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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

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

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

DOCKET NO. G-02527A-13-0023

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

Staff of the Arizona Corporation Commission ("Staff") hereby files the Surrebuttal Testimony
of Brian K. Bozzo and Robert G. Gray in the above docket.

RESPECTFULLY SUBMITTED this 22nd day of March 2013.

Maureen A. Scott, Senior Staff Counsel
Brian E. Smith, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
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Original and thirteen (13) copies
of the foregoing filed this
22nd day of March 2013 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED
MAR 22 2013

DOCKETED BY
JM

1 Copy of the foregoing mailed this
22nd day of March 2013 to:

2 John V. Wallace
3 GCSECA
4 2210 South Priest Drive
5 Tempe, Arizona 85282

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8 Graham County Electric Cooperative, Inc.
9 Post Office Drawer B
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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)
GRAHAM COUNTY UTILITIES GAS)
INC. FOR A RATE INCREASE.)
_____)

DOCKET NO. G-02527A-12-0321

SURREBUTTAL

TESTIMONY

OF

BRIAN K. BOZZO

COMPLIANCE AND ENFORCEMENT MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 22, 2013

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. BACKGROUND	3
III. COMPANY REBUTTAL TESTIMONY	4
IV. FINANCING APPLICATION	5
Company Proposed Loan.....	5
Company Proposed Line of Credit	6
V. STAFF RECOMMENDATIONS.....	6

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC., ET AL
DOCKET NOS. G-02527A-12-0321

Graham County Utilities Inc. (“Graham”) is a non-profit cooperative and public service corporation whose purpose is to provide both gas distribution services and water services to the area 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 5,162 customers and Graham Water provided water service to approximately 1,203 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 its gas division, 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, an increase of \$224,132, or 6.91 percent, over its test year revenue of \$3,242,352. Graham Gas’s proposed revenue, as filed, would provide an operating income of \$371,504 and a net margin of \$270,610 for a 3.31 times interest earned ratio (“TIER”), a 2.26 debt service coverage ratio (“DSC”) and a 10.05 percent rate of return on the proposed \$2,581,088 fair value rate base which is the same as the proposed original cost rate base.

The Direct Testimony of Mr. Brian K. Bozzo presented 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 recommended total operating revenue of \$3,466,484, an increase of \$224,132, or 6.91 percent, over test year revenues of \$3,242,352 to provide an operating margin of \$405,819, a net margin of \$252,436, a 2.46 TIER, a 1.54 DSC and a 10.18 percent rate of return on a rate base of \$2,369,529. Staff’s test year results reflected one rate base adjustment as shown on BKB-3 (removal of \$211,559 in construction work-in-progress) and three 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).

On February 7, 2013, Graham filed an application for authorization to borrow \$1,000,000 from Graham Electric with an anticipated 10 year term and an interest rate of 5.44 percent per annum. The loan was proposed by Staff and agreed to by the Company in order to address unauthorized loans that had been taken by Graham Gas from Graham Electric. In the financing application, the Company also requested approval of a \$500,000 line of credit (“LOC”) with no maturity date and with a variable interest rate equal to that provided by the National Rural Cooperative Finance Corporation (“CFC”). In this testimony, Staff recommends approval of the Company’s \$1,000,000 request and defers comment on the Company proposed \$500,000 LOC until a later date.

On March 6, 2013, Graham filed the Rebuttal Testimony of Mr. John V. Wallace. Under both the “Summary of Recommendations” and “Revenue Requirements” sections of Mr. Wallace’s Rebuttal Testimony, (Sections II and III), Mr. Wallace stated that the Company agrees and stipulates to all of the recommendations in Mr. Bozzo’s Direct Testimony.

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 in the Utilities Division (“Staff”) of the Arizona Corporation Commission
8 (“Commission” or “A.C.C.”) 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 (“F.R.A.”).

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 Staff and the Commission itself. I also
26 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
12 encompassing recommendations to the Commission and served as a Staff witness at utility
13 rate hearings.

14
15 **Q. What is the purpose of your Surrebuttal Testimony in this case?**

16 A. The purpose of my Surrebuttal Testimony in this case is to discuss the Rebuttal Testimony
17 of Mr. John V. Wallace on behalf of Graham County Utilities Inc. (“Graham” or
18 “Company”) and to discuss a Staff proposed reporting mechanism (compliance report) for
19 periodic reporting on the \$500,000 line of credit (“LOC”) proposed by the Company.

