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June 24, 2010

HAND DELIVERED

Steve Olea, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

JUN 24 2010

DOCKETED BY

Re: *SWTC's Annual Equity Analysis Update;*
Decision No. 69239; Docket No. E-04100A-06-0058

Dear Mr. Olea:

In Decision No. 69239 (Finding of Fact No. 20, First Ordering Paragraph at page 10), the Commission instructed Southwest Transmission Cooperative ("SWTC") to file an annual update by June 30 of each year to "the equity analysis it filed June 2006, such reports to explain deviations from SWTC's initial projections in June 2006." This report complies with that requirement.

The equity analysis which SWTC filed with the Commission in June 2006 used the 2005 Financial Forecast. That forecast was prepared internally and approved by the SWTC Board of Directors in 2004. Based on that forecast, the Base Case (Exhibit A to the June 2006 Equity Analysis) projected that equity as a percentage of total assets would be 3.94% as of year end 2009.

As of the end of 2009, SWTC's actual equity/asset percentage was 7.45%.¹ The 2005 Financial Forecast had projected that SWTC would have a negative 2009 net margin of about \$670,000. In fact, the audited financial results show that the 2009 actual net margin was a positive \$41,000.

The SWTC 2005 Financial Forecast had expected that SWTC's equity/asset percentage and its net margins would begin to decline in 2009. While both have begun to decline, the equity/asset percentage is still above projected levels due to increased sales of transmission

¹ Expressed as equity as a percentage of total capitalization, the 2009 year end result is slightly higher at 7.76%.

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service in the past several years that were not expected when the 2005 forecast was prepared. The decline in the equity/asset percentage and the net margin from 2008 to 2009 was due primarily to the termination of the City of Mesa contract at the end of 2008.

SWTC filed a rate application in October of 2009 that addresses the City of Mesa contract expiration as well as other contract terminations and/or reductions of transmission service from various customers in 2009 and 2010. Should Staff have questions or need additional information concerning this filing, please contact me or Gary Pierson.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

A handwritten signature in black ink, appearing to read "Michael M. Grant", with a long horizontal flourish extending to the right.

By:

Michael M. Grant

MMG/plp
15169-9/2487131v3

cc: Carmel Hood, Compliance Section (delivered)
Gary Pierson

Original and 13 copies filed with Docket
Control this 24th day of June, 2010.