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BEFORE THE ARIZONA CORPORAT

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COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

2012 MAY 11 P 4 57
ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
MOHAVE ELECTRIC COOPERATIVE,
INCORPORATED, AN ELECTRIC
COOPERATIVE NONPROFIT MEMBERSHIP
CORPORATION, FOR A DETERMINATION
OF 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-01750A-11-0136

STAFF'S OPENING BRIEF

I. INTRODUCTION.

Mohave Electric Cooperative, Incorporated ("Mohave" or the "Cooperative") is a certificated Arizona-based non-profit rural electric distribution cooperative¹ headquartered in Bullhead City, Arizona.² Mohave provides power and energy to approximately 38,577 customers in areas of Mohave, Coconino and Yavapai counties in Arizona.³ On March 30, 2011, Mohave filed an application for an increase in rates in the above-captioned matter. Mohave is requesting an increase in revenue of \$3,061,529, or 4.025%, for a total of \$79,129,535 in total annual revenue.⁴ Mohave's current rates were authorized in Decision No. 57172, dated November 29, 1990.⁵

Mohave is a Class A member of Arizona Electric Power Cooperative ("AEPCO").⁶ On July 25, 2001, Mohave converted its membership in AEPCO from an All Requirements Member ("ARM") to a Partial Requirements Member ("PRM"), pursuant to Decision No. 63868.⁷

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¹ Ex. S-4 at 2, ll. 15-16.

² Application at 2, ll. 3-4.

³ Ex S-4 at 2, ll. 16-17.

⁴ Ex MOHAVE-6, Rejoinder Ex. MWS-5.

⁵ Ex. S-4 at 2, ll. 20-21.

⁶ Ex. A-2 at 5, ll. 3-4

⁷ S-6.at 1, ll.13 and at15, ll. 7-9.

Arizona Corporation Commission
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1 In this brief Staff will address its position regarding Mohave's Power Procurement Process
2 And The Prudence Of Mohave's Power Purchases, Recommended Improvements To Mohave's
3 Purchased Power Cost Adjustor, Rate Design, Service Charges, Proposed Pre-Paid Services, the
4 Filing Of Mohave's Next Rate Case, and Mohave's Request for a Records Retention Policy, as well
5 as issues where Staff and Mohave are in agreement, including Demand Side Management ("DSM"),
6 Debt Service Coverage Ratio and Capital Structure, Revenue Requirement and Bill Estimation Tariff.
7 Staff notes that it should remembered in evaluating this case that it has been over 20 years since
8 Mohave has been in front of the Commission for a rate case.

9 **II. POWER PROCUREMENT PROCESS AND PRUDENCE OF MOHAVE'S POWER**
10 **PURCHASES.**

11 A. **The Commission Should Determine That It Is Inconclusive Whether Mohave's**
12 **Policies Of Power Supply Planning And Implementation Prior To 2010 Are**
13 **Reasonable And Appropriate And That No Penalties Or Adjustments Are**
14 **Recommended.**

15 Mohave adopted its written "Policy of Power Supply Planning and Implementation" in 2010,
16 after reviewing that of Sulphur Springs Valley Electrical Cooperative.⁸ Staff and Mohave agree that
17 Mohave's organizational structure and power procurement procedures, as both existed in 2010, are
18 adequate and appropriate.⁹ Mohave concedes that it did not have a written policy before 2010¹⁰ but
19 asserts that from 2001, when it became a PRM of AEPCO, until it adopted its written policy the
20 process it followed in implementing purchased power planning and implementation process was
21 *exactly* the same as that set forth in its written policy of 2010.¹¹ In addition, Mohave contends that
22 the fact that it was ultimately able to provide sufficient documentation of the actual eligible
23 purchased power costs from August 1, 2001, through December 2010, to allow Staff to conclude that
24 those costs were not only adequately documented but also prudent, also establishes that its policies
25 were reasonable and appropriate.¹²

26 _____
27 ⁸ Tr. at 136-137.

28 ⁹ Ex. S-6 at 6, ll 4-18.

¹⁰ Tr. at 136-137.

¹¹ Tr. at 129-130.

¹² Tr. At 133-135.

1 Mohave's position is untenable in two respects. First, that the Cooperative was able to
2 document its purchased power costs and that its purchases were prudent does not necessarily indicate
3 that the Cooperative had a clear policy in effect or that that policy was reasonable or appropriate. In
4 fact, as discussed more fully in terms of the Cooperative's limit on spot market purchases, the policy
5 is not entirely clear.

6 Secondly, Mohave has provided inconsistent testimony describing its purchased power
7 planning and implementation process during these proceedings. In its Rejoinder testimony, Mohave
8 stated that prior to 2010 it had implemented "fundamentally the same" process as set forth in its 2010
9 written policy.¹³ In its Responses to Staff's Third Set of Data Requests, Mohave further
10 acknowledged that "the guiding principles reflected in the documents [The Power Supply Planning
11 and Implementation Plan] have not changed since Mohave became a PRM. However,
12 implementation has changed and will continue to change to allow Mohave to deal with changing
13 conditions....the strategy continues to be discussed, reviewed and revised...."¹⁴ Regarding that
14 unwritten policy, Mohave further concedes that changes in its procurement strategies are occurring
15 on a continuous basis...."¹⁵ Clearly, it cannot be said that Mohave followed exactly the same policies
16 and procedures prior to 2010.

17 III. IMPROVEMENTS TO MOHAVE'S PURCHASED POWER ADJUSTOR.

18 A. The Commission Should Direct Mohave To Clarify The Limit On Power 19 Purchased On The Spot Market.

20 It does not appear that the parties are in disagreement as to whether Mohave's purchase power
21 plan should limit the amount of power the Cooperative can purchase on the spot market. Whether the
22 percentage of power purchased on the spot market is deemed a "limit" or a "criterion," both Staff and
23 Mohave appear to agree that no limit should be absolute.¹⁶ What is unclear is whether Mohave's
24 policy is understood by those who make decisions regarding purchasing. Mohave states in its
25 response to Staff's third set of data requests that its process of planning, evaluation and acquisition
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27 ¹³ Ex. MEC-6 at 3, ll.9-11.

28 ¹⁴ Ex. S-6, at JEM-5, page 1.

¹⁵ *Id.*, at p.4.

¹⁶ Tr. at 140, l. 24 to 142, l. 6; and Tr. at 336, l. 12- 337, l. 15.

1 includes several criteria one of which is that “not more than [a confidential specified percentage] of
2 Mohave Load should be exposed to market spot process.”¹⁷ Mohave asserts that, as a criterion, this
3 provision does not limit the portion of spot market purchases to a specified amount; rather, it is a
4 guideline. At hearing, Mr. Stover testified that this criterion does not create a fixed goal or an
5 absolute limit on Mohave’s block purchases. It is intended to communicate to management that it
6 should be able to provide a specific rationale to the Board when purchasing more than that percentage
7 from the spot market.¹⁸

8 Staff is concerned that the policy is not clear to management and that the specification of a
9 numerical percentage will cause management to perceive the limit as absolute. Further, by focusing
10 on a specified limit, whether flexible or not, Mohave’s policy causes management to focus on the
11 wrong issue. When purchasing power on the spot market the cost of power may be lower but there is
12 a risk that that the market will not be available to provide a supply at a reasonable cost when the
13 Cooperative needs it at a cost that is reasonable. What management should be assessing is the risk to
14 the reliability of the power supply that is inherent in spot market purchases.¹⁹ While Staff does not
15 favor the inclusion of a specified percentage to be purchased on the spot market, to the extent the
16 Cooperative states such a percentage, it should clarify that it is a guideline only.

