

ORIGINAL



0000118008

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2010 SEP -8 P 3:42

COMMISSIONERS

AZ CORP COMMISSION
DOCKET CONTROL

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

**NOTICE OF FILING
TESTIMONY SUMMARIES**

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

NOTICE IS GIVEN that, pursuant to the Procedural Order dated December 30, 2009 in
this docket, Southwest Transmission Cooperative, Inc. files the testimony summaries of Dirk
Minson, Gary E. Pierson and Dr. Jay Zarnikau.

RESPECTFULLY SUBMITTED this 8th day of September, 2010.

GALLAGHER & KENNEDY, P.A.

By

Michael M. Grant
Jennifer A. Cranston
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for Southwest Transmission
Cooperative, Inc.

Arizona Corporation Commission
DOCKETED
SEP 8 2010

DOCKETED BY

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

1 **Original and 13 copies** filed this
8th day of September, 2010, with:

2 Docket Control
3 Arizona Corporation Commission
1200 West Washington Street
4 Phoenix, Arizona 85007

5 **Two copies** of the foregoing delivered this
8th day of September, 2010, to:

6 The Office of Commissioner Kristin K. Mayes, Chairman
7 Arizona Corporation Commission
1200 West Washington Street
8 Phoenix, Arizona 85007

9 The Office of Commissioner Gary Pierce
Arizona Corporation Commission
10 1200 West Washington Street
Phoenix, Arizona 85007

11 The Office of Commissioner Paul Newman
12 Arizona Corporation Commission
1200 West Washington Street
13 Phoenix, Arizona 85007

14 The Office of Commissioner Sandra D. Kennedy
Arizona Corporation Commission
15 1200 West Washington Street
Phoenix, Arizona 85007

16 The Office of Commissioner Bob Stump
17 Arizona Corporation Commission
1200 West Washington Street
18 Phoenix, Arizona 85007

19 **Copies** of the foregoing delivered this
8th day of September, 2010, to:

20 Maureen Scott
21 Legal Division
Arizona Corporation Commission
22 1200 West Washington Street
Phoenix, Arizona 85007

23

24

1 Ayesha Vohra
Legal Division
2 Arizona Corporation Commission
1200 West Washington Street
3 Phoenix, Arizona 85007

4 Terri Ford
Utilities Division
5 Arizona Corporation Commission
1200 West Washington Street
6 Phoenix, Arizona 85007

7 Barbara Keene
Utilities Division
8 Arizona Corporation Commission
1200 West Washington Street
9 Phoenix, Arizona 85007

10 Michele Finical
Legal Division
11 Arizona Corporation Commission
1200 West Washington Street
12 Phoenix, Arizona 85007

13 **Copies** of the foregoing mailed
this 8th day of September, 2010, to:

14 Jane L. Rodda
15 Administrative Law Judge
Arizona Corporation Commission
16 Hearing Division
400 West Congress
17 Tucson, Arizona 85701-1347

18 William P. Sullivan
Curtis, Goodwin, Sullivan, Udall & Schwab, P.L.C.
19 501 East Thomas Road
Phoenix, Arizona 85012-3205
20 Attorneys for MEC

21

22

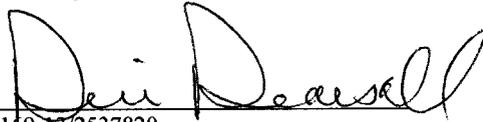
23

24

1 Bradley S. Carroll
Snell & Wilmer L.L.P.
2 One Arizona Center
400 East Van Buren
3 Phoenix, Arizona 85004-2202
Attorneys for SSVEC

4 Michael W. Patten
5 Timothy J. Sabo
Roshka DeWulf & Patten, PLC
6 400 East Van Buren, Suite 800
Phoenix, Arizona 85004-2262
7 Attorneys for Trico

8 Christopher Hitchcock
Law Offices of Christopher Hitchcock, P.L.C.
9 P.O. Box AT
Bisbee, Arizona 85603-0115
10 Attorneys for SSVEC

11 
12 15169-1372537820

13

14

15

16

17

18

19

20

21

22

23

24

Direct Testimony Summary of Dirk Minson
Southwest Transmission Cooperative, Inc. ("SWTC" or the "Cooperative")
Rate Case
Docket No. E-04100A-09-0496

Dirk Minson is the Chief Financial Officer of SWTC. He serves on its Executive Management Team and reports directly to the Chief Executive Officer. His direct testimony provides background information on the Cooperative, its system, its six Class A member, not-for-profit distribution cooperatives and its Board of Directors which is comprised of representatives of its Class A and B members. Mr. Minson discusses the fact that in addition to regulation by the Arizona Corporation Commission ("Commission"), SWTC is also subject to regulation by the Rural Utilities Service ("RUS"), a division of the U.S. Department of Agriculture, and to the jurisdiction of another federal agency, the Federal Energy Regulatory Commission.

Mr. Minson explains that the Cooperative's need for a rate increase is driven almost entirely by substantial revenue losses from the termination, reduction or expiration of point-to-point transmission contracts. By January 1, 2011, SWTC will lose about \$8.6 million in contract revenues—about 25% of the Cooperative's total current annual revenues. On a test year adjusted basis, SWTC had negative electric operating margins of just under \$170,000, a TIER of only .03 and a DSC of .50.

