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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

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

IN THE MATTER OF THE APPLICATION OF SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN	DOCKET NO. E-04100A-09-0496 **STAFF'S NOTICE OF FILING DIRECT TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of Ralph C. Smith, Randall E. Vickroy and Richard Mazzini in the above docket. An Unredacted version of Ralph C. Smith's Direct Testimony has also been provided under seal to the Commissioners, their Assistants, the assigned Administrative Law Judge and the parties that have signed the Protective Agreement in this case. .

RESPECTFULLY SUBMITTED this 18th day of June 2010.

Ayesha Vohra

Maureen A. Scott, Senior Staff Counsel
Ayesha Vohra, Attorney
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Arizona Corporation Commission
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Original and thirteen (13) copies
of the foregoing filed this
18th day of June 2010 with:

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Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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KRISTIN K. MAYES
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IN THE MATTER OF THE APPLICATION OF SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN	DOCKET NO. E-04100A-09-0496

DIRECT

TESTIMONY

OF

RALPH C. SMITH

(CONSULTANT)

ON BEHALF OF THE STAFF OF THE

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 18, 2010

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ATTACHMENTS

EXECUTIVE SUMMARY
SOUTHWEST TRANSMISSION COOPERATIVE, INC.
DOCKET NO. E-04100A-09-0496

My testimony and Attachment RCS-2 present Staff's recommended rate base, net income (margin) and revenue increase for Southwest Transmission Cooperative, Inc.'s ("SWTC"). In computing Staff's recommended revenue increase, I used the debt service coverage ("DSC") method and applied the DSC ratio of 1.45 recommended by Staff witness Vickroy.

Staff's recommended rate base is $79.1 million versus the $79.7 million requested by SWTC. The following table summarizes Staff's recommended rate base adjustments:

Summary of Staff Adjustments to Rate Base			
Adj. No.	Description		Increase (Decrease)
B-1	Plant Held for Future Use	$	(377,214)
B-2	Acquisition Adjustment	$	(4,413)
B-3	Accumulated Depreciation - Retirement Work in Progress	$	(140,137)
B-4	Materials and Supplies	$	(334)
	Total of Staff Adjustments	**$**	**(522,098)**
	SWTC Proposed Rate Base (Original Cost)	$	79,668,372
	Staff Proposed Rate Base (Original Cost)	**$**	**79,146,274**

Both SWTC and Staff have used original cost information to derive the fair value rate base. Because SWTC is a cooperative, a DSC method is being used to derive the recommended revenue requirement, and the revenue requirement does not vary with the amount of rate base.

Staff's adjustments produce an adjusted net income (margin) of negative $3.9 million versus the negative $4.8 million proposed by SWTC. Staff's recommended adjustments to income are summarized in the following table:

Summary of Staff Adjustments to Net Income (Margin)			
			Net Income (Margin)
Adj. No.	Description		Increase (Decrease)
C-1	Work Force Reduction	$	730,300
C-2	Incentive Compensation	$	70,235
C-3	Donations	$	521
C-4	Lobbying Expense in Association Dues	$	29,170
C-5	Gain on Sale of Utility Property	$	73,300
Total of Staff's Adjustments to Net Operating Income		**$**	**903,526**
	Adjusted Net Income per SWTC	$	(4,830,085)
	Adjusted Net Income per Staff	$	(3,926,559)

On Attachment RCS-2, Schedule A, page 1, I present Staff's calculation of the revenue deficiency for SWTC. As shown on Schedule A, page 1, column D, lines 16-26, using the DSC ratio of 1.45 recommended by Staff witness Vickroy, my calculations show a revenue deficiency of $7.649 million. As shown on Attachment RCS-2, Schedule C, column D, line 24, this represents an increase of approximately 34.0 percent over adjusted total electric revenues at SWTC's current rates.

I. INTRODUCTION

A. Background and Qualifications

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

A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Please describe Larkin & Associates.

A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings including numerous telephone, water and sewer, gas, and electric matters.

Q. Mr. Smith, please summarize your educational background.

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the C.P.A. examination in my first sitting in 1979, received my CPA license in 1981, and received a certified financial planning certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed Certified Public Accountant and attorney in the State of Michigan. I am also a Certified Financial Planner™ professional and a Certified Rate of Return Analyst (CRRA). Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. I am also a member of the Michigan Bar Association and the Society of Utility and Regulatory Financial Analysts (SURFA). I have also been a member of the American Bar Association (ABA), and the ABA sections on Public Utility Law and Taxation.

Q. Please summarize your professional experience.

A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility regulation where the majority of my time for the past 30 years has been spent, I performed audit, accounting, and tax work for a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm, I have been involved in rate cases and other regulatory matters concerning numerous electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case and regulatory filings of public utility companies before various regulatory commissions and, where appropriate, preparing testimony and schedules relating to the issues for presentation before these regulatory agencies.

I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington D.C., West Virginia, Wisconsin, and Canada as well as the Federal Energy Regulatory Commission and various state and federal courts of law.

Q. Have you prepared an attachment summarizing your educational background and regulatory experience?

A. Yes. Attachment RCS-1 provides details concerning my experience and qualifications.

Q. Have you previously testified before the Arizona Corporation Commission?

A. Yes. I have previously testified before the Commission on a number of occasions. I most recently testified before the Commission in Docket Nos. W-01303A-09-0343 and SW-01303A-09-0343 involving general rate case requests by Arizona-American Water Company. I testified in Docket No. E-01345A-06-0009, involving an emergency rate increase request by Arizona Public Service Company ("APS"), APS' Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-05-0827, concerning proceedings involving APS base rates and other matters, and the most recent APS case, Docket No. E-01345A-08-0172, concerning an emergency rate increase and general rate case request. I also testified before the Commission in the last UNS Gas, Inc. rate cases, Docket Nos. G-04204A-08-0571, G-04204A-06-0463, G-04204A-06-0013 and G-04204A-05-0831, in a previous UNS Electric, Inc. rate case, Docket No. E-04204A-06-0783, as well as the last Southwest Gas Corporation rate case, Docket No. G-01551A-07-0504, and Tucson Electric Power Company rate case, Docket No. E-01933A-07-0402, among others.

B. Purpose of Testimony

Q. On whose behalf are you appearing?

A. I am appearing on behalf of the Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Staff").

Q. What is the purpose of the testimony you are presenting?

A. The purpose of my testimony is to address the application for a general rate increase filed by Southwest Transmission Cooperative, Inc. ("SWTC" or "Company"). Specifically, I will be addressing the revenue requirement, rate base, and net operating income.

Q. Please briefly describe the information you reviewed in preparation for your testimony.

A. The information I reviewed included SWTC's application and testimony, SWTC's responses to data requests of Staff, information provided to me by Staff, and other publicly available information.

C. Content of Attachments to Testimony

Q. Have you attached any exhibits to be filed with your testimony?

A. Yes. I am attaching two exhibits, Attachments RCS-2 and RCS-3.

Q. What is shown in each of those attachments?

A. Attachment RCS-2 presents the results of my analysis including Staff's recommended revenue requirement, rate base and adjusted net operating income. Attachment RCS-3 presents copies of responses to data requests and selected documents that are referenced in my testimony.

D. General Background to SWTC's Rate Request

Q. Please briefly provide some background for the request that SWTC has made in the current proceeding.

A. SWTC is a non-profit, transmission cooperative which primarily provides wholesale transmission services to its six Class A (Anza Electric Cooperative, Inc., Duncan Valley

Electric Cooperative Inc., Graham County Electric Cooperative, Inc., Trico Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., and Sulphur Springs Valley Electric Cooperative, Inc.) and two Class B (Arizona Electric Power Cooperative, Inc. and Sierra Southwest Cooperative Services, Inc.) members. SWTC owns about 622 miles of transmission lines and 24 substations, some jointly owned with the Salt River Project and Tucson Electric Power.

SWTC's current base rates became effective September 1, 2005 pursuant to Decision No. 68072, dated August 17, 2005. That case, Docket No. E-04100A-04-0527, used a test year ending December 31, 2003.

On October 16, 2009, SWTC filed with the Commission an application for a net increase in rates of approximately $7.65 million, using a test year ending March 31, 2009.

II. REVENUE REQUIREMENT

A. Summary of SWTC's Requested Increase

Q. Please briefly summarize SWTC's basis for its request for a rate increase.

A. Using a test year ending March 31, 2009, with pro forma adjustments, SWTC is seeking a base rate increase of $7.65 million, or approximately 34.0% over SWTC's adjusted test year electric revenue.

SWTC's requested revenue increase is designed to produce a net margin of $2.823 million, a Times Interest Earned Ratio ("TIER") of 1.56 and a Debt Service Coverage Ratio ("DSC" or "DSCR") of 1.35. As described by SWTC witness Minson, at page 5, lines 4-14, of his direct testimony:

> *In general, on a test year adjusted basis, SWTC had negative margins of just under $170,000 which produce a TIER of .03 and a DSC of .50. Given this, SWTC is requesting an overall increase in revenues of approximately $7.7 million. The revised rates are designed to produce a TIER of 1.56 and a DSCR of 1.35 which, if achieved, will keep SWTC in compliance with the standards required by its RUS mortgage and RUS rules. It will provide modest margins, continue to build equity and afford some gradual improvement in working capital coverage. Finally, SWTC requests that the new rates not take effect until January 1, 2011 so as to coincide with the large loss of transmission revenues associated with expiration of AEPCO's 100 MW sales contract with SRP.*

As noted above, SWTC has requested that the rates in its general rate application become effective on January 1, 2011.

Q. What is causing SWTC's request for a revenue increase?

A. SWTC's request for a revenue increase is largely attributable to events occurring after the test year, including post-test year revenue losses. SWTC's application at page 2, paragraph 6, states that:

> *The primary reason behind the need for rate relief is SWTC's substantial revenue losses as a result of the termination, reduction or expiration of several point-to-point transmission service contracts. Collectively, SWTC either has already lost or will lose by January 1, 2011 about $8.6 million in point-to-point transmission revenues. To place that loss in context, that is almost one-quarter, or about 24% of SWTC's total current annual revenues.*

Put another way, SWTC's actual recorded results for the test year ended March 31, 2009 do not indicate that a revenue increase would be required. SWTC's recorded results, as summarized on Attachment RCS-2, Schedule A, column A, line 7, indicate a positive net income of $4,727,711.

As also shown on Schedule A, page 2, lines 16-18, SWTC's requested revenue increase of $7,653,421 can be shown to consist of two components: a component to cover its pro forma adjusted test year net operating loss of $4,830,085 plus a coverage requirement of $2,823,336.

The estimated impact of SWTC's proposed pro forma adjustments on its margins and revenue requirement is shown in the following table:

Line No.	Description	SWTC Adj. No.	Impact on Income		Impact on Revenue Requirement	
				(A)		(B)
	SWTC's Proposed Pro Forma Adjustments					
1	AEPCO City of Mesa P-t-P Termination Adjustment	1	$	(501,120)	$	501,120
2	Thatcher Network Conversion Adjustment	2	$	(213,696)	$	213,696
3	Additional Network Services Adjustment	3	$	(702,969)	$	702,969
4	TEP Non- Firm Point-to-Point Adjustment	4	$	(647,946)	$	647,946
5	WALC Topock P-t-P Termination Adjustment	5	$	(326,656)	$	326,656
6	WALC Topock IPP Termination Adjustment	6	$	(480,000)	$	480,000
7	MWE Morenci P-t-P Termination Adjustment	7	$	(1,190,955)	$	1,190,955
8	AEPCO SRP P-t-P Termination Adjustment	8	$	(4,454,400)	$	4,454,400
9	Payroll and RSI Increases Adjustment	9	$	(858,733)	$	858,733
10	Amortization of Rate Case Exp. Adjustment	10	$	(80,000)	$	80,000
11	Annualize Interest on LTD Adjustment	11	$	(101,321)	$	101,321
12	Totals		$	(9,557,796)	$	9,557,796

It is thus entirely SWTC's pro forma adjusted results, which reflect adjustments for events through January 1, 2011, that causes SWTC to be requesting a revenue increase.

Q. Has SWTC presented reconstructed cost new less depreciation ("RCND") information in its filing for determining the amount of fair value rate base?

A. No. The direct testimony of SWTC witness Gary Pierson states at page 4, lines 11-14 that Schedules B-3 and B-4, concerning RCND rate base were not completed and "[a]s a non-profit cooperative, SWTC stipulates to the use of its original cost rate base as its fair value rate base."

Q. Has Staff also used SWTC's original cost information for determining the amount of fair value rate base?

A. Yes.

B. Summary of Staff's Recommendation

Q. What revenue increase does Staff recommend?

A. Staff recommends a base rate revenue increase of $7.649 million.

Q. What calculations have you presented in support of that recommendation?

A. On Attachment RCS-2, Schedule A, page 1, I present a calculation of the revenue deficiency for SWTC. As shown on Schedule A, page 1, column D, lines 16-26, using the DSC ratio of 1.45 recommended by Staff witness Vickroy, my calculations show a revenue deficiency of $7.649 million. As shown on Attachment RCS-2, Schedule C, column D, line 24, this represents an increase of approximately 34.0 percent over adjusted total electric revenues at current rates.

C. Test Year

Q. What test year is being used in this case?

A. SWTC's filing is based on the historic test year ended March 31, 2009. Staff's calculations use the same historic test year.

Q. Could you please discuss the test year concept?

A. Yes. In Arizona, a historic test year approach is used. Various adjustments are made to the historic test year amounts to ensure that there is a matching of investment, revenues and expenses. Rate base items, such as plant in service and accumulated depreciation, are based on the actual level as of the end of the historic test year. Rate base items that tend to fluctuate from month to month, such as materials and supplies, are based on a test year average level.

As time goes forward, changes in the Company's cost structure will occur. For example, rate base will typically increase as new plant is added to serve new customers, revenue will change as existing contracts expire or new ones are added, expenses will fluctuate, etc. It is very important to be consistent with a test period approach to ensure that there is a consistent matching between investment, revenues and costs. Any adjustments that reach beyond the end of the historic test year must be very carefully considered before being adopted. For example, it would be inappropriate and unbalanced to recognize only increases to labor expense occurring beyond the test year, and to ignore offsetting known and measureable decreases to labor cost.

D. Organization of Staff Accounting Schedules

Q. How are Staff's accounting schedules organized?

A. Staff's accounting schedules are presented in Attachment RCS-2. They are organized into summary schedules and adjustment schedules. The summary schedules consist of Schedules A, B, B.1, C, C.1 and D. Attachment RCS-2 also contains rate base adjustment Schedules B-1 through B-4 and net operating income adjustment Schedules C-1 through C-5. The revenue requirement for SWTC was based upon the ACC jurisdictional adjusted results.

Q. What is shown on Schedule A of Attachment RCS-2?

A. Attachment RCS-2 presents the Staff Accounting Schedules and revenue requirement determination. Schedule A presents the overall financial summary, giving effect to all the adjustments I am recommending in my testimony, as well as the recommended DSC coverage recommended on behalf of Staff by Randall Vickroy of Liberty Consulting. This schedule presents the change in the Company's gross revenue requirement needed for the Company to have the opportunity to achieve Staff's recommended coverage.

Q. What is shown in each column of Schedule A, page 1?

A. Column A shows SWTC's actual unadjusted test year results. Those actual results show that for the 12 months ending March 31, 2009, SWTC had net margins of $4.728 million. To achieve a TIER of approximately 1.565, based on the test year <u>unadjusted</u> results for SWTC, a revenue reduction of approximately $1.962 million would be in order.

Column B presents SWTC's proposed test year adjusted results. This reflects the impact of the pro forma adjustments proposed by SWTC. As shown on line 7, SWTC's adjusted results show a net negative margin of approximately $4.83 million. This equates to a TIER of only 0.03 and a DSCR of approximately 0.5.

As shown in column C, the Cooperative's pro forma adjusted results were used by SWTC to derive its proposed revenue increase of $7.65 million to produce its requested TIER of approximately 1.565 and a DSCR of 1.35.

Column D shows the test year adjusted results per Staff.

Column E shows the derivation of the amount of rate increase using Staff's adjusted test year operating results and Staff's recommended coverage.

Q. What is shown in each section of Attachment RCS-2, Schedule A, page 1?

A. Section I of Schedule A shows the derivation of SWTC's net operating income. Section II shows the derivation of the revenue increase using a TIER basis. Section III shows the derivation of the revenue increase using a DSC basis. Both the TIER and DSC method of deriving a utility's revenue requirement are considered cash methods (as opposed to the rate base/rate of return method that is typically used for investor-owned utilities). Section IV shows the components of the return and the return on rate base produced by the recommended revenue increase.

Q. How does the rate base affect the amount of revenue requirement requested by SWTC and proposed by Staff?

A. As noted above, the rate base and return on fair value rate base are shown on Schedule A, part IV, lines 28-32. Because the amount of revenue requirement requested by SWTC and the amount proposed by Staff in this case (as shown in sections II and III of Schedule A) are both calculated based on a cash coverage ratio basis (as opposed to a rate of return on rate base), the amount of rate base does not affect the SWTC revenue requirement.

Q. How does the recommended DSC affect the amount of net income?

A. As shown on Schedule A, page 1, Staff witness Vickroy recommended DSC of 1.45, which results in a net income of $3,722,264.

Q. What is shown on Schedule B?

A. Schedule B presents SWTC's proposed adjusted test year Original Cost and Staff's proposed adjusted test year Original Cost rate base. The beginning rate base amounts presented on Schedule B are taken from the Company's filing for the test year, specifically SWTC Schedule B-1. Staff's recommended adjustments to rate base are summarized on Schedule B.1.

Schedules B-1 through B-4 provide further support and calculations for the rate base adjustments Staff is recommending.

Q. What is shown on Schedule C?

A. The starting point on Schedule C is SWTC's adjusted test year net operating income, as provided on Company Schedule C-1. Staff's recommended adjustments to SWTC's adjusted test year revenues and expenses are summarized on Schedule C.1. Each of these adjustments is discussed in my testimony.

Schedules C-1 through C-5 provide further support and calculations for the net operating income adjustments Staff is recommending.

Q. What is shown on Schedule D?

A. Schedule D summarizes the capital structure and cost of capital that was proposed by SWTC and the capital structure and cost of capital that is recommended by Staff witness Vickroy.

III. RATE BASE

Q. Have you prepared a schedule that summarizes Staff's proposed adjustments to rate base?

A. Yes. As noted above, the adjusted rate base is shown on Attachment RCS-2, Schedule B. The adjustments to SWTC's proposed rate base are summarized on Schedule B.1. A comparison of the Company's proposed rate base and Staff's recommended rate base on an Original Cost is presented below:

Summary of Rate Base	SWTC	Staff	Difference
Original Cost Rate Base	$ 79,668,372	$ 79,146,274	$ (522,098)
Fair Value Rate Base	$ 79,668,372	$ 79,146,274	$ (522,098)

As noted above, both SWTC and Staff are using the original cost rate base as the fair value rate base in this case.

Cash Working Capital

Q. What is cash working capital?

A. Cash working capital is the cash needed by the Company to cover its day-to-day operations. If the Company's cash expenditures, on an aggregate basis, precede the cash recovery of expenses, investors must provide cash working capital. In that situation a positive cash working capital requirement exists. On the other hand, if revenues are typically received prior to when expenditures are made, on average, then ratepayers provide the cash working capital to the utility, and the negative cash working capital allowance is reflected as a reduction to rate base. In this case, the cash working capital requirement is a reduction to rate base as ratepayers are essentially supplying these funds.

Q. What has SWTC proposed for Cash Working Capital?

A. SWTC has proposed a zero amount for Cash Working Capital because it did not prepare a lead-lag study.[1]

Q. For purposes of this rate case, does Staff agree with the use of a zero amount for Cash Working Capital?

A. Yes. Since SWTC did not prepare a lead-lag study, a zero amount should be used for Cash Working Capital.

Prepayments

Q. How has SWTC treated Prepayments for purposes of rate base?

A. SWTC has excluded Prepayments from rate base because of the position taken by Staff in its 2004-2005 rate case.[2]

Q. Does Staff agree that Prepayments should be excluded from rate base in the current SWTC rate case?

A. Yes. SWTC's exclusion of Prepayments from rate base is consistent with Staff's recommendation in SWTC's and AEPCO's previous rate cases. For example, in Docket No. E-01773A-04-0528, Staff pointed out that the cooperatives failed to conduct a lead-lag study, thus omitting a major component of Working Capital, which could decrease rate base due to the long lags applied to significant expenses such as property taxes and

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[1] See, e.g., SWTC's filing at Schedule B-5, page 2, and the direct testimony of SWTC witness Gary Pierson at page 4, lines 18-21.
[2] Id., lines 21-23.

interest. Additionally, Staff noted that in Decision No. 58405, the Commission removed prepayments. Consequently, Staff concurs with SWTC's exclusion of Prepayments from rate base in the current SWTC rate case.

SWTC-Proposed Rate Base Adjustments

Q. Did SWTC propose any pro forma adjustments to rate base in the current SWTC rate case?

A. No.[3]

Staff Rate Base Adjustments

Q. Is Staff proposing any adjustments to rate base that were not made by SWTC?

A. Yes. Staff's recommended adjustments to rate base are discussed below.

B-1. Plant Held for Future Use

Q. Please discuss the adjustment to remove Plant Held for Future Use ("PHFFU") from rate base.

A. SWTC included $377,214 for PHFFU in rate base. Data request STF 2.78 asked SWTC to provide, among other things, the original purchased date, and planned in-service date. SWTC's response indicated that this is for two parcels of land in Oro Valley that were purchased in 1999, but did not provide a description of the proposed future use in providing utility service or a planned in-service date. Because there is no description of the proposed future use in providing utility service or any planned in-service date (much less an in-service date in the near future), this item is being removed from rate base, as shown on Staff Schedule B-1.

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[3] See, e.g., SWTC Schedule B-1, and the direct testimony of Gary Pierson at page 4, lines 10-11.

Q. What did SWTC indicate to Staff regarding this PHFFU in SWTC's last rate case?

A. In response to data request CSB 2-29 in SWTC's last rate case, SWTC indicated that the land had been purchased for a substation site's right-of-ways, and because the location of the substation had changed, the land was no longer needed and would likely be liquidated.

Q. Did Staff remove PHFFU in SWTC's last rate case?

A. Yes.

Q. Did SWTC accept Staff's adjustment to remove PHFFU from rate base in SWTC's last rate case?

A. Yes.

Q. Please summarize Staff's recommendation.

A. The $377,214 PHFFU should be removed from rate base in SWTC's current rate case, as shown on Attachment RCS-2, Schedule B-1.

B-2 Acquisition Adjustment

Q. Please discuss the adjustment to remove the Acquisition Adjustment from rate base.

A. SWTC included an acquisition adjustment of $4,413, which it had recorded in Account 114, in rate base. This can be seen on SWTC's Schedule E-5, page 1, line 2. SWTC carried this amount into its proposed amount for Plant in Service in rate base on its Schedule B-2 and Schedule B-1. This item is being removed from rate base, as shown on Attachment RCS-2, Schedule B-2.

Q. Did Staff remove the acquisition adjustment from rate base in SWTC's last rate case?

A. Yes. Staff removed this acquisition adjustment from rate base in SWTC's last rate case, Docket No. E-04100A-04-0527. Additionally, Staff also removed it in the prior rate case to that one, as indicated in Decision No. 65367 (dated November 5, 2002) at page 4, lines 21-24.

Q. Did SWTC accept Staff's adjustment to remove the acquisition adjustment from rate base in SWTC's last rate case?

A. Yes.

Q. Why should the acquisition adjustment be removed from rate base in SWTC's current rate case?

A. Original cost rate base is calculated using the original cost of plant assets. An acquisition adjustment, by definition, is not the original cost of an asset because it is the difference between the original cost of an asset and the purchase price. Non-recognition of the acquisition adjustment in rate base is the normal ratemaking treatment. Also, As noted above, this acquisition adjustment was removed in the last two SWTC rate cases.

