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Transcript Exhibit(s)

Docket #(s): G-02527A-09-0088

G-02527A-09-0032

W-02527A-09-0201

W-02527A-09-0033

Exhibit # : S1-S13

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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR JUST AND REASONABLE RATES AND CHARGES.	)	DOCKET NO. G-02527A-09-0088

DIRECT

TESTIMONY

OF

ROBERT G. GRAY

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

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SCHEDULES

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC.
DOCKET NO. G-02527A-09-0088

My testimony in this proceeding addresses the issue of rate design for Graham County Utilities Inc. ("Graham"). My testimony also includes a review of Graham's natural gas procurement activities.

INTRODUCTION

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

A. My name is Robert G. Gray. I am an Executive Consultant III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. In my capacity as an Executive Consultant III, I conduct analysis and provide recommendations to the Commission on a variety of electricity, natural gas, and water/wastewater matters. A copy of my resume is attached as Exhibit RGG-1.

Q. What is the scope of this testimony?

A. This testimony presents Staff's positions regarding rate design for Graham as well as Staff's review of Graham's gas procurement activities.

Q. Have you reviewed the testimony of Graham Witness John Wallace in regard to the rate design?

A. Yes. I have reviewed his testimony and will discuss his proposed changes to Graham's rate design as part of my testimony.

RATE DESIGN

Q. Please discuss Graham's current rate structures.

A. Graham currently has three customer classes including residential, commercial, and irrigation. Graham's residential customers currently pay a monthly customer charge of \$10.50, a margin rate of \$0.23444 per therm per therm, as well as the cost of gas component. Irrigation customers currently pay a monthly customer charge of \$17.00, a margin rate of $0.09944 per therm, as well as the cost of gas component. Commercial customers currently pay a monthly customer charge of $18.00, a margin rate of $0.24044 per therm, as well as the cost of gas component. Additionally, customers pay a purchased gas adjustor ("PGA") rate that varies with changing natural gas commodity costs.

Q. Please describe what the rate design components are for a natural gas utility like Graham.

A. For a natural gas utility, costs fall into two general categories. The first category is the gas cost component, which captures the cost of the natural gas commodity as well as the cost of interstate pipeline transportation to deliver the natural gas from production areas in New Mexico and Texas to Graham's receipt points on the El Paso Natural Gas interstate pipeline system. An interest component is applied to any over or under-collected PGA bank balance. These costs are passed through the PGA mechanism. The second category captures all costs other than those passed through the PGA mechanism. These costs include things like labor, billing, and infrastructure costs. These costs are recovered through the monthly customer charge as well as the per therm margin rate. In a rate case, the Commission addresses the margin cost components of rates. The Commission may choose to adjust how the PGA mechanism works in a general rate proceeding, but does not generally set the monthly PGA rate, which is set automatically by established mathematical calculations.

Q. Please discuss how Graham represents the cost of gas component in its rate filing.

A. Unfortunately, Graham represents the cost of gas differently in relation to its proposed rates than it does in relation to the current rates, making it unnecessarily difficult for readers to determine the actual changes being proposed for the per therm margin rate. In representing its present rates, Graham reflects a base cost of gas of $0.59056 per therm and a monthly purchased gas adjustor ("PGA") rate of $0.17757 per therm, for a total cost of gas of $0.76813 per therm. In contrast, Graham proposes a new base cost of gas of $0.81775 per therm, and reflects this proposed higher cost of gas when it represents its proposed rates.

When comparing current and proposed rates, it is best to represent rates using a consistent cost of gas component number, as gas costs are passed through the PGA mechanism and changes in margin rates in a general rate case should not impact the pass through of gas costs. Use of different gas cost numbers in different places makes it difficult to understand the changes in margin rates being proposed by Graham. For example, for irrigation customers, when holding the gas cost component constant between current and proposed rates, Graham is proposing to reduce the margin rate by roughly one-third, from $0.09944 per therm to $0.06974 per therm, but this reduction is not clearly identified anywhere due to the inconsistent representation of the gas cost component by Graham.

Q. What rates are being proposed in this case by Graham?

A. Graham is proposing to increase the residential monthly customer charge from $10.50 to $15.00, the irrigation monthly customer charge from $17.00 to $22.50, and the commercial monthly customer charge from $18.00 to $23.50. Graham is proposing to increase the margin rate for residential customers from $0.23444 per therm to $0.32137 per therm. For irrigation customers, Graham is proposing to decrease the margin rate from $0.09944 per therm to $0.06974 per therm. For commercial customers, Graham is proposing to increase the margin rate for commercial customers from $0.24044 per therm to $0.26885 per therm.

Q. Please comment on Graham's proposed rates.

A. Staff believes that Graham's proposed rates increase the customer charges too much and Staff would favor a more measured increase in customer charges. Staff also believes that the large impact of Graham's proposed rates for residential customers should be moderated to the extent possible, as they bear a much heavier burden from the proposed rate increases resulting from Graham's request. Additionally, Staff is sensitive to the concerns Graham has expressed regarding irrigation customers and their potential to fuel-switch, but does not believe that cutting the margin rate for such customers by almost one-third is justified in a case where all other customers are seeing their margin rates increased significantly. Graham's proposed irrigation customer margin rates result in the largest handful of irrigation bills, which represent the vast majority of actual therm consumption in the irrigation class, actually experiencing a rate decrease as a result of Graham's proposed margin rate for this class. In response to Staff data request STF 5.10, attached as Staff Exhibit RGG-2, Graham indicates that it did not intend to decrease the margin for the irrigation class and that the Company believes that the margin rate for irrigation customers should be increased so that it is more in line with other customer classes.

Q. Please discuss Staff's proposed rates in this case.

A. Staff's proposed rates provide revenues sufficient to provide Graham with the revenue requirement of $1,823,358 calculated by Staff Witness Gary McMurry. Staff moderates the monthly customer charge increases proposed by Graham and spreads the burden of the remaining per therm increase more evenly across Graham's rate classes than Graham's proposal does. The revenue generated from Staff's proposed rates is $1,822,839.

Staff recommends that the residential monthly customer charge be set at $13.00 and the residential margin rate be set at $0.345 per therm. Staff recommends that the irrigation monthly customer charge be set at $21.00 and the irrigation margin rate be set at $0.16 per therm. Staff recommends that the commercial monthly customer charge be set at $24.00 and the commercial margin rate be set at $0.341 per therm.

Q. Please describe how Staff deals with the cost of gas in representing overall rates to be paid by Graham's customers under Staff's proposed rates, as well as Staff's customer bill impact estimates.

A. Staff uses the most recently available cost of gas number reflected in Graham's rates and uses this same number to provide a more accurate comparison of Graham's existing and proposed rates and Staff's proposed rates. The cost of gas number Staff uses for bill estimates is $0.78890 per therm, the overall cost of gas in Graham's rates for December 2009, excluding the $0.16 per therm temporary PGA credit in effect in December 2009. This reflects the current base cost of gas of $0.59056 per therm and the December 2009 monthly PGA rate of $0.19834 per therm. Exhibit RGG-4 provides customer bill estimates under Staff's proposed rates as well as Graham's proposed rates and Graham's existing rates.

Q. Please discuss residential customer bill impacts under Staff's proposed rates.

A. For a residential customer bill reflecting mean consumption of 36 therms, the customer bill under Staff's proposal would be $53.82, an increase of 13.7 percent, or $6.48, over the bill of $47.34 under Graham's existing rates.

Q. Please discuss irrigation customer bill impacts under Staff's proposed rates.

A. For mean irrigation customer bill reflecting an consumption of 59 therms, the customer bill under Staff's proposal would be $76.99, an increase of 10.9 percent, or $7.58, over the bill of $69.41 under Graham's existing rates.

Q. Please discuss commercial customer bill impacts would be under Staff's proposed rates.

A. For a commercial customer bill reflecting mean consumption of 289 therms, the customer bill under Staff's proposal would be $357.10, an increase of 11.1 percent, or $35.06, over the bill of $315.48 under Graham's existing rates.

GAS PROCUREMENT REVIEW

Q. Did Staff conduct a review of Graham's gas procurement activities as part of this case?

A. Yes.

Q. Please describe Staff's review of Graham's gas procurement activities.

A. Staff reviewed Graham's procurement activities for gas supplies acquired between January 2006 and June 2009. Attached as Exhibit RGG-3 is the Staff Report on Graham County Utilities, Inc. Natural Gas Procurement Activities.

Q. Please briefly describe Staff's gas procurement review for Graham.

A. Staff's gas procurement review involved reviewing the purchases Graham made for natural gas supplies received between January 2006 and June 2009. Staff issued several sets of data requests and held a number of teleconferences with Graham to discuss various procurement issues. Staff reviewed Graham's purchasing processes, as well as Graham's purchasing of fixed price, monthly index, and daily gas volumes.

Q. Please identify the findings and recommendations contained in Exhibit RGG-3.

A. The Staff Report contains the following findings and recommendations:

1. Graham shall file a document with Docket Control in this proceeding, within 60 days of the Decision in this case, identifying its processes for procuring natural gas supplies, and what person(s) at the Company is(are) responsible for each step of the procurement process.
2. Graham shall actively ensure that the prices it pays BP ("British Petroleum") are competitive and reasonable given market conditions.
3. Graham shall maintain documentation of any price indices used either currently or for past purchases. Such documentation shall include the publication or other source of the index, the index price, any calculations involved in creating the index, and any other pertinent information. As part of its on-going tracking of PGA information, Graham shall ensure that its costs actually paid for gas coincide with the proper indices contained in the relevant purchase agreement(s).
4. Graham shall regularly consider, as part of its gas procurement activities, the possibility of conducting a competitive solicitation.
5. Staff finds that the prices paid by Graham during the period of January 2006 through July 2009 are prudent given natural gas market conditions and Graham's needs and position in the marketplace.

SUMMARY OF RECOMMENDATIONS

Q. Please summarize your findings and recommendations.

A. My testimony includes the following findings and recommendations:

Rate Design

1. The residential customer charge should be set at $13.00 per month and the residential margin rate should be set at $0.345 per therm.
2. The irrigation customer charge should be set at $21.00 per month and the irrigation margin rate should be set at $0.16 per therm.
3. The commercial customer charge should be set at $24.00 per month and the commercial margin rate should be set at $0.341 per therm.

Gas Procurement

4. Graham shall file a document with Docket Control in this proceeding, within 60 days of the Decision, identifying its processes for procuring natural gas supplies, and what person(s) at the Company is(are) responsible for each step of the procurement process.
5. Graham shall actively ensure that the prices it pays BP are competitive and reasonable given market conditions.
6. Graham shall maintain documentation of any price indices used either currently or for past purchases. Such documentation shall include the publication or other source of the index, the index price, any calculations involved in creating the index, and any other pertinent information. As part of its on-going tracking of PGA information, Graham shall ensure that its costs actually paid for gas coincide with the proper indices contained in the relevant purchase agreement(s).
7. Graham shall regularly consider, as part of its gas procurement activities, the possibility of conducting a competitive solicitation.

8. Staff finds that the prices paid by Graham during the period of January 2006 through July 2009 are prudent given natural gas market conditions and Graham's needs and position in the marketplace.

Q. Does this conclude your direct testimony?

A. Yes, it does.

RESUME

ROBERT G. GRAY

Education

B.A. Geography, University of Minnesota-Duluth (1988)
M.A. Geography, Arizona State University (1990) Thesis: *A Model for Optimizing the Federal Express Overnight Delivery Aircraft Network.*

Employment History

Arizona Corporation Commission, Utilities Division, Phoenix, Arizona: Executive Consultant III (November 2007 – present), Public Utility Analyst V (October 2001 – November 2007), Senior Economist (August 1997 – October 2001), Economist II (June 1991 - July 1997), Economist I (June 1990 - June 1991). Conduct economic and policy analyses on a variety of natural gas issues in Arizona, including gas procurement, rate design, interstate pipeline issues, revenue decoupling, energy conservation, low income issues, natural gas research and development funding, customer services issues, special contracts, various tariff matters, and other natural gas issues. Conduct economic and policy analyses on a variety of electricity issues in Arizona, power plant and transmission line siting cases, energy efficiency, renewable energy standards, rate design, time-of-use service, and low income issues. Prepare recommendations and present written and oral testimony before the Commission and organize workshops and other proceedings on various utility industry issues. Represent the ACC in natural gas proceedings at the Federal Energy Regulatory Commission, at the North American Energy Standards Board, and on the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Gas, including serving as a past Vice-Chair and Chair of the NARUC Staff Subcommittee on Gas.

Testimony

Resource Planning for Electric Utilities, (Docket No. 0000-90-088), Arizona Corporation Commission, 1990.

Citizens Utilities Company, Electric Rate Case (Docket No. E-1032-92-073), Arizona Corporation Commission, 1993.

Resource Planning for Electric Utilities, (Docket No. 0000-93-052), Arizona Corporation Commission, 1993.

Arizona Public Service Company, Rate Settlement (Docket No. E-1345-94-120), Arizona Corporation Commission, 1994.

U S West Communications, Rate Case (Docket No. E-1051-93-183), Arizona Corporation Commission, 1995.

Citizens Utilities Company, Electric Rate Case (Docket No. E-1032-95-433), Arizona Corporation Commission, 1996.

Resource Planning for Electric Utilities (Docket No. U-000-95-506), Arizona Corporation Commission, 1996.

Southwest Gas Corporation, Natural Gas Rate Case (Docket No. U-1551-96-596), Arizona Corporation Commission, 1997.

Black Mountain Gas Company - Northern States Power Company, Merger (Docket Nos. G-03493A-98-0017, G-01970A-98-0017), Arizona Corporation Commission, 1998.

Black Mountain Gas Company – Page Division Rate Case (Docket Nos. G-03493A-98-0695, G-03493A-98-0705), Arizona Corporation Commission, 1999.

Graham County Utilities Company Rate Case (Docket No. G-02527A-00-0378), Arizona Corporation Commission, 2000.

Black Mountain Gas Company – Cave Creek Division Rate Case (Docket No. G-03703A-00-0283), Arizona Corporation Commission, 2000.

Southwest Gas Corporation, Natural Gas Rate Case (Docket No. G-01551A-00-0309), Arizona Corporation Commission, 2000.

Black Mountain Gas Company – Page Division Rate Case (Docket Nos. G-03493A-01-0263), Arizona Corporation Commission, 2001.

Duncan Rural Services – Natural Gas Rate Case (Docket No. G-02528A-01-0561), Arizona Corporation Commission, 2001.

Toltec Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000Y-01-0112), September 2001.

Lap Paz Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000AA-01-0116), December 2001.

Bowie Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000BB-01-0118), December 2001.

Southwest Gas Corporation, Acquisition of Black Mountain Gas Company (Docket No. G-01551A-02-0425), Arizona Corporation Commission, 2002.

Wellton-Mohawk Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000Z-01-0114), February 2003.

Arizona Public Service Company, Rate Proceeding (Docket No. E-01345A-03-0437), Arizona Corporation Commission, 2004.

Graham County Utilities Company Rate Case (Docket No. G-02527A-04-0301), Arizona Corporation Commission, 2004.

Southwest Gas Corporation, Rate Proceeding (Docket No. G-01551A-04-0876), Arizona Corporation Commission, 2004.

Southern California Edison, Devers – Palo Verde 2 Transmission Line Application before the Arizona Power Plant and Line Siting Committee, (L-00000A-06-0295-00130), 2006.

Semstream Arizona Propane Acquisition of Energy West (Docket G-02696A-06-0515), Arizona Corporation Commission, 2006.

UNS Gas Inc., Rate Proceeding (Docket No. G-04204A-06-0463), Arizona Corporation Commission, 2007.

Semstream Arizona Propane Acquisition of Black Mountain Gas Company – Page Division (Docket G-03703A-06-0694), Arizona Corporation Commission, 2007.

Northern Arizona Energy, LLC, Northern Arizona Energy Project Application before the Arizona Power Plant and Line Siting Committee, (L-00000FF-07-0134-00133), 2007.

Arizona Public Service, Palo Verde Hub to North Gila 500 kV Transmission Lint Project Application before the Arizona Power Plant and Line Siting Committee, (L-00000D-07-0566-00135), 2007.

Southwest Gas Corporation, Rate Proceeding (Docket No. G-01551A-07-0504), Arizona Corporation Commission, 2008.

Arizona Solar One, LLC, Solana Generating Station and Gen-Tie Application before the Arizona Power Plant and Line Siting Committee, (L-00000GG-08-0407-00139 and L-00000GG-08-0408-00140), 2008.

Coolidge Power Corporation, Coolidge Power Project Application before the Arizona Power Plant and Line Siting Committee, (L-00000HH-08-0422-00141), 2008.

UNS Gas Inc., Rate Proceeding (Docket No. G-04204A-08-0571), Arizona Corporation Commission, 2009.

El Paso Natural Gas Company, Rate Proceeding (Docket No. RP08-426), Federal Energy Regulatory Commission, 2009.

Publications

(with David Berry, Kim Clark, Lewis Gale, Barbara Keene, and Harry Sauthoff) Staff Report on Resource Planning. (Docket No. U-0000-90-088) Arizona Corporation Commission, 1990.

(with Prem Bahl) "Transmission Access Issues: Present and Future," October, 1991.

(with David Berry) Substitution of Photovoltaics for Line Extensions: Creating Consumer Choices. Arizona Corporation Commission, 1992.

(with Barbara Keene and Kim Clark) Report of the Task Force on the Feasibility of Implementing Sliding Scale Hookup Fees, December, 1992.

(with Mike Kuby) "The Hub and Network Design Problem With Stopovers and Feeders: The Case of Federal Express," Transportation Research A., Vol. 27A, 1993, pp. 1-12.

(with David Berry) Staff Guidelines on Photovoltaics Versus Line Extensions. Arizona Corporation Commission, January 28, 1993.

(with Ray Williamson, Robert Hammond, Frank Mancini, and James Arwood) The Solar Electric Option (Instead of Power Line Extension). A joint publication of the Arizona Corporation Commission and the Arizona Department of Commerce Energy Office, August, 1993.

(with David Berry, Kim Clark, Barbara Keene, Jesse Tsao, Ray Williamson, Randall Sable, Roni Washington, Wilfred Shand, and Prem Bahl) Staff Report on Resource Planning. (Docket No. U-0000-93-052) Arizona Corporation Commission, 1993.

Staff Report On Rural Local Calling Areas. (Docket No. E-1051-93-183) Arizona Corporation Commission, March, 1994.

(with David Berry, Kim Clark, Barbara Keene, Glenn Shippee, Julia Tsao, and Ray Williamson) Staff Report on Resource Planning. (Docket No. U-000-95-506) Arizona Corporation Commission, 1996.

(with Barbara Keene) "Customer Selection Issues," NRRI Quarterly Bulletin, Vol. 19, No. 1, Spring 1998, National Regulatory Research Institute.

Staff Report on Purchased Gas Adjustor Mechanisms, (Docket No. G-00000C-98-0568) Arizona Corporation Commission, October 19, 1998.

Staff Report on the Rolling Average PGA Mechanism, (Docket No. G-00000C-98-0568),Arizona Corporation Commission, September 6, 2000.

Staff Report on the Use of a Circuit-Breaker in Adjustor Mechanisms, Arizona Corporation Commission, September 3, 2003.

Staff Report on Southwest Gas Filing for Pre-Approval of Cost Recovery for Participation in the Kinder Morgan Silver Canyon Pipeline Project, (Docket No. G-01551A-04-0192), Arizona Corporation Commission, June 2, 2004.

Staff Report on Arizona Public Service Company Filing for Pre-Approval of Cost Recovery for Participation in the Kinder Morgan Silver Canyon Pipeline Project, (Docket No. E-01345A-04-0273), Arizona Corporation Commission, August 16, 2004.

Staff Report on Arizona Public Service Company Filing for Pre-Approval of Cost Recovery for Participation in the Transwestern Pipeline Phoenix Project, (Docket No. E-01345A-05-0895), Arizona Corporation Commission, March 2, 2006.

Staff Report on Southwest Gas Filing for Pre-Approval of Cost Recovery for Participation in the Transwestern Pipeline Phoenix Project, (Docket No. G-01551A-06-0107), Arizona Corporation Commission, May 16, 2006.

Staff Report on UNS Gas Filing for Pre-Approval of Cost Recovery for Participation in the Transwestern Pipeline Phoenix Project, (Docket No. G-04204A-06-0627), Arizona Corporation Commission, January 30, 2007.

Staff Report on Semstream Arizona Propane, Payson Division issues, Arizona Corporation Commission, June 6, 2008.

Additional Training

1990	Seminars on Regulatory Economics
1993	PURTI course on Public Utilities and the Environment
1996	Center for Public Utilities Workshop on Gas Unbundling and Retail Competition
1997	NARUC 6th Annual Natural Gas Conference
1998	Local Distribution Company Restructuring and Retail Access and Competition Conference
1998	NARUC 7th Annual Natural Gas Conference
1999 – 2007	NARUC Summer Committee Meetings
2001	Center for Public Utilities Workshop on Risk Management in Gas Purchasing
2003-2008	NARUC Winter Committee Meetings
2004-2007	NARUC Annual Convention

Memberships

NARUC – Staff Subcommittee on Gas – member, 1998 - present
NARUC - Staff Subcommittee on Gas – Vice-Chair - 2002 - 2004
NARUC - Staff Subcommittee on Gas – Chair - 2005 - 2007
Michigan State Institute for Public Utilities – NARUC Advisory Committee – 2005-2007
NARUC - North American Energy Standards Board Advisory Council – 2006 - present
NARUC – DOE LNG Partnership – 2003 - present

**GRAHAM COUNTY UTILITIES RESPONSES TO
ARIZONA CORPORATION COMMISSION
STAFF'S FIFTH SET OF DATA REQUESTS TO
GRAHAM COUNTY UTILITIES GAS DIVISION, INC.
DOCKET NO. G-02527A-09-0088
AUGUST 12, 2009**

STF 5.10 If the cost of gas is held constant when comparing the current and proposed Graham rates, is Graham proposing a per therm rate decrease for the margin (non-gas cost) portion of the per therm rate for the irrigation customer class?

RESPONSE: **Graham did not intentionally design the rate margin to decrease for the irrigation customer class. Graham does agree that the rate per therm should be increased for the irrigation class so that the margin is more in line with the other classes.**

STF 5.11 Graham cites irrigation customers being very price sensitive. Please provide any studies, communications, or other information Graham has which documents the price sensitivity of irrigation customers.

RESPONSE: **Graham does not have any documentation of the price sensitivity of the irrigation customers. Graham only has personal experience with local farmers and irrigators that have told GCU that they would either quit farming or switch to electric if their natural gas rates were to increased too much. Years ago many irrigation customers did in fact switch from gas to electric due to rising natural gas prices. Since the revenue from natural gas received from the irrigation class is only 0.15% of the total revenue, it does not seem to warrant such a study to determine the exact price sensitivity. See attached Schedule STF 5.11 which shows that most of the irrigation bills are for no usage.**

Staff Report on Graham County Utilities, Inc. Natural Gas Procurement Activities

December 23, 2009

Docket No. G-02527A-09-0088

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INTRODUCTION

Graham County Utilities ("Graham" or "Company") is a relatively small natural gas cooperative that provides natural gas service to approximately 5,000 residential, irrigation, and commercial customers in Graham County, including the towns of Pima and Thatcher. In the test year in this rate case, ending September 30, 2008, Graham had sales of 2,933,418 therms of natural gas. Graham receives its natural gas via the El Paso Natural Gas Company ("El Paso") interstate pipeline system through 54 delivery points off of the pipeline. El Paso is the only interstate pipeline system to which Graham has access. Graham receives full requirements service under El Paso's Rate Schedule FT-2, Firm Transportation Service and holds a Transportation Service Agreement ("TSA") with El Paso that was entered into on August 15, 1991 and expires on August 31, 2011. Graham also holds an Operator Point Aggregation Service Agreement, which enables Graham to combine its many delivery points into a single delivery code for purposes of nominating, scheduling, and accounting activities. Under Graham's TSA with El Paso, Graham holds a maximum daily quantity of 4190 therms, with receipt point rights at four locations in the San Juan supply basin in New Mexico.

This procurement review has involved an assessment of Graham's gas procurement efforts from January 2006 through June 2009. During this time period, Graham spent $8,189,554 purchasing natural gas and interstate pipeline transportation service. Of this amount, approximately $7.5 million was spent on the natural gas commodity, and close to $0.7 million on interstate pipeline service. Graham's historic purchases during this period were reviewed for prudency by comparing the prices paid with natural gas market prices at the time, taking into consideration market conditions. Staff also inquired regarding the processes used by Graham to procure its natural gas supplies. Staff issued a series of data requests to Graham and held a number of telephone conversations with representatives of Graham regarding its procurement activities during the review period. Graham has had a few general rate cases before the Commission since the mid 1990s, but this is the first case during that time period where a procurement review has been conducted. It is not clear when the last procurement review took place for Graham.

GRAHAM PROCUREMENT PROCESSES

Graham does not have a formal procurement plan or other document identifying the processes it uses to purchase natural gas supplies for its customers. However, Graham has indicated that it has unwritten processes and strategies it does follow.

Typically the General Manager discusses natural gas prices at Graham's monthly Board of Directors meeting. The Board authorizes the General Manager to contract for certain volumes and prices. The General Manager then contracts for natural gas supplies after consulting with other Graham personnel, as well as Graham's supplier, BP ("British Petroleum"). While the Board of Directors has ultimate authority at Graham for natural gas procurement activities, the General Manager conducts the actual gas procurement activities, including securing bids, evaluating offers, and authorizing entering into a natural gas purchase contract.

The Commission has issued several decisions in the last decade that have provided direction to Graham regarding its gas procurement activities. In Decision No. 61225 (October 30, 1998), when the Commission implemented the banded 12-month rolling average purchased gas adjustor ("PGA") mechanism for Arizona gas utilities, including Graham, the Commission identified price stability as one of the goals for gas procurement efforts, including those of Graham. Specifically, the order states that:

> "The LDCs should pursue longer term, fixed price supply options as a viable option when they choose which gas supplies to include in their supply portfolios."

and

> "The Commission recognizes price stability as one of the goals of the natural gas procurement process."

This order and the accompanying Staff Report also recognized that supply diversity is a valuable tool in diversifying risk in the gas procurement process.

Further, in Decision No. 68298 (November 14, 2005), the Commission dealt with an application for a very large PGA surcharge from Graham, in the face of a major spike in natural gas prices, largely as a result of Hurricanes Rita and Katrina. At the time Graham was not purchasing any of its supplies under longer term, fixed price contracts, resulting in Graham's customers being very exposed to natural gas market price fluctuations. In that Decision, the Commission ordered that:

> "Graham provide Docket Control, as a compliance item n this docket, a plan by June 30, 2006, and by June 30th each year thereafter, indicating any fixed price supplies the Company has acquired for the following winter heating season and how the Company plans to hedge its natural gas supplies prior to the following winter heating season."

Graham has filed such plans annually each summer, discussing its efforts to secure fixed price supplies.

For a number of years Graham has purchased its natural gas supplies from BP and Wasatch Energy (which was acquired by BP). Graham has indicated to Staff that the Company has a good working relationship with BP and is in regular contact with them regarding Graham's natural gas supply needs. Graham indicated that it is not actively seeking other natural gas suppliers, as it believes that BP provides competitive pricing and that the on-going relationship with BP is beneficial. In response to a data request, Graham indicated the Company has considered using a competitive solicitation process, and that it also attempted to get a competitive bid from another supplier, but the alternative supplier did not respond in a timely fashion. On August 1, 2008, Graham and BP entered into a North American Energy Standards Board ("NAESB") base contract that contained various conditions that would apply to future purchases by Graham from BP. On July 11, 2008, Graham entered into a Transaction

Transaction Confirmation agreement with BP, setting forth basic terms for purchases of monthly index gas and daily (also know as swing) gas.

Graham's unwritten strategy is to contract for approximately 50 percent of its natural gas supplies under fixed price contracts, with a variance of up to 20 percent higher or lower as the Company deems best. These fixed price contracts have typically been either one year in duration or for a shorter number of months covering the winter heating season. For volumes beyond the fixed contract volumes, Graham contracts for a given additional volume, to be priced at the beginning of month Inside FERC El Paso – San Juan index, plus three cents.

For small additional volumes in certain months, Graham pays an average for the month of the daily spot market indices for the Inside FERC El Paso – San Juan index. The monthly average is used, as many of Graham's delivery points off the El Paso pipeline system are sufficiently small that the meters are only read on a monthly basis.

Staff believes that Graham's mix of fixed price contracts, monthly index pricing, and daily spot price average pricing for the volumes discussed above is a reasonable approach to purchasing natural gas for the Company's customers.

Regarding Graham's reliance on BP for all natural gas supplies, Staff generally believes that as a general principle, greater diversity in a supply portfolio is beneficial and expects that Graham will consider diversifying the suppliers it uses. However, given Graham's relatively small size, it is more problematic for Graham to diversify its supply portfolio than it is for larger Arizona local distribution companies ("LDCs") like Southwest Gas and UNS Gas. It is difficult to assess whether and to what extent Graham benefits from its on-going relationship with BP, but it is certainly possible that Graham maintaining an on-going relationship with BP would provide Graham with benefits such as access to BP's market expertise. In past proceedings, including the 2005 PGA surcharge docket referenced above, Graham has indicated to Staff that it has had difficulties locating suppliers to buy natural gas from. Because of this, Staff is reticent to force Graham to actively move away from relying on BP for its natural gas supplies. While Staff will not recommend that Graham actively source natural gas supplies from multiple suppliers, Staff believes that Graham will bear an on-going responsibility to ensure that the pricing and service it receives from BP are competitive and beneficial for its customers in comparison to a model where Graham solicited natural gas purchases from both BP and other suppliers.

REVIEW OF JANUARY 2006 THROUGH JUNE 2009 GAS PURCHASES

Graham's purchases from January 2006 through June 2009 involve a total of 1,002,593 decatherms. Of this volume, 591,378 decatherms involved fixed price contracts, 380,701 decatherms involved index price contracts, and 30,514 decatherms involved daily volumes.

FIXED PRICE CONTRACTS

For the gas supplies from January 2006 through June 2009, Graham entered into a total of 11 fixed price contracts, with one contract being for a four month winter period, and the other ten agreements being for a one year period. All 11 agreements contain sculpted monthly volumes, with much larger volumes during the peak demand winter period, and smaller volumes in shoulder and summer months.

Staff reviewed a variety of information in analyzing these contracts. The primary approach was to review information on various market prices and conditions at the time the contract was entered into. This information included general market conditions, San Juan basin spot market prices, New York Mercantile Exchange ("NYMEX") natural gas futures prices, Gas Daily reported price spreads between the Henry Hub and the San Juan and/or Permian supply basins, and the 12-month strip price at the Henry Hub. The table below shows a composite NYMEX price for comparison to each contract, weighted for each month's contract volume and monthly NYMEX futures prices over the term of each contract. This provides a rough comparison point for the price Graham contracted for compared to what a roughly equivalent contract would look like for NYMEX futures. It should be recognized that San Juan prices typically are lower than Henry Hub prices, the basis for NYMEX futures. In the past a very rough rule of thumb has been that Henry Hub prices are a dollar or so higher than San Juan prices, recognizing that natural gas markets change over time and the actual spread could be significantly higher or lower at times.

Contract Confirmation Date	Contract Period	Contract Price ($/MMBtu)	Volume (MMBtu)	NYMEX Weighted Avg. Futures Price	Differential
11-7-2005	12-05 to 3-06	$9.345	44,033	$11.79	-$2.44
5-8-2006	6-06 to 5-07	$8.55	70,919	$10.18	-$1.64
5-18-2006	6-06 to 5-07	$8.03	70,919	$9.75	-$1.72
1-5-2007	2-07 to 1-08	$6.87	86,034	$7.21	-$0.34
6-26-2007	7-07 to 6-08	$7.77	57,444	$8.55	-$0.78
7-11-2008	9-08 to 8-09	$8.94	56,850	$12.84	-$1.86
7-11-2008	9-08 to 8-09	$10.98	56,850	$12.84	-$3.90
8-25-2008	9-08 to 8-09	$7.835	28,425	$8.72	-$0.89
9-2-2008	11-08 to 10-09	$7.40	56,850	$8.68	-$1.28
2-2-2009	11-09 to 10-10	$5.725	142,311	$6.34	-$0.62
2-19-2009	11-09 to 10-10	$5.20	56,922	$5.92	-$0.72

Note: One MMBtu equals 10 therms

In hindsight, some of Graham's fixed price purchases took place at times when natural gas prices were at or near pricing peaks. For example, Graham entered three fixed price contracts in July and August 2008, when natural gas prices were at or near the peak, before precipitously falling in the following months. However, any discussion of fixed price contracts must recognize the hedging function of such contracts and that at times contracts will be entered into that turn out to be higher than later spot market prices. At the time Graham entered those contracts, there was no way to know that prices would fall steeply within a few months, rather than possibly increasing. A bedrock principle of natural gas procurement is that the hedging of prices by fixing prices, as Graham did here, is not done with the goal of lower costs, but rather with the goal of reducing exposure to the sizable volatility that has been present in the natural gas market for many years. Thus, it is inevitable that at times an LDC such as Graham will enter into contracts that will turn out to have higher prices than the spot market prices in the following months. While Graham could have spread such risk out by entering in those three contracts on dates that were further apart, fundamentally there is no reason to deem these purchases imprudent merely because it can now be recognized in hindsight that they would have saved money if they would have entered into contracts at a later date. After reviewing available information, Staff believes that Graham's contract purchases during the review period are reasonable.

MONTHLY INDEX PURCHASES

Regarding monthly index purchases, Graham had some level of such purchases every month from January 2006 to June 2009, except for April 2007. Graham's on-going provision with BP is that Graham pays the first of the month index price for San Juan gas, plus \$0.03 per decatherm for index purchases. Staff compared the price paid by Graham for its index purchase each month, with the Gas Daily El Paso – San Juan first of the month published index, taking into account the \$0.03 per decatherm premium. The two prices match for most months during the review period. The only two months they do not match are in February and March 2009. In February 2009, the price paid by Graham is \$0.03 per decatherm lower than would be expected from Graham's contract provisions. In March 2009, the volume involved is very small, 28 decatherms, and the reported price Graham paid is \$1.99 per decatherm higher than would be expected from Graham's contract provisions. The net effect of these two discrepancies is that Graham paid \$189 less than would be expected from Graham's contract provisions.

Staff is still in discussions with Graham to identify the reason(s) for these discrepancies. Given that the overall cost paid by Graham was not increased by these two relatively small discrepancies, Staff is not greatly concerned by them. However, to reduce the possibility of such discrepancies in the future, Staff recommends that Graham shall maintain documentation of any price indices used either currently or for past purchases. Such documentation shall include the publication or other source of the index, the index price, any calculations involved in creating the index, and any other pertinent information. As part of its on-going tracking of PGA information, Graham shall ensure that its costs actually paid for gas coincide with the proper indices contained in the relevant purchase agreement(s).

DAILY VOLUME PURCHASES

The daily volume purchases account for 3 percent of the total purchases by Graham during the review period and only occur in a handful of months. Although they are referred to as daily purchases, they are assessed on a monthly basis, as many of Graham's meters off the interstate pipeline are read on a monthly basis and thus daily measurements are not possible in many cases. The daily volumes represent unexpected deviations from the volumes planned for by Graham and BP through the fixed contracts and monthly index purchases discussed above. They are priced at the average of the daily San Juan prices throughout the given month. Staff has reviewed the prices paid for the daily volumes in the months they occur and compared them to an average of the Gas Daily El Paso – San Juan daily indices for all days in each given month. The prices paid by Graham correspond closely with the monthly averages calculated by Staff, with Graham's price paid generally $0.03 to $0.04 per therm higher than the monthly averages calculated by Staff. Given that they are unexpected volumes representing variations from the volumes planned by Graham and BP, Staff believes that this small additional premium is reasonable. However, as discussed in relation to the monthly index contracts, an on-going effort by Graham to track how the prices paid under these daily volume purchases would provide greater clarity regarding how the prices are calculated for current and future purchases.

STAFF FINDINGS AND RECOMMENDATIONS

1. Graham shall file a document with Docket Control in this proceeding, within 60 days of the Decision, identifying its processes for procuring natural gas supplies, and what person(s) at the Company is(are) responsible for each step of the procurement process.
2. Graham shall actively ensure that the prices it pays BP are competitive and reasonable given market conditions.
3. Graham shall maintain documentation of any price indices used either currently or for past purchases. Such documentation shall include the publication or other source of the index, the index price, any calculations involved in creating the index, and any other pertinent information. As part of its on-going tracking of PGA information, Graham shall ensure that its costs actually paid for gas coincide with the proper indices contained in the relevant purchase agreement(s).
4. Graham shall regularly consider, as part of its gas procurement activities, the possibility of conducting a competitive solicitation.
5. Staff finds that the prices paid by Graham during the period of January 2006 through July 2009 are prudent given natural gas market conditions and Graham's needs and position in the marketplace.