To offset these large revenue losses, SWTC is seeking an overall increase in revenues of about \$7.7 million. Revised rates are designed to produce a DSCR of 1.35 which, if achieved, would keep the Cooperative in compliance with RUS rules and mortgage standards.

The Cooperative needs new rates to take effect on January 1, 2011 to offset the very large loss of transmission revenues on that date which are associated with expiration of the Arizona Electric Power Cooperative's 100 MW sales contract with the SRP.

Testimony Summaries of Gary E. Pierson
Southwest Transmission Cooperative, Inc. ("SWTC" or the "Cooperative")
Rate Case
Docket No. E-04100A-09-0496

Direct Testimony

Gary E. Pierson is the Manager of Financial Services for Sierra Southwest Cooperative Services, Inc. which provides various support services to SWTC. His direct testimony supports the Cooperative's application for a general rate increase. He explains the financial Schedules A-F in his direct testimony, including the summary A Schedules and the C Schedules which contain the adjusted test year income statements, as well as the supporting schedules for the income statements. In particular, Schedule C-2 quantifies the impact of the substantial revenue losses resulting from the termination of various point-to-point transmission contracts which are the primary drivers behind SWTC's need for a rate increase.

Rebuttal Testimony

Mr. Pierson's Rebuttal Testimony provides the Cooperative's responses to the direct testimonies of Staff financial witnesses Smith and Vickroy, as well as the engineering analysis of Mr. Mazzini. Concerning Staff's adjustments to Operating Income, SWTC accepts all but one of Mr. Smith's recommended adjustments. In that regard, Mr. Pierson discusses why the approximate \$73,000 increase in the Cooperative's test year income for a property sale gain is not appropriate. Also, while acknowledging Mr. Vickroy's recommendation of a 1.45 DSC, Mr. Pierson restates SWTC's position that its original 1.35 DSC request is adequate and should be approved by the Commission. As a result of these rebuttal positions, SWTC has reduced its original rate increase request by slightly more than three percent (3%).

The Cooperative agrees with Staff engineering witness Mazzini's conclusions that SWTC's projects have been adequately justified and their construction effectively managed; SWTC's maintenance practices are appropriate; its reliability performance is good; and its operating costs appear consistent and reasonable. Mr. Pierson also states that SWTC's senior management and engineering personnel are closely reviewing Mr. Mazzini's detailed engineering analysis for any improvements which should be instituted by the Cooperative.

Rejoinder Testimony

On Rejoinder, Mr. Pierson testifies that Staff has accepted SWTC's rebuttal position on the appropriate treatment of the gain realized on a property sale and, accordingly, has increased the Cooperative's revenue requirements by about \$73,000. As well, Staff's witness Kalbarczyk and SWTC witness Zarnikau have agreed on cost allocation and rate design issues.

As a result, Mr. Pierson states that there is only one issue separating Staff and the Cooperative—that being Staff's position that the Commission should approve a DSC of 1.45 and the Cooperative's position that a DSC of 1.35 should be approved. SWTC and its Board of Directors continue to believe that the 1.35 DSC, which produces a \$900,000 lower rate increase, is adequate and it is also supported by all of the Cooperative's members.

Mr. Pierson's Exhibit GEP-3 (Column 5) summarizes the Cooperative's revised rate request for a revenue increase of approximately \$6.8 million, which would produce a 9.46% rate of return on the fair value rate base of about \$79.1 million. Mr. Pierson estimates that this reduced request will translate to about a \$4.20 increase in the monthly bill of a residential consumer taking 1,000 kWh per month. His exhibit GEP-4 (Column 6) states the transmission service and other rates which the Cooperative requests be approved.

Testimony Summaries of Dr. Jay Zarnikau
Southwest Transmission Cooperative, Inc. ("SWTC" or the "Cooperative")
Rate Case
Docket No. E-04100A-09-0496

Direct Testimony

Dr. Jay Zarnikau is the President of Frontier Associates LLC which provides consulting assistance to energy consumers, electric and gas utilities and government agencies on various topics, including utility cost allocation and rate design. From 1983 to 1991, he was employed by the Texas Public Utility Commission, closing that employment as the Director of its Electric Division. He has testified on numerous occasions before state regulatory commissions and in state and federal courts.

Dr. Zarnikau presents the cost allocation and rate design proposed by SWTC and supports Schedules G and H of the rate filing package. Schedule G-1 provides a cost of service summary for the adjusted test year based upon present rates; Schedule G-2 provides a cost of service summary based upon proposed rates; and Schedule G-2A sets forth the computation of the proposed rates for transmission service. Dr. Zarnikau notes that SWTC is not suggesting any change to the basic rate design it has used since the Cooperative commenced operations in 2001.

Rebuttal Testimony

In his Rebuttal Testimony, Dr. Zarnikau notes that Staff's witness Kalbarczyk and he agree on the basic cost allocation and rate design approaches which should be approved by the Commission. He also describes some small corrections to a discounted rate involving Mohave Electric Cooperative and presents a revised cost of service study necessary to produce the revised revenue requirements discussed in Mr. Pierson's rebuttal testimony.

JWZ-Schedules G and H incorporate the changes he discusses; Exhibit JWZ-1 is a proof of revenue summary; and Exhibit JWZ-2 is a Comparison of Current and Proposed Rates, as originally filed, as adjusted by Staff and as based on SWTC's rebuttal position.