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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- BOB STUMP- Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

Arizona Corporation Commission
DOCKETED

FEB 08 2013

DOCKETED BY 

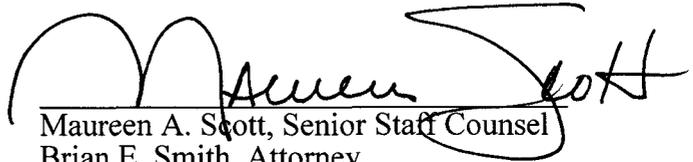
IN THE MATTER OF THE APPLICATION OF
OF GRAHAM COUNTY UTILITIES, INC.
GAS DIVISION FOR APPROVAL OF A RATE
INCREASE.

DOCKET NO. G-02527A-12-0321

**STAFF'S NOTICE OF FILING DIRECT
TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Testimony of
Brian K. Bozzo, Ranelle Paladino and Alan Borne in the above docket.

RESPECTFULLY SUBMITTED this 8th day of February 2013.



Maureen A. Scott, Senior Staff Counsel
Brian E. Smith, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
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Original and thirteen (13) copies
of the foregoing filed this
8th day of February 2013 with:

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Phoenix, Arizona 85007

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1 Copy of the foregoing mailed this
8th day of February 2013 to:

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3 Grand Canyon State Electric
Cooperative Association
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Tempe, Arizona 85282

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7 Pima, Arizona 85543

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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-02527A-12-0321
GRAHAM COUNTY UTILITIES, INC. (GAS)
DIVISION) FOR APPROVALE OF A RATE)
INCREASE)
_____)

DIRECT

TESTIMONY

OF

BRIAN K. BOZZO

COMPLIANCE AND ENFORCEMENT MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 8, 2013

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EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC.
DOCKET NO. G-02527A-12-0321

Graham County Utilities Inc. (“Graham” or “GCU” or “Company”) is a non-profit cooperative and public service corporation whose purpose is to provide both gas distribution services and water services to rural areas in Graham County, Arizona. Due to the separate nature of these services, Graham is composed of two wholly owned, separate divisions known as Graham County Utilities Inc. – Gas Division (“Graham Gas”) and Graham County Utilities Inc. – Water Division (“Graham Water”). As of December 31, 2012, Graham Gas provided natural gas distribution service to approximately 5,200 customers and Graham Water provided water service to approximately 1,200 customers. Graham is also affiliated with Graham County Electric Cooperative (“Graham Electric”) in that the parties have entered into an agreement whereby Graham Electric provides management services to Graham.

On July 13, 2012, Graham filed a general rate application for Graham Gas and subsequently amended the filing on August 10, 2012. As amended, the application shows a \$46,478 adjusted net margin for the test year that ended September 30, 2011. Graham Gas’s application proposes total operating revenue of \$3,466,484, a \$224,132 increase (6.91 percent), over its \$3,242,352 test year revenue. Graham Gas’s proposed revenue, as filed, would provide a \$371,504 operating income and a \$270,610 net margin for a 3.41 times interest earned ratio (“TIER”), a 2.18 debt service coverage ratio (“DSC”) and a 10.05 percent rate of return on the proposed \$2,581,088 fair value rate base (“FVRB”) which is the same as the proposed original cost rate base (“OCRB”).

Mr. Bozzo’s testimony presents Staff’s recommendation for rate base, operating income, and the revenue requirement. Staff’s examination shows that Graham Gas experienced a \$28,304 net margin in the test year. Staff recommends total operating revenue of \$3,466,484, a \$224,132 increase (6.91 percent), over the \$3,242,352 test year revenues to provide a \$405,819 operating margin, a \$252,436 net margin, a 2.46 TIER, a 1.54 DSC and a 10.18 percent rate of return on a \$2,369,529 FVRB. Staff’s test year results reflect one rate base adjustment as shown on BKB-3 (removal of \$211,559 in construction work-in-progress) and three other expense adjustments as shown on BKB-6 (a \$1,381 increase to rate case expense, a \$35,696 reduction in interest expense – other and a corresponding \$52,489 increase in the interest expense on long term debt). Staff’s recommended revenue requirement is provisional and subject to change because it includes an amount for debt service coverage on a loan that the Company has informed Staff that it plans to issue after filing a request for and receiving Arizona Corporation Commission authorization.

1 **I. INTRODUCTION**

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

3 A. My name is Brian K. Bozzo. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed with the Arizona Corporation Commission (“Commission” or “A.C.C.”) in
8 the Utilities Division (“Staff”) as the Compliance and Enforcement Manager. Until July
9 2003, I was employed by the Commission as a Public Utility Analyst V in the accounting
10 section known as Financial and Regulatory Analysis (“FRA”).

11
12 **Q. Please describe your education and work experience.**

13 A. I obtained a Bachelor of Science degree in Business Administration from the University of
14 Arizona located in Tucson, Arizona. In 1991, I joined Staff as a rate analyst. I have been
15 responsible for conducting case preparation/analysis and serving as a Commission witness
16 in rate proceedings, finance authorizations and Certificate of Convenience and Necessity
17 (“CC&N”) proceedings, among others. During the course of these duties, I attended
18 numerous seminars on utility rate-making including courses presented by the National
19 Association of Regulatory Utility Commissioners (“NARUC”) and New Mexico State
20 University.

21
22 Since July 2003, I have been the manager of Compliance and Enforcement in the
23 Compliance Section of the Utilities Division. In the course of these duties, I conduct
24 analyses of numerous compliance matters, document compliance findings and make
25 recommendations on compliance status to Commission Staff and the Commission itself. I
26 also periodically conduct case work on pending cases.

1 **Q Please describe your responsibilities regarding the case work that you perform.**

2 A. I provide investigations into numerous regulatory and utility issues and am responsible for
3 conducting economic analysis in the preparation of financial and statistical reports,
4 recommendations, testimony and evidence. These duties are conducted in the disposition
5 of Commission proceedings dealing with utility applications and services.

6
7 In the performance of these duties, I perform financial analysis, conduct audits on utility
8 books and records, determine revenue requirements and develop rate designs for complex
9 regulatory matters. This includes making pro forma adjustments to operating expenses,
10 developing rate schedules and calculating net incomes and rates of return. I have also
11 composed numerous Staff reports, prepared direct and surrebuttal testimony encompassing
12 recommendations to the Commission and served as a Staff witness at utility rate hearings.