17 **B. The Commission Should Direct Mohave To Revise Its Purchased Power Adjustor**
18 **Mechanism To Use Margins On Third Party Sales To Offset Purchased Power**
19 **Costs.**

20 When power purchased by Mohave is not fully utilized by its customers, Mohave reduces
21 customer costs by selling excess fuel and purchased power to third-parties.²⁰ At issue here is how the
22 margins on third party sales are treated for accounting purposes. Mohave has historically credited the
23 Purchased Power Cost Adjustor (“PPCA”) bank account with the cost of third party sales and
24 reported the revenues as income. The margins are then reflected in the income statement. Mohave
25 proposes to continue this practice.²¹ Mohave contends that the member-consumer benefits from this
26 methodology in that it results in higher coverage rates, increases the equity ratio for the Cooperative,

17 Ex. S-6, at JEM-2 Confidential, page 6.

18 Tr. At 140-141; Ex. MEC-6 at 6, ll. 5-17.

19 Tr. at 337, l. 4 – 338, l. 14.

20 Ex. S-6 at 34, ll.10-14.

21 Ex. MEC-5 at 23, ll.10-12.

1 and increases the equity each member has in the Cooperative by flowing the margins to the members'
2 capital patronage accounts.²²

3 Staff is recommending that all of the revenues from third-party sales should be used to offset
4 the purchased power costs in the PPCA bank account.²³ Staff believes that its method is more
5 appropriate as it is more beneficial to customers. Under the Cooperative's method, the net revenues
6 flow to the members' patronage accounts where they are available to the Cooperative to fund
7 construction or operations²⁴ and where they may remain for many years, if not decades, before being
8 refunded to the customers.²⁵ Mohave acknowledges that this could result in intergenerational
9 inequities.²⁶ Throughout the testimony in this case, Mohave has referenced both the transient nature
10 of its customer base²⁷ and the financial hardships facing so many of its customers in the current
11 economic climate, even asserting that these warrant the establishment of pre-paid services.²⁸
12 Particularly given that the PPCA bank account from which any monies representing margins would
13 be removed has a balance of approximately \$9.5 million,²⁹ it is more appropriate to offset the
14 purchased power costs and credit the margins to the PPCA bank account.

15 **C. The Commission Should Reaffirm That The Purchased Power Adjustor Should**
16 **Only Include the Actual Costs of Purchased Power, Transmission and, fuel.**

17 Mohave included in its PPCA legal fees, consulting fees, in-house payroll costs and lobbying
18 services for a total of \$594,737.45 for 2010, and undetermined amounts for 2011 and 2012, and
19 proposes to continue that process going forward.³⁰ Mohave does not contest Staff's recommendation
20 that the lobbying costs in the amount of \$32,702 for 2010 be disallowed.³¹ However, it continues to
21 assert that the remaining expenses meet the criteria relied upon by Staff to determine whether an
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24 ²² Ex. MEC-5 at 24, ll. 8-12.

25 ²³ Ex. S-6 at 34, ll.5-7.

26 ²⁴ Ex. S-6 at 34, ll. 20-21.

27 ²⁵ Ex. S-7 at 19, ll.25-26.

28 ²⁶ Tr. at 190-191.

29 ²⁷ Tr. at 241-242.

30 ²⁸ Ex. MEC-7 at 7, ll. 18-27.

31 ²⁹ Tr. at 418.

³⁰ Tr. at 156-157.

³¹ Tr. at 157.

1 expense may be recovered through the PPCA and that it is therefore proper to recover them through
2 the PPCA, rather than through base rates.³²

3 Staff's position is that these expenses may not be included in the PPCA; these are operating
4 expenses which should be recovered in base rate.³³ Staff would first note that Mohave misstates
5 Staff's criteria used in determining whether an expense may be recovered through the PPCA as
6 volatility of the expense, the degree to which the Cooperative has control over whether to incur the
7 expense, and the risk of the double recovery of the expense. Staff witness Jerry Mendl previously
8 informed Mohave, in his pre-filed testimony, that the Cooperative had incorrectly stated Staff's
9 criteria in that his statement was predicated on fuel and purchased power costs as an overriding
10 criterion, but that in-house staff costs, legal fees and consulting services are not fuel and purchased
11 power costs, even if they might be related to purchased power.³⁴

12 As to the issue of double recovery, Staff is concerned that, inasmuch as costs such as these are
13 generally included as expenses in determining base rates, Mohave's seeking to recover them through
14 the PPCA exposes customers to paying the expenses twice. Mohave argues that it was not a PRM
15 until 2001, more than ten years after its last rate case, and that expenses related to purchased power
16 could not have been included in base rates.³⁵ However, Mohave's last rate case most likely included
17 the same category of expenses in setting base rates.³⁶ While the exact costs in question were not
18 included in the 1990 rate case, under general regulatory principles, including regulatory lag, the
19 expenses for the test year in that case are, in effect, deemed to be the same in all subsequent years.
20 When a company's expenses, income or other elements on which rates are based change, that
21 company is expected to seek a rate increase based on the changing numbers.

22 Mohave's actions since becoming a PRM were consistent with this theory until 2010. From
23 2001 through 2009 Mohave did not include these expenses in the PPCA. By the Cooperative's own
24 admission, however, when margins fell off in 2010 and the Cooperative's financial status was in
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26 ³² Tr. at 144-146.

27 ³³ Ex. S-6 at 15, ll. 1-6.

28 ³⁴ Ex. S-7 at 13, ll. 20 - 14, ll. 4.

³⁵ Ex. MEC-6 at 8, ll. 23-30.

³⁶ Tr. at 220-221.

1 jeopardy, the Cooperative began to book these expenses as part of the PPCA.³⁷ Mohave's decision
2 not to book these expenses through the PPCA for nine years then begin booking them through PPCA
3 only when revenues declined not only evidences the correctness of its initial approach, but also raises
4 serious concerns about the motives for the change in policy.

5 Mohave asserts that Staff cites no Commission rule or order that applies to the Cooperative
6 that excludes these expenses,³⁸ and that Decision No. 68071, relied upon by Staff, does not expressly
7 set forth what costs could or could not be included in a PPCA.³⁹ Staff disagrees. The Commission
8 has considered the types of expenses which can be included in a PPCA in two prior decisions:
9 Decision No. 68071 (regarding AEPCO) and Decision No. 71274 (regarding Sulphur Springs Valley
10 Electrical Cooperative ("SSVEC")).

11 In Decision No. 68071, Staff made a number of recommendations for a fuel and purchase
12 power cost adjustor (FPPCA), none of which was opposed by AEPCO. (Staff actually proposed the
13 inclusion of additional expenses.) The Commission specifically referenced the testimony of Barbara
14 Keene on behalf of Staff when adopting its recommendations. Ms Keene's testimony described the
15 costs that could be included in the PPCA, as follows:

16 **Q. What cost components would be included in the adjustor?**

17 A. The cost components would be the costs recorded in RUS Accounts 501 (fuel
18 costs for steam power generation, less legal fees, less fixed fuel costs except
19 for gas reservation), 547 (fuel costs for other power generation), 555
20 (purchased power costs, both demand and energy), and 565 (wheeling costs,
21 both firm and non-firm). The prudent direct costs of contracts used for hedging
22 fuel and purchased power costs may also be included. Power supply costs
23 directly assignable to special contract customers would not be included in the
24 calculation. Non-Class A sales for resale (RUS Account 447), less revenue for
25 legal expenses, would be credited against the cost components.⁴⁰

26 While no expenses of the specific sort included by Mohave in this case were addressed in
27 Decision No. 68071, nor was the issue in dispute, the Commission clearly specified the allowable
28 types of costs included by RUS accounts. Arizona Courts recognize the principle of "expression
29 unius est exclusio alterius" – that is – the inclusion of one thing is the exclusion of another.⁴¹ By Ms.

37 Tr. at 149-150; Ex. MEC-7 at 13, ll. 1-3.

38 Ex. MEC-6 at 8, ll. 18-20.

39 Ex. MEC-6 at 9, ll. 28 – 10, ll. 12.

40 Direct Testimony of Barbara Keene, Docket No. E-01773A-04-0528, at 3, ll. 1-9.

41 E.g. *Martens v. Industrial Commission of Arizona*, 211 Ariz. 319, 121 P. 3rd 186 (App. 2005).

1 Keene listing and the Commission adopting these specific cost categories as included in a FPPCA,
2 those not listed would be excluded.

3 The Commission confirmed its designation of costs allowable in a PPCA in Decision No.
4 71274. There the Commission addressed the issue of whether SSVEC should be required to seek
5 Commission approval before increasing SSVEC's Wholesale Power and Fuel Cost Adjustor
6 ("WPFCA"). In so doing, the Commission also considered determined the types of costs that can be
7 included in the WPFCA.⁴² The Commission narrowed SSSVEC proposed types of costs, which had
8 included the following: FERC Accounts 500-507 (Steam Power Generation - Operation), FERC
9 Accounts 510-514 (Steam Power Generation - Maintenance), FERC Accounts 517-525 (Nuclear
10 Power Generation - Operation), FERC Accounts 528-532 (Nuclear Power Generation -
11 Maintenance), FERC Accounts 535-540 (Hydraulic Power Generation - Operations), FERC
12 Accounts 541 -545 (Hydraulic power Generation - Maintenance), FERC Accounts 546-550 (Other
13 Power Generation - Operation), FERC Accounts 551-554(Other Power Generation - Maintenance),
14 and FERC Accounts 555-557(Purchased Power).⁴³

15 The Commission disallowed some of the expenses and adopted the Direct Testimony of Staff
16 witness Julie McNeely-Kirwan concerning costs that are appropriately included in the WPFCA. That
17 testimony provides:

18 **Q. Does Staff agree with the list of FERC accounts SSVEC proposes to**
19 **include in its revised WPCA mechanism?**

20 A. No. SSVEC's proposed list of FERC accounts is overbroad and includes costs
21 that do not belong in a power and fuel adjustor, such as maintenance and rent
22 costs.

