

OPEN MEETING ITEM

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



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Interim Executive Director

ORIGINAL

ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUL 13 2009

DATE: JULY 13, 2009
DOCKET NO.: E-01461A-08-0430
TO ALL PARTIES:

DOCKETED BY	
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Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Opinion and Order on:

TRICO ELECTRIC COOPERATIVE, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JULY 22, 2009

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JULY 28, 2009 and JULY 29, 2009

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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MICHAEL P. KEARNS
INTERIM EXECUTIVE DIRECTOR

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KRISTIN K. MAYES - Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF
9 TRICO ELECTRIC COOPERATIVE, INC., AN
10 ARIZONA NONPROFIT CORPORATION, FOR
11 A PERMANENT RATE INCREASE, FOR A
12 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

DECISION NO. _____

OPINION AND ORDER

13 DATE OF HEARING: May 20, 2009
14 PLACE OF HEARING: Tucson, Arizona
15 ADMINISTRATIVE LAW JUDGE: Jane L. Rodda
16 APPEARANCES: Mr. Russell E. Jones, Waterfall, Economidis, Caldwell
17 Hanshaw & Villamana, PC, on behalf of Applicant;
18 Mr. Nicholas Enoch, Enoch & Lubin, PC, on behalf of
19 the International Brotherhood of Electrical Workers
20 Local 1116; and
21 Mr. Kevin Torrey, Staff Attorney, Legal Division, on
behalf of the Utilities Division of the Arizona
Corporation Commission.

22 **BY THE COMMISSION:**

23 * * * * *

24 Having considered the entire record herein and being fully advised in the premises, the
25 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

26 ...

27 ...

28 **FINDINGS OF FACT**

1 31, 2008.

2 7. In response to notification of the rate application, the Commission received seven
3 customer opinions against the rate increase.

4 8. On January 30, 2009, Trico filed a request to approve a proposed Standard Offer
5 General Service and Time of Use experimental tariff in Docket No. E-00000A-06-0038, a generic
6 docket regarding Smart Metering Requirements of Section 1252 of the Energy Policy Act of 2005.

7 9. On February 27, 2009, Staff filed the Direct Testimony of Crystal Brown, Jeffrey
8 Pasquinelli, Candrea Allen and Ray Williamson.

9 10. On February 27, 2009, IBEW 1116 filed the Direct Testimony of Frank Grijalva.

10 11. On March 2, 2009, Staff filed a Motion for an extension of time to file its rate design
11 testimony to allow the analysis of the tariffs Trico filed in the Smart Metering Docket.

12 12. By Procedural Order dated March 11, 2009, Staff's Motion for extension of time was
13 granted and a revised schedule for filing testimony established.

14 13. On March 11, 2009, Staff filed the Direct Testimony on Rate Design and Cost of
15 Service of Prem Bahl.

16 14. On March 31, 2009, Staff filed the Direct Testimony of Steven Irvine concerning rate
17 design.

18 15. On April 24, 2009, Trico filed the Rebuttal Testimony of David Hedrick and Vincent
19 Nitido.

20 16. On May 15, 2009, Staff filed the Surrebuttal Testimony of Candrea Allen and Steve
21 Irvine.

22 17. On May 18, 2009, a Pre-hearing Conference convened for the purpose of scheduling
23 witnesses. At that time, because there were no disputes, the parties stipulated to the admission of the
24 testimony of Charles Emerson, Marsha Regutto and Michael Searcy for the Cooperative, and Jeffrey
25 Pasquinelli, Prem Bahl, Candrea Allen and Ray Williamson for Staff.

26 18. The hearing convened as scheduled before a duly authorized Administrative Law
27 Judge on May 20, 2009, at the Commission's Tucson offices. At that time, Mr. Vincent Nitido,
28 Trico's Chief Executive Officer, Ms. Caroline Gardener, the Cooperative's Finance Manager, and

1 Mr. David Hedrick, its rate case consultant, testified for the Cooperative. Mr. Grijalva testified for
2 the IBEW Local 1116. Mr. Steven Irvine and Ms. Crystal Brown testified for Staff.

3 19. On June 19, 2009, Trico and Staff filed Closing Briefs.

4 20. On June 19, 2009, Staff also filed the Supplemental Testimony of Jeffrey Pasquinelli
5 addressing Trico's DSM programs.

6 Revenue Requirement

7 21. Trico is a non-profit, member-owned electric distribution cooperative that provides
8 electric distribution service to approximately 38,000 customers located in portions of Pima, Pinal and
9 Santa Cruz Counties, in Arizona.

10 22. Trico is a full requirements member of Arizona Electric Power Cooperative, Inc.
11 ("AEPCO"), and receives all of its wholesale power from AEPCO.

12 23. Trico's current rates were set in Decision No. 68073 (August 17, 2005).