13
14 **Q. What is the purpose of your testimony in this case?**

15 A. The purpose of my testimony in this case is to present the Staff recommendations
16 regarding the Graham County Utilities, Inc.'s ("Graham County" or "GCU" or
17 "Company") application for a permanent rate increase relating to its Gas Division. My
18 testimony includes recommendations for the regulatory areas of rate base and revenue
19 requirement.

20
21 **Q. What is the basis of Staff's recommendations?**

22 A. Staff performed a regulatory audit of the Company's records to determine whether
23 sufficient evidence exists to support Graham County's request for an increase in its rates
24 and charges. A regulatory audit consists of examining Company books and records,
25 reviewing accounting ledgers, reports and workpapers, using data requests and responses
26 to confirm Company information, tracing recorded amounts to source documents, and

1 verifying that the Company follows Arizona Revised Statutes, Commission rules and that
2 accounting principles used are applied in accordance with the Commission authorized
3 Uniform System of Accounts (“USoA”). In the course of completing these duties, Staff
4 conducted meetings with Company representatives/consultants to discuss the Company
5 application for an increase in rates and collect necessary information and to clarify
6 Company positions.

7
8 **Q. What other Staff members are presenting Direct Testimony in the Graham Gas**
9 **case?**

10 A. Mr. Bob Gray is responsible for the preparation of Rate Design Testimony. Mr. Prem
11 Bahl is assigned to prepare the Cost of Service Testimony. Ms. Ranelle Paladino is
12 responsible for providing testimony on Graham Gas’s proposed changes to its Rules and
13 Regulations and on Staff’s recommendations regarding implementation of a Demand Side
14 Management (“DSM”) plan. And Mr. Alan Borne of the Pipeline Safety division will
15 provide testimony on technical issues.

16
17 **Q. How is your testimony organized?**

18 A. My Direct Testimony is composed in eight specific sections:

- 19 • Section I is composed of this introduction.
- 20 • Section II provides a background of the Company.
- 21 • Section III is a summary of consumer service issues.
- 22 • Section IV is a summary of proposed revenues.
- 23 • Section V is a summary of Staff’s rate base and operating expense adjustments.
- 24 • Section VI presents Staff’s rate base recommendations.
- 25 • Section VII presents Staff’s operating margin recommendations.

- 1 • Section VIII addresses non-operating margin recommendations and anticipated
2 financing requests for long-term debt and a line-of-credit.

3

4 **Q. Have you prepared any schedules to accompany your testimony?**

5 A. Yes. I prepared Schedules BKB-1 to BKB-9.

6

7 **II. BACKGROUND**

8 **Q. Please review the general nature of Graham County operations.**

9 A. Graham County is a non-profit cooperative and public service corporation whose purpose
10 is to provide both gas distribution services and water services to an area in Graham
11 County, Arizona. Due to the separate nature of these services, Graham County is
12 composed of two wholly owned, separate divisions known as Graham County Utilities
13 Inc. – Gas Division (“Graham Gas”) and Graham County Utilities Inc. – Water Division
14 (“Graham Water”). GCU states that it manages the Operations of GCU’s Gas and Water
15 divisions pursuant to an operations and management agreement. Graham County is also
16 affiliated with Graham County Electric Cooperative (“Graham Electric”) in that the parties
17 have entered into an agreement whereby Graham Electric provides management services
18 to Graham County.

19

20 **Q. What entity would file any rate applications with the Commission on behalf of**
21 **Graham Gas or Graham Water?**

22 A. Graham County is the company wide entity and files rate applications on behalf of the
23 divisions – either for Graham Gas or Graham Water. The instant case is an example of
24 Graham County filing an application for a rate increase - on a stand-alone basis - for its
25 gas division, Graham Gas.

26

1 **Q. Please discuss the gas division and the dates the application was filed.**

2 A. Graham Gas is an Arizona class B non-profit cooperative and public service corporation
3 whose sole purpose is to provide gas distribution services specifically to the rural areas in
4 Graham County, Arizona. On July 13, 2012, Graham filed a general rate application for
5 Graham Gas and subsequently amended the filing on August 10, 2012, by docketing
6 revised schedules per Staff's suggestion. On August 13, 2012, Staff filed a letter declaring
7 the Company's application sufficient. As of December 31, 2012, Graham Gas provided
8 natural gas distribution service to 5,162 customers and Graham Water provided water
9 service to 1,203 customers to rural areas in Graham County, Arizona.

10
11 **Q. Was proper notice provided to customers regarding the proposed rate increase?**

12 A. Yes. On November 13, 2012, Graham County filed an affidavit of publication and
13 certification of mailing for its public notice for its rate application that was mailed to
14 customers and published in the Eastern Arizona Courier by October 31, 2012.

15
16 **Q. What reason did Graham County provide for filing the rate application for Graham
17 Gas?**

18 A. The application identifies the investment in plant improvements and replacements, since
19 the prior test year of September 30, 2008, as the underlying reason for the request for new
20 rates. In addition, GCU states that it has experienced increases in other expenses such as
21 salaries and benefits and purchased gas since its last test year.

22
23 **Q. What Test Year was used by the Company in the current filing?**

24 A. The Graham Gas application applies a historical Test Year utilizing the twelve months
25 ending September 30, 2011.

