OPEN MEETING ITEM

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Arizona Corporation Commission
DOCKETED
APR 14 2010

DOCKETED BY

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

ARIZONA CORPORATION COMMISSION

ORIGINAL

DATE: APRIL 14, 2010

DOCKET NOS: G-02527A-09-0088, G-02527A-09-0032, W-02527A-09-0201, W-02527A-09-0033 and E-01749A-09-0087

TO ALL PARTIES:

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

GRAHAM COUNTY UTILITIES, INC. and GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00 p.m.** on or before:

APRIL 22, 2010
Company has waived the 10 days for filing of exceptions

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

APRIL 27, 2010 and APRIL 28, 2010

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

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

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. 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 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 DECISION NO. _____ **OPINION AND ORDER**

DATE OF HEARING:	January 28, 2010
PLACE OF HEARING:	Tucson, Arizona
ADMINISTRATIVE LAW JUDGE:	Jane L. Rodda
APPEARANCES:	Steve Lines, General Manager, and Russ Barney, Finance Manager, Graham County Electric Cooperative, Inc. and Graham County Utilities, Inc.; and Robin Mitchell and Kevin Torrey, Staff Attorneys for the Legal Division on behalf of the Arizona Corporation Commission's Utilities Division.

BY THE COMMISSION:

* * * * * * * * * *

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

FINDINGS OF FACT

Procedural History

1. On January 29, 2009, Graham County Utilities, Inc. ("GCU" or "Cooperative") filed a Finance Application for authority to borrow $250,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC") for its Water Division (Docket No. W-02527A-09-0033), and a Finance Application to borrow $800,000 from the CFC for its Gas Division (Docket No. G-02527A-09-0032).

2. On February 26, 2009, GCU filed with the Commission an Application for a rate increase for its Gas Division (Docket No. G-02527A-09-0088).

3. On February 26, 2009, Graham County Electric Cooperative, Inc. ("GCEC") filed a Finance Application for authorization to guarantee the CFC loans to GCU (Docket No. E-01749A-09-0087).

4. On March 30, 2009, the Commission's Utilities Division ("Staff") notified GCU its Gas Division's Rate Application was not sufficient pursuant to the Arizona Administrative Code.

5. The Cooperative filed additional information on April 15, 2009.

6. On April 17, 2009, the Staff notified GCU that its Gas Division's Rate Application was sufficient and classified the Gas Division as a Class B utility.

7. On April 27, 2009, GCU filed with the Commission a rate application for its Water Division (Docket No. W-02527A-09-0201).

8. By Procedural Order dated May 11, 2009, GCU's Gas Division's rate case was set for hearing on January 5, 2010, and a schedule for pre-filed testimony was established.

9. On May 27, 2009, Staff notified the Cooperative that its Water Division's Rate Application was not sufficient under the requirements of the Arizona Administrative Code.

10. The Cooperative filed additional information in support of the Water Division's Rate

Application on June 26, 2009.

11. On July 10, 2009, GCU filed certification of mailing and affidavit of publication stating it had provided notice of its Gas Division's rate hearing as required by the May 11, 2009 Procedural Order.

12. On July 27, 2009, Staff notified GCU its Water Division's rate case was sufficient and classified the Water Division as a Class C utility.

13. By Procedural Order dated July 29, 2009, GCU's Water Division rate hearing was set to commence on January 28, 2010, and a schedule for pre-filed testimony was established.

14. On August 4, 2009, GCU and GCEC filed Affidavits of Publication indicating they had caused to be published the notice of the Financing Applications for GCU's Gas and Water Divisions and for GCEC on July 8, 2009, in the *Eastern Arizona Courier*.

15. On September 14, 2009, Staff filed a Motion to consolidate the Gas and Water Division Rate and Finance Applications.

16. By Procedural Order dated September 18, 2009, GCU's Water and Gas Divisions Rate and Finance Applications were consolidated; the hearing on the consolidated matter set for January 28, 2010; and the deadline for a final Commission Decision.

17. On October 13, 2009, Staff filed a Motion to Consolidate the GCEC Finance Application (Docket No. E-01749A-09-0087) with the GCU Rate and Financing Applications.

18. On October 14, 2009, GCU filed certification of mailing and affidavit of publication that it had mailed and published notice of the Water Division rate hearing as required by the July 29, 2009 Procedural Order.

19. By Procedural Order dated October 28, 2009, the GCEC Finance Application was consolidated with the other four applications.

20. On December 9, 2009, Staff filed the Direct Testimony of Staff witnesses Julie McNeely-Kirwan (Gas Division base cost of purchased power, purchased gas adjustor mechanism and demand-side management ("DSM") issues), Candrea Allen (Gas Division Rules and Regulations and line extension refunds), Gary McMurry (Gas Division revenue requirement), Pedro Chaves (Water Division revenue requirement), Juan Manrique (Finance Applications), Katrin Stukov (Water

Division Engineering Report), Robert Miller (Gas Division plant) and Vicki Wallace (Water Division main line extension policies). On December 23, 2009, Staff filed the Direct Testimony of Robert Gray (Gas Division rate design and procurement) and Prem Bahl (Gas Division Cost of Service Study).

21. On January 6, 2010, GCU filed the Rebuttal Testimony of John Wallace.

22. On January 20, 2010, Staff filed the Surrebuttal Testimony of Ms. Allen, Ms. McNeely-Kirwan, and Mr. Chavez.

23. On January 26, 2010, GCU filed the Rejoinder Testimony of Mr. Wallace. The Cooperative agreed to all the recommendations contained in Staff's testimony, except that it continued to advocate for a greater revenue requirement for the Gas Division, and advocated for an alternate inclining block rate design for the Water Division.

24. The hearing on the consolidated matter convened before a duly authorized Administrative Law Judge, on January 28, 2010.

25. The Commission received three written comments from CGU members objecting to the rate increase.

Gas Division

26. GCU is a non-profit, member-owned cooperative that provides gas utility service to approximately 5,060 customers and water service to approximately 1,200 customers in areas of Graham County, Arizona.