22 **Q. What cost components should be included in the WPCA mechanism?**

23 A. The SSVEC power and fuel adjustor should include costs directly related to the
24 purchase, generation or transmission of power. These include the following
25 FERC Accounts: 501 (fuel costs for steam power generation, less legal fees,
26 less fixed fuel costs except for gas reservation), 518 (fuel costs for nuclear
27 power generation, less Independent Spent Fuel Storage Installation ("ISFI")
28 regulatory amortization), 547 (fuel costs for other power generation), 555
(purchased power costs - demand and energy), and 565 (transmission of
electricity by others, both firm and non-firm)....

⁴² Although this Decision references FERC account numbers and categories, FERC and Rural Utilities Service ("RUS")
account categories 501, 547, 555 and 565 are the same.

⁴³ Direct Testimony of Julie McNeely-Kinvan, Docket No. E-01 575A-08-0328, at 11, ll.20 - 12, ll. 2.

1 **Q. Should capital or legal costs go through the SSVEC WPCA mechanism?**

2 A. No, and SSVEC has stated that capital costs would not be recovered through
3 the revised adjustor mechanism. (Response to JKM 6.4) Legal costs are
4 another example of costs that should not go through the WPCA, as these are
5 not appropriate for a power and fuel adjustor.

6 Although that case involved FERC accounts, the account numbers and stated categories are
7 the same as the RUS accounts in this case. Mohave's legal, consulting and salary expenses do not
8 fall within these accounts and must be excluded. Moreover, including them in the PPCA is contrary
9 to the very concept of the PPCA. The rationale for the types of costs included is based on the nature
10 of the PPCA: to allow an electric utility to recover or refund power supply costs between rate cases as
11 those costs fluctuate radically.⁴⁴ To permit the Cooperative to include such related but indirect costs
12 in the PPCA would increase the risk of abuse of the PPCA by utilities.

13 **IV. ADJUSTMENTS TO PURCHASED POWER COSTS AND BANK BALANCE AND**
14 **TO RATE BASE.**

15 **A. Agreed Upon Adjustments Should Be Made.**

16 Staff initially recommended that Mohave's PPAC Bank Balance be adjusted by \$163,221.69
17 for undocumented expenditures in 2008.⁴⁵ Mohave was able to document these expenses and Staff
18 withdrew that recommendation.⁴⁶

19 Staff also recommended a \$91,537 adjustment to the PPAC Bank Balance based on errors and
20 omissions in its calculation of purchased power cost and bank balance between August 2001 and
21 December 2010.⁴⁷ Mohave does not contest this adjustment.⁴⁸

22 **B. The Commission Should Remove Ineligible Costs that Were Included in the**
23 **Purchased Power Adjustor.**

24 Staff's recommendation that the Cooperative be allowed to book expenses related to
25 purchased power only those which are included in RUS Accounts 555, 565, and 447 for purchased

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27 ⁴⁴ Decision No. 63868 at 19, ll. 9-12.

28 ⁴⁵ Ex. S-6 at 19, ll.12-17.

⁴⁶ Ex. S-7 at 2, ll. 29-33.

⁴⁷ Ex. S-7 at 9, ll. 8-12 to 12, ll. 17.

⁴⁸ Ex. MEC-6 at 11, ll. 15-19.

1 power and 501 and 547 if Mohave purchases fuel for power generation in the future requires several
2 adjustments to the PPCA bank account.

3 For the 2010 test year, Mohave included \$594,737 in the PPCA bank account, representing
4 legal fees, consulting fees, in-house payroll costs and lobbying services. During 2011 and 2012
5 Mohave continued to book these expenses as through the PPCA, in an undetermined amount.
6 Mohave concedes that lobbying costs should not be included in the PPCA and agrees to an
7 adjustment in the amount of \$32,702 for 2010 as well as their removal in 2011 and 2012.⁴⁹

8 The remaining expenses, totaling \$562,035, remain in dispute for 2010, 2011 and 2012.
9 Mohave opposes any adjustment for any of the three years in question but urges that, if the
10 Commission is otherwise inclined, these expenses remain in the PPCA until new rates are set and
11 Mohave can begin to recover these expenses through base rates.⁵⁰ Again, Mohave bases its position
12 on the theory that, if these expenses are not recovered through the PPCA until new rates are set, they
13 will never be recovered.

14 Staff disagrees for several reasons. First, unlike the treatment of third party sales margins, the
15 treatment of expenses for PPCA purposes is not a matter of determining which method is better under
16 the circumstances of this case. As to such expenses, the Commission has previously specified the
17 types of expenses which may be included in the PPCA. To attempt to include additional expenses is
18 simply not a correct methodology. Permitting such a method to be used even until new rates go into
19 effect would be contrary to prior decisions and put the Commission on a slippery slope toward
20 allowing innumerable and questionable expenses to be included in the PPCA.

21 As discussed above, Mohave's argument that it will not be able to recover these costs if they
22 are disallowed is misplaced. These are expenses that should have been included in the calculation of
23 base rates. When Mohave changed its policy in 2010, after almost ten years, and opted to book these
24 expenses as PPCA expenses rather than file a rate case, it took the risk that they could not be directly
25 recovered. Moreover, because these costs will be included as expenses for determining base rates,
26 they will be recovered going forward, regardless of whether they are actually incurred. Finally, as
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28 ⁴⁹ Ex. MEC-6 at 11, ll. 1-11.

⁵⁰ Tr. at 147, ll. 1-8.

1 previously noted, the balance of the PPCA bank account at the end of the test year was approximately
2 \$9.5 million, indicating significant over-collection and suggesting that the adjustment will have little
3 impact.⁵¹

4 **V. RATE DESIGN.**

5 **A. The Commission Should Set The Monthly Standard Residential Customer**
6 **Charge At \$13.50 Per Month.**

7 Staff and Mohave agree with regard to the Residential rate design structure and components
8 other than the customer charge. The energy charges will depend on the final customer charge that is
9 approved by the Commission.⁵² Mohave initially proposed a monthly customer charge in the amount
10 of \$16.50.⁵³ This was subsequently modified to provide for a phase-in of rates with the Cooperative
11 proposing an escalating customer charge which would begin at \$12.00 and increase to \$16.50 by
12 November 2014.⁵⁴

13 Staff in Surrebuttal direct testimony proposed a \$13.50 per month customer charge based on a
14 cost methodology restricting the customer-related classification to metering, meter-reading, the
15 service drop, billing and customer service.⁵⁵ Staff acknowledges that the customer charge of \$16.50,
16 when considered in conjunction with the inclining block rate design to which Mohave has agreed,
17 will not have a significant impact on the dollar amount of the rate increase for the median and
18 average use customers.⁵⁶ However, Staff continues to believe that the customer charge should not
19 exceed \$13.50 per month because smaller customers will experience large percentage (as opposed to
20 high dollar absolute) increases. Mohave's proposed \$16.50 customer charge represents an increase of
21 over 70%, while Staff's proposed \$13.50 charge represents an increase of approximately 40%. A
22 gradual approach is typically favored in setting rates and a 70% increase, while representing a
23 relatively small absolute dollar amount cannot be considered a gradual change.⁵⁷

24 ...

25 _____
26 ⁵¹ Tr. at 418.

27 ⁵² Ex. MEC-4 at 6, ll. 8-12.

28 ⁵³ Ex. MEC-1 at 24, l. 15-25.

⁵⁴ Ex. MEC-3 at 21, ll. 10-22.

⁵⁵ Ex.S-9 at1, ll.24-26 and at 2, ll. 22-24.

⁵⁶ Tr. at 568, l. 18 to 569, l. 4.

⁵⁷ Tr. at 568, ll. 6-8.