Customer Bill Estimates

Residential Class Therms	Current Rates	Company Proposed Rates	Staff Proposed Rates	Percent Increase/ Decrease Company Proposed Rates	Percent Increase Staff Proposed Rates	Increase Staff Proposed Rates
5	$15.62	$20.55	$18.67	31.6%	19.5%	$3.05
10	$20.73	$26.10	$24.34	25.9%	17.4%	$3.61
15	$25.85	$31.65	$30.01	22.5%	16.1%	$4.16
20	$30.97	$37.21	$35.68	20.1%	15.2%	$4.71
25	$36.08	$42.76	$41.35	18.5%	14.6%	$5.26
30	$41.20	$48.31	$47.02	17.3%	14.1%	$5.82
36	$47.34	$54.97	$53.82	16.1%	13.7%	$6.48
40	$51.43	$59.41	$58.36	15.5%	13.5%	$6.92
50	$61.67	$70.51	$69.70	14.3%	13.0%	$8.03
75	$87.25	$98.27	$98.04	12.6%	12.4%	$10.79
100	$112.83	$126.03	$126.39	11.7%	12.0%	$13.56
150	$164.00	$181.54	$183.09	10.7%	11.6%	$19.08
200	$215.17	$237.05	$239.78	10.2%	11.4%	$24.61
300	$317.50	$348.08	$353.17	9.6%	11.2%	$35.67
500	$522.17	$570.14	$579.95	9.2%	11.1%	$57.78
1000	$1,033.84	$1,125.27	$1,146.90	8.8%	10.9%	$113.06
Irrigation Class						
10	$25.88	$31.09	$30.49	20.1%	17.8%	$4.61
25	$39.21	$43.97	$44.72	12.1%	14.1%	$5.51
50	$61.42	$65.43	$68.45	6.5%	11.4%	$7.03
59	$69.41	$73.16	$76.99	5.4%	10.9%	$7.57
75	$83.63	$86.90	$92.17	3.9%	10.2%	$8.54
100	$105.83	$108.36	$115.89	2.4%	9.5%	$10.06
200	$194.67	$194.23	$210.78	-0.2%	8.3%	$16.11
300	$283.50	$280.09	$305.67	-1.2%	7.8%	$22.17
400	$372.34	$365.96	$400.56	-1.7%	7.6%	$28.22
500	$461.17	$451.82	$495.45	-2.0%	7.4%	$34.28
750	$683.26	$666.48	$732.68	-2.5%	7.2%	$49.42
Commercial Class						
10	$28.29	$34.08	$35.30	20.4%	24.8%	$7.01
20	$38.59	$44.66	$46.60	15.7%	20.8%	$8.01
50	$69.47	$76.39	$80.50	10.0%	15.9%	$11.03
100	$120.93	$129.28	$136.99	6.9%	13.3%	$16.06
150	$172.40	$182.16	$193.49	5.7%	12.2%	$21.08
200	$223.87	$235.05	$249.98	5.0%	11.7%	$26.11
289	$315.48	$329.19	$350.54	4.3%	11.1%	$35.06
400	$429.74	$446.60	$475.96	3.9%	10.8%	$46.22
500	$532.67	$552.38	$588.95	3.7%	10.6%	$56.28
750	$790.01	$816.81	$871.43	3.4%	10.3%	$81.42
1000	$1,047.34	$1,081.25	$1,153.90	3.2%	10.2%	$106.56
1500	$1,562.01	$1,610.13	$1,718.85	3.1%	10.0%	$156.84
2000	$2,076.68	$2,139.00	$2,283.80	3.0%	10.0%	$207.12
3000	$3,106.02	$3,196.75	$3,413.70	2.9%	9.9%	$307.68

Assumes constant cost of gas of $0.78890 per therm
(reflecting the existing base cost of gas + the monthly PGA rate of $.19834 per therm for December 2009, and excluding the temporary PGA credit of $0.16 per therm in effect in December 2009)

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	)	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	)	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	)	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	)	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	)	DOCKET NO. E-01749A-09-0087

DIRECT

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

ALL-STATE LEGAL®
EXHIBIT
S-2
ADMITTED

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EXHIBITS

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

The Testimony of Staff witness Juan C. Manrique addresses the following issues:

<u>Financings</u> – Staff recommends that the Commission authorize Graham County Utilities, Inc. Gas and Water Divisions to incur long-term debt with the National Rural Utilities Cooperative Finance Corporation ("CFC") in the combined amount of $1,050,000 ($800,000 for the Gas Division and $250,000 for the Water Division) and to encumber utility assets in conjunction with the loan.

<u>Guarantee</u> – Staff recommends that the Commission authorize Graham County Electric Cooperative, Inc. to guarantee the aforementioned CFC loan.

I. INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my position as a Public Utilities Analyst, I perform studies to estimate the cost of capital component in rate filings to determine the overall revenue requirement and analyze requests for financing authorizations.

Q. Please describe your educational background and professional experience.

A. I graduated from Arizona State University and received a Bachelor of Science degree in Finance. My course of studies included courses in corporate and international finance, investments, accounting, statistics, and economics. I began employment as a Staff Public Utilities Analyst in October 2008. My professional experience includes two years as a Loan Officer with a homebuilder and as an Associate for an Investor Relations firm.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommended long-term debt authorizations and encumbrance of assets for Graham County Utilities, Inc. Gas Division ("GCU-Gas") and Graham County Utilities, Inc. Water Division ("GCU-Water"), along with a recommended authorization for Graham County Electric Cooperative, Inc. ("GCEC") to guarantee these loans.

Q. Have you prepared any exhibits to accompany your testimony?

A. I have prepared and attached Staff Reports and Schedules for the GCU-Gas and GCU-Water as well as a Staff Report for GCEC detailing these recommendations.

Q. Does this conclude your testimony?

A. Yes, it does.

Exhibit 1

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

GRAHAM COUNTY UTILITIES, INC.
GAS DIVISION
DOCKET NO. G-02527A-09-0032

APPLICATION FOR AN ORDER AUTHORIZING
A LOAN NOT TO EXCEED $800,000

DECEMBER 9, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Graham County Utilities, Inc. – Gas Division, Docket No. G-02527A-09-0032, is the responsibility of the Juan C. Manrique.

Juan Manrique

JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC. – GAS DIVISION
DOCKET NO. W-02527A-09-0032

On January 30, 2009, Graham County Utilities, Inc. ("GCU" or "Company") filed an application for its Gas Division ("GCU-Gas") with the Arizona Corporation Commission ("Commission") asking for authorization to borrow no more than $800,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") and to encumber its utility assets in conjunction with the loan.

Graham County Utilities, Inc. ("GCU") is a member-owned, non-profit Arizona corporation that owns and operates a public water and gas utility in Graham County, Arizona. GCU-Gas is a Class "B" public service corporation. The purpose of GCU-Gas's request for the loan is to refinance the debt on existing plant. According to GCU-Gas's application, it previously borrowed the requested amount of authorized financing from Graham County Electric Cooperative ("GCEC"); thus, the CFC loan will be used to repay GCEC.

GCU filed simultaneously with this application for GCU-Gas a similar application for authorization for its Water Division ("GCU-Water") to borrow no more than $250,000 for the purposes of refinancing the debt on existing plant previously constructed with funds borrowed from GCEC. GCU's combined request for authorization to refinance the existing obligations to GCEC is $1,050,000. Since GCU is the legal entity with responsibility for the obligations for GCU-Gas and GCU-Water, Staff's financial analysis is performed for GCU based on the combined GCU-Gas and GCU-Water requests for authorization to borrow funds.

As of December 31, 2008, GCU's combined capital structure consisted of 6.3 percent short-term debt, 83.4 percent long-term debt, and 10.3 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum, and it is composed of 5.0 percent short-term debt, 87.0 percent long-term debt and 8.0 percent equity. Using the operating results for the 12-month period ended September 30, 2008, Staff calculated a pro forma negative 0.53 times interest earned ratio ("TIER") and positive 0.22 debt service coverage ratio ("DSC"). The DSC results show that cash flow from operations with existing rates is not sufficient to cover all obligations. However, GCU-Water and GCU-Gas have pending rate cases with the Commission (Docket Nos. W-02527A-09-0088 and G-02527A-09-0201, respectively).

Using Staff's recommended combined operating income in the pending rate cases and a capital structure updated to December 31, 2008, and issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum; Staff calculated a pro forma capital structure of 4.7 percent short-term debt, 89.2 percent long-term debt and 6.1 percent equity; and a pro forma 2.18 TIER and 1.59 DSC. Under this scenario, the DSC results show that cash flow from operations would be sufficient to cover all obligations.

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within GCU's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur amortizing debt in an amount not to exceed $1,050,000 (combined gas and water divisions) for a period of 28-to-32 years at a rate not to exceed that available from CFC.

Staff further recommends that the Commission authorize GCU to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285.

Staff further recommends that any unused authorizations to issue debt granted in this proceeding terminate within twelve months of a decision in this docket.

Staff further recommends authorizing GCU to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that copies of the executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

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SCHEDULES

ATTACHMENTS

INTRODUCTION

On January 30, 2009, Graham County Utilities, Inc. ("GCU" or "Company") filed an application for its Gas Division ("GCU-Gas") with the Arizona Corporation Commission ("Commission") asking for authorization to borrow no more than $800,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") and to encumber its utility assets in conjunction with the loan.

PUBLIC NOTICE

On August 4, 2009, the Company filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Eastern Arizona Courier* on July 8, 2009. The *Eastern Arizona Courier* is a bi-weekly newspaper of general circulation in and around the city of Safford, the county of Graham, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

GCU is a member-owned, non-profit Arizona corporation that owns and operates a public water and gas utility in Graham County, Arizona. GCU-Gas is a Class "B" public service corporation.

GCU filed simultaneously with this application for GCU-Gas a similar application for authorization for its Water Division ("GCU-Water") to borrow no more than $250,000 for the purposes of refinancing the debt on existing plant previously constructed with funds borrowed from GCEC. GCU's combined request for authorization to refinance the existing obligations to GCEC is $1,050,000. Since GCU is the legal entity with responsibility for the obligations for GCU-Gas and GCU-Water, Staff's financial analysis is performed for GCU based on the combined GCU-Gas and GCU-Water requests for authorization to borrow funds.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for Graham County Utilities Gas Division.

PURPOSE AND DESCRIPTION OF THE REQUESTED APPROVAL

The purpose of GCU-Gas's request for the loan is to refinance the debt on existing plant. According to GCU-Gas's application, it previously borrowed the requested amount of authorized financing from Graham County Electric Cooperative ("GCEC"); thus, the CFC loan will be used to repay GCEC.

A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets.

FINANCIAL ANALYSIS

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects The Company's historical financial information for the year ended September 30, 2008. Column [B] presents pro forma financial information that modifies Column [A] to reflect a 30-year, $1,050,000 amortizing loan at 7.9 percent per annum. Column [C] presents pro forma financial information that modifies Column [B] to reflect Staff's recommended combined operating income in the pending rate cases for GCU-Water and GCU-Gas (Docket Nos. W-02527A-09-0201 and G-02527A-09-0088, respectively), a capital structure updated to December 31, 2008, and issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum.

TIER

TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long-term but does not mean that debt obligations cannot be met in the short-term.

DSC

Debt service coverage ratio ("DSC") represents the number of times internally-generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended September 30, 2008, the GCU's experienced a negative 0.71 TIER and a positive 0.26 DSC. The pro forma for GCU under the scenario described above for Column [B] results in a negative 0.53 TIER and positive 0.22 DSC. The pro forma for GCU under the scenario described above for Column [C] results in a 2.18 TIER and a 1.59 DSC.

Capital Structure

As of December 31, 2008, GCU's combined capital structure consisted of 6.3 percent short-term debt, 83.4 percent long-term debt (exclusive of the unauthorized GCEC obligations), and 10.3 percent equity (Schedule JCM-1, Column [A], lines 19-25). Issuance of the proposed $1,050,000 30-year amortizing loan at 7.9 percent per annum would result in a capital structure composed of 5.0 percent short-term debt, 87.0 percent long-term debt and 8.0 percent equity (Schedule JCM-1, Column [B], lines 19-25). Updating Column [B] to reflect balances at December 31, 2008, results in a capital structure composed of 4.7 percent short-term debt, 89.2 percent long-term debt and 6.1 percent equity (Schedule JCM-1, Column [C], lines 19-25).

Capital Structure inclusive of AIAC and CIAC

As of September 30, 2008, the Company's capital structure, inclusive of Advances In Aid of Construction ("AIAC") and Net Contributions In Aid of Construction ("CIAC")[1], consisted of 6.3 percent short-term debt, 83.4 percent long-term debt, 10.3 percent equity, 0.0 percent AIAC and 0.0 percent CIAC (Schedule JCM-1, Column [A], lines 30-40).

CONCLUSION AND RECOMMENDATIONS

Staff concludes that issuance of the proposed debt financing for the purposes stated in the application is within GCU's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur amortizing debt in an amount not to exceed $1,050,000 (combined gas and water divisions) for a period of 28-to-32 years at a rate not to exceed that available from CFC.

Staff further recommends that the Commission authorize GCU to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285.

Staff further recommends that any unused authorizations to issue debt granted in this proceeding terminate within twelve months of a decision in this docket.

Staff further recommends authorizing GCU to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that copies of the executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

[1] Contributions in Aid of Construction less Amortization of Contributions in Aid of Construction.

Graham County Utilities, Inc. Gas Division
Docket No. G-02527A-09-0032
Application For Financing

Schedule JCM-1

FINANCIAL ANALYSIS

Graham County Utilities, Inc. (Gas and Water)
Selected Financial Information

Line		[A][1] 9/30/2008		[B][2] Pro Forma		[C][3] Pro Forma	
1	Operating Income	-$138,884		-$138,884		$572,019	
2	Depreciation & Amort.	$246,611		$246,611		$204,008	
3	Income Tax Expense	$0		$0		$0	
5	Interest Expense	$195,057		$263,586		$261,982	
6	Repayment of Principal	$219,665		$228,612		$227,249	
8	**TIER**						
9	[1+3] ÷ [5]	-0.71		-0.53		2.18	
11	**DSC**						
12	[1+2+3] ÷ [5+6]	0.26		0.22		1.59	
17	**Capital Structure**						
19	Short-term Debt	$238,628	6.3%	$238,628	5.0%	$227,249	4.7%
21	Long-term Debt	$3,134,000	83.4%	$4,175,053	87.0%	$4,322,944	89.2%
23	Common Equity	$386,170	10.3%	$386,170	8.0%	$297,480	6.1%
25	Total Capital	$3,758,798	100.0%	$4,799,851	100.0%	$4,847,673	100.0%
28	**Capital Structure (inclusive of AIAC and Net CIAC)**						
30	Short-term Debt	$238,628	6.3%	$247,569	5.1%	$227,249	4.7%
32	Long-term Debt	$3,134,000	83.4%	$4,175,053	86.8%	$4,322,944	89.2%
34	Common Equity	$386,170	10.3%	$386,170	8.0%	$297,480	6.1%
36	Advances in Aid of Construction ("AIAC")	$0	0.0%	$0	0.0%	$0	0.0%
38	Contributions in Aid of Construction ("CIAC")[4]	$0	0.0%	$0	0.0%	$0	0.0%
40	Total Capital (Inclusive of AIAC and CIAC)	$3,758,798	100.0%	$4,808,793	100.0%	$4,847,673	100.0%
43	**AIAC and CIAC Funding Ratio[5]**	0.0%		0.0%		0.0%	
44	(36+38)/(40)						

Sept. 30

[1] Column [A] is based on audited 2008 financial information for the year ended ~~December~~ 31, 2008 (excludes GCEC obligations).
[2] Column [B] reflects the issuance of $1.05 Million Loan at 7.9 percent.
[3] Column [C] reflects revenue proposed by Staff in current Rate Cases (09-0088) & (09-0201) and debt and equity updated to December 31, 2008.
[4] Net CIAC balance (i.e. less: amortization of contributions).
[5] Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

Manrique

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2009 JUL -4 A 11:32

AZ CORP COMMISSION
DOCKET CONTROL

AUG 04 2009

COMMISSIONERS

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

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

Graham County Utilities, Inc. ("GCU") hereby files its affidavit of publication of its public notice in this matter.

RESPECTFULLY SUBMITTED this 4th day of August 2009.

By ______________________
John V. Wallace
Grand Canyon State Electric Cooperative Association, Inc.
120 N. 44th Street, Suite 100
Phoenix, Arizona 85034

Original and thirteen (13) copies of
GCU's Affidavit of Publication
filed this 4th day of August, 2009
with:

DOCKET CONTROL
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STATE OF ARIZONA)
:ss.
COUNTY OF GRAHAM)

PUBLIC NOTICE
OF
AN APPLICATION FOR
AN ORDER
AUTHORIZING THE
BORROWING OF [illegible]
OF WHICH [illegible] IS FOR
THE GAS DIVISION AND
[illegible] IS FOR THE WATER
DIVISION
BY GRAHAM COUNTY
UTILITIES, INC.

Graham County Utilities, Inc. ("Company") filed an Application with the Arizona Corporation [illegible] Commission ("Commission") for an order authorizing Applicant to borrow $1,050,000 for thirty (30) years to finance construction. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's office located at [illegible] West Center St., Pima, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which at a minimum shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on or before the [illegible] day after this notice.

Req: Graham County Utilities, Inc.

Published: July 8, 2009 in the Eastern Arizona Courier, Safford, Arizona [illegible]

AFFIDAVIT OF PUBLICATION

SHERRY L. ENGLISH being first duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the EASTERN ARIZONA COURIER newspaper printed and published bi-weekly in the County of Graham, State of Arizona, and of general circulation in the city of Safford, County of Graham, State of Arizona and elsewhere, and the hereto attached

APPLICATION FOR
AUTHORIZING
BORROWING $1,050,000
FOR GAS DIVISION AND
WATER DIVISION

was printed and published correctly in the regular and entire issue of said EASTERN ARIZONA COURIER for 1 issues, that the first was made on the 8th day of JULY 20 09 and the last publication thereof was made on the 8th day of JULY 20 09 that said publication was made on each of the following dates, to wit:

07/08/09

Request of GRAHAM CTY UTILITIES-LGLS

EASTERN ARIZONA COURIER

By Sherry L English

Subscribed sworn to before me this 8th day of JULY 20 09

OFFICIAL SEAL
MONICA L. WATSON
NOTARY PUBLIC - State of Arizona
GRAHAM COUNTY
My Comm. Expires Dec. 11, 2010

Monica L. Watson

Notary Public in and for the County of Graham, State of Arizona

My Commission Expires: Dec. 11, 2010

Exhibit 2

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

GRAHAM COUNTY UTILITIES, INC.
WATER DIVISION
DOCKET NO. W-02527A-09-0033

APPLICATION FOR AN ORDER AUTHORIZING
A LOAN NOT TO EXCEED $250,000

DECEMBER 9, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Graham County Utilities, Inc. – Water Division, Docket No. W-02527A-09-0033, is the responsibility of the Juan C. Manrique.

Juan Manrique

JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I

Katrin Stukov

KATRIN STUKOV
UTILITIES ENGINEER – WATER/WASTEWATER

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC. – WATER DIVISION
DOCKET NO. W-02527A-09-0033

On January 30, 2009 Graham County Utilities, Inc. ("GCU" or "Company") filed an application for its Water Division ("GCU-Water") with the Arizona Corporation Commission ("Commission") asking for authorization to borrow no more than $250,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") and to encumber its utility assets in conjunction with the loan.

GCU is a member-owned, non-profit Arizona corporation that owns and operates a public water and gas utility in Graham County, Arizona. GCU-Water is a Class "C" public service corporation. The purpose of GCU-Water's request for the loan is to refinance the debt on existing plant. According to GCU-Water's application, it previously borrowed the requested amount of authorized financing from Graham County Electric Cooperative ("GCEC"); thus, the CFC loan will be used to repay GCEC.

GCU filed simultaneously with this application for GCU-Water a similar application for authorization for its Gas Division ("GCU-Gas") to borrow no more than $800,000 for the purposes of refinancing the debt on existing plant previously constructed with funds borrowed from GCEC. GCU's combined request for authorization to refinance the existing obligations to GCEC is $1,050,000. Since GCU is the legal entity with responsibility for the obligations for GCU-Gas and GCU-Water, Staff's financial analysis is performed for GCU based on the combined GCU-Gas and GCU-Water requests for authorization to borrow funds.

As of December 31, 2008, GCU's combined capital structure consisted of 6.3 percent short-term debt, 83.4 percent long-term debt (exclusive of the unauthorized GCEC obligations), and 10.3 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum, and it is composed of 5.0 percent short-term debt, 87.0 percent long-term debt and 8.0 percent equity. Using the operating results for the 12-month period ended September 30, 2008, Staff calculated a pro forma negative 0.53 times interest earned ratio ("TIER") and positive 0.22 debt service coverage ratio ("DSC"). The DSC results show that cash flow from operations with existing rates is not sufficient to cover all obligations. However, GCU-Water and GCU-Gas have pending rate cases with the Commission (Docket Nos. W-02527A-09-0088 and G-02527A-09-0201, respectively).

Using Staff's recommended combined operating income in the pending rate cases and a capital structure updated to December 31, 2008, and issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum; Staff calculated a pro forma capital structure of 4.7 percent short-term debt, 89.2 percent long-term debt and 6.1 percent equity; and a pro forma 2.18 TIER and 1.59 DSC. Under this scenario, the DSC results show that cash flow from operations would be sufficient to cover all obligations.

Staff concludes that GCU-Water's implemented capital projects are appropriate and that the related cost estimates are reasonable. Staff makes no "used and useful" determination of the proposed improvements nor any conclusions for rate base or ratemaking purposes.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within GCU's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur amortizing debt in an amount not to exceed $1,050,000 (combined gas and water divisions) for a period of 28-to-32 years at a rate not to exceed that available from CFC.

Staff further recommends that the Commission authorize GCU to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285.

Staff further recommends that any unused authorizations to issue debt granted in this proceeding terminate within twelve months of a decision in this docket.

Staff further recommends authorizing GCU to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that copies of the executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

TABLE OF CONTENTS

SCHEDULES

ATTACHMENTS

INTRODUCTION

On January 30, 2009 Graham County Utilities, Inc. ("GCU" or "Company")filed an application for its Water Division ("GCU-Water") with the Arizona Corporation Commission ("Commission") asking for authorization to borrow no more than $250,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") and to encumber its utility assets in conjunction with the loan.

PUBLIC NOTICE

On August 4, 2009, the Company filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *Eastern Arizona Courier* on July 8, 2009. The *Eastern Arizona Courier* is a bi-weekly newspaper of general circulation in and around the city of Safford, the county of Graham, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

GCU is a member-owned, non-profit Arizona corporation that owns and operates a public water and gas utility in Graham County, Arizona. GCU-Water is a Class "C" public service corporation.

GCU filed simultaneously with this application for GCU-Water a similar application for authorization for its Gas Division ("GCU-Gas") to borrow no more than $800,000 for the purposes of refinancing the debt on existing plant previously constructed with funds borrowed from GCEC. GCU's combined request for authorization to refinance the existing obligations to GCEC is $1,050,000. Since GCU is the legal entity with responsibility for the obligations for GCU-Gas and GCU-Water, Staff's financial analysis is performed for GCU based on the combined GCU-Gas and GCU-Water requests for authorization to borrow funds.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for Graham County Utilities Water Division.

PURPOSE AND DESCRIPTION OF THE REQUESTED APPROVAL

The purpose of GCU-Water's request for the loan is to refinance the debt on existing plant. According to GCU-Water's application, it previously borrowed the requested amount of authorized financing from Graham County Electric Cooperative ("GCEC"); thus, the CFC loan will be used to repay GCEC.

A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached to the rate case filing (Docket No. W-02527A-09-0201). The Company provided Staff with a copy of a spreadsheet showing costs of general capital improvements constructed from 2000 to 2008. The Company did not provide a break-out of the specific plant and associated costs.

The prior capital improvements and costs appear to be reasonable and appropriate. However, no "used and useful" determination of the prior plant was made, and no conclusions should be inferred for rate making or rate base purposes.

FINANCIAL ANALYSIS

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects The Company's historical financial information for the year ended September 30, 2008. Column [B] presents pro forma financial information that modifies Column [A] to reflect a 30-year, $1,050,000 amortizing loan at 7.9 percent per annum. Column [C] presents pro forma financial information that modifies Column [B] to reflect Staff's recommended combined operating income in the pending rate cases for GCU-Water and GCU-Gas (Docket Nos. W-02527A-09-0201 and G-02527A-09-0088, respectively), a capital structure updated to December 31, 2008, and issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum.

TIER

TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long-term but does not mean that debt obligations cannot be met in the short-term.

DSC

Debt service coverage ratio ("DSC") represents the number of times internally-generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended September 30, 2008, the GCU's experienced a negative 0.71 TIER and a positive 0.26 DSC. The pro forma for GCU under the scenario described above for Column [B] results in a negative 0.53 TIER and positive 0.22 DSC. The pro forma for GCU under the scenario described above for Column [C] results in a 2.18 TIER and a 1.59 DSC.

Capital Structure

As of December 31, 2008, GCU's combined capital structure consisted of 6.3 percent short-term debt, 83.4 percent long-term debt (exclusive of the unauthorized GCEC obligations), and 10.3 percent equity (Schedule JCM-1, Column [A], lines 19-25). Issuance of the proposed $1,050,000 30-year amortizing loan at 7.9 percent per annum would result in a capital structure composed of 5.0 percent short-term debt, 87.0 percent long-term debt and 8.0 percent equity (Schedule JCM-1, Column [B], lines 19-25). Updating Column [B} to reflect balances at December 31, 2008, results in a capital structure composed of 4.7 percent short-term debt, 89.2 percent long-term debt and 6.1 percent equity (Schedule JCM-1, Column [C], lines 19-25).

Capital Structure inclusive of AIAC and CIAC

As of September 30, 2008, the Company's capital structure, inclusive of Advances In Aid of Construction ("AIAC") and Net Contributions In Aid of Construction ("CIAC")[1], consisted of 6.3 percent short-term debt, 83.4 percent long-term debt, 10.3 percent equity, 0.0 percent AIAC and 0.0 percent CIAC (Schedule JCM-1, Column [A], lines 30-40).

CONCLUSION AND RECOMMENDATIONS

Staff concludes that the Company's implemented capital projects are appropriate and that the related cost estimates are reasonable. Staff makes no "used and useful" determination of the proposed improvements nor any conclusions for rate base or ratemaking purposes.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within GCU's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur amortizing debt in an amount not to exceed $1,050,000 (combined gas and water divisions) for a period of 28-to-32 years at a rate not to exceed that available from CFC.

Staff further recommends that the Commission authorize GCU to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285.

Staff further recommends that any unused authorizations to issue debt granted in this proceeding terminate within twelve months of a decision in this docket.

Staff further recommends authorizing GCU to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

---

[1] Contributions in Aid of Construction less Amortization of Contributions in Aid of Construction.

Staff further recommends that copies of the executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

FINANCIAL ANALYSIS

Graham County Utilities, Inc. (Gas and Water)
Selected Financial Information

	[A][1] *9/30/2008*		[B][2] *Pro Forma*		[C][3] *Pro Forma*	
Operating Income	-$138,884		-$138,884		$572,019	
Depreciation & Amort.	$246,611		$246,611		$204,008	
Income Tax Expense	$0		$0		$0	
Interest Expense	$195,057		$263,586		$261,982	
Repayment of Principal	$219,665		$228,612		$227,249	
TIER						
[1+3] ÷ [5]	-0.71		-0.53		2.18	
DSC						
[1+2+3] ÷ [5+6]	0.26		0.22		1.59	
Capital Structure						
Short-term Debt	$238,628	6.3%	$238,628	5.0%	$227,249	4.7%
Long-term Debt	$3,134,000	83.4%	$4,175,053	87.0%	$4,322,944	89.2%
Common Equity	$386,170	10.3%	$386,170	8.0%	$297,480	6.1%
Total Capital	$3,758,798	100.0%	$4,799,851	100.0%	$4,847,673	100.0%
Capital Structure (inclusive of AIAC and Net CIAC)						
Short-term Debt	$238,628	6.3%	$247,569	5.1%	$227,249	4.7%
Long-term Debt	$3,134,000	83.4%	$4,175,053	86.8%	$4,322,944	89.2%
Common Equity	$386,170	10.3%	$386,170	8.0%	$297,480	6.1%
Advances in Aid of Construction ("AIAC")	$0	0.0%	$0	0.0%	$0	0.0%
Contributions in Aid of Construction ("CIAC") [4]	$0	0.0%	$0	0.0%	$0	0.0%
Total Capital (Inclusive of AIAC and CIAC)	$3,758,798	100.0%	$4,808,793	100.0%	$4,847,673	100.0%
AIAC and CIAC Funding Ratio [5] (36+38)/(40)	0.0%		0.0%		0.0%	

[1] Column [A] is based on audited 2008 financial information for the year ended December 31, 2008 (excludes GCEC obligations).
[2] Column [B] reflects the issuance of $1.05 Million Loan at 7.9 percent.
[3] Column [C] reflects revenue proposed by Staff in current Rate Cases (09-0088) & (09-0201) and debt and equity updated to December 31, 2008.
[4] Net CIAC balance (i.e. less: amortization of contributions).
[5] Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

Manrique

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2009 JUL -4 A 11: 53

AZ CORP COMMISSION
DOCKET CONTROL

AUG 0 4 2009

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN

DOCKET NO. W-02527A-09-0033

AFFIDAVIT OF PUBLICATION

Graham County Utilities, Inc. ("GCU") hereby files its affidavit of publication of its public notice in this matter.

RESPECTFULLY SUBMITTED this 4th day of August, 2009.

By ______________________

John V. Wallace
Grand Canyon State Electric Cooperative Association, Inc.
120 N. 44th Street, Suite 100
Phoenix, Arizona 85034

Original and thirteen (13) copies of GCU's Affidavit of Publication filed this 4th day of August, 2009 with:

DOCKET CONTROL
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA)
:ss.
COUNTY OF GRAHAM)

SHERRY L. ENGLISH being first duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the EASTERN ARIZONA COURIER newspaper printed and published bi-weekly in the County of Graham, State of Arizona, and of general circulation in the city of Safford, County of Graham, State of Arizona and elsewhere, and the hereto attached

APPLICATION FOR
AUTHORIZING
BORROWING $1,050,000
FOR GAS DIVISION AND
WATER DIVISION

was printed and published correctly in the regular and entire issue of said EASTERN ARIZONA COURIER for 1 issues, that the first was made on the 8th day of JULY 20 09 and the last publication thereof was made on the 8th day of JULY 20 09 that said publication was made on each of the following dates, to wit:
07/08/09

Request of GRAHAM CTY UTILITIES-LGLS

EASTERN ARIZONA COURIER

By Sherry L English

Subscribed sworn to before me this 8th day of JULY 20 09

OFFICIAL SEAL
MONICA L. WATSON
NOTARY PUBLIC - State of Arizona
GRAHAM COUNTY
My Comm. Expires Dec. 11, 2010

Monica L. Watson
Notary Public in and for the County of Graham, State of Arizona

My Commission Expires: Dec. 11, 2010

PUBLIC NOTICE
OF
AN APPLICATION FOR
AN ORDER
AUTHORIZING THE
BORROWING OF $1,050,000
OF WHICH [illegible] IS FOR
THE GAS DIVISION AND
$250,000 IS FOR THE WATER
DIVISION
BY GRAHAM COUNTY
UTILITIES, INC.

Graham County Utilities, Inc. ("Company") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to borrow $1,050,000 for thirty (30) years to finance construction. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's office located at 9 West Center St., Pima, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.

2. A short statement of the proposed intervenor's interest in the proceeding.

3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.

4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

Req: Graham County Utilities, Inc.

Published: July 8, 2009, in the Eastern Arizona Courier Safford, Arizona 85546.

Exhibit 3

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0087

APPLICATION FOR AN ORDER AUTHORIZING
A LOAN GUARANTEE NOT TO EXCEED $1,050,000
AND TO ENCUMBER ASSETS

DECEMBER 9, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Graham County Electric Cooperative, Inc., Docket No. E-01749A-09-0087, is the responsibility of the Juan C. Manrique.

Juan Manrique

JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I

EXECUTIVE SUMMARY
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0087

On February 26, 2009 Graham County Electric Cooperative, Inc. ("GCEC" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to guarantee a loan for Graham County Utilities, Inc ("GCU") for $1,050,000 ($800,000 for GCU Gas Division and $250,000 for GCU Water Division) from the National Rural Utilities Cooperative Finance Corporation ("CFC").

GCEC is a Class "A" non-profit Arizona corporation that owns and operates a public electric distribution service in Graham County, Arizona. GCEC manages the operations of GCU's Gas and Water Divisions. The Company previously lent GCU the aforementioned funds to temporarily finance the construction of plant. According to the GCEC, it lent $1,050,000 to GCU; thus, GCU's CFC loan will be used to repay GCEC.

According to the Company's application, the CFC loan to GCU is offered contingent upon a guarantee from GCEC in the amount of the total credit facility extended to GCU, secured by a first mortgage lien of GCU's assets and revenues.

A.R.S. § 40-285 states that public service corporations must seek Commission authorization to encumber utility assets.

As of September 30, 2008, GCEC had a capital structure of 1.0 percent short-term debt, 62.5 percent long-term debt and 36.5 percent equity. The Company's cash balance was $689,357 as of September 30, 2007, and $580,635 as of September 30, 2008. The proceeds of the CFC loan will be used by GCU to repay GCEC for funds advanced and already expended. The GCU loan will benefit GCEC when GCEC receives cash from GCU to replace a receivable from GCU which will increase GCEC's liquid assets.

Staff concludes GCEC's proposed guarantee of GCU's loans for the purposes stated in the application is within GCEC's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff further recommends authorizing GCEC to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that copies of the executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

TABLE OF CONTENTS

SCHEDULES

ATTACHMENTS

INTRODUCTION

On February 26, 2009, Graham County Electric Cooperative, Inc. ("GCEC" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to guarantee a loan for Graham County Utilities, Inc ("GCU") for $1,050,000 ($800,000 for GCU Gas Division and $250,000 for GCU Water Division) from the National Rural Utilities Cooperative Finance Corporation ("CFC").

PUBLIC NOTICE

On August 4, 2009, the Company filed an affidavit of publication verifying public notice of its financing guarantee application. The Company published notice of its application in the *Eastern Arizona Courier* on July 8, 2009. The *Eastern Arizona Courier* is a bi-weekly newspaper of general circulation in and around the city of Safford, the county of Graham, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND AND PURPOSE OF THE REQUESTED APPROVAL

GCEC is a Class "A" non-profit Arizona corporation that owns and operates a public electric distribution service in Graham County, Arizona. GCEC manages the operations of GCU's Gas and Water Divisions. The Company previously lent GCU the aforementioned funds to temporarily finance the construction of plant. According to the GCEC, it lent $1,050,000 to GCU, thus, GCU's CFC loan will be used to repay GCEC.

According to the Company's application, the CFC loan to GCU is offered contingent upon a guarantee from GCEC in the amount of the total credit facility extended to GCU, secured by a first mortgage lien of GCU's assets and revenues.

A.R.S. § 40-285 states that public service corporations must seek Commission authorization to encumber utility assets.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for Graham County Electric Cooperative.

FINANCIAL ANALYSIS

Schedule JCM-1, Column [A] illustrates GCEC's capital structure for the year ended September 30, 2008. As of September 30, 2008, GCEC's capital structure consisted of 1.0 percent short-term debt, 62.5 percent long-term debt, and 36.5 percent equity. Staff typically recommends capital structures with a minimum of 30 percent equity as appropriate to provide a balance of cost and financial risk for non-profit cooperatives and ratepayers. Since the proceeds of the CFC loan will be used by GCU to repay GCEC for funds advanced and already expended, the GCU loan will benefit GCEC when GCEC receives cash from GCU to replace a receivable from GCU which will increase GCEC's liquid assets. GCEC's receipt of the proceeds from GCU's $1,050,000 loan will have no direct impact to GCEC's capital structure.

GCEC's cash balance was $689,357 as of September 30, 2007, and $580,635 as of September 30, 2008.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that GCEC's proposed guarantee of GCU's loans for the purposes stated in the application is within GCEC's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff further recommends authorizing GCEC to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that copies of the executed loan documents be filed with Docket Control, as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

Graham County Electric Cooperative, Inc
Docket No. E-01749A-09-0087
Application For Financing Guarantee

FINANCIAL ANALYSIS

Selected Financial Information

	[A][1] *9/30/2008*	
Capital Structure		
Short-term Debt	$266,263	1.0%
Long-term Debt	$16,860,003	62.5%
Common Equity	$9,846,799	36.5%
Total Capital	$26,973,065	100.0%

[1] Column [A] is based on audited 2008 financial information for the year ended September 30, 2008.

Manrique

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2009 JUL -4 A 11: 54

AZ CORP COMMISSION
DOCKET CONTROL

RECEIVED

AUG 0 4 2009

CORP COMM
Director Utilities

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. APPROVAL OF A LOAN GUARANTEE

DOCKET NO. E-01749A-09-0087

AFFIDAVIT OF PUBLICATION

Graham County Electric Cooperative, Inc. ("GCEC") hereby files its affidavit of publication of its public notice in this matter.