27. In the test year ended September 30, 2008, GCU's Gas Division had an Operating Loss of $113,579, and a Net Loss of $235,725, on total Operating Revenues of $3,766,051.

28. In its application, GCU's Gas Division requested Total Revenues of $4,282,784, an increase of $516,733, or 13.72 percent over test year revenues. The Cooperative's proposed revenue would provide an Operating Income of $403,154 and a Net Income of $281,008, for a Times Interest Earned Ratio ("TIER") of 3.01 and Debt Service Coverage ("DSC") of 2.27. The requested Operating Income would provide a 19.06 percent rate of return on the proposed $2,114,518 Fair Value Rate Base ("FVRB").

29. Staff recommended total Operating Revenue of $4,222,160, an increase of $456,109,

or 12.11 percent over test year revenue, to provide an Operating Income of $342,530, a Net Income of $210,218, a 2.38 TIER and 1.94 DSC, and a 17.0 percent rate of return on a FVRB of $2,012,758.

30. Staff recommended a FVRB of $2,012,758, a reduction of $101,760, from the Cooperative's proposed rate base of $2,114,518, to reflect the removal of Construction Work in Process ("CWIP") at the end of the test year.

31. The Cooperative did not object to Staff's adjustments to the Gas Division's rate base. GCU did not request recognition of a Reconstruction Cost New Rate Base, and thus its FVRB is the same as its Original Cost Rate Base ("OCRB").

32. CWIP, by definition, is not used and useful plant-in-service and should be removed from rate base. Staff's rate base adjustment is reasonable and should be adopted. Consequently, GCU's Gas Division's FVRB is determined to be $2,012,758.

33. Staff made no adjustments to test year Operating Revenues or Expenses. Staff and the Cooperative agreed on the methodology for allocating interest expense between the Gas and Water Divisions, but Staff used an updated interest rate (7.9 percent) and more current loan balances to calculate Interest Expense. Consequently, Staff recommended an interest expense on long term debt of $144,212, a $10,166 increase from the Cooperative's proposed amount.

34. GCU agreed to all the recommendations found in Mr. McMurray's testimony, except that GCU believes it should be granted a revenue requirement of $4,282,784, based on a TIER of 3.01 and DSC of 2.27. GCU argued that it requires the higher TIER and DSC ratios in order to refund the over-charged line extension costs over a three year period as recommended by Staff (discussed below), improve equity, and meet debt service and contingencies.[1]

35. The difference between the total revenue, including the cost of gas, sought by GCU and recommended by Staff is $60,624. Excluding the cost of gas, however, GCU is seeking total revenue of $1,823,334, and Staff is recommending $1,822,839, a difference of $495. As discussed herein, the Cooperative has accepted Staff's recommendations concerning the cost of gas and the operation of the purchased gas adjustor ("PGA"). The operation of the PGA and the PGA bank

[1] Tr. at 22-23.

balance allow GCU to collect the entire cost of gas. Staff's recommended revenue requirement for the Gas Division is reasonable as it gives the Cooperative the opportunity to re-build equity, while meeting its debt service obligations, refund obligations, and provide a cushion for other contingencies in a manner that balances the burden on ratepayers from the increased rates. Consequently, Staff's recommended revenue level and rates for the Gas Division (discussed below) are reasonable and should be adopted.

Base Cost of Gas and DSM

36. In its application, GCU proposed a base cost of gas of $0.81775 per therm.

37. Staff recommends that the base cost of gas be set at zero, and that going-forward, the entire cost of gas be recovered through the purchased gas adjustor ("PGA"). Staff states that its proposal would have no impact on the overall rates, but would result in the entire cost of gas being reflected in a single amount on the bill, making the customer's actual cost for gas more transparent and easier to understand. Staff states that its position is consistent with recent Commission Decisions for Southwest Gas, Duncan Valley Electric Cooperative and UNS Gas.

38. Currently, GCU's cost of gas is recovered in the base cost of gas and by the PGA. 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.

39. The PGA is flexible and adjusts month-to-month based on a rolling 12-month average cost of gas. GCU's PGA currently has a $0.10 annual bandwidth, which limits the variation in the PGA rate to no more than $0.10 from any rate in place during any of the previous 12 months.

40. 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. 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 customers. In Decision No. 61255 (October 30, 1998) the thresholds for over- and under-collections were set at $150,000. If the PGA bank balance, positive or negative, reaches $150,000, GCU 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.

41. In its application, GCU has requested to eliminate the $0.10 annual bandwidth or modify the bandwidth to allow the rate to fluctuate by up to $0.10 per month, and to increase the threshold from $150,000 to $400,000 for three consecutive months.

42. Staff's witness McNeely-Kirwin recommended:

(a) That the base cost of power be set at zero and that going forward, the entire cost of gas be recovered through the PGA.

(b) That GCU should file a notice in the Docket and provide an explanation of its position in the event the threshold in GCU's Gas Division's PGA is exceeded and GCU believes that a surcharge or surcredit is unnecessary.

(c) The Gas Division's PGA thresholds should be revised upward to require a 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).

(d) The PGA bandwidth should be increased from $0.10 to $0.15 per therm per year. Staff states the goal of managing the PGA bank balance is to balance the need to limit rate shocks against timely recovery of costs by the utility. Staff believes its recommended $0.15 per year bandwidth would permit more movement by the PGA rate and would improve GCU's ability to recover its gas costs without accumulating large balances, but provides more protection to customers than either eliminating the bandwidth or opting for a $0.10 monthly bandwidth.

43. GCU currently does not have Commission–approved DSM programs. Initially, GCU stated that it did not plan to institute any DSM or conservation programs before the Commission approves Energy Efficiency Rules.

44. Staff recommended that:

(a) GCU's Gas Division file with Docket Control in this Docket, proposed DSM programs for Commission approval within 120 days of the effective date of this Decision.

