you.

5 MR. JONES: Mr. Hedrick.

6

7

DAVID HEDRICK,

8 called as a witness herein, appearing on behalf of the
9 Applicant, having been first duly sworn, was examined and
10 testified as follows:

11

12

DIRECT EXAMINATION

13

14 BY MR. JONES:

15 Q. Would you state your name and business address,
16 please.

17 A. My name is David Hedrick. My business address is
18 5555 North Grand Boulevard, Oklahoma City, Oklahoma.

19 Q. By whom are you employed and what is your
20 position with your employer?

21 A. I'm employed by C.H. Guernsey & Company. I'm
22 vice president and manager of the analytical solutions
23 group.

24 Q. Have you been engaged by Trico Electric

25 Cooperative as an expert in this rate case to compile

1 schedules and tariffs and things of that nature?

2 A. Yes, I have.

3 Q. Have you filed prefiled -- direct prefiled
4 testimony in this case?

5 A. I have.

6 Q. I will hand you what the court reporter has
7 marked A-3 for identification, and I will ask you if that
8 is your direct prefiled testimony?

9 A. That is my direct testimony.

10 Q. And if I asked you the same questions, would you
11 give me the same answers that are in the exhibit there?

12 A. Yes.

13 Q. To the best of your knowledge and belief are
14 those responses accurate and complete?

15 A. Yes.

16 Q. Have you also filed in this case prefiled
17 rebuttal testimony?

18 A. Yes.

19 Q. I hand you what the court reporter marked as
20 Exhibit A-4 for identification, and I ask you if that is
21 your rebuttal testimony?

22 A. That is.

23 Q. If I ask you the same questions as they are the
24 rebuttal testimony, would you give me the same responses?

25 A. Yes, I would.

1 Q And, to the best of your knowledge and belief,
2 are those responses accurate and complete?

3 A Yes, they are.

4 MR. JONES: We offer into evidence A-3 and A-4.

5 ALJ RODDA: Any objection to A-3 or A-4?

6 MR. TORREY: No, Your Honor.

7 ALJ RODDA: Then A-3 and A-4 are admitted.

8 (A-3 and A-4 were admitted.)

9 Q BY MR. JONES: Have you had an opportunity to
10 review the Commission Staff's direct and surrebuttal
11 testimony in this case?

12 A Yes, I have.

13 Q And have you come to the conclusion on behalf of
14 Trico that all of their suggested adjustments and
15 positions with respect to Trico's testimony documents,
16 exhibits, except for the contested issues, are now
17 accepted by Trico?

18 A Yes.

19 Q So we have three contested issues?

20 A That's correct.

21 Q Would you tell Your Honor what the three
22 contested issues are?

23 A Yes. The issues that remain that I address in my
24 rebuttal testimony related to the residential time use
25 rate, the level of customer charges, and the requirement

1 in the interruptible commercial and interruptible
2 irrigation rate as to whether a customer will be required
3 to be removed from that rate if they fail to get off at
4 the time of the peak.

5 The first issue with regard to the residential
6 time use rate, our direct testimony provides a discussion
7 of the difficulties that we have had with the time-of-use
8 rate. The design of that rate has provided a loss to the
9 company so much so that prior to the rate case Trico filed
10 and had that rate frozen so we would not have any
11 additional customers put on that rate because the company
12 was losing money.

13 Actually the rate design that is currently in
14 place does not recover costs appropriately and allows
15 customers that do not modify their behavior to move from
16 the standard residential rate to the time-of-use rate and
17 be able to save money. That has created problems.

18 Our proposal in our direct testimony was to
19 correct the time-of-use rate, the rate design, include
20 weekends -- Saturdays and Sundays -- as on-peak periods.
21 We did change the hours definition on the peak hours
22 definition slightly. We reduced the number of hours per
23 day, but we increased the number of days that they were on
24 the peak periods.

25 The intent was then to try to get the rate closer

1 to recovering costs. And our original proposal increased
2 that particular rate class by 37 percent. And we further
3 propose to put that rate in place over a -- phase it in
4 over a period of a year in three steps to try and
5 alleviate some of the customer impact associated with
6 that.

7 In review of the Staff's position, their
8 testimony regarding the time-of-use rate, it's our
9 understanding that Staff's position is that the
10 time-of-use rate for residential only be increased by
11 18 percent, and that would be done all at one time and one
12 step.

13 The position that Trico has taken in the rebuttal
14 testimony was to provide an alternative, compromised
15 position, taking into account Staff's concern about the
16 level of the increase, which we too are concerned about,
17 the level of the increase, but we are also concerned about
18 the impact that this rate has on the rest of the system.

19 The rebuttal position that Trico has proposed is
20 an increase to that particular rate class of 30 percent
21 phased in over a 12-month period in two steps. One step,
22 essentially half of that level at the outset and then in
23 12 months the remaining increase to get to a positive
24 percent overall increase.

25 The need for that is evident. The rate does not

1 perform. It is not providing sufficient margins to cover
2 costs, and it has been a significant reason why the
3 margins for Trico have not been where they needed to be
4 over the last year -- couple of years.

5 The other issues -- so that's the issue on the
6 residential time-of-use.

7 Q. Let me ask a few questions on that.

8 A. Certainly.

9 Q. You have attached exhibits to your rebuttal
10 testimony. Would you look at Exhibit DH-4.0 -- no. I'm
11 sorry. It's 3.0.

12 A. Yes.

13 Q. And explain that to Your Honor.

14 A. Well, one of the justifications that we provided
15 for the inclusion of Saturdays and Sundays as on-peak
16 hours in the definition of this rate were that the AEPCO
17 peaks occur on Saturdays and Sundays. There are no days
18 over the past three years that have been excluded from
19 that.

20 And in order for a time-of-use rate to function
21 properly, we need to provide the signal to the customer
22 that the on-peak periods occur; the customer needs to be
23 able to get off. By including Saturdays and Sundays we
24 are giving the signal to the customer that the peaks can
25 occur on Saturdays and Sundays.

1 And the table that you listed, DH-3, shows the
2 AEPCO peaks for 2006, 2007, and 2008, and it shows them by
3 date and time and day of the week. And in 2006 there were
4 three months in which the AEPCO peak occurred on a Sunday.
5 There have been numerous times in 2007 and 2008 when the
6 peak occurred on Saturdays. And our contention is that
7 that is evidence that the peaks do occur on weekends and
8 is reason why the on-peak period should include weekend
9 periods to be effective, to make the rate effective.

10 My understanding is that Staff's position is that
11 including the weekend periods the customers simply won't
12 like that. They won't respond to the rate if it includes
13 Saturdays and Sundays. And our contention is, if you
14 don't have Saturdays and Sundays in there, the rate is
15 really not very effective because you will have peaks on
16 those days and people are not going to be penalized for
17 being on at that time. There is no signal given to the
18 customer that they need to conserve or to be off on those
19 periods. So that is the purpose of having that schedule
20 in there.

21 Q. And another one of your schedules attached to
22 your rebuttal testimony is DH-2.0, six pages on page 4 of
23 6. It's item 10.

24 Is that an explanation of your compromised rate?

25 A. That is. That is the proof of revenue of the

1 time-of-use rate that we have proposed. It includes a \$19
2 customer charge, an on-peak charge of 19.64 per kilowatt
3 hour and off-peak charge of 7.4 cents per kilowatt per
4 hour.

5 Q. What is the current customer charge under the
6 existing rate in that rate classification?

7 A. I'm not sure that I have that up here to tell
8 you.

9 Q. Well, I can --

10 A. Well, let me look here. I may have it on the
11 back page here.

12 It's \$16 in the existing time-of-use rate.

13 Q. And what did Trico propose in this application as
14 far as that item was concerned?

15 A. The original rate filing we proposed the customer
16 charge to be \$21.

17 Q. And what did Staff's testimony say about that
18 particular charge?

19 A. Staff's proposed customer charge was 16. It
20 originally didn't change the customer charge.

21 Q. And what is your compromise again?

22 A. Customer charge is 19.

23 Q. All right. Now, do you know how much -- you said
24 under the Staff's proposal for this particular tariff that
25 there will be a negative return.

1 Do you know how much that negative return would
2 be?

3 A. I don't know what the amount is, but the
4 18 percent increase that Staff proposes does not get us to
5 a positive operating margin for that class.

6 Q. And what is the result of your compromise as far
7 as the return of that class?

8 A. Well, the intent is to get the return level very
9 close to zero for that class at least.

10 We are still not earning the margin that is
11 necessary from that class, but we are much closer than
12 Staff's proposal.

13 Q. If Staff's proposal were effected, how would that
14 affect the other customer classes?

15 A. Well, the primary issue is that the extent
16 that -- to the extent that we don't raise the time-of-use
17 class to the level that it requires, the revenue that we
18 would have collected from those customers we have to
19 recover from other customers on the system.

20 So essentially the subsidy that exists is greater
21 under the Staff's proposal than under the company's
22 proposal. We are trying to eliminate as much of that
23 subsidy as possible.

24 So to the extent we don't recover all the margins
25 that are necessary from that class, they have to be

1 recovered from other customers.

2 Q You have any further comments on the conflict
3 between Trico and Staff with respect to that issue?

4 A I think it's -- the record is pretty clear in
5 terms of the testimony of Staff and the company in terms
6 of disagreement.

7 It's a measure of really how quickly do we
8 correct the problem. And there certainly is a problem,
9 and our -- as we indicated previously to this rate hearing
10 or rate filing, we had approval of a freeze to the rates
11 so we didn't add any additional customers. And
12 recognizing it is a serious problem here, this is the time
13 to fix the problem, and if you don't fix it now, it will
14 be a continuing problem that will have to be addressed in
15 the future.

16 Q The second disputed issue is the amount of
17 customer charge for the various customer classes?

18 A That's correct.

19 Q Would you turn to your Exhibit DH-4.0 and explain
20 to Your Honor what that particular issue is based upon in
21 that exhibit?

22 A Yes. We tried to quantify the positions.
23 Originally Trico proposed -- and I will use residential as
24 an example -- the existing customer charge for residential
25 is \$12. In our proposed rate design we increased that \$5

1 to \$17.

2 The justifications for that are in my testimony.
3 Our costs of providing services we have shown to be in
4 excess of \$30 per customer per month simply to provide
5 those fixed related costs of providing services to a
6 customer before we even sell a kilowatt hour. As a means
7 of being more fair and equitable and provide stability
8 with the revenue, an increase in the customer charge is
9 justified. We proposed a \$5 increase. Staff's proposal
10 increased the customer charge to 13.50, so only \$11.50
11 increase.

12 Again, in rebuttal testimony, recognizing Staff's
13 position with regard to their concern about the increase
14 in the customer charge, we proposed a compromise and have
15 stated our position and designed rate with a \$15 customer
16 charge for residential. That is somewhat less than what
17 we asked for and somewhat more than what Staff proposed.
18 The intent is to try to find a balance and the right place
19 where we can recover our costs but be moving towards our
20 cost of providing service a little bit more quickly than
21 what Staff has proposed.

