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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE)
 APPLICATION OF GRAHAM COUNTY) DOCKET NO.
 UTILITIES, INC. FOR A RATE INCREASE.) G-02527A-09-0088

IN THE MATTER OF THE APPLICATION)
 OF GRAHAM COUNTY UTILITIES, INC., GAS) DOCKET NO.
 DIVISION FOR APPROVAL OF A LOAN.) G-02527A-09-0032

IN THE MATTER OF THE APPLICATION OF)
 GRAHAM COUNTY UTILITIES, INC. WATER) DOCKET NO.
 DIVISION FOR A RATE INCREASE.) W-02527A-09-0201

IN THE MATTER OF THE APPLICATION OF)
 GRAHAM COUNTY UTILITIES, INC. WATER) DOCKET NO.
 DIVISION FOR APPROVAL OF A LOAN.) W-02527A-09-0033

At: Tucson, Arizona
 Date: January 28, 2010
 Filed: February 11, 2010

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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 said
4 Commission, 400 W. Congress, Tucson, Arizona, commencing at
5 10:00 a.m. on the 28th of January, 2010.

6

7 BEFORE: Jane L. Rodda, Administrative Law Judge

8 APPEARANCES:

9 For the Applicant:

10 Russ Barney
11 Graham County Electric Cooperative, Inc.
12 P.O. Drawer B
13 Pima, Arizona 85543

14 For the Applicant:

15 Steve Lines, General Manager
16 Graham County Electric Co-Op, Inc.
17 9 W. Center Street
18 Pima, Arizona 85543

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1 APPEARANCES:

2 For the Arizona Corporation Commission Staff:

3 Ms. Robin R. Mitchell and
4 Mr. Kevin Torrey (telephonically)
5 Staff Attorney, Legal Division
6 1200 W. Washington Street
7 Phoenix, Arizona 85007

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DAVID CHRISTY
Certified Reporter
Certificate No. 00561

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1 ALJ RODDA: We will go on the record. And
2 this is the time set for the hearing in the following
3 dockets: G-02527A-09-0088, G-02527A-09-0032,
4 G-2527A-09-0201, W-02527A-09-0033 and E-01749A-09-0087 which
5 are the Rate Applications of Graham County Electric
6 Cooperative, the Water and Gas Divisions, and the financing
7 requests of Graham County Utilities Water and Gas and also
8 Graham County Electric Cooperative. My name is Jane Rodda.
9 I'm the Administrative Law Judge assigned to this matter.

10 The first thing I think I will do this morning
11 is take appearances. So this morning on behalf of Graham
12 County Electric Cooperative and Graham County Utilities?

13 MR. LINES: Steve Lines with Graham County
14 Electric Coop and Graham County Utilities, General Manager.

15 MR. WALLACE: And John Wallace.

16 ALJ RODDA: John, you are a consultant for
17 the Cooperative?

18 MR. WALLACE: That is correct.

19 ALJ RODDA: On behalf of the Commission
20 Staff?

21 MS. MITCHELL: Good morning, Judge Rodda.
22 Robin Mitchell and Kevin Torrey back in Phoenix on behalf of
23 the Commission Staff.

24 ALJ RODDA: Good morning, Mr. Torrey, I know
25 you can't respond. I think I did remember to turn on the

1 audio equipment. All right. So before I ask if there are
2 any members of the public present who wish to make comment
3 this morning, I will ask the parties is there anything you
4 want to discuss preliminarily? We had a short procedural
5 conference earlier in the week about witnesses, that there
6 are only some of them present here in the courtroom. There
7 are others listening and available on the telephone in
8 Phoenix.

9 MS. MITCHELL: Yes, Judge Rodda. I had sort
10 of tried to think this through and hopefully this process
11 will work out. But I was hoping if we could get to the
12 Staff witnesses that are present here, Mr. McMurry and
13 Mr. Chavez, before lunch. I had sort of alerted the other
14 witnesses to be available at 1:00. I was wondering if you
15 had any particular order that you wanted to examine those
16 witnesses that are back in Phoenix.

17 ALJ RODDA: You know, I don't. If the
18 questions -- the questions that I have about this case are
19 not extensive because there is a lot of agreement and the
20 witnesses present here today might know. I mean, they might
21 be aware and be able to answer the questions. So --

22 MS. MITCHELL: You had indicated that you
23 had questions for Juan Manrique, Bob Gray, Candrea Allen and
24 Vicki Wallace. She is at the main extension, Vicki is the
25 main extension testimony. Ms. Allen is about the overcharge

1 on the land extension and the rules and regulations. Bob
2 Gray is the procurement practices and Mr. Manrique is the
3 financing applications. I also had a couple of
4 clarifications for Ms. McNeely Kirwan and we will be
5 presenting her as well. So if it is acceptable, I would
6 like to take them in that order.

7 ALJ RODDA: That's fine.

8 MS. MITCHELL: They all know if you need to
9 talk to Ms. Stukov, she can be available after Ms. Wallace.
10 I will make sure at the lunch hour that they know the order
11 and they will be ready.

12 ALJ RODDA: Also, I think the Cooperative
13 may be able to answer some of the questions that I have.
14 And if I am happy with the answer, Staff may want to
15 elaborate. So even if I don't have additional questions,
16 there might be something they hear if they are listening
17 that they might want to comment on. So even if I don't need
18 to talk to them, I understand that they might have some
19 additional explanations. So it's kind of a fluid situation.

20 MS. MITCHELL: It is a fluid situation and
21 we appreciate the accommodation.

22 ALJ RODDA: I'm sure we are up to the task.
23 We will figure it out. With that being said, I will note
24 this is the time for public comment. And if there are any
25 members of the public present this morning who wish to make

1 comment on these applications, they should indicate so and
2 come up to the podium. And we will note for the record
3 there are no members of the public present this morning
4 wishing to make public comment. With that, we will move to
5 the cooperative's case and I will ask Mr. Lines, do you have
6 an opening you want to make this morning?

7 MR. LINES: Judge, Your Honor, no, we will
8 have Mr. Wallace on the stand and then go through the
9 exhibits if that is okay.

10 ALJ RODDA: Ms. Mitchell?

11 MS. MITCHELL: I always prepare an opening.
12 I think it's good to sort of summarize the case and
13 summarize the Staff position. As you know, Graham County
14 Utilities filed an application for its Water and Gas
15 Divisions for an increase in its rates. Graham County also
16 filed a request for authorization to incur debt for its Gas
17 and Water Divisions and Graham County Electric Cooperative
18 submitted an application for authorization to guarantee the
19 proposed debt of Graham County Utilities Gas and Water
20 Division.

21 Staff would like to thank the Company for its
22 work in narrowing the issues and making this relatively smooth
23 sailing for this Rate Application and Financing Application.

24 For the three related Financing Applications,
25 Staff recommends that the Commission authorize Graham County

1 Utilities to incur long-term debt with the National Rural
2 Utilities Cooperative Finance Corporation in the combined
3 amount of \$1,050,000 which breaks down into \$800,000 for the
4 Gas Division and \$250,000 for the Water Division.

5 Staff also recommends that the Commission
6 approve Graham County Electric Cooperative, grant them the
7 authorization to guarantee the proposed debt. For the Gas
8 Division, Staff recommends total operating revenue of
9 \$422,160, an increase of \$456,109 or a 12.11 percent increase
10 over test year revenues, a little over \$3.7 million and it
11 provides an operating margin of \$342,530, a net margin of
12 \$210,218, a time interested earned ratio which I will refer to
13 as TIER for the benefit of the court reporter of 2.38 and a
14 debt service coverage ratio which is DCS, and you will hear
15 these terms, of 1.94 and a 9.85 percent return on rate base.

16 ALJ RODDA: Isn't it DSC?

17 MS. MITCHELL: I'm sorry, I had it reversed.
18 Thank you, everyone. Staff has made one rate adjustment to
19 remove a little over \$100,000 in CWIP and one expense
20 adjustment of a little over \$10,000 increase in long-term
21 interest.

22 The TIER and DSC are in dispute. The company
23 has requested a TIER of 3.01 and a DSC of 2.27 resulting in a
24 revenue requirement of a little over \$4.2 million. For the
25 Company's purchase gas Staff adjusters, Staff proposes to set

1 the base cost of power to zero so that the entire cost of the
2 gas can be recovered through the PGA rate and to increase the
3 bandwidth limit from 10 cents per therm per year to 15 cents
4 per therm per year and to increase the thresholds on the PGA
5 bank balance to \$250,000 for over and undercollection.

6 Staff also recommends that a demand side
7 management adjuster mechanism be established. Staff also
8 recommends that Graham file a proposed DSM program and accepts
9 Graham's request to file such programs within 120 days of a
10 decision in this matter.

11 Staff appreciates the Company's forthrightness
12 on the issue of the overcollections on its main extension
13 agreements. Staff recommends that Graham refund each customer
14 it overcharged for a land extension within three years of a
15 decision in this matter.

16 Staff also recommends that to avoid any future
17 problems, Graham should implement a training program for its
18 employees on the tariffs, terms and conditions of service and
19 Commission decisions that affect Graham.

20 The company has also requested to discontinue
21 its free land extension and free service land extension.
22 Staff recommends that any potential customer who has been
23 given a quote up to a year prior to a Commission decision in
24 this matter still be allowed to have the free footage.

25 For the Water Division, Staff recommends a

1 total operating revenue of a little over \$771,000, an increase
2 of approximately \$162,000 or 26.77 percent increase over test
3 year revenues to provide an operating margin of 29.76 percent,
4 a TIER of 1.95 and a DSC of 1.25 and a 9.21 percent rate of
5 return on rate basis. For the Water Division, the rate design
6 is in dispute.

7 The company stipulated to the testimony of
8 Staff witnesses Bob Gray; Prem Bahl, P-R-E-M, first name,
9 B-A-H-L, last name; Robert Miller and Vicki Wallace. The
10 company also stipulates to the testimony of Staff witness Juan
11 Manrique and Katrin Stukov. The company has stipulated to all
12 of the recommendations and the testimony of Candrea Allen but
13 still cites its need for its recommended TIER and DSC ratios.

14 The company stipulates to the testimony of
15 Staff witness Gary McMurry except for Staff's recommendation
16 regarding the TIER and DSC ratios. The company has accepted
17 all of the recommendations of Staff witness Pedro Chavez with
18 the exception of the rate design.

19 The company has also stipulated to the
20 testimony of Julie McNeely Kirwan and there should be no
21 issues because Staff has accepted the company's proposal to
22 file its DSM program 120 days after a commission decision in
23 this matter. Staff has present today two witnesses, Gary
24 McMurry, who is Staff's rate base revenue requirement and rate
25 design witness for the Gas Division and Mr. Pedro Chavez for

1 the Water Division. The remainder of the Staff witnesses are
2 available telephonically. Thank you.

3 ALJ RODDA: Thank you, Ms. Mitchell, for
4 that good summary. With that, Mr. Wallace are you going to
5 testify first?

6 JOHN WALLACE,
7 having been first duly sworn to state the truth, the
8 whole truth, and nothing but the truth, testified on
9 his oath as follows:

10 EXAMINATION

11 BY ALJ RODDA:

12 Q Mr. Wallace, make sure that the green light is on
13 for listening on the audio stream. Mr. Wallace, do you want
14 to state your name and business address and your relationship
15 to the Cooperative.

16 A My name is John Wallace. I'm the director of
17 regulatory and strategic services for Grand Canyon State
18 Electric Cooperative Association. I have filed testimony on
19 behalf of Graham County Utilities, both the Gas and Water
20 Divisions.

21 Q Your direct testimony is attached to the
22 application; is that right?

23 A Yes, that's correct, Judge. We had some questions
24 prepared to try and introduce those if you are willing to
25 allow us to do that.

1 ALJ RODDA: Mr. Lines, you are going to do
2 this for me?

3 MR. LINES: Yes. We will go through the
4 steps here. Concerning the Gas Division and the direct
5 testimony, we have an Exhibit A and I would like to give
6 Mr. Wallace a copy and a copy to the court reporter. Do you
7 need a copy, Judge?

8 ALJ RODDA: Need is an interesting question.
9 If you have a copy, I will take one because it's all
10 organized.

11 ALJ RODDA: Ms. Mitchell doesn't want any
12 more copies.

13 MR. LINES: We have killed enough trees.

14 MS. MITCHELL: Yes, we have.

15 ALJ RODDA: To be clear, this is called A-1.

16 MR. LINES: Yes. Okay. So the record will
17 show this is Exhibit A-1.

18 (A-1, John Wallace GCU direct testimony, was
19 marked.)

20 BY MR. LINES:

21 Q And Mr. Wallace, is this your prefiled direct
22 testimony in this GCU gas rate case?

23 A Yes, it is.

24 Q And if I was to ask you the same questions today
25 that are contained in your testimony, would your answers be

1 the same?

2 A Yes, they would.

3 Q Still on the Gas Division, I would like to enter
4 Exhibit A-2.

5 (Exhibit A-2, Gas Division schedules, was
6 marked for identification.)

7 ALJ RODDA: You are going to get your
8 exercise today, aren't you?

9 MR. LINES: Yes.

10 Q For the record, A-2, Mr. Wallace, are these the
11 schedules that you revised in your direct testimony in the GCU
12 gas case as a result of rate case applications sufficiency
13 discussions that you had with the Commission Staff?

14 A Yes, they are.

15 Q Now, switching to the Water Division, I would like
16 to enter Exhibit A-3. It's a big one.

17 (Exhibit A-3, GCU Water rate testimony, was
18 marked for identification.)

19 Q Mr. Wallace, for the record, I have given you
20 Exhibit A-3, I believe, correct?

21 A That's correct.

22 Q Is this your prefiled direct testimony in the GCU
23 water rate case?

24 A Yes, it is.

25 Q And again, if I was to ask you the same questions

1 that are contained in your testimony, would your answers be
2 the same?

3 A Yes, they would.

4 Q Still within the Water Division, I would like to
5 enter Exhibit A-4.

6 (Exhibit A-4, GCU water case
7 schedules/testimony, was marked for identification.)

8 Q Again, Mr. Wallace, Exhibit A-4, are these the
9 schedules that you revised in your direct testimony in the GCU
10 water case as a result of the rate case application
11 sufficiency discussions that you had with the Commission
12 Staff?

13 A Yes, they are.

14 Q And if you were asked the same questions, they would
15 still be the same, true?

16 A That is true for all of the previous testimony we
17 have offered.

18 Q Rebuttal testimony would be Exhibit A-5.

19 (Exhibit A-5, John Wallace rebuttal testimony,
20 was marked for identification.)

21 Q Mr. Wallace, Exhibit A-5, is this your rebuttal
22 testimony in the consolidated cases?

23 A Yes, it is.

24 Q And once again, if I was to ask the same questions
25 today contained in your testimony, would your answers be the

1 same?

2 A Yes, they would.

3 Q Okay. Now we are down to the rejoinder testimony
4 which is Exhibit A-6, which is the last one.

5 (Exhibit A-6, rejoinder testimony, was marked
6 for identification.)

7 Q Mr. Wallace, Exhibit A-6, is this your rejoinder
8 testimony in the consolidated cases?

9 A Yes, it is.

10 Q Once again, if I ask you the same questions today
11 that are contained in your testimony, would your answers be
12 the same?

13 A Yes, they would.

14 MR. LINES: Judge, Rodda, I believe this
15 concludes the prefiled testimony and we will tender
16 Mr. Wallace over to Staff.

17 ALJ RODDA: Are there any objections to A-1
18 through A-6?

19 MS. MITCHELL: None, Your Honor.

20 ALJ RODDA: Then we will admit A-1 through
21 A-6. And Ms. Mitchell, do you have any questions for this
22 witness?

23 MS. MITCHELL: I just have one with respect
24 to the water.

25 BY MS. MITCHELL:

1 Q I notice that it had been a while since Graham had
2 been in for a rate case. Is there any plan to come in on a
3 more regular basis?

4 A I believe that we have heard in a number of cases
5 that both Commission Staff and Commissioners have expressed a
6 preference for companies to come in for more frequent lower
7 increases and our thinking in the past has been that both the
8 Graham board and the management of Graham have been hesitant
9 to come in for increases unless they are absolutely needed
10 because those board members are elected by the membership and
11 actually are in those communities and have to face the members
12 of Graham any time there is an increase.

13 So their reluctance has been one of making
14 sure that the increase is necessary and there are not other
15 things that they can do to mitigate an increase and so I would
16 say on a going forward basis we have heard what the Commission
17 preference is economically and what happens in the marketplace
18 in terms of growth in Graham's territory may have a lot to do
19 with how frequent they have to come in.

20 But I don't know at this point, to answer your
21 question, whether they have been projected and whether they
22 will need to come in again.

23 Q I'm trying to do the Water Division questions first
24 and then the Gas Division. On the Water Division, the company
25 has expressed some concern with the Staff rate design.

1 A That's correct.

2 Q And I believe that the company has introduced a
3 different incline and block TIER rate structure; is that
4 correct?

5 A That is correct. I was just trying to get to the
6 page where I had included that.

7 ALJ RODDA: To help me, which testimony are
8 you looking at?

9 THE WITNESS: There it is. It's in -- it
10 was in rebuttal testimony. That would be Exhibit A-5.

11 ALJ RODDA: So is it testimony or is it the
12 schedule attached?

13 THE WITNESS: I'm sorry, it's the schedule
14 and it's the very last page. That's why I had difficulty
15 finding it.

16 ALJ RODDA: Okay. I assume, Ms. Mitchell,
17 did you have a question?

18 MS. MITCHELL: Yes, I did.

19 BY MS. MITCHELL:

20 Q So the Company, if I can summarize the testimony,
21 the Company is concerned for the customers that use over
22 9,000 gallons, the recommended Staff increase would result in
23 rate shock, is that roughly correct?

24 A Yes. I think that if you look at the typical bill
25 analysis that the Commission Staff has prepared that I have

1 attached to my -- that would be my rejoinder testimony, I
2 think there is a comparison there of the increases on
3 percentage and dollar basis of both the Commission Staff and
4 GCU-recommended rate design. And I think it's pretty obvious
5 that there is a significant difference in those numbers and
6 that's where we have become very concerned in terms of what
7 our members will actually experience.

8 We do expect some conservation. We expect
9 from these rates once they are in place that there will be an
10 opportunity for obviously customers to react to these and use
11 less water. But we are just kind of concerned at this point
12 whether that can, you know, how soon does that happen, does it
13 happen overnight? Can the customers shift that much usage for
14 landscaping, things along those lines?

15 If they can't, then they will incur
16 significant increases under the Staff proposed rate design and
17 they are going to incur significant increases under our rate
18 design. However, ours tend to provide an intermediate step
19 between the flat rate structure and then going to the TIER'ed
20 rate structure that is recommended by Staff.

21 Q It's the Company's understanding that the Commission
22 in recent decisions in rate design is attempting to promote
23 the more efficient use of water by the use of an incline and
24 block rate structure?