Q. Please summarize Staff's recommendation.

A. The $4,413 acquisition adjustment that SWTC recorded in Account 114 should be removed from rate base in SWTC's current rate case, as shown on Attachment RCS-2, Schedule B-2.

B-3 Accumulated Depreciation – Retirement Work in Progress

Q. What has SWTC proposed for Accumulated Depreciation?

A. SWTC proposed using $69,091,935 for Accumulated Depreciation in deriving its rate base, inclusive of the following components:

Components of Accumulated Depreciation in SWTC's Proposed Rate Base	
Component	**Amount**
Lines	$ (60,986,081)
Substation	$ -
General Plant	$ (6,472,037)
Retirements	$ 140,137
Accumulated Amortization	$ (1,773,954)
Total	**$ (69,091,935)**
Source: SWTC filing Schedule E-5	

Q. Is Retirement Work in Progress ("RWIP") normally a component of rate base?

A. No. RWIP should reflect a coordinated treatment of the plant to be retired, accumulated depreciation, salvage value and disposal cost. The retirement should be completed before rate base is adjusted.

Q. What adjustment does Staff recommend?

A. Staff recommends increasing Accumulated Depreciation by $140,137 to remove RWIP from rate base as shown on Attachment RCS-2, Schedule B-3. This adjustment decreases SWTC's proposed rate base by $140,137.

Q. Is the removal of RWIP from SWTC's rate base consistent with the treatment in previous SWTC rate cases?

A. Yes. Staff removed RWIP from SWTC's rate base in SWTC's last rate case, Docket No. E-04100A-04-0527. Additionally, in Decision No. 65367 (November 5, 2002) RWIP was removed from rate base per a Staff recommendation that was accepted by the Commission.[4]

B-4 Materials and Supplies

Q. In developing its amount for Materials and Supplies ("M&S") in rate base, did SWTC use the averaging approach recommended by Staff in SWTC's last rate case?

A. Yes. In verifying the SWTC test year amounts, however, a minor error was discovered.

Q. Please discuss the minor correction shown on Schedule B-4.

A. As described in SWTC's response to STF 2.7, a minor correction was discovered in SWTC's filing for the month of October 2008. The recorded M&S balance was $1,792,459, whereas SWTC's filing at Schedule B-5, page 3, had reflected an amount of $1,796,459. This minor correction is immaterial and would reduce SWTC's rate base by only $334.

IV. ADJUSTMENTS TO OPERATING INCOME

Q. Please describe how you have summarized Staff's proposed adjustments to operating income.

A. Schedule C summarizes Staff's recommended net operating income. Schedule C.1 presents Staff's recommended adjustments to test year revenues and expenses. Because SWTC is a tax-exempt non-profit corporation organized under the provisions of Section

[4] See Decision No. 65367, page 4, lines 21-24.

501(c)(12) of the Internal Revenue Code, it does not pay income taxes and consequently, there is no impact on state and federal income taxes associated with each of the recommended adjustments to operating income.

As shown on Attachment RCS-2, Schedule C, SWTC's proposed adjusted test year net operating income is ($4.8) million (as shown in column A), whereas Staff's recommended adjusted net operating income is ($3.9) million before the recommended revenue increase and $3.7 million after the increase (as shown in columns C and E, respectively).

Each of Staff's recommended adjustments to operating income are discussed below in the same order as they appear on Schedule C.1.

SWTC's Pro Forma Adjustments to Operating Income

Q. Before we discuss Staff's recommended adjustments to operating income, can you briefly review SWTC's pro forma adjustments?

A. Yes. SWTC's pro forma adjustments to operating income are summarized on Attachment RCS-2, Schedule A, page 2, on lines 1-12. SWTC has proposed eleven pro forma adjustments, which reduce its net income by a total of $9.558 million.

Lost Revenue Adjustments. SWTC's adjustments 1 through 8 relate to losses of revenue that have occurred or are expected to occur from contract terminations. These include the loss of revenue for point-to-point transmission service related to Arizona Electric Power Cooperative's ("AEPCO") contract with Salt River Project ("SRP") which terminates on December 31, 2010. Based on the review conducted to date, these SWTC adjustments have been accepted; however, this is subject to potential refinement or adjustment when Staff completes its rate design analysis. The rate design analysis typically involves a detailed review of existing and proposed revenues from each customer class, and the preparation of a proof of revenues. Consequently, it is possible that concerns about SWTC's existing revenues may come to light during the rate design analysis that were not apparent during the revenue requirement analysis.

Labor Cost Increases. SWTC's adjustment 9 increases labor cost for post-test year pay and employee benefit increases. This SWTC adjustment has been accepted subject to making an offsetting adjustment for a known post-test year work force downsizing that is quantified in Staff adjustment C-1.

Rate Case Cost. SWTC's adjustment 10 is for an annual allowance of $80,000 for legal and consultant costs for the current SWTC rate case. SWTC's response to data request STF 2.51 did not provide the detailed itemization that was sought in that request.[5] This amount has been accepted conditionally, pending receipt of additional detail.

Interest Expense Annualization. SWTC's pro forma adjustment 11 increases test year interest expense by $101,321. SWTC proposes using an adjusted amount for interest on long-term debt of $4,999,388. Staff has accepted SWTC's adjustment to interest expense and has used the same amount of interest on long-term debt for purposes of calculating coverage requirements.

[5] A copy of SWTC's response to data request STF 2.51 is included in Attachment RCS-3.

Staff Adjustments to Operating Income

Q. Now will you discuss the adjustments to net operating income that are being recommended by Staff?

A. Yes. Each Staff adjustment to SWTC's net operating income is discussed below.

C-1 Work Force Reduction

Q. Please explain the adjustment for the significant work force reduction made by SWTC and its related companies.

A. The response to data request STF 2.31 indicates that SWTC, AEPCO and Sierra have made a reduction in work force of seventeen employees. Moreover, SWTC calculates that the reduction in force will reduce its labor costs by approximately $730,000 on an annual basis. SWTC provided a confidential attachment to its response to data request STF 2.31 showing details.

Q. What has SWTC stated concerning whether the impact of this significant work force reduction should be recognized as a pro forma adjustment?

A. SWTC's supplemental response to data request STF 2.31 states that:

> *Because the reduction in force occurred more than a year after closure of the test period, SWTC has not submitted this matter as an additional pro forma adjustment in supplemental response to STF 2.35. In that regard, SWTC has also not requested adjustments for various <u>increases</u> in certain post-test year expenses similar to the expense increases identified by AEPCO in its response to STF 3.1 ...*

SWTC attached a copy of AEPCO's response to Staff data request 3.1 in Docket No. E-01773A-09-0472. A copy of that response is also attached for ease of reference in Attachment RCS-3 to my testimony.

Q. Docket No. E-01773A-09-0472 is Arizona Electric Power Cooperative's current rate case. What was data request STF 3.1 in that docket?

A. Data request STF 3.1 was issued in the AEPCO rate case docket in order to help evaluate whether a comprehensive update of AEPCO's filing using a test year ending December 31, 2009 rather than a test year ending March 31, 2009 should be undertaken.

Q. What does AEPCO's response to STF 3.1 in Docket No. E-01773A-09-0472 show?

A. AEPCO's response to data request STF 3.1 in Docket No. E-01773A-09-0472 shows that AEPCO had identified five material changes from March 31, 2009 through December 31, 2009. It shows that three changes affected test year operating expenses: (1) fuel expense related to new contracts; (2) payroll and pension expense due to wage increases and National Rural Electric Cooperative Association ("NRECA") pension funding requirement increases; and (3) a SAP software capital lease. The response indicates that each of these three changes were in fact reflected as pro forma adjustments in AEPCO's rate filing in the "C" schedules and are identified there as Coal Price Adjustment, Payroll and Pension Adjustment and SAP Software Amortization Adjustment.

AEPCO's response to data request STF 3.1 states further that changes related to a telephone system capital lease, post-test year plant in service and net debt increases were not included as adjustments because AEPCO believed Staff would not consider such post-test year expenses to be appropriate adjustments.

Q. Has SWTC requested increases in expenses for changes occurring subsequent to the test year?

A. Yes. For labor costs alone, SWTC has requested increased expenses of $858,733 in its pro forma adjustment no. 9 for Payroll and RSI Increases. Reflecting the impact of the work force change would help to mitigate the impact of the other post-test year increases to labor (and other) costs requested by SWTC.

Q. Should the significant work force change that was identified by SWTC in response to data request STF 2.31 be reflected as pro forma adjustment in setting SWTC's rates in the current case?

A. Yes, it should. This is a significant change in work force and it significantly impacts SWTC's proposed labor costs. Moreover, SWTC's proposed labor costs include the impact of other post-test year changes, but only changes which increased expense (and decreased margin), such as post-test year wage increases that occurred on September 21, 2009 and a post-test year increase in pension costs. To not reflect the offsetting reduction to SWTC's labor costs related to the known downsizing of the work force would serve to overstate SWTC's labor cost significantly on a going-forward basis.

Additionally, as noted above, SWTC's filing includes other significant pro forma adjustments for other items that extend even further beyond the test year ending March 31, 2009, such as changes related to the expiration on December 31, 2010 of AEPCO's sales agreement with SRP.[6]

Q. What is the impact of this adjustment on SWTC's labor costs and margin?

A. As shown on Attachment RCS-2, this adjustment decreases SWTC's labor costs by approximately $730,000 and increases margins by a similar amount.

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[6] See, e.g., SWTC's proposed pro forma adjustments 3 (Additional Network Services Adjustment) and 8 (Salt River Project Contract Adjustment).

Q. Do you have an alternative recommendation if the Commission does not reflect the impact of the significant post-test year work force decrease on SWTC's labor costs?

A. Yes. If this adjustment to decrease SWTC's labor costs for the work force downsizing is not reflected in deriving SWTC's revenue requirement, alternatively, I would recommend that the other post-test year pro forma adjustments requested by SWTC, which significantly increased expense (and reduced margins) also be rejected. Rejecting SWTC's proposed pro forma adjustment no. 9 for Payroll and Retirement Plan Increases would decrease SWTC's requested expense by $858,733, and would increase margins by a similar amount.

C-2 Incentive Compensation

Q. Does SWTC have an incentive compensation plan?

A. Yes. SWTC's response to data request STF 2.30(d), (e), and (f) provided information concerning SWTC's incentive compensation. Copies of the relevant incentive program plan documents provided by SWTC in response to that data request are included in Attachment RCS-3.

Q. What trigger mechanisms are provided for in SWTC's incentive compensation plan?

A. As shown in the documentation provided by SWTC in response to STF 2.30, the plan has four trigger mechanisms, which must be met or exceeded by SWTC to open the program to funding. For the 2008 and 2009 plans, the four trigger mechanisms were:

1. Positive Net Margin.
2. Times Interest Earned Ratio ("TIER") of 1.10.
3. Debt Service Coverage Ratio ("DSC") of 1.00.
4. Circuit Segment Hours of Availability ("CSHA") of 99.955%.

For the 2010 incentive program, the four trigger mechanisms are:

1. Positive Net Margin.
2. Times Interest Earned Ratio (TIER) of 1.05.
3. Debt Service Coverage Ratio (DSC) of 1.00.
4. Circuit Segment Hours of Availability (CSHA) of 99.979%.

Q. How is the SWTC incentive plan funded?

A. The SWTC incentive plan is funded subject to a cap each year that has been approved by the Board of Directors, and is to be funded on a 50/50 split from the savings in actual expenses reduced from those forecast in SWTC's Budget.[7] Additionally, the plan provides that[8]:

> *All triggers must be satisfied and the achievement with respect to the combined goals must be positive, including provision for funding the program, before the Incentive Plan will be funded. Both SWTC and AEPCO will fund the Incentive Plan proportionately.*

Q. Do these plan provisions raise some concerns about inclusion of the incentive compensation expense in rates?

A. Yes. The first three triggers appear to be minimal targets that would not reflect adequate financial performance by SWTC. In contrast with those minimal targets for incentive compensation triggers, SWTC is seeking, and Staff is recommending, much higher levels in the current rate case. For instance, apparently even $1 in positive net margin would meet trigger #1. In the current rate case, SWTC is seeking a positive net margin of $2.823 million and Staff is recommending an amount of $3.722 million.[9] The SWTC and Staff recommended positive net margins being recommended in the rate case are thus 2.823

[7] See, e.g., "Funding Amount" section of SWTC Incentive Plan documents included in Attachment RCS-3.
[8] See, "Introduction" section of SWTC Incentive Plan documents included in Attachment RCS-3.
[9] See, e.g., Attachment RCS-2, Schedule A.

million and 3.722 million, respectively, times as high as the $1 of positive net margin that would apparently trigger item #1 in the SWTC incentive compensation plan.

Similarly, the SWTC incentive plan trigger #2 is a TIER of only 1.10 for 2008 and 2009, and even lower at only 1.05 in 2010. In contrast, SWTC is seeking, and Staff has recommended, a revenue increase that would provide for a TIER of 1.564743.[10] This coverage margin for TIER for determining the revenue increase at 0.564743 is over 11 times the 0.05 that would trigger incentive compensation in SWTC's 2010 plan.

Finally, the DSC provided for in the SWTC incentive compensation plan as trigger item #3 is only 1.00, whereas the DSC ratio requested by SWTC and recommended by Staff for purposes of determining SWTC's revenue requirement in the current SWTC rate case is 1.35 and 1.45, respectively.

The first three trigger items in SWTC's incentive compensation plan thus are far below the comparable levels being used for purposes of determining SWTC's revenue requirement in the current SWTC rate case. It is questionable whether the trigger levels in SWTC's incentive compensation plan even represent a minimal level of financial performance. Consequently, the awarding of incentive compensation based on trigger levels which appear to be set below a minimally acceptable level of financial performance appears to be questionable.

[10] See, e.g., Attachment RCS-2, Schedule A, line 13.

Q. What other aspects of the incentive compensation program raise concerns about including an expense amount for that in operating expenses?

A. The funding of the incentive compensation, as described in the plan documents, is to be based upon a 50/50 split of savings in actual expenses reduced from those forecast in the Budget. SWTC has not demonstrated that its test year expenses reflect such savings. Consequently, including the incentive compensation expense as an operating expense in determining SWTC's revenue requirement would be questionable.

Q. How much expense did SWTC incur in the test year for incentive compensation?

A. SWTC's response to data request STF 2.44 indicates that SWTC incurred $70,235 of expense for incentive compensation in the test year. No expense for incentive compensation was incurred in 2009.

Q. Why should incentive compensation expense be removed from test year expenses?

A. In addition to the concerns identified above, there is no assurance that the expense levels included in the test year will be repeated in future years. As noted above, SWTC's response to data request STF 2.44 indicates there was no expense incurred in, or expected for, 2009.

C-3 Charitable Contributions

Q. Please explain the adjustment to remove Charitable Contributions expense.

A. In response to data request STF 2.23, SWTC identified $521 for Charitable Contributions in the test year. As shown on Schedule C-3, the amounts of $521 recorded by SWTC for such Charitable Contributions are being removed from operating expenses. It is not appropriate to include Charitable Contributions in the cost of service for a public utility because donations are not necessary for the provision of utility service.

C-4 Lobbying in Association Dues

Q. Please explain the adjustment to remove lobbying expense in Association Dues.

A. SWTC pays dues to various industry associations. Some of those associations engage in lobbying activities. The lobbying activities should be charged below-the-line and excluded from the utility's cost of service. During the test year, two of the industry associations to which SWTC paid dues were engaged in lobbying and advocacy activities. As described in SWTC's response to data request STF 2.24, Grand Canyon State Electric Cooperative Association ("GCSECA") estimated that 26 percent of its dues go to lobbying and advocacy activities. The NRECA estimate was 24 percent. Schedule C-4 shows the amounts of dues paid by SWTC to these organizations, calculates the amount included in the test year based on the information provided in response to data request STF 2.24, and excludes from test year operating expenses the portion of such dues that are related to lobbying and advocacy activities. As shown on Schedule C-4, test year expense is reduced by $23,240 for the portion of GCSECA dues related to lobbying and by $5,930 for NRECA dues related to lobbying, for a total reduction of $29,170.

C-5 Gain on Sale of Utility Property

Q. Did SWTC recently sell some of its utility property?

A. Yes. As described in the response to data request STF 2.54:

> *In 2005, SWTC sold 5.7 miles of the Davis-Rivera 69 kV line to Mohave Electric Cooperative for a little less than $643,000. SWTC recorded a gain on its books in 2005 of $243,000. In 2009, SWTC sold the remaining 3.2 miles of the Davis-Rivera 69 kV line to Mohave Electric Cooperative for $370,000 and recorded a gain on its books in 2009 of about $220,000. Both gains were recorded in the year that the sale was made.*

Q. How are gains on the sale of utility property typically treated for ratemaking purposes by the Commission?

A. For investor-owned utilities, gains on the sale of utility property have typically been treated for ratemaking purposes by sharing such gains 50/50 between the utility's shareholders and ratepayers, with the ratepayers' share of the gains being normalized over a representative period, such as the period used in the rate case for the normalization of the utility's rate case cost.

Q. Can you provide an illustrative example of where that was done?

A. Yes. Such treatment was applied in Southwest Gas Corporation's ("SWG") last rate case, Docket No. G-01551A-07-0504. My direct testimony filed in that case on behalf of Staff discussed the ratemaking treatment of a gain realized by SWG on the sale of utility property. In that case, SWG had responded to a Staff data request describing the nature of the gain and the typical ratemaking treatment. As described in SWG's response to Staff data request STF-1-96[11] in Docket No. G-01551A-07-0504:

> *In September 2007, the Company sold land and structures in Cave Creek, Arizona, which had been included in gas plant in service. The property acquired in the BMG acquisition had a net book value of $1,025,676 at the time of the sale. The land had a net book value of $502,044 and the structure had a net book value of $523,632. The net proceeds of the 2007 sale were $1,433,107, resulting in a gain of $418,196. This gain was recorded in Account 2530, "Other Deferred Credits". ... Historically, the Commission has amortized, over a multiple-year period, the gain or loss on Southwest's disposition of property previously included in rate base, 50 percent above-the-line to ratepayers and 50 percent below-the-line to shareholders.*

[11] A copy of that referenced SWG response is included in Attachment RCS-3 to my testimony in the current SWTC rate case.

Q. How was the gain realized by SWG treated for ratemaking purposes in that case?

A. The gain was shared between SWG's ratepayers and shareholders using a 50/50 sharing ratio. A normalization period of three years was used to determine the annual amount to be recognized in the ratemaking process. Three years was the same period that Southwest had used for normalizing its proposed allowance for rate case costs in that case.

Q. How should the gains realized by SWTC be treated for ratemaking purposes in the current SWTC rate case?

A. The gain realized by SWTC on the sale of utility property should be recognized for ratemaking purposes, since ratepayers have paid for the assets. Because SWTC is a member-owned cooperative and not an investor-owned utility, the full amount of the gain should benefit ratepayers. The gain should be normalized over a three-year period. Similar to the period used in the SWG rate case cited above, three years is the same period that SWTC proposes using for normalizing its proposed allowance for rate case costs in the current case.

Q. What adjustment does this produce?

A. As shown on Schedule C-5, normalization of the gain over the recommended three-year period increases SWTC's net income by $73,300.

Q. Does this conclude your Direct testimony?

A. Yes, it does.

Attachment RCS-1
QUALIFICATIONS OF RALPH C. SMITH

Accomplishments
Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a Certified Rate of Return Analyst, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed were the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)

80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933*	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC (Subfile A)	Toledo Edison Company(Ohio PUC)
82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company – Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)
U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company – Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R**	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)

R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA &76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA & 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179**	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-85646001 & ER-85647001	New England Power Company (FERC)
850782-EI & 850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU & 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC))
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069**	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102 T E-1032-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities Company, Kingman Telephone Division (Arizona CC)
89-0033	Illinois Bell Telephone Company (Illinois CC)
U-89-2688-T	Puget Sound Power & Light Company (Washington UTC))
R-891364	Philadelphia Electric Company (Pennsylvania PUC)
F.C. 889	Potomac Electric Power Company (District of Columbia PSC)
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf+ Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)
6531	Hawaiian Electric Company (Hawaii PUCs)
R0901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)

R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174***	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102 & U-1551-89-103	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
Docket No. 6998	Hawaiian Electric Company (Hawaii PUC)
TC-91-040A and TC-91-040B	Intrastate Access Charge Methodology, Pool and Rates Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
9911030-WS & 911-67-WS	General Development Utilities - Port Malabar and West Coast Divisions (Florida PSC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314 & M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 & U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)
UE-92-1262	Puget Sound Power and Light Company (Washington UTC))
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60**	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50**	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 & U-1032-93-193	Citizens Utilities Company - Gas Division (Arizona Corporation Commission)
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/ E-1032-93-169	Sale of Assets CC&N from Contel of the West, Inc. to Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR*	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)
94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed Staff Investigation	Citizens Utility Company - Arizona Telephone Operations (Arizona Corporation Commission)
E-1032-95-473	Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433	Citizens Utility Co. - Arizona Electric Division (Arizona CC)
	Collaborative Ratemaking Process Columbia Gas of Pennsylvania (Pennsylvania PUC)

GR-96-285	Missouri Gas Energy (Missouri PSC)
94-10-45	Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al.	California Utilities' Applications to Identify Sunk Costs of Non-Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324	Bell Atlantic - Delaware, Inc. (Delaware PSC)
96-08-070, et al.	Pacific Gas & Electric Co., Southern California Edison Co. and San Diego Gas & Electric Company (California PUC)
97-05-12	Connecticut Light & Power (Connecticut PUC)
R-00973953	Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65	Application of Delmarva Power &Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705	Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067	Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed Staff Investigation	Delaware - Estimate Impact of Universal Services Issues (Delaware PSC)
PU-314-97-12	US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351	Consumer Illinois Water Company (Illinois CC)
97-8001	Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I	San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U	Georgia Power Company Rate Case (Georgia PUC)
97-12-020 - Phase I	Pacific Gas & Electric Company (California PUC)
U-98-56, U-98-60, U-98-65, U-98-67	Investigation of 1998 Intrastate Access charge filings (Alaska PUC)
(U-99-66, U-99-65, U-99-56, U-99-52)	Investigation of 1999 Intrastate Access Charge filing (Alaska PUC)
Phase II of 97-SCCC-149-GIT	Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465	US West Universal Service Cost Model (North Dakota PSC)
Non-docketed Assistance	Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC)
Contract Dispute	City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed Project	Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)
E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)

Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E-3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No. 98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company – FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)
Non-Docketed	Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No. 99-01-016, Phase I	Post-Transition Ratemaking Mechanisms for the Electric Industry Restructuring (US Department of Navy)
99-02-05	Connecticut Light & Power (Connecticut OCC)
01-05-19-RE03	Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)
97-12-020 Phase II	Pacific Gas & Electric Company Rate Case (California PUC)
01-10-10	United Illuminating Company (Connecticut OCC)
13711-U	Georgia Power FCR (Georgia PSC)
02-001	Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413 426, 427, 430, 421/ CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)