(b) That a DSM adjustor mechanism be established to allow recovery of DSM costs in the event the Cooperative develops one or more Commission-approved DSM programs.

(c) That GCU's DSM adjustor mechanism should function as follows: when and if,

GCU begins to recover Commission DSM costs, they should be assessed to all of GCU's customers, unless specifically exempted; that the DSM charge, once instituted, should be based on a per therm charge and appear as a clearly labeled single line item; only DSM charges should be recovered through the DSM adjustor; recovery of 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; and the adjustor rate should be reset annually on a date set by the Commission; and that the adjustor rate must be approved by the Commission.

45. GCU agreed to all of Ms. McNeely-Kirwan's recommendations, concerning the base cost of gas, the PGA and DSM, including filing proposed DSM programs within 120 days of the date of the Decision.

46. Staff's recommendations concerning the base cost of gas, the operation of the PGA and the establishment and operation of a DSM adjustor mechanism are reasonable and should be adopted.

Main and Line Extensions

47. GCU's Gas Division proposed several modifications to its Rules and Regulations, including the elimination of its current free footage allowance. Currently, GCU's Gas Division's Rules and Regulations allow a maximum amount of 150 feet without charge for main line and service line extensions. GCU proposed to eliminate the free line extensions, which would require a customer who requests a main line extension and/or service line installation to pay the entire cost of the line extension and one-half of the overhead costs associated with that particular customer.

48. GCU explained it was only including half of the overhead costs associated with the extension because it was concerned that customers and developers would choose not to have gas service installed if the cost to connect is too high.

49. Staff does not believe that GCU should continue to pay one-half of the overhead costs for main line and service line extensions. Staff believes that eliminating the overhead costs paid by GCU would make the Cooperative's Main Line and Service Line Extension Policies consistent with line extension policies that have been approved for other utilities by the Commission in recent years.

50. Staff further believes that any potential customer who has been given a main line extension or service line extension estimate or quote by CGU up to one year prior to the 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 extension as specified in GCU's current Rules and Regulations.

51. GCU's Gas Division's current charges for Other Services and those proposed by GCU and recommended by Staff are as follows:

Description of Service	Current	Proposed by GCU	Recommended by Staff
Establishment of Service – Regular Hours	$20.00	$30.00	$30.00
Establishment of Service – After Hours	$35.00	$50.00	$50.00
Reconnection of Service – Regular Hours	$30.00	$30.00	$30.00
Reconnection of Service – After Hours	$35.00	$50.00	$50.00
After Hours Service Calls–Consumer Caused	$50.00	$70.00	N/A[2]
Meter Reread – no charge for error	$10.00	$10.00	$10.00
Meter Test Fee	$10.00	$10.00	$10.00
Insufficient Funds Check	$25.00	$25.00	$25.00
Interest Rate on Customer Deposits per annum	6.00%	6.00%	6.00%
Late Payment (per Month and per total bill)	1.5%	1.5% with a $5.00 Minimum	1.5%

52. The Staff witness agreed with GCU's proposed changes to its charges for Establishment of Service – Regular Hours, from $20.00 to $30.00 and its charge for Establishment of Service – After Hours, from $35 to $50.

53. Staff disagreed with GCU's proposal to change its Late Payment charge from 1 ½ percent of the overdue amount to the higher of 1 ½ percent or $5. Staff does not believe the cost

[2] In a response to Staff's data request, GCU indicated that it proposed to remove this charge from its tariffs because it has never applied the charge and does not anticipate the charge being applicable in the future. Staff has no objection to removing this charge from its tariff.

incurred by GCU justifies the proposed $5 minimum late payment and that the proposed change is not in the public interest.

54. In addition, as it prepared its application, GCU discovered that it has not been following the line extension policy approved in Decision No. 58437. Instead of crediting customers with a free footage allowance of 150 feet, GCU had been crediting each customer who requested a line extension a maximum amount of $200. GCU estimates that as result, since January 1, 2004, its Gas Division overcharged customers by a total of $226,765.29 for line extensions.

55. Staff recommends that GCU should refund each customer who has been incorrectly charged for a line extension. Staff recommends that the refund should be made over the three years following the effective date of the Decision in this case, and that in the first year GCU should repay all customers that have an overcharge balance of up to $175; if the customer's overcharge balance is greater than $175 and no greater than $500, the remainder of the overcharge balance should be repaid in the second year; and if the overcharge balance is greater than $500, the reminder of the overcharge balance not paid in the first or second years should be repaid within the third year of the effective date of the Decision. Under Staff's proposal, GCU would repay a total of $72,576.36 in the first year, $79,907.07 in the second year, and $74,281.86 in the third year.

56. GCU agreed to all of Staff's recommendations concerning its Gas Division's Rules and Regulations, its service charge amounts and for the refund of the overcharged amounts for line extensions.

57. Staff's recommendations are reasonable and should be adopted.

Procurement and Rate Design

58. GCU proposed 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.

59. Staff believes that GCU's proposed rates increase the customer charges too much and favors a more gradual increase in the customer charges.

60. GCU's Gas Division's current rates and those proposed by the Cooperative and Staff are difficult to compare because the Cooperative represented the cost of gas differently in relation to

its proposed rates than it did in relation to the current rates. The comparison of the current rates and the proposed rates for the Cooperative and Staff are set forth below, adjusted to utilize Staff's assumptions about the cost of gas:

	Current Rates	GCU Proposed	Staff Proposed
Residential			
Customer Charge	$10.50	$15.00	$13.00
Margin (per therm)	$0.23444	$0.32137	$0.345
PGA	$0.78890	$0.78890	$0.78890
Commercial			
Customer Charge	$18.00	$23.50	$24.00
Margin (per therm)	$0.24044	$.26885	$0.341
PGA	$0.78890	$0.78890	$0.78890
Irrigation:			
Customer Charge	$17.00	$22.50	$21.00
Margin (per therm)	$0.09944	$0.06974	$0.16
PGA	$0.78890	$0.78890	$0.78890

61. Under Staff's recommended rates, the residential bill for a customer with a mean consumption of 36 therms would increase $6.48, or 13.7 percent, from $47.34 to $53.82. Staff's recommended rates for the irrigation class would result in an increase for the customer with a mean consumption of 59 therms, of $7.58, or 10.9 percent, from $69.41 to $76.99. Staff's recommended rates for a commercial customer, with a mean consumption of 289 therms, would increase the average bill by $35.06, or 11.1 percent, from $315.48 to $350.54.