25 A And GCU understands why the Staff has proposed this

1 rate, and the Commission policies. That's why we haven't
2 continued to advocate a flat rate structure. We have offered
3 a proposal that we think will work better in our service
4 territory, but, you know, I just would like to point out that
5 GCU at this point has really done an excellent job in terms of
6 securing arsenic-free water and has adequate supply of water
7 and it is not located in an Active Management Area that I am
8 aware of. And so the Commission policy we want to observe and
9 live in it, but we think there is a balance that can be struck
10 there.

11 MS. MITCHELL: I'm going to turn to the Gas
12 Division.

13 Q The Company has some disagreement with the
14 recommended ratios for TIER and DSC; is that correct?

15 A That's correct.

16 Q I just lost my train of thought.

17 Can you just elaborate on why the need to have
18 a different ratio than the Staff-recommended ratios?

19 A Certainly. This ratio more than anything derives
20 the margin that the company will have to fund things like debt
21 service, any kind of contingencies that might arise and also
22 is directed to the amount of equity because the margin at the
23 end of the year is either added to the equity balance or
24 subtracted from the equity balance of the Cooperative that
25 will be derived.

1 So the purpose of the TIER and the DSC is to
2 provide the Cooperative with enough coverage that it can
3 accomplish all of those things.

4 Q All right. On the issue of the over-collection of
5 the main extension agreements, is the company still opposed to
6 the refund over three years of the overcharges?

7 A No, no, they are not. But they just want to stress
8 that that would be approximately somewhere in the neighborhood
9 of a \$75,000 amount that would have to be paid out of the
10 Company's cash flow or margins during each year that it is
11 making those refunds.

12 So that is another liability, really, that the
13 company has to pay and come up with the cash to be able to do
14 that. And so that is why we have stressed that we will agree
15 to the three-year refund but, you know, realistically to be
16 able to do that, that is where the higher TIER and debt
17 service coverage come into play for us to be able to agree to
18 do that.

19 Q So if there is not a recommendation to accept the
20 company's DSC and TIER ratios, then would the Company be
21 opposed to the three years?

22 A No. I think the company has pretty much agreed to
23 do the three-year refund.

24 MS. MITCHELL: Thank you, Mr. Wallace. I
25 don't believe I have any other questions.

1 BY ALJ RODDA:

2 Q Good morning, Mr. Wallace.

3 A Good morning.

4 Q Because you are the primary only witness for the
5 Cooperative, I will start with you. I notice Mr. Lines is
6 here and if there is something you can't answer, I presume
7 Mr. Lines will be available.

8 MR. LINES: Yes, ma'am.

9 Q So I will start off and I know we have gone through
10 this before but for the record, in prior proceedings so the
11 record is clear in this proceeding with the relationship
12 between the Graham County Electric Cooperative and the Graham
13 County Electric Utilities, can you describe for me that
14 relationship?

15 A And Judge Rodda, I got myself into a considerable
16 amount of confusion when I attempted to do that in the Duncan
17 Valley case. So I am suspecting that Mr. Lines is going to be
18 up here discussing some of your questions anyway. So I'm just
19 going to leave that question to him.

20 Q Because I'm also going to ask some gas procurement
21 questions. I presume that is probably addressed to Mr. Lines
22 as well; is that right?

23 A That's correct.

24 Q Let's go on to the revenue requirement. And I have
25 tried to group my questions in terms of broad subject matters

1 but because there is a Gas Division and a Water Division,
2 there might be some back and forth so it's not my fault. You
3 all wanted a consolidation, so here we are. All right.

4 So just so I am clear, in the Gas Division, is
5 the only dispute concerning the amount of the revenue
6 requirement?

7 A That's correct.

8 Q So I take it from your discussion with Ms. Mitchell
9 about the appropriate level of the TIER and the DSC which
10 ultimately boils down to the operating margin, that you have
11 some concern that the revenues that Staff is recommending
12 aren't adequate to meet the needs of the Cooperative; is that
13 right?

14 A I think that pretty well summarizes it. If we are
15 going to agree to take on an obligation to refund those
16 over-collected contributions, then the money has to come from
17 someplace to be able to do that. And I think what we have
18 done and what we have said in our testimony is that, okay, we
19 are agreeing to that and we need to request that we get then
20 our level of TIER and DSC coverage which I think amounts to
21 about, it's in the neighborhood of \$60,000 difference between
22 the Staff level of revenue requirement and our level of
23 revenue requirement. Ours is \$60,000 higher.

24 As well as be able to move toward and I guess
25 the larger issue is move toward getting our equity heading in

1 the positive direction.

2 Q For me to be able to evaluate the two proposals I
3 have as basically yours and Staff's, it would be helpful if I
4 had a feeling for what you need to fund with those margins.
5 So we have talked about equity. You have talked about
6 contingencies. There is probably some capital projects.

7 Have you done an analysis in your testimony, a
8 cash flow analysis, that would say, well, we estimate we need
9 this much for capital improvements, this much is going towards
10 equity, augmentation, this much is for contingencies, this much
11 is for the refunds? Or can you give me some estimates here on
12 the stand?

13 A Judge Rodda, we have not done that in testimony. I
14 asked the company, in fact, as recent as a day or so ago if
15 they had anything like that prepared and they really don't
16 have an analysis that is going to show that we can provide to
17 the hearing officer today.

18 I think you pretty well hit the components
19 that that margin is made for and I think some is meant to be
20 used for. I think some of the difficulties that we are having
21 right now is any kind of financial forecasts or presentation
22 that you are going to make about where those margins dollars
23 are going to be spent is heavily going to depend on what
24 happens with Graham County's economic situation. Right now,
25 their economic situation is very bad and appears to be getting

1 worse.

2 I provided in my testimony their most recent
3 audited financial statements and the margins for 2009 are in
4 the negative \$400,000 range. So it's pretty difficult at this
5 point to make a meaningful projection about how the margins
6 are going to be used when the amount, when the economic
7 situation in terms of growth is so unpredictable and they are
8 at this point evaluating just how they are going to basically
9 survive.

10 And so I think that is probably the rationale,
11 to be able to present something meaningful that we can stand
12 behind, we have to have some confidence in our projections and
13 that's where we are limited right now. Graham went through
14 just a few years ago, went through a growth spurt that was
15 unprecedented and geared up for that in capacity to be able to
16 provide in-service lines installed and that has resulted in
17 the case that is before you now.

18 It just has rapidly seen a decline in terms of
19 its margins now from economic activity. And we believe that
20 as far as I'm aware that that is primarily due to the mining
21 activities that are in Graham's service territory and the
22 number of people that are going to move in to work at the mine
23 and the mining operations' needs. So that is really the
24 difficulty that we have is that we don't have a lot of
25 confidence to be able to propose something to you today that

1 shows this is where we think we are going to use the margins
2 in these individual areas.

3 We know there are requirements that we have,
4 for instance, the margins have to be used to service debt.
5 There is a certain amount that needs to go for that. And I
6 think we have identified that amount in our testimony. I'm
7 trying to remember where that is. I think it is back in the
8 direct testimony that we show the principal and interest that
9 we have to pay. And those kinds of things that are fixed.

10 What we don't know is what our sales level is
11 going to be and the margins we can count on from that sales
12 level.

13 Q So I think one of the issues, thanks for that
14 explanation, by the way --

15 A I'm sorry. I forgot one thing. What we can say
16 with certainty is that when you compare our proposal to the
17 Staff proposal, that we are going to be \$60,000 better off
18 margin-wise and \$60,000 that when you have those margins can
19 then be applied toward the equity account at the end of the
20 year, assuming you have, you know, a positive margin.

21 Q So that brings, my next question was going to be
22 about the equity. Attached to one of your testimonies, I'm
23 sorry, I didn't write it down, it was like an equity
24 accumulation report. Do you recall that?

25 A Yes, I do.

1 Q Was it your rebuttal testimony?

2 A I believe it was the rebuttal testimony. Yes.

3 Q So it is near the end of your --

4 A It would be the last, well, the last page is the
5 recommended water TIER'ed rate structure for Graham and water.
6 But then the three pages previous to that show the annual
7 equity accumulation report that we either filed or will be
8 filing with the Commission. We filed the 2007, 2008 and I
9 believe we will be filing the 2009 shortly.

10 Q Can you just help me with these reports. If you can
11 just pick one, maybe the 2009 or whichever one you think is
12 easiest to explain.

13 A I think the easiest thing to do, and I would mention
14 that this is both for the Water and the Gas Divisions because
15 that is the way we filed the report. Okay? If you look at,
16 if you can put the three pages side by side, something like
17 this where you can compare the columns, if you look at in the
18 middle of the page, line 11, it says the 2007 equity balance.
19 And then you can look at the 2008 equity balance. And then
20 you can look at the 2009 equity balance. All by looking at
21 those, line 11. Okay?

22 Q Yes.

23 A And those amounts basically are derived by amounts
24 above in the schedule. But just to show what has happened to
25 the equity balance, look at those lines, in 2007 it was

1 approximately \$520,000. In 2008, it's approximately \$386,000.
2 And by the time we have reached 2009, we are at a negative
3 \$129,000 or about \$130,000. So we have gone from roughly a
4 half a million dollars on the positive side to a negative
5 \$130,000 within the span between 2007 and 2009.

6 Q And these reports, I guess you are using 2005 as
7 your base period; is that right?

8 A That's correct, because that is what the order, the
9 decision that required that used as a base year.

10 Q So I take it from these in 2005, there was a
11 negative equity of approximately \$154,000 that I guess maybe
12 2007 would be like the peak year, you managed to get it from
13 the negative \$154,000 up to approximately half a million on
14 the positive side. Is that -- or is that not a negative
15 \$154,000, it's a positive?

16 A I don't believe, and I'm going to -- if I could
17 confer with Mr. Barney, the finance manager, for a second on
18 that. I don't know that it was a negative in that 2005 time
19 period.

20 Q I can see that. It wasn't. It was a positive 154.
21 If I take the 2009 equity balance of negative \$129,000, I
22 subtract, starting in 2005, the equity balance of positive of
23 \$154,000 and since 2005 you have lost -- I guess that means
24 there has been a \$284,000 decline in the equity balance since
25 2005.

1 A If you compared the 2009 with the 2005 and just
2 compared those two points, that would be correct. But if you
3 are going to look at where our equity had peaked, we actually
4 had the highest equity during that time period of \$519,672 in
5 2007. So in terms of the equity we have lost, really lost. I
6 would suggest you probably want to look at that number because
7 that was something we actually achieved.

8 And we achieved that to the credit of the
9 Commission of setting this goal to achieve equity and
10 providing the rates necessary to be able to do that.

11 And so where we have gone from that \$519,000
12 in a two-year time period is to a negative \$130,000. So we
13 have actually lost more equity than if you compare -- you just
14 compare the two points, '05 to '09.

15 Q So then this two percent goal, it looks like you
16 take two percent of the cumulative revenue. Why is cumulative
17 revenue the appropriate number we look at? What does that
18 tell me, those three lines at the bottom, of that cumulative
19 revenue multiplied by .02 and then I get a two percent equity
20 goal?

21 A I think the way this was structured was to express
22 the equity increase as a percent of the revenues that the
23 company would incur.

24 Q I'm sorry, could you say that again. There was a
25 noise when you said that. I was distracted.

1 A I think the way this goal was set up was it was set
2 up for the company to attempt to meet a certain amount of its
3 total or accumulated revenues in the form of eventually in a
4 margin that ends up being the part that is added to an equity
5 balance. I know that is not as direct a response as you would
6 like, but it is -- it's the way that it was structured in that
7 previous case.

8 And not having been a part of that case, I
9 can't tell you exactly why it was structured like that. I
10 think probably Mr. Barney or maybe even perhaps Staff could
11 explain that. But when you look at it, I think it's meant to
12 be something as simple as, okay, we want you to at least of
13 all of the revenue that you collect from your customers, we
14 want you to at least end up with two percent of that in a
15 margin that can be applied then to your equity balance. I
16 think that is what it is getting at.

17 And it seems very realistic and it's fairly
18 simple as well. So I would just make those comments to you
19 from looking at it.

20 Q All right. So, and if you would rather someone else
21 answer this question, that's okay too. Because I take it that
22 you don't prepare these reports, that the Cooperative prepares
23 these reports?

24 A That's correct, I do not prepare this report. I
25 file it for them, but I do not prepare it for them.

1 Q Because if I look at the first one, the 2007, when
2 you go down to line 17 and it has the two percent equity goal
3 of \$169,000, there is an actual increase in equity I guess of
4 \$365,000 for that year. And then on line 22, it says in
5 compliance so I take it that they met the two percent goal
6 that year. Is that how you read this?

7 A Right, exactly. I think even this report was agreed
8 to as a part of that case, that this is the way that you will
9 show it in terms of the compliance that will be done and
10 everything else. I think this report was developed by both
11 the -- definitely by Commission Staff and we have agreed to
12 it.

13 Q But yeah, if you look at -- if you look at the
14 actual increase in equity, line number 13, and you compare
15 that, which is what they actually -- I'm sorry, we are looking
16 at -- were you looking at 2008? What year were you looking
17 at?

18 Q I was looking at 2007.

19 A That's fine. Look at line 13, actual increase in
20 equity, they incurred an actual increase in equity of
21 approximately \$365,000 that year. They were required through
22 the calculation of two percent times the cumulative revenue
23 amount up on line three, they were required to increase their
24 equity by \$169,907. So they did meet the requirement of the
25 Commission decision at that point.

1 Q As for comparison sake, turn the page and look at
2 2008. I look at the line 13 where the actual increase in
3 equity was \$231,000, that is from the base period because I
4 guess in the actual year -- well, but for the two percent
5 equity goal, that goal was \$257,000?

6 A That's correct..

7 Q So in that year, they were short \$125,000? Is that
8 how I read that?

9 A That's correct. This is when it began to fall apart
10 for Graham County Utilities in terms of economics.

11 Q So does the Cooperative agree that it is important
12 to increase its equity?

13 A Yes, we do. And Judge Rodda, if I may, one of
14 the -- one of the biggest reasons for that would be that in
15 the future, Graham County Utilities -- and I will just step
16 back first.

17 It was the anticipation of the boards of these
18 various Cooperatives that those Cooperatives, Graham County
19 Utilities, Water and Gas, would stand on their own and not
20 require a subsidization from the Graham County Electric side.
21 And so why an equity ratio is important, for Graham County
22 Utilities to be able to secure capital, it is going to have to
23 have equity to be able to borrow money someday on its own.

24 As we are aware from this case, Graham County
25 is not able to do that currently. It required a guarantee

1 from Graham Electric. But that is kind of the overall far
2 reaching goal is that if you want to secure capital, lenders
3 when they are looking and you have a negative equity ratio,
4 that means you have no equity or ownership in the entity and
5 they ask themselves why would we want to become the only
6 equity, lend you the only money that you have invested,
7 basically.

8 I think lenders want to see a certain equity
9 level to be comfortable that when they are lending that you
10 have some ownership in this entity and you can't walk away
11 from it, just walk away from it because you don't have any
12 equity. Not that that would happen in the Graham County
13 Utilities case but that is kind of from an overview of why an
14 equity ratio would be important to Graham County.

15 Q But RUS is usually the lender for these rural
16 Cooperatives?

17 A They are the lender for Graham County Electric.

18 MR. LINES: No. We are CFC total.

19 A I'm sorry. In the past, Graham County has secured
20 from RUS. But currently CFC is their main lender.

21 Q You are familiar with the RUS, right? In your line
22 of work, you have run across these financings from RUS?

23 A I'm generally familiar with RUS.

24 Q Do they have an equity requirement when they lend
25 money or are they mostly interested in the TIER end and DSC?

1 A I would say they are mainly interested in the TIER
2 and DSC requirements. But they know with a healthy TIER and
3 DSC that equity will result eventually so they are kind of
4 interrelated. It's a healthy TIER and DSC that result in
5 margins that then result in positive equity.

6 Q So we have been talking about the revenue
7 requirement, the gas side. Let's talk about the water side.
8 On the water side, is it just the rate design that you are
9 concerned about but there is not the revenue requirement
10 issue?

11 A That's correct. We have accepted Staff's revenue
12 requirement which I believe is slightly higher than our
13 revenue requirement that we have requested.

14 Q No wonder you like it. That's fine.

15 A We just thought it would be rude to refuse.

16 Q You are agreeing to a lot of other things Staff is
17 recommending, you might as well agree to that. So moving on
18 to the refund issue, I understand this morning that you are
19 agreeing to the three years. But are you still proposing
20 that, I forget what it was, it was like if that refund
21 obligation was greater than a certain percentage of the -- was
22 it operating margin, that you wouldn't make it that year? Do
23 you remember that proposal?

24 A I think what we did in our rebuttal testimony was to
25 try to provide some options to Staff and their considerations.

1 That was one of those options, what you just mentioned. If
2 our margins got to a certain point, we would halt refunding
3 and then begin refunding in the next year.

4 We are not proposing that any longer. We have
5 accepted the three-year term. But understand that we made
6 those recommendations in an attempt to mitigate the effect on
7 the cash flow and the margins of the Cooperative.

8 Q I couldn't tell from Staff's testimony how the
9 refunds were going to be made. Does the company have a plan?
10 Is it going to be over the course of the year, a little bit at
11 a time? Is it a credit to the bill? Do you know how the
12 refund is going to be effected?

13 A I don't know that we have had an opportunity to
14 discuss that, consider it.

15 Q All right. Moving on to the gas main extension
16 issue, not the past main extensions but future main
17 extensions. Are there any issues remaining? I think there
18 was some talk in the testimony about how much would be -- how
19 much customers would be expected to pay and the company was
20 concerned that no one is going to want gas if it was too
21 expensive down the line, is that a summary of the testimony?

22 A Yes.

23 Q Today, is there any dispute on that issue or has the
24 Cooperative accepted Staff's proposal? I think it was a
25 hundred percent of the overhead versus the Cooperative's

1 50 percent of the overhead?

2 A Yes. In an attempt to narrow the issues, the
3 Cooperatives decided to focus on the two issues of the TIER'ed
4 structure in the water case and the TIER and DSC coverages in
5 the gas case. And we have accepted the proposal to collect
6 100 percent of the cost of the extension.

7 Q Do you know, is the territory for Graham County
8 Utilities, the gas, CC&N, concurrent with the service
9 territory for Graham County Electric Cooperative? So if
10 people were opting, if they had a choice between electric or
11 gas, they would be choosing between Graham County Electric
12 Coop and Graham County Electric Utilities or do you know?

13 A I'm going to defer to Steve on this. I think he is
14 shaking his head that they are not the same.

15 MR. LINES: Actually, the gas CC&N takes a
16 little more territory as far as the electric service area
17 within the town of Thatcher and surrounding Safford area.

18 ALJ RODDA: We can discuss that when you are
19 sworn but I appreciate that.

20 Q I don't think this is in dispute. In the Company's
21 and the Staff's cost of service study, Staff made one
22 adjustment, maybe two adjustments. As far as you know, is the
23 Cooperative in agreement with Staff's adjustments to the cost
24 of service study?

