

ORIGINAL



0000118658

BEFORE THE ARIZONA CORPORATION

RECEIVED

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

COMMISSIONERS
KRISTIN K. MAYES, CHAIRMAN
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2010 OCT -6 P 3:42

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF THE ARIZONA ELECTRIC POWER
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-01773A-09-0472

**MOHAVE ELECTRIC
COOPERATIVE, INC.'S NOTICE OF
FILING REJOINDER TESTIMONY OF
CARL N. STOVER, JR.**

NOTICE IS GIVEN that, pursuant to the Procedural Order dated September 24, 2010 in this docket, Mohave Electric Cooperative, Inc. ("Mohave") files the rejoinder testimony of Carl N. Stover, Jr.

DATED this 6th day of October, 2010.

CURTIS, GOODWIN, SULLIVAN,
UDALL & SCHWAB, P.L.C.

Arizona Corporation Commission
DOCKETED

OCT 6 2010

DOCKETED BY

By:
Michael A. Curtis
William P. Sullivan
501 East Thomas Road
Phoenix, Arizona 85012-3205
Attorneys for Mohave Electric
Cooperative, Inc.

1 PROOF OF AND CERTIFICATE OF MAILING

2 I hereby certify that on this 6th day of October, 2010, I caused the foregoing document
3 to be served on the Arizona Corporation Commission by delivering the original and thirteen (13)
4 copies of the above to:

5 Docket Control
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 Copies of the foregoing delivered
10 this 6th day of October, 2010 to:

11 Janice Alward
12 Maureen Scott
13 Ayesha Vohra
14 Legal Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18 Steve Olea, Director
19 Utilities Division
20 Arizona Corporation Commission
21 1200 West Washington
22 Phoenix, Arizona 85007

23 Terri Ford
24 Barbara Keene
25 Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

26 COPY of the foregoing mailed
27 this 6th day of October, 2010 to:

28 Jane Rodda
29 Administrative Law Judge
30 Arizona Corporation Commission
31 Hearing Division
32 400 West Congress
33 Tucson, Arizona 85701-1347

34 *Mary Walker*
1234\21\2-1-10-1\readings\Notice of Filing - Rejoinder Testimony 10-06-10

Michael Grant
Jennifer A. Ratcliff
Gallagher & Kennedy
2575 East Camelback Road
Phoenix, Arizona 85016
Attorneys for AEPCO

Christopher Hitchcock
Law Offices of Christopher Hitchcock, PLC
Post Office Box AT
Bisbee, Arizona 85603-0115
Attorney for Sulphur Springs
Valley Electric Cooperative, Inc.

Michael W. Patten
Timothy J. Sabo
Roshka DeWulf & Patten PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Russell E. Jones
Waterfall Economidis Caldwell
Hanshaw & Villamana PC
5210 East Williams Circle, Suite 800
Tucson, Arizona 85711

Vincent Nitido
Trico Electric Cooperative, Inc.
8600 West Tangerine Road
Post Office Box 930
Marana, Arizona 85653

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)
THE ARIZONA ELECTRIC POWER)
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-01772A-09-0472

REJOINDER

TESTIMONY

OF

CARL N. STOVER, JR.

(CONSULTANT)

ON BEHALF OF

MOHAVE ELECTRIC COOPERATIVE, INC.

October 6, 2010

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	PARTIES SUPPORTING 1.32 DSC.....	1
III.	1.40 DSC RESULTS IN INCREASED RECOMMENDED REVENUES AND NET MARGIN.....	2
IV.	THE RECORD DOES NOT SUPPORT A 1.40 DSC FOR AEPCO.....	3
V.	THE AMENDED AND NEW POWER CONTRACTS BETWEEN AEPCO AND ITS MEMBERS SHOULD BE APPROVED	9

1 **I. INTRODUCTION**

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

3 A. Carl N. Stover, Jr. My business address is 5555 North Grand Boulevard, Oklahoma City,
4 Oklahoma 73112.

5 **Q. Are you the same Carl N. Stover, Jr. who filed rebuttal testimony in this proceeding?**

6 A. Yes, I am.

7 **Q. What is the purpose of the Rejoinder Testimony that you are presenting at this time?**

