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Docket #(s): G-0252711-12-0321

G-0252711-13-0023

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Exhibit #: 51, 52, 53, 54, A1, A2, A3, A4

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Arizona Corporation Commission  
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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
DOCKET CONTROL

LEGAL

COMMISSIONERS

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

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 8<sup>th</sup> day of February 2013.

Maureen A. Scott, Senior Staff Counsel  
Brian E. Smith, Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
8<sup>th</sup> day of February 2013 with:

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

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LEGAL DIV.  
ARIZ. CORPORATION COMMISSION

EXHIBIT  
S-1  
ADMITTED

1 Copy of the foregoing mailed this  
8<sup>th</sup> day of February 2013 to:

2 John V. Wallace  
3 Grand Canyon State Electric  
Cooperative Association  
4 2210 South Priest Drive  
Tempe, Arizona 85282

5 Kirk Gray  
6 Graham County Electric Cooperative, Inc.  
Post Office Drawer B  
7 Pima, Arizona 85543

8

9 Kayla Christensen  
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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.<sup>1</sup>

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  

---

<sup>1</sup> 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.	SUMMARY OF FILING				
	[A] PRESENT RATES		[C] PROPOSED RATES		
	Cooperative as Filed	Staff as Adjusted	Cooperative Proposed	Staff Recommended	
<b>Revenues</b>					
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	<b>Total Revenue</b>	<b>\$ 3,242,352</b>	<b>\$ 3,242,352</b>	<b>\$ 3,466,484</b>	<b>\$ 3,466,484</b>
<b>Expenses</b>					
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	<b>Total Operating Expenses</b>	<b>\$ 3,094,980</b>	<b>\$ 3,060,665</b>	<b>\$ 3,094,980</b>	<b>\$ 3,060,665</b>
15	<b>Operating Margins Before Intr. on L.T. Debt</b>	<b>\$ 147,372</b>	<b>\$ 181,687</b>	<b>\$ 371,504</b>	<b>\$ 405,819</b>
16	<b>Interest on Long Term Debt</b>	<b>\$ 112,205</b>	<b>\$ 164,694</b>	<b>\$ 112,205</b>	<b>\$ 164,694</b>
17	<b>Operating Margin after Interest Expense</b>	<b>\$ 35,167</b>	<b>\$ 16,993</b>	<b>\$ 259,299</b>	<b>\$ 241,125</b>
<b>Non-Operating Margins</b>					
19	Interest Income	\$ -	\$ -	\$ -	\$ -
20	Other Non-Operating Income	\$ -	\$ -	\$ -	\$ -
21	Capital Credits - Cash	11,311	11,311	11,311	11,311
22	<b>Total Non-Operating Margins</b>	<b>\$ 11,311</b>	<b>\$ 11,311</b>	<b>\$ 11,311</b>	<b>\$ 11,311</b>
23	<b>NET MARGINS</b>	<b>\$ 46,478</b>	<b>\$ 28,304</b>	<b>\$ 270,610</b>	<b>\$ 252,436</b>
24	Long-Term Debt Principal Payment	116,980	\$ 194,366	116,980	194,366
25	<b>TIER</b>	<b>1.31</b>	<b>1.10</b>	<b>3.31</b>	<b>2.46</b>
26	<b>DSC</b>	<b>1.28</b>	<b>0.92</b>	<b>2.26</b>	<b>1.54</b>

**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.	ORIGINAL COST RATE BASE			
	[A]	[B]	[C]	
	Cooperative	Adjustment	Staff	
1	Plant In Service	\$ 4,634,243	\$ -	\$ 4,634,243
2	Less: Accumulated Depreciation	2,300,306	-	2,300,306
3	<b>NET PLANT</b>	<b>\$ 2,333,937</b>	<b>\$ -</b>	<b>\$ 2,333,937</b>
4	<b>DEDUCTIONS</b>			
5	Customer Deposits	\$ 66,645	\$ -	\$ 66,645
6	<b>TOTAL DEDUCTIONS</b>	<b>\$ 66,645</b>	<b>\$ -</b>	<b>\$ 66,645</b>
7	<b>ADDITIONS</b>			
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	<b>TOTAL ADDITIONS</b>	<b>\$ 313,796</b>	<b>\$ (211,559)</b>	<b>\$ 102,237</b>
13	<b>RATE BASE</b>	<b>\$ 2,581,088</b>	<b>\$ (211,559)</b>	<b>\$ 2,369,529</b>

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
<b>INTANGIBLE PLANT:</b>					
1	2301 Organization	\$42,522	\$ -		\$42,522
2	<b>SUBTOTAL INTANGIBLE</b>	<u>\$42,522</u>	<u>\$ -</u>		<u>\$42,522</u>
<b>DISTRIBUTION PLANT</b>					
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	<b>SUBTOTAL DISTRIBUTION</b>	<u>\$4,387,077</u>	<u>\$ -</u>		<u>\$4,387,077</u>
<b>GENERAL PLANT</b>					
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	<b>SUBTOTAL GENERAL</b>	<u>204,644</u>	<u>\$ -</u>		<u>204,644</u>
14	<b>TOTAL PLANT IN SERVICE</b>	<u>\$4,634,243</u>	<u>\$ -</u>		<u>\$4,634,243</u>
15	<b>ACCUMULATED DEPRECIATION</b>	<u>\$2,300,306</u>	<u>-</u>		<u>\$2,300,306</u>
16	<b>NET PLANT</b>	<u>\$2,333,937</u>	<u>\$ -</u>		<u>\$2,333,937</u>
<b>DEDUCTIONS</b>					
	Customer Deposits	\$66,645	-		\$66,645
	<b>SUBTOTAL DEDUCTIONS</b>	<u>\$66,645</u>	<u>\$ -</u>		<u>\$66,645</u>
<b>ADDITIONS</b>					
	CWIP	\$211,559	(211,559)	BKB-5	\$ -
	Materials and Supplies	\$79,032	-		\$79,032
	Prepayments	\$23,205	-		\$23,205
	Intangible Rate Base	\$0	-		\$0
	<b>SUBTOTAL ADDITIONS</b>	<u>\$313,796</u>	<u>(\$211,559)</u>		<u>\$102,237</u>
	<b>TOTAL</b>	<u>\$2,581,088</u>	<u>(\$211,559)</u>		<u>\$2,369,529</u>

References:

Column A: Company Schedule E-5  
Column B: BKB-5  
Column C: BKE 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 Interest Exp. L-T Debt ADJ #3	Not Used ADJ #4	Not Used ADJ #5	Not Used ADJ #6	Not Used ADJ #7	STAFF AS ADJUSTED
1	\$ 2,383,955	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,383,955
2	11,955	-	-	-	-	-	-	-	\$ 11,955
3	806,399	-	-	-	-	-	-	-	\$ 806,399
4	-	-	-	-	-	-	-	-	-
5	\$ 3,202,309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,202,309
6	40,043	-	-	-	-	-	-	-	\$ 40,043
7	\$ 3,242,352	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,242,352
8	\$ 1,399,908	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,399,908
9	337,843	-	-	-	-	-	-	-	\$ 337,843
10	322,241	-	-	-	-	-	-	-	\$ 322,241
11	327,042	1,381	-	-	-	-	-	-	\$ 328,423
12	437,474	-	-	-	-	-	-	-	\$ 437,474
13	147,018	-	-	-	-	-	-	-	\$ 147,018
14	31,306	-	-	-	-	-	-	-	\$ 31,306
15	48,107	-	-	-	-	-	-	-	\$ 48,107
16	44,041	-	(35,696)	-	-	-	-	-	\$ 8,345
17	\$ 3,094,981	\$ 1,381	\$ (35,696)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,060,665
18	147,371	(1,381)	35,696	-	-	-	-	-	\$ 181,686
19	112,205	-	-	52,489	-	-	-	-	\$ 164,694
20	35,166	-	-	-	-	-	-	-	\$ 16,992
21	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
22	-	-	-	-	-	-	-	-	\$ 0
23	11,311	-	-	-	-	-	-	-	\$ 11,311
24	11,311	-	-	-	-	-	-	-	\$ 11,311
25	\$ 46,478	\$ (1,381)	\$ 35,696	\$ (52,489)	\$ -	\$ -	\$ -	\$ -	\$ 28,304
26	NET MARGINS								
27									

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

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

Schedule BKB-8

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

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

Schedule BKB-9

**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.

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.



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

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.

LEGAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

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  
RATE DESIGN TESTIMONY

Staff of the Arizona Corporation Commission ("Staff") hereby files the Direct Rate Design  
Testimony of Robert G. Gray and Prem K. Bahl in the above docket.

RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of February 2013.

Maureen A. Sepp, Senior Staff Counsel  
Brian E. Smith, Attorney  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
21<sup>st</sup> day of February 2013 with:

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

EXHIBIT  
5-2  
ADMITTED

1 Copy of the foregoing mailed this  
21<sup>st</sup> day of February 2013 to:

2 John V. Wallace  
3 Grand Canyon State Electric  
Cooperative Association  
4 2210 South Priest Drive  
Tempe, Arizona 85282

5 Kirk Gray  
6 Graham County Electric Cooperative, Inc.  
Post Office Drawer B  
7 Pima, Arizona 85543

8  
9 Kayla Christine  
10

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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, INC. (GAS )  
DIVISION) FOR APPROVAL OF A RATE )  
INCREASE )  
\_\_\_\_\_)

DOCKET NO. G-02527A-12-0321

DIRECT  
TESTIMONY  
OF  
ROBERT G. GRAY  
EXECUTIVE CONSULTANT III  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

FEBRUARY 21, 2013

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

My testimony in this proceeding addresses the issue of rate design for Graham County Utilities Inc. ("Graham"). My testimony also addresses the issue of a gas procurement review.

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. Briefly describe your responsibilities as an Executive Consultant III.**

8 A. In my capacity as an Executive Consultant III, I conduct analysis and provide  
9 recommendations to the Commission on a variety of electricity, natural gas, and  
10 water/wastewater matters. A copy of my resume is attached as Exhibit RGG-1.

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

13 A. This testimony will address rate design for Graham County Utilities, Inc. (“Graham”) as  
14 well the issue of a gas procurement review.

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

18 A. Yes. I have reviewed his testimony and will discuss his proposed changes to Graham’s  
19 rate design as part of my testimony.

20  
21 **RATE DESIGN**

22 **Q. Please discuss Graham’s current rate structures.**

23 A. Graham currently has three customer classes including residential, commercial, and  
24 irrigation. Graham’s residential customers currently pay a monthly customer charge of  
25 \$13.00, a margin rate of \$0.345 per therm, as well as the cost of gas component which is  
26 reflected through the monthly purchased gas adjustor (“PGA”) rate. Irrigation customers

1 currently pay a monthly customer charge of \$21.00, a margin rate of \$0.16 per therm, as  
2 well as the cost of gas component. Commercial customers currently pay a monthly  
3 customer charge of \$24.00, a margin rate of \$0.341 per therm, as well as the cost of gas  
4 component. The monthly PGA rate varies according to the changing natural gas  
5 commodity costs.

6  
7 **Q. Please describe what the rate design components are for a natural gas utility like**  
8 **Graham.**

9 A. For a natural gas utility, costs fall into two general categories. The first category is the gas  
10 cost component, which captures the cost of the natural gas commodity as well as the cost  
11 of interstate pipeline transportation to deliver the natural gas from production areas in  
12 New Mexico and Texas to Graham's receipt points on the El Paso Natural Gas interstate  
13 pipeline system. An interest component is applied to any over or under-collected PGA  
14 bank balance. These costs are passed through the PGA mechanism. The second category  
15 captures all costs other than those passed through the PGA mechanism. These costs  
16 include things like labor, billing, and infrastructure costs. These costs are recovered  
17 through the monthly customer charge as well as the non-gas cost per therm tariff or  
18 margin rate. In a rate case, the Commission addresses the tariff cost components  
19 contained in the tariff rates. The Commission may choose to adjust how the PGA  
20 mechanism works in a general rate proceeding, but does not generally set the monthly  
21 PGA rate within a rate proceeding as it is set according to established mathematical  
22 calculations.

23

1 **Q. Please discuss how Graham represents the cost of gas component in its rate filing.**

2 A. Graham represents the cost of gas differently in its application. At times it reflects a PGA  
3 rate of \$0.4888 per therm; yet at other times in its rate filing is reflects a PGA rate of  
4 \$0.43705 per therm.

5  
6 When comparing current and proposed rates, it is best to represent rates using a consistent  
7 cost of gas component number, as gas costs are passed through the PGA mechanism and  
8 changes in tariff rates in a general rate case do not impact the pass through of gas costs.  
9 Graham's use of different gas cost numbers makes it difficult to understand the changes in  
10 tariff rates being proposed by Graham, and their ultimate impact on customers.  
11 Throughout Staff's discussion of rate design and presentation of proposed rates, Staff uses  
12 a constant cost of gas of \$0.43705 per therm.

13  
14 **Q. What rates are being proposed in this case by Graham?**

15 A. Graham is proposing to increase the residential monthly customer charge from \$13.00 to  
16 \$16.25, the irrigation monthly customer charge from \$21.00 to \$26.25, and the  
17 commercial monthly customer charge from \$24.00 to \$30.00. Graham is not proposing  
18 any change in the per therm tariff rates for the various customers classes.

19  
20 **Q. Please comment on Graham's proposed rates.**

21 A. Staff believes that Graham's proposed rates increase the customer charges too much and  
22 Staff would favor a more gradual and measured increase in customer charges, with some  
23 portion of the increase also reflected in Graham's per therm tariff rates.

24

1 **Q. Please discuss Staff's proposed rates in this case.**

2 A. Staff recommends that the residential monthly customer charge be set at \$15.00 and the  
3 residential margin rate be set at \$0.378 per therm. Staff recommends that the irrigation  
4 monthly customer charge be set at \$24.00 and the irrigation margin rate be set at \$0.18 per  
5 therm. Staff recommends that the commercial monthly customer charge be set at \$28.00  
6 and the commercial margin rate be set at \$0.36 per therm. Staff's proposed rates take into  
7 consideration the cost of service analysis by Staff Witness Prem Bahl. Staff moderates the  
8 monthly customer charge increases proposed by Graham and increases the per therm  
9 tariffed rates for all three of Graham's rate classes. Graham has not proposed any changes  
10 to the rates and charges for other services and Staff's proposed change discussed below  
11 does not change the revenue Graham would receive.

12  
13 **Q. Will Staff's proposed rates provide sufficient revenues to Graham using Staff's  
14 revenue requirement.**

15 A. Yes. Staff Witness Brian Bozzo proposes total operating revenue of \$3,466,484 for  
16 Graham. Reducing this number by \$1,399,908 for test year gas costs and \$40,043 for  
17 other revenue (from miscellaneous charges such as establishment of service charges, late  
18 fees, and meter test fees), results in total revenue to be recovered from Graham's tariffed  
19 rates of \$2,026,533. The revenue generated from Staff's proposed rates is \$2,025,692.  
20 Staff's proposal reflects the same revenue from other services (such as establishment of  
21 service, meter reread charges, late fees, etc.) as Graham received during the test year,  
22 \$40,043.

23

1 **Q. Please describe how Staff deals with the cost of gas in representing overall rates to be**  
2 **paid by Graham's customers under Staff's proposed rates, as well as Staff's**  
3 **customer bill impact estimates.**

4 A. As noted before, Graham's application and attached schedules reflect two different gas  
5 cost numbers in various places, \$0.4888 per therm and \$0.43705 per therm. Staff uses the  
6 \$0.43705 per therm number, as under Staff's analysis it is closer to the actual cost of gas  
7 being paid by Graham's customers in recent months.

8  
9 **Q. Please discuss what the residential customer bill impacts would be under Staff's**  
10 **proposed rates.**

11 A. For an annual mean residential customer bill reflecting consumption of 34 therms, the  
12 customer bill under Staff's proposal would be \$42.71, an increase of 7.9 percent and \$3.12  
13 over the bill of \$39.59 under Graham's existing rates. For a mean residential customer bill  
14 in Graham's winter peak month of January, reflecting consumption of 84 therms, the  
15 residential customer bill under Staff's proposal would be \$83.46, an increase of 6.1  
16 percent and \$4.77 over the bill of \$78.69 under Graham's existing rates.

17  
18 **Q. Please discuss what the irrigation customer bill impacts would be under Staff's**  
19 **proposed rates.**

20 A. For an annual mean irrigation customer bill reflecting consumption of 201 therms, the  
21 customer bill under Staff's proposal would be \$148.03, an increase of 5.0 percent and  
22 \$7.02 over the bill of \$141.01 under Graham's existing rates. For a mean irrigation  
23 customer bill in Graham's summer peak month of August, reflecting consumption of 329  
24 therms, the customer bill under Staff's proposal would be \$227.01, an increase of 4.4  
25 percent and \$9.58 over the bill of \$217.43 under Graham's existing rates.

1 **Q. Please discuss what the commercial customer bill impacts would be under Staff's**  
2 **proposed rates.**

3 A. For an annual mean commercial customer bill reflecting consumption of 281 therms, the  
4 customer bill under Staff's proposal would be \$251.97, an increase of 3.8 percent and  
5 \$9.34 over the bill of \$242.63 under Graham's existing rates. For a mean commercial  
6 customer bill in Graham's winter peak month of January, reflecting consumption of 637  
7 therms, the customer bill under Staff's proposal would be \$535.72, an increase of 3.1  
8 percent and \$16.10 over the bill of \$519.62 under Graham's existing rates.

9  
10 **Q. Please discuss Staff's tiered rate alternative.**

11 A. In several recent rate cases, including Southwest Gas (Decision No. 72723, January 6,  
12 2012) and UNS Gas (Decision No. 73142, May 6, 2012), the Commission has ordered the  
13 utility company to file, in its next general rate proceeding, an inclining block/tiered rate  
14 proposal as one of its rate design proposals for Commission consideration. In recognition  
15 of these recent orders, Staff has prepared an alternative tiered rate design in this  
16 proceeding for Commission consideration. This alternative rate design is only for  
17 residential customers, with irrigation and commercial customers being unaffected by the  
18 alternative rate proposal. Staff is not recommending adoption of this alternative at this  
19 time, but offers it as a possible alternative in case the Commission wishes to consider a  
20 rate design similar to what is used for water and electric utilities. If the Commission does  
21 not adopt the alternative tiered rate design in this proceeding, Staff recommends that  
22 Graham be required to include, as part of its next general rate application, an inclining  
23 block rate structure as one of its rate design proposals.

24

1 **Q. Please compare Staff's recommended rate design proposal in this proceeding to**  
2 **Staff's alternative tiered rate design.**

3 A. The main impact of the tiered rate design is to reduce customer bills for low use customers  
4 and increase customer bills for high use customers in comparison to Staff's recommended  
5 rate design proposal. The creation of an inclining block rate structure could incent high  
6 use customers to use natural gas more efficiently.

7

8 **RATES AND CHARGES FOR OTHER SERVICES**

9 **Q. Has Graham proposed any changes to its rates and charges for other services?**

10 A. No.

11

12 **Q. Is Staff recommending any changes to Graham's rates and charges for other**  
13 **services?**

14 A. Yes. The Company currently has an establishment after-hours charge of \$50.00. The  
15 Company also has a reconnection of service after-hours charge of \$50.00. The Company  
16 has proposed no charges to these rates.

17

18 Staff agrees that an additional fee for service provided after normal business hours is  
19 appropriate when such service is at the customer's request. Such a tariff compensates the  
20 utility for additional expenses incurred from providing after-hours service. Moreover,  
21 Staff concludes that it is appropriate to apply an after-hours service charge in addition to  
22 the charge for any utility service provided after hours at the customer's request.  
23 Therefore, Staff recommends the removal of both the establishment of service – after  
24 hours charge and reconnection of service after-hours charge. For example, under Staff's  
25 proposal, a customer would be subject to a \$30 establishment of service if it is done during  
26 normal business hours, but would pay an additional \$20 after-hours fee if customer

1 requested that the establishment of service be done after normal working hours. Staff  
2 believes that this charge will simplify Graham's rates and charges for other services and is  
3 consistent with how after hours work is treated for other utilities in recent cases before the  
4 Commission.

5  
6 **Q. Please summarize your recommended changes to Graham's rates and charges for  
7 other services.**

8 A. Staff recommends elimination of the Establishment of Service – After Hours and  
9 Reconnection of Service – After Hours charges and the creation of a \$20.00 after hours  
10 service charge that would apply to utility services provided to customers after hours.

11  
12 **GAS PROCUREMENT REVIEW**

13 **Q. Has Staff conducted a review of Graham's gas procurement activities recently?**

14 A. Yes.

15  
16 **Q. Please describe Staff's recent review of Graham's gas procurement activities.**

17 A. As part of Graham's previous rate proceeding (Docket No. G-02527A-09-0088) Staff  
18 reviewed Graham's procurement activities for gas supplies acquired between January  
19 2006 and June 2009. In that case, Staff recommended that the Commission make a  
20 finding that Graham's procurement activities were prudent, a recommendation reflected in  
21 the Commission's final order in the case (Decision No. 71690, May 3, 2010).

22  
23 **Q. Have Graham's procurement activities changed significantly since the previous rate  
24 case?**

25 A. No.

26

1 **Q. Does Staff believe it is necessary to conduct a procurement review in this current**  
2 **rate proceeding.**

3 A. No. Since Graham's last review was in 2009 and 2010 and there has been no change in  
4 Graham's procurement activities in recent years, Staff believes that it is not necessary to  
5 conduct a procurement review in this proceeding. However, Staff anticipates conducting a  
6 procurement review in the next future rate proceeding Graham files with the Commission.  
7

8 **SUMMARY OF RECOMMENDATIONS**

9 **Q. Please summarize your findings and recommendations.**

10 A. My testimony includes the following recommendations:  
11

12 *Rate Design*

- 13 1. Staff recommends that the residential customer charge be set at \$15.00 per month  
14 and the residential margin rate should be set at \$0.378 per therm.  
15
- 16 2. Staff further recommends that the irrigation customer charge be set at \$24.00 per  
17 month and the irrigation margin rate should be set at \$0.18 per therm.  
18
- 19 3. Staff further recommends that the commercial customer charge be set at \$28.00 per  
20 month and the commercial margin rate should be set at \$0.36 per therm.  
21
- 22 4. Staff further recommends that, if Staff's alternative tiered rate structure is not  
23 adopted in this proceeding, that Graham be required to include, as part of its next  
24 general rate application, an inclining block rate structure as one of its rate design  
25 proposals.  
26

1 *Rates and Charges for Other Services*

2 5. Staff further recommends elimination of the Establishment of Service – After  
3 Hours and Reconnection of Service – After Hours charges and the creation of a  
4 \$20.00 after hours service charge that would apply to utility services provided to  
5 customers after hours.

6

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

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

**RESUME**

**ROBERT G. GRAY**

**Education**

- B.A. Geography, University of Minnesota-Duluth (1988)  
M.A. Geography, Arizona State University (1990) Thesis: *A Model for Optimizing the Federal Express Overnight Delivery Aircraft Network.*

**Employment History**

Arizona Corporation Commission, Utilities Division, Phoenix, Arizona: Executive Consultant III (November 2007 – present), Public Utility Analyst V (October 2001 – November 2007), Senior Economist (August 1997 – October 2001), Economist II (June 1991 - July 1997), Economist I (June 1990 - June 1991). Conduct economic and policy analyses on a variety of natural gas issues in Arizona, including gas procurement, rate design, interstate pipeline issues, revenue decoupling, energy conservation, low income issues, natural gas research and development funding, customer services issues, special contracts, various tariff matters, and other natural gas issues. Conduct economic and policy analyses on a variety of electricity issues in Arizona, power plant and transmission line siting cases, energy efficiency, renewable energy standards, rate design, time-of-use service, and low income issues. Prepare recommendations and present written and oral testimony before the Commission and organize workshops and other proceedings on various utility industry issues. Represent the ACC in natural gas proceedings at the Federal Energy Regulatory Commission, at the North American Energy Standards Board, and on the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Gas, including serving as a past Vice-Chair and Chair of the NARUC Staff Subcommittee on Gas.

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EXHIBIT RGG-1

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Staff Review of Tucson Electric Power 2009 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-01933A-07-0594), Arizona Corporation Commission, November 26, 2008.

Staff Report for Arizona Water Company and Global Water Resources LLC's Consolidated Docket Addressing Numerous Requests for Extensions of Certificates of Convenience and Necessity for Water and Wastewater Service as Well as the Transfer of Assets, (Docket No. W01445A-06-0199, etc.), Arizona Corporation Commission, May 10, 2009.

Staff Review of UNS Electric 2010 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-04204A-09-0347), Arizona Corporation Commission, January 5, 2010.

Staff Review of Tucson Electric Power 2010 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-01933A-09-0340), Arizona Corporation Commission, January 5, 2010.

Staff Review of UNS Electric 2011 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-04204A-10-0265), Arizona Corporation Commission, November 8, 2010.

Staff Review of Tucson Electric Power 2011 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-01933A-10-0266), Arizona Corporation Commission, November 9, 2010.

Staff Review of UNS Electric 2012 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-04204A-11-0267), Arizona Corporation Commission, October 25, 2011.

Staff Review of Tucson Electric Power 2012 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-01933A-11-0269), Arizona Corporation Commission, October 25, 2011.

Staff Review of UNS Electric 2013 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-04204A-12-0297), Arizona Corporation Commission, October 18, 2012.

Staff Review of Tucson Electric Power 2013 Renewable Energy Standard Tariff and Implementation Plan, (Docket No. E-01933A-12-0296), Arizona Corporation Commission, October 18, 2012.

### **Additional Training**

1990	Seminars on Regulatory Economics
1993	PURTI course on Public Utilities and the Environment
1996	Center for Public Utilities Workshop on Gas Unbundling and Retail Competition
1997	NARUC 6 <sup>th</sup> Annual Natural Gas Conference
1998	Local Distribution Company Restructuring and Retail Access and Competition Conference
1998	NARUC 7 <sup>th</sup> Annual Natural Gas Conference
1999 – 2007, 2010, 2012	NARUC Summer Committee Meetings
2001	Center for Public Utilities Workshop on Risk Management in Gas Purchasing
2003-2008	NARUC Winter Committee Meetings
2004-2007	NARUC Annual Convention

### **Memberships**

NARUC – Staff Subcommittee on Gas – member, 1998 - present  
NARUC – Staff Subcommittee on Gas – Vice-Chair - 2002 - 2004  
NARUC – Staff Subcommittee on Gas – Chair - 2005 - 2007  
Michigan State Institute for Public Utilities – NARUC Advisory Committee – 2005-2007  
NARUC – North American Energy Standards Board Advisory Council – 2006 - present  
NARUC – DOE LNG Partnership – 2003 - present

Rate Design

	Residential	Irrigation	Commercial
<b>Existing Rates</b>			
Customer Charge	\$13.00	\$21.00	\$24.00
Tariffed Rate	\$0.34500	\$0.16000	\$0.34100
Monthly PGA Rate	\$0.43705	\$0.43705	\$0.43705
<b>Graham Proposed Rates</b>			
Customer Charge	\$16.25	\$26.25	\$30.00
Tariffed Rate	\$0.34500	\$0.16000	\$0.34100
Monthly PGA Rate	\$0.43705	\$0.43705	\$0.43705
<b>Staff Proposed Rates</b>			
Customer Charge	\$15.00	\$24.00	\$28.00
Tariffed Rate	\$0.37800	\$0.18000	\$0.36000
Monthly PGA Rate	\$0.43705	\$0.43705	\$0.43705
<b>Staff Tiered Rate Alternative</b>			
Customer Charge	\$15.00	\$24.00	\$28.00
Tariffed Rate - 50 therms or less	\$0.34000	\$0.18000	\$0.36000
Tariffed Rate - Over 50 therms	\$0.40000	\$0.18000	\$0.36000
Monthly PGA Rate	\$0.43705	\$0.43705	\$0.43705
Staff Revenue Requirement Target			\$2,026,533
Revenue Under Staff Rate Proposal			\$2,025,692
Revenue Under Staff Tiered Rate Alternative			\$2,022,148
<b>Revenue from Rate and Charges for Other Services</b>			
Test Year			\$40,043
Graham Proposal			\$40,043
Staff Proposal			\$40,043
Staff Tiered Rate Alternative			\$40,043

	Rate Schedule Revenue	Gas Cost (Monthly PGA Rate)	Tariffed Rate (non gas cost) Revenue	Revenue From Misc. Charges	Total Revenue
Existing Rates	\$3,069,845	\$1,254,993	\$1,814,852	\$40,043	\$3,109,888
Company Proposed Rates	\$3,277,614	\$1,254,993	\$2,022,620	\$40,043	\$3,317,657
Staff Proposed Rates	\$3,280,686	\$1,254,993	\$2,025,692	\$40,043	\$3,320,729
Staff Tiered Rate Alternative	\$3,277,141	\$1,254,993	\$2,022,148	\$40,043	\$3,317,184

Assumes Constant PGA Rate of \$0.043705 per therm

### Existing Rates

Residential	Number	Rate	Total	
Customer Bills	56,180	\$13.00	\$730,340	
Partial Bills	1,732	\$13.00	\$22,520	
Tariffed Rate	1,960,668	\$0.34500	\$676,430	
Monthly PGA Rate	1,960,668	\$0.43705	\$856,910	
Total				\$2,286,200
<b>Irrigation</b>				
Customer Bills	77	\$21.00	\$1,617	
Partial Bills	13	\$21.00	\$273	
Tariffed Rate	18,064	\$0.16000	\$2,890	
Monthly PGA Rate	18,064	\$0.43705	\$7,895	
Total				\$12,675
<b>Commercial</b>				
Customer Bills	3,142	\$24.00	\$75,408	
Partial Bills	39	\$24.00	\$936	
Tariffed Rate	892,778	\$0.34100	\$304,437	
Monthly PGA Rate	892,778	\$0.43705	\$390,189	
Total				\$770,970
Total - All Classes				\$3,069,845
Total Non-gas cost revenue				\$1,814,852

**Company Proposed Rates**

	Number	Rate	Total	
<b>Residential</b>				
Customer Bills	56,180	\$16.25	\$912,925	
Partial Bills	1,732	\$16.25	\$28,145	
Tariffed Rate	1,960,668	\$0.34500	\$676,430	
Monthly PGA Rate	1,960,668	\$0.43705	\$856,910	
Total				\$2,474,410
<b>Irrigation</b>				
Customer Bills	77	\$26.25	\$2,021	
Partial Bills	13	\$26.25	\$341	
Tariffed Rate	18,064	\$0.16000	\$2,890	
Monthly PGA Rate	18,064	\$0.43705	\$7,895	
Total				\$13,148
<b>Commercial</b>				
Customer Bills	3,142	\$30.00	\$94,260	
Partial Bills	39	\$30.00	\$1,170	
Tariffed Rate	892,778	\$0.34100	\$304,437	
Monthly PGA Rate	892,778	\$0.43705	\$390,189	
Total				\$790,056
Total - All Classes				\$3,277,614
Total Non-gas cost revenue				\$2,022,620

Note: Graham's revenue from the tariffed rates, based on the billing data provided by Graham in the rate proceeding, \$2,022,620, is slightly lower, by \$3,913, than the revenue requested by Graham and recommended by Staff Witness Bozzo of \$2,026,533. This differential is diminimus.