25 A Yes, we are.

1 Q Then moving onto the Graham rate design. I think on
2 the gas side, there might have been originally some issue
3 about the minimum charge for late payments. Does that ring a
4 bell, a five dollar minimum versus a percentage of the bill?

5 A Yes.

6 Q I think Staff was opposing the five dollar minimum
7 that the Cooperative was proposing?

8 A Yes, that's correct.

9 Q Is there still an issue on that?

10 A No, it is not. We are removing that proposal.

11 Q Are you removing that proposal just because you
12 really want to concentrate on the revenue requirement? I
13 appreciate the spirit of cooperation in this case, but I want
14 to make sure that if the Cooperative really had an issue with
15 it, that they are not afraid or concerned about pushing or at
16 least advocating for a position.

17 A We would continue to advocate for that position.
18 But in an attempt to narrow the issues, we are stepping away
19 from all of the minor, smaller issues. The reason we
20 advocated that position to begin with is that we found that I
21 believe the current late payment is not enough to deter people
22 from being late on their bills. But if it was a fixed amount
23 and it's substantial, like the five dollars, we believe that
24 they would make their payment on time.

25 Q And I can't recall in your testimony, did you have

1 some testimony about the percentage of late payments or do you
2 know?

3 A We did not put that into testimony. I know Staff
4 asked that question and we provided a response to that, I
5 believe. But that is not something that we filed.

6 Q Okay. Do you know off the top of your head what the
7 response was?

8 A We could certainly get you an answer, but I don't
9 know what that is.

10 Q All right. So I believe except for the issue on the
11 revenue requirement on the gas side that that was the only
12 rate design issue that I was aware of or that jumped out at me
13 on the gas side?

14 A That's correct.

15 Q So moving to the water side, we have got -- you are
16 agreeing to Staff's revenue, you are just concerned about the
17 TIERS, the breakover points for the different TIERS; is that
18 right?

19 A That's correct.

20 Q Is the Cooperative still proposing a three-TIER'ed
21 structure with different breakover points or did you have a
22 different --

23 A Let me just get to that. If you look at that last
24 schedule on my rebuttal testimony, you will see that what we
25 have proposed, and I believe this is similar to the Staff's

1 recommendation, for the 5/8ths by three-quarter inch meter, if
2 you look down about seven lines down, it says, 5/8ths by
3 three-quarter inch meter and then it says rates there by it.
4 You will see that on our minimum rate for that meter size,
5 1950.

6 And then we have got a three dollar charge for
7 the first zero to 3,000. Then a \$3.20 charge for 3,001 to
8 9,000. And then over 9,000, we have got a \$3.51 charge. This
9 is actually a three-tier structure for that class. Then when
10 we move to the other classes because they use significantly
11 more water, well, I guess we do that in the three-quarter inch
12 meter size too.

13 But when you look at the one-inch meter,
14 one-and-a-half inch size and the two-inch and on up, it is a
15 two-tiered structure, two rates, and they are \$3.00 and \$3.20.
16 And I believe, bear with me for a second here, no, okay. It's
17 similar to the proposal made by the Staff in terms of there
18 are three TIERS for the five-eighth and three-quarter and
19 three-quarter inch meter sizes. Then when you go to the one
20 inch and larger, it's a two-tiered structure.

21 Q So is your concern with Staff's rate design, you
22 talked about for the users that use probably above
23 9,000 gallons, or the larger users, is it the larger users on
24 the 5/8th-inch meters or is it the users with the larger
25 meters that you were concerned with the rate shock?

1 A We are concerned with both, yeah. If you look at
2 the level of the increases, looking at my rejoinder testimony
3 and looking at the schedules that I have attached there, you
4 can see the bill impacts that were prepared by Staff comparing
5 our rates, our TIER'ed rates recommended in my rebuttal
6 testimony to the TIER'ed rates that the Staff had recommended
7 in their direct testimony. It's the level of increase for all
8 of the classes based on their TIER'ed rate structure versus
9 ours.

10 And under a TIER'ed rate structure and under
11 our TIER'ed rate structure, people are still going to
12 experience a significant increase. And we believe that it
13 will be enough for people to question their usage and
14 conserve, but we just think that the Staff's proposal is
15 significantly higher. And it's higher not only in one size,
16 it's higher in all sizes.

17 Q Okay. All right. So it is my understanding that
18 the financing requests here is basically a refinance of monies
19 that had been borrowed from the Graham County Electric
20 Cooperative; is that correct?

21 A That's correct, and mainly for service lines.

22 Q Do you know, does this amount, would it replace all
23 of the Graham County Electric Cooperative borrowing or is
24 there some that Graham County Utilities will still have with
25 the electric coop?

1 A It will replace the borrowing up to a certain date.
2 But I believe that with the economic situation in the Graham
3 water case that it will not pay off the balance totally.

4 Q In the Staff report on the financing, I think it
5 was, well, it was looking at the gas side, I think where Staff
6 does their traditional, you know, here is the current capital
7 structure and they project out with a view borrowing, the
8 capital structure will be comprised of structuring that
9 long-term debt equity or, in this case, lack of equity. But
10 because it was refinancing, the equity changed in the
11 projections from 10 percent to eight percent. I was confused
12 why it would have done that because it was a refinance.

13 It wouldn't be additional debt, it would just
14 be replacement of debt. Do you know what I'm saying?

15 A I kind of understand your confusion, but
16 unfortunately, I don't have in front of me the Staff report on
17 that. If you could direct me to that, if somebody would be
18 kind enough to provide me a copy, I might be able to shed some
19 light on that.

20 MS. MITCHELL: Your Honor, I do have a copy,
21 my only copy, but I can provide it if that is okay.

22 ALJ RODDA: I was just looking to see what
23 page it was on. If you could hand him a copy.

24 A I'm sorry, the schedule you are referring to is
25 JCM-1?

1 Q I wasn't really looking at a schedule. I was
2 looking at the words.

3 A The words that you are referring to are on what
4 page?

5 Q I think we can do it on the schedules. So look on
6 the JCM-1 and under column A, the column in equity, I guess
7 back in 2008, the test year was 10.3 percent. Then under the
8 pro forma under column B, it becomes eight percent. I guess I
9 don't understand why that would happen.

10 A Okay. And I apologize. There is a number, there is
11 a difference in the accounting, I believe, that results when
12 you classify something as -- okay. Let me start here. If you
13 look at the number for the long-term debt, the number in the
14 long-term debt category has increased from 3.134 million to
15 4.175 million. And the other amounts have stayed the same
16 which means now you have more debt than you do equity. You
17 have more debt than you had -- okay.

18 Looking at column A, the only thing that
19 changes between column A and column B is the increase in the
20 long-term debt due to the loan.

21 Q But why is there an increase in long-term debt if
22 it's a refinance?

23 A Well, that's the issue in accounting. It is
24 accounted for in Graham's books as a due-to, due-from which is
25 a short-term kind of accounting. Okay? And those due-to and

1 due-from, if there are margins available, those are paid off
2 quickly, monthly. The amount moves around every month. And
3 so it is not classified, it's not showing up on this schedule.
4 That's the reason for the difference.

5 Q Thank you. All right. So the amounts that are
6 being financed, it's my understanding, I believe, that it's
7 for plant capital improvements?

8 A That's correct. And we have provided information to
9 Staff to show that terms of balances, plant balances, and
10 whatnot, where the money has been spent in terms of total
11 plant improvements. And it pretty much comes down to the
12 amounts, the amount of borrowing pretty much went towards the
13 services, the new services. And that would be to actually put
14 into mind, to the customer.

15 Q On both the water and the gas side?

16 A Yes. We provided in a daily response to Staff
17 schedules that showed new services for the Pima system, I'm
18 talking water, and the Fort Thomas system and also for the gas
19 side in terms of on the gas side there were increases in main
20 services, meter regulators. And we would be happy to, absent
21 an agreement, to provide you the schedules. I would think --
22 I know they are somewhere aggregated in our schedules but I
23 don't know whether they are actually broken down.

24 ALJ RODDA: Do you know, Ms. Mitchell, are
25 the actual improvements in the engineering report or

1 somewhere in Staff's testimony?

2 MS. MITCHELL: I believe for the water side,
3 there is some discussion I believe in Ms. Stukov's
4 testimony. On the gas side, I don't think there is a
5 breakdown in Mr. Miller's testimony. But I do have what
6 Mr. Wallace was just referring to, I do have copies. If
7 it's the same thing you are talking about, I do have copies
8 of the breakdown that we can

9 ALJ RODDA: I think that would be helpful to
10 me when I write the report.

11 MS. MITCHELL: If I can approach Mr. Wallace
12 to make sure he has what I have and then I will give you
13 copies. I will make copies.

14 ALJ RODDA: Please, and then we can make
15 copies.

16 MS. MITCHELL: I think I have an extra copy
17 for the court reporter if you want to admit this.

18 ALJ RODDA: We will call these schedules
19 that you have handed me on the plant additions, we will call
20 it A-7. Mr. Lines, you didn't have another A-7, did you?

21 MR. LINES: No. Unless you require anything
22 from me being the spokesperson.

23 (Exhibit A-7, schedules, was marked for
24 identification.)

25 ALJ RODDA: During the break, I will get

1 copies for the court reporter.

2 Q So Mr. Wallace, do you have these schedules that
3 Ms. Mitchell just handed me? Is this the same thing you have
4 in front of you right now?

5 A Yes, yes, it is. I would also point out that we did
6 file a schedule in our testimony, in the direct testimony.
7 For the gas side, it was schedule E5A that shows the net plant
8 additions by year. And there is a similar schedule that we
9 filed in the water case which is just, I'm sorry, the writing
10 is so small, I think it's just E5 because it's a pretty wide
11 schedule.

12 Q All right.

13 A So those two schedules show the plant additions by
14 year from the previous test year through the test year in this
15 case.

16 Q So the requested borrowing or finance authority,
17 focus on the water side. You have the Pima system and Fort
18 Thomas side and looking at what we have marked A-7 because
19 that is date printing, I have got new plant total, Pima,
20 \$251,000; total new plant, Fort Thomas, \$145,000. So this is
21 more new plant than is being requested for the financing
22 request, right?

23 A Yes.

24 Q So the finance request covers some earlier, up to a
25 certain year? Do you know why that amount of financing was

1 requested for the water?

2 A I believe that was a board decision in terms of the
3 amount of debt versus the amount of dollars, margins, that
4 they wanted to use to buy the plant, board management
5 decision.

6 Q So will there be a, do you know, will there be a
7 future financing request for future years?

8 A There could be, but it won't be related to this
9 plant that you see here.

10 Q So with your previous request, you are saying some
11 of it was financed with internally generated funds and some of
12 it was financed through borrowings, the short-term borrowings
13 from the electric coop and now we are going to go through some
14 long-term debt to replace that short-term borrowing? Is that
15 basic?

16 A That's correct. And in the spirit of trying to
17 build equity again, if we borrowed all of it, then our equity
18 balance would go down as you saw on that one schedule by even
19 a larger amount.

20 Q All right. And in the Staff testimony, the engineer
21 testimony on the water side, it confused me a little because
22 Ms. Stukov talked about not getting a detailed breakdown of
23 projects. This is why I want to talk to her about what she
24 was saying there and that some of the projects were not
25 complete. And as typically as done in the financing request,

1 there is no used and useful determination.

2 In this case, we have a rate case consolidated.

3 And so someone somewhere must make a used and useful
4 determination in this case. And so you might not be the
5 witness because it's not your testimony, but did you understand
6 what she was talking about?

7 A I believe I understand what she is talking about.

8 Q And do you have anything to add that helps me
9 understand what she is talking about?

10 A When it comes to the gas and the water side, it's
11 quite different than the electric side which you may be more
12 used to. On the electric side, the company prepares a work
13 plan which is a projection of five years, let's say. And in
14 that projection, they show we are going to need to borrow X
15 amount the first year, X amount the next year to meet our
16 construction needs, to do a whole projection. It is quite
17 involved. And they are required to do that usually by their
18 lender and eventually, obviously by the Commission and the
19 board to be able to determine that.

20 On the water side and gas side, it's been more
21 a reaction to a demand for new services and development. And
22 so the confusion has been on both the Staff part when they
23 looked at the case, you can't look at individual loan amounts
24 and dates and say that went directly for this on the case of
25 the loans that we have before you now.

1 The other loans that we have approved are for
2 specific items that were ordered by the Commission went for
3 those specific items, that the decision came out and said, you
4 know, we are approving a loan for you to build a new well.

5 In this case, the loans that were taken out
6 were to meet the demand for new services. And so there wasn't
7 something filed ahead of time with the Commission to say we
8 are projecting that we need a new well. We need X amount of
9 dollars for that. And that is the financing authority we are
10 requesting.

11 I know that that is what Staff and the
12 Commission is typically used to is that kind of analysis and
13 breakdown. In this case, we weren't able to provide that to
14 them. But we can show that here is the amount of additions we
15 made. Here is the amount of dollars that we had to do it.
16 And on a total basis, we can show where the dollars went.

17 Q That helps a lot, thank you.

18 A And then in terms of the used and useful requirement
19 or finding, I believe that a Staff witness, it was only a well
20 that was considered to be for -- it hadn't closed yet or
21 something along those lines. It has since closed. And that
22 was the only outstanding issue in terms of I believe a used
23 and useful finding.

24 MR. LINES: There is one more left.

25 Q Anyway, the Cooperative and Staff are in agreement

1 on the rate base and so there is no disagreement on what is
2 used and useful?

3 A That is correct.

4 Q So we are also being requested to approve the
5 electric coop's guarantee of the Graham County Utility debt.

6 Do you know if Graham County Utility for some
7 reason defaulted on its RUS loan, what Graham County Electric
8 Cooperative would be expected to do? Is the loan called and
9 Graham County Electric Coop has to come up with the entire
10 balance or do they assume the payments or do you know?

11 A And again, I'm assuming your reference is to the CFC
12 loans that Graham County currently has and what would happen
13 if Graham County Electric couldn't pay those loans back to
14 CFC?

15 Q I thought this application was for a guarantee of
16 the RUS debt.

17 MR. LINES: Yes.

18 A Yeah. I'm sorry, it's a guarantee of the CFC loan.
19 It's not -- CFC is just a different lender. It's a
20 nongovernmental.

21 Q So it's not this million dollars that we are talking
22 about that Graham County is requesting approval for in this
23 proceeding? Is that different? Is it all their debt? What
24 is Graham County Electric Cooperative being asked to
25 guarantee?

1 A Graham County Electric Cooperative is being asked to
2 guarantee the loan that GCU is requesting in this case, the
3 \$1,050,000.

4 Q I thought that was from the RUS?

5 MR. LINES: CFC.

6 A I will give you the whole name. It's the National
7 Rural Utilities Cooperative Finance Corporation, also known as
8 CFC.

9 Q So there is no RUS in this case?

10 MR. LINES: No.

11 A No.

12 Q I don't know why I thought it was a RUS loan. So
13 it's a CFC loan. What is Graham County Electric Cooperative's
14 obligation under that guarantee?

15 A If for some reason Graham County Utilities were not
16 able to pay back that loan, then Graham County Electric would
17 have to repay that loan.

18 Q On the same terms?

19 A That would be my understanding.

20 MR. LINES: Yes.

21 Q I think initially in the testimony, we are almost
22 done here, that there was some back and forth on the bandwidth
23 for the fuel adjuster mechanism. Has that been agreed to by
24 the Cooperative, that it will accept Staff's recommendation?

25 A Yes, we have accepted Staff's recommendation.

1 Q It sounds like today in terms of the demand side
2 management recommendations that Staff is agreeing to the
3 120-day time frame for I guess it's to file your DSM programs?

4 A Yeah. And our thoughts there in terms of why we are
5 requesting a longer period of time, we know that Graham County
6 Electric eventually will be subject to the energy efficiency
7 rules, DSM rules that were passed recently by the Commission.

8 And what we are hoping is that in the
9 development of some of those programs that Graham County
10 Electric and Graham County Gas can do that jointly to save
11 money. And that would be in things like weatherization and
12 maybe some other items. But that is kind of our hope that in
13 compliance with the energy efficiency rules for the electric
14 side that we can use that knowledge because they have no
15 in-house expertise on this issue to apply it towards the gas
16 side as well.

17 Q So even that 120 days that the parties have agreed
18 to, is that a realistic number? If we don't know what these
19 programs are going to be and we don't have any expertise and
20 we don't know if we can work together with Graham County
21 Electric, I guess I'm -- I just don't know, do you know what
22 you are going to file in 120-days?

23 A No, we don't. But we thought -- we thought two
24 years, for instance, would be unreasonable.

25 Q Is that the time frame under the energy efficiency

1 rules?

2 A I believe that it's difficult to project that
3 because the Attorney General has to -- has to -- I don't know
4 the legal terms, is it certify or review the rules? And then
5 at that point when they become effective, I believe it's
6 either 30 or 60 days after that that all of the electric
7 utilities subject to those rules have to file an
8 implementation plan.

9 So based on your projection of when that will
10 be, when the rules will become effective, if they are
11 effective in the middle of the summer sometime, this year,
12 then in the August-September time frame, the electric
13 utilities would have to file something in the form of an
14 implementation plan.

15 So that is kind of our thinking in terms of
16 getting to the 120-day period. We are going to do the best we
17 can. Our filing to the Commission, I will tell you this, will
18 be quite limited, our first filing to the Commission in terms
19 of our program scope and whatever we can possibly develop
20 within that time period.

21 Q And then, this is my last line of questioning for
22 you, and it has to do with Ms. Wallace's testimony about the
23 line extension policies. I think that originally you didn't
24 want them to be, or service line connections, you don't want
25 them to be refundable or are seeking a waiver. But has that

1 issue gone away?

2 A That issue has been resolved, yes. And we recognize
3 it's the Commission's position through its rules to treat
4 water differently than it does gas and electric, for instance.
5 Because on the gas and electric side, what we have seen is a
6 transition to the policy of the Commission transitioning to
7 customers paying a hundred percent through a contribution.
8 And on the water side, that is not the case and the Commission
9 hasn't been making the same transition.

10 We made that proposal to make it
11 administratively and for our customers to understand something
12 that we could work with administratively and treat all of the
13 customers the same and just have it all be contribution.

14 We understand on the water side it's not how
15 the Commission's rules are nor is the Commission deviating
16 from that policy and so we have accepted that position.

17 ALJ RODDA: I don't have any further
18 questions. Mr. Lines, did you think of any redirect or
19 questions that you wanted to ask?

20 MR. LINES: No, ma'am, I do not.

21 MS. MITCHELL: No, Your Honor.

22 ALJ RODDA: Mr. Wallace, thank you very much
23 for your testimony. It helped me. It was very clear and it
24 was very helpful. You may be dismissed. With that, let's
25 take a break.

