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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

**NOTICE OF FILING
TESTIMONY SUMMARIES**

GALLAGHER & KENNEDY, P.A.
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PHOENIX, ARIZONA 85016-9225
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NOTICE IS GIVEN that, pursuant to the Procedural Order dated November 23, 2009 in this docket, Arizona Electric Power Cooperative, Inc. files the testimony summaries of Dirk Minson, Gary E. Pierson and Gary L. Goble.

RESPECTFULLY SUBMITTED this 20th day of October, 2010.

Arizona Corporation Commission

GALLAGHER & KENNEDY, P.A.

DOCKETED

OCT 20 2010

By Michael M. Grant

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Testimony Summary of Dirk Minson
Arizona Electric Power Cooperative, Inc. (“AEPCO” or the “Cooperative”)
Rate Case
Docket No. E-01773A-09-0472

Mr. Minson is the Chief Financial Officer of AEPCO. He serves on the Cooperative’s Executive Management Team and reports directly to the Chief Executive Officer. His Direct Testimony provides information, among other things, about AEPCO, its membership structure, its Board review and approval process for this rate filing and AEPCO’s rate history.

AEPCO’s current rates were approved by the Commission in Decision No. 68071 and became effective on September 1, 2005. That decision, as modified by Decision No. 71112, contained an instruction as to when the Cooperative should file its next case. This filing complies with that requirement. Mr. Minson also discusses the fact that the October 1, 2009 Application reflects AEPCO and its Members’ progress to date in resolving certain cost allocation and rate design issues and that discussions on a complete rate settlement agreement continue.

Mr. Minson explains that AEPCO is requesting an overall 2.41% increase in its revenue requirements, which is a blend of a 2.83% decrease in revenues from all-requirements members and a 5.39% increase in revenues from AEPCO’s partial-requirements members. He also requests that AEPCO’s Purchased Power and Fuel Adjustment Clause (“PPFAC”) be continued.

In addition to general inflationary pressures since the Cooperative’s last rate increase in 2005, Mr. Minson discusses primary cost changes which are driving the need for the current request. Among these, AEPCO’s long-term coal arrangements expired at the end of 2008 and AEPCO’s delivered cost of coal has increased by almost 60%. There have been and will be substantial impacts to both the Cooperative’s costs and revenues as a result of three purchased power contracts coming to an end—most notably the expiration on December 31, 2010 of the 100 MW Salt River Project 20-year sales contract. Also, most of AEPCO’s generating assets at the Apache Station are now 30 or more years old and, as a result, the overhaul and maintenance expenses associated with them continue to increase. Mr. Minson requests that the Commission enter its Order authorizing implementation of new rates as of January 1, 2011.

Testimony Summaries of Gary E. Pierson
Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative")
Rate Case
Docket No. E-01773A-09-0472

Direct Testimony

Gary E. Pierson is the Manager of Financial Services for Sierra Southwest Cooperative Services, Inc. which provides various support services to AEPCO. His Direct Testimony supports the Cooperative's application for a general rate increase of approximately 2.4% and explains the financial Schedules A-F. In particular, he discusses 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. Mr. Pierson also testifies concerning modifications to the current rate design based on certain cost causation principles which have been agreed to by AEPCO and its Class A member distribution cooperatives. Finally, Mr. Pierson's Direct Testimony requests that the Commission approve, with certain modifications, continuation of the purchased power and fuel adjustment clause ("PPFAC") authorized in AEPCO's last rate decision in 2005.

Supplemental Direct Testimony

Mr. Pierson's Supplemental Direct Testimony, filed on April 20, 2010 in support of AEPCO's Amended Rate Application, discusses five primary revision areas to AEPCO's original October 1, 2009 rate application. These revisions have been agreed to by the Member Rates Committee, which is made up of representatives of AEPCO's Class A member distribution cooperatives, and approved by AEPCO's Board. As a result of these revisions, AEPCO's amended request for rate relief results in an overall decrease in AEPCO's annual operating revenues of approximately \$97,000 or a 0.06% decrease in test year operating revenues.

Mr. Pierson also discusses Amended and Restated Schedules which are being filed in support of the revised rate request and summarizes AEPCO's proposed revised rates. Finally, he states that several weeks after the original filing was made the Trico Electric Cooperative served notice that it was electing its right to convert to partial-requirements service. The new Trico Partial Requirements Capacity and Energy Agreement, together with necessary amendments to the all- and partial-requirements contracts between AEPCO and its other Class A Arizona members, will be submitted to the Commission for its review and approval.

Rebuttal Testimony

On rebuttal, Mr. Pierson provides AEPCO's response to the Direct Testimonies of Staff witnesses Smith, Vickroy and Antonuk. He discusses the facts that AEPCO accepts the rate base adjustments proposed by Mr. Smith and, in order to narrow disputed issues,

accepts his five proposed adjustments to operating income. Concerning Mr. Vickroy's cost of capital recommendation of a 1.40 DSC instead of AEPCO's lower 1.275 DSC request, Mr. Pierson explains that after careful consideration of his analysis with the Member Rates Committee, AEPCO's management recommended, and its Board authorized, revising AEPCO's request to a 1.32 DSC. That upward revision results in a revised operating margin request of about \$2.95 million, which is \$1.4 million less than the Staff's recommendation.