13 24. Trico's application was based on a Test Year ended December 31, 2007.

14 25. In the ten years since 1997, Trico reports that its number of customers and MWh sales
15 had almost doubled.² Ms. Gardiner testified that in the Test Year, the Cooperative's Operating Times
16 Interest Earned Ratio ("OTIER") dropped to 1.05, which is below the minimum of 1.10 required by
17 Trico's lender, the Rural Utility Service ("RUS"), and that the Cooperative's equity fell from 38
18 percent of total capitalization in 2002 to 25 percent in 2007.³

19 26. Staff's engineering review concludes that Trico is maintaining and operating its
20 electrical system properly; has an acceptable level of system losses, consistent with industry
21 guidelines; is carrying out system improvements, upgrades and new additions in an efficient and
22 reliable manner; and has a satisfactory record of service interruptions in the periods 2007 and 2008.⁴

23 27. In its application, Trico requested total annual revenue of \$80,793,749, an increase of
24 \$6,542,728, or 8.81 percent over its proposed adjusted Test Year revenue of \$74,251,021.⁵ Trico
25 reported an adjusted Original Cost Rate Base ("OCRB") of \$154,546,824, which it proposed as its

26 _____
27 ² Ex A-5, Gardiner Direct at 4.

³ Id. at 5.

⁴ Ex S-4 Williamson Direct.

28 ⁵ Trico ultimately adopted Staff's adjustments to Test Year revenue and expenses.

1 Fair Value Rate Base ("FVRB"). Trico's proposed revenue increase would produce an Operating
 2 Income⁶ of \$11,761,982, or 7.61 percent on FVRB, and an OTIER of 1.68 and a Debt Service
 3 Coverage ("DSC") of 2.06.⁷

4 28. In the Test Year, as adjusted by Staff, Trico had total revenues of \$75,477,779, and an
 5 adjusted Operating Income of \$6,326,553, which resulted in a 4.49 percent rate of return on adjusted
 6 OCRB of \$140,628,110.

7 29. Staff recommended total annual revenue of \$81,521,496, an increase of \$6,043,717, or
 8 8.01 percent over Staff's adjusted Test Year revenue of \$75,477,779. Staff's recommendations
 9 resulted in Operating Income of \$12,370,271, reflecting an 8.80 percent rate of return on Staff's
 10 recommend FVRB of \$140,628,110, and would produce an OTIER of 1.83 and DSC of 1.93.⁸

11 30. Staff's recommendations decreased Trico's OCRB by \$13,918,714, from
 12 \$154,546,824 to \$140,628,110. Staff eliminated Plant Held For Future Use of \$198,982,
 13 Construction Work in Progress of \$8,158,627 and Working Capital of \$5,573,254; increased
 14 Accumulated Depreciation by \$49,161; and decreased Consumer Deposits by \$47,022.⁹

15 31. With respect to Test Year Revenue and Expenses, Staff recommended: a) revenue and
 16 expense annualizations of \$970,945 and \$723,500, respectively; b) an increase of \$255,813 in base
 17 cost of power and eliminating \$10,755,503 related to the Wholesale Power Cost Adjustor which
 18 Trico had added to its base cost of power; c) decreasing operating expenses by \$115,828 to eliminate
 19 the costs of DSM programs which are to be recovered in a DSM Adjustor; d) decreasing
 20 administrative and general expenses by \$105,922 to normalize the cost of having two different Chief
 21 Executive Officers in the Test Year; e) decreasing payroll by \$119,277 to eliminate the costs
 22 associated with six part-time employees that were not employed during the Test Year; f) decreasing
 23 operating expense to eliminate \$20,700 for optional bonuses; g) decreasing operating expenses by
 24 \$131,462 for advertising and lobbying; h) decreasing property tax expense by \$366,736 to reflect
 25 Trico's 2008 property tax bill; and i) decreasing capital credits by \$1,986,966 to eliminate the non-

26 ⁶ Throughout the proceeding, the Cooperative and Staff referred to Operating Income as the Operating Margin. Since
 27 they are the same thing, we will use operating income.

⁷ Ex S-4, Brown Direct, Executive Summary.

⁸ *Id.*

28 ⁹ *Id.* Schedule CSB-3.

1 cash allocation to Trico by AEPCO.

2 32. Trico has accepted all of Staff's adjustments to revenue, operating expenses and to
3 rate base, as well as Staff's recommended revenue requirement. In this proceeding, the only disputes
4 between Trico and Staff concerned the appropriate level of the monthly customer charge, the design
5 of the Residential TOU rates, the working of Trico's IS-1 and IS-2 Interruptible Tariffs; and certain
6 language changes and clarifications in Sections 203, Part D and 219 of Trico's proposed RR&LEP.¹⁰

7 33. Staff's adjustments to rate base as reflected in the testimony of Ms. Brown, are
8 reasonable and should be adopted. Consequently, Trico's FVRB, which the same as its OCRB, is
9 determined to be \$140,628,110.