1 (A short recess was held.)

2 ALJ RODDA: Mr. Lines, will you come up and
3 be sworn in.

4 STEVE LINES,
5 having been first duly sworn to state the truth, the
6 whole truth, and nothing but the truth, testified on
7 his oath as follows:

8 EXAMINATION

9 BY ALJ RODDA:

10 Q For the record, Mr. Lines, would you state your name
11 and business address and your relationship to the parties
12 before us.

13 A My name is Steve Lines. I'm the general manager for
14 Graham County Electric Coop and Graham County Utilities,
15 located at 9 West Center Street in Pima, Arizona in Graham
16 County.

17 Q The reason I wanted to have you here was because
18 some of the questions I asked Mr. Wallace were either directed
19 to you or seemed more appropriate to ask you.

20 A Sure.

21 Q It is my understanding you are the general manager
22 of both Graham County Utilities and Graham County Electric
23 Cooperative, correct?

24 A Yes, Judge, that's correct.

25 Q Can you describe for me the relationship between

1 Graham County Electric Coop and Graham County Utilities. Does
2 Graham County Electric manage Graham County Utilities or --

3 A Graham County Electric Coop purchased the utilities
4 back in 1989. And it was decided then that they would form a
5 separate coop with the gas and water. It has two separate
6 directors. However, there are some directors that sit on both
7 boards.

8 The Graham County Electric Coop actually is in
9 charge of all employees but the gas and water employees are
10 leased to Graham County Utilities, but they are actually under
11 the Graham County Electric Coop umbrella.

12 Q So there is some sort of allocation of the cost of
13 those employees that are made to the gas and the water
14 divisions?

15 A Yes, Judge.

16 Q Do those employees actually do work for both sides?

17 A No. We have a union labor force and the IBEW. And
18 there are classifications of welders and then linemen and
19 everything and they are designated to their field of
20 expertise.

21 Q In this case, there is a request to borrow from the
22 CFC \$1,050,000. I guess that is combined Gas and Water
23 Divisions, right?

24 A Yes.

25 Q These amounts are to pay off amounts that Graham

1 County Utilities, gas and water, have had to borrow from the
2 electric cooperative; is that right?

3 A Yes, that's correct.

4 Q Listening to Mr. Wallace's testimony, is that
5 approximately \$1 million, does that totally pay off the
6 amounts owed to Graham County Electric Cooperative or do they
7 remain --

8 A I think it pays off the majority, just about all of
9 it, but there may be a little bit that is not covered.

10 Q Is it a situation where depending on the margins
11 earned by the Gas and Water Divisions that they can or cannot
12 pay the short-term borrowings for the electric, from the
13 electric cooperative? That in certain months, perhaps they
14 cover all of their expenses or capital needs and certain
15 months they don't and so they need cash flow from the electric
16 side and pay that back sometimes, sometimes they can't. Do
17 you know what I'm saying?

18 A Yeah, especially with the utility natural gas, you
19 know, it's seasonal. You are going to have good months, bad
20 months, and even more so than the other two utilities. And
21 there are times especially in the last couple of years that
22 the natural gas has fallen way, way short.

23 I just might add, you know, since we are on
24 the relationship between the two coops, the Graham County
25 Electric board a couple years ago made the decision that, you

1 know, we kind of felt it was two twins that were joined at the
2 hip but they needed to be separated and Graham County
3 Utilities needed to stand alone on their own merits. And that
4 is what started the process of getting them to stand alone on
5 their own and serve their own debt.

6 And this payback would be through CFC who is
7 Cooperative Finance Coop that would furnish that loan, but the
8 Graham County Electric Coop is still guaranteeing that loan.

9 Q Is there a written agreement between Graham County
10 Electric Cooperative and Graham County Utilities to address
11 the short-term cash flow needs or is it on an ad hoc basis?
12 Somehow you have created this receivable on Graham County
13 Electric's part and a payable on Graham County Utilities'
14 part.

15 Is there any written agreement that covers how
16 that will be governed?

17 A Not that comes to mind. I would like to offer
18 Mr. Barney's services if there is any other finance questions
19 that I can't answer for you that wasn't answered through
20 Mr. Wallace. He would be glad to answer those questions.

21 Q Do you know if going forward, is Graham County
22 Utilities going to seek financing from CFC as opposed to
23 seeking the financing from the electric cooperative? Is that
24 the intent?

25 A Yes, that is the intent, for them to go directly to

1 CFC for any future loans.

2 Q I guess right now in your service territory for the
3 gas and water, is, at least, for my understanding of the
4 economic conditions in the state and that part of the state in
5 particular, is there a contraction of number of customers?
6 Are there fewer customers than there were a couple years ago?

7 A Well, if I may, I will kind of go into a little
8 history there. Our area, as Mr. Wallace talked about, you
9 know, we have the copper mine in there now, the Safford
10 Freeport Mack Moran. There for a few years, it was boomtown
11 and everything was blowing, going and then it came to a halt.

12 Well, even before the copper side of it came
13 to a halt, we were seeing a decline in our natural gas
14 services. If you will remember here a few years back, there
15 was real high natural gas prices that hit the country. People
16 were shying away from natural gas. New builders were putting
17 in total electric homes when there was gas out on the street
18 instead of doing both. They were just doing electric.

19 Those things combined with a lot of other
20 stuff such as weather-related, you know, the last four-five
21 years we have had warm, dry winters that have cut way back on
22 our sales. And it is just the economic downturn has with
23 everything just combined to our lower sales and I think added
24 to the rapid decline in the last two years with our revenue.

25 Q So looking out, I know it's kind of hard to do this

1 especially when the major economy in the area is mining which
2 is boom or bust it seems like, it's never steady?

3 A Now it's up a little bit so we are waiting to see if
4 there is going to be benefits from that.

5 Q Have you been able to sort of get any feel for what
6 new service connections in the next couple of years are going
7 to be like?

8 A Well, we are hoping that lower gas prices will kind
9 of stay where they have been this year. I know we are going
10 to talk about how we secure our gas prices. But we are hoping
11 that stays where it's currently at. That will help. We hope
12 that the copper mine does good and spurs the housing
13 development again. We are just hopeful that the natural gas
14 becomes attractive once again to the new developers.

15 And the ones that currently use it, you know,
16 with the energy efficient programs we have talked about and
17 stuff, that they will feel confident that they can go back to
18 using natural gas and have a reasonable bill.

19 Q One of the things I asked Mr. Wallace was about the
20 refund, especially on the gas side of the main extension on
21 the refunds?

22 A Right.

23 Q Whether there was a plan for how those refunds would
24 be made. Have you thought of that?

25 A Yes. It is my understanding there is actual dollars

1 figured out and planned out over this three-year period. We
2 have accepted that. I think one of our requests was possibly
3 spread out over a five-year period, but Staff was talking
4 about a three-year period and then we went ahead and accepted
5 that three-year period.

6 We were just requesting maybe a five-year
7 period to help spread that over a little thinner to help take
8 care of those overcharges and at the same time still try to
9 see some kind of revenue recovery with the new rates.

10 Q Is that going to be done? I know, like, a third of
11 it will be done the first year. Is it going to be done over
12 12 months? Is it going to be a credit on the bills or is it a
13 check that you will write or is it a lump sum?

14 A I think it's going to be done over the 12-month
15 period and stuff as those accounts come up. And I know we
16 have talked about it. I don't know if a decision has actually
17 been made, whether it's going to be a credit or direct check.
18 Either way, if the Commission directs us on which way to go
19 with that, that's what we will do.

20 Q Then I was wanting to talk with you a little bit
21 about the procurement recommendations that Staff is making. I
22 think one of Staff's concerns, I guess you have a contract
23 with British Petroleum on your supplies?

24 A Yes. Our supplier is BPMG which you just stated.
25 It used to be Wasatch Energy out of Utah. They have been our

1 supplier. We compare prices with another supplier called
2 Sierra Southwest. We watch the market close ourselves. We
3 watch the futures. We are in constant contact with them. And
4 basically, myself and a few of the management staff that I
5 have been actively really involved in this through the board's
6 direction to watch it.

7 And what we have tried to do in the past, of
8 course, lessons learned as you go through the years with how
9 volatile the natural gas market has been, it's been like a
10 yo-yo going up and down and trying to lock in or hedge in some
11 fixed prices. From time to time, it's kind of been like
12 trying to hit a moving target. But what we have learned in
13 the past, the best position we feel we could be in is try to
14 be 50 percent hedged and then 50 percent indexed for the year.

15 If an opportunity comes up for some real low
16 cheap, more additional hedging prices, we will lock them in.
17 But we watch it real close. That's how we try to get them
18 locked in. We were really going off a few years back, the
19 Commission was pretty adamant about natural gas utilities
20 having some kind of gas hedged in and that was when the market
21 was going up and down and pretty volatile. So we found that
22 about 50 percent, about half and half, is a pretty good way to
23 go.

24 Q And so do you have a contract with British
25 Petroleum?

1 A Yes, ma'am, we do.

2 Q How long is that?

3 A When we lock in prices, it's usually for one year or
4 a two-year period. We recently got approved that we could go
5 out that second year and I think we have a small percentage
6 right now that is locked in, hedged in, on a two-year because
7 the prices were so low at an attractive time.

8 Q Do you ever have -- when you have your annual supply
9 that you are going to I guess like a baseline supply, that you
10 will have a contract, they kind of stagger contracts so that
11 you are not contracting all in one or two months for a year's
12 supply but every three or four months you have a contract
13 expiring so you don't hit a peak? Do you know what I'm --

14 A Yeah. They do offer -- I know what you are
15 referring to. You can actually get some hedged in one month
16 at a time and have that kind of tiered in. I can't remember
17 what they called it. But we have never really done that.

18 Q Is it called laddering?

19 A Something similar to that, yeah.

20 Q Okay.

21 A But we do always try to get other gas quotes and
22 stuff from Sierra and any other suppliers we can find out
23 there and so we can compare and make sure that we are always
24 getting the lowest prices we can.

25 Q So that goes to one of Mr. Gray's recommendation,

1 number two. It says Graham shall actively ensure that the
2 prices it pays British Petroleum are competitive and
3 reasonable given market conditions. Is that what you are
4 saying, you compare with other suppliers?

5 A Yes, Judge, and we will continue to do that.

6 Q He also suggests that the company file documentation
7 identifying its processes. I guess they want you to have
8 something in writing for management's guidance and to file
9 that within 60 days. Is that something that you can do?

10 A Sure.

11 Q And then his number three is about maintaining
12 documentation of price indices used either currently or for
13 past purchases. And do you recall that recommendation?

14 A I do. I don't know. I guess myself I was trying to
15 understand, I think it went further and beyond on what we were
16 doing as far as keeping our old contracts and our old prices.
17 We do that. I mean, we don't throw them away. We keep a
18 running file on that so we can go back and see what we were
19 paying for gas seven years ago in the month of November.

20 Q The reason I ask about it is I wanted to see if you
21 understood what he was talking about and if you knew what
22 Staff wanted you to do with respect to that recommendation.
23 I'm not sure from your response. And I am not sure I know
24 exactly what he wants you to do which is why I wanted to
25 clarify that with him, whether you have had any communication

1 with Staff about what they expect the company to file or keep
2 track of, I guess not file, but keep track of for your own
3 records.

4 A I agree. I would like a little more clarification
5 other than what I have stated.

6 Q Then his number four was Graham should regularly
7 consider as part of its gas procurement activities the
8 possibility of conducting a competitive solicitation. Do you
9 do that or have you thought about it?

10 A Other than comparing with other suppliers?

11 Q I don't know. I think I read some testimony that
12 perhaps because of your size that not all suppliers are
13 interested in you. Is that true?

14 A That's very true.

15 Q So you have a limited number of suppliers that you
16 can go to?

17 A That is correct, yes.

18 Q You mentioned the current one that you have and
19 maybe two others you have mentioned?

20 A Right. And basically, the response I get is
21 basically between the two, really. The third one is once in a
22 while. But at least we do have a second one to compare to.
23 But you are right. Because of our low volume of usage, we are
24 not attractive to most suppliers.

25 Q I think that is basically what I wanted to talk to

1 you about. Was there anything else that you think would be
2 helpful to me in terms of understanding what you are doing
3 either with respect to gas procurement or any issue?

4 A Yes, Judge. I appreciate the opportunity in you
5 asking. I have a couple items down here as we were talking.
6 You know, you asked about the gas and water territory earlier.
7 We are intermixed. Graham County Electric Coop serves all of
8 Graham County except inside of the city of Safford and town of
9 Thatcher.

10 The gas is county-wide and it goes into the
11 town of Thatcher. So we have gas customers in that area that
12 have access to not going on gas and going on the town of
13 Thatcher's electrical system. So if they are outside and they
14 choose to go total electric and they are on Graham County
15 Electric system, then we are still savoring that. But if they
16 are inside of the town of Thatcher and they decide not to go
17 with natural gas, then they get totally off from our system.

18 The thing that concerns us with, like I
19 mentioned with both the natural gas and the water, you know,
20 and let me just in my testimony here, let me just complement
21 the Staff for all of this hard work that we have been going
22 through, the company and Staff. These consolidated items, if
23 you take one at a time, you will have a lot of work in front
24 of you. But if you consolidate all of them, then we have a
25 ton of work to try to work through. I really want to let

1 Staff know that I appreciate being able to get to the point
2 where we are at now and in agreement with most of it.

3 As Mr. Wallace talked about, there are only a
4 couple of items that kind of still concern me and that is the
5 natural gas. Let me just kind of back up. We have talked
6 about how long it's been since we have been in for a rate
7 increase. In the water, it will almost be 12 years since we
8 did that and almost five years for the gas.

9 We are a coop as Mr. Wallace said. We are
10 owned by our members and the board of directors and management
11 just bite the bullet as long as they can before we have to
12 come in. As you know, that is a double-edged sword. You wait
13 too long and then you come in and then you have to have a big
14 increase. That is a hard pill to swallow. If you come in
15 more frequently, then that is other issues you have got to
16 deal with.

17 So we waited. We waited a little bit longer
18 than what we should have and we realize that. One of the
19 things for water that kind of concerns me is as Mr. Wallace
20 testified is the escalating TIER'ed rates on the usage. He
21 explained the arsenic issue that we were facing. A few years
22 back, the arsenic standard changed from 50 parts per billion
23 down to 10 parts per billion. We run at about 22 parts per
24 billion. So we were living life as long as it was at 50.
25 When it dropped to 10, that put us on a new standard.

1 Once we got to researching it, we about hit
2 the floor. We had a thousand customers and they were telling
3 us we were looking at a three to five million dollar water
4 treatment plant to treat this arsenic water and get it down to
5 10 or less. And we didn't know what we were going to do. So
6 we worked with U.S.D.A. They came in and we got in with them
7 and got a program going as it is well-documented. We
8 basically had to spend a million dollars to get a million
9 dollar grant.

10 And what they recommended was we had more
11 property, and thank goodness we did, we had more property in
12 the Cottonwood Wash area above our water wells and went up
13 above Mt. Graham and we started drilling water wells to see
14 what we would hit. Well, we were not only fortunate but just
15 flat blessed. We hit good arsenic-free water. We have five
16 wells in and we have got one more well to do in that project.
17 Every one of those wells are under 10 parts or are
18 arsenic-free.

19 So now we are able to take that water and
20 blend it with the existing wells and our overall reading now
21 is under 10 parts per billion. It is just fantastic.

22 But we still have that million dollar debt
23 that we still have to serve. The thing that it did for us, it
24 not only took care of our arsenic problem, but it really
25 doubled and tripled our water supply. We now have an abundant

1 water supply, plus quantity and quality. So we are ready to
2 make sales and sell water.

3 The thing that kind of scares us about the
4 escalating TIERS on the usage, let me say this, I totally
5 understand where Staff is coming from on the TIER'ed rate and
6 conservation. This is Arizona. You need to be conserve water
7 and stuff, but our situation is a little bit different in
8 where we are at and our situation.

9 The Pima, we know our community and the Pima
10 people, when we would have our annual meetings, I was up front
11 with the members and told them what we were facing with the
12 arsenic issues and treatment plant. They were irate. They
13 said, well, if it goes up too much, I will put a well on my
14 backyard and put in my own system and get off the company's
15 water system. That is kind of what we fear a little bit on
16 putting on an escalating cost on the usage. We just don't
17 want it to reach a point where they say, okay, I'm going to
18 bring a well driller in my backyard.

19 In downtown Pima, the homeowner can drill a
20 well in his backyard and all of the way up to the Cottonwood
21 Wash area. So that is a concern of ours but we are willing to
22 live with it and see where it goes, you know. Staff is
23 correct when they say that we are speculating that that will
24 happen and hopefully it doesn't. But we will see where that
25 goes.

1 Q Let's talk about the million dollar debt for the
2 arsenic. Was that from the CFC that you borrowed that money?

3 A No, that was Rural Development, U.S.D.A. Rural
4 Development.

5 MR. BARNEY: Half grant, half loan.

6 BY ALJ RODDA:

7 Q I understood what you said, part of it was debt and
8 part of it was a grant. Was it a total \$1 million or a total
9 of \$2 million of which one was debt and one million grant?

10 A I think it was 2.something million dollars total and
11 almost a million of it was grant money. And then the rest of
12 it was a loan.

13 Q Then did you file a financing application with the
14 Commission for that?

15 A Yes.

16 Q I wanted to clarify.

17 A Thank you.

18 Q I think you were going to go on.

19 A I kind of went over on the gas side some of the
20 concerns that we have. But, you know, Judge, we are basically
21 at the Commission's mercy here. We are happy to get whatever
22 we can get here. As you know, you can see our finances and
23 stuff. The bottom has just dropped out on the gas side. We
24 are really, really concerned. I know Graham County Electric
25 Coop is concerned. They want to get where they stand alone.

1 We appreciate whatever we do to get out of this rate case to
2 help us to try and get our nose above the water line where we
3 can breathe a little bit and maybe not have to turn right
4 around and come back if we see we are not getting up to the
5 water line and we have to come back in. Hopefully, this will
6 do that.

7 And cost cuts, you know, we were challenged by
8 some of our members on what we are doing and we would give
9 them an outline on what we are doing on cost cuts. Actually,
10 our field employees, we only have seven field employees out in
11 the field taking care of the gas and water system
12 infrastructure. And we have had some people retire because of
13 health reasons. That person wasn't replaced. We had another
14 person that was in charge of the water company and we moved
15 him to the electric company and now the gas people ourselves
16 are doing that work so it is dedicated just to that.

17 We had another person that left that wasn't
18 replaced. So we are down, as I feel, we got to watch that.
19 We were looking at layoffs some more, but I'm thinking, you
20 know, there is a true statement in running lean and mean but
21 at a point you start getting anorexic and running into
22 problems. I think that's what we were looking at doing.
23 Because I don't want to get in violation with the ACC Pipeline
24 Safety Division because you have got to keep certified
25 qualified people out there running the natural gas

1 infrastructure. So that's where we are at there. We have
2 done major budget cuts in this 2010 budget.