26

1 **Q. When were the present rates for Graham Gas established?**

2 A. The Commission authorized the Company's present permanent rates in Decision No.
3 71690, dated May 3, 2010. These rates became effective on May 1, 2010.
4

5 **III. CONSUMER SERVICE**

6 **Q. Please provide a brief summary of the customer complaints received by the**
7 **Commission for Graham Gas.**

8 A. Staff reviewed the Commission's records and found one complaint during the past three
9 years and no customer opinions opposed to the proposed rate increase. The single
10 complaint was both filed and resolved in 2010. The Company is in good standing with the
11 Corporations Division.
12

13 **IV. SUMMARY OF PROPOSED REVENUES**

14 **Q. What revenue requirement is being proposed in the Graham Gas application?**

15 A. The Graham Gas application proposes total operating revenue of \$3,466,484, a \$224,132
16 increase (6.91 percent), over its \$3,242,352 test year revenue. Graham Gas's proposed
17 revenue, as filed, would provide a \$371,504 operating income and a \$270,610 net margin
18 for a 3.41 times interest earned ratio ("TIER"), a 2.18 debt service coverage ratio ("DSC")
19 and a 10.05 percent rate of return on the proposed \$2,581,088 fair value rate base
20 ("FVRB") which is the same as the proposed original cost rate base ("OCRB").
21

22 **Q. What is Staff's revenue requirement recommendation?**

23 A. Staff recommends total operating revenue of \$3,466,484, a \$224,132 increase (6.91
24 percent), over the \$3,242,352 test year revenues to provide a \$405,819 operating margin, a

1 \$252,436 net margin, a 2.46 TIER, a 1.54 DSC and a 10.18 percent rate of return on a
2 \$2,369,529 FVRB.¹

3
4 **V. SUMMARY OF STAFF’S RATE BASE AND EXPENSE ADJUSTMENTS**

5 **Q. Please summarize Staff’s rate base and expense adjustments.**

6 **A. Rate Base:**

7 Construction Work in Process (“CWIP”) – This adjustment removes \$211,559 in cost
8 represented as CWIP at the end of the test year.

9
10 Operating Margin:

11 Rate Case Expense - This adjustment increases the rate case expense by \$1,381, from
12 \$6,000 to \$7,381.

13 Interest Expense - Other – This adjustment removes \$35,696 of interest expense
14 associated with funds advanced over a long-term by Graham Electric without Commission
15 authorization.

16
17 Interest on Long-Term Debt – This pro forma adjustment increases Long-Term Debt by
18 \$52,489 to reflect the first year interest on an anticipated new loan the Company has
19 advised Staff that it will shortly file with the Commission to obtain authorization for the
20 advances received from Graham Electric.

21

¹ Staff calculates TIER and DSC differently than the Company by excluding non-operating accounts, notably Capital Credits, in the numerator of the calculation.

1 **VI. RATE BASE**

2 *Fair Value Rate Base*

3 **Q. Does the application for Graham Gas include schedules with elements of a**
4 **Reconstruction Cost New Rate Base?**

5 A. No. The Company's application does not request recognition of a Reconstruction Cost
6 New Rate Base. Therefore, the Company's OCRB is its FVRB.

7
8 *Rate Base Summary*

9 **Q. Please summarize Staff's rate base recommendation.**

10 A. Staff recommends a \$2,369,529 rate base, a \$211,559 reduction from the Company's
11 proposed \$2,581,088 rate base. Staff's recommendation results from the rate base
12 adjustment described below.

13
14 *Rate Base Adjustment No. 1 – CWIP Removal*

15 **Q. What did the Company propose with respect to CWIP?**

16 A. The Company proposed the inclusion of CWIP in the rate base during the test year.

17
18 **Q. Is the inclusion of CWIP in rate base appropriate?**

19 A. No. CWIP by definition is not used and useful plant-in-service. This account reflects
20 plant facilities that are only in the process of being built and are therefore not used and
21 useful in serving customers. As such, they are excluded from rate base until the facilities
22 meet the classifications of being completed, serving customers and having been
23 reclassified into a plant in service category in the Company books and records. They
24 would then be available for inclusion in the plant in service of a subsequent rate case.

25

1 **Q. What is Staff recommending regarding CWIP?**

2 A. Staff recommends excluding the proposed \$211,559 of CWIP from rate base, as shown in
3 Schedule BKB-5.

4
5 **VII. OPERATING MARGIN**

6 *Operating Margin Adjustment No. 1 – Rate Case Expense*

7 **Q. Please discuss Staff's review of Rate Case Expense.**

8 A. Schedule C-2 of the Company's application shows a \$6,000 pro forma adjustment to its
9 test year operating expenses. In a November 1, 2012 e-mail, the Company explained to
10 Staff that the \$6,000 pro forma represents the \$12,000 total rate case cost (amortized over
11 two years) initially anticipated, but that the total rate case expense accumulated to \$22,145
12 with the entirety of hours necessary to complete the case. Staff reviewed the rate case
13 hours and found the new amount reasonable for the case. Staff understands that the
14 Company will request to spread the cost over three years resulting in a \$7,381 annual rate
15 case expense.

16
17 **Q. What is Staff's recommendation for rate case expense?**

18 A. Staff recommends increasing rate case expense by \$1,381, from \$6,000 to \$7,381, as
19 shown in Schedule BKB-7.

20
21 *Operating Margin Adjustment No. 2 – Interest Expense - Other*

22 **Q. Please discuss Staff's review of Interest Expense - Other.**

23 A. The Company's proposes to include \$35,696 in Interest Expense-Other associated with
24 advances received from Graham Electric without Commission authorization. Interest
25 obligations on these advances from Graham Electric, even with authorization, are not
26 appropriately recorded in the Interest Expense-Other account. Further, since the advances

1 did not receive the required authorization, neither should the related costs receive
2 recognition in the revenue requirement until such authorization is granted. The Company
3 has advised Staff that it will shortly file with the Commission to obtain authorization for
4 the advances received from Graham Electric. As discussed in Section VIII below
5 regarding Interest Expense on Long-Term Debt, in developing its revenue requirement for
6 Graham Gas, Staff is provisionally recognizing the interest and principal on the
7 anticipated loan in the appropriate manner in developing its revenue requirement for
8 Graham Gas.

9
10 **Q. What is Staff's recommendation for Interest Expense - Other?**

11 A. Staff recommends decreasing Interest Expense – Other by \$35,696, from \$44,041 to
12 \$8,345, as shown in Schedule BKB-8.

13
14 **VIII. NON-OPERATING MARGIN – INTEREST EXPENSE ON LONG-TERM**
15 **DEBT/ANTICIPATED FINANCINGS.**

16 *Non-Operating Margin Adjustment No. 1 – Interest on Long-Term Debt*

17 **Q. What did the Company propose for interest on long term debt?**

18 A. Schedule C-1 of the application shows that the Company proposed interest on long-term
19 debt of \$112,205.

20
21 **Q. To what loans is the Company's claimed interest expense attributed?**

22 A. The Company's claimed interest expense, as shown in Schedule C-1 of the application,
23 represents amounts recorded on actual loans outstanding in the test year. During the test
24 year, Graham Gas had five authorized and outstanding long-term loans (Loan Nos.
25 9001(F), 9001(V), 9002, 9003 and a relatively new \$800,000 CFC loan) all of which
26 appear to have been a funding source for acquiring or constructing plant or other assets.