1 **B. The Commission Should Approve Mohave's Proposed Inverted Blocking**
2 **Structure For Residential Time Of Use.**

3 The residential time-of use rate design involves several issues where Staff's and Mohave's
4 recommendations differed in direct testimony. Staff has accepted Mohave's proposed winter peak
5 hours, as stated in its Direct Testimony, which gives customers two options from which to choose:
6 Option 1: 6:00 a.m. to 10:00 a.m. and 5:30 pm. to 10:00p.m.; and Option 2: 6:30 a.m. to 9:30 a.m.
7 and 5:30 pm. to 9: p.m.⁵⁸ Staff has also accepted Mohave's proposal for Residential time-of-use
8 hours as stated in Mohave's Rebuttal Testimony: Option 1 (peak on weekdays only) designates the
9 summer (April 16-October 15) peak period as 12:00 p.m. (noon) to 7:30 p.m. (7.5 hours); Option 2
10 (peak applies weekdays and weekends), designates the summer peak period as 2:00 p.m. to 7:30 p.m.
11 (5.5 hours).⁵⁹(Searcy rebuttal testimony page 24, lines 21-29).

12 This resolution of the peak period issue allowed Staff to recommend acceptance of other
13 residential time-of-use rate features proposed by Mohave, including the specifics of the inclining rate
14 structure and the customer charge differential relative to the standard residential time-of-use rate.
15 Mohave proposed that the breakpoints separating the rate tiers for both peak and off peak usage
16 match the regular residential rate, and Staff agreed with this position in its Surrebuttal testimony.
17 Staff also supports the \$5.00 per month differential in the basic monthly customer charge between the
18 time-of-use and regular residential rate options.⁶⁰

19 **C. The Commission Should Freeze The Existing Large Commercial And Industrial**
20 **Time-Of-Use Rate Schedule For New Customers.**

21 Mohave explained that its existing time-of-use design allowed a customer to avoid both power
22 supply capacity charges and distribution wires capacity charges by avoiding on-peak usage. Indeed,
23 one customer within the rate class had removed its entire load from the on-peak period. Therefore,
24 Mohave proposed adding a monthly non-coincident peak demand charge to permit recovery of
25 distribution wires cost.⁶¹ Staff is concerned that the Cooperative's proposal results in too great of an
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27 ⁵⁸ Ex. S-8 at 13, ll. 15-17.

28 ⁵⁹ Ex. MEC-4 at 24, ll. 21-29.

⁶⁰ Ex. S-9 at 8, ll. 10-14.

⁶¹ Ex. MEC-1 at 29, l. 27 to 30, l. 7.

1 increase to the existing customers of that class, although the rate design itself is appropriate. Staff
2 proposes that a simple and fair solution is to grandfather the three existing LC&I TOU customers on
3 the rate as of March 1, 2012, onto a frozen LC&I TOU(F).⁶² Staff further proposes that the frozen
4 rate be eliminated in Mohave's next general rate case. The three customers on the frozen rate would
5 then need to choose between the regular LC&I rate and the LC&I TOU rate. Whichever rate is
6 ultimately adopted, Staff believes that the administrative cost attendant to any phase-in of rates for
7 the three existing LC&I customers is unjustified given that the impact on Mohave's revenue is
8 trivial.⁶³

9 **VI. MOHAVE'S SERVICE RULES, REGULATIONS AND/OR POLICIES.**

10 **A. Issues Agreed Upon by Staff and Mohave.**

11 **1. The Commission Should Adopt Staff's Recommendations Regarding**
12 **Modifications, Deletions and Additions to Mohave's Service Rules,**
Regulations and/or Policies.

13 **a. Termination of Service.**

14 ***i. Modifications and deletions.***

15 Mohave proposes to modify Subsection 111-A, Termination of Service, of its Service Rules
16 and Regulations by removing specific guidelines that Arizona electric utilities are required to
17 follow.⁶⁴ Such action would result in inconsistencies with the Arizona Administrative Code
18 ("A.A.C.").⁶⁵

19 Specifically, Mohave proposes to remove A.A.C. R14-2-211.A.3 which prohibits a utility
20 from disconnecting service to customers for "nonpayment of a bill for another class of service."
21 Mohave also included language in its proposed Service Rules and Regulations that differs from the
22 Commission's rules regarding termination of service under A.A.C. R14-2-211.A.5.a and R14-2-
23 211.A.5.b where the customer has the inability to pay.⁶⁶ In addition, though Mohave has
24 subsequently agreed to include such language, Mohave initially proposed to remove A.A.C. R14-2-
25 211.A.6.b which requires notification be given to a third party previously designated by the customer

26 _____
⁶² See Ex. S-9 at Ex. DBE-3.

27 ⁶³ See Ex. S-9 at 10, l. 21 to 11, l. 6.

28 ⁶⁴ Ex. S-2 7:20-22.

⁶⁵ *Id.*

⁶⁶ Ex. S-2 7:26 – 8:4.

1 of a pending disconnect where the customer is ill, elderly, or handicapped and has an inability to
2 pay.⁶⁷ Staff also notes a “minor reference error on page 46” of the proposed Service Rules and
3 Regulations and recommends that “Point 1.f should reference c. and d. respectively.”⁶⁸

4 Staff recommends that the above-referenced language be included in Mohave’s Service Rules
5 and Regulations. As before-stated, Mohave has agreed to adopt these recommendations.⁶⁹

6 **ii. Omissions.**

7 Staff also points out that Mohave has not included the following provisions in its proposed
8 Service Rules and Regulations:

- 9 • A.A.C. R14-2-211B.3 – maintenance of records of termination of service without
10 notice;
- 11 • A.A.C. R14-2-211.C.2 – maintenance of records of terminations with notice;
- 12 • A.A.C. R14-2-211D.2.d – minimum information that must be included in advance of
13 written notice of disconnection from Utility;
- 14 • A.A.C. R14-2-211.E.4 – personal visit from a representative of the Utility in order to
15 disconnect service without notice; and
- 16 • A.A.C. R14-2-211.E.5 – Utility’s right to remove its property from a customer’s
17 premises.⁷⁰

18 While Staff acknowledges that Decision No. 57172 dated November 29, 1990, approved
19 Mohave’s current Service Rules and Regulations without the above-referenced provisions, Staff
20 recommends that such requirements be included in Mohave’s proposed Service Rules and
21 Regulations.⁷¹ As with the above-discussed proposed deletions and inconsistent provisions, Mohave
22 has agreed to Staff’s recommendations that these omitted provisions be incorporated into its Service
23 Rules and Regulations.⁷²

23 ...
24 ...
25 ...

26 ⁶⁷ Ex. S-2 8:4-7.
27 ⁶⁸ Ex. S-2 8:7-9.
28 ⁶⁹ Ex. MEC-3 10:8-10.
⁷⁰ Ex. S-2 8:13-29.
⁷¹ Ex. S-2 8:31-34.
⁷² Ex. MEC-3 10:8-10.

1 2. **Standard Offer Tariff-Rates and Charges for Other Services.**

2 a. **The Commission Should Approve Mohave's its Establishment, Re-**
3 **Establishment and Reconnection Fees.**

4 Mohave proposes to revise its fees for establishing, re-establishing and reconnecting electrical
5 service by distinguishing only between "Regular Hour" and "After Hours" fees, and not the actual
6 service provided.⁷³ Mohave currently charges \$25.00 for establishment and re-connection and \$50.00
7 for re-establishment during regular hours and \$50.00, \$50.00 and \$75.00, respectively, after hours.⁷⁴
8 Mohave's modified "Regular Hours" charge for establishment, re-establishment and/or reconnection
9 would be \$40.00; "After Hours" would be \$60.00 for each service.⁷⁵ Staff believes Mohave's
10 proposed changes to its establishment, re-establishment and reconnection fees are appropriate and
11 recommends approval thereof.⁷⁶

12 b. **The Commission Should Approve Mohave's Modifications to**
13 **Other Standard Offer Tariff-Rates and Charges for Other Services**
14 **Except the Customer Information Charge.**

15 With certain qualifications applicable to some,⁷⁷ Mohave also seeks to modify the following
16 service fees as indicated: Meter Re-Read (\$5.00 to \$25.00), Meter Test (Shop: \$10.00 to \$40.00,
17 Independent Test: \$25.00 to \$40.00), Insufficient Funds (\$15.00 to \$25.00), Finance Charge (15% to
18 1.5%), Late Fee Penalty (0% to 1.5%),⁷⁸ Interest on Customer Deposits (6% to One Year Treasury
19 Constant Maturities Rate), Service Availability Charge (8% to 0%) and Customer Information
20 Charge (0 to \$50.00).⁷⁹ Staff concurs that, with the exception of the Customer Information Charge,
21 the above Standard Offer Tariff-Rates and Charges for Other Services are appropriate and should be
22 approved.⁸⁰ Staff originally contended that Mohave failed to provide a cost-based justification for the
23
24

25 ⁷³ Ex. MEC-131:11-20; Ex. S-2 1:24 – 2:20.