8 A. My rejoinder testimony discusses the lack of support on the record for the 1.40 debt service
9 coverage ("DSC") and the additional \$1.4 million in annual revenue Commission Staff
10 ("Staff") is recommending over that being requested by Arizona Electric Power Cooperative
11 ("AEPCO"). My rejoinder testimony focuses on rebuttal testimony presented by Staff
12 witness John Antonuk and what he indicates justifies the Staff's DSC. I am also renewing the
13 request for the Commission to approve the requests made by AEPCO on June 2, 2010 to
14 approve a new power agreement with TRICO and amendments to existing power contracts
15 with Mohave, Sulphur Springs Valley Electric Cooperative ("SSVEC"), Duncan Valley Electric
16 Cooperative, Inc. ("Duncan") and with Graham County Electric Cooperative, Inc. ("Graham").

17 **II. PARTIES SUPPORTING 1.32 DSC**

18 **Q. Which parties in the proceeding support a 1.32 DSC rather than the 1.40 DSC**
19 **recommended by Staff?**

20 A. In addition to the Applicant, AEPCO, its Member Intervenors, SSVEC, TRICO Electric
21 Cooperative ("TRICO"), and Mohave Electric Cooperative, Inc. ("Mohave") all support a 1.32
22 DSC and the lower revenue requirement necessary to attain a DSC of 1.32. These Member
23 Intervenors are customers of AEPCO and purchase approximately ninety one percent (91%)
24 of the power supplied to the Class A Member systems by AEPCO. Although they have not
25 intervened, it is my understanding that the remaining AEPCO members also support
26 AEPCO's proposed revenue level and the resulting 1.32 DSC.

1 **Q. Which parties support a 1.40 DSC and the higher revenue requirement recommended**
2 **by Staff?**

3 **A.** Staff is the only party supporting the higher DSC of 1.40 and the higher revenue
4 requirement.

5 **Q. Does the ACC Staff believe that the AEPCO requested DSC of 1.32 is unreasonable?**

6 **A.** No. Staff witness Smith states that the AEPCO proposed DSC is within the range of
7 reasonableness necessary to maintain an investment grade rating. See Smith Surrebuttal
8 Testimony, page 3, line 17.

9 **III. 1.40 DSC RESULTS IN INCREASED RECOMMENDED REVENUES AND NET MARGIN**

10 **Q. What is the difference in revenue requirement associated with a DSC of 1.32 versus a**
11 **DSC of 1.40?**

12 **A.** The Staff recommended DSC, results in a revenue requirement increase for AEPCO of
13 \$231,014 over test year revenues, while the AEPCO proposed DSC results in a revenue
14 requirement decrease of \$1,172,317 for AEPCO. The difference in the two positions is
15 \$1,403,331.

16 **Q. How does the net margin needed to achieve a 1.32 DSC differ from that needed to**
17 **achieve a 1.40?**

18 **A.** Table 1 shows the calculation of the net margin associated with a 1.32 and 1.40 DSC. Staff's
19 higher DSC provides AEPCO \$1,403,331 more in its net margin than achieved with the 1.32
20 DSC requested by AEPCO. In short, every additional dollar recommended by Staff flows
21 straight to AEPCO's net margin. Table 1 also shows the margin requested by AEPCO in the
22 amended filing and the fact that the AEPCO rebuttal position results in an increase of
23 approximately \$1.2 million above the original request. This adjustment reflects AEPCO and
24 the Members recognition of risk and volatility issues given the Staff's recommended cost
25 adjustments.

		(A)	(B)	(C)
		AEPCO	Staff	AEPCO
	Reference	As Amended	Proposed	Rebuttal
	-----	-----	-----	-----
1	Net Margin	\$ 3,236,593	\$ 5,462,907	\$ 4,059,576
2	Plus: Interest L10	\$ 10,812,194	\$ 10,812,194	\$ 10,812,194
3	Plus: Depreciation GEP-4, Line 23	\$ 8,348,168	\$ 8,317,632	\$ 8,317,632
4	Cash Before Debt Svc L1 + L2 + L3	\$ 22,396,955	\$ 24,592,733	\$ 23,189,402
5	Debt Service L11	\$ (17,566,238)	\$ (17,566,238)	\$ (17,566,238)
6	Cash After Debt Svc L4 + L5	\$ 4,830,717	\$ 7,026,495	\$ 5,623,164
7	DSC L 4/L11	1.275000088	1.400	1.320
8	TIER (L1+L2)/L2	1.299	1.505	1.375
	Debt Service			
9	Principal GEP-4 Line 28	\$ 6,754,044	\$ 6,754,044	\$ 6,754,044
10	Interest GEP-4 Line 27	\$ 10,812,194	\$ 10,812,194	\$ 10,812,194
11	Total L9 + L10	\$ 17,566,238	\$ 17,566,238	\$ 17,566,238