22 *Q.* Does that exhibit that you referred to explain
23 the same matter concerning the other customer classes as
24 you explained with respect to the residential class?

25 *A.* Yes, it does. It shows our original position

1 with regard to the customer charge, Staff-proposed
2 customer charges, and our revised proposal with regard to
3 the customer charges. And then we calculated what the
4 difference really is between our revised position and
5 Staff's position.

6 Q. Can you explain to Your Honor basically what your
7 Exhibit DH-2.0 does? What is the effect of that exhibit?

8 A. Well again, DH-2 is a proof of revenue showing
9 the calculation of the revenue for each rate class based
10 on the rates and the customer charges which are stated on
11 DH-4 are incorporated into DH-2.

12 And again, I will say that the revenue
13 requirement -- overall revenue requirement is not in
14 dispute, so we have designed the rates to recover the
15 revenue requirement as Staff proposed. So that is not a
16 question. It's just the individual class rate designs
17 that are in question.

18 ALJ RODDA: Just before, on that point, is there
19 a dispute on how it should be allocated among classes?

20 THE WITNESS: Well, there is -- I don't think
21 there is a significant dispute. I think it all centers
22 around how much revenue you put into the residential
23 time-of-use class.

24 So if -- I mean, to that extent that one
25 particular class, if you deem that a 30 percent increase

1 is the right number, that is going to mean that the -- it
2 changes slightly the revenue increases to some of the
3 other classes, but it's not a significant -- it's not a
4 significant issue that we have. It all centers around the
5 residential time-of-use rate.

6 ALJ RODDA: I'm sorry to interrupt you,
7 Mr. Jones.

8 Q BY MR. JONES: Turning to the third contested
9 issue, will you explain to Your Honor what the penalty is
10 in the IS-1 and IS-2 rate classes that you proposed the
11 tariff for in the filing?

12 A Yes. In the IS -- the interruptible commercial
13 and interruptible irrigation rates the penalty for any
14 demand at the time of the AEPCO peak, if they override and
15 they have a demand reading at the time of the AEPCO peak,
16 they pay a penalty of \$29.50 per kW in that period.

17 The cost -- the AEPCO cost is somewhere in the
18 neighborhood of \$22 a kW. So the penalty is punitive.
19 It's intended to be a signal that the customer is not to
20 be on at the time of the peak.

21 Q And in connection with that particular dispute,
22 is there -- are there any other -- you explained, I think,
23 to Your Honor the main -- the shell provision.

24 Would you once more explain how that affects
25 Trico and other -- Trico's other classes as well as the

1 two classes, the IS-1 and IS-2?

2 A. Yes. Again, this is an issue that was brought up
3 in the last rate filing with the Commission and the
4 Commission established Trico's rates with the word "may,"
5 meaning that Trico had some discretion as to whether or
6 not those customers would be removed from this rate if
7 they overrode the interruption more than once in an annual
8 period.

9 And the reason for that is, from a cost
10 standpoint, if a customer overrides, they are penalized.
11 There is a significant economic signal in the rate that
12 the customer should not override during a particular
13 period. If they do, they not only recover the costs, but
14 they provide additional revenue above the cost which
15 benefits members. It benefits all members.

16 To the extent that the customers are able to
17 reduce their load and interrupt in all of the other lots
18 according to this tariff, that provides a benefit not only
19 to that customer, but it provides a benefit to all members
20 of Trico. To the extent that they interrupt their load
21 and reduce their demand, that reduces the average cost of
22 power and that flows to everybody through the wholesale
23 power cost estimate.

24 So there are benefits that accrue to the other
25 members of the system by allowing the customer to

1 interrupt essentially when they can as long as we have a
2 sufficient penalty in the rate that penalizes them if they
3 don't.

4 Now, certainly, if a customer overrode
5 frequently, it wouldn't be in their economic best interest
6 to continue to do that. But one of the major reasons why
7 it's "may" in the rate is because we have customers in the
8 system that are able to remove essentially all of their
9 load except for some small amount.

10 Maybe they have a little office or they have a
11 light bulb or some small insignificant amount of load that
12 they can't interrupt, technically speaking that load is
13 not off and they haven't technically complied with getting
14 all of their load off. It really isn't significant. We
15 have other customers where an emergency system they have
16 to run through the peak.

17 From Trico's standpoint, if we remove or require
18 that those customers be taken off of that rate, then it
19 eliminates the possibility -- it eliminates any benefit
20 that those customers can provide in the other months. We
21 eliminate the price signal to the customers that there is
22 a significant savings if they load control in those other
23 months, which reduces not only the benefit to that
24 customer but to all other members.

25 So from our standpoint there is no justification

1 for requiring them to be removed from the rate. It
2 doesn't make any sense from a cost standpoint. The only
3 people that are hurt by doing that are the members of
4 Trico by doing that. Because there are sufficient
5 safeguards in the rate to ensure that we are recovering
6 our costs in the event that the customer overrides and is
7 on at the time of peak.

8 MR. JONES: That is all the questions I have,
9 Your Honor.

10 ALJ RODDA: Okay. Thank you, Mr. Jones.

11 Mr. Enoch, do you have any questions?

12 MR. ENOCH: I don't have any questions.

13 ALJ RODDA: Okay. Mr. Torrey?

14 MR. TORREY: Thank you. I have a few, Your
15 Honor.

16

17 CROSS-EXAMINATION

18

19 BY MR. TORREY:

20 Q. Mr. Hedrick, you spoke about the ability to -- of
21 your customers to shift their load at certain times to get
22 off the peak period; is that correct?

23 A. Yes.

24 Q. The theory is the utility needs to control its
25 peak load at certain times; is that correct?

1 A. Yeah. The theory is that based on our cost
2 structure -- and again, the major premise for the rate is
3 the price signal that Trico gets from AEPCO -- so to the
4 extent that we can avoid the peak demand at the time that
5 AEPCO bills us, it's beneficial.

6 Q. So I want to make sure, because we have some
7 folks here from the public that are probably not as
8 familiar with the subject matter as some of the rest of us
9 are, just to lay a little foundation, you buy all of your
10 power from AEPCO at Trico; correct?

11 A. That's correct.

12 Q. And if AEPCO has a demand from all of the co-op
13 that it provides power to, there are certain times when
14 their power is more expensive for Trico; correct?

15 A. There are certain times when it's more expensive
16 for Trico?

17 Q. To purchase that power, peak times.

18 A. At the time of the AEPCO peak, yes.

19 Q. Okay. One of the times of the AEPCO peak, have
20 you laid those out in a table in your testimony here?

21 A. Yes, we have a three-year history of the AEPCO
22 peak times.

23 Q. And what is the exhibit number?

24 A. It's Exhibit Rebuttal DH-3.

25 Q. And so based upon the times when it's more

1 expensive for Trico to purchase that power, you want to
2 encourage customers to reduce the load that they are going
3 to use during those times; is that correct?

4 A. That's correct.

5 Q. Now, your recommendations for shifting the load
6 through different points during the week, can you just
7 briefly summarize the time that you want off-peak versus
8 on-peak hours?

9 A. The proposal that we made in the filing had
10 on-peak hours, and I don't have -- yeah, I do.

11 It's two different periods. Our proposal for
12 April 1st through November 14th was -- the on-peak hours
13 would be 1:00 p.m. -- is that correct? Am I reading the
14 right ones?

15 ALJ RODDA: What are you looking at right now?

16 THE WITNESS: This is DH-3.

17 ALJ RODDA: Okay.

18 THE WITNESS: Yes, the on-peak hours will be -- I
19 just want to be sure.

20 For April 1st through November 14th, the on-peak
21 hours would be 1:00 p.m. to 7:00 p.m. any day, including
22 weekends and holidays. All other hours will be off-peak.

23 For November 15th through March 31st, the on-peak
24 hours would be defined as 6:30 a.m. to 8:30 a.m. and
25 between 5:00 p.m. and 9:00 p.m. any day, including

1 weekends.

2 That was Trico's proposed schedule of on-peak
3 hours.

4 Q. Your proposal from Trico differs from Staff's
5 proposal in what way?

6 A. Staff's proposal -- Staff proposed to not include
7 weekends in their definition of on-peak periods, so
8 Saturdays and Sundays would not be considered on-peak
9 period.

10 And I'm not sure that it's entirely clear whether
11 the hours that Staff was proposing were exactly the same
12 as what we were on the other days. There wasn't a
13 definition of the hours specifically.

14 Q. And I guess just to make sure that we have your
15 position clear on the record, if all seven days of the
16 week from 1:00 p.m. to 7:00 p.m. are peak hours, what
17 happens to a customer that is unable to shift their load
18 between -- to the times that are earlier than 1:00 or
19 after 7:00 o'clock? Do they just not get to participate
20 with the time-of-use rate?

21 A. Each individual customer will have to make the
22 determination as to whether or not the amount of load that
23 they can move and shift out of the on-peak periods is
24 sufficient to provide them an economic benefit to being on
25 the rate. If it is not and they can't modify their

1 behavior in such a way as to take advantage of it, they
2 really shouldn't be on the rate.

3 Q. Would you agree that it would open up the
4 residential time-of-use rate to more customers if there
5 were, for example, a Saturday or a Sunday or theoretically
6 both that would allow those customers to shift the loads
7 that they would normally have Monday through Friday to
8 more time available on the weekend?

9 A. I think the answer to that is, yes, and I think
10 we have seen that. I mean, there has been a lot of
11 customers that have come to this rate because it's been
12 easier for them to take advantage of it. I think that is
13 what has happened to Trico over the past couple years with
14 the great influx of customers that have come onto the
15 system and that come onto that particular rate, is it was
16 too attractive and the customers didn't have to modify
17 their behavior in order to take advantage of it.

18 And I think that is the real issue in terms of,
19 this particular rate is structuring the tariff that allows
20 customers that can modify their behavior to take advantage
21 of an on- and off-peak pricing signal but not to allow
22 customers are still going to be on the peak.

23 Q. And when you say that the rate was too attractive
24 and people did not have to modify their behavior and still
25 could get this rate, could you give a specific example of

1 that?

2 A. Well, what we found when we were doing the
3 original analysis to determine what the impact was, was
4 that we found that for Trico the customers that are on the
5 time-of-use rate, their load characteristics are not
6 significantly different than a regular residential
7 customer that is not on the time-of-use rate. So their
8 contributions to the peak are essentially the same as a
9 regular residential customer; yet, they are getting a much
10 reduced rate.

11 So therefore, they get a significant reduction in
12 their -- the customer gets a significant reduction in
13 their cost of power, but there is no corresponding
14 reduction in the costs of providing that power. So
15 therefore the cooperative takes a significant hit with
16 regard to the margins. That is why the class isn't
17 performing like it's suppose to.

18 ALJ RODDA: What was the problem? Was it the
19 hour not designed right or the rates?

20 THE WITNESS: I think it's a combination. You
21 know, they were able to operate on the weekends and both
22 the on- and off-peak charges were just not significantly
23 high enough. The rate design was not sufficient to
24 recover the costs.

25 Q. BY MR. TORREY: And, Mr. Hedrick, switching to

1 the interruptible rate.