10 34. Staff's adjustments to Test Year revenues and expenses are reasonable and should be
11 adopted.

12 35. The revenue requirement agreed to by the parties allows the Cooperative to meet its
13 financial obligations, as well as build equity, and is fair and reasonable to ratepayers. The
14 Cooperative projections indicate the revenue increase would allow it to reach a 40 percent equity to
15 total capitalization ratio by 2016, and that it will exceed the minimum financial ratios set by the
16 RUS.¹¹ Consequently, we adopt Staff's recommended revenue requirement in this proceeding.

17 36. The adopted revenue requirement is an increase of \$6,043,717 over adjusted Test Year
18 revenues and results in Operating Income of \$12,370,271, and return of 8.90 percent on FVRB.

19 37. Trico accepted Staff's proposed base wholesale power cost of \$0.081638 per kWh
20 sold. Staff's proposed base cost of power incorporates the adjustment factor that was in place at the
21 end of the Test Year, which Staff asserts more accurately reflects the cost of power going forward.¹²
22 Changes in wholesale costs flow through to Trico's customers through its Wholesale Power Cost
23 Adjustment ("WPCA") clause rate. Staff found that Trico's WPCA approved in the last rate case has
24 been working satisfactorily. In the Test Year, the WPCA rate ranged from 1.5 ¢ per kWh to 1.9 ¢ per
25 kWh.¹³

26 _____
27 ¹⁰ At the hearing Staff and Trico clarified their recommendations concerning the RR&LEP, and resolved their differences.

¹¹ Ex A-5 Gardiner Direct at 6.

¹² Ex S-7, Pasquinelli Direct at 2.

28 ¹³ *Id.* at 3.

38. We concur with the parties and adopt Staff's proposed base cost of wholesale power.

Customer Charge

39. Trico and Staff do not agree on the appropriate level of the monthly customer charge. Trico's current customer charges, and those proposed by Trico and Staff, as well as the results of the Cost of Service Study ("COSS") are as follows:

	<u>Current</u>	<u>Trico Proposed¹⁴</u>	<u>Staff Proposed</u>	<u>COSS</u>
Residential	\$12.00	\$15.00	\$13.50	\$35.18
Residential TOU	\$16.00	\$19.00	\$16.00	\$43.49
GS 1- Single Phase	\$15.00	\$18.00	\$16.80	\$40.49
GS 2 - Single Phase	\$15.00	\$18.00	\$16.80	\$93.64
GS 3	\$15.00	\$18.00	\$17.25	\$207.97
Water Pumping	\$15.00	\$18.00	\$17.25	\$95.87
Irrigation	\$15.00	\$18.00	\$17.25	\$131.94
Time of Day ("TOD") Pumping	\$15.00	\$18.00	\$17.25	\$177.27
IS-1	\$32.00	\$36.00	\$38.80	\$314.94
IS-2	\$32.00	\$36.00	\$38.80	\$324.69

Customer service costs are the costs of having service available to the customer before any energy is actually sold. It includes the customer component of distribution line expense, a portion of the transformer expense, the meter and service drop expense, and meter reading and customer records expenses.¹⁵

40. Trico argues that the COSS is not in dispute and supports a higher customer charge. Trico asserts that its proposed increase in the customer charge can help start de-coupling revenues and energy usage that will help Trico implement DSM programs without disincentives. By increasing the customer charges, Trico argues it will be less dependent upon the sale of energy to recover its fixed distribution costs, and further, that as customer charges are increased, energy efficiency and conservation programs will have less of a negative impact on Trico's ability to recover its costs and meet its financial goals. Trico believes that its position as expressed in its rebuttal

¹⁴ Ex A-11, Hedrick Rebuttal, DH-4.0. In its rebuttal case, Trico reduced its requested increase for the customer charge.

¹⁵ Ex. A-3, Hedrick Direct at 14.

1 testimony, which reduced its original proposal, is a reasonable compromise solution.

2 41. Staff believes that the increase in the customer charge should be limited to 10-15
3 percent for each customer class to more closely align with the overall increase of 8 percent. Staff
4 does not dispute that Trico's COSS justifies increasing the customer charge, but asserts that designing
5 rates cannot be reduced to a formula, but requires considering multiple factors. Staff believes the
6 goal of cost-based rates must be balanced with principles of gradualism, fairness and encouraging
7 conservation. Staff argues Trico's proposed increase is too great for a one-time increase and does not
8 sufficiently take into consideration other important aspects of rate design.