1 As discussed in Section VII above, Graham Gas improperly recorded interest expense
2 relating to advances received from Graham Electric in the Interest Expense – Other
3 account rather than the Interest on Long-Term Debt account.

4
5 **Q. Why would the Company account for Graham Electric interest in the Interest**
6 **Expense - Other account rather than as Interest Expense on Long-Term Debt?**

7 A. The accounting for the Graham Electric loan interest in the Interest Expense – Other
8 account indicates that the advances from Graham Electric to Graham Gas had not been
9 formalized as a long-term debt instrument. Rather, the Company has been utilizing the
10 availability of monies through its affiliate relationship with Graham Electric as a sort of
11 credit card ... or as an unapproved line of credit whenever it needed cash. When such
12 activity results in funds being outstanding for periods exceeding twelve months, it is
13 inappropriate without prior Commission authorization.

14
15 **Q. Do the balances of the advances from Graham Electric indicate that the amounts**
16 **have been outstanding for longer than twelve months?**

17 A. Yes. The outstanding balances of the loan amounts due to Graham Electric as of
18 September 30 of the past three fiscal year ends were 2009, \$1,096,716; 2010, \$675,544;
19 and 2011, \$1,001,059. The advances from Graham Electric preceded 2009 for multiple
20 years. The outstanding balances exceed that of several of the Company's existing long-
21 term loans obtained through the National Rural Utilities Cooperative Finance Corporation
22 ("CFC"). Graham Gas does not generate sufficient cash flow to pay off debt obligations
23 of this magnitude with single year revenues. The Graham Electric advances are both very
24 significant and lengthy and should not be classified as short-term in nature.

25

1 **Q. What authority requires public service corporations to obtain Commission**
2 **authorization to borrow funds for a period exceeding twelve months?**

3 A. Arizona Revised Statute § 40-301 requires public service corporations to obtain
4 Commission authority for funds that are borrowed for a period over 12 months, it states:

5
6 *A public service corporation may issue stocks and stock certificates,*
7 *bonds, notes and other evidences of indebtedness payable at periods of*
8 *more than twelve months after the date thereof, only when authorized by*
9 *an order of the commission.*

10
11 **Q. Has the Company formalized such loans at any time in the past?**

12 A. Yes. In the previous rate application (Docket No. G-02527-09-0032), the Company
13 applied for and was granted authority for an \$800,000 CFC long-term note to replace the
14 loans made directly to Graham Gas from Graham Electric. This action allowed the
15 Company to obtain Commission authority for the loan and formalized the loan as a long-
16 term debt instrument. Those interest costs are reflected in the Interest on Long-Term Debt
17 account in the current application.

18
19 **Q. Should the current Graham Electric loan amounts be addressed in a similar**
20 **manner?**

21 A. Yes, assuming that the Company files a financing application, shows that the funds were
22 used for appropriate purposes, provides proper notice to customers and meets any other
23 requirements imposed by the Commission.

24
25 **Q. Has Staff discussed with the Company the formalization of the current Graham**
26 **Electric loans into approved long-term debt?**

27 A. Yes. Pursuant to statutory requirements, the Company should obtain Commission
28 authorization for long-term loans between itself and Graham Electric (or any other loan

1 provider). Staff therefore communicated its position that the Company should prepare and
2 docket a financing application which would formalize the currently unapproved advances
3 from Graham Electric to Graham Gas. The Company has agreed, and it is currently
4 preparing such a filing.

5
6 **Q. Please describe the primary loan in the financing package that the Company is**
7 **preparing.**

8 A. Based on the \$1,001,059 test-year-end balance of Graham Electric advances, Staff
9 suggested and the Company agreed to docket a formal financing requesting a \$1,000,000,
10 ten-year loan at or near 5.44 percent interest to be executed with Graham Electric.
11 Approval of such a loan would allow the Company to both pay down the existing Graham
12 Electric debt and obtain Commission approval on the new debt.

13
14 **Q. How is Staff treating the anticipated new loan from Graham Electric?**

15 A. Staff is provisionally recognizing the interest and principal on a \$1,000,000, ten-year
16 amortizing loan at 5.44 per annum in its revenue requirement calculation assuming that
17 the Company will file the application, properly notice customers, demonstrate the proper
18 use of the funds and assuming that the Commission will approve the financing request.

19
20 **Q. What amount has Staff used for the first year interest and principal on the**
21 **provisional loan?**

22 A. Staff calculated a pro forma first year interest on the anticipated loan of \$52,489 and
23 principal of \$77,386.
24

1 **Q. How are the pro forma interest and principal on the provisional loan presented in**
2 **Staff Schedules?**

3 A. Staff increased Interest on Long-term Debt by \$52,489, from \$112,205 to \$164,694, as
4 shown in Schedules BKB-6 and BKB-9. Staff increased Long-term Debt Principal by
5 \$77,386, from \$116,980 to \$194,366, as shown in Schedule BKB-2, line 25.
6

7 **Q. Does Staff's provisional revenue requirement provide sufficient debt service**
8 **coverage inclusive of the new provisional loan?**

9 A. Yes. As shown in Schedule BKB-2, line 26, Staff's provisional revenue requirement
10 provides a 1.54 DSC.
11

12 **Q. What is Staff's recommended revenue requirement in the event that the Commission**
13 **elects not to approve the newly proposed \$1,000,000 loan?**

14 A. If the Commission does not approve the newly proposed loan, the Company's cash flow
15 obligation would be reduced by the amount of the principle and interest on the loan. The
16 principle on the loan is \$81,702 and the interest on the loan is \$48,173 - for a total annual
17 debt service of \$129,875. Accordingly, Staff's revenue requirement would be reduced by
18 \$129,875 from \$3,466,484 to \$3,336,609.
19

20 *Line-of-Credit*

21 **Q. Will Graham Gas's anticipated financing request include any elements other than**
22 **the \$1,000,000 long-term loan from Graham Electric?**

23 A. Yes. The Company communicated to Staff that its financing request will also seek
24 Commission authority for a \$500,000 line-of-credit ("LOC") to be established with
25 Graham Electric for future borrowing that might be required.
26

1 **Q. Please discuss the financing as it relates to the anticipated line-of-credit.**

2 A. A line-of-credit is an agreement between Company and lender whereby the lender states
3 the maximum amount of borrowing that will be offered to the borrower. LOC agreements
4 may cover a short period or extend over several years – usually not more than five years.
5 The purpose of an LOC is to provide temporary financing for seasonal cash shortfalls or to
6 fund CWIP until it is placed in service or to fund small plant additions until the total
7 amount funded is sufficiently large to warrant conversion to longer term financing. When
8 properly used, an LOC is an appropriate and effective financing mechanism. However,
9 using an LOC to fund annual or on-going structural operating margin deficits is not
10 appropriate.