62. Under the Cooperative's proposed rates, the average residential bill using 36 therms would see an increase of $7.63, or 16.1 percent, from $47.34 to $54.97; the average irrigation customer using 59 therms would see an increase of $3.75, or 5.4 percent, from $69.41 to $73.16; and

the commercial customer using 289 therms, would see an increase of $13.71, or 4.3 percent, from $315.48 to $329.19.

63. Staff's proposed rate design is reasonable; it is consistent with the parties' assumptions about the cost of gas, and represents a more gradual increase in the customer charge, as well as gives the customers greater ability to control their bills than does the Cooperative's proposed design.

64. Staff reviewed GCU's procurement activities for gas supplies acquired between January 2006 and June 2009. The Staff Report on GCU's Procurement Activities dated December 23, 2009, is attached to the testimony of Robert Gray. Staff believes that GCU's mix of fixed price contracts, monthly index pricing and daily spot price average pricing is a reasonable approach to purchasing natural gas.

65. GCU purchases its gas supplies from British Petroleum ("BP"). Staff believes that given GCU's relatively small size, it is more difficult for GCU to diversify its supply portfolio than it is for larger distribution companies. Staff states it is difficult to assess whether and to what extent GCU benefits from its on-going relationship with BP, but believes that it is possible that GCU maintaining an on-going relationship with BP would provide GCU with benefits such as access to BP's market expertise. While Staff does not recommend that GCU actively source gas supplies from multiple suppliers, Staff believes that GCU 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 GCU solicits gas purchases from both BP and other suppliers.

66. Staff's review of GCU's procurement activities resulted in the following findings and recommendations:

(a) GCU should file a document with Docket Control in this proceeding, within 60 days of the Decision in this case, indentifying its processes for procuring natural gas supplies, and what person(s) at the Company is(are) responsible for each step of the procurement process.

(b) GCU should actively ensure that the prices it pays BP are competitive and reasonable given market conditions.

(c) GCU should maintain documentation of any price indices used either currently or

for past purchases. Such documentation should 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, GCU should ensure that its costs actually paid for gas coincide with the proper indices contained in the relevant purchase agreement(s).

(d) GCU should regularly consider, as part of its gas procurement activities, the possibility of conducting a competitive solicitation.

(e) Staff finds the prices paid by GCU during the period January 2006 through July 2009 are prudent given natural gas market conditions and GCU's needs and position in the marketplace.

67. Staff recommendations concerning procurement issues are reasonable and should be adopted.

Gas Plant Issues

68. As contained in the testimony of Robert Mills, Staff did not identify any issues of pipeline regulatory concern during its 2009 annual compliance inspection of GCU's Gas Division.

Water Division

69. GCU's Water Division is a Class C public service corporation that provides water service to approximately 1,200 customers. The test year for the Water Division is the twelve month period ended September 30, 2008.

70. GCU has two water systems. The Fort Thomas system includes three active wells, which pump into two storage tanks (190,000 gallons and 45,000 gallons), followed by booster pumps, a pressure tank and a distribution system serving over 100 connections. The Pima system includes 17 wells located in a common well field. Water flows from the well field to two different storage tank sites. Site #1 has a 90,000 gallon storage tank and serves approximately 69 connections. Site #2 is located in Pima approximately 5 miles northeast of the well field. Site #2 has three storage tanks (380,000, 190,000 and 475,000 gallons) and serves over 1,000 connections. Most of the Pima system's wells have no meters. Staff reports there is an old meter inside a pump vault at Site #1, but the Cooperative only reads the well meter at Site #2. Staff believes it would be beneficial for the Cooperative to read both meters in order to monitor water loss in the 5-mile long transmission line.

71. GCU's Water Division's current rates and charges were set in Decision No. 61056 (April 6, 1998).

72. In the test year, GCU's Water Division had total revenues of $608,273, which produced Operating Income of $68,468, and a Net Loss of $38,343.

73. GCU requested total revenues of $752,605, an increase of $144,332, or 23.73 percent over test year revenues. As filed, GCU's Water Division's proposed revenue would provide an Operating Income of $204,780 and a Net Income of $98,705, for a 1.75 TIER and 1.39 DSC, and an 8.5 percent rate of return on the proposed $2,398,138 FVRB.

74. Staff recommended a revenue level of $771,137 for GCU's Water Division, an increase of $162,864, or 26.77 percent, over test year revenues. Staff's proposed revenues would provide an Operating Income of $229,489, a 29.76 percent operating margin, a 1.95 TIER and 1.25 DSC, and an 18.9 percent rate of return on a rate base of $1,212,620.

75. GCU's Water Division's current rates and those proposed by the Cooperative[3] and recommended by Staff are as follows:

MONTHLY USAGE CHARGE:	**Present Rates**	**Company Proposed**	**Staff Recommended**
5/8" x 3/4" Meter	$18.80	$19.50	$17.00
3/4" Meter	18.00	21.50	19.00
1" Meter	23.00	31.00	35.00
1-1/2" Meter	30.00	36.50	38.00
2" Meter	35.00	39.00	42.00
3" Meter	N/T	48.00	48.00
4" Meter	50.00	58.00	55.00
6" Meter	N/A	N/A	80.00
Resale Bulk Water Sales – Eden Water Co.	30.00	80.00	50.00

COMMODITY CHARGES: (Excess of Minimum – Per 1,000 Gallons)	**Present Rates**	**Company Proposed**	**Staff Recommended**
Gallons Included in Minimum			
5/8" x ¾" Meter			
Per 1,000	$2.55	N/A	N/A
From 0 to 3,000 Gallons	N/A	$3.00	$2.75

[3] The Cooperative initially proposed to continue using a uniform commodity rate, but in its rebuttal testimony proposed including a tier block rate.