RESPECTFULLY SUBMITTED this 4th day of August, 2009.

By ______________________
John V. Wallace
Grand Canyon State Electric Cooperative Association, Inc.
120 N. 44th Street, Suite 100
Phoenix, Arizona 85034

Original and thirteen (13) copies of GCEC's Affidavit of Publication filed this 4th day of August, 2009 with:

DOCKET CONTROL
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STATE OF ARIZONA)
:ss.
COUNTY OF GRAHAM)

PUBLIC NOTICE OF AN APPLICATION FOR AN ORDER AUTHORIZING THE BORROWING OF $1,050,000 BY GRAHAM COUNTY UTILITIES, INC. [illegible] GUARANTEED BY GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Graham County Utilities, Inc. ("Company") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicant to borrow $1,050,000 for thirty (30) years to finance construction. Graham County Electric Cooperative, Inc. has also agreed to guarantee the loan. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's office located at 9 West Center St., Pima, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.

2. A short statement of the proposed intervenor's interest in the proceeding.

3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.

4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

Req.: Graham County Utilities, Inc.

Published: July 8, 2009, in the Eastern Arizona Courier, Safford, Arizona 85546

AFFIDAVIT OF PUBLICATION

SHERRY L. ENGLISH being first duly sworn, deposes and says: That (he) (she) is the Agent to the Publisher of the EASTERN ARIZONA COURIER newspaper printed and published bi-weekly in the County of Graham, State of Arizona, and of general circulation in the city of Safford, County of Graham, State of Arizona and elsewhere, and the hereto attached

APPLICATION FOR
AUTHORIZING
BORROWING $1,050,000
BY GRAHAM COUNTY
UTILITIES

was printed and published correctly in the regular and entire issue of said EASTERN ARIZONA COURIER for 1 issues, that the first was made on the 8th day of JULY 20 09 and the last publication thereof was made on the 8th day of JULY 20 09 that said publication was made on each of the following dates, to wit: 07/08/09

Request of GRAHAM CTY UTILITIES-LGLS

EASTERN ARIZONA COURIER

By Sherry L English

Subscribed sworn to before me this 8th day of JULY 20 09

OFFICIAL SEAL
MONICA L. WATSON
NOTARY PUBLIC - State of Arizona
GRAHAM COUNTY
My Comm. Expires Dec. 11, 2010

Monica L. Watson

Notary Public in and for the County of Graham, State of Arizona

My Commission Expires: Dec. 11, 2010

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	)	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	)	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	)	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	)	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	)	DOCKET NO. E-01749A-09-0087

DIRECT

TESTIMONY

OF

CANDREA ALLEN

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

EXHIBIT
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GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

Staff's testimony contains recommendations regarding some of Graham County's proposed modifications to its Rules and Regulations. Staff's testimony also includes recommendations regarding Graham County's proposed increases to its Rates and Charges for Other Services. In addition, Staff's testimony addresses and makes recommendations regarding Graham County's overcharge for line extensions.

INTRODUCTION

Q. Please state your name and business address.

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

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

A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission as a Public Utilities Analyst. My duties include evaluation of various utility applications and review of utility tariff filings.

Q. Please describe your educational background and work experience.

A. I have a Bachelor of Arts from the University of Oklahoma. I have been employed by the Arizona Corporation Commission for approximately three years.

Q. As part of your employment responsibilities, were you assigned to review matters contained in Docket No. G-02527A-09-0088?

A. Yes.

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

A. My testimony provides Staff's recommendations regarding the proposed changes to Graham County Utilities, Inc.-Gas Division's ("Graham County") Rules and Regulations including the elimination of its free footage. In addition, my testimony includes Staff's recommendations for the increases in rates to various services proposed by Graham County. Further, my testimony provides Staff's recommendations regarding the issue of Graham County incorrectly charging its customers for line extensions.

RULES AND REGULATIONS

Q. Has Graham County proposed to modify its Rules and Regulations?

A. Yes. In its proposed rules and regulations, Graham County has included language directly from Arizona Administrative Code ("Code") R14-2-301 through R14-2-314.

Q. Does Staff oppose conforming the language of Graham County's Rules and Regulations to the Arizona Administration Code?

A. No.

Q. Has Graham County proposed any other modifications to its Rules and Regulations?

A. Yes. Graham County has also proposed several modifications to its rules and regulations, including eliminating its current free footage allowance.

Q. What changes is Graham County proposing regarding its free main line extension and free service line extension?

A. Currently, Graham County's Rules and Regulations allow a maximum amount of one hundred and fifty (150) feet of free main line extension and free service line extension. Graham County is proposing to eliminate the free main line extension and service line extension which will require a customer requesting a line extension and/or service line installation to pay the entire cost of the line extension and one-half of the over-head costs associated with that particular customer.

Q. Why would the customer only be required to pay one-half of the overhead costs?

A. John Wallace from Grand Canyon State Electric Cooperative Association filed direct testimony on behalf of Graham County. In his direct testimony, Mr. Wallace stated that Graham County will continue to pay one-half of the over-head costs because the

Cooperative is concerned that customers and developers will choose not to have gas service installed if the cost to connect gas service is too high.

Q. Does Staff support Graham County's proposed elimination of its free line extension and free service line extension?

A. Yes. Staff notes that the elimination of the free footage for line extensions was granted by the Commission for Arizona Public Service Company (Decision No. 70185), Graham County Electric Cooperative, Inc. (Decision No. 70289), Sulphur Springs Valley Electric Cooperative, Inc. (Decision No. 71274), Trico Electric Cooperative, Inc. (Decision No. 71230), and UNS Electric, Inc. (Decision No. 70360). In addition, Staff notes that Graham County is the first gas utility to propose elimination of free footage.

However, Staff does not believe that Graham County should continue to pay one-half of the over-head costs for the free main line extension and free service line extension. Staff believes that eliminating the over-head costs paid by Graham County would make Graham County's Main Line Extension and Service Line Extension Policies consistent with line extension policies that have been approved by the Commission in recent years.

Q. Should Graham County make special provisions to phase in the elimination of the free main line extensions and free service line extensions?

A. Yes. Staff believes that any potential customer who has been given a main line extension or service line extension estimate or quote by Graham County up to one year prior to an Order in this matter should be automatically exempt from the proposed main line extension and service line extension policy and be given the free footage for the line extensions as specified in Graham County's current Rules and Regulations.

RATES AND CHARGES FOR OTHER SERVICES

Q. Has Graham County proposed any changes to the rates and charges for other services?

A. Yes. Currently, Graham County is proposing to make the following changes to its charges for other services:

Description of Service	Current Rate	Proposed Rate	Difference
Establishment of Service-Regular Hours	$20.00	$30.00	$10.00
Establishment of Service-After Hours	$35.00	$50.00	$15.00

Graham County has indicated that these charges are being increased to reflect its increased costs to provide these services. Staff believes that the proposed charges will help cover the increased costs incurred by Graham County to provide these services.

In its application, Graham County included an increase to its After Hours Service Calls-Consumer Caused charge from $50.00 to $70.00. However, in response to Staff's data request, Graham County has indicated that it proposes to remove the charge from its tariff because it has never applied the charge and does not anticipate the charge being applicable in the future. Staff has no objection to Graham County removing the After Hours Service Calls-Consumer Caused charge from its proposed tariff.

Q. Is Graham proposing to add or eliminate any charges?

A. Graham County is proposing to eliminate the Reestablishment of Service-Regular Hours charge ($30.00) and the Reestablishment of Service-After Hours charge ($45.00). According to Graham County, there is no difference between the cost to reconnect a customer and the cost to reestablish service to a customer[1]. In addition, Staff believes that the elimination of the Reestablishment of Service-Regular Hours charge and the Reestablishment of Service-After Hours charge will help prevent potential confusion between the two services.

Q. Has Graham County proposed any other changes to it charges?

A. Yes. Graham County has also proposed a change to its Late Payment charge. Currently, Graham County has a late payment charge of one and one-half percent (1.5%). Graham County is proposing to include a $5.00 minimum late payment charge with the 1.5%. In other words, Graham County is proposing that customers pay a $5.00 minimum or 1.5% late payment charge, whichever is greater. Graham County has indicated that in August of 2009, it had 1,085 delinquent bills and incurred a cost of $0.51 per bill for delinquent notices.

Q. Does Staff agree with the proposed change to Graham County's Late Payment charge?

A. No. Staff does not believe the cost incurred by Graham County justifies the proposed $5.00 minimum late payment charge, and does not believe that Graham County's proposed change to its late payment charge is in the public interest. Therefore, Staff recommends that Graham County's current late payment charge remain in effect.

[1] Graham County currently charges a reestablishment charge to a customer who has requested to be disconnected (e.g. a winter customer who leaves for the summer). A reconnection charge is charged to a customer is disconnected for non-payment.

OVERCHARGES FOR LINE EXTENSIONS

Q. Please describe Staff's recommendations regarding Graham County incorrectly charging its customers for line extensions.

A. According to Mr. Wallace's direct testimony, Graham County has not been following line extension policy approved in Decision No. 58437. Graham County employees have been crediting each customer who has requested a line extension policy a maximum amount of $200.00, rather than the maximum allowed free footage of 150 feet, resulting in an overcharge. Mr. Wallace's testimony also indicated that Graham County has estimated that since January 1, 2004, it has overcharged customers by an estimated total of $226,765.29 for line extensions.

Q. How should Graham County address its overcharges for line extensions?

A. Graham County has provided Staff with information that identifies all the customers with closed work orders that have been overcharged for line extensions between 2004 and 2009. Staff believes that Graham County should be required to refund each customer that has been incorrectly charged for a line extension.

In the case of a developer, Staff believes that the incorrect line extension charges were allocated between existing homeowners and collected through the price of the home paid by the homeowner. Therefore, in the case where a developer was over charged for a line extension, Staff believes that the existing homeowners should receive the refund. In the case where there are customers who were incorrectly charged for line extensions who are no longer customers of Graham County, Staff recommends that the refund should be given to the existing property owner. Staff believes that if the original property owner has sold a home or business then the cost of the line extension paid was embedded in the total cost of the property paid by the existing property owner.

In addition, Staff recommends that Graham County be required to refund the customers it overcharged for line extensions over the next three years after the effective date of the Decision in this rate case. Staff believes that within the first year of the effective date of the Decision in this matter, Graham County should repay all customers that have an overcharge balance of a maximum of $175.00 dollars. If a customer's overcharge balance is greater than $175.00 and no greater than $500.00, then the remainder of the overcharge balance should be repaid within the second year of the effective date of the Decision in this matter. If a customer's overcharge balance is greater than $500.00, then the remainder of the overcharge balance not paid in the first or second year should be repaid within the third year of the effective date of the Decision in this matter. The following examples illustrate Staff's repayment methodology:

- **Customer A** has a total overcharge balance of $150.00. Graham County should repay the total overcharge balance within the first year of the effective date of the Decision in this matter.
- **Customer B** has a total overcharge balance of $350.00. Graham County should repay a maximum of $175.00 within the first year of the effective date of the Decision in this matter. The remaining balance of $175.00 should be repaid within the second year of the effective date of the Decision in this matter.
- **Customer C** has a total overcharge balance of $900.00. Graham County should repay a maximum of $175.00 within the first year of the effective date of the Decision in this matter. Within the second year, Graham County should repay a maximum of $500.00 of the remaining total overcharge balance of $725.00. Finally, within the third year, Graham County should repay the remainder of the total overcharge balance of $225.00.

With Staff's proposed repayment method described above, within the first year of the effective date of the Decision in this matter, Graham County would repay a total of $72,576.36; Graham County's second year overcharge repayment would total $79,907.07; and in the third year of overcharge repayment, Graham County would repay a total of $74,281.86, for a total repayment amount of $226,765.29.

SUMMARY OF STAFF RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. 1. Staff recommends that Graham County's proposed Rules and Regulations be adopted, as discussed in this testimony.

2. Staff recommends that any potential customer who has been given a free main line extension and service line extension estimate or quote by Graham County up to one year prior to an Order in this matter should be given the free line extensions as specified in Graham County's current Rules and Regulations.

3. Staff recommends that Graham County's proposed changes to its Establishment of Service-Regular Hours charge and Establishment of Service-After Hours charge be adopted as discussed in this testimony.

4. Staff recommends that Graham County's proposed elimination of its After Hours Service Calls-Customer Calls charge be adopted as discussed in this testimony.

5. Staff recommends that Graham County's current Late Payment charge of one and one-half percent (1.5%) remain unchanged. Therefore, Staff believes Graham County's proposed $5.00 minimum late payment charge should not be adopted.

6. Staff recommends that Graham County refund each customer it overcharged for a line extension within three years of a decision in this rate case as discussed in this testimony.

Q. Does this conclude your direct testimony?

A. Yes it does.

ARIZONA CORPORATION COMMISSION
STAFF'S SIXTEENTH SET OF DATA REQUESTS TO
GRAHAM COUNTY UTILITIES GAS DIVISION
DOCKET NOS.: G-02527A-09-0088 and G-02527A-09-0032
NOVEMBER 23, 2009

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

CA 16.1 Referring to Graham County's proposed increase to its After Hours Service Calls-Consumer Caused, please define Consumer Caused.

Respondent: Than Ashby (Office Manager)
***Response:** Upon further analysis of the existing and purposed gas service charges, we realized that we could not think of a time when we have ever applied this charge to a consumer. GCU has always responded to customer calls relating to gas leaks for safety reasons without charging a service fee regardless of whose side of the meter the issue is on. We don't want a customer to hesitate calling us in this type of situation because they didn't want to pay a service fee. It's unclear why this service charge was ever setup in the beginning. It probably originated from "wording" used on the electric side for GCEC. GCU purposes to remove this service charge entirely since it has never been charged before.*

CA 16.2 Please explain why the proposed After Hours Service Calls-Consumer Caused charge is greater than the Reconnection of Service-After Hours charge and the proposed Establishment of Service-After Hours charge. Please include supporting all calculations.

Respondent: Than Ashby (Office Manager)
***Response:** The reason for the proposed increase was due to the increased cost in labor and overhead since 2005 when these service charges were last approved. GCU no longer desires to have an "After Hours Service Calls – Consumer Caused" charge in the tariff since it has never applied such a fee in the past and it can't see a scenario where it would be applicable. (See answer to CA 16.1) GCU proposes that this service fee be removed from the tariff.*

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
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IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	DOCKET NO. E-01749A-09-0087

SURREBUTTAL

TESTIMONY

OF

CANDREA ALLEN

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 20, 2010

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Staff's surrebuttal testimony contains specific recommendations regarding Graham County's proposed modifications to its Rules and Regulations. Staff's surrebuttal testimony also addresses and makes recommendations regarding Graham County's overcharge for line extensions.

INTRODUCTION

Q. Please state your name and business address.

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

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

A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission as a Public Utilities Analyst. My duties include evaluation of various utility applications and review of utility tariff filings.

Q. Have you previously filed testimony in this docket?

A. Yes. I filed direct testimony regarding Graham County Electric Cooperative, Inc.'s ("Graham County") proposed changes to its Rules and Regulations, Rates and Charges for other Services, and Graham County's overcharge for line extension.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to address Mr. Wallace's rebuttal testimony concerning Staff's recommendations on Graham County's Rules and Regulations and the repayment of the overcharged line extensions.

RULES AND REGULATIONS

Q. What are Staff's comments regarding Mr. Wallace's rebuttal testimony on Graham County's Main Line and Service Line Extension Policy?

A. In his rebuttal testimony, Mr. Wallace expressed concerns about potential customers/developers not electing to install gas service in homes if they had to pay the entire cost associated with main line and/or service line extensions. Staff believes that existing and/or potential customers requesting line extensions should pay the entire cost of a main line and/or service line extension. In addition, Staff continues to believe that eliminating the over-head costs paid by Graham County would make Graham County's Main Line and Service Line Extension Policies consistent with line extension policies that have been approved by the Commission in recent years. Mr. Wallace's concern that potential customers/developers may elect not to install gas service in homes if they had to pay the entire cost associated with main line and/or service line extensions is at this point, speculation.

OVERCHARGES FOR LINE EXTENSIONS

Q. What are Staff's comments regarding Mr. Wallace's rebuttal testimony on the over-charged Line Extensions?

A. Staff continues to believe that the existing property owners that were over-charged for a line extension should be refunded the amount that was overpaid to Graham County. Graham County should repay the total over-charge amount over a three year period, as specified in Staff's direct testimony.

SUMMARY OF STAFF RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. 1. Staff recommends that Graham County's proposed Rules and Regulations be adopted, as discussed in its direct testimony.

2. Staff recommends that Graham County refund each existing property owner it overcharged for a line extension within three years of a decision in this rate case as discussed in this surrebuttal testimony.

Q. Does this conclude your surrebuttal testimony?

A. Yes it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

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Staff's testimony concerns proposed changes to the base cost of power and the Purchased Gas Adjustor ("PGA") mechanism. Staff proposes to set the base cost of power to zero, so that the entire cost of gas would be recovered through the PGA rate, and to increase the bandwidth limit from $0.10 per therm per year to $0.15 per therm per year, and to increase the thresholds on the PGA bank balance to $250,000 for over- and under-collections. Staff also proposes that a Demand-side Management ("DSM") Adjustor mechanism be established for Graham County Utilities, Inc, Gas Division ("Graham" or "Cooperative"), so that the Cooperative can recover its costs, should it develop Commission-approved DSM programs at some point in the future.

SUMMARY OF STAFF RECOMMENDATIONS

- Staff recommends that the base cost of power be set at zero and that, going forward, the entire cost of gas be recovered through the purchased gas adjustor ("PGA").
- Staff proposes to revise the requirement that Staff be contacted in the event that the threshold is exceeded and Graham believes that a surcharge or surcredit is unnecessary. Instead, if the threshold is exceeded and Graham believes that a surcharge or surcredit is unnecessary, the Cooperative should file a notice in this Docket explaining its position.
- Staff recommends that the thresholds be revised upward to require filing with the Commission when the threshold, positive or negative, reaches or exceeds $250,000 for three consecutive months (although the Cooperative should file an application sooner, if appropriate).
- Staff recommends that the bandwidth be increased from $0.10 to $0.15 per therm per year.
- Staff recommends that a DSM adjustor mechanism be established for Graham, to allow recovery of DSM costs in the event the Cooperative develops one or more Commission-approved DSM programs.
- Staff recommends that Graham's DSM adjustor mechanism should function as described in Staff's Direct Testimony.

INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. My duties as a Public Utilities Analyst IV include reviewing and analyzing applications filed with the Commission, and preparing memoranda and proposed orders for Open Meetings. I also assist in the management of rate cases and track monthly fuel adjustor reports. In addition, my duties have included preparing written testimony in UNS Gas, UNS Electric and Sulphur Springs rate cases, and testifying during the related hearings.

Q. Please describe your educational background and professional experience.

A. In 1979, I graduated Magna Cum Laude from Arizona State University, receiving a Bachelor of Arts degree in History. In 1987, I received a Master's Degree in Political Science from the University of Wisconsin, Madison. I have been employed by the Commission since September of 2006.

Q. What is the subject matter of this testimony?

A. This testimony will present Staff's analysis and evaluation of the base cost of gas, the purchased gas adjustor, and the set-up for a demand-side management adjustor.

BASE COST OF PURCHASED POWER

Q. What is the Cooperative's current base cost of power?

A. Graham's current base cost of gas is $0.59056 per therm, as ordered in Decision No. 67748 (April 11, 2005).

Q. What is the Cooperative's proposed base cost of power?

A. In his direct testimony, John V. Wallace proposed a base cost of power of $0.81775 per therm, calculated by dividing the total number of therms sold in the Test Year (2,933,418) into the adjusted level of purchased gas expense for the Test Year ($3,398,790).

Q. Does Staff agree that the base cost of power should be $0.81775 per therm?

A. No. Staff recommends that the base cost of power be set at zero and that, going forward, the entire cost of gas be recovered through the purchased gas adjustor ("PGA").

Q. What would be the impact on customers of setting the base cost of power at zero and recovering the entire cost of gas through the PGA rate?

A. It would have no impact on the overall rates paid by customers. The main effect of this change would be that the entire cost of gas would be reflected in a single amount on the bill, making the customer's actual cost for gas more transparent and easier to understand.

Q. How does Graham describe the impact of Staff's proposed change?

A. In response to a data request (STF. 7.2), Graham stated that "there is no impact, for Graham and its customers, of setting the base cost of gas to zero and reflecting the entire cost of gas in the PGA rate."

Q. Has this been done in other gas rate cases?

A. Yes. In recent rate cases involving Southwest Gas, Duncan Valley and UNS Gas, the base cost of gas was set to zero, resulting in the entire cost of gas being recovered through the purchased gas adjustor.

Q. How should Graham calculate future PGA rates in a way that accommodates setting the base cost of gas to zero?

A. Currently, Graham subtracts the base cost of gas from its 12-month rolling average, in order to arrive at the PGA rate. Beginning in the month when the base cost of gas is set to zero, the 12-month rolling average should be calculated, but the base cost of gas should no longer be subtracted. Going forward, this means that the entire 12-month average (limited by a cap on changes) is reflected in the PGA rate and the base cost of gas would no longer exist as a separate charge. (The functioning of the PGA Mechanism is discussed in more detail in the next section.)

Q. How should the PGA rate bandwidth be applied during the first twelve months following implementation of the change to the PGA adjustor?

A. Staff recommends that, for the first twelve months, Graham apply the bandwidth by comparing the new monthly PGA rate to the rolling 12-month commodity average. This would provide a consistent benchmark for applying the PGA bandwidth while transitioning to a zero base cost of gas.

THE CURRENT PURCHASED GAS ADJUSTOR

Q. How is Graham's cost of gas currently recovered?

A. Like other gas utilities, Graham is not allowed to make a profit on the cost of natural gas it provides, but is allowed to recover the cost of the gas, along with associated transportation costs. Currently, these costs are recovered through two avenues: (i) the base cost of gas, and (ii) the PGA rate (which functions as described below).

In addition, a surcharge or surcredit (negative surcharge) may be added in order to pay down under- or over-collections that accumulate due to variations in the cost of gas. Any surcharges or surcredits are on a per-therm basis and must be approved by the Commission.

Q. What is the base cost of gas and how is it calculated?

A. The base cost of gas is set during a rate case and is an estimate, based on the actual cost of gas during the Test Year, of how much natural gas will cost in the future. It is typically determined by dividing the total purchased gas costs for the Test Year by the total number of therms sold during the Test Year. The base cost is fixed and does not change until it is reset in the next rate case.

Q. What is the purpose of the PGA rate?

A. The PGA rate is flexible and adjusts month-to-month to compensate for changes in the cost of gas. This is necessary because, over time, the actual market cost of gas can vary significantly from the base cost of gas that was set during a rate case. (For example, the Energy Information Administration website states that, in 2008, city gate prices in Arizona ranged from a high of $9.92 per thousand cubic feet to a low of $5.67.)

Q. Please provide details on how the PGA rate is currently calculated.

A. The PGA rate is the difference between the base cost of gas and a rolling average cost of gas. It is calculated by dividing the 12-month total for the cost of gas by the 12-month total for therm sales, then subtracting the base cost of gas. (If the base cost of gas is changed to zero, the PGA rate would then reflect the entire cost of gas.) There is also a limit, called a bandwidth, on how much the PGA rate can increase or decease over a 12-month period.

Q. Why is the PGA rate based on a 12-month rolling average?

A. As discussed herein, the cost of natural gas is volatile, and prices can either increase or decrease dramatically over a relatively short period of time. Basing the PGA rate on a 12-month average smoothes out the short term shifts in price, and cushions customers from rate shocks that can occur when natural gas prices spike.

Q. How does Graham's $0.10 annual bandwidth function and what is its purpose?

A. The bandwidth caps changes to the per-therm PGA rate. With the current bandwidth in place, the PGA rate can vary no more than $0.10 from any rate in place during any of the previous 12 months. The bandwidth, like the rolling average, compensates for the volatility of natural gas prices, evening out prices over time and limiting potential rate shocks to Graham's customers. A bandwidth can also result in larger bank balances, particularly during periods when the price of natural gas changes dramatically over a short period of time.

Q. Please describe the PGA bank balance.

A. Because the PGA rate reflects an average cost, and because the bandwidth limits how much the PGA rate can change, the amount recovered each month differs from the actual cost of gas. (It may be higher or lower.) The difference is tracked and recorded in the PGA bank balance, so that under-collections can be recovered by the utility, and over-collections can be returned to the utility's customers. Positive and negative thresholds limit how much the PGA bank balance can be under- or over-collected before a utility must take some sort of action to reduce the bank balance.

Q. Is interest paid on the bank balance?

A. Yes. Interest is applied to the bank balance, whether over- or under-collected. As determined in Decision No. 68600 (in the generic Docket No. 06-0069), the rate is based on the Monthly Three-Month Commercial Financial Paper Rate, as published by the Federal Reserve. Neither Graham nor the Staff has proposed any changes to the interest rate for the Graham bank balance.

Q. Please discuss the PGA bank balance thresholds and describe their purpose.

A. The thresholds for over- and under-collection were set at $150,000 over a decade ago (Decision No. 61255, October 30, 1998). If the PGA bank balance, positive or negative, reaches $150,000, Graham must file an application with the Commission within 45 days to decrease the balance, or contact Staff to discuss why a temporary surcharge or surcredit is not necessary.

This is done through a surcharge, if under-collected, or through a surcredit (also referred to as a negative surcharge), if over-collected. The purpose of the thresholds is: (i) to ensure that under-collections are paid down before becoming so large that resolving them becomes an undue burden for ratepayers; and (ii) to ensure that over-collections are returned to ratepayers in a timely fashion.

PROPOSED CHANGES TO THE PURCHASED GAS ADJUSTOR

Q. Has Graham proposed changes for the bandwidth?

A. Yes. In its responses to Staff's data requests, Graham proposes to either eliminate the $0.10 annual bandwidth, or, to modify the bandwidth so that it allows changes of up to $0.10 *per month* (see response to STF 7.3).

Q. What changes has Graham proposed for the thresholds?

A. Graham proposes to increase the threshold from $150,000 to $400,000 for three consecutive months. Graham states that the three-month time period will allow the Cooperative to determine whether the under- or over-collected bank balance could be resolved without a surcharge or surcredit. (See response to STF 7.4)

Q. Does Staff propose changes to Graham's bandwidth and thresholds and, if so, why?

A. Yes. Staff proposes modest increases to both the bandwidth and thresholds, to make management of the PGA bank balance more efficient. An increased bandwidth makes it less likely that large balances will accumulate, while increased thresholds would allow more opportunity for bank balances to be resolved by the normal workings of the PGA mechanism. These proposals are discussed in more detail, below.

Staff also proposes to revise the requirement that Staff be contacted in the event that the threshold is exceeded and Graham believes that a surcharge or surcredit is unnecessary. Instead, if the threshold is exceeded and Graham believes that a surcharge or surcredit is unnecessary, the Cooperative should file a notice in this Docket explaining its position. This would allow the Commission to review the Cooperative's explanation and to order that an application for a surcharge or surcredit be filed, if the Commission determines that such an application is necessary.

Q. What does Staff recommend with respect to the threshold?

A. Staff recommends that the thresholds be revised upward to require filing with the Commission when the threshold, positive or negative, reaches $250,000 for three consecutive months (although the Cooperative should file an application sooner, if appropriate). At $250,000, Graham's under- and over-collected thresholds would be similar, on a proportionate basis, to over-collected thresholds set for UNS Gas and Southwest Gas in recent rate cases.[1] (Thresholds for under-collection were eliminated for these large, for-profit utilities, since such companies have a strong interest in addressing under-collected balances even without a threshold.)

Q. What does Staff recommend with respect to the bandwidth?

A. In setting a bandwidth, the primary goal is to balance the need to limit rate shocks to customers against timely recovery of gas costs by the utility. Staff recommends that the bandwidth be increased from $0.10 to $0.15 per therm per year, which is the same bandwidth set for UNS Gas and Southwest Gas in recent rate cases. This change would permit more movement by the PGA rate, either upward or downward, and would improve Graham's ability to recover its gas costs without accumulating large balances. At the same time, a $0.15 bandwidth limits how much the PGA rate can change without Commission review and approval, and provides more protection to customers than either eliminating the bandwidth, or opting for a $0.10 per therm monthly bandwidth, as the Cooperative proposes.

[1] The thresholds for over-collection approved for UNS Gas and Southwest Gas, and the thresholds proposed for Graham, have the same trigger ($0.0897) per therm sold during a 12-month period. However, the proposed Graham threshold is rounded up to $250,000 from $238,480 for the sake of clarity.

DSM ADJUSTOR

Q. Does Graham currently have Commission-approved demand-side management ("DSM") programs?

A. No. Graham does not currently have any Commission-approved DSM programs. Graham has informed Staff that it does not plan to institute any DSM or conservation programs before the Commission approves Energy Efficiency Rules. (Response to STF 7.6.)

Q. What does Staff recommend with respect to DSM programs for Graham?

A. Staff recommends that Graham file proposed DSM programs in this docket before the hearing on this rate case.

Q. Does Staff recommend that a DSM adjustor be established for the Cooperative?

A. Yes.

Q. What is the purpose of establishing a DSM adjustor for the Cooperative, if it currently has no Commission-approved DSM programs?

A. If the Cooperative has a Commission-approved DSM program, or programs, at some future date, it will be necessary to recover the associated costs. To effect that recovery, it is necessary to have a DSM adjustor mechanism in place, and a rate case is the most appropriate forum in which to establish a DSM adjustor.

Q. If a DSM adjustor is established during the current rate case, is Graham required to begin utilizing it following completion of the rate case, without further action by the Commission?

A. No. The DSM adjustor being recommended by Staff in this case could only be used to recover DSM costs. Such costs can not be recovered unless and until the Commission approves DSM programs and DSM cost recovery for Graham.

Q. Please describe how the Graham DSM adjustor should operate.

A. When, and if, Graham begins to recover Commission-approved DSM costs, Staff recommends that these costs be assessed to all of Graham's gas customers, unless specifically exempted by the Commission. The DSM charge, once instituted, should be based on a per therm charge and appear as a clearly labeled single line item on customers' bills to provide maximum transparency. Only DSM charges should be recovered through the DSM adjustor. Recovery for the first year of activity should be based on projections reviewed and approved by the Commission. Under- or over-collections for DSM costs in following years should be tracked in a DSM bank balance and any balance should be trued up annually, when the DSM adjustor rate is recalculated. The adjustor rate should be reset annually on a date set by the Commission, and the new adjustor rate must be approved by the Commission.

Q. Does this conclude your direct testimony?

A. Yes, it does.

GCU'S RESPONSES TO
ARIZONA CORPORATION COMMISSION
STAFF'S SEVENTH SET OF DATA REQUESTS TO
GRAHAM COUNTY UTILITIES GAS DIVISION, INC.
DOCKET NO. G-02527A-09-0088
AUGUST 20, 2009

Purchased Gas Adjustor

STF 7.1 Please confirm or correct: only the cost of gas and associated taxes and transportation costs are recovered through Graham's PGA.

Response: **Only the cost of gas and associated taxes and transportation costs are recovered through Graham's PGA.**

Respondent: John V. Wallace

STF 7.2 Please describe the impact, for Graham and its customers, of setting the base cost of gas to zero and reflecting the entire cost of gas in the PGA rate.

Response: **There is no impact, for Graham and its customers, of setting the base cost of gas to zero and reflecting the entire cost of gas in the PGA rate.**

Respondent: John V. Wallace

STF 7.3 Graham's application in this matter does not request a change to the $0.10 annual bandwidth in place for its PGA rate. However, the Application for Negative Surcharge Graham, filed on August 4, 2009, (Docket No. G-02527A-09-0384) states that the $0.10 bandwidth is contributing to the current over-collection. Please describe the impact of the current bandwidth on Graham's bank balance, including calculations, if appropriate, and provide Graham's rationale for maintaining the bandwidth at its current level.

Response: **The Application for Negative Surcharge Graham, filed on August 4, 2009, (Docket No. G-02527A-09-0384) was filed after the rate case application. Graham's bandwidth has historically not allowed it to adequately adjust its PGA rate even during moderate price fluctuations. Graham's rate case application should have contained a request to be allowed to eliminate the $0.10 bandwidth. If an elimination of the bandwidth is not adopted by the Commission, then the bandwidth should be modified to a $0.10 bandwidth per month similar to that adopted for Duncan Valley Electric Cooperative Gas Division. See Attached Schedule STF 7.3.**

Respondent: John V. Wallace

GCU'S RESPONSES TO
ARIZONA CORPORATION COMMISSION
STAFF'S SEVENTH SET OF DATA REQUESTS TO
GRAHAM COUNTY UTILITIES GAS DIVISION, INC.
DOCKET NO. G-02527A-09-0088
AUGUST 20, 2009

STF 7.4 Graham's application in this matter does not request a change to the current $150,000 threshold. Please provide Graham's rationale for maintaining the threshold at its current level.

Response: **Graham's rate case application should have contained a request to be allowed to increase the threshold to $400,000 for three consecutive months. This will allow Graham more time to determine whether a PGA surcharge application is necessary or whether Graham's bank balance can be recovered or refunded without such. See attached Schedule STF 7.3**

Respondent: **John V. Wallace**

<u>Demand-side Management and Conservation Programs</u>

STF 7.5 Does Graham currently have any demand-side management or conservation programs in place? If so, please provide a description of each program.

Response: **Graham does not currently have any demand-side management or conservation programs in place. Graham does provide information and education on conservation through its bi-monthly *Currents* publication, GCU member annual meeting and the county fair.**

Respondent: **John V. Wallace**

STF 7.6 Is Graham currently planning to institute any demand-side management or conservation programs? If so, please provide a description of each program.

Response: **Graham does not plan to institute any demand-side management or conservation programs until the Commission's Energy Efficiency Rules are approved.**

GRAHAM COUNTY UTILITIES, INC. - GAS
PGA BANK BALANCE HISTORY
STF 7.3

DATE	PGA BALANCE	MONTHLY CHANGE
Jan-06	651,077	
Feb-06	440,034	(211,043)
Mar-06	284,433	(155,601)
Apr-06	93,850	(190,583)
May-06	13,025	(80,825)
Jun-06	(57,219)	(70,244)
Jul-06	(76,643)	(19,424)
Aug-06	(85,040)	(8,397)
Sep-06	(76,809)	8,231
Oct-06	(65,929)	10,880
Nov-06	40,338	106,267
Dec-06	203,421	163,083
Jan-07	285,840	82,419
Feb-07	136,135	(149,705)
Mar-07	9,138	(126,997)
Apr-07	(19,620)	(28,758)
May-07	(36,859)	(17,239)
Jun-07	(65,080)	(28,221)
Jul-07	(77,536)	(12,456)
Aug-07	(90,416)	(12,880)
Sep-07	(113,137)	(22,721)
Oct-07	(107,398)	5,739
Nov-07	(53,992)	53,406
Dec-07	156,474	210,466
Jan-08	146,535	(9,939)
Feb-08	24,159	(122,376)
Mar-08	799	(23,360)
Apr-08	(3,510)	(4,309)
May-08	(3,371)	139
Jun-08	17,274	20,645
Jul-08	52,171	34,897
Aug-08	40,085	(12,086)
Sep-08	32,417	(7,668)
Oct-08	32,571	154
Nov-08	85,922	53,351

Dec-08	232,781	146,859
Jan-09	134,784	(97,997)
Feb-09	28,455	(106,329)
Mar-09	(33,676)	(62,131)
Apr-09	(105,957)	(72,281)
May-09	(165,688)	(59,731)
Jun-09	(186,079)	(20,391)
Jul-09	(210,817)	(24,738)

GCU has 4 billing cycles. Meters are read Monday through Wednesday with bills being sent out on Friday.
Cycle 1 billing is 75%-100% prior month usage.
Cycle 2 billing is 50%-75% prior month usage.
Cycle 3 billing is 25%-50% prior month usage.
Cycle 4 billing is 0%-25% prior month usage.

The gas bill is for the entire month but billing is partly from the previous month.
When the seasons change the delay in billing causes wide swings in the PGA balance

This is further aggrivated when we have a 5 week billing cycle every three months.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	DOCKET NO. E-01749A-09-0087

SURREBUTTAL

TESTIMONY

OF

JULIE MCNEELY-KIRWAN

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 20, 2010

EXHIBIT
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EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

This surrebuttal testimony addresses issues raised by Graham County Utilities ("Graham") in its rebuttal testimony, including the Cooperative's counter-proposal concerning Staff's recommendations for the Purchased Gas Adjustor mechanism.

Over the last two decades, natural gas prices have experienced periods of volatility and could become volatile in the future. It is Staff's position that the narrower bandwidth proposed in Staff's direct testimony ($0.15 per therm, annually) would provide better protection against rate shock than the much broader bandwidth proposed by the Company ($0.10 per therm, per month).

Staff will also be addressing Graham's rebuttal testimony with respect to the Demand Side Management filing proposed by Staff, and its timing.

INTRODUCTION

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

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

Q. Have you previously filed testimony in this docket?

A. Yes. I filed direct testimony addressing Graham's base cost of gas, changes to Graham's Purchased Gas Adjustor ("PGA") mechanism, the establishment of a Demand Side Management ("DSM") adjustor mechanism for possible future DSM programs and the requirement for Graham to propose its own DSM programs.