### Staff Proposed Rates

Exhibit RGG-2  
Page 4 of 5

<b>Residential</b>	Number	Rate	Total	
Customer Bills	56,180	\$15.00	\$842,700	
Partial Bills	1,732	\$15.00	\$25,980	
Tariffed Rate	1,960,668	\$0.37800	\$741,133	
Monthly PGA Rate	1,960,668	\$0.43705	\$856,910	
Total				\$2,466,722
<b>Irrigation</b>				
Customer Bills	77	\$24.00	\$1,848	
Partial Bills	13	\$24.00	\$312	
Tariffed Rate	18,064	\$0.18000	\$3,252	
Monthly PGA Rate	18,064	\$0.43705	\$7,895	
Total				\$13,306
<b>Commercial</b>				
Customer Bills	3,142	\$28.00	\$87,976	
Partial Bills	39	\$28.00	\$1,092	
Tariffed Rate	892,778	\$0.36000	\$321,400	
Monthly PGA Rate	892,778	\$0.43705	\$390,189	
Total				\$800,657
Total - All Classes				\$3,280,686
Total Non-gas cost revenue				\$2,025,692

**Staff Tiered Rate Alternative**

<b>Residential</b>	<b>Number</b>	<b>Rate</b>	<b>Total</b>	
Customer Bills	56,180	\$15.00	\$842,700	
Partial Bills	1,732	\$15.00	\$25,980	
Tariffed Rate-50 therms or under	777,986	\$0.34000	\$264,515	
Tariffed Rate-over 50 therms	1,182,682	\$0.40000	\$473,073	
Monthly PGA Rate	1,960,668	\$0.43705	\$856,910	
<b>Total</b>				<b>\$2,463,178</b>
<b>Irrigation</b>				
Customer Bills	77	\$24.00	\$1,848	
Partial Bills	13	\$24.00	\$312	
Tariffed Rate	18,064	\$0.18000	\$3,252	
Monthly PGA Rate	18,064	\$0.43705	\$7,895	
<b>Total</b>				<b>\$13,306</b>
<b>Commercial</b>				
Customer Bills	3,142	\$28.00	\$87,976	
Partial Bills	39	\$28.00	\$1,092	
Tariffed Rate	892,778	\$0.36000	\$321,400	
Monthly PGA Rate	892,778	\$0.43705	\$390,189	
<b>Total</b>				<b>\$800,657</b>
<b>Total - All Classes</b>				<b>\$3,277,141</b>
<b>Total Non-gas cost revenue</b>				<b>\$2,022,148</b>

Customer Bill Estimates

Residential	Therms	Current Rates	Company Proposed Rates	Staff Proposed Rates	Staff Tiered Rate Alternative	Increase Company Proposed Rates	Increase Staff Proposed Rates	Increase Staff Tiered Rate Alternative	Percent Increase	Percent Increase	Percent Increase
									Company Proposed Rates	Staff Proposed Rates	Staff Tiered Rate Alternative
	5	\$16.91	\$20.16	\$19.08	\$18.89	\$3.25	\$2.17	\$1.98	19.2%	12.8%	11.7%
	10	\$20.82	\$24.07	\$23.15	\$22.77	\$3.25	\$2.33	\$1.95	15.6%	11.2%	9.4%
	15	\$24.73	\$27.98	\$27.23	\$26.66	\$3.25	\$2.50	\$1.93	13.1%	10.1%	7.8%
	20	\$28.64	\$31.89	\$31.30	\$30.54	\$3.25	\$2.66	\$1.90	11.3%	9.3%	6.6%
	25	\$32.55	\$35.80	\$35.38	\$34.43	\$3.25	\$2.83	\$1.88	10.0%	8.7%	5.8%
	30	\$36.46	\$39.71	\$39.45	\$38.31	\$3.25	\$2.99	\$1.85	8.9%	8.2%	5.1%
	34 annual mean	\$39.59	\$42.84	\$42.71	\$41.42	\$3.25	\$3.12	\$1.83	8.2%	7.9%	4.6%
	40	\$44.28	\$47.53	\$47.60	\$46.08	\$3.25	\$3.32	\$1.80	7.3%	7.5%	4.1%
	50	\$52.10	\$55.35	\$55.75	\$53.85	\$3.25	\$3.65	\$1.75	6.2%	7.0%	3.4%
	75	\$71.65	\$74.90	\$76.13	\$74.78	\$3.25	\$4.47	\$3.13	4.5%	6.2%	4.4%
	84 January mean	\$78.69	\$81.94	\$83.46	\$82.31	\$3.25	\$4.77	\$3.62	4.1%	6.1%	4.6%
	100	\$91.21	\$94.46	\$96.51	\$95.71	\$3.25	\$5.30	\$4.50	3.6%	5.8%	4.9%
	150	\$130.31	\$133.56	\$137.26	\$137.56	\$3.25	\$6.95	\$7.25	2.5%	5.3%	5.6%
	200	\$169.41	\$172.66	\$178.01	\$179.41	\$3.25	\$8.60	\$10.00	1.9%	5.1%	5.9%
	300	\$247.62	\$250.87	\$259.52	\$263.12	\$3.25	\$11.90	\$15.50	1.3%	4.8%	6.3%
	500	\$404.03	\$407.28	\$422.53	\$430.53	\$3.25	\$18.50	\$26.50	0.8%	4.6%	6.6%
	1000	\$795.05	\$798.30	\$830.05	\$849.05	\$3.25	\$35.00	\$54.00	0.4%	4.4%	6.8%
<b>Irrigation</b>											
	10	\$26.97	\$32.22	\$30.17	\$30.17	\$5.25	\$3.20	\$3.20	19.5%	11.9%	11.9%
	25	\$35.93	\$41.18	\$39.43	\$39.43	\$5.25	\$3.50	\$3.50	14.6%	9.7%	9.7%
	50	\$50.85	\$56.10	\$54.85	\$54.85	\$5.25	\$4.00	\$4.00	10.3%	7.9%	7.9%
	75	\$65.78	\$71.03	\$70.28	\$70.28	\$5.25	\$4.50	\$4.50	8.0%	6.8%	6.8%
	100	\$80.71	\$85.96	\$85.71	\$85.71	\$5.25	\$5.00	\$5.00	6.5%	6.2%	6.2%
	200	\$140.41	\$145.66	\$147.41	\$147.41	\$5.25	\$7.00	\$7.00	3.7%	5.0%	5.0%
	201 annual mean	\$141.01	\$146.26	\$148.03	\$148.03	\$5.25	\$7.02	\$7.02	3.7%	5.0%	5.0%
	300	\$200.12	\$205.37	\$209.12	\$209.12	\$5.25	\$9.00	\$9.00	2.6%	4.5%	4.5%
	329 August mean	\$217.43	\$222.68	\$227.01	\$227.01	\$5.25	\$9.58	\$9.58	2.4%	4.4%	4.4%
	400	\$259.82	\$265.07	\$270.82	\$270.82	\$5.25	\$11.00	\$11.00	2.0%	4.2%	4.2%
	500	\$319.53	\$324.78	\$332.53	\$332.53	\$5.25	\$13.00	\$13.00	1.6%	4.1%	4.1%
	750	\$468.79	\$474.04	\$486.79	\$486.79	\$5.25	\$18.00	\$18.00	1.1%	3.8%	3.8%
<b>Commercial</b>											
	10	\$31.78	\$37.78	\$35.97	\$35.97	\$6.00	\$4.19	\$4.19	18.9%	13.2%	13.2%
	20	\$39.56	\$45.56	\$43.94	\$43.94	\$6.00	\$4.38	\$4.38	15.2%	11.1%	11.1%
	50	\$62.90	\$68.90	\$67.85	\$67.85	\$6.00	\$4.95	\$4.95	9.5%	7.9%	7.9%
	100	\$101.81	\$107.81	\$107.71	\$107.71	\$6.00	\$5.90	\$5.90	5.9%	5.8%	5.8%
	150	\$140.71	\$146.71	\$147.56	\$147.56	\$6.00	\$6.85	\$6.85	4.3%	4.9%	4.9%
	200	\$179.61	\$185.61	\$187.41	\$187.41	\$6.00	\$7.80	\$7.80	3.3%	4.3%	4.3%
	281 annual mean	\$242.63	\$248.63	\$251.97	\$251.97	\$6.00	\$9.34	\$9.34	2.5%	3.8%	3.8%
	400	\$335.22	\$341.22	\$346.82	\$346.82	\$6.00	\$11.60	\$11.60	1.8%	3.5%	3.5%
	500	\$413.03	\$419.03	\$426.53	\$426.53	\$6.00	\$13.50	\$13.50	1.5%	3.3%	3.3%
	637 January mean	\$519.62	\$525.62	\$535.72	\$535.72	\$6.00	\$16.10	\$16.10	1.2%	3.1%	3.1%
	750	\$607.54	\$613.54	\$625.79	\$625.79	\$6.00	\$18.25	\$18.25	1.0%	3.0%	3.0%
	1000	\$802.05	\$808.05	\$825.05	\$825.05	\$6.00	\$23.00	\$23.00	0.7%	2.9%	2.9%
	1500	\$1,191.08	\$1,197.08	\$1,223.58	\$1,223.58	\$6.00	\$32.50	\$32.50	0.5%	2.7%	2.7%
	2000	\$1,580.10	\$1,586.10	\$1,622.10	\$1,622.10	\$6.00	\$42.00	\$42.00	0.4%	2.7%	2.7%
	3000	\$2,358.15	\$2,364.15	\$2,419.15	\$2,419.15	\$6.00	\$61.00	\$61.00	0.3%	2.6%	2.6%

Assumes constant cost of gas of \$0.43075 per therm

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 APPROVAL OF A RATE )  
INCREASE )  
\_\_\_\_\_)

DIRECT  
TESTIMONY  
OF  
PREM K. BAHL  
ELECTRIC UTILITIES ENGINEER  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

FEBRUARY 21, 2013

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III. ALLOCATION OF DISTRIBUTION MAINS AND SERVICES .....	5
IV. CONCLUSIONS AND RECOMMENDATIONS.....	7

**EXHIBIT 1**

**(COST OF SERVICE SCHEDULES G-1 THRU G-8)**

Cost of Service Summary – Present Rates.....	Schedule G-1
Cost of Service Summary – Proposed Rates.....	Schedule G-2
Unit Costs.....	Schedule G-3
Allocation of Rate Base .....	Schedule G-4
Allocation of Income Statement .....	Schedule G-5
Function of Rate Base Components.....	Schedule G-6
Function of Operating Expenses.....	Schedule G-7
Allocation Factors.....	Schedule G-8

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

Prem Bahl's testimony discusses Utilities Division Staff's ("Staff") review of Graham County Utilities Inc., Gas Division's ("Graham") Cost of Service Study ("COSS") for the rate case filed with the Arizona Corporation Commission ("Commission"), and presents the results of Staff's analysis.

Based on its review of Graham's COSS, Staff's conclusions and recommendations are as follows:

1. It is Staff's conclusion that Graham performed the COSS consistent with the methodology generally accepted in the industry, and developed most of the allocation factors appropriately. Certain allocation factors were modified by Staff, as discussed in Staff's testimony.
2. Staff further concludes that, based on the evaluation of the COSS model utilized by Graham and the changes Staff made in the allocation factors, the results of the COSS are satisfactory.
3. Staff recommends that Graham make the following changes in the COSS allocation factors.
  - F3 ~ Distribution Mains should be allocated 100 percent to Demand. On G-6, F3 should be changed from 50 percent Demand and 50 percent Weighted Customers (weighted according to installation and meter reading costs) to 100 percent Demand.
  - F3a ~ for Mains & Services should be changed from 50 percent Demand and 50 percent Weighted Customers to 70.84 percent Demand and 29.16 percent Weighted Customers, based on actual plant in service.
  - F6 ~ On Schedule G-7, F6 was mis-labeled, representing Meter Reading Expenses, and Meter Reading & installation. It should be designated as F6a, and should be changed to 53.40 percent Weighted Customers and 46.60 percent Customers.
  - F6a ~ On Schedule G-8, F6a should be changed from 100 percent Customers to 53.40 percent Weighted Customers and 46.60 percent Customers.
  - F7 allocating Depreciation on Mains to 50 percent Demand and 50 percent Weighted Customers should be changed to 47.26 percent Demand and 52.74 percent Weighted Customers.

- D-1 ~ On Schedule G-8, for Winter Peak Demand, replace 0.00 percent by 100 percent under the column entitled "Total."
4. Staff further recommends that Graham continue to utilize the current COSS model, including the revised allocation factors for allocating expenditures, including the ones associated with Distribution Mains and Distribution Mains and Services in all future rate cases.
  5. Staff further recommends that Graham's COSS cost allocations and factors be accepted with Staff's above noted allocation factor revisions, which are reflected in Staff's COSS G-Schedules under attached Exhibit 1.

1 **I. INTRODUCTION**

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

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

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

7 A. I am employed by the Arizona Corporation Commission ("Commission") as an Electric  
8 Utilities Engineer.

9  
10 **Q. Please describe your educational background.**

11 A. I graduated from the South Dakota State University with a Master's degree in Electrical  
12 Engineering in May 1972. I received my Professional Engineering ("P.E.") License in the  
13 state of Arizona in 1978. My Bachelor of Science degree in Electrical Engineering was  
14 from the Agra University, India, in 1957.

15  
16 **Q. Please describe your pertinent work experience.**

17 I worked at the Arizona Corporation Commission from 1988 to 1998 as a Utilities  
18 Consultant, and have subsequently been re-employed at the Commission as an Electric  
19 Utilities Engineer since June 2002 until the present time. Since rejoining the Commission,  
20 I have reviewed utilities' load curtailment plans; coordinated with the Commission  
21 Consultants to hold ten workshops to report on the second through the sixth Biennial  
22 Transmission Assessments ("BTA") for Arizona. I have also worked on compliance of  
23 Certificates of Environmental Compatibility including Harquahala, Panda Gila River, Red  
24 Hawk, Northern Arizona Project, and Coolidge power plants. In 2004, I testified in the  
25 line siting cases of TEP's 138 kV Robert Bills-Wilmont Substation and Trico Electric  
26 Cooperative's 115 kV Sandario Project. In 2007 and 2008, I testified in the Palo Verde to

1 North Gila 500 kV project, 138 kV Vail to Cienega project and the Coolidge Station  
2 project.

3  
4 During this time period of over twenty years at the Commission, I conducted engineering  
5 evaluations of electric utility rate cases and financing cases, such as those pertaining to  
6 Arizona Public Service Company, Tucson Electric Company ("TEP"), Salt River Project,  
7 Southwest Gas Company, Trico Electric Cooperative, Duncan Valley Electric  
8 Cooperative; Sulphur Springs Valley Electric Cooperative ("SSVEC"), Graham County  
9 Electric Cooperative ("GCEC"), and Graham County Utilities, Inc., Gas Division  
10 ("Graham") and Navopache Electric, Inc. ("NEC").

11  
12 I inspected utility power plants including the Palo Verde Nuclear Generating Station. I  
13 was involved with the development of retail competition in Arizona and of DesertStar, an  
14 Independent System Operator ("ISO") for the desert southwest region. I was Chairman of  
15 the System Reliability Working Group, which evaluated the impact of competition on  
16 system reliability and recommended the establishment of the Arizona Independent System  
17 Administrator ("AISA") as an interim organization until commercial operation of  
18 DesertStar, which later evolved into WestConnect, a pseudo Regional Transmission  
19 Operator ("RTO").

20  
21 From July 2001 to June 2002, I had my own consulting engineering firm, named P. K.  
22 Bahl & Associates. During that time, I was involved with deregulation of the electric  
23 power industry and the formation of RTO's, addressing the planning, congestion  
24 management, business practices and market monitoring activities of the then Northwest  
25 RTO and the MidWest ISO.

1 From July 1998 to August 2000, I worked as Chief Engineer at the Residential Utility  
2 Consumer Office. During that time period, I performed many of the duties I performed at  
3 the Commission. I was also involved with the Distributed Generation Work Group that  
4 looked at the impact of the development of distributed generation in Arizona on system  
5 reliability, and modifications to interconnection standards currently specified by the  
6 jurisdictional utilities. I was a member of the AISA Board of Directors from September  
7 1999 until June 2000. I was involved in the deliberations of the Market Interface  
8 Committee of the North American Electric Reliability Council ("NERC"). I also  
9 published and presented a number of technical papers at national and international  
10 conferences regarding transmission issues and distributed generation during the last thirty  
11 years.

12  
13 Prior to my employment with the Commission, I worked as an electrical engineer with  
14 electric utilities and consulting firms in the transmission and generation planning areas for  
15 approximately thirty two years, including ten years' experience at the Punjab State  
16 Electricity Board ("PSEB") in India from 1960 to 1970. I worked as Executive Engineer  
17 at the PSEB from 1968 to 1970 prior to coming to the United States in 1970.

18  
19 **Q. As part of your assigned duties at the Commission, did you perform an analysis of**  
20 **the application that is the subject of this proceeding?**

21 **A.** Yes, I did.

22  
23 **Q. Is your testimony herein based on that analysis?**

24 **A.** Yes, it is.

1 **Q. What is the purpose of your Direct Testimony?**

2 A. The purpose of my testimony is to discuss Staff's review of Graham County Utilities, Inc.  
3 Gas Division ("Graham") Cost of Service Study ("COSS") for the rate case, and present  
4 the results of this review.  
5

6 **II. COST OF SERVICE STUDY - REVIEW PROCESS**

7 **Q. What does the COSS signify?**

8 A. There are three steps in performing a COSS. They are: 1) functionalization; 2)  
9 classification; and 3) allocation. First, the COSS enables us to determine the system cost  
10 of service by classifying the utility's costs (investments and expenses) by function, such as  
11 customer-related, demand-related, and commodity-related functions. Second, the study  
12 breaks down these costs by customer classes to reflect as closely as possible the cost  
13 causation by respective customer classes. Third, the results of the COSS provide a  
14 benchmark for the revenues needed from each customer category by appropriately  
15 allocating the revenue requirement for each customer class.  
16

17 **Q. Is there a standard COSS model?**

18 A. There is no standard methodology for designing a COSS, but it is generally advisable to  
19 follow a range of alternatives to identify which allocations are more reasonable than  
20 others. For that reason, the COSS should be used as a general guide only and as one of  
21 many considerations in designing rates.  
22

23 **Q. Did Staff conduct a separate independent COSS?**

24 A. No. Staff did not conduct a separate independent COSS. Staff reviewed the COSS  
25 performed by Graham. Staff made some corrections in certain allocation factors in  
26 Schedules G-6 and G-8. The revised Schedule G-8 resulted in changes in other G

1 Schedules, such as G-1, G-2, G-6 and G-7. The results of Staff's COSS are attached to  
2 this testimony as Schedules G-1 thru G-8 under Exhibit 1.

3  
4 **Q. What was the process Staff used in reviewing Graham's COSS?**

5 **A.** First, I reviewed the G Schedules reflecting various allocation factors in the COSS.

6 Second, I reviewed the Test Year ("FYE September 30, 2011") rate base, revenues and  
7 expenses in the filed rate case.

8  
9 **III. ALLOCATION OF DISTRIBUTION MAINS AND SERVICES**

10 **Q. What comments does Staff have regarding Graham's allocation of Distribution**  
11 **Mains and Distribution Mains and Services?**

12 **A.** Although, in Schedule G-8, the allocation factor F3 for Distribution Mains is 100 percent  
13 according to Demand, it was incorrectly applied in Schedule G-6 as 50 percent Demand  
14 and 50 percent Weighted Customers. It was corrected to 100 percent Demand.

15  
16 In reference to the cost of Distribution Plant shown in Schedule G-6, the cost of  
17 Distribution Mains is \$2,209,733, and the cost of Services is \$909,642, resulting in their  
18 total cost of \$3,119,375. Per Allocation Factor F3a, Graham allocated the cost of  
19 Distribution Mains and Services to 50 percent Demand, and the other 50 percent to the  
20 number of Weighted Customers. Staff corrected this allocation to 70.84 percent Demand  
21 and 29.1 percent Weighted Customers in proportion to the cost of Distribution Mains and  
22 Services stated above.

23  
24 Application of factor F3a also impacted the Distribution Operating Expenses for  
25 Distribution Mains and Services in Schedule G-7, changing from 50 percent Demand and

1           50 percent Weighted Customers, respectively, to 70.84 percent Demand and 29.1 percent  
2           Weighted Customers.

3    **Q.    Did Staff make any other change in Graham's allocation factors?**

4    **A.    Yes, Staff made the following additional changes and corrections in the COSS allocation**  
5           **factors.**

6  
7                   •       F6 ~ On Schedule G-7, F6 was mis-labeled, representing Meter Reading  
8                           Expenses, and Meter Reading & installation. It should be designated as  
9                           F6a, because it was derived and calculated differently from F6. It was  
10                          changed to 53.40 percent Weighted Customers and 46.60 percent  
11                          Customers.

12  
13                   •       F6a ~ On Schedule G-8, F6a should be changed from 100 percent  
14                           Customers to 53.40 percent Weighted Customers and 46.60 percent  
15                           Customers.

16  
17                   •       F7 was not calculated correctly in terms of allocating Depreciation on  
18                           Mains according to 50 percent Demand and 50 percent Weighted  
19                           Customers. F7 was changed to 47.26 percent Demand and 52.74 percent  
20                           Weighted Customers.

21  
22                   •       D-1 ~ On Schedule G-8, for Winter Peak Demand, replace 0.00 percent by  
23                           100 percent under the column entitled "Total."

24

1 **Q. What is the effect of the above-noted changes In Allocation Factors?**

2 A. These changes in the above noted allocation factors resulted in shifting of rate base from  
3 residential and irrigation customers to commercial customers. A corresponding shift of  
4 Operating expenses incurred from residential and irrigation customers to commercial  
5 customers. These shifts resulted in an increase in the rate of return on rate base for  
6 residential and irrigation customers and a decrease in the rate of return on rate base for  
7 commercial customers.

8  
9 **IV. CONCLUSIONS AND RECOMMENDATIONS**

10 **Q. Based upon your testimony, what are Staff's conclusions and recommendations**  
11 **regarding the COS study?**

12 A. Based on the review of Graham's COSS, Staff's conclusions and recommendations are as  
13 follows:

14  
15 1. It is Staff's conclusion that Graham performed the COSS consistent with the  
16 methodology generally accepted in the industry, and developed the allocation  
17 factors appropriately, except for certain allocation factors, which were modified by  
18 Staff.

19  
20 2. Staff further concludes that, based on the evaluation of the COSS model utilized  
21 by Graham and the changes Staff made in the allocation factors stated above, the  
22 results of the COSS are satisfactory.

23  
24 3. Staff recommends that Graham make the following changes in the COSS  
25 allocation factors.

- 1                   •     F3 ~ Distribution Mains should be allocated 100 percent to Demand. On  
2                   Schedule G-6, F3 should be changed from 50 percent Demand and 50  
3                   percent Weighted Customers to 100 percent Demand.  
4  
5                   •     F3a ~ for Mains & Services should be changed from 50 percent Demand  
6                   and 50 percent Weighted Customers to 70.84 percent Demand and 29.16  
7                   percent Weighted Customers, based on actual plant in service.  
8  
9                   •     F6 ~ On Schedule G-7, F6, representing Meter Reading Expenses and  
10                  Meter Reading & installation, should be designated as F6a, and changed to  
11                  53.40 percent Weighted Customers and 46.60 percent Customers.  
12  
13                  •     F6a ~ On Schedule G-8, F6a should be changed from 100 percent  
14                  Customers to 53.40 percent Weighted Customers and 46.60 percent  
15                  Customers.  
16  
17                  •     F7 ~ allocating Depreciation on Mains should be corrected from 50 percent  
18                  Demand and 50 percent Weighted Customers to 47.26 percent Demand and  
19                  52.74 percent Weighted Customers.  
20  
21                  •     D-1 ~ On Schedule G-8, for Winter Peak Demand, replace 0.00 percent by  
22                  100 percent under the column entitled "Total."  
23  
24                  4.     Staff further recommends that Graham should continue to utilize the current COSS  
25                  model, including the revised allocation factors in Schedule G-8 in all future rate  
26                  cases.

1           5.       Staff further recommends that Graham's COSS cost allocations and factors be  
2                   accepted with Staff's above noted revisions, which are reflected in Staff's COSS  
3                   G-Schedules under attached Exhibit 1.

4  
5       **Q.       Does this conclude your Direct Testimony?**

6       **A.       Yes it does.**

**EXHIBIT 1**

**Graham County Utilities, Inc. Gas Division**  
**Cost of Service Schedules G-1 Through G-8**

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COST OF SERVICE SUMMARY - PRESENT RATES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b>Operating Revenues</b>	<b>3,242,352</b>	<b>2,421,838</b>	<b>808,496</b>	<b>12,018</b>
<b><u>Operating Expenses:</u></b>				
Purchased Gas	1,399,908	1,042,157	352,524	5,227
Distribution Expense - Operations	334,746	259,432	74,080	1,234
Distribution Expense - Maintenance	319,609	237,390	81,303	916
Customer Account Expense	323,758	302,195	20,874	689
Administrative & General Expense	434,785	357,659	75,969	1,157
Depreciation	147,629	115,055	32,013	561
Property Taxes	31,305	21,835	9,417	53
Tax Expense - Other	59,036	48,564	10,315	157
Interest Expense -Other	44,041	41,666	2,306	69
<b>Total Operation Expenses</b>	<b>3,094,817</b>	<b>2,425,953</b>	<b>658,801</b>	<b>10,063</b>
<b>Operating Income (Loss)</b>	<b>147,535</b>	<b>(4,115)</b>	<b>149,695</b>	<b>1,955</b>
<b>Rate Base</b>	<b>2,514,450</b>	<b>1,925,733</b>	<b>580,070</b>	<b>8,647</b>
<b>% Return - Present Rates</b>	<b>5.87%</b>	<b>-0.21%</b>	<b>25.81%</b>	<b>22.61%</b>
<b>Return Index</b>	<b>1.00</b>	<b>(0.04)</b>	<b>4.40</b>	<b>3.85</b>
<b>Allocated Interest - Long-Term</b>	<b>112,205</b>	<b>85,934</b>	<b>25,885</b>	<b>386</b>
<b>Operating TIER - Present Rates</b>	<b>1.31</b>	<b>(0.05)</b>	<b>5.78</b>	<b>5.07</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COST OF SERVICE SUMMARY - PROPOSED RATES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b>Operating Revenues</b>	<b>3,466,484</b>	<b>2,613,913</b>	<b>838,425</b>	<b>14,147</b>
<b><u>Operating Expenses:</u></b>				
Purchased Gas	1,399,908	1,042,157	352,524	5,227
Distribution Expense - Operations	334,746	259,432	74,080	1,234
Distribution Expense - Maintenance	319,609	237,390	81,303	916
Customer Account Expense	323,758	302,195	20,874	689
Administrative & General Expense	434,785	357,659	75,969	1,157
Depreciation	147,629	115,055	32,013	561
Property Taxes	31,305	21,835	9,417	53
Tax Expense - Other	59,036	48,564	10,315	157
Interest Expense -Other	44,041	41,666	2,306	69
<b>Total Operation Expenses</b>	<b>3,094,817</b>	<b>2,425,953</b>	<b>658,801</b>	<b>10,063</b>
<b>Operating Income (Loss)</b>	<b>371,667</b>	<b>187,960</b>	<b>179,624</b>	<b>4,084</b>
<b>Rate Base</b>	<b>2,514,450</b>	<b>1,925,733</b>	<b>580,070</b>	<b>8,647</b>
<b>% Return - Proposed Rates</b>	<b>14.78%</b>	<b>9.76%</b>	<b>30.97%</b>	<b>47.23%</b>
<b>Return Index</b>	<b>1.00</b>	<b>0.66</b>	<b>2.09</b>	<b>3.20</b>
<b>Allocated Interest - Long-Term</b>	<b>112,205</b>	<b>85,934</b>	<b>25,885</b>	<b>386</b>
<b>Operating TIER - Proposed Rates</b>	<b>3.31</b>	<b>2.19</b>	<b>6.94</b>	<b>10.58</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**  
**UNIT COSTS**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b><u>UNIT COSTS - PRESENT RATES:</u></b>				
<b><u>DEMAND</u></b>				
Amount	703,158	563,186	138,895	1,076
Bills	61,183	57,912	3,181	90
Therms	2,871,512	1,960,668	892,780	18,064
Per Bill	11.49	9.72	43.66	11.96
Per Therms	0.2449	0.2872	0.1556	0.0596
<b><u>COMMODITY:</u></b>				
Amount	1,482,048	1,011,943	460,782	9,323
Per Therms	0.4875	0.4875	0.4875	0.4875
<b><u>CUSTOMER:</u></b>				
Amount	1,057,146	846,709	208,819	1,618
Per Bill	17.28	14.62	65.65	17.98
<b><u>UNIT COSTS - PROPOSED RATES:</u></b>				
<b><u>DEMAND</u></b>				
Amount	792,688	634,894	156,580	1,213
Per Bill	73.67	10.96	49.22	13.48
Per Therms	0.5664	0.3238	0.1754	0.0672
<b><u>COMMODITY:</u></b>				
Amount	1,482,048	1,011,943	460,782	9,323
Per Therms	0.4875	0.4875	0.4875	0.4875
<b><u>CUSTOMER:</u></b>				
Amount	1,191,748	954,517	235,407	1,824
Per Bill	110.76	16.48	74.00	20.27

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION OF RATE BASE**

<u>DESCRIPTION</u>	<u>FACTOR</u>	<u>CONSUMER CLASS</u>			
		<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b><u>GROSS PLANT IN SERVICE:</u></b>					
Demand	D-1	2,344,442	1,635,190	705,231	4,021
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	2,289,800	1,952,591	324,232	12,977
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>4,634,242</b>	<b>3,587,781</b>	<b>1,029,463</b>	<b>16,998</b>
<b><u>ACCUMULATED DEPRECIATION:</u></b>					
Demand	D-1	1,087,187	758,286	327,037	1,864
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	1,213,119	1,034,468	171,776	6,875
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>2,300,306</b>	<b>1,792,754</b>	<b>498,813</b>	<b>8,739</b>
<b><u>NET PLANT IN SERVICE</u></b>		<b><u>2,333,936</u></b>	<b><u>1,795,027</u></b>	<b><u>530,650</u></b>	<b><u>8,259</u></b>
<b><u>CWIP:</u></b>					
Demand	D-1	107,028	74,649	32,195	184
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	104,531	89,137	14,802	592
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>211,559</b>	<b>163,786</b>	<b>46,997</b>	<b>776</b>
<b><u>WORKING CAPITAL:</u></b>					
Demand	D-1	46,625	32,520	14,025	80
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	(17,800)	(15,179)	(2,520)	(101)
Customer - Unweighted	C-2	6,775	6,409	355	11
<b>Total</b>		<b>35,600</b>	<b>23,750</b>	<b>11,860</b>	<b>(10)</b>
<b>LESS:</b>					
CONSUMER DEPOSITS	C-1	66,645	56,830	9,437	378
<b>TOTAL RATE BASE</b>		<b><u>2,514,450</u></b>	<b><u>1,925,733</u></b>	<b><u>580,070</u></b>	<b><u>8,647</u></b>

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION OF INCOME STATEMENT

DESCRIPTION	FACTOR	CONSUMER CLASS (PRESENT)				CONSUMER CLASS (PROPOSED)			
		TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
<b>REVENUES:</b>									
Gas Sales - Adjusted		3,202,309	2,383,955	806,399	11,955	3,426,441	2,576,030	836,328	14,084
Service Charges & Other Revenues	C-2	40,043	37,883	2,097	63	40,043	37,883	2,097	63
<b>Total</b>		<b>3,242,352</b>	<b>2,421,838</b>	<b>808,496</b>	<b>12,018</b>	<b>3,466,484</b>	<b>2,613,913</b>	<b>838,425</b>	<b>14,147</b>
<b>OPERATING EXPENSE:</b>									
<b>Purchased Gas</b>	CM-1	<b>1,399,908</b>	<b>1,042,157</b>	<b>352,524</b>	<b>5,227</b>				
<b>Distribution Expense - Operations:</b>									
Demand	D-1	167,577	116,881	50,409	287				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	167,169	142,551	23,671	947				
Customer - Unweighted	C-2	-	-	-	-				
<b>Total</b>		<b>334,746</b>	<b>259,432</b>	<b>74,080</b>	<b>1,234</b>				
<b>Distribution Expense - Maintenance:</b>									
Demand	D-1	226,408	157,914	68,106	388				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	93,201	79,476	13,197	528				
Customer - Unweighted	C-2	-	-	-	-				
<b>Total</b>		<b>319,609</b>	<b>237,390</b>	<b>81,303</b>	<b>916</b>				
<b>Customer Accounts Expense:</b>									
Demand	D-1	-	-	-	-				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	-	-	-	-				
Customer - Unweighted	C-2	323,758	302,195	20,874	689				
<b>Total</b>		<b>323,758</b>	<b>302,195</b>	<b>20,874</b>	<b>689</b>				
<b>Admin. &amp; General Expense:</b>									
Demand	D-1	174,754	121,886	52,568	300				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	109,656	93,508	15,527	621				
Customer - Unweighted	C-2	150,375	142,265	7,874	236				
<b>Total</b>		<b>434,785</b>	<b>357,659</b>	<b>75,969</b>	<b>1,157</b>				





**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION FACTORS**

<u>FUNCTION FACTOR</u>	<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>DEMAND</u>	<u>COMMODITY</u>	<u>WEIGHTED CUSTOMER</u>	<u>CUSTOMER</u>
F-1	Demand	100.00%	100.00%			
F-2	Commodity	100.00%		100.00%		
F-3	Distribution Mains	100.00%	100.00%			
F-3a	Mains & Services	100.00%	70.84%		29.16%	
F-4	Services	100.00%			100.00%	
F-5	Meters & regulators	100.00%			100.00%	
F-6	Customer Accounts	100.00%				100.00%
F-6a	Customer Weighted/Customer	100.00%			53.40%	46.60%

**DERIVED  
FUNCTION  
FACTOR**

<u>FACTOR</u>	<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>DEMAND</u>	<u>COMMODITY</u>	<u>WEIGHTED CUSTOMER</u>	<u>CUSTOMER</u>
F-7	Gross Plant in Service	100.00%	47.26%		52.74%	
F-8	Salaries & Wages	100.00%	40.19%	0.00%	25.22%	34.59%
F-9	O & M Less Purchased gas	100.04%	39.96%	0.00%	30.88%	29.20%

**CLASS  
ALLOCATION  
FACTORS**

<u>FACTORS</u>	<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>CUSTOMER CLASS</u>		
			<u>RESID.</u>	<u>COMM.</u>	<u>IRRIG.</u>
D-1	Winter Peak Demand	100.000%	69.748%	30.081%	0.171%
CM-1	Commodity	100.000%	74.445%	25.182%	0.373%
C-1	Customer - Weighted	100.000%	85.273%	14.160%	0.567%
C-2	Customer - Unweighted	100.000%	94.606%	5.237%	0.157%

BEFORE THE ARIZONA CORPORATION COMMISSION

LEGAL

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COMMISSIONERS

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

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AZ CORP 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 22<sup>nd</sup> 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  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
22<sup>nd</sup> day of March 2013 with:

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

**EXHIBIT**  
5-31  
**ADMITTED**

1 Copy of the foregoing mailed this  
22<sup>nd</sup> day of March 2013 to:

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

6 Kirk Gray  
7 Steve Lines  
8 Graham County Electric Cooperative, Inc.  
9 Post Office Drawer B  
10 Pima, Arizona 85543

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Kayla Christine

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

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**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 ) DOCKET NO. G-02527A-12-0321  
GRAHAM COUNTY UTILITIES, INC. (GAS )  
DIVISION) FOR APPROVAL OF A RATE )  
INCREASE )  
\_\_\_\_\_ )

SURREBUTTAL

TESTIMONY

OF

ROBERT G. GRAY

EXECUTIVE CONSULTANT III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 22, 2013

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**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.**

BEFORE THE ARIZONA CORPORATION COMMISSION

LEGAL

**COMMISSIONERS**

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

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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

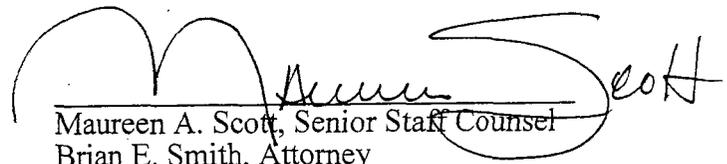
IN THE MATTER OF THE APPLICATION OF  
OF GRAHAM COUNTY UTILITIES, INC.  
GAS DIVISION FOR APPROVAL OF A  
LOAN.

DOCKET NO. G-02527A-13-0023

**STAFF'S NOTICE OF FILING  
SUPPLEMENTAL SURREBUTTAL  
TESTIMONY OF BRIAN K. BOZZO**

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

RESPECTFULLY SUBMITTED this 27<sup>th</sup> 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  
(602) 542-3402

Original and thirteen (13) copies  
of the foregoing filed this  
27<sup>th</sup> day of March 2013 with:

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

**EXHIBIT**  
5-4  
**ADMITTED**

1 Copy of the foregoing mailed this  
27<sup>th</sup> day of March 2013 to:

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

6 Kirk Gray  
7 Steve Lines  
8 Graham County Electric Cooperative, Inc.  
9 Post Office Drawer B  
10 Pima, Arizona 85543

11 *Kayla Christine*

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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

SUPPLEMENTAL SURREBUTTAL

TESTIMONY

OF

BRIAN K. BOZZO

COMPLIANCE AND ENFORCEMENT MANAGER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 27, 2013

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1 **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. Did you previously file Direct and Surrebuttal Testimony in this proceeding?**

13 A. Yes.

14  
15 **Q. Did your Surrebuttal Testimony refer to a \$500,000 Line of Credit ("LOC")  
16 proposed by the Company in its February 7, 2013 financing application?**

17 A. Yes. Staff now supplements its Surrebuttal Testimony with specific LOC testimony and a  
18 format for a LOC reporting mechanism.

19  
20 **Q. And is the LOC reporting mechanism shown as an exhibit?**

21 A. Yes. A format for the LOC reporting mechanism is shown in Exhibit A.

22  
23 **Q. How is your supplemental testimony organized?**

24 A. My Supplemental Testimony is composed in specific sections:

- 25  
26
- Section I is composed of this introduction.

- 1           •       Section II provides testimony and recommendation on the Company proposed  
2                    LOC.

3  
4       **COMPANY PROPOSED LINE OF CREDIT**

5       **Q.     Please discuss the line of credit proposed in the Company's Financing application.**

6       A.     The Company's financing application seeks authorization to establish a \$500,000 LOC  
7           with Graham County Electric Cooperative, Inc. ("Graham Electric") to address future  
8           capital needs. The Company seeks the \$500,000 LOC with no maturity date and with "a  
9           variable interest rate equal to the rate charged by the National Rural Cooperative Finance  
10          Corporation ("CFC") for an intermediate LOC (currently approximately 2.9 percent)."

11  
12       **Q.     What are Staff's comments regarding the Company's proposed LOC terms?**

13       A.     Staff agrees with the Company's proposal for a LOC in the amount of \$500,000 with a  
14           variable interest rate equal to the market rate available by the CFC (or equivalent  
15           provider) for an intermediate LOC. As to the maturity date, Staff concludes that a lack of  
16           maturity date would provide inadequate regulatory oversight of the LOC. Instead, Staff  
17           concludes that the appropriate term for any LOC authorized in this proceeding is until a  
18           decision is rendered in the Company's next rate case at which time the LOC will be re-  
19           evaluated.

20  
21       **Q.     What are appropriate purposes for use of the LOC?**

22       A.     Appropriate purposes for use of the LOC are discussed on pages 15 and 16 of my Direct  
23           Testimony. In summary, the LOC should be used for funding an under-collected  
24           purchased gas balance, construction work in progress, bridge financing (temporary  
25           financing until long-term financing can be used efficiently) for capital improvements and

1 seasonal, but not long-term (i.e., exceeding 12 months) cash shortfalls for Operations &  
2 Maintenance expenses ("O&M").  
3

4 **Q. How will the LOC reporting mechanism assist the Company in complying with**  
5 **A.R.S § 40-301?**

6 A. Currently, the Company's best and perhaps only option for funding capital improvements,  
7 under-collected gas purchases, and seasonal cash shortfalls is to obtain advances from  
8 Graham Electric. However, when these advances from Graham Electric remain  
9 outstanding for longer than 12 months, the Company is not in compliance with A.R.S §  
10 40-301 because it has not obtained Commission authorization for the advances as required  
11 by the statute. By authorizing the LOC, the Commission will provide the requisite  
12 authorization for appropriate uses. Staff concludes that a LOC, when properly used, is an  
13 appropriate form of financing for the Company.  
14

15 **Q. Has Staff developed a method to assist the Company in staying in compliance with**  
16 **A.R.S § 40-301?**

17 A. Yes. Staff developed a reporting mechanism to assist the Company's efforts to comply  
18 with A.R.S § 40-301. The reporting mechanism also provides regular, on-going  
19 regulatory oversight of the Company's compliance status.  
20

21 **Q. Has Staff discussed this compliance reporting mechanism with the Company?**

22 A. Yes. Staff developed a draft of the mechanism and refined the mechanism with the  
23 Company's input. The final mechanism is embodied in the "Line of Credit Compliance  
24 Report" which is attached to this testimony as Exhibit A. Staff shared the report with the  
25 Company and on March 19, 2013, received an e-mail stating that "GCU agrees with the  
26 LOC report that was emailed" for its review.