U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)
Docket No. E-01345A-06-009	Arizona Public Service Company (Arizona Corporation Commission)
Case No. 05-1278-E-PC-PW-42T	Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power (West Virginia PSC)
Docket No. 04-0113	Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347	Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC	Cincinnati Gas & Electric Company (PUC of Ohio)
Docket No. 21229-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U	Georgia Power Company (Georgia PSC)
Docket No. 03-07-01RE01	Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E	South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02	Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363, Phases I&II	Rockland Electric Company (NJ BPU)
Docket No. U-00-88	ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM, Docket No. U-02-075	Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT-1048-AUD	South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT-607-KSF	Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT-060-AUD	Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747	Northland Telephone Company of Maine (Maine PUC)
Docket No. 2003-34	Sidney Telephone Company (Maine PUC)
Docket No. 2003-35	Maine Telephone Company (Maine PUC)
Docket No. 2003-36	China Telephone Company (Maine PUC)
Docket No. 2003-37	Standish Telephone Company (Maine PUC)
Docket Nos. U-04-022, U-04-023	Anchorage Water and Wastewater Utility (Regulatory Commission of Alaska)
Case 05-116-U/06-055-U	Entergy Arkansas, Inc. EFC (Arkansas Public Service Commission)
Case 04-137-U	Southwest Power Pool RTO (Arkansas Public Service Commission)
Case No. 7109/7160	Vermont Gas Systems (Department of Public Service)
Case No. ER-2006-0315	Empire District Electric Company (Missouri PSC)
Case No. ER-2006-0314	Kansas City Power & Light Company (Missouri PSC)
Docket No. U-05-043,44	Golden Heart Utilities/College Park Utilities (Regulatory Commission of Alaska)
A-122250F5000	Equitable Resources, Inc. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
E-01345A-05-0816	Arizona Public Service Company (Arizona CC)
Docket No. 05-304	Delmarva Power & Light Company (Delaware PSC)
05-806-EL-UNC	Cincinnati Gas & Electric Company (Ohio PUC)
U-06-45	Anchorage Water Utility (Regulatory Commission of Alaska)

03-93-EL-ATA, 06-1068-EL-UNC	Duke Energy Ohio (Ohio PUC)
PUE-2006-00065	Appalachian Power Company (Virginia Corporation Commission)
G-04204A-06-0463 et. al	UNS Gas, Inc. (Arizona CC)
Docket No. 2006-0386	Hawaiian Electric Company, Inc (Hawaii PUC)
E-01933A-07-0402	Tucson Electric Power Company (Arizona CC)
G-01551A-07-0504	Southwest Gas Corporation (Arizona CC)
Docket No.UE-072300	Puget Sound Energy, Inc. (Washington UTC)
PUE-2008-00009	Virginia-American Water Company (Virginia SCC)
PUE-2008-00046	Appalachian Power Company (Virginia SCC)
E-01345A-08-0172	Arizona Public Service Company (Arizona CC)
A-2008-2063737	Babcock & Brown Infrastructure Fund North America, LP. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
08-1783-G-42T	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC)
08-1761-G-PC	Hope Gas, Inc., dba Dominion Hope, Dominion Resources, Inc., and Peoples Hope Gas Companies (West Virginia PSC)
Docket No. 2008-0085	Hawaiian Electric Company, Inc. (Hawaii PUC)
Docket No. 2008-0266	Young Brothers, Limited (Hawaii PUC)
G-04024A-08-0571	UNS Gas, Inc. (Arizona CC)
Docket No. 09-29	Tidewater Utilities, Inc. (Delaware PSC)
Docket No. UE-090704	Puget Sound Energy, Inc. (Washington UTC)
Docket No. 09-0319	Illinois-American Water Company (Illinois Commerce Commission)
Docket No. 09-414	Delmarva Power & Light Company (Delaware PSC)
R-2009-2132019	Aqua Pennsylvania, Inc. (Pennsylvania PUC)
Docket Nos. U-09-069, U-09-070	ENSTAR Natural Gas Company (Regulatory Commission of Alaska)
Docket Nos. U-04-023, U-04-024	Anchorage Water and Wastewater Utility - Remand (Regulatory Commission of Alaska)
W-01303A-09-0343 & SW-01303A-09-0343	Arizona-American Water Company
09-0872-EL-FAC	Financial Audits of the FAC of the Columbus Southern Power Company and the Ohio Power Company (Ohio PUC)

Southwest Transmission Cooperative, Inc.
Docket No. E-104100A-09-0496
Attachment RCS-2
Staff Accounting Schedules
Accompanying the Direct Testimony of Ralph C. Smith

Southwest Transmission Cooperative, Inc.
Computation of Increase in Gross Revenue Requirement

Docket No. E-04100A-09-0496
Schedule A
Page 1 of 2

Test Year Ended March 31, 2009

			Per SWTC			Per Staff	
Line No.	Description	Reference	Test Year Actual	Test Year Adjusted	Proposed Rates	Test Year Adjusted	Proposed Rates
			(A)	(B)	(C)	(D)	(E)
	I. Net Income Summary						
1	Gross Revenue		$ 37,698,829	$ 27,777,227	$ 35,430,648	$ 27,777,227	$ 35,426,050
2	Operating Expenses		$ 28,412,184	$ 27,947,057	$ 27,947,057	$ 27,116,831	$ 27,116,831
3	Electric Operating Income (Margins)	L1 - L2	$ 9,286,645	$ (169,830)	$ 7,483,591	$ 660,396	$ 8,309,219
4	Total Interest & Other Deductions		$ 4,659,832	$ 4,761,153	$ 4,761,153	$ 4,761,153	$ 4,761,153
5	Total Other Non Operating Income		$ 100,898	$ 100,898	$ 100,898	$ 174,198	$ 174,198
6	Extraordinary Items		$ -	$ -	$ -	$ -	$ -
7	Net Income (Margins)	L3-L4+L5&6	$ 4,727,711	$ (4,830,085)	$ 2,823,336	$ (3,926,559)	$ 3,722,264
	II. Times Total Interest Earned (TIER)						
8	Net Income Margins (Loss)	Line 7	$ 4,727,711	$ (4,830,085)	$ 2,823,336	$ (3,926,559)	$ 3,722,264
9	Interest on Long Term Debt	Note A	$ 4,898,007	$ 4,999,328	$ 4,999,328	$ 4,999,328	$ 4,999,328
10	Sum of Margin and Interest on LTD	L8 + L9	$ 9,625,718	$ 169,243	$ 7,822,664	$ 1,072,769	$ 8,721,592
11	Interest on Long Term Debt	L9	$ 4,898,007	$ 4,999,328	$ 4,999,328	$ 4,999,328	$ 4,999,328
12	TIER Achieved	L10 / L11	1.965232	0.033853	1.564743	0.214583	1.744553
13	Required TIER	Note B	1.564743	1.564743	1.564743	1.744553	1.744553
14	Increased (Decreased) Coverage Needed	L13 - L12	-0.400488	1.530890	0.000000	1.529970	0.000000
15	Increased (Decreased) Revenue Needed	L14 x L9	$ (1,961,595)	$ 7,653,421	$ -	$ 7,648,823	$ -
	III. Debt Service Coverage (DSC)						
16	Net Income Margins (Loss)	Line 7		$ (4,830,085)	$ 2,823,336	$ (3,926,559)	$ 3,722,264
17	Interest on Long Term Debt	L9		$ 4,999,328	$ 4,999,328	$ 4,999,328	$ 4,999,328
18	Depreciation & Amortization	Sch C		$ 4,312,850	$ 4,312,850	$ 4,312,850	$ 4,312,850
19	Sum of Above			$ 4,482,093	$ 12,135,514	$ 5,385,619	$ 13,034,442
20	Interest on Long Term Debt	Line 9		$ 4,999,328	$ 4,999,328	$ 4,999,328	$ 4,999,328
21	Principal Payments	Note C		$ 3,989,942	$ 3,989,942	$ 3,989,942	$ 3,989,942
22	Debt Service			$ 8,989,270	$ 8,989,270	$ 8,989,270	$ 8,989,270
23	DSC Achieved	L19 / L22		0.4986	1.3500	0.5991	1.4500
24	Required DSC	Note B		1.3500	1.3500	1.4500	1.4500
25	Increased Coverage Needed			0.8513952	-	0.85088361	-
26	Increased (Decreased) Revenue Needed			$ 7,653,422	$ -	$ 7,648,823	$ -
27	Revenue Increase Proposed vs TY Adjusted	Line 1 difference			$ 7,653,421		$ 7,648,823
					Col.C - Col.B		Col.E - Col.D
	IV. Return on Fair Value Rate Base						
28	Net Income	L7			$ 2,823,336		$ 3,722,264
29	Interest on Long Term Debt	L9			$ 4,999,328		$ 4,999,328
30	Sum of Net Income and Interest on LTD				$ 7,822,664		$ 8,721,592
31	Rate Base (Original Cost and FVRB are Same)	Sch B			$ 79,668,372		$ 79,146,274
32	Return on Fair Value Rate Base	L30 / L31			9.82%		11.02%

Notes and Source
Col.A-C:
L1-7: SWTC Schedule A-2
For Columns B and C, also see Attachment RCS-2, Schedule C
Col.D:
L1-7: Schedule C, Col. C
Col.E:
L1-7: Schedule C, Col. E
Notes A-C:
A SWTC from SWTC Excel file; Staff from Schedule C, line 11
B Derived from SWTC Excel file for SWTC Schedule A-2; Staff per witness Vickroy
For SWTC also see Company Schedules A-2 and F-4
C SWTC Excel file detail for SWTC Schedule A-2

Southwest Transmission Cooperative, Inc.
Components of Increase in Gross Revenue Requirement

Docket No. E-04100A-09-0496
Schedule A
Page 2 of 2

Test Year Ended March 31, 2009

Line No.	Description	SWTC Adj. No.	Impact on Income (A)	Impact on Revenue Requirement (B)
	I. SWTC's Proposed Pro Forma Adjustments			
1	AEPCO City of Mesa P-t-P Termination Adjustment	1	$ (501,120)	$ 501,120
2	Thatcher Network Conversion Adjustment	2	$ (213,696)	$ 213,696
3	Additional Network Services Adjustment	3	$ (702,969)	$ 702,969
4	TEP Non- Firm Point-to-Point Adjustment	4	$ (647,946)	$ 647,946
5	WALC Topock P-t-P Termination Adjustment	5	$ (326,656)	$ 326,656
6	WALC Topock IPP Termination Adjustment	6	$ (480,000)	$ 480,000
7	MWE Morenci P-t-P Termination Adjustment	7	$ (1,190,955)	$ 1,190,955
8	AEPCO SRP P-t-P Termination Adjustment	8	$ (4,454,400)	$ 4,454,400
9	Payroll and RSI Increases Adjustment	9	$ (858,733)	$ 858,733
10	Amortization of Rate Case Exp. Adjustment	10	$ (80,000)	$ 80,000
11	Annualize Interest on LTD Adjustment	11	$ (101,321)	$ 101,321
12	Totals		$ (9,557,796)	$ 9,557,796
	II. Components of SWTC's Requested Revenue Increase			
13	Increase in Revenue Requirement from SWTC Pro Forma Adjustments			$ 9,557,796
14	Test Year Actual Income		$ 4,727,711	$ 4,727,711
15	Adjusted Test Year Income with SWTC's Pro Forma Adjustments		$ (4,830,085)	$ 4,830,085
16	Increase in Revenue Requirement from SWTC Income Deficiency			$ 4,830,085
17	Margin Requirement requested by SWTC			$ 2,823,336
18	Revenue Increase Requested by SWTC - Calculated per Above			$ 7,653,421
19	Difference			$ -
20	Revenue Increase Requested by SWTC per Schedule A, page 1			$ 7,653,421
	III. Staff's Proposed Adjustments	Staff Adj. No.		
21	Work Force Reduction	C-1	$ 730,300	$ (730,300)
22	Incentive Compensation	C-2	$ 70,235	$ (70,235)
23	Donations	C-3	$ 521	$ (521)
24	Lobbying Expense in Association Dues	C-4	$ 29,170	$ (29,170)
25	Gain on Sale of Utility Property	C-5	$ 73,300	$ (73,300)
26	Totals		$ 903,526	$ (903,526)
27	Adjusted Test Year Income with Staff's Pro Forma Adjustments		$ (3,926,559)	L15 + L26
	IV. Components of Staff's Recommended Revenue Increase			
28	Increase in Revenue Requirement from Staff Income Deficiency		Line 27	$ 3,926,559
29	Margin Requirement Recommended by Staff		Schedule A, p.1	$ 3,722,264
30	Revenue Increase Recommended by Staff - Calculated per Above			$ 7,648,823
31	Difference			$ -
32	Revenue Increase Recommended by Staff per Schedule A, page 1			$ 7,648,823

Notes and Source

SWTC Schedule C-2 and Staff Schedule A, page 1

Line 17, Margin on LTD Interest Requested by SWTC	LTD Interest	TIER	Margin
SWTC Adjusted Pro Forma Amount	$ 4,999,328	1.564743101	$ 2,823,336
Test Year Recorded Amount	$ 4,898,007		
Increase (Decrease) in Interest on Long Term Debt	$ 101,321		

Southwest Transmission Cooperative, Inc.
Original Cost Adjusted Rate Base

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule B
Page 1 of 1

Line No.	Description	Original Cost As Adjusted by SWTC (A)	Original Cost Staff Adjustments (B)	Original Cost As Adjusted by Staff (C)
1	Gross Utility Plant in Service	$ 146,553,370	$ (4,413)	$ 146,548,957
2	Less: Accumulated Depreciation	$ (69,091,935)	$ (140,137)	$ (69,232,072)
3	Net Utility Plant in Service	$ 77,461,435	$ (144,550)	$ 77,316,885
4	Customer Advances for Construction	$ -	$ -	$ -
5	Contributions in Aid of Construction	$ -	$ -	$ -
6	Allowance for Working Capital - M&S	$ 1,829,723	$ (334)	$ 1,829,389
7	Plant Held for Future Use	$ 377,214	$ (377,214)	$ -
8	Deferred Debits	$ -	$ -	$ -
9	Total Rate Base	$ 79,668,372	$ (522,098)	$ 79,146,274

Notes and Source
Col. A: Southwest Transmission Cooperative, Inc. filing, Schedule B-1

Southwest Transmission Cooperative, Inc.
Summary of Rate Base Adjustments

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule B.1
Page 1 of 1

Line No.	Description	Staff Adjustments	Plant Held for Future Use	Acquisition Adjustment	Accumulated Depreciation - Retirement Work in Progress	Materials and Supplies
			B-1	B-2	B-3	B-4
1	Gross Utility Plant in Service	$ (4,413)		$ (4,413)		
2	Less: Accumulated Depreciation	$ (140,137)			$ (140,137)	
3	Net Utility Plant in Service	$ (144,550)	$ -	$ (4,413)	$ (140,137)	$ -
4	Customer Advances for Construction	$ -				
5	Contributions in Aid of Construction	$ -				
6	Allowance for Working Capital - M&S	$ (334)				$ (334)
7	Plant Held for Future Use	$ (377,214)	$ (377,214)			
8	Deferred Debits	$ -				
9	Total Rate Base	$ (522,098)	$ (377,214)	$ (4,413)	$ (140,137)	$ (334)

Southwest Transmission Cooperative, Inc.
Adjusted Net Operating Income

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule C
Page 1 of 1

Line No.	Description	As Adjusted by SWTC (A)	Staff Adjustments (B)	As Adjusted by Staff (C)	Staff Proposed Changes (D)	Staff Recommended (E)
	Operating Revenues					
1	Network Transmission Service	$ 19,299,096	$ -	$ 19,299,096	$ 7,421,653	$ 26,720,749
2	Point-To-Point	$ 3,213,362	$ -	$ 3,213,362	$ 227,170	$ 3,440,532
3	Total Electric Revenue	$ 22,512,458	$ -	$ 22,512,458	$ 7,648,823	$ 30,161,281
4	Other Operating Revenue	$ 5,264,769	$ -	$ 5,264,769		$ 5,264,769
5	**Total Operating Revenue**	$ 27,777,227	$ -	$ 27,777,227	$ 7,648,823	$ 35,426,050
	Operating Expenses					
6	Operations & Maintenance	$ 21,950,342	$ (830,226)	$ 21,120,116		$ 21,120,116
7	Depreciation & Amortization	$ 4,312,850	$ -	$ 4,312,850		$ 4,312,850
8	Other Taxes	$ 1,683,865	$ -	$ 1,683,865		$ 1,683,865
9	**Total Operating Expenses**	$ 27,947,057	$ (830,226)	$ 27,116,831	$ -	$ 27,116,831
10	**Operating Income (Margins)**	$ (169,830)	$ 830,226	$ 660,396	$ 7,648,823	$ 8,309,219
	Interest & Other Deductions					
11	Long-Term Debt	$ 4,999,328	$ -	$ 4,999,328		$ 4,999,328
12	Interest Charged To Constr	$ (488,105)	$ -	$ (488,105)		$ (488,105)
13	Other Interest Expense	$ 249,930	$ -	$ 249,930		$ 249,930
14	**Total Interest Expense**	$ 4,761,153	$ -	$ 4,761,153	$ -	$ 4,761,153
15	**Margin After Interest Expense**	$ (4,930,983)	$ 830,226	$ (4,100,757)	$ 7,648,823	$ 3,548,066
16	**Other Income & Deductions**	$ 100,898	$ 73,300	$ 174,198		$ 174,198
17	**Net Income (Margins)**	$ (4,830,085)	$ 903,526	$ (3,926,559)	$ 7,648,823	$ 3,722,264

Notes and Source
Col. A: Southwest Transmission Cooperative, Inc. filing, Schedule C-1
Col. B: Staff Schedule C.1
Col.C: Cols. A + B
Col. D, line 3: Staff Schedule A, Column D, line 26
Col. D, lines 1 and 2, revenue increase spread in same proportion as SWTC-proposed increase per SWTC Schedule A-1, lines 8 and 9 (to be refined as necessary in Staff's rate design filing):

	Description	Existing Revenues (F)	Revenue Increase (G)	Proportion Of Total Increase (H)	Calculated Percentage Increase (I) = G/F
	Per SWTC:				
18	Network Services	$ 19,299,096	$ 7,426,241	97.03%	38.5%
19	Point-to-Point Services	$ 3,213,362	$ 227,180	2.97%	7.1%
20	Total Electric Revenue	$ 22,512,458	$ 7,653,421	100.00%	34.0%
	Per Staff:				
21	Staff Total Revenue Increase from Schedule A, column D, line 26:			$ 7,648,823	
22	Network Services	$ 19,299,096	$ 7,421,653		38.5%
23	Point-to-Point Services	$ 3,213,362	$ 227,170		7.1%
24	Total Electric Revenue	$ 22,512,458	$ 7,648,823		34.0%

Col.E: Cols. C + D
Col.F: Lines 1-3 above in columns A and C, respectively
Col.G: SWTC Schedule A-1, lines 8 and 9
Col.H: Col.G amounts on lines 18 and 19 divided by total amount on line 20

Southwest Transmission Cooperative, Inc.
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule C.1
Page 1 of 1

Line No.	Description	Staff Adjustments	Work Force Reduction	Incentive Compensation	Donations	Lobbying Expense in Association Dues	Gain on Sale of Utility Property
			C-1	C-2	C-3	C-4	C-5
	Operating Revenues						
1	Network Transmission Service	$ -					
2	Point-To -Point	$ -					
3	Total Electric Revenue	$ -	$ -	$ -	$ -	$ -	$ -
4	Other Operating Revenue	$ -					
5	Total Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses:						
6	Operations & Maintenance	$ (830,226)	$ (730,300)	$ (70,235)	$ (521)	$ (29,170)	
7	Depreciation & Amortization	$ -					
8	Other Taxes	$ -					
9	Total Operating Expenses	$ (830,226)	$ (730,300)	$ (70,235)	$ (521)	$ (29,170)	$ -
10	Operating Income (Margins)	$ 830,226	$ 730,300	$ 70,235	$ 521	$ 29,170	$ -
	Interest & Other Deductions:						
11	Long-Term Debt	$ -					
12	Interest Charged To Constr	$ -					
13	Other Interest Expense	$ -					
14	Total Interest Expense	$ -	$ -	$ -	$ -	$ -	$ -
15	Margin After Interest Expense	$ 830,226	$ 730,300	$ 70,235	$ 521	$ 29,170	$ -
16	Other Income & Deductions	$ 73,300					$ 73,300
17	Net Income (Margins)	$ 903,526	$ 730,300	$ 70,235	$ 521	$ 29,170	$ 73,300

Southwest Transmission Cooperative, Inc.
Capital Structure & Cost Rates

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule D
Page 1 of 1

Line No.	Capital Source	Capitalization Amount (A)	Capitalization Percent (B)	Capitalization Debt Only Percent (C)	Cost Rate (D)	Weighted Average Cost of Capital (E)	Annualized Cost With Short Term Debt (F)	Annualized Cost Without Short Term Debt (G)
	I. SWTC Proposed							
1	Short-Term Debt	$ 2,000,000	1.76%	1.94%	4.250%	0.082%	$ 85,000	
2	Long-Term Debt	$ 101,120,306	89.10%	98.06%	4.944%	4.848%	$ 4,999,388	$ 4,999,388
3	Margins and Equity	$ 10,377,088	9.14%			0.000%	$ -	$ -
4	Total Capital	$ 113,497,394	100.00%	100.00%		4.930%	$ 5,084,388	$ 4,999,388
	II. Staff Proposed							
5	Short-Term Debt	$ 2,000,000	1.76%	1.94%	4.250%	0.082%	$ 85,000	
6	Long-Term Debt	$ 101,120,306	89.10%	98.06%	4.944%	4.848%	$ 4,999,388	$ 4,999,388
7	Margins and Equity	$ 10,377,088	9.14%			0.000%	$ -	$ -
8	Total Capital	$ 113,497,394	100.00%	100.00%		4.930%	$ 5,084,388	$ 4,999,388
9	Difference					0.00%		$ -

Notes and Source

Lines 1-4 taken from Southwest Transmission Cooperative, Inc. filing, Schedule D-1, Revised Schedule D-2, and SWTC Schedule A-3, actual test year, 3/31/2009

Lines 5-8: SWTC Schedule A-3, actual test year, 3/31/2009, confirmed with Staff witness Randall Vickroy

Southwest Transmission Cooperative, Inc.
Plant Held for Future Use

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule B-1
Page 1 of 1

Line No.	Description	Amount	Reference
1	Plant Held for Future Use	$ (377,214)	A&B

Notes and Source
A: SWTC Filing, Schedule B-1, Line 7 and Schedule E-5, page 2, Line 40
B: SWTC's response to STF 2.78

Southwest Transmission Cooperative, Inc.
Acquisition Adjustment

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule B-2
Page 1 of 1

Line No.	Description	Amount	Reference
1	Remove Acquisition Adjustment from rate base	$ (4,413)	A&B

Notes and Source

A: SWTC Filing, Schedule E-5, page 1, line 2, and SWTC Schedules B-2 and B-1.
B: Testimony of Staff witness Ralph Smith

Southwest Transmission Cooperative, Inc.
Accumulated Depreciation - Retirement Work in Progress

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule B-3
Page 1 of 1

Line No.	Description	Amount	Reference
1	Adjust Accumulated Depreciation to remove Retirement Work in Progress from rate base	$ (140,137)	A&B

Notes and Source

A: SWTC Filing, Schedule E-5, page 2 of 4 and Schedule B-2
B: Testimony of Staff witness Ralph Smith

Southwest Transmission Cooperative, Inc.
Materials and Supplies

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule B-4
Page 1 of 1

Line No.	Month	SWTC Filed Month-End Balances (A)	SWTC Filed Monthly Average (B)	SWTC Corrected Month-End Balances (C)	SWTC Corrected Monthly Average (D)	Correction (E)
1	March (Prior Yr)	$ 1,808,993		$ 1,808,993		
2	April	$ 1,734,433	$ 1,771,713	$ 1,734,433	$ 1,771,713	
3	May	$ 1,676,776	$ 1,705,605	$ 1,676,776	$ 1,705,605	
4	June	$ 1,757,685	$ 1,717,231	$ 1,757,685	$ 1,717,231	
5	July	$ 1,759,197	$ 1,758,441	$ 1,759,197	$ 1,758,441	
6	August	$ 1,778,090	$ 1,768,644	$ 1,778,090	$ 1,768,644	
7	September	$ 1,786,303	$ 1,782,197	$ 1,786,303	$ 1,782,197	
8	October	$ 1,796,459	$ 1,791,381	$ 1,792,459	$ 1,789,381	
9	November	$ 1,752,734	$ 1,774,597	$ 1,752,734	$ 1,772,597	
10	December	$ 2,020,194	$ 1,886,464	$ 2,020,194	$ 1,886,464	
11	January	$ 2,007,254	$ 2,013,724	$ 2,007,254	$ 2,013,724	
12	February	$ 1,990,694	$ 1,998,974	$ 1,990,694	$ 1,998,974	
13	March	$ 1,984,714	$ 1,987,704	$ 1,984,714	$ 1,987,704	
14	Total	$ 23,853,526	$ 21,956,673	$ 23,849,526	$ 21,952,673	
15	12-Month Average		$ 1,829,723		$ 1,829,389	$ (334)