Q. What is the subject matter of this surrebuttal testimony?

A. Staff's surrebuttal testimony will address the Cooperative's proposal for a $0.10 per therm monthly bandwidth, and will also address Graham's rebuttal testimony regarding Staff's recommendation that Graham file DSM programs in this docket before the hearing on the rate case.

PGA Bandwidth

Q. In its rebuttal testimony, Graham has requested the Commission consider a $0.10 per therm, *monthly* bandwidth, like that adopted for Duncan Rural Services Corporation (now the Gas Division of Duncan Valley Electric Cooperative), as opposed to the $0.15 per therm *annual* bandwidth proposed by Staff in its direct testimony. Does Staff agree that Graham's bandwidth should be identical to Duncan's?

A. No. Staff believes that each case should be determined based on its individual merits and circumstances. However, Staff's recommendation in the Duncan case was consistent with its recommendation in Graham case, in that Staff proposed to apply Duncan's $0.10 bandwidth on an *annual* basis, citing the need for gradualism and rate stability. An amendment presented by a Commissioner, and adopted by the Commission, changed the Duncan $0.10 bandwidth, to make it apply on a monthly basis. (The current Staff proposal for a *$0.15* annual bandwidth would improve Graham's ability to manage its bank balance and is consistent with bandwidths set in the more recent UNS Gas and Southwest Gas rate cases.)

Q. Why does Staff disagree with the broader bandwidth proposed by Graham?

A. Natural gas prices in the United States have remained comparatively low over the winter, and storage levels are comparatively high, but long-term price stability can not be assumed. The volatility of natural gas prices over the last two decades means that reasonable safeguards should be maintained to guard against rate shocks. In the event of a sudden increase in the price of natural gas, the $0.10 per therm monthly bandwidth proposed by the Company would not provide a reasonable limit on how increased costs were passed on to Graham's customers. If multiple increases took place over several months the bill impacts could be significant, particularly if these increases took place in the period leading up to peak usage months.

Q. Please provide an example.

A. As an example of peak usage, in January 2009 Graham's residential customers used an average of 84 therms. At 84 therms, a $0.10 per therm increase during the preceding months would add $8.40 to a residential customer's bill, while a $0.20 increase (over at least two months) would result in an increase of $16.80 and a $0.30 increase (over at least three months) would result in a bill that was $25.20 higher. In short, the multiplying effect of several monthly increases, magnified by higher therm usage during winter months, could have significant bill impacts. (It should be noted that, under the Company proposal of $0.10 per therm per month, the increases and resulting bill impacts could go significantly higher.) Alternatively, under the Staff proposal ($0.15 per year), the maximum total increase over 12 months would result in an increase of $12.60, assuming usage of 84 therms.

Q. Does Staff wish to clarify any of its testimony with respect to its recommendations on the bandwidth?

A. Yes. If the base cost of gas is set to zero and the entire cost of gas is moved into the PGA, (as recommended by Staff in its direct testimony), then the $0.15 bandwidth should be applied against the total cost of gas for the previous 12 months, rather than the PGA adjuster rate for the previous 12 months. Otherwise, the rolling average would include a mixture of PGA rates that allowed for full recovery and PGA rates that represented the difference between the base cost and the total cost. Calculated in this way, the rolling average would no longer represent a meaningful average cost against which to apply a bandwidth.

In the thirteenth month, the $0.15 bandwidth would then be applied against the PGA adjustor rate for the previous 12 months, since there would then be a full 12 months during which the entire cost of gas was recovered through the PGA.

Q. What would be the impact of applying the bandwidth in this way?

A. The bandwidth would be applied against the total cost of gas, rather than a portion of that cost, meaning that the bandwidth would be calculated against a higher number. As an example, if the cost of gas initially consists of $0.06 from base rates and $0.025 from the PGA rate, then changes to zero from base rates and $0.0825 from the PGA rate, the bandwidth would be applied against $0.0825.

<u>**Development of DSM Programs**</u>

Q. In its rebuttal testimony, Graham stated that it would not be realistic to develop DSM programs due to the Cooperative's financial situation and lack of in-house expertise. Does Staff concur?

A. No. With respect to Graham's financial situation, under Staff's recommendation, recovery for DSM activities would be based on projections reviewed and approved by the Commission, with under- or over-collections trued up annually, when the DSM adjustor rate is recalculated and reset. If approved, this type of adjustor mechanism would allow Graham to recover its DSM costs and could do so on a more-current basis.

Graham's lack of in-house expertise would have to be addressed whenever Graham developed an energy efficiency program. Staff recommends that Graham consider one or more of the following options: (i) a program or programs that could be developed in association with a community action agency or governmental entity, such as programs relating to weatherization; (ii) an outside consultant to design an energy efficiency portfolio that would be appropriate for Graham's service territory (an option cited by Graham); and/or (iii) a program or programs the Cooperative could develop in-house entirely, with the assistance of an outside consultant, or in cooperation with Graham County Electric Cooperative.

Q. Graham has indicated in testimony that, if it is required to develop DSM programs, that it should be allowed to develop and file DSM/energy efficiency programs using the time frame contemplated under the energy efficiency rules being developed in Docket No. G-00000C-0800314. Does Staff agree?

A. No. Although a request for additional time to develop detailed and complete proposals is reasonable, it is more logical to tie Graham's compliance to completion of Graham's own rate case than to the natural gas rules currently under development. If the DSM adjustor is approved in the rate case decision, there would then be assurance that Graham would be able to recover its prudent energy efficiency costs.

Accordingly, Staff has revised its proposal that Graham file an application regarding its energy efficiency program proposals before the hearing in this rate case. Staff is now recommending that Graham file its proposed DSM programs within 60 days after the effective date of the rate case decision.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTR OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	))))	DOCKET NO. W-02527A-09-0201
IN MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILTIEIS, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	))))	DOCKET NO. W-02527A-09-0033

DIRECT

TESTIMONY

OF

KATRIN STUKOV

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

DECEMBER 09, 2009

EXHIBIT
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EXHIBIT

INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Katrin Stukov. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since June 2006.

Q. Please list your duties and responsibilities.

A. As a Utilities Engineer, specializing in water and wastewater engineering, I inspect and evaluate water and wastewater systems; obtain data, prepare reports; suggest corrective action, provide technical recommendations on water and wastewater system deficiencies; and provide written and oral testimony on rate and other cases before the Commission.

Q. How many cases have you analyzed for the Utilities Division?

A. I have analyzed approximately 50 cases covering various responsibilities for the Utilities Division.

Q. What is your educational background?

A. I graduated from the Moscow University of Civil Engineering with a Bachelor of Science degree in Civil Engineering with a concentration in water and wastewater systems.

Q. Briefly describe your pertinent work experience.

A. Prior to my employment with the Commission, I was a design review environmental engineer with the Arizona Department of Environmental Quality ("ADEQ") for twenty years. My responsibilities with ADEQ included review of projects for the construction of water and wastewater facilities. Prior to that, I worked as a civil engineer in several engineering and consulting firms, including Bechtel, Inc. and Brown & Root, Inc., in Houston, Texas.

PURPOSE OF TESTIMONY

Q. Were you assigned to provide the Utilities Division Staff's ("Staff") engineering analysis and recommendations for this Graham County Utilities Water Division, Inc. ("Company") rate case proceeding?

A. Yes. I reviewed the Company's application and responses to data requests, and I visited water systems. This testimony and its attachment present Staff's engineering evaluation.

ENGINEERING REPORT

Q. Please describe the attached Engineering Report, Exhibit KS.

A. Exhibit KS presents the Company water systems' details and Staff's analysis and findings, and is attached to this direct testimony. Exhibit KS contains the following major topics: (1) a description and analysis of each water system, (2) water use, (3) growth, (4) compliance with the rules of the ADEQ and Arizona Department of Water Resources, (5) depreciation rates and (6) Staff's conclusions and recommendations.

Q. Please summarize Staff's engineering conclusions and recommendations.

A. Such a summary is provided at the front of Exhibit KS.

Q. Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT KS

Engineering Report For
Graham County Utilities Water Division, Inc.
Docket No. W-02527A-09-0201 (Rates)

October 26, 2009

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Graham County Utilities Water Company's ("Company") two water systems have no deficiencies and these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

2. The Company did not report Water Use Data separately for each of its two individual water systems in Annual Reports or the rate application.

3. The Company's two water systems have a water loss within acceptable limits. By system, the water loss is as follows: Fort Thomas, 8.6 percent and Pima, 5.6 percent.

4. The Company's two water systems have adequate well production and storage capacities to serve their respective present customer base and a reasonable level of growth.

5. The systems are not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area.

6. ADWR has determined that the Company's systems are in compliance with the reporting requirements and the Company's Water Plan filed met ADWR requirements

7. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.

8. The Company has an approved curtailment plan tariff.

9. The Company has an approved backflow prevention tariff.

10. For the Financing Application, the prior capital improvements and costs appear to be reasonable and appropriate. However, no "used and useful" determination of the prior plant was made, and no conclusions should be inferred for rate making or rate base purposes.

Recommendations

1. Staff recommends that the Company be required to report information, including, but not limited to Water Use Data (including the customer count data, water pumped, revenue and non-revenue uses) and Plant Description Data, separately for each of its two individual water systems in future Annual Reports and rate filings.

2. For the Pima System, the Company does not read the meter located inside the vault near the Pima well field. Staff recommends that the Company be required to report gallons of water pumped from its Pima well field based on records of the meter located inside the vault in future Annual Reports and rate filings. Staff also recommends that the Company continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.

3. Staff recommends its annual water testing expense estimate of $7,636 be used for this proceeding.

4. Staff recommends that the Company adopt the depreciation rates in Depreciation Rate Table, as delineated in Table B.

5. Staff recommends approval of its service line and meter installation charges labeled "Staff's Recommendation" in Table C.

6. Staff recommends adoption of the Offsite Hook-up Fee Tariff discussed in Section X and shown in Attachment A. Staff recommends that the Company submit a calendar year Off-Site Hook-Up Fee status report each January to Docket Control for the prior calendar year, beginning January 2011, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the tariff account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

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ATTACHMENT

I. INTRODUCTION AND LOCATION OF COMPANY

On April 27, 2009, Graham County Utilities Water Division, Inc. ("Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission").

The Company's two separate water systems serve the communities of Fort Thomas and Pima located along Highway 70, northwest of Safford in Graham County. The water systems are approximately 10 miles apart (straight-line distance) and are not physically interconnected. As of September 30, 2008, the Company provided water service to approximately 1,195 customers.

The plant facilities were visited on June 17, 2009, by Katrin Stukov, Staff Utilities Engineer, accompanied by Company representatives Jason Hughes and Dennis Kouts.

Figure 1 shows the location of the Company within Graham County and Figure 2 delineates the approximate 21 square-miles or 13,277 acres of the Company's certificated area.

Figure 1

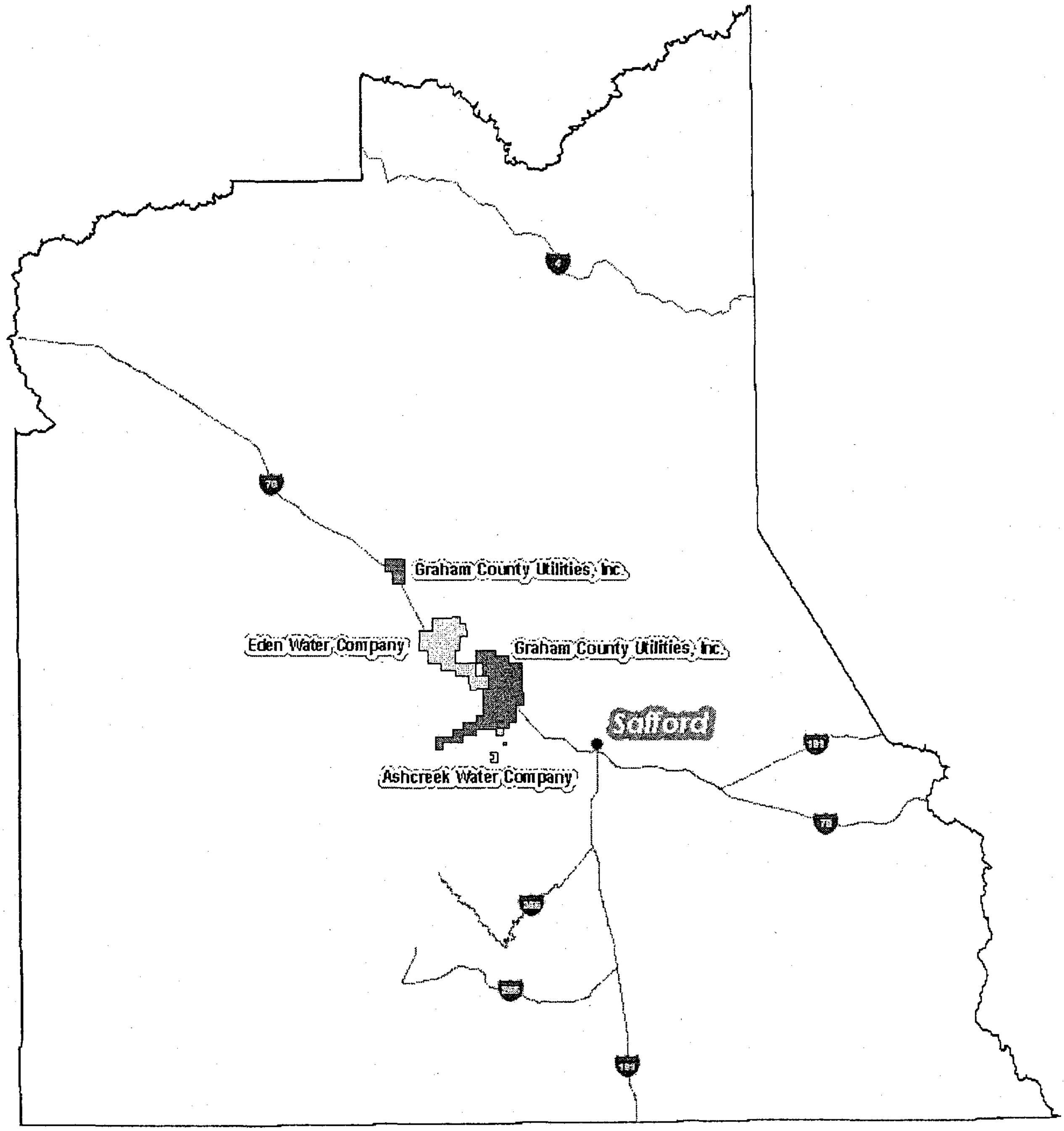
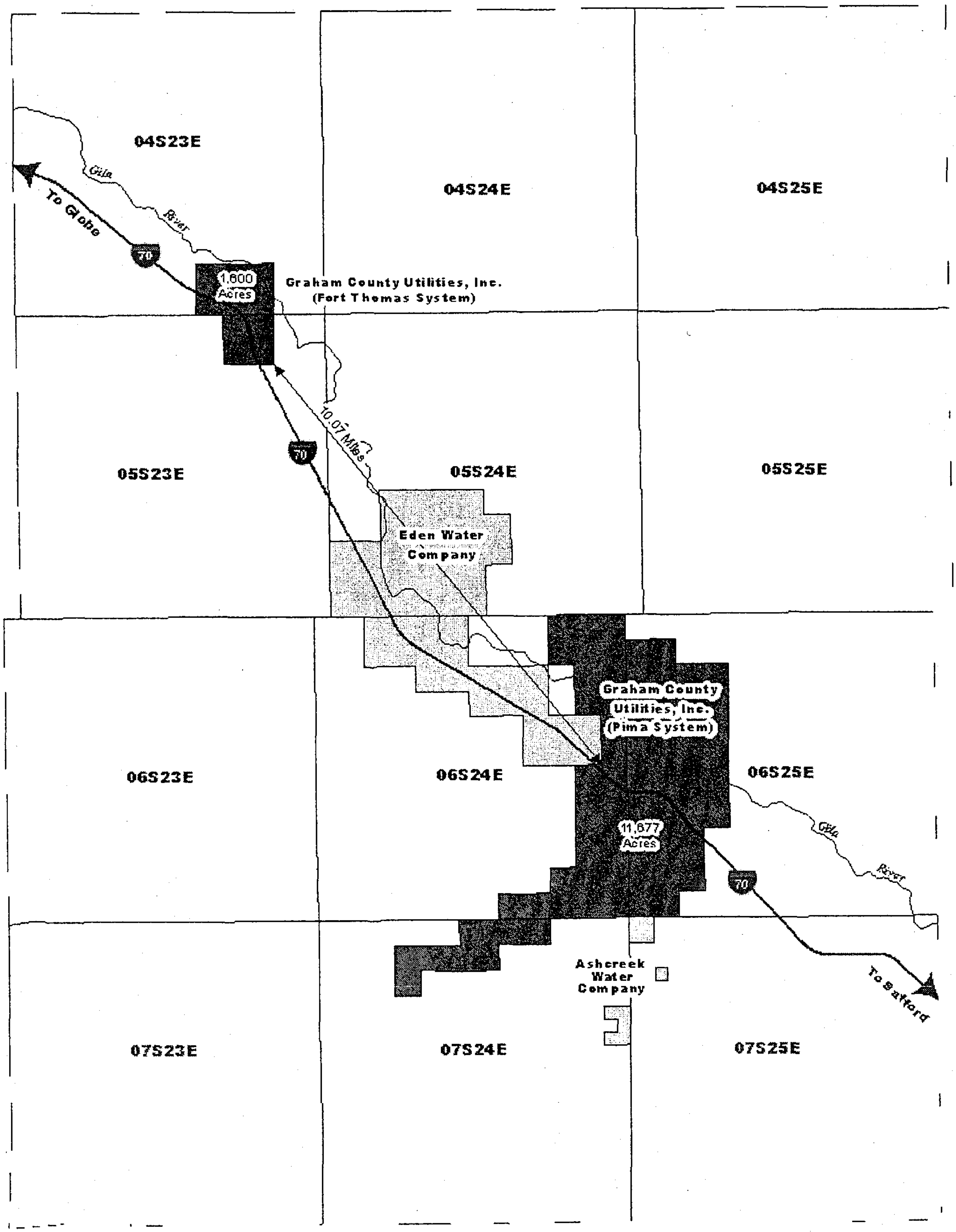

Graham County Utilities, Inc.
Eden Water Company
Graham County Utilities, Inc.
Safford
Ashcreek Water Company

Figure 2


04S23E
04S24E
04S25E
Gila
River
To Globe
70
1,600
Acres
Graham County Utilities, Inc.
(Fort Thomas System)
10.07 Miles
05S23E
05S24E
05S25E
Eden Water
Company
Graham County
Utilities, Inc.
(Pima System)
06S23E
06S24E
06S25E
11,677
Acres
Gila
River
Ashcreek
Water
Company
To Safford
07S23E
07S24E
07S25E

II. FORT THOMAS WATER SYSTEM

A. Description of the Water System

The Fort Thomas water system includes three active wells, which pump into two storage tanks, followed by booster pumps, a pressure tank and a distribution system serving over 100 connections. A water system schematic is shown as Figure 3 and a plant facilities summary[1] is tabulated below:

Active Wells								
Company Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Date Purchased
Blackrock	55-605863	1	25	90	6	1-1/2	1998	n/a
Bowman	55-606086	1.5	30	80	8	1-1/2	Pre 1989	n/a
Cope	55-606087	1	25	84	16	1-1/2	Pre 1989	n/a
Wells for future use[2] (not in use)								
Keens	55-809146	n/a	n/a	77	12	n/a	1960	May 2007
Junker	55-212931	n/a	n/a	120	12	n/a	Oct.2006	n/a

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
190,000	1	4,000	1	30	2
45,000	1				

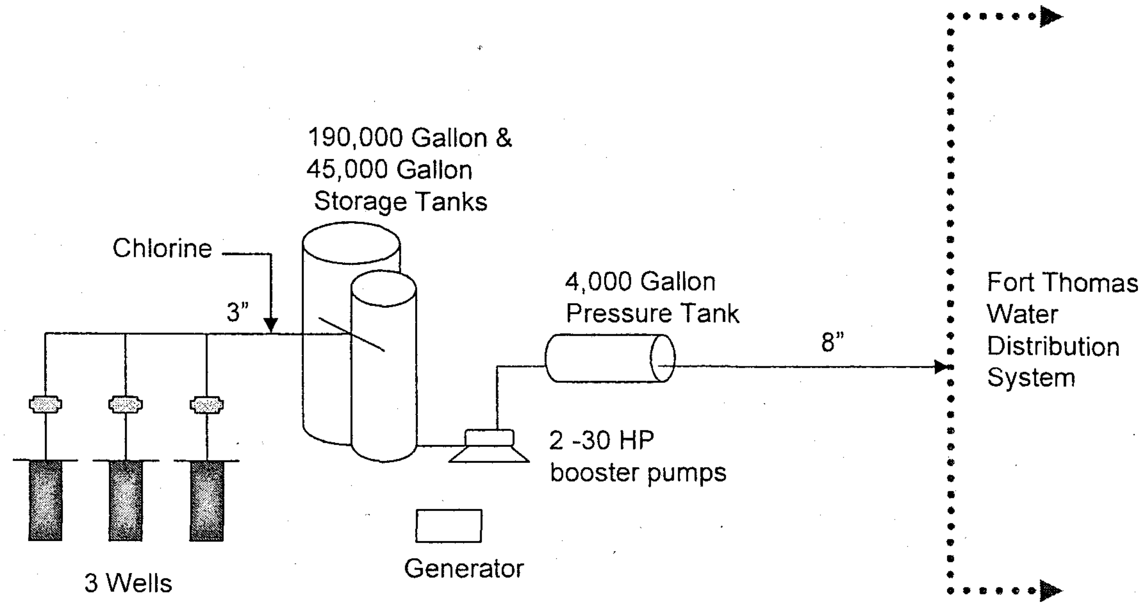
Components
Chlorination System
Chlorination Building 8'X12'
Pump house Building 12'X14'
Gas Generator for Pressure Tank

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length (feet)	Size (inches)	Quantity	Quantity
2	CA, PVC, Steel	2,561	5/8x3/4	102	16
3	CA, PVC, Steel	300	1	1	
4	CA, PVC, Steel	4,711	1-1/2	1	
6	CA, PVC, Steel	36,269	2	2	
8	CA, PVC, Steel	16,363			

[1] Per Company's responses to Data Requests and site visit

[2] Per Company's responses, the necessity to develop additional wells was the result of a drought in 2006, when the system's three existing wells were not producing enough water to keep up with demand.

Figure 3
The Fort Thomas System Schematic

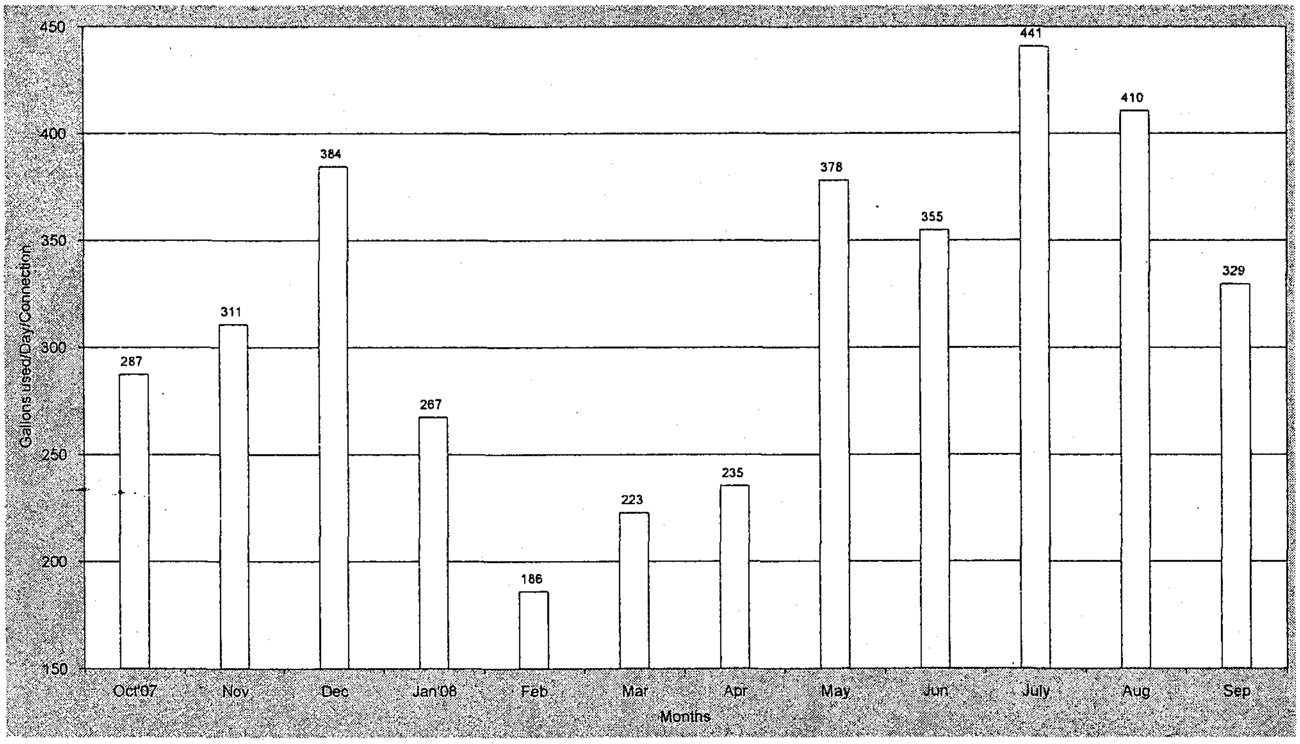


B. Water Use

Water Sold

Figure 4 represents the water consumption data provided by the Company in its water use data sheet for the test year ending September 30, 2008. Customer consumption included a high monthly water use of 441 gallons per day ("GPD") per connection in July, and the low water use was 186 GPD per connection in January. The average annual use was 317 GPD per connection.

Figure 4 Water Use (Fort Thomas system)



Non-account Water

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company explained that the Cope well meter was inoperable from October 2007 through April 2008 and the gallons pumped for the test year had been estimated. The Company reported that the Cope well meter was replaced in the middle of April 2008. Due to the unknown gallons pumped during the test year, Staff used reported Water Use Data from October 2008 through September 2009. The Company reported 14,820,300 gallons pumped and 13,547,300 gallons sold from October 2008 through September 2009, resulting in a water loss of 8.6 percent. This percentage is within the acceptable limit of 10 percent.

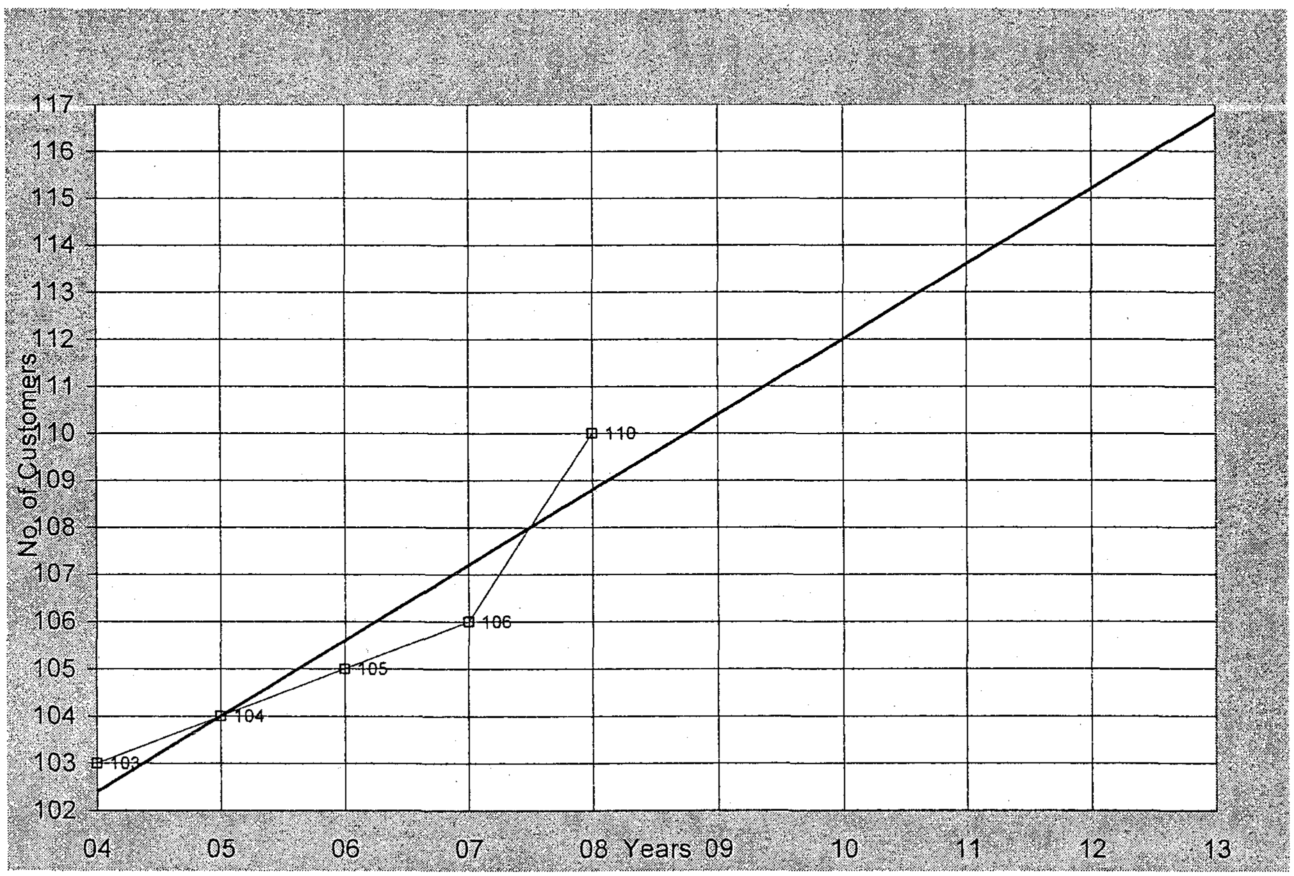
C. System Analysis

Based on the data provided by the Company for the Test Year, ending September 30 2008, Staff concludes that the system's total well production capacity of 80 GPM and total storage capacity of 235,000 gallons is adequate to serve the present customer base of 108 connections and reasonable growth.

D. Growth

Based on customer data provided by the Company it is projected that this system could have over 116 connections by 2013. Figure 5 depicts actual growth from 2004 to 2008 and projects an estimated growth for the next five years using linear regression analysis.

Figure 5 Growth Projection (Fort Thomas system)



III. PIMA WATER SYSTEM

A. Description of the Water System

The Pima system includes 17 wells located in a common well field. Water from this well field flows to two different storage tank sites and distribution systems. At the site # 1, located near the well field, water is boosted by a small pump to a 90,000 gallon storage tank. This tank serves an upper service zone with about 69 connections. The site # 2 is located in Pima, approximately 5 miles northeast of the well field and includes 3 storage tanks. These tanks feed the distribution system with over 1,000 connections.

Most of the Pima system's wells have no meters. There is an old meter inside a pump vault at the site #1. However, the Company only reads a meter installed at the site # 2 in order to record water pumped from the well field. It would be beneficial for the Company to read both meters in order to monitor water loss in the 5-mile long transmission line.

A water system schematic is shown as Figure 4 and a plant facilities summary[3] is tabulated below:

Location Site	Storage Tanks		Booster Pumps		Meter Size (inches)	Components
	Capacity (gallons)	Quantity	Capacity (HP)	Quantity		
Site #1	90,000	1	2	1	6 (inside Vault)	Pump Vault Chlorination System Chlorination Building 8'X12'
Site # 2	380,000	1			6	Meter Building
	190,000	1				
	475,000	1				

Mains			Customer Meters		Fire Hydrants
Size (inches)	Material	Length(feet)	Size(inches)	Quantity	Quantity
2	CA, PVC, Steel	33,044	5/8x3/4	1,083	53
3	CA, PVC, Steel	8,974	1	1	
4	CA, PVC, Steel	36,456	1-1/2	2	
6	CA, PVC, Steel	66,618	2	3	
8	CA, PVC, Steel	3,743	Comp.4	2	
10	CA, PVC, Steel	31,024			

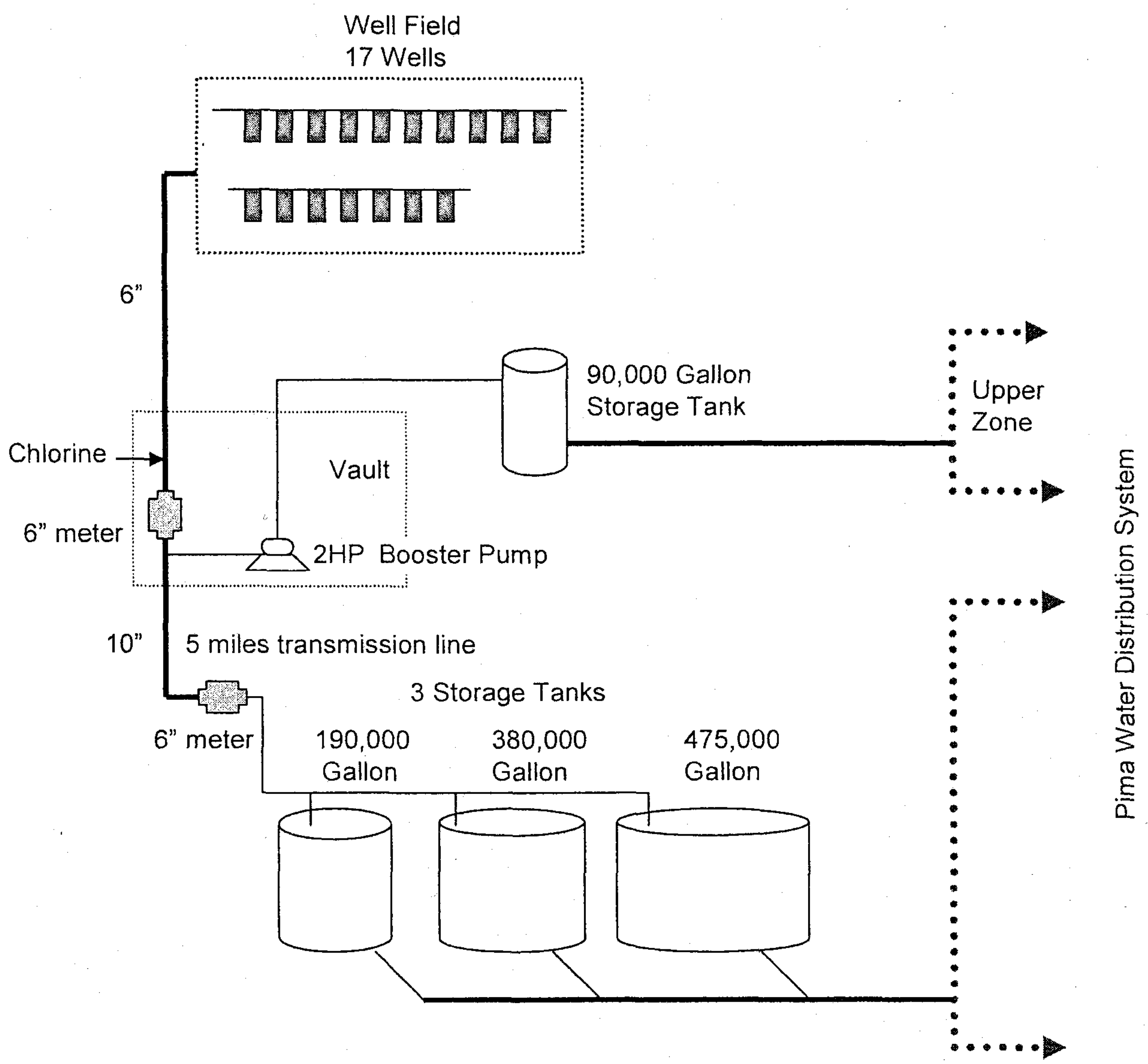
[3] Per Company's responses to Data Requests and site visit

Wells[4]

Company Well ID	ADWR Well ID	Pump (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Notes
Wells connected to the water system								
Pima # 4	55-549470	5	65	217	12	none	1995	in use continuously
Pima # 14	55-215997	30	250	589	12	4	2008	in use continuously
Herbert # 2	55-605860	1	15	-	6	none	Pre 1989	in use continuously
Two Flow	55-605851	1	25	150	6	none	Pre 1989	in use continuously
Pima # 5	55-565863	5	25	230	12	none	1998	supplemental weekly use
Herbert # 5	55-605861	1	25	-	4	none	Pre 1989	supplemental weekly use
Cope # 2	55-605856	3	35	200	12	none	Pre 1989	supplemental weekly use
Pima # 1	55-529642	5	25	194	12	none	1992	standby since Aug. 2007
Pima # 2	55-540458	5	65	210	12	none	1994	standby since Aug. 2007
Pima # 3	55-545487	5	55	189	12	none	1995	standby since Aug. 2007
Pima # 6	55-565864	3	35	220	12	none	1998	standby since Aug. 2007
Pima # 7	55-565865	5	65	258	12	none	1998	standby since Aug. 2007
Pima # 8	55-206721	7.5	70	700	6	2	2006	standby since March 2009
Pima # 9	55-211780	30	250	620	12	4	2007	standby since April 2009
Pima # 10	55-211778	20	200	342	8	4	2007	standby since July 2008
Herbert # 1	55-606085	3	45	210	12	none	Pre 1989	last used in Aug. 2007*
Mangum# 1	55-605855	1	0	-	4	none	Pre 1989	last used in Aug. 2007*
Note: (*) High Arsenic well-not in use								
Wells for future use								
Pima # 11	55-211762			555	12		Sept.2007	Not in use
Pima # 12	55-211763			350	12		June 2007	Not in use
Capped Wells								
Herbert # 3	55-605859						Pre 1989	Capped
Herbert # 4	55-605862						Pre 1989	Capped
Webb	55-606081						Pre 1989	Capped
Cope # 1	55-606083						Pre 1989	Capped
U Chatfield	55-605850						Pre 1989	Capped
L Chatfield	55-605858						Pre 1989	Capped
Mangum#2	55-605857						Pre 1989	Capped
Willow	55-605852						Pre 1989	Capped
Home # 1	55-606082						Pre 1989	Capped
Rogers	55-605853						Pre 1989	Capped

[4]Per Company's responses, prior to addition of new wells, the Pima system experienced well yield fluctuation during a drought in 2006 and water shortages during peak demand, along with high arsenic level in older wells.