Table 1

IV. THE RECORD DOES NOT SUPPORT A 1.40 DSC FOR AEPCO

Q. Who is the Staff witness that is recommending the 1.40 DSC?

A. Mr. Vickroy filed direct testimony supporting the Staff recommended DSC.

Q. Did you file rebuttal testimony related to Mr. Vickroy's recommendations?

A. Yes, I did. I explained that Mr. Vickroy's use of the Moody's rating criteria was incomplete and faulty because Mr. Vickroy focused on a few negative indicators and did not discuss all the relevant rating criteria. When all the criteria are examined, the 1.40 DSC is unnecessary for AEPCO to maintain an investment grade rating – a fact confirmed by the testimony of Mr. Smith. See Smith Surrebuttal Testimony, page 3, line 17.

1 **Q. Did Mr. Vickroy or any Staff witness address your rebuttal testimony?**

2 A. No. Mr. Vickroy did not file any surrebuttal testimony. Although Mr. Antonuk at page 3,
3 lines 21 - 23 of his Surrebuttal Testimony indicates Mr. Vickroy is prepared to 'respond at
4 hearing' regarding Staff's concern about AEPCO's ability to withstand significant and sudden
5 changes that may affects margins, cash flow and financial health and responsiveness, my
6 rebuttal testimony was not discussed by Mr. Vickroy or any other Staff witness in their
7 surrebuttal testimony. It therefore is uncontroverted and unrebutted.

8 **Q. Does Staff continue to recommend a 1.40 DSC?**

9 A. Yes. Mr. Antonuk's and Mr. Smith's Surrebuttal Testimony indicate Staff continues to
10 propose a DSC of 1.40. See Antonuk Surrebuttal Testimony, page 4, line 11; Smith
11 Surrebuttal Testimony, page 3, lines 21-22.

12 **Q. What is the basis for Staff's continuing support of a 1.40 DSC?**

13 A. Mr. Smith indicates that Mr. Antonuk's Surrebuttal Testimony presents Staff's reasoning for
14 continuing to support a 1.40 DSC. See Smith Surrebuttal Testimony, page 3, lines 21-22. In
15 addition to the reference to Mr. Vickroy I have already discussed, Mr. Antonuk indicates
16 "energy and fuel volatility form a primary concern of AEPCO to withstand financial reverses.
17 The combination of AEPCO's lower DSC ratio and the recovery lag remain of concern." See
18 Antonuk Surrebuttal Testimony, page 4, lines 9 - 11.

19 **Q. Is Mr. Antonuk's reference to the volatility of fuel costs a sufficient concern for the
20 Commission to adopt Staff's higher DSC and higher revenue requirement and net
21 margin recommendations?**

22 A. No. Changes in fuel costs incurred by AEPCO in providing service are recovered through the
23 Commission approved fuel and purchased power adjustment clause ("FPPAC"). Changes in
24 fuel costs are subject to recovery (or refund) after review and authorization by the
25 Commission. The FPPAC insulates AEPCO from fuel cost volatility.

26 **Q. Does Mr. Antonuk explain what he means by energy volatility?**

27 A. No.

1 **Q. Is AEPCO subject to energy volatility that requires the Commission to provide AEPCO**
2 **a DSC, a net margin and revenues beyond the level requested by AEPCO?**

3 A. No. There are two components to energy that might create uncertainty. The first is changes
4 in the recovery of costs when energy sales increase or decrease. This is really a function of
5 whether the rate design properly reflects fixed and variable cost incurrence. If fixed costs
6 are recovered in the energy charge, then the level of energy sales will impact recovery of
7 fixed costs. A decrease in sales can result in under-recovery of fixed costs. Staff has
8 approved AEPCO's rate design. I have reviewed the AEPCO rate design and find AEPCO's
9 fixed costs are recovered in the fixed charges and the costs that vary as a function of the
10 energy delivered are recovered in the energy charges. Therefore, changes in energy volume
11 related to sales should not unreasonably impact recovery of fixed costs.