9 42. Under the Cooperative's proposed rate design the monthly bill of an average
10 residential customer, using an annual average of 916 kWh per month, would increase \$9.82, or 8.40
11 percent, from \$116.89 to \$126.71. The median residential customer utilizes 725 kWh per month, and
12 would experience an increase of \$8.40, or 8.84 percent, from \$95.06 to \$103.46 per month.¹⁶

13 43. Under Staff's proposed rate design the monthly bill of an average residential customer,
14 using 916 kWh per month, would increase \$10.48, or 8.96 percent, from \$116.89 to \$127.37. The
15 median residential bill would increase \$8.60, or 9.05 percent, from \$95.06 to \$103.66.¹⁷

16 44. The dollar difference between Trico's and Staff's proposed rates is de minimis.
17 After considering the entire record, we adopt the Cooperative's proposed customer charges and rate
18 design.¹⁸ Although Staff's recommendations are based on sound principles and are not unreasonable,
19 considering the effect on all customer classes, including the proposed Residential TOU Class
20 discussed below, we find that the Cooperative's proposal best distributes the incremental revenue
21 increase, and moves the customer charge closer to the cost of service.

22 Residential Time of Use Tariff

23 45. Trico presented evidence that its current Residential TOU rate has resulted in an
24 annual loss to Trico of between \$800,000 and \$1,000,000 since 2007.¹⁹ Mr. Hedrick testified that the
25 Cooperative's existing Residential TOU Tariff is ineffectual because it does not send the appropriate

26 ¹⁶ Trico Brief, Exhibit 6.

27 ¹⁷ Ex S-5, Irvine Direct, H-4.0. Staff's analysis in its direct testimony did not include the DSM adjustor as Staff had not
yet made its recommendations concerning DSM programs.

28 ¹⁸ Trico did not propose any changes to its service charges or fees.

¹⁹ Ex A-3 Hedrick Direct at 15; Transcript of May 20, 2009 Hearing ("Tr") at 58.

1 price signal that should encourage customers to reduce consumption during on-peak periods. As
2 currently structured, the Residential TOU rates allow customers to reduce their bills without
3 modifying their behavior.

4 46. On February 6, 2008, Trico filed a request with the Commission to freeze the existing
5 Residential TOU tariff so that additional customers could not sign up for this rate. The Commission
6 approved Trico's request to freeze the existing Residential TOU tariff in Decision No. 70212 (March
7 20, 2008). Decision No. 70212 acknowledged that in 2007, customers were migrating to the TOU
8 tariff and saving approximately \$40 per month without shifting any on-peak load, and the effect on
9 Trico's revenues was further exacerbated by an increase of 20 percent in AEPCO's demand rate per
10 KW since 2004.²⁰

11 47. Trico had originally proposed a phase-in of its proposed Residential TOU rates
12 because it was proposing a significant increase for this customer class. The current TOU rate
13 provides for 8 on-peak hours during Monday through Friday in the summer and no on-peak hours on
14 weekends. Trico presented an analysis that shows that AEPCO's Coincidental Peak fell on three
15 weekend days for each of the years 2006, 2007 and four weekend days in 2008. In light of this
16 evidence, Trico proposed the Residential TOU Tariff to reduce on-peak summer hours from 8 to 6
17 hours, but to include 6 on-peak hours on weekends, which would result in approximately the same
18 number of on-peak summer hours as in the current tariff.

19 48. Trico asserts that Staff's Proposed TOU rates will produce a negative annual return or
20 loss of \$485,006, which results in Trico's other customer classes subsidizing the Residential TOU
21 class. Trico states that its compromise rate design (i.e. as expressed in its rebuttal case, which
22 reduced its original proposed customer charge from \$21.00 to \$19.00 per month) provides no positive
23 or negative return to Trico from this class. Trico asserts that imposing a negative return on this rate
24 class would make the Residential TOU rate less effective and hinder its ability to regain financial
25 strength and meet its required OTIER. Trico argues that it is critical to earn an OTIER of at least
26 1.15 in 2009 in order to meet its mortgage requirements. Given its OTIER of 1.04 and 1.05 in the
27

28 ²⁰ Decision No. 70212 at Findings of Fact No. 7.

1 last two years, Trico states that it cannot afford to have a rate class with a negative return.