2 Isn't it true that the customers that are on the
3 interruptible service tariff enjoy a lower rate than
4 customers who are not on that tariff during non-peak
5 hours?

6 A. During non-peak hours, that's correct. Yes.

7 MR. TORREY: And I have no further questions for
8 Mr. Hedrick, Your Honor.

9 ALJ RODDA: Okay.

10

11

EXAMINATION

12

13 BY ALJ RODDA:

14 Q. So it's my understanding that the cooperative is
15 accepting all of Staff's numbers concerning the overall
16 revenue requirement; right?

17 A. That's correct.

18 Q. And that with respect to the allocation of those
19 revenues between customers classes, the only differences
20 have to go into what go to the residential time-of-use?

21 A. Yes.

22 Q. And so there is no -- so the cooperative is also
23 accepting -- I realize it's not really applicable for the
24 cooperative -- but all rate base adjustments and rate base
25 levels?

1 A. Yes, we have no objection to the determination of
2 fair market -- the rate base numbers at all.

3 Q. All right. So what is going to happen -- what
4 happens to these customers that are currently on -- if you
5 know, customers that are currently on the frozen
6 time-of-use at the end of this rate case? Do they get the
7 option to go on the new time-of-use or back to the
8 regular?

9 A. Well, currently the customers are on the frozen
10 tariff, and it's our understanding, obviously, that when
11 the new rates become effective, whatever those new rates
12 are, those rates will become the rates that are effective
13 for that particular rate class.

14 If there is a phase-in of the rate, then the
15 first phase of that rate would become effective for all of
16 our existing customers on that rate. Any new customers
17 that come onto the tariff, would go -- would be billed
18 under the new rate, the all-in rate. So there wouldn't be
19 any phase in for a new customer; they would simply go to
20 the new rate. But ultimately then after 12 months,
21 everybody is on the same tariff.

22 Q. Okay. Now, if a customer is on a -- say a
23 current customer is on a time-of-use -- the time-of-use,
24 the residential time-of-use tariff and determines that
25 under the new, whatever the Commission adopts, that it's

1 not the appropriate tariff for them; they are not getting
2 the benefit that they thought they would get from it, is
3 there anything that prevents them from going back to the
4 regular residential rate?

5 A. Not at all. They can do that right now. The
6 time-of-use rate is entirely optional in terms of the
7 customer's participation. If they choose not to
8 participate, they can move back to the regular residential
9 rate.

10 Q. Is there any limits as to how many times
11 customers can be on and off? What if it works for a
12 customer in the summer months but not in the winter
13 months?

14 A. It's an annual determination. They can't go back
15 and forth. If they choose not to go on the rate, then
16 they have to wait 12 months before they can make a
17 determination.

18 Q. Now, you were talking about how it's currently
19 designed that it's not covering the costs of providing
20 services to those customers and the cooperative is
21 suffering a loss.

22 Is there an exhibit in your testimony that
23 demonstrates that that?

24 A. Yes. If you look in the rate filing itself,
25 Schedule H-1.0.

1 MR. JONES: Is it G-1.0.

2 THE WITNESS: Did we -- I may be thinking about a
3 previous filing where we filed that.

4 Subject to your -- I don't have the filing in
5 front of me -- excuse me.

6 It's G-1.0 page 1 of 2, and that will show the
7 revenue and expenses for each rate class. And I believe
8 the second one from the left or third one from the left
9 says residential time-of-use.

10 Q. BY ALJ RODDA: This is amazing.

11 A. No, it's really not.

12 And you can see that what we have there is based
13 on -- these are the revenues under the existing rate. You
14 can see in that column it shows the operating revenues of
15 \$3,899,000, operating expenses of \$4,978,000. So the
16 return is a deficit of \$1 million. We come down and we
17 add in the interest allocation so our operating margin
18 from that class is the deficit \$1.6 million.

19 So based on -- if you come down it says, "Revenue
20 deficiencies, uniform rate of return," based on the
21 original proposal that Trico proposed with a \$6.5 million
22 dollars overall revenue increase, that particular rate
23 class the justification -- we needed a 51 percent increase
24 from that class, and we proposed a 37 percent increase.

25 So even based on cost of service we didn't go all

1 the way with a 51 percent increase.

2 Q And I think you said earlier that the intent of
3 the 37 or 36 percent increase was to get to a zero
4 operating margin?

5 A Yes. Our revised position, we came back with a
6 compromise of a 30 percent increase, and the intent there
7 was to get that return number to zero.

8 Q Okay. And then do you have in your testimony a
9 discussion or an exhibit that shows the bill impact from
10 your recommended revenues and rate designs?

11 A We do have a filing -- a bill impact of our
12 original. I was noticing this morning that I did not have
13 that, but I created it this morning. And I have it and
14 all I need to do is print it out and I can provide that to
15 you, of what our proposal does, the bill impact --

16 Q Okay.

17 A -- on residential.

18 Q And do any of the -- do the bill impacts -- does
19 it include the cost of the power or did it take that out?

20 A Yes. It includes -- the comparison that we
21 provided is the total bill that the customer would have
22 paid and what they will pay.

23 And I can tell you that the average consumer
24 under our proposal, residential, the average consumption
25 is 916 kilowatt hours per month and the average increase

1 is 8.04 percent consumption.

2 Q Okay. I'm sorry to skip back. I had my original
3 questions, and then your testimony occasioned other
4 questions so my order is all out of order.

5 But when you were talking about the residential
6 time-of-use rates, I think you said -- and this would be
7 logically true from your testimony, that Staff's
8 recommended time-of-use rates do not cover the costs.

9 Do you know how much?

10 A I didn't re-run the cost of service schedule
11 showing what it produces. We certainly can. But their
12 proposed increase was 18 percent versus --

13 Based on the information that I have been
14 provided, it appears that --

15 MR. JONES: That is the matrix that we furnished,
16 Your Honor, for the prehearing conference.

17 THE WITNESS: Yes, that Trico's compromised
18 position provides a return that is essentially at zero.
19 It's actually a little bit of a deficit about \$19,000.
20 That deficit for Staff's position is \$485,000.

21 Q BY ALJ RODDA: I knew there was a reason I wanted
22 that matrix.

23 When a customer -- I'm curious about this; it's
24 on the time-of-use tariff.

25 How easy is it for them to -- I realize it's

1 easier for different customers to shift load, but can it
2 be as simple as waiting to run your washer and dryer
3 after 9:00 or whatever the hours as opposed to being on a
4 time-of-use and turning -- or being afraid of turning on a
5 light versus you shift your dishwasher or -- I guess the
6 question is: How much of a load is the washer and dryer?

7 A. It is a significant part of the load, washing.
8 Heating water is a -- can be a significant part of the
9 load, running your air conditioner.

10 So there is no doubt that the establishment of
11 the on-peak hours is a challenge in terms of being able to
12 modify your behavior. It's not for every customer. It is
13 for those customers that can modify their behavior.

14 The situation that we have to address is to
15 ensure that customers that get on the rate actually are
16 modifying their behavior as opposed to being able to get a
17 benefit without doing anything. And that is really the
18 place that we are at, is being able to increase that
19 tariff to a sufficient rate that those that don't modify
20 their behavior don't get a benefit.

21 It should be pointed out in all of this that the
22 rate provides a lot of benefit to those customers that can
23 get off peak and stay off the peak. It is still an
24 attractive rate to those customers that can avoid
25 consumption during the peak periods. But at the same time

1 if those customers do not avoid consumption during the
2 on-peak periods, they could very well pay more than they
3 would on a standard rate. And that kind of price signal
4 must be in the rate in order to make the rate work as it
5 is intended and have customers modify their behavior.

6 Q. What if the Commission -- and don't read anything
7 into my recommendation -- but if the Commission wanted to
8 adopt Staff's proposal concerning the customer charge,
9 just the regular customer charge, not the time-of-use
10 charge, would you have a different recommendation, but
11 wanted to keep the time-of-use on the weekends and was
12 more inclined with the cooperative's time-of-use
13 structure, would that require major modification? I mean,
14 do you have a different recommendation concerning the
15 monthly charge or would you keep that the same?

16 A. I think that the monthly charge, whatever is
17 established for the monthly charge for the residential
18 class, the monthly charge for the residential time-of-use
19 class needs to be consistent. It needs to be consistently
20 higher than that because there are additional costs.

21 So whatever increase in the customer charge is
22 recommended, the rate design for the time-of-use class
23 with regard to that customer charge would need to be
24 consistent.

25 But with respect to the hours, and I think that

1 is a separate issue completely, in terms of whether the
2 Commission includes weekend hours or doesn't include
3 weekend hours, I don't think that is connected to the
4 customer charge issue.

5 Q. And then you had some testimony about when you
6 were -- I think it was in rebuttal, maybe when you were
7 modifying or on a compromise proposal, when you were
8 adding more hours on the weekends but you were taking
9 hours -- I guess, was it off-peak during the week? Is
10 it -- do the total peak hours remain the same as
11 currently?

12 A. In Trico's proposal the total hours remain the
13 same, and the number of hours on the weekdays were longer.
14 And in our proposal we added Saturday and Sunday but
15 reduced the number of hours per day. And the effect was
16 that the hours came out to be almost exactly the same
17 either way. So the billing units didn't change in terms
18 of the number of hours that were in the on-peak periods.

19 With respect to the Staff's position, if the
20 Staff's position were to prevail and Saturdays and Sundays
21 were not to be included, I think what we would ask is that
22 we just revert back to the old existing hours and keep the
23 same structure. Like I said, we would prefer to have
24 Saturdays and Sundays included in the on-peak period, but
25 if that is not the case, then we would prefer having the

1 hours as they currently are.

2 Q. And I'm not quite sure -- and Mr. Irvine will be
3 up later with what Staff's recommendation for the hours
4 are. I'm not sure that you were sure of that either.

5 A. I'm not. I don't think it specifically states.
6 The billing units are the same, but we don't have
7 Saturdays and Sundays, so our assumption was that it
8 reverted back to the old hours.

9 Q. Okay. So when you were talking about the
10 interruptible irrigation tariff, which was a very good
11 explanation I thought, I guess, of your position, do you
12 know -- well, currently the cooperative has that "may"
13 provision that they may take some off the tariff.

14 Do you know if the cooperative has ever done
15 that?

16 A. I don't have the answer to that. I don't know
17 definitively whether they have.

18 Q. But it sounds like from your testimony that some
19 things were almost inadvertent violations, like leaving --

20 A. Well, if you look at some of the data for some of
21 the customers you can see that the penalty that is imposed
22 are fractions of demand. It's like a -- we don't know
23 exactly what it is, but it could be as little as a light
24 bulb in some shed or something that is not part of the
25 interruptible part of their load.

1 There certainly are those customers where they
2 have emergency situations where they choose to operate
3 through it, and those show up pretty clearly. But the
4 vast majority of the customers that are on are very small
5 components of their overall load that are on at the time
6 of the peak. And we just don't believe that that is --
7 that it's appropriate to remove them from this because of
8 the significant benefit of what the customer gets, and we
9 feel that the rest of the members get from their
10 participation in that and their load control throughout
11 the year.