3 We have done just about everything that we
4 think we can do to cut costs. Like I say, we are, our outside
5 labor force is union. We are in a three-year contract,
6 currently in the second year of that contract. Next year will
7 be the third year. Then new negotiations will be forthcoming
8 and I think there will be a little bit different outcome than
9 the last contract because of the financial situation that we
10 are in.

11 Q So you mentioned that the 2010 budget and cuts, was
12 that mostly on the labor side, is that your major expense,
13 labor?

14 A Labor and overhead. Our plant, our capital projects
15 plus any new equipment, backhoes, trucks, stuff like that, we
16 have basically frozen. We won't buy anything new. If it will
17 chug on down the road, we are going to use it.

18 Q Anything else?

19 A I think that is all.

20 ALJ RODDA: Ms. Mitchell, do you have any
21 questions for this witness?

22 MS. MITCHELL: No, Judge.

23 ALJ RODDA: Thank you very much, Mr. Lines.
24 It's always a pleasure to see you. With the Exhibit A-7, I
25 don't have it marked down that I admitted that. Is there

1 any objection to the A-7 which is that list of projects?

2 MS. MITCHELL: No.

3 ALJ RODDA: We will admit A-7.

4 (A short recess was held.)

5 ALJ RODDA: Before we call the Staff
6 witnesses that you have standing by in Phoenix, I just want
7 to get Mr. Barney who is the finance manager for the coop on
8 the stand to sort of clarify the borrowing arrangements
9 between the electric coop and the Graham County Utilities.
10 Would you come on up, Mr. Barney.

11 RUSS BARNEY,
12 having been first duly sworn to state the truth, the
13 whole truth, and nothing but the truth, testified on
14 his oath as follows:

15 EXAMINATION

16 BY ALJ RODDA:

17 Q Mr. Barney, for the record, would you state your
18 name and your position with the applicants.

19 A My name is Russ Barney. I'm the finance manager of
20 Graham County Electric and Graham County Utilities.

21 Q And as part of this proceeding and one of the
22 questions I had asked Mr. Wallace and Mr. Lines, I think as
23 the finance manager you might have some insight into the
24 relationship between Graham County Electric and Graham County
25 Utilities. And in particular, I'm interested in the borrowing

1 relationship between the two. Could you sort of tell me how
2 that works between the two companies.

3 A The electric company has a management agreement to
4 manage the utility company. And we have one joint bank
5 account that we write all of the checks out of and then they
6 are allocated to whichever department got the benefit of the
7 expenditure.

8 At the end of the month, we have this due-to,
9 due-from and we physically write a check to zero that out so
10 that every month it is zeroed out. Now, this wasn't a problem
11 as recently as about two years ago. They each had their own
12 money which, in effect, they were lending back to the electric
13 company.

14 Then as the finances deteriorated, the due-tos
15 started building up. That's when we went in with this finance
16 package trying to get permanent capital to pay off. And then
17 it continues to deteriorate because of the losses in the
18 companies.

19 Q So is this amount that is being requested to borrow
20 from the CFC by the gas and the water, this one million
21 dollars, is there a payable or a receivable on the Graham
22 County Electric books for a million dollars?

23 A Yes. There is a receivable. It is called a
24 due-from on the utility and then on the utility books, it is
25 called a due-to to the electric. Now, if either the gas and

1 water has money and the other doesn't, then we loan from the
2 gas to the water or water to the gas before we borrow from the
3 electric.

4 Q I see. Is there an interest associated with these
5 borrowings?

6 A We charge the CFC intermediate line of credit rate
7 which for the last several months has been 4.95 percent.

8 Q You say until maybe recently it was always zeroed
9 out?

10 A It's still zeroed out, but it's with money that they
11 borrowed back immediately to cover the check. I mean, a
12 physical check zeros it out and then it starts it over again.

13 Q Does this management agreement between the electric
14 coop and the Graham County Utilities, does that talk about
15 this due-to, due-from?

16 A I'm not sure. That was put in place 20 years ago
17 and I don't know.

18 ALJ RODDA: Ms. Mitchell, did you have any
19 questions?

20 BY MS. MITCHELL:

21 Q The borrowing, Mr. Barney, hello, let me start off
22 by saying good afternoon and thank you for agreeing to come up
23 and clear up this question for me.

24 So that when the Water and the Gas Division
25 borrow from the Cooperative, all that has been described in the

1 subject applications that we have here. Do they do any other
2 kind of short-term borrowing between?

3 A No. We don't lend the money as such. We just pay
4 their bills for them which creates a liability.

5 MS. MITCHELL: I think I understand. All
6 right, thanks.

7 BY ALJ RODDA:

8 Q But I think the Cooperative just because you have
9 been here throughout the years and borrowed from the CFC
10 periodically, at least the electric coop has, that the
11 Cooperative is aware that long-term borrowing requires
12 Commission approval, right?

13 A That's correct. We know that.

14 ALJ RODDA: Anything further?

15 MS. MITCHELL: No, Your Honor.

16 BY ALJ RODDA:

17 Q Did you want to explain anything further that has
18 come up in the course of today's proceeding that you think
19 would be helpful?

20 A Just one little point when Mr. Lines talked about
21 the customers would be willing to drill wells in the town of
22 Pima, the water table is very shallow there. For years they
23 could not put a basement in. The director of utilities said
24 they dug a four-and-a-half foot trench a block from the office
25 and it filled up with water. So they are authorized to drill

1 but the water is there and very plentiful.

2 Now, it is not water that they could drink
3 without RO'ing it. So they might stay on and just keep the
4 very minimum and use the well to water their lawns and maybe
5 the neighbor's. But I think in my opinion instead of
6 conserving water with these steep TIER'ed rates, we would
7 actually be encouraging overall use of more water, less from
8 the coop but more from the groundwater through these domestic
9 wells.

10 ALJ RODDA: Thank you.

11 BY MS. MITCHELL:

12 Q Just one question back to the loan. Is the
13 outstanding loan amount today the same today as it was than in
14 the original application?

15 A No, it has grown.

16 Q It has grown by?

17 A A couple hundred thousand. Well, the amount we
18 requested for the water would just about cover it. The gas
19 would fall short. But we are in our season where we are
20 selling gas so it should be coming down.

21 Q I understand.

22 A Now, I did have one other point on the same issue
23 about the TIER'ed rates. One of the issues is we asked for a
24 \$22 minimum on the water, on the 5/8ths meter. We currently
25 have a \$16.80. This Pima water project that Mr. Lines talked

1 about that gave us all of this extra water but also incurred a
2 million dollars of debt, and I calculated the depreciation
3 using the Staff recommended rate of depreciation for each
4 account, took the actual interest and the actual taxes on that
5 and it came up to almost six dollars more fixed cost per month
6 to service that loan and that is why we asked for the \$22 to
7 begin with. And that's why we think that we should get more
8 as a minimum and less on the commodity because we have now six
9 dollars more fixed cost per customer than we had at the last
10 rate case.

11 ALJ RODDA: I'm sorry. Did I ask Mr. Lines
12 if that million dollar debt was an application with the
13 Commission?

14 THE WITNESS: Yes. And I don't have the
15 decision number but we definitely had permission and it was
16 all spelled out, what we were going to do and the whole bit.

17 ALJ RODDA: Thank you very much, Mr. Barney.
18 Happy retirement. So Mr. Lines, with that, have you
19 completed the company's case in chief?

20 MR. LINES: Yes, Judge, we have.

21 ALJ RODDA: Then we can start with Staff's
22 witnesses. Did you want me to call the Phoenix office
23 first?

24 MS. MITCHELL: Yes, Your Honor.

25 ALJ RODDA: So Kevin?

1 MR. TORREY: We are here, Judge.

2 ALJ RODDA: You are kind of faint.

3 MR. TORREY: That's what they tell me.

4 ALJ RODDA: I want to make sure that all of
5 the witnesses are close to the phone so we can hear them
6 closely because the court reporter is here with us.

7 MS. MITCHELL: Kevin, do you have Juan
8 there?

9 MR. TORREY: I do. Can we get Bob Gray to
10 go first. He has a conference call to go to.

11 MS. MITCHELL: We will have Bob Gray go
12 first.

13 ROBERT GRAY,
14 having been first duly sworn to state the truth, the
15 whole truth, and nothing but the truth, testified on
16 his oath as follows:

17 EXAMINATION

18 BY MS. MITCHELL:

19 Q Could you please state your full name and business
20 address for the record.

21 A My name is Bob Gray. My business address is 1200
22 West Washington Street in Phoenix.

23 Q By whom are you employed and in what capacity?

24 A By the Arizona Corporation Commission as an
25 executive consultant.

1 Q And could you describe your duties as an executive
2 consultant?

3 A Certainly. I work on a variety of matters at the
4 Commission, including electric, natural gas and water matters.

5 Q In the course of your employment, were you assigned
6 to review the Rate Application for Graham County Utilities for
7 an increase in their rates?

8 A Yes.

9 Q And your review was of the gas application, correct?

10 A Yes.

11 Q And you filed prefiled testimony in this matter?

12 A Yes.

13 Q I will mark it as Staff Exhibit S1. If I were to
14 ask you the same questions today that were contained in your
15 testimony, would your answers be the same?

16 A Yes.

17 (Exhibit Staff Exhibit S-1, Robert Gray
18 testimony, was marked for identification.)

19 Q Do you have any -- I forget to ask you this first.
20 Do you have any additions or corrections to make to your
21 testimony?

22 A No.

23 MS. MITCHELL: I would like to move for the
24 admission of Staff Exhibit S-1.

25 ALJ RODDA: Do you have any objections to

1 S1?

2 MR. LINES: No objections.

3 ALJ RODDA: S-1 is admitted.

4 MS. MITCHELL: With that, Mr. Gray is
5 available for cross-examination.

6 ALJ RODDA: Do you have any questions for
7 Mr. Gray?

8 MR. LINES: No, Judge, we don't.

9 BY ALJ RODDA:

10 Q Thank you for being available today. I've just got
11 to grab your testimony for a second. So Mr. Gray, why did
12 Staff decide to do a procurement review in this case?

13 A Staff has made it a practice in recent years for
14 natural gas rate cases to conduct gas procurement reviews as
15 part of Staff's work in the case so this is just consistent
16 with what Staff has done in other cases.

17 Q I will turn now to the recommendations that you make
18 in this case. Bear with me a second here. So I think the
19 first one, that the company filed a document with docket
20 control within 60 days and identify its processes for
21 procuring natural gas supplies is fairly self-explanatory. Is
22 there something in particular you are looking for with respect
23 to these policies or procedures?

24 A I don't think there is one particular thing, but I
25 think we just wanted them to follow something in the docket

1 which can explain how they go about buying natural gas.

2 Q Is the purpose of this exercise so that Staff
3 understands or so that the company understands and has a
4 policy in place and adheres to policy?

5 A I think the goal in having to follow something is so
6 if there is something in the record in this case from the
7 companies as to what the processes are. If we do another
8 procurement review four years down the road, we can go back
9 and look at this case and look at what their processes were at
10 this time.

11 Q If the company had any questions about what Staff
12 would find helpful with respect to this recommendation, could
13 the company contact you directly?

14 A Certainly, that would be fine.

15 Q Is there some other case or sample that you think
16 would be helpful to them?

17 A Well, the other companies that we have done
18 procurement reviews on in recent years are much larger,
19 Southwest Gas and UNS Gas. So I think they could look at
20 those cases, but those companies are much more involved
21 processes because of their size.

22 Q Then your second recommendation is Graham shall
23 actively ensure that the prices it pays British Petroleum are
24 competitive and reasonable given market conditions. Is there
25 something in particular that you want the company to do or

1 that the company should do?

2 A I think it is more of a general nature, just to have
3 on the record the same responsibility that in their agreement
4 with British Petroleum that they get competitive and
5 reasonable prices.

6 Q I think your conclusion in this case is in number
7 five under your findings and recommendations. In the period
8 that you looked at, January 2006 through July 2009, that you
9 conclude that the prices they did pay were prudent given the
10 market conditions at the time and the coop's place in the
11 marketplace?

12 A Yes.

13 Q So there is nothing that you found that they were
14 doing improper, right, or you just want to make sure they
15 document what they are doing?

16 A That's correct. I mean, with the larger gas
17 companies, we more actively push them to diversify their
18 supplies because in general we think the idea of diversifying
19 is beneficial. Given the small size of this company, we took
20 a little different approach and said we understand why you are
21 primarily working with BP, but we want you to be looking at
22 what you are paying BP and what your options are out there.
23 If there is something better that comes along and BP starts
24 charging them more than what the market is out there, they
25 would be aware of that.

1 Q And then your recommendation number three is about
2 maintaining documentation of any price indices used either
3 currently or for past purchases. Do you mean past purchases
4 going forward? What do you want them to do with respect to
5 this recommendation? Do they need to go back and do something
6 or is it going forward from now on?

7 A I guess it would be primarily going forward. They
8 have some contracts in place right now that also go forward
9 because they have already entered into them. It's just to
10 make sure they have clear documentation of where the prices
11 come from for their gas supply contracts.

12 Because in the review under the section where
13 we talk about monthly index purchases, there were a couple of
14 purchases that the numbers, it took a while to tie out why
15 they had certain price numbers attached. It didn't seem like
16 the company had those numbers readily available. So we just
17 wanted to make sure they kept that documentation on hand.

18 Q Then the fourth recommendation is that the coop
19 should regularly consider as part of its procurement
20 activities the possibility of conducting a competitive
21 solicitation. Again, is this just something you want the
22 company to be aware of or do you want them to actually do
23 something?

24 A I don't think there is any specific action we are
25 asking for. But I think we want them to show some

1 demonstration that they have thought about competitive
2 procurement. In the next case, if we do a similar procurement
3 review and they can say, yeah, back in 2011 when we were
4 procuring, we looked at it and here are the reasons why we
5 didn't go with anybody besides BP. But there is no specific
6 identified action they have to take to do this. It's more of
7 a general context.

8 ALJ RODDA: Those are all of the specific
9 questions I had. Is there anything you think I need to know
10 what is going on with this company or clarify any
11 recommendations or conclusions you have reached?

12 THE WITNESS: I don't think so, no.

13 ALJ RODDA: Ms. Mitchell, do you have
14 anything further for this witness?

15 MS. MITCHELL: No, Your Honor, I don't.
16 Thank you.

17 MR. LINES: No. I appreciate Mr. Gray that
18 cleared some of that up.

19 ALJ RODDA: Do you think I have clarified
20 what he is looking for and his recommendations?

21 MR. LINES: It's cleared it up for me and
22 about what Mr. Gray is trying to have us achieve.

23 ALJ RODDA: Thank you, Mr. Gray.

24 THE WITNESS: Thank you.

25 MS. MITCHELL: Staff will call Juan

1 Manrique.

2

JUAN MANRIQUE,

3 having been first duly sworn to state the truth, the
4 whole truth, and nothing but the truth, testified on
5 his oath as follows:

6

EXAMINATION

7 BY MS. MITCHELL:

8 Q Good afternoon. Could you please state your full
9 name and business address for the record.

10 A Yes, my name is Juan Manrique. My business address
11 is 1200 West Washington in Phoenix, Arizona, 85007.

12 Q By whom are you employed and in what capacity?

13 A I am with the Arizona Corporation Commission as a
14 public utilities analyst.

15 Q And could you briefly describe your job duties as a
16 public utilities analyst?

17 A Yes. I generally deal with utility financing cases
18 and cost of capital as it pertains to rate cases.

19 Q In the course of your employment, were you assigned
20 to review the financing applications for Graham County
21 Utilities Water, Graham County Utilities Gas for approval of a
22 loan and for Graham County Electric Cooperative, application
23 for approval of a loan guarantee?

24 A Yes.

25 Q And did you prepare prefiled testimony summarizing

1 your findings?

2 A Yes.

3 Q I'm going to mark this as Staff Exhibit S-2 and you
4 should have that. Is this your direct testimony?

5 (Staff Exhibit S-2, Juan Manrique direct
6 testimony, was marked.)

7 A Yes.

8 Q And do you have any additions, corrections or
9 modifications to make to your testimony?

10 A Yes.

11 Q Can you just tell us what those are, please?

12 A Sure. If you look at Schedule JCM-1 for both the
13 Gas Division and Water Division, on line 47, it states that
14 column A is based on audited 2008 financial information for
15 the year ended December 31, 2008. That should actually say
16 September 30 of 2008.

17 Q And do you have any other corrections?

18 A That would be the only one.

19 Q With that correction if I were to ask you the same
20 questions that are contained in your testimony, would your
21 answers be the same?

22 A Yes.

23 MS. MITCHELL: Your Honor, at this time I
24 would like to move for the admission of Staff Exhibit S-2.

25 ALJ RODDA: Any objection to S-2?

1 MR. LINES: No.

2 ALJ RODDA: S-2 is admitted.

3 MS. MITCHELL: With that, Your Honor, I
4 would tender Mr. Manrique.

5 ALJ RODDA: Mr. Lines, did you have any
6 questions for Mr. Manrique?

7 MR. LINES: No, we don't, Judge.

8 BY ALJ RODDA:

9 Q Good afternoon, Mr. Manrique. I don't think I have
10 a significant number of questions. Were you able to listen in
11 this morning on the Internet?

12 A Yes.

13 Q Did you hear my questions to Mr. Wallace about why
14 the capital structure changes when you do the pro forma of the
15 debt being requested?

16 A I may have been away from my desk at that particular
17 time.

18 Q Well, look at your exhibit JCM-1. Throughout most
19 of the testimony, I was under the impression and I think it's
20 been cleared up now that this borrowing, I thought of it as a
21 refinance of monies that were owed to the electric coop by the
22 water-gas divisions. So I was wondering why if it was just a
23 refinance, there wouldn't be any new debt. But it is not
24 quite a refinance, is it?

25 A Well, I mean, yes and no. You know, the money --

1 the money was provided obviously by the electric cooperative.
2 I'm not sure how, you know, Graham County Utilities had it,
3 you know, particularly on their books. But I guess what it
4 looks like is they didn't have it, you know, on their books.

5 Q Is that because maybe if it was treated as a due-to
6 or a due-from that it wouldn't get counted in the debt equity
7 calculation?

8 A Exactly. If this was an accounts payable account,
9 that isn't something that is generally considered under the
10 short-term debt or long-term debt umbrella, if you will.

11 Q So that was the explanation for why the pro forma,
12 column B, the equity falls about 10 percent to eight percent
13 when typically under refinance, you wouldn't think it would
14 change at all because it is just sort of changing lenders. Is
15 that a good explanation for why that happened?

16 A Precisely. If it goes from an accounts payable
17 account to, like, a long-term debt account, then yeah, that
18 money gets added to its capital structure as debt.

19 Q Now, your Staff report for the financing talks a
20 little bit about what the money that is being borrowed was
21 used for. My understanding from reading that, I was under the
22 impression it was for a plant that was already in the ground.
23 Is that your understanding?