12 **Q. What is the second component that might create energy volatility?**

13 A. The second component is the cost of energy associated with purchased power.

14 **Q. Is the energy component of AEPCO's purchased power a basis for increasing margins**
15 **to off-set risk through a higher DSC?**

16 A. No. As previously discussed, changes in the cost of the energy component of purchased
17 power from that included in AEPCO's base rates is recovered (or refunded to Members) as
18 part of AEPCO's FPPAC. As such the FPPAC insulates AEPCO from volatility associated with
19 changes in both fuel and purchased power energy costs.

20 **Q. Does AEPCO's FPPAC insulate AEPCO from volatility in other cost components?**

21 A. Yes. The FPPAC includes a number of different components. Gobel Rebuttal Exhibit GLG-3
22 shows the cost components included in the FPPAC. They include:

- 23 1. Fuel Cost (gas and coal)
- 24 2. Purchased Power Cost Energy (Acct 555)
- 25 3. Purchased Power Cost Demand (Acct 555)
- 26 4. Transmission Firm and Non-Firm (Acct 565)

1 5. Changes in Firm Contract revenues both demand and energy related,
2 changes in resource economy energy revenue, and changes in scheduling revenues.

3 The FPPAC, thus, minimizes potential erosion of earnings associated with changes, from
4 those included in base rates, of all the foregoing cost components associated with providing
5 service to AEPCO's Members that are included in the FPPAC. These costs are then
6 recovered (or refunded) over kWhs sold as authorized by further Commission orders.

7 **Q. Why does the FPPAC also include changes in firm contract, economy, and scheduling**
8 **revenues?**

9 A. These components are included because they were treated as credits in the development of
10 AEPCO's base rates.

11 **Q. Has Mr. Antonuk raised any other concern regarding energy costs?**

12 A. Mr. Antonuk also references recovery lag as a concern. *See Antonuk Surrebuttal Testimony,*
13 *page 4, line 11.*

14 **Q. What lag concern is associated with fuel and energy costs?**

15 A. While in the long term, fuel and energy cost volatility are addressed by AEPCO's FPPAC,
16 there can be a cash flow problem in the near term because of the lag in the reconciliation
17 mechanism of the FPPAC.

18 **Q. Has this concern been addressed?**

19 A. Yes. My understanding is that Mr. Antonuk made specific recommendations related to the
20 FPPAC. Mr. Pierson responded to the two recommendations in his rebuttal testimony. The
21 first dealt with options to shorten the recovery period. Mr. Pierson pointed out that a
22 change has recently been made and rather than studying a new option now that AEPCO
23 believes the efficacy review option granted by the Commission in the last rate order should
24 be continued. *See Pierson Rebuttal Testimony, page 16, line 21.* The second dealt with a
25 provision for a temporary surcharge to which Mr. Pierson agreed. *See Pierson Rebuttal*
26 *Testimony, page 17, line 7.*

1 **Q. Did Mr. Antonuk find Mr. Pierson's position acceptable?**

2 A. Yes. Mr. Antonuk stated he finds the FPPAC recommendations in Mr. Pierson rebuttal
3 testimony to be acceptable. See Antonuk Surrebuttal Testimony, page 4, line 12.

4 **Q. Has Staff provided any other basis for its continued support for a 1.40 DSC and a**
5 **recommended rate increase \$1.4 million greater than the amount AEPCO has**
6 **requested and its Members support?**

7 A. No. I believe Mr. Antonuk's concerns have been addressed.

8 **Q. Do you have any other comments concerning the volatility issue?**

9 A. Yes. AEPCO, as well as the Members, have to deal with cost volatility on a continuing basis.
10 It is certainly not a new issue. As I indicated in my rebuttal testimony AEPCO has been able
11 to substantially improve its financial conditions since the last rate case. They were able to
12 accomplish this during one of the most turbulent periods for electric utilities. Gas prices
13 over the last few years have been very volatile and we have experienced historic highs and
14 lows. I think this says a great deal about how AEPCO has been able to mitigate adverse
15 impacts associated with volatility.

16 Another point is that AEPCO has created value in its coal inventory. I know that AEPCO is
17 looking for ways to capture that value so as to improve its cash position. This is another
18 example as to how AEPCO has been able to deal with volatility in costs.

