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BEFORE THE ARIZONA CORPORATION COMMISSION
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2010 SEP 10 P 4: 26

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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
TESTIMONY SUMMARIES**

Staff of the Arizona Corporation Commission ("Commission") hereby files the Testimony
Summaries of Ralph C. Smith; Randall E. Vickroy; Richard Mazzini; and Dennis M. Kalbarczyk
in the above-referenced matter.

RESPECTFULLY SUBMITTED this 10th day of September 2010.

Arizona Corporation Commission

DOCKETED

SEP 10 2010

DOCKETED BY 



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Original and thirteen (13) copies
of the foregoing filed this
10th day of September 2010 with:

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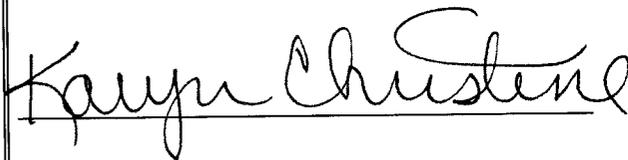
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**SUMMARY OF RALPH SMITH'S DIRECT TESTIMONY
SOUTHWEST TRANSMISSION COOPERATIVE, INC.
DOCKET NO. E-04100A-09-0496**

My Direct 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)		
Adj. No.	Description	Net Income (Margin) 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.

**SUMMARY OF RALPH SMITH'S SURREBUTTAL TESTIMONY
SOUTHWEST TRANSMISSION COOPERATIVE, INC.
DOCKET NO. E-04100A-09-0496**

My Surrebuttal Testimony and Attachment RCS-4 address the one issue from my direct testimony that was disputed in SWTC's rebuttal testimony – the ratemaking treatment of a gain that SWTC realized on the sale of a 69 kV line. In view of SWTC's rebuttal testimony and the additional explanations provided by SWTC in response to Staff data request STF 7.1 (see Attachment RCS-4), I have accepted the Cooperative's proposed treatment of this gain. This increases the amount of Staff's recommended revenue requirement for SWTC by approximately \$73,000 above the amount stated in my direct testimony.

**Summary of the Testimony
of Randall Vickroy
Docket No. E-04100A-09-0496**

Mr. Vickroy's testimony addresses cost of capital issues raised by the filing of the Southwest Transmission Cooperative, Inc. ("SWTC"). His testimony discusses debt, financial coverage ratios (*e.g.*, Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC"), equity ratios, and cash flow indicators. His evaluation addressed whether SWTC's cost-of-capital request provides adequate margins, debt coverage, and cash flow.

He observes that SWTC can be expected to lose about 24 percent of annual revenue (\$8.6 million) between December 2008 and December 31, 2010, due to contract termination, reduction, or expiration, and proposed to increase rates by about \$7.7 million annually.

Mr. Vickroy's review found SWTC's annualization of interest to provide an accurate representation of debt costs expected to be incurred following the end of the test period. He also found SWTC's inclusion and calculation of the cost of short-term debt in its proposed cost of debt to be appropriate and accurate.

Recognizing that direct comparisons are difficult because SWTC does not include generation in its operations, Mr. Vickroy did compare SWTC against information presented by the Key Trend Ratio Analysis ("KTRA") prepared by the National Rural Utilities Cooperative Finance Corporation for G&T cooperatives.

Mr. Vickroy concludes that the margin resulting from applying the increased rates to test year revenue and expense (after adjusting for the contract losses) would leave SWTC with a net margin of about \$2.8 million, even before considering any negative adjustments to its claimed revenue requirements. Mr. Vickroy considers a proper range of acceptable DSC ratios to be from 1.35 to 1.55, and he has proposed the use of the mid-point of his range (1.45).

**Summary of the Testimony
of Richard Mazzini
Docket No. E-04100A-09-0496**

Mr. Mazzini, a registered professional engineer, conducted an engineering analysis of the Southwest Transmission Cooperative, Inc. ("SWTC") filing, with particular note of maintenance practices and the performance of its system. He also reviewed the facilities being added to the rate base and whether such facilities are "used and useful." He presented his findings and conclusions in a report attached to his testimony.

He visited a number of facilities, including three substations at which new investments had been made, the operations center, the corporate headquarters, and warehouse facilities. He reviewed the justification materials and he discussed each project with SWTC management. He inspected several of the new projects.

His review produced generally positive results. He found that SWTC has adequately justified its projects, and managed construction effectively. Maintenance practices are appropriate and the maintenance process is managed with state of the art systems. Reliability performance and outage times have been good. Operating costs appear consistent and reasonable, but he cautions that management could improve the quality of cost analysis and oversight.

**Summary of the Testimony
of Dennis Kalbarczyk
Docket No. E-04100A-09-0496**

Dennis Kalbarczyk addressed for Staff the fully allocated cost of service study and proposed rate design as submitted by Southwest Transmission Cooperative, Inc. ("SWTC") witness Dr. Jay Zarnikau. He found SWTC's study, based upon the as-filed revenue requirements and proposed rate design methods, to be reasonably consistent with the prior rate case filing methods and in compliance with Finding of Fact No. 45 in Decision No. 68072. He then applied the adjustments of Staff witnesses Smith and Vickroy to SWTC's pro forma test year revenue requirement claim, updating the SWTC fully allocated cost of service study methods in light of them. He presented a proposed rate design necessary to produce Staff's proposed revenue requirement. After reviewing SWTC's rebuttal testimony, Mr. Kalbarczyk accepted witness Zarnikau's MEC cost allocation correction, and made adjustments to his direct testimony to reflect Staff's revised overall revenue requirement, as provided in Staff witness Smith's surrebuttal testimony. Mr. Kalbarczyk's surrebuttal testimony provided an updated, fully allocated cost of service study and rate design schedules to reflect these two changes.