26 ⁷⁴ Application Paragraph 9; Ex. MEC-131:11-20; Application Attachment 3, ____.

27 ⁷⁵ Application Attachment 3, Section P at 28.

28 ⁷⁶ Ex. S-2 4:3-6; Allen Ex. CA-5.27.

⁷⁷ Ex. S-2 3:4-7.

⁷⁸ Tr. at 30:1-8.

⁷⁹ Application Attachment 3, Section P at 28; Ex. S-2 3:1-11.

⁸⁰ Ex. S-2 3:1-7, 15 – 4:6; Ex. CA-5.27; Tr. at 481:8 – 482:8.

1 proposed Customer Information Charge and, therefore, it should not be adopted.⁸¹ Mohave has
2 subsequently agreed to eliminate this charge.⁸²

3 c. **The Commission Should Approve Modifications to Mohave's**
4 **Credit Card Payment Rate Schedule.**

5 Mohave does not propose any rate changes to its Credit Card Payment Rate Schedule. It
6 merely seeks to rename the tariff as "Alternative Payment Rate Schedule," eliminate reference to
7 credit card payments, add reference to alternative methods of payment other than cash or check and
8 clarify the reference to the potential bank transaction fee, i.e., should a financial institution not charge
9 a fee to Mohave, no fee would be charged to the Mohave ratepayer.⁸³ Staff recommends that these
10 revisions be approved.⁸⁴

11 **3. Engineering Evaluation.**

12 a. **The Commission Should Adopt Staff's Un-refuted Conclusions and**
13 **Recommendations Regarding Mohave's System Operations and**
14 **Planning.**

15 As part of Staff's engineering evaluation of Mohave's system operations and planning,
16 Margaret "Toby" Little ("Little"), an ACC Electric Utilities Engineer, inspected the cooperative's
17 distribution system facilities on July 18 and 19, 2011.⁸⁵ During the course of her inspection, Little
18 met with Mohave officials including Ms. Peggy Gilman, Manager of Public Affairs, Mr. Arden
19 Lauxman, Chief Financial Officer and Ms. Neil Garney, Operations Supervisor, to discuss certain
20 elements of its rate filing and Construction Work Plan 2008-2011.⁸⁶ Little also reviewed Mohave's
21 responses to Staff's written and verbal data requests to assist in her analysis.⁸⁷ Little evaluated
22 Mohave's western and eastern service areas, electric distribution system including six substations,
23 system characteristics, annual system losses, quality of service, system improvements and upgrades,
24 SMART Grid, REST Plan and Mohave's projected system load growth.

25 Based on Little's inspections and evaluation, Staff concluded that Mohave:

26 ⁸¹ *Id.*

27 ⁸² Tr. at 481:8-12.

28 ⁸³ Ex. S-2 4:10-17; Ex. CA-5.21.

⁸⁴ *Id.*

⁸⁵ Ex. S-13:3-4.

⁸⁶ *Id.* at 4-7; 15-18.

⁸⁷ *Id.* at 6-7.

- 1 a. is operating and maintaining its electrical system properly;
- 2 b. is carrying out system improvements, upgrades and new additions to meet the
- 3 current and projected load of the Cooperative in an efficient and reliable
- 4 manner. These improvements, system upgrades and new construction are
- 5 reasonable and appropriate.
- 6 c. has an acceptable level of system losses, consistent with the industry
- 7 guidelines; and
- 8 c. has a satisfactory record of service interruptions in the historic period from
- 9 2001 thru 2010, reflecting satisfactory quality of service.⁸⁸
- 10 d.

11 In addition, Staff recommends that:

- 12 a. Mohave...should continue with planned system improvements and additions as
- 13 provided for in the 2008-2011 Construction Work Plan.
- 14 b. Mohave...should continue with its plans in utilizing the SMART grid grant and
- 15 with its REST plan.⁸⁹

16 Mohave presented no pre-filed written or hearing testimony or other evidence in response to

17 Staff's conclusions and recommendations pertaining to its engineering evaluation as set forth above.

18 Based on the foregoing, Staff believes the Commission should adopt such conclusions and

19 recommendations in their entirety.

20 **B. Line Extensions.**

21 For customers located both within and outside a subdivision, Mohave proposes to substitute

22 monetary allowances for single-phase and three-phase line extensions in lieu of the existing free

23 footage allowances provided for in Sections 106 and 107 of its Service Rules and Regulations.⁹⁰

24 Staff and Mohave are in general agreement regarding Mohave's proposed changes to the line

25 extension provisions with the exception of the cost of transformers for customers outside of

26 subdivisions and the timeframe within which a customer may take advantage of the availability of the

27 free footage allowances.⁹¹

28 ...

...

⁸⁸ Ex. S-111:4-14.

⁸⁹ *Id.* at 15-19.

⁹⁰ Ex. S-2 5:23 – 6:19.

⁹¹ Ex. S-2 6:21 – 7:16; Ex. MEC-3 10:13-24.

1 **1. The Commission Should Adopt Mohave's Proposed Monetary-Based Line**
2 **Extension Allowances for Customers Located Within a Subdivision.**

3 As proposed, these customers would instead receive \$1,750.00 and \$2,500.00, respectively,
4 for similar line extensions.⁹² Within a subdivision, customers receive 500 and 225 feet, respectively,
5 for single-phase and three-phase extensions to which Staff assigns current dollar equivalents of
6 \$2,390.00 and \$5,171.00.⁹³ Under Mohave's proposal, customers would receive \$800.00 and
7 \$2,500.00 for the same line extensions.⁹⁴

8 Mohave asserts that line extension allowances based on actual footage do not account for
9 inflation, deflation and increases in material costs.⁹⁵ Mohave further contends that monetary based
10 allowances allow for adjustments during periods of inflation and deflation.⁹⁶ Staff concurs that a line
11 extension policy based on a dollar amount provides greater flexibility during periods of economic
12 fluctuations and would be beneficial for Mohave customers.⁹⁷ On such basis, Staff recommends that
13 Mohave's proposed monetary-based allowances for single-phase and three-phase line extensions
14 within a subdivision be approved.⁹⁸

15 **2. The Commission Should Adopt Mohave's Proposed Monetary-Based Line**
16 **Extension Allowances for Customers Located Outside of Subdivisions**
17 **Except for the Cost of Transformers.**

18 Currently, individuals located outside a subdivision are allocated line extensions of 625 and
19 225 feet for single-phase and three-phase service, respectively. According to Staff, these line
20 extensions have respective current dollar equivalents of \$5,913.00 and \$3,195.00.⁹⁹ As proposed,
21 these customers would instead receive \$1,750.00 and \$2,500.00, respectively, for similar line
22 extensions.¹⁰⁰ In its proposed monetary-based line extension allowances Mohave seeks to include the
23 cost of transformers for customers located outside subdivisions. Mohave submits that transformers
24 are part of the plant investment whether installed to serve a subdivision or individual lots.¹⁰¹ Mohave

24 ⁹² *Id.*

25 ⁹³ *Id.*

25 ⁹⁴ *Id.*

26 ⁹⁵ Ex. S-2 6:9-12.

26 ⁹⁶ *Id.*

27 ⁹⁷ Ex. S-2 6:21-23.

27 ⁹⁸ Ex. S-2 7:10-11; Tr. at 482:9-18.

27 ⁹⁹ Ex. S-2 6:14-18.

28 ¹⁰⁰ *Id.*

28 ¹⁰¹ Ex. MEC-3 10:33-34; Tr. at 34:14 - 35:8.