11
12 The portion of an LOC used for seasonal cash shortfalls should be eliminated (i.e.,
13 reduced to zero) at least once annually. In light of the Company's history managing
14 advances received from Graham Electric, any authorization of an LOC should be tied to
15 regular (monthly or at least quarterly, e.g., simultaneous filings with its purchase gas
16 adjustor reports) filing requirements demonstrating that it has been used only for seasonal
17 cash shortfalls and temporary funding of CWIP and small plant additions until conversion
18 to longer term financing is appropriate.

19
20 **Q. Does Staff have additional comments regarding the anticipated request by the**
21 **Company for a \$500,000 LOC with Graham Electric?**

22 A. Yes. The Company should notice its customers of its LOC request. Staff suggests that the
23 Company demonstrate an understanding of the appropriate use of an LOC in its
24 application and commitment to adhering to appropriate uses of the LOC if it is authorized
25 by the Commission. Staff suggests that the Company propose an initial LOC term with
26 consideration of its history, experience, success with similar borrowings as well as its

1 anticipated needs. Lastly, Staff notes that there is no need for a provision in the revenue
2 requirement for any LOC since seasonal cash shortages do not require additional revenues
3 and capital improvement should be financed with long-term sources of capital, not
4 operating revenues. Staff's recommended revenue requirement contemplates and
5 addresses the Company's anticipated debt service obligations.

6

7 **Q. Does this conclude your Direct Testimony?**

8 **A. Yes, it does.**

Graham County Utilities, Inc. - Gas Division

Docket No.: G-02527A-12-0321

Test Year Ended: September 30, 2011

DIRECT TESTIMONY OF BRIAN K. BOZZO

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REVENUE INCREASE SUMMARY

Line No.	Description	[A]	[B]
		COOPERATIVE AS FILED	STAFF RECOMMENDED
1	Total Test Year Revenue	\$ 3,242,352	\$ 3,242,352
2	Revenue - Base Cost of Gas - Test Year	\$ -	\$ -
3	Revenue - Non-Base Cost of Gas - Test Year (L1-L2)	\$ 3,242,352	\$ 3,242,352
4	Required Revenue Increase/(Decrease) in Base Rate Gas Cost	\$ -	\$ -
5	Required Revenue Increase/(Decrease) in Non-Base Rate Gas Cost	\$ 224,132	\$ 224,132
6	Proposed Annual Revenue Increase/(Decrease) in Base Rates	\$ 224,132	\$ 224,132
7	Proposed Revenue - Base Rate Gas Cost	\$ -	\$ -
8	Proposed Revenue - Base Rate Non-Gas Cost (L3+L5)	\$ 2,066,576	\$ 2,066,576
9	Proposed Revenue - Gas Cost Adjustor	\$ 1,399,908	\$ 1,399,908
10	Total Recommended Revenue (L7+L8+L9)	\$ 3,466,484	\$ 3,466,484
11	Proposed Overall Increase/(Decrease) in Rates (L10-L1)	\$ 224,132	\$ 224,132
12	Percent Increase over Current Rates	6.91%	6.91%
13	Return on Rate Base	10.05%	10.18%

References:

Column A: Company Schedule C-1 & A-2
Column B: BKB-2. BKB Testimony

Line No.	[A] [B] [C] [D]				
	SUMMARY OF FILING				
	PRESENT RATES		PROPOSED RATES		
	Cooperative as Filed	Staff as Adjusted	Cooperative Proposed	Staff Recommended	
Revenues					
1	Residential, Irrigation, Com'l, & Industrial	\$ 3,202,309	\$ 3,202,309	\$ 3,426,441	\$ 3,426,441
2	Other Operating Revenue	\$ 40,043	\$ 40,043	\$ 40,043	\$ 40,043
3	Total Revenue	\$ 3,242,352	\$ 3,242,352	\$ 3,466,484	\$ 3,466,484
Expenses					
5	Purchased Gas	\$ 1,399,908	\$ 1,399,908	\$ 1,399,908	\$ 1,399,908
6	Distribution Expense - Operations	337,843	337,843	337,843	337,843
7	Distribution Expense - Maintenance	322,241	322,241	322,241	322,241
8	Consumer Accounts Expense	327,042	328,423	327,042	328,423
9	Administrative and General Expense	437,474	437,474	437,474	437,474
10	Depreciation and Amortization Expense	147,018	147,018	147,018	147,018
11	Tax Expense Property	31,306	31,306	31,306	31,306
12	Tax Expense Other	48,107	48,107	48,107	48,107
13	Interest Expense - Other	44,041	8,345	44,041	8,345
14	Total Operating Expenses	\$ 3,094,980	\$ 3,060,665	\$ 3,094,980	\$ 3,060,665
15	Operating Margins Before Intr. on L.T. Debt	\$ 147,372	\$ 181,687	\$ 371,504	\$ 405,819
16	Interest on Long Term Debt	\$ 112,205	\$ 164,694	\$ 112,205	\$ 164,694
17	Operating Margin after Interest Expense	\$ 35,167	\$ 16,993	\$ 259,299	\$ 241,125
Non-Operating Margins					
19	Interest Income	\$ -	\$ -	\$ -	\$ -
20	Other Non-Operating Income	\$ -	\$ -	\$ -	\$ -
21	Capital Credits - Cash	11,311	11,311	11,311	11,311
22	Total Non-Operating Margins	\$ 11,311	\$ 11,311	\$ 11,311	\$ 11,311
23	NET MARGINS	\$ 46,478	\$ 28,304	\$ 270,610	\$ 252,436
24	Long-Term Debt Principal Payment	116,980	\$ 194,366	116,980	194,366
25	TIER	1.31	1.10	3.31	2.46
26	DSC	1.28	0.92	2.26	1.54

Note A:

Staff's calculation of the TIER differs from the Cooperative's calculation because it does not include non-operating margins in the numerator.
For comparison purposes, the Cooperative's TIER above was calculated using Staff's methodology.