20
21 **Q. How is your testimony organized?**

22 A. My Surrebuttal Testimony is composed in specific sections:

- 23 • Section I is composed of this introduction.
24 • Section II provides a background of the case.
25 • Section III is a short discussion of the Company Rebuttal Testimony.
26 • Section IV is a discussion of the Company’s financing application.

- 1 • Section V is a listing of Staff's recommendations.

2

3 **Q. Have you prepared any exhibits to accompany your testimony?**

4 A. Yes. I prepared a format for a LOC reporting mechanism which is shown in Exhibit A.

5

6 **II. BACKGROUND**

7 **Q. During this case, did Staff discover issues with loans taken from Graham Electric?**

8 A. Yes. The Company has had and will continue to have access to funds through Graham
9 Electric. In itself, Staff considers this to be an advantageous circumstance. However,
10 Staff determined that a number of advances of funds ("loans") had been executed between
11 the Company and Graham Electric which were not approved by the Commission. As
12 these unapproved loans were for a duration greater than 12 months, they do not comply
13 with the provisions of Arizona Revised Statutes ("A.R.S.") § 40-301.

14

15 **Q. Did Staff previously discuss with the Company the formalization of the current**
16 **Graham Electric loan into approved long-term debt?**

17 A. Yes. In my Direct Testimony filed on February 8, 2013, I outlined that discussions with
18 the Company took place on the issue of formalizing currently existing Graham Electric
19 loans into approved long-term debt with the Company. Staff suggested and the Company
20 agreed to docket a formal financing application requesting a \$1,000,000, ten-year loan at
21 or near 5.44 percent interest to be executed with Graham Electric. Staff further outlined
22 that approval of such a loan would allow the Company to both pay down the existing
23 Graham Electric construction debt and obtain a Commission approval on the new debt
24 package – thereby converting what were unapproved advances of funds to Commission
25 authorized loans.

26

1 **Q. Did the Company ultimately docket the financing as discussed with Staff?**

2 A. Yes. On February 7, 2013, Graham docketed an application (G-02527A-13-0023) for
3 authorization to borrow \$1,000,000 from Graham Electric with an anticipated 10-year
4 term and an interest rate of 5.44 percent per annum. These were the terms that had been
5 discussed with Staff.

6
7 **Q. Did the Company's financing application include any other request?**

8 A. Yes. The Company also requested approval of a \$500,000 LOC with no maturity date and
9 with a variable interest rate equal to that provided by the National Rural Cooperative
10 Finance Corporation ("CFC") for an intermediate LOC (approximately 2.9 percent).

11
12 **Q. Did Staff provisionally recognize the interest and principal on the \$1,000,000 loan in
13 its Direct Testimony?**

14 A. Yes, Staff provisionally recognized the primary \$1,000,000 loan, with the understanding
15 that the Company would file the application for the loan as per the parties' discussion.

16
17 **III. COMPANY REBUTTAL TESTIMONY**

18 **Q. Has the Company docketed Rebuttal Testimony in this matter?**

19 A. Yes. On March 6, 2013, Graham filed the Rebuttal Testimony of Mr. John V. Wallace.

20
21 **Q. How did Mr. Wallace address your Direct Testimony?**

22 A. Mr. Wallace's Rebuttal Testimony stated the following in both the "Summary of
23 Recommendations" and "Revenue Requirements" sections:

24
25 *GCU agrees and stipulates to all of the recommendations in Staff Witness Brian*
26 *K. Bozzo's direct testimony.*

27

1 **Q. To what issue is the Company's Rebuttal Testimony dedicated?**

2 A. The Company's Rebuttal Testimony is limited to discussion the financing
3 application and, in particular, to discussion regarding the LOC proposed by the
4 Company.

5
6 **IV. FINANCING APPLICATION**

7 *Company Proposed Loan*

8 **Q. What is the main element of the financing application?**

9 A. The primary element of the financing application is the \$1,000,000 loan which has been
10 previously discussed with the Company and provisionally accepted by Staff in its Direct
11 Testimony. The Company docketed this application in order to formalize the loan as long
12 term in nature and garner Commission approval for the amounts borrowed from Graham
13 Electric to finance capital improvement in the past.

14
15 **Q. Are there any other issues relating to the \$1,000,000 loan?**

16 A. No. These are loans the Company has already incurred. The Company must refinance
17 these unauthorized existing loans to be in compliance with A.R.S. § 40-301. Staff
18 suggested that the Company file the \$1,000,000 financing, and the Company has done so.