1 further posits that, due to its status as a rural electrical cooperative, in areas of low customer density
2 each customer typically requires their own individual service transformer for which it should be
3 financially responsible.¹⁰² Mohave contends that in such situation the average per-customer
4 transformer plant investment is often greater outside of subdivisions and to remove recovery of the
5 cooperative's investment in transformation facilities from any group creates a subsidy.¹⁰³ Mohave
6 believes including full recovery of transformer plant investment from customers outside subdivisions
7 is fairer to all cooperative members.¹⁰⁴

8 Alternatively, Mohave first suggests that a customer's financial responsibility be capped at
9 one half of the transformer's cost which would ensure that a customer would share at least one half of
10 the transformer's cost with either another customer or the cooperative or, where a transformer is
11 expected to serve more than two members, each member would be responsible for only his/her pro
12 rata share.¹⁰⁵ Mohave subsequently conceded that the referenced 50% cap should be made a part of
13 its line extension policy for customers outside subdivisions.¹⁰⁶

14 Conversely, Staff argues that individual customers outside subdivisions should not pay for the
15 cost of a transformer.¹⁰⁷ Staff contends that, by excluding transformer costs, customers outside
16 subdivisions would receive longer line extensions than proposed by Mohave, i.e., single-phase and
17 three-phase line extensions of \$1,750.00 and \$2,500.00, respectively, would equate to approximately
18 185 feet and 176 feet compared to 132 feet and 108 feet.¹⁰⁸ In support of its position, Staff refers to
19 its recommendations in the Arizona Public Service application for approval of Version 12 of Service
20 Schedule 3 and Agreement in Docket No. E-01345A-11-0207¹⁰⁹ and the direct testimony of Richard
21 Lloyd filed February 1, 2012, in the ongoing Navopache Electric Cooperative, Inc. rate proceeding
22 (Docket No. E-01787A-11-0186).¹¹⁰ Here, as in both referenced cases, Staff recommends that
23
24

25 ¹⁰² Ex. MEC-3 11:5-6.

26 ¹⁰³ Ex. MEC-3 11:8-10; Tr. at 34:14-22.

27 ¹⁰⁴ Ex. MEC-3 11:11-14.

28 ¹⁰⁵ Ex. MEC-3 11:15-20; Tr. at 48:21-25.

¹⁰⁶ Ex. MEC-4 17:30 - 18:2.

¹⁰⁷ Ex. S-2 7:1-3; Tr. at 48:21-25.

¹⁰⁸ Ex. S-2 7:4-10.

¹⁰⁹ Ex. S-2 7:2-4.

¹¹⁰ Ex. S-3 1:24 - 2:4.

1 transformer costs be included in line extension allowances.¹¹¹ Staff further asserts that Mohave's
2 proposed 50% compromise still contradicts Staff's recommendation that individuals outside
3 subdivisions not bear the cost of a transformer.¹¹²

4 **3. The Commission Should Adopt Mohave's 60 Day Limit for Potential**
5 **Customers' Acceptance of the Current Line Extension Free Footage**
6 **Allowance.**

7 Staff agrees that the notice provided to Mohave's customers who have received a line
8 extension estimate, as described in Mr. Searcy's rebuttal testimony (page 11, lines 27-35), is
9 acceptable policy and should be approved.¹¹³ Thereby, Mohave customers will have sixty (60) days
10 from the Order issued in this matter to commence construction of the line extension.¹¹⁴

11 **C. Prepaid Metering.**

12 **1. The Commission Should Require Mohave to File a Separate Docket to**
13 **Address Prepaid Metering.**

14 Mohave has proposed to include prepaid metering as subsection "T" to Section 102,
15 Establishing Electric Service, of its Service Rules and Regulations.¹¹⁵ Mohave asserts that its single
16 purpose for implementation of prepaid metering is to afford its customers an option to posting a
17 security deposit equal to two months of billing, having a good credit history or being a customer in
18 good standing for 12 months.¹¹⁶ Mohave contends that its customers are requesting prepaid service
19 and are "anxious" for it to be implemented.¹¹⁷ According to Mohave's Carlson, prepaid service
20 "affords customers the opportunity to pay as they go rather than in 30 day increments...[and]...the
21 opportunity to forego electricity for a day or two without incurring a minimum monthly bill and
22 paying reconnection fees...[which]...will always be meaningful to customers in [Mohave's] service
23 area...[and]...even more so while they are suffering from a depressed economy."¹¹⁸ Mohave further
24 submits that prepaid metering is an optional service which is not part of Mohave's DSM program¹¹⁹

25 ¹¹¹ Tr. at 481:24.

26 ¹¹² Tr. at 486:23 - 487:5.

27 ¹¹³ Ex. MEC-3 11:24-35; MWS-Rebuttal Ex. 2; Tr. at 468:21 - 469:3.

28 ¹¹⁴ *Id.*; Tr. at 489:11-23.

¹¹⁵ Ex. S-2 5:3-4

¹¹⁶ Ex. MEC-7 7:18-21; Ex. MEC-3 12:33 - 13:3, Ex. MEC-4 17:13-16.

¹¹⁷ Ex. MEC-7 7: 18; 8:22; Ex. MEC-4 17:5.

¹¹⁸ Ex. MEC-7 7:22-26.

¹¹⁹ Ex. MEC-3 12:28-32; Ex. MEC-4 17:10-12.

1 or an energy efficiency measure as Staff has asserted.¹²⁰ Based on the foregoing, Mohave posits that
2 there is no need for a separate docket or to delay implementation of prepaid metering.¹²¹

3 Although not entirely opposed to this payment option,¹²² Staff asserts that Mohave failed to
4 provide any analysis relating to the implementation of prepaid metering in its Application and/or
5 promotional material to explain the benefits and risks associated with prepaid metering.¹²³
6 Notwithstanding Mohave's subsequent responses to Staff's data requests, Staff maintains that
7 Mohave has not provided adequate information upon which this payment option should be approved
8 at this time.¹²⁴ Staff believes that Mohave should engage in discussions with stakeholders and other
9 interested parties to further and fully evaluate prepaid metering before Commission approval is
10 sought.¹²⁵

11 Support for Staff's position that further research is necessary before prepaid metering can be
12 implemented is found in Ms Allen's pre-filed Surrebuttal testimony where she relates that Ex. 2 of
13 Mr. Carlson's rebuttal testimony is unclear and appears to be inconsistent with Mohave's proposed
14 Subsection 102-I.1.e. Ms Allen explains that such section indicates that if a prepaid metering
15 customer fails to make a payment and the account is disconnected, the customer can make a payment
16 including the Reconnection/Establishment Fee. However, the proposed Prepaid Metering Agreement
17 provides that only \$20.00 minimum payment is required.¹²⁶ Moreover, even Mr. Searcy concedes
18 that, due to the fact it is a first time project, the Cooperative's prepaid metering is "going to involve a
19 lot more work, a lot more thought, a lot more evaluation in terms of anticipating any unintended
20 consequences."¹²⁷

21 Notwithstanding Mohave's arguments to the contrary, Staff maintains that Mohave has
22 presented insufficient evidence in the form of, *inter alia*, tariffs, pre-paid plan and/or reports, to
23 alleviate, if not eliminate, all or the majority of adverse circumstances that could befall Mohave's
24

25 ¹²⁰ Ex. MEC-7 8:4-8.

26 ¹²¹ Ex. MEC-4 17:4-7;

27 ¹²² Tr. at 491:24 – 492:2.

28 ¹²³ Ex. S-2 5:4-5; Tr. at 494:14 – 495:10.

¹²⁴ Ex. S-2 5:7-9.

¹²⁵ Ex. S-2 5:9-10; Tr. at 496:25 – 497:11.

¹²⁶ Ex. S-3 4:6-13.

¹²⁷ Tr. at 89:7-13.

1 members should problems occur with prepaid metering connections, disconnections and/or service.¹²⁸
2 Given this dearth of supporting information, Staff believes approval of prepaid metering is premature
3 and should be undertaken in a separate docket.¹²⁹

4 **2. Alternatively, the Commission Should Approve Prepaid Metering Under**
5 **the Following Conditions.**

6 Alternatively, in the event the Commission determines that Mohave's prepaid metering
7 proposal is timely and appropriate under the circumstances, Staff recommends that it be implemented
8 under the following conditions:

9 Mohave participate in stakeholder meetings in an effort to improve its prepaid
10 metering service specifically for its income restricted customers;

11 Mohave file a request for the appropriate waivers of the Commission's Rules
12 including but not limited to disconnection and metering. However,
13 disconnection waivers should not be waived with respect to extreme weather
14 events (refer to A.A.C. R14-2-201.46) or conditions and customers specified
15 under A.A.C. R14-2-211.A.5 and for those customers under appropriate
16 circumstances but beyond the scope of A.A.C. R14-2-211.A.5;

17 Mohave file for Staff review of its proposed Prepaid Metering Agreement, and
18 any promotional/advertising material to be used, prior to implementation;

19 Mohave develop for Staff review, prior to implementation, information to be
20 given to potential prepaid metering customers that provides information
21 detailing the classes of customers who qualify for prepaid metering, the
22 customers for whom prepaid metering is reasonable and appropriate, and the
23 rules and requirements of the prepaid metering option (to be provided prior to
24 signing the proposed Prepaid Metering Agreement). This recommended
25 documentation should be signed and/or initialed and dated as being read and
26 understood by the customer prior to the Prepaid Metering Agreement being
27 signed by the customer;

28 Mohave be required to file a prepaid metering tariff that includes the daily rates
for the charges specified in the proposed Standard Offer Residential Service
Tariff;

Mohave be required to file, as a compliance item, a revised RES Tariff that
includes a section for prepaid metering customers that indicates the daily REST
surcharge that would be charged. The method for calculating the daily REST
surcharge for prepaid metering customers should be the REST monthly
maximum approved by the Commission divided by 30 days; and

Mohave be required to file, in this docket, an annual report with the following
information:

¹²⁸ Tr. at 501:1-3, 8-12; 526:1-6.