Notes and Source

Cols.A and B: SWTC filing, Schedule B-5, page 3

Col.C, line 8: SWTC response to STF 2.7 corrects the amount for October 2008

Southwest Transmission Cooperative, Inc.
Work Force Reduction

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule C-1
Page 1 of 1

Line No.	Description	Amount	Reference
1	Payroll	$ (521,700)	STF 2.31
2	Benefits	$ (208,600)	STF 2.31
3	Net Decrease in Labor Expense	$ (730,300)	

Notes and Source
SWTC's supplemental response to data request STF 2.31

Southwest Transmission Cooperative, Inc.
Incentive Compensation Expense

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule C-2

Line No.	Description	Amount	Reference
1	Incentive Compensation Expense	$ (70,235)	See below

Notes and Source
SWTC's response to data requests STF 2.44

Southwest Transmission Cooperative, Inc.
Donations

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule C-3
Page 1 of 1

Line No.	Description	Account	Amount	Reference
	Remove Donations from Test Year			
1	Our Energy - Our Future	5230000	$ 371	Note A
2	Tucson Wildlife Center	5400110	$ 150	Note A
3	Total		$ 521	
4	Adjustment to Remove Donations		$ (521)	

Notes and Source

[A] SWTC's response to STF 2.23

Southwest Transmission Cooperative, Inc.
Lobbying Expense in Association Dues

Test Year Ended March 31, 2009

Line No.	Description	Account	Membership Dues Paid To Lobbying Organizations	Date Paid	Months of Expense in Test Year	Amount In Test Year	Percent Lobbying	Adjustment
		(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Grand Canyon State Electric Cooperative Association ("GCSECA")	5910200	$ 80,750	Jan-08	9	$ 60,563		
2		5400930	$ 115,286	Jan-09	3	$ 28,822		
3	Subtotal GCSECA				12	$ 89,385	26%	$ (23,240)
4	National Rural Electric Cooperative ("NRECA")	5910200	$ 23,437	Feb-08	10	$ 19,531		
5		5400930	$ 31,063	Feb-09	2	$ 5,177		
6	Subtotal NRECA				12	$ 24,708	24%	$ (5,930)
7	Total					$ 114,093		$ (29,170)

Notes and Source
SWTC Response to STF 2.24

Southwest Transmission Cooperative, Inc.
Gain on Sale of Utility Property

Test Year Ended March 31, 2009

Docket No. E-04100A-09-0496
Schedule C-5
Page 1 of 1

Line No.	Description	Account	Amount	Reference
1	Gain on Sale of Utility Property	6130500	$ 219,800	A
2	Ratemaking recognition percent		100.0%	B
3	Amount of gain to recognize for ratemaking purposes		$ 219,800	
4	Normalization period, in years		3	C
5	Adjustment to Net Income for gain sharing		$ 73,300	

Notes and Source

A SWTC response to STF 2.54
SWTC response to STF 2.10, Account 613500, Gains from Dispositions

B In rate cases involving investor-owned utilities that have had gains on the sale of utility property, the Commission has applied a 50/50 sharing between shareholders and ratepayers. Because SWTC is a member-owned cooperative, not an investor-owned utility, the full benefit of the gain should be recognized for ratemaking purposes, normalized over an appropriate period.

C Same period used by SWTC for normalization of rate case cost, see SWTC response to STF 2.51

Southwest Transmission Cooperative, Inc.
Docket No. E-01400A-09-0496
Attachment RCS-3
Copies of SWTC's Responses to Data Requests and Documents Referenced in the Direct Testimony and Schedules of Ralph C. Smith

****SWTC Confidential Information has been Redacted****

Data Request/ Document	Subject	Confidential	No. of Pages	Page No.
STF 2.78	Property Held for Future Use	No	2	2 - 3
STF 2.7	Materials and Supplies correction to October 2008 balance	No	7	4 - 10
STF 2.31	Workforce Reduction	Yes	5	11 - 15
STF 2.30	Incentive Compensation plans	No	15	16 - 30
STF 2.44	Incentive Compensation expense in test year	No	1	31
STF 2.23	Contributions made in test year	No	2	32 - 33
STF 2.24	Lobbying expenses included in Association dues	No	2	34 - 35
	Data Request response to STF-1-96 in the Southwest Gas Rate Case, Docket No. G-01551A-07-0504	No	3	36 - 38
STF 2.54	Gain on Sale of Property - Davis-Rivera 69kV line	No	1	39
STF 2.10	Gains from dispositions - recognition of benefit	No	2	40 - 41
STF 2.51	Rate Case expense amortization	No	1	42
	Total Pages Including this Page		42	

**SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
April 23, 2010**

STF 2.78 Refer to Schedule B-1. Please provide a detailed itemization of the following item included in the Company's proposed rate base:

a. Line 7, plant held for future use. Identify, quantify and describe each component of the PHFFU, including when it was originally purchased, the purchase cost and the planned in service date.

Respondent: Melanie Pearce, Director of Financial Services

Response: Please see attached spreadsheet.

STF 2.78

Southwest Transmission Power Cooperative
Plant Held for Future Use

Asset	Year	Capitalized on	Asset description	Acct	Additions
105000000000	1999	12/31/1999	Land - Oro Valley	1001445	$ 177,476.73
105000000001	1999	12/31/1999	Land - Oro Valley	1001445	199,737.74
					$ 377,214.47

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 17, 2010

Rate Base

STF 2.7 Refer to Schedule B-5. M&S and Prepayments.

a. Please provide the monthly amounts of M&S for the 60 months ending December 31, 2009;
b. Please provide the monthly amounts of Fuel Stock for the 60 months ending December 31, 2009;
c. Please provide the quantity of fuel for each type of fuel for each month for the 60 months ending December 31, 2009;
d. Please also provide the monthly amounts of Deferred Credits by account for the 60 months ending December 31, 2009.

Respondent: Melanie Pearce, Director of Financial Operations

Response:

a. *See* the attached materials. Also note that an error was discovered in the filing for the month of October 2008. The filing contained $1,796,459. The figure should have been $1,792,459 as shown on the attachment.

b. N/A

c. N/A

d. *See* the attached document.

STF 2.7a

Account Number	1500000	Materials & Supplies	
To	1630000	Stores Expense Undis	
CompanyCode	SWTC	Southwest Transmission	
F. al Year	2009		
All Documents in Crcy	*	Display Curr.	USD

Period	Debit	Credit	Balance	Cum. balance
Bal.Carryforward				2,020,193.84
1	108,202.08	121,141.66	12,939.58-	2,007,254.26
2	89,386.87	105,947.17	16,560.30-	1,990,693.96
3	90,661.95	96,641.86	5,979.91-	1,984,714.05
4	158,173.58	117,674.30	40,499.28	2,025,213.33
5	88,558.19	81,645.47	6,912.72	2,032,126.05
6	109,379.60	41,780.71	67,598.89	2,099,724.94
7	184,054.59	142,747.26	41,307.33	2,141,032.27
8	67,016.09	72,306.40	5,290.31-	2,135,741.96
9	121,802.80	142,757.78	20,954.98-	2,114,786.98
10	72,682.47	71,952.05	730.42	2,115,517.40
11	90,517.67	79,227.13	11,290.54	2,126,807.94
12	119,383.49	70,723.54	48,659.95	2,175,467.89
13				2,175,467.89
14				2,175,467.89
15				2,175,467.89
16				2,175,467.89
Total	1,299,819.38	1,144,545.33	155,274.05	2,175,467.89

STF 2.7a

Account Number	1500000	Materials & Supplies
To	1630000	Stores Expense Undis
CompanyCode	SWTC	Southwest Transmission
F. al Year	2008	
All Documents in Crcy	*	Display Curr. USD

Period	Debit	Credit	Balance	Cum. balance
Bal.Carryforward				1,772,743.23
1	116,758.20	116,288.08	470.12	1,773,213.35
2	232,658.57	203,864.84	28,793.73	1,802,007.08
3	75,241.38	68,255.45	6,985.93	1,808,993.01
4	61,788.20	136,347.91	74,559.71-	1,734,433.30
5	61,731.89	119,389.44	57,657.55-	1,676,775.75
6	164,398.08	83,489.22	80,908.86	1,757,684.61
7	160,816.65	159,304.57	1,512.08	1,759,196.69
8	232,308.00	213,414.52	18,893.48	1,778,090.17
9	128,252.98	120,040.13	8,212.85	1,786,303.02
10	68,146.52	61,990.99	6,155.53	1,792,458.55
11	19,007.78	58,732.57	39,724.79-	1,752,733.76
12	319,956.87	52,496.79	267,460.08	2,020,193.84
13				2,020,193.84
14				2,020,193.84
15				2,020,193.84
16				2,020,193.84
Total	1,641,065.12	1,393,614.51	247,450.61	2,020,193.84

STF 2.7a

Account Number	1500000	Materials & Supplies	
To	1630000	Stores Expense Undis	
CompanyCode	SWTC	Southwest Transmission	
F…cal Year	2007		
All Documents in Crcy	*	Display Curr.	USD

Period	Debit	Credit	Balance	Cum. balance
Bal.Carryforward				1,468,542.14
1	86,850.00	111,515.65	24,665.65-	1,443,876.49
2	78,596.28	54,276.33	24,319.95	1,468,196.44
3	155,150.33	60,583.16	94,567.17	1,562,763.61
4	120,818.34	44,834.49	75,983.85	1,638,747.46
5	161,276.30	157,589.83	3,686.47	1,642,433.93
6	51,413.28	99,306.12	47,892.84-	1,594,541.09
7	190,327.69	82,283.64	108,044.05	1,702,585.14
8	44,033.39	134,978.60	90,945.21-	1,611,639.93
9	121,206.25	51,075.07	70,131.18	1,681,771.11
10	138,043.12	62,637.03	75,406.09	1,757,177.20
11	66,506.11	31,263.08	35,243.03	1,792,420.23
12	61,604.43	81,281.43	19,677.00-	1,772,743.23
13				1,772,743.23
14				1,772,743.23
15				1,772,743.23
16				1,772,743.23
Total	1,275,825.52	971,624.43	304,201.09	1,772,743.23

STF 2.7a

Account Number	1500000	Materials & Supplies
To	1630000	Stores Expense Undis
CompanyCode	SWTC	Southwest Transmission
F al Year	2006	
All Documents in Crcy	*	Display Curr. USD

Period	Debit	Credit	Balance	Cum. balance
Bal.Carryforward				1,102,760.68
1	32,446.27		32,446.27	1,135,206.95
2	12,517.72	7,636.85	4,880.87	1,140,087.82
3	15,597.40	12,168.75	3,428.65	1,143,516.47
4	4,345.21	13,318.11	8,972.90-	1,134,543.57
5	29,790.27		29,790.27	1,164,333.84
6	34,963.96	10,637.65	24,326.31	1,188,660.15
7	2,389,818.81	2,325,010.55	64,808.26	1,253,468.41
8	172,241.09	119,596.70	52,644.39	1,306,112.80
9	47,284.40	66,726.58	19,442.18-	1,286,670.62
10	175,205.14	111,971.11	63,234.03	1,349,904.65
11	62,336.16	54,685.78	7,650.38	1,357,555.03
12	165,239.65	54,252.54	110,987.11	1,468,542.14
13				1,468,542.14
14				1,468,542.14
15				1,468,542.14
16				1,468,542.14
Total	3,141,786.08	2,776,004.62	365,781.46	1,468,542.14

STF 2.7a

Account Number 1500000 Materials & Supplies
To 1630000 Stores Expense Undis

Company Code SWTC

Fiscal Year 2005

Period	Debit *	Credit *	Balance	Cumulative balance
Bal.Carryforward	0.00	0.00	0.00	
001	0.00	0.00	0.00	941,229.62
002	0.00	0.00	0.00	975,064.65
003	0.00	0.00	0.00	982,833.20
004	0.00	0.00	0.00	1,017,012.73
005	0.00	0.00	0.00	1,018,132.11
006	0.00	0.00	0.00	1,025,307.04
007	0.00	0.00	0.00	1,007,589.02
008	0.00	0.00	0.00	1,007,092.14
009	0.00	0.00	0.00	1,011,745.46
010	0.00	0.00	0.00	1,002,288.78
011	0.00	0.00	0.00	1,002,288.78
012	1,102,760.68	0.00	1,102,760.68	1,102,760.68
013	0.00	0.00	0.00	1,102,760.68
014	0.00	0.00	0.00	1,102,760.68
015	0.00	0.00	0.00	1,102,760.68
016	0.00	0.00	0.00	1,102,760.68
Total	1,102,760.68	0.00	1,102,760.68	1,102,760.68

* Account activity not available due to change in accounting systems.

STF 2.7 d Deferred Credits

	2005	2006	2007	2008	2009
Jan	(453,710.15)	(151,123.97)	(266,204.94)	(279,044.66)	(451,835.45)
Feb	(421,719.62)	(187,940.95)	(400,389.41)	(345,568.70)	(518,578.59)
Mar	(391,091.63)	(148,841.51)	(361,131.97)	(439,031.13)	(784,755.11)
Apr	(359,891.30)	(108,060.22)	(398,473.54)	(456,961.56)	(847,550.03)
May	(329,940.63)	(184,218.71)	(361,551.66)	(490,134.47)	(809,006.63)
Jun	(299,043.72)	(295,120.39)	(423,721.17)	(457,424.97)	(767,767.10)
Jul	(267,600.34)	(353,898.33)	(509,630.71)	(424,307.70)	(727,004.37)
Aug	(232,922.20)	(312,503.85)	(468,359.43)	(565,709.67)	(687,629.10)
Sep	(99,944.24)	(186,839.31)	(1,128,415.93)	(1,182,682.94)	(645,709.10)
Oct	(262,087.80)	(382,420.17)	(389,191.49)	(549,422.32)	(604,515.10)
Nov	(224,918.28)	(344,913.62)	(352,299.06)	(516,188.74)	(567,210.36)
Dec	(188,101.30)	(306,205.88)	(317,558.64)	(484,249.33)	(519,666.14)

**SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
April 23, 2010**

STF 2.31 Employee Count. List the budgeted and, separately, the actual number of employees, by month, for 2008, 2009 and 2010 to date. If the labor force levels are other than full-time equivalent positions, please provide a separate listing stated in terms of full-time equivalent positions.

Respondent: Emery Silvester, Manager of Administrative Services

Response: See attached Employee Count

STF 2.31 Employee Count

SWTC EMPLOYEE COUNT

Month & Year	Budgeted #	Actual #
Jan-08	190	192
1-Feb	190	192
Mar-08	190	190
Apr-08	190	188
May-08	190	188
Jun-08	190	193
Jul-08	190	192
Aug-08	190	191
Sep-08	190	189
Oct-08	190	190
Nov-08	190	192
Dec-08	190	190
Jan-09	193	193
1-Feb	193	192
Mar-09	193	195
Apr-09	193	198
May-09	193	201
Jun-09	193	200
Jul-09	193	199
Aug-09	193	198
Sep-09	193	197
Oct-09	193	197
Nov-09	193	197
Dec-09	193	197

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 17, 2010

STF 2.31 Employee Count. List the budgeted and, separately, the actual number of employees, by month, for 2008, 2009 and 2010 to date. If the labor force levels are other than full-time equivalent positions, please provide a separate listing stated in terms of full-time equivalent positions.

Respondent: Emery Silvester, Manager of Administrative Services

Response: See attached Employee Count.

Supplemental Respondent: Gary E. Pierson, Manager of Financial Services

Supplemental Response: Last month, SWTC, AEPCO and Sierra made a reduction in force of seventeen employees. SWTC calculates that the reduction in force will reduce its labor costs by about $730,000 on an annual basis. *See* the attached confidential schedule detailing the calculation of the reduced labor costs, provided pursuant to the Protective Agreement between SWTC and Staff, dated April 12, 2010. Because the reduction in force occurred more than a year after closure of the test period, SWTC has not submitted this matter as an additional pro forma adjustment in supplemental response to STF 2.35. In that regard, SWTC has also not requested adjustments for various increases in certain post-test year expenses similar to the expense increases identified by AEPCO in its response to STF 3.1, a copy of which is attached hereto. SWTC has also had such plant-in-service, net debt and other expense increases post-test year.

THIS PAGE IS CONFIDENTIAL AND HAS BEEN REDACTED

ARIZONA ELECTRIC POWER COOPERATIVE, INC.
RESPONSES TO THIRD SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-01773A-09-0472
April 14, 2010

STF 3-1 Please identify and explain changes that have occurred for AEPCO from March 31 through December 31, 2009. (a) For each such change, please identify, quantify and explain whether and how it was recognized in AEPCO's A.A.C. R14-2-103.B Schedules. If not recognized in such schedules, please explain why not.

Respondent: Gary Pierson, Manager of Financial Services

Response: We have identified the following material changes which occurred during the period March 31, 2009 through December 31, 2009:

1) Fuel Expense continued to increase due to the new coal contracts.
2) Payroll and pension expense increased due to wage increases and new NRECA pension funding requirements.
3) Capital Leases
    a) SAP software capital lease - $3.25 million
    b) Telephone System Capital Lease - $900,000
4) Plant in Service increased by approximately $23 million. Major items added during the period included:
    a) Plant Boiler Equipment ST2 - $1.5 million
    b) Plant Boiler Equipment ST3 - $7.6 million
    c) Plant Turbogenerator ST2 & ST3 (Primarily Cooling Tower Replacements) - $10.7 million
    d) GT4 Engine Upgrade - $2.5 million
5) AEPCO had additional net loan draws of approximately $15 million during the nine-month period.

Items 1, 2, and 3(a) were recognized as proforma adjustments in AEPCO's rate filing in the "C" schedules and are identified as Coal Price Adjustment, Payroll & Pension Adjustments and SAP Software Amortization Adjustment.

The Capital Lease, Plant in Service and net debt increases were not included as adjustments, because AEPCO believed Staff would not consider such post-test year expenses to be appropriate adjustments.

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
April 23, 2010

STF 2.30 Employee Benefits.

a. List and describe all retirement and incentive programs available to Company officers and employees and to affiliate officers and employees whose cost is charged to SWTC.
b. Specifically identify the cost of any SERP or similar programs directly charged or allocated.
c. State the cost by program, of each retirement program directly charged or allocated.
d. Provide the incentive compensation program financial performance goals for the test year and for calendar years 2008, 2009 and 2010.
e. For each incentive compensation program goal, for each year, show the actual results and how it compared with the target.
f. Provide the incentive compensation program in effect for the test year and, if different, for calendar years 2008, 2009 and 2010.
g. Show in detail how any special recognition awards recorded in the test year were determined.

Respondent: Emery Silvester, Manager of Administrative Services

Response:

a. See Attached 401K Plan SPD and Retirement Plan SPD.
b. N/A.
c. See costs listed in STF 2.27 Employee Benefits Expense for Retirement and 401K.
d. See the attached SWTC Incentive Program for 2008, 2009 and 2010.
e. See attached 2008 Incentive Program Goals and Results. (The 2009 Goals are the same, but the results are still in audit.)
f. See the Incentive Program under STF 2.30d for 2008, 2009 and 2010.
g. N/A.

SCHEDULE 1

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

2008 Incentive Program

Effective Date January 1, 2008

INTRODUCTION

All employees that support SWTC can positively affect the following goals in some way. Looking at the results of the Incentive Plan is a simple way to determine how successfully SWTC is performing. This Incentive Plan is funded through savings, by reducing actual expenditures in Transmission Operations and Maintenance, and Administrative and General expenditures for SWTC, from those forecast in the 2008 Budget. All triggers must be satisfied and the achievement with respect to the combined goals must be positive, including provision for funding the program, before the Incentive Plan will be funded. Both SWTC and AEPCO will fund the Incentive Plan proportionately. The CEO is not included in this incentive plan.

Objectives

1. To encourage and reward employees for progress towards key performance goals identified by the Management team.
2. To reinforce focus on customer service.
3. To foster strong teamwork throughout the Cooperatives.
4. To align the interests of all stakeholders: Cooperatives, customers and employees.

Trigger Mechanisms

Four trigger mechanisms must be met, or exceeded, by SWTC to open the program to funding:

1. Positive Net Margin.
2. Times Interest Earned Ratio (TIER) 1.10.
3. Debt Service Coverage Ratio (DSC) 1.00.
4. Circuit Segment Hours of Availability (CSHA) of 99.955%.

Performance Goals

Two performance goals will be combined to serve as the funding mechanism for the 2008 Incentive Plan, as follows:

1. Transmission Operations and Maintenance (O&M) Budgets, measured in total dollars spent; and
2. Administrative and General (A&G) Budget, measured in total dollars spent.

Tracking Results

A monthly report will be made, displaying the monthly and year-to-date results.

Funding Amount

The Incentive Plan funding cap that has been approved by the SWTC Board of Directors is $318,100, to be funded on a 50/50 split from the savings in actual expenses reduced from those forecast in the Budget.

Allocation Mechanism

The Incentive Plan covers all AEPCO, SWTC and Sierra employees except for the CEO and the Sales and Natural Gas Operations staff. It is funded by AEPCO and SWTC based on the respective amounts of the 2008 Combined Budget Total which are accountable to each. The proportionate amount of the Combined Budget Total for which each Cooperative is responsible is the funding ratio for that Cooperative. The funding ratio is then used to determine the respective incentive fund distribution cap levels for each Cooperative.

The ratio of funding for 2008, and cap levels are as follows:

SWTC:	31.81%	or	$ 318,100
AEPCO:	68.19%	or	$ 681,900
			$1,000,000

Distribution Mechanism

Following activation of their respective triggers, the total available funds for distribution will be calculated for each Cooperative. The calculation will be based upon the number of employees in each cooperative at the time of distribution.

For 2008, the total available funds for distribution will be apportioned according to the following Employee Categories: AEPCO-Designated; SWTC-Designated; and Sierra Shared.

AEPCO-Designated shall consist of the following:
AEPCO Group Employees + Sierra A Group Employees

SWTC-Designated shall consist of the following:
SWTC Group Employees + Sierra Group B Employees

Sierra Shared shall consist of the following:
Sierra C Group and E Group (less CEO) Employees

Personnel in the AEPCO-Designated Category shall have funds allocated to them by AEPCO. Personnel in the SWTC-Designated Category shall have funds allocated to them by SWTC. Personnel in the Sierra Shared Category shall have funds allocated to them by both AEPCO and SWTC.

The funding distribution mechanism operates in several steps, as follows:

1. An employee apportionment ratio is calculated according to the proportion of employees in a category to the overall employee population. The entire incentive fund amount is then preliminarily divided up amongst the employee categories in accordance with the applicable employee apportionment ratios.

2. The actual savings amount for both Cooperatives is divided into an AEPCO Portion and an SWTC Portion. Reduction ratios for the AEPCO-Designated Category and the SWTC-Designated Category are then calculated as the proportion of the Cooperative's Portion to its respective cap level.

3. The AEPCO-Designated and SWTC-Designated Categories' preliminary division of the incentive fund amount is then reduced in accordance with their respective reduction ratios.

4. After allocation to AEPCO, SWTC and Sierra of available funds to be distributed to their AEPCO-Designated and SWTC-Designated employees in accordance with this funding distribution mechanism, the remainder of the actual savings amount shall be allocated to Sierra for distribution to the Sierra Shared employees.

5. If either AEPCO or SWTC fail to trip the trigger for their respective employee categories, then the weight of funding the program for the Sierra Shared category will be borne by the Cooperative achieving its threshold triggers. Employees designated as those of the Cooperative not contributing will not be subsidized by the other Cooperative.