From 3,001 to 9,000 Gallons	N/A	3.20	4.00
Over 9,000 Gallons	N/A	3.51	5.43
¾" Meter			
Per 1,000	$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	$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	$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	$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	$2.55	N/A	N/A
From 0 to 28,000 Gallons	N/A	3.00	4.00
Over 28,000 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 Co.			
Per 1,000 Gallons	$1.51	$1.92	$2.70

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	Present	Company Proposed			Staff Recommended		
	Total	Service Line	Meter Installation	Total	Service Line	Meter Installation	Total
5/8" x 3/4 " Meter	$200.00	At Cost	At Cost	At Cost*	$430.00	$130.00	$550.00
3/4 " Meter	225.00	At Cost	At Cost	At Cost*	430.00	230.00	660.00
1" Meter	280.00	At Cost	At Cost	At Cost*	480.00	290.00	770.00
1-1/2" Meter	435.00	At Cost	At Cost	At Cost*	535.00	500.00	1,035.00
2" Meter	570.00	At Cost	At Cost	At Cost*	At Cost	At Cost	At Cost
4" Meter	1,400.00	At Cost	At Cost	At Cost*	At Cost	At Cost	At Cost
6" Meter	3,000.00	At Cost	At Cost	At Cost*	At Cost	At Cost	At Cost

*The Company requests that all service line and meter installation be non-refundable contributions in-aid-of construction.

SERVICE CHARGES:	Current Charges	Company Proposed	Staff Recommended
Establishment	$15.00	$20.00	$20.00
Establishment (After Hours)	22.50	50.00	22.50
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (Delinquent) (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)
Re-establishment (Within 12 Months)	(b)	(b)	(b)
NSF Check	20.00	25.00	20.00
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Payment Penalty	1.5%	1.5% with $5.00 minimum	1.5%
Service Call After Hours	70.00	70.00	70.00
Field Collection – Delinquent Account	15.00	N/T	15.00

N/T = 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)

76. Staff made adjustments to the Cooperative-proposed rate base that decreased rate base by $1,185,518, from $2,398,138, to $1,212,620, to remove CWIP, because it was not used and useful at the end of the test year.

77. The Cooperative did not propose a Reconstruction Cost New Rate Base for the Water Division, and did not object to Staff's adjustment to rate base. Staff's adjustment is reasonable. Consequently, GCU's Water Division's FVRB is determined to be $1,212,620.

78. Staff made four adjustments to operating expenses: 1) decreasing water testing expense by $2,279, from $9,915 to $7,636, to reflect Staff's estimated total average annual water testing costs; 2) decreasing depreciation expense by $8,202, from $92,140 to $83,938 to reflect Staff's recommended depreciation rates and plant account balances; 3) increasing property tax expense by $2,461, from $20,216 to $22,677, based on the modified Arizona Department of Revenue method typically employed; and 4) increasing interest expense by $736, from $117,034 to $117,770 based on Staff's analysis of the direct and allocated debt and debt service costs of the Water and Gas Divisions. Staff agrees with GCU's method of apportioning its loans between the Gas and Water Divisions, and Staff's adjustments use an updated estimate of the interest rate (7.9 percent versus 6.0 percent).

79. Because GCU is a member-owned, non-profit water utility, Staff believed that a cost of capital study was not warranted, and so Staff performed a cash flow analysis to determine its proposed revenue requirement. Staff states that its recommended revenues provide sufficient revenues to service GCU's Water Division's debt and provide sufficient funds for on-going expenses, capital requirements, equity accumulation and contingencies.

80. Staff agreed with the Company's proposed service charge "Establishment of Service-Regular Hours" from $15 to $20, but Staff states the Cooperative did not offer a cost-based rationale to justify increases in other service charges.

81. Staff states that in addition to using results of the Cost Of Service Study as a general guideline, Staff also considered factors such as gradualism, promotion of efficient water usage and uniformity of rates among customer classes.

82. GCU agreed to all of the recommendations in Mr. Chaves' direct testimony, except that GCU proposes an alternate inclining block tiered rate structure.[4] GCU is concerned that Staff's tiered rate structure would result in rate shock for customers who use over 9,000 gallons because the rate per 1,000 gallons increases by 113 percent from $2.55 to $5.43. In addition, GCU states a large portion of GCU's revenues are collected from customers who use over 9,000 gallons. The Cooperative points to Staff's Typical Bill Analysis, which indicates that Staff's tiered rate design results in average customers in the 1" and 1 ½" classes receiving rate increases in excess of 56 percent and in the 2" and 4" classes receiving increases in excess of 78 percent. GCU cites to Mr. Chaves' statement in his surrebuttal testimony that GCU's concern about lost revenue from conservation "is unsupported and not quantifiable", and argues that if Staff believes that there will be insignificant conservation as a result of Staff's recommended tiers, then GCU requests that its customers not be subjected to what the Cooperative claims are "extreme increases" that would result from Staff's tiered rates. GCU asserts that its proposed tiered structure will provide an incentive to conserve and will provide a more gradual transition between a flat rate and tiered rate structure.

83. Based on an average consumption of 9,000 gallons a month, Staff's recommended rates would increase the average 5/8" meter customer's bill monthly bill by $9.50, or 23.90 percent, from $39.75 to $49.25.

84. The Company's proposed rates would increase the average 5/8" meter bill (based on usage of 9,000 gallons per month), by $7.95, or 20.0 percent, from $39.75 to $47.70.