Figure 4
The Pima System Schematic

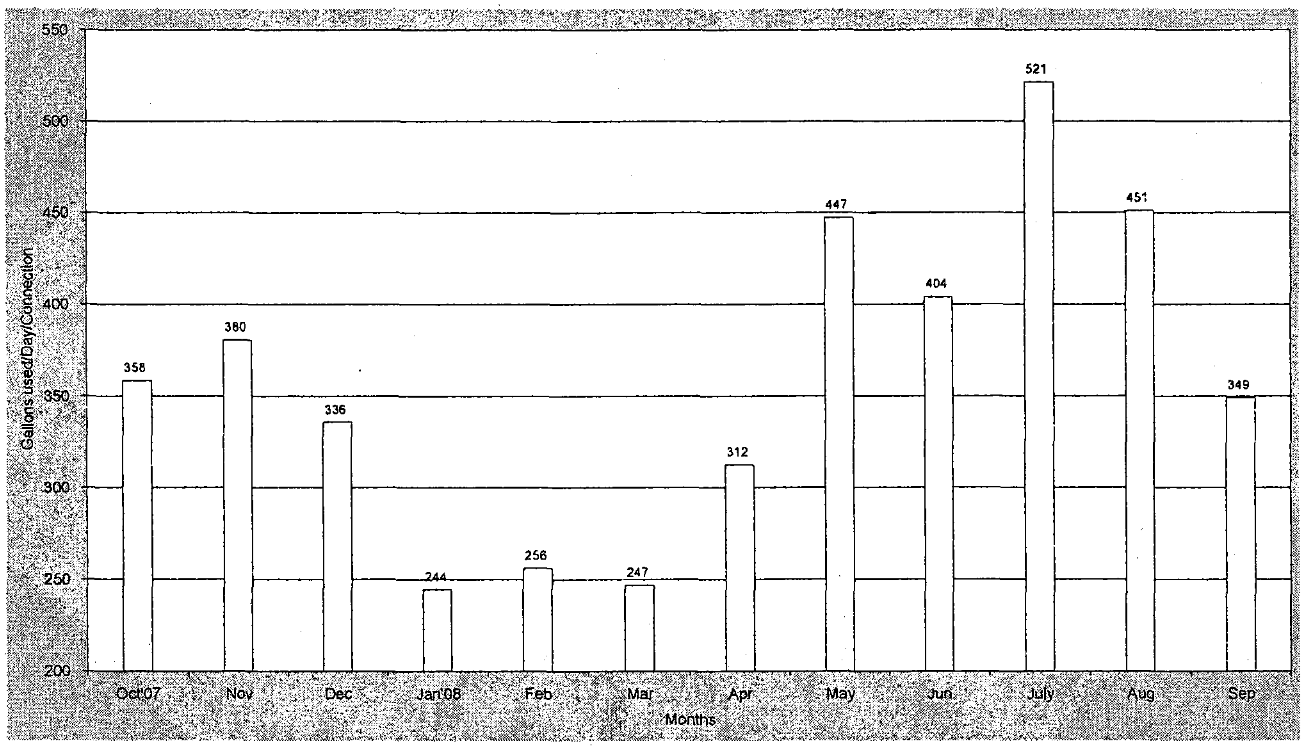


B. Water Use

Water Sold

Figure 4 represents the water consumption data provided by the Company in its water use data sheet for the test year ending September 30, 2008. Customer consumption included a high monthly water use of 521 gallons per day ("GPD") per connection in July, and the low water use was 244 GPD per connection in January. The average annual use was 359 GPD per connection.

Figure 4 Water Use (Pima system)



Non-account Water

The Company reported 148,248,000 gallons pumped and 139,956,000 gallons sold for the test year, resulting in a water loss of 5.6 percent. This percentage is within the acceptable limit of 10 percent. However, Staff recommends that the Company be required to report gallons of water pumped from its Pima well field based on records of the meter located inside the vault in future Annual Reports and rate filings. Staff also recommends that the Company continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.

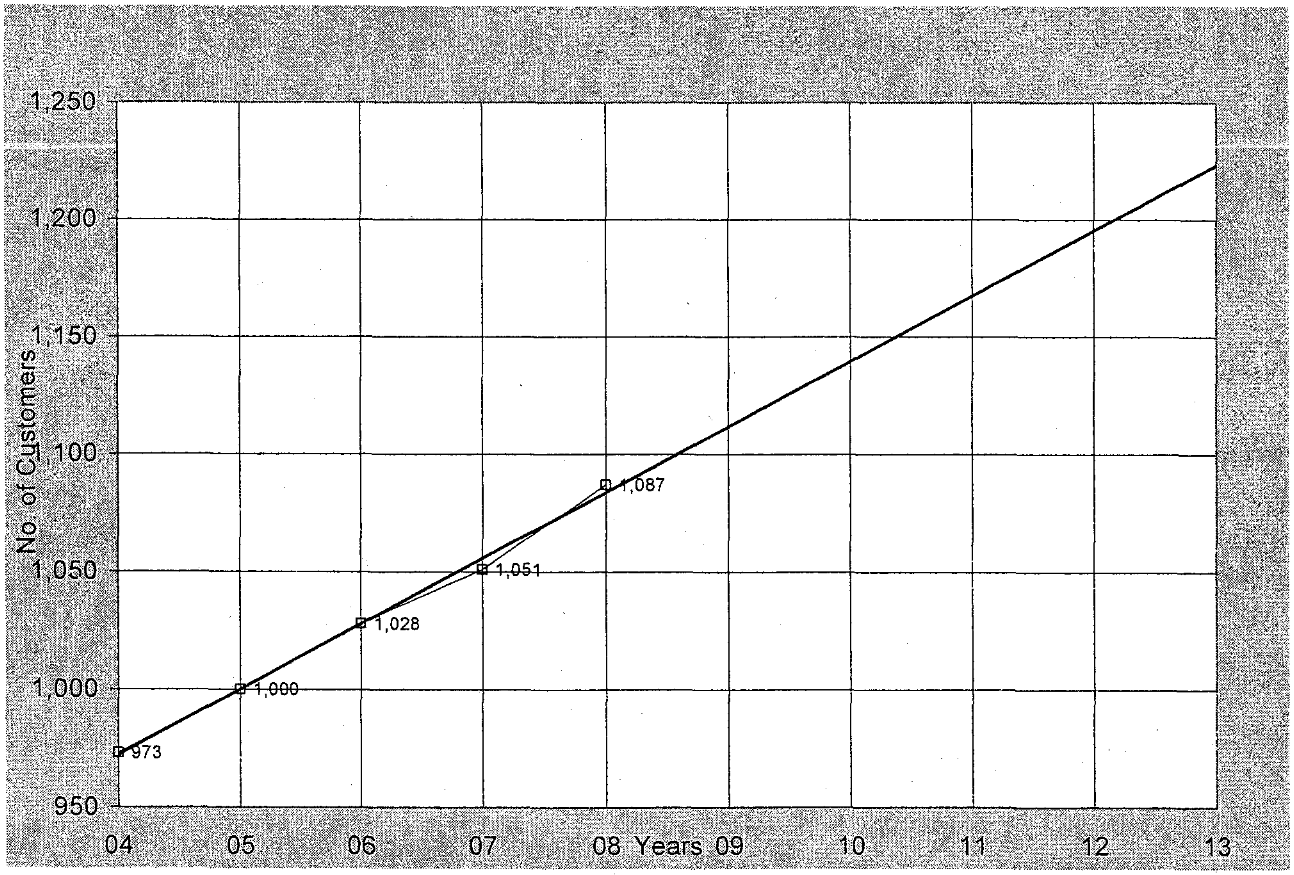
C. System Analysis

Based on the data provided by the Company for the Test Year, Staff concludes that the system's well total production capacity of 1,250 GPM and total storage capacity of 1,135,000 gallons is adequate to serve the present customer base of 1,087 connections and reasonable growth.

D. Growth

Based on customer data provided by the Company it is projected that this system could have approximately 1,225 connections by 2013. Figure 5 depicts actual growth from 2004 to 2008 and projects an estimated growth for the next five years using linear regression analysis.

Figure 5 Growth Projection (Pima system)



IV. ADEQ COMPLIANCE

Compliance

The Arizona Department of Environmental Quality ("ADEQ") regulates the Fort Thomas water system under ADEQ Public Water System ("PWS") #05-001 and the Pima system under PWS # 05-002.

ADEQ has reported that the Company's two water systems have no deficiencies and these systems are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.[5]

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

Based on the data provided by the Company, Staff estimated average water testing expenses for each system as follows: the Fort Thomas system at $ 2,175 and the Pima system at $5,251, totaling $7,636. Table A shows average annual monitoring expense estimate totaling $7,636 with participation in the MAP (ADEQ - MAP invoices for the 2009 Calendar Year rounded were $528 for the Fort Thomas system and $3,008 for the Pima system). Staff recommends its annual water testing expense estimate of $7,636 be used for this proceeding.

Table A. Water Testing Cost

Monitoring	Fort Thomas system PWS # 05-001			Pima system PWS # 05-002			Total Average Annual Cost for 2 systems
	Cost per sample	No. of samples per year	Average Annual Cost	Cost per sample	No. of samples per year	Average Annual Cost	
Total coliform - monthly	$35	24	$840	$35	36	$1,260	$2,100
Maximum Residual Disinfection Level ("MRDL")- monthly	$10	24	$240	$10	36	$360	$600
Lead & Copper – per 3 years	$34	5/3-yrs	$57	$34	10/3-yrs	$113	$170
TTHM & HAA5-annualy	$360	1	$360	$360	1	$360	$720
Arsenic	n/a	n/a	n/a	$21	10	$210	$210
Trip Charge- monthly	$12.50	12	$150	$12.50	12	$150	$300
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annually	MAP	MAP	$528	MAP	MAP	$3,008	$3,536
Total			$2,175			$5,461	**$7,636**

[5] Per ADEQ Compliance Status Reports dated May 27, 2009.

V. ADWR COMPLIANCE

The two systems are not located in an ADWR designated Active Management Area.

The ADWR has determined that the two systems are in compliance with the reporting requirements and the Company's Water Plan filed met ADWR requirements[6].

VI. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company[7].

VII. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table C. Staff recommends that the Company adapt Staff's typical and customary depreciation rates in the accounts listed in Table B.

[6] Per ADWR Compliance Status Report dated February 10, 2009.
[7] Per ACC Compliance status check dated Jun 26, 2009.

TABLE B
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.

2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

VIII. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested that all service line and meter installation charges be based on actual cost. Staff concurs with using this approach for larger size meters. The Company also has requested that all service line and meter installation charges be non-refundable contributions in aid of construction. Pursuant to Arizona Administrative Code R14-2-405, these charges are to be refundable advances. The charges Staff is recommending for smaller size meters are at the midpoint of its customary range of charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff and are recommended as shown in Table C.

Staff recommends that the charges labeled under "Staff's Recommendation" in Table C be adopted.

Table C Service Line and Meter Installation Charges

Meter Size	Company's Present Charges	Company's Proposed Charges	Staff's Recommendation		
			Service Line Charges	Meter Charges	Total Charges
5/8"x 3/4"	$200	At Cost	$430	$130	$560
3/4"	$225	At Cost	$430	$230	$660
1"	$260	At Cost	$480	$290	$770
1-1/2"	$435	At Cost	$535	$500	$1,035
2"	$570	At Cost	At Cost	At Cost	At Cost
4"	$1,400	At Cost	At Cost	At Cost	At Cost
6"	$3,000	At Cost	At Cost	At Cost	At Cost

2. Curtailment Plan Tariff

The Company has an approved curtailment plan tariff.

3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff.

IX. FINANCING

The Company has submitted a financing application requesting authorization to incur $250,000 in debt for reimbursement of prior capital improvement projects for the Company's two water systems. It appears that some of the prior constructed projects have not been completed and are not in service. The loan will be obtained from National Rural Utilities Cooperative Finance Corporation.

The Company provided Staff with a copy of a spreadsheet showing costs of general capital improvements constructed from 2000 to 2008. The Company did not provide a break-out of the specific plant and associated costs.

The prior capital improvements and costs appear to be reasonable and appropriate. However, no "used and useful" determination of the prior plant was made, and no conclusions should be inferred for rate making or rate base purposes.

X. OFF-SITE HOOK-UP FEE TARIFF (IMPACT FEE)

In the rate application, the Company requested an Impact Fee of $500 for all new service connections. The Company stated that this fee amount would be competitive with the City of Safford's fee. Staff supports the concept of an impact fee ("hook-up fee") and recommends the adoption of the specific tariff language contained in Attachment A of this report.

To determine an appropriate amount for a 5/8" x 3/4" service connection fee, Staff used Company data for well costs based on four wells added from 2006 to 2008 in the Pima system, and the water use data for the two systems to calculate the hook-up fee amount:

Hook-Up Fee Factors:

Peak month usage:	19,007,000 gallons in July 2008
Number of connections during peak month:	1,193
Peak Factor:	1.25
Average production of a new well:	190 GPM
Average cost of a new well:	$233,430

Hook-Up Fee Calculation:

$$\frac{19{,}007{,}000 \text{ gallons} \times 1.25}{31 \text{ days} \times 1{,}193 \text{ connection} \times 1440} = 0.45 \text{ GPM per connection}$$

190 GPM / 0.45 GPM per connection = 422 connections

$233,430 / 422 connections = $553 per connection

Hook-up fee per connection for a 5/8" x 3/4" meter = $553.

Staff concludes that the Hook-up fee of $500 for a 5/8" x 3/4"meter is reasonable based on above plant data and calculations.

TARIFF SCHEDULE

UTILITY: Graham County Utilities Water Division, Inc. DECISION NO. ______________
DOCKET NO. W-02527A-09-0201 EFFECTIVE DATE: ____________

OFF-SITE HOOK-UP FEE

I. Purpose and Applicability

The purpose of the off-site hook-up fees payable to **Graham County Utilities Water Division, Inc.** ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide water production, delivery, storage and pressure among all new service connections. These charges are applicable to all new service connections established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of water facilities to serve new service connections, and may include Developers and/or Builder of new residential subdivisions.

"Company" means Graham County Utilities Water Division, Inc.

"Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of water facilities to the Company to serve new service connections, or install water facilities to serve new service connections and transfer ownership of such water facilities to the Company, which agreement shall require the approval of the Commission pursuant to A.A.C. R-14-2-406, and shall have the same meaning as "Water Facilities Agreement" or "Line Extension Agreement."

"Off-site Facilities" means wells, storage tanks and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include booster pumps, pressure tanks, transmission mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and will benefit the entire water system.

"Service Connection" means and includes all service connections for single-family residential or other uses, regardless of meter size.

III. Off-Site Hook-up Fee

For each new service connection, the Company shall collect an off-site hook-up fee derived from the following table:

OFF-SITE HOOK-UP FEE TABLE		
Meter Size	**Size Factor**	**Total Fee**
5/8" x 3/4 "	1	$500
3/4"	1.5	$750
1"	2.5	$1,250
1-1/2 "	5	$2,500
2"	8	$4,000
3"	16	$8,000
4"	25	$12,500
6" or larger	50	$25,000

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Hook-up Fee: The off-site hook-up fee may be assessed only once per parcel, service connection, or lot within a subdivision (similar to meter and service line installation charge).

(B) Use of Off-Site Hook-up Fee: Off-site hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, or operational purposes.

(C) Time of Payment:

1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is required to enter into a Main Extension Agreement, whereby the Applicant, Developer or Builder agrees to advance the costs of installing mains, valves, fittings, hydrants and other on-site improvements in order to extend service in accordance with R-14-2-406(B), payment of the fees required hereunder shall be made by the Applicant, Developer or Builder no later than within 15 calendar days after receipt of notification from the Company that the Utilities Division of the Arizona Corporation Commission has approved the Main Extension Agreement in accordance with R-14-2-406(M).

2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Main Extension Agreement, the charges hereunder shall be due and payable at the time the meter and service line installation fee is due and payable.

(D) Off-Site Facilities Construction By Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide water service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company set a meter or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Large Subdivision Projects: In the event that the Developer or Builder is engaged in the development of a residential subdivision containing more than 150 lots, the Company may, in its discretion, agree to payment of off-site hook-up fees in installments. Such installments may be based on the residential subdivision development's phasing, and should attempt to equitably apportion the payment of charges hereunder based on the Developer's or Builder's construction schedule and water service requirements.

(G) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site hook-up fee tariff shall be non-refundable contributions in aid of construction.

(H) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities that will benefit the entire water system.

(I) Off-Site Hook-up Fee in Addition to On-site Facilities: The off-site hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Main Extension Agreement.

(J) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site hook-up fees, or if the off-site hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(K) Fire Flow Requirements: In the event the applicant for service has fire flow requirements that require additional facilities beyond those facilities whose costs were included in the off-site hook-up fee, and which are contemplated to be constructed using the proceeds of the off-site hook-up Fee, the Company may require the applicant to install such additional facilities as are required to meet those additional fire flow requirements, as a non-refundable contribution, in addition to the off-site hook-up fee.

(L) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2011, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	DOCKET NO. E-01749A-09-0087

DIRECT

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

ALL-STATE LEGAL®
EXHIBIT
S-8
ADMITTED

TABLE OF CONTENTS

SCHEDULES

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

Graham County Utilities Inc. ("GCU" or "Company") is a non-profit, cooperative Class B public service corporation providing gas distribution service (5,060 customers) and water service (1,200 customers) in Graham County, Arizona. On February 26, 2009, GCU filed a general rate application for its gas division ("GCU-G"), and subsequently filed amended schedules on March 27, 2009, and again on April 15, 2009. The amended application shows a negative $235,725 adjusted net margin for the test year that ended September 30, 2008, for GCU-G. GCU-G's application proposes total operating revenue of $4,282,784, an increase of $516,733, or 13.72 percent, over its test year revenue of $3,766,051. GCU-G's proposed revenue, as filed, would provide an operating income of $403,154 and a net margin of $281,008 for a 3.01 times interest earned ratio ("TIER"), a 2.27 debt service coverage ratio ("DSC") and a 12.73 percent rate of return on the proposed $2,114,518 fair value rate base which is the same as the proposed original cost rate base.

The testimony of Mr. Gary McMurry presents Staff's recommendation for rate base, operating income, and the revenue requirement. Staff's examination shows that GCU-G experienced a negative $245,891 net margin in the test year. Staff recommends total operating revenue of $4,222,160, an increase of $456,109, or 12.11 percent, over test year revenues of $3,766,051 to provide an operating margin of $342,530, a net margin of $210,218, a 2.38 TIER, a 1.94 DSC and a 9.85 percent rate of return on a rate base of $2,012,758. Staff's test year results reflect one rate base adjustment (removal of $101,760 in construction work-in-progress and one other expense adjustment (a $10,166 increase in long-term interest).

I. INTRODUCTION

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

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

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree in Business Administration with a major in Accounting from the University of Arizona in 1980. I have since been awarded two professional designations, as a Certified Fraud Examiner and as a Certified Internal Auditor; after successfully meeting the prescribed requirements established by the sponsoring professional organizations.

My prior work experience includes approximately 20 years of auditing (both internal and external), five additional years as a bank examiner, and two years of Investigations work. Prior to joining the Commission, I was employed by the Office of Audit and Analysis for the Department of Transportation primarily as a construction auditor.

In April 2007, I began employment at the Commission as a Public Utilities Analyst IV in the Finance and Regulatory Analysis Section. Since coming to the Commission, I have participated in a number of rate cases and other regulatory proceedings involving water and gas utilities. I have also attended various seminars and classes on general regulatory and business issues, including the National Association of Regulatory Utility Commissioners ("NARUC") Utility Rate School and the Institute of Public Utilities Annual Regulatory Studies Program ("Camp NARUC").

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. I am responsible for the examination and verification of financial and statistical information included in assigned utility rate applications and other financial regulatory matters. I develop revenue requirements, design rates, and prepare written reports, testimony and schedules to present Staff's recommendations to the Commission.

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

A. The purpose of my testimony is to present Staff's analysis and recommendations regarding the Graham County Utilities, Inc.'s ("GCU" or "Company") Gas Division ("GCU-G") application for a permanent rate increase. I will present recommendations in the areas of rate base, operating margin, other expenses, and the revenue requirement.

Q. What is the basis of Staff's recommendations?

A. I have performed a regulatory audit of the Company's records to determine whether sufficient, relevant and reliable evidence exists to support the proposals in GCU's rate application. My regulatory audit consisted of the following: (1) examining and testing GCU-G's accounting ledgers, reports and supporting documents; (2) checking the accumulation of amounts in the records; (3) tracing recorded amounts to source documents; and (4) verifying that the Company-applied accounting principles were in accordance with the Commission-adopted Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA").

Q. How is your testimony organized?

A. My testimony is presented in eight sections. Section I is this introduction. Section II provides a background of the Company. Section III is a summary of consumer service issues. Section IV is a summary of proposed revenues. Section V is a summary of Staff's rate base and operating income adjustments. Section VI presents Staff's rate base recommendations. Section VII presents Staff's operating income recommendations. Section VIII addresses other expenses.

Q. Have you prepared any schedules to accompany your testimony?

A. Yes. I prepared schedules GTM-1 to GTM-8.

II. BACKGROUND

Q. Would you please review the pertinent background information associated with the Company's application for a permanent rate increase?

A. Yes. GCU-G[1] is a Class B public service corporation that provides natural gas distribution service to approximately 5,060 customers in Graham County, Arizona. On February 26, 2009, GCU filed a general rate application for its GCU-G, and subsequently filed amended schedules on March 27, 2009, and again on April 15, 2009. On April 17, 2009, Staff filed a letter declaring the application sufficient. GCU-G's application asserts that an increase in revenues is required to recover over $650,000 in plant improvements and to provide a 3.0 TIER which is necessary to increase GCU's equity level to 30 percent as required by ACC Decision No. 67748, dated April 11, 2005.

Q. What test year did GCU-G use in its filing?

A. GCU-G's rate filing is based on the twelve month period that ended September 30, 2008.

[1] GCU-G is one of two wholly owned divisions of GCU, the other division being Graham County Utilities Water Division ("GCU-W"). GCU is affiliated with Graham County Electrical Cooperative ("GCEC") in that GCEC has an agreement to manage GCU. In addition, 6 out of 9 directors are the same on both boards for GCU and GCEC.

Q. When were GCU-G's present rates established?

A. The Commission authorized the Company's present permanent rates in Decision No. 67748, dated April 11, 2005.

Q. Does GCU currently have other cases pending before the Commission?

A. Yes. GCU currently has five cases pending before the Commission: (1) this rate case for its Gas Division; (2) a rate case for its Water Division;[2] (3) a request for authorization to issue debt in its Gas Division;[3] and (4) a request for authorization to issue debt in its Water Division.[4] In addition, Graham County Electric Cooperative, Inc. ("GCEC") has submitted an application for authorization to guarantee the proposed debt of GCU's gas and water divisions.[5] Procedural Orders dated September 19, 2009, and October 30, 2009, consolidated all five dockets.

Q. Did GCU-G revise its application subsequent to the initial filing?

A. Yes. On March 27, 2009, and again on April 15, 2009, GCU-G revised various schedules which included changes in the amounts proposed for materials and supplies, intangible plant, and administrative and general expenses. These revisions affected both the rate base and operating expense schedules. Staff's schedules reflect the most recent revisions of GCU-G's proposal.

[2] Docket No. W-02527A-09-0201.
[3] Docket No. W-02527A-09-0032.
[4] Docket No. W-02527A-09-0033.
[5] Docket No. E-01749A-09-0087.

III. CONSUMER SERVICE

Q. Please provide a brief summary of customer complaints received by the Commission regarding GCU-G.

A. Staff reviewed the Commission's records and found zero complaints during the past four years and zero opinions opposed to the rate increase. The Company is in good standing with the Corporations Division.

IV. SUMMARY OF PROPOSED REVENUES

Q. What revenue requirement is GCU-G proposing?

A. GCU-G's application proposes total operating revenue of $4,282,784, an increase of $516,733, or 13.72 percent over its test year revenue of $3,766,051. The Company's proposed revenue, as filed, would provide an operating income of $403,154 and a net margin of $281,008 for a 3.01 times interest earned ratio ("TIER"), a 2.27 debt service coverage ratio ("DSC"). The requested operating margin would provide a 12.73 percent rate of return on the proposed $2,114,518 fair value rate base ("FVRB") which is the same as the proposed original cost rate base ("OCRB").

Q. What is Staff's revenue requirement recommendation?

A. Staff recommends total operating revenue of $4,222,160, an increase of $456,109, or 12.11 percent, over test year revenues of $3,766,051 to provide an operating margin of $342,530, a net margin of $210,218, a 2.38 TIER, a 1.94 DSC and a 9.85 percent rate of return on a rate base of $2,012,758.[6]

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[6] The TIER and DSC calculations reflect debt service coverage only on that portion of GCU's debt Staff directly charged or allocated to the gas division. GCU is the entity responsible for all gas and water division debt. Schedule GTM-8 shows the detail of Staff's assignment of GCU's debt and debt service to the gas and water divisions.

V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME ADJUSTMENTS

Q. Please summarize Staff's rate base and operating income adjustments.

A. Rate Base:

Construction Work in Process ("CWIP") – This adjustment removes $101,760, representing CWIP at the end of the test year.

Operating Income/Expense:

Staff concurs with GCU-G's proposed test year operating revenues and expenses; therefore, Staff made no operating adjustments.

Other Expense:

Interest on Long Term Debt – This adjustment increases interest expense by $10,166 to reflect Staff's allocation of GCU-G's portion of GCU's total interest expense.

VI. RATE BASE

Fair Value Rate Base

Q. Does GCU's application include schedules with elements of a Reconstruction Cost New Rate Base?

A. No. The Company's application does not request recognition of a Reconstruction Cost New Rate Base. Accordingly, Staff has treated the Company's OCRB as its FVRB.

Rate Base Summary

Q. Please summarize Staff's rate base recommendation.

A. Staff recommends a positive $2,012,758 for rate base, a $101,760 reduction from the Company's proposed $2,114,518 rate base. Staff's recommendation results from the rate base adjustment described below.

Rate Base Adjustment No. 1 – Construction Work-In-Process ("CWIP") Removal

Q. What did the Company propose with respect to CWIP?

A. The Company proposed the inclusion of CWIP in the rate base during the test year.

Q. Is the inclusion of CWIP in rate base appropriate?

A. No. CWIP by definition is not in used and useful plant-in-service. In general, the ratemaking process is predicated on an examination of the operations of a utility to ensure that the assets upon which ratepayers are required to provide the utility with a rate of return are both prudently incurred and are both used and useful in providing services on a current basis. Facilities in the process of being built are not used or useful. The ratemaking process therefore excludes CWIP from rate base until such projects are completed and providing service to ratepayers in the context of a test year that is being used for determining the utility's revenue requirement.

It is well recognized that the inclusion of CWIP in rate base would also result in a mismatch in the ratemaking process. This mismatch occurs because such plant, and its associated expenses, are not related to the revenues, expenses, and rate base of the test year. Staff concludes that GCU's proposal to include CWIP in rate base is inappropriate.

Q. What is Staff recommending?

A. Staff recommends excluding the proposed $101,760 of CWIP from rate base, as shown in Schedule GTM-5.

VII. OPERATING MARGIN

Q. Please summarize the results of Staff's examination of test year operating margin.

A. Staff's examination verified GCU's claimed test year Operating Revenues of $3,766,051, Operating Expenses of $3,879,630 and $113,579 negative operating margin. Thus, Staff made no test year operating adjustments.

VIII. OTHER EXPENSES

Other Expense Adjustment No. 1 – Interest on Long Term Debt

Q. What did the Company propose for interest on long term debt?

A. The Company has proposed interest on long term debt of $134,046.

Q. How has GCU charged or allocated loans between its gas and water divisions?

A. When GCU has issued debt to use the proceeds solely in either the gas or water division, it has directly charged the loan to the applicable division. GCU had two loans that were originally shared (Loan Nos. 9001 and 9002). Loan No. 9001 financed the acquisition of the gas and water divisions from General Utilities in 1989, and this loan was allocated 53 percent to the gas division and the remaining 47 percent to the water division in proportion to the relative purchase prices. GCU originally allocated Loan No. 9002 (73 percent to the gas division and 27 percent to the water division) based on the amount used to finance construction in the respective divisions. GCU refinanced the water division's portion of Loan No. 9002 with a USDA loan. That USDA loan is charged directly to the water division and the remaining balance of Loan No. 9002 is assigned solely to the gas division.

Q. Does Staff agree with GCU's method of charging and allocating its loans between the gas and water divisions?

A. Yes. Directly charging unshared costs to the respective divisions is the proper way to segregate significant costs and to allow setting rates based on the cost of service for each division. Properly segregating the costs for each division is particularly appropriate since the customer bases are different.

Q. What constitutes the difference between the Company calculation and Staff's calculation for long term interest expense?

A. While the Company and Staff agreed on the methodology for allocating interest expense, Staff used an updated interest rate (7.90 percent) for the requested $800,000 loan than was used in the application (6.0 percent). Staff also used more current loan balances (December 31, 2008 versus September 30, 2008).

Q. What does Staff recommend?

A. Staff recommends a higher interest rate on proposed new borrowings based on an updated estimate from the National Rural Utilities Cooperative Finance Corporation ("CFC"). Accordingly, Staff recommends interest expense on long term debt of $144,212, a $10,166 increase from the Company proposed amount as shown on GTM-8.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Graham County Utilities, Inc. - Gas Division
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Test Year Ended: September 30, 2008

DIRECT TESTIMONY OF GARY T. MCMURRY

TABLE OF CONTENTS TO SCHEDULES :

Graham County Utilities, Inc. - Gas Division
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Schedule GTM-1

REVENUE INCREASE SUMMARY

Line No.	Description		[A] COOPERATIVE AS FILED		[B] STAFF RECOMMENDED
1	Total Test Year Revenue	$	3,766,051	$	3,766,051
2	Revenue - Base Cost of Gas - Test Year	$	1,732,359	$	1,732,359
3	Revenue - Non-Base Cost of Gas - Test Year (L1-L2)	$	2,033,692	$	2,033,692
4	Required Revenue Increase/(Decrease) in Base Rate Gas Cost	$	666,443	$	(1,732,359)
5	Required Revenue Increase/(Decrease) in Non-Base Rate Gas Cost	$	(149,710)	$	(210,334)
6	Proposed Annual Revenue Increase/(Decrease) in Base Rates	$	516,733	$	(1,942,693)
7	Proposed Revenue - Base Rate Gas Cost	$	2,398,803	$	-
8	Proposed Revenue - Base Rate Non-Gas Cost (L3+L5)	$	1,883,981	$	1,823,358
9	Proposed Revenue - Gas Cost Adjustor	$	-	$	2,398,803
10	Total Recommended Revenue (L7+L8+L9)	$	4,282,784	$	4,222,160
11	*Proposed Overall Increase/(Decrease) in Rates* (L10-L1)	$	516,733	$	456,109
12	Percent Increase over Current Rates (Including Gas Cost)		13.72%		12.11%
13	Fair Value Rate Base	$	2,114,518	$	2,012,758
14	Return on Rate Base		12.73%		9.85%

References:

Column A: Company Schedule C-1 & A-2
Column B: Company Schedule A-1 & A-2, GTM-2

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-09-0088
Test Year Ended: September 30, 2008

Schedule GTM-2

Line No.		[A]	[B]	[C]	[D]
		SUMMARY OF FILING			
		PRESENT RATES		PROPOSED RATES	
		Cooperative as Filed	Staff as Adjusted	Cooperative Proposed	Staff Recommended
	Revenues				
1	Residential, Irrigation, Com'l, & Industrial	$ 3,744,531	$ 3,744,531	$ 4,225,020	$ 4,192,245
2	Other Operating Revenue	$ 21,520	$ 21,520	$ 57,764	$ 29,915
3	**Total Revenue**	$ 3,766,051	$ 3,766,051	$ 4,282,784	$ 4,222,160
4	**Expenses**				
5	Purchased Gas	$ 2,398,790	$ 2,398,790	$ 2,398,790	$ 2,398,790
6	Distribution Expense - Operations	246,294	246,294	246,294	246,294
7	Distribution Expense - Maintenance	278,580	278,580	278,580	278,580
8	Consumer Accounts Expense	271,842	271,842	271,842	271,842
9	Administrative and General Expense	461,658	461,658	461,658	461,658
10	Depreciation and Amortization Expense	120,070	120,070	120,070	120,070
11	Tax Expense Property	34,376	34,376	34,376	34,376
12	Tax Expense Other	53,893	53,893	53,893	53,893
13	Interest Expense - Other	14,127	14,127	14,127	14,127
14	**Total Operating Expenses**	$ 3,879,630	$ 3,879,630	$ 3,879,630	$ 3,879,630
15	**Operating Margins Before Intr. on L.T. Debt**	$ (113,579)	$ (113,579)	$ 403,154	$ 342,530
16	**Interest on Long Term Debt - CFC**	$ 134,046	$ 144,212	$ 134,046	$ 144,212
17	***Operating Margin after Interest Expense***	$ (247,625)	$ (257,791)	$ 269,108	$ 198,318
18	**Non-Operating Margins**				
19	Interest Income	$ 1,733	$ 1,733	1,733	$ 1,733
20	Other Non-Operating Income	-	-	-	-
21	Capital Credits - Cash	10,167	10,167	10,167	10,167
22	**Total Non-Operating Margins**	$ 11,900	$ 11,900	$ 11,900	$ 11,900
23	**NET MARGINS**	$ (235,725)	$ (245,891)	$ 281,008	$ 210,218
24	Long-Term Debt Principal Payment	86,277	$ 94,669	96,156	94,669
25	**TIER**	(0.85)	(0.79)	3.01	2.38
26	**DSC**	0.03	0.03	2.27	1.94

Note A:
Staff's calculation of the TIER differs from the Cooperative's calculation because it does not include non-operating margins in the numerator.
For comparison purposes, the Cooperative's TIER was calculated using Staff's methodology.
Co. revenue requirerment is based on TIER of 3.0 & DSC of 2.27 (J. Wallace Direct Testimony p. 3)

References:

Column A: Company Schedule A-2 & C-1
Column B: GTM-6
Column C: Company Schedule A-2 & F-1
Column D: GTM-6, GTM Testimony

Graham County Utilities, Inc. - Gas Division
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Schedule GTM-3

Line No.		[A]		[B]		[C]	
		ORIGINAL COST RATE BASE					
		Cooperative		Adjustment		Staff	
1	**Plant In Service**	$	3,857,758	$	-	$	3,857,758
2	Less: Accumulated Depreciation		1,889,359		-		1,889,359
3	**NET PLANT**	**$**	**1,968,399**	**$**	**-**	**$**	**1,968,399**
4	**DEDUCTIONS**						
5	Customer Deposits	$	67,270	$	-	$	67,270
6	**TOTAL DEDUCTIONS**	**$**	**67,270**	**$**	**-**	**$**	**67,270**
7	**ADDITIONS**						
8	Construction work in process	$	101,760	$	(101,760)	$	-
9	Materials and Supplies		91,067		-		91,067
10	Prepayments		20,562		-		20,562
11	Intangible Rate Base				-		-
12	**TOTAL ADDITIONS**	$	213,389	$	(101,760)	$	111,629
13	**RATE BASE**	$	2,114,518	**$**	**(101,760)**	$	2,012,758

Column A: Company Schedule B-1 & E-5
Column B: GTM-5
Column C: GTM Testimony

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-09-0088
Test Year Ended: September 30, 2008