2 49. Staff agrees that Trico's existing Residential TOU rate has been ineffective and Staff
3 does not dispute the results of the COSS.²¹ Staff states that it designed a Residential TOU rate
4 schedule that keeps the monthly service charge proportionately aligned with other customer classes
5 and raises the energy charges to provide a substantial increase to revenues without imposing rate
6 shock. Staff asserts that its design incorporates a clear price signal through its rate differential
7 between on- and off-peak hours and designates flexible peak days and hours that allow customers to
8 exercise control over their load-shifting. Staff recognizes the higher costs to serve TOU customers,
9 but recommends no increase to the monthly charge for this rate class because Staff believes the
10 existing charge of \$16.00 per month compared with Staff's proposed \$13.50 for the standard
11 customer, already reflects the difference.²²

12 50. Staff agrees with the Cooperative that there has been "some" under-recovery from the
13 Residential TOU class and proposes to boost revenue through higher energy charges. Staff argues
14 that included in its proposed energy charges is a clear price differential between the on-peak and off-
15 peak hours that sends the appropriate price signal for customers to shift load to off-peak hours. Staff
16 states its proposed rate increase for this customer class is designed to provide an equitable return and
17 encourage conservation, but is tempered with gradualism to avoid rate shock. For these reasons,
18 Staff did not recommend a phase-in of the new Residential TOU rates.

19 51. Staff also recommends not including weekends in on-peak hours. Staff states it
20 recognizes that coincident peaks have occurred on weekends during the past few years, but does not
21 find the Cooperative's reasoning sufficiently compelling. Staff states that it is willing to reconsider
22 Trico's proposal if it could provide more detailed information.²³ Staff states that specific hourly load
23 and cost data would be needed for the evaluation of a change to on- and off-peak hours in any case.²⁴
24 Staff asserts that having on-peak weekend hours may be unduly burdensome to ratepayers who have
25 expressed concerns in the past that it would be difficult to avoid on-peak hours during weekends.²⁵

26 ²¹ Ex S-3, Bahl Direct at 7; Tr at 106.

27 ²² Ex S-5 Irvine Direct, SPI-1 at 1.

28 ²³ Tr at 112-113.

²⁴ Id.

²⁵ Decision No. 70212 at Findings of Fact No. 4.

1 Staff believes that Trico's proposal to reduce the number of on-peak hours for the other days does not
2 sufficiently address the issue.

3 52. Trico's current TOU Tariff is ineffectual and detrimental to the financial condition of
4 the Cooperative. We believe that having effective TOU tariffs that encourage customers to shift load
5 to off-peak hours is important. We are concerned however, about the Residential TOU Tariff in this
6 case producing a negative return for the class. Customers who are not able to shift load for various
7 reasons should not have to subsidize the TOU Class. At this point, we need more information to
8 evaluate the Cooperative's proposal to include on-peak hours on weekends, and we note that other
9 utilities typically do not include on-peak times during weekends. The effect on ratepayers is
10 unknown and we do not want to discourage them from taking TOU rates solely because of the
11 weekend on-peak hours. Consequently, we direct Trico to file a Residential TOU Tariff that results
12 in a neutral return on the Cooperative from the TOU class, but which does not include on-peak times
13 during weekends.

14 **Interruptible Tariff**

15 53. The parties also disagree about the design of the Interruptible Rate Tariff.

16 54. Trico proposes to retain the existing tariff language as follows:

17 In the event the customer has metered demand at the time of AEPCO peak
18 more than twice in a calendar year, the Cooperative may disconnect the
19 controlling device and discontinue interruptible Service. (Emphasis
20 added).

21 55. Staff proposed to change the "may" to "will." Under Staff's recommendation, a
22 customer would be removed from the IS-1 or IS-2 tariff if it overrides Trico's interruption at the time
23 of the AEPCO co-incident peak more than twice within a 12 month period. Staff argues that the
24 interruptible tariffs and override penalties are not solely about recovering costs. Staff believes that
25 the Cooperative's position on the interruptible tariff ignores DSM program goals, including reducing
26 consumption, and disregards that the additional revenue from the penalty is offset by the reduced
27 revenues collected under the tariffs during the non-peak periods. Staff states it is therefore uncertain
28 if there is full cost recovery. Staff argues there must be more to an override penalty than recovering
costs. Staff is concerned that when customers are allowed to repeatedly override interruptions, it

1 defeats the purpose of the tariff, and without an explicit, substantial consequence, the tariff is
2 ineffective and the Cooperative stands to lose the benefits.

3 56. Trico asserts that the rates for the IS-1 and IS-2 Class provide Trico with a high rate of
4 return. If a customer on these tariffs override a Trico interruption during an AEPCO peak the
5 customer must pay Trico \$29.50 per kW as a demand charge for each kW Trico is charged by
6 AEPCO as a result of the override.²⁶

7 57. Trico argues that the penalty demand charge is a strong disincentive for customers to
8 override the call for interruption and the increased rate covers any added expense Trico has to pay
9 AEPCO due to a customer's override decision. Trico states that any load that is reduced helps benefit
10 all customers on Trico's system due to Trico's peak demand billing from AECPO, and that to
11 automatically remove customers from this rate class due to small overrides is detrimental to all
12 customers on the system. Trico argues that it is in the best interest of its customers to give Trico the
13 discretion as to whether a customer should be removed from this class.