1 **Q. Please discuss the purpose of the Compliance report.**

2 A. The main purpose of the report is to provide a mechanism for the Company to show that it  
3 has not borrowed LOC funds for O&M costs for more than a 12-month period. The  
4 mechanism also serves to assist the Company in regularly monitoring its use of the LOC  
5 funds and in proactively managing its ability to comply with A.R.S § 40-301.

6  
7 **Q. Please describe the basics of the report.**

8 A. The Company should file the compliance report monthly as an attachment to its fuel  
9 adjustor report. As shown in Exhibit A, the report segregates the uses of the LOC funds  
10 by column in order to highlight individual uses of the LOC funds. Column A represents  
11 the total amount of the LOC dollars outstanding at the time of the report. The headings  
12 for Column B through F represent the differing purposes or uses for LOC funds:

- 13
- 14 • Under collection of the purchased gas adjustor balance.
  - 15 • Construction Work in Progress projects.
  - 16 • Plant Additions.
  - 17 • Refunds of Advance in Aid of Construction Arrearages.
  - 18 • O&M / Cash Shortfalls.

19  
20 **Q. Does Staff have any clarifying comments on the nature of the amounts to be listed in**  
21 **Column B, C, D and F of the Compliance report?**

22 A. Yes. Please see the footnoted information in the Compliance report in Exhibit A.

23  
24 **Q. What is the value in separating the various uses of the LOC funds in the report?**

25 A. While segregating the various uses of the LOC proceeds provides valuable insight into the  
26 use of the funds, its primary purpose is to allow a calculation of the amount of LOC funds,

1 if any, which were in use each month to finance O&M. The Company should not use  
2 long-term borrowing to fund O&M. By identifying the non-O&M uses of the LOC, the  
3 amount, if any, of the LOC funds used to fund O&M can be determined. Unless the  
4 Company obtains Commission authorization to use the LOC to finance O&M for periods  
5 exceeding 12 months, the amount of the LOC used for O&M should fall to zero or less at  
6 least once every 13 months.<sup>1</sup> If the amount of O&M financed by the LOC exceeds zero  
7 for 13 consecutive months, the Company is not in compliance with A.R.S § 40-301.  
8 Similarly, the purposes specified in Columns B through E of Exhibit A, both individually  
9 and collectively, require Commission approval for LOC financing for periods exceeding  
10 12 months. Thus, if the Commission authorizes use of the LOC for funding the purposes  
11 specified in Columns B through E of Exhibit A for periods exceeding 12 months, but not  
12 for O&M for periods exceeding 12 months, 13 consecutive months of amounts greater  
13 than zero in Column F would represent unauthorized use of the LOC for funding O&M.

14  
15 **Q. Has Staff determined which LOC uses it believes are generally appropriate for**  
16 **funding with LOC funds?**

17 A. Yes. Staff considers the LOC uses shown in Column B through E of the Exhibit A report  
18 to be proper and acceptable, even for more than the 12 month period outlined in A.R.S §  
19 40-301. Those LOC uses are:

- 21 • Under collection of the Purchased Gas Adjustor
- 22 • Construction Work in Progress
- 23 • Plant Additions
- 24 • Refunds of Advance in Aid of Construction Arrearages.

---

<sup>1</sup> A.R.S § 40-301 requires the Company to obtain Commission authorization for any loan amounts (including LOC funds) exceeding 12 months; however, the Company does not need Commission authorization for borrowing periods less than 12 months.

1 **Q. What does Staff therefore recommend regarding those particular LOC uses?**

2 A. Staff concludes that Commission authorization for the Company to obtain LOC loan funds  
3 for those four purposes for periods exceeding 12 months is appropriate. Such approval  
4 would allow the Company to finance any level of LOC amount for those purposes, up to  
5 and including that authorized by the Commission, and remain in compliance with A.R.S §  
6 40-301. Staff does so recommend.

7  
8 **Q. Please explain the importance of Column F in the “Line of Credit Compliance  
9 Report” i.e., Exhibit A.**

10 A. The amount shown in Column F is the amount of O&M deemed financed by the LOC. If  
11 the Commission does not authorize use of the LOC for financing O&M for periods  
12 exceeding 12 months, the amount in Column F must fall to zero or less at least once in any  
13 13 consecutive months or the Company will be out of compliance with A.R.S § 40-301.  
14 Identifying any such occurrences is the primary purpose of the report.

15  
16 **Q. How is Column F calculated in Exhibit A?**

17 A. By definition, the amount in Column F is calculated as the amount in Column A minus the  
18 amounts in Columns B, C, D and E. Column F is therefore a straight forward calculation  
19 from the amounts in the other columns. A positive value in Column F indicates that the  
20 LOC is funding O&M. An amount in Column F that is zero or negative indicates that  
21 there are no LOC funds used to O&M.

22  
23 **Q. Is it appropriate for the Company to use the LOC to fund O&M for periods of 12  
24 months or less?**

25 A. Yes. Use of the LOC to fund seasonal (i.e., short-term) cash shortfalls is a primary  
26 function of a LOC. The Company does not need Commission authority to borrow funds

1 for periods less than 12 months – only for greater than that period. Therefore, a positive  
2 balance in Column F for 13 consecutive months indicates that the Company has borrowed  
3 LOC funds for O&M for a period exceeding 12 months and is in violation of the statute.  
4 Conversely, a balance in Column F equal to or less than zero during any *one* of 13  
5 consecutive months indicates that the Company has not borrowed LOC funds for O&M  
6 exceeding 12 months for that 13 month period. In summary, Exhibit A allows the  
7 Commission to monitor the Company’s compliance with authorized and unauthorized uses  
8 of the LOC.  
9

10 **Q. Does Staff have any additional comments regarding Exhibit A?**

11 A. Yes. Exhibit A calculates whether the Company has used the LOC to fund O&M on a  
12 cumulative basis. Thus, if the Company has generated positive cash flows in previous  
13 years, it will have accumulated a negative Column F balance. In fact, if the Company  
14 generates the cash flows anticipated by recommended rates, Column F will have a  
15 negative balance in future years. Staff notes that while a negative amount in Column F  
16 indicates that the Company has not used the LOC to fund O&M, it does not mean that the  
17 Company is currently generating a positive cash flow since the Company may be drawing  
18 upon “banked” cash flows from prior periods.  
19

20 **Q. Does this conclude your Supplemental Surrebuttal Testimony?**

21 A. Yes, it does.





NEW APPLICATION ORIGINAL BEFORE THE ARIZONA CORPORATIO

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COMMISSIONERS

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

Arizona Corporation Commission

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ACCOUNTS RECEIVABLE DOCKET CONTROL

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

Graham County Utilities, Inc. ("GCU") in support of its application states as follows:

- 1. GCU is a nonprofit cooperative corporation that provides gas distribution service to approximately 5,070 customers in Graham County, Arizona.
- 2. GCU is a Class B Utility as defined by A.A.C. R14-2-103, filed herewith and incorporated by reference, are the Schedules, Direct Testimony of Mr. John V. Wallace and other materials in support of its application. GCU stipulates that Commission may use its original cost less depreciation rate base for determining a return on fair value in this application. GCU's rate relief is premised upon its Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC").
- 3. By this Application, GCU seeks a revenue increase of approximately 7 percent over current rates. The proposed revenue increase would produce a rate of return of 10.48 percent on its rate base of \$2,576,030 and would yield an operating margin of \$259,299 after interest expense.
- 4. The reasons underlying the Company's request for an overall 7 percent increase include GCEC's investment of over \$776,485 in plant improvements and replacements since September 30, 2008. Since its last test year GCU has incurred approximately \$985,487 in

1 advances of funds from Graham County Electric Cooperative, Inc. ("GCEC") to fund its  
2 investments in plant improvements.

3 5. In GCU's last rate case, the Commission authorized a 12.11 percent  
4 increase in gross annual revenues based on a test year ending September 30, 2008 (Decision No.  
5 71690, dated May 3, 2010).

6 6. For the 12 months ended September 30, 2011, the test year in this case, the  
7 present rates produced an operating margin of approximately \$35,167 after interest expense on  
8 an adjusted test year basis.

9 7. GCU's proposed \$224,132 increase in revenues produces a positive  
10 operating margin of \$259,299 after interest expense.

11 8. Given the low amount of margins that GCU is experiencing every month  
12 and GCU's current negative financial position, GCU requests that the Commission process this  
13 application and enter a decision as soon as possible. GCU has purposefully limited the number  
14 of pro forma adjustments it has made in this case in an effort to limit the issues that may arise in  
15 processing its case.

16 WHEREFORE, having fully stated its Application, GCU requests that the  
17 Commission enter its Order approving the requested rate increase, the new rates, fees and  
18 charges set forth in the Application.

19  
20 Further communications and notices concerning this Docket should be directed to:

21 John V. Wallace  
22 GCSECA  
23 2210 South Priest Drive  
24 Tempe, AZ 85282  
25 Email: [jwallace@gcseca.coop](mailto:jwallace@gcseca.coop)

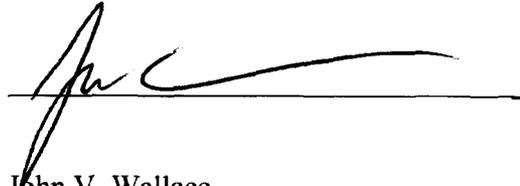
26 With a copy to:

27 Kirk Gray  
28 GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.  
P. O. Drawer B  
Pima, Arizona 85543  
Email: [kgray@gce.coop](mailto:kgray@gce.coop)

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RESPECTFULLY SUBMITTED this 13<sup>th</sup> day of July, 2012.

By



John V. Wallace  
Grand Canyon State Electric Cooperative Assn., Inc.  
Consultant for Graham County Electric Cooperative, Inc.

**Original** and thirteen (13) copies filed  
this 13<sup>th</sup> day of July, 2012, with:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

GARY PIERCE, Chairman  
BOB STUMP  
PAUL NEWMAN  
SARAH KENNEDY  
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF )  
GRAHAM COUNTY UTILITIES GAS DIVISION )  
INC. FOR A RATE INCREASE )  
 )  
 )  
\_\_\_\_\_ )

DOCKET NO. G-02527A-12-

DIRECT  
TESTIMONY  
OF  
JOHN V. WALLACE  
GRAHAM COUNTY UTILITIES, INC.  
GAS DIVISION

July 13, 2012

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**I. INTRODUCTION**

Q. Please state your name address and occupation.

A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of Grand Canyon State Electric Cooperative Association ("GCSECA"). I am filing testimony on behalf of Graham County Utilities, Inc. ("GCU" or "Cooperative").

Q. Please describe your professional qualifications and experience.

A. I have been the Director of Regulatory and Strategic Services since August 1, 2000. In this position, I am responsible for preparing rate, financial and other utility related analysis and testimony for the GCSECA member Arizona Electric Cooperatives. Before I accepted a position with GCSECA, I worked for the Arizona Corporation Commission ("ACC") for approximately 10 years. While working for the ACC, I held a number of positions within the Accounting and Rates Section of the Utilities Division of the ACC; the last of these positions was Manager, Revenue Requirements Analysis. In this capacity, I was responsible for managing six analysts and preparing staff reports and testimony on Certificate of Convenience and Necessity ("CC&N"), financing, rate and other utility matters. In addition to my work experience, I have a Masters Degree in Business Administration from the University of North Dakota.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of the applicant, GCU Gas Division. GCU Gas Division is a nonprofit cooperative corporation that provides gas service to approximately 5,070 customers in Graham County, Arizona.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

1 Q. What exhibits are you sponsoring in this case?

2 A. In addition to the schedules attached to this testimony, I am responsible for the  
3 preparation of all the test year materials contained in GCU's filing, except for the  
4 historical financial statements prepared by GCU and the report of its Certified Public  
5 Accountants. I will be referring to these materials from time to time throughout my  
6 direct testimony.

7

8 Q. What areas does your testimony address?

9 A. My testimony addresses four primary areas: revenue requirements, cost of service and  
10 class revenue allocations, rate design.

11

12 Q. Please summarize your recommendations.

13 A. The main reason underlying the Company's request for an overall 6.91 percent increase in  
14 revenues is due to the fact that since its last Test Year ending September 30, 2008, GCU  
15 has been investing over \$776,485 in plant improvements and replacements. As of  
16 September 30, 2011, GCU has incurred approximately \$985,487 in inter-company  
17 payables due to Graham County Electric Cooperative, Inc. ("GCEC") to fund its  
18 investments in plant improvements. GCU has also experienced increases in its other  
19 expenses such as salaries and benefits and purchased gas since its last Test Year. An  
20 increase of this magnitude is needed to eliminate negative margins produced by the  
21 current rates, to provide adequate interest and debt service coverage and to provide the  
22 internally generated cash flows required to support the utility's on-going operations and  
23 plant improvements and improve its equity position.

24

25 Q. What is the relationship between GCU and GCEC?

26 A. GCEC manages the operations of GCU's Gas and Water Divisions pursuant to an  
27 operations and management agreement. GCEC and GCU Gas and Water are operated as  
28 separate and distinct entities from each other. Nevertheless, the same members (5 out of

1           9) serve on the Boards of Directors of both GCU and GCEC. GCU's employees have  
2           offices in GCEC's building. GCEC will also advance funds to GCU when necessary.  
3

4           Q.    Please explain Schedule A-2 of the filing.

5           A.    Schedule A-2, summarizes operating results at present and proposed rates for the 12  
6           months ended September 30, 2011, the test year in this case. The present rates produced  
7           an operating margin including interest expense of approximately \$35,167 on an adjusted  
8           test year basis. The proposed \$224,132 increase in revenues produces a positive  
9           operating margin of \$259,299.

10  
11          Q.    Why was the operating margin a positive \$35,167 on an adjusted Test Year basis as  
12          opposed to a negative amount?

13          A.    The main reason is because GCEC decided in 2011 to decrease the allocations of  
14          expenses associated with the GCEC building, labor and personnel, etc. that were  
15          approved in GCU's last rate case in an effort to improve GCU's financial position. This  
16          was done to the detriment of GCEC. Absent these changes, GCU's adjusted Test Year  
17          basis margins would have been approximately a negative \$3,000.

18  
19          Q.    Do you view the indicated increase in revenues of approximately 7 percent at proposed  
20          rates as reasonable in this case?

21          A.    Yes. Cooperatives' revenue requirements are normally determined by the level of  
22          operating expenses plus an additional amount of margin for interest coverage. GCU has  
23          used an Operating Times Interest Earned Ratio ("TIER") of 3.31 (Debt Service Coverage  
24          Ratio of 2.18) to determine the required level of revenues and revenue increase. Since  
25          GCU's amount of interest on long term debt has and will continue to increase from its  
26          previous Test Year amount, it is necessary for GCU to use an Operating TIER of 3.31  
27          (DSC of 2.18) to set its revenue requirement. Finally, an Operating TIER of 3.31 is  
28

1 necessary to maintain and increase GCU's equity level eventually to 30 percent which  
2 has been required by the Commission Decision No. 67748, dated April 11, 2005.

3  
4 Q. What factors besides its TIER did GCU use to determine its revenue requirement in this  
5 case?

6 A. GCU has determined its proposed revenue requirement by considering the amount of  
7 revenue necessary to maintain an Operating TIER of 3.31, to maintain a positive cash  
8 flow after operating expenses, to fund plant improvements and maintenance, to maintain  
9 its equity level and to fund contingencies. The requested increase in this case is  
10 reasonable given its recent history of negative margins (negative margins of \$438,574 as  
11 of September 30, 2009 and negative margins of \$246,299 as of September 30, 2010), and  
12 the need to produce positive cash flows and maintain its equity level. GCU has  
13 considered and balanced these financial considerations with a reasonable overall increase  
14 in revenues for its members. Consistent with Decision No. 69245, GCU should be able  
15 to stabilize or perhaps steadily increase its equity ratio using an Operating TIER of 3.31  
16 even given its forecast for higher margin losses in 2012 which are estimated to be a  
17 negative \$10,888 as of December 31, 2012.

18  
19 Q. Please summarize your rate design recommendations.

20 A. Considering the Cost of Service Study ("COSS") prepared for the case and other factors,  
21 I have based the rate design on customer class increases such that the residential class  
22 receives a slightly higher percentage of revenue increase than the approximately 7  
23 percent overall increase in revenues due to the fact that according to the COSS, the  
24 commercial class is already paying significantly over its fair share and the irrigation class  
25 is also paying over its fair share.

26  
27 I am recommending a \$3.25 increase from \$13.00 to \$16.25 in the residential service  
28 availability charge and a \$5.25 increase in the monthly minimum (service availability)

1 charges for the irrigation classes and a \$6.00 increase in the monthly minimum (service  
2 availability) charges for the commercial.

3  
4 The per therm charges for each class were not changed due to GCU's recommended  
5 increases in to the service availability charges for the reasons stated later in my  
6 testimony.

7  
8 I am recommending no increases in GCU's current Service Charges.

9  
10 The proposed rate and charges are detailed on Schedule H-3.

11  
12 GCU recommends that the Commission approve its proposed line extension policy that  
13 would allow GCU to pay half of the overhead charges associated with line extensions.

14  
15 Q. Is GCU requesting that the Commission process its application and enter a decision as  
16 soon possible?

17 A. Yes, it is. Given the low amount of margins that GCU is experiencing every month and  
18 GCU's current negative financial position, GCU requests that the Commission process  
19 this application and enter a decision as soon as possible. GCU has purposefully limited  
20 the number of pro forma adjustments it has made in this case in an effort to limit the  
21 issues that may arise in processing its case.

22  
23 **II. REVENUE REQUIREMENTS**

24  
25 Q. Please explain the original cost rate base (OCRB) calculation shown on Schedule B-1.

26 A. I am recommending that the Commission adopt an OCRB of \$2,581,088 for GCU. In an  
27 effort to limit the potential issues that may arise during the processing of this case, I have  
28 made no adjustments to Rate Base, Plant-in-Service, Accumulated Provision for

1 Deprecation, etc.

2  
3 I have subtracted \$66,645 of customer deposits from the rate base. I have added the  
4 construction work in progress that is currently Plant-in-Service, materials and supplies  
5 and prepayments to GCU's rate base.  
6

7 Q. Why hasn't GCU included its Reconstruction Cost New less Depreciation (RCND)  
8 information (Schedules B-3 and B-4) in its application?

9 A. GCU stipulates that the Commission may use its original cost data for the calculation of a  
10 rate of return on fair value for this proceeding. Therefore, the RCND information  
11 contained on Schedules B-3 and B-4 is unnecessary for a determination in this matter.  
12

13 Q. Why hasn't a provision for cash working capital (Schedule B-5) been included in the  
14 development of rate base?

15 A. The Cooperative decided not to incur the additional expense required to conduct a  
16 lead/lag study. Accordingly, no cash working capital allowance is sought in this case.  
17

18 Q. Please explain Schedule C-1 of the filing.

19 A. Schedule C-1 shows the actual and adjusted operating income statement for the test year.  
20 As described on Schedule C-2, actual test year results were adjusted as follows:

21 A. Adjustment A. eliminates the \$16,619 of amortization of the acquisition adjustment  
22 associated with GCU's original purchase of the gas system from the depreciation and  
23 amortization expenses. This adjustment was adopted in GCU's previous rate case  
24 Decision No. 71690, dated May 3, 2010.  
25

26 B. Adjustment B. increased depreciation and amortization expense by \$7,183 to allow  
27 depreciation on the acquisition adjustment assets that were charged to plant per  
28 Decision No. 58437. This adjustment was adopted in GCU's previous rate case

1 Decision No. 71690, dated May 3, 2010.

2  
3 C. Adjustment C. increased Administrative and General Expense by \$421 for an increase  
4 in ACC assessments due to the revenue increase being proposed in this case.

5  
6 D. Adjustment D. decreased Interest Expense-Other by \$3,529 to adjust for lower interest  
7 rates on the due-to GCEC. This adjustment also recognizes \$9,128 in reduced interest  
8 rates/expense on long-term debt from CFC.

9  
10 E. Adjustment E. increases Sales of Gas by customer class by a total of \$148,828,  
11 decreases Fuel Cost Under-billed by a total of \$148,828 to reclassify the Purchased  
12 Gas Fuel Adjustor Revenues.

13  
14 F. Adjustment F. decreased A&G expense by \$19,342 to annualize GCU's allocation of  
15 management fees.

16  
17 G. Adjustment G. increases several expenses by a total of \$22,560 to annualize increases  
18 in payroll, benefits and pensions costs.

19  
20 H. Adjustment H. increased Rate (Case) Related Expense by \$6,000 for actual and  
21 estimated rate case expenses that will be incurred in the preparation and completion of  
22 this case. I have estimated the total amount of rate case expense of \$12,000 in this  
23 case. I then amortized this expense over a two-year period given the projected growth  
24 in GCU's service territory and the associated plant investments.

25  
26 These adjustments increase operating margins for the test year by \$3,326 resulting in  
27 adjusted operating margins of \$147,371 before interest on long-term debt on Schedule C-1.

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**III. COST OF SERVICE AND RATE DESIGN**

Q. Why should gas rates be based upon cost of service?

A. Cost of service is an important criterion in the development of revenues by class of consumer and the development of rates that will produce those revenues. If rates are not cost based, the inevitable results may create subsidies among the classes of consumers and consumers within a class. This is not only perceived as inequitable, but may result in distorted consumer decisions concerning the use of utility services. Other factors, such as customer class price sensitivity, continuity, simplicity and stability are valid considerations in the rate design process and had to be considered given GCU's circumstances.

Q. Did you prepare the class cost of service analysis contained in this filing?

A. Yes. The study was prepared to provide guidance in setting class revenue targets and designing the rates required to meet these targets. The costing methodology used is essentially the same as that used in GCU's last rate proceeding.

Q. Would you briefly describe the approach used to develop the study?

A. The basic method used in the study is commonly known as the embedded or average cost method as contrasted with the marginal cost method. This method, properly applied, produces a guide for ratemaking purposes.

The initial step was to establish, for costing purposes, consumer classes with similar usage characteristics. For the purposes of present rates these classes are: residential commercial, etc. The next step in the study was to classify all elements of rate base and operating expenses as demand-related, usage or commodity-related or customer-related. The results of this process are shown on Schedules G-6 and G-7. The final step in the analysis was to allocate rate base and operating expenses to each class of consumer. The

1 results of these allocations are shown on Schedules G-1 and G-2. The class allocation  
2 factors used in the study are provided on Schedule G-8.

3

4 Q. Please summarize the results of your study.

5 A. The results of my study, at present and proposed rates, are summarized on Schedules G-1  
6 and G-2, respectively. At present rates, the overall system rate of return (ROR) on rate  
7 base is a positive 5.87 percent. All classes are producing positive returns with the  
8 exception of the residential class. At present rates, the residential class has a negative  
9 return of 1.80 percent. The irrigation class has a positive return of 9.85 percent. The  
10 commercial class has a positive return of 39.60.

11

12 Q. Please explain the rate of return index concept.

13 A. The last line of Schedule G-1 shows the ratio of actual to equal return revenues (AERR  
14 ratio). A class with a ratio of 1 is paying the amount of revenue that results in ROR equal  
15 to the system ROR. When the system ROR is positive, if the AERR ratio is below 1.00,  
16 this indicates that a class's revenues and margins are not sufficient to recover the system  
17 rate of return. When the AERR ratio is above 1.00, this indicates that a class's revenues  
18 and margins result in a return higher than the system rate of return.

19

20 In GCU's case, the commercial and irrigation classes currently have an AERR ratio  
21 above 1.00. The residential class AERR ratio is below 1.00.

22

23 Q. Typically the cost of service study is used as the basis to allocate revenues among  
24 customer classes. Did you use the cost of service study to allocate revenues to customer  
25 classes?

26 A. Yes. However, GCU's circumstances merit a deviation from strictly using the cost of  
27 service study to set rates for the reasons stated in my testimony.

28

1 Q. How did you allocate revenues to the customer classes?

2 A. I have based the rate design on customer class increases such that the residential class  
3 receives a slightly higher percentage of revenue increase than the approximately 7  
4 percent overall increase in revenues due to the fact that according to the COSS, the  
5 commercial class is already paying well over its fair share of the cost of service and the  
6 irrigation class is also paying greater than its share. The residential, irrigation,  
7 commercial class revenues were increased by approximately 8 percent, 18 percent and 4  
8 percent, respectively as shown on Schedule H-1.

9  
10 Q. What monthly minimum system (service availability) charges are you recommending by  
11 customer class and why?

12 A. I am proposing increases to the present monthly minimum service charges for the  
13 various classes. I am recommending the residential class service availability charge be  
14 increased from \$13.00 to \$16.25; the irrigation class be increased from \$21 to \$26.25;  
15 and the commercial class be increased from \$24 to \$30. (Refer to Schedule H-3)

16  
17 I am recommending the monthly service availability charges be increased because of the  
18 following reasons. The first is the majority of the GCU's distribution related costs are  
19 fixed and do not vary with the number of therms used. The second reason is that using  
20 fixed charges to collect fixed costs helps to alleviate cash flow shortages and surpluses  
21 that result from a rate design that is heavily weighted toward a per therm charge.  
22 Changes in the number of therms sold after the Test Year due to weather and other  
23 factors can have a dramatic affect on a utilities' financial condition. GCU's fixed costs  
24 for serving each customer class are significantly higher than GCU's monthly minimum  
25 service charges. In addition, GCU will collect a more even revenue stream during  
26 summer versus winter months.

27

28

1 Q. Is GCU recommending changes to the existing per therm charges for each customer  
2 class?

3 A. No, it is not. GCU is recommending that the increase in revenues be collected from its  
4 proposed increases to service availability charges for each customer class for the reasons  
5 stated above.

6  
7 Q. Please explain the bill impacts for residential customers from GCU's proposed rate  
8 design.

9 A. The monthly bill for a residential customer who uses 36 therms will increase by \$5.12  
10 (12.43%), from \$41.15 to \$46.27. Residential customers who use more (less) than 36  
11 therms per month will experience a lower (higher) percent increase due to the level of the  
12 higher percentage increase in the monthly service availability charge versus the therm  
13 charge. (Refer to Schedule H4, Page 1 of 3.)

14  
15 Q. Please explain the bill impacts for irrigation customers from GCU's proposed rate design.

16 A. The monthly bill for an irrigation customer who uses approximately 59 therms will  
17 increase by \$8.31 (14.78%), from \$56.23 to \$64.53. Irrigation customers who use more  
18 (less) than 59 therms per month will experience a lower (higher) percent increase due to  
19 the level of the higher percentage increase in the monthly service availability charge  
20 versus the therm charge. (Refer to Schedule H-4, page 2 of 3.)

21  
22 Q. Please explain the bill impacts for the commercial class from GCU's proposed rate  
23 design.

24 A. Under GCU's proposed rates, the monthly bill for a commercial customer who uses 289  
25 therms will increase by \$20.98 (8.43%), from \$248.86 to \$269.84. Commercial  
26 customers who use more (less) than 289 therms per month will experience a lower  
27 (higher) percent increase due to the level of the higher percentage increase in the monthly  
28 system charge versus the therm charge. (Refer to Schedule H4, page 3 of 3.)

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Q. Is GCU recommending any changes to Service Charges?

A. GCU is recommending no changes to its currently approved Service Charges.

**IV. PURCHASED GAS BASE COST AND FUEL ADJUSTOR**

Q. What are your recommendations regarding the existing purchased gas base cost?

A. In Decision No. 71690, the Commission ordered that the GCU purchased gas base cost be set at zero and that the entire cost of gas be collected through the Purchased Gas Fuel Adjustor. Consequently, GCU is not proposing a base cost of gas in this case.

**V. Line Extensions**

Q. Please discuss GCU's line extension policy that was approved in Decision No. 71690 dated May 3, 2010.

A. In compliance with rate case Decision No. 71690, GCU filed a line extension policy that removed all free main and/or service line footage and all dollar allowances. This policy requires all new customers who need line extensions to pay the total cost of these extensions in the form of a CIAC.

Q. What changes are being proposed by GCU to this line extension policy in this case?

A. GCU is recommending all new customers who need line extensions pay the total cost of these extensions in the form of a CIAC except for one-half of associated line extension overhead costs. Under this proposal, GCU will pay one-half of over-head costs because, as discussed in more detail below, GCU is concerned that customers and developers will not install gas service in homes if the cost to connect gas service is too high.

Currently GCU is experiencing no growth in number of customers. In fact, it has fewer customers now than it did in its last rate case. Given there are a limited number of developers and developments in GCU's service territory, GCU is also concerned that if it

1 continues to require 100% of the line extension costs be paid by customers, that  
2 developers will elect not to plumb houses for gas service (provide homes that are all  
3 electric service) and remove a homeowner's choice to have gas service. Unlike electric  
4 and water service, developers and homeowners can choose gas service as an optional  
5 service.

6 In conclusion, GCU's management and Board have concluded that developers and  
7 customers may not install gas service in its service area with the existing line extension  
8 policy due to the fact that these developers and customers must bear all of the cost of line  
9 extensions because of the elimination of the free footage for line extensions that was a  
10 part of GCU's previously approved line extension policy.

11

12 Q. Does that conclude your direct testimony?

13 A. Yes, it does.

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For Years Ended September 30, 2011, 2010, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COMPUTATION OF INCREASE IN**  
**GROSS REVENUE REQUIREMENTS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

<b>Line</b>		<b>Present</b>	<b>Proposed</b>
<b><u>No.</u></b>	<b><u>Description</u></b>	<b><u>Rates</u></b>	<b><u>Rates</u></b>
		<b><u>( b )</u></b>	<b><u>( d )</u></b>
1	Revenues	3,242,352	3,466,484
2	Operating Expense and Interest	3,207,185	3,207,185
3	Operating Margins	35,167	259,299
4	Non-Operating Margins	11,311	11,311
5	Operating TIER	1.31	3.31
6	Net TIER	1.41	3.41
7	Rate Base ( a )	2,581,088	2,581,088
8	% Return on Rate Base	1.80%	10.48%
9	Requested Increase in Revenues ( c )		224,132
10	% Increase		6.91%
		<b><u>( c )</u></b>	<b><u>( c )</u></b>
	RESIDENTIAL	2,383,955	2,576,030
	IRRIGATION	11,955	14,084
	COMMERCIAL	806,399	836,328
	<b>TOTAL</b>	<b><u>3,202,310</u></b>	<b><u>3,426,441</u></b>
	OTHER GAS REVENUE	40,043	40,043
		<b><u>3,242,353</u></b>	<b><u>3,466,484</u></b>

**SUPPORT SCHEDULES:**

( a ) B-1      ( c ) H-1  
 ( b ) C-1      ( d ) A-2

**GRAHAM COUNTY UTILITIES, INC. - GAS  
SUMMARY RESULTS OF OPERATIONS  
GROSS REVENUE REQUIREMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

Line Description  No.	<u>PRIOR YEARS</u>		<u>Test Year Ended 9/30/11</u>		<u>Projected Year</u>	
	Ended	Ended	Actual	Adjusted	Present	Proposed
	<u>9/30/2009</u>	<u>9/30/2010</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(c)</u>
<b>1 Operating Revenues</b>	<b>3,402,937</b>	<b>3,124,766</b>	<b>3,242,352</b>	<b>3,242,352</b>	<b>3,242,352</b>	<b>3,466,484</b>
<b>2 Operating Expenses:</b>						
3 Purchased Gas	2,100,652	1,644,748	1,399,908	1,399,908	1,399,908	1,399,908
4 Distribution - Operation	264,357	262,575	332,030	337,843	337,843	337,843
5 Distribution - Maintenance	361,287	273,541	317,169	322,241	322,241	322,241
6 Customer Accounts	270,628	292,084	314,703	327,042	327,042	327,042
7 Admin. & General Expenses	486,413	528,065	451,059	437,474	437,474	437,474
8 Depreciation & Amortization	137,095	145,705	156,455	147,018	147,018	147,018
9 Property Taxes	35,521	32,480	31,306	31,306	31,306	31,306
10 Tax Expense - Other	50,706	46,836	48,107	48,107	48,107	48,107
11 Interest on Long-Term Debt	79,858	82,985	121,332	112,205	112,205	112,205
12 Interest Expense - Other	54,993	62,047	47,571	44,041	44,041	44,041
13 Other Deductions					-	
<b>14 Total</b>	<b>3,841,511</b>	<b>3,371,065</b>	<b>3,219,639</b>	<b>3,207,185</b>	<b>3,207,185</b>	<b>3,207,185</b>
<b>15 Operating Margins</b>	<b>(438,574)</b>	<b>(246,299)</b>	<b>22,713</b>	<b>35,167</b>	<b>35,167</b>	<b>259,299</b>
16 Non-Operating Margins	7,775	8,436	11,311	11,311	11,311	11,311
<b>17 Net Margins</b>	<b>(430,799)</b>	<b>(237,863)</b>	<b>34,024</b>	<b>46,478</b>	<b>46,478</b>	<b>270,610</b>
18 Therms Sold	2,638,611	2,920,126	2,933,418	2,933,418	2,933,418	2,933,418
19 Utility Plant Additions	145,361	352,091	279,033	279,033	279,033	279,033
20 Average No. of Customers	5,101	5,080	5,103	5,103	5,103	5,103
<b>21 Times Interest Earned (Tier)</b>	<b>(4.39)</b>	<b>(1.87)</b>	<b>1.28</b>	<b>1.41</b>	<b>1.41</b>	<b>3.41</b>
<b>22 Debt Service Coverage (DSC)</b>			<b>1.26</b>	<b>1.48</b>	<b>1.48</b>	<b>2.18</b>

**SUPPORTING SCHEDULES:**

(a) E-2 (b) C-1 (c) F-1

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**SUMMARY OF CAPITAL STRUCTURE**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

	PRIOR YEARS		TEST YEAR	PROFORMA YEAR
	9/30/2009	9/30/2010	9/30/2011	9/30/2012
	<u>(a)</u>	<u>(a)</u>	<u>(a)</u>	<u>(b)</u>
Short-Term Debt	-	177,018	750,751	-
Long-Term Debt	982,069	1,863,352	1,672,034	1,583,052
Total Debt	982,069	2,040,370	2,422,785	1,583,052
Margins And Equity	(276,437)	(514,024)	(480,062)	(480,062)
Total Capital	705,632	1,526,346	1,942,723	1,102,990
Capitalization Ratios: (%)				
Short-Term Debt	0.00%	11.60%	38.64%	0.00%
Long-Term Debt	139.18%	122.08%	86.07%	143.52%
Total Debt	139.18%	133.68%	124.71%	143.52%
Margins And Equity	-39.18%	-33.68%	-24.71%	-43.52%
	100.00%	100.00%	100.00%	100.00%
Weighted Cost Of				
Short-Term Debt	5.10%	4.95%	4.60%	3.70%
Weighted Cost Of				
Long-Term Debt	7.08%	7.09%	7.10%	7.09%