References:

- Column A: Company Schedule A-2 & C-1
- Column B: BKB-6
- Column C: Company Schedule A-2 & F-1
- Column D: BKB-6, BKB Testimony

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-12-0321
Test Year Ended: September 30, 2011

Schedule BKB-3

Line No.		[A]	[B]	[C]
		ORIGINAL COST RATE BASE		
		Cooperative	Adjustment	Staff
1	Plant In Service	\$ 4,634,243	\$ -	\$ 4,634,243
2	Less: Accumulated Depreciation	2,300,306	-	2,300,306
3	NET PLANT	\$ 2,333,937	\$ -	\$ 2,333,937
4	DEDUCTIONS			
5	Customer Deposits	\$ 66,645	\$ -	\$ 66,645
6	TOTAL DEDUCTIONS	\$ 66,645	\$ -	\$ 66,645
7	ADDITIONS			
8	Construction work in process	\$ 211,559	\$ (211,559)	\$ -
9	Materials and Supplies	79,032	-	79,032
10	Prepayments	23,205	-	23,205
11	Intangible Rate Base	\$ -	\$ -	\$ -
12	TOTAL ADDITIONS	\$ 313,796	\$ (211,559)	\$ 102,237
13	RATE BASE	\$ 2,581,088	\$ (211,559)	\$ 2,369,529

Column A: Company Schedule B-1 & E-5

Column B: BKB-5

Column C: BKB Testimony

Summary of Rate Base Adjustments

Line No.		[A] Cooperative	[B] Adjustment	Ref	[C] Staff
INTANGIBLE PLANT:					
1	2301 Organization	\$42,522	\$ -		\$42,522
2	SUBTOTAL INTANGIBLE	<u>\$42,522</u>	<u>\$ -</u>		<u>\$42,522</u>
DISTRIBUTION PLANT					
3	2374 Land & Land Rights	\$1,494	\$ -		\$1,494
4	2376 Mains	2,209,732	-		2,209,732
5	2380 Services	909,641	-		909,641
6	2381 Meters & Regulators	1,266,210	-		1,266,210
7	SUBTOTAL DISTRIBUTION	<u>\$4,387,077</u>	<u>\$ -</u>		<u>\$4,387,077</u>
GENERAL PLANT					
8	2390 Structures & Improvements	\$3,309	\$ -		\$3,309
9	2391 Office Equipment	2,750	-		\$2,750
10	2392 Transportation Equipment	-	-		\$0
11	2394 Tools, Shop, & Garage Equipt.	132,576	-		\$132,576
12	2396 Power Operated Equipment	66,009	-		\$66,009
13	SUBTOTAL GENERAL	<u>204,644</u>	<u>\$ -</u>		<u>204,644</u>
14	TOTAL PLANT IN SERVICE	<u>\$4,634,243</u>	<u>\$ -</u>		<u>\$4,634,243</u>
15	ACCUMULATED DEPRECIATION	\$2,300,306	-		\$2,300,306
16	NET PLANT	<u>\$2,333,937</u>	<u>\$ -</u>		<u>\$2,333,937</u>
DEDUCTIONS					
	Customer Deposits	\$66,645	-		\$66,645
	SUBTOTAL DEDUCTIONS	<u>\$66,645</u>	<u>\$ -</u>		<u>\$66,645</u>
ADDITIONS					
	CWIP	\$211,559	(211,559)	BKB-5	\$ -
	Materials and Supplies	\$79,032	-		\$79,032
	Prepayments	\$23,205	-		\$23,205
	Intangible Rate Base	\$0	-		\$0
	SUBTOTAL ADDITIONS	<u>\$313,796</u>	<u>(\$211,559)</u>		<u>\$102,237</u>
	TOTAL	<u><u>\$2,581,088</u></u>	<u><u>(\$211,559)</u></u>		<u><u>\$2,369,529</u></u>

References:

Column A: Company Schedule E-5
Column B: BKB-5
Column C: BKB Testimony

Graham County Utilities, Inc. - Gas Division
Docket No.: G-02527A-12-0321
Test Year Ended: September 30, 2011

Schedule BKB-5

RATE BASE ADJUSTMENT NO. 1 - REMOVE CONSTRUCTION WORK-IN-PROCESS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Construction Work in Process	\$ 211,559	\$ (211,559)	\$ -

References:

Column A: Company Schedule B-1
Column B: Column [A] - Column [C]
Column C: BKB Testimony