14 58. The testimony at the Hearing was that the majority of customers' overrides are
15 attributed to a small part of the customer's overall load.²⁷ There was no indication that there is a
16 wholesale abuse of the override provision. If a customer is removed from the tariff, it will no longer
17 have incentive to curtail its load during peaks, and Trico will lose the benefit that the tariff provides.
18 In the absence of evidence that the tariff is not working as intended, we will leave the language as it
19 currently exists.

20 TOD Tariff

21 59. Trico has accepted Staff's recommendation to revert the proposed Time-of-Day
22 Pumping Service ("TOD-P") rate structure back to its existing terms and conditions. Trico had
23 proposed to define the on-peak demand period only as usage metered during system coincident peaks
24 (coincident with AEPCO's peak), rather than as usage during clearly specified hours. Staff states that
25 not having previously identified peak hours raises concerns about the customer's ability to control the
26 appropriate shifting of load at the proper times. Staff's proposal defines peak usage the same as in a
27

28 ²⁶ The AEPCO cost charged to Trico is approximately \$22 a kW. Tr at 46.

²⁷ Tr. at 48, 64-65.

1 traditional TOU rate, which it believes allows customers to make informed decisions regarding
2 shifting load.²⁸

3 60. Staff's approach (which maintains the existing language) to TOD is reasonable, and
4 easier for customers to understand and apply, and should be adopted.

5 Experimental General Services TOU Tariff

6 61. Staff also recommends approval of Trico's proposed experimental General Service –
7 Time-of-Use ("GS-TOU") rate. This rate defines on-peak demand as usage metered during system
8 coincident peaks, rather than as use during clearly identified hours. Staff believes the introduction of
9 this rate as an experimental rate is an appropriate method to determine customer acceptance and
10 effectiveness of an identified on-peak period.²⁹

11 62. We find that Staff's recommendation concerning the experimental GS-TOU Tariff is
12 reasonable and should be adopted. As an experimental tariff, Trico will be able to collect data to
13 determine if a different method of defining peak times can be effective.

14 Rules, Regulations and Line Extension Policies

15 63. Staff and Trico agree that the RR&LEPs, as proposed by the Cooperative, and
16 modified by the Direct Testimony of Staff witness Allen, and in the Rebuttal Testimony of
17 Cooperative witness Hedrick,³⁰ should be adopted.

18 64. Staff agrees with Trico's proposal to eliminate free footage for line extensions and
19 believes the change will improve the Cooperative's ability to recover the costs associated with the
20 anticipated continuation of above-average growth in the Trico's service area. Staff states that to be
21 equitable to those potential customers who may have already made commitments based on the
22 previous free footage allowance, Staff recommends that any customer who was given a line extension
23 estimate or quote in the twelve months prior to an order in this matter be exempt from the policy and
24 be granted the free footage per the previous policy.

25 65. The parties' resolution of the proposed changes to the RR&LEP is reasonable, and the

26 _____
27 ²⁸ Ultimately, there was no dispute among the parties about the TOD Tariff, however, it is included herein to clarify the
resolution of the issue.

28 ²⁹ Ex S-5 Irvine Direct at 4.

³⁰ Staff Brief at 8. A copy of the proposed revised RR&LEP is attached to Trico's Brief as Exhibit A.

1 modified RR&LEP, as set forth in the Cooperative's Brief, should be approved. Trico believes the
2 elimination of the free footage for line extensions will significantly reduce its need to borrow in the
3 future, which will positively affect its equity capitalization ratio. The elimination of the free footage
4 for line extensions, as conditioned by Staff's recommendations, is fair and equitable and conforms to
5 recent Commission decisions for other utilities.

6 DSM Programs

7 66. Decision No. 68073 authorized Trico to employ a DSM adjustor mechanism to
8 recover the costs of pre-approved DSM programs. Trico has not to date, implemented the mechanism
9 because it had not obtained Commission approval for its DSM programs.

10 67. Trico requested the approval of several DSM programs as part of its rate application,
11 but at the time of the hearing, Staff was not yet prepared to make any recommendations.³¹ Pursuant
12 to the agreement of the parties and as approved by the Administrative Law Judge, Staff filed the post-
13 hearing Supplemental Testimony of Mr. Pasquinelli, which supports approval of Trico's proposed
14 DSM programs, with conditions.