Incentive Plan Funding Goals for 2008

The Incentive Plan funding goal for 2008 is to reduce the actual total combined expenditures attributable to the two discrete Budget categories indicated below:

1. Transmission Operations and Maintenance* Budget	$ 10,850,000
2. Administrative and General Budget	$ 3,914,000
Budget Total	$ 14,764,000

A reduction to the combined Budget total of $ 14,764,000 by saving $ 636,200, or approximately 4.31% in expenditures, would reach the cap and result in funding the SWTC Incentive Plan with $ 318,100 for the Incentive Plan and $318,100 remaining with SWTC, for a 50/50 split of the savings. Any smaller reductions from these Budget amounts would likewise be split 50/50 between the Incentive Plan and SWTC, providing funding for the Incentive Plan at year end at a lower amount, but still sharing the savings and the results of employee efforts.

* Excludes property tax, wheeling and purchase of ancillary services from AEPCO.

Transmission Operations and Maintenance Budget

Objective: Achieve a reduction of the 2008 Transmission Operations and Maintenance Budgets. The combined O&M Budgets are $ 10,850,000 and are composed of the following: (i) operating expenses of the transmission system equipment, (ii) operating expenses necessary to maintain and manage the Energy Management System and to manage the delivery of electricity, and (iii) maintenance expenses of the transmission system equipment. Results will be reported monthly in the Board financial report.

Administrative & General Budget

Objective: Achieve a reduction of the 2008 Administrative and General Budget. The 2008 Administrative and General Budget is $ 3,914,000, as reflected in the Budget. Results will be reported monthly in the Board financial report.

SCHEDULE 1

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

2009 Incentive Program

Effective Date January 1, 2009

INTRODUCTION

All employees that support SWTC can positively affect the following goals in some way. Looking at the results of the Incentive Plan is a simple way to determine how successfully SWTC is performing. This Incentive Plan is funded through savings, by reducing actual expenditures in Transmission Operations and Maintenance, and Administrative and General expenditures for SWTC, from those forecast in the 2009 Budget. All triggers must be satisfied and the achievement with respect to the combined goals must be positive, including provision for funding the program, before the Incentive Plan will be funded. Both SWTC and AEPCO will fund the Incentive Plan proportionately. The CEO is not included in this incentive plan.

Objectives

1. To encourage and reward employees for progress towards key performance goals identified by the Management team.
2. To reinforce focus on customer service.
3. To foster strong teamwork throughout the Cooperatives.
4. To align the interests of all stakeholders: Cooperatives, customers and employees.

Trigger Mechanisms

Four trigger mechanisms must be met, or exceeded, by SWTC to open the program to funding:

1. Positive Net Margin.
2. Times Interest Earned Ratio (TIER) 1.10.
3. Debt Service Coverage Ratio (DSC) 1.00.
4. Circuit Segment Hours of Availability (CSHA) of 99.955%.

Performance Goals

Two performance goals will be combined to serve as the funding mechanism for the 2009 Incentive Plan, as follows:

1. Transmission Operations and Maintenance (O&M) Budgets, measured in total dollars spent; and
2. Administrative and General (A&G) Budget, measured in total dollars spent.

Tracking Results

A monthly report will be made, displaying the monthly and year-to-date results.

Funding Amount

The Incentive Plan funding cap that has been approved by the SWTC Board of Directors is $335,000, to be funded on a 50/50 split from the savings in actual expenses reduced from those forecast in the Budget.

Allocation Mechanism

The Incentive Plan covers all AEPCO, SWTC and Sierra employees except for the CEO and the Sales and Natural Gas Operations staff. It is funded by AEPCO and SWTC based on the respective amounts of the 2009 Combined Budget Total which are accountable to each. The proportionate amount of the Combined Budget Total for which each Cooperative is responsible is the funding ratio for that Cooperative. The funding ratio is then used to determine the respective incentive fund distribution cap levels for each Cooperative.

The ratio of funding for 2009, and cap levels are as follows:

SWTC:	33%	or	$ 330,000
AEPCO:	67%	or	$ 670,000
			$1,000,000

Distribution Mechanism

Following activation of their respective triggers, the total available funds for distribution will be calculated for each Cooperative. The calculation will be based upon the number of employees in each cooperative at the time of distribution.

For 2009, the total available funds for distribution will be apportioned according to the following Employee Categories: AEPCO-Designated; SWTC-Designated; and Sierra Shared.

AEPCO-Designated shall consist of the following:
AEPCO Group Employees + Sierra A Group Employees

SWTC-Designated shall consist of the following:
SWTC Group Employees + Sierra Group B Employees

Sierra Shared shall consist of the following:
Sierra C Group and E Group (less CEO) Employees

Personnel in the AEPCO-Designated Category shall have funds allocated to them by AEPCO. Personnel in the SWTC-Designated Category shall have funds allocated to them by SWTC. Personnel in the Sierra Shared Category shall have funds allocated to them by both AEPCO and SWTC.

The funding distribution mechanism operates in several steps, as follows:

1. An employee apportionment ratio is calculated according to the proportion of employees in a category to the overall employee population. The entire incentive fund amount is then preliminarily divided up amongst the employee categories in accordance with the applicable employee apportionment ratios.

2. The actual savings amount for both Cooperatives is divided into an AEPCO Portion and an SWTC Portion. Reduction ratios for the AEPCO-Designated Category and the SWTC-Designated Category are then calculated as the proportion of the Cooperative's Portion to its respective cap level.

3. The AEPCO-Designated and SWTC-Designated Categories' preliminary division of the incentive fund amount is then reduced in accordance with their respective reduction ratios.

4. After allocation to AEPCO, SWTC and Sierra of available funds to be distributed to their AEPCO-Designated and SWTC-Designated employees in accordance with this funding distribution mechanism, the remainder of the actual savings amount shall be allocated to Sierra for distribution to the Sierra Shared employees.

5. If either AEPCO or SWTC fail to trip the trigger for their respective employee categories, then the weight of funding the program for the Sierra Shared category will be borne by the Cooperative achieving its threshold triggers. Employees designated as those of the Cooperative not contributing will not be subsidized by the other Cooperative.

Incentive Plan Funding Goals for 2009

The Incentive Plan funding goal for 2009 is to reduce the actual total combined expenditures attributable to the two discrete Budget categories indicated below:

1. Transmission Operations and Maintenance* Budget	$ 12,678,000
2. Administrative and General Budget	$ 4,375,000
Budget Total	$ 17,053,000

A reduction to the combined Budget total of $ 17,053,000 by saving $ 660,000, or approximately 3.90% in expenditures, would reach the cap and result in funding the SWTC Incentive Plan with $ 330,000 for the Incentive Plan and $330,000 remaining with SWTC, for a 50/50 split of the savings. Any smaller reductions from these Budget amounts would likewise be split 50/50 between the Incentive Plan and SWTC, providing funding for the Incentive Plan at year end at a lower amount, but still sharing the savings and the results of employee efforts.

* Excludes property tax, wheeling and purchase of ancillary services from AEPCO.

Transmission Operations and Maintenance Budget

Objective: Achieve a reduction of the 2009 Transmission Operations and Maintenance Budgets. The combined O&M Budgets are $ 12,678,000 and are composed of the following: (i) operating expenses of the transmission system equipment, (ii) operating expenses necessary to maintain and manage the Energy Management System and to manage the delivery of electricity, and (iii) maintenance expenses of the transmission system equipment. Results will be reported monthly in the Board financial report.

Administrative & General Budget

Objective: Achieve a reduction of the 2009 Administrative and General Budget. The 2009 Administrative and General Budget is $4,375,000, as reflected in the Budget. Results will be reported monthly in the Board financial report.

SCHEDULE 1

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

2010 Incentive Program

Effective Date January 1, 2010

INTRODUCTION

All employees that support SWTC can positively affect the following goals in some way. Looking at the results of the Incentive Plan is a simple way to determine how successfully SWTC is performing. This Incentive Plan is funded through savings, by reducing actual expenditures in Transmission Operations and Maintenance, and Administrative and General expenditures for SWTC, from those forecast in the 2010 Budget. All triggers must be satisfied and the achievement with respect to the combined goals must be positive, including provision for funding the program, before the Incentive Plan will be funded. Both SWTC and AEPCO will fund the Incentive Plan proportionately. The CEO is not included in this incentive plan.

Objectives

1. To encourage and reward employees for progress towards key performance goals identified by the Management team.
2. To reinforce focus on customer service.
3. To foster strong teamwork throughout the Cooperatives.
4. To align the interests of all stakeholders: Cooperatives, customers and employees.

Trigger Mechanisms

Four trigger mechanisms must be met, or exceeded, by SWTC to open the program to funding:

1. Positive Net Margin.
2. Times Interest Earned Ratio (TIER) 1.05.
3. Debt Service Coverage Ratio (DSC) 1.00.
4. Circuit Segment Hours of Availability (CSHA) of 99.979%.

Performance Goals

Two performance goals will be combined to serve as the funding mechanism for the 2010 Incentive Plan, as follows:

1. Transmission Operations and Maintenance (O&M) Budgets, measured in total dollars spent; and
2. Administrative and General (A&G) Budget, measured in total dollars spent.

Tracking Results

A quarterly report will be made, displaying the year-to-date results.

Funding Amount

The Incentive Plan funding cap that has been approved by the SWTC Board of Directors is $345,200, to be funded on a 50/50 split from the savings in actual expenses reduced from those forecast in the Budget.

Allocation Mechanism

The Incentive Plan covers all AEPCO, SWTC and Sierra employees except for the CEO and the Sales and Natural Gas Operations staff. It is funded by AEPCO and SWTC based on the respective amounts of the 2010 Combined Budget Total which are accountable to each. The proportionate amount of the Combined Budget Total for which each Cooperative is responsible is the funding ratio for that Cooperative. The funding ratio is then used to determine the respective incentive fund distribution cap levels for each Cooperative.

The ratio of funding for 2010, and cap levels are as follows:

SWTC:	34.52%	or	$ 345,200
AEPCO:	65.48%	or	$ 654,800
			$1,000,000

Distribution Mechanism

Following activation of their respective triggers, the total available funds for distribution will be calculated for each Cooperative. The calculation will be based upon the number of employees in each Cooperative employed at the time of distribution and that have been so employed for at least one pay period of the Incentive Plan year.

The total available funds for distribution will be apportioned according to each employee's Cost Allocation Manual (CAM) allocation for both AEPCO and SWTC. Personnel that allocate 100% of their time to one Cooperative will receive funds solely from that Cooperative. Personnel that split their time between both AEPCO and SWTC shall receive funds from both Cooperatives based on the applicable CAM allocation for each Cooperative.

The funding allocation distribution mechanism for AEPCO, SWTC and Sierra operates in several steps, as follows:

Step 1. The total Incentive Plan cap levels for AEPCO and SWTC are determined in dollar amount portions of the overall $1,000,000 cap based upon the respective annual budget salary amounts for which each is responsible for the Incentive Plan year.

Step 2. The amounts available for funding the Incentive Plan for the year for AEPCO and SWTC are determined, based upon the results obtained. These amounts are referred to as the "Funding Amount."

Step 3. The dollars to be distributed to each eligible employee are calculated based upon each employee's CAM percentage for each Cooperative. Each employee's salary is multiplied by his/her CAM percentage for the applicable Cooperative to obtain an Allocated Salary for that Cooperative. If an employee is 50% allocated to one Cooperative, his/her Allocated Salary would be reduced by 50% for that Cooperative's payout.

Step 4. A total of the Allocated Salaries for all eligible employees are calculated separately for AEPCO and for SWTC. The available Funding Amount for each Cooperative is then divided by the respective total Allocated Salaries to determine the payout percentage for each Cooperative.

Step 5. The incentive payout for each employee is then calculated by multiplying each payout percentage from Step 4 by each employee's Allocated Salary for each Cooperative. Some employees will have a payout from each Cooperative based on his/her CAM allocation.

Example: An employee with a salary of $50,000 that allocates his/her time 70% to AEPCO and 30% to SWTC.

Available funding for AEPCO = $654,800
Total allocated salaries for AEPCO = $13,000,000
Payout percentage for AEPCO: $654,800/$13,000,000 = 5%

Employee's AEPCO Incentive Payout: $50,000 X 70%= $35,000 x 5% = $1,750

Available funding for SWTC = $345,200
Total allocated salaries for SWTC = $8,000,000
Payout percentage for SWTC: $345,200/$8,000,000 = 4%

Employee's SWTC Incentive Payout: $50,000 x 30% = $15,000 x 4% = $600

Please note that this is only an example and the actual figures used at distribution will vary based on number of employees and salaries

TeamWorks Incentive Payout Rules

1. Employees must have been active for at least one pay period of the incentive year and must still be an active employee at the time of the incentive payout.

2. Incentives are based on the company or companies that the employee is currently providing services to, not the company or companies they provided services to in the incentive year.

3. For employees hired during the incentive year, their incentive benefit is pro-rated based on the number of pay periods they worked during the incentive year.

   Example: An employee who worked 10 of the 26 pay periods is figured as follows:

   Using the % of salary method: 10/26 X Current Salary = Pro-rated salary to be used for incentive.

4. Current salaries are used to calculate the incentives.

5. Sales Department employees are excluded from the incentive payout.

Incentive Plan Funding Goals for 2010

The Incentive Plan funding goal for 2010 is to reduce the actual total combined expenditures attributable to the two discrete Budget categories indicated below:

1. Transmission Operations, System Control, and Maintenance* Budget		$ 13,757,100
2. Administrative and General Budget		$ 4,647,700
	Budget Total	$ 18,404,800

A reduction to the combined Budget total of $ 18,404,800 by saving $ 690,400, or approximately 3.75% in expenditures, would reach the cap and result in funding the SWTC Incentive Plan with $ 345,200 for the Incentive Plan and $345,200 remaining with SWTC, for a 50/50 split of the savings. Any smaller reductions from these Budget amounts would likewise be split 50/50 between the Incentive Plan and SWTC, providing funding for the Incentive Plan at year end at a lower amount, but still sharing the savings and the results of employee efforts.

* Excludes property tax, wheeling and purchase of ancillary services from AEPCO.

Transmission Operations and Maintenance Budget

Objective: Achieve a reduction of the 2010 Transmission Operations and Maintenance Budgets. The combined O&M Budgets are $ 13,757,100 and are composed of the following: (i) operating expenses of the transmission system equipment, (ii) operating expenses necessary to maintain and manage the Energy Management System and to manage the delivery of electricity, and (iii) maintenance expenses of the transmission system equipment. Results will be reported monthly in the Board financial report.

Administrative & General Budget

Objective: Achieve a reduction of the 2010 Administrative and General Budget. The 2010 Administrative and General Budget is $4,647,700, as reflected in the Budget. Results will be reported monthly in the Board financial report.

TeamWorks Incentive Plan 2008: December 31, 2008

AEPCO Triggers	With Accrual *	Trigger met? Y or N
1. Positive Operating Margin		
Actual Operating Margin, Year-to-date	$16,097,468	Y
2. Times Interest Earned Ratio (TIER) of at least 1.10		
Actual TIER, Year-to-date	2.659	Y
3. Debt Service Coverage Ratio (DSCR) of at least 1.00		
Actual DSCR, Year-to-date	1.332	Y
4. Equivalent Availability Factor (EUOF) of 2.2% or less		
Actual EUOF year-to-date	1.46%	Y

AEPCO Performance Goals & Achievement

	YTD Budget/Goal	YTD Actual Achievement	Achieved Savings	Available Funding **
Non-Fuel Production Operations	$11,188,000	$10,581,718	$606,282	$303,141
Maintenance less Overhauls	$10,522,000	$9,523,265	$998,735	$499,368
Administrative & General Expenses	$9,951,000	$10,161,494	$0	$0
	$31,661,000	$30,266,477	$1,605,017	$802,509
			Maximum Payout	**$681,900**

SWTC Triggers	With Accrual *	Trigger met? Y or N
1. Positive Net Margins		
Actual Net Margins, Year-to-date	$4,936,128	Y
2. Times Interest Earned Ratio (TIER) of at least 1.10		
Actual TIER, Year-to-date	2.000	Y
3. Debt Service Coverage Ratio (DSCR) of at least 1.00		
Actual DSCR Year-to-date	1.072	Y
4. Circuit Segment Hours Availability Factor (CSHAF) of 99.955% or better		
Actual CSHAF year-to-date	99.976%	Y

SWTC Performance Goals & Achievement

	YTD Budget/Goal	YTD Actual Achievement	Achieved Savings	Available Funding **
Transmission O&M/Systems	$10,539,000	$12,195,808	$0	$0
Administrative & General Expenses	$4,225,000	$4,065,415	$159,585	$79,793
	$14,764,000	$16,261,223	**$159,585**	**$79,793**

Total Available for Funding

AEPCO, YTD**	681,900
SWTC, YTD***	79,793
TOTAL	**761,693**

*Triggers must remain active with accrual of funding.
**AEPCO Savings are shared 50% to margins 50% to TeamWorks up to a maximum of $681,900
***SWTC Savings are shared 50% to margins 50% to TeamWorks up to a maximum of $318,100

**SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 10, 2010**

STF 2.44 Payroll, Incentive Programs. Please provide complete copies of any bonus programs or incentive award programs in effect at the Company for the most recent three years. Identify all incentive and bonus program expense incurred in the test year and for calendar 2008 and 2009. Identify the accounts charged. Identify all incentive and bonus program expense charged or allocated to the Company from affiliates in the test year and in calendar 2008 and 2009.

Respondent: Emery Silvester, Manager of Administrative Services

Response: *See* Incentive Programs provided in response to STF 2.30(d).

Teamworks Incentive Plan
SWTC

2008	$70,235	Incentive Payments during the test year.
2009	$0	No payments expected for 2009.

No incentive or bonus expenses were charged or allocated to SWTC from affiliates during the test year.

**SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
April 23, 2010**

Accounting Information

STF 2.23 Contributions. For the test year, please list all contributions for charitable and political purposes, if any, recorded in accounts other than below the line. Indicate the amount of the expenditure, the recipient of the contribution, and the specific account charged. Also identify for the test year the amounts of contributions for charitable and political purposes charged to the Company from affiliates in accounts other than below the line accounts.

Respondent: Melanie Pearce, Director of Financial Operations

Response: Please see attached spreadsheet.

STF 2.23

Southwest Transmission Power Cooperative, Inc
Contributions for the Test Year 4/1/08 - 3/31/09

Our Energy - Our Future	$ 371.00	5230000
Tucson Wildlife Center	$ 150.00	5400110

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 17, 2010

STF 2.24 Dues, Industry Associations. Please list all membership payments made to industry associations (e.g., National Rural Electric Cooperative Association, etc.) requested for recovery during the test year. Identify the account into which such amounts are charged.

a. State the purpose and objective of each organization listed;
b. Provide descriptive material the Company has concerning each organization's financial statements, annual budget, and activities;
c. Do any of the organizations listed engage in lobbying or advocacy activities, attempts to influence public opinion, institutional or image-building advertising? If so, list each organization which engages in such activities, and state the Company's best estimate of the portion of the organization's expenses devoted to such activities. Explain and show how such estimates were derived. State if the Company has included the portions of dues related to such activities in the test year.

Respondent: Melanie Pearce, Director of Financial Operations

Response: *See* the attached spreadsheet.

a. *See* the attached materials describing the National Rural Electric Cooperative ("NRECA"), Grand Canyon State Electric Cooperative Association, Inc. ("GCSECA"), Western Area Power Administration ("WAPA"), and Rocky Mountain Electric League ("RMEL").

b. *See* the attached annual reports for NRECA, GCSECA, WAPA and RMEL.

c. GSECA and NRECA engage in lobbying and advocacy activities. GSECA estimates that 26% of its dues go to lobbying and advocacy activities. NRECA estimates 24%. This information was provided by Tiffany Jaggers of NRECA.

There were no lobbying costs for WAPA nor RMEL.

STF 2.24

Southwest Transmission Cooperative, Inc.
Association Dues

Memberships	Amount Paid	Date Paid	Monthly Allocation	G/L Number
GCSECA	80,750.02	Jan-08	6,729.16	5910200 *
NRECA	23,437.00	Feb-08	1,953.08	5910200 *
WSCC	81,115.43	Jan-08	6,759.61	5910200 *
GCSECA	115,285.88	Jan-09	9,607.15	5400930 *
NRECA	31,063.33	Feb-09	2,588.61	5400930 *
WSCC	119,592.94	Jan-09	9,966.08	5400930 *
RMEL	4,469.81	Jan-09		5400930

* These are amortized over 12 months and only the portion of the dues attributable to the test year are included in SWTC's rate calculation.

241-096

SOUTHWEST GAS CORPORATION
2007 GENERAL RATE CASE
DOCKET NO. G-01551A-07-0504
*** * ***
ARIZONA CORPORATION COMMISSION
DATA REQUEST NO. ACC-STF-1
(ACC-STF-1-1 THROUGH ACC-STF-1-99)

DOCKET NO.:	G-01551A-07-0504
COMMISSION:	ARIZONA CORPORATION COMMISSION
DATE OF REQUEST:	NOVEMBER 9, 2007

Request No. STF-1-96:

Sales of Property. For the test year, for 2007 to date, and the three years preceding the test year, has the Company sold any property which had formerly been included in Plant Held for Future Use or devoted to utility service? If so, for each sale, describe the property sold; state whether, when, and in what manner it had been included in rate base; show the details of how the gain or loss was calculated; indicate when the sale occurred; explain how and whether the Company is amortizing such gain or loss; .and show how such amortization was computed.

Respondent: Property Accounting

Response:

During the normal course of business, the Company will retire assets which had been included in gas plant in service and which are sold. The proceeds from these assets, primarily vehicles and power operated equipment, are credited against Account 108 and no gain or loss is calculated.

In November 2003, the Commission authorized Southwest to acquire the gas distribution properties of Black Mountain Gas (BMG). In September 2007, the Company sold land and structures in Cave Creek, Arizona, which had been included in gas plant in service. The property acquired in the BMG acquisition had a net book value of $1,025,676 at the time of the sale. The land had a net book value of $502,044 and the structure had a net book value of $523,632. The net proceeds of the 2007 sale were $1,433,107, resulting in a gain of $418,196. This gain was recorded in Account 2530, "Other Deferred Credits". Attached is a schedule showing the calculation of the gain. Historically, the Commission has

(Continued on Page 2)

Response to STF-1-96: *(continued)*

amortized, over a multiple-year period, the gain or loss on Southwest's disposition of property previously included in rate base, 50 percent above-the-line to ratepayers and 50 percent below-the-line to shareholders.

Southwest Gas Corporation
Land and Structures
Cave Creek, Arizona

Vintage Year	Asset ID	Amount	Months	Rate 1.84% 0.001533 Accumulated Reserve	Net Book Value
Land					
Jun-04	99004436	502,044.00			
Acquired Assets in Service		502,044.00			
Structures					
Jun-86	86000074	3,787.67			
Jun-89	89000089	9,281.53			
Jun-90	90000082	2,680.02			
Jun-93	93004494	4,583.86			
Jun-94	94006092	190,570.49			
Jun-95	95005662	1,992.16			
Jun-96	96004279	1,050.50			
Jun-97	97004442	1,972.84			
Jun-00	00015484	415,798.00			
Jun-01	01010085	3,510.00			
Jun-02	02004665	6,240.00			
Acquired Assets in Service		641,467.07	46	45,234.97	
Structures					
Retired November 2005					
Jun-87	87000106	780.30			
Jun-88	88000106	775.00			
Jun-99	99004441	72.75			
Jun-03	03012962	851.00			
Acquired Assets Retired		2,479.05	24	91.21	
Structures					
Purchased Assets Since Acquisition					
Apr-04	04001032	21,023.22	41	1,321.37	
Apr-07	07001100	24,044.08	5	184.30	
Sep-07	07002306	15,044.00	0	0.00	
Acquired Assets Accumulated Reserve at Acquisition				120,314.30	
Adjust Reserve for Retirement of Acquired Assets				(2,479.05)	
Total Land and Structures		$ 1,179,578.29		$ 164,667.10	$ 1,014,911.19

Gain on Sale Calculation

Net Proceeds	$ 1,433,106.96
Net Book Value	1,014,911.19
Gain on Sale	$ 418,195.77

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 17, 2010

STF 2.54 Sales of Property. For the test year, for 2009 and for 2010 to date, and the three years preceding the test year, has the Company sold any property which had formerly been included in Plant Held for Future Use or devoted to utility service? If so, for each sale, describe the property sold; state whether, when, and in what manner it had been included in rate base; show the details of how the gain or loss was calculated; indicate when the sale occurred; explain how and whether the Company is amortizing such gain or loss; and show how such amortization was computed.