19 **Q. Do you have an estimate of the impact of AEPCO's proposed rates?**

20 A. Yes. Table 2 is a summary comparing the total cost for each Class A Member under existing
21 and AEPCO proposed rates.

	(A)	(B)	(C)	(D)	(E)	(F)
Class of Service	Energy (1) kWh	Billing MW	Present Revenue \$	Proposed Revenue \$	Change \$	Change %
Anza	51,283,408	96,412	3,353,127	3,260,032	(93,095)	-2.78%
Duncan	28,079,760	57,180	1,901,744	1,858,064	(43,680)	-2.30%
Graham	156,396,015	324,562	10,683,325	10,446,493	(236,832)	-2.22%
Mohave	875,380,060	1,723,399	54,205,506	55,489,632	1,284,126	2.37%
Sulphur	847,038,000	1,629,806	52,026,365	52,370,038	343,673	0.66%
Trico	646,286,536	1,361,311	44,448,572	42,022,063	(2,426,509)	-5.46%
Total Class A	2,604,463,779	5,192,670	166,618,639	165,446,322	(1,172,317)	-0.70%
		% Energy	\$/MWh	\$/MWh	\$/MWh	
Average Wholesale Rate						
Anza		1.97%	65.38	63.57	(1.82)	
Duncan		1.08%	67.73	66.17	(1.56)	
Graham		6.00%	68.31	66.80	(1.51)	
Mohave		33.61%	61.92	63.39	1.47	
Sulphur		32.52%	61.42	61.83	0.41	
Trico		24.81%	68.78	65.02	(3.75)	
Total		100.00%	63.97	63.52	(0.45)	

Note:

1. Energy Values include total requirement based on AEPCO adjustments

Table 2

Q. Do you have an estimate of how AEPCO's proposed rates will impact the average customer of an AEPCO Member?

A. Table 2 shows the average rate per kWh sold. The values are shown at the wholesale level. Depending on the level of distribution losses the impact of the rate adjustment at the retail level will vary. For estimating purposes, given the increase for Mohave of \$0.00147/kWh a residential customer using 1,000 kWh during the month will experience, on average, an increase of \$1.60/month.

1 **V. THE AMENDED AND NEW POWER CONTRACTS BETWEEN AEPCO AND ITS MEMBERS**
2 **SHOULD BE APPROVED**

3 **Q. What power contracts are AEPCO and its Members specifically requesting the**
4 **Commission address?**

5 A. On June 2, 2010, AEPCO filed two separate requests for Commission approval of its power
6 agreements with its members. The first Request seeks Commission approval of (1) a new
7 Partial-Requirements Capacity and Energy Agreement between AEPCO and TRICO and (2)
8 amendments to the existing Partial-Requirements Agreements between AEPCO and SSVEC
9 and AEPCO and MEC. The second Request seeks Commission approval of amendments to
10 AEPCO's existing Wholesale Power Contracts with Duncan and with Graham, both of which
11 are all requirements members of AEPCO.

12 **Q. HAS STAFF OPPOSED THE COMMISSION'S APPROVAL OF THE AMENDED AND NEW**
13 **POWER CONTRACTS BETWEEN AEPCO AND ITS MEMBERS?**

14 A. No. In fact by approving AEPCO's cost of service study and general rate design, Staff is
15 indicating that the amended and new power contracts between AEPCO and its Members are
16 fair and reasonable and should be approved.

17 **Q. Has the Commission approved AEPCO's power contracts with its members in the**
18 **past?**

19 A. Yes. Decision No. 63868, dated July 25, 2001 approved and confirmed various transactions
20 enabling AEPCO to restructure into three affiliated entities. Included was the approval of
21 the partial requirements relationship between AEPCO and Mohave. Then by Decision No.
22 70105, dated December 21, 2007, the Commission approved the conversion of SSVEC to a
23 partial-requirements member and to implement a second amendment to the Mohave
24 Partial-Requirements Capacity and Energy Agreement. As the requests for Commission
25 approval of the new agreement with TRICO and the amendments to existing contracts with
26 Mohave, SSVEC, Duncan and Graham are unopposed, and the rates and charges
27 recommended by all parties to this proceeding reflect the agreement and amendments, the
28 Commission should specifically approve the requests.

1 **Q. Does this conclude your rejoinder testimony?**

2 A. Yes