19
20 **Q. What is Staff's recommendation regarding the Company proposed \$1,000,000 loan?**

21 A. Staff recommends approval of the \$1,000,000 loan from Graham Electric with an
22 anticipated 10-year term and an expected interest rate of 5.44 percent per annum. Staff
23 further recommends that the Commission authorized use of the proceeds exclusively for
24 the purpose of refunding the existing unauthorized loans with Graham Electric.

25

1 *Company Proposed Line of Credit*

2 **Q. Does Staff have any comment on the Company proposed \$500,000 Line of Credit?**

3 A. Staff reserves the right to comment on the Line of Credit at a later date.

4

5 **V. STAFF RECOMMENDATIONS**

6 **Q. What are Staff's recommendations?**

7 A. Staff recommends:

8

- 9 • total operating revenue of \$3,466,484, an increase of \$224,132, or 6.91 percent,
10 over test year revenues of \$3,242,352 to provide an operating margin of \$405,819,
11 a net margin of \$252,436, a 2.46 TIER, a 1.54 DSC and a 10.18 percent rate of
12 return on a rate base of \$2,369,529;
- 13 • approval of the \$1,000,000 loan from Graham Electric with an anticipated 10-year
14 term and an expected interest rate of 5.44 percent per annum; and
- 15 • that the Commission authorize use of the proceeds of the \$1,000,000 loan
16 exclusively for the purpose of refunding the existing unauthorized loans with
17 Graham Electric.

18

19 **Q. Does this conclude your Surrebuttal Testimony?**

20 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

SURREBUTTAL

TESTIMONY

OF

ROBERT G. GRAY

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 22, 2013

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
RATE DESIGN	1

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

My testimony in this proceeding addresses the issue of Tiered Rate Design Testimony filed by Graham County Utilities Inc. ("Graham") Witness John Wallace.

1 **INTRODUCTION**

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

3 A. My name is Robert G. Gray. I am an Executive Consultant III 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. Are you the same Robert Gray that filed Direct Testimony on behalf of Staff in this
8 proceeding?**

9 A. Yes.

10
11 **Q. What is the scope of this testimony?**

12 A. This testimony will address the tiered rate design testimony filed by Graham witness John
13 Wallace.

14
15 **Q. Have you reviewed the Rebuttal Testimony of Graham Witness John Wallace in
16 regard to the rate design?**

17 A. Yes. I have reviewed his testimony and will provide Staff’s perspective on his proposal
18 regarding treatment of a possible future tiered rate filing.

19
20 **RATE DESIGN**

21 **Q. Please discuss the status of rate design in this proceeding.**

22 A. In Mr. Wallace’s Rebuttal Testimony he indicates that Graham stipulates to Staff’s
23 proposed rate design.

24

1 **Q. Are there any outstanding issues to be addressed related to rate design.**

2 A. Yes. Mr. Wallace indicates that Graham is agreeing to Staff's recommendation that
3 Graham file a tiered residential rate structure alternative in its next rate proceeding (if the
4 Commission does not adopt such a rate design in this proceeding), with the understanding
5 that such a filing will not interfere with Graham's ability to file its next rate case under the
6 pending new rules for cooperative rate cases (R14-2-107). Specifically, Graham is asking
7 that the provision in R14-2-107 that prohibits Graham from filing a new rate schedule,
8 R14-2-107(A)(11)(a), would not apply in this situation, given that the Commission would
9 be ordering Graham to file such an alternative rate schedule in Graham's next rate case.

10
11 **Q. Does Staff agree with Graham's request regarding the pending rules related to
12 cooperative rate cases?**

13 A. Yes. Staff believes that provision R14-2-107(A)(11)(a) is an important provision within
14 the new rules, but that in this case the requirement to file an alternative rate design in
15 Graham's next rate case should not impact Graham's ability to file its case under R14-2-
16 107. Staff support for this position is based upon a number of factors. First, as noted by
17 Graham, this would be a requirement placed upon Graham by the Commission, not a
18 proposal that Graham chose to file on its own. Second, the new rate case process would
19 include consultations between Staff and Graham prior to Graham filing a new rate case,
20 during which Staff and Graham could work together to ensure that Graham files all
21 necessary documentation regarding its alternate rate design proposal in its initial rate case
22 filing. Third, this would be a proposal for just the residential rate class and thus the
23 additional effort required for Staff to analyze this alternative proposal is not expected to be
24 very burdensome.

25

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

2 A. Yes, it does.