12 *Q.* How do you know going in real time when it's a
13 peak?

14 *A.* Now, I think the engineering staff -- I mean,
15 they have ways of projecting as to when the peak is going
16 to occur, and they provide, you know, notification.
17 Obviously, when they are getting ready to have a peak,
18 they send a notification for interruption.

19 *Q.* So there is some warning?

20 *A.* Yes. There is certainly notification to them.
21 It's not very long notification, but they do get
22 notification.

23 *Q.* Do you have a feel for how often overrides occur?

24 *A.* I don't. I do not have the date. It's not very
25 often.

1 Q And let's talk a little bit about -- I'm sorry
2 this is going to go on. I'm almost done -- about the line
3 extensions.

4 A Yes.

5 Q I was told that you were the person -- do you
6 have the figures for how much it has cost the utility for
7 the line extension under the current policy?

8 Let's start -- currently what sort of "free
9 allowance" does Trico have?

10 A Trico provides -- the line extension policy
11 allows for the first 600 feet per residential free, and
12 for commercial it's 200 feet. So that would be the
13 maximum amount that the cutoff would allow.

14 Q Okay. And do you have figures on how much of
15 that Trico has, I guess -- well, maybe in the test year or
16 recent history how much it costs the cooperative to
17 provide those free allowances?

18 A I think I can.

19 The -- I'm looking back here to see the test
20 year. I believe the test year value that we are looking
21 at for 12 months ending 2007 for both the line extensions
22 that had been made for residential and for commercial the
23 total was \$11.9 million. It varies from year to year.

24 Q So do you have -- so in 2007 it was 11.9?

25 A Yes.

1 Q. And then you have something else that shows
2 something else for a different line?

3 A. Yes, and I think it's good to give you kind of a
4 feel.

5 For 2006 that value was \$6.8 million. For 2008
6 that value was \$3.5 million.

7 And I know it's of concern to the -- for an
8 individual residential customer, the average -- in other
9 words, what can they expect the cost to be going forward
10 as a result of the change in the policy, and we have
11 averaged the numbers over five years. And the value is
12 \$1,830; that is what we believe the additional cost would
13 be.

14 Q. Okay. So in response -- I think I asked Trico to
15 look at a letter that had been filed by a commissioner in
16 a different docket, which was the Silver Springs case,
17 which has a different line extension policy, but the same
18 issue has come up in this case.

19 So what you just told me -- one of the questions
20 that Commissioner Stump asked was what is the average cost
21 of an individual homeowner to put in a line extension.

22 That's the number you just gave me?

23 A. That is what the cost would be going forward with
24 the new policy.

25 Q. So there was another question. I didn't quite

1 know what this question -- I didn't really understand the
2 question thoroughly, and it was, what cost would consumers
3 incur if the Commission were to reinstate the free line
4 extension?

5 I sort of interpret that as -- well, I didn't
6 know, was the consumer the new homeowner or was it
7 consumers, the ratepayers, existing ratepayers? So that
8 is why I was asking you about the cost, how much it cost
9 the utility. That is how I interrupt the question, the
10 11.9.

11 Would there be a different interpretation?

12 A. Well, the numbers that I read you were the cost
13 of the facilities that the co-op then has to finance.
14 Those are the costs currently under the current policy
15 that Trico -- Trico then has to borrow the funds to build
16 those facilities, so they have the depreciation costs, the
17 interest costs, you know, the margin costs and so forth
18 going forward related to that capital outlay.

19 So I think that is -- because there wouldn't be
20 an additional cost to the -- if you reinstated the free
21 allowance, then the customer getting the allowance
22 wouldn't have a cost. It would be -- those costs would be
23 moved to all the other members.

24 Q. So that must have been.

25 A. I think that is accurate.

1 Q Okay. But is it the position of the cooperative,
2 as you understand it, that there should not be their free
3 line extension allowance?

4 A Yes. We originally proposed to eliminate the
5 allowance and that was done in conjunction with
6 discussions with Commission Staff understanding that
7 that's the position that had been approved for APS and TEP
8 and even, I think, Graham County.

9 So I think it's ground that has already been
10 plowed and the position that has already been set in
11 place, and we agreed that we would follow suit.

12 Q But there are economic reasons or rationale
13 reasons for that policy?

14 A Certainly. It certainly reduces, as we indicated
15 in the capital expenditures, that the co-op has to make.
16 So to the extent that the co-op doesn't have to borrow
17 \$3.5 or \$5 million and it's also not going to incur the
18 depreciation and interest costs, it doesn't have to earn a
19 margin on that particular investment, the rates over time,
20 there is not as much pressure on your rates. You can keep
21 them lower because your cost are going to be lower.

22 You are essentially assigning those costs to
23 individual customers directly at the outset of providing
24 service. And you don't have to include them in your
25 revenue requirement.

1 Q. Okay. One of the other questions that
2 Commissioner Stump asked was, if the utility were to put
3 in a line extension, is there a benefit to all users in
4 that extension area, including the utility and its
5 customers? Do you have a feel for that?

6 A. Well, it depends on the -- certainly the co-op
7 will make a distinction between a line extension that is
8 being made to an individual customer. Generally speaking
9 what we are talking about is line extensions that are made
10 to serve a specific customer. So to that extent,
11 typically there is not some shared benefit with somebody
12 else.

13 Now, there are occasions where you will make an
14 extension to a particular customer, and especially in the
15 real rural areas, and another customer will come along
16 later and get an extension off of that particular line.
17 And, you know, certainly there are some benefits that are
18 shared there between customers.

19 But as I recall, the line extensions are made for
20 a specific customer. To the extent that there are line
21 extensions made where it benefits multiple customers, that
22 is take into consideration in the determination of the
23 line extensions.

24 I'm not sure if that is an answer to that
25 question or not.

1 Q I think it's an answer.

2 In the water arena, when the developers put in
3 mains, main extensions, there is a way that the developers
4 could recoup that cost over time, a percentage of the
5 revenue generated from those lines.

6 Is there anything similar in the electric arena?
7 Is there a way if the developer was putting in lines, a
8 way to recoup the developed cost of that development?

9 A There is currently not any provision.

10 Q All right. Anything further you want to -- that
11 comes to mind on that topic?

12 A No, ma'am.

13 ALJ RODDA: Okay. Mr. Jones?

14 MR. JONES: No further questions, Your Honor.

15 ALJ RODDA: Mr. Torrey?

16 MR. TORREY: Yes, I want to follow up with one
17 thing, Your Honor.

18

19 RECROSS-EXAMINATION

20

21 BY MR. TORREY:

22 Q You mentioned that if the line extension free
23 footage was eliminated, that would save about
24 \$11.9 million for the co-op; correct?

25 A Based on the test year numbers, yes.

1 Q And that money essentially would go directly into
2 the bottom line, wouldn't it?

3 A It would -- it would go -- it would be booked as
4 a -- essentially it's booked as an aid of construction.
5 It's a write-off against the work order. So it's not
6 counted as revenue. It's just counted as when they go --
7 when they develop their work orders and then go to RUS to
8 borrow money, they would be borrowing \$11.9 million less.
9 Their requirement would go down. But it's not a margin
10 number; it's not a revenue number.

11 Q But for a company like this where you said that
12 there is -- there are problems with RUS with the tier
13 ratios and things like that, wouldn't that increase of
14 11.9 help that company?

15 A Certainly, it's a big help. The change in our
16 line extension policy is a significant factor in helping
17 the -- the less money we have to borrow, the better our
18 tier gets.

19 Q And you mentioned that the way that that would be
20 recouped by developers or the way that that would be
21 reflected to the customer would be then in the purchase of
22 new houses, the developers likely would have to include
23 slightly higher costs; is that correct?

24 A That's correct.

25 Q But you would agree with me that current

1 customers of Trico wouldn't be affected by the change in
2 the line policy?

3 A. That's correct.

4 MR. TORREY: That is all I had, Your Honor.

5 ALJ RODDA: Okay. Thank you.

6 Anything, Mr. Enoch?

7 MR. ENOCH: No.

8 ALJ RODDA: Or Mr. Jones?

9 MR. JONES: No.

10 ALJ RODDA: All right. Well, thank you very
11 much, Mr. Hedrick.

12 THE WITNESS: Thank you.

13 ALJ RODDA: We need to take a short little break
14 right here. Let's just go off the record.

15 (Whereupon, a recess was taken from 12:59 p.m.
16 until 1:23 p.m.)

17 ALJ RODDA: Let's go back on the record.

18 And, Ms. Gardiner, I believe you are next.

19 MR. JONES: That's right.

20

21 CAROLINE GARDINER,

22 called as a witness herein, appearing on behalf of the
23 Applicant, having been first duly sworn, was examined and
24 testified as follows:

25

1 DIRECT EXAMINATION

2

3 BY MR. JONES:

4 Q. Would you state your name, please, and your
5 business address.6 A. My name is Caroline Gardiner, and I'm the finance
7 manager at Trico Electric Power -- Trico Electric
8 Cooperative, and my business address is 8600 West
9 Tangerine Road, Marana, Arizona.10 Q. Have you filed prefiled direct testimony in this
11 proceeding?

12 A. I have.

13 Q. I guess I need -- I will hand you what the court
14 reporter has marked as Exhibit A-5 for identification.

15 Is that your prefile testimony?

16 A. Yes.

17 Q. If I were to ask you the same questions that were
18 in the exhibits, would you give me the same answers?

19 A. Yes.

20 Q. And corresponding to your best information and
21 belief, is that document accurate and correct?

22 A. Yes.

23 MR. JONES: We move the court to -- move that
24 Exhibit A-5 be admitted into evidence.

25 ALJ RODDA: Any objection to A-5?

1 MR. TORREY: No.

2 ALJ RODDA: Then A-5 is admitted.

3 (A-5 is admitted.)

4 ALJ RODDA: Mr. Enoch, did you have any questions
5 of this witness?

6 MR. ENOCH: I did not.

7 ALJ RODDA: And, Mr. Torrey, did you?

8 MR. TORREY: No, Your Honor.

9 ALJ RODDA: And you are here, Ms. Gardiner,
10 because I indicate earlier that I had a few questions for
11 you.

12

13

EXAMINATION

14

15 BY ALJ RODDA:

16 Q Some of them were addressed earlier this morning
17 by Mr. Nitido, but since you are the finance person, I
18 think I will ask them of you as well.

19 So in your testimony you talk about in the test
20 year 2007 Trico did not meet its tier ratio, and I take it
21 that it didn't meet it in 2008 as well?

22 A That's correct.

23 Q And so Mr. Nitido responded what would happen if
24 the two out of three years you don't or one year you
25 don't.

1 Did you have anything to add or to elaborate on
2 that?

3 A. Yes, I can.

4 The two requirements are annually you are
5 supposed to meet the minimum requirement of 1.1 on the
6 operating tier ratio. And then the best two out of three
7 operating tiers need to be the 1.1.