In summary, Mr. Pierson testifies that AEPCO has reduced its rate request on rebuttal from the 0.06% revenue decrease stated in the Amended Application to a 0.70% decrease. That is approximately \$1.172 million less than the revenues in the test year based on present rates.

Finally, Mr. Pierson provides the Cooperative's response to the comprehensive prudence review which was conducted by the Liberty Consulting Group. He states that the Cooperative agrees with most of Liberty's conclusions and relates AEPCO's comments in response to Liberty's recommendations on fuel contracting, fuel supply management, gas hedging, power transactions, plant operations and the PPFAC. Specifically as to the PPFAC, Mr. Pierson recommends that the Commission re-authorize the "efficacy review" option contained in AEPCO's last rate decision in 2005 and proposes a temporary surcharge mechanism to close out balances under the current clause so that no member under- or overpays its contribution to the present bank balance.

Rejoinder Testimony

Mr. Pierson's Rejoinder Testimony agrees with Staff that the sole remaining disputed issue is the approximately \$1.4 million difference between the Staff and AEPCO's proposed revenue increase or decrease, respectively, recommendations. AEPCO requests a DSC lower than Staff's and he offers several reasons—including a quite recent and favorable development in relation to AEPCO's coal purchases—why the Cooperative, its Board and its members continue to support the 1.32 DSC. Therefore, on rejoinder, AEPCO continues to request an overall 0.70% rate decrease instead of Staff's recommendation of a slight revenue increase.

It is difficult to provide precise estimates of retail impacts as a result of this wholesale generation rate change. Members have different retail rates and structures and purchased power adjustment mechanisms. However, based on certain assumptions, Mr. Pierson estimates a Graham Electric or Duncan Valley residential customer using 1,000 kWh per month would see about a \$1.80 decrease in the monthly bill; a Trico residential customer would see about a \$4.20 decrease in the monthly bill; while Mohave and Sulphur Springs residential customers using the same amount would see about a \$1.80 and a \$0.50 increase, respectively.

In response to Mr. Antonuk's Surrebuttal Testimony, Mr. Pierson agrees that AEPCO will file an action plan in relation to Liberty's recommendations by February 1, 2011 and summarizes several areas where actions have already been, or are scheduled to

be, taken. He also requests that the Commission approve the partial- and all-requirements contract and contract amendments which were filed in this docket on June 2, 2010 and also have been submitted for RUS approval. Finally, his testimony presents exhibits which summarize (1) AEPCO's and Staff's positions as the case has moved from direct to rejoinder, (2) the corresponding rate recommendations, as well as (3) proposed forms of the all-requirements members' tariff and the partial-requirements members' schedule.

Testimony Summaries of Gary L. Goble
Arizona Electric Power Cooperative, Inc. ("AEPCO" or the "Cooperative")
Rate Case
Docket No. E-01773A-09-0472

Direct Testimony

Mr. Goble is a managing consultant with the firm of Management Applications Consulting, Inc., with offices in Reading, Pennsylvania and Austin, Texas. He has more than 35 years of experience in regulatory matters working as a staff analyst for two regulatory commissions and as a consultant to the utility industry. The primary focus of his work experience has been in the areas of utility cost analysis, pricing and economic analysis.

Mr. Goble sponsors the Cooperative's cost of service study and the G Schedules of the Commission's rate filing requirements. He describes the allocated cost of service process used in connection with AEPCO's rate application and notes that it reflects the significant input of AEPCO's Class A member distribution cooperatives. Further, he sponsors the rate design Schedules H. Mr. Goble testifies that the rates proposed by AEPCO properly and reasonably reflect the Cooperative's costs in providing service to its all- and partial-requirements members.

Supplemental Direct Testimony

Mr. Goble notes that AEPCO and its Class A Members have reached an agreement on several issues which had not been resolved at the time AEPCO filed its original rate application on October 1, 2009. His Supplemental Direct Testimony filed on April 20, 2010 describes how several of the revisions to the revenue requirements request, cost allocations and rates affect his cost of service study, the rates proposed in Schedules G and H and the calculation of the Purchased Power and Fuel Adjustment Clause ("PPFAC") bases provided in his original filed Exhibit GLG-2. Mr. Goble testifies that the allocation of costs and the proposed rate design which have been reached in the agreement are fair and reasonable.

Rebuttal Testimony

In his Rebuttal Testimony, Mr. Goble states that Staff witness Kalbarczyk has agreed with the methods and processes employed in both AEPCO's initial October, 2009 rate application and the amended and restated application in April, 2010. The primary purpose of his Rebuttal Testimony is to present revised G and H Schedules, which incorporate Staff's proposed allocations and adjustments described in Mr. Kalbarczyk's testimony as well as the adjustments offered in Mr. Pierson's Rebuttal Testimony.

AEPCO's adjustments produce an overall revenue reduction of approximately \$1.172 million instead of the roughly \$231,000 revenue increase recommended by Staff. Those revised schedules also reflect Trico Electric Cooperative's transition from an all-requirements member to a partial-requirements member and assign costs accordingly. Mr. Goble concludes that the allocation of costs and the design of the proposed rates are fair, reasonable and non-discriminatory.