**SUPPORTING SCHEDULES:**

- (a) E-1
- (b) D-1

GRAHAM COUNTY UTILITIES, INC. - GAS  
CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE  
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>YEAR</u>	NET PLANT ADDITIONS ( a )	GROSS UTILITY PLANT IN SERVICE
Test Year Ended 9/30/06		3,527,199
Test Year Ended 9/30/07	184,076	3,711,275
Test Year Ended 9/30/08	403,885	4,115,160
Test Year Ended 9/30/09	239,405	4,354,565
Test Year Ended 9/30/10	522,607	4,877,172
Test Year Ended 9/30/11 ( b )	124,271	5,001,443
Projected Year Ended 9/30/12	79,900	5,081,343
Projected Year Ended 9/30/13	61,400	5,142,743
Projected Year Ended 9/30/14	61,400	5,204,143

SUPPORT SCHEDULES:

( a ) F-3

( b ) E-3A

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**SUMMARY STATEMENT OF CASH FLOWS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

	PRIOR YEARS		TEST YEAR	PRESENT	PROJECTED
	<u>9/30/2009</u>	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>RATES</u>	<u>PROPOSED RATES</u>
<b><u>SOURCES OF FUNDS:</u></b>	( a )	( a )	( a )	( b )	( b )
FROM OPERATIONS	363,062	(395,028)	235,657	235,657	235,657
FROM INVESTING	(228,924)	(515,629)	(118,615)	(118,615)	(118,615)
FROM FINANCING	(134,138)	910,657	(117,042)	(117,042)	(117,042)
<b>TOTAL SOURCES OF FUNDS</b>	-	-	-	<b>(0)</b>	-

**SUPPORT SCHEDULES:**

- ( a ) E-3
- ( b ) F-2

**SCHEDULE B-1**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
SUMMARY OF ORIGINAL COST**

	<b><u>ORIGINAL COST</u></b>
	<b><u>RATE BASE</u></b>
<b><u>DISTRIBUTION:</u></b>	
GROSS PLANT	4,429,599
ACCUMULATED DEPRECIATION	<u>(2,129,775)</u>
<b>NET DISTRIBUTION PLANT</b>	<b><u>2,299,824</u></b>
<b><u>GENERAL &amp; INTANGIBLE</u></b>	
GROSS PLANT	204,644
ACCUMULATED DEPRECIATION	<u>(170,531)</u>
<b>NET GENERAL PLANT</b>	<b><u>34,113</u></b>
<b><u>TOTAL</u></b>	
GROSS PLANT	4,634,243
ACCUMULATED DEPRECIATION	<u>(2,300,306)</u>
<b>NET TOTAL PLANT</b>	<b><u>2,333,937</u></b>
<b><u>PLUS:</u></b>	
CONSTRUCTION WORK IN PROGRESS	211,559
MATERIALS AND SUPPLIES	79,032
PREPAYMENTS	23,205
<b><u>LESS:</u></b>	
CONSUMER DEPOSITS	<u>66,645</u>
	<b><u>2,581,088</u></b>

**Recap :**

A-1

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**ORIGINAL COST RATE BASE**  
**PROFORMA ADJUSTMENTS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<b>ACTUAL AT END OF TEST YEAR 9/30/11 ( a )</b>	<b>PROFORMA ADJUSTMENTS 9/30/11</b>	<b>ADJUSTED AT END OF TEST YEAR 9/30/11 ( b )</b>
<b><u>DISTRIBUTION:</u></b>			
GROSS PLANT	4,387,077		4,387,077
ACCUMULATED DEPRECIATION	(2,129,775)	-	(2,129,775)
NET PLANT	2,257,302	-	2,257,302
<b><u>GENERAL &amp; INTANGIBLE</u></b>			
GROSS PLANT	247,166		247,166
ACCUMULATED DEPRECIATION	(170,531)	-	(170,531)
NET PLANT	76,635	-	76,635
<b><u>TOTAL</u></b>			
GROSS PLANT	4,634,243	-	4,634,243
ACCUMULATED DEPRECIATION	(2,300,306)	-	(2,300,306)
NET PLANT	2,333,937	-	2,333,937

**SUPPORT SCHEDULES:**  
 ( a ) E-5

**Recap :**  
 B-1

**SCHEDULE B-3**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
RCND RATE BASE PROFORMA ADJUSTMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOT APPLICABLE**

**SCHEDULE B-4**  
Page 1 of 1  
Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
RCND BY MAJOR PLANT ACCOUNTS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOT APPLICABLE**

**SCHEDULE B-5**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPUTATION OF WORKING CAPITAL  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

1. MATERIALS AND SUPPLIES INVENTORIES	79,032
2. PREPAYMENTS	23,205
3. LESS: CONSUMER DEPOSITS	66,645
3. TOTAL WORKING CAPITAL ALLOWANCE	<u><u>35,592</u></u>

**CUSTOMER CLASSIFICATION**

RESIDENTIAL  
IRRIGATION  
COMMERCIAL  
TOTALS

**ALLOCATION TO  
RATE BASE**

2,040,370
11,565
462,514
<u><u>2,514,449</u></u>

**SUPPORT SCHEDULES:**

(a) E-1

**RECAP SCHEDULES:**

(b) B-1

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**ADJUSTED TEST YEAR INCOME STATEMENT**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

	TEST YEAR 9/30/2011 <u>(a)</u>	PROFORMA ADJUSTMENTS <u>(b)</u>	ADJUSTED TEST YEAR
<b><u>REVENUES</u></b>			
RESIDENTIAL	2,273,160	110,795	2,383,955
IRRIGATION	11,400	555	11,955
COMMERCIAL AND INDUSTRIAL	768,921	37,478	806,399
FUEL COST UNDERBILLED	148,828	(148,828)	-
OTHER OPERATING RVENUES	40,043	-	40,043
	<b>3,242,352</b>	<b>-</b>	<b>3,242,352</b>
<b><u>EXPENSES</u></b>			
PURCHASED GAS	1,399,908	-	1,399,908
DISTRIBUTION EXPENSE - OPERATIONS	332,030	5,813	337,843
DISTRIBUTION EXPENSE - MAINTENANCE	317,169	5,072	322,241
CONSUMER ACCOUNTS EXPENSE	314,703	12,339	327,042
ADMINISTRATIVE & GENERAL	451,059	(13,585)	437,474
DEPRECIATION & AMORTIZATION	156,455	(9,436)	147,018
TAX EXPENSE - PROPERTY	31,306	-	31,306
TAX EXPENSE - OTHER	48,107	-	48,107
INTEREST EXPENSE - OTHER	47,571	(3,529)	44,041
	<b>3,098,307</b>	<b>(3,326)</b>	<b>3,094,981</b>
OPERATING MARGINS	<b>144,045</b>	<b>3,326</b>	<b>147,371</b>
INTEREST EXPENSE - LTD	121,332	(9,128)	112,205
<b><u>NON-OPERATING MARGINS</u></b>			
INTEREST INCOME	-	-	-
OTHER NON-OPERATING INCOME	-	-	-
CAPITAL CREDITS	11,311	-	11,311
	<b>11,311</b>	<b>-</b>	<b>11,311</b>
<b>NET MARGINS</b>	<b>34,024</b>	<b>12,454</b>	<b>46,478</b>

**SUPPORT SCHEDULES:**

- (a) E-2
- (b) C-2

**RECAP SCHEDULES:**

- (C) A-1

GRAHAM COUNTY UTILITIES, INC. - GAS  
INCOME STATEMENT PROFORMA ADJUSTMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2011

	A	B	C	D	E	F	G	H	TOTAL (a)
<b>PROFORMA ADJUSTMENTS</b>									
<b>REVENUES</b>									
RESIDENTIAL					110,795				110,795
IRRIGATION					555				555
COMMERCIAL AND INDUSTRIAL					37,478				37,478
FUEL COST UNDERBILLED					(148,828)				(148,828)
OTHER OPERATING REVENUES									
<b>EXPENSES</b>									
PURCHASED GAS									
DISTRIBUTION EXPENSE - OPERATIONS							5,813		5,813
DISTRIBUTION EXPENSE - MAINTENANCE							5,072		5,072
CONSUMER ACCOUNTS EXPENSE							6,339	6,000	12,339
ADMINISTRATIVE & GENERAL			421			(19,342)	5,336		(13,585)
DEPRECIATION & AMORTIZATION	(16,619)	7,183							(9,436)
TAX EXPENSE - PROPERTY									
TAX EXPENSE - OTHER									
INTEREST EXPENSE - GCEC									
				(3,529)					(3,529)
<b>OPERATING MARGINS</b>	(16,619)	7,183	421	(3,529)	-	(19,342)	22,560	6,000	(3,326)
INTEREST EXPENSE - LTD	16,619	(7,183)	(421)	3,529	-	19,342	(22,560)	(6,000)	3,326
NON-OPERATING MARGINS									
INTEREST INCOME									
OTHER NON-OPERATING INCOME									
CAPITAL CREDITS									
				(9,128)					(9,128)
<b>NET MARGINS</b>	16,619	(7,183)	(421)	12,657	-	19,342	(22,560)	(6,000)	12,454

**SUPPORTING SCHEDULES:**

- A - TO ELIMINATE AMORTIZATION OF ACQUISITION ADJUSTMENT
- B - TO ALLOW DEPRECIATION ON ACQUISITION ADJUSTMENT ASSETS CHARGED TO PLANT PER DECISION NO. 58437
- C - TO ADJUST FOR INCREASE IN A.C.C ASSESSMENTS DUE TO INCREASED REVENUE
- D - TO ADJUST FOR INTEREST DUE GCEC
- E - TO ALLOCATE UNDERBILLED FUEL COST TO RATE CLASSES
- F - ADJUST PER MANAGEMENT COST PER MANAGEMENT AGREEMENT VS RENT
- G - TO ADJUST FOR INCREASE IN WAGES, PAYROLL TAXES AND PENSION COSTS
- H - TO REFLECT THE INCREASE IN RATE CASE EXPENSE

**SCHEDULE C-3**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPUTATION OF GROSS REVENUE CONVERSION FACTOR  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOT APPLICABLE - GCU IS A NON-PROFIT CORPORATION**

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COMPUTATION OF ACC ANNUAL ASSESSMENT**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**  
**ACC ANNUAL ASSESSMENT**

TOTAL REVENUE - YEAR ENDED 9/30/11	3,242,352
TOTAL ASSESSMENT	6,094
FACTOR	<u>0.0018795</u>
PROFORMA ADJUSTMENT IN REVENUE	224,132
FACTOR	<u>0.0018795</u>
DOLLAR INCREASE IN A.C.C. ANNUAL ASSESSMENT	<u><u>421</u></u>

**SUPPORTING SCHEDULES:**  
**ACC ASSESSMENT NOTICES**

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**SUMMARY COST OF CAPITAL**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

<b>INVESTED CAPITAL</b>	<b>END OF ACTUAL TEST YEAR</b>		<b>9/30/2011</b>	
	<b>AMOUNT</b>	<b>%</b>	<b>COST RATE</b>	<b>COMPOSITE</b>
	<b>(b)</b>			
LONG-TERM DEBT (a)	1,708,513	63.42%	7.20%	7.27%
SHORT-TERM DEBT (a)	985,487	36.58%	4.60%	4.60%
TOTAL	2,694,000	100.00%		11.87%

<b>INVESTED CAPITAL</b>	<b>END OF PROJECTED YEAR</b>		<b>9/30/2012</b>	
	<b>AMOUNT</b>	<b>%</b>	<b>COST RATE</b>	<b>COMPOSITE</b>
	<b>(b)</b>			
LONG-TERM DEBT (a)	1,583,052	52.91%	7.27%	7.27%
SHORT-TERM DEBT (a)	1,408,658	47.09%	4.60%	4.60%
TOTAL	2,991,710	100.00%	11.87%	11.87%

**SUPPORTING SCHEDULES:**  
(a) D-2

**RECAP SCHEDULES:**  
(b) A-3

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF LONG-TERM AND SHORT-TERM DEBT  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>END OF TEST YEAR</u>		<u>9/30/11</u>		<u>END OF PROJECTED YEAR</u>	
	<u>OUTSTANDING</u> <u>(a)</u>	<u>WEIGHTED</u> <u>INTEREST</u> <u>RATE</u>	<u>OUTSTANDING</u> <u>ANNUAL</u> <u>INTEREST</u>	<u>WEIGHTED</u> <u>INTEREST</u> <u>RATE</u>	<u>OUTSTANDING</u> <u>ANNUAL</u> <u>INTEREST</u>	<u>WEIGHTED</u> <u>INTEREST</u> <u>RATE</u>
<b><u>LONG-TERM:</u></b>						
CFC - LOAN TO PURCHASE SYSTEM - FIXED	217,719	7.10%	18,276	7.10%	150,190	7.10%
CFC - LOAN TO PURCHASE SYSTEM - VARIABLE	74,151	2.35%	1,531	2.35%	50,010	2.35%
CFC - CONSTRUCTION 9002	282,139	7.45%	21,714	7.45%	266,231	7.45%
CFC - CONSTRUCTION 9003	342,858	6.25%	21,759	6.25%	333,929	6.25%
UNAMORTIZED DEBT EXPENSE			3,867			
CFC - LOAN TO REPAY CONSTRUCTION COSTS	791,646	7.00%	55,784	7.00%	782,691	7.00%
<b>TOTAL LONG-TERM DEBT</b>	<b>1,708,513</b>	<b>7.20%</b>	<b>122,930</b>	<b>7.27%</b>	<b>1,583,052</b>	<b>7.27%</b>
<b>SHORT-TERM DEBT</b>	<b>985,487</b>	<b>4.60%</b>			<b>1,408,658</b>	<b>4.60%</b>
						<b>55,065</b>

**SUPPORTING SCHEDULES:**  
(b) E-1

**RECAP SCHEDULES:**  
(a) D-1

**SCHEDULE D-3**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF PREFERRED STOCK  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOT APPLICABLE**

**SCHEDULE D-4**  
Page 1 of 1  
Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF COMMON EQUITY  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOT APPLICABLE**

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE BALANCE SHEET  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>TEST YEAR ENDED 9/30/11</u>	<u>PRIOR YEARS ENDED 9/30/10</u>	<u>ENDED 9/30/09</u>
<b>ASSETS:</b>			
UTILITY PLANT IN SERVICE	4,374,400	4,095,366	3,743,276
CONSTRUCTION WORK IN PROGRESS ( a )	211,559	366,322	195,805
PLANT ACQUISITION ADJUSTMENT	415,484	415,484	415,484
<b>TOTAL UTILITY PLANT</b>	<b>5,001,443</b>	<b>4,877,172</b>	<b>4,354,565</b>
ACCUMULATED DEPRECIATION	2,509,706	2,353,251	2,207,546
<b>NET UTILITY PLANT</b>	<b>2,491,737</b>	<b>2,523,921</b>	<b>2,147,019</b>
INVESTMENTS IN ASSOCIATED ORGANIZATIO	199,180	131,388	134,341
<b>CURRENT ASSETS:</b>			
CASH	-	-	-
ACCOUNTS RECEIVABLE (NET)	44,253	20,842	21,546
UNDERBILLED CONSUMERS FUEL COST	-	-	-
MATERIALS AND SUPPLIES	79,032	84,805	75,283
OTHER CURRENT AND ACCRUED ASSETS	23,205	26,747	22,295
	<b>146,490</b>	<b>132,394</b>	<b>119,124</b>
OTHER ASSETS - DEFERRED DEBITS	17,393	21,057	15,548
	<b>2,854,800</b>	<b>2,808,760</b>	<b>2,416,032</b>
<b>LIABILITIES AND EQUITY:</b>			
MEMBERSHIPS	28,792	28,854	28,579
PATRONAGE CAPITAL	(508,854)	(542,878)	(305,016)
<b>TOTAL EQUITY ( b )</b>	<b>(480,062)</b>	<b>(514,024)</b>	<b>(276,437)</b>
NOTE PAYABLE - GCEC	-	-	-
CFC NOTES PAYABLE	1,672,034	1,863,352	982,069
<b>TOTAL LONG-TERM DEBT</b>	<b>1,672,034</b>	<b>1,863,352</b>	<b>982,069</b>
<b>CURRENT LIABILITIES:</b>			
Current Maturities of Long-Term Debt	263,244	188,906	159,807
Accounts Payable - Other	51,712	60,616	69,351
Accounts Payable - GGEC	985,487	699,527	1,103,232
Accounts Payable - Water Department	-	-	-
Overbilled Consumers Fuel Cost	230,169	378,378	247,529
Accrued Taxes	34,294	34,846	36,220
Customers' Deposits and Prepayments	66,645	67,220	68,845
Accrued Interest	13,664	13,282	13,096
Accrued Payroll	17,613	16,657	12,320
<b>Total Current Liabilities</b>	<b>1,662,828</b>	<b>1,459,432</b>	<b>1,710,400</b>
	<b>2,854,800</b>	<b>2,808,760</b>	<b>2,416,032</b>

**SUPPORT SCHEDULES:**

( a ) E-5  
( b ) E-4

**RECAP SCHEDULES:**

( c ) A-3                      ( d ) B-5

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE INCOME STATEMENT  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>TEST YEAR</u>	<u>PRIOR YEARS</u>	
	<u>ENDED 9/30/11</u>	<u>ENDED 9/30/10</u>	<u>ENDED 9/30/09</u>
<b><u>REVENUES:</u></b>			
RESIDENTIAL	2,273,160	2,380,373	2,678,432
IRRIGATION	11,400	6,681	8,456
COMMERCIAL AND INDUSTRIAL	768,921	843,054	976,257
FUEL COST OVERBILLED	148,828	24,648	19,960
OTHER OPERATING REVENUES	40,043	(129,990)	(280,168)
	<b>3,242,352</b>	<b>3,124,766</b>	<b>3,402,937 ( b )</b>
<b><u>EXPENSES:</u></b>			
PURCHASED GAS	1,399,908	1,644,748	2,100,652
DISTRIBUTION EXP. - OPER.	332,030	262,575	264,357
DISTRIBUTION EXP. - MAINT.	317,169	273,541	361,287
CONSUMER ACCOUNTS EXP.	314,703	292,084	270,628
ADMIN. & GENERAL	451,059	528,065	486,413
DEPRECIATION & AMORT.	156,455	145,705	137,095
TAXES - PROPERTY	31,306	32,480	35,521
TAXES - OTHER	48,107	46,836	50,706
INTEREST EXPENSE - OTHER	47,571	62,047	54,993
	<b>3,098,307</b>	<b>3,288,081</b>	<b>3,761,653 ( b )</b>
OPERATING MARGINS	<b>144,045</b>	<b>(163,315)</b>	<b>(358,716) ( b )</b>
INTEREST EXPENSE - LTD	121,332	82,985	79,858 ( b )
	<b>22,713</b>	<b>(246,299)</b>	<b>(438,574)</b>
<b><u>NON-OPERATING MARGINS:</u></b>			
INTEREST INCOME	-	386	546
CAPITAL CREDITS	11,311	8,050	7,229
	<b>11,311</b>	<b>8,436</b>	<b>7,775 ( b )</b>
<b>NET MARGINS ( a )</b>	<b>34,024</b>	<b>(237,863)</b>	<b>(430,799) ( b )</b>

**SUPPORTING SCHEDULES:**

( a ) E-4

**RECAP SCHEDULES:**

( b ) A-2

GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE STATEMENT OF CASH FLOWS  
TEST FISCAL YEAR SEPTEMBER 30, 2011

	TEST YEAR <u>9/30/2011</u>	PRIOR YEAR <u>9/30/2010</u>	PRIOR YEAR <u>9/30/2009</u>
<b>CASH FLOWS</b>			
<b>FROM OPERATING ACTIVITIES:</b>			
NET MARGINS (DEFICITS)	34,024	(237,862)	(430,799)
DEPRECIATION AND AMORTIZATION	156,455	145,705	137,095
CAPITAL CREDITS - NONCASH	(73,448)	(4,025)	(9,229)
DEFERRED CHARGES	3,664	(5,509)	3,467
OVERBILLED FUEL COST	(148,209)	130,849	279,946
ACCOUNTS RECEIVABLE	(23,411)	704	35,674
INVENTORIES AND OTHER CURRENT ASSETS	9,315	(13,974)	14,051
PAYABLES AND ACCRUED EXPENSES	(8,693)	(7,211)	(19,624)
ADVANCES - WATER DEPARTMENT	-	-	-
ADVANCES - GCEC	285,960	(403,705)	352,481
<b>TOTAL FROM OPERATIONS</b>	<b>235,657</b>	<b>(395,028)</b>	<b>363,062</b>
<b>FROM INVESTING ACTIVITIES:</b>			
ADDITIONS TO PLANT/PURCHASE OF PROPEI	(124,271)	(522,607)	(239,405)
SALVAGE VALUE OF PLANT RETIRED	-	-	-
PATRONAGE CAPITAL RETIREMENT - CFC	5,656	6,978	10,481
<b>TOTAL FROM FINANCING</b>	<b>(118,615)</b>	<b>(515,629)</b>	<b>(228,924)</b>
<b>FROM FINANCING:</b>			
Advances on Long-Term Debt - CFC		800,000	
CIAC Refunds Due		226,765	
PAYMENTS ON LONG-TERM DEBT - CFC	(116,980)	(101,776)	(92,860)
PAYMENTS ON LONG-TERM DEBT - GCEC	-	(14,607)	(41,728)
MEMBERSHIPS	(62)	275	450
<b>TOTAL FROM FINANCING</b>	<b>(117,042)</b>	<b>910,657</b>	<b>(134,138)</b>
CHANGE	-	-	-
BALANCE AT BEGINNING OF YEAR	-	-	-
BALANCE AT END OF YEAR	-	-	-

**SUPPORT SCHEDULES:**

**RECAP SCHEDULES:**

A-5

GRAHAM COUNTY UTILITIES, INC. - GAS  
STATEMENT OF CHANGE IN MEMBERS EQUITY  
TEST FISCAL YEAR SEPTEMBER 30, 2011

	<b>TOTAL MARGINS AND EQUITIES</b>
BALANCE SEPTEMBER 30, 2006	<b>127,979</b>
NET EARNINGS (LOSS)	133,624
INCREASE IN MEMBERSHIPS	735
BALANCE SEPTEMBER 30, 2007	<b>262,338</b>
NET EARNINGS (LOSS)	(108,375)
DECREASE IN MEMBERSHIPS	(51)
BALANCE SEPTEMBER 30, 2008	<b>153,912</b>
NET EARNINGS (LOSS)	(430,799) ( b )
INCREASE IN MEMBERSHIPS	450 ( a )
BALANCE SEPTEMBER 30, 2009	<b>(276,437) ( a )</b>
NET EARNINGS (LOSS)	(237,863) ( b )
INCREASE IN MEMBERSHIPS	275 ( a )
BALANCE SEPTEMBER 30, 2010	<b>(514,024) ( a )</b>
NET EARNINGS (LOSS)	34,024 ( b )
DECREASE IN MEMBERSHIPS	(62) ( a )
ROUNDING DOLLARS	1
BALANCE SEPTEMBER 30, 2011	<b>(480,062) ( a )</b>
SUPPORT SCHEDULES:	RECAP SCHEDULES:
( a ) E-1	
( b ) E-2	

GRAHAM COUNTY UTILITIES, INC. - GAS  
DETAIL OF UTILITY PLANT  
TEST FISCAL YEAR SEPTEMBER 30, 2011

	G/L BALANCE PRIOR YEAR	PLANT IN SERVICE	ADJUSTED PRIOR YEAR	NET ADDITIONS	END OF TEST YEAR
	9/30/2010	FROM ACQ. ADJ.	9/30/2010		9/30/2011
<b>INTANGIBLE PLANT:</b>					
2301 ORGANIZATION	42,522		42,522	-	42,522
<b>SUBTOTAL INTANGIBLE</b>	<b>42,522</b>	<b>-</b>	<b>42,522</b>	<b>-</b>	<b>42,522</b>
<b>DISTRIBUTION PLANT</b>					
2374 LAND & LAND RIGHTS	1,416	78	1,494	-	1,494
2376 MAINS	1,768,586	214,381	1,982,967	226,766	2,209,733
2380 SERVICES	864,077	45,384	909,461	181	909,642
2381 METERS & REGULATORS	1,223,907		1,223,907	42,301	1,266,208
<b>SUBTOTAL DISTRIBUTION</b>	<b>3,857,986</b>	<b>259,843</b>	<b>4,117,829</b>	<b>269,248</b>	<b>4,387,077</b>
<b>GENERAL PLANT</b>					
2390 STRUCTURES & IMPROVEMENTS	3,309		3,309	-	3,309
2391 OFFICE EQUIPMENT	2,750		2,750	-	2,750
2392 TRANSPORTATION EQUIPMENT	-		-	-	-
2394 TOOLS, SHOP & GARAGE EQUIPMENT	122,790		122,790	9,786	132,576
2396 POWER OPERATED EQUIPMENT	66,009		66,009	-	66,009
<b>SUBTOTAL GENERAL</b>	<b>194,858</b>	<b>-</b>	<b>194,858</b>	<b>9,786</b>	<b>204,644</b>
<b>TOTAL PLANT IN SERVICE</b>	<b>4,095,366</b>	<b>259,843</b>	<b>4,355,209</b>	<b>279,034</b>	<b>4,634,243</b>
CWIP	366,322		366,322	(154,763)	211,559
<b>TOTAL NET PLANT</b>	<b>4,461,688</b>	<b>259,843</b>	<b>4,721,531</b>	<b>124,271</b>	<b>4,845,802</b>
<b>RECONCILIATION TO GENERAL LEDGER</b>					
PER GENERAL LEDGER	4,510,851		4,510,851	279,034	4,789,885
LESS: ACQUISITION ADJUSTMENT	(415,485)		(415,485)		(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	259,843		259,843		259,843
CWIP	366,322		366,322	(154,763)	211,559
<b>NET</b>	<b>4,721,531</b>	<b>-</b>	<b>4,721,531</b>	<b>124,271</b>	<b>4,845,802</b>
<b>ACCUMULATED DEPRECIATION</b>					
DISTRIBUTION	1,850,418	149,043	1,999,461	130,314	2,129,775
GENERAL	153,826		153,826	16,705	170,531
<b>TOTAL</b>	<b>2,004,244</b>	<b>149,043</b>	<b>2,153,287</b>	<b>147,019</b>	<b>2,300,306</b>
<b>RECONCILIATION TO GENERAL LEDGER</b>					
PER GENERAL LEDGER	2,353,251		2,353,251	156,455	2,509,706
LESS: ACQUISITION ADJUSTMENT	(349,006)		(349,006)	(16,619)	(365,625)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	149,042		149,042	7,183	156,225
<b>NET</b>	<b>2,153,287</b>	<b>-</b>	<b>2,153,287</b>	<b>147,019</b>	<b>2,300,306</b>
<b>NET PLANT</b>	<b>2,457,444</b>	<b>110,800</b>	<b>2,568,244</b>	<b>(22,748)</b>	<b>2,545,496</b>

SUPPORTING SCHEDULES:

RECAP SCHEDULES:  
A-4 E-1

GRAHAM COUNTY UTILITIES, INC. - GAS  
SCHEDULE OF PLANT  
TEST FISCAL YEAR SEPTEMBER 30, 2011

ACCOUNT #	DESCRIPTION	9/30/2006	9/30/2007	9/30/2008	9/30/2009	9/30/2010	9/30/11	NET	BALANCE
		ADDITIONS	ADDITIONS	ADDITIONS	ADDITIONS	ADDITIONS	ADDITIONS	ADDITIONS	9/30/11
2301.00	ORGANIZATION	42,522	42,522	42,522	42,522	42,522	42,522	-	42,522
2374.00	LAND & LAND RIGHTS	1,494	1,494	1,494	1,494	1,494	1,494	-	1,494
2376.00	MAINS	1,593,823	1,655,897	1,765,026	1,824,699	1,982,967	1,982,967	226,765	2,209,732
2380.00	SERVICES	697,194	741,746	792,695	814,772	909,460	909,460	181	909,641
2381.00	METERS & REGULATORS	910,135	980,520	1,061,544	1,124,774	1,223,909	1,223,909	42,301	1,266,210
2390.00	STRUCTURES & IMPROVEMENTS	3,309	3,309	3,309	3,309	3,309	3,309	-	3,309
2391.00	OFFICE EQUIPMENT	2,750	2,750	2,750	2,750	2,750	2,750	-	2,750
2392.00	TRANSPORTATION EQUIPMENT	-	-	-	-	-	-	-	-
2394.00	TOOLS, SHOP & GARAGE EQUIPMENT	93,304	103,411	124,531	122,790	122,790	122,790	9,786	132,576
2396.00	POWER OPERATED EQUIPMENT	6,000	6,000	63,887	66,009	66,009	66,009	-	66,009
	<b>TOTAL</b>	<b>3,360,531</b>	<b>3,537,849</b>	<b>3,857,768</b>	<b>4,003,119</b>	<b>4,356,210</b>	<b>4,634,243</b>	<b>279,033</b>	<b>4,634,243</b>

**RECONCILIATION TO GENERAL LEDGER**

PER GENERAL LEDGER	3,506,173
LESS: ACQUISITION ADJUSTMENT	(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	259,843
<b>NET</b>	<b>3,350,531</b>

**ACCOUNT # DESCRIPTION**

2108.60	ACCUM PROV FOR DEPR - DIST PLANT	1,564,567
2108.70	ACCUM PROV FOR DEPR - GENERAL PLANT	96,953
	<b>TOTAL</b>	<b>1,661,520</b>

**RECONCILIATION TO GENERAL LEDGER**

PER GENERAL LEDGER	1,823,740
LESS: ACQUISITION ADJUSTMENT	(282,530)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	120,310
<b>NET</b>	<b>1,661,520</b>

(1) PER DECISION NO. 58437

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**SCHEDULE E-6**  
**PAGE 2 OF 2**  
Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENT**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOT APPLICABLE**

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**OPERATING STATISTICS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u><b>GAS STATISTICS (a)</b></u>	<u><b>TEST YEAR ENDED 9/30/11</b></u>	<u><b>PRIOR YEAR ENDED 9/30/10</b></u>	<u><b>PRIOR YEAR ENDED 9/30/09</b></u>
<b><u>THERMS SOLD</u></b>			
RESIDENTIAL	1,960,668	2,033,675	1,825,721
IRRIGATION	18,064	7,116	7,037
COMMERCIAL	892,778	908,257	805,853
<b>TOTALS</b>	<b>2,871,510</b>	<b>2,949,048</b>	<b>2,638,611</b>
<b><u>AVERAGE NUMBER OF CUSTOMERS</u></b>			
RESIDENTIAL	4,785	4,820	4,853
IRRIGATION	9	10	8
COMMERCIAL	261	259	258
<b>TOTALS</b>	<b>5,054</b>	<b>5,089</b>	<b>5,119</b>
<b><u>AVERAGE THERM USE</u></b>			
RESIDENTIAL	410	422	376
IRRIGATION	2,084	712	918
COMMERCIAL	3,425	3,502	3,119
<b>TOTALS</b>	<b>5,919</b>	<b>4,635</b>	<b>4,413</b>
AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER	475	494	552

**SUPPORTING SCHEDULES:**  
**(a) FORM 7 FOR RESPECTIVE YEARS**  
**(b) E-7-1**

GRAHAM COUNTY UTILITIES, INC. - GAS  
OPERATING STATISTICS  
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>GAS STATISTICS (a)</u>	<u>FORM 7</u>	<u>ADJUSTMENTS</u>	<u>TEST YEAR ADJUSTED</u>
<b><u>THERM SALES</u></b>			
RESIDENTIAL	1,960,668	-	1,960,668
IRRIGATION	18,064	-	18,064
COMMERCIAL	892,780	-	892,780
<b>TOTALS</b>	<b>2,871,512</b>	<b>-</b>	<b>2,871,512</b>
<b><u>AVERAGE NUMBER OF CUSTOMERS</u></b>			
RESIDENTIAL	4,826	-	4,826
IRRIGATION	8	-	8
COMMERCIAL	265	-	265
<b>TOTALS</b>	<b>5,099</b>	<b>-</b>	<b>5,099</b>
<b><u>AVERAGE THERMS USE</u></b>			
RESIDENTIAL	406.27	-	406
IRRIGATION	2,409	-	2,409
COMMERCIAL	3,368	-	3,368
<b>TOTALS</b>	<b>6,183</b>	<b>-</b>	<b>6,183</b>
<b><u>REVENUE</u></b>			
RESIDENTIAL	2,383,955	-	2,383,955
IRRIGATION	11,955	-	11,955
COMMERCIAL	806,399	-	806,399
<b>TOTALS</b>	<b>3,202,310</b>	<b>-</b>	<b>3,202,310</b>

RECAP SCHEDULES:  
(a) E-7

**SCHEDULE E-8**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TAXES CHARGED TO OPERATIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<b>TEST YEAR</b>	<b>PRIOR YEAR</b>	<b>PRIOR YEAR</b>
	<b><u>9/30/2011</u></b>	<b><u>9/30/2010</u></b>	<b><u>9/30/2009</u></b>
PAYROLL & OTHER	48,107	46,836	50,706
PROPERTY	31,306	32,480	35,521
<b>TOTAL TAXES</b>	<b><u>79,413</u></b>	<b><u>79,316</u></b>	<b><u>86,227</u></b>

**SCHEDULE E-9**  
Page 1 of 1  
Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

**NOTES TO FINANCIAL STATEMENTS**

**SEE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2011**

GRAHAM COUNTY UTILITIES, INC. - GAS  
PROJECTED INCOME STATEMENTS  
PRESENT AND PROPOSED RATES  
TEST FISCAL YEAR SEPTEMBER 30, 2011

	<u>TEST YEAR</u>	<u>PROJECTED YEAR ENDED 9/30/11</u>	
	<u>ENDED 9/30/11</u> <u>(a)</u>	<u>PRESENT</u> <u>(b)</u>	<u>PROPOSED</u> <u>(b)</u>
<b>REVENUES:</b>			
SALES OF NATURAL GAS	3,053,481	3,202,309	3,426,441
FUEL COST OVERBILLED	148,828	-	-
OTHER GAS REVENUE	40,043	40,043	40,043
	<b>3,242,352</b>	<b>3,242,352</b>	<b>3,466,484</b>
<b>EXPENSES:</b>			
PURCHASED GAS	1,399,908	1,399,908	1,399,908
DISTRIBUTION EXP. - OPER.	332,030	337,843	337,843
DISTRIBUTION EXP. - MAINT.	317,169	322,241	322,241
CONSUMER ACCOUNTS EXP.	314,703	327,042	327,042
ADMIN. & GENERAL	451,059	437,474	437,474
DEPRECIATION & AMORT.	156,455	147,018	147,018
TAXES - PROPERTY	31,306	31,306	31,306
TAXES - OTHER	48,107	48,107	48,107
INTEREST EXPENSE - OTHER	47,571	44,041	44,041
	<b>3,098,307</b>	<b>3,094,981</b>	<b>3,094,981</b>
<b>OPERATING MARGINS</b>	<b>144,045</b>	<b>147,371</b>	<b>371,504</b>
INTEREST EXPENSE - LTD	121,332	112,205	112,205
<b>NON-OPERATING MARGINS:</b>			
INTEREST INCOME	-	-	-
OTHER NON-OPERATING INCOMI	-	-	-
CAPITAL CREDITS	11,311	11,311	11,311
	<b>11,311</b>	<b>11,311</b>	<b>11,311</b>
<b>NET MARGINS</b>	<b>34,024</b>	<b>46,478</b>	<b>270,610</b>