8 We had a -- in 2006 I believe our operating tier
9 ratio was about a 1.4. So right now we meeting that
10 average requirement due to 2006; however, you know, that
11 now will drop off. So our tier ratio for 2009 needs to be
12 1.15 or above to average the 1.1.

13 I believe RUS emphasizes the average ratio more
14 than the annual, just because I think they understand that
15 some years are ups and downs; although, it's certainly not
16 a good position to be in to not meet the minimum
17 requirement.

18 We have filed plans and letters with RUS each
19 year to meet compliance with our mortgage conveyance and
20 explained the rate case.

21 I believe you asked Mr. Nitido besides rate case,
22 you know, what have you done, and certainly cost cutting
23 has been a major emphasis since I have been in Trico. I
24 did start in January of 2008, so I have only been here a
25 year also.

1 So we have been emphasizing. Head count
2 reductions, when someone has left, we have not necessarily
3 replaced that person. Cost cutting, you know, tightening,
4 not purchasing trucks or capital equipment and postponing
5 those until later.

6 *Q.* There was another issue that I think he deferred
7 to you, and that was return of the capital credits.

8 *A.* Correct.

9 *Q.* Is there a board policy that you know of besides
10 the 25 percent or is it an annual?

11 *A.* Yeah, I will do a little review of that.

12 We have a requirement. Actually, I believe it's
13 from one the Commission ordered in our last rate filing,
14 that requires Trico to only retire 25 percent of its
15 previous year's earnings if they were 30 percent or under
16 on the equity to capitalization ratio.

17 So the past several years we have retired capital
18 credits, in 2006 and 2007. We did not retire capital
19 credits in 2008. It is at the board's discretion of when
20 they retire, but we are limited right now to only
21 25 percent of the prior year's earnings because we are
22 below the 30 percent capitalization ratio.

23 *Q.* And that is a limit that the Commission imposed?

24 *A.* Yes. And the RUS has a limitation also that if
25 you are below 20 percent that you can't distribute

1 anything. So that is the RUS requirement. And, you know,
2 we have been down to 22 percent. I believe the RUS
3 requirement is based on equity to assets, which is
4 slightly different than the Commission. It's a little
5 bit -- the equity to capitalization ratio would make it a
6 little easier to meet as opposed to based on the assets,
7 but they are about the same.

8 Q And here in your testimony you refer to the
9 operating tier or the O tier.

10 Is that different than what the Commission
11 usually looks at or is it the same?

12 A RUS has two tier ratios. One is the operating
13 tier, and then one is based on your net margin, which
14 would include capital credits from your generation and
15 transmission. Cooperative AEPCO is ours. And they are
16 usually non-cash distributions. So it's, you know, a
17 paper transaction.

18 So I believe Crystal Brown mentioned this in her
19 testimony too, and she adjusted those -- \$2 million that
20 we had of allocations from AEPCO to Trico, but they are --
21 they are called below the line. The operating margin is
22 what Trico generates. It's not based on any other capital
23 allocation from a different cooperative.

24 So I emphasize that because that was the one
25 requirement that we weren't meeting. The requirement from

1 RUS on the net tier is 1.25. And with the allocation from
2 AEPCO that year we were meeting that ratio. So that is
3 why I emphasize the operating tier.

4 Q. All right. Throughout your testimony you also
5 have some charts, and you talk about the changes in debt
6 and equity over time. I'm trying to read my handwriting
7 while I'm talking. I should figure out what it says
8 first.

9 All right. So your testimony, I think, stopped
10 at 2007. What I was interesting in was, what has debt
11 done since 2007? Has that increased?

12 A. It continues to increase, yes. We -- even though
13 we have slowed down, we still have cash requirements. And
14 on a cash flow basis when we don't have enough
15 internally-generated funds, then we do go to our RUS
16 borrower and draw down on our loan.

17 Q. And so --

18 A. So it increases. It's increasing at a slower
19 rate right now, but it is increasing.

20 Q. So do your long-term projections show debt -- the
21 absolute level of debt decreasing until a certain point or
22 just --

23 A. The financial forecast showed that with the new
24 line extension policy and with the rate increase -- I
25 believe we had what we had requested, which was the

1 8.81 percent -- we showed it being implemented in 2010,
2 and then in 2013 there was another 3 percent rate increase
3 in the financial forecast.

4 And the chart in my testimony shows that the
5 interest expense leveled off after 2010, and I believe
6 primarily due to the line extension policy changes.

7 The earlier years in that chart, I believe I
8 showed -- well, let me see if I can -- on page 8 of my
9 testimony, the chart in here, Exhibit 3, shows a sharp
10 increase from 2005 to 2009 in interest expense, and then
11 after that it levels off.

12 Q. Okay. Are you going to need or are you going to
13 be filing additional financing authorizations for future
14 work plans before your next rate case?

15 A. We actually just got approval -- was it in --
16 with the last loan application -- well, the last work plan
17 was 2007. We just got approval in 2008 for a \$83 million
18 loans from RUS from the Commission. And so it would be --
19 we would probably file again after that money has been
20 depleted.

21 Q. So I'm sorry. Tell me again the years of that
22 work plan.

23 A. The work plan was from 2007 to 2010.

24 Q. Okay. And I do take it from your testimony that
25 your projections were showing an additional rate increase

1 that would be effective in 2013?

2 A. Correct.

3 Q. Does that mean you are anticipating filing
4 another rate case in the 2012 time period?

5 A. You know, things have changed quite a bit since
6 we filed this testimony or filed the rate application, and
7 obviously I think we do need to redo that now. But I
8 think the thought is that we would not wait a long time
9 between rate increases to file.

10 Q. All right. On page 11 and 12 of your direct
11 testimony you talk about peak demand growth, I think, at
12 about 15 percent. It seems like there was a chart, and I
13 can't find your testimony. I have a lot of testimony up
14 here and I misplaced yours.

15 A. Peak demand is on page 12, and, yes, the average
16 growth rate has been 15 percent.

17 Q. Does that show any -- when you compared peak
18 demand growth of 15 percent versus customer growth of
19 8 percent, does that show that people are using more
20 energy per unit?

21 A. It is showing that more people are using more
22 energy on peak. And, yes, we have -- our peak demand has
23 grown faster than our energy uses or our customer growth
24 rate.

25 Q. And so what helps with that situation?

1 A. Well, certainly demand side management,
2 time-of-use rates to incent people to get off the peak.
3 It's difficult to cut a demand, though, when you have a
4 service territory growing at 6 or 7 percent a year. I
5 think it's appliances, big screen TVs. It all increases
6 the amount the average household uses.

7 Q. Is that a goal of the cooperative, though, to try
8 to level that?

9 A. We are participating in the energy efficiency
10 workshops, and, yes, part of our filing was a demand side
11 management program.

12 Q. I understand the percentage increases -- when you
13 look at a percentage basis, the co-op was originally
14 requesting 8.8 percent and Staff was recommending
15 8.1 percent, but when I look at the overall or absolute
16 numbers of the recommended revenue, it looks like Staff's
17 recommended revenue is greater than what the co-op's is.

18 Is Staff recommending higher total revenues than
19 the co-op?

20 A. Well, Staff also reduced the rate base and made
21 other adjustments within, so I believe that the increased
22 revenue -- I don't know. I guess that would be Crystal
23 Brown's area. I will let Staff answer that question.

24 Q. Okay. I understand that there are all of these
25 adjustments, and they are not the same.

1 A. Right.

2 ALJ RODDA: All right. I don't have anything
3 further.

4 Did anyone else?

5 MR. JONES: No, Your Honor.

6 MR. TORREY: No, Your Honor.

7 MR. ENOCH: No.

8 ALJ RODDA: Then I believe you may be excused.
9 Thank you very much for appearing.

10 MR. JONES: Your Honor, at this time Trico would
11 like to offer in evidence exhibits for those witnesses who
12 are not testifying. They are prefiled direct testimony of
13 Charles Emerson, Exhibit A-6; prefiled testimony of
14 Marsha Regrutto, Exhibit A-7.

15 ALJ RODDA: I'm sorry, what was A-7?

16 MR. JONES: Ma'am?

17 ALJ RODDA: A-7.

18 MR. JONES: A-7.

19 ALJ RODDA: Which was who?

20 MR. JONES: And the last one is -- Michael Searcy
21 is A-8.

22 And I know Mr. Torrey has some that he would like
23 to have admitted too. This is on stipulation, Your Honor,
24 that we discussed.

25 ALJ RODDA: I understand. I'm trying to get the

1 name of the A-7.

2 Okay. So there are no objections, right, to A-6,
3 A-7 or A-8?

4 MR. TORREY: No objections, Your Honor.

5 ALJ RODDA: All right. Then we will admit A-6,
6 A-7, and A-8.

7 (A-6, A-7 and A-8 were admitted.)

8 MR. JONES: Trico rests.

9 ALJ RODDA: Okay. Mr. Enoch, do you want to call
10 your witness?

11 MR. ENOCH: Yes. I would like to call
12 Frank Grijalva.

13

14

FRANK GRIJALVA,

15 called as a witness herein, appearing on behalf of
16 Intervenor Local 1116, having been first duly sworn, was
17 examined and testified as follows:

18

19

DIRECT EXAMINATION

20

21 BY MR. ENOCH:

22 Q. Good afternoon, Mr. Grijalva.

23 A. Good afternoon.

24 Q. Could you state your name for the record?

25 A. Frank Grijalva.

1 Q And what is your position?

2 A Business manager, financial secretary for IBW
3 Local 1116.

4 Q And what is your business address?

5 A 750 South Tucson Boulevard, Tucson, Arizona.

6 Q And before you is what is marked as I-1, which is
7 Intervenor Exhibit 1, is prefiled testimony. Can you take
8 a look at that, Mr. Grijalva.

9 A Okay.

10 Q Is that the prefiled testimony that was filed on
11 February 27, 2009 under your name?

12 A Yes.

13 Q If I were to ask you the same questions today
14 that were asked in that prefiled testimony, would you
15 answer them the same way?

16 A Most likely except for page 3 line 12.

17 Q Okay. And what would be different?

18 A I probably would say "rate hike" instead of "hate
19 hike." Other than that, yes, it would be.

20 MR. ENOCH: With that revision, I would move for
21 the admission of Intervenor Exhibit 1.

22 ALJ RODDA: Any objections?

23 MR. JONES: No objection.

24 ALJ RODDA: Then I-1 is admitted.

25 (I-1 was admitted.)

1 MR. ENOCH: I don't have any further questions.

2 ALJ RODDA: Okay. Mr. Jones?

3 MR. JONES: I have no questions, Your Honor.

4 ALJ RODDA: Mr. Torrey, did you have any
5 questions for this witness?

6 MR. TORREY: No, Your Honor.

7

8

EXAMINATION

9

10 BY ALJ RODDA:

11 Q Hello, Mr. Grijalva.

12 A Hello.

13 Q All right. So my understanding is that the Union
14 is in support of the rate increase as the parties have
15 agreed; is that right?

16 A That's correct. Yes.

17 Q In arriving at that decision did the Union
18 perform any independent financial analysis of the effect
19 of the increase on the operations of the cooperative?