24 A Yes.

25 Q And then as we typically do, we being the

1 Commission, typically does in a financing situation, you have
2 the standard language about no used and useful determination
3 was being made.

4 Do I take it that you make that statement
5 because as the finance analyst, you don't make that
6 determination?

7 A Generally speaking, that determination is made by
8 the engineering side, engineering. From my understanding, the
9 reason why that would go into a report is because that sort of
10 determination is made within a rate case. In this case, my
11 only, like, all I was doing was dealing with the financing of
12 the loan.

13 I might add that these financings were not
14 originally part of this rate case. They were consolidated
15 later on.

16 Q Is Staff concerned about the equity level of this
17 Cooperative?

18 A Yes.

19 Q And does Staff have a goal in mind for an equity
20 augmentation for this Cooperative? Do they want to see
21 certain benchmarks met or do you know?

22 A That would be something I think that would be -- the
23 scope of my testimony in this case is just based on the
24 financing itself. I would just defer that question to maybe
25 Mr. McMurry or Mr. Chavez or both of them actually as they did

1 the rate cases themselves.

2 Q That's fair enough. So you also made
3 recommendations concerning the Graham County Electric
4 Cooperative guarantee, didn't you?

5 A Yes.

6 Q And because the electric cooperative, it's asked
7 here just to guarantee the debt and not actually pay the debt
8 at this point, how does Staff analyze the risk to the electric
9 cooperative? What factors do you look at to determine it's in
10 the public interest for that Cooperative to guarantee this
11 debt?

12 A Well, in this particular case, they are basically
13 guaranteeing debt where the proceeds are just being given back
14 to the electric coop, which then we at the Commission just
15 assume that that money, you know, will be there in order to go
16 ahead and guarantee the loan that Graham County Utilities has
17 taken out.

18 Q So I take it from your response that maybe because
19 while Graham County can always seek additional rates if they
20 needed to pay their debt but there is probably not that much
21 risk to the electric coop from this guarantee?

22 A Right. The proceeds from the loan are being put
23 into what we would assume cash reserves at the electric coop.

24 ALJ RODDA: I don't have any further
25 questions. Anything else, Ms. Mitchell?

1 MS. MITCHELL: No, Your Honor, I don't.

2 Thank you.

3 ALJ RODDA: Did you have anything, Mr.

4 Lines?

5 MR. LINES: I would like to defer to

6 Mr. Wallace for questioning.

7 BY MR. WALLACE:

8 Q Mr. Manrique, do you have what has been entitled
9 Exhibit A-1 which is the Gas Division application for a rate
10 increase in front of you by any chance?

11 A I do not. I can see if I can get a copy.

12 Q In particular, you might have a copy of this that
13 was contained within that application. It's the financial
14 statements, the audited financial statements for September 30,
15 2008 and 2007.

16 A Just a minute. Yes, I have those in front of me.

17 Q Would you please turn to page, it's page two at the
18 top, Exhibit A. It's actually the fifth page into that
19 report.

20 A That's the balance sheet?

21 Q Yes.

22 A Yes.

23 Q Refer down to the bottom portion of that balance
24 sheet and look at the line called accounts payable, Graham
25 County Electric Cooperative. We show a balance as of

1 September 30, 2008 of \$817,693.

2 A Yes.

3 Q Would you agree that is where the due-to, due-from
4 are reflected on the balance sheet?

5 A Yes.

6 Q Mr. Manrique, do you recall a schedule that GCU put
7 together that was a history of cases that the Cooperative has
8 from financings?

9 A Yes.

10 Q Do you happen to have that schedule in front of you?

11 A I don't.

12 MR. WALLACE: Okay. I just wanted to note
13 for the Judge that in a schedule that we provided to
14 Commission Staff in a data request, you have asked several
15 times about a loan, the loan that was both the combination
16 of a grant and a loan. And that I just wanted you to take
17 note that that was decision number 69245. And the decision
18 date was 1/19 -- January 19, 2007 where that combination of
19 a loan and grant was approved from U.S.D.A.

20 ALJ RODDA: Did I write that order? I
21 probably did. I just can't remember. Okay.

22 MR. WALLACE: That is the only questions we
23 had for Mr. Manrique.

24 ALJ RODDA: Did you have anything further,
25 Ms. Mitchell?

1 MS. MITCHELL: No, Your Honor.

2 ALJ RODDA: Thank you very much,

3 Mr. Manrique.

4 THE WITNESS: Thank you.

5 MS. MITCHELL: Ms. Allen, are you there?

6 MR. TORREY: She is.

7 (A discussion was held off the record.)

8 MS. MITCHELL: Staff would call Candrea

9 Allen.

10 CANDREA ALLEN,

11 having been first duly sworn to state the truth, the

12 whole truth, and nothing but the truth, testified on

13 her oath as follows:

14 EXAMINATION

15 BY MS. MITCHELL:

16 Q Good afternoon, Ms. Allen. Could you please state
17 your full name and business address for the record.

18 A My name is Candrea Allen. My business address is
19 1200 West Washington Street, Phoenix, Arizona, 85007.

20 Q By whom are you employed and in what capacity?

21 A I'm employed by the Arizona Corporation Commission
22 as a public utilities analyst.

23 Q Could you briefly describe your duties as a public
24 utilities analyst?

25 A I review a variety of cases regarding

1 telecommunications and energy matters.

2 Q In the course of your employment, were you assigned
3 to review the Rate Application for Graham County Utilities Gas
4 Division?

5 A Yes.

6 Q And did you prefile testimony in this matter?

7 A Yes, I did.

8 Q I'm going to label your direct testimony as Staff
9 Exhibit S-3. Was this prepared by you under your direction?

10 A It was.

11 Q And do you have any additions or corrections to make
12 to your direct testimony?

13 A No, I do not.

14 Q And you also prepared some surrebuttal testimony; is
15 that correct?

16 A Yes, I did.

17 Q I will mark that as Staff Exhibit S-4.

18 (Exhibit S-3, Candrea Allen testimony; S-4,
19 Candrea Allen surrebuttal testimony, was marked for
20 identification.)

21 Q Was this prepared by you under your direction?

22 A Yes, it was.

23 Q Do you have any additions or modifications to make
24 to it at this time?

25 A No.

1 Q If I were to ask you the same questions that are
2 contained in your direct testimony and in your surrebuttal
3 testimony, would your answers be similar or the same?

4 A Yes.

5 MS. MITCHELL: Your Honor, at this time I
6 would like to move for the admission of Staff Exhibit S-3
7 and Staff Exhibit S-4.

8 ALJ RODDA: Any objection to S-3 or S-4, Mr.
9 Lines?

10 MR. LINES: No, Your Honor.

11 ALJ RODDA: Then S-3 and S-4 are admitted.

12 BY MS. MITCHELL:

13 Q Ms. Allen, have you been able to listen to any of
14 the testimony today?

15 A I wasn't able except for a little bit this morning.

16 Q Judge Rodda had a couple of questions about I think
17 the mechanics of how the overcharge on the land extensions
18 would work. Have you given any thought to how the utilities
19 should refund their money? Should it be a credit, should it
20 be a check? Have you given any thought procedurally as to how
21 that would happen?

22 A No. Staff does not have a position on how they
23 should be repaid.

24 MS. MITCHELL: With that, I don't have any
25 other questions for Ms. Allen. She is available for

1 cross-examination.

2 ALJ RODDA: Mr. Lines, did you have any
3 questions?

4 MR. LINES: No, Your Honor we don't.

5 BY ALJ RODDA:

6 Q Good afternoon, Ms. Allen. So however the
7 Cooperative determines is easiest to make those refunds in
8 general conformance with your recommendations, that would be
9 okay with Staff or did you want the company to consult with
10 Staff about what they are going to do or what?

11 A I'm sorry, hold on one second, I'm sorry. Would you
12 repeat your question?

13 Q So I'm trying to understand. You say you don't have
14 a position on how the refunds are going to be made. So
15 whatever the Cooperative believes is easiest for it but still
16 conforms with your recommendation is okay with you?

17 A Right, that is correct.

18 Q And you are not asking that the Cooperative consult
19 with the Commission or with Staff about how those are made
20 prior to making them?

21 A I guess there should possibly be a letter prior to
22 the repayment, an explanation on how the company proposes to
23 repay that back, something along those lines.

24 Q So you would like some sort of compliance filing
25 that just will inform the Commission how the Cooperative

1 proposes to conform with your recommendations?

2 A Yes, correct.

3 Q Under your recommendations, is the company supposed
4 to file a report after making the refunds that they have made
5 the refunds?

6 A I did not testify to that in my testimony, but Staff
7 would not be opposed to that.

8 Q The company had some testimony, I don't think they
9 are currently at least today they are not advocating this
10 position, but in the rebuttal or somewhere in the rounds of
11 testimony, the Company says, well, we are not adverse to the
12 three-year on the gas side. I guess there are refunds on both
13 sides, but the gas side has a much larger refund obligation.
14 We are not adverse to a three-year payback of those amounts
15 that were over-collected. But if our margins are not
16 sufficient, we would like maybe a waiver or not to have to
17 make those refunds in that particular year. I'm not sure that
18 I noticed any Staff response to that.

19 Did Staff consider that request?

20 A Staff did consider it, but Staff in my surrebuttal I
21 specified that our original recommendations is what we
22 continue to recommend.

23 Q And just because that's what you continue to
24 recommend or did you have another reason?

25 A Well, the three-year time frame was basically

1 proposed by Mr. McMurry and he might be able to give you more
2 detail as to why the three years was proposed to begin with.

3 Q Also, were you the witness that addressed the issue
4 about the five dollar minimum late payment versus the
5 traditional Staff recommendation?

6 A Yes.

7 Q I guess you find that the five dollar minimum isn't
8 in the public interest or reasonable in this case. Can you
9 give me your thinking on that?

10 A Well, the Company provided I guess the cost incurred
11 to deal with delinquent billings. And based on those costs
12 and the five dollars, I do not believe the five dollars
13 justified the cost that was incurred.

14 ALJ RODDA: So essentially -- never mind. I
15 think I understand that. I'm just looking at my notes to
16 make sure that I have asked you what I have for you. All
17 right. I don't have anything further. Did you, Ms.
18 Mitchell?

19 MS. MITCHELL: No, Your Honor.

20 ALJ RODDA: Thank you, Ms. Allen. Ms.
21 Mitchell, your next witness?

22 MS. MITCHELL: Julie, are you there?

23 ALJ RODDA: Did she say no?

24 THE WITNESS: Yes, I am.

25 MS. MITCHELL: Staff would call Julie

1 McNeely Kirwan to the stand.

2

JULIE McNEELY KIRWAN,

3 having been first duly sworn to state the truth, the
4 whole truth, and nothing but the truth, testified on
5 her oath as follows:

6

EXAMINATION

7 BY MS. MITCHELL:

8 Q Would you please state your full name and business
9 address for the record.

10 A Julie McNeely Kirwan, 1200 West Washington, Phoenix,
11 Arizona, 85007.

12 Q And by whom are you employed and in what position?

13 A I am employed by the Arizona Corporation Commission
14 as a public utilities analyst.

15 Q Could you briefly describe your duties as a public
16 utilities analyst.

17 A I work on gas and electric filings and rate cases.

18 Q In the course of your employment, were you assigned
19 to review the applications of Graham County Utilities?

20 A Yes, I was.

21 Q Did you prepare prefiled testimony in this case?

22 A Yes. I filed direct testimony in this case.

23 Q And I'm going to mark your direct testimony as Staff
24 Exhibit S-5.

25

(Exhibit Staff S-5, Julie McNeely Kirwan

1 direct testimony, was marked for identification.)

2 Q Was this prepared by you or under your direction?

3 A Yes, it was.

4 Q And do you have any additions, corrections, or
5 modifications?

6 A Yes. I have one change.

7 Q All right. Just tell us about that.

8 A Staff has adopted the timeline for filing DSM
9 proposals suggested by the company.

10 Q Is this in your direct testimony?

11 A No, this is not in my direct testimony.

12 Q You jumped the gun. I haven't got to surrebuttal
13 yet.

14 A Great.

15 Q Did you prepare and prefile surrebuttal testimony in
16 this case?

17 A Yes, I did.

18 Q I believe you may have a correction to your
19 surrebuttal testimony. I'm going to mark it as Staff Exhibit
20 S-6.

21 (Exhibit Staff S-6, Julie McNeely Kirwan
22 surrebuttal testimony, was marked for identification.)

23 Q What would that correction be?

24 A Staff adopted the 120-day time frame for filing a
25 DSM proposal as suggested by the company.

1 Q And that would be on page five?

2 A Well, initially the change was to 60 days but I
3 believe that has evolved.

4 Q In your surrebuttal testimony on page five, at line
5 18?

6 A Let's see, yes.

7 Q And so you are replacing the 60 with 120; is that
8 correct?

9 A Yes, that's correct.

10 Q With those changes, if I were to ask you the same or
11 similar questions in your direct testimony, your surrebuttal
12 testimony, would your answers be the same?

13 A Yes, they would.

14 MS. MITCHELL: Your Honor, at this time I
15 would like to move for the admission of Staff Exhibit S-5
16 and S-6.

17 ALJ RODDA: Mr. Lines, any objection to S-5
18 or S-6?

19 MR. LINES: No objections.

20 BY MS. MITCHELL:

21 Q Ms. McNeely, you may have some comments on either
22 the rebuttal or the rejoinder testimony of the company
23 regarding its DSM programs and you maybe want to clarify or
24 have some suggestions to assist them in developing their
25 programs. Would you like to discuss that?

1 A Yes. The company has suggested that it would have
2 to hire outside consultants to develop and implement a DSM
3 program or programs. And Staff has some concerns that the
4 company might not be aware of perhaps some options that would
5 provide a lower cost in terms of development and
6 implementation.

7 Given the comparatively high levels of
8 homeownership coupled with the higher than normal levels of
9 poverty, Graham County could well be an area where a
10 weatherization program would be appropriate. In that event,
11 one possibility would be for Graham to work with the Arizona
12 Community Action Association. Graham could participate
13 financially providing parameters to ensure that its
14 contributions produce savings, but it would not need to
15 develop, implement or manage the program day-to-day. We would
16 have to provide a cost effective evaluation with its
17 application and it would have to report on its DSM programs in
18 compliance filings and whatever form the Commission orders.

19 ALJ RODDA: Can you just slow down a little
20 bit.

21 A But, yes, there are some options that the company
22 could pursue that would be somewhat lower cost and the
23 weatherization would be one of them. I mean, lower costs in
24 terms of the work required by the company to administer it.

25 MS. MITCHELL: Thank you and I have no

1 further questions. She is available for cross-examination.

2 BY ALJ RODDA:

3 Q Ms. McNeely Kirwan, if the Company had questions
4 about how to prepare for the program or how to put together
5 its submission in terms of justifying cost effectiveness, is
6 this something that Staff can work with the Company in
7 gathering that application?

8 A They can meet with Staff. There is also the
9 possibility they can also work with the Arizona Energy Office.
10 Sometimes they have been helpful in that regard. But working
11 with a community action agency would at least allow them to
12 reduce their reliance on outside consultants.

13 Q Are there other cooperatives? Has Duncan done this?
14 Is there any other example that Graham can look at?

15 A I believe that at present, I think Sulfur Springs
16 might be identical. I'm not certain about that. I'm not
17 certain about that, no.

18 ALJ RODDA: Mr. Lines, do you have any
19 questions for this witness or Mr. Wallace?

20 MR. LINES: Mr. Wallace.

21 BY MR. WALLACE:

22 Q I think Ms. McNeely Kirwan I just have a couple of
23 questions for you. One is, do you recall a schedule or it was
24 a response to a GCU data request that asked for the current
25 DSM programs that were implemented by other gas companies? Do

1 you recall that data request?

2 A I recall the data request, yes.

3 Q In that data request, were there any cooperatives or
4 utilities other than Southwest Gas that were listed?

5 A I don't believe so, but I do think that there are
6 some programs that might have been recommended in the Sulfur
7 Springs rate case, but I don't think things have begun yet.

8 Q Are you aware that Sulfur Springs is an electric
9 cooperative and does not have any gas service?

10 A Yes, I'm aware of that, but they are a cooperative.

11 Q Are you generally familiar with the energy
12 efficiency rules that have been recently adopted by the
13 Commission?

14 A I'm generally familiar with the electric rules, but
15 I don't know what the current state -- I don't know what the
16 exact wording or anything of the current -- at the current
17 branch level of the gas rules.

18 Q Concerning the electric rules that were just
19 adopted, are you aware that they specify that they are
20 applicable to Class A utilities?

21 A I believe so, yes.

22 Q Is it your anticipation that Staff would use that
23 same applicability language on the gas side?

24 A I don't know. That would be determined by the
25 Commissioners.

1 Q Assuming that it is, that it does state in the gas
2 rules and they are adopted by the Commission that it applies
3 to Class A utilities -- strike that.

4 Are you aware that Graham County Utilities Gas
5 Division is currently classified as a Class B utility?

6 A Yes, I am.

7 Q If the gas energy efficient rules are adopted and
8 they set forth the same applicability section that says it's
9 only applicable to Class A utilities, would it be Staff's
10 position at that point that GCU would no longer need to pursue
11 DSM?

12 A No. That would not be Staff's position. Staff's
13 position would be that the recommendations proffered during
14 the rate case, it depends on what is finally decided here.
15 But that if Staff's recommendations that the Cooperative
16 submit a DSM program or programs it has adopted then, yes, it
17 would be Staff's position that the Cooperative should pursue a
18 DSM program or programs. I don't believe that the gas rules
19 would remove the decisions in this case. But I am not an
20 attorney.

21 ALJ RODDA: I'm sorry. So what you are
22 saying is, in Staff's view, it doesn't matter the size of
23 the utility, you think there is some public benefit to
24 filing also these DSM programs?

25 THE WITNESS: Yes. Staff believes there is

1 a public benefit to Graham County filing a DSM program or
2 programs although the proposals should be commensurate with
3 the size and capacity of the Cooperative. That is why Staff
4 is proposing a more modest approach than it might propose
5 for a larger company.

6 ALJ RODDA: How is it more modest?

7 THE WITNESS: For example, a weatherization
8 program is already in existence in which the Cooperative
9 could contribute without requiring the manpower, for
10 example, like a full-on DSM portfolio like Southwest would
11 require. And also the level of contribution to this program
12 could be tailored to the resources of the Cooperatives's
13 minimums.

14 BY MR. WALLACE:

15 Q Ms. McNeely Kirwan, can you give us Staff's
16 rationale or Staff's opinion on why the Commission didn't
17 subject all classifications of electric utilities to the
18 energy efficiency rules that are recently adopted?