Respondent: Gary E. Pierson, Manager of Financial Services

Response: SWTC made two sales of property from 2005 to 2010 to date. In 2005, SWTC sold 5.7 miles of the Davis-Rivera 69 kV line to Mohave Electric Cooperative for a little less than $643,000. SWTC recorded a gain on its books in 2005 of $243,000. In 2009, SWTC sold the remaining 3.2 miles of the Davis-Rivera 69 kV line to Mohave Electric Cooperative for $370,000 and recorded a gain on its books in 2009 of about $220,000. Both gains were recorded in the year that the sale was made. They were not amortized nor did they occur during the test period. As they did not occur during the test period, they have not been taken into account in the calculation of the rate base.

**SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 6, 2010**

STF 2.10 Please provide a complete copy of SWTC's detailed general ledger for 2008, 2009 and 2010 year-to-date.

Respondent: Melanie Pearce, Director of Financial Operations

Response: *See* the attached spreadsheets.

12/31/2008

12/31/2009

Southwest Transmission COOP Financial Statement STF 2.10 Time 11:07:04 Date 04/12/2010
Benson 0L RFBILA00/SWARNZ Page 3

Company code SWTC Business area **** Amounts in USD

C Comp F code	Bus. area	Texts	Reporting period (01.2008-16.2008)	Comparison period (01.2009-16.2009)	Absolute difference	Rel dif	Sumtn level
SWTC	6121000	Non Op Inc -Non Util Rev	960.00-	0.00	960.00-		
SWTC	6121110	Non Op Inc-Lease/Contracts	117,870.50-	166,053.44-	48,182.94	29.0	
SWTC	6130000	Oth Income & Deductions - Misc	145,365.92	51,070.00-	196,435.92	384.6	
SWTC	6130500	Gains from Dispositions	0.00	219,800.69-	219,800.69	100.0	
SWTC	6131000	Oth Misc RUS "426" Expenses	52,117.39-	398,167.88	450,285.27-	113.1-	
		***Total Non Operating Revenue/Expense	331,392.81-	172,983.78-	158,409.03-	91.6-	*2*
			4,901,451.68-	42,816.82	4,944,268.50-	*547.5-	*1*

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
RESPONSES TO SECOND SET OF DATA REQUESTS OF
ARIZONA CORPORATION COMMISSION STAFF
Docket No. E-04100A-09-0496
May 4, 2010

STF 2.51 Rate case expense. Provide a detailed itemization of all rate case expense, including labor, benefit and overhead cost for affiliated company employees.

Respondent: Gary E. Pierson, Manager of Financial Services

Response: SWTC included a rate case expense adjustment for legal and consultant costs of $80,000. That adjustment was calculated using a total estimated rate case expense of $240,000, which was then amortized over a three-year period. The total rate case expense was based on the legal fees and costs incurred in SWTC's 2004 rate case and an estimate of rate consultant fees and costs for the current case. SWTC did not include labor, benefit or overhead cost for affiliated company employees in its rate case expense estimate.

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 SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN	DOCKET NO. E-04100A-09-0496

DIRECT

TESTIMONY

OF

RANDALL VICKROY

(CONSULTANT)

ON BEHALF OF THE STAFF OF THE

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 18, 2010

TABLE OF CONTENTS

EXHIBITS

INTRODUCTION AND QUALIFICATIONS

Q. Please state your names, business addresses, and positions.

A. My name is Randall Vickroy. I am a senior consultant for The Liberty Consulting Group ("Liberty") My Liberty business address is: The Liberty Consulting Group, 65 Main Street, P.O. Box 1237, Quentin, Pennsylvania 17083.

Q. Have you prepared summaries of your backgrounds and qualifications?

A. Yes, they are provided in Exhibit LCG-1.

Q. Mr. Vickroy, please describe your educational background and professional experience as they relate to the subjects of this testimony.

A. I spent 12 years with a major Mountain States electric and gas utility, starting as a financial analyst in the corporate finance and planning department, and then became financial supervisor, director of analysis, business development manager, and assistant to the chief financial officer. My responsibilities included financial planning, capital acquisition, capital spending analysis and allocation, treasury operations, securitization financing, project financing, mergers and acquisitions, cash management, and investor relations.

I have been consulting since 1991 on corporate finance and business issues in the electricity, natural gas, and telecommunications industries. During this time, I have provided consulting services to utility commissions and to companies in over 25 states and in three foreign countries. I received a Bachelor of Arts from Monmouth College with a major in business administration and a Masters of Business Administration degree from the University of Denver with an emphasis in finance.

Q. For whom are you appearing in this proceeding?

A. I am appearing on behalf of the Staff of the Arizona Corporation Commission ("Staff").

Q. What is the purpose of your testimony?

A. My testimony provides a review, an evaluation and recommendations regarding cost-of-capital issues for the Southwest Transmission Cooperative, Inc. ("SWTC" or "Cooperative") rate filing, as summarized in the company's Schedules A-1 and A-2. Cost-of-capital issues include the cost of debt, financial coverage ratios such as Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC"), equity ratios, and cash flow indicators. I also discuss my evaluation of whether SWTC's cost-of-capital request provides adequate margins, debt coverage and cash flow to finance its investment and rate base as of the test period ended March 31, 2009.

Q. Please explain why SWTC considers its rate increase request to be necessary from a financial standpoint.

A. Between December 2008 and December 31, 2010 SWTC will lose about $8.6 million in revenue annually from the termination, reduction, or expiration of several point-to-point transmission service contracts. The net revenue lost from these contracts represents about 24 percent of the company's annual revenue. The largest reduction of point-to-point revenues will occur when the Arizona Electric Power Cooperative, Inc. ("AEPCO") 100 MW sales agreement with Salt River Project expires on December 31, 2010. AEPCO purchases 100 MW of point-to-point transmission service from SWTC to deliver the Salt River Project power; therefore, it will lose about $4.5 million in annual revenues from this sales contract alone. SWTC proposes to increase rates by about $7.7 million annually, primarily to recover the lost revenue from these contracts.

SWTC FINANCIAL RESULTS

Q. What have the financial ratio results been for SWTC over the past five years?

A. The DSC, TIER, and equity as a percent of total capitalization comprise primary financial ratios and indicators of SWTC financial health. The Cooperative's Rural Utilities Service ("RUS") mortgage agreement debt covenants require a DSC of 1.0 times and a TIER of 1.05 times in two of three consecutive years. Exhibit LCG-2 provides the company's DSC, TIER, and equity ratio for each year from 2002 through 2009. We consider the DSC to be more significant here than the TIER. The DSC takes into account cash flow items such as depreciation and principal payments, and provides a better indicator of whether an enterprise is generating sufficient cash to meet its debt and principal requirements. The exhibit shows that SWTC has generated DSC ratios of between 1.03 and 1.10 times in each of the calendar years 2006 through 2009. The Cooperative estimates that, without the requested rate increase, this key ratio would fall to only .50 times for the test period, or to default level on its mortgage covenants.

Since the last SWTC rate case, equity as a percentage of capitalization has increased from only 1.27 percent at December 31, 2005 to 9.04 percent at year-end 2008 and to 7.76 percent at year-end 2009.

Q. Please summarize SWTC's actual results for the test period, and as adjusted for the loss of transmission business and other adjustments proposed by the company.

A. SWTC's Schedule A-2 reports actual net margins for the test year ended March 31, 2009 of about $4.7 million. SWTC's adjustments for revenue lost from transmission contracts after the test period and small adjustments to operating expenses transform that positive margin to a net margin loss of about $4.8 million for the same test period. The Cooperative's DSC would fall to 0.50 times and the TIER would fall to only .03 times.

SWTC would not meet the debt covenants on its RUS mortgage agreements if such low debt coverage ratios were to continue. SWTC primarily seeks through the increase it has requested here to replace the lost contract revenue from its remaining network and point-to-point customers.

Q. What are SWTC's expected financial results for the test period after the proposed increase, considering the need to provide for appropriate levels of equity capital and cash balances?

A. SWTC based its requested increase upon producing the revenue necessary to achieve a DSC ratio of 1.35 times in the test year. The requested increase would also result in a TIER ratio of about 1.56 times. The Cooperative has calculated that these coverage ratios would provide net margins of about $2.8 million per year, and would produce operating cash flow sufficient to increase its cash balances to support working capital needs by about $10 million over three years. SWTC has estimated that the increased rates would increase equity as a percentage of capitalization to slightly over 10 percent (from about 9 percent) at the end of the test period. SWTC notes that rate levels take priority over equity levels in setting rates for the cooperative.

SWTC COST OF DEBT

Q. Please summarize SWTC's calculations of its cost of debt.

A. SWTC Schedule F-1, page 2 of 2, reports long-term debt expense for the test year ended March 31, 2009 was $4,898,007. Long-term debt expense arises primarily from interest on the Company's Federal Financing Bank ("FFB") debt, represented by numerous notes, which account for over 80 percent of its long-term debt outstanding. SWTC also had long-term debt outstanding at March 31, 2009 with Central Bank for Cooperatives of $10.2 million, the National Rural Utilities Cooperative Finance Corporation ("CFC")

Series 1994A bonds ($7.4 million), and small amounts of CFC and Rural Electric Administration ("REA") debt of $0.4 and $0.2 million, respectively. The total long-term debt outstanding at the end of the test period was $101.1 million. SWTC annualized the interest charges for long-term debt in place at the end of the test year. This annualization calculation resulted in an annualized interest expense of $5.328 million. SWTC then credited the annualized interest expense with a $0.329 million payment from AEPCO for interest on regulatory assets that remained on AEPCO's books following the company's 2001 restructuring. The net result of annualizing the interest was a net increase of about $101,000 above the test period's actual long-term debt interest costs. SWTC's Schedule D-2 for the test year shows the results of the annualization of interest charges. Annualized long-term debt interest of $4.999 million produces a cost rate of 4.944 percent on the $101.1 million principal. Short-term debt, also shown in Schedule D-2, consists of the $2 million outstanding on the Cooperative's $6 million CFC credit facility at March 31, 2009. The interest rate is 4.25 percent. SWTC Schedule D-1 shows a composite cost of debt for SWTC at a composite rate of 4.93 percent on $103.1 million of total debt outstanding.

Q. What do you conclude about the appropriateness of SWTC's annualization adjustment as a basis for adjusting the cost of debt?

A. I consider the interest annualization to be properly reflective of a known and measurable adjustment. It updates the cost of debt for both new issuances and maturities of debt that occur during the test period, and provides an accurate representation of debt costs expected to be incurred following the end of the test period.

Q. Please describe your understanding of the extension of maturities on SWTC's FFB debt and its effect on the company's debt principal payments.

A. SWTC recognized that it had a scheduled "bubble" of greatly increased principal payments on its long-term debt, most significantly in 2009 through 2011. This bubble caused the need to plan for refinancing above the levels of approved FFB loans. The elevated levels of principal payments would also make meeting minimum DSC ratios difficult, because principal payments are included in DSC obligations that must be "covered" with operating cash sources. SWTC and AEPCO had discussed with the RUS extending the loan maturities on certain FFB issuances to better coordinate their terms with new, longer estimates of the remaining generation and transmission asset useful lives. As of December 31, 2008, the maturities of 45 SWTC loans with FFB were extended.

This extension greatly reduced the principal bubble. FFB principal payments were reduced by around $13.5 million in 2009, by $10.5 million in 2010, and by $7.1 million in 2011. SWTC was able to meet its DSC coverage requirements in 2009. It would have fallen far short of the 1.0 minimum DSC requirement without the maturity extensions. The maturity extensions also eased the pressure for SWTC to find additional funding sources in order to meet the elevated principal bubble payments.

Q. Please explain the Cooperative's request for $2 million of short-term debt in the capital structure as of March 31, 2009.

A. SWTC had outstanding at the end of the test year on March 31, 2009, $2 million on its $6 million credit facility with CFC. The cooperative included this short-term debt amount in its cost of debt calculation at an interest rate of 4.25 percent. SWTC effectively annualized the interest rate on the $2 million amount, and included it in the cost of debt, consistently with the long-term debt portion. SWTC's underlying rationale in including short-term interest is the assumption that a similar level of short-term debt to fund a portion of working capital needs is required during the test period. This rationale is reasonable for the cost of debt calculation. Its inclusion results in slightly lower cost of debt.

Q. What is your overall evaluation of the Cooperative's requested cost of debt as presented in Schedules D-1 and D-2?

A. SWTC's requested composite cost of debt of 4.93 percent is an accurate representation of the annualized cost of debt experienced by SWTC as of the end of the test period as of March 31, 2009.

FINANCIAL COMPARISONS

Q. What debt coverage and equity ratios typically apply for transmission companies that are comparable to SWTC?

A. The CFC prepares operating and financial statistics for Generation and Transmission ("G&T") cooperatives on an annual basis. The CFC presents them in its Key Trend Ratio Analysis ("KTRA"). The KTRA provides data for four sub-categories of G&T businesses: a) generation companies (generate more than one-half of their power requirements); b) purchase companies (purchase more than one-half of their power requirements); c) transmission companies (purchase more than one-half of power requirements from another G&T); and d) participation companies (more than one-half of power requirements obtained from joint participation projects). SWTC and Georgia Transmission Corporation comprise the only pure transmission companies included in the transmission category.

Georgia Transmission is many times the size of SWTC. Therefore, as SWTC opines, the transmission grouping in the KTRA analysis does not compare well with SWTC. Nevertheless, the KTRA key financial indicators do provide some insight into the median financial statistics for G&T companies in general. At the least, these indicators generally tell whether SWTC is a substantial outlier when it comes to financial ratios and results.

The 2008 KTRA report displays median DSC ratios of between 1.31 and 1.37 times for the transmission category between 2005 and 2008. TIER ratios for the transmission group ranged from 1.44 to 2.21 times during these four years. Equity ratios for the category remained very consistent (from 25.0 percent to 26.2 percent) from 2005 through 2008. Transmission category entities had substantially higher equity ratios than did the overall G&T group (which combined all categories). The overall G&T group had equity ratios ranging from 13.2 to 15.2 percent over these same four years. SWTC's financial management considers an equity ratio of 15 to 17 percent to be desirable for the long-term. SWTC's equity ratios of 1 to 9 percent during this period certainly fell far below both those of the loosely defined transmission group and of G&Ts overall.

RATE SUFFICIENCY

Q. Are the adjusted test period net margin and cash flow produced by rates based on the Cooperative's proposed DSC and TIER ratios sufficient for SWTC?

A. SWTC has estimated that net margins of about $2.8 million would be generated by applying the increased rates to the test year revenue and expenses, after adjusting for transmission-contract losses. I consider this net margin to be fairly thin and marginally sufficient, even before any negative revenue requirements adjustments. A large contingency such as the loss of remaining point-to-point customers or major operational and maintenance issues could consume most or all of such a small annual margin. The proposed rates, with the Staff adjustments, would provide operating cash generation of about $6.1 million to cover debt principal payments of $4.0, leaving about $2.1 million of cash to meet working capital requirements. This level of net cash generation is marginal when viewed in light of the adjusted test year. The cash flow could prove sufficient for SWTC in the future if the Cooperative does not experience large lags between cash payments for capital expenditures and the related draw from FFB loans. SWTC advises that it now has an interim financing facility that should greatly reduce this potential cash flow lag. The expected level of cash generation, when added to the available funds of $4 million under the CFC credit facility, would provide only minimally sufficient cash for SWTC when viewed in the context of adjusted test period revenue and expenses.

Recognizing the need to provide sufficient margins and cash generation as measured by the adjusted test period, I would therefore consider the Cooperative's proposed DSC of 1.35 to reflect the lower bound of a range of acceptable DSC levels. I would consider the top end of that range to be at 1.55 times, considering the circumstances of SWTC and the Staff's proposed operating expense adjustments of $903,526. Using the mid-point of this range, a DSC target of 1.45 times, would result in a net margin of $2.8 million and net cash flow after principal payments of $3.0 million. The net DSC considering the Staff adjustment would return to 1.35 times, and the TIER to 1.56 times for the test period. I recommend that the DSC used to set SWTC rates for the test period fall within a range from 1.35 to 1.55 times, and I find the mid-point of this range of 1.45 times acceptable for setting rates.

Q. Do you believe that the SWTC equity ratio as a percentage of capitalization is sufficient as of the test period?

A. The ratio remains lower than I consider appropriate for the long term. However, raising it immediately to a more appropriate level would require drastic additional rate increases, whether measured in the immediate or the intermediate term. SWTC does, however, need to address means for strengthening its equity ratio over the long term. That said, it is important to realize that rate increases are not the only equity-building option. Asset sales and sale/leasebacks also require consideration. I recommend that the Commission require SWTC to work with Staff to identify options and to develop a plan for building equity over time in a manner that is consistent with an appropriate future rate path.

Q. Have you considered whether the rates established by this cost of capital will be sufficient on a going-forward basis?

A. As I have stated, they are appropriate when viewed in the context of the test year. There is, however, information on increased interest expense and attrition on Construction Work in Progress ("CWIP"), for example, indicating the potential for SWTC earnings to erode quickly in 2011 after new rates are established. I have requested that SWTC provide updated financial projections. The Cooperative has recently provided re-estimated capital expenditure and operating expense forecasts. SWTC has already discussed cutting its capital budget in half for the next few years, which will have a profound impact on forecast financial results, cash requirements and the need for additional rate requests. The information is so recent that it has not yet been presented to and approved by the SWTC Board of Directors. The data that I have received so far is not yet in a form that allows me to have confidence in the consistency of all of the data provided or in the forecasts of financial results. The vintage of the test year for this proceeding contributes to the need for assuring that more current information is available and useable on a going-forward basis.

Therefore, I strongly recommend that the Commission require SWTC to work with Staff to develop forecasts that will allow for careful and regular monitoring of emerging threats to SWTC's financial condition. The loss of major revenue sources, and the very large change that economic conditions appear to have on growth rates at SWTC underscore the need for the Cooperative and the Commission to develop and maintain an ability to respond with dispatch to changing circumstances.

SWTC should report quarterly its most recent 12 months and forecasted (for the next 12 months) DSC, TIER, equity ratio, and cash and liquidity from credit facilities. Cash forecasting should take the form and have the content now being prepared by SWTC for its Board. The Cooperative has stated that cash flow forecasts for the current calendar year are updated with actual information on a monthly basis and presented to its Board. The Cooperative should update these cash forecasts for each quarterly filing with the most recent available information. There should be provision for regular meetings with Staff following the submission of each report, in order to promote a frank discussion of any potential issues and to encourage the development of a more robust, consistent SWTC forecasting process and sharing of forecasted information with the Commission.

As an example of the need for vigilance, I would cite the results of SWTC's financial forecasts for 2011 and 2012, which include the effects of granting 100 percent of its rate request. Those forecasts show a DSC of only 1.10 in 2011 and 1.03 in 2012. They also show an equity ratio of less than 7 percent in each year. The ratios would be even lower if the $0.9 million Staff adjustments for operating expenses are considered. Notably, however, the forecasts show significant levels of available cash, but it is not clear that this result is consistent with the other data I have had time to review. Plans already exist for future SWTC rate filings. SWTC expects to use 2011 as a test year for establishing new rates effective in 2013. Should the forecasts prove accurate, it appears that there is a strong chance that an increase could be required sooner.

These forecasts, of course, do not bear on the test year in this case, but they do show the potential for a number of factors to cause future financial problems for SWTC. Those factors include capital expenditure-to-loan draw lag, a major system-operation or maintenance problem, and the customer retention consequences of rapidly increasing rates, among others. I am not recommending that these forecasted results be used to adjust upward SWTC's proposed cost of capital recommendation. Rather, I am pointing out the need for measures to remain abreast of post test-period changes in areas such as revenue, interest expense, operating expenses, and capital expenditures, which create the risk of immediate and interim-term changes of consequence for SWTC.

Q. Does this conclude your Direct testimony?

A. Yes.

Randall E. Vickroy

Areas of Specialization

Mr. Vickroy has over 20 years of experience in the utility industry, including ten years as a management consultant. He has managed and performed numerous high-level consulting assignments at companies and utility commissions in over 25 states. His areas of expertise include corporate finance and treasury management; capital markets and financing vehicles; utility industry restructuring; utility rates and pricing; non-regulated lines of business and affiliations; strategy and planning issues; asset valuations and decision-making; capital and expense budgeting and forecasting; corporate resource allocation; and financial and economic analysis.

Relevant Experience

Lead Consultant on electrical energy and capacity purchases and sales and hedging and capital budgeting on Liberty's management and operations audit of the electricity, natural gas, and steam operations of ConEd for the New York Public Service Commission.

Served as Lead Consultant in an audit of the fuel and purchased-power procurement practices and costs of Arizona Public Service Company for the Arizona Corporation Commission. Responsible for reviews of its contracting and supply-management practices for natural gas. His assignment in the Arizona project included an examination of the reasons for differences in off-system sales between Arizona Public Service, including specifically PNM and Salt River Project

Led the review of finance and the protection and insulation of the utility from parent and non-utility operations and finances on Liberty's focused and general management audits of NJR, New Jersey Natural Gas, and affiliates for the New Jersey Board of Public Utilities. This project included detailed examinations of affiliate relationships, governance, financing and utility ring-fencing, compliance with New Jersey EDECA requirements for affiliate separation, protection of confidential information, non-discrimination against third-party competitors with utility affiliates, and other code-of-conduct issues.

Lead Consultant in Liberty's audit of Duke Energy Carolinas for the North Carolina Utilities Commission, focusing on issues of compliance with regulatory conditions and code of conduct.

Led the review of finance and the protection and insulation of the utility from parent and non-utility operations and finances on Liberty's focused and general management audits of SJI, South Jersey Gas, and affiliates for the New Jersey Board of Public Utilities. This project included detailed examinations of affiliate relationships, governance, financing and utility ring-fencing, compliance with New Jersey EDECA requirements for affiliate separation, protection of confidential information, non-discrimination against third-party competitors with utility affiliates, and other code-of-conduct issues.

Lead for examination of financing and risk management on Liberty's focused audit of NUI Corporation and NUI Utilities. This audit included a detailed examination of the reasons for poor financial performance of non-utility operations, affect of affiliate operations, including commodity trading on utility credit and finance, downgrades of utility credit beneath investment grade, and retail and wholesale gas supply and trading operations. The audit included detailed examinations of financial results, sources and uses of funds, accounting systems and controls, credit intertwining, cash commingling, and affiliate transactions, among others. Liberty's examination included very detailed, transaction-level analyses of commodities trading undertaken by a utility affiliate both for its own account and for that of utility operations.

Served as Lead Consultant in Liberty's review of acquisitions of UniSource (Arizona) and Portland General Electric (Oregon) focusing on utility financial insulation, governance, service reliability, access to information, and community presence issues.

Lead Consultant in Liberty's comprehensive analysis of the ratemaking implications of Commonwealth Edison's Chicago electric service outages for the Illinois Commerce Commission. Responsible for investigating and analyzing ComEd's capital budgeting, resource allocation, project management, expenditure levels and rate base impacts for operations leading up to and in response to the outages.