20 A No, we didn't.

21 Q There has been some testimony filed by the
22 company that Trico has engaged in cost-cutting measures in
23 the past few years because of the effects on its earnings.

24 Do you know -- have your members felt the effects
25 of that cost-cutting or do you have a feel for how that

1 has affected them at all?

2 A. I would say to the point that we have tried to
3 make some concessions and work with them on trying to
4 maintain control of healthcare costs. That seems to be
5 the biggest deal, I think, with any utility or any company
6 out there. It's work in the last negotiations.

7 I believe that our members feel a little bit more
8 in that because of their inability to hire as many people
9 as they would probably like to have, they don't replace
10 people as they leave as readily as they would have before.
11 They have to actually -- from what I understand the
12 process, the process is actually review that person's job
13 and evaluate, okay, do we really have to have that person
14 there? And I think in most cases if it's a critical
15 position, they have done that.

16 But again, as far as the workers out in field,
17 they probably, in my opinion -- they may have a different
18 opinion, but I think they would benefit from more help out
19 there. Things have slowed down now, so it's not as
20 critical, but in the times that the market was really
21 booming, housing was going like crazy, they probably could
22 have used the help.

23 Q. In the Tucson Electric case we had some
24 testimony -- I can't remember if it is similar testimony
25 in this case -- about, I think, the grain of the

1 workforce. You know what I mean by that, you know, aging
2 of the work force. Is there a similar experience at
3 Trico, do you feel?

4 A. Yes, it's true. They are in a more difficult
5 position. Because as a co-op they are a smaller company
6 versus Tucson Electric Power or APS or SRP up north. And
7 when they are competing for that experienced and
8 well-trained employee, they can't compete if they can't
9 offer at least something close to the wages and benefits
10 that those bigger companies can offer. And if they can't
11 get those quality workers out there, the craftsman to do
12 it in a safe and reliable manner, then it could actually
13 cost them more money to go out and find somebody who has
14 just not been trained and cannot perform at that level.

15 And it is, the work -- even with the slowdown,
16 there is still going to be a shortage of high-quality
17 craftsman coming forward, not just linemen, but the
18 craftsman that take care of all the other equipment within
19 the utility.

20 So, yeah, I think it is difficult for them to
21 compete. And they have made the effort to bring wages
22 closer to what market is so that they can compete at that
23 level. And I think they have done a good job of helping
24 in that area.

25 Q. Okay. I think there is some testimony here today

1 that because the workers are so highly trained that maybe
2 demand is out -- there is still a greater demand for them
3 than there is supply.

4 Did I hear that right or did you hear that?

5 A. Yes, that is what I was hearing. There is to
6 some degree a shortage of those employees, those types of
7 workers, and I would say, yes, the demand for those
8 workers is higher.

9 Even though, like I said, the industry as a whole
10 has slowed down and it may seem like there would be more
11 people available, more workers to shift around, you still
12 have to compete with the bigger utilities that are
13 offering, you know, bonuses basically, signing bonuses to
14 attract them to their companies.

15 I think one of the things that Trico has looked
16 at in past negotiations and we've talked about more is,
17 okay, if you can't get them from the outside, grow your
18 own with apprenticeships, and they are going that
19 direction. And they have had an apprentice program there
20 for their linemen, and I believe that will continue.

21 We actually have looked at actually getting it
22 State certified, which helps, you know, in giving people a
23 little more comfort in that that person can do the work.

24 Q. This question is not focused on Trico; it's more
25 industrywide. But with the -- say in the last year with

1 the economic downturn, have you seen changes in wages that
2 are being offered or are they stable because of the
3 desirability or need for your skill set?

4 A. I believe the -- because of the skill set and the
5 demand for those people, the wages have stayed consistent.
6 In the different companies that I negotiate with, wages
7 have gone up, not substantially, but anywhere from 2 to
8 3 percent. But at the same time we work with the
9 companies to make concessions on other things.

10 So there is a little bit of a balance there, but
11 definitely wages are not going down even though the
12 economy is in a downturn that its facing.

13 ALJ RODDA: I don't have any further.

14 Did you have anything further, Mr. Enoch?

15 MR. ENOCH: No, I don't.

16 ALJ RODDA: Okay. Well, thank you, Mr. Grijalva,
17 for your participation today.

18 THE WITNESS: Thank you.

19 ALJ RODDA: All right. Mr. Torrey, were we going
20 to call Ms. Brown now?

21 MR. TORREY: We can do that now, Your Honor.

22 As we get started though, I have five exhibits
23 here that I would like to put in.

24 ALJ RODDA: Let's do that.

25 MR. TORREY: Exhibit S-1 is the direct testimony

1 of Ms. Candrea Allen as filed with Commission docket
2 control on February 27, 2009.

3 Exhibit S-2 is the surrebuttal of Candrea Allen
4 as filed with docket control on May 15th of 2009.

5 S-3 is the direct testimony of Prem K. Bahl,
6 Staff utilities engineer, as filed in docket control on
7 March 11, 2009.

8 Exhibit 7 is the direct testimony of
9 J. Jeffrey Pasquinelli, a public utilities analyst, as
10 filed in docket control on February 27th, of 2009.

11 Exhibit S-8 is the direct testimony
12 of Ray T. Williamson, a Staff utilities engineer, as filed
13 in docket control on February 27th of 2009.

14 Those five exhibits the parties, previous to the
15 hearing, met and stipulated to the admission, and with
16 your permission I would like to have those admitted into
17 the record at this time.

18 ALJ RODDA: Any objection?

19 MR. JONES: No.

20 ALJ RODDA: So S-1, S-2, S-3, S-7, and S-8 are
21 admitted.

22 MR. TORREY: Correct, Your Honor.

23 ALJ RODDA: Did I get them all?

24 MR. TORREY: That's correct, Your Honor.

25 (S-1, S-2, S-3, S-7 and S-8 were admitted.)

1 ALJ RODDA: Do you have a phone number for
2 Ms. Brown?

3 MR. TORREY: We do, Your Honor.

4 ALJ RODDA: Give it to me. We will broadcast it.
5 Ms. Brown, can you hear me?

6 MS. BROWN: Yes.

7 ALJ RODDA: Ms. Brown, would you say something
8 else so we can do a sound check on you?

9 MS. BROWN: Okay.

10 ALJ RODDA: Make sure you are next to your phone.
11 I don't know if you have it on speaker or not.

12 MS. BROWN: No, I do not.

13 ALJ RODDA: Because you sound a little tinny.

14 MS. BROWN: Well, I have the earpiece right in my
15 ear and the mouthpiece right by my mouth.

16 ALJ RODDA: Do you have the Internet on?

17 MS. BROWN: Yes.

18 ALJ RODDA: Can you turn that off during your
19 testimony? We are getting a little feedback. That is why
20 I am saying that.

21 MS. BROWN: Okay. It's off.

22 Go ahead.

23 MR. TORREY: Staff calls Crystal S. Brown.

24

25

1 CRYSTAL S. BROWN,
2 called as a witness herein, appearing on behalf of Staff,
3 participating via teleconference, having been first duly
4 sworn, was examined and testified as follows:

5

6

DIRECT EXAMINATION

7

8 BY MR. TORREY:

9 Q. Ms. Brown, could you state your full name and
10 business address for the record, please.

11 A. My name is Crystal S. Brown. My business address
12 is 1200 West Washington, Phoenix, Arizona, 85007.

13 Q. And, Ms. Brown, are you employed by the Arizona
14 Corporation Commission?

15 A. Yes.

16 Q. And what do you do for the Commission?

17 A. I am a Public Utilities Analyst V, and I am
18 responsible for processing rate cases and other filings.

19 Q. Ms. Brown, how long have you been with the
20 Commission?

21 A. Approximately 13 years.

22 Q. And in conjunction with the application of Trico
23 Electric Cooperative that we have been hearing on today,
24 did you prepare some direct testimony?

25 A. Yes.

1 Q. And in front of me I have a copy of an exhibit
2 that has been marked S-4 for identification purposes.
3 That exhibit has been labeled the direct testimony of
4 Crystal S. Brown.

5 If I were to tell you that that was a copy of the
6 direct testimony that you filed with Commission docket
7 control on February 27th of 2009, would you have any
8 reason to dispute that?

9 A. No.

10 Q. And this testimony that I just named, did you
11 prepare that testimony either personally or under your
12 direct supervision?

13 A. Yes.

14 Q. And if I were to ask you the questions that
15 appear in that testimony here on the stand today, would
16 your answers be the same or substantially similar as they
17 appear in the document?

18 A. Yes.

19 Q. Is there anything about your direct testimony as
20 previously docketed that you believe need to be corrected
21 or amended on the stand today to make it true and
22 accurate?

23 A. No.

24 Q. Is there anything about your testimony that you
25 believe needs to be clarified or explained further for the

1 purposes of the record today?

2 A. No.

3 MR. TORREY: Your Honor, Ms. Brown is available
4 for cross-examination.

5 ALJ RODDA: Okay. Mr. Enoch, did you have
6 questions for Ms. Brown?

7 MR. ENOCH: No.

8 ALJ RODDA: Mr. Jones?

9 MR. JONES: No. Thank you.

10

11

EXAMINATION

12

13 BY ALJ RODDA:

14 Q. Ms. Brown, I have a few questions for you. I
15 want to understand your testimony.

16 I am looking at Schedule CSB-1 that is attached
17 to your direct testimony. It's sort of the summary sheet
18 of the filing.

19 A. I have it.

20 Q. Can you tell me, is Staff recommending a higher
21 revenue requirement than the cooperative had originally
22 requested?

23 A. We are recommending a higher revenue requirement
24 but it is a smaller increase in rates.

25 Q. Can you explain why that is?

1 A. Yes. On line 8, recommended revenue, operating
2 revenue, that number is composed of two parts. One is
3 line 6A, which is the increase of operating revenue and
4 the other is line 7, which is the adjusted test year
5 operating revenue.

6 Now, if you look at the company's proposed test
7 year operating revenue and the Staff's recommended
8 adjusted test year revenue -- adjusted test year operating
9 revenue, you will see that there is a difference. And
10 that difference is approximately \$1.2 million.

11 Now, if you go to schedule CSB-10, which is the
12 summary of adjustments to operating revenue expenses.

13 Q. Yes.

14 A. And look at adjustment No. 1 and No. 2 on line
15 13, that \$1.2 million is \$970,945 from the revenue
16 annualization, and the \$2,055,813 is from --

17 Q. Say that again. Is there a phone nearby that we
18 could use?

19 A. I could go into my supervisor's office.

20 Q. Let's try that line. You are so faint here and
21 we usually get a higher quality.

22 A. Okay.

23 Q. Let me give you a phone number to call.

24 A. Okay.

25 Q. When you are ready, call (520) 628-6597.

1 (Discussion off the record.)

2 Q. BY ALJ RODDA: So let's go back on the record.

3 And before we did that little adjustment break
4 off the record, you were explaining -- can you go back to
5 where you were?

