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BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE
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2010 AUG 16 P 3:49

AZ CORP COMMISSION
DOCKET CONTROL

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

Trico Electric Cooperative, Inc., through undersigned counsel, files the Surrebuttal
Testimony of Vincent Nitido in the above-captioned docket.

RESPECTFULLY SUBMITTED this 16th day of August 2010.

ROSHKA DEWULF & PATTEN, PLC.

Arizona Corporation Commission
DOCKETED
AUG 16 2010

DOCKETED BY [Signature]

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TO APPROVE RATES DESIGNED TO DEVELOP)
SUCH RETURN.)
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Surrebuttal Testimony of

Vincent Nitido

on Behalf of

Trico Electric Cooperative, Inc.

August 16, 2010

1 **Q. Please state your name and business address.**

2 A. My name is Vincent Nitido and my business address is 8600 West Tangerine Road,
3 Marana, Arizona, 85658

4
5 **Q. What is your position with Trico Electric Cooperative, Inc. ("Trico" or the**
6 **"Company")?**

7 A. I am Chief Executive Officer and General Manager of Trico.

8
9 **Q. Please describe Trico.**

10 A. Trico is a not-for-profit electric cooperative serving more than 38,000 customers in
11 northwest Tucson, Marana, Mt. Lemmon, Corona de Tucson, Sahuarita, Green Valley,
12 Three Points, Arivaca and adjacent rural areas. Trico has approximately 38,000
13 customers with approximately 40,000 active meters. We primarily serve residential
14 customers but we have a small but growing number of commercial customers and some
15 large commercial and industrial customers.

16
17 As a member-owned cooperative, each of our customers is also a member of the
18 cooperative. We are governed by a seven member board of directors. Trico members
19 elect fellow members to represent them on the cooperative's board of directors. One
20 representative is elected from each of seven director districts.

21
22 **Q. What is the relationship between Trico and Southwest Transmission Cooperative**
23 **Inc. (SWTC)?**

24 A. Trico is one of the six Class A Member distribution cooperatives of SWTC. Trico
25 receives wholesale transmission services from SWTC for power provided by Arizona
26 Electric Cooperative, Inc. (AEPCO). As a Class A Member of SWTC, Trico appoints
27 two members of the board of directors of SWTC.

1 **Q. What is the purpose of your direct testimony?**

2 A. On behalf of Trico, I am responding to the direct testimony of Arizona Corporation
3 Commission Staff ("Staff"), the rebuttal testimony of SWTC and the surrebuttal of
4 Mohave Electric Cooperative ("MEC"). Specifically, I am providing testimony on behalf
5 of Trico supporting the proposal contained in SWTC's rebuttal filing for a 26.43%
6 increase based on a debt service coverage ratio (DSC) of 1.35. I also agree with and
7 support the surrebuttal testimony of Carl Stover, who provides additional support for
8 SWTC's position on the DSC. Further, I explain why Staff's proposal for a 29.63%
9 increase based on a DSC of 1.45 is unnecessary and results in increased burdens to Trico
10 and its member-customers.

11
12 **Q. What is Trico's understanding of SWTC's proposal in its rebuttal filing?**

13 A. Trico understands that SWTC requests a 26.43% increase over test-year present rates.
14 Based on my review of SWTC's rebuttal filing; that proposal will provide SWTC with a
15 net margin of approximately \$2.8 million and a cash flow of approximately \$3.0 million.
16 Trico further understands that SWTC believes its proposal based on a DSC of 1.35 is
17 sufficient – in light of SWTC's interim financing ability and other potential revenue
18 sources. Even so, SWTC's proposal will result in an overall average increase of 29.87%
19 in the cost of network transmission service to its members, which equates to a 24.98%
20 increase for Trico.

21
22 **Q. Does Trico support the SWTC proposal in its rebuttal filing?**

23 A. Yes. While SWTC's rate proposal will have a significant impact to Trico, its member-
24 customers and SWTC's other Class A member distribution cooperatives, Trico
25 understands SWTC's need for increased rates. After reviewing all the pre-filed testimony
26 submitted in this matter, Trico believes that what SWTC is proposing will result in just
27 and reasonable rates and provide it with adequate margins and gradual improvement in

1 working capital coverage. In short, SWTC proposes a revenue increase that balances
2 SWTC's financial requirements with the need to minimize the rate impact on its members
3 such as Trico.