SUMMARY OF OPERATING AND NON-OPERATING ADJUSTMENTS

Line No.	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]
	COOPERATIVE AS FILED	BKB-7 Rate Case Expense ADJ #1	BKB-8 Interest Exp. Other ADJ #2	BKB-9 L-T Debt Interest Exp. ADJ #3	Not Used ADJ #4	Not Used ADJ #5	Not Used ADJ #6	Not Used ADJ #7	STAFF AS ADJUSTED
1	Revenues								
2	Residential	\$ 2,383,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,383,955
3	Irrigation	11,955	-	-	-	-	-	-	11,955
4	Commercial and Industrial	806,399	-	-	-	-	-	-	806,399
5	Fuel Cost Underbilled	-	-	-	-	-	-	-	-
6	Subtotal	\$ 3,202,309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,202,309
7	Other Operating Revenue	40,043	-	-	-	-	-	-	40,043
	Total Revenue	\$ 3,242,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,242,352
8	Expenses								
9	Purchased Gas	\$ 1,399,908	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,399,908
10	Distribution Expense - Operations	337,843	-	-	-	-	-	-	337,843
11	Distribution Expense - Maintenance	322,241	-	-	-	-	-	-	322,241
12	Consumer Accounts Expense	327,042	1,381	-	-	-	-	-	328,423
13	Administrative and General Expense	437,474	-	-	-	-	-	-	437,474
14	Depreciation and Amortization Expense	147,018	-	-	-	-	-	-	147,018
15	Tax Expense - Property	31,306	-	-	-	-	-	-	31,306
16	Tax Expense - Other	48,107	-	-	-	-	-	-	48,107
17	Interest Expense - Other	44,041	(35,696)	-	-	-	-	-	8,345
18	Total Operating Expenses	\$ 3,094,981	\$ 1,381	\$ (35,696)	\$ -	\$ -	\$ -	\$ -	\$ 3,060,665
19	Operating Margins Before Intr. on L.T. Debt	147,371	(1,381)	35,696	-	-	-	-	181,686
20	Interest on Long Term Debt	112,205	-	-	52,489	-	-	-	164,694
21	Operating Margin	35,166	-	-	-	-	-	-	16,992
22	Non-Operating Margins								
23	Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
24	Other Non-Operating Income	-	-	-	-	-	-	-	0
25	Capital Credits - Cash	11,311	-	-	-	-	-	-	11,311
26	Total Non-Operating Margins	\$ 11,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,311
27	NET MARGINS	\$ 46,478	(1,381)	\$ 35,696	\$ (52,489)	\$ -	\$ -	\$ -	\$ 28,304

References:

Column A: Company Schedule C-1.
Col. B - D: Staff Testimony.

OPERATING MARGIN ADJUSTMENT NO. 1 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rate Case Expense	\$ 327,042	\$ 1,381	\$ 328,423

References:

- Column A: Schedule C-1, C-2, D-2
- Column B: Column C - Column A
- Column C: BKB Testimony

OPERATING MARGIN ADJUSTMENT NO. 2 - INTEREST EXPENSE (OTHER)

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Interest Expense - Other	\$	44,041	\$	(35,696)	\$	8,345

References:

- Column A: Schedule C-1, C-2, D-2
- Column B: Column C - Column A
- Column C: BKB Testimony

NON-OPERATING MARGIN ADJUSTMENT NO. 1 - INTEREST EXPENSE (LONG-TERM DEBT)

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Interest Expense - Long Term Debt	\$ 112,205	\$ 52,489	\$ 164,694

References:

- Column A: Schedule C-1, C-2, D-2
- Column B: Column C - Column A
- Column C: BKB Testimony

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES, INC. (GAS)
DIVISION) FOR APPROVAL OF A RATE)
INCREASE)
_____)

DOCKET NO. G-02527A-12-0321

DIRECT

TESTIMONY

OF

RANELLE PALADINO

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 8, 2013

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**EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC.
DOCKET NO. G-02527A-12-0321**

My testimony contains clarification regarding Graham County Utilities, Inc.'s ("Graham County") proposed modifications to its Rules and Regulations for its Line Extension Policy. In addition, my testimony addresses and makes Staff's recommendations regarding the implementation of a Demand-Side Management plan as directed in Decision No. 72396 (May 31, 2011).

1 **INTRODUCTION**

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

3 A. My name is Ranelle Paladino. I am a Public Utilities Analyst employed by the Arizona
4 Corporation Commission (“ACC” or “Commission”) in the Utilities Division (“Staff”).
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

8 A. In my capacity as a Public Utilities Analyst, I review and analyze utility applications filed
9 with the Commission, and prepare memoranda and proposed orders for Open Meetings. I
10 also assist in the management of rate cases and track monthly fuel adjustor reports.

11
12 **Q. Please describe your educational background and professional experience.**

13 A. In 1992, I graduated magna cum laude from Creighton University, receiving a Bachelor of
14 Science degree in Business Administration. In 1999, I received a Master’s Degree in
15 Business Administration from Creighton University. I have been employed by the
16 Commission since November of 2011.

17
18 Prior to working at the Commission, I was employed by UtiliCorp United, Inc. and Aquila
19 Energy in various departments including the Gas Supply Department in both a regulated
20 and non-regulated capacity. After leaving Aquila Energy, I was employed by Northern
21 Natural Gas, an interstate pipeline, as a Regulatory Analyst and Marketing Analyst.

22
23 **Q. As part of your employment responsibilities, were you assigned to review matters
24 contained in Docket No. G-02527A-12-0321?**

25 A. Yes.
26

1 **Q. What is the purpose of your testimony in this case?**

2 A. My testimony provides Staff's recommendations regarding the proposed changes to
3 Graham County Utilities, Inc.-Gas Division's ("Graham County") Rules and Regulations
4 with respect to the Line Extension Policy. In addition, my testimony includes Staff's
5 recommendations regarding the need for Graham County to file a Demand-Side
6 Management ("DSM") Plan.

7

8 **RULES AND REGULATIONS**

9 **Q. Has Graham County proposed to modify its Rules and Regulations?**

10 A. Yes. Graham County has proposed modifications to its rules and regulations applying to its
11 Line Extension Policy.

12

13 **Q. What is Graham County's current line extension policy?**

14 A. Currently, Graham County has a line extension policy that requires all new customers who
15 need line extensions to pay the total cost of these extensions in the form of Contributions
16 in aid of Construction ("CIAC").

17

18 **Q. What changes is Graham County proposing regarding its Line Extension Policy?**

19 A. Graham County is proposing to continue charging new customers who need line
20 extensions the direct labor and material costs associated with the line extension but only
21 charge them one-half of the overhead costs associated with the line extension.

22

23 **Q. Why is Graham County proposing this change to its line extension policy?**

24 A. John Wallace from Grand Canyon State Electric Cooperative Association filed Direct
25 Testimony on behalf of Graham County. In his Direct Testimony, Mr. Wallace indicated

1 that Graham County is concerned that customers and developers will not install natural
2 gas service in homes if the cost to connect natural gas service is too high.

3
4 **Q. Does Staff support Graham County's proposed changes to its line extension policy**
5 **allowing Graham County to only charge customers one-half of the overhead costs**
6 **associated with the line extension?**

7 A. No. After reviewing the components of the overhead costs associated with a line
8 extension that Graham County is currently charging, Staff concludes that new customers
9 requesting a line extension should only pay what Graham County is currently charging as
10 labor and material costs associated with the line extension. Graham County should not
11 charge new customers requesting a line extension any of the overhead costs it is currently
12 charging new customers wanting a line extension because those costs are not directly
13 attributable to a line extension.