Lead Consultant in Liberty's review of the financial integrity and earnings of Verizon New Jersey's rate regulated and competitive businesses for the New Jersey BPU. Responsible for the financial evaluation of VNJ's earnings, capital structure, rates of return, dividend policies, credit ratings, financial reporting, SEC reporting, and BPU surveillance reports.

Lead Consultant in Liberty's financial audit for ratemaking purposes of Verizon New Hampshire for the New Hampshire Public Utilities Commission. Responsible for a broad and comprehensive analysis of the financial status of VNH, including an audit of the books and records of the Verizon parent, in order to assist the commission in determining rate base, rates of return and appropriate adjustments for the test year.

Project Manager for the development and implementation of regulatory financial systems and models for deregulated ratemaking at Pacific Gas and Electric Company. The project involved developing regulatory strategy, California PSC earnings monitoring models, data bases, analytical models and reporting for all regulatory requirements of PG&E's regulated businesses.

Led the development of a framework and strategy to resolve all electric industry restructuring issues between the State of New Hampshire, Public Service Company of New Hampshire, and the NHPSC. Project included assessment and valuation of all key assets and development of a disposition strategy for all generation assets, contracts and obligations. The project also included the assessment of alternative rate paths; planning for the securitization and recovery of stranded costs; and the development of provisions for power supply purchases during a transition period.

Team leader for the review of the New York Power Authority's profitability, financial reporting, rate competitiveness, pricing policies, power plant economics and economic development programs in this management audit for the state of New York. NYPA is the largest generator and carrier of power in New York, providing over 25 percent of the electricity sold.

Team leader in providing consulting assistance to Kentucky Utilities in preparing its 1993 application for implementing an environmental surcharge. Responsibilities included analyzing legislation, analysis of capital expenditures, analysis of KU's Clean Air Act compliance plan, analysis of costs recoverable under the surcharge, and developing testimony, exhibits, special accounting systems, and rate tariffs.

Project Leader for providing consulting assistance to Big Rivers Electric in preparing its 1994 application for implementing an environmental surcharge. Responsibilities included a review and evaluation of the economics of a major investment in a flue gas scrubber, analysis of Big Rivers' Clean Air Act compliance plan, evaluating cost recoverable under the surcharge, and developing surcharge testimony, exhibits, accounting systems and rate tariffs.

Consultant in Liberty's management audit of GTE South - Kentucky for the Kentucky Public Service Commission. Responsible for the analysis of the financial-management of GTE as it relates to the operation of its GTE South subsidiary.

Lead Consultant in Liberty's management audit of Bell Atlantic - Pennsylvania and Bell Atlantic - District of Columbia for their respective commissions. Responsible for reviewing Bell Atlantic's capital structure, finance and controller functions, financial systems, and treasury operations. Focus areas included the impact of telephone industry competition on capital budgeting, financial management strategy, and treasury operations.

Leader for all financial areas in the review of affiliate transactions among Public Service Electric and Gas, its holding company parent, and the extensive diversified businesses of the holding company. Responsible for evaluating PSE&G's consolidated finance functions to determine whether the financial integrity, flexibility, and cost of capital of the regulated utility had been adversely affected by the activities of diversified affiliates. Work included the review and analysis of the long-term financing, cash management, direct and indirect credit support mechanisms, investor relations, and all transactions between and among the affiliates.

Led the review of finance, cash management, budgeting, and rates in Liberty's comprehensive management audit of Southern Connecticut Gas for the Connecticut DPUC. Responsibilities included operational audits of all finance, regulatory and budgeting processes of SCG.

Led the review of the finance, cash management, budgeting, accounting and rate functions in Liberty's comprehensive management audit of Connecticut Natural Gas for the Connecticut DPUC. Work also included a focus on the financial impacts of CNG's non-regulated businesses, which includes a large steam system in downtown Hartford.

Led the review of the finance, cash management, budgeting, rates, and tax functions in Liberty's comprehensive management audit of Yankee Gas for the Connecticut DPUC. Evaluation included an in-depth analysis of the effectiveness of Yankee's capital and expense budgeting processes and the integration of market and competitive components into these processes.

Led the review of the finance, regulatory and accounting functions in Liberty's management audit of United Cities Gas for the Tennessee Public Service Commission. Responsibilities included a review of all financial functional areas, as well as a review of the impact of all affiliate transactions between the regulated and non-regulated businesses.

Led the evaluation of the financial relationships between Hawaiian Electric Industries and Hawaiian Electric Company for the Hawaii Department of Commerce and Consumer Affairs. The focus of the review was the credit and financial support provided by the utility company to the holding company and its diversified businesses.

Led the review and analysis of corporate governance, financial relationships and affiliate transactions between Virginia Power and its parent, Dominion Resources for the Virginia State Corporation Commission. The review included an evaluation of all utility and non-utility financing, governance and economic impacts. The engagement was in response to a well-publicized dispute between the holding company and Virginia Power.

Led the consulting and monitoring of contracting for electric supply by Western Massachusetts Power following the sale of its generation assets under electric deregulation.

Led the review and evaluation of the financial management practices of a major utility holding company. Engagement included an assessment of overall financial management and crisis-liquidity plans; strategic and business planning; asset valuations and their accounting impacts upon deregulation; independent power contract buy-downs; and rate reduction strategies.

Led the evaluation and recommendation of strategic lines of business for a major municipal utility facing industry deregulation.

Led the development of a strategic framework for the establishment and growth of non-regulated businesses for a major international electric holding company.

Led the development, analysis, and recommendation of alternative electric generation and power resource strategies for a regional generation and transmission company in preparation for electric deregulation.

Led the review and evaluation of all utility and non-utility financing, financial relationships, and affiliate transactions between a major utility holding company and its electric company subsidiary.

Leader for all financial areas in the evaluation of the diversified businesses of a major utility holding company. Engagement determined the impact on financial integrity, financial flexibility, credit mechanisms, and the cost of capital of the substantially diversified businesses of the holding company.

Led the development of an overall gas business strategy, capital asset allocation methods, financial analysis programs and gas main extension policy for a Midwestern combination utility.

Education

M.B.A., Finance, University of Denver
B.A., Business Administration, Monmouth College

Southwest Transmission Cooperative, Inc.
Computation of TIER, DSC and Equity Ratios
Twelve Months Ended December 31, 2001 through 2008

ITEM	5 Mos. Ended 12/31/2001	12 Mos. Ended 12/31/2002	12 Mos. Ended 12/31/2003	12 Mos. Ended 12/31/2004	12 Mos. Ended 12/31/2005	12 Mos. Ended 12/31/2006	12 Mos. Ended 12/31/2007	12 Mos. Ended 12/31/08
Times Interest Earned Ratio Calculation:								
Net Patronage Capital or Margins	$ (842,195)	$ 405,571	$ 2,021,945	$ 785,434	$ (3,789,772)	$ 954,674	$ 2,272,039	$ 4,936,128
Interest on Long-Term Debt	1,890,652	4,269,116	4,155,671	4,413,386	4,956,797	4,867,080	5,026,821	4,934,059
Total	$ 1,048,457	$ 4,674,687	$ 6,177,616	$ 5,198,820	$ 1,167,025	$ 5,821,754	$ 7,298,860	$ 9,870,187
Times Interest Earned Ratio	0.55	1.10	1.49	1.18	0.24	1.20	1.45	2.00
Debt Service Coverage Ratio Calculation:								
Net Patronage Capital or Margins	$ (842,195)	$ 405,571	$ 2,021,945	$ 785,434	$ (3,789,772)	$ 954,674	$ 2,272,039	$ 4,936,128
Depreciation & Amortization Expense	2,610,905	6,265,707	6,435,586	7,021,968	9,573,460	7,539,508	7,549,428	4,347,789
Interest on Long-Term Debt	1,890,652	4,269,116	4,155,671	4,413,386	4,956,797	4,867,080	5,026,821	4,934,059
Total	$ 3,659,362	$ 10,940,394	$ 12,613,201	$ 12,220,788	$ 10,740,485	$ 13,361,262	$ 14,848,288	$ 14,217,976
Principal Payments	2,993,177	5,716,145	6,065,083	6,986,136	7,584,936	8,153,265	8,812,350	8,330,766
Interest on Long Term Debt	1,890,652	4,269,116	4,155,671	4,413,386	4,956,797	4,867,080	5,026,821	4,934,059
Total	$ 4,883,829	$ 9,985,261	$ 10,220,754	$ 11,399,522	$ 12,541,733	$ 13,020,345	$ 13,839,171	$ 13,264,825
Debt Service Coverage Ratio	0.75	1.10	1.23	1.07	0.86	1.03	1.07	1.07
Equity as a Percent of Total Capitalization:								
Margins and Equity	$ 1,812,664	$ 2,218,235	$ 4,240,180	$ 5,025,614	$ 1,235,842	$ 2,190,516	$ 4,462,555	$ 9,398,683
Short Term Debt	-	-	-	-	-	$ -	-	-
Long Term Debt	93,212,774	87,496,630	86,765,581	92,055,461	96,081,798	95,186,071	91,345,173	94,539,306
Total Capitalization	$ 95,025,438	$ 89,714,865	$ 91,005,761	$ 97,081,075	$ 97,317,640	$ 97,376,587	$ 95,807,728	$ 103,937,989
Equity Ratio Percentage	1.91%	2.47%	4.66%	5.18%	1.27%	2.25%	4.66%	9.04%

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 SOUTHWEST TRANSMISSION COOPERATIVE, INC. FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGN TO DEVELOP SUCH RETURNS	)	DOCKET NO. E-04100A-09-0496

DIRECT

TESTIMONY

OF

RICHARD MAZZINI

(CONSULTANT)

ON BEHALF OF THE STAFF OF THE

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JUNE 18, 2010

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EXHIBITS

INTRODUCTION

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

A. My name is Richard A. Mazzini. My business address is The Liberty Consulting Group, 65 Main Street, Quentin, PA, 17083. I am a consultant affiliated with The Liberty Consulting Group.

Q. Please describe your educational background and professional experience as they relate to the subject of your Testimony.

A. I have been engaged as a consultant and utility manager in the electric utility industry since 1967. Until 1995, I was employed by Pennsylvania Power & Light Company in a variety of senior management positions. After entering the consulting business in 1995, I served in senior positions with Washington International Energy Group, Navigant Consulting and ABB. I have been an independent consultant since 2001. As a consultant, I have assisted utilities throughout the United States, Canada, the Caribbean and Europe and have worked on behalf of many utility regulatory authorities.

I have a BEE degree from Villanova University and an MS degree in Nuclear Engineering from Columbia University. I am a Registered Professional Engineer in Pennsylvania and a member of the Institute of Electrical and Electronics Engineers and the American Nuclear Society.

Exhibit LCG-4 provides a more detailed summary of my background.

Q. What is the purpose of your Testimony?

A. On behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"), I reviewed the rate filing of the Southwest Transmission Cooperative

("SWTC"), Docket No. E-04100A-09-0496. My assignment was to conduct an engineering analysis of the filing, with particular note of SWTC's maintenance practices and the performance of its system. In addition, I was charged with reviewing facilities being added to the rate base and the degree to which such facilities are "used and useful". The purpose of my testimony is to present the conclusions I reached as a result of that work.

Q. Have you prepared a report on your findings?

A. Yes. A detailed engineering analysis is attached as Exhibit LCG-3.

Q. Please summarize your major conclusions.

A. The results of my review are generally positive. SWTC has adequately justified its projects, and managed its construction effectively. Maintenance practices are appropriate, and the maintenance process is managed with state of the art systems. Reliability performance is good and outage time has consistently averaged well under one hour per year per customer. Operating costs appear consistent and reasonable, with the caution that management could improve the quality of cost analysis and oversight.

Q. Did you physically examine SWTC facilities?

A. Yes, I visited a number of facilities, including three substations at which new investments had been made, the operations center, the corporate headquarters, and warehouse facilities. The three substations visited were:

- Winchester Substation and the recently installed 345kV connection with TEP;
- Bicknell Substation and the new 230kV/115kV transformer upgrade;
- Sandario Substation and the new connection to the Avra Valley – Three Points line.

I found all facilities to be functional and in good condition.

Q. How did you reach your conclusions on the 'used and useful' nature of new rate base additions and what were those conclusions?

A. I reviewed the justification materials for all new major projects and found them to be appropriate. In addition, I discussed each project with SWTC management, and was satisfied that their discussion of the need for each project was appropriate and consistent with the documentation. Finally, I visited several of the new projects, including the three susbstations mentioned above (Winchester, Bicknell and Sandario) and found the physical inspection to support management's explanations. I concluded that there was a sound process and prudent decision-making behind the new additions to rate base.

Q. Does that conclude your testimony?

A. Yes.

Rate Application of Southwest Transmission Cooperative, Inc

Engineering Analysis

On Behalf of the Staff of the Arizona Corporation Commission

Liberty conducted an engineering analysis of the assets of Southwest Transmission Cooperative, Incorporated ("SWTC"). As described in the work plan of Liberty's proposal to conduct this review, our goal was to evaluate SWTC's electric transmission service quality and maintenance practices. We reviewed existing maintenance practices, examined how SWTC documents them, and reviewed management controls to ensure proper implementation and execution of those practices. Liberty also reviewed outages on the transmission system. Liberty also conducted a review designed to determine the "used & useful" nature of rate-base assets. Liberty's review included physical field inspections of SWTC facilities and interviews with the personnel responsible for managing them.

This report presents the results of Liberty's review, categorized into the following subjects:

- Capital additions and rate base
- Operation and Maintenance
- Reliability
- Facility Review

A. Summary

Liberty has found SWTC's technical performance, its people and its facilities to be sound. The management team appeared knowledgeable, engaged, open and supportive of Liberty's evaluation. Considering the comparatively small size of the transmission cooperative's operations and asset basis, the organization appeared to have expertise and tools commensurate with the needs and challenges that SWTC faces.

New projects are often triggered by the individual needs of members, as opposed to general system needs. Whatever their origin, however, they require an extensive evaluation and justification process before SWTC commits to them. Some new facilities of SWTC are lightly loaded. Liberty found no indication that any facilities were built prematurely or without substantial justification. Liberty found no reason to question whether any property placed in service should not be considered "used and useful" for ratemaking purposes. Liberty's inspection of SWTC facilities included several recent additions to rate base as well as the control center and warehouse. In all cases, the facilities are in good condition and functioning as expected.

Maintenance practices conform to industry standards and SWTC employs a state-of-the-art maintenance management system. Compliance audits undertaken in 2008 and 2009 surfaced several issues; all have been satisfactorily resolved.

Reliability performance is good. A proportionately high rate of outages due to equipment and materials failures is a potential area of improvement and may merit a review of the cause of such outages versus maintenance practices. In addition, there appears to be a relatively high number of outages due to errors, including those of operators and technicians as well as relay settings, which may also be a potential area for improvement.

Cost performance in the management of capital projects appears to be good. Projects are generally completed at slightly under budget and there are very few projects that over-run by large amounts. .

Operating cost performance is difficult to judge in absolute terms because of the lack of benchmarks. The historical data and future projections exhibited some anomalous patterns that were not suitably explained by SWTC.

B. Background

The Arizona Electric Power Cooperative ("AEPCO") was founded in 1961. Through a major restructuring in 2001, AEPCO was organized into three entities: 1) AEPCO, as a power supply organization, 2) SWTC as the transmission entity for serving the needs of member cooperatives and 3) Sierra Southwest Cooperative Services ("Sierra"), which provides services and personnel for both AEPCO and SWTC. This structure was originally designed to match the changing requirements in the industry, in particular to position the enterprise to address market opening measures that, at the time, looked to be emerging. The original allocation of personnel placed most personnel at Sierra, but assigned staff directly to the other two entities to align with a RUS requirement that the CEO described as requiring each of the three entities to have intellectual capital. SWTC currently owns, maintains, and operates 23 substations and 610 miles of transmission lines.

All of SWTC's senior managers are employees of SWTC. The remainder of the transmission cooperative's staff is split between SWTC and Sierra. Management observes that SWTC has retained "core" functions in the transmission cooperative. The organization chart, however, does not seem to exhibit such a pattern[1]. Combining shared-service functions into a separate organization to serve multiple business units has been demonstrated as an effective option. However, it is rare to find such "fuzzy" delineation, especially among production resources. For example, Operations and Maintenance and Engineering are primarily Sierra employees, while Technical Services and System Operations are primarily SWTC employees.

Liberty did not see a particular logic behind or benefit to this organizational division. However, we also saw no evidence of this hybrid structure impeding overall effectiveness in any way. In practice, we observed that the SWTC and Sierra technical transmission personnel seem to operate as a single organization, regardless of the entity that employs them technically. There may be two organizations on paper, but Liberty found only one in practice, at least when it comes to technical execution. Accordingly, Liberty found no reason for criticism of the organization's design, functioning, and effectiveness.

SWTC also has a challenging ownership structure. Not all its members are full requirements customers. This differentiation complicates the planning process and has the potential to lead to

[1] STF 1.25

governance issues. Liberty did not analyze any consequences of this structure and saw no reason to assume that such issues are a problem at this time.

C. Capital Additions and Rate Base

1. The Planning Process

The Southwest Area Transmission ("SWAT") planning group and its various subcommittees coordinate sub-regional planning. SWTC participates in the SWAT planning process. SWTC also participates actively with various subcommittees of the Western Electricity Coordination Council ("WECC").

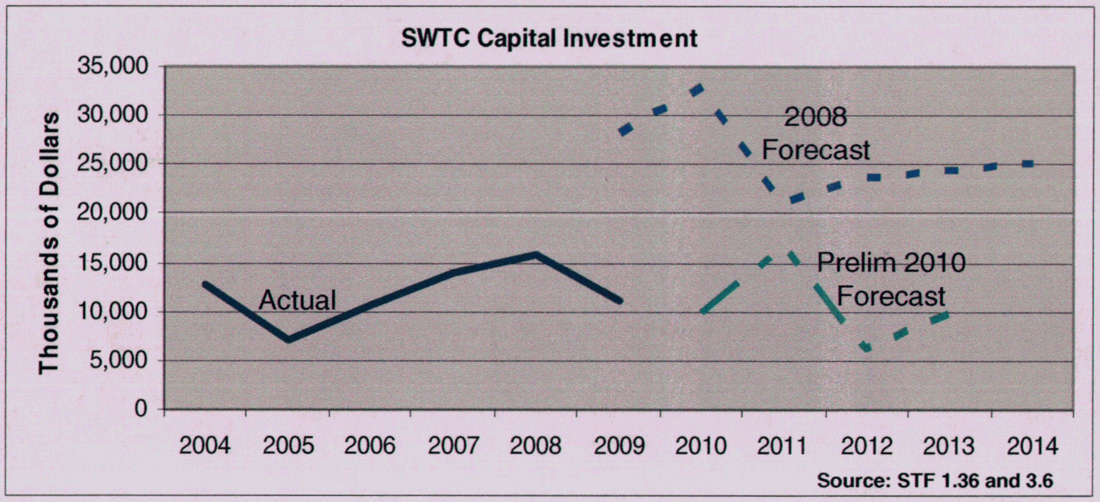
SWTC is also an active participant in WestConnect. It is one of the twelve original signatories to the WestConnect Project Agreement for Sub-regional Transmission Planning. WestConnect is a voluntary group that formed to coordinate transmission planning with the intention of creating an economic path on a non-firm basis. The objective is to eliminate pancaking by charging only the highest rate along the path (losses continue to be pancaked).

SWTC operates under a formal internal planning process that meets RUS requirements. An SWTC Transmission Planning group evaluates system needs, and determines future facility requirements. In accordance with RUS requirements, SWTC completes a "Capital Project Analysis" form that provides a justification for all new facilities. These 3-5 page analyses offer a summary of the technical and economic factors surrounding proposed projects. In addition, alternates to the proposed project, including "do nothing," are presented.

New construction falls into one of two categories: system or direct assignment. The latter covers improvements made specifically for the benefit of a particular member, which bears all of the costs. System improvements benefit all members; therefore, all share in their costs.

2. Capital Budget

SWTC's perceptions on its future needs have changed significantly in the past two years, as the next chart illustrates.



Spending had been projected to essentially double from recent annual levels of $10-15 million. But SWTC was not immune from the economic downturn. Load growth plunged from the 8 percent range to a small fraction of that. In addition, the end of AEPCO's 100 MW sale to Salt River Project at the end of 2010 will affect SWTC. Management therefore reports now that "capital is being reduced." The revised level represents a roughly 60 percent decrease from the previously expected levels of more than $25 million.

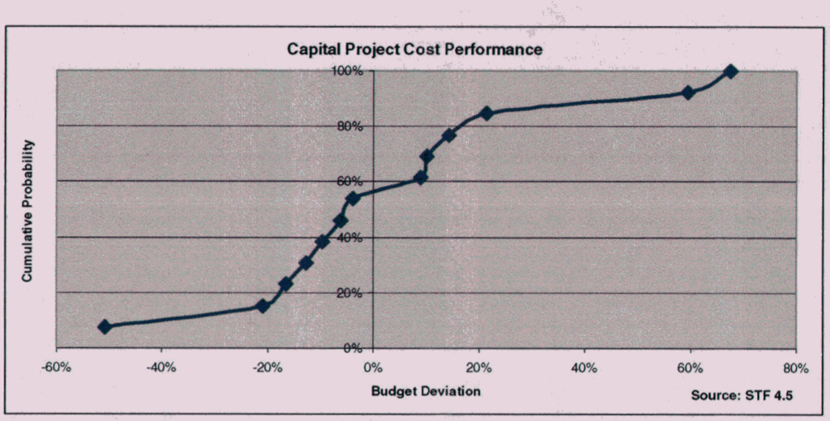
It is clear that planning has proven difficult for SWTC in recent years. The economic downturn has increased the planning challenge for everyone. SWTC has been particularly hard hit because of its previously high growth rates. Management has indicated that the uncertainties of recent years have been so volatile that multi-year forecasts have often had to be completely re-done. The more traditional simple updates no longer served.

Future needs have been affected by more than declining load growth and the lost Salt River Project sale. The third factor concerns strategic moves relating primarily to reserves, at both AEPCO and SWTC. The benefits of such reserve-sharing reduce capacity requirements.

The precipitous drop in perceived needs begs the question as to the need for new facilities that were caught in the economic downturn. Some of those facilities include those that are a subject of this rate case. Liberty thus paid special attention to the question of need and the degree to which the facilities being added to the rate base are indeed "used and useful."

With respect to management of construction, SWTC uses a project management approach. It reports projects to be invariably under budget by 5-10 percent. A summary of the 13 projects completed since 2008 indicates an average under-run of 16%, but that is almost all due to one project. On a median basis, the under-run is 4%.

The accompanying chart shows the distribution of budget deviations across the 13 projects. The data points are concentrated in a ± 20% range with a preponderance of under-running projects. Any project variances over the lesser of $100,000 or 30% require board approval. There were three such projects since 2008.



3. New Facilities

Liberty specifically reviewed major (>$500,000) new facilities being added to rate base. Such projects amount to $29.4 million as detailed in the accompanying table.

New Additions to Rate Base (>$500,000)			
In Service	Asset	Cost ($1,000)	Need
2004	TEP 345kV Connect to Winchester Sub	965	Increase load serving capability into the SATS area.
2006	Sandario Substation	3,040	Requested by Trico for load growth. Direct assignment.
2007	Hackberry Substation	2,218	Required to serve the Phelps Dodge Safford Mine.
2007	Kartchner Substation	1,001	Replace 50 MVA transformer with 100 due to load growth.
2007	Saddlebrook Ranch Substation	3,815	Requested by Trico due to regional growth. Direct assignment.
2008	Bicknell Sub Transformer Upgrade	3,145	Add a second 100 MVA transformer due to overload conditions.
2009	Hackberry to Thatcher 69kV line	5,406	Maintain reliability to customers in Graham County. This line to the new Hackberry Sub avoids construction of a new substation.
2009	Palo Verde to Pinal West line	2,854	Provides increased import / export capability and particularly enhanced access to Palo Verde.
2009	Parker Bagdad Reroute	588	The ground was subsiding around some of the structures on this line.
2009	Pinal West Sub	6,385	Associated with the particpation in the connection of the 500kV line from Palo Verde to the 345kV TEP Westwing to Vail line

Source: STF 1.34 and Capital Project Analysis sheets

Liberty's review consisted of: a) a study of the SWTC documents which justified the projects (the Capital Project Analysis sheets), b) discussions with the SWTC team, reviewing the details of the projects, their genesis, need, objectives and execution, and c) a physical inspection of selected facilities.