4
5 **Q. Has Trico reviewed the surrebuttal testimony of Mohave Electric Cooperative, Inc.**
6 **(“MEC”) witness Carl N. Stover, Jr.?**

7 A. Yes.

8
9 **Q. Does Trico support Mr. Stover's analysis regarding the competing proposals of**
10 **SWTC and Staff?**

11 A. Yes. Trico agrees with Mr. Stover's analysis that Staff's recommendations for a 29.63%
12 revenue increase is based on a 1.45 DSC, which will lead to an additional \$825,628
13 annual increase over what SWTC is requesting in its rebuttal filing. Staff's proposal
14 translates to a revenue increase of \$7,648,823 versus the \$6,823,195 revenue increase
15 SWTC proposes. Trico further agrees with Mr. Stover that Staff witness Randall
16 Vickroy's rejection of SWTC's recommendation is based on speculation about potential
17 contingencies, even though Staff provides no evidence that these potential contingencies
18 are likely to occur. In addition, even Staff indicates that a 1.35 DSC will provide
19 sufficient margins and cash for working capital barring such unforeseen contingencies.
20 In fact, Mr. Vickroy also admits that a DSC of 1.35 reflects, in his view, “the lower
21 bound of a range of acceptable DSC levels.”¹ Trico believes Mr. Stover's expert
22 testimony supports the conclusion that SWTC will be able to accumulate cash, build
23 equity and continue operations under normal conditions if the Commission approved
24 SWTC's proposal contained within its rebuttal filing.

25
26
27

¹ See Direct Testimony of Randall Vickroy (June 18, 2010) at 9:13-14.

1 **Q. Did you also review Staff's direct testimony in this matter?**

2 A. Yes. While I reviewed all of Staff's direct testimony, my testimony responds specifically
3 to the direct testimony of Staff consultant Randall Vickroy. In short, I respectfully
4 disagree with Mr. Vickroy's recommendation for a revenue increase for SWTC based on
5 a DSC of 1.45.

6
7 **Q. What is your understanding of why Mr. Vickroy recommended a DSC of 1.45 for
8 setting SWTC's rates?**

9 A. Based on my reading of his direct testimony, Mr. Vickroy is recommending a DSC of
10 1.45 because that is the mid-point of his acceptable range of DSC levels. He also suggests
11 that a 1.45 DSC would result in a net margin of \$2.8 million and net cash flow after
12 principal payments of \$3.0 million.² Trico understands, however, that the analysis Mr.
13 Stover performed in his surrebuttal testimony indicates otherwise.³ In fact, it is a DSC of
14 1.35 that results in a net margin of \$2.8 million and cash after debt service of \$3.0
15 million.

16
17 **Q. What concerns does Trico have regarding Staff's recommended increase in its
18 direct filing?**

19 A. In short, Mr. Vickroy's recommended increase will put unnecessary additional burden on
20 Trico and its member-customers because, under Staff's proposal, SWTC will be charging
21 more than necessary to maintain sufficient net margin and cash flow after servicing debt.

22
23 **Q. Can you describe those concerns in more detail?**

24 A. Certainly. Trico believes it and its member-customers should not be burdened with any
25 more of an increase than necessary to provide SWTC with sufficient net margin and cash
26

27 ² See Vickroy Direct at 9:16-18.

³ See Surrebuttal Testimony of Carl N. Stover (DATE) at 8:28-30.

1 flow to run its operations. Trico, being a distribution cooperative, has been in the
2 position of requesting increases to rates twice in the past six years. At the same time,
3 Trico has sought to increase rates only when necessary and only to the extent necessary
4 to cover operating expenses and provide a sufficient margin so that it can continue to
5 operate. Considering the current economic climate, and that present rates SWTC charges
6 the member cooperatives are already significant, any increase should be no more than
7 necessary. Trico is unconvinced that Mr. Vickroy's recommendation for SWTC is
8 essential for SWTC to meet its obligations. To the contrary, SWTC's rebuttal filing
9 indicates that it believes less of an increase is required to support SWTC's financial
10 requirements.

11
12 To put it another way, Staff's recommended increase would have a greater impact on
13 Trico over SWTC's recommendation – which would consequently have a greater impact
14 on Trico's member-customers. SWTC's network transmission rates and Trico's
15 residential rates are among the highest in Arizona. Trico does not want to have its
16 member-customers pay any more than needed for them to receive safe and reliable
17 service. Trico does not believe that additional impact associated with Staff's proposal is
18 imperative for SWTC to have sufficient net margin and cash flow. Simply put, Trico
19 believes that SWTC's rebuttal proposal would provide just and reasonable rates and
20 ensure safe and reliable service. The evidence and testimony filed in this matter supports
21 that position.

22
23 **Q. Finally, Mr. Nitido, do you have any final comments you would like to make at this**
24 **time?**

25 **A.** SWTC's rate filing was not a surprise to Trico. In fact, SWTC involved Trico and the
26 other member distribution cooperatives in lengthy discussions regarding its then-
27 upcoming rate filing, and SWTC's rebuttal filing is the result of substantial discussions

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among SWTC and its members, including Trico. Trico supports SWTC's rate proposal in its rebuttal filing as necessary; it does not, however, believe Staff has shown the need to set rates based on a 1.45 DSC. Doing so would result in more significant impacts to Trico, its member-customers, and the other distribution cooperatives who are Class A members of SWTC. While I am testifying on behalf of Trico, I believe my testimony is consistent with the views of the majority of SWTC's membership.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.