¹²⁹ Ex. S-2 5:8-9, 15-17; Ex. S-3 2:13-15; Tr. at 526:1-3.

- 1 1. The number of prepaid metering customers per month;
- 2 2. The number of disconnects per account each month, specifying the number of
- 3 low-income disconnections.
- 4 3. The number of prepaid metering customers that have been disconnected for 24
- 5 hours or more (in 24 hour increments) and the number of accounts with
- 6 repeated disconnections;
- 7 4. A summary of any unforeseen issues that could impact the implementation of
- 8 or the future progress of the prepaid metering option and recommendations on
- 9 ways to improve these potential issues; and
- 10 5. The number of customer complaints specific to prepaid metering.

11 In addition, Staff believes the following language should be removed from Mohave's
12 proposed Prepaid Metering Agreement:

13 Electric service is subject to immediate disconnection any time an account does
14 not have a credit (prepaid) balance, even if the customer has submitted medical
15 documentation that termination would be especially dangerous to a permanent
16 resident of the premises or where life support equipment dependant upon utility
17 service is in use.¹³⁰

18 Staff believes the foregoing language is inconsistent with the Commission's rules on
19 termination of service.¹³¹ Staff further submits that Mohave proposed Prepaid Metering Agreement
20 specify those customers to whom Staff has recommended disconnection waivers not be granted.¹³²

21 **D. Mohave's Next Rate Case.**

- 22 1. **The Commission Should Order Mohave to File Its Next Rate Case No**
- 23 **Later Than September 1, 2016, Using a December 31, 2015 Test Year.**

24 Though the parties have resolved many issues in this matter, a dispute remains regarding the
25 timing of Mohave's next rate case. Staff recommends that Mohave be required to file its next rate
26 case no later than September 1, 2016 using 2015 test year ending December 31.¹³³ Mohave objects to
27 any mandatory date for filing a new application and asserts that its board of directors should make
28 that determination.¹³⁴

29 ¹³⁰ Ex. S-3 2:13 – 3:41.

30 ¹³¹ Ex. S-3 4:1-2.

31 ¹³² Ex. S-3 4:2-4.

32 ¹³³ Ex. S-7 23:21-22.

33 ¹³⁴ Ex. MEC-3 8:18-33; Ex. MEC-4 18:15 – 20:2, Stover Rejoinder 11:25-32.

1 The basis for Staff's recommendation in this regard is essentially twofold. First, as part of its
2 review of Mohave's instant application, Mendl addressed, *inter alia*, the prudence of Mohave's
3 electric power procurement practices since July 25, 2001.¹³⁵ To accomplish such task, Staff
4 endeavored to compile information through discovery regarding Mohave's power procurement
5 procedures and its application of the purchased power cost adjustor¹³⁶ as well as assessing the
6 procurement procedures and market price benchmarks to determine whether the purchased power
7 costs for the 2001-2010 prudence evaluation period were prudent.¹³⁷

8 To this end, Staff issued a third data request on August 30, 2011 which sought information
9 pertaining to the evolution of Mohave's organization and power procurement procedures for the
10 period 2001 to 2010.¹³⁸ By letter from counsel dated September 8, 2011, Mohave objected to
11 providing information prior to 2007.¹³⁹ Specifically, Mohave stated that:

12 [A] review of Mohave power purchasing between 2001 and 2008 has little to no
13 relevance to the test year and the projected conditions – the only periods relevant to
14 the current rate proceeding. The foregoing, coupled with the burdensome nature on
Mohave of requesting it to review a decade of records, back to 2001, resulted in
Mohave objecting to data requests seeking information prior to 2007.¹⁴⁰

15 Notwithstanding such objection, Staff continued in its quest to secure information on
16 Mohave's purchased power costs and credits for the July 25, 2001 - December 31, 2006 period.
17 Despite such attempts, Mohave failed and/or refused to provide with the requested information as it
18 applied to Mohave's procurement practices and procedures.¹⁴¹

19 As a result of Mr. Mendl's inability to properly conduct a prudence review of Mohave's
20 purchased power costs and credits for the stated 2001-2006 period due to Mohave's apparent failure
21 to maintain information to support the prudence of its purchased power and/or refusal to provide such
22 data, Staff recommended that a 1% prudence adjustment of \$1.946 million be made to Mohave's
23 purchased power bank.¹⁴²

25 ¹³⁵ Ex. S-6 1:12-32.

26 ¹³⁶ Ex. S-6 2:2-3.

¹³⁷ Id. at 23-25.

¹³⁸ Ex. S-6 9:5-18.

27 ¹³⁹ *Id.*, citing Exhibit JEM-2 CONFIDENTIAL, page 1.

¹⁴⁰ *Id.*; Ex. S-6 17:13-15.

28 ¹⁴¹ Ex. S-6 18:11-15.

¹⁴² Ex. S-6 27:14-17; 33:5-7.

1 Subsequently, in a February 17, 2012 meeting with Staff, Mohave agreed to provide the
2 missing documentation for the 2001-2006 period at issue.¹⁴³ After approximately six months, on or
3 about March 7, 2012, Mohave provided the referenced documentation which resulted in Staff's
4 removal on March 12, 2012 of all of the \$1.946 million prudence adjustment.¹⁴⁴ However,
5 \$562,035.00 of ineligible disallowed purchase power expenses and credits for 2010 remain in
6 dispute.¹⁴⁵ This process also identified an undisputed adjustment of over \$91 thousand due to Staff's
7 discovery of Mohave computation errors. As a result, Staff removed the \$1.946 million prudence
8 adjustment and added the \$91 thousand plus after finally receiving the requested information.

9 Though the prudence adjustment issue is now moot, due to Mohave's refusal and/or inability
10 to timely provide the requested documentation for its claimed purchased power costs and credits,
11 Staff recommended that Mohave be required to file its next rate case application no later than April 1,
12 2016, based on a test year ending December 31, 2015, or sooner if needed.¹⁴⁶ In support of such
13 recommendation Mr. Mendl opined that limiting the amount of purchased power costs not yet subject
14 to a prudence review to a maximum of five years would keep the information needed for a prudence
15 review fresh and current [and] also avoid surprises of having potential disallowances, especially large
16 disallowances that could accumulate over many years.¹⁴⁷ Such rate case timing would also reduce
17 the large volumes of data to be reviewed, reduce the odds of there being a financial emergency before
18 Mohave's next rate case and make it easier to recall or reconstruct the context in which Mohave made
19 its power purchases.¹⁴⁸

20 Staff also recommends that Mohave be required to maintain all files and records pertinent to
21 its purchased power planning and procurement document the prudence of its purchased power
22 expenditures.¹⁴⁹

23 Mohave subsequently requested that, in the event the Commission adopts Staff's
24 recommendation that Mohave file a new a new rate case in five years, the cooperative be allowed a
25

26 ¹⁴³ Ex. S-7 2:17 – 4:2.

¹⁴⁴ *Id.*

¹⁴⁵ *Id.*

27 ¹⁴⁶ Ex. S-6 27:19-24; 33:9-17; 39:13-14; 47:33-41; 49-50; Ex. S-7 24:13 – 25:5.

¹⁴⁷ Ex. S-6 27:19-24; 33:31-35.

28 ¹⁴⁸ Ex. S-7 24:13-19.

¹⁴⁹ Ex. S-6 27:22-24.