Schedule GTM-4

Summary of Rate Base Adjustments

Line No.		[A] Cooperative	[B] Adjustment	Ref	[C] Staff
	INTANGIBLE PLANT:				
1	2301 Organization	$42,522	$ -		$42,522
2	SUBTOTAL INTANGIBLE	$42,522	$ -		$42,522
	DISTRIBUTION PLANT				
3	2374 Land & Land Rights	$1,494	$ -		$1,494
4	2376 Mains	1,765,026	-		1,765,026
5	2380 Services	792,695	-		792,695
6	2381 Meters & Regulators	1,061,544	-		1,061,544
7	SUBTOTAL DISTRIBUTION	$3,620,759	$ -		$3,620,759
	GENERAL PLANT				
8	2390 Structures & Improvements	$3,309	$ -		$3,309
9	2391 Office Equipment	2,750	-		2,750
10	2392 Transportation Equipment	-	-		-
11	2394 Tools, Shop, & Garage Equipt.	124,531	-		124,531
12	2396 Power Operated Equipment	63,887	-		63,887
13	SUBTOTAL GENERAL	194,477			194,477
14	TOTAL PLANT IN SERVICE	$3,857,758	$ -		$3,857,758
15	CWIP	**$101,760**	**(101,760)**	GTM-5	$ -
16	TOTAL	$3,959,518	($101,760)		$3,857,758

References:

Column A: Company Schedule E-5
Column B: GTM-5
Column C: GTM Testimony

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-09-0088
Test Year Ended: September 30, 2008

Schedule GTM-5

RATE BASE ADJUSTMENT NO. 1 - REMOVE CONSTRUCTION WORK-IN-PROCESS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Construction Work in Process	$ 101,760	$ (101,760)	$ -

References:

Column A: Company Schedule B-1
Column B: Column [A] - Column [C]
Column C: GTM Testimony

Graham County Utilities, Inc. - Gas Division
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Schedule GTM-6

SUMMARY OF OPERATING ADJUSTMENTS

Line No.		[A] COOPERATIVE AS FILED	[B] GTM-7 Interest On LT Debt ADJ #1	[C] Not Used ADJ #2	[D] Not Used ADJ #3	[E] Not Used ADJ #4	[F] Not Used ADJ #5	[G] Not Used ADJ #6	[H] Not Used ADJ #7	[I] STAFF AS ADJUSTED
	Revenues									
1	Residential	$ 2,759,417	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,759,417
2	Irrigation	5,492	-	-	-	-	-	-	-	$ 5,492
3	Commercial and Industrial	979,622	-	-	-	-	-	-	-	$ 979,622
4	Fuel Cost Underbilled	-	-	-	-	-	-	-	-	
5	**Subtotal**	$ 3,744,531	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,744,531
6	Other Operating Revenue	21,520						-	-	$ 21,520
7	**Total Revenue**	$ 3,766,051	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,766,051
8	**Expenses**									
9	*Purchased Gas*	$ 2,398,790	-	$ -	$ -	$ -	$ -	$ -	$ -	2,398,790
10	Distribution Expense - Operations	246,294	-	-	-	-	-	-	-	246,294
11	Distribution Expense - Maintenance	278,580	-	-	-	-	-	-	-	278,580
12	Consumer Accounts Expense	271,842	-	-	-	-	-	-	-	271,842
13	Administrative and General Expense	461,658	-	-	-	-	-	-	-	461,658
14	Depreciation and Amortization Expense	120,070	-	-	-	-	-	-	-	120,070
15	Tax Expense - Property	34,376	-	-	-	-	-	-	-	34,376
16	Tax Expense - Other	53,893	-	-	-	-	-	-	-	53,893
17	Interest Expense - Other	14,127	-	-	-	-	-	-	-	14,127
18	**Total Operating Expenses**	$ 3,879,630	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,879,630
19	**Operating Margins Before Intr. on L.T. Debt**	(113,579)	-	-	-	-	-	-	-	(113,579)
20	***Interest on Long Term Debt - CFC***	134,046	10,166	-	-	-	-	-	-	144,212
21	**Operating Margin**	(247,625)	-	-	-	-	-	-	-	(257,791)
22	**Non-Operating Margins**									
23	Interest Income	$ 1,733	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,733
24	Other Non-Operating Income	-	-	-	-	-	-	-	-	0
25	Capital Credits - Cash	10,167	-	-	-	-	-	-	-	10,167
26	**Total Non-Operating Margins**	$ 11,900	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,900
27	**NET MARGINS**	$ (235,725)	$ (10,166)	$ -	$ -	$ -	$ -	$ -	$ -	$ (245,891)

References:

Column A: Company Schedule C-1 & A-2

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-09-0088
Test Year Ended: September 30, 2008

Schedule GTM-7

OTHER EXPENSE ADJUSTMENT NO. 1 - ALLOCATE LONG TERM INTEREST BETWEEN THE GAS & WATER DIVISIONS

LINE NO.	DESCRIPTION		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Interest on LT Debt		134,046	10,166	144,212

References:
Column A: Schedule C-1, C-2, D-2
Column B: Column C - Column A
Column C: GTM Testimony

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-09-0088
Test Year Ended: September 30, 2008

Schedule GTM-8

Combined Capital Structure
Gas & Water Divisions as of 12/31/08 inclusive of requested Financing

DEBT					
Loan	Creditor	Interest Rate	Outstanding Balance	Annual Interest Expense	Annual Principal
9001	CFC-fixed rate - gas	7.100%	$ 380,689	$ 27,029	51,865
9001	CFC-variable rate - gas	5.740%	$ 131,858	$ 7,569	16,850
9002	CFC - gas	7.450%	$ 320,288	$ 23,861	12,061
9003	CFC - gas	6.250%	$ 364,740	$ 22,796	7,076
	Requested CFC Loan - Gas	7.90%	$ 800,000	$ 62,957	$ 6,817
Total Debt - Gas		7.219%	$ 1,997,575	$ 144,212	$ 94,669
9001	CFC-fixed rate - water	7.100%	$ 337,592	$ 23,969	45,994
9001	CFC-variable rate - water	5.740%	$ 116,931	$ 6,712	14,942
	USDA - water	5.000%	$ 143,239	$ 7,162	3,739
	USDA - water	4.500%	$ 251,055	$ 11,297	5,740
	AEPCO - water	0.000%	$ 47,667	$ -	47,667
	USDA - water	4.500%	$ 87,217	$ 3,925	1,200
	USDA - water	4.125%	$ 1,091,668	$ 45,031	11,168
	Requested CFC Loan - Water	7.90%	$ 250,000	$ 19,674	$ 2,130
Total Debt - Water		5.065%	$ 2,325,369	$ 117,770	$ 132,580
TOTAL DEBT		6.060%	$ 4,322,944	$ 261,983	$ 227,249

COMMON EQUITY		
Total Margins & Equity	Gas	$ 75,739
Total Margins & Equity	Water	$ 221,741
TOTAL COMMON EQUITY		$ 297,480
TOTAL CAPITAL		$ 4,620,424

TOTAL DEBT SERVICE - GAS	
Interest Expense	$ 144,212
Principal Payment	$ 94,669
Debt Service	$ 238,881

TOTAL DEBT SERVICE - WATER	
Interest Expense	$ 117,770
Principal Payment	$ 132,580
Debt Service	$ 250,350

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	DOCKET NO. E-01749A-09-0087

DIRECT

TESTIMONY

OF

PEDRO M. CHAVES

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

TABLE OF CONTENTS

SCHEDULES

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

Graham County Utilities Inc. ("Graham" or "Company") is a member-owned, non-profit cooperative Class C public utility providing water service in Graham County, Arizona. Graham provides water service to approximately 1,200 customers. The Company's current rates were approved in Decision No. 61056, dated August 6, 1998.

On April 27, 2009, Graham filed a general rate application for its water division ("GCU-W"). The application shows a negative $45,627 net margin for the test year that ended September 30, 2008. GCU-W's application proposes total operating revenue of $752,605, an increase of $144,332, or 23.73 percent, over its test year revenue of $608,273. GCU-W's proposed revenue, as filed, would provide an operating income of $204,780 and a net margin of $98,705 for a 1.75 times interest earned ratio ("TIER"), a 1.39 debt service coverage ratio ("DSC") and a 3.66 percent rate of return on the proposed $2,398,138 fair value rate base which is the same as the proposed original cost rate base.

Under the Company's proposed rates, the monthly bill for a median residential 5/8-inch meter customer consuming 5,000 gallons per month would increase by $7.40, or 25.04 percent, from $29.55 to $36.95.

The testimony of Mr. Pedro M. Chaves presents Staff's recommendation in the areas of rate base, operating income, revenue requirement and rate design. Staff's examination shows that GCU-W experienced a negative $38,343 net margin in the test year. Staff recommends total operating revenue of $771,137, an increase of $162,864, or 26.77 percent, over test year revenues of $608,273 to provide an operating margin of 29.76 percent ($229,489), a net margin of $122,677, a 1.95 TIER, a 1.25 DSC and a 9.21 percent rate of return on a rate base of $1,212,620.

Under Staff's recommended rates, the monthly bill for a median residential 5/8-inch meter customer consuming 5,000 gallons per month would increase by $3.70, or 12.52 percent, from $29.55 to $33.25.

I. INTRODUCTION

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

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

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my capacity as a Public Utilities Analyst, I perform studies to estimate the cost of capital component of the overall revenue requirement calculation in rate filings. I also analyze requests for financing authorization, analyze and examine accounting, financial, statistical and other information and prepare reports based on my analyses that present Staff's recommendations to the Commission on utility revenue requirements, rate design and other financial regulatory matters.

Q. Please describe your educational background and professional experience.

A. I am a graduate of Arizona State University where I received a Bachelor of Science degree in Global Business with a specialization in finance. My course of studies included classes in corporate and international finance, investments, accounting, statistics, and economics. I began employment as a Staff Public Utilities Analyst in December 2005. I have also attended the National Association of Regulatory Utility Commissioners' ("NARUC") Utility Rate School.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding Graham County Utilities Inc.'s ("GCU" or "Company") Water Division (GCU-W") application for a permanent rate increase. I am presenting testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement, operating margin and rate design.

Q. What is the basis of your testimony in this case?

A. I performed a regulatory audit of GCU-W's application and records. The regulatory audit consisted of examining and testing financial information, accounting records, and other supporting documentation, and verifying that the accounting principles applied were in accordance with the Commission-adopted NARUC Uniform System of Accounts ("USOA").

Q. How is your testimony organized?

A. My testimony is presented in ten sections. Section I is this introduction. Section II provides a background of the Company. Section III is a summary of consumer service issues. Section IV is a summary of proposed revenues. Section V is a summary of Staff's rate base and operating income adjustments. Section VI presents Staff's rate base recommendations. Section VII presents Staff's operating income recommendations. Section VIII addresses other expenses. Section IX discusses the revenue requirement. Section X discusses rate design.

Q. Have you prepared any schedules to accompany your testimony?

A. Yes. I prepared schedules PCM-1 to PCM-13.

II. BACKGROUND

Q. Please provide background information regarding this application.

A. GCU-W is a member-owned, non-profit cooperative water utility located in Graham County, Arizona. GCU-W is a Class C public service corporation that provides water service to approximately 1,200 customers.

On April 27, 2009, GCU filed an application requesting a permanent rate increase for GCU-W. On July 27, 2009, Staff filed a sufficiency letter informing the Company that the application, together with the revisions docketed on June 26, 2009, met the sufficiency requirements as outlined in the Arizona Administrative Code R-14-2-103.

Q. What test year did the Company use in its GCU-W filing?

A. GCU-W's rate filing is based on the twelve month period that ended September 30, 2008.

Q. When were GCU-W's present rates established?

A. The Commission authorized GCU-W's present permanent rates in Decision No. 61056, dated April 6, 1998.

Q. Does GCU currently have other cases pending before the Commission?

A. Yes. GCU currently has five cases pending before the Commission: (1) this rate case for its Water Division; (2) a rate case for its Gas Division;[1] (3) a request for authorization to issue debt in its Gas Division;[2] and (4) a request for authorization to issue debt in its Water Division.[3] In addition, Graham County Electric Cooperative, Inc. ("GCEC") has submitted an application for authorization to guarantee the proposed debt of GCU's gas

[1] Docket No. W-02527A-09-0088.
[2] Docket No. W-02527A-09-0032.
[3] Docket No. W-02527A-09-0033.

and water divisions.[4] Procedural Orders dated September 19, 2009, and October 30, 2009, consolidated all five dockets.

III. CONSUMER SERVICES

Q. Please provide a brief history of customer complaints regarding GCU-W and summarize the customer responses to GCU-W's proposed rate increase received by the Commission.

A. Staff reviewed the Commission's records for the period of January 1, 2006, through November 27, 2009, and found no complaints filed against the Company. For this same period, there was one opinion filed in 2009 opposing the currently-proposed rate increase.

Q. Is the Company in good standing with the Corporations Division of the Commission?

A. Yes. The Company is in good standing with the Corporations Division of the Commission.

IV. SUMMARY OF PROPOSED REVENUES.

Q. Please summarize the GCU-W's proposed revenue requirement.

A. GCU-W's application proposes total annual operating revenue of $752,605, a $144,332, or 23.73 percent, increase over test year revenue of $608,273. GCU-W's proposed revenue, as filed, would provide an operating income of $204,780 and a net margin of $98,705 for a 1.75 times interest earned ratio ("TIER"), a 1.39 debt service coverage ratio ("DSC") and a 3.66 percent rate of return on the proposed $2,398,138 fair value rate base ("FVRB") which is the same as the proposed original cost rate base ("OCRB").

[4] Docket No. E-01749A-09-0087. GCU is affiliated with GCEC in that GCEC has an agreement to manage GCU. In addition, 6 out of 9 directors are the same on both boards for GCU and GCEC.

Q. Please summarize Staff's revenue requirement recommendation.

A. Staff recommends total operating revenue of $771,137, an increase of $162,864, or 26.77 percent, over test year revenues of $608,273 to provide an operating margin of 29.76 percent ($229,489), a net margin of $122,677, a 1.95 TIER, a 1.25 DSC and a 9.21 percent rate of return on a rate base of $1,212,620, as shown in Schedules PMC-1 and PMC-2.[5]

V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME ADJUSTMENTS

Q. Please summarize the rate base adjustment addressed in your testimony.

A. My testimony addresses the following issue:

Removal of Construction Work-in-Progress ("CWIP") – This adjustment decreases rate base by $1,185,518 to remove plant that was not used and useful at the end of the test year.

Q. Please summarize the operating expense adjustments addressed in your testimony.

A. My testimony addresses the following issues:

Water Testing – This adjustment decreases expenses by $2,279, based on Staff's estimated water testing costs.

Depreciation Expense – This adjustment decreases expenses by $8,202 to reflect Staff's recommended depreciation rates applied to Staff's adjusted plant values by account.

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[5] The TIER and DSC calculations reflect debt service coverage only on that portion of GCU's debt Staff directly charged or allocated to the water division. GCU is the entity responsible for all gas and water division debt. Schedule PCM-11 shows the detail of Staff's assignment of GCU's debt and debt service to the gas and water divisions.

Property Tax Expense – This adjustment increases expenses by $2,461 to reflect property tax expense using the modified Arizona Department of Revenue method.

Other Expense:

Interest on Long Term Debt – This adjustment increases interest expense by $736 to reflect Staff's allocation of GCU-W's portion of GCU's total interest expense.

VI. RATE BASE

Fair Value Rate Base ("FVRB")

Q. Does GCU-W's application include schedules with elements of a Reconstruction Cost New Rate Base?

A. No. GCU-W's application does not request recognition of a Reconstruction Cost New Rate Base. Accordingly, Staff has treated GCU-W's OCRB as its FVRB.

Rate Base Summary

Q. Please summarize Staff's rate base recommendation.

A. Staff recommends a positive $1,212,620 for rate base, a $1,185,518 reduction from the GCU-W's proposed $2,398,138 rate base, as shown in Schedule PMC-3. Staff's recommendation results from the rate base adjustment described below.

Rate Base Adjustment No. 1 – Construction Work-In-Process ("CWIP") Removal

Q. What did the Company propose with respect to CWIP?

A. The Company proposed to include its test year end balance of CWIP in the rate base.[6]

[6] Direct testimony of Mr. John V. Wallace ("Mr. Wallace's Direct"), page 6.

Q. Why is Staff recommending to exclude CWIP from rate base?

A. CWIP by definition is not used and useful plant-in-service. In general, the ratemaking process is predicated on an examination of the operations of a utility to ensure that the assets upon which ratepayers are required to provide the utility with a rate of return are both prudently incurred and are used and useful in providing services on a current basis. Facilities in the process of being built are not used or useful. The ratemaking process therefore excludes CWIP from rate base until such projects are completed and providing service to ratepayers in the context of a test year that is being used for determining the utility's revenue requirement.

It is well recognized that the inclusion of CWIP in rate base would also result in a mismatch in the ratemaking process. This mismatch occurs because such plant, and its associated expenses, are not related to the revenues, expenses, and rate base of the test year. Staff concludes that GCU-W's proposal to include CWIP in rate base is inappropriate.

Q. What is Staff's recommendation?

A. Staff recommends excluding CWIP in the calculation of rate base. Staff's recommendation decreases CWIP by $1,185,518, from $1,185,518 to $0, as reflected in Schedule PMC-5.

VII. OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. Staff's analysis resulted in adjusted test year operating revenues of $608,273, operating expenses of $539,805, an operating margin of $68,468 or 11.26 percent. Staff also calculated a net margin of negative $38,343, as shown in Schedules PMC-2 and PMC-6. Staff made four adjustments to operating expenses discussed below.

Operating Expense Adjustment No. 1 – Water Testing Expense

Q. Please explain Staff's Operating Expense Adjustment No. 1.

A. Staff's adjustment decreased water testing expense by $2,279, from $9,915 to $7,636, as reflected on Schedule PMC-7. Based on the data provided by GCU-W, Staff estimated the total average annual water testing costs for both of GCU-W's water systems (as shown in Table A of Staff's Engineering Report).

Q. What is Staff's recommendation?

A. Staff recommends that water testing expense be adjusted to $7,636.

Operating Expense Adjustment No. 2 – Depreciation Expense

Q. Please explain Staff's Operating Expense Adjustment No. 2.

A. Staff's adjustment decreases depreciation expense by $8,202, from $92,140, to $83,938, as reflected in Schedule PMC-8.

Q. Why does this amount differ from the Company-proposed depreciation expense?

A. Staff's calculation of depreciation expense (Schedule PMC-8) represents the application of Staff's recommended depreciation rates by plant account to Staff's recommended plant balances for those accounts.

Q. What is Staff's recommendation?

A. Staff recommends depreciation expense of $83,938.

Operating Expense Adjustment No. 3 – Property Tax Expense

Q. Please explain Staff's Operating Expense Adjustment No. 3.

A. Staff's adjustment increases property taxes by $2,461, from $20,216 to $22,677. Staff's calculation is based upon Staff's application of the modified Arizona Department of Revenue method typically adopted by the Commission, as shown in Schedule PMC-9.

Q. What is Staff's recommendation?

A. Staff recommends test year property taxes of $22,677 and use of a 1.0115 gross revenue conversion factor (Schedule PMC-9, Line 25) to reflect any increase in the authorized revenue over the test year revenue. This results in a $24,521 property tax expense (Schedule PMC-9, Line 19) with Staff-recommended revenue.

VIII. Other Expenses

Operating Expense Adjustment No. 4 – Interest on Long-Term Debt

Q. Please explain Staff's Operating Expense Adjustment No. 4.

A. Staff's adjustment increases interest on long-term debt by $736, from $117,034 to $117,770, as shown in Schedule PMC-10. Staff's adjustment is based on its analysis of the direct and allocated debt and debt service costs of GCU's water and gas divisions.[7] Staff agrees with GCU's method of apportioning its loans between the gas and water divisions. Staff's adjustment results from the use of an updated estimate of the interest rate (7.9 percent versus 6.0 percent) on the proposed new loan and the use of more recent loan balances (December 31, 2008, versus September 30, 2008). Staff's analysis of the capital structure and annual interest and principal costs for the gas and water divisions is shown in Schedule PMC-11.

Q. What is Staff's recommendation?

A. Staff recommends $117,770 for interest on long-term debt.

IX. REVENUE REQUIREMENT

Q. What does the Company propose for an increase in operating revenue?

A. The Company proposes increasing operating revenues by $144,332, from $608,273, to $752,605, as reflected on Schedule PMC-1.

Q. How did the Company determine its proposed revenue requirement?

A. Graham used an operating times interest earned ratio ("TIER") of 1.75 to determine its proposed revenue requirement. The Company indicates that a TIER of 1.75 is necessary to maintain and increase Graham's equity level to 30 percent. Further, the Company states that it determined its proposed revenue requirement by considering the amount of revenue necessary to maintain a TIER of 1.75, to maintain a positive cash flow after operating expenses, to fund plant improvements and maintenance, to maintain its equity level and to fund contingencies.[8]

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[7] See discussion in Gary T. McMurry's Direct Testimony, Page 7 – 8.
[8] Mr. Wallace's Direct, pages 3-4.

Q. What does Staff recommend for an increase in operating revenues?

A. Staff recommends a $162,864 increase in operating revenues, from $608,273, to $771,137, as reflected in Schedule PMC-1.

Q. How did the Staff determine its proposed revenue requirement?

A. Staff performed a cash flow analysis to determine its proposed revenue requirement. Staff's recommended revenues provide sufficient revenues to service the GCU-W's debt and sufficient funds for on-going expenses, capital requirements, equity accumulation and contingencies.

Q. Why did Staff not perform a cost of capital study?

A. The cost of capital is the opportunity cost represented by anticipated returns or earnings that are foregone by choosing one investment over others with equivalent risk. In other words, the cost of capital is the return that shareholders expect for committing their resources in a determined business enterprise. Graham is a member-owned, non-profit water utility; hence, a cost of capital study is not warranted.

Q. What is Staff's recommendation?

A. Staff recommends total operating revenue of $771,137, an increase of $162,864, or 26.77 percent, over test year revenues of $608,273 to provide an operating margin of $229,489, or 29.76 percent, a net margin of $122,677, a 1.95 TIER, a 1.25 DSC and a 9.21 percent rate of return on a rate base of $1,212,620, as shown in Schedules PMC-1 and PMC-2.[9]

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[9] The TIER and DSC calculations reflect debt service coverage only on that portion of GCU's debt Staff directly charged or allocated to the water division. GCU is the entity responsible for all gas and water division debt. Schedule PCM-11 shows the detail of Staff's assignment of GCU's debt and debt service to the gas and water divisions.

X. RATE DESIGN

Present Rate Design

Q. Please provide an overview of GCU-W's present rates.

A. The following is a general description of the present rate design. Details of the rate designs are presented in Schedule PMC-12. The present rate design consists of monthly minimum charges that progressively increase by meter size from $16.80 for a 5/8 x 3/4-inch meter to $50.00 for a 4-inch meter (no tariff is authorized for 3-inch or 6-inch meters) and a uniform commodity rate for all gallons.

GCU-W's Proposed Water Rate Design

Q. Please provide an overview of the Company's proposed rate structure.

A. GCU-W proposes to continue use of a uniform commodity rate structure for all retail customers. The Company proposes increases in the monthly minimum charges for the various meter sizes that are neither uniform in dollar amount or percentage. Details of GCU-W's proposed rate design are presented in Schedule PMC-12.

Staff's Recommended Water Rate Design

Q. Please summarize Staff's recommended rate design.

A. Staff recommends rates and charges as presented on Schedule PMC-12. Staff's recommended monthly minimum charges by meter size are as follows: 5/8 x 3/4-inch at $17.00; 3/4-inch at $19.00; 1-inch at $36.00; 1 1/2-inch at $38.00; 2-inch at $42.00; 3-inch at $48.00; 4-inch at $55.00; 6-inch at $80.00; and resale bulk water sales to Eden Water Company at $50.00. Staff recommends an inverted-tier rate design that includes three tiers for 5/8 x 3/4-inch and 3/4-inch meter customers and two tiers for all others. The recommended commodity rates for 5/8 x 3/4-inch and 3/4-inch meter customers are $2.75 per thousand gallons for 0 to 3,000 gallons, $4.00 per thousand gallons for 3,001 to 9,000 gallons, and \$5.43 per thousand gallons for any consumption over 9,000 gallons. Staff recommends a \$2.70 per thousand gallons commodity rate for the resale bulk water sales to Eden Water Company.

Q. What is the rate impact on a 5/8-inch meter residential customer using a median consumption of 5,000 gallons?

A. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with median use of 5,000 gallons by \$3.70, or 12.52 percent, from \$29.55 to \$33.25. By comparison, under the Company's proposed rates that same customer would experience an increase of \$7.40, or 25.04 percent, from \$29.55 to \$36.95. A typical bill analysis for 5/8 x 3/4-inch residential customers is presented on Schedule PMC-13.

Q. What is Staff's recommendation for water system service line and meter installation charges?

A. Staff recommends adoption of the charges as listed under "Staff's Recommendation" in Table C of the Engineering Report and duplicated on Schedule PMC-12.

Q. Did the Company propose any changes to its water system service charges?

A. Yes. The Company's proposed service charges are shown on the Company's Schedule H-3 and duplicated on Schedule PMC-12.

Q. Does Staff have any additional comments regarding the Company's proposed service charges?

A. Yes. The Company has not offered a cost-based rationale to justify increases in the service charges. Further, many of the service charges proposed by the Company are higher than the service charges of other Arizona water utilities.

Q. Does Staff agree with any of the Company's proposed service charges?

A. Yes. Staff agrees with the Company's proposed service charge labeled "Establishment of Service – Regular Hours" from $15 to $20.

Q. What water system service charges does Staff recommend?

A. Staff's recommendations for service charges are shown on Schedule PMC-12, Page 2.

Cost of Service Study

Q. What is a Cost of Service Study ("COSS")?

A. In simple terms, a COSS is an estimation of cost-causation by customer class, i.e., how much does it cost the utility to provide its service to each specific customer class. The reason for determining the costs incurred by the utility to serve each customer class is to assist in allocating the revenue requirement for each customer class.

Q. Is rate design synonymous with COSS?

A. No. Rate design should not be mistaken with a COSS. As indicated above, a COSS is the assignment of costs to serve each customer class. Rate design involves the allocation of revenues to each customer class along with the development of the particular rate to achieve that revenue.

Q. Should the COSS be the only factor used when developing a rate design?

A. No. The COSS is only one of various factors considered in the development of a rate design.

Q. What other factors did Staff consider to develop its rate design?

A. In addition to using the results of the COSS as a general guideline, Staff also considered factors such as gradualism, promotion of efficient water usage and uniformity of rates among customer classes.

Q. How did Staff use the COSS as a guide in its rate design?

A. Staff utilized the COSS as a basic tool, starting point or first step in its rate design. However, Staff also used the other factors cited above to develop its rate design.

Q. In Staff's opinion, was it necessary in this case for Staff to perform an additional COSS?

A. No. First, GCU-W's costumer base is predominantly composed of residential (over 90 percent). Second, there is no large spread between the returns of the customer classes. Third, as indicated above, Staff employed GCU-W's COSS as a starting point in its rate design; however Staff incorporated other important factors.

Service Lines and Refunds of Over-collections

Q. What is the underlying issue with line extensions in this case?

A. During the preparation of this rate case, GCU-W discovered that its employees were not correctly following its line extension policy approved in Decision No. 58437, dated October 18, 1993, and were not charging the service line and meter installation charges that were approved in Decision No. 61056. Graham estimates that, since January 1, 2004, it over-charged customers for service lines by a total amount of $15,538.

Q. Does Staff's revenue requirement provide sufficient cash flow for GCU-W to refund the over-collected charges?

A. Yes. Staff's revenue requirement provides sufficient cash flow for GCU-W to refund the over-collected charges for service lines. Accordingly, Staff recommends that GCU-W refund the entire $15,538 over-collection within 12 months of the effective date of the rates established in this case.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

DIRECT TESTIMONY OF PEDRO M. CHAVES

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Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-1

REVENUE INCREASE SUMMARY

Line No.	Description	[A] COOPERATIVE PROPOSED RATES	[B] STAFF RECOMMENDED RATES
1	Sales of Water	$ 602,983	$ 602,983
2	Other Water Revenue	$ 5,290	$ 5,290
3	Total Test Year Revenue	$ 608,273	$ 608,273
4	Revenue Increase/(Decrease)	$ 144,332	$ 162,864
5	Proposed/Recommended Revenue (L3+L5)	$ 752,605	$ 771,137
6	Proposed Overall Increase/(Decrease) in Rates (L10-L1)	$ 144,332	$ 162,864
7	Percent Increase over Current Rates	23.73%	26.77%
8	Fair Value Rate Base	$ 2,398,138	1,212,620
9	Return on Rate Base	3.66%	9.21%

References:

Column A: Company Schedule C-1 & A-2
Column B: PMC-2
Column C: PMC Testimony

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-2

SUMMARY OF FILING

Line No.		[A] PRESENT RATES Cooperative as Filed	[B] PRESENT RATES Staff as Adjusted	[C] PROPOSED RATES Cooperative Proposed	[D] PROPOSED RATES Staff Recommended
1	**Revenues**				
2	Sales of Water	$ 602,983	$ 602,983	$ 747,315	$ 765,847
3	Other Water Revenue	$ 5,290	$ 5,290	$ 5,290	$ 5,290
4	**Total Revenue**	$ 608,273	$ 608,273	$ 752,605	$ 771,137
5					
6	**Expenses**				
7	Purchased Power - Pumping	$ 32,595	$ 32,595	$ 32,595	$ 32,595
8	Distribution Expense - Operations	$ 57,801	$ 55,522	$ 57,801	$ 55,522
9	Distribution Expense - Maintenance	$ 152,586	$ 152,586	$ 152,586	$ 152,586
10	Consumer Accounts Expense	$ 56,628	$ 56,628	$ 56,628	$ 56,628
11	Administrative and General	$ 119,073	$ 119,073	$ 119,073	$ 119,073
12	Depreciation and Amortization	$ 92,140	$ 83,938	$ 92,140	$ 83,938
13	Tax Expense - Property	$ 20,216	$ 22,677	$ 20,216	$ 24,521
14	Tax Expense - Other	$ 13,521	$ 13,521	$ 13,521	$ 13,521
15	Interest Expense - Other	$ 3,265	$ 3,265	$ 3,265	$ 3,265
16	**Total Operating Expenses**	$ 547,825	$ 539,805	$ 547,825	$ 541,649
17					
18	**Operating Margins Before Intr. on L.T. Debt**	$ 60,448	$ 68,468	$ 204,780	$ 229,489
19					
20	**Interest on Long Term Debt**	$ 117,034	$ 117,770	$ 117,034	$ 117,770
21					
22	**Operating Margin after Interest Expense**	$ (56,586)	$ (49,302)	$ 87,746	$ 111,718
23					
24	**Non-Operating Margins**				
25	Interest Income	$ 6,985	$ 6,985	6,985	$ 6,985
26	Other Non-Operating Income	$ -	$ -	0	$ -
27	Capital Credits - Cash	$ 3,974	$ 3,974	3,974	$ 3,974
28	**Total Non-Operating Margins**	$ 10,959	$ 10,959	$ 10,959	$ 10,959
29	**NET MARGINS**	$ (45,627)	$ (38,343)	$ 98,705	$ 122,677
30	Long-Term Debt Principal Payment	86,277	$ 132,580	96,156	132,580
31	**TIER**	0.52	0.58	1.75 A	1.95
32	**DSC**	0.75	0.61	1.39	1.25

Note A:
The Company's revenue requirement is based on TIER of 1.75 (John Wallace's Direct Testimony, p. 3)

References:

Column A: Company Schedule A-2 & C-1
Column B: PMC-6
Column C: Company Schedule A-2 & F-1
Column D: PMC-6, PMC-9, PMC Testimony

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-3

	[A]	[B]	[C]
	ORIGINAL COST RATE BASE		
	Cooperative	Adjustment	Staff
Plant In Service	$ 2,216,900	-	$ 2,216,900
Less: Accumulated Depreciation	1,058,811	-	1,058,811
NET PLANT	$ 1,158,089	$ -	$ 1,158,089
DEDUCTIONS			
Customer Deposits	-	-	-
TOTAL DEDUCTIONS	$ -	$ -	$ -
ADDITIONS			
Construction Work-in-Progress	$ 1,185,518	$ (1,185,518)	$ -
Allowance for Working Capital	$ 54,531	-	$ 54,531
TOTAL ADDITIONS	$ 1,240,049	$ (1,185,518)	$ 54,531
RATE BASE	$ 2,398,138	$ (1,185,518)	$ 1,212,620

References:

Column A: Company Schedule B-1 & E-5
Column B: PMC-5
Column C: PMC Testimony

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-4

Summary of Rate Base Adjustments

	[A] Cooperative	[B] Adjustment	Ref	[C] Staff
INTANGIBLE PLANT:				
301 Organization	$37,708	$0		$37,708
SUBTOTAL INTANGIBLE	$37,708	$0		$37,708
PRODUCTION PLANT				
303 Land & Land Rights	$22,507	$0		$22,507
304 Structures & Improvements	208,128	0		208,128
307 Wells & Springs	167,771	0		167,771
311 Pumping Equipment	180,038	0		180,038
SUBTOTAL PRODUCTION	$578,444	$0		$578,444
DISTRIBUTION PLANT				
331 Structures & Improvements	$983,468	$0		$983,468
333 Office Equipment	297,998	0		297,998
335 Transportation Equipment	62,464	0		62,464
370 Tools, Shop, & Garage Equipt.	145,367	0		145,367
SUBTOTAL DISTRIBUTION	1,489,296	0		1,489,296
GENERAL PLANT				
345 Power Operated Equipment	90,547	$0		90,547
394 Tools, Shop & Garage Equipment	13,058	0		13,058
397 Communication Equipment	7,846	0		7,846
SUBTOTAL GENERAL	111,451	0		111,451
TOTAL PLANT IN SERVICE	2,216,900	0		2,216,900
Contruction Work-in-Progress (CWIP)	**$1,185,518**	**(1,185,518)**	PMC-5	0
Allowance for Working Capital	**$54,531**	-		54,531
TOTAL	$3,402,418	(1,185,518)		$2,216,900

References:

Column A: Company Schedules B-1 and E-5
Column B: PMC-5
Column C: PMC Testimony

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-5

RATE BASE ADJUSTMENT NO. 1 - REMOVAL OF CONSTRUCTION WORK-IN-PROGRESS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Construction Work-in-Progress	$1,185,518	(1,185,518)	-
2	Adjustment	$ 1,185,518	$ (1,185,518)	$ -

References:

Column A: Company Schedule B-1
Column B: Column [A] - Column [C]
Column C: Testimony, PMC

Graham County Utilities, Inc. - Water Division
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SUMMARY OF OPERATING INCOME ADJUSTMENTS

	[A]	[B]	[C]	[D]	[E]	[F]
	COOPERATIVE AS FILED	Water Testing PMC-7 ADJ #1	Depreciation PMC-8 ADJ #2	Property Tax PMC-9 ADJ #3	Interest on LT Debt PMC-10 ADJ #4	STAFF AS ADJUSTED
Revenues						
Sales of Water	$ 602,983	$ -	$ -	$ -	$ -	$ 602,983
Other Water Revenue	5,290					$ 5,290
Subtotal	$ 608,273	$ -	$ -	$ -	$ -	$ 608,273
Other Operating Revenue	-					$ -
Total Revenue	$ 608,273	$ -	$ -	$ -	$ -	$ 608,273
Expenses						
Purchased Power - Pumping	$ 32,595	$ -	$ -	$ -	$ -	32,595
Distribution Expense - Operations	57,801	(2,279)	-		-	55,522
Distribution Expense - Maintenance	152,586	-	-		-	152,586
Consumer Accounts Expense	56,628	-	-	-	-	56,628
Administrative and General	119,073	-	-	-	-	119,073
Depreciation and Amortization	92,140	-	(8,202)	-	-	83,938
Tax Expense - Property	20,216	-	-	2,461	-	22,677
Tax Expense - Other	13,521	-	-	-	-	13,521
Interest Expense - Other	3,265	-	-	-	-	3,265
Total Operating Expenses	547,825	(2,279)	(8,202)	2,461	-	539,805
Operating Margins Before Intr. on L.T. Debt	60,448	2,279	8,202	(2,461)	-	68,468
Interest on Long Term Debt	117,034	-	-	-	736	117,770
Operating Margin	(56,586)	-	-	-	-	(49,302)
Non-Operating Margins						
Interest Income	$ 6,985	$ -	$ -	$ -	$ -	$ 6,985
Other Non-Operating Income	-	-	-	-	-	0
Capital Credits	3,974	-	-	-	-	3,974
Total Non-Operating Margins	$ 10,959	$ -	$ -	$ -	$ -	$ 10,959
NET MARGINS	$ (45,627)	$ 2,279	$ 8,202	$ (2,461)	$ (736)	$ (38,343)

References:

Column A: Company Schedule C-1 & A-2

Graham County Utilities, Inc. - Water Division
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Schedule PMC-7

OPERATING EXPENSE ADJUSTMENT NO. 1 - WATER TESTING EXPENSE

		[A]	[B]	[C]
Line No.	Description	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Water Testing Expense	$ 9,915	$ (2,279)	$ 7,636

References:
Column A: Cooperative's work papers
Column B: Testimony
Column C: Column [A] + Column [B]