85. The Cooperative's proposed rate design appears to be a more gradual transition to a

[4] Ex A-5 Wallace Rebuttal.

tiered rate structure, and Staff's recommended decrease in the monthly charge does not promote rate stability. Consequently, the rate design proposed by the Cooperative should be approved. GCU's Gas and Water Divisions did not make identical proposals for Service Charges and Staff's witnesses made conflicting recommendations with respect to certain service charges. The Gas and Water Divisions could have different cost bases for their services, and because the Cooperative is not disputing Staff's recommendations for the Water Division, we will adopt Staff's recommended charges, except for the NSF charge, for which we approve the Cooperative proposed $25. Staff did not object to the $25 proposal for the Gas Division, and that amount is consistent with charges approved for other utilities. To have a different amount for this service between the two divisions could lead to customer and employee confusion.

86. During its preparation of its application, GCU's Water Division discovered that its employees were not correctly following its line extension policy approved in Decision No. 58437 (October 18, 1993) and were not charging the service line and meter installation charges that were approved in Decision No. 61056. GCU estimates that since January 1, 2004, it over-charged its Water Division customers for service lines by a total amount of $15,538.

87. Staff recommends that GCU's Water Division refund the entire $15,538 over-collection within 12 months of the effective date of this Decision.

88. In its application, GCU requested revisions to its main extension ("MXA") policy terms and conditions that eliminates all refundable Advances In Aid of Construction ("AIAC") and replace them 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 the extensions in the form of CIAC. The Cooperative claimed that refunding the AIAC to new customers placed an additional burden on existing customers through rate increases to recover the associated costs. GCU stated that because it is a cooperative and non-profit, an exception should be granted from A.A.C. R14-2-406 concerning main line extensions that appear to be designed for entities that receive a rate of return on their investment.

89. Staff believes that since all other utilities and cooperatives are not allowed to deviate from the Commission's MXA rules, it would not be appropriate or fair to allow one cooperative to

establish its own MXA policy. Thus, Staff recommends denying GCU's request to revise its MXA policy. GCU accepted Staff's recommendation.

90. In response to Staff's questions, GCU indicated that its employees have had no specific training on its own tariffs or Commission rules. 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, Commission Decisions affecting the Cooperative, 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 and file documentation of such training each July, beginning in July 2010, until further order of the Commission.

Compliance, Engineering Issues and Hook-Up Fees

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

92. Staff's investigation of the water systems indicated that the systems each have a water loss within acceptable limits, 8.6 percent for the Fort Thomas system, and 5.6 percent for the Pima system; the two systems have adequate well production and storage capacities to serve their respective customer bases and a reasonable level of growth.

93. The Arizona Department of Water Resources ("ADWR") has determined that the Cooperative's systems are in compliance with reporting requirements and that the Cooperative's filed Water Plan met ADWR requirements. The systems are not located in an ADWR designated Active Management Area.

94. Staff's investigation showed there were no delinquent compliance items for the Cooperative, that the Cooperative has an approved curtailment tariff and an approved backflow prevention tariff.

95. Staff further recommends that:

(a) The Cooperative 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.

(b) The Cooperative be required to report gallons of water pumped from its Pima well field based on the meter located inside the vault in its future Annual Reports and rate filings, and to continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. Staff states that if the water loss at any time before the next rate case is greater than 10 percent, the Cooperative should devise 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, and that such report should be docketed in this case.

96. In its Application, the Cooperative requested an Impact Fee of $500 for all new service connections. The Cooperative stated that this fee amount would be competitive with the City of Safford's fee.

97. Staff supports the concept of a hook-up fee and recommends the adoption of specific tariff language. To determine an appropriate amount for a 5/8" x ¾" service connection fee, Staff used the Cooperative's 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. Based on its analysis, Staff concluded that the Hook-Up Fee of $500 for a 5/8" x ¾" meter is reasonable.

98. Staff recommends adoption of the Offsite Hook-up Fee Tariff as discussed in Section X of the Engineering Report attached to Ms. Stukov's testimony. Staff recommends that beginning in January 2011, the Cooperative file with Docket Control a calendar year Off-Site Hook-Up Fee status report each January for the prior calendar year until the hook-up fee tariff is no longer in effect. Staff states that the status report should 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.

99. GCU agrees to Staff recommendations contained in Ms. Stukov's testimony.

100. Staff recommendations concerning water loss and the Hook-Up Fee Tariff are reasonable, and should be adopted.

101. Because an allowance for the Property Tax Expense of GCU is included in its Water and Gas Divisions' rates and will be collected from its members/customers, the Commission seeks assurances from the Cooperative that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as twenty years. It is reasonable, therefore, that as a preventive measure GCU annually file, as part of its annual report, an affidavit with the Utilities Division attesting that the Cooperative is current in paying its property taxes in Arizona.

Finance Applications

102. GCU seeks to borrow $1,050,000 from the CFC, of which $800,000 will be allocated to the Gas Division and $250,000 allocated to the Water Division for plant additions. The CFC loan proceeds will be used to pay back GCEC for funds advanced to GCU when GCU's internally generated funds have been insufficient to fund required new plant.

103. GCEC is a Class A non-profit Arizona corporation that owns and operates a public electric distribution system. GCEC manages the operations of GCU's Gas and Water Divisions. GCEC pays the bills for itself and GCU, and every month a check is written to intercompany "due to" and "due from" accounts.[5] Mr. Barney, the Finance Director for GCEC and GCU, testified that the system worked fine until approximately two years ago, when the "due to" account to GCEC from GCU started building up.

104. The CFC loan will be secured by GCU's assets and is contingent upon a guarantee from GCEC in the amount of $1,050,000.

105. Staff's engineering witness, Ms. Stukov, testified that the Water Division's capital improvements and the related costs appear to be reasonable and appropriate, but that as part of the Financing Application, Staff made no "used and useful" determination of the plant, and no conclusions should be inferred for ratemaking or rate base purposes. Neither did Staff have any concerns about the nature or costs of the Gas Division's plant.

[5] Tr. at 75.

106. Because GCU is a single legal entity, Staff analyzed GCU's financing request on a consolidated basis.

107. 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.

108. Staff calculated that the issuance of a $1,050,000 30-year amortizing loan at 7.90 percent per annum, would result in a capital structure of 5.0 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 TIER and positive 0.22 DSC. Staff states the DSC results show that cash flow from operations under existing rates is not sufficient to cover all obligations.