**SUPPORTING SCHEDULES:**

(a) E-2

**SCHEDULE F-2**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROJECTED CHANGES IN FINANCIAL POSITION  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	PROJECTED YEAR		
	TEST YEAR	AT PRESENT	AT PROPOSED
	ENDED	RATES	RATES
	YEAR ENDED	YEAR ENDED	YEAR ENDED
	<u>9/30/2011</u>	<u>9/30/2011</u>	<u>9/30/2011</u>
<b><u>CASH FLOWS</u></b>			
<b><u>FROM OPERATING ACTIVITIES:</u></b>			
NET MARGINS (DEFICITS)	34,024	46,478	270,610
DEPRECIATION AND AMORTIZATION	156,455	156,455	156,455
CAPITAL CREDITS - NONCASH	(73,448)	(73,448)	(73,448)
DEFERRED CHARGES	3,664	3,664	3,664
OVERBILLED FUEL COST	(148,209)	(148,209)	(148,209)
ACCOUNTS RECEIVABLE	(23,411)	(23,411)	(23,411)
INVENTORIES AND OTHER CURRENT AS	9,315	9,315	9,315
PAYABLES AND ACCRUED EXPENSES	(8,693)	(8,693)	(8,693)
ADVANCES - WATER DEPARTMENT	-	-	-
ADVANCES - GCEC	285,960	273,506	49,374
<b>TOTAL FROM OPERATIONS</b>	<b>235,657</b>	<b>235,657</b>	<b>235,657</b>
<b><u>FROM INVESTING ACTIVITIES:</u></b>			
ADDITIONS TO PLANT/PURCHASE OF PF	(124,271)	(124,271)	(124,271)
SALVAGE VALUE OF PLANT RETIRED	-	-	-
PATRONAGE CAPITAL RETIREMENT - CF	5,656	5,656	5,656
<b>TOTAL FROM FINANCING</b>	<b>(118,615)</b>	<b>(118,615)</b>	<b>(118,615)</b>
<b><u>FROM FINANCING:</u></b>			
ADVANCES FROM CFC	-	-	-
PAYMENTS ON LONG-TERM DEBT - CFC	(116,980)	(116,980)	(116,980)
PAYMENTS ON LONG-TERM DEBT - GCE	-	-	-
MEMBERSHIPS	(62)	(62)	(62)
<b>TOTAL FROM FINANCING</b>	<b>(117,042)</b>	<b>(117,042)</b>	<b>(117,042)</b>
<b>CHANGE</b>	-	(0)	-
<b>BALANCE AT BEGINNING OF YEAR</b>	-	-	-
<b>BALANCE AT END OF YEAR</b>	-	(0)	-

**SUPPORT SCHEDULES:**

- (a) E-3
- (c) F-3

**RECAP SCHEDULES:**

- (b) A-5

**SCHEDULE F-3**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROJECTED CONSTRUCTION REQUIREMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<b>PROPERTY CLASSIFICATION:</b>	<b>ACTUAL</b>	<b>PROJECTED YEAR ENDED</b>		
	<b>TEST YEAR ENDED</b>		<b>YEAR ENDED</b>	<b>YEAR ENDED</b>
	<b>9/30/2011</b>	<b>9/30/2012</b>	<b>9/30/2013</b>	<b>9/30/2014</b>
DISTRIBUTION PLANT	269,247	58,400	58,400	58,400
GENERAL PLANT	9,786	21,500	3,000	3,000
<b>TOTAL PLANT (a)</b>	<b>279,033</b>	<b>79,900</b>	<b>61,400</b>	<b>61,400</b>

**SUPPORTING SCHEDULES:**

**RECAP SCHEDULES:**

(a) F-2 & A-4

**SCHEDULE F-4**

Page 1 of 1

Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
ASSUMPTIONS USED IN DEVELOPING PROJECTIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
AT PRESENT AND PROPOSED RATES - SCHEDULE F-1**

<b>PURCHASED GAS</b>	<b>PRESENT</b>	<b>PROPOSED</b>
TRANSPORTATION (PER THERM)	0.0499	0.0499
GAS (PER THERM) - BLENDED	0.4797	0.4797
FUEL ADJUSTOR	0.4371	0.4888
STAFFING LEVELS	10	10
ANNUAL WAGE INCREASES THROUGH 6/30/11	3.00%	3.00%
NRECA RETIREMENT COST RATE - % OF GROSS PAYRO	18.94%	18.94%
401 K CONTRIBUTION RATE	4.00%	4.00%
DEPRECIATION RATES		
MAINS	2.80%	2.80%
SERVICES	4.10%	4.10%
METERS & REGULATORS	2.60%	2.60%
GENERAL PLANT	7.00%	7.00%

CONSTRUCTION EXPENDITURES - SCHEDULE F-3

GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF SERVICE SUMMARY - PRESENT RATES  
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b>Operating Revenues</b>	<b>3,242,352</b>	<b>2,421,838</b>	<b>808,496</b>	<b>12,018</b>
<b><u>Operating Expenses:</u></b>				
Purchased Gas	1,399,908	1,042,157	352,524	5,227
Distribution Expense - Operations	334,747	266,979	66,341	1,427
Distribution Expense - Maintenance	319,610	247,731	70,699	1,180
Customer Account Expense	323,757	302,456	20,624	677
Administrative & General Expense	434,787	365,641	67,785	1,361
Depreciation	147,630	120,473	26,458	699
Property Taxes	31,306	21,835	9,417	54
Tax Expense - Other	59,036	49,647	9,204	185
Interest Expense -Other	44,041	41,666	2,306	69
<b>Total Operation Expenses</b>	<b>3,094,822</b>	<b>2,458,585</b>	<b>625,358</b>	<b>10,879</b>
<b>Operating Income (Loss)</b>	<b>147,530</b>	<b>(36,747)</b>	<b>183,138</b>	<b>1,139</b>
<b>Rate Base</b>	<b>2,514,449</b>	<b>2,040,370</b>	<b>462,514</b>	<b>11,565</b>
<b>% Return - Present Rates</b>	<b>5.87%</b>	<b>-1.80%</b>	<b>39.60%</b>	<b>9.85%</b>
<b>Return Index</b>	<b>1.00</b>	<b>(0.31)</b>	<b>6.75</b>	<b>1.68</b>
<b>Allocated Interest - Long-Term</b>	<b>112,205</b>	<b>91,049</b>	<b>20,639</b>	<b>516</b>
<b>Operating TIER - Present Rates</b>	<b>1.31</b>	<b>(0.40)</b>	<b>8.87</b>	<b>2.21</b>

GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF SERVICE SUMMARY - PROPOSED RATES  
TEST FISCAL YEAR SEPTEMBER 30, 2011

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b>Operating Revenues</b>	<b>3,466,484</b>	<b>2,613,913</b>	<b>838,425</b>	<b>14,147</b>
<b><u>Operating Expenses:</u></b>				
Purchased Gas	1,399,908	1,042,157	352,524	5,227
Distribution Expense - Operations	334,747	266,979	66,341	1,427
Distribution Expense - Maintenance	319,610	247,731	70,699	1,180
Customer Account Expense	323,757	302,456	20,624	677
Administrative & General Expense	434,787	365,641	67,785	1,361
Depreciation	147,630	120,473	26,458	699
Property Taxes	31,306	21,835	9,417	54
Tax Expense - Other	59,036	49,647	9,204	185
Interest Expense -Other	44,041	41,666	2,306	69
<b>Total Operation Expenses</b>	<b>3,094,822</b>	<b>2,458,585</b>	<b>625,358</b>	<b>10,879</b>
<b>Operating Income (Loss)</b>	<b>371,662</b>	<b>155,328</b>	<b>213,067</b>	<b>3,268</b>
<b>Rate Base</b>	<b>2,514,449</b>	<b>2,040,370</b>	<b>462,514</b>	<b>11,565</b>
<b>% Return - Proposed Rates</b>	<b>14.78%</b>	<b>7.61%</b>	<b>46.07%</b>	<b>28.26%</b>
<b>Return Index</b>	<b>1.00</b>	<b>0.52</b>	<b>3.12</b>	<b>1.91</b>
<b>Allocated Interest - Long-Term</b>	<b>112,205</b>	<b>91,049</b>	<b>20,639</b>	<b>516</b>
<b>Operating TIER - Proposed Rates</b>	<b>3.31</b>	<b>1.71</b>	<b>10.32</b>	<b>6.33</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
UNIT COSTS**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b><u>UNIT COSTS - PRESENT RATES:</u></b>				
<b><u>DEMAND</u></b>				
Amount	478,944	383,605	94,606	733
Bills	61,183	57,912	3,181	90
Therms	2,871,512	1,960,668	892,780	18,064
Per Bill	7.83	6.62	29.74	8.15
Per Therms	0.1668	0.1957	0.1060	0.0406
<b><u>COMMODITY:</u></b>				
Amount	1,482,045	1,011,941	460,781	9,323
Per Therms	0.4875	0.4875	0.4875	0.4875
<b><u>CUSTOMER:</u></b>				
Amount	1,281,363	1,026,292	253,109	1,962
Per Bill	20.94	17.72	79.57	21.80
<b><u>UNIT COSTS - PROPOSED RATES:</u></b>				
<b><u>DEMAND</u></b>				
Amount	539,926	432,448	106,652	827
Per Bill	50.18	7.47	33.53	9.18
Per Therms	0.3858	0.2206	0.1195	0.0458
<b><u>COMMODITY:</u></b>				
Amount	1,482,045	1,011,941	460,781	9,323
Per Therms	0.4875	0.4875	0.4875	0.4875
<b><u>CUSTOMER:</u></b>				
Amount	1,444,513	1,156,966	285,336	2,211
Per Bill	134.25	19.98	89.70	24.57

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION OF RATE BASE

DESCRIPTION	FACTOR	CONSUMER CLASS			
		TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
<b>GROSS PLANT IN SERVICE:</b>					
Demand	D-1	1,178,936	822,278	354,636	2,022
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	3,455,307	2,946,458	489,266	19,583
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>4,634,243</b>	<b>3,768,736</b>	<b>843,902</b>	<b>21,605</b>
<b>ACCUMULATED DEPRECIATION:</b>					
Demand	D-1	585,191	408,156	176,031	1,004
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	1,715,116	1,462,538	242,858	9,720
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>2,300,307</b>	<b>1,870,694</b>	<b>418,889</b>	<b>10,724</b>
<b>NET PLANT IN SERVICE</b>		<b>2,333,936</b>	<b>1,898,042</b>	<b>425,013</b>	<b>10,881</b>
<b>CWIP:</b>					
Demand	D-1	53,820	37,538	16,190	92
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	157,738	134,508	22,336	894
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>211,558</b>	<b>172,046</b>	<b>38,526</b>	<b>986</b>
<b>WORKING CAPITAL:</b>					
Demand	D-1	24,992	17,431	7,518	43
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	3,794	3,235	537	22
Customer - Unweighted	C-2	6,814	6,446	357	11
<b>Total</b>		<b>35,600</b>	<b>27,112</b>	<b>8,412</b>	<b>76</b>
<b>LESS:</b>					
CONSUMER DEPOSITS	C-1	66,645	56,830	9,437	378
<b>TOTAL RATE BASE</b>		<b>2,514,449</b>	<b>2,040,370</b>	<b>462,514</b>	<b>11,565</b>

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION OF INCOME STATEMENT

DESCRIPTION	FACTOR	TOTAL	CONSUMER CLASS (PRESENT)			CONSUMER CLASS (PROPOSED)			
			RESIDENTIAL	COMMERCIAL	IRRIGATION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
<b>REVENUES:</b>									
Gas Sales - Adjusted		3,202,309	2,383,955	806,399	11,955	3,426,441	2,576,030	836,328	14,084
Service Charges & Other Revenues	C-2	40,043	37,883	2,097	63	40,043	37,883	2,097	63
<b>Total</b>		<b>3,242,352</b>	<b>2,421,838</b>	<b>808,496</b>	<b>12,018</b>	<b>3,466,484</b>	<b>2,613,913</b>	<b>838,425</b>	<b>14,147</b>
<b>OPERATING EXPENSE:</b>									
<b>Purchased Gas</b>	CM-1	<b>1,399,908</b>	<b>1,042,157</b>	<b>352,524</b>	<b>5,227</b>				
<b>Distribution Expense - Operations:</b>									
Demand	D-1	118,969	82,978	35,787	204				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	215,778	184,001	30,554	1,223				
Customer - Unweighted	C-2	-	-	-	-				
<b>Total</b>		<b>334,747</b>	<b>266,979</b>	<b>66,341</b>	<b>1,427</b>				
<b>Distribution Expense - Maintenance:</b>									
Demand	D-1	159,805	111,460	48,071	274				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	159,805	136,271	22,628	906				
Customer - Unweighted	C-2	-	-	-	-				
<b>Total</b>		<b>319,610</b>	<b>247,731</b>	<b>70,699</b>	<b>1,180</b>				
<b>Customer Accounts Expense:</b>									
Demand	D-1	-	-	-	-				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	-	-	-	-				
Customer - Unweighted	C-2	323,757	302,456	20,624	677				
<b>Total</b>		<b>323,757</b>	<b>302,456</b>	<b>20,624</b>	<b>677</b>				
<b>Admin. &amp; General Expense:</b>									
Demand	D-1	123,346	86,030	37,104	212				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	161,066	137,346	22,807	913				
Customer - Unweighted	C-2	150,375	142,265	7,874	236				
<b>Total</b>		<b>434,787</b>	<b>365,641</b>	<b>67,785</b>	<b>1,361</b>				

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION OF INCOME STATEMENT**

<u>DESCRIPTION</u>	<u>FACTOR</u>	<u>CONSUMER CLASS</u>			
		<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b><u>Depreciation:</u></b>					
Demand	D-1	34,887	24,333	10,494	60
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	112,743	96,140	15,964	639
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>147,630</b>	<b>120,473</b>	<b>26,458</b>	<b>699</b>
<b><u>Property Taxes:</u></b>					
Demand	D-1	7,398	5,160	2,225	13
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	23,908	16,675	7,192	41
Customer - Unweighted	C-2	-	-	-	-
<b>Total</b>		<b>31,306</b>	<b>21,835</b>	<b>9,417</b>	<b>54</b>
<b><u>Tax Expense - Other:</u></b>					
Demand	D-1	16,748	11,681	5,038	29
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	21,870	18,649	3,097	124
Customer - Unweighted	C-2	20,418	19,317	1,069	32
<b>Total</b>		<b>59,036</b>	<b>49,647</b>	<b>9,204</b>	<b>185</b>
<b><u>Interest Expense - Other:</u></b>					
Demand	D-1	-	-	-	-
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	-	-	-	-
Customer - Unweighted	C-2	44,041	41,666	2,306	69
<b>Total</b>		<b>44,041</b>	<b>41,666</b>	<b>2,306</b>	<b>69</b>
<b>TOTAL OPERATING EXPENSES</b>		<b>3,094,822</b>	<b>2,458,585</b>	<b>625,358</b>	<b>10,879</b>
<b>OPERATING INCOME (LOSS)</b>		<b>147,530</b>	<b>(36,747)</b>	<b>183,138</b>	<b>1,139</b>
<b>OPERATING INCOME PERCENT</b>		<b>4.55%</b>	<b>-1.52%</b>	<b>22.65%</b>	<b>9.48%</b>

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
FUNCTION OF RATE BASE COMPONENTS

<u>DESCRIPTION</u>	<u>FACTOR</u>	<u>TOTAL</u>	<u>FUNCTION</u>	<u>SPECIFIC DEMAND</u>	<u>COMMODITY</u>	<u>CUST. - WI</u>	<u>CUST.</u>
<b><u>GROSS UTILITY PLANT IN SERVICE</u></b>							
<b><u>Distribution Plant:</u></b>							
Distribution Mains	F-3	2,209,733	2,209,733	1,104,867		1,104,866	
Org. & Land & Land Rights	F-3	44,016	44,016	22,008		22,008	
Services	F-4	909,642	909,642			909,642	
Meters & Regulators	F-5	1,266,208	1,266,208			1,266,208	
<b>Total Distribution Plant</b>	<b>F-7</b>	<b>4,429,599</b>	<b>4,429,599</b>	<b>1,126,875</b>		<b>3,302,724</b>	
<b>Percent</b>		<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>25.44%</b>	<b>0.00%</b>	<b>74.56%</b>
<b>General Plant:</b>							
Structures & Improvements		3,309	3,309	842		2,467	
Office Equipment		2,750	2,750	700		2,050	
Transportation Equipment		-	-	-		-	
Tools & Shop Equipment		132,576	132,576	33,727		98,849	
Power Operated Equipment		66,009	66,009	16,792		49,217	
<b>Total General Plant</b>	<b>F-7</b>	<b>204,644</b>	<b>204,644</b>	<b>52,061</b>		<b>152,583</b>	
<b>Percent</b>		<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>74.56%</b>	<b>0.00%</b>
<b>GROSS PLANT IN SERVICE</b>		<b>4,634,243</b>	<b>4,634,243</b>	<b>1,178,936</b>		<b>3,455,307</b>	
<b>PERCENT</b>		<b>100.00%</b>	<b>100.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>74.56%</b>	<b>0.00%</b>
<b><u>ACCUMULATED DEPRECIATION:</u></b>							
Distribution Plant	F-7	2,129,775	2,129,775	541,808		1,587,967	
General Plant	F-7	170,531	170,531	43,383		127,148	
<b>Total Accumulated Depreciation</b>		<b>2,300,306</b>	<b>2,300,306</b>	<b>585,190</b>		<b>1,715,116</b>	
<b>CWIP</b>		<b>211,559</b>	<b>211,559</b>	<b>53,820</b>		<b>157,739</b>	
<b><u>WORKING CAPITAL:</u></b>							
Materials & Supplies Inventory	F-7	79,032	79,032	18,676		60,356	
Prepays	F-9	23,205	23,213	6,316		10,084	6,813
Consumer Deposits		(66,645)	(66,645)			(66,645)	
<b>Total Working Capital</b>		<b>35,592</b>	<b>35,600</b>	<b>24,992</b>		<b>3,795</b>	<b>6,813</b>
<b>TOTAL RATE BASE</b>		<b>2,581,088</b>	<b>2,369,537</b>	<b>211,559</b>		<b>1,901,725</b>	<b>6,813</b>

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
FUNCTION OF OPERATING EXPENSES

DESCRIPTION	FACTOR	TOTAL	FUNCTION	DEMAND	COMMODITY	CUST. - WT	CUST.
Purchased Gas	F-2	1,399,908	1,399,908		1,399,908		
<b>Distribution Operating Expenses:</b>							
Supervision & Engineering	F-3	46,915	46,915	23,457			23,458
Mains & Services	F-3	138,508	138,508	69,254			69,254
Measuring & Reg Stations	F-1	2,339	2,339	2,339			
Customer Installations	F-4	99,148	99,148				99,148
Other Operating Expenses	F-3	47,837	47,837	23,919			23,918
<b>Total Operating Expenses</b>		<b>334,747</b>	<b>334,747</b>	<b>118,969</b>			<b>215,777</b>
<b>Distribution Maint. Expenses:</b>							
Supervision & Engineering	F-3	19,669	19,669	9,835			9,835
Mains	F-3	299,940	299,940	149,970			149,970
<b>Total Maint. Expenses</b>		<b>319,610</b>	<b>319,610</b>	<b>159,805</b>			<b>159,805</b>
Meter Reading Expenses	F-6	82,279	82,279				41,139
Customer Accounting & Info. Exp.	F-6	209,903	209,903				209,903
Delinquent Accts. & Uncollectible	F-6	31,577	31,577				31,577
<b>Total Customer Accounts Expenses:</b>		<b>323,759</b>	<b>323,759</b>				<b>41,139</b>
Administrative & General Exp.	F-8	434,786	434,786	123,345			161,065
Depreciation	F-7	147,019	147,630	34,887			112,743
Property Taxes	F-7	31,306	31,306	7,398			23,908
Taxes - Other	F-8	59,035	59,035	16,748			20,418
Interest Expense - Other	F-6	44,042	44,042				44,042
<b>TOTAL OPERATING EXPENSES</b>		<b>3,094,211</b>	<b>3,094,822</b>	<b>461,152</b>	<b>1,399,908</b>		<b>736,307</b>
<b>FUNCT. OF SALARIES &amp; WAGES</b>							
Operating Expenses	F-3	143,568	143,568	71,784			71,784
Maintenance Expenses	F-3	133,201	133,201	66,600			66,601
Meter Reading & Installation	F-6	79,250	79,250				36,932
Customer Accounting	F-6	131,778	131,778				131,778
<b>Total</b>		<b>487,796</b>	<b>487,796</b>	<b>138,384</b>			<b>180,703</b>
<b>Percent</b>		<b>100.00%</b>	<b>100.00%</b>	<b>28.37%</b>	<b>0.00%</b>		<b>37.04%</b>
<b>FUNCTION OF O&amp;M LESS PG</b>							
<b>Percent</b>		<b>1,694,303</b>	<b>1,694,914</b>	<b>461,152</b>			<b>736,307</b>
<b>Percent</b>		<b>100.00%</b>	<b>100.04%</b>	<b>27.22%</b>	<b>0.00%</b>		<b>43.46%</b>
<b>Percent</b>		<b>100.00%</b>	<b>100.00%</b>	<b>27.21%</b>			<b>43.44%</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
ALLOCATION FACTORS**

<b>FUNCTION FACTOR</b>	<b>DESCRIPTION</b>	<b>TOTAL</b>	<b>DEMAND</b>	<b>COMMODITY</b>	<b>WEIGHTED CUSTOMER</b>	<b>CUSTOMER</b>
F-1	Demand	100.00%	100.00%			
F-2	Commodity	100.00%		100.00%		
F-3	Distribution Mains	100.00%	100.00%			
F-3a	Mains & Services	100.00%	50.00%		50.00%	
F-4	Services	100.00%			100.00%	
F-5	Meters & regulators	100.00%			100.00%	
F-6	Customer Accounts	100.00%				100.00%

**DERIVED FUNCTION FACTOR**

<b>DESCRIPTION</b>	<b>TOTAL</b>	<b>DEMAND</b>	<b>COMMODITY</b>	<b>WEIGHTED CUSTOMER</b>	<b>CUSTOMER</b>
F-7 Gross Plant in Service	100.00%	23.63%		76.37%	
F-8 Salaries & Wages	100.00%	28.37%	0.00%	37.04%	34.59%
F-9 O & M Less Purchased gas	100.04%	27.22%	0.00%	43.46%	29.36%

**CLASS**

**ALLOCATION FACTORS**

<b>DESCRIPTION</b>	<b>TOTAL</b>	<b>CUSTOMER CLASS</b>		
		<b>RESID.</b>	<b>COMM.</b>	<b>IRRIG.</b>
D-1 Winter Peak Demand	100.000%	69.748%	30.081%	0.171%
CM-1 Commodity	100.000%	74.445%	25.182%	0.373%
C-1 Customer - Weighted	100.000%	85.273%	14.160%	0.567%
C-2 Customer - Unweighted	100.000%	94.606%	5.237%	0.157%

SCHEDULE H-1

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Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
SUMMARY OF REVENUES BY CUSTOMER CLASS  
PRESENT AND PROPOSED RATES  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

	<u>REVENUES IN TEST YEAR</u>		<u>PROPOSED INCREASE</u>	
	<u>PRESENT</u>	<u>PROPOSED</u>	<u>AMOUNT</u>	<u>%</u>
	<u>( a )</u>	<u>( a )</u>	<u>( b )</u>	<u>( b )</u>
RESIDENTIAL	2,383,955	2,576,030	192,075	8.06%
IRRIGATION	11,955	14,084	2,128	17.80%
COMMERCIAL	806,399	836,328	29,928	3.71%
<b>TOTAL</b>	<b>3,202,310</b>	<b>3,426,441</b>	<b>224,131</b>	<b>7.00%</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS  
ANALYSIS OF REVENUE BY DETAIL CLASS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<b>CLASS OF SERVICE</b>	<b>ANNUAL AVERAGES</b>		<b>REVENUES</b>		<b>INCREASE</b>	
	<b>CUSTOMERS</b>	<b>THERMS</b>	<b>PRESENT (a)</b>	<b>PROPOSED (a)</b>	<b>AMOUNT (a)</b>	<b>PERCENT (a)</b>
<b>RESIDENTIAL :</b>						
SCHEDULE A	4,826	406.27	2,383,955	2,576,030	192,075	8.06%
<b>IRRIGATION :</b>						
SCHEDULE I	8	2,409	11,955	14,084	2,128	17.80%
<b>COMMERCIAL :</b>						
SCHEDULE B	265	3,368	806,399	836,328	29,928	3.71%
<b>TOTAL</b>	<b>5,099</b>	<b>6,183</b>	<b>3,202,310</b>	<b>3,426,441</b>	<b>224,131</b>	<b>7.00%</b>

**RECAP SCHEDULES:**

(a) H-1	40043
	<u>3,242,353</u>

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PRESENT RATES REVENUE CALCULATIONS ( a )  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		<u>SERVICE</u>		<u>FUEL ADJUSTOR</u>	
		<u>AVAILABILITY</u>	<u>GAS</u>		
RESIDENTIAL	PER MONTH	13.00	0.34500	0.43705	
IRRIGATION	PER MONTH	21.00	0.16000	0.43705	
COMMERCIAL	PER MONTH	24.00	0.34100	0.43705	

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>PGA</u>	<u>FUEL COST UNDERBILLED</u>	<u>PRESENT REVENUE</u>
RESIDENTIAL	748,994	676,430	856,911	101,620	2,383,955
IRRIGATION	234	2,890	7,895	936	11,955
COMMERCIAL	65,501	304,437	390,189	46,272	806,399
<b>TOTAL</b>	<b>814,729</b>	<b>983,758</b>	<b>1,254,995</b>	<b>148,828</b>	<b>3,202,310</b>

<u>PROOF:</u>	<u>CUSTOMER BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>TOTAL</u>
RESIDENTIAL	56,180	13.00	730,340	1,732	22,520	752,860
IRRIGATION	77	21.00	1,617	13	273	1,890
COMMERCIAL	3,142	24.00	75,408	39	937	76,345
	<b>59,399</b>		<b>807,365</b>	<b>1,784</b>	<b>23,730</b>	<b>831,095</b>

	<u>PARTIAL BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>NET</u>
RESIDENTIAL	1,732	13.00	22,516	1,732	22,516	-
IRRIGATION	13	21.00	273	13	273	-
COMMERCIAL	39	24.00	936	39	936	-
	<b>1,784</b>		<b>23,725</b>	<b>1,784</b>	<b>23,725</b>	-

SCHEDULE H-2-1a

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Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROPOSED RATES REVENUE CALCULATIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<b>RATES:</b>		<b>SERVICE AVAILABILITY</b>	<b>GAS</b>	<b>FUEL ADJUSTOR</b>
RESIDENTIAL	PER MONTH	16.25	0.34500	0.48888
IRRIGATION	PER MONTH	26.25	0.16000	0.48888
COMMERCIAL	PER MONTH	30.00	0.34100	0.48888

<b>SALES DATA:</b>	<b>THERMS</b>	<b>AVERAGE # OF CUSTOMERS</b>	<b>TOTAL BILLINGS</b>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	<b>SERVICE AVAILABILITY</b>	<b>GAS</b>	<b>PGA</b>	<b>Proposed REVENUE</b>	
RESIDENTIAL	941,070	676,430	958,529	2,576,030	192,075
IRRIGATION	2,363	2,890	8,831	14,084	2,128
COMMERCIAL	95,430	304,437	436,460	836,328	29,929
<b>TOTAL</b>	<b>1,038,863</b>	<b>983,758</b>	<b>1,403,821</b>	<b>3,426,442</b>	<b>224,132</b>

<b>PROOF:</b>	<b>CUSTOMER BILLS</b>	<b>SERVICE AVAILABILITY</b>	<b>EXTENDED</b>	<b>PARTIAL BILLS</b>	<b>AVAILABILITY</b>	<b>TOTAL</b>
RESIDENTIAL	56,180	16.25	912,925	1,732	28,150	941,075
IRRIGATION	77	26.25	2,021	13	341	2,363
COMMERCIAL	3,142	30.00	94,260	39	1,171	95,431
	<b>59,399</b>		<b>1,009,206</b>	<b>1,784</b>	<b>29,663</b>	<b>1,038,869</b>

	<b>PARTIAL BILLS</b>	<b>SERVICE AVAILABILITY</b>	<b>EXTENDED</b>	<b>PARTIAL BILLS</b>	<b>AVAILABILITY</b>	<b>NET</b>
RESIDENTIAL	1,732	16.25	28,145	1,732	28,145	-
IRRIGATION	13	26.25	341	13	341	-
COMMERCIAL	39	30.00	1,170	39	1,170	(0)
	<b>1,784</b>		<b>29,656</b>	<b>1,784</b>	<b>29,657</b>	<b>(0)</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROPOSED RATES REVENUE CALCULATIONS ( a )  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		<u>SERVICE</u>	<u>ENERGY</u>	<u>FUEL ADJUSTOR</u>
		<u>AVAILABILITY</u>		<u>PGA</u>
RESIDENTIAL	PER MONTH	16.25	0.34500	0.48888
IRRIGATION	PER MONTH	26.25	0.16000	0.48888
COMMERCIAL	PER MONTH	30.00	0.34100	0.48888

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE #</u>	<u>TOTAL</u>
		<u>OF CUSTOMERS</u>	<u>BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	-	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	<u>SERVICE</u>	<u>ENERGY</u>	<u>FUEL</u>	<u>PROPOSED</u>	
	<u>AVAILABILITY</u>		<u>ADJUSTOR</u>	<u>REVENUE</u>	
RESIDENTIAL	941,070	676,430	958,529	2,576,030	192,075
IRRIGATION	2,363	2,890	8,831	14,084	2,128
COMMERCIAL	95,430	304,437	436,460	836,328	29,928
<b>TOTALS</b>	<b>1,038,863</b>	<b>983,758</b>	<b>1,403,821</b>	<b>3,426,441</b>	<b>224,131</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS  
CHANGE IN REPRESENTATIVE RATE SCHEDULES  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<b>RATE SCHEDULE</b>	<b><u>BLOCK</u></b>	<b>RATES PROPOSED <u>(b)</u></b>
<b><u>RESIDENTIAL</u></b>		
A	THERM	0.34500
	FUEL ADJUSTOR	0.48888
	SERVICE AVAILABILITY	16.25000
<b><u>IRRIGATION</u></b>		
I	THERM	0.16000
	FUEL ADJUSTOR	0.48888
	MINIMUM ANNUAL/HP	26.25000
<b><u>COMMERCIAL</u></b>		
B	THERM	0.34100
	FUEL ADJUSTOR	0.48888
	SERVICE AVAILABILITY	30.00000
 OTHER REVENUES		

**SUPPORTING SCHEDULES:**

- (a) TARIFF SCHEDULES EFFECTIVE 6/28/01 - DECISION NO.63850
- (b) H-3-1 PROPOSED TARIFF SCHEDULES

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TYPICAL BILL ANALYSIS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RESIDENTIAL</u>	<u>MONTHLY THERMS</u>	<u>PRESENT</u>	<u>MONTHLY BILL PROPOSED \$ INCREASE</u>	<u>% INCREASE</u>	
A	10	20.82	24.59	3.77	18.10%
	20	28.64	32.93	4.29	14.97%
	30	36.46	41.27	4.80	13.18%
	36	41.15	46.27	5.12	12.43%
	40	44.28	49.61	5.32	12.02%
	50	52.10	57.94	5.84	11.21%
	75	71.65	78.79	7.14	9.96%
	100	91.21	99.64	8.43	9.25%
	125	110.76	120.48	9.73	8.78%
	150	130.31	141.33	11.02	8.46%
	200	169.41	183.03	13.62	8.04%
	250	208.51	224.72	16.21	7.77%
	300	247.62	266.41	18.80	7.59%
	400	325.82	349.80	23.98	7.36%
	500	404.03	433.19	29.16	7.22%
	750	599.54	641.66	42.12	7.03%
	1000	795.05	850.13	55.08	6.93%

GRAHAM COUNTY UTILITIES, INC. - GAS  
TYPICAL BILL ANALYSIS  
TEST FISCAL YEAR SEPTEMBER 30, 2011

MONTHLY		MONTHLY BILL			
<u>IRRIGATION</u>	<u>THERMS</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
I	10	26.97	32.74	5.77	21.39%
	25	35.93	42.47	6.55	18.22%
	50	50.85	58.69	7.84	15.42%
	59	56.23	64.53	8.31	14.78%
	75	65.78	74.92	9.14	13.89%
	100	80.71	91.14	10.43	12.93%
	125	95.63	107.36	11.73	12.26%
	150	110.56	123.58	13.02	11.78%
	175	125.48	139.80	14.32	11.41%
	200	140.41	156.03	15.62	11.12%
	250	170.26	188.47	18.21	10.69%
	300	200.12	220.91	20.80	10.39%
	350	229.97	253.36	23.39	10.17%
	400	259.82	285.80	25.98	10.00%
	450	289.67	318.25	28.57	9.86%
	500	319.53	350.69	31.16	9.75%
	750	468.79	512.91	44.12	9.41%
	1000	618.05	675.13	57.08	9.24%
	1250	767.31	837.35	70.04	9.13%
	1500	916.58	999.57	82.99	9.05%
	1750	1065.84	1161.79	95.95	9.00%
	2000	1215.10	1324.01	108.91	8.96%
	2500	1513.63	1648.45	134.82	8.91%
	3000	1812.15	1972.89	160.74	8.87%
	4000	2409.20	2621.77	212.56	8.82%
	5000	3006.25	3270.65	264.39	8.79%

**SCHEDULE H-4**

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Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TYPICAL BILL ANALYSIS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>COMMERCIAL</u>	<u>MONTHLY THERMS</u>	<u>MONTHLY BILL PRESENT</u>	<u>PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
B	10	31.78	38.30	6.52	20.51%
	20	39.56	46.60	7.04	17.79%
	50	62.90	71.49	8.59	13.66%
	100	101.81	112.99	11.18	10.98%
	150	140.71	154.48	13.77	9.79%
	200	179.61	195.98	16.37	9.11%
	250	218.51	237.47	18.96	8.68%
	289	248.86	269.84	20.98	8.43%
	300	257.42	278.96	21.55	8.37%
	350	296.32	320.46	24.14	8.15%
	400	335.22	361.95	26.73	7.97%
	450	374.12	403.45	29.32	7.84%
	500	413.03	444.94	31.91	7.73%
	750	607.54	652.41	44.87	7.39%
	1,000	802.05	859.88	57.83	7.21%
	1,250	996.56	1,067.35	70.79	7.10%
	1,500	1,191.08	1,274.82	83.74	7.03%
	1,750	1,385.59	1,482.29	96.70	6.98%
	2,000	1,580.10	1,689.76	109.66	6.94%
	2,500	1,969.13	2,104.70	135.57	6.88%

**SCHEDULE H-5**

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Date: June 21, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**RESIDENTIAL**

<b>THERM RANGE</b>	<b>NUMBER OF BILLS</b>	<b>THERMS BY BLOCK</b>	<b><u>CUMULATIVE BILLS</u></b>		<b><u>CUMULATIVE THERM USAGE</u></b>	
			<b>NUMBER</b>	<b>% OF TOTAL</b>	<b>THERMS</b>	<b>% OF TOTAL</b>
0-10	15,774	90,347	15,774	27.24%	90,347	4.61%
11-20	14,251	214,689	30,025	51.85%	305,036	15.56%
21-30	7,966	197,190	37,991	65.60%	502,226	25.62%
31-50	7,022	275,760	45,013	77.73%	777,986	39.68%
51-100	9,111	651,524	54,124	93.46%	1,429,510	72.91%
101-150	2,840	338,252	56,964	98.36%	1,767,762	90.16%
151-200	674	114,701	57,638	99.53%	1,882,463	96.01%
OVER 200	274	78,205	57,912	100.00%	1,960,668	100.00%
<b>TOTAL</b>	<b><u>57,912</u></b>	<b><u>1,960,668</u></b>				

AVERAGE NUMBER OF CUSTOMERS **4,826**  
AVERAGE THERMS USED PER YEAR **406**  
MEDIAN ANNUAL USAGE **339**

GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
IRRIGATION

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	38	68	38	42.22%	68	0.38%
11-20	5	70	43	47.78%	138	0.76%
21-30	1	28	44	48.89%	166	0.92%
31-50	5	176	49	54.44%	342	1.89%
51-100	7	547	56	62.22%	889	4.92%
101-150	7	901	63	70.00%	1,790	9.91%
151-200	4	747	67	74.44%	2,537	14.04%
OVER 200	23	15,527	90	100.00%	18,064	100.00%
	<b>90</b>	<b>18,064</b>				
AVERAGE NUMBER OF CUSTOMERS			8			
AVERAGE THERMS USED PER YEAR			2,409			
MEDIAN ANNUAL USAGE			428			