6 A. Okay. On Schedule CSB-1 I had explained that
7 there was an approximate \$1.2 million difference between
8 the company-proposed adjusted test year operating revenue
9 and the Staff recommended. And that \$1.2 million was the
10 sum of the \$970,945 adjusted No. 1 on schedule CSB-10 and
11 then \$255,813 adjustment No. 2 on CSB-10.

12 And the adjustment No. 1 is the revenue and
13 expense annualization. And that annualization was not
14 made with increased rates. They were made with existing
15 rates. And what it entailed was looking at the test year
16 end number of customers, calculating an amount of usage
17 that those test year end customers would have used had
18 they been on the system all year long, and after getting
19 the amount of usage, Staff used the existing rates, not
20 the recommended rate to calculate that revenue.

21 So that portion of the difference between the
22 company test year and the Staff test year was due to
23 additional usage that was attributed to test year
24 customers being on the system all year long.

25 Q. Okay. Are you finished with that answer?

1 A. Yes.

2 Q. Okay. Thank you.

3 And it looks -- how did Staff determine what an
4 appropriate revenue level would be in this case?

5 A. Staff set their revenue to cover the
6 Commission-approved financing that the company had
7 recently received.

8 Q. Was that your full answer or are you looking at
9 something?

10 A. Well, that is primarily the driver behind Staff's
11 operating margin, was the amount of debt that they had.

12 Q. Well, you look at what is required for debt
13 service.

14 Did you do a cash flow analysis?

15 A. Yes, Staff did.

16 Q. And is that an exhibit to your testimony or is it
17 just incorporated in your testimony?

18 A. No, it's not an exhibit in this testimony.

19 Q. Okay. So you look at debt service coverage and
20 then figured out what other needs they would have or
21 how -- I guess I -- even though the debt service is the
22 driver, you're recommending more revenue than just
23 requirement for debt service?

24 A. Correct.

25 Q. So how did you determine what would be an

1 appropriate amount for the additional revenue?

2 A. Just a moment.

3 Staff just said in addition to the amount used to
4 cover the debt service on the approximate \$84 million
5 loan, Staff used an amount that we thought was reasonable
6 to add for any needed contingencies.

7 Q. Okay. So I think -- is Staff recommending a debt
8 service coverage ratio or DSC of 1.93 and a tier of 1.83?

9 A. Yes.

10 Q. And were you aiming at a particular ratio or did
11 that fall out of what you were recommending?

12 A. That is what fell out.

13 Staff -- as I said earlier, Staff wanted to cover
14 the debt service that was approved by the Commission and
15 allow additional money to cover the unforeseen expenses
16 that the company might incur.

17 Q. Okay. And so after the company pays for its or
18 covers its debt service, do you have a figure there of how
19 much remains for contingencies and replacement?

20 A. Let me check.

21 Well, the amount could be calculated, and what it
22 would entail would be -- if you take the operating margin
23 before interest on long-term debt and then you add back
24 the depreciation expense.

25 Q. Okay.

1 A. Okay. So that would be approximately 12 million
2 plus approximately say 5 million, and that is 17 million.
3 That would be 17 million. And the debt on service would
4 be, you know --

5 Q. It's okay. It's fine.

6 A. I can look at my file. I can open up my computer
7 and tell you.

8 Q. That's okay. I can figure it out from the
9 schedules. I appreciate your efforts though.

10 Does Staff have a recommendation for a goal
11 equity level for this co-op?

12 A. Yes. It would be 30 percent equity.

13 Q. And do you have -- did you do an analysis or do
14 you know under Staff's recommended revenues when the co-op
15 would reach that 30 percent equity?

16 A. No, I do not. I did not perform that analysis.

17 ALJ RODDA: All right. I don't think I have
18 further questions.

19 Did anyone else have any further questions?

20 MR. JONES: No, Your Honor.

21 MR. TORREY: No, Your Honor.

22 MR. ENOCH: No.

23 ALJ RODDA: Thank you, Ms. Brown, and try to get
24 them to get you a better phone.

25 THE WITNESS: All right.

1 ALJ RODDA: I will hang up on you now.

2 THE WITNESS: Okay. Fine.

3 ALJ RODDA: All right. Staff?

4 MR. TORREY: Before we do that Staff moves to
5 admit Exhibit S-4.

6 MR. JONES: No objection.

7 ALJ RODDA: All right. S-4 is admitted then.

8 (S-4 was admitted.)

9 MR. TORREY: Your Honor, staff calls
10 Steve Irvine.

11

12 STEVEN PATRICK IRVINE,
13 called as a witness herein, appearing on behalf of Staff,
14 having been first duly sworn, was examined and testified
15 as follows:

16

17 DIRECT EXAMINATION

18

19 BY MR. TORREY:

20 Q Mr. Irvine, would you state your full name and
21 business address for the record, please.

22 A My full name is Steven Patrick Irvine. My
23 business address is 1200 West Washington, Phoenix, Arizona
24 85007.

25 Q And you are employed by the Corporation

1 Commission; correct?

2 A. I am.

3 Q. And what do you do for the Commission?

4 A. I'm a public utilities analyst, and I deal with
5 things like rate design, cost of capital, financial
6 analysis, and a variety of other things.

7 Q. And how long have you been doing that?

8 A. I have been at the Commission about eight years,
9 and I have been working in utilities work for about seven.

10 Q. In conjunction with the application of Trico
11 Electric Cooperative that you have been hearing evidence
12 on today, did you conduct a similar type of analysis?

13 A. Yes.

14 Q. And on the stand in front of you do you have an
15 exhibit that has been marked S-5 for identification
16 purposes?

17 A. I do.

18 Q. And can you identify that document for the
19 record, please.

20 A. S-5 is my prefiled written direct testimony on
21 this matter, which includes discussion of rate design.

22 Q. And does your direct testimony reflect the
23 results of your analysis of the Trico rate application?

24 A. It does.

25 Q. And was it prepared either directly by you or

1 under your direct supervision?

2 A. It was.

3 Q. If I were to ask you the questions that are
4 contained in that document here on the stand today, would
5 your answers be the same or substantially similar to the
6 way they appear in that document?

7 A. Substantially similar, yes.

8 Q. And is there anything about Exhibit S-5 that you
9 feel needs to be clarified or explained on the stand to
10 make it accurate as of today?

11 A. I don't believe I have any corrections or
12 changes, but I'm certainly willing to clarify and speak
13 about it with the parties and the judge in this matter.

14 MR. TORREY: Your Honor, Staff moves to admit
15 Exhibit S-5.

16 MR. JONES: No objection.

17 ALJ RODDA: Okay. S-5 is admitted.

18 (S-5 is admitted.)

19 Q. BY MR. TORREY: Mr. Irvine, on the stand in front
20 of you do you see an exhibit marked as S-6 for
21 identification purposes?

22 A. I do.

23 Q. And for the record would you identify that
24 document?

25 A. S-6 is my prefiled written surrebuttal testimony

1 in this matter.

2 Q And was Exhibit S-6 prepared directly by you or
3 under your direct supervision?

4 A It was.

5 Q And if I were to ask you the questions contained
6 in S-6 on the stand today, would your answers be the same
7 or substantially similar to the way they appear in Exhibit
8 S-6?

9 A They would be substantially similar.

10 Q Is there anything about Exhibit S-6 that you feel
11 needs to be explained or clarified here on the stand today
12 to make it true and accurate?

13 A No.

14 MR. TORREY: And, Your Honor, Staff moves to
15 admit Exhibit S-6.

16 MR. JONES: No objection.

17 ALJ RODDA: Okay. Then S-6 is admitted.

18 (S-6 was admitted.)

19 Q BY MR. TORREY: Mr. Irvine, you were present for
20 the proceedings this morning; correct?

21 A I was.

22 Q And were you present for the discussion of the
23 rate design for time use?

24 A I was.

25 Q And does any of your testimony address that

1 topic?

2 A. It does.

3 Q. And could you please just briefly summarize for
4 the record Staff's rationale for Staff's analysis on rate
5 design for time-of-use?

6 A. Yes. When Staff designs rates, we consider a lot
7 of things. And one of the considerations is cost caution
8 in the same way that the company has considered cost in
9 designing its rates.

10 Staff also considers gradualism in change, which
11 effectively services as an offset to that in many
12 occasions. And the point of gradualism to change is to
13 try to be sure that there aren't any dramatic swings in
14 rates that cause rate shock or other implications for
15 customers.

16 So while we are sympathetic to the company's cost
17 concerns and we design rates with cost causation and cost
18 recovery in mind, we also temper that with gradualism and
19 change to be sure that there aren't any large swings. And
20 we try to find a number that satisfies both concerns.

21 Q. There was a discussion this morning, I believe,
22 of a particular class of ratepayers that would experience
23 an approximately 51 percent rate increase under a certain
24 set of changes to the time-of-use rate design.

25 Do you recall that?

1 A. That's correct. I believe that was something the
2 company proposed would occur if the rates were designed
3 entirely on a cost-recovery basis.

4 Q. Staff's recommendation was designed to sort of
5 incorporate this principle of gradualism that you talked
6 about; is that correct?

7 A. That's correct. In the time-of-use rates, we
8 recognize that there was some under recovery in that rate
9 class, and because of that, we designed rates so that that
10 class would recover more than the average increase so that
11 that class would contribute proportionately more to the
12 rates.

13 I believe the average revenue requirement
14 increase from Staff was 8.17 percent entirely and for that
15 class we increased the revenue, I believe it was about
16 18 percent. So we recognize that that class needed to
17 contribute more to the revenue requirement, but we didn't
18 want to go all the way to a 51 percent increase, because
19 of considerations for rate shock and gradualism in change.

20 Q. Staff has also taken a slightly different
21 approach to the on-peak/off-peak hours; is that correct?

22 A. That's correct. The company had proposed adding
23 weekend and also holiday hours, I believe. And there was
24 some confusion about that earlier, so I would like to take
25 this opportunity to clarify that.

1 Staff's recommendation is that those hours remain
2 as they are now, which would mean that there would not be
3 Saturday or Sunday hours or holiday hours that were on
4 peak hours as well.

5 In surrebuttal testimony, though, we did also
6 mention that -- Staff mentioned that if the company would
7 like to provide more information about peak hours and cost
8 causation and evidence in support of weekend hours, that
9 we would be willing to look at further evidence and
10 consider it.

11 *Q.* As it stands right now, can you just summarize
12 what Staff believes the appropriate on-peak and off-peak
13 hours would be for this time-of-use schedule?

14 *A.* Well, can I say that those are the hours that are
15 presently in place. I don't know if I can do it from
16 memory because those hours change from summer to winter.
17 But it's the hours that are presently in place, which
18 include Monday through Friday, but do not have on-peak
19 hours during the weekend.

20 *Q.* Is there anything else about the testimony that
21 you heard this morning that you feel needs to be clarified
22 in order to put Staff's position accurately on the record
23 today?

24 *A.* I might add a little information about the other
25 two items that are not revolved.

1 One of the disagreements that Staff had with the
2 company was about the monthly customer charges. And the
3 company had proposed monthly customer charges higher than
4 those that Staff had recommended.