15 68. Trico proposed the following DSM programs, which are already in operation, but
16 which have not yet been approved by the Commission:

- 17 a. Member Service Representative ("MSR") Energy Training Workshop; a seven hour
18 training session designed to educate Trico's MSRs in advanced energy savings
19 techniques, which would enable them to better assist members in using energy more
20 efficiently. The MSRs are trained to conduct telephonic surveys at the end of which
21 they will be able to make recommendations on energy conservation to members. Trico
22 reports the cost for this program is \$78,430.
- 23 b. Conservation Workshop Program; Trico representatives meet with homeowners
24 associations, apartment complex residents or any community group to lead a
25 workshop on energy conservation techniques. Trico reports a total cost of \$2,000.
- 26 c. Classroom Connection; Trico representatives educate elementary school students on
27

28 ³¹ Ex A-7 Regrutto Direct at 4; Ex S-7 Pasquinelli Direct at 4.

1 the overall concept of conserving energy as well as on methods to conserve in their
2 own homes. Trico reports a cost of \$2,548.

3 d. Residential Home Energy Audits; under this program, Trico members identify where
4 their homes use the most energy and receive information on how to reduce energy
5 consumption. Trico MSRs help the members through a "self-audit" telephonic survey,
6 and can schedule an on-site energy audit. The auditor can make recommendations that
7 will result in a more energy efficient home. Trico reports a cost for this program of
8 \$1,675.

9 e. Non-Residential Energy Audits; under this program, a survey, load profile analysis
10 and review of historical usage are performed upon the request of commercial and
11 industrial customers and compiled into a comprehensive report. Trico reports a cost of
12 \$5,000.

13 f. Operation Cool Shade; Trico would purchase desert-adapted trees from local growers
14 and offer them to members at discounted prices to promote energy conservation
15 through the planting of low-water use shade trees in key locations around a home or
16 business. Trico reports a cost of \$22,075 for this program.

17 g. Pima County Weatherization; offered by Pima County, this program assists low-
18 income residents to reduce energy use and lower utility bills through the
19 implementation of year-round weatherization methods. It is provided at no cost to
20 eligible Trico customers. Trico provided \$4,100 in funding for this program in its
21 service area.

22 69. Regarding Trico's proposed DSM programs, Staff recommends as follows:

23 a. MSR Training – Staff does not recommend Commission approval as a separate
24 program at this time, because it is difficult to measure results of education
25 conservation programs. Staff believes the training is valuable, however, and
26 recommends this training program be done as part of the Energy Audit Program.

27 b. Conservation Workshop Program – Because Staff believes that it is difficult to
28 measure results of educational conservation programs, Staff does not recommend

1 Commission approval as a separate program at this time, however, as with the MSR
2 Energy Training Workshop, Staff recommends the Conservation Workshop Program
3 be done as part of the Energy Audit Program,

- 4 c. Classroom Connection - As with the first two programs, Staff believes that measuring
5 results of educational conservation programs is difficult because the goal of these
6 programs is to change behavior. Staff believes that while standard economic analysis
7 may not be appropriate, its effectiveness must still be determined. Staff recommends
8 that Trico establish thorough monitoring and evaluation measures, including surveys
9 and the collection of participant data, to verify the program's effects.
- 10 d. Residential Home Energy Audits - Staff recommends that the Residential and Non-
11 Residential Home Energy Audits Programs be consolidated into one Energy Audit
12 Program and approved with conditions (as set forth below).
- 13 e. Non-Residential Energy Audit Program - Staff recommends the Non-Residential
14 Energy Audit and Residential Home Energy Audit Programs be consolidated into one
15 Energy Audit Program and be approved with the following conditions: (1) the
16 Conservation Workshops and MSR Training be incorporated in the Energy Audit
17 Program; (2) comprehensive monitoring and evaluation techniques be developed and
18 employed; and (3) to be sure that DSM and conservation funds are well spent, the
19 Energy Audit Programs should be approved as a two-year pilot program, at the end of
20 which period, Trico would submit an all-inclusive report detailing the results of its
21 energy audits.
- 22 f. Operation Cool Shade Tree-Planting Program - Staff's analysis of this program shows
23 a benefit/cost ratio of 2.9, which indicates that the benefits are greater than the costs.
24 Staff recommends that the Cool Shade Tree Program be approved with the following
25 conditions: the program should provide participants with information emphasizing the
26 energy savings that result from planting trees to shade buildings; the tree species must
27 be appropriate for the area; the direction the trees face must be appropriate for shading
28 the building; the distance between the tree and the building must be appropriate for

1 maximum benefit; south wall plantings must be deciduous trees to allow for winter
2 heating effects; information must be made available to homeowners about safely
3 pruning trees to decrease winter shading; program participants must be provided with
4 information regarding tree maintenance and the removal of ground debris to reduce
5 fire danger; members are provided up to four trees per home or business if it can be
6 determined that there are enough resources to provide the additional trees without
7 creating a shortage for other participants; the monitoring and evaluation process
8 include the development of data concerning tree maintenance costs, tree mortality and
9 kW/KWh savings; and the program be reported in the Cooperative's DSM reports.