19 A I'm not personally aware of what the exact reasoning
20 was behind that.

21 MR. WALLACE: That's all, Your Honor.

22 ALJ RODDA: I'm looking through my questions
23 to see if I have anything further.

24 BY ALJ RODDA:

25 Q So one of the comments you make in your testimony in

1 response to the Cooperative's suggestion that it wait for the
2 rules and see what is required under the rules is something to
3 the effect you state it makes more sense to tie DSM to the
4 rate case. Do you remember a statement similar to that?

5 A Yes, I do.

6 Q And why is that?

7 A Because the rate case establishes a DSM adjuster,
8 the adjuster mechanism that would allow the Company to recover
9 its DSM costs.

10 Q But the actual amount that is going to be collected
11 in the adjuster, that is going to be filed in the additional
12 application that you are recommending?

13 A Once they have determined the type of program or
14 programs they would like to propose, yes, that is the only way
15 they can establish, for example, the cost level.

16 Q And when they file their DSM programs as you
17 recommend, is that going to be a separate application or is it
18 going to be a compliance filing in this docket?

19 A I don't know. I'm not sure what would be
20 appropriate. I think probably a compliance filing in this
21 docket in order to keep, you know, it's logical to keep the
22 programs in with the rate case where they were originally
23 recommended, it seems to me.

24 Q That make sense. I just need to know how to draft
25 language. I don't really care, whatever makes sense for

1 Staff.

2 A I think in the rate case, dockets make sense to me.

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

4 Ms. Mitchell?

5 MS. MITCHELL: No, Your Honor.

6 ALJ RODDA: Mr. Lines or Mr. Wallace?

7 MR. LINES: No, Your Honor.

8 ALJ RODDA: Thank you, Ms. McNeely.

9 MS. MITCHELL: Katrin, are you there?

10 MS. STUKOV: Yes, I am.

11 MS. MITCHELL: Staff will call Katrin

12 Stukov.

13 KATRIN STUKOV,

14 having been first duly sworn to state the truth, the

15 whole truth, and nothing but the truth, testified on

16 his oath as follows:

17 EXAMINATION

18 BY MS. MITCHELL:

19 Q Could you please state your name and business

20 address on the record.

21 A My name is Katrin Stukov. My business address is

22 1200 West Washington Avenue, Phoenix, Arizona.

23 Q By whom are you employed and what is your position?

24 A Yes. I am employed by Arizona Corporation

25 Commission as a utility engineer.

1 Q Could you briefly describe your job duties as a
2 utilities engineer?

3 A Yes.

4 Q I believe the question was, could you briefly
5 describe your job duties as a utilities engineer.

6 A Sure. I review applications. As a utilities
7 engineer, I review applications concerning water and waste
8 water systems for rates and CC&N applications.

9 Q In the course of your employment, were you assigned
10 to review the application for Graham County Utilities Water
11 Division for a rate increase and their financing application?

12 A Yes.

13 Q And did you prepare prefiled testimony in this case?

14 A Yes, I did.

15 Q I'm going to mark it as Staff Exhibit S-7. Can you
16 identify that for me? Is that your direct testimony?

17 A Sure. It's a prepared by me.

18 Q Do you have any additions, modifications or
19 corrections to make to your report?

20 A No, I do not.

21 Q If I were to ask you the same questions that are
22 contained in the report, would your answers be similar or the
23 same?

24 A Yes.

25 MS. MITCHELL: Your Honor, at this time I

1 would like to move for the commission of Staff Exhibit S-7.

2 ALJ RODDA: Any objection to S-7?

3 MR. LINES: No, Your Honor.

4 ALJ RODDA: Then S-7 is admitted.

5 (Exhibit S-7, Katrin Stukov testimony, was
6 marked.)

7 BY MS. MITCHELL:

8 Q Were you able to listen to any of the testimony here
9 today?

10 A Some of them.

11 Q Earlier, I believe before lunch or maybe during a
12 break, Judge Rodda had some questions of the company
13 concerning the problems that Staff had in identifying the
14 specific projects relative to the loan amount. Did you hear
15 any of that testimony?

16 A Yes.

17 Q And can you explain what the problem was from your
18 perspective in trying to analyze the projects that were the
19 subject of the financing application?

20 A Sure. So Staff sent several data requests of the
21 company and in their response, its basically stated that the
22 company could not identify specific land items like each
23 individual -- in a general sense, the company's response was
24 that they could not identify the specific land items and match
25 it with a dollar amount. So the company did not provide a

1 breakout of the specific plant.

2 ALJ RODDA: The company did not provide a
3 breakout of the specific plant?

4 A And associated costs.

5 MS. MITCHELL: Thank you, I don't have any
6 other questions. I believe Judge Rodda may have some
7 questions for you. You really need to speak really slowly.

8 ALJ RODDA: Mr. Lines, did you have any
9 questions for this witness?

10 MR. LINES: No, Your Honor.

11 BY ALJ RODDA:

12 Q Good afternoon, Ms. Stukov. I think I understand
13 what you are saying. But despite the inability to provide a
14 specific breakout and match specific plant with specific costs
15 or the loan amount, you in your analysis were able to make a
16 determination that the expenditures were reasonable and
17 appropriate; is that right?

18 A That is correct.

19 Q How did you do that?

20 A Okay. Through numerous data requests and responses
21 in a general sense. We felt that the project, that they
22 provided a dollar amount in a lump sum. And from
23 conversations with the Company, the Staff gave a determination
24 that their improvements are reasonable and appropriate.

25 Q Okay. And in your testimony, you talk about them,

1 even though they didn't provide a detailed breakdown of those
2 improvement projects, they provided you with some sort of
3 spreadsheet?

4 A That is correct.

5 ALJ RODDA: Do you know, Ms. Mitchell, is
6 that the same that I have as the A-7 or is it something
7 different?

8 MS. MITCHELL: It's the same as A-7.

9 ALJ RODDA: I don't have any further
10 questions. Do you have anything further?

11 MS. MITCHELL: No, Your Honor, I don't.
12 Thank you.

13 ALJ RODDA: Thank you very much, Ms. Stukov.
14 Thank you for working with us in terms of the phone lines.

15 MS. MITCHELL: I believe that is our last
16 telephonic witness.

17 ALJ RODDA: Are you there all alone,
18 Mr. Torrey?

19 MR. TORREY: That's correct.

20 ALJ RODDA: We are going to hang up the
21 phone with you now.

22 MR. TORREY: So I'm not allowed to be on the
23 phone with you now?

24 MS. MITCHELL: No, you are not. Bye.

25 ALJ RODDA: Do you want to take a break and

1 who will we start with?

2 MS. MITCHELL: Mr. McMurry.

3 ALJ RODDA: Then we will start with
4 Mr. McMurry.

5 (A short recess was held.)

6 MS. MITCHELL: We will call Gary McMurry.

7 GARY McMURRY,

8 having been first duly sworn to state the truth, the
9 whole truth, and nothing but the truth, testified on
10 his oath as follows:

11 EXAMINATION

12 BY MS. MITCHELL:

13 Q Good afternoon, Mr. McMurry.

14 A Good afternoon.

15 Q Would you please state your full name and business
16 address for the record.

17 A My name is Gary McMurry. My business address is
18 1200 West Washington Street, Phoenix, Arizona, 85007.

19 Q By whom are you employed and in what capacity?

20 A I am employed as a public utilities analyst by the
21 Arizona Corporation Commission.

22 Q Could you briefly describe your job duties as a
23 public utilities analyst.

24 A Yes. I'm responsible for reviewing financing
25 applications, rate applications and tariff applications for

1 water and gas companies primarily.

2 Q In the course of your employment, did you review and
3 evaluate the application from Graham County Electric
4 Cooperative Gas Division for a rate increase?

5 A Yes, I did.

6 Q Did you prefile any testimony in this case?

7 A Yes, I did.

8 (Staff Exhibit S-8, Gary McMurry testimony,
9 was marked.)

10 Q You have in front of you what's been marked as Staff
11 Exhibit S-8. Could you please identify that for the record?

12 A This is my direct testimony in the aforementioned
13 case.

14 Q And do you have any additions, corrections or
15 modifications to make to S-8 at this time?

16 A No, I do not.

17 Q If I were to ask you the same questions that are
18 contained in your direct testimony, would your answers be
19 similar or the same?

20 A They would be the same.

21 MS. MITCHELL: Your Honor, at this time I
22 would like to move for the admission of Staff Exhibit S-8.

23 ALJ RODDA: Hearing no objection, S-8 is
24 admitted.

25 Q Mr. McMurry, you were in the hearing room and heard

1 the testimony of Mr. Wallace this morning?

2 A I did.

3 Q And I believe Mr. Wallace testified that the reason
4 that the utility was seeking a higher DSC and TIER ratio was
5 to provide it with more coverage. Do you remember that
6 testimony?

7 A Yes.

8 Q In your opinion, is the Staff recommendation
9 sufficient to allow the utility to operate, pay its debts and
10 service its debt load?

11 A Yes, it is. The revenue requirement is designed to
12 provide sufficient cash flow and also to allow it to build
13 equity.

14 Q I believe that Judge Rodda had a question from
15 Ms. Allen concerning Staff's recommendation on the refund of
16 the overcharge for the main extension. I can't remember
17 exactly now what the question was, but I guess it had to do
18 with why Staff selected the three-year versus the Company's
19 proposal of I believe five years.

20 ALJ RODDA: That is not quite it.

21 MS. MITCHELL: I'm sorry.

22 BY ALJ RODDA:

23 Q I think the company is agreeing to three years.
24 Their concern was if the operating margin doesn't live up to
25 our obligations, this refund obligation could put a strain on

1 the Company. So I think they are proposing in situations
2 where it was above a certain percentage of operating margin
3 that they not have to make the refund that year. Do you
4 remember that testimony?

5 A I do recall that testimony. About all I could say
6 is we evaluate the test year. We are not making projections
7 for future years.

8 Q You are making a recommendation going into a future
9 year.

10 A Based on the test year's results.

11 Q I have this problem with almost every single case.
12 Staff says the cash flow is adequate. Is there somewhere an
13 analysis that you did that shows what the cash flow is?

14 A Yes. But it is not part of this testimony.

15 Q Why not?

16 A It hasn't been asked for.

17 Q I'm asking for it now. Do you have it with you or
18 can you tell me how to calculate it?

19 A I could tell you essentially how to calculate for
20 the test year, not for future years.

21 Q I understand. We always use the test year. And I
22 have the debt service, that is in there. I have no idea from
23 Staff's recommendation how much Staff is attributing to
24 building equity. I have no idea what Staff thinks is
25 appropriate for contingencies. I have no idea what Staff

1 thinks is necessary for capital improvements or any other
2 thing that you would use cash. I know what depreciation is.
3 I have that in the schedules.

4 A Right. I mean, you would start with operating
5 expenses. Then you also have to include financing costs like
6 interest expense and the principal reductions for that year.
7 And then you would have to factor in the amount of the AIAC,
8 the advances of the repaying which we use three years of
9 repaying about \$76,000 a year. And then we gave them a
10 contingency factor.

11 Q And what is that?

12 A For unknown things. It works out to about
13 11 percent over three years.

14 Q What does that mean, 11 percent over three years?

15 A So that is a three and three-quarter percent a year.

16 Q Is that a standard percentage that Staff uses? How
17 did you determine that as an appropriate level?

18 A Just judgment.

19 Q When you say just judgment, is it geared toward this
20 company in particular?

21 A No. Just based on knowledge of gas companies,
22 utilities in general.

23 Q Do you know what dollar amount that contingency
24 factor comes out to a year?

25 A I'm thinking it's in the range of \$15,000 to \$20,000

1 a year, I think.

2 Q So what you are saying is, you don't care what
3 actually happens in the future? You think there is sufficient
4 money in your revenue requirement that they will have money to
5 pay the \$76,000 in refunds and that you are not concerned
6 about some unknown in the future that might impact their
7 ability to do that?

8 A Well, I'm not saying I'm not concerned. I am saying
9 I really have no way of knowing about that. That's why it is
10 a contingency amount. We have the issued data requests and
11 asked are they planning any other capital improvements and
12 they indicated no. So it's just what we could foresee.

13 Q What if the company encountered problems? They have
14 been having revenue problems on the gas side now. If there is
15 something that we can't foresee or can't anticipate or
16 measure, maybe we can anticipate it but we don't know how to
17 measure it, could the company file a waiver of this request to
18 make the refund in a particular year if there is some sort of
19 emergency situation, they just didn't have the cash flow? Do
20 you know if that is possible?

21 A Well, obviously, they could come back in for another
22 rate case or they could look for emergency rates.

23 Q So you would rather have them look for additional
24 rates than to not make the refund in a particular year?

25 A I'm not saying that. But I don't know of another

1 vehicle to do that. I mean, I suppose something could be
2 written into the order to prevent that.

3 Q Right. Well, that could always happen. But I take
4 it you think this is such a serious issue that money needs to
5 get back in the hands of the people who overpaid?

6 A Well, yes. This situation has been going on since
7 2004. And that is part of the reason why we chose three years
8 because how much longer are you going to have people wait for
9 money that is theirs?

10 ALJ RODDA: I'm sorry, Ms. Mitchell.
11 Started with a simple clarification.

12 MS. MITCHELL: I couldn't remember exactly
13 what the question was. I really had no other questions for
14 Mr. McMurry. I was going to try to clear that up but in
15 your capable way, you did it in a much more admirable way
16 than I could ever do. Mr. McMurry is available for
17 questions from the company.

18 BY MR. WALLACE:

19 Q Good afternoon, Mr. McMurry.

20 A Good afternoon, Mr. Wallace.

21 Q Look at your schedule GTM-2.

22 A Okay.

23 Q In column B, look under the line 23 which is the net
24 margin category. What amount do you see there? What amount
25 does your schedule show?

1 A Minus \$245,891.

2 Q Do you happen to have the Company's rebuttal
3 testimony in front of you?

4 ALJ RODDA: Is that A-5?

5 MR. WALLACE: I'm sorry, that would be
6 Exhibit A-5.

7 A Yes, I do.

8 Q If you would look at the audited financial
9 statements for 2008 and 2009 and go back to Schedule 2 which
10 is the gas department statement of income and accumulated
11 margins that is on -- it says page 16 at the top.

12 A Okay. I'm there.

13 Q First of all, you would agree that this is the
14 applicant's audited financial statements for the period
15 2009-2008?

16 A I would.

17 Q If you look at the column 2009 and go down to the
18 net operating deficit amount, what amount do you see that they
19 actually incurred for 2009 for a net operating amount?

20 A A negative \$431,345.

21 Q So comparing the two numbers on DTM-2 to Schedule 2
22 of the audited financial statements, would you agree,
23 Mr. McMurry, that things have gotten worse financially for the
24 Cooperative?

25 A Oh, most certainly.

1 MR. WALLACE: That's the only questions we
2 have.

3 BY ALJ RODDA:

4 Q Then getting back to our discussion, I take it I
5 will just ask you, is Staff concerned about the equity level
6 for this company?

7 A Oh, yes.

8 Q And I think you testified in response to something
9 Ms. Mitchell asked you that the revenue requirement that Staff
10 is recommending includes --

11 A To build equity.

12 Q Right. Do you have a benchmark or a level that you
13 were looking for? How much equity is being built under your
14 recommendation? That is not a very artfully worded question.

15 A To answer your question, I think that the Commission
16 had ordered them to build equity up within a reasonable time
17 up to 30 percent. Does that address you?

18 Q Did the order say within a reasonable time or did it
19 give them a year?

20 A I don't think it provided a time limit.

21 Q What does Staff think a reasonable equity level is
22 or what would you like to see as an ultimate goal for this
23 Cooperative?

24 A 30 percent is what was ordered.

25 Q So do you think that this order should contain a

1 similar provision about attempting to build equity over time?
2 Or what does Staff think is reasonable in terms of building
3 equity?

4 A I am not really sure how to address that.
5 Obviously, it wouldn't be a long amount of time, but it also
6 really depends on the environmental conditions. I would be
7 hard-pressed to put a number of years.

8 Q Well, it's hard in this case because it's a
9 Cooperative, isn't it? Because there is really no other
10 source of equity but the rate pay of members, correct?

11 A You are correct.

12 Q So there is always that tension between how much do
13 we raise rates to build equity versus the burden on the rate
14 payers in terms of the rate increases, right?

15 A Absolutely.

16 Q So when you were talking about the advances, the
17 refund of the advances of \$76,000 a year and a contingency
18 factor of between three and four percent a year, how much did
19 you attribute to equity?

20 A Again, that would depend on what revenues are. We
21 did it just based on 2008. As you can see, they didn't
22 perform as well this year.

23 Q But you are still recommending that same level of
24 revenue. Under your revenue requirement, there is some amount
25 that you had in mind that this is for advances, this is for

1 contingencies, this is for equity.

2 A Well, if you look at GTM-2, net margins in column D
3 are \$210,218. You would essentially, that already includes
4 the AIAC payment. But you still need to take out the \$94,000
5 in long-term debt. So you are talking about \$120,000.

6 Q The \$210,000 already includes the refund?

7 A The recommended revenue of the \$4,222,160 already
8 includes the money set aside to refund around \$76,000 a year.
9 That is built into that.

10 Q But it doesn't show up?

11 A That's correct.

12 Q I understand that your revenue is including it. But
13 I want to know what it is. So I have two people saying, one
14 person says the revenue is sufficient. The other side says
15 it's not and I need to evaluate between the two. So I need
16 some means of evaluating what is reasonable in this case.
17 That's all I'm trying to get at.

18 Of this \$210,218, the interest is going to come
19 out of that?

20 A It's up above the interest expense.

21 Q That \$94,000, is that an annual principal payment?

22 A Principal reduction amortization on the current
23 outstanding loans.

24 Q It doesn't include the new loans they are
25 requesting?

1 A No, it does.

2 Q So out of the \$210,000 less -- that's how you come
3 up with the \$120,000, right?

4 A Correct.

5 Q Out of that \$120,000, \$76,000 is going to go for the
6 AIAC refund?

7 A Correct.

8 Q Anything left over is for contingencies and equity?

9 A That's correct.

10 Q So when we look at the debt and equity ratio of this
11 company, we look at it as combined water-gas, right, or not?

12 A Not in this case. These are custom for the gas
13 company only.

14 Q So when we are looking for a 30 percent benchmark
15 for an equity position for the company, are we looking on a
16 consolidated basis, gas and water, to determine that amount?

17 A You would really need to put the two together.

18 Q I think when the Commission does a financing
19 analysis or an analysis related to a financing application, it
20 looks up the consolidated company, doesn't it?

21 A Typically, it does. In this case, you can break
22 apart the companies, but you really can't break apart the
23 equity because it is one company.

24 Q Right. Even what we have heard with the
25 relationship with the electric coop, it's two companies but

1 it's one company or so it seems, it could be argued.

2 And so I understand, I understand you are
3 continuing to advocate the revenue requirement that you have
4 recommended in your testimony. But what is so bad about the
5 Company's recommendation?

6 A It's not that it's bad. We are actually fairly
7 close. If I was to criticize anything, I hate to couch a
8 revenue requirement in terms of the financing ratio, like TIER
9 and DSC.