14
15 **Q. Has Graham County proposed any other modifications to its Rules and Regulations?**

16 A. No. In response to Staff Data Request STF 1.1, the Company stated that it did not intend
17 to change the late payment charge from the present charge of 1.5 percent on late
18 payments. The \$5.00 minimum charge was inadvertently included on Schedule H-3 and is
19 not contained in the Company's proposed changes to its Rules and Regulations.

20
21 **DEMAND-SIDE MANAGEMENT ("DSM") PLAN**

22 **Q. Does Graham County currently have a DSM adjustor mechanism?**

23 A. Yes. A DSM adjustor mechanism was approved in Decision No. 71690. The current
24 DSM adjustor rate is set at \$0.0000 per therm.

25

1 **Q. Does Graham County currently have any DSM programs in place?**

2 A. No. In Decision No. 72396, it was determined that since Graham County was a Class B
3 utility, the gas energy efficiency rules did not apply to Graham County.

4
5 **Q. Are Graham County customers aware of energy conservation options available to
6 them despite not having a DSM program in place?**

7 A. Yes. Most of the Graham County customers are also customers of Graham County
8 Electric Cooperative, Inc. ("GCEC"). GCEC implemented its energy efficiency program
9 in August of 2012. Some of the electric energy efficiency programs (such as the Low
10 Income Weatherization program) may have natural gas efficiency benefits also.

11
12 **Q. What does Staff recommend with respect to Graham County filing to implement a
13 DSM program?**

14 A. Staff believes that the conditions have not changed for Graham County from the last time
15 the Commission issued a decision regarding a DSM plan (Decision No. 72396.). Graham
16 County is still a Class B utility with annual operating revenue well below the \$5 million
17 required to qualify as a Class A utility. The current gas energy efficiency rules do not
18 apply to Graham County.

19
20 **SUMMARY OF STAFF RECOMMENDATIONS**

21 **Q. Please summarize Staff's recommendations.**

22 A. 1. Staff recommends that Graham County's proposed changes to its current Line
23 Extension Policy not be adopted, but instead, Graham County's current Line
24 Extension Policy in its Rules and Regulations should be adjusted to reflect that
25 new customers requesting a line extension will only be charged the materials and
26 labor costs directly attributed to the line extension.

1 2. Staff recommends that Graham County not implement a DSM program at this
2 point in time and that the feasibility of implementing a DSM program be reviewed
3 again in Graham County's next rate case proceeding.

4

5 **Q. Does this conclude your Direct Testimony?**

6 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRAHAM COUNTY UTILITIES, INC. (GAS)
DIVISION) FOR APPROVAL OF A RATE)
INCREASE)
_____)

DOCKET NO. G-02527A-12-0321

DIRECT

TESTIMONY

OF

ALAN BORNE

SENIOR PIPELINE SAFETY INSPECTOR

PIPELINE SAFETY DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 8, 2013

**EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC.
DOCKET NO. G-02527A-12-0321**

This testimony in this proceeding addresses Graham County Utilities' outstanding safety and use and usefulness issues.

1 **INTRODUCTION**

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

3 A. My name is Alan Borne. My business address is 2200 North Central Avenue, Phoenix,
4 Arizona.

5
6 **Q. What is your current position and how long have you been employed by the Arizona
7 Corporation Commission?**

8 A. I am a Senior Pipeline Safety Inspector; I have been employed by the Arizona Corporation
9 Commission ("Commission") for over 9 years.

10
11 **Q. Please describe briefly your duties as a Senior Pipeline Safety Inspector.**

12 A. Briefly, my duties include conducting annual pipeline safety inspections, conducting
13 investigations into the causes of pipeline failures, conducting pipeline construction
14 inspections, conducting inspections and/or investigations with respect to the Underground
15 Facilities Law (Blue Stake), completing required reports associated with each inspection
16 or investigation and providing testimony on behalf of the Commission.

17
18 **Q. Please describe your education, training and pertinent work experience.**

19 A. I have over 9 years experience as a Pipeline Safety Inspector with the Commission.
20 During my time with the Commission, I have attended and successfully completed all
21 required core training classes required by the Commission and the Department of
22 Transportation to execute my duties. Prior to my time with the Commission, I have 20
23 years experience in the field of gas processing and oil refining plant operations and
24 maintenance. I held the title of Environmental, Health and Safety Regional Advisor and
25 have an A. S. in Electrical Engineering Technology.

26

1 **Q. What is the purpose of your testimony in these proceedings?**

2 A The purpose of my testimony is to address the following issues from the perspective of the
3 Commission's Office of Pipeline Safety ("Staff"):

4
5 1. Discuss any items of outstanding non-compliance with safety regulations for
6 Graham County Utilities, Inc. ("Graham County Utilities")

7
8 2. Help to determine use and usefulness of Graham County Utilities projects and
9 equipment.

10

11 **Q. Please describe Graham County Utilities' natural gas distribution system and how
12 they have operated it.**

13 A. Graham County Utilities operates a private gas distribution system throughout Graham
14 County which includes polyethylene as well as steel pipeline operating at various
15 pressures between 10 and 100 psig and consisting of multiple taps and approximately
16 5,000 residential services and 60 commercial services. Graham County Utilities has
17 consistently maintained and operated this system safely and competently and has always
18 addressed outages, incidents, and any other items of concern in a conscientious and timely
19 manner.

20

21 **Q. Are there any items of outstanding non-compliance with safety regulations on file
22 with the Arizona Corporation Commission Office of Pipeline Safety?**

23 A. No.

24

1 **Q. Has your office examined Graham County Utilities gas distribution system and**
2 **equipment and determined whether it is used and useful in this provision of service**
3 **to customers?**

4 A. Yes, during the 2012 Standard Annual Audit conducted by our office, Roberta Primera
5 (Staff Pipeline Safety Inspector), visited the Graham County Utilities office in Pima,
6 Arizona and visited numerous field locations and projects. I consulted with the inspector
7 and all projects and equipment were found to be used and useful.

8
9 **Q. Does this conclude your Direct Testimony?**

10 A. Yes, it does.