10 g. Pima County Weatherization – Staff's analysis shows a benefit/cost ratio of 0.97,
11 indicating that the benefits are nearly equal to the costs. Staff's analysis does not
12 include the benefits of reduced environmental effects, however, and Staff believes that
13 if these societal benefits were quantified and incorporated into Staff's analysis, the
14 benefit/cost ratio would be greater than one. Staff recommends approval of this
15 program.

16 70. Staff further recommends that Trico file a semi-annual report with the Commission
17 that includes detailed analysis and results of each approved DSM program. For each program Trico
18 should, at a minimum, report: the number of programs participants; the types of customers;
19 customer's connected load; an appliance and equipment inventory; the monthly demand and energy
20 use for twelve months prior to implementation of the DSM measure; recommendations made;
21 recommendations put into practice; the monthly demand and energy use for twelve months following
22 implementation; Trico's expenses to implement the program; and customer's expense to implement
23 energy cost savings measures.

24 71. Staff also recommends that Trico begin to study and analyze a way to add a Compact
25 Fluorescent Lamp ("CFL") program to its DSM portfolio, as Staff's experience is that CFLs are
26 among the most cost-effective methodologies for conservation or DSM.

27 72. We approve Trico's proposed DSM programs, as conditioned by Staff's
28 recommendations. We believe they are a reasonable response in the effort to reduce customer

1 demand for energy consumption. We believe, however, that Trico should also study additional DSM
 2 programs, in particular the CFL program suggested by Staff, but also other ways to effectively and
 3 efficiently reduce demand. Trico can apply for Commission approval of new DSM programs at any
 4 time. As it has done in the past, Trico can offer new DSM programs pending Commission approval
 5 with the understanding that the costs of such programs will not be collected from ratepayers unless
 6 and until the Commission approves the program.

7 73. Based on the costs of Trico's DSM programs of \$115,828, and sales of 605,300 MWh,
 8 Trico's initial DSM Adjustor rate is determined to be 0.0191356 ¢ per kWh.³² Based on annual
 9 average usage of 916 kWh, the DSM adjustor rate would add \$0.175 to the monthly residential bill.

CONCLUSIONS OF LAW

11 1. Trico is a public service corporation pursuant to Article XV of the Arizona
 12 Constitution and A.R.S. §§ 40-250 and 40-251.

13 2. The Commission has jurisdiction over Trico and the subject matter of the application.

14 3. Notice of the proceeding was provided in conformance with law.

15 4. The rates, charges and conditions of service approved herein are just and reasonable
 16 and in the public interest.

17 5. It is in the public interest to approve Trico's DSM programs as conditioned by Staff's
 18 recommendations in the Supplemental Testimony of Jeffrey Pasquinelli dated June 19, 2009.

ORDER

20 IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc. is hereby authorized
 21 and directed to file with the Commission, within 15 days of the effective date of this Decision,
 22 revised schedules of rates and charges consistent with the discussion herein, and a proof of revenues
 23 showing that, based on the adjusted test year level of sales, the revised rates will produce no more
 24 than the authorized increase in gross revenues.

25 IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for
 26 all usage on and after August 1, 2009.

27
 28 ³² Ex S-7, Pasquinelli Direct at 4.

1 IT IS THEREFORE ORDERED that Trico Electric Cooperative, Inc. shall notify its
2 customers of the revised schedules of rates and charges authorized herein by means of an insert in a
3 form acceptable to Staff, included in its next regularly scheduled billing.

4 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall recover the costs of
5 Commission-approved DSM costs through its DSM Adjustor.

6 IT IS FURTHER ORDERED that Commission-approved DSM costs should be assessed to all
7 Trico Electric Cooperative, Inc's customers as a clearly labeled single line item per kWh charge on
8 the customer bills.

9 IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc. shall file its report on DSM
10 program expenses semi-annually on April 1st for the period July through December and October 1st
11 for the period January through June.

12 IT IS FURTHER ORDERED that the DSM program expense reports shall be filed with
13 Docket Control, and shall redact any personal customer information, and include at a minimum: the
14 number of each program's participants; the types of customers; customer's connected load; an
15 appliance and equipment inventory; the monthly demand and energy use for twelve months prior to
16 implementation of the DSM measure; recommendations made; recommendations put into practice;
17 the monthly demand and energy use for twelve months following implementation; Trico's expenses
18 to implement the program; and customer's expense to implement energy cost savings measures.

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IT IS FURTHER ORDERED that Trico Electric Cooperative, Inc.'s initial DSM adjustor rate is \$0.000191356 per kWh, until further Order of the Commission.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2009.

MICHAEL P. KEARNS
INTERIM EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: TRICO ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01461A-08-0430

3

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