109. Using Staff's recommended combined operating income in the pending rate cases, 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 2.18 TIER and 1.59 DSC. Staff states that under this scenario, the DSC results show that cash flow from operations would be sufficient to cover all obligations.

110. 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 GCU's ability to provide services.

111. Staff recommends that:

(a) GCU be authorized to incur amortizing debt in an amount not to exceed $1,050,000 (combined for the Water and Gas Divisions) for a period of 28-to-32 years at a rate not to exceed that available from the CFC.

(b) The Commission authorize GCU to pledge its assets in the State of Arizona pursuant to A.R.S. §40-285.

(c) Any unused authorization to issue debt granted in this proceeding terminate within twelve months of a Decision in this docket.

(d) GCU be authorized to engage in any transaction and to execute any documents

necessary to effectuate the authorizations granted.

(e) 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.

112. 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. GCEC had a cash balance of $689,357 as of September 30, 2007, and $580,635 as of September 30, 2008. Staff states that when analyzing distribution cooperatives, it 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. Staff states that GCEC's liquidity will benefit from the CFC loan to GCU, as GCEC will receive cash to replace a receivable from GCU.

113. Staff concludes that GCEC's proposed guarantee of GCU's loans for the purposes stated in the applications 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. GCEC's guarantee of the GCU loan will not have a direct impact on GCEC's capital structure.

114. Staff recommends that:

(a) GCEC be authorized to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

(b) 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.

115. The proposed CFC financing will allow GCU to reimburse GCEC for advances made by GCEC for plant used to serve GCU gas and water customers. GCU will obtain its own capital and not rely on a subsidy from GCEC. Staff's recommendations, as set forth in the testimony of Mr. Manrique, are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. GCU and GCEC are public service corporations pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over GCU and GCEC and the subject matters of the applications.

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

4. GCU's Gas Division's FVRB is $2,012,758. GCU's Water Division's FVRB is $1,212,620.

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

6. The financing as approved herein is for lawful purposes within GCU's and GCEC's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by GCU and GCEC of service as public service corporations, and will not impair GCU's and GCEC's ability to perform the service.

7. The financing approved herein is for the purposes stated in the applications, is reasonably necessary for those purposes and such purposes may not be reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Graham County Utilities, Inc. shall file with the Commission on or before April 30, 2010, revised schedules of rates and charges, and a proof of revenue schedule, for its Gas Division consistent with the rates approved below:

Residential	
Customer Charge	$13.00
Margin (per therm)	$0.345
Commercial	
Customer Charge	$24.00
Margin (per therm)	$0.341
Irrigation:	
Customer Charge	$21.00
Margin (per therm)	$0.16

Miscellaneous Service Charges:

Establishment of Service – Regular Hours	$30.00
Establishment of Service – After Hours	$50.00
Reconnection of Service – Regular Hours	$30.00
Reconnection of Service – After Hours	$50.00
Meter Reread – no charge for error	$10.00
Meter Test Fee	$10.00
Insufficient Funds Check	$25.00
Interest Rate on Customer Deposits per annum	6.00%
Late Payment (per month and per total bill)	1.5%

IT IS FURTHER ORDERED that the revised schedules of rates and charges for the Gas Division shall be effective for all service rendered on and after May 1, 2010.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall notify its Gas Division customers of the revised schedules of rates and charges authorized herein in a form approved by Staff in its next customer bill, by an insert or within 30 days by separate mailing.

IT IS FURTHER ORDERED that Graham County Utilities, Inc.'s base cost of gas shall be set at zero and that going forward, the entire cost of gas shall be recovered through the PGA.

IT IS FURTHER ORDERED that Graham County Utilities, Inc.'s PGA bank balance thresholds shall be set at $250,000, and Graham County Utility, Inc. shall file with the Commission an application for a surcharge or surcredit whenever the threshold (positive or negative) in its PGA account reaches or exceeds $250,000 for three consecutive months (although nothing herein prevents the Cooperative from filing an application sooner).

IT IS FURTHER ORDERED that Graham County Utilities, Inc.'s PGA bandwidth shall be $0.15 per therm per year.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall file a notice in the Docket and provide an explanation of its position in the event the threshold balance in its Gas

Division's PGA bank account is exceeded for more than three consecutive months, and it believes that a surcharge or surcredit is unnecessary.

IT IS FURTHER ORDERED that within 120 days of the effective date of this Decision, Graham County Utilities, Inc. shall file with Docket Control as a compliance item in this Docket, proposed DSM programs for its Gas Division for Commission approval.

IT IS FURTHER ORDERED that a DSM adjustor mechanism, as described herein is hereby established to allow recovery of DSM costs in the event the Commission approves DSM programs.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall file an annual report and an application for the true-up and reset of the DSM charge on July 1st of each year.

IT IS FURTHER ORDERED that Graham County Utilities, Inc.'s Gas Division shall refund each customer that has been incorrectly charged for a line extension over a three year period as recommended by Staff in this proceeding, and shall within 60 days of the effective date of this Decision, file with Docket Control as a Compliance item, a description of its planned method for refunding the overcharges, and shall notify Commission Staff when it has completed the refund of all main and service line extensions over-charges.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. Gas Division's proposal to modify its Rules and Regulations to eliminate the footage for main and service line extensions is approved, as recommended by Staff herein, and GCU should file revised Rules and Regulations reflecting the change within 30 days of the effective date of this Order.

IT IS FURTHER ORDRED that Graham County Utilities, Inc.'s Gas Division shall honor the 150 feet of free footage allowance for any member who applied for a main or service line extension within one year prior to the effective date of this Decision.

IT IS FURTHER ORDERED that within 60 days of the effective date of this Decision, Graham County Utilities, Inc. shall file with Docket Control as a compliance item, a document indentifying its processes for procuring natural gas supplies, and what person(s) at the Company is(are) responsible for each step of the procurement process.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall actively ensure that the prices it pays British Petroleum are competitive and reasonable given market conditions.