5 And for the record I would just state that the
6 rationale behind Staff's recommendations is really what we
7 just discussed on the matter of time-of-use rates. The
8 company had a cost rationale which argued for higher fixed
9 costs or higher monthly customer charges, and Staff
10 recognized that that is a cost concern. But as much as I
11 discussed previously on the matter of time-of-use rates,
12 Staff also wanted to temper that with gradualism and
13 change and not recognize an increase to the monthly
14 customer charge or rate shock or confusion for customers.

15 And also much like what Staff did in the
16 time-of-use rate for residential customers, Staff did
17 increase the monthly service charges to a proportionally
18 higher percentage than the overall percentage. So where
19 Staff's total revenue requirement increased by what I
20 believe was 8.17 percent, the increase to monthly services
21 charges were higher than that to recognize the need for a
22 greater cost recovery through that fixed rate component
23 with the exception of the rate for the time-of-use
24 residential class, which, because of its high increase to
25 its kWh charges, had a large increase already.

1 And then the third point of disagreement was on
2 the matter of interruptible rates. The company wanted to
3 leave language in which gave it the discretion to remove
4 customers temporarily from the rate when they overrode and
5 interruption twice annually.

6 Staff's recommendation was to change the word
7 "may" to "shall," so that it became mandatory rather than
8 optional and increased the incentive for customers to not
9 override the interruption and actually interrupt when it
10 was necessary.

11 And apart from that, I believe that is what I
12 would state but certainly would be willing to discuss any
13 other matters further with any of the parties or the
14 judge.

15 MR. TORREY: And, Your Honor, with that
16 Mr. Irvine is available for cross-examination.

17 ALJ RODDA: Okay. Mr. Enoch.

18 MR. ENOCH: I don't have any questions.

19 MR. JONES: No questions.

20

21

EXAMINATION

22

23 BY ALJ RODDA:

24 Q Okay. Starting with that last point because I
25 didn't get a chance to write down my question right.

1 You heard Mr. Hedrick talking about the monetary
2 penalty for overriding the interruption?

3 A. I did.

4 Q. And there is no dispute that -- or is there --
5 that the amount of that penalty is greater than the cost
6 to the cooperative?

7 A. Staff doesn't dispute that, but Staff would also
8 want it to be clear for the record that while there is
9 what you might call a monetary penalty for being -- for
10 taking energy during that unpeak period, the rest of the
11 time, during non-peak period, the customer realizes his
12 potential savings.

13 So in total, a customer who might override an
14 interruption may pay more during that on-peak period, in
15 total they may still realize a savings in the course of a
16 whole year or whatever larger period you want to look at.

17 So one of Staff's concerns has been that, while
18 there is a penalty or a higher cost during that unpeak
19 period, someone might do the math and decide, well, maybe
20 I will just stay on the rates and save more in the long
21 run and not interrupt because in total I realize the
22 savings, even though it's more costly during that period
23 of interruption.

24 Q. Do you know how many times customers have
25 interrupted in the last -- is the tariff 12 months or is

1 it 18 months or is there a change?

2 A. My recollection is that the customer would be
3 removed from the rate for a purpose of 12 months -- well,
4 actually, I'm not entirely certain. I would have to refer
5 to testimony on the schedule to be sure.

6 Q. Well, I can do that too.

7 But do you know how many times customers like in
8 a year have overridden that?

9 A. I don't. I know that this is a matter that has
10 concerned Staff over the years, and I have heard Staffers
11 say in previous cases that they weren't aware of customers
12 having been removed from the rates. And I recognize that
13 that is secondhand information, that I can't offer direct
14 testimony on that matter, but my understanding is that
15 Staff has had a concern that customers aren't removed from
16 the rate. And I can't speak to the number of times
17 customers actually are dropped. I am certain that there
18 were some given Staff's concern.

19 Q. Okay. And going back to the time-of-use rates,
20 this is the area where you said, well, if the company had
21 more evidence.

22 What kind of evidence would you find persuasive?
23 What were you thinking when you made that comment that
24 would be relevant to your --

25 A. Well, I think that we wouldn't want to prescribe

1 any particular sort of argument or set of information that
2 the company would bring to us, but if we could see more
3 detailed cost information, and particularly hourly load
4 data and hourly cost data, we could better craft -- we
5 would be better positioned to craft a time-of-use rate and
6 select the appropriate hours for what is an interval or
7 off-peak Saturday or Sunday or whatever it may be.

8 But we are not looking at any in particular. We
9 are just inviting the company to provide more information
10 and more compelling information that it is costly and
11 costly during particular periods that could be controlled.

12 Q. But their evidence that sometimes a peak is
13 likely to occur on a Saturday or Sunday in the last
14 several years is not of sufficient detail to let you make
15 your analysis? I mean, you know, for a layperson, you
16 look at that, well, the peaks are on a Saturday or Sunday
17 just as likely as it would be on a Monday or Tuesday. You
18 wouldn't carve out the Tuesday in the middle of the week,
19 would you? I guess you might.

20 A. Yeah, would you is a speculative question of
21 potentially there could be an extenuating circumstance.

22 Q. I get to ask that.

23 A. I have never seen that.

24 I should apologize to the reporter.

25 Q. I should apologize to the reporter too. I did

1 it. We both are sorry.

2 A. I guess to regroup, we are essentially amenable
3 to the possibility of weekend rates. We considered it and
4 recognize that one of the difficulties would be that we
5 didn't have enough data to determine that weekend hours
6 would be appropriate for on-peak period. But I wouldn't
7 want for the record to create the appearance that that was
8 our only consideration. We just like to see more. I
9 don't think I could identify any particular threshold
10 issue that kept us from approving it.

11 Q. Okay. And so is one of the concerns that you
12 have about the addition of weekends was this idea of
13 gradualism too, I mean, that it would be a major change to
14 the current structure of the rates?

15 A. I think that is a fair characterization. Our
16 initial concern, as we discussed in direct testimony, is
17 that customers are accustomed to weekdays on- and off-peak
18 periods, and that it might be a significant behavioral
19 shift for them to give up those weekend hours when they
20 could take care of laundry or whatever other things they
21 were doing at the time.

22 Q. Okay. And when Mr. Hedrick was on the stand and
23 I was asking him about the losses that were attributable
24 to the time-of-use tariffs and he referred me to that
25 schedule G-1 that was filed with the application, does

1 Staff have any dispute about how -- about that schedule
2 G-1? I mean, do you accept that those were the losses
3 attributed but for whatever other reason, gradualism in
4 change, that you just don't want to move that quickly?

5 A. I think the most accurate response is to say that
6 Staff does not dispute them. I don't know that I accept
7 them because I did not study that portion of the rates,
8 but I have no reason to dispute it.

9 And to the part of the question of gradualism of
10 change, I believe your characterization is right; that
11 that was Staff's concern.

12 Q. And then the other issue that is at issue here is
13 the amount of the customer charges.

14 And if the overall increase -- when you were
15 designing rates -- it seems like we had a similar issue in
16 a recent rate case -- so it's an 8.1 -- you keep saying
17 8.17 percent overall revenue increase. When you look at
18 how to divide that up between a monthly customer charge
19 and the variable component, do you look at the percentage
20 of that, of the overall change? Is that what drives you
21 or would be a major consideration?

22 A. That is the primary consideration. And, in fact,
23 it's usually a starting point.

24 Usually the starting position in Staff's
25 formations of rates is to say, if the overall change is

1 X percent or approximately 8 percent in this matter, what
2 does it look like if we increase everything 8 percent?
3 From there we consider cost causation issues like the
4 relative return from each customer class and then the
5 difference in return between the fixed charges and
6 variable charges and how those compare to the results of
7 the cost of service study.

8 And then from there we make other adjustments
9 that we feel are appropriate given the circumstances of
10 the case and try to move towards actual costs without
11 getting to the point where there seems to be inequities or
12 there seems to be a drastic change to any one class or to
13 any one component to the rate.

14 ALJ RODDA: I think those are all my questions.
15 Do you have anything further, Mr. Torrey?

16 MR. TORREY: No, Your Honor.

17 ALJ RODDA: Okay. Does anyone else?

18 MR. JONES: No.

19 ALJ RODDA: All right. Well, thank you very
20 much, Mr. Irvine.

21 THE WITNESS: Thank you.

22 MR. TORREY: And, Your Honor, that represents all
23 of Staff's witnesses.

24 ALJ RODDA: Okay. Let's go off the record for a
25 minute.

1 (Discussion off the record.)

2 ALJ RODDA: Back on the record.

3 During our off-the-record discussion, I requested
4 that -- we discussed the filing of closing briefs, and I
5 requested briefs from the parties stating their final
6 positions and citing to the record for things such as the
7 final version of whatever rules and regulations that they
8 are recommending to be adopted in this case and in the
9 case of -- and final calculation.

10 I would like a final calculation as under the
11 party's recommended revenue levels and their rate design,
12 what the bill impact would be on at least the residential
13 class.

14 And the parties agreed that they could file the
15 briefs by June 19th.

16 Was there anything else that I said I wanted in
17 those briefs? I can't think of anything else.

18 MR. ENOCH: Just so the record will reflect, you
19 relieved us of the obligation, my client, to file a brief.

20 ALJ RODDA: Yes. Let the record reflect that the
21 intervenor, who did not perform a final analysis in this
22 case, has requested to be excused from filing a brief, and
23 that request was granted.

24 MR. TORREY: And, I believe, Your Honor, you said
25 any final schedule from the parties, only to the extent

1 that they are different from what is already in the
2 record?

3 ALJ RODDA: Right. If you can cite it in that
4 brief, you know, see schedule whatever attached to
5 so-and-so's testimony, that is fine. If you need to draft
6 another schedule to reflect whatever the final
7 recommendation is, then you can just attach that.

8 Any other questions?

9 MR. TORREY: None from Staff, Your Honor.

10 ALJ RODDA: Well, then thank you all very much.
11 I will take the matter under advisement and issue a
12 Recommended Opinion and Order as soon as I can. It really
13 shouldn't take very long except for the fact that I have a
14 bazillion rate cases this summer, this being one of them.

15 I appreciate your participation. It was a nice
16 hearing, and I hope you all drive safely to wherever you
17 are going.

18 (The hearing concluded at 2:42 p.m.)

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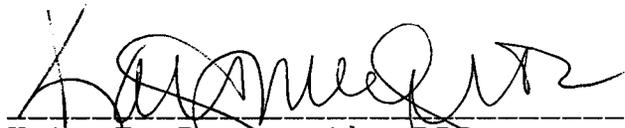
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1 STATE OF ARIZONA.)
) ss.
 2 COUNTY OF MARICOPA)

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I, KATE E. BAUMGARTH, RPR, Certified Reporter
 No. 50582, for the State of Arizona, do hereby certify
 that the foregoing printed pages constitute a full, and
 accurate transcript of the proceedings had in the
 foregoing matter, all done to the best of my skill and
 ability.

WITNESS my hand this 1st day of June, 2009.



 Kate E. Baumgarth, RPR
 Certified Reporter, No. 50582