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
COMMERCIAL**

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	1,242	3,246	1,242	39.04%	3,246	0.36%
11-50	681	17,609	1,923	60.45%	20,855	2.34%
51-100	332	24,233	2,255	70.89%	45,088	5.05%
101-200	276	39,486	2,531	79.57%	84,574	9.47%
201-300	152	37,554	2,683	84.34%	122,128	13.68%
301-500	199	78,414	2,882	90.60%	200,542	22.46%
OVER 500	299	692,238	3,181	100.00%	892,780	100.00%
	<b>3,181</b>	<b>892,780</b>				

**AVERAGE NUMBER OF CUSTOMERS** 265  
**AVERAGE THERMS USED PER YEAR** 3,368  
**MEDIAN ANNUAL USAGE** 684

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COMMERCIAL BILL COUNT**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**  
**THERMS SOLD**

<u>BLOCK</u>	<u>Oct-10</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>Jun-11</u>	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep-11</u>	<u>TOTAL</u>
0-10	395	360	115	52	46	87	262	416	410	382	360	361	3,246
11-50	1,120	1,931	1,719	1,203	1,172	1,730	2,270	1,941	1,328	1,092	1,093	1,010	17,609
51-100	1,092	1,434	3,797	3,367	2,890	3,377	2,642	1,252	1,155	1,007	1,133	1,087	24,233
101-200	2,064	1,886	5,629	7,425	7,004	6,210	3,528	1,918	1,031	766	688	1,337	39,486
201-300	1,329	2,398	6,094	5,636	6,839	5,631	2,478	1,824	1,492	1,323	1,007	1,503	37,554
301-500	3,564	3,351	8,510	13,059	11,957	12,113	5,836	3,622	3,564	3,113	5,298	4,427	78,414
OVER 500	30,149	47,394	88,452	140,556	137,805	72,689	47,424	36,385	26,007	24,242	18,795	22,340	692,238
<b>TOTAL</b>	<b>39,713</b>	<b>58,754</b>	<b>114,316</b>	<b>171,298</b>	<b>167,713</b>	<b>101,837</b>	<b>64,440</b>	<b>47,358</b>	<b>34,987</b>	<b>31,925</b>	<b>28,374</b>	<b>32,065</b>	<b>892,780</b>
<u>BLOCK</u>													
0-10	154	116	32	21	19	31	75	122	163	171	169	169	1,242
11-50	49	76	58	38	38	58	88	79	54	47	49	47	681
51-100	15	20	53	44	38	46	38	18	15	14	16	15	332
101-200	14	14	41	52	47	43	25	13	7	6	5	9	276
201-300	5	10	26	23	28	22	10	7	6	5	4	6	152
301-500	9	8	22	34	30	32	14	9	9	8	13	11	199
OVER 500	13	16	36	57	69	38	18	15	11	12	6	8	299
<b>TOTAL</b>	<b>259</b>	<b>260</b>	<b>268</b>	<b>269</b>	<b>269</b>	<b>270</b>	<b>268</b>	<b>263</b>	<b>265</b>	<b>263</b>	<b>262</b>	<b>265</b>	<b>3,181</b>



**GRAHAM COUNTY UTILITIES, INC. - GAS  
RESIDENTIAL BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>BLOCK</u>	<u>Oct-10</u>	<u>Nov-10</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>Jun-11</u>	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep-11</u>	<u>TOTAL</u>
<u>THERMS SOLD</u>													
0-10	11,690	6,557	1,434	965	892	1,290	3,396	7,557	12,581	13,269	15,745	14,971	90,347
11-20	28,244	24,039	5,237	2,647	2,778	5,594	19,033	26,934	26,872	25,651	22,783	24,877	214,689
21-30	16,856	29,069	13,611	5,241	4,749	16,442	34,126	28,285	15,451	13,375	9,520	10,465	197,190
31-50	7,773	27,088	53,264	23,644	22,149	53,495	46,856	18,451	7,356	6,359	4,232	5,093	275,760
51-100	2,845	13,500	133,557	169,207	168,954	125,396	24,692	6,591	2,102	1,656	1,495	1,529	651,524
101-150	213	1,261	37,429	125,300	126,987	41,839	2,501	1,221	468	226	237	570	338,252
151-200	161	154	10,925	43,202	48,064	10,569	788	154	511	173			114,701
OVER 200	-	401	5,290	35,650	31,316	3,917	926	260	229	216			78,205
<b>TOTAL</b>	<b>67,782</b>	<b>102,069</b>	<b>260,747</b>	<b>405,856</b>	<b>405,889</b>	<b>258,542</b>	<b>132,318</b>	<b>89,453</b>	<b>65,570</b>	<b>60,925</b>	<b>54,012</b>	<b>57,505</b>	<b>1,960,668</b>
<u>COUNT</u>													
0-10	1,961	1,154	321	238	218	310	687	1,317	2,097	2,281	2,681	2,509	15,774
11-20	1,883	1,566	332	167	173	352	1,199	1,755	1,824	1,747	1,566	1,687	14,251
21-30	690	1,174	533	208	188	640	1,362	1,148	638	551	397	437	7,966
31-50	209	713	1,313	575	541	1,326	1,222	499	197	174	114	139	7,022
51-100	43	209	1,925	2,253	2,266	1,809	392	106	35	26	23	24	9,111
101-150	2	11	316	1,051	1,064	351	22	10	4	2	2	5	2,840
151-200	1	1	64	253	282	63	5	1	3	1			674
OVER 200	-	1	20	107	124	16	3	1	1	1			274
<b>TOTAL</b>	<b>4,789</b>	<b>4,829</b>	<b>4,824</b>	<b>4,852</b>	<b>4,856</b>	<b>4,867</b>	<b>4,892</b>	<b>4,837</b>	<b>4,799</b>	<b>4,783</b>	<b>4,783</b>	<b>4,801</b>	<b>57,912</b>

**GRAHAM COUNTY UTILITIES, INC.**

**RATE SCHEDULE GA - RESIDENTIAL GAS SERVICE**

**I. Availability**

Available to all residential customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

GRAHAM COUNTY UTILITIES, INC.

RATE SCHEDULE GB – COMMERCIAL GAS SERVICE

**I. Availability**

Available to all commercial customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITIES, INC.**

**RATE SCHEDULE GI – IRRIGATION GAS SERVICE**

**I. Availability**

Available to all irrigation customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR**

**I. Applicability**

Applicable to all therm sales of gas provided to all customers within the Utility's certificated service area.

**II. Gas Adjustment Procedure**

The Purchased Gas Adjustor ("PGA") rate will be increased or decreased on a monthly basis to compensate for the difference between the actual cost of natural gas and the amount the Utility recovers for its cost of natural gas. The PGA rate is based on a rolling twelve month average cost, limited by a \$0.15 per therm annual bandwidth. The PGA rate cannot vary by more than \$0.15 per therm from any rate in place during the previous twelve months as authorized by the ACC in Decision No. 71690 dated May 3, 2010.

**III. PGA Bank Balance**

The Utility shall establish and maintain a PGA Bank Balance (PGABB). Entries shall be made to this account each month, if appropriate, as follows:

1. A debit or credit entry equal to the difference between (a) the actual purchased gas cost for the month and (b) the amount determined by multiplying the Purchased Gas Adjustor Rate as set forth on the Statement of Charges in this Tariff by the therms billed during the month under the applicable rate schedules of this Tariff.
2. A debit or credit entry for refunds or payments authorized by the ACC.
3. A debit or credit entry for interest to be applied to over- and under-collected bank balances based on the Three Month Financial Commercial Paper Rate as published by the Federal Reserve as authorized by the ACC in Decision No. 68600 dated March 23, 2006.

**IV. Monthly Informational Filings**

Each month the Utility shall make a cost of gas informational filing with Commission Staff to include any and all information required by Decision No. 61225 dated October 30, 1998.

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR**

*(Continued)*

**V. Additional Requirements**

A special review is required if the PGABB reaches an over- or under-collection in the amount of \$250,000 for three consecutive months as authorized by the ACC in Decision No. 71690 dated May 3, 2010. The Utility must file an application for a PGABB surcharge adjustment upon completing the Monthly Informational Filing that illustrates the threshold has been exceeded or file a notice in the docket explaining why an adjustment is not necessary at this time. The ACC, upon review, may authorize the balance to be amortized through a predetermined surcharge rate included as part of the PGA for a specified period.

**VI. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITES, INC. - GAS DIVISION**

**RATES AND CHARGES FOR OTHER SERVICES**

<b><u>I. Description of Service</u></b>	<b><u>Rate</u></b>
Establishment of Service - Regular Hours	\$30.00
Establishment of Service - After Hours	\$50.00
Reconnection of Service - Regular Hours	\$30.00
Reconnection of Service - After Hours	\$50.00
Meter Reread Charge (No Charge for Read Error)	\$10.00
Meter Test Fee	\$10.00
Insufficient Funds Check	\$25.00
Interest Rate on Customer Deposits	6.00%
Late Payment (Per Month & Per Total Bill)	1.50%

**II. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITES, INC.  
STATEMENT OF GAS RATES\***

<b><u>Description</u></b>	<b><u>Distribution Rate</u></b>
<b><u>Rate Schedule GA – Residential Gas Service</u></b>	
Monthly Service Availability Charge	\$16.25
Delivery Charge – Per Therm for all gas	\$0.34500

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**Rate Schedule GB – Commercial Gas Service**

Monthly Service Availability Charge	\$30.00
Delivery Charge – Per Therm for all gas	\$0.34100

**Rate Schedule GI – Irrigation Gas Service**

Monthly Service Availability Charge	\$26.25
Delivery Charge – Per Therm for all gas	\$0.16000

\* The above rates do not reflect the Purchased Gas Adjustor (PGA) that is subject to adjustment as described in Schedule PGA – Purchased Gas Adjustor. All Charges are subject to adjustment for any applicable taxes or regulatory assessments.

**Effective Date**

This rate schedule is effective for all service on or after \_\_\_\_\_, as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

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**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**GAS DIVISION**

**RULES AND REGULATIONS**

**In Accordance With  
Arizona Corporation Commission**

6. For the purposes of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install or read a meter or turn the service on.
- B. Service lines**  
(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)
1. Customer provided facilities
    - a. An applicant for services shall be responsible for the safety and maintenance of all customer piping from the point of delivery.
    - b. Meters shall be installed in a location suitable to the utility where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the customer. The customer shall provide, without cost to the utility, at a suitable and easily accessible location, sufficient and proper space for the installation of meters.
    - c. Where the meter or service line location on the customer's premises is changed at the request of the customer or due to alterations on the customer's premises, the customer shall provide and have installed at his expense all customer piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
    - d. An applicant shall be responsible for all labor, material, and one-half (1/2) the overhead costs of the new service as a non-refundable contribution in aid of construction.
  2. Company provided facilities
    - a. Graham County Utilities, Inc. (GCU) does not provide a free footage or equipment allowance.
  3. Easements and rights-of-way
    - a. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure proper service connection. Failure on the part of the customer to grant adequate easement and right-of-way shall be grounds for the utility to refuse service.
    - b. When a utility discovers that a customer or his agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the utility's access to equipment, the utility shall notify the customer or his agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the customer's expense.

## **PART VI. Main extensions**

- A. General requirements**  
(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)
1. Each utility shall file for Commission approval a main extension tariff which incorporates the provisions of this rule and specifically defines the conditions governing main extensions.
  2. Upon request by an applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be paid by said applicant.
  3. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall upon request, make available within 90 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant authorizes the utility to proceed with construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimate. Subdividers providing the utility with approved plans shall be provided with plans, specifications or cost estimates within 45 days after receipt of the deposit referred to above.
  4. All main extension agreements requiring payment by the applicant shall be in writing and signed by each party.
  5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.
- B. Minimum written agreement requirements**
1. Each main extension agreement shall, at a minimum, include the following information:
    - a. Name and address of applicant(s)

- b. Proposed service address or location
  - c. Description of requested service
  - d. Description and sketch of the requested main extension
  - e. A cost estimate to include materials, labor, and other costs as necessary
  - f. Payment terms
  - g. A concise explanation of any refunding provisions, if applicable. The refunding provisions shall be as follows:
    - I. Where the number of potential services has been determined by final plats.
      - 1. Each subsequent hookup on the line extension after the first customer shall pay a percentage equal to the total cost estimate divided by the number of lots. This amount shall then be refunded to the first customer provided it has not been five years since the time of payment as outlined in rule C-5.
    - II. Where the number of potential services is not readily available and must be estimated by the Cooperative.
      - 1. Each subsequent hookup on the line extension after the first customer shall pay a percentage of the original cost as determined by the distance from the main to the service location. This amount shall then be refunded equally between the prior customers provided it has not been five years since the time of payment as outlined in rule C-5.
  - h. The utility's estimated start date and completion date for construction of the main extension
2. Each applicant shall be provided with a copy of the written main extension agreement.
- C. Main and Service line extension requirements. Each main line extension shall include the following provisions:
- 1. GCU does not provide a free footage allowance. The applicant shall be responsible for all material, labor, and one-half (1/2) the overhead costs of the main line extension.
  - 2. Line extension measurement shall be along the route of construction required.
  - 3. The timing and methodology by which the utility will refund any aid to construction as additional customers are served off the main extension. The customer may request an annual survey to determine if additional customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally paid.
  - 4. All aid to construction shall be non-interest bearing.
  - 5. All refunding provisions are null and void after five years from the date of payment of the contribution in aid of construction.
- D. Extensions For Residential Subdivision Developments and Mobile Home Parks
- 1. Extensions to the Perimeter of Duly Recorded Real Estate Subdivisions and Mobile Home Parks.
    - a. Gas main extensions will generally be made when mutually agreed upon by the Company and the applicant in areas where the Company does maintain existing facilities for its operating convenience.
    - b. The Applicant shall provide at his expense the trenching, backfilling (including any imported backfill required), compaction, repaving and earth-work in preparation for installation of facilities. At its option, the Company may elect, at the applicants expense, to perform the necessary activities to fulfill the applicants responsibility hereunder provided the expense to the applicant is equal or less than that which would otherwise be borne.
  - 2. Extensions Within Duly Recorded Real Estate Subdivisions and Mobile Home Parks
    - a. Distribution facilities will be constructed by the Company within a duly recorded subdivision or mobile home park in advance of application for service by permanent customers after the Company and the Developer of said subdivision or mobile home park have entered into a written contract which provides for net construction costs to be paid as contributions in aid of construction. Net construction costs shall be all costs furnished by the Company to install such facilities and meters and regulators required including all material, labor, and overhead costs.
    - b. Rights-of-way and easements suitable to the Company must be furnished by the developer at no cost to the Company and in reasonable time to meet service requirements. No facilities shall be installed until the final grades have been established and furnished to the Company. In addition, the easement strips, alleys and streets must be graded to within six (6) inches of final grade by the developer before the Company will commence construction and must be maintained by the developer during construction.
  - 3. There is no free Main and Service Line Extension Footage for Residential Subdivision Developments and Mobile Home Parks.
  - 4. Residential Subdivision Developments and Mobile Home Parks shall be excluded from any refunding provisions except to the individual developer when additional customers have been connected to and are using service from the extension of the main line outside the development.

<b>FINANCIAL AND STATISTICAL REPORT</b>  Round ALL AMOUNTS to nearest dollar.	<b>GRAHAM COUNTY UTILITIES, INC.</b> GAS SYSTEM PIMA, AZ 85543 <b>MONTH ENDING</b> December 31, 2011
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**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

<u>Kirk Arroy</u> <b>SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT</b>	<u>1/25/12</u> <b>DATE</b>
<u>Steve M. Linder</u> <b>SIGNATURE OF MANAGER</b>	<u>1-25-12</u> <b>DATE</b>

PART A. STATEMENT OF OPERATIONS				December
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,243,441	3,018,026	3,186,143	352,564
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	1,661,257	1,139,786	1,318,079	126,746
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	331,352	367,318	317,263	42,977
6. Distribution Expense - Maintenance	301,761	334,069	289,272	18,149
7. Consumer Accounts Expense	322,183	322,169	316,102	32,835
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	573,462	423,916	573,991	36,730
11. Total Operation & Maintenance Expense (2 - 10)	3,190,015	2,587,257	2,814,707	257,437
12. Depreciation and Amortization Expense	148,763	157,448	151,097	13,180
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	95,337	118,974	106,994	9,178
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	57,037	46,552	81,510	3,003
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,491,152	2,910,231	3,154,308	282,798
20. Patronage Capital & Operating Margins (1 - 19)	(247,712)	107,794	31,835	69,766
21. Non Operating Margins - Interest	386	-	-	-
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	8,050	11,311	8,050	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(239,276)	119,105	39,885	69,766

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	25	32			
2. Service Retired		-	6. Miles Distribution	234	237
3. Total Services in Place	5,267	5,299			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	234	237

<b>FINANCIAL AND STATISTICAL REPORT</b> Round ALL AMOUNTS to nearest dollar.	<b>BORROWER DESIGNATION</b> <b>GAS SYSTEM</b> <b>MONTH ENDING</b> <b>December 31, 2011</b>
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PART C. BALANCE SHEET			
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	5,023,810	26. Memberships	28,912
2. Construction Work in Progress	4,680	27. Patronage Capital	(592,447)
3. Total Utility Plant (1 + 2)	5,028,491	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	2,549,205	29. Operating Margins - Current Year	107,794
5. Net Utility Plant (3 -4)	2,479,286	30. Non Operating Margins	11,311
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	(444,430)
8. Invest in Assoc Org - General Funds	199,180	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,904,627
11. Special Funds	-	(Payments - Unapplied \$	
12. Total Other Property & Investments (6 thru 11)	199,180	35 Total Long-Term Debt(33 + 34)	1,904,627
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	1,419,045
15. Special Deposits	-	38. Consumers Deposits	69,765
16. Temporary Investments	-	39. Other Current & Accrued Liabilities	56,388
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	1,545,198
18. Accounts Receivable - Sales of Gas	212,497	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	(1,682)	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	77,122	43. Total Liabilities & Other Credits (32 +	-
21. Prepayments	23,776	35 + 40 thru 42)	3,005,395
22. Other Current & Accrued Assets	-	<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>	
23. Total Current & Accrued Assets (13 thru 22)	311,713	Balance Beginning of Year	1,097,119
24. Deferred Debits	15,216	Amounts Received This Year (Net)	68,343
25. Total Assets & Other Debits (5+12+23+24)	3,005,395	TOTAL Contributions in Aid of Construction	1,165,462

PART D. CONSUMER SALES AND REVENUE DATA					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,884	297,752	250,583.96	1,989,652	2,215,194
2. IRRIGATION SALES	7	1,077	619.66	18,712	11,467
3. COMM & INDUSTRIAL	271	146,045	97,867.80	929,304	750,900
4. TOTAL GAS SALES	5,162	444,874	349,071.42	2,937,668	2,977,562
5. OTHER GAS REVENUE			3,493.04		40,464
6. TOTAL	5,162	444,874	352,564.46	2,937,668	3,018,026

PART E. GAS STATISTICS					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	574,840	2,756,260	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	129,966	(181,408)
3. TOTAL PURCHASED	574,840	2,756,260	8. % SYSTEM LOSS	22.61%	-6.58%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	444,874	2,937,668	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

<b>FINANCIAL AND STATISTICAL REPORT</b>  Round ALL AMOUNTS to nearest dollar.	<b>GRAHAM COUNTY UTILITIES, INC.</b> GAS SYSTEM PIMA, AZ 85543 <b>MONTH ENDING</b> December 31, 2010
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**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

<i>Kirk Gray</i> <b>SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT</b>	<u>1/26/11</u> <b>DATE</b>
<i>Steve M. Lino</i> <b>SIGNATURE OF MANAGER</b>	<u>1-26-11</u> <b>DATE</b>

PART A. STATEMENT OF OPERATIONS				December
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,561,818	3,243,441	4,199,132	381,157
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	2,253,862	1,661,258	2,603,898	179,774
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	297,959	331,352	317,587	41,254
6. Distribution Expense - Maintenance	346,153	301,761	380,734	32,104
7. Consumer Accounts Expense	287,179	322,183	299,040	37,933
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	509,532	573,462	529,912	50,798
11. Total Operation & Maintenance Expense (2 - 10)	3,694,684	3,190,015	4,131,170	341,863
12. Depreciation and Amortization Expense	138,722	148,763	139,997	13,039
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	80,050	95,337	99,054	10,708
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	56,532	57,037	74,668	3,552
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,969,988	3,491,152	4,444,890	369,162
20. Patronage Capital & Operating Margins (1 - 19)	(408,170)	(247,712)	(245,758)	11,995
21. Non Operating Margins - Interest	139	386	-	-
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	7,229	8,050	7,229	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(400,801)	(239,276)	(238,528)	11,995

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	51	25			
2. Service Retired		-	6. Miles Distribution	233	237
3. Total Services in Place	5,242	5,267			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	233	237

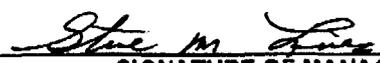
<b>FINANCIAL AND STATISTICAL REPORT</b>	<b>BORROWER DESIGNATION</b>
	<b>GAS SYSTEM</b>
Round ALL AMOUNTS to nearest dollar.	<b>MONTH ENDING</b>
	<b>December 31, 2010</b>

<b>PART C. BALANCE SHEET</b>	
<b>ASSETS AND OTHER DEBITS</b>	<b>LIABILITIES AND OTHER CREDITS</b>
1. Total Utility Plant in Service	26. Memberships
2. Construction Work in Progress	27. Patronage Capital
3. Total Utility Plant (1 + 2)	28. Operating Margins - Prior Years
4. Accum. Provision for Depreciation & Amort.	29. Operating Margins - Current Year
5. Net Utility Plant (3 -4)	30. Non Operating Margins
6. Nonutility Property _ Net	31. Other Margins and Equities
7. Invest in Assoc Org - Patronage Capital	32. Total Margins & Equities (26 thru 31)
8. Invest in Assoc Org - General Funds	33. Long-Term Debt RUS (Net)
9. Invest in Assoc Org - Nongeneral Funds	(Payments - Unapplied \$ _____)
10. Other Investments	34. Long-Term Debt - Other (net)
11. Special Funds	(Payments - Unapplied \$ _____)
12. Total Other Property & Investments (6 thru 11)	35 Total Long-Term Debt(33 + 34)
13. Cash - General Funds	36. Notes Payable
14. Cash - Construction Funds - Trustee	37. Accounts Payable
15. Special Deposits	38. Consumers Deposits
16. Temporary Investments	39. Other Current & Accrued Liabilites
17. Notes Receivable - Net	40. Total Current & Accrued Liab (36 thru 39)
18. Accounts Receivable - Sales of Gas	41. Deferred Credits
19. Accounts Receivable - Fuel Bank	42. Miscellaneous Operating Reserves
20. Materials & Supplies - Gas & Other	43. Total Liabilities & Other Credits (32 +
21. Prepayments	35 + 40 thru 42)
22. Other Current & Accrued Assets	<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>
23. Total Current & Accrued Assets (13 thru 22)	Balance Beginning of Year
24. Deferred Debits	Amounts Received This Year (Net)
25. Total Assets & Other Debits (5+12+23+24)	TOTAL Contributions in Aid of Construction

<b>PART D. CONSUMER SALES AND REVENUE DATA</b>					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,783	260,703	276,923.79	2,029,266	2,384,511
2. IRRIGATION SALES	8	370	320.39	8,327	7,356
3. COMM & INDUSTRIAL	259	114,316	100,022.15	899,539	823,181
4. TOTAL GAS SALES	5,050	375,389	377,266.33	2,937,132	3,215,048
5. OTHER GAS REVENUE			3,890.81		28,392
6. TOTAL	5,050	375,389	381,157.14	2,937,132	3,243,441

<b>PART E. GAS STATISTICS</b>					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	434,420	2,679,510	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	59,031	(257,622)
3. TOTAL PURCHASED	434,420	2,679,510	8. % SYSTEM LOSS	13.59%	-9.61%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	375,389	2,937,132	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

<b>FINANCIAL AND STATISTICAL REPORT</b>  Round ALL AMOUNTS to nearest dollar.	<b>GRAHAM COUNTY UTILITIES, INC.</b> GAS SYSTEM PIMA, AZ 85543 <b>MONTH ENDING</b> <b>December 31, 2009</b>
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<b>CERTIFICATION</b>	
<i>We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.</i>	
 <b>SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT</b>	1-29-10 <b>DATE</b>
 <b>SIGNATURE OF MANAGER</b>	1-29-10 <b>DATE</b>

<b>PART A. STATEMENT OF OPERATIONS</b>				December
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,727,437	3,561,818	3,594,474	372,318
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	2,350,576	2,253,862	2,221,283	229,507
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	297,846	297,959	316,505	19,426
6. Distribution Expense - Maintenance	321,323	346,153	385,321	12,558
7. Consumer Accounts Expense	278,308	287,179	301,784	24,143
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	419,520	509,532	500,166	39,589
11. Total Operation & Maintenance Expense (2 - 10)	3,667,573	3,694,684	3,725,059	325,222
12. Depreciation and Amortization Expense	131,765	138,722	135,077	12,019
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	89,350	80,050	94,500	5,989
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	30,124	56,532	73,939	5,185
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,918,812	3,969,988	4,028,576	348,415
20. Patronage Capital & Operating Margins (1 - 19)	(191,375)	(408,170)	(434,102)	23,903
21. Non Operating Margins - Interest	1,522	139	-	-
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	10,167	7,229	10,167	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(179,686)	(400,801)	(423,935)	23,903

<b>PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT</b>					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	88	51			
2. Service Retired		-	6. Miles Distribution	226	233
3. Total Services in Place	5,191	5,242			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	226	233

<b>FINANCIAL AND STATISTICAL REPORT</b>	<b>BORROWER DESIGNATION</b>
	<b>GAS SYSTEM</b>
Round ALL AMOUNTS to nearest dollar.	<b>MONTH ENDING</b>
	<b>December 31, 2009</b>

<b>ASSETS AND OTHER DEBITS</b>		<b>LIABILITIES AND OTHER CREDITS</b>	
1. Total Utility Plant in Service	4,332,913	26. Memberships	28,694
2. Construction Work in Progress	129,919	27. Patronage Capital	47,630
3. Total Utility Plant (1 + 2)	4,462,832	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	2,242,994	29. Operating Margins - Current Year	(408,170)
5. Net Utility Plant (3 -4)	2,219,838	30. Non Operating Margins	7,368
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	(324,478)
8. Invest in Assoc Org - General Funds	130,727	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$ _____)	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,106,127
11. Special Funds	-	(Payments - Unapplied \$ _____)	
12. Total Other Property & Investments (6 thru 11)	130,727	35 Total Long-Term Debt(33 + 34)	1,106,127
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	1,592,473
15. Special Deposits	-	38. Consumers Deposits	70,120
16. Temporary Investments	-	39. Other Current & Accrued Liabilities	55,411
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	1,718,004
18. Accounts Receivable - Sales of Gas	174,441	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	(126,523)	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	70,953	43. Total Liabilities & Other Credits (32 + 35 + 40 thru 42)	2,499,654
21. Prepayments	16,038		
22. Other Current & Accrued Assets	-	<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>	
23. Total Current & Accrued Assets (13 thru 22)	134,909	Balance Beginning of Year	1,046,629
24. Deferred Debits	14,181	Amounts Received This Year (Net)	5,900
25. Total Assets & Other Debits (5+12+23+24)	2,499,654	TOTAL Contributions in Aid of Construction	1,052,529

<b>PART D. CONSUMER SALES AND REVENUE DATA</b>					
CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD CUMULATIVE	AMOUNT CUMULATIVE
1. RESIDENTIAL SALES	4,813	250,926	266,683	1,839,244	2,588,397
2. IRRIGATION SALES	10	192	173	7,249	8,727
3. COMM & INDUSTRIAL	261	113,816	103,632	824,786	945,334
4. TOTAL GAS SALES	5,084	364,934	370,488	2,671,279	3,542,458
5. OTHER GAS REVENUE			1,830		19,360
6. TOTAL	5,084	364,934	372,318	2,671,279	3,561,818

<b>PART E. GAS STATISTICS</b>					
ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	554,210	2,608,190	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	189,276	(63,089)
3. TOTAL PURCHASED	554,210	2,608,190	8. % SYSTEM LOSS	34.15%	-2.42%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	364,934	2,671,279	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3808**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1054**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2011 and 2010, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2011, on our consideration of the Cooperative's internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 22, 2011

**FINANCIAL STATEMENTS**

-2-  
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**ASSETS**

	September 30,	
	2011	2010
<b>UTILITY PLANT</b>		
Plant in Service	\$ 7,928,538	\$ 7,472,982
Construction Work in Progress	436,018	589,566
Plant Acquisition Adjustment	1,025,652	1,025,652
	\$ 9,390,208	\$ 9,088,200
Less: Accumulated Provision for Depreciation and Amortization	4,672,504	4,395,875
	\$ 4,717,704	\$ 4,692,325
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	\$ 319,797	\$ 234,833
<b>CURRENT ASSETS</b>		
Cash - Restricted	\$ 52,725	\$ 46,648
Accounts Receivable (Less allowance for uncollectibles of \$76,993 in 2011 and \$84,544 in 2010)	84,531	40,161
Materials and Supplies	134,048	147,415
Other Current and Accrued Assets	30,777	35,663
Total Current Assets	\$ 302,081	\$ 269,887
<b>DEFERRED CHARGES</b>	\$ 43,088	\$ 50,788
<b>TOTAL ASSETS</b>	\$ 5,382,670	\$ 5,247,833

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 31,292	\$ 31,354
Accumulated Margins (Deficits)	(349,918)	(427,859)
	\$ (318,626)	\$ (396,505)
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 2,002,092	\$ 2,213,105
USDA Rural Development Note Payable Less Current Maturities	1,486,395	1,510,766
CIAC Refund Due	88,151	154,189
	\$ 3,576,638	\$ 3,878,060
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 373,014	\$ 293,076
Accounts Payable - Other	82,111	82,099
Accounts Payable - Graham County Electric Coop	1,260,814	834,642
Overbilled Consumers Fuel Cost	230,169	378,378
Customers' Deposits and Prepayments	78,750	77,625
Accrued Taxes	57,453	58,299
Accrued Interest	19,923	19,506
Accrued Payroll	22,424	22,653
Total Current Liabilities	\$ 2,124,858	\$ 1,786,278
<b>TOTAL EQUITIES AND LIABILITIES</b>	\$ 5,382,670	\$ 5,247,833

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	2011	2010
OPERATING REVENUES	\$ 4,054,110	\$ 3,804,753
OPERATING EXPENSES		
Purchased Gas	\$ 1,399,908	\$ 1,644,748
Power for Pumping	54,478	49,922
Operations	439,780	368,856
Maintenance	545,659	464,199
Consumer Accounts	409,213	369,921
Administrative and General	590,172	672,726
Depreciation and Amortization	276,629	264,260
Other Interest	61,333	79,283
Total Operating Expenses	\$ 3,777,172	\$ 3,913,915
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ 276,938	\$ (109,162)
Interest on Long-Term Debt	213,719	174,908
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ 63,219	\$ (284,070)
Capital Credits	14,645	16,703
NET OPERATING (DEFICIT)	\$ 77,864	\$ (267,367)
NONOPERATING MARGINS		
Interest	77	457
NET MARGINS (DEFICIT)	\$ 77,941	\$ (266,910)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(427,859)	(160,949)
ACCUMULATED DEFICIT - END OF YEAR	\$ (349,918)	\$ (427,859)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Deficit)	\$ 77,941	\$ (266,910)
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	276,629	264,260
Capital Credits - Noncash	(7,322)	(5,485)
Over/(Under)billed Fuel Cost	(148,209)	130,849
Deferred Charges	7,700	(10,560)
Accounts Receivable	(44,370)	(5,006)
Inventories and Other Current Assets	18,253	(15,173)
Payables and Accrued Expenses	479	8,616
Net Payments (to) from - Graham County Electric Cooperative	426,172	(505,518)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 607,273</u>	<u>\$ (404,927)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (302,008)	\$ (644,873)
Cash - Restricted	(6,077)	(69)
Investments in Associated Organizations	(77,642)	8,704
Net Cash Used in Investing Activities	<u>\$ (385,727)</u>	<u>\$ (636,238)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from CFC	\$	\$ 1,050,000
CIAC Refund Due		226,765
Payments on Note Payable to AEPCO		(25,667)
Payments on Long-Term Debt to CFC	(198,013)	(172,865)
Payments on Long-Term Debt to GCEC		(14,607)
Payments on Long-Term Debt to USDA	(23,471)	(22,736)
Memberships	(62)	275
Net Cash Provided by (Used in) Financing Activities	<u>\$ (221,546)</u>	<u>\$ 1,041,165</u>
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 213,719	\$ 174,908
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2011 and 2010, was estimated to be \$46,978 and \$47,135, respectively, in the gas department and \$47,881 and \$51,039, respectively, in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2011 and 2010, the Cooperative was overbilled \$230,169 and \$378,378, respectively.

**Group Concentration of Credit Risk**

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$78,750 and \$77,625 at September 30, 2011 and 2010, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash – General.

**Restricted Cash**

As part of its agreement for loan funding from USDA Rural Development the Cooperative is required to accumulate a cash reserve fund. The fund balance at September 30, 2011 and 2010 was \$52,725 and \$46,648, respectively and was in compliance with funding requirements.

**Federal Income Tax Status**

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

On January 1, 2009, the Cooperative adopted the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2008.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2011 and 2010.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

Major classes of utility plant are summarized as follows:

	September 30,			
	2011		2010	
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,630,076	1,630,076	1,475,189
Transmission		1,098,561	1,098,561	1,098,561
Distribution	4,125,817	653,276	4,779,093	4,488,211
General	204,645	112,010	316,655	306,868
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,374,400	\$ 3,554,138	\$ 7,928,538	\$ 7,472,982
Construction Work in Progress	211,559	224,459	436,018	589,566
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 5,001,443	\$ 4,388,765	\$ 9,390,208	\$ 9,088,200

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Provision has been made for depreciation on straight-line composite rates as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2011 and 2010, totaled \$235,603 and \$223,233, respectively.

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2011, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 349,007	\$ 512,540
Current Year	16,619	24,407
	<u>\$ 365,626</u>	<u>\$ 536,947</u>
Unamortized Adjustment	<u>\$ 49,858</u>	<u>\$ 73,221</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2011	2010
CFC		
Capital Term Certificates	\$ 205,692	\$ 128,049
Patronage Capital	101,245	93,924
Memberships	1,000	1,000
	<u>\$ 307,937</u>	<u>\$ 222,973</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 11,860	\$ 11,860
	<u>\$ 319,797</u>	<u>\$ 234,833</u>

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2011	2010
Gas Department		
Unamortized Debt Expense	\$ 7,413	\$ 11,280
Other	9,980	9,777
	<u>\$ 17,393</u>	<u>\$ 21,057</u>
Water Department		
Unamortized Debt Expense	\$ 16,472	\$ 20,576
Other	9,223	9,155
	<u>\$ 25,695</u>	<u>\$ 29,731</u>
Total	<u>\$ 43,088</u>	<u>\$ 50,788</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2011 and 2010, is \$7,971 and \$7,971, respectively.