1 five month continuance until September 1, 2016 to allow it to complete an outside audit in
2 preparation for such application.¹⁵⁰ Staff has agreed to such request.¹⁵¹

3 In contrast, Mohave opposes Staff's five year rate case recommendation principally because it
4 alleges that there has been no showing that its board of directors is incapable of making a sound
5 business decision relating to if and when a rate case should be filed.¹⁵² Mohave further urges that its
6 board should be presumed to be the most appropriate body to make such decisions.¹⁵³ Mohave also
7 claims that Staff's recommendation is driven by its desire to reduce the volume of purchased power
8 data it must review.¹⁵⁴ Although Staff agrees that reduced documentation would streamline the
9 review process,¹⁵⁵ Mohave's other arguments in this regard are without merit and should be
10 disregarded.

11 As has been established, Mohave filed its last rate case in 1989. During the course of the
12 ensuing twenty-plus years, Mohave never sought to increase its rates or address any other rate-related
13 issue before the Commission. This is true notwithstanding the fact that Mohave converted from a full
14 requirements member of AEPCO to a partial requirements member on July 25, 2001.¹⁵⁶ However,
15 irrespective of its apparent self-perceived lack of need for a rate increase during this protracted
16 period, sometime in 2010 Mohave began recovering certain purchased power costs through its
17 purchased power adjuster clause, something it had never done before.¹⁵⁷ In fact, when discussing
18 Staff's proposed removal of \$594,737.45 from the fuel bank balance related to in-house labor,
19 consulting, lobbying and legal purchase power costs, Mohave's CEO acknowledged that "had these
20 costs not been collected through our PPCA, Mohave's financial performance would have been
21 adversely affected."¹⁵⁸ As a result, according to Mr. Mendl, Mohave effectively developed a new
22 revenue stream which raised rates without Commission approval.¹⁵⁹

23
24 ¹⁵⁰ Ex. S-7 28:8-14; Search Rebuttal 8:18-33, Ex. MEC-4 18:15-18.

¹⁵¹ *Id.*

25 ¹⁵² Ex. MEC-4 18:20-26.

¹⁵³ *Id.*; Tr. at 17:8 – 19:3; 64:12-16.

26 ¹⁵⁴ Ex. MEC-4 18:27-28.

¹⁵⁵ Ex. S-7 24:13-16.

27 ¹⁵⁶ Ex. S-6 1:13-15.

¹⁵⁷ Ex. S-7 16:7-9.

28 ¹⁵⁸ Ex. MEC-7 13:1-3.

¹⁵⁹ Ex. S-7 16:4-5, 14-16.

1 While Mohave argues that its board members, who are also customers, are best suited to know
2 when the cooperative needs to file its next rate case and, therefore, should be given great deference,
3 the documentation provided after a protracted period of time still resulted in a showing of
4 \$594,737.00 in ineligible purchased power costs and expenses for 2010. That fact, together with the
5 unduly protracted delay in providing supporting documentation for the 2001-2006 period, calls into
6 question whether the Mohave board should be the final arbiter of the timing of the cooperative's next
7 rate case.

8 **E. Record Retention Policy.**

9 Although Staff and Mohave agree that discussions should take place regarding establishing a
10 record retention policy for Mohave to follow in anticipation of future rate cases,¹⁶⁰ a dispute exists as
11 to how such policy should take place and which party has the onus of creating a list of required data.

12 Staff recommends that the Commission direct Staff and Mohave to meet within two months
13 of the order in this case to discuss options for streamlining the rate case process and identify the
14 nature of the issues and information required for the next case, leaving flexibility to modify the issues
15 as the rate case approaches.¹⁶¹ Staff further recommends that the Commission require Mohave to
16 maintain all files and records pertinent to its purchased power planning and procurement and
17 document the prudence of purchased power expenditures.¹⁶² However, Staff notes that, while it is
18 amenable to meeting with Mohave to discuss this issue, the cooperative is in a better position than
19 Staff to determine what information is retained and how it is presented.¹⁶³

20 Mohave desires to meet with Staff to discuss record retention for purposes of preparing for the
21 next rate case and purchased power documentation. During such exercise Mohave expects to
22 collaboratively develop a retention policy around what Staff expects to see for future purchased
23 power prudence reviews.¹⁶⁴ However, Mohave prefers that Staff delineate the requisite documents to
24
25

26 _____
27 ¹⁶⁰ Tr. 80:23 – 81:3; 94:9-14; 260:17 – 261:12; 383:12-14; 427:14-18.

¹⁶¹ Ex. S-7 25:6-9.

¹⁶² Ex. S-7 28:23-27.

¹⁶³ Tr. 469:18-25; 541:23 – 542:1.

¹⁶⁴ Tr. 260:17 – 261:12.

1 be maintained and filed.¹⁶⁵ However, Searcy acknowledged that it would be invasive if Staff were to
2 impose a records retention program on any company it regulated.¹⁶⁶

3 Based on the foregoing, Staff recommends that the Commission order Staff to meet with
4 Mohave to discuss the cooperative's record retention policy but that Mohave shall ultimately bear full
5 responsibility for the development of such policy.

6 **VII. ISSUES WHERE STAFF AND MOHAVE ARE IN AGREEMENT.**

7 After significant and extensive negotiations, Staff and Mohave have resolved several
8 significant issues in addition to those noted above. Staff recommends that the Commission adopt the
9 terms of the parties' resolution of these issues as set forth below.

10 **A. The Commission Should Adopt The Terms Of The Parties' Agreement On The**
11 **Following Issues.**

12 **1. Demand Side Management and Renewable Energy Adjustors.**

13 Staff and Mohave agree that Mohave will file for demand side management ("DSM") and
14 renewable energy adjustor tariffs in this docket.¹⁶⁷ The parties were in agreement that Mohave would
15 file for such tariff within 30 days of the close of the hearing.¹⁶⁸

16 **2. Revenue Requirement.**

17 Staff and Mohave have agreed to the following as pertain to Mohave's revenue requirement:
18 2010 Other Revenue of \$867,282.00 adjusted for new service fees;¹⁶⁹ Revenue Increase of
19 \$3,061,529.00 which addresses the resolution of Other Revenue and provides revenues of
20 \$100,000.00 for rate case expenses less \$32,702.00 of disallowed lobbying expense;¹⁷⁰ Adjusted Test
21 Year Revenues of (with new rates) of \$79,129,535.00;¹⁷¹ 2010 Adjusted Test Year Operating
22 Expenses of \$75,523,583.00;¹⁷² 2010 Adjusted Test Year Return/Operating Margins of

25 ¹⁶⁵ Tr. 291:25 – 296:3.

26 ¹⁶⁶ Tr. 95:6-9.

27 ¹⁶⁷ Ex. MEC-115:1-7; Erdwurm Direct 14:16 – 15:8; Tr. 591:9-21.

28 ¹⁶⁸ Tr. 591:25 – 592:14.

¹⁶⁹ Ex. S-5 Sch. CSB-3.

¹⁷⁰ *Id.*;

¹⁷¹ *Id.*

¹⁷² *Id.*

1 \$544,432.00;¹⁷³ Return/Operating Margins (with new rates) of \$3,605,952.00;¹⁷⁴ and a Return on
2 Rate Base of (with new rates) of 7.5%.¹⁷⁵

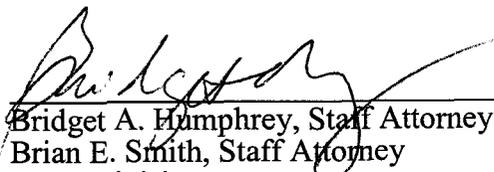
3 **3. Bill Estimation Tariff.**

4 Staff inadvertently omitted discussion with Mohave regarding a bill estimation tariff.¹⁷⁶ Staff
5 and Mohave subsequently agreed that Mohave will file for a bill estimation tariff in this docket for
6 Commission approval not later than ninety (90) days after a decision is entered in this matter.¹⁷⁷

7 **VIII. CONCLUSION.**

8 The Commission should adopt Staff's recommendations in this case as contained in its
9 Testimony and herein. Staff's recommendations will result in just and reasonable rates for Mohave.

10 RESPECTFULLY SUBMITTED this 11th day of May, 2012.

11
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27 ¹⁷³ *Id.*

28 ¹⁷⁴ *Id.*

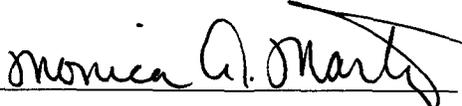
¹⁷⁵ *Id.*

¹⁷⁶ Tr. at 469:6-16.

¹⁷⁷ Tr. at 479:24 - 480:2.

1 Copies of the foregoing were emailed
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