Graham County Utilities, Inc. - Water Division
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Test Year Ended September 30, 2008

OPERATING EXPENSE ADJUSTMENT NO. 2 - DEPRECIATION EXPENSE

Line No.	Description	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Depreciation Expense	$ 92,140	$ (8,202)	$ 83,938

Depreciation Expense

Line No.	Acct. No.	Description	Company Original Cost 9/31/2008	Staff Adjustment	Staff Adjusted Original Cost	Proposed Rate	Depreciation Expense
1	301	Organization	$ 37,708	-	37,708	0.00%	$ -
2	302	Franchises	-	-	-	0.00%	-
3	303	Land & Land Rights	22,507	-	22,507	0.00%	-
4	304	Structures & Improvements	208,128	-	208,128	3.33%	6,931
7	305	Collecting & Impounding Reservoirs	-	-	-	2.50%	-
8	306	Lake, River, Canal Intakes	-	-	-	2.50%	-
9	307	Wells & Springs	167,771	-	167,771	3.33%	5,587
10	308	Infiltration Galleries	-	-	-	6.67%	-
11	309	Raw Water Supply Mains	-	-	-	2.00%	-
12	310	Power Generation Equipment	-	-	-	5.00%	-
13	311	Electric Pumping Equipment	180,038	-	180,038	12.50%	22,505
15	320	Water Treatment Equipment					
16	320.1	Water Treatment Plant			-	3.33%	-
17	320.2	Solution Chemical feeders			-	20.00%	-
18	330	Distribution Reservoirs & Standpipes					
19	330.1	Storage Tanks	-			2.22%	
20	330.2	Pressure Tanks	-			5.00%	
21	331	Transmission & Distrib. Mains	983,468	-	983,468	2.00%	19,669
22	333	Services	297,998	-	297,998	3.33%	9,923
23	334	Meters & Meter Installations	145,367	-	145,367	8.33%	12,109
24	335	Hydrants	62,464	-	62,464	2.00%	1,249
25	336	Backflow Prevention Devices	-	-	-	6.67%	-
26	339	Other Plant & Misc. Equipment	-	-	-	6.67%	-
27	340	Office Furniture & Equipment	-	-	-	6.67%	-
28	340.1	Computers & Software	-	-	-	20.00%	-
29	341	Transportation Equipment	-	-	-	20.00%	-
30	342	Stores Equipment	-	-	-	4.00%	-
31	343	Tools, Shop & Garage Equip.	13,058	-	13,058	5.00%	653
32	344	Laboratory Equipment	-	-	-	10.00%	-
33	345	Power Operated Equipment	90,547	-	90,547	5.00%	4,527
34	346	Communication Equipment	7,846	-	7,846	10.00%	785
35	347	Miscellaneous Equipment	-	-	-	10.00%	-
36	348	Other Tangible Plant ¹	-	-	-	5% to 50%	-
37		Total	$ 2,216,900	-	$ 2,216,900		$ 83,938
38		Less: Non-depreciable Accounts			$ 60,215		
39		Depreciable Plant (L35 - L36)			$ 2,156,685		
38		Contributions-in-aid-of-Construction (CIAC)				$ -	
39		Composite CIAC Amortization Rate (Col. D, L35 / Col. B, L37)				3.8920%	
40		Less: Amortization of CIAC					$ -
41		Staff Recommended Total Depreciation Expense (L 35 - L 40)					$ 83,938

References:
Column A: Cooperative Schedule C-1, Page 1
Column B: Testimony, PMC
Column C: Column [A] + Column [B]

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-9

OPERATING EXPENSE ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	$ 608,273	$ 608,273
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	$ 1,216,546	$ 1,216,546
4a	Staff Adjusted Test Year Revenues - 2008	608,273	
4b	Staff Recommended Revenue, Per Schedule PMC-1		771,137
5	Subtotal (Line 4 + Line 5)	$ 1,824,819	$ 1,987,683
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	$ 608,273	$ 662,561
8	Department of Revenue Mutilplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	$ 1,216,546	$ 1,325,122
10	Plus: 10% of CWIP -	118,552	118,552
11	Less: Net Book Value of Licensed Vehicles	-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	$ 1,335,098	$ 1,443,674
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	$ 280,371	$ 303,172
15	Composite Property Tax Rate [1]	8.0881%	8.0881%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	$ 22,677	
17	Company Proposed Property Tax	$ 20,216	
18	Staff Test Year Adjustment (Line 16-Line 17)	$ 2,461	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		$ 24,521
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		$ 22,677
21	Increase/(Decrease) to Property Tax Expense		$ 1,844
22	Increase to Property Tax Expense		$ 1,844
23	Increase in Revenue Requirement		$ 162,864
24	Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20)		1.1323%
25	GRCF = (1 / (1-TR)) = 1 / (1-.015471)		1.0115

References:
[1] Composite property tax rate provided by ADOR.
Col [A]: Company Schedule C-1 Page 3
Col [B]: PMC Testimony

Graham County Utilities, Inc. - Water Division
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Schedule PMC-10

OPERATING EXPENSE ADJUSTMENT NO. 4 - INTEREST ON LONG-TERM DEBT

LINE NO.	DESCRIPTION		[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED
1	Interest on LT Debt		117,034	736	117,770
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					

References:
Column A: Schedule C-1, C-2, D-2
Column B: Column C - Column A
Column C: PMC-11

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 30, 2008

Schedule PMC-11

Combined Capital Structure
Gas & Water Divisions as of 12/31/08 inclusive of requested Financing

DEBT

Loan	Creditor	Interest Rate	Outstanding Balance	Annual Interest Expense	Annual Principal
9001	CFC-fixed rate - gas	7.100%	$ 380,689	$ 27,029	51,865
9001	CFC-variable rate - gas	5.740%	$ 131,858	$ 7,569	16,850
9002	CFC - gas	7.450%	$ 320,288	$ 23,861	12,061
9003	CFC - gas	6.250%	$ 364,740	$ 22,796	7,076
	Requested CFC Loan - Gas	7.90%	$ 800,000	$ 62,957	$ 6,817
Total Debt - Gas		7.219%	$ 1,997,575	$ 144,212	$ 94,669
9001	CFC-fixed rate - water	7.100%	$ 337,592	$ 23,969	45,994
9001	CFC-variable rate - water	5.740%	$ 116,931	$ 6,712	14,942
	USDA - water	5.000%	$ 143,239	$ 7,162	3,739
	USDA - water	4.500%	$ 251,055	$ 11,297	5,740
	AEPCO - water	0.000%	$ 47,667	$ -	47,667
	USDA - water	4.500%	$ 87,217	$ 3,925	1,200
	USDA - water	4.125%	$ 1,091,668	$ 45,031	11,168
	Requested CFC Loan - Water	7.90%	$ 250,000	$ 19,674	$ 2,130
Total Debt - Water		5.065%	$ 2,325,369	$ 117,770	$ 132,580
TOTAL DEBT		6.060%	$ 4,322,944	$ 261,982	$ 227,249

COMMON EQUITY

Total Margins & Equity	Gas	$ 75,739
Total Margins & Equity	Water	$ 221,741
TOTAL COMMON EQUITY		$ 297,480
TOTAL CAPITAL		$ 4,620,424

TOTAL DEBT SERVICE - GAS

Interest Expense	$ 144,212
Principal Payment	$ 94,669
Debt Service	$ 238,881

TOTAL DEBT SERVICE - WATER

Interest Expense	$ 117,770
Principal Payment	$ 132,580
Debt Service	$ 250,351

RATE DESIGN

	Present Rates	Company Proposed Rates	Staff Recommended Rates
Monthly Usage Charge			
5/8 x3/4" Meter - All Classes	$ 16.80	$ 22.00	$ 17.00
3/4" Meter - All Classes	18.00	24.00	19.00
1" Meter - All Classes	23.00	26.00	36.00
1½" Meter - All Classes	30.00	35.00	38.00
2" Meter - All Classes	35.00	50.00	42.00
3" Meter - All Classes	N/T	N/T	48.00
4" Meter - All Classes	50.00	60.00	55.00
6" Meter - All Classes	N/T	N/T	80.00
Resale Bulk Water Sales - Eden Water Company	30.00	60.00	50.00
Commodity Rates			
5/8 x3/4" Meter			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 3,000 Gallons	N/A	N/A	$ 2.75
From 3,001 to 9,000 Gallons	N/A	N/A	$ 4.00
Over 9,000 Gallons	N/A	N/A	$ 5.43
3/4" Meter			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 3,000 Gallons	N/A	N/A	$ 2.75
From 3,001 to 9,000 Gallons	N/A	N/A	$ 4.00
Over 9,000 Gallons	N/A	N/A	$ 5.43
1" Meter			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 19,000 Gallons	N/A	N/A	$ 4.00
Over 19,000 Gallons	N/A	N/A	$ 5.43
1½" Meter			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 19,000 Gallons	N/A	N/A	$ 4.00
Over 19,000 Gallons	N/A	N/A	$ 5.43
2" Meter			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 20,000 Gallons	N/A	N/A	$ 4.00
Over 20,000 Gallons	N/A	N/A	$ 5.43
3" Meter (Res., Comm.)*			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 23,000 Gallons	N/A	N/A	$ 4.00
Over 23,000 Gallons	N/A	N/A	$ 5.43
4" Meter			
Per 1,000 Gallons	$ 2.55	$ 2.97	N/A
From 0 to 26,000 Gallons	N/A	N/A	$ 4.00
Over 26,000 Gallons	N/A	N/A	$ 5.43
6" Meter			
From 0 to 42,000 Gallons	N/A	N/A	$ 4.00
Over 42,000 Gallons	N/A	N/A	$ 5.43
Resale Bulk Water Sales - Eden Water Company			
Per 1,000 Gallons	$ 1.51	$ 1.95	$ 2.70

Service Line and Meter Installation Charges	Present Total	Company Line	Company Meter	Company Total	Staff Line	Staff Meter	Staff Total
5/8" x 3/4" Meter	$ 200	At Cost	At Cost	At Cost [1]	$ 430	$ 130	$ 560
3/4" Meter	225	At Cost	At Cost	At Cost [1]	430	230	$ 660
1" Meter	260	At Cost	At Cost	At Cost [1]	480	290	$ 770
1½" Meter	435	At Cost	At Cost	At Cost [1]	535	500	$ 1,035
2" Meter	570	At Cost	At Cost	At Cost [1]	At Cost	At Cost	At Cost
4" Meter	1,400	At Cost	At Cost	At Cost [1]	At Cost	At Cost	At Cost
6" Meter	3,000	At Cost	At Cost	At Cost [1]	At Cost	At Cost	At Cost

[1] The Company requests that all service line and meter installation charges be non-refundable contributions in-aid-of construction.

RATE DESIGN

Service Charges	Present Rates	Company Proposed Rates	Staff Recommended Rates
Establishment of Service	$ 15.00	$ 20.00	$ 20.00
Establishment of Service (After Hours)	22.50	50.00	22.50
Reconnection of Service (Delinquent)	20.00	20.00	20.00
Reconnection of Service - After Hours	N/T	50.00	N/T
Meter Test (If Correct)	20.00	20.00	20.00
Deposit	(a)	N/T	(a)
Deposit Interest	(a)	6.0%	(a)
Reestablishment (Within 12 Months)	(b)	(b)	(b)
Insufficient Funds Check Charge	20.00	25.00	20.00
Meter Reread Charge (If Correct)	10.00	10.00	10.00
Late Payment Penalty	1.5%	1.5% with $5 minimum	1.5%
Service Call After Hours	70.00	70.00	70.00
Field Collection - Delinquent Account	15.00	N/T	15.00

NT = No Tariff
(a) Per Commission Rule R14-2-403(B).
(b) Months off system times the monthly minimum per Commission rule R14-2-403(D).

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 31, 2008

Typical Bill Analysis
5/8" Residential

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,173	$ 40.19	$ 49.43	$ 9.24	22.98%
Median Usage	5,000	29.55	36.95	$ 7.40	25.04%
Staff Recommended					
Average Usage	9,173	$ 40.19	$ 50.19	$ 10.00	24.88%
Median Usage	5,000	29.55	33.25	$ 3.70	12.52%

Present & Proposed Rates (Without Taxes)
5/8" Residential

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 16.80	$ 22.00	30.95%	$ 17.00	1.19%
1,000	19.35	24.99	29.15%	19.75	2.07%
2,000	21.90	27.98	27.76%	22.50	2.74%
3,000	24.45	30.97	26.67%	25.25	3.27%
4,000	27.00	33.96	25.78%	29.25	8.33%
5,000	29.55	36.95	25.04%	33.25	12.52%
6,000	32.10	39.94	24.42%	37.25	16.04%
7,000	34.65	42.93	23.90%	41.25	19.05%
8,000	37.20	45.92	23.44%	45.25	21.64%
9,000	39.75	48.91	23.04%	49.25	23.90%
9,173	40.19	49.43	22.98%	50.19	24.88%
10,000	42.30	51.90	22.70%	54.68	29.27%
11,000	44.85	54.89	22.39%	60.11	34.02%
12,000	47.40	57.88	22.11%	65.54	38.27%
13,000	49.95	60.87	21.86%	70.97	42.08%
14,000	52.50	63.86	21.64%	76.40	45.52%
15,000	55.05	66.85	21.44%	81.83	48.65%
16,000	57.60	69.84	21.25%	87.26	51.49%
17,000	60.15	72.83	21.08%	92.69	54.10%
18,000	62.70	75.82	20.93%	98.12	56.49%
19,000	65.25	78.81	20.78%	103.55	58.70%
20,000	67.80	81.80	20.65%	108.98	60.74%
25,000	80.55	96.75	20.11%	136.13	69.00%
30,000	93.30	111.70	19.72%	163.28	75.01%
35,000	106.05	126.65	19.42%	190.43	79.57%
40,000	118.80	141.60	19.19%	217.58	83.15%
45,000	131.55	156.55	19.00%	244.73	86.04%
50,000	144.30	171.50	18.85%	271.88	88.41%
75,000	208.05	246.25	18.36%	407.63	95.93%
100,000	271.80	321.00	18.10%	543.38	99.92%

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	DOCKET NO. E-01749A-09-0087

SURREBUTTAL

TESTIMONY

OF

PEDRO M. CHAVES

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 20, 2010

ALL-STATE LEGAL®
EXHIBIT
S-10
ADMITTED

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SURREBUTTAL SCHEDULES

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

The Surrebuttal Testimony of Staff witness Pedro M. Chaves addresses the following issues:

<u>Revenue Requirement</u>

Staff continues to recommend a $162,864 increase in operating revenues, from $608,273, to $771,137, as reflected in Schedule PMC-1 of its Direct Testimony, which results in a rate of return on fair value rate base of 9.21 percent.

<u>Rate Base</u>

Staff continues to recommend a $1,212,620 rate base as presented in its Direct Testimony.

<u>Income Statement</u>

Staff continues to recommend the test year operating revenue, expenses and income presented in its Direct Testimony.

<u>Rate Design</u>

Staff continues to recommend the rate design presented in its Direct Testimony. Staff responds to Mr. John V. Wallace's comments on Staff's rate design.

I. INTRODUCTION

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

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

Q. Are you the same Pedro M. Chaves that filed Direct Testimony regarding rate design in this case?

A. Yes, I am.

Q. What matters are addressed in your rate design Surrebuttal Testimony?

A. This Surrebuttal Testimony addresses comments contained in the Rebuttal Testimony of Graham County Utilities Inc. ("Graham" or "Company") witness Mr. John V. Wallace, regarding Graham's Water Division ("GCU-W") rate design. Staff also presents an updated typical billing analysis for GCU-W (Surrebuttal Schedule PMC-2) to reflect the Company's rebuttal rate design.

Q. Please explain how Staff's rate design Surrebuttal Testimony is organized.

A. Staff's rate design Surrebuttal Testimony is presented in four sections. Section I is this introduction. Section II discusses the revenue requirement produced by Staff's rate design. Section III discusses Staff's rate base and operating income. Lastly, Section IV discusses Staff's rate design.

II. REVENUE REQUIREMENT

Q. Does Staff continue to recommend the same revenue requirement as in Direct Testimony?

A. Yes. Staff continues to recommend a $162,864 increase in operating revenues, from $608,273, to $771,137, as reflected in Schedule PMC-1 of its Direct Testimony. This results in a rate of return on fair value rate base of 9.21 percent.

III. RATE BASE and OPERATING INCOME

Q. Does Staff continue to recommend the same rate base and operating income adjustments as in Direct Testimony?

A. Yes. Staff's recommended rate base is $1,212,620. Staff continues to recommend the adjustments to operating income and rate base in its Direct Testimony.

IV. RATE DESIGN

Q. Has Staff modified the rate design recommended in its Direct Testimony?

A. No. Staff continues to recommend the rate design in its Direct Testimony.

Q. Did Staff update its rate design Schedule?

A. Yes. Staff updated its rate design Schedule to display GCU-W's new rate design proposal, as seen on Surrebuttal Schedule PMC-1.

Q. Does Staff have any comments on GCU-W's assessment that "Staff's tiered rate structure will result in rate shock for customers who use over 9,000 gallons..."[1]?

A. Yes. The impact on higher-usage customers is mitigated by the fact that tiered rates provide customers with more control over their water bills.

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[1] Rebuttal testimony of John V. Wallace, Page 7.

Q. Does Staff have any comments on GCU-W's assessment that "Staff has not accounted for the significant amount of conservation and decrease in GCU's revenues that will take place under its recommended tiered rate design"[2]?

A. Yes. GCU-W's assertion that Staff's rate design will result in conservation and a decrease in revenue is unsupported speculation and not quantifiable. The Commission has consistently adopted rate structures similar to that recommended by Staff in this case for many water utilities in the past several years.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

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[2] *Ibid.*

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x3/4" Meter - All Classes	$ 16.80	$ 19.50	$ 17.00
3/4" Meter - All Classes	18.00	21.50	19.00
1" Meter - All Classes	23.00	31.00	36.00
1½" Meter - All Classes	30.00	36.50	38.00
2" Meter - All Classes	35.00	39.00	42.00
3" Meter - All Classes	N/T	48.00	48.00
4" Meter - All Classes	50.00	58.00	55.00
6" Meter - All Classes	N/T	80.00	80.00
Resale Bulk Water Sales - Eden Water Company	30.00	Meter size	50.00
Commodity Rates			
5/8 x3/4" Meter			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 3,000 Gallons	N/A	$ 3.00	$ 2.75
From 3,001 to 9,000 Gallons	N/A	$ 3.20	$ 4.00
Over 9,000 Gallons	N/A	$ 3.51	$ 5.43
3/4" Meter			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 3,000 Gallons	N/A	$ 3.00	$ 2.75
From 3,001 to 9,000 Gallons	N/A	$ 3.20	$ 4.00
Over 9,000 Gallons	N/A	$ 3.51	$ 5.43
1" Meter			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 19,000 Gallons	N/A	$ 3.00	$ 4.00
Over 19,000 Gallons	N/A	$ 3.20	$ 5.43
1½" Meter			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 19,000 Gallons	N/A	$ 3.00	$ 4.00
Over 19,000 Gallons	N/A	$ 3.20	$ 5.43
2" Meter			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 20,000 Gallons	N/A	$ 3.00	$ 4.00
Over 20,000 Gallons	N/A	$ 3.20	$ 5.43
3" Meter (Res., Comm.)			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 23,000 Gallons	N/A	$ 3.00	$ 4.00
Over 23,000 Gallons	N/A	$ 3.20	$ 5.43
4" Meter			
Per 1,000 Gallons	$ 2.55	N/A	N/A
From 0 to 26,000 Gallons	N/A	$ 3.00	$ 4.00
Over 26,000 Gallons	N/A	$ 3.20	$ 5.43
6" Meter			
From 0 to 42,000 Gallons	N/A	$ 3.00	$ 4.00
Over 42,000 Gallons	N/A	$ 3.20	$ 5.43
Resale Bulk Water Sales - Eden Water Company			
Per 1,000 Gallons	$ 1.51	$ 1.92	$ 2.70

Service Line and Meter Installation Charges	Present Total	Company Line	Company Meter	Company Total	Staff Line	Staff Meter	Staff Total
5/8" x 3/4" Meter	$ 200	$ 430	$ 130	$ 560	$ 430	$ 130	$ 560
3/4" Meter	225	430	230	$ 660	430	230	$ 660
1" Meter	260	480	290	$ 770	480	290	$ 770
1½" Meter	435	535	500	$ 1,035	535	500	$ 1,035
2" Meter	570	0	0	At Cost	0	0	At Cost
4" Meter	1,400	0	0	At Cost	0	0	At Cost
6" Meter	3,000	0	0	At Cost	0	0	At Cost

RATE DESIGN

Service Charges	Present Rates	Company Proposed Rates	Staff Recommended Rates
Establishment of Service	$ 15.00	$ 20.00	$ 20.00
Establishment of Service (After Hours)	22.50	22.50	22.50
Reconnection of Service (Delinquent)	20.00	20.00	20.00
Reconnection of Service - After Hours	N/T	N/T	N/T
Meter Test (If Correct)	20.00	20.00	20.00
Deposit	(a)	(a)	(a)
Deposit Interest	(a)	(a)	(a)
Reestablishment (Within 12 Months)	(b)	(b)	(b)
Insufficient Funds Check Charge	20.00	20.00	20.00
Meter Reread Charge (If Correct)	10.00	10.00	10.00
Late Payment Penalty	1.5%	1.5%	1.5%
Service Call After Hours	70.00	70.00	70.00
Field Collection - Delinquent Account	15.00	15.00	15.00

NT = No Tariff
(a) Per Commission Rule R14-2-403(B).
(b) Months off system times the monthly minimum per Commission rule R14-2-403(D).

Graham County Utilities, Inc. - Water Division
Docket No. W-02527A-09-0201
Test Year Ended September 31, 2008

Surrebuttal Schedule PMC-2

Typical Bill Analysis
5/8" x 3/4"

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,000	$ 39.75	$ 47.70	$ 7.95	20.00%
Median Usage	5,000	29.55	34.90	$ 5.35	18.10%
Staff Recommended					
Average Usage	9,000	$ 39.75	$ 49.25	$ 9.50	23.90%
Median Usage	5,000	29.55	33.25	$ 3.70	12.52%

Present & Proposed Rates (Without Taxes)
5/8" x 3/4"

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	$ 16.80	$ 19.50	16.07%	$ 17.00	1.19%
1,000	19.35	22.50	16.28%	19.75	2.07%
2,000	21.90	25.50	16.44%	22.50	2.74%
3,000	24.45	28.50	16.56%	25.25	3.27%
4,000	27.00	31.70	17.41%	29.25	8.33%
5,000	29.55	34.90	18.10%	33.25	12.52%
6,000	32.10	38.10	18.69%	37.25	16.04%
7,000	34.65	41.30	19.19%	41.25	19.05%
8,000	37.20	44.50	19.62%	45.25	21.64%
9,000	39.75	47.70	20.00%	49.25	23.90%
10,000	42.30	51.21	21.06%	54.68	29.27%
11,000	44.85	54.72	22.01%	60.11	34.02%
12,000	47.40	58.23	22.85%	65.54	38.27%
13,000	49.95	61.74	23.60%	70.97	42.08%
14,000	52.50	65.25	24.29%	76.40	45.52%
15,000	55.05	68.76	24.90%	81.83	48.65%
16,000	57.60	72.27	25.47%	87.26	51.49%
17,000	60.15	75.78	25.99%	92.69	54.10%
18,000	62.70	79.29	26.46%	98.12	56.49%
19,000	65.25	82.80	26.90%	103.55	58.70%
20,000	67.80	86.31	27.30%	108.98	60.74%
25,000	80.55	103.86	28.94%	136.13	69.00%
30,000	93.30	121.41	30.13%	163.28	75.01%
35,000	106.05	138.96	31.03%	190.43	79.57%
40,000	118.80	156.51	31.74%	217.58	83.15%
45,000	131.55	174.06	32.31%	244.73	86.04%
50,000	144.30	191.61	32.79%	271.88	88.41%
75,000	208.05	279.36	34.28%	407.63	95.93%
100,000	271.80	367.11	35.07%	543.38	99.92%

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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

DIRECT

TESTIMONY

OF

PREM K. BAHL

ELECTRIC UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 23, 2009

EXHIBIT
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SCHEDULES

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES INC., GAS DIVISION
DOCKET NO. G-02527A-09-0088

Prem Bahl's testimony discusses Utilities Division Staff's ("Staff") review of Graham County Utilities Inc., Gas Division's ("Graham") Cost of Service Study ("COSS") for the rate case filed with the Arizona Corporation Commission ("Commission"), and presents the results of Staff's analysis.

Based on its review of Graham's COSS, Staff's conclusions and recommendations are as follows:

1. It is Staff's conclusion that Graham performed the COSS consistent with the methodology generally accepted in the industry, and developed the allocation factors appropriately, except two allocation factors, which were modified by Staff.

2. Staff further concludes that, based on the evaluation of the COSS model utilized by Graham and the change Staff made in one allocation factor, the results of COSS are satisfactory.

3. Staff recommends that Graham continue to utilize the current COSS model, including the revised allocation factor for allocating expenditures associated with Distribution Mains in all future rate cases.

4. Staff further recommends that Graham's COSS cost allocations and factors be accepted with Staff's following Allocation Factor revisions, which are reflected in Staff's attached COSS G-Schedules under Exhibit 1:

   F3 ~ Allocation of Distribution Mains, according to 100% demand.
   F3a ~ Allocation of Mains & Services, according to 67% Demand and 33% Weighted Customers

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Prem K. Bahl. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

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

A. I am employed by the Arizona Corporation Commission ("Commission") as an Electric Utilities Engineer.

Q. Please describe your educational background.

A. I graduated from the South Dakota State University with a Masters degree in Electrical Engineering in May 1972. I received my Professional Engineering ("P.E.") License in the state of Arizona in 1978. My Bachelor of Science degree in Electrical Engineering was from the Agra University, India in 1957.

Q. Please describe your pertinent work experience.

A. I worked at the Arizona Corporation Commission from 1988 to 1998 as a Utilities Consultant, and have been re-employed at the Commission as an Electric Utilities Engineer since June 2002. During this time period of approximately seventeen years, I conducted engineering evaluations of electric utility rural electric cooperative rate cases and financing cases. I inspected the utility power plants including the Palo Verde Nuclear Generating Station, Four Corners and Cholla coal fired power plants. I was involved with the development of retail competition in Arizona and of Desert Star, an Independent System Operator for the southwest region. I was Chairman of the System Reliability Working Group, which evaluated the impact of competition on system reliability and recommended the establishment of the Arizona Independent System Administrator ("AZ ISA") as an interim organization until commercial operation of Desert Star. Since rejoining the Commission, I have reviewed the utilities' load curtailment plans; coordinated with the Commission Consultant to conduct second through fifth Biennial Transmission Assessment ("BTA") 2002 through 2008, in the state of Arizona. I am involved with power plant and line siting Certificate of Environmental Compatibility ("CEC") cases, such as Harquahala, Panda Gila River and Red Hawk and Coolidge plants, and Tucson Electric Company's ("TEP") and Southwest Transmission Cooperative's ("SWTC") 138 kV and 115 kV circuits, respectively, from Tortolita to Northloop and from Saguaro to Tortolita to Northloop.

From July 2001 to June 2002, I had my own consulting engineering firm, named P. K. Bahl & Associates. During this time, I was involved with deregulation of the electric power industry, formation of Regional Transmission Organizations ("RTO"), (especially the planning), congestion management, business practices and market monitoring activities of the RTO West and the MidWest ISO.

From July 1998 to August 2000, I worked as Chief Engineer at the Residential Utility Consumer Office. During this time period, I performed many of the duties I performed at the Commission. I was also involved with the Distributed Generation Work Group that looked at the impact of development of distributed generation in Arizona on system reliability modifications of interconnection standards currently specified by the jurisdictional utilities. I was a member of the AZ ISA Board of Directors from September 1999 until June 2000. I was involved in the deliberations of the Market Interface Committee of the North American Electric Reliability Council. I also published and presented a number of technical papers at national and international conferences regarding transmission issues and distributed generation.

Prior to my employment with the Commission, I had worked as an electrical engineer with electric utilities and consulting firms in the transmission and generation planning areas for approximately thirty two years, including ten years experience at the Punjab State Electricity Board (PSEB) in India from 1960 to 1970. I worked as Executive Engineer at the PSEB from 1968 to 1970 prior to coming to the USA in 1970.

Q. As part of your assigned duties at the Commission, did you perform an analysis of the application that is the subject of this proceeding?

A. Yes, I did.

Q. Is your testimony herein based on that analysis?

A. Yes, it is.

Q. What is the purpose of your prefiled testimony?

A. The purpose of my testimony is to discuss Staff's review of Graham County Utilities, Inc. Gas Division ("Graham") Cost of Service Study ("COSS") for the rate case, and present the results of this review.

II. COST OF SERVICE STUDY - REVIEW PROCESS

Q. What does the COSS signify?

A. There are three steps to take in performing a COSS. They are: 1) functionalization; 2) classification; and 3) allocation. First, the COSS enables us to determine the system's cost of service by classifying the utility's costs (investments and expenses) by function, such as customer-related, demand-related, and commodity-related functions. Second, the study breaks down these costs by customer classes to reflect as closely as possible the cost causation by respective customer classes. Third, the results of the COSS provide a benchmark for the revenues needed from each customer category by appropriately allocating the revenue requirement for each customer class.

Q. Is there a standard COSS model?

A. There is no standard methodology for designing a COSS, but it is generally advisable to follow a range of alternatives to identify which allocations are more reasonable than others. For that reason, the COSS should be used as a general guide only and as one of many considerations in designing rates.

Q. What was the process Staff used in reviewing Graham's COSS?

A. First, I reviewed the model used by Graham in developing various allocation factors in the COSS. Second, I reviewed the Test Year ("FYE 2008") rate base, revenues and expenses in the filed rate case, adjusted by Graham's Pro Forma adjustments, and matched them with the appropriate schedules contained in the application. Third, I incorporated the Construction Work in Progress ("CWIP") adjustment of Staff witness, Gary McMurry, in the COSS.

Q. Did Staff conduct a separate independent COSS?

A. After studying Graham's model, I decided that the best method for review would be to replicate Graham's COSS and make the appropriate Staff revisions and adjustments. The accuracy of the COSS model was established by the fact that all the revisions and adjustments flowed through the relevant G-Schedules. The results of Staff's COSS are attached to this testimony as Schedules G-1 thru G-8 under Exhibit 1.

III. ALLOCATION OF DISTRIBUTION MAINS

Q. What comments does Staff have regarding Graham's allocation of Distribution Mains?

A. This account is the largest single plant account. It constitutes over forty-eight percent (48.18%) of Gross Plant-in-Service, according to Graham's figures used in its COSS. Graham allocated fifty percent (50%) of Mains according to demand, and the other fifty percent (50%) according to the number of weighted customers (weighted according to installation and meter reading costs).

Q. What method did Staff use to allocate Distribution Mains?

A. Staff allocated Distribution Mains according to 100% peak demand.

Q. Why did Staff choose to allocate Distribution Mains according to demand and not split the allocation between demand and number of weighted customers as Graham did?

A. Distribution Mains are designed, by necessity, to meet peak demands. Based on this fact, Mains were allocated using only demand. This allocation method was also used in Graham's last rate case (Docket No. G-02527A-04-0301; Decision No. 67748).

Q. Did Staff make any other change in Graham's allocation factors?

A. Yes, the allocation factor for Distribution Operating Expenses for Mains and Services was changed to sixty-seven percent (67%) according to demand and to thirty-three percent (33%) according to weighted customers, as opposed to Graham's allocation of fifty percent (50%) to each of these two classifications.

Q. Why did Staff make this change?

A. This change gave accurate reflection of the ratio of the Distribution Mains to Services included in the Gross Utility Plant in Service (reference Schedule G-6 under Exhibit 1). Graham is in agreement with this change.

Q. What is the effect of the above-noted two changes?

A. These changes in the two allocation factors resulted in shifting of rate base from residential and irrigation customers to commercial customers. A corresponding shift of operating expenses occurred from residential and irrigation customers to commercial customers. These shifts resulted in an increase in rate of return on rate base for residential and irrigation customers and a decrease in rate of return on rate base for commercial customers.

IV. CONCLUSIONS AND RECOMMENDATIONS

Q. Based upon your testimony, what are Staff's conclusions and recommendations regarding the COS study?

A. Based on its review of Graham's COSS, Staff's conclusions and recommendations are as follows:

1. It is Staff's conclusion that Graham performed the COSS consistent with the methodology generally accepted in the industry, and developed the allocation factors appropriately, except two allocation factors which were modified by Staff.

2. Staff further concludes that, based on the evaluation of the COSS model utilized by Graham, and the changes Staff made in the two allocation factors mentioned above, the results of COSS are satisfactory.

3. Staff recommends that Graham continue to utilize the current COSS model including the revised allocation factors for allocating expenditures associated with Distribution Mains and Operating Expenses for Distribution Mains and Services in all future rate cases.

4. Staff further recommends that Graham's COSS cost allocations and factors be accepted with Staff's following revisions and adjustments, which are reflected in Staff's attached COSS G-Schedules:
   a. Allocation of Distribution Mains according to 100% demand
   b. Staff's operating expense adjustments to Graham's filing to reflect changed Allocation Factor for Operating Expenses for Distribution Mains and Services based on the ratio of sixty seven percent (67%) according to demand and thirty three percent (33%) according to weighted customers.