Because of the recent sharp drop in facility needs, Liberty was especially attuned to the appropriateness of very recent additions, considering these facilities carefully in discussions with management. Liberty's review determined that the investments had been based on sound planning principles and the decisions were prudently made. Specific considerations include the following:

- The Bicknell upgrade was necessary due to an analysis showing overload conditions; specifically, the prior facility did not meet N-1 criteria. The addition of a second transformer was a logical and economic response.

- The Hackberry to Thatcher 69kV line took advantage of a new substation at Hackberry (see 2007) that was constructed to serve a Phelps Dodge mine. The construction of this line was a lower cost alternative to building another new substation to serve Graham County load.
- The Parker-Bagdad relocation became necessary due to unstable ground conditions.
- The Pinal West substation and the associated line from Palo Verde are part of a joint project in which SWTC owns between 4 and 24 percent of various parts. This participation is of strategic import to SWTC; it enhances access to the critical Palo Verde and Westwing hubs. SWTC's members are likely to become increasingly dependent on purchased power, including joint agreements, in the years ahead. In such an environment, increased access to the major regional hubs will prove especially valuable. These investments are fully consistent with a prudent consideration of future procurement strategies. From a timing point of view, it is clear that SWTC had no real options. As a small participant, SWTC had no choice but to "get on board" when the opportunity presented itself or lose that opportunity.

4. Aging Infrastructure

Many utilities throughout the United States are beginning to confront issues of aging infrastructure, particularly because the many facilities constructed in the high growth 1960s are all reaching the end of design life at the same time. In 2007, RUS required SWTC to conduct a "useful life study" of SWTC assets. That study, performed by Burns & McDonnell, was designed to assess "the ability of the power delivery network assets to remain in commercial operation through the year 2035." The consultant concluded that "the SWTC power delivery network assets have a remaining useful life that extends to at least 2035" and that the "overall condition of the system is good".[2]

Burns & McDonnell calculated an average remaining life of 23.3 years for the system, which of course falls short of 2035. They concluded that the system has a useful life of 2035 and beyond

[2] STF 1.30

"with the continuation of the practices followed by SWTC pertaining to system operation and maintenance and the *system renewals and replacements* (Liberty emphasis)." It is fair to question the appropriateness of the life assessment when it is predicated on continuing renewals and replacement, since that condition would of course allow an infinite life.

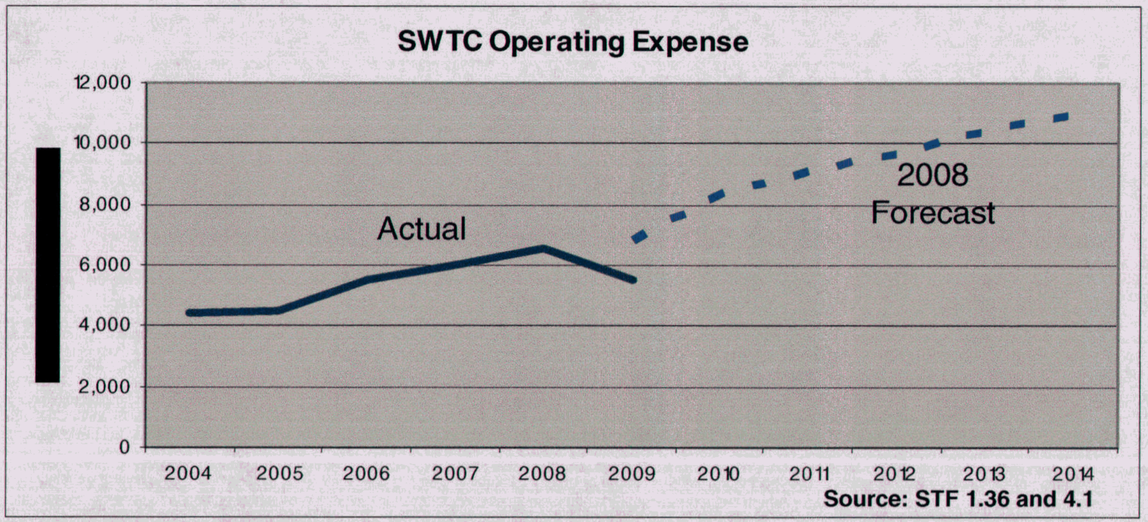
The study provides details for every class of equipment, and rolls these details together in facility and system averages. Some facilities (not many) are shown to have limited remaining life, but this information generally is not included in SWTC's planning studies. Those studies are primarily driven by load and reliability considerations. Aging infrastructure is not now an issue for SWTC nor is it likely to be an issue in the near future, but the useful life study contributes little to that conclusion.

D. Operation and Maintenance

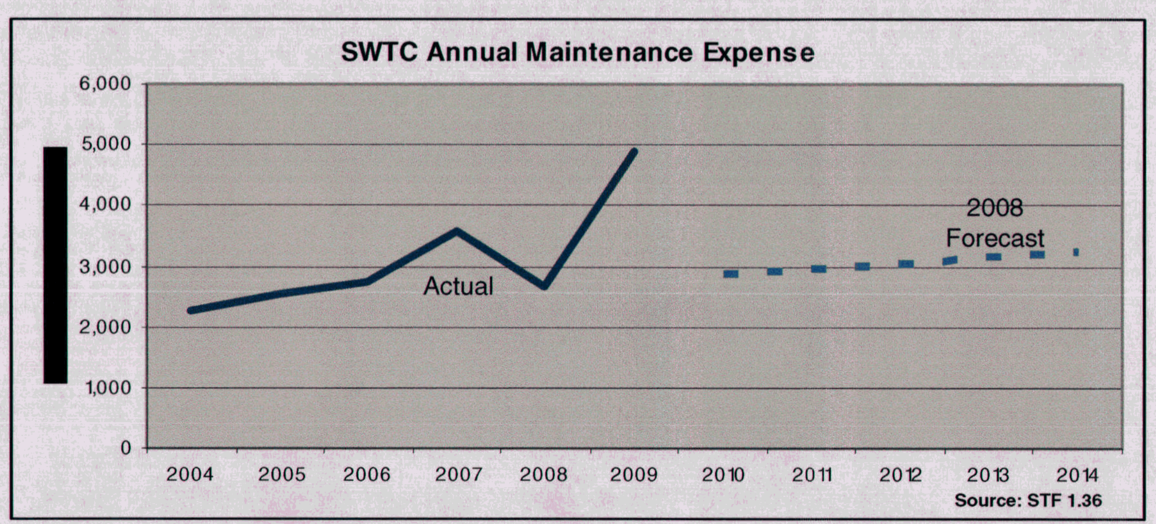
1. Cost

SWTC's costs have exhibited unusual patterns of late. Operating costs, shown on the accompanying chart, have risen sharply in recent years. Of equal concern is a forecasted rise in future costs. They result in a doubling of 2009 costs by 2014. SWTC attributes the high forecast to the previous high growth rates and indicates that this forecast will see a "significant decrease" in the new financial forecast[3].

[3] STF 4.3



Maintenance costs also exhibit an unusually discontinuous pattern. They exhibit a substantial spike in 2009, which follows a lesser spike in 2007. SWTC has indicated that reported costs may vary between accounts on a year-to-year basis, requiring that any analysis be limited to total O&M costs[4]. SWTC also provides explanations for the apparent spikes, but they do not appear sufficient to explain the differential. Specifically, many of the changes cited are ongoing expenses, not one-time. In addition, increases have been attributed to the higher forecasted capital spending, which of course did not materialize.



[4] STF 4.1

SWTC does not benchmark costs against other similar firms; therefore, no peer comparisons are available. Liberty generally encourages such comparisons by utilities, including participation in industry groups such as the Electric Utility Cost Group (www.eucg.org). It is not necessarily clear that SWTC would benefit from such an association, but it should at least be considered.

2. Processes and Systems

SWTC appears to have implemented an approach to maintenance that is consistent with its size and that is effective. The cooperative has struck a good balance between the sophistication of management systems and the recognition that a smaller network simply does not require the same degree of rigor in its approach.

This is not to suggest that SWTC lags behind others in a material way. To the contrary, the SAP systems that SWTC uses for maintenance are notable, as is much of the technology used in facilities. Liberty simply observes that management has correctly avoided going overboard and has crafted systems and approaches that are fully consistent with SWTC's size and needs.

Liberty reviewed SWTC's general approach to maintenance management[5], procedures[6], controls and compliance[7]. The management of maintenance is highlighted by the SAP module designated as the Computerized Maintenance System. The software performs scheduling, record keeping, reporting, inventory control, purchasing and cost tracking. Several years were required to bring the system to its current state. Management reports that this investment is now paying dividends. SWTC also maintained a Transmission Asset Management Information System (TAMIS) which is characterized now as a GIS legacy system. It is no longer being updated.

SWTC operations and restoration have been facilitated by a new Substation Networking Project. Remote terminal units allow personnel to access substation data from their desks or other remote locations.

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[5] STF 1.26
[6] STF 1.27
[7] STF 1.28

As required by NERC, SWTC has been audited for compliance with various standards. The latest audit was conducted by the Western Electricity Coordinating Council ("WECC") in early 2009. The audit covered 35 NERC Reliability Standards and three WECC Regional Reliability Standards. The results of that audit reflected strong performance. The audit's only identified non-compliances related to what appear to be relatively confined training questions.

An earlier WECC review had identified two other non-compliances. One related to preparation for inoperability of the control center and the other dealt with protection system maintenance and testing. In September 2009, SWTC and WECC reached mutual agreement on the disposition of the earlier non-compliances and the 2009 training findings. This resulted in the payment of a $44,000 penalty to WECC by SWTC.

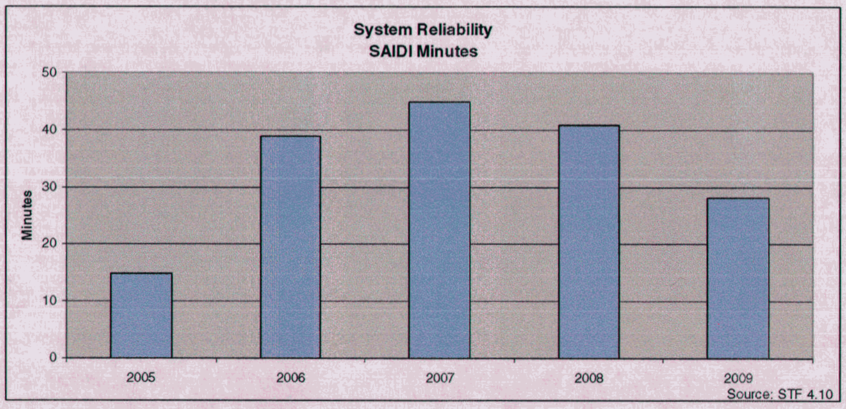
All non-compliances must be taken seriously, which SWTC does. Liberty has nevertheless seen no indication that SWTC's maintenance activities fail to conform to good utility practice overall.

3. Balancing Reliability and Maintenance

Liberty addressed the degree to which maintenance is optimized for its impact on reliability. SWTC has not performed any such analysis.[8]

E. System Reliability

1. Reliability Performance



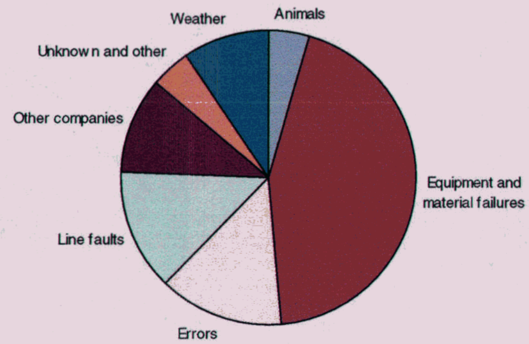
The reliability of the SWTC system is not inconsistent with utilities having similar characteristics. SAIDI[9] has averaged 34 minutes over the

[8] STF 1.29
[9] System Average Interruption Duration Index = sum of all customer interruption durations divided by the number of customers.

past 5 years, as illustrated in the accompanying table. Reportable outages average about 20 per year, and the small quantity makes it difficult to ascribe any significance to year-over-year results. The analytical challenge is heightened since some outages are directly related to others, making the actual number of outages somewhat difficult to interpret.

Liberty reviewed all reportable outages (those >100 customer-hours) in the past 5 years and summarized the causes, as illustrated on the accompanying pie chart. Nearly half of customer-hours are the result of equipment and material failures. The nature of the system is such that weather and vegetation do not have the same impact they would have elsewhere, so one would expect the other categories to be higher on a percentage basis. Nevertheless, the high number of equipment and material failures suggests that a linkage with maintenance be analyzed as a potential performance improvement.

Reportable Outages
(>100 customer-hours)



Source: Liberty analysis of STF 1.32

"Errors" accounted for about 14% of the customer-hours but 20% of the reportable outages. We have included in this category operator and technician errors as well as improper relay settings. This is an area for potential improvement.

2. Lessons Learned

Liberty examined the degree to which SWTC analyzes and reviews reliability data to bring about improvements in design, operating and maintenance practices. SWTC provided a lengthy list of such improvements, stretching back to 2000.[10] The data Liberty reviewed indicated that an effective process for identifying root causes and implementing corrective measures is in place. There is no documented or otherwise obvious linkage, however, between these many improvements and specific outages or reliability-focused analyses. In other words, SWTC seems effective in this area, but lacks a formal program and process.

SWTC also provided documentation of all equipment outages, regardless of customer impact. That documentation included comments on each incident that describe cause and response. Again, however, there is no indication of structured analysis leading to improvements.

F. Facility Review

Liberty visited a number of SWTC facilities, including several of these now being added to rate base. This physical review included:

- Winchester Substation and the recently installed 345kV connection with TEP
- Bicknell Substation and the new 230kV/115kV transformer upgrade
- Sandario Substation and the new connection to the Avra Valley – Three Points line
- The System Operating center at the Benson headquarters
- The SWTC warehouse facilities at the Benson headquarters
- The SWTC switchyard at Apache (from outside the fence as part of a separate visit to AEPCO at Apache)

These visits were conducted with the guidance of SWTC O&M management who were helpful, and answered all questions to Liberty's satisfaction. Liberty found the facilities, whether old or new, to be in good shape. The grounds were clean and secure.

All equipment appeared to be well maintained, exhibiting no visible signs of wear and tear or lack of maintenance. Control houses were efficiently laid out and SWTC's remote communications system, as discussed above, was in place and functional.

Warehouse facilities were clean and orderly with controlled access. The SAP system is used for inventory management and was reported to be very effective.

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[10] STF 1.33

Richard Mazzini

Areas of Specialization

Management and regulatory audits; utility operations, including nuclear and other power production; power marketing and risk management; strategic planning; organization analysis and competitive re-structuring; project management; cost management; and tariff design and management.

Relevant Experience

The Liberty Consulting Group

Public Service Commission of New York – A management audit of Con Edison. Project Manager for a 13-member Liberty consultant team.

Maine Public Utilities Commission – Review and analysis of proposed new transmission project, the Maine Power Reliability Project (MPRP). Lead Consultant for economic analysis.

Public Service Commission of Maryland – Consultant supervising the various auctions for procurement of power for Maryland's standard offer service (SOS) customers and support for the PSC in their analysis of new approaches to SOS supply.

Management Audits

Public Service Commission of New York – An operational audit of Con Edison's reliability and emergency response planning and processes. Lead Consultant for corporate strategy and priorities, emergency planning and organization.

Federal Energy Regulatory Commission (FERC) – A review of the California ISO. Examined governance issues, operating procedures, transmission planning and analysis, organizational issues, interfaces with stakeholders and recommendations for the restructuring of the California market.

City of Seattle (Washington) – Review of the City's utility, commissioned by City Council and the Office of City Auditor, to analyze financial strategies, power market and risk management strategies and governance schemes. Lead Consultant for risk management.

St. Vincent Electricity Services, Ltd. – A management audit commissioned by the Board of Directors. Scope included generation, transmission, distribution, organizational assessment, safety, procurement and fuel.

New Jersey Bureau of Public Utilities – Evaluation of the gas supply and hedging programs of the four New Jersey gas distribution companies.

New York Power Authority – Consulting support for an internally sponsored audit of energy risk management functions.

Strategic Business Planning

Barbados Light & Power Company – Project Manager and Lead Consultant for a strategic planning initiative. Major areas of attention included new generation options, regulatory strategies, competitive threats, tariff design, new business opportunities, human resource issues, and planning processes.

Barbados Light & Power Company – Project Manager and Lead Consultant for the development of a model for the risk analysis of various new generation investments.

Electricité de France – Provided business planning and analysis services in the furtherance of the utility's wholesale and retail businesses. The work included research and analysis of potential gas partnerships, trading alliances and development of new retail markets throughout Europe.

SaskPower (Saskatchewan) – Project Manager and Lead Consultant for development of a strategic plan for the Power Production Business Unit. The project included asset valuation and optimization, transmission plans and strategies, efficiency improvement, market analysis and organizational options.

Omaha Public Power District – Project Manager and Lead Consultant for an extensive strategic business planning initiative. This multi-phase project spanned one year and included (1) asset evaluation, estimation of potential stranded costs and stranded cost mitigation strategies; (2) business growth strategies, including retail retention and expansion, new products and services, new utility businesses, wholesale marketing and bulk power trading; (3) corporate restructuring through the formation of four new business units; (4) organization design, including the creation of two new marketing organizations and a new trading floor; and (5) regulatory and legislative strategy development.

Omaha Public Power District – Project Manager and Lead Consultant for a follow-up analysis to the above project a year later to recommend added steps and course corrections. Provided new recommendations on organization design, customer service, stranded costs, energy marketing and trading initiatives, risk management, new business development, new products and services and strategic planning processes.

A Large Canadian Provincial Electric Utility – Strategic planning and business support in the analysis of future generation and transmission options associated with a major new generation construction project.

Tennessee Valley Public Power Association - Project Manager and Lead Consultant for development of a comprehensive new business strategy that reinvented the Association for a competitive environment. Key elements of the plan included a new expanded focus on

government relations and the influencing of public policy, as well as the creation of four newly created business units and business endeavors.
City Council of Los Angeles (California) - Advice to the Council on the strategic plans of its municipal electric utility. Conduct of a workshop for the Council and staff on restructuring and competitive issues. Review of power marketing alliance strategies.

Riverside Public Utilities (California) - Analysis of the potential to sell all or part of the utility. Development of a new business vision and strategy. Analysis of outsourcing and alliance possibilities. Development of a power supply alliance, including design of the venture, development of RFP, evaluation of bidders, selection of finalist and negotiations. Organizational design and implementation. Planning and project management support for activities leading to open access.

Lower Colorado River Authority – Consulting support for strategic review and development of alliance strategies. Facilitation of management workshop to develop strategic responses to key issues and to examine options for strategic alliances.

ElectriCities of North Carolina – Business simulations and strategic planning for the North Carolina Power Agencies.

ElectriCities of North Carolina – Analysis of the Carolina P&L – Florida Progress merger with resulting strategies and negotiations on behalf of ElectriCities.

4–County Electric Cooperative - Strategic planning support for the Chief Executive Officer and Board of Directors. Designed and facilitated a planning workshop for the Board of Directors and key managers. Followed up with subsequent action plan for the Board.

Project and Cost Management

Omaha Public Power District (OPPD) – Lead Consultant responsible for design and implementation of a cost management program for a major overhaul of the Fort Calhoun Station. This $400 million project involved replacement of the two steam generators, pressurizer and reactor vessel head.

Power Marketing, Procurement and Risk Management

Public Service Commission of Maryland – Consultant supervising the various auctions for procurement of power for Maryland's standard offer service (SOS) customers and support for the PSC in their analysis of new approaches to SOS supply.

Electricité de France – Supporting services for the implementation of a large trading and marketing alliance in Europe, including reporting and control processes and training workshops for employees.

SaskPower - Project Manager and Lead Consultant for the expansion of the bulk power marketing program and creation of an energy trading floor. Work included extensive recommendations on corporate structure, organization, trading and marketing strategies, trading floor characteristics, management controls, risk management strategies, training, alliance building and external interfaces.

Public Service Commission of Maryland – Provided consulting support to the PSC in the approval of the settlement agreement relating to Standard Offer Service (SOS).

New Businesses

BGE Corporation (Constellation Nuclear Services) – Project Manager and Lead Consultant for the business analysis, planning, design and startup of a new subsidiary business for the client. The business, provision of nuclear related services to U.S. and international utilities, was successfully started in July 1999.

Electricité de France – Provided support in the planning, analysis, structure and negotiation of a large international energy trading and marketing alliance (EDF Trading, based in London).

Tennessee Valley Public Power Association – Project Manager and Lead Consultant for a survey and analysis of the Association's more than 150 member utilities. Produced an analysis with recommendations for the products and services that can best serve the members in a deregulated environment.

Municipal Electric Association (Ontario) – Project Manager and Lead Consultant for the development of a definitive business plan for a new power procurement business on behalf of the Association's more than 250 municipal electric utilities. Work included initial feasibility assessments followed by a complete actionable plan for the creation of the new organization, including structure, organization, staffing, financing, market analysis, contingency plans, product offerings and promotional strategies. The resulting new company became a reality in late 1997.

ENERconnect (Ontario) – Served as interim Vice President of Marketing and Customer Service for the startup of this new power procurement and services company. Project Manager and Lead Consultant for the development of a detailed operational plan for startup. Assisted in all aspects of startup including organizational design, business strategies, product design and development and support to executive management and the Board.

ABB Energy Solution Partners – Consulting support for ESP-sponsored projects, including customer and project research, project structure, energy supply options, alliances and preparation of proposals. Included regulatory research and discussions in Nevada, Michigan, New Jersey and New York.

Ambient Corporation – Consulting support for strategic and tactical business planning for this startup firm specializing in power line communications (PLC), including development of commercialization plan and supporting management processes, support of business plan, product and service development, regulatory strategies and financing documentation.

PacifiCorp - Customer research with two groups of large industrial and commercial customers. Designed and managed interactive workshops to obtain their input, served as subject matter expert for the sessions, produced and presented comprehensive analyses of the results with strategic insights for the client's marketing initiatives.

T&D Support

Alberta Electric System Operator – Analysis of transmission loss methodologies for the Alberta market.

A Large Canadian Provincial Electric Utility - Business planning support for the transmission business unit. Analysis of the business potential of new transmission opportunities. Analysis of U.S. transmission policies and their potential impact on a Canadian player in the U.S. markets.

Utility Management

Pennsylvania Power & Light Company - Served in a variety of management positions in a long career with the utility. Responsible for strategic business planning, rates, bulk power marketing, system operation, management of non-utility generation contracts, rate design, market research and contract negotiations with large customers. Key management roles in cost management, planning and scheduling for all Susquehanna nuclear station design, licensing, and startup activities including outage management.

Other Consulting Positions

Senior Vice President for ABB Energy Consulting, responsible for managing consulting engagements for a variety of U.S. and European energy firms.

Principal for Navigant Consulting, Inc., involved in numerous consulting engagements serving the electric utility industry in competitive initiatives.

Senior Vice President for the Washington International Energy Group, responsible for the firm's competitive positioning practice.

Education

M.S., Nuclear Engineering, Columbia University
B.E.E., cum laude, Villanova University

Registrations
Registered Professional Engineer – Pennsylvania

Memberships
Institute of Electrical and Electronics Engineers
American Nuclear Society