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**6. Memberships**

Memberships are comprised of the following:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
<b>Class A Memberships</b>		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
<b>Class B Memberships</b>		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,627	21,689
<b>Class C Memberships</b>		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 31,292</u>	<u>\$ 31,354</u>

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**7. Accumulated Margins (Deficits)**

This balance consists of net margins or (losses) as follows:

Calendar Year	<u>Gas Department</u>	<u>Water Department</u>	<u>Total</u>
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009	(400,801)	(85,705)	(486,506)
2010	(239,276)	5,043	(234,233)
2011 Nine Months	<u>83,594</u>	<u>20,358</u>	<u>103,952</u>
	\$ (508,854)	\$ 240,971	\$ (267,883)
Patronage Capital Retired	<u>(82,035)</u>	<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (508,854)</u>	<u>\$ 158,936</u>	<u>\$ (349,918)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the years ended September 30, 2011 and 2010, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing between September 30, 2014 and July 7, 2040:

	September 30,	
	2011	2010
Fixed - 7.10%	\$ 410,791	\$ 529,547
Fixed - 2.35% in 2011, 4.65% in 2010	139,907	182,393
Fixed - 7.45%	282,139	296,915
Fixed - 6.25%	342,858	351,250
Fixed - 7.00%	791,646	800,000
Fixed - 3.05%	244,751	250,000
	<u>\$ 2,212,092</u>	<u>\$ 2,410,105</u>
Less: Current Maturities	210,000	197,000
	<u>\$ 2,002,092</u>	<u>\$ 2,213,105</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2011, annual maturities of long-term debt due CFC for the next five years is as follows:

2012	\$ 210,000
2013	227,000
2014	240,000
2015	48,000
2016	50,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the years ended September 30, 2011 and 2010.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2011	2010
5.000% Note Maturing March, 2032	\$ 133,600	\$ 137,260
4.500% Note Maturing August, 2035	236,737	242,152
4.500% Note Maturing July, 2040	83,540	84,931
4.125% Note Maturing March, 2047	1,056,918	1,069,923
	<u>\$ 1,510,795</u>	<u>\$ 1,534,266</u>
Less: Current Maturities	24,400	23,500
	<u>\$ 1,486,395</u>	<u>\$ 1,510,766</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2011, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2012	\$ 24,400
2013	25,600
2014	26,700
2015	27,900
2016	29,000

**10. CIAC Refund Due**

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and \$15,536 in the water division. The gas portion will be refunded over three years and is reflected in long term debt (\$88,151) and current maturities of long term debt (\$138,614). The water amount will be totally refunded in the next year and is reflected in Accounts Payable – Other.

**11. Related Parties**

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

Balances between the two Cooperatives are summarized as follows:

	September 30,	
	2011	2010
Graham County Utilities, Inc. Accounts Payable	\$ <u>(1,260,814)</u>	\$ <u>(834,642)</u>
Graham County Electric Cooperative, Inc. Accounts Receivable	\$ <u>1,260,814</u>	\$ <u>834,642</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**12. Litigation and Contingencies**

The Cooperative is not involved in any litigation that would materially affect the financial statements.

The Cooperative previously filed for rate increases in both water and gas companies with the Arizona Corporation Commission. During the prior period the rate cases were concluded and new rates were implemented in June 2010.

**13. Subsequent Events**

The Cooperative has evaluated subsequent events through November 22, 2011, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3808**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1054**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 16 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 22, 2011

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**GRAHAM COUNTY UTILITIES, INC.**  
**GAS DEPARTMENT**

Schedule 1

**BALANCE SHEET**  
**SEPTEMBER 30, 2011 AND 2010**

**ASSETS**

	September 30,	
	2011	2010
<b>UTILITY PLANT</b>		
Plant in Service	\$ 4,374,400	\$ 4,095,366
Construction Work in Progress	211,559	366,322
Plant Acquisition Adjustment	415,484	415,484
	\$ 5,001,443	\$ 4,877,172
Less: Accumulated Provision for Depreciation and Amortization	2,509,706	2,353,251
	\$ 2,491,737	\$ 2,523,921
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 199,180	\$ 131,388
 <b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$64,981 in 2011 and \$70,453 in 2010)	\$ 44,253	\$ 20,842
Materials and Supplies	79,032	84,805
Other Current and Accrued Assets	23,205	26,747
Total Current Assets	\$ 146,490	\$ 132,394
Deferred Charges	\$ 17,393	\$ 21,057
 <b>TOTAL ASSETS</b>	\$ 2,854,800	\$ 2,808,760

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 28,792	\$ 28,854
Accumulated Margins (Deficits)	(508,854)	(542,878)
	\$ (480,062)	\$ (514,024)
 <b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,583,883	\$ 1,709,163
CIAC Refunds Due	88,151	154,189
	\$ 1,672,034	\$ 1,863,352
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 263,244	\$ 188,906
Accounts Payable - Other	51,712	60,616
Accounts Payable - Graham County Electric Cooperative	985,487	699,527
Overbilled Consumers Fuel Cost	230,169	378,378
Accrued Taxes	34,294	34,846
Customers' Deposits and Prepayments	66,645	67,220
Accrued Interest	13,664	13,282
Accrued Payroll	17,613	16,657
Total Current Liabilities	\$ 1,662,828	\$ 1,459,432
 <b>TOTAL EQUITIES AND LIABILITIES</b>	\$ 2,854,800	\$ 2,808,760

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,		Increase (Decrease)
	2011	2010	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,273,160	\$ 2,380,373	\$ (107,213)
Irrigation	11,400	6,681	4,719
Commercial and Industrial	768,921	843,054	(74,133)
Fuel Cost Under (Over) Billed	148,828	24,648	124,180
Other Operating Revenues	40,043	(129,990)	170,033
Total Operating Revenues	<u>\$ 3,242,352</u>	<u>\$ 3,124,766</u>	<u>\$ 117,586</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,399,908	\$ 1,644,748	\$ (244,840)
Operations	374,592	303,884	70,708
Maintenance	328,460	283,816	44,644
Customer Accounts	327,997	306,437	21,560
Administrative and General	463,325	541,444	(78,119)
Depreciation and Amortization	156,455	145,705	10,750
Other Interest	47,571	62,047	(14,476)
Total Operating Expenses	<u>\$ 3,098,308</u>	<u>\$ 3,288,081</u>	<u>\$ (189,773)</u>
<b>OPERATING MARGIN (DEFICIT) - Before Fixed Charges</b>	\$ 144,044	\$ (163,315)	\$ 307,359
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>121,332</u>	<u>82,985</u>	<u>38,347</u>
<b>OPERATING MARGIN (DEFICIT) - After Fixed Charges</b>	\$ 22,712	\$ (246,300)	\$ 269,012
Capital Credits	<u>11,312</u>	<u>8,050</u>	<u>3,262</u>
<b>NET OPERATING MARGIN (DEFICIT)</b>	\$ 34,024	\$ (238,250)	\$ 272,274
<b>NONOPERATING MARGINS</b>			
Interest	<u></u>	<u>388</u>	<u>(388)</u>
<b>NET MARGIN (DEFICIT)</b>	\$ 34,024	\$ (237,862)	\$ 271,886
<b>ACCUMULATED DEFICIT - BEGINNING OF YEAR</b>	<u>(542,878)</u>	<u>(305,016)</u>	
<b>ACCUMULATED DEFICIT - END OF YEAR</b>	<u>\$ (508,854)</u>	<u>\$ (542,878)</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Deficit)	\$ 34,024	\$ (237,862)
Adjustments to Reconcile Net (Deficit) to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	156,455	145,705
Capital Credits - Noncash	(5,655)	(4,025)
Deferred Charges	3,664	(5,509)
Over/(Under)billed Fuel Cost - Net	(148,209)	130,849
Accounts Receivable	(23,411)	704
Inventories and Other Current Assets	9,315	(13,974)
Payables and Accrued Expenses	(8,693)	(7,211)
Net Payments from - Graham County Electric Cooperative	285,960	(403,705)
Net Cash Provided by (Used in) Operating Activities	\$ <u>303,450</u>	\$ <u>(395,028)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (124,271)	\$ (522,607)
Investments in Associated Organizations	(62,137)	6,978
Net Cash Used in Investing Activities	\$ <u>(186,408)</u>	\$ <u>(515,629)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt - CFC	\$	\$ 800,000
CIAC Refunds Due		226,765
Payments on Long-Term Debt - CFC	(116,980)	(101,776)
Payments on Long-Term Debt - Graham County Electric Cooperative		(14,607)
Memberships	(62)	275
Net Cash Provided by (Used in) Operating Activities	\$ <u>(117,042)</u>	\$ <u>910,657</u>
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ <u>121,332</u>	\$ <u>82,985</u>
Federal Income Tax	\$ <u>0</u>	\$ <u>0</u>

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**GRAHAM COUNTY UTILITIES, INC.**  
**WATER DEPARTMENT**

Schedule 4

**BALANCE SHEET**  
**SEPTEMBER 30, 2011 AND 2010**

**ASSETS**

	September 30,	
	2011	2010
<b>UTILITY PLANT AT COST</b>		
Water Plant in Service	\$ 3,554,138	\$ 3,377,616
Construction Work in Progress	224,459	223,244
Plant Acquisition Adjustment	610,168	610,168
	\$ 4,388,765	\$ 4,211,028
Less: Accumulated Provision for Depreciation and Amortization	2,162,798	2,042,624
	\$ 2,225,967	\$ 2,168,404
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 120,617	\$ 103,445
 <b>CURRENT ASSETS</b>		
Cash - Restricted	\$ 52,725	\$ 46,648
Accounts Receivable - Customers (Less allowance for uncollectibles of \$12,012 in 2011 and \$14,091 in 2010)	40,278	19,319
Materials and Supplies	55,016	62,610
Other Current and Accrued Assets	7,572	8,916
Total Current Assets	\$ 155,591	\$ 137,493
 <b>DEFERRED CHARGES</b>	\$ 25,695	\$ 29,731
 <b>NET ASSETS</b>	\$ 2,527,870	\$ 2,439,073

**EQUITIES AND LIABILITIES**

<b>EQUITY</b>		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	158,936	115,019
	\$ 161,436	\$ 117,519
 <b>LONG-TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 418,209	\$ 503,942
USDA Rural Development Notes Less Current Maturities	1,486,395	1,510,766
	\$ 1,904,604	\$ 2,014,708
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 109,770	\$ 104,170
Accounts Payable - Other	30,399	21,483
Accounts Payable - Graham County Electric Cooperative	275,327	135,115
Accrued Taxes	23,159	23,453
Customers' Deposits and Prepayments	12,105	10,405
Accrued Interest	6,259	6,224
Accrued Payroll	4,811	5,996
Total Current Liabilities	\$ 461,830	\$ 306,846
 <b>NET EQUITIES AND LIABILITIES</b>	\$ 2,527,870	\$ 2,439,073

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,		Increase (Decrease)
	2011	2010	
OPERATING REVENUES			
Residential	\$ 667,546	\$ 575,793	\$ 91,753
Commercial and Industrial	78,544	60,484	18,060
Sales for Resale	49,957	38,719	11,238
Other Operating Revenues	15,711	4,991	10,720
Total Operating Revenues	<u>\$ 811,758</u>	<u>\$ 679,987</u>	<u>\$ 131,771</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 54,478	\$ 49,922	\$ 4,556
Operations	65,188	64,972	216
Maintenance	217,199	180,383	36,816
Customer Accounts	81,216	63,484	17,732
Administrative and General	126,847	131,282	(4,435)
Depreciation and Amortization	120,174	118,555	1,619
Other Interest	13,762	17,236	(3,474)
Total Operating Expenses	<u>\$ 678,864</u>	<u>\$ 625,834</u>	<u>\$ 53,030</u>
OPERATING MARGINS - Before Fixed Charges	\$ 132,894	\$ 54,153	\$ 78,741
FIXED CHARGES			
Interest on Long-Term Debt	<u>92,387</u>	<u>91,923</u>	<u>464</u>
OPERATING MARGIN (DEFICIT) - After Fixed Charges	\$ 40,507	\$ (37,770)	\$ 78,277
Capital Credits	<u>3,333</u>	<u>8,653</u>	<u>(5,320)</u>
NET OPERATING MARGIN (DEFICIT)	\$ 43,840	\$ (29,117)	\$ 72,957
NONOPERATING MARGINS			
Interest	<u>77</u>	<u>69</u>	<u>8</u>
NET MARGIN (DEFICIT)	\$ 43,917	\$ (29,048)	\$ <u>72,965</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>115,019</u>	<u>144,067</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 158,936</u>	<u>\$ 115,019</u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Deficit)	\$ 43,917	\$ (29,048)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	120,174	118,555
Capital Credits - Noncash	(1,667)	(1,460)
Deferred Charges	4,036	(5,051)
Accounts Receivable	(20,959)	(5,710)
Inventories and Other Current Assets	8,938	(1,199)
Payables and Accrued Expenses	9,172	16,028
Net Payments from (to) - Graham County Electric Cooperative	140,212	(101,813)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 303,823</u>	<u>\$ (9,698)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (177,737)	\$ (122,467)
Cash - Restricted	(6,077)	(69)
Investments in Associated Organizations	(15,505)	1,726
Net Cash Used in Investing Activities	<u>\$ (199,319)</u>	<u>\$ (120,810)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from CFC	\$	\$ 250,000
Payments on Note Payable to AEPCO		(25,667)
Payments on Long-Term Debt to CFC	(81,033)	(71,089)
Payments on Long-Term Debt to USDA	(23,471)	(22,736)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (104,504)</u>	<u>\$ 130,508</u>
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 92,387	\$ 91,923
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2010 and 2009, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2010, on our consideration of the Cooperative's internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 2, 2010

**FINANCIAL STATEMENTS**

1

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

ASSETS

	September 30,	
	2010	2009
UTILITY PLANT		
Plant in Service	\$ 7,472,982	\$ 7,020,363
Construction Work in Progress	589,566	397,312
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 9,088,200</u>	<u>\$ 8,443,327</u>
Less: Accumulated Provision for Depreciation and Amortization	4,395,875	4,131,615
	<u>\$ 4,692,325</u>	<u>\$ 4,311,712</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 234,833	\$ 238,052
CURRENT ASSETS		
Cash - General	\$ 46,648	\$ 46,579
Accounts Receivable (Less allowance for uncollectibles of \$84,544 in 2010 and \$92,362 in 2009)	40,161	35,155
Materials and Supplies	147,415	138,178
Other Current and Accrued Assets	35,663	29,727
Total Current Assets	<u>\$ 269,887</u>	<u>\$ 249,639</u>
DEFERRED CHARGES	\$ 50,788	\$ 40,228
TOTAL ASSETS	<u>\$ 5,247,833</u>	<u>\$ 4,839,631</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 31,354	\$ 31,079
Accumulated Margins (Deficits)	(427,859)	(160,949)
	<u>\$ (396,505)</u>	<u>\$ (129,870)</u>
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,213,105	\$ 1,360,070
AEPSCO Note Payable Less Current Maturities		3,667
USDA Rural Development Note Payable Less Current Maturities	1,510,766	1,534,502
CIAC Refund Due	154,189	
	<u>\$ 3,878,060</u>	<u>\$ 2,898,239</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 293,076	\$ 232,007
Accounts Payable - Other	82,099	81,476
Accounts Payable - Graham County Electric Coop	834,642	1,340,160
Overbilled Consumers Fuel Cost	378,378	247,529
Customers' Deposits and Prepayments	77,625	77,250
Accrued Taxes	58,299	57,317
Accrued Interest	19,506	19,199
Accrued Payroll	22,853	16,324
Total Current Liabilities	<u>\$ 1,766,278</u>	<u>\$ 2,071,262</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 5,247,833</u>	<u>\$ 4,839,631</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	2010	2009
OPERATING REVENUES	\$ 3,804,753	\$ 4,034,707
OPERATING EXPENSES		
Purchased Gas	\$ 1,644,748	\$ 2,100,652
Power for Pumping	49,922	40,037
Operations	368,856	375,477
Maintenance	464,199	539,626
Consumer Accounts	369,921	342,675
Administrative and General	672,726	630,740
Depreciation and Amortization	264,260	282,852
Other Interest	79,283	69,033
Total Operating Expenses	\$ 3,913,915	\$ 4,381,092
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ (109,162)	\$ (346,385)
Interest on Long-Term Debt	174,908	180,664
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ (284,070)	\$ (527,049)
Capital Credits	16,703	9,951
NET OPERATING (DEFICIT)	\$ (267,367)	\$ (517,098)
NONOPERATING MARGINS		
Interest	457	608
NET (DEFICIT)	\$ (266,910)	\$ (516,490)
ACCUMULATED MARGINS - BEGINNING OF YEAR	(160,949)	355,541
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	\$ (427,859)	\$ (160,949)

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

Exhibit C

**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	September 30,	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (266,910)	\$ (516,490)
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	264,260	282,852
Capital Credits - Noncash	(5,485)	(11,951)
Over/(Under)billed Fuel Cost	130,849	279,946
Deferred Charges	(10,560)	(4,350)
Accounts Receivable	(5,006)	36,610
Inventories and Other Current Assets	(15,173)	6,796
Payables and Accrued Expenses	8,616	(53,304)
Net Payments (to) from - Graham County Electric Cooperative	(505,518)	522,467
Net Cash Provided by (Used in) Operating Activities	<u>\$ (404,927)</u>	<u>\$ 542,576</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (644,873)	\$ (315,580)
Investments in Associated Organizations	8,704	16,998
Net Cash Used in Investing Activities	<u>\$ (636,169)</u>	<u>\$ (298,582)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from CFC	\$ 1,050,000	\$
CIAC Refund Due	226,765	
Payments on Note Payable to AEPCO	(25,667)	(22,000)
Payments on Long-Term Debt to CFC	(172,865)	(157,329)
Payments on Long-Term Debt to GCEC	(14,607)	(41,728)
Payments on Long-Term Debt to USDA	(22,736)	(21,325)
Memberships	275	450
Net Cash Provided by (Used in) Financing Activities	<u>\$ 1,041,165</u>	<u>\$ (241,932)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>\$ 69</b>	<b>\$ 2,062</b>
<b>CASH - BEGINNING OF YEAR</b>	<u>46,579</u>	<u>44,517</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 46,648</u></u>	<u><u>\$ 46,579</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 174,908</u>	<u>\$ 179,621</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2010 and 2009, was estimated to be \$47,135 and \$57,282, respectively, in the gas department and \$51,039 and \$39,691, respectively, in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2010 and 2009, the Cooperative was overbilled \$378,378 and \$247,529, respectively.

**Group Concentration of Credit Risk**

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$77,625 and \$77,250 at September 30, 2010 and 2009, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash - General.

**Federal Income Tax Status**

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

On January 1, 2009, the Cooperative adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2007.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2010 and 2009.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

Major classes of utility plant are summarized as follows:

	September 30,			
	2010		2009	
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,475,189	1,475,189	1,475,189
Transmission		1,098,561	1,098,561	1,098,561
Distribution	3,856,570	631,641	4,488,211	4,036,149
General	194,858	112,010	306,868	306,311
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,095,366	\$ 3,377,616	\$ 7,472,982	\$ 7,020,363
Construction Work in Progress	366,322	223,244	589,566	397,312
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 4,877,172	\$ 4,211,028	\$ 9,088,200	\$ 8,443,327

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2010 and 2009, totaled \$223,233 and \$241,826, respectively.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2010, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 332,388	\$ 488,134
Current Year	16,619	24,407
	<u>\$ 349,007</u>	<u>\$ 512,541</u>
Unamortized Adjustment	<u>\$ 66,477</u>	<u>\$ 97,627</u>

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
CFC		
Capital Term Certificates	\$ 128,049	\$ 137,512
Patronage Capital	93,924	93,414
Memberships	1,000	1,000
	<u>\$ 222,973</u>	<u>\$ 231,926</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>\$ 11,860</u>	<u>\$ 6,126</u>
	<u>\$ 234,833</u>	<u>\$ 238,052</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2010	2009
Gas Department		
Unamortized Debt Expense	\$ 11,280	\$ 15,148
Other	9,777	400
	<u>\$ 21,057</u>	<u>\$ 15,548</u>
Water Department		
Unamortized Debt Expense	\$ 20,576	\$ 24,680
Other	9,155	
	<u>\$ 29,731</u>	<u>\$ 24,680</u>
Total	<u>\$ 50,788</u>	<u>\$ 40,228</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2010 and 2009, is \$7,971 and \$8,983, respectively.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2010	2009
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,689	21,414
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 31,354</u>	<u>\$ 31,079</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009	(400,801)	(85,705)	(486,506)
2010 Nine Months	(189,706)	(18,516)	(208,222)
	<u>\$ (542,878)</u>	<u>\$ 197,054</u>	<u>\$ (345,824)</u>
Patronage Capital Retired		(82,035)	(82,035)
	<u>\$ (542,878)</u>	<u>\$ 115,019</u>	<u>\$ (427,859)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2010 and 2009, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing between September 30, 2014 and July 7, 2040:

	September 30,	
	2010	2009
Fixed - 7.10%	\$ 529,547	\$ 640,232
Fixed - 4.65%	182,393	222,961
Fixed - 7.45%	296,915	310,640
Fixed - 6.25%	351,250	359,137
Fixed - 7.00%	800,000	
Fixed - 3.05%	250,000	
	<u>\$ 2,410,105</u>	<u>\$ 1,532,970</u>
Less: Current Maturities	197,000	172,900
	<u>\$ 2,213,105</u>	<u>\$ 1,360,070</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2009, annual maturities of long-term debt due CFC for the next 5 years is as follows:

2011	\$ 197,000
2012	210,000
2013	227,000
2014	240,000
2015	48,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the year ended September 30, 2010 and 2009.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**9. USDA Rural Development Note Payable**

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2010	2009
5.000% Note Maturing March, 2032	\$ 137,260	\$ 140,742
4.500% Note Maturing August, 2035	242,152	247,329
4.500% Note Maturing July, 2040	84,931	86,261
4.125% Note Maturing March, 2047	1,069,923	1,082,670
	<u>\$ 1,534,266</u>	<u>\$ 1,557,002</u>
Less: Current Maturities	23,500	22,500
	<u>\$ 1,510,766</u>	<u>\$ 1,534,502</u>

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2010, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2011	\$ 23,500
2012	24,400
2013	25,600
2014	26,700
2015	27,900

**10. Graham County Electric Note Payable**

During 1998, the Cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance was paid off during the current period.

**11. AEPCO Note Payable**

During 1999, the Cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance was paid off during the current period.

**12. CIAC Refund Due**

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

\$15,536 in the water division. The gas portion will be refunded over three years and is reflected in long term debt (\$154,189) and current maturities of long term debt (\$72,576). The water amount will be totally refunded in the next year and is reflected in Accounts Payable – Other.

**13. Related Parties**

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

Balances between the two Cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (834,642)	\$ (1,340,164)
Note Payable		(14,607)
Net Due to Affiliated Cooperative	<u>\$ (834,642)</u>	<u>\$ (1,354,771)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 834,642	\$ 1,340,164
Note Receivable		14,607
Net Due from Affiliated Cooperative	<u>\$ 834,642</u>	<u>\$ 1,354,771</u>

**14. Litigation and Contingencies**

The Cooperative is not involved in any litigation that would materially affect the financial statements.

The Cooperative previously filed for rate increases in both water and gas companies with the Arizona Corporation Commission. During the current period the rate cases were concluded and new rates were implemented in June 2010.

**15. Subsequent Events**

The Cooperative has evaluated subsequent events through November 2, 2010, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1854**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

November 2, 2010

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 1**

**BALANCE SHEET  
SEPTEMBER 30, 2010 AND 2009**

**ASSETS**

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>UTILITY PLANT</b>		
Plant in Service	\$ 4,095,366	\$ 3,743,276
Construction Work in Progress	366,322	195,805
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 4,877,172</u>	<u>\$ 4,354,565</u>
Less: Accumulated Provision for Depreciation and Amortization	2,353,251	2,207,546
	<u>\$ 2,523,921</u>	<u>\$ 2,147,019</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 131,388	\$ 134,341
<b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$70,453 in 2010 and \$76,885 in 2009)	\$ 20,842	\$ 21,546
Materials and Supplies	84,805	75,283
Other Current and Accrued Assets	26,747	22,295
Total Current Assets	<u>\$ 132,394</u>	<u>\$ 119,124</u>
Deferred Charges	\$ 21,057	\$ 15,548
<b>TOTAL ASSETS</b>	<u>\$ 2,808,760</u>	<u>\$ 2,416,032</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 28,854	\$ 28,579
Accumulated Margins (Deficits)	(542,878)	(305,016)
	<u>\$ (514,024)</u>	<u>\$ (276,437)</u>
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,709,163	\$ 982,069
CIAC Refunds Due	154,189	
	<u>\$ 1,863,352</u>	<u>\$ 982,069</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 188,906	\$ 159,807
Accounts Payable - Other	60,616	69,351
Accounts Payable - Graham County Electric Cooperative	699,527	1,103,232
Overbilled Consumers Fuel Cost	378,378	247,529
Accrued Taxes	34,846	36,220
Customers' Deposits and Prepayments	67,220	68,845
Accrued Interest	13,282	13,096
Accrued Payroll	16,657	12,320
Total Current Liabilities	<u>\$ 1,459,432</u>	<u>\$ 1,710,400</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 2,808,760</u>	<u>\$ 2,416,032</u>

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 2**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	September 30,		Increase (Decrease)
	2010	2009	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,380,373	\$ 2,678,432	\$ (298,059)
Irrigation	6,681	8,456	(1,775)
Commercial and Industrial	843,054	976,257	(133,203)
Fuel Cost Under (Over) Billed	24,648	19,960	4,688
Other Operating Revenues	(129,990)	(280,168)	150,178
Total Operating Revenues	<u>\$ 3,124,766</u>	<u>\$ 3,402,937</u>	<u>\$ (278,171)</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,644,748	\$ 2,100,652	\$ (455,904)
Operations	303,884	309,874	(5,990)
Maintenance	283,816	376,161	(92,345)
Customer Accounts	306,437	283,581	22,856
Administrative and General	541,444	499,297	42,147
Depreciation and Amortization	145,705	137,095	8,610
Other Interest	62,047	54,993	7,054
Total Operating Expenses	<u>\$ 3,288,081</u>	<u>\$ 3,761,653</u>	<u>\$ (473,572)</u>
<b>OPERATING (DEFICIT) - Before Fixed Charges</b>	<u>\$ (163,315)</u>	<u>\$ (358,716)</u>	<u>\$ 195,401</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>82,985</u>	<u>79,858</u>	<u>3,127</u>
<b>OPERATING (DEFICIT) - After Fixed Charges</b>	<u>\$ (246,300)</u>	<u>\$ (438,574)</u>	<u>\$ 192,274</u>
Capital Credits	<u>8,050</u>	<u>7,229</u>	<u>821</u>
<b>NET OPERATING (DEFICIT)</b>	<u>\$ (238,250)</u>	<u>\$ (431,345)</u>	<u>\$ 193,095</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>388</u>	<u>546</u>	<u>(158)</u>
<b>NET (DEFICIT)</b>	<u>\$ (237,862)</u>	<u>\$ (430,799)</u>	<u>\$ 192,937</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>(305,016)</u>	<u>125,783</u>	
<b>ACCUMULATED MARGINS (DEFICIT) - END OF YEAR</b>	<u>\$ (542,878)</u>	<u>\$ (305,016)</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (237,862)	\$ (430,799)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	145,705	137,095
Capital Credits - Noncash	(4,025)	(9,229)
Deferred Charges	(5,509)	3,467
Over/(Under)billed Fuel Cost - Net	130,849	279,946
Accounts Receivable	704	35,674
Inventories and Other Current Assets	(13,974)	14,051
Payables and Accrued Expenses	(7,211)	(19,624)
Net Payments from - Graham County Electric Cooperative	(403,705)	352,481
Net Cash Provided by (Used in) Operating Activities	\$ (395,028)	\$ 363,062
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (522,607)	\$ (239,405)
Investments in Associated Organizations	6,978	10,481
Net Cash Used in Investing Activities	\$ (515,629)	\$ (228,924)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt - CFC	\$ 800,000	\$
CIAC Refunds Due	226,765	
Payments on Long-Term Debt - CFC	(101,776)	(92,860)
Payments on Long-Term Debt - Graham County Electric Cooperative Memberships	(14,607) 275	(41,728) 450
Net Cash Provided by (Used in) Operating Activities	\$ 910,657	\$ (134,138)
<b>INCREASE (DECREASE) IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 82,985	\$ 82,630
Federal Income Tax	\$ 0	\$ 0

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2010 AND 2009

ASSETS

	September 30,	
	<u>2010</u>	<u>2009</u>
UTILITY PLANT AT COST		
Water Plant in Service	\$ 3,377,616	\$ 3,277,087
Construction Work in Progress	223,244	201,507
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,211,028</u>	<u>\$ 4,088,762</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>2,042,624</u>	<u>1,924,069</u>
	<u>\$ 2,168,404</u>	<u>\$ 2,164,693</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	<u>\$ 103,445</u>	<u>\$ 103,711</u>
CURRENT ASSETS		
Cash - General	\$ 46,648	\$ 46,579
Accounts Receivable - Customers (Less allowance for uncollectibles of \$14,091 in 2010 and \$15,477 in 2009)	19,319	13,609
Materials and Supplies	62,610	62,895
Other Current and Accrued Assets	8,916	7,432
Total Current Assets	<u>\$ 137,493</u>	<u>\$ 130,515</u>
DEFERRED CHARGES	<u>\$ 29,731</u>	<u>\$ 24,680</u>
NET ASSETS	<u>\$ 2,439,073</u>	<u>\$ 2,423,599</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	115,019	144,067
	<u>\$ 117,519</u>	<u>\$ 146,567</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 503,942	\$ 378,001
AEPKO Notes Payable Less Current Maturities		3,667
USDA Rural Development Notes Less Current Maturities	1,510,766	1,534,502
	<u>\$ 2,014,708</u>	<u>\$ 1,916,170</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 104,170	\$ 72,200
Accounts Payable - Other	21,483	12,125
Accounts Payable - Graham County Electric Cooperative	135,115	236,928
Accrued Taxes	23,453	21,097
Customers' Deposits and Prepayments	10,405	8,405
Accrued Interest	6,224	6,103
Accrued Payroll	5,996	4,004
Total Current Liabilities	<u>\$ 306,846</u>	<u>\$ 360,862</u>
NET EQUITIES AND LIABILITIES	<u>\$ 2,439,073</u>	<u>\$ 2,423,599</u>

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,		Increase (Decrease)
	2010	2009	
<b>OPERATING REVENUES</b>			
Residential	\$ 575,793	\$ 546,737	\$ 29,056
Commercial and Industrial	60,484	50,027	10,457
Sales for Resale	38,719	31,186	7,533
Other Operating Revenues	4,991	3,820	1,171
Total Operating Revenues	<u>\$ 679,987</u>	<u>\$ 631,770</u>	<u>\$ 48,217</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 49,922	\$ 40,037	\$ 9,885
Operations	64,972	65,603	(631)
Maintenance	180,383	163,465	16,918
Customer Accounts	63,484	59,094	4,390
Administrative and General	131,282	131,443	(161)
Depreciation and Amortization	118,555	145,757	(27,202)
Other Interest	17,236	14,040	3,196
Total Operating Expenses	<u>\$ 625,834</u>	<u>\$ 619,439</u>	<u>\$ 6,395</u>
<b>OPERATING MARGINS - Before</b>			
Fixed Charges	\$ 54,153	\$ 12,331	\$ 41,822
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>91,923</u>	<u>100,806</u>	<u>(8,883)</u>
<b>OPERATING (DEFICIT) - After Fixed Charges</b>	<u>\$ (37,770)</u>	<u>\$ (88,475)</u>	<u>\$ 50,705</u>
Capital Credits	<u>8,653</u>	<u>2,722</u>	<u>5,931</u>
<b>NET OPERATING (DEFICIT)</b>	<u>\$ (29,117)</u>	<u>\$ (85,753)</u>	<u>\$ 56,636</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>69</u>	<u>62</u>	<u>7</u>
<b>NET (DEFICIT)</b>	<u>\$ (29,048)</u>	<u>\$ (85,691)</u>	<u>\$ 56,643</u>
<b>ACCUMULATED MARGINS - BEGINNING</b>			
<b>OF YEAR</b>	<u>144,067</u>	<u>229,758</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	<u>\$ 115,019</u>	<u>\$ 144,067</u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (29,048)	\$ (85,691)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	118,555	145,757
Capital Credits - Noncash	(1,460)	(2,722)
Deferred Charges	(5,051)	(7,817)
Accounts Receivable	(5,710)	936
Inventories and Other Current Assets	(1,199)	(7,255)
Payables and Accrued Expenses	16,028	(33,680)
Net Payments from (to) - Graham County Electric Cooperative	(101,813)	169,986
Net Cash Provided by (Used in) Operating Activities	<u>\$ (9,698)</u>	<u>\$ 179,514</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (122,467)	\$ (76,175)
Investments in Associated Organizations	1,726	6,517
Net Cash Used in Investing Activities	<u>\$ (120,741)</u>	<u>\$ (69,658)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from CFC	\$ 250,000	\$
Payments on Note Payable to AEPSCO	(25,667)	(22,000)
Payments on Long-Term Debt to CFC	(71,089)	(64,469)
Payments on Long-Term Debt to USDA	(22,736)	(21,325)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 130,508</u>	<u>\$ (107,794)</u>
<b>INCREASE IN CASH</b>	<b>\$ 69</b>	<b>\$ 2,062</b>
<b>CASH - BEGINNING OF YEAR</b>	<u>46,579</u>	<u>44,517</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 46,648</u></u>	<u><u>\$ 46,579</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 91,923</u>	<u>\$ 96,991</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1054**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2009 and 2008, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2009, on our consideration of the Cooperative's internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

November 23, 2009

**FINANCIAL STATEMENTS**

-2-  
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

**ASSETS**

	September 30,	
	2009	2008
<b>UTILITY PLANT</b>		
Plant in Service	\$ 7,020,363	\$ 5,814,817
Construction Work in Progress	397,312	1,287,278
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 8,443,327	\$ 8,127,747
Less: Accumulated Provision for Depreciation and Amortization	<u>4,131,615</u>	<u>3,848,763</u>
	<u>\$ 4,311,712</u>	<u>\$ 4,278,984</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	\$ 238,052	\$ 243,099
<b>CURRENT ASSETS</b>		
Cash - General	\$ 46,579	\$ 44,517
Accounts Receivable (Less allowance for uncollectibles of \$92,362 in 2009 and \$80,217 in 2008)	35,155	71,765
Underbilled Consumers Fuel Cost		32,417
Materials and Supplies	138,178	142,225
Other Current and Accrued Assets	<u>29,727</u>	<u>32,475</u>
Total Current Assets	<u>\$ 249,639</u>	<u>\$ 323,399</u>
<b>DEFERRED CHARGES</b>	\$ 40,228	\$ 35,878
<b>TOTAL ASSETS</b>	<u>\$ 4,839,631</u>	<u>\$ 4,881,360</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 31,079	\$ 30,629
Accumulated Margins (Deficits)	<u>(160,949)</u>	<u>355,541</u>
	<u>\$ (129,870)</u>	<u>\$ 386,170</u>
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,360,070	\$ 1,536,299
AEPCO Note Payable Less Current Maturities	3,667	25,667
Graham County Electric Cooperative Note Payable Less Current Maturities		14,607
USDA Rural Development Note Payable Less Current Maturities	<u>1,534,502</u>	<u>1,557,427</u>
	<u>\$ 2,898,239</u>	<u>\$ 3,134,000</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 232,007	\$ 238,628
Accounts Payable - Other	81,476	158,717
Accounts Payable - Graham County Electric Coop	1,340,160	817,693
Overbilled Consumers Fuel Cost	247,529	
Customers' Deposits and Prepayments	57,317	75,810
Accrued Taxes	77,250	55,232
Accrued Interest	19,199	15,110
Accrued Payroll	<u>16,324</u>	
Total Current Liabilities	<u>\$ 2,071,262</u>	<u>\$ 1,361,190</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 4,839,631</u>	<u>\$ 4,881,360</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,	
	2009	2008
OPERATING REVENUES	\$ 4,034,707	\$ 4,373,004
OPERATING EXPENSES		
Purchased Gas	\$ 2,100,652	\$ 2,398,790
Power for Pumping	40,037	32,595
Operations	375,477	345,717
Maintenance	539,626	441,186
Consumer Accounts	342,675	334,466
Administrative and General	630,740	495,840
Depreciation and Amortization	282,852	246,611
Other Interest	69,033	35,768
Total Operating Expenses	\$ 4,381,092	\$ 4,330,973
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ (346,385)	\$ 42,031
Interest on Long-Term Debt	180,664	195,057
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ (527,049)	\$ (153,026)
Capital Credits	9,951	14,142
NET OPERATING (DEFICIT)	\$ (517,098)	\$ (138,884)
NONOPERATING MARGINS		
Interest	608	5,433
NET (DEFICIT)	\$ (516,490)	\$ (133,451)
ACCUMULATED MARGINS - BEGINNING OF YEAR	355,541	488,992
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	\$ (160,949)	\$ 355,541

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

Exhibit C

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	September 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (516,490)	\$ (133,451)
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	282,852	246,611
Capital Credits - Noncash	(11,951)	(4,242)
Over/(Under)billed Fuel Cost	279,946	(145,554)
Deferred Charges	(4,350)	8,341
Accounts Receivable	36,610	30,441
Inventories and Other Current Assets	6,796	16,853
Payables and Accrued Expenses	(53,304)	45,862
Net Payments (to) from - Graham County Electric Cooperative	522,467	843,886
Net Cash Provided by Operating Activities	<u>\$ 542,576</u>	<u>\$ 908,747</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (315,580)	\$ (916,725)
Investments in Associated Organizations	16,998	14,362
Net Cash Used in Investing Activities	<u>\$ (298,582)</u>	<u>\$ (902,363)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from USDA	\$	\$ 206,278
Payments on Note Payable to AEPCO	(22,000)	(20,166)
Payments on Long-Term Debt to CFC	(157,329)	(146,108)
Payments on Long-Term Debt to GCEC	(41,728)	(38,761)
Payments on Long-Term Debt to USDA	(21,325)	(14,630)
Memberships	450	(51)
Net Cash Used in Financing Activities	<u>\$ (241,932)</u>	<u>\$ (13,438)</u>
<b>INCREASE (DECREASE) IN CASH</b>	<b>\$ 2,062</b>	<b>\$ (7,054)</b>
<b>CASH - BEGINNING OF YEAR</b>	<u>44,517</u>	<u>51,571</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 46,579</u></u>	<u><u>\$ 44,517</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 179,621</u>	<u>\$ 200,791</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

Basis of Accounting

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

Operating Revenues

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2009 and 2008, was estimated to be \$57,282 and \$58,032, respectively, in the gas department and \$39,691 and \$36,270, respectively, in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2009 and 2008, the Cooperative was overbilled \$247,529 and underbilled \$32,417, respectively.