Q. Does this conclude your testimony?

A. Yes it does.

Date: December 14, 2009

GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF SERVICE SUMMARY - PRESENT RATES
TEST FISCAL YEAR SEPTEMBER 30, 2008

DESCRIPTION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
Operating Revenues	**3,766,051**	**2,779,836**	**980,695**	**5,520**
Operating Expenses:				
Purchased Gas	2,398,789	1,680,048	714,930	3,811
Distribution Expense - Operations	246,294	194,943	50,660	691
Distribution Expense - Maintenance	278,580	211,166	66,894	520
Customer Account Expense	271,842	254,413	16,941	488
Administrative & General Expense	462,494	386,921	74,694	879
Depreciation	120,068	94,952	24,782	334
Property Taxes	34,375	24,334	10,025	16
Tax Expense - Other	53,893	45,087	8,704	102
Interest Expense -Other	14,126	13,404	704	18
Total Operation Expenses	**3,880,461**	**2,905,268**	**968,334**	**6,859**
Operating Income (Loss)	**(114,410)**	**(125,432)**	**12,361**	**(1,339)**
Rate Base	**2,012,755**	**1,577,120**	**430,469**	**5,166**
% Return - Present Rates	**-5.68%**	**-7.95%**	**2.87%**	**-25.92%**
Return Index	**1.00**	**1.40**	**(0.51)**	**4.56**
Allocated Interest - Long-Term	**134,046**	**105,034**	**28,669**	**344**
Operating TIER - Present Rates	**(0.85)**	**(1.19)**	**0.43**	**(3.89)**

GRAHAM COUNTY UTILITIES, INC. - GAS
COST OF SERVICE SUMMARY - PROPOSED RATES
TEST FISCAL YEAR SEPTEMBER 30, 2008

DESCRIPTION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
Operating Revenues	**4,282,784**	**3,252,683**	**1,024,235**	**5,865**
Operating Expenses:				
Purchased Gas	2,398,789	1,680,048	714,930	3,811
Distribution Expense - Operations	246,294	194,943	50,660	691
Distribution Expense - Maintenance	278,580	211,166	66,894	520
Customer Account Expense	271,842	254,413	16,941	488
Administrative & General Expense	462,494	386,921	74,694	879
Depreciation	120,068	94,952	24,782	334
Property Taxes	34,375	24,334	10,025	16
Tax Expense - Other	53,893	45,087	8,704	102
Interest Expense -Other	14,126	13,404	704	18
Total Operation Expenses	**3,880,461**	**2,905,268**	**968,334**	**6,859**
Operating Income (Loss)	**402,323**	**347,415**	**55,901**	**(994)**
Rate Base	**2,012,755**	**1,577,120**	**430,469**	**5,166**
% Return - Proposed Rates	**19.99%**	**22.03%**	**12.99%**	**-19.23%**
Return Index	**1.00**	**1.10**	**0.65**	**(0.96)**
Allocated Interest - Long-Term	**134,046**	**105,034**	**28,669**	**344**
Operating TIER - Proposed Rates	**3.00**	**3.31**	**1.95**	**(2.89)**

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
UNIT COSTS

DESCRIPTION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
UNIT COSTS - PRESENT RATES:				
DEMAND				
Amount	565,551	449,577	115,247	727
Bills	60,728	57,621	3,028	79
Therms	2,933,418	2,054,499	874,268	4,651
Per Bill	9.31	7.80	38.06	9.20
Per Therms	0.1928	0.2188	0.1318	0.1563
COMMODITY:				
Amount	2,262,437	1,584,559	674,291	3,587
Per Therms	0.8177	0.8177	0.8177	0.8177
CUSTOMER:				
Amount	938,063	745,700	191,157	1,206
Per Bill	15.45	12.94	63.13	15.26
UNIT COSTS - PROPOSED RATES:	1,503,614			
DEMAND				
Amount	759,909	604,079	154,853	977
Per Bill	73.99	10.48	51.14	12.37
Per Therms	0.6812	0.2940	0.1771	0.2100
COMMODITY:				
Amount	2,262,437	1,584,559	674,291	3,587
Per Therms	0.8177	0.8177	0.8177	0.8177
CUSTOMER:				
Amount	1,260,438	1,001,967	256,850	1,620
Per Bill	122.72	17.39	84.83	20.51
	2,020,347			

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
ALLOCATION OF RATE BASE

DESCRIPTION	FACTOR	TOTAL	CONSUMER CLASS RESIDENTIAL	COMMERCIAL	IRRIGATION
GROSS PLANT IN SERVICE:					
Demand	D-1	1,889,784	1,337,766	551,135	883
Commodity	CM-1	-			
Customer - Weighted	C-1	1,967,973	1,691,956	266,738	9,279
Customer - Unweighted	C-2	-			
Total		**3,857,757**	**3,029,722**	**817,873**	**10,162**
ACCUMULATED DEPRECIATION:					
Demand	D-1	925,533	655,179	269,922	432
Commodity	CM-1	-			
Customer - Weighted	C-1	963,826	828,645	130,637	4,544
Customer - Unweighted	C-2	-			
Total		**1,889,359**	**1,483,824**	**400,559**	**4,976**
NET PLANT IN SERVICE		**1,968,398**	**1,545,898**	**417,314**	**5,186**
WORKING CAPITAL:					
Demand	D-1	49,075	34,740	14,312	23
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	56,504	48,579	7,659	266
Customer - Unweighted	C-2	6,049	5,739	302	8
Total		**111,628**	**89,058**	**22,273**	**297**
LESS:					
CONSUMER DEPOSITS	C-1	**67,270**	**57,835**	**9,118**	**317**
TOTAL RATE BASE		**2,012,755**	**1,577,120**	**430,469**	**5,166**

RECONCILIATION		
TOTAL RATE BASE (from G-6)		2,080,028
CONSUMER DEPOSITS	C-1	**67,270**
		2,012,758

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
ALLOCATION OF INCOME STATEMENT

			CONSUMER CLASS (PRESENT)				CONSUMER CLASS (PROPOSED)		
DESCRIPTION	FACTOR	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
REVENUES:									
Gas Sales - Adjusted		3,744,531	2,759,417	979,622	5,492	4,225,020	3,197,875	1,021,355	5,790
Service Charges & Other Revenues	C-2	21,520	20,419	1,073	28	57,764	54,809	2,880	75
Total		3,766,051	2,779,836	980,695	5,520	4,282,784	3,252,683	1,024,235	5,865
OPERATING EXPENSE:									
Purchased Gas	CM-1	2,398,789	1,680,048	714,930	3,811				
Distribution Expense - Operations:									
Demand	D-1	110,682	78,351	32,279	52				
Commodity	CM-1	-							
Customer - Weighted	C-1	135,612	116,592	18,381	639				
Customer - Unweighted	C-2	-							
Total		246,294	194,943	50,660	691				
Distribution Expense - Maintenance:									
Demand	D-1	186,649	132,128	54,434	87				
Commodity	CM-1	-							
Customer - Weighted	C-1	91,931	79,038	12,460	433				
Customer - Unweighted	C-2	-							
Total		278,580	211,166	66,894	520				
Customer Accounts Expense:									
Demand	D-1	-							
Commodity	CM-1	-							
Customer - Weighted	C-1	-							
Customer - Unweighted	C-2	271,842	254,413	16,941	488				
Total		271,842	254,413	16,941	488				
Admin. & General Expense:									
Demand	D-1	170,041	120,371	49,591	79				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	122,789	105,567	16,643	579				
Customer - Unweighted	C-2	169,664	160,983	8,460	221				
Total		462,494	386,921	74,694	879				

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
ALLOCATION OF INCOME STATEMENT

			CONSUMER CLASS		
DESCRIPTION	**FACTOR**	**TOTAL**	**RESIDENTIAL**	**COMMERCIAL**	**IRRIGATION**
Depreciation:					
Demand	D-1	54,506	38,585	15,896	25
Commodity	CM-1	-			
Customer - Weighted	C-1	65,562	56,367	8,886	309
Customer - Unweighted	C-2	-			
Total		**120,068**	**94,952**	**24,782**	**334**
Property Taxes:					
Demand	D-1	15,605	11,047	4,551	7
Commodity	CM-1	-			
Customer - Weighted	C-1	18,770	13,287	5,474	9
Customer - Unweighted	C-2	-			
Total		**34,375**	**24,334**	**10,025**	**16**
Tax Expense - Other:					
Demand	D-1	19,815	14,027	5,779	9
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	14,307	12,301	1,939	67
Customer - Unweighted	C-2	19,771	18,759	986	26
Total		**53,893**	**45,087**	**8,704**	**102**
Interest Expense - Other:					
Demand	D-1	-			
Commodity	CM-1	-			
Customer - Weighted	C-1	-			
Customer - Unweighted	C-2	14,126	13,404	704	18
Total		**14,126**	**13,404**	**704**	**18**
TOTAL OPERATING EXPENSES		**3,880,461**	**2,905,268**	**968,334**	**6,859**
OPERATING INCOME (LOSS)		**(114,410)**	**(125,432)**	**12,361**	**(1,339)**
OPERATING INCOME PERCENT		**-3.04%**	**-4.51%**	**1.26%**	**-24.26%**

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
FUNCTION OF RATE BASE COMPONENTS

DESCRIPTION	FACTOR	TOTAL	FUNCTION	SPECIFIC	DEMAND	COMMODITY	CUST. - WT	CUST.
GROSS UTILITY PLANT IN SERVICE								
Distribution Plant:								
Distribution Mains	F-3	1,765,026	1,765,026		1,765,026			
Org. & Land & Land Rights	F-3a	44,016	44,016		29,491		14,525	
Services	F-4	792,695	792,695				792,695	
Meters & Regulators	F-5	1,061,544	1,061,544				1,061,544	
Total Distribution Plant		**3,663,281**	**3,663,281**	-	**1,794,517**	-	**1,868,764**	-
Percent	F10	**100.00%**	**100.00%**	**0.00%**	**48.99%**	**0.00%**	**51.01%**	**0.00%**
General Plant:								
Structures & Improvements	F10	3,309	3,309		1,621		1,688	
Office Equipment	F10	2,750	2,750		1,347		1,403	
Transportation Equipment	F10	-	-		-		-	
Tools & Shop Equipment	F10	124,531	124,531		61,004		63,527	
Power Operated Equipment	F10	63,887	63,887		31,296		32,591	
Total General Plant		**194,477**	**194,477**	-	**95,268**	-	**99,209**	-
Percent	F10	**100.00%**	**100.00%**	**0.00%**	**48.99%**	**0.00%**	**51.01%**	**0.00%**
GROSS PLANT IN SERVICE		**3,857,758**	**3,857,758**	-	**1,889,785**	-	**1,967,973**	-
PERCENT	F10	**100.00%**	**100.00%**	**0.00%**	**48.99%**	**0.00%**	**51.01%**	**0.00%**
ACCUMULATED DEPRECIATION:								
Distribution Plant	F-7	1,768,202	1,768,202	-	866,182	-	902,020	-
General Plant	F-7	121,157	121,157	-	59,351	-	61,806	-
Total Accumulated Depreciation		**1,889,359**	**1,889,359**	-	**925,533**	-	**963,826**	-
WORKING CAPITAL:								
Materials & Supplies Inventory	F-7	91,067	91,067		41,341		49,726	
Prepaids	F-9	20,562	20,562		7,734	-	6,779	6,049
Consumer Deposits		-	-				-	
Total Working Capital		**111,629**	**111,629**	-	**49,075**	-	**56,505**	**6,049**
TOTAL RATE BASE		**2,080,028**	**2,080,028**	-	**1,013,327**	-	**1,060,652**	**6,049**

Date: December 14, 2009

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
FUNCTION OF OPERATING EXPENSES

DESCRIPTION	FACTOR	TOTAL	FUNCTION	DEMAND	COMMODITY	CUST. - WT	CUST.
Purchased Gas	F-2	**2,398,790**	**2,398,790**		**2,398,790**		
Distribution Operating Expenses:							
Supervision & Engineering	F-3a	29,454	29,454	19,734		9,720	
Mains & Services	F-3a	87,772	87,772	58,808		28,964	
Measuring & Reg Stations	F-1	-	-	-			
Customer Installations	F-4	81,098	81,098			81,098	
Other Operating Expenses	F-3a	47,970	47,970	32,140		15,830	
Total Operating Expenses		**246,294**	**246,294**	**110,682**	-	**135,612**	-
Distribution Maint. Expenses:							
Supervision & Engineering	F-3a	16,964	16,964	11,366		5,598	
Maintenance Expenses	F-3a	261,616	261,616	175,283		86,333	
Total Maint. Expenses		**278,580**	**278,580**	**186,649**	-	**91,931**	-
Meter Reading Expenses	F-6a	84,109	84,109			39,521	44,588
Customer Accounting & Info. Exp.	F-6	165,917	165,917				165,917
Delinquent Accts. & Uncollectible	F-6	21,816	21,816				21,816
Total Customer Accounts Expenses:		**271,842**	**271,842**	-	-	**39,521**	**232,321**
Administrative & General Exp.	F-8	462,493	462,493	170,041	-	122,788	169,663
Depreciation	F-7	120,070	120,070	54,507		65,563	
Property Taxes	F-7	34,376	34,376	15,605		18,770	
Taxes - Other	F-8	53,893	53,893	19,814	-	14,308	19,770
Interest Expense - Other	F-6	14,127	14,127				14,127
TOTAL OPERATING EXPENSES		**3,880,465**	**3,880,464**	**557,299**	**2,398,790**	**488,494**	**435,881**
FUNCT. OF SALARIES & WAGES							
Operating Expenses	F-3a	113,485	113,485	76,035		37,450	
Maintenance Expenses	F-3a	122,600	122,600	82,142		40,458	
Meter Reading & Installation	F-6a	77,283	77,283			36,314	40,969
Customer Accounting	F-6	116,856	116,856				116,856
Total		**430,223**	**430,223**	**158,177**		**114,221**	**157,825**
Percent	F-8	**100.00%**	**100.00%**	**36.77%**		**26.55%**	**36.68%**
FUNCTION OF O&M LESS Purchased Gas		1,481,675	1,481,674	557,299		488,494	435,881
Percent	F-9	**100.00%**	**100.00%**	**37.61%**		**32.97%**	**29.42%**
Percent		**100.00%**		**37.61%**		**32.97%**	**29.42%**
	F-6a					46.99%	53.01%

GRAHAM COUNTY UTILITIES, INC. - GAS
TEST FISCAL YEAR SEPTEMBER 30, 2008
ALLOCATION FACTORS

FUNCTION FACTOR	DESCRIPTION	TOTAL	DEMAND	COMMODITY	WEIGHTED CUSTOMER	CUSTOMER
F-1	Demand	100.00%	100.00%			
F-2	Commodity	100.00%		100.00%		
F-3	Distribution Mains	100.00%	100.00%			
F-3a	Mains & Services	100.00%	67.00%		33.00%	
F-4	Services	100.00%			100.00%	
F-5	Meters & regulators	100.00%			100.00%	
F-6	Customer Accounts	100.00%				100.00%

DERIVED FUNCTION FACTOR	DESCRIPTION	TOTAL	DEMAND	COMMODITY	WEIGHTED CUSTOMER	CUSTOMER
F-7	Gross Plant in Service	100.00%	45.40%		54.60%	
F-8	Salaries & Wages	100.00%	36.77%	0.00%	26.55%	36.68%
F-9	O & M Less Purchased gas	100.00%	37.61%	0.00%	32.97%	29.42%

CLASS ALLOCATION FACTORS	DESCRIPTION	TOTAL	CUSTOMER CLASS		
			RESID.	COMM.	IRRIG.
D-1	Winter Peak Demand	100.000%	70.789%	29.164%	0.047%
CM-1	Commodity	100.000%	70.037%	29.804%	0.159%
C-1	Customer - Weighted	100.000%	85.975%	13.554%	0.471%
C-2	Customer - Unweighted	100.000%	94.884%	4.986%	0.130%

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	DOCKET NO. W-02527A-09-0201
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. W-02527A-09-0033
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY ELECTRIC, COOPERATIVE, INC. FOR APPROVAL OF A LOAN GUARANTEE.	DOCKET NO. E-01749A-09-0087

DIRECT

TESTIMONY

OF

ROBERT E. MILLER

SUPERVISOR

SAFETY DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

ALL-STATE LEGAL®
EXHIBIT
S-12
ADMITTED

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EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-09-0088, ET AL

Mr. Miller's Direct Testimony addresses the used and useful aspect of Graham County Utility's gas distribution plant; in particular capital improvements and new construction.

INTRODUCTION

Q. Please state your name and business address?

A. My name is Robert Miller. My business address is 2200 N. Central Avenue, Phoenix.

Q. What is your current position and how long have you been employed by the Arizona Corporation Commission?

A. I am the Supervisor of the Pipeline Safety Section. I have been employed by the Arizona Corporation Commission ("Commission") for over 13 years.

Q. Please describe briefly your duties as the Pipeline Safety Supervisor.

A. As supervisor, I am responsible for the following:

- Oversight of all day-to-day operations and management of the pipeline safety program.
- Reviewing all inspector reports for accuracy and completeness.
- Scheduling inspection activities and related tasks and assigning personnel to accomplish these projects.
- Responsible for development and updating of pipeline safety policies and procedures.

Q. Have you previously testified?

A. Yes, I have previously testified on behalf of Commission Staff ("Staff") on numerous occasions.

Q. What is the purpose of your testimony in these proceedings?

A. The purpose of my testimony is to present Staff's findings concerning the used and usefulness of Graham County Utility's ("Graham") natural gas distribution plant, capital improvements, and new construction.

ANALYSIS

Q. How did you conduct your analysis to determine if any of Graham's plant was not used and useful?

A. At my request, Graham personnel provided me with a list of all completed work orders for the years 2000 through 2009. Based on this information I conducted a review of the information made available to me. As part of my analysis; I reviewed past pipeline safety inspection reports filed by the Commission's Pipeline Safety Section staff and interviewed the inspectors involved with those inspections. In addition I have conducted my own direct observation of Graham's facilities.

Q. Following your analysis did you determine that any of Graham's plant was not used and useful?

A. No

Q. How often does the Commission's Pipeline Safety Section conduct inspections of the Graham gas distribution plant?

A. Inspections are conducted by Staff on an annual basis, including field inspections of Graham's natural gas distribution plant.

Q. Were there any items of pipeline regulatory concern noted during the 2009 annual compliance inspection of Graham County Utility's gas plant?

A. No

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. FOR A RATE INCREASE.	DOCKET NO. G-02527A-09-0088
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. GAS DIVISION FOR APPROVAL OF A LOAN.	DOCKET NO. G-02527A-09-0032
IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. WATER DIVISION FOR A RATE INCREASE.	DOCKET NO. W-02527A-09-0201
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DIRECT

TESTIMONY

OF

VICKI WALLACE

EXECUTIVE CONSULTANT

ARIZONA CORPORATION COMMISSION

DECEMBER 9, 2009

ALL-STATE LEGAL®
EXHIBIT
S-13
ADMITTED

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ATTACHMENT

EXHIBITS

I. INTRODUCTION

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

A. I am Vicki Wallace and employed as an Executive Consultant by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona, 85007.

Q. Briefly describe your responsibilities as an Executive Consultant.

A. My duties involve, but are not limited to, analyzing and processing applications for new Certificates of Convenience and Necessity ("CC&N") and applications for extensions of territory and transfers for existing water and electric companies. I also review and process water main line extensions.

Q. Please describe your educational and professional background.

A. I have an associate business degree from Rose State College and approximately twenty-five (25) years of public utility regulatory experience. I have been with the ACC since October 6, 2003.

Q. What is the scope of your testimony in this case?

A. My testimony provides Staff's recommendations concerning water main line extension policy revisions requested by Graham County Utilities ("GCU" or "Cooperative") and further actions that the Cooperative can take in avoiding misapplication of the policy in the future.

Q. Have you prepared any exhibits to accompany your testimony?

A. I have prepared and attached the Water Main Line Extension Staff Report as Exhibit A to support my findings and recommendations.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

WATER MAIN LINE EXTENSION STAFF REPORT
GRAHAM COUNTY UTILTIES WATER DIVISION INC.
DOCKET NO. W-02527A-09-0201

INTRODUCTION AND BACKGROUND

On April 27, 2009, Graham County Utilities ("GCU" or "Cooperative") filed an application with the Arizona Corporation Commission ("A.C.C.") for an increase in rates. GCU is a nonprofit cooperative that provides water service to approximately 1,200 customers in Graham County, Arizona.

In its application, GCU revealed through the Direct Testimony of John Wallace that it had been incorrectly applying its main line extension policy approved in Decision No. 58437 dated October 18, 1993 in the refunding provision of ten percent of gross annual revenue over a ten year period. To the Cooperative's knowledge, it had never refunded ten percent of gross annual revenue and had never submitted a main line extension agreement for A.C.C. approval. Since the time this issue was discovered while preparing for the rate case in 2009, GCU advised it had not had a main line extension. Instead of refundable advances in aid of construction as required by main extension policy provisions, GCU charged customers a contribution in aid of construction on service line extensions over $100.

The Cooperative requested that its main line extension policy terms and conditions be revised to basically delete all refundable advances in aid of construction provisions and replace with non-refundable contribution in aid of construction.

The scope of this Staff Report covers the water main line extension policy revision request, and further actions that the Cooperative can take in avoiding misapplication of the policy in the future.

REQUESTED MAIN LINE EXTENSION POLICY REVISIONS

The Cooperative requested revisions to its main line extension ("MXA") policy terms and conditions that basically eliminates all refundable advances in aid of construction ("AIAC") provisions and replaces with non-refundable contributions in aid of construction ("CIAC"). The requested revised policy would require all new customers who need main line extensions to pay the total cost of these extensions in the form of CIAC. The Cooperative's rationale for revising this policy was that it believed the philosophy that growth should pay for growth and not put additional burden on existing customers. Additionally, the Cooperative indicated that if it were to refund aid to construction and/or revenue to each new customer, then additional burden would be placed on existing customers through rate increases to recover the associated costs. GCU stated that since it is a cooperative and non-profit entity, an exception should be granted from Arizona Administrative Code ("A.A.C") R14-2-406 specifically related to main line extensions that appear to be designed for other entities that receive a rate of return on their investment. (See Exhibit 1 for a redlined version of the changes requested by the Cooperative and Exhibit 2 for the specific deleted language).

Staff checked its MXA records from 2005 to date and found no record of any MXAs being filed by GCU since that time. Jason Hughes (Gas & Water System Superintendent who is responsible for preparing and processing main line extensions) indicated that he was unaware of any requirement that individual MXAs entered into by the Cooperative and the customer required A.C.C. approval. GCU has applied to only ADEQ for approval to construct main line extensions. (See Exhibit 3 for additional explanation on this matter in the Cooperative's supplement to its responses to Staff's data requests received electronically on December 7, 2009).

Staff concludes that since all other utilities and cooperatives are not allowed to deviate from the A.C.C.'s MXA rules that it would be unfair to allow one cooperative to establish its own MXA policy. Thus, the Cooperative's request to revise its MXA policy should be denied.

MEASURES TO AVOID MISAPPLICATION OF POLICY

In response to Staff's data request inquiring what controls and oversight were provided to personnel assigned to the preparation, execution and implementation of main line extension requests, GCU indicated that it had no specific training for the Cooperative's personnel on A.C.C. tariffs and implementation. GCU also advised that personnel followed verbal guidelines passed down from previous Cooperative management. GCU was also asked if it had an employee orientation/training manual with current information available on Cooperative policies, A.C.C. rules, etc. The Cooperative indicated that it currently did not have such, but that in the future, it would be providing each employee that deals with policies and procedures a copy of GCU's A.C.C. approved policies and procedures along with the appropriate level of orientation and training on such. The Cooperative also advised that management would hold a training event with its employees that would cover all of GCU's tariffs, rules, and regulations; and the training events would be held periodically and as new employees are hired.

Staff recommends that GCU should be required to develop an employee training/orientation manual that includes all of GCU's tariffs, terms and conditions of service, A.C.C. Decisions affecting the Cooperation, and any other pertinent regulatory information within 30 days of the final Decision in this matter. Staff also believes that the Cooperative should implement the training sessions discussed above and file documentation of such training each July, beginning in July 2010, until further order of the A.C.C.

STAFF RECOMMENDATIONS

Staff recommends that:

1. The Cooperative's request to revise its MXA policy be denied.

2. The Cooperative be required within 30 days of the date of the final Decision in this Docket to:

   a. Establish an employee training/orientation manual that includes all of GCU's tariffs, terms and conditions of service, A.C.C. Decisions affecting the Cooperative, and any other pertinent regulatory information;

   b. Implement training events with its employees that would cover all of GCU's tariffs, rules, and regulations and hold such training periodically and as new employees were hired.

3. The Cooperative be required to file documentation and proof of its training materials and training sessions discussed above as a compliance item in this Docket each July, beginning July 2010, until further order of the A.C.C

SMO:VW:tdp

5. Service establishments shall be made only by qualified utility service personnel.
6. For the purposes of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install or read a meter or turn the service on.

B. Service lines

(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. An applicant for service shall be responsible for the cost of installing all customer piping up to the meter.
2. An applicant shall be responsible for all labor, material, and overhead costs of the new service as a non-refundable contribution in aid of construction.
3. Where service is being provided for the first time, the customer shall provide and maintain a private cutoff valve within 18 inches of the meter on the customer's side of the meter, and the utility shall provide a like valve on the utility's side of such meter.
4. The Company may install its meter at the property line or, at the Company's option, on the customer's property in a location mutually agreed upon.
5. Where the meter or service line location on the customer's premises is changed at the request of the customer or due to alterations on the customer's premises, the customer shall provide and have installed at his expense all piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
6. The customer's lines or piping must be installed in such a manner as to prevent cross-connection or backflow.
7. Each utility shall file a tariff for service and meter installations for Commission review and approval.

C. Easements and rights-of-way

1. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure that customer's proper service connection. Failure on the part of the customer to grant adequate easement and right-of-way shall be grounds for the utility to refuse service.
2. When a utility discovers that a customer or his agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the utility's access to equipment, the utility shall notify the customer or his agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the customer's expense.

PART V. Main extension agreements

A. General requirements

(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. Each utility shall file for Commission approval a main extension tariff which incorporates the provisions of this rule and specifically defines the conditions governing main extensions.
2. Upon request by an applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be paid by said applicant.
3. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall upon request, make available within 90 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant authorizes the utility to proceed with construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimate. Subdividers providing the utility with approved plats shall be provided with plans, specifications or cost estimates within 45 days after receipt of the deposit referred to above.
4. All main extension agreements requiring payment by the applicant shall be in writing and signed by each party.
5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.

B. Minimum written agreement requirements

1. Each main extension agreement shall, at a minimum, include the following information:

Deleted: An applicant for service shall pay to the utility as a refundable advance in aid of construction the sum as set forth in the utility's tariff for each size service and meter. Except where the refundable advances in aid of construction for meters and service lines have been included in refundable advances in aid of construction for line extensions and thus are refundable pursuant to main extension contracts approved by the Commission, each advance in aid of construction for a service line or meter shall be repaid by the utility by an annual credit of 1/10 of the amount received, said credit to be applied upon the water bill rendered in November of each year until fully paid, for each service and meter for which the advance was made, and said credit to commence the month of November for all such advances received during the preceding calendar year.

Deleted: A. . Each utility entering into a main extension agreement shall comply with the provisions of this rule which specifically defines the conditions governing main extensions.¶
¶
B. . An applicant for the extension of mains may be required to pay to the Company, as a refundable advance in aid of construction, before construction is commenced, the estimated reasonable cost of all mains, including all valves and fittings.¶
1. . In the event that additional facilities are required to provide pressure, storage or water supply, exclusively for the new service or services requested, and the cost of the additional facilities is disproportionate to anticipated revenues to be derived from future consumers using these facilities, the estimated reasonable cost of such additional facilities may be included in refundable advances in aid of construction to be paid to the Company.¶
2. . Upon request by a potential applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimate of the cost of installation to be paid by said applicant. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall, upon request, make available within 45 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant accepts utility construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to b ... [1]

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a. Name and address of applicant(s)
b. Proposed service address or location
c. Description of requested service
d. Description and sketch of the requested main extension
e. A cost estimate to include materials, labor, and other costs as necessary
f. Payment terms
g. A concise explanation of any refunding provisions, if applicable. The refunding provisions shall be as follows:
    I. Where the number of potential services has been determined by final plats.
        1. Each subsequent hookup on the line extension after the first customer shall pay a percentage equal to the total cost estimate divided by the number of lots. This amount shall then be refunded to the first customer provided it has not been five years since the time of payment as outlined in rule C-5.
    II. Where the number of potential services is not readily available and must be estimated by the Cooperative.
        1. Each subsequent hookup on the line extension after the first customer shall pay a percentage of the original cost as determined by the distance from the main to the service location. This amount shall then be refunded equally between the prior customers provided it has not been five years since the time of payment as outlined in rule C-5.
h. The utility's estimated start date and completion date for construction of the main extension
i. A summary of the results of the economic feasibility analysis performed by the utility to determine the amount of advance required from the applicant for the proposed main extension.

2. Each applicant shall be provided with a copy of the written main extension agreement.

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C. Main and Service line extension requirements. Each main line extension shall include the following provisions:
1. GCU does not provide a free footage allowance. The applicant shall be responsible for all material, labor, and overhead costs of the main line extension.
2. Line extension measurement shall be along the route of construction required.
3. The timing and methodology by which the utility will refund any aid to construction as additional customers are served off the main extension. The customer may request an annual survey to determine if additional customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally paid.
4. All aid to construction shall be non-interest bearing.
5. All refunding provisions are null and void after five years from the date of payment of the contribution in aid of construction.

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D. Extensions For Residential Subdivision Developments and Mobile Home Parks
1. Extensions to the Perimeter of Duly Recorded Real Estate Subdivisions and Mobile Home Parks.
    a. Water main extensions will generally be made when mutually agreed upon by the Company and the applicant in areas where the Company does maintain existing facilities for its operating convenience.
    b. The Applicant shall provide at his expense the trenching, backfilling (including any imported backfill required), compaction, repaving and earth-work in preparation for installation of facilities. At its option, the Company may elect, at the applicants expense, to perform the necessary activities to fulfill the applicants responsibility hereunder provided the expense to the applicant is equal or less than that which would otherwise be borne.
2. Extensions Within Duly Recorded Real Estate Subdivisions and Mobile Home Parks
    a. Distribution facilities will be constructed by the Company within a duly recorded subdivision or mobile home park in advance of application for service by permanent customers after the Company and the Developer of said subdivision or mobile home park have entered into a written contract which provides for net construction costs to be paid as contributions in aid of construction. Net construction costs shall be all costs furnished by the Company to install such facilities and meters and regulators required including all material, labor, and overhead costs.
    b. Rights-of-way and easements suitable to the Company must be furnished by the developer at no cost to the Company and in reasonable time to meet service requirements. No facilities shall be installed until the final grades have been established and furnished to the Company. In addition, the easement strips, alleys and streets must be graded to within six (6) inches of final grade by the developer before the Company will commence construction and must be maintained by the developer during construction.
3. There is no free Main and Service Line Extension Footage for Residential Subdivision Developments and Mobile Home Parks.
4. Residential Subdivision Developments and Mobile Home Parks shall be excluded from any refunding provisions.

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E. Residential subdivision development and permanent mobile home parks. Each utility shall submit as a part of its main extension tariff separate provisions for residential subdivision developments and permanent mobile home parks.

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F. Ownership of facilities. Any facilities installed hereunder shall be the sole property of the utility.

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G. All agreements entered into under this rule shall be evidenced by a written statement, and signed by the Company and the parties paying the funds, as contributions in aid of construction under this rule or the duly authorized agents of each.

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¶

Deleted: advancing

Deleted: for advances

H. The size, design, type and quality of materials of the system, installed under this rule location in the ground and the manner of installation, shall be specified by the Company, and shall be in accord with the requirements of the Commission or other public agencies having authority therein. The Company may install main extensions of any diameter meeting the requirements of the Commission or any other public agencies having authority over the construction and operation of the water system and mains, except individual main extensions, shall comply with and conform to the following minimum specifications:
1. 150 p.s.i. working pressure rating and
2. 6" standard diameter.

However, single residential customer contributions in aid of construction shall not exceed the reasonable cost of construction of the 6-inch diameter main extension.

Deleted: advances

I. All pipelines, valves, fittings, wells, tanks or other facilities installed under this rule shall be the sole property of the Company, and parties making contributions in aid of construction under this rule shall have no right, title or interest in any such facilities.

Deleted: advances

J. The Company shall schedule all new requests for main extension agreements, and for service under main extension agreements, promptly and in the order received.

K. An applicant for service seeking to enter into a main extension agreement may request that the utility include on a list of contractors from whom bids will be solicited, the name(s) of any bonded contractor(s), provided that all bids shall be submitted by the bid date stipulated by the utility. If a lower bid is thus obtained or if a bid is obtained at an equal price and with a more appropriate time of performance, and if such bid contemplates conformity with the Company's requirements and specifications, the Company shall be required to meet the terms and conditions of the bid proffered, or to enter into a construction contract with the contractor proffering such bid. Performance bond in the total amount of the contract may be required by the utility from the contractor prior to construction.

L. Any discounts obtained by the utility from contracts terminated under this rule shall be accounted for by credits to the appropriate account dominated as Contributions in Aid of Construction.

Deleted: M.. All agreements under this rule shall be filed with and approved by the Utilities Division of the Commission. No agreement shall be approved unless accompanied by a Certificate of Approval to Construct as issued by the Arizona Department of Health Services. Where agreements for main extensions are not filed and approved by the Utilities Division, the refundable advance shall be immediately due and payable to the person making the advance.

PART VI. Provision of service

A. Utility responsibility. Each utility shall be responsible for providing potable water to the customer's point of delivery.

B. Customer responsibility
1. Each customer shall be responsible for maintaining all facilities on the customer's side of the point of delivery in a safe and efficient manner and in accordance with the rules of the state Department of Health.
2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying water to that customer.
3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
4. Each customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
5. Each customer shall be responsible for notifying the utility of any failure identified in the utility's equipment.
6. Water furnished by the utility shall be used only on the customer's premises and shall not be resold to any other person. During critical water conditions, as determined by the Commission, the customer shall use water only for those purposes specified by the Commission. Disregard for this rule shall be sufficient cause for refusal or discontinuance of service.

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A. Each utility entering into a main extension agreement shall comply with the provisions of this rule which specifically defines the conditions governing main extensions.

B. An applicant for the extension of mains may be required to pay to the Company, as a refundable advance in aid of construction, before construction is commenced, the estimated reasonable cost of all mains, including all valves and fittings.

1. In the event that additional facilities are required to provide pressure, storage or water supply, exclusively for the new service or services requested, and the cost of the additional facilities is disproportionate to anticipated revenues to be derived from future consumers using these facilities, the estimated reasonable cost of such additional facilities may be included in refundable advances in aid of construction to be paid to the Company.
2. Upon request by a potential applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimate of the cost of installation to be paid by said applicant. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall, upon request, make available within 45 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant accepts utility construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimates.
3. Where the utility requires an applicant to advance funds for a main extension, the utility shall furnish the applicant with a copy of the Commission rules on main extension agreements prior to the applicant's acceptance of the utility's extension agreement.
4. In the event the utility's actual cost of construction is less than the amount advanced by the customer, the utility shall make a refund to the applicant within 30 days after the completion of the construction or utility's receipt of invoices related to that construction.
5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.

C. Minimum written agreement requirements

1. Each main extension agreement shall include the following information:
   a. Name and address of applicant(s)
   b. Proposed service address
   c. Description of requested service
   d. Description and map of the requested line extension
   e. Itemized cost estimate to include materials, labor, and other costs as necessary
   f. Payment terms
   g. A clear and concise explanation of any refunding provisions, if applicable
   h. Utility's estimated start date and completion date for construction of the main extension
2. Each applicant shall be provided with a copy of the written main extension agreement.

D. Refunds of advances made pursuant to this rule shall be made in accord with the following method: the Company shall each year pay to the party making an advance under a main extension agreement, or that party's assignees or other successors in interest where the Company has received notice and evidence of such assignment or succession, a minimum amount equal to 10% of the total gross annual revenue from water sales to each bona fide consumer whose service line is connected to main lines covered by the main extension agreement, for a period of not less than 10 years. Refunds shall be made by the Company on or before the 31st day of August of each year, covering any refunds owing from water revenues received during the preceding July 1st to June 30th period. A balance remaining at the end of the ten-year period set out shall become non-refundable, in which case the balance not refunded shall be entered as a contribution in aid of construction in the accounts of the Company, however, agreements under this general order may provide that any balance of the amount advanced thereunder remaining at the end of the 10 year period set out, shall thereafter remain payable in whole or in part and in such manner as is set forth in the agreement. The aggregate refunds under this rule shall in no event exceed the total of the refundable advances in aid of construction. No interest shall be paid by the utility on any amounts advanced. The Company shall make no refunds from any revenue received from any lines, other than customer service lines, leading up to or taking off from the particular main extension covered by the agreement.

EXHIBIT 3

Vicki Wallace

From: John Wallace [jwallace@gcseca.coop]
Sent: Monday, December 07, 2009 3:34 PM
To: Ashley Hodge; russb@gce.coop
Cc: Robin Mitchell; Vicki Wallace; Pedro Chaves; tashby@gce.coop
Subject: RE: Graham County Utilities (Water Division) (09-0088 et al.) - Staff's Second Set of Data Requests
Attachments: Water Main Line Extension Agreement.doc

All:

As a result of questions raised by Staff, GCU believes it is necessary to supplement its responses to Staff's 2nd set of data requests. Regarding main line extension agreements, GCU 's employees were not aware until it responded to this data request that the ACC requires main line extensions agreements and that these agreements must receive the approval of ACC Utilities Division. GCU has historically received ADEQ approval when necessary. GCEC and GCU are mainly a electric and gas service providers. These ACC requirements only apply to water service.

When developers and customers requested service, GCU would provide a customer with an estimate of the cost of the main extension. If the customer accepted this estimate, the estimated cost of the main extension was collected from the customer/developer. Once the main extension was constructed, if the actual cost of the extension was greater than the estimated cost, GCU paid the difference. No *main line extension agreement* was signed by the customer/developer or submitted to the ACC Utilities Division for approval.

In cases where a single customer paid for a main line extension and customers were added to this extension at a later date, any funds GCU would collect from new customers for the main extension would be repaid to the original customer who paid the original cost of main extension.

GCU regrets and apologizes for the fact that it did not follow its ACC approved policies and procedures on line and main extensions. GCU has always tried to comply with the ACC rules and regulations. Our history of total compliance with ADEQ regulations shows that we every intention of complying with the requirements. Since October 2008, GCU has not constructed any main line extensions. In the future, GCU intends to follow all of the ACC Rules and its approved policies and procedures and will take the steps necessary to make sure that its employees are educated on and following such. GCU has developed a main line extension agreement (see attachment) that will in the future be provided to and signed by customers and submitted to the ACC Utilities Division for approval for each main line extension.

John Wallace
Director of Regulatory & Strategic Services
Grand Canyon State Electric Cooperative Association
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Phoenix, AZ 85034
Office: 602-286-6925
Cell: 602-679-5529
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GRAHAM COUNTY UTILITIES, INC.
P.O. Drawer B
Pima, Arizona 85543

Serving The Beautiful Gila Valley
In Southeastern Arizona

Telephone (928) 485-2451
Fax (928) 485-9491

Water Main Line Extension Agreement

Applicant:

Location:

Project Description & Sketch:

Graham County Utilities obligations:
- Install all water mains and services
- Perform all required test (pressure tests, etc.)

Applicant obligations:
- Pay all material, labor, and overhead costs

Total Project Cost: ______________________

- Provide all Rights of Way
- Provide all necessary permits

Payment Terms:
- Total project cost must be paid prior to construction.

Refund Provisions:

GCU shall each year pay to the party making an advance under a main extension agreement, or that party's assignees or other successors in interest where GCU has received notice and evidence of such assignment or succession, a minimum amount equal to 10% of the total gross annual revenue from water sales to each bona fide consumer whose service line is connected to main lines covered by the main extension agreement, for a period of not less than 10 years. Refunds shall be made by GCU on or before the 31st day of August of each year, covering any refunds owing from water revenues received during the preceding July 1st to June 30th period. A balance remaining at the end of the ten-year period set out shall become non-refundable, in which case the balance not refunded shall be entered as a contribution in aid of construction in the accounts of GCU. The aggregate refunds under this rule shall in no event exceed the total of the refundable advances in aid of construction. No interest shall be paid by the utility on any amounts advanced. GCU shall make no refunds from any revenue received from any lines, other than customer service lines, leading up to or taking off from the particular main extension covered by the agreement.

Estimated Start Date: ______________________

Estimated Completion Date: ______________________

Signed: ______________________ **Signed:** ______________________
GCU Signature — Applicant Signature