10 Q That brings me to another question I forgot to ask
11 you. When you determined that revenue requirement, how did
12 you determine it? Did you just look at all the expenses we
13 judged and what fell out at TIER and DSC? It was a fallout
14 number? Or did you have a target in mind or did you look at
15 return on rate base?

16 A You basically have to build it up from the bottom
17 up, start with the expenses and add what the interest expense
18 would be to come up with a cash flow, how much cash do they
19 need to continue operations. When you get that figure, then
20 you need to turn around and say, okay, we want them to build
21 equity, how much more do we need to give them so we can work
22 toward that goal.

23 Q I am just going to voice this. This is not a
24 criticism of you in particular that so often I hear that from
25 Staff or companies too but we don't have a schedule, our

1 standard schedules don't have a cash flow analysis. So it is
2 just frustrating. I will express my frustration in general.
3 It has nothing to do with you or this case or this company.
4 When people say we think it's adequate and leave the statement
5 at that, it's very difficult to determine.

6 MS. MITCHELL: Given my limited experience,
7 is it just cooperatives and small companies or do you mean
8 across-the-board from every rate case that you have had?

9 ALJ RODDA: It's always cooperatives because
10 there is no return on the rate base and they are always out
11 of whack. But it's generally more than that. It's
12 generally the smaller companies. It's not so much with the
13 TEPs of the world.

14 MS. MITCHELL: Class D and E.

15 ALJ RODDA: Always with the Class D and E.
16 It's always a feel for is this enough or not enough. But
17 when people rest on, we think our revenue requirement is
18 adequate, that's not enough. It might be me. Maybe
19 everybody else is more insightful. I was trying to think of
20 if there was something else that was pointed to you. I
21 think we have covered it all. Anything else, Ms. Mitchell?

22 MS. MITCHELL: No, Your Honor, I don't.
23 Mr. Wallace, did you have something?

24 BY MR. WALLACE:

25 Q I'm sorry, Mr. McMurry. We were just a little bit

1 confused by some of your testimony. If you look again at your
2 GTM-2 schedule, you had started to walk through with Judge
3 Rodda some amounts and kind of getting to the cash flow
4 analysis for the test year, let's say. If you look at column
5 D, there is \$210,000 there in net margins under the Staff
6 recommended revenue requirement, right?

7 A Correct.

8 Q From that, you would deduct \$94,000 for the
9 long-term debt payment, right?

10 A Correct.

11 Q Then that leaves you with an amount, roughly, let's
12 just talk in rough figures, the \$120,000; is that correct?

13 A That's correct.

14 Q And then you said out of the \$120,000 would come the
15 \$75,000, approximately, \$76,000 for the refund of the
16 overcharges in the CIAC; is that correct?

17 A That is correct.

18 Q So what amount does that leave you with,
19 approximately?

20 A Approximately 46.

21 Q So if you go to the schedules that I have, do you
22 have my rebuttal testimony available?

23 A A-5?

24 Q Yes. Go to the fourth page before the end. Which
25 one are you looking at? Are you looking at 2007 or 2008?

1 A 2007 annual equity accumulation report.

2 Q I'm sorry, go one more page, 2008.

3 A Okay.

4 Q Wasn't the goal set forth in that Commission
5 decision that Graham County should meet, in effect, it works
6 out to be two percent of the revenue that occurs in a
7 particular year. Is that about right, would you say?

8 A No, I wouldn't. But we would need to go to that
9 decision. I know it addresses 30 percent over time, but I am
10 not sure if it was two percent of revenue.

11 Q Would you accept that this form was created by the
12 Commission Staff?

13 A I don't think I can. I don't know.

14 ALJ RODDA: Off the record.

15 (A discussion was held off the record.)

16 Q I guess what I'm trying to get at, Mr. McMurry,
17 subject to check, if the requirement is two percent of the
18 revenue amount which appears to be shown in this report, would
19 you agree, that the equity goal is set forth as a percentage
20 of the revenues?

21 A I would agree with that.

22 Q So subject to check, if that is what the Commission
23 told the Cooperative to do, then the goal would be for in 2008
24 under Staff, column D, what would that goal be?

25 A I think what you are asking is, the \$210,218 is less

1 than the two percent goal so you would not be in compliance.

2 Do I understand your question?

3 Q I'm sorry. We had gotten to where there was a
4 certain amount left for -- we had gotten down to the cash flow
5 that was left to meet the equity requirement and that amount
6 was about \$41,000 according to some of your calculations. Do
7 you recall that testimony?

8 A Yes, I do.

9 Q Now, all I'm trying to get at is if the requirement
10 is to build equity and to meet that requirement or that goal
11 of two percent, under the Staff column, wouldn't that two
12 percent be applied to the line number one?

13 A It would.

14 Q Approximately, what would that amount be? It would
15 be somewhere around \$80,000?

16 A I don't have a calculator.

17 Q Roughly?

18 A Yes.

19 MS. MITCHELL: I understand that the equity
20 accumulation report is the combined Water and Gas Divisions
21 whereas Mr. McMurry's schedule is only for the gas.

22 ALJ RODDA: If you are going to put them
23 together, I mean, I understand.

24 MS. MITCHELL: All right.

25 MR. WALLACE: We would make it a point

1 individually that they are going to need to stand on their
2 own merits.

3 Q So would you agree that under the Staff recommended
4 column, there seems to be a -- we are not going to make that
5 equity goal, assuming that two percent of the revenues is
6 correct, what the Commission had defined as the goal?

7 A I would agree with that and I would go further and
8 say you wouldn't make it under yours, what the cooperative
9 proposed either.

10 Q Would we be closer to making it under the
11 Cooperative proposal?

12 A \$70,000 closer.

13 MR. WALLACE: You have been very patient.
14 Thank you.

15 ALJ RODDA: I appreciate that exercise. It
16 helps me understand.

17 MS. MITCHELL: I have no redirect.

18 ALJ RODDA: Thank you very much,
19 Mr. McMurry.

20 MS. MITCHELL: Staff would like to call
21 Pedro Chavez.

22 PEDRO CHAVEZ,
23 having been first duly sworn to state the truth, the
24 whole truth, and nothing but the truth, testified on
25 his oath as follows:

1 EXAMINATION

2 BY MS. MITCHELL:

3 Q Last but not least, would you please state your name
4 and business address for the record.

5 A Good afternoon. My name is Pedro Chavez. I am a
6 public utilities analyst for the Arizona Corporation
7 Commission with the address 1200 West Washington Street,
8 Phoenix, Arizona, 85007.

9 Q Could you please describe your job duties as a
10 public utilities analyst?

11 A In my capacity as a public utilities analyst, I
12 perform studies to determine the cost of capital component, to
13 calculate the revenue requirement in rate filings. I have
14 testified in financing cases, revenue requirement, rate
15 design, rate base and other financial regulatory matters.

16 Q And in the course of your employment, did you review
17 and evaluate the application from Graham County Utilities
18 Water Division for a rate increase?

19 A Yes, I did.

20 Q And did you prepare and prefile testimony in this
21 matter?

22 A Yes, I did.

23 Q I believe I have given you what I have marked as
24 Staff Exhibits S-9 and S-10. Are those the right numbers?

25 A Yes.

1 Q Could you please identify S-9 and S-10 for the
2 record.

3 (Exhibit S-9, Pedro Chavez direct testimony,
4 was marked for identification.)

5 A Exhibit S-9 is a copy of my direct testimony filed
6 on December 9, 2008.

7 Q Do you have any additions, corrections or
8 modifications to make to S-9?

9 A I do not.

10 Q Then you have what is marked Staff Exhibit S-10.
11 Could you identify that for the record.

12 (Staff Exhibit S-10, Pedro Chavez surrebuttal
13 testimony, was marked.)

14 A Yes. Exhibit S-10 is a copy of my surrebuttal
15 testimony filed January 20, 2010.

16 Q Do you have any additions, corrections or
17 modifications to make to S-10?

18 A I do not.

19 Q Do you adopt S-9 and S-10 as your sworn testimony
20 today?

21 A I do.

22 MS. MITCHELL: At this time, I would like to
23 move for the admission of Staff Exhibit S-9 and S-10.

24 ALJ RODDA: Any objection to S-9 or S-10?

25 MR. LINES: No, Your Honor.

1 ALJ RODDA: S-9 and S-10 are admitted.

2 BY MS. MITCHELL:

3 Q Mr. Chavez, one of the issues that the company has
4 with the Staff recommendation concerns the rate design and you
5 were present for the testimony of Mr. Wallace this morning; is
6 that correct?

7 A That is correct.

8 Q Do you have any comments concerning any of the
9 statements that he made concerning the company's proposed rate
10 design?

11 A Do you want to ask me a particular question or do
12 you want a general statement?

13 Q I believe he indicated that he thought the company's
14 proposed rate design would still encourage conservation versus
15 the Staff recommended rates. Do you have any comments on
16 that?

17 A The Staff recommended rate design promotes the
18 efficient use of water. Staff's recommended rate design
19 follows what we had recommended consistently in the past as
20 far as the three TIERS for the 5/8ths inch, 3/4ths inch meter
21 for residential customers and then the last two had larger
22 TIERS following meter sizes. It's a condition that the
23 Commission has put in place for most of the cooperatives and
24 companies that have had a flat rate.

25 MS. MITCHELL: I don't have any other

1 questions for Mr. Chavez. He is available for
2 cross-examination.

3 ALJ RODDA: Does the company have questions
4 for Mr. Chavez?

5 MR. WALLACE: If we could just have a
6 minute.

7 (A discussion was held off the record.)

8 MR. LINES: We don't have any questions,
9 Your Honor.

10 BY ALJ RODDA:

11 Q Thank you. Good afternoon, Mr. Chavez. Nice to see
12 you again.

13 A Good afternoon, Your Honor.

14 Q Just so Mr. McMurry can't claim you get off the
15 stand easy, on page 11 of your, I guess it's your direct, when
16 making your recommendation for operating revenues, you state
17 Staff requirement cash flow analysis to determine the proposed
18 revenue requirement. So did you use the same approach that
19 Mr. McMurry used? First, you cover operating expenses and
20 then you look at other cash needs? Is that how you approached
21 the revenue requirement?

22 A Actually, the approach was precisely the same
23 inasmuch as it is possible. So the amount of the advances to
24 be repaid was different. I included the whole amount this one
25 year because it wasn't as much as the gas.

1 We left and we -- we were thinking about a
2 30 percent equity when we worked on it. We were aware of that
3 requirement, the equity accumulation report and plan that they
4 had to follow.

5 Q So you used the same kind of two percent revenue
6 approach or did you use a different factor?

7 A No. We looked at the company achieving 30 percent
8 in the long run.

9 Q When you say long run --

10 A Again, I would rather not run with the numbers right
11 now but if Your Honor would like, it's embedded in our
12 calculation that we brought at the company as well, like, how
13 we got to our operating revenues. We did give them money, as
14 Mr. McMurry indicated, for contingencies and we took into
15 account the equity accumulation. And that was appropriate at
16 the time.

17 Another thing, we did take into account the
18 interest expense on the loans and that borrowed from gas and
19 water. However, the equity requirement, it is shared by both
20 companies because the capital structure, one cannot think,
21 although you can segregate it on a balance sheet, but one has
22 to think about Graham County Utilities, Inc., not Graham
23 County Utilities, Inc., Gas Division and Water Division.

24 So that is why our approach was to develop it
25 into the cash flow analysis, in which cash flow analysis we

1 worked with, all members of Staff acknowledged utilizing
2 professional judgment. As Your Honor knows, we definitely
3 want cooperatives to have an adequate cash flow. And we
4 always try to moderate companies and cooperatives at least
5 with 30 percent equity although Staff typically recommends
6 40 percent for companies that are not cooperatives.

7 Q So in this case, I'm looking at your schedule PMC-2
8 which is the revenue expenses, and just keeping in mind I
9 think you are recommending revenues of \$771,000,
10 approximately, the gas revenues are significantly larger than
11 that, right?

12 A That is correct. They do have a larger number.

13 Q When we are looking at which divisions both
14 contributing to the equity of the consolidated whole, you sort
15 of figure they should contribute in a proportionate share
16 based on revenue I guess is the best way as opposed to assets?

17 A Right. In this case with professional judgment and
18 so forth and so on, we put as much as we could from the
19 water -- I mean from the gas, actually. But again, I
20 testified for the water portion of it. And the approach we
21 did was to be able to keep Graham County Utilities, Inc., the
22 whole company, the opportunity to get to that 30 percent in a
23 reasonable time.

24 Q The gas, it just looks to me, even taking into
25 account the relative size of the two divisions, that the gas

1 side of the business was having more difficulties than the
2 water side. Is that sort of how you see it too?

3 A That is correct, Your Honor. If you were to look at
4 Exhibit A-5, for example, and you look at the balance sheet if
5 you look at page 16 over it, Graham County Utilities Gas
6 Department, Schedule 2.

7 Q Yes.

8 A And a couple pages after. A couple pages after, you
9 find the Water Department balance sheet. That is Schedule 4,
10 page 18.

11 Q Yes.

12 A If you look at the equity for the Water Department,
13 you see that the total equity is \$146,567 whereas for the Gas
14 Department, it's actually on page number 15, Schedule 1, the
15 equity, total equity for the Gas Department is negative
16 \$276,437. So yeah, the situation is separate. But however,
17 you have to look at them on a consolidated basis as Graham
18 County Utilities, Inc.

19 Q I can't recall offhand the amount of the refunds
20 that the company was going to have to refund on the water
21 side. Do you remember what that amount was, approximately?

22 A Let me try to find that. I believe it is on my
23 testimony if I'm not wrong. Yes, the amount is on page 15 of
24 my direct testimony and the amount is \$15,538. You can look
25 at page 16, line five too.

1 Q And you are recommending that that be paid back over
2 one year, right?

3 A Correct.

4 Q Did you have a recommendation or a vision of how
5 that was going to be paid back?

6 A No, Your Honor. We do recommend that the entire
7 \$15,538 be paid within the 12 months of the effective date of
8 the rates established in this case. Typically, what I have
9 seen is that the company will approach Staff and we will agree
10 on some proposed form of reimbursement since typically a
11 company can see the best way to refund it is given their cash
12 flow situation at the moment. And we will look at it and see
13 if it's reasonable and then tell them, well, perhaps go a
14 different route or this is great. Of course, we want
15 customers to be refunded as soon as they can.

16 Q So would you recommend -- I think one of the other
17 witnesses on the phone, I can't remember who, testified to
18 what, was it Ms. Allen, suggested something be filed in
19 advance saying how they were going to make the refunds. Is
20 that your recommendation also or do you think that would be
21 helpful or is it just a question of can they just talk to
22 Staff and work it out?

23 A Well, certainly it helps to have something on the
24 record. I don't think both are mutually exclusive. I think
25 they can file something in the docket and talk to Staff and

1 perhaps throw out the schedules that they used to derive their
2 numbers in their proposal.

3 Q Was that in your recommendations, this filing? I
4 want to make sure that I cover all of the recommendations that
5 are being made.

6 A As far as the recommendations on that, we limited
7 our recommendation for them to refund the \$15,538 over the
8 12-month period. We didn't specify in which manner.

9 Q Do you think it might be helpful if they file a plan
10 in advance of making the refund for Staff's review and comment
11 and perhaps something after they have made their refund
12 documenting that they have made the refund?

13 A I think that is quite helpful. Although, you know,
14 Staff's resources, that may put a strain to Staff resources as
15 we are, as you are well aware, are understaffed. But I do
16 think it's a good idea.

17 ALJ RODDA: I hate imposing any new
18 requirements on anybody. I don't think I have any
19 additional questions. Did you, Ms. Mitchell?

20 MS. MITCHELL: No, I don't have any
21 redirect.

22 ALJ RODDA: Mr. Lines or Mr. Wallace?

23 MR. LINES: No, Your Honor.

24 ALJ RODDA: Thank you very much, Mr. Chavez.

25 MS. MITCHELL: Your Honor, I have the

1 prefilled testimony from the Staff witnesses that did not
2 testify that the company stipulated to. If there is no
3 objection, I would like to move for their admission.

4 ALJ RODDA: You are going to mark them?

5 MS. MITCHELL: Staff Exhibit S-11 would be
6 the direct testimony of Prem Bahl, P-R-E-M, B-A-H-L; Staff
7 Exhibit S-12, the direct testimony of Robert E. Miller; and
8 S-13, the direct testimony of Vicki Wallace.

9 (Staff Exhibit S-11, Prem Bahl direct
10 testimony; Staff Exhibit S-12, Robert E. Miller direct
11 testimony; Staff Exhibit S-13, Vicki Wallace direct testimony,
12 were marked for identification.)

13 ALJ RODDA: The company has stipulated to
14 the admission of S-11, S-12 and S-13 so we will admit those.
15 Is there anything further from Staff?

16 MS. MITCHELL: That is Staff's direct case.
17 Thank you.

18 ALJ RODDA: I will ask Mr. Lines or
19 Mr. Wallace, did you have anything you wanted to state in
20 closing?

21 MR. LINES: No, Your Honor. We just
22 appreciate all of the work that was done here today. I
23 would just like to make a comment referring back to my
24 testimony earlier. We know a lot of work went into this to
25 get this case to where it is at and the revenue

1 recommendations for this rate, where it is. But like I say,
2 we are just really concerned over our gas company being able
3 to keep its nose above water and still breathe. That's all
4 I have. Thank you.

5 ALJ RODDA: Ms. Mitchell, does Staff have a
6 closing?

7 MS. MITCHELL: Just briefly, Your Honor. I
8 would just urge the adoption of the Staff recommendations in
9 this case. I believe they are reasonable and will result in
10 reasonable rates.

11 ALJ RODDA: I want to thank everybody for
12 all of their work they put into this. I know it was a lot
13 and I appreciate the work that Staff put in, all of the
14 gazillion witnesses, coordinating all of that. The
15 agreement of the parties to consolidate the two cases was
16 helpful so we only had to have one hearing, complicated
17 somewhat, but ultimately it was good and I appreciate the
18 coop agreeing to allow the Staff recommendations in an
19 attempt to narrow the issues. With that, I will take the
20 matter under advisement pending the issuance of my
21 recommended opinion and order. Thank you.

22 (Hearing concluded at 4:09 p.m.)

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C E R T I F I C A T I O N

* * * * *

BE IT KNOWN that I, David G. Christy, took the foregoing hearing at the time and place stated in the caption hereto; that the witnesses before testifying were first duly sworn to state the truth; that the testimony of said witnesses was reduced to writing under my direction; and that the foregoing 143 pages contain a full, true and accurate transcription of my notes of said hearing.

I FURTHER CERTIFY that I am not of counsel nor attorney for either of any of the parties to said cause or otherwise interested in the event thereof; and that I am not related to either or any of the parties to said action.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 31st day of January 2010.

Signature has not been requested.



David G. Christy

Certified Court Reporter, #50061