IT IS FURTHER ORDERED that Graham County Utilities, Inc shall maintain documentation of any price indices used either currently or for past purchases; such documentation to include the publication or other source of the index, the index price, any calculations involved in creating the index, and any other pertinent information, and as part of its on-going tracking of PGA information, Graham County Utilities, Inc, shall ensure that its costs actually paid for gas coincide with the proper indices contained in the relevant purchase agreement(s).

IT IS FURTHER ORDERED that Graham County Utilities, Inc should regularly consider, as part of its gas procurement activities, the possibility of conducting a competitive solicitation.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall file with the Commission on or before April 30, 2010, revised schedules of rates and charges, and a proof of revenue schedule, for its Water Division consistent with the rates approved below:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	$19.50
3/4" Meter	21.50
1" Meter	31.00
1-1/2" Meter	36.50
2" Meter	39.00
3" Meter	48.00
4" Meter	58.00
6" Meter	80.00
Resale Bulk Water Sales – Eden Water Co.	50.00

COMMODITY CHARGES:

5/8" x ¾" Meter	
From 0 to 3,000 Gallons	$3.00
From 3,001 to 9,000 Gallons	3.20
Over 9,000 Gallons	3.51
¾" Meter	
From 0 to 3,000 Gallons	$3.00
From 3,001 to 9,000 Gallons	3.20
Over 9,000 Gallons	3.51
1" Meter	
From 0 to 19,000 Gallons	3.00
Over 19,000 Gallons	3.20
2" Meter	
From 0 to 20,000 Gallons	3.00

Over 20,000 Gallons	3.20
3" Meter (Res. Comm.)*	
From 0 to 23,000 Gallons	3.00
Over 23,000 Gallons	3.20
4" Meter	
From 0 to 28,000 Gallons	3.00
Over 28,000 Gallons	3.20
6" Meter	
From 0 to 42,000 Gallons	3.00
Over 42,000 Gallons	3.20
Resale Bulk Water Sales – Eden Water Co.	
Per 1,000 Gallons	$1.92

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable Pursuant to A.A.C. R14-2-405)

	Service Line	Meter Installation	Total
5/8" x 3/4 " Meter	$430.00	$130.00	$ 550.00
3/4 " Meter	430.00	230.00	660.00
1" Meter	480.00	290.00	770.00
1-1/2" Meter	535.00	500.00	1,035.00
2" Meter	At Cost	At Cost	At Cost
4" Meter	At Cost	At Cost	At Cost
6" Meter	At Cost	At Cost	At Cost

SERVICE CHARGES:

Establishment	$20.00
Establishment (After Hours)	50.00
Reconnection (Delinquent)	20.00
Reconnection (Delinquent) (After Hours)	50.00
Meter Test (If Correct)	20.00
Deposit	N/T
Deposit Interest	6.0%
Re-establishment (Within 12 Months)	(b)
NSF Check	25.00
Meter Re-Read (If Correct)	10.00
Late Payment Penalty	1.5%

(a) Per Commission Rule R14-2-403(B).
(b) Months off system times the monthly minimum per Commission Rule R14-2-403(D)

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall notify its Water Division customers of the revised schedules of rates and charges authorized herein by an insert in a form approved by Staff in its next customer bill, or within 30 days by separate mailing.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall within 30 days of the effective date of this Order, file a Hook-Up Fee Tariff consistent with the recommendations of Staff

as contained in the Engineering Staff Report and shall file as a compliance item in this docket, an annual Hook-up Fee Tariff Status Report as discussed herein.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall annually file as part of its annual report, an affidavit with the Utilities Division attesting that the Cooperative is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall 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.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall report gallons of water pumped from its Pima well in future Annual Reports and rate filings, and shall 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, Graham County Utilities, Inc. shall devise 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, and that such report should be docketed in this case.

IT IS FURTHER ORDERED that Graham County Utilities, Inc.'s Water Division shall refund the entire $15,538 over-collected for line extensions within 12 months of the effective date of this Decision, and shall file, as compliance items in this Docket, a statement of how it intends to effectuate the refund, and a notice when the refund has been completed.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. shall develop an employee training/orientation manual for both the Gas and Water Divisions that includes all of Graham County Utilities Inc.'s tariffs, terms and conditions of service, Commission Decisions affecting the Cooperative, and any other pertinent regulatory information within 30 days of the final Decision in this matter, and shall implement training sessions and file documentation of such training each July, beginning in July 2010, until further order of the Commission.

IT IS FURTHER ORDERED that Graham County Utility, Inc. is hereby authorized to borrow up to $1,050,000 (combined for the Water and Gas Divisions) from the National Rural Utilities

Cooperative Finance Corporation for a period of 28-to-32 years at the prevailing National Rural Utilities Cooperative Finance Corporation interest rate at the time the loans are executed.

IT IS FURTHER ORDERED that Graham County Electric Cooperative, Inc. is hereby authorized to guaranty the indebtedness of Graham County Utilities, Inc. that is authorized herein.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. is authorized to pledge its assets in the State of Arizona to the National Rural Utilities Cooperative Finance Corporation pursuant to A.R.S. §40-285.

IT IS FURTHER ORDERED that any unused authorization to issue debt granted in this proceeding shall terminate within twelve months of the effective date of this Decision.

IT IS FURTHER ORDERED that Graham County Utilities, Inc. and Graham County Electric Cooperative, Inc. are authorized to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

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IT IS FURTHER ORDERED that Graham County Utilities, Inc. and Graham County Electric Cooperative, Inc. shall file the executed loan documents with Docket Control as a compliance item in this case, within 60 days of the execution of any financing transaction authorized herein.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

SERVICE LIST FOR: GRAHAM COUNTY UTILITIES, INC. and GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

DOCKET NOS.: G-02527A-09-0088, G-02527A-09-0032, W-02527A-09-0201 W-02527A-09-0033, and E-01749A-09-0087

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