Group Concentration of Credit Risk

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$57,317 and \$75,810 at September 30, 2009 and 2008, respectively.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash - General.

**Federal Income Tax Status**

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

Major classes of utility plant are summarized as follows:

	September 30,			
	2009		2008	
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,475,189	1,475,189	555,938
Transmission		1,098,561	1,098,561	983,468
Distribution	3,504,479	531,670	4,036,149	3,865,329
General	194,859	111,452	306,311	305,929
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	<u>\$ 3,743,276</u>	<u>\$ 3,277,087</u>	<u>\$ 7,020,363</u>	<u>\$ 5,814,817</u>
Construction Work in Progress	195,805	201,507	397,312	1,287,278
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	<u>\$ 4,354,565</u>	<u>\$ 4,088,762</u>	<u>\$ 8,443,327</u>	<u>\$ 8,127,747</u>

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2009 and 2008, totaled \$241,826 and \$205,585, respectively.

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2009, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 315,769	\$ 463,727
Current Year	16,619	24,407
	<u>\$ 332,388</u>	<u>\$ 488,134</u>
Unamortized Adjustment	<u>\$ 83,096</u>	<u>\$ 122,034</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
CFC		
Capital Term Certificates	\$ 137,512	\$ 152,510
Patronage Capital	93,414	83,463
Memberships	1,000	1,000
	<u>\$ 231,926</u>	<u>\$ 236,973</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,126	\$ 6,126
	<u>\$ 238,052</u>	<u>\$ 243,099</u>

5. Deferred Charges

Deferred charges consisted of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Gas Department		
Unamortized Debt Expense	\$ 15,148	\$ 19,015
Clearing Accounts	400	
	<u>\$ 15,548</u>	<u>\$ 19,015</u>
Water Department		
Unamortized Debt Expense	\$ 24,680	\$ 16,863
	<u>\$ 40,228</u>	<u>\$ 35,878</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2009 and 2008, is \$3,867 and \$3,867, respectively.

6. Memberships

Memberships are comprised of the following:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,414	20,964
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 31,079</u>	<u>\$ 30,629</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009 Nine Months	<u>(352,645)</u>	<u>(75,173)</u>	<u>(427,818)</u>
	\$ (305,016)	\$ 226,102	\$ (78,914)
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (305,016)</u>	<u>\$ 144,067</u>	<u>\$ (160,949)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2009 and 2008, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2009	2008
Fixed - 7.10%	\$ 640,232	\$ 743,396
Variable (4.65% in 2009, 4.90% in 2008)	222,961	256,966
Fixed - 7.45%	310,640	323,387
Fixed - 6.25%	359,137	366,550
	<u>\$ 1,532,970</u>	<u>\$ 1,690,299</u>
Less: Current Maturities	172,900	154,000
	<u>\$ 1,360,070</u>	<u>\$ 1,536,299</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2009, annual maturities of long-term debt due CFC for the next five years is as follows:

2010	\$ 172,900
2011	184,400
2012	196,800
2013	209,900
2014	224,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the year ended September 30, 2009 and 2008.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2009	2008
5.000% Note Maturing March, 2032	\$ 140,742	\$ 144,052
4.500% Note Maturing August, 2035	247,329	252,271
4.500% Note Maturing July, 2040	86,261	87,529
4.125% Note Maturing March, 2047	<u>1,082,670</u>	<u>1,094,475</u>
	\$ 1,557,002	\$ 1,578,327
Less: Current Maturities	<u>22,500</u>	<u>20,900</u>
	<u>\$ 1,534,502</u>	<u>\$ 1,557,427</u>

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2009, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2010	\$ 22,500
2011	23,500
2012	24,300
2013	25,600
2014	26,700

10. Graham County Electric Note Payable

During 1998, the Cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2009, is \$14,607. Annual maturities due to Graham County Electric Cooperative for the next year as follows:

2010	\$ 14,607
------	-----------

11. AEPCO Note Payable

During 1999, the Cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2009, is \$25,667. Annual maturities due to AEPCO for the next two years are as follows:

2010	\$ 22,000
2011	3,667

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**12. Related Parties**

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

Intercompany balances between the two Cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>2009</u>	<u>2008</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (1,340,164)	\$ (820,100)
Note Payable	<u>(14,607)</u>	<u>(56,335)</u>
Net Due to Affiliated Cooperative	<u>\$ (1,354,771)</u>	<u>\$ (876,435)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 1,340,164	\$ 820,100
Accounts Payable		
Note Receivable	<u>14,607</u>	<u>56,335</u>
Net Due from Affiliated Cooperative	<u>\$ 1,354,771</u>	<u>\$ 876,435</u>

**13. Litigation and Contingencies**

The Cooperative is not involved in any litigation that would materially affect the financial statements.

The Cooperative has filed for rate increases in both water and gas companies with the Arizona Corporation Commission. Gas and Water rates cases have been tied together by agreement with the Arizona Corporation Commission. The hearing is set at the end of January 2010 with an open hearing around March or April 2010, and implementation of the rates one month thereafter.

**14. Subsequent Events**

The Cooperative has evaluated subsequent events through November 23, 2009, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss, L.L.P.*

Certified Public Accountants

November 23, 2009

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 1

BALANCE SHEET  
SEPTEMBER 30, 2009 AND 2008

ASSETS

	September 30,	
	2009	2008
UTILITY PLANT		
Plant in Service	\$ 3,743,276	\$ 3,597,916
Construction Work in Progress	195,805	101,760
Plant Acquisition Adjustment	415,484	415,484
	\$ 4,354,565	\$ 4,115,160
Less: Accumulated Provision for Depreciation and Amortization	2,207,546	2,070,451
	\$ 2,147,019	\$ 2,044,709
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 134,341	\$ 135,593
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$76,885 in 2009 and \$65,606 in 2008)	\$ 21,546	\$ 57,220
Underbilled Consumers Fuel Cost		32,417
Materials and Supplies	75,283	91,067
Other Current and Accrued Assets	22,295	20,562
Total Current Assets	\$ 119,124	\$ 201,266
Deferred Charges	\$ 15,548	\$ 19,015
TOTAL ASSETS	\$ 2,416,032	\$ 2,400,583

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,579	\$ 28,129
Accumulated Margins (Deficits)	(305,016)	125,783
	\$ (276,437)	\$ 153,912
LONG-TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$	\$ 14,607
CFC Mortgage Notes Less Current Maturities	982,069	1,113,729
	\$ 982,069	\$ 1,128,336
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 159,807	\$ 148,128
Accounts Payable - Other	69,351	103,777
Accounts Payable - Graham County Electric Cooperative	1,103,232	750,751
Overbilled Consumers Fuel Cost	247,529	
Accrued Taxes	36,220	35,549
Customers' Deposits and Prepayments	68,845	67,270
Accrued Interest	13,096	12,860
Accrued Payroll	12,320	
Total Current Liabilities	\$ 1,710,400	\$ 1,118,335
TOTAL EQUITIES AND LIABILITIES	\$ 2,416,032	\$ 2,400,583

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**GRAHAM COUNTY UTILITIES, INC.**  
**GAS DEPARTMENT**

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

	September 30,		Increase (Decrease)
	2009	2008	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,678,432	\$ 2,658,038	\$ 20,394
Irrigation	8,456	5,263	3,193
Commercial and Industrial	976,257	936,481	39,776
Fuel Cost Under (Over) Billed	19,960	144,749	(124,789)
Other Operating Revenues	(280,168)	21,520	(301,688)
Total Operating Revenues	<u>\$ 3,402,937</u>	<u>\$ 3,766,051</u>	<u>\$ (363,114)</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 2,100,652	\$ 2,398,790	\$ (298,138)
Operations	309,874	285,961	23,913
Maintenance	376,161	285,370	90,791
Customer Accounts	283,581	276,124	7,457
Administrative and General	499,297	394,362	104,935
Depreciation and Amortization	137,095	129,506	7,589
Other Interest	54,993	29,948	25,045
Total Operating Expenses	<u>\$ 3,761,653</u>	<u>\$ 3,800,061</u>	<u>\$ (38,408)</u>
<b>OPERATING (DEFICIT) - Before Fixed Charges</b>	<u>\$ (358,716)</u>	<u>\$ (34,010)</u>	<u>\$ (324,706)</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>79,858</u>	<u>86,266</u>	<u>(6,408)</u>
<b>OPERATING (DEFICIT) - After Fixed Charges</b>	<u>\$ (438,574)</u>	<u>\$ (120,276)</u>	<u>\$ (318,298)</u>
Capital Credits	<u>7,229</u>	<u>10,168</u>	<u>(2,939)</u>
<b>NET OPERATING (DEFICIT)</b>	<u>\$ (431,345)</u>	<u>\$ (110,108)</u>	<u>\$ (321,237)</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>546</u>	<u>1,733</u>	<u>(1,187)</u>
<b>NET (DEFICIT)</b>	<u>\$ (430,799)</u>	<u>\$ (108,375)</u>	<u>\$ (322,424)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>125,783</u>	<u>234,158</u>	
<b>ACCUMULATED MARGINS (DEFICIT) - END OF YEAR</b>	<u>\$ (305,016)</u>	<u>\$ 125,783</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (430,799)	\$ (108,375)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	137,095	129,506
Capital Credits - Noncash	(9,229)	(3,050)
Deferred Charges	3,467	4,911
Over/(Under)billed Fuel Cost - Net	279,946	(145,554)
Accounts Receivable	35,674	22,956
Inventories and Other Current Assets	14,051	9,018
Payables and Accrued Expenses	(19,624)	28,688
Net Payments to - Water Department		(160,862)
Net Payments from - Graham County Electric Cooperative	352,481	734,595
Net Cash Provided by Operating Activities	\$ 363,062	\$ 511,833
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (239,405)	\$ (403,886)
Investments in Associated Organizations	10,481	6,812
Net Cash Used in Investing Activities	\$ (228,924)	\$ (397,074)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - CFC	\$ (92,860)	\$ (86,277)
Payments on Long-Term Debt - Graham County Electric Cooperative Memberships	(41,728)	(38,761)
	450	(51)
Net Cash Used in Financing Activities	\$ (134,138)	\$ (125,089)
<b>INCREASE (DECREASE) IN CASH</b>	\$ 0	\$ (10,330)
<b>CASH - BEGINNING OF YEAR</b>	0	10,330
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 82,630	\$ 92,006
Federal Income Tax	\$ 0	\$ 0

-18-  
**GRAHAM COUNTY UTILITIES, INC.**  
**WATER DEPARTMENT**

Schedule 4

**BALANCE SHEET**  
**SEPTEMBER 30, 2009 AND 2008**

**ASSETS**

	September 30,	
	2009	2008
<b>UTILITY PLANT AT COST</b>		
Water Plant in Service	\$ 3,277,087	\$ 2,216,901
Construction Work in Progress	201,507	1,185,518
Plant Acquisition Adjustment	610,168	610,168
	\$ 4,088,762	\$ 4,012,587
Less: Accumulated Provision for Depreciation and Amortization	1,924,069	1,778,312
	\$ 2,164,693	\$ 2,234,275
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 103,711	\$ 107,506
 <b>CURRENT ASSETS</b>		
Cash - General	\$ 46,579	\$ 44,517
Accounts Receivable - Customers (Less allowance for uncollectibles of \$15,477 in 2009 and \$14,611 in 2008)	13,609	14,545
Materials and Supplies	62,895	51,158
Other Current and Accrued Assets	7,432	11,914
Total Current Assets	\$ 130,515	\$ 122,134
 <b>DEFERRED CHARGES</b>	\$ 24,680	\$ 16,863
 <b>NET ASSETS</b>	\$ 2,423,599	\$ 2,480,778

**EQUITIES AND LIABILITIES**

<b>EQUITY</b>		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	144,067	229,758
	\$ 146,567	\$ 232,258
 <b>LONG-TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 378,001	\$ 422,570
AEPKO Notes Payable Less Current Maturities	3,667	25,667
USDA Rural Development Notes Less Current Maturities	1,534,502	1,557,427
	\$ 1,916,170	\$ 2,005,664
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 72,200	\$ 90,500
Accounts Payable - Other	12,125	54,940
Accounts Payable - Graham County Electric Cooperative	236,928	66,942
Accrued Taxes	21,097	19,684
Customers' Deposits and Prepayments	8,405	8,540
Accrued Interest	6,103	2,250
Accrued Payroll	4,004	
Total Current Liabilities	\$ 360,862	\$ 242,856
 <b>NET EQUITIES AND LIABILITIES</b>	\$ 2,423,599	\$ 2,480,778

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,		Increase (Decrease)
	2009	2008	
OPERATING REVENUES			
Residential	\$ 546,737	\$ 520,702	\$ 26,035
Commercial and Industrial	50,027	48,371	1,656
Sales for Resale	31,186	33,910	(2,724)
Other Operating Revenues	3,820	3,970	(150)
Total Operating Revenues	<u>\$ 631,770</u>	<u>\$ 606,953</u>	<u>\$ 24,817</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 40,037	\$ 32,595	\$ 7,442
Operations	65,603	59,756	5,847
Maintenance	163,465	155,816	7,649
Customer Accounts	59,094	58,342	752
Administrative and General	131,443	101,478	29,965
Depreciation and Amortization	145,757	117,105	28,652
Other Interest	14,040	5,820	8,220
Total Operating Expenses	<u>\$ 619,439</u>	<u>\$ 530,912</u>	<u>\$ 88,527</u>
OPERATING MARGINS - Before Fixed Charges	\$ 12,331	\$ 76,041	\$ (63,710)
FIXED CHARGES			
Interest on Long-Term Debt	<u>100,806</u>	<u>108,791</u>	<u>(7,985)</u>
OPERATING (DEFICIT) - After Fixed Charges	\$ (88,475)	\$ (32,750)	\$ (55,725)
Capital Credits	<u>2,722</u>	<u>3,974</u>	<u>(1,252)</u>
NET OPERATING (DEFICIT)	\$ (85,753)	\$ (28,776)	\$ (56,977)
NONOPERATING MARGINS			
Interest	<u>62</u>	<u>3,700</u>	<u>(3,638)</u>
NET (DEFICIT)	\$ (85,691)	\$ (25,076)	\$ (60,615)
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>229,758</u>	<u>254,834</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 144,067</u>	<u>\$ 229,758</u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	September 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (85,691)	\$ (25,076)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	145,757	117,105
Capital Credits - Noncash	(2,722)	(1,192)
Deferred Charges	(7,817)	3,430
Accounts Receivable	936	7,485
Inventories and Other Current Assets	(7,255)	7,835
Payables and Accrued Expenses	(33,680)	17,174
Net Advances from (to) - Gas Department		160,862
Net Payments from (to) - Graham County Electric Cooperative	169,986	109,291
Net Cash Provided by Operating Activities	<u>\$ 179,514</u>	<u>\$ 396,914</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (76,175)	\$ (512,839)
Investments in Associated Organizations	6,517	7,550
Net Cash Used in Investing Activities	<u>\$ (69,658)</u>	<u>\$ (505,289)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from USDA	\$	\$ 206,278
Payments on Note Payable to AEPCO	(22,000)	(20,166)
Payments on Long-Term Debt to CFC	(64,469)	(59,831)
Payments on Long-Term Debt to USDA	(21,325)	(14,630)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (107,794)</u>	<u>\$ 111,651</u>
<b>INCREASE IN CASH</b>	\$ 2,062	\$ 3,276
<b>CASH - BEGINNING OF YEAR</b>	<u>44,517</u>	<u>41,241</u>
<b>CASH - END OF YEAR</b>	<u>\$ 46,579</u>	<u>\$ 44,517</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 96,991	\$ 108,785
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

COMMISSIONERS

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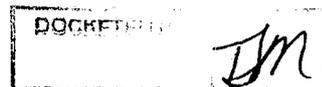
GARY PIERCE, Chairman  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP  
BRENDA BURNS

AZ CORP. COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

AUG 10 2012



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

Graham County Utilities, Inc. ("GCU") filed its rate case application in this docket on July 13, 2012. Since that date, GCU has been working with Arizona Corporation Commission Staff to revise schedules per Staff's suggestions. A summary of each schedule and amendments is as follows:

- Schedule B-1 and B-2 have been amended to remove inconsistencies between these two schedules
- H-3 – this schedule was omitted from the application.
- H-2-1 - adjusted the column titles labeled "Gas" to label those columns "Energy" consistent with the column headings on H2-1b
- H-2-1a - adjusted the column titles labeled "Gas" to label those columns "Energy" consistent with the column headings on H2-1b
- H-5 page 1 of 3 - removed the entire line labeled "Median Annual Usage" from this schedule

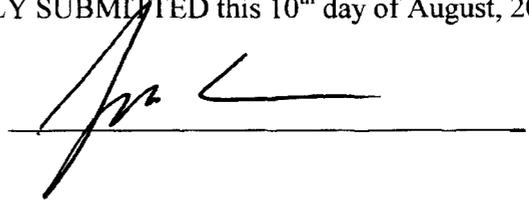
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- H-5 page 2 of 3 - removed the entire line labeled "Median Annual Usage" from this schedule
- H-5 page 3 of 3 - removed the entire line labeled "Median Annual Usage" from this schedule

Also attached are the amended Rate Schedules that show the highlighted changes to the current Rate Schedules. These amended Rate Schedules and the other amended Schedules should replace the existing Schedules contained in the application.

RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of August, 2012.

By



John V. Wallace  
Grand Canyon State Electric Cooperative Assn., Inc.  
Consultant for Graham County Electric Cooperative, Inc.

**Original** and thirteen (13) copies filed this 10<sup>th</sup> day of August, 2012, with:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

AMENDED SCHEDULE B-1

Page 1 of 1

Date: August 10, 2012

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
SUMMARY OF ORIGINAL COST

	<b>ORIGINAL COST RATE BASE</b>
<b><u>DISTRIBUTION:</u></b>	
GROSS PLANT	4,387,077
ACCUMULATED DEPRECIATION	<u>(2,129,775)</u>
<b>NET DISTRIBUTION PLANT</b>	<b><u>2,257,302</u></b>
<b><u>GENERAL &amp; INTANGIBLE</u></b>	
GROSS PLANT	247,166
ACCUMULATED DEPRECIATION	<u>(170,531)</u>
<b>NET GENERAL PLANT</b>	<b><u>76,635</u></b>
<b><u>TOTAL</u></b>	
GROSS PLANT	4,634,243
ACCUMULATED DEPRECIATION	<u>(2,300,306)</u>
<b>NET TOTAL PLANT</b>	<b><u>2,333,937</u></b>
<b><u>PLUS:</u></b>	
CONSTRUCTION WORK IN PROGRESS	211,559
MATERIALS AND SUPPLIES	79,032
PREPAYMENTS	23,205
<b><u>LESS:</u></b>	
CONSUMER DEPOSITS	<u>66,645</u>
	<b><u><u>2,581,088</u></u></b>

**Recap :**

A-1

AMENDED SCHEDULE B-2

Page 1 of 1

Date: August 10, 2012

GRAHAM COUNTY UTILITIES, INC. - GAS  
ORIGINAL COST RATE BASE  
PROFORMA ADJUSTMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2011

	ACTUAL AT END OF TEST YEAR 9/30/11 <u>( a )</u>	PROFORMA ADJUSTMENTS 9/30/11	ADJUSTED AT END OF TEST YEAR 9/30/11 <u>( b )</u>
<b><u>DISTRIBUTION:</u></b>			
GROSS PLANT	4,387,077		4,387,077
ACCUMULATED DEPRECIATION	(2,129,775)	-	(2,129,775)
NET PLANT	2,257,302	-	2,257,302
<b><u>GENERAL &amp; INTANGIBLE</u></b>			
GROSS PLANT	247,166		247,166
ACCUMULATED DEPRECIATION	(170,531)	-	(170,531)
NET PLANT	76,635	-	76,635
<b><u>TOTAL</u></b>			
GROSS PLANT	4,634,243	-	4,634,243
ACCUMULATED DEPRECIATION	(2,300,306)	-	(2,300,306)
NET PLANT	2,333,937	-	2,333,937
<b><u>PLUS:</u></b>			
CONSTRUCTION WORK IN PROGRESS	211,559	-	211,559
MATERIALS AND SUPPLIES	79,032	-	79,032
PREPAYMENTS	23,205	-	23,205
<b><u>LESS:</u></b>			
CONSUMER DEPOSITS	66,645	-	66,645
	<u>2,581,088</u>		<u>2,581,088</u>

**SUPPORT SCHEDULES:**

( a ) E-5

**Recap :**

B-1

AMENDED SCHEDULE H-2-1

Page 1 of 1

Date: August 10, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PRESENT RATES REVENUE CALCULATIONS ( a )  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		SERVICE		FUEL ADJUSTOR	
		AVAILABILITY	ENERGY		
RESIDENTIAL	PER MONTH	13.00	0.34500	0.43705	
IRRIGATION	PER MONTH	21.00	0.16000	0.43705	
COMMERCIAL	PER MONTH	24.00	0.34100	0.43705	

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>PGA</u>	<u>FUEL COST UNDERBILLED</u>	<u>PRESENT REVENUE</u>
RESIDENTIAL	748,994	676,430	856,911	101,620	2,383,955
IRRIGATION	234	2,890	7,895	936	11,955
COMMERCIAL	65,501	304,437	390,189	46,272	806,399
<b>TOTAL</b>	<b>814,729</b>	<b>983,758</b>	<b>1,254,995</b>	<b>148,828</b>	<b>3,202,310</b>

<u>PROOF:</u>	<u>CUSTOMER BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>TOTAL</u>
RESIDENTIAL	56,180	13.00	730,340	1,732	22,520	752,860
IRRIGATION	77	21.00	1,617	13	273	1,890
COMMERCIAL	3,142	24.00	75,408	39	937	76,345
	<b>59,399</b>		<b>807,365</b>	<b>1,784</b>	<b>23,730</b>	<b>831,095</b>

	<u>PARTIAL BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>NET</u>
RESIDENTIAL	1,732	13.00	22,516	1,732	22,516	-
IRRIGATION	13	21.00	273	13	273	-
COMMERCIAL	39	24.00	936	39	936	-
	<b>1,784</b>		<b>23,725</b>	<b>1,784</b>	<b>23,725</b>	-

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROPOSED RATES REVENUE CALCULATIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		SERVICE AVAILABILITY	ENERGY	FUEL ADJUSTOR
RESIDENTIAL	PER MONTH	16.25	0.34500	0.48888
IRRIGATION	PER MONTH	26.25	0.16000	0.48888
COMMERCIAL	PER MONTH	30.00	0.34100	0.48888

<u>SALES DATA:</u>	THERMS	AVERAGE # OF CUSTOMERS	TOTAL BILLINGS
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	SERVICE AVAILABILITY	GAS	PGA	Proposed REVENUE	
RESIDENTIAL	941,070	676,430	958,529	2,576,030	192,075
IRRIGATION	2,363	2,890	8,831	14,084	2,128
COMMERCIAL	95,430	304,437	436,460	836,328	29,929
<b>TOTAL</b>	<b>1,038,863</b>	<b>983,758</b>	<b>1,403,821</b>	<b>3,426,442</b>	<b>224,132</b>

<u>PROOF:</u>	CUSTOMER BILLS	SERVICE AVAILABILITY	EXTENDED	PARTIAL BILLS	AVAILABILITY	TOTAL
RESIDENTIAL	56,180	16.25	912,925	1,732	28,150	941,075
IRRIGATION	77	26.25	2,021	13	341	2,363
COMMERCIAL	3,142	30.00	94,260	39	1,171	95,431
	<b>59,399</b>		<b>1,009,206</b>	<b>1,784</b>	<b>29,663</b>	<b>1,038,869</b>

	PARTIAL BILLS	SERVICE AVAILABILITY	EXTENDED	PARTIAL BILLS	AVAILABILITY	NET
RESIDENTIAL	1,732	16.25	28,145	1,732	28,145	-
IRRIGATION	13	26.25	341	13	341	-
COMMERCIAL	39	30.00	1,170	39	1,170	(0)
	<b>1,784</b>		<b>29,656</b>	<b>1,784</b>	<b>29,657</b>	<b>(0)</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**CHANGE IN REPRESENTATIVE RATE SCHEDULES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

RATE SCHEDULE	<u>BLOCK</u>	RATES PRESENT (a)	RATES PROPOSED (b)	<u>CHANGE</u>	<u>%</u>
<b><u>RESIDENTIAL</u></b>					
A	ALL THERMS	0.34500	0.34500	-	0.00%
	PGA	0.43705	0.48888	0.05183	11.86%
	SERVICE AVAILABILITY	13.00000	16.25000	3.25000	25.00%
<b><u>IRRIGATION</u></b>					
I	ALL THERMS	0.16000	0.16000	-	0.00%
	PGA	0.43705	0.48888	0.05183	11.86%
	SERVICE AVAILABILITY	21.00000	26.25000	5.25000	25.00%
<b><u>COMMERCIAL</u></b>					
B	ALL THERMS	0.34100	0.34100	-	0.00%
	PGA	0.43705	0.48888	0.05183	11.86%
	SERVICE AVAILABILITY	24.00000	30.00000	6.00000	25.00%
<b><u>SERVICE CHARGES</u></b>					
	Establishment of Service - Regular Hours	30.00	30.00	-	0.00%
	Establishment of Service - After Hours	50.00	50.00	-	0.00%
	Reconnection of Service - Regular Hours	30.00	30.00	-	0.00%
	Reconnection of Service - After Hours	50.00	50.00	-	0.00%
	After Hours Service Calls - Consumer Caused	50.00	50.00	-	0.00%
	Meter Reread Charge (No Charge for Read Error)	10.00	10.00	-	0.00%
	Meter Test Fee	10.00	10.00	-	0.00%
	Insufficient Funds Check	25.00	25.00	-	0.00%
	Interest Rate on Customer Deposits	6 %	6 %		
	Late Payment (Per Month & Per Total Bill)	1.5 %	1.5% with \$5 minimum		

**SUPPORTING SCHEDULES:**

- (a) TARIFF SCHEDULES EFFECTIVE 5-3-10 - DECISION NO. 71690
- (b) H-3-1 PROPOSED TARIFF SCHEDULES

GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT

TEST FISCAL YEAR SEPTEMBER 30, 2011

RESIDENTIAL

THERM RANGE	NUMBER OF BILLS	THERMS BY BLOCK	<u>CUMULATIVE BILLS</u>		<u>CUMULATIVE THERM USAGE</u>	
			NUMBER	% OF TOTAL	THERMS	% OF TOTAL
0-10	15,774	90,347	15,774	27.24%	90,347	4.61%
11-20	14,251	214,689	30,025	51.85%	305,036	15.56%
21-30	7,966	197,190	37,991	65.60%	502,226	25.62%
31-50	7,022	275,760	45,013	77.73%	777,986	39.68%
51-100	9,111	651,524	54,124	93.46%	1,429,510	72.91%
101-150	2,840	338,252	56,964	98.36%	1,767,762	90.16%
151-200	674	114,701	57,638	99.53%	1,882,463	96.01%
OVER 200	274	78,205	57,912	100.00%	1,960,668	100.00%
<b>TOTAL</b>	<b>57,912</b>	<b>1,960,668</b>				

AVERAGE NUMBER OF CUSTOMERS **4,826**  
 AVERAGE THERMS USED PER YEAR **406**

GRAHAM COUNTY UTILITIES, INC. - GAS  
 BILL COUNT  
 TEST FISCAL YEAR SEPTEMBER 30, 2011  
 IRRIGATION

BLOCK	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
			NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	38	68	38	42.22%	68	0.38%
11-20	5	70	43	47.78%	138	0.76%
21-30	1	28	44	48.89%	166	0.92%
31-50	5	176	49	54.44%	342	1.89%
51-100	7	547	56	62.22%	889	4.92%
101-150	7	901	63	70.00%	1,790	9.91%
151-200	4	747	67	74.44%	2,537	14.04%
OVER 200	23	15,527	90	100.00%	18,064	100.00%
	<b>90</b>	<b>18,064</b>				

AVERAGE NUMBER OF CUSTOMERS **8**  
 AVERAGE THERMS USED PER YEAR **2,409**

GRAHAM COUNTY UTILITIES, INC. - GAS  
 BILL COUNT  
 TEST FISCAL YEAR SEPTEMBER 30, 2011  
 COMMERCIAL

BLOCK	THERMS		CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
	NUMBER OF BILLS	BY BLOCK	NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	1,242	3,246	1,242	39.04%	3,246	0.36%
11-50	681	17,609	1,923	60.45%	20,855	2.34%
51-100	332	24,233	2,255	70.89%	45,088	5.05%
101-200	276	39,486	2,531	79.57%	84,574	9.47%
201-300	152	37,554	2,683	84.34%	122,128	13.68%
301-500	199	78,414	2,882	90.60%	200,542	22.46%
OVER 500	299	692,238	3,181	100.00%	892,780	100.00%
	<b>3,181</b>	<b>892,780</b>				

AVERAGE NUMBER OF CUSTOMERS **265**  
 AVERAGE THERMS USED PER YEAR **3,368**

**GRAHAM COUNTY UTILITIES, INC.**

**AMENDED RATE SCHEDULE GA - RESIDENTIAL GAS SERVICE**

**I. Availability**

Available to all residential customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXX dated XXXXXXXX.

**GRAHAM COUNTY UTILITIES, INC.**

**AMENDED RATE SCHEDULE GB – COMMERCIAL GAS SERVICE**

**I. Availability**

Available to all commercial customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

**GRAHAM COUNTY UTILITIES, INC.**

**AMENDED RATE SCHEDULE GI – IRRIGATION GAS SERVICE**

**I. Availability**

Available to all irrigation customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**AMENDED RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR**

**I. Applicability**

Applicable to all therm sales of gas provided to all customers within the Utility's certificated service area.

**II. Gas Adjustment Procedure**

The Purchased Gas Adjustor ("PGA") rate will be increased or decreased on a monthly basis to compensate for the difference between the actual cost of natural gas and the amount the Utility recovers for its cost of natural gas. The PGA rate is based on a rolling twelve month average cost, limited by a \$0.15 per therm annual bandwidth. The PGA rate cannot vary by more than \$0.15 per therm from any rate in place during the previous twelve months as authorized by the ACC in Decision No. 71690 dated May 3, 2010.

**III. PGA Bank Balance**

The Utility shall establish and maintain a PGA Bank Balance (PGABB). Entries shall be made to this account each month, if appropriate, as follows:

1. A debit or credit entry equal to the difference between (a) the actual purchased gas cost for the month and (b) the amount determined by multiplying the Purchased Gas Adjustor Rate as set forth on the Statement of Charges in this Tariff by the therms billed during the month under the applicable rate schedules of this Tariff.
2. A debit or credit entry for refunds or payments authorized by the ACC.
3. A debit or credit entry for interest to be applied to over- and under-collected bank balances based on the Three Month Financial Commercial Paper Rate as published by the Federal Reserve as authorized by the ACC in Decision No. 68600 dated March 23, 2006.

**IV. Monthly Informational Filings**

Each month the Utility shall make a cost of gas informational filing with Commission Staff to include any and all information required by Decision No. 61225 dated October 30, 1998.

## GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION

### AMENDED RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR

*(Continued)*

#### **V. Additional Requirements**

A special review is required if the PGABB reaches an over- or under-collection in the amount of \$250,000 for three consecutive months as authorized by the ACC in Decision No. 71690 dated May 3, 2010. The Utility must file an application for a PGABB surcharge adjustment upon completing the Monthly Informational Filing that illustrates the threshold has been exceeded or file a notice in the docket explaining why an adjustment is not necessary at this time. The ACC, upon review, may authorize the balance to be amortized through a predetermined surcharge rate included as part of the PGA for a specified period.

#### **VI. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

*The description and word changes to the gas rate schedule tariffs can be summarized into the following four categories:*

- *Insert the word “availability” in the monthly service charge description of section III Distribution Rates for each rate schedule (GA, GB, GI). The reason for the change is to better describe the charges referred to in this section and to distinguish this charge from other service charges referred to in the “Rates and Charges for Other Services” tariff.*
- *Change description “Monthly Gas Cost” & “Rate Schedule MGCR – Monthly Gas Cost Rate” to “Purchased Gas Adjustor” & “Rate Schedule PGA – Purchased Gas Adjustor”. The reason for this change is because of a Miscellaneous Notice of Errata filed by John Wallace on 7/14/2010 as part of the last approved gas rate case in Decision No 71690, dated 5/3/2010. The filing corrected some of the language in the tariff but neglected to correct other sections of the tariff that needed the same conforming changes. This change is necessary to make the tariff uniform and comply with the conforming changes intended from Decision No 71690.*
- *Inserted decision numbers and dates for three paragraphs in “Rate Schedule PGA – Purchased Gas Adjustor” for reference purposes.*
- *Removed the effective date, decision number, and date for each tariff page in anticipation of a new decision to be issued upon ACC approval of this rate case.*

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**AMENDED RATES AND CHARGES FOR OTHER SERVICES**

<b><u>I. Description of Service</u></b>	<b>(Current)</b>	<b>(Proposed)*</b>
	<b><u>Rate</u></b>	
Establishment of Service - Regular Hours	\$30.00	\$30.00
Establishment of Service - After Hours	\$50.00	\$50.00
Reconnection of Service - Regular Hours	\$30.00	\$30.00
Reconnection of Service - After Hours	\$50.00	\$50.00
Meter Reread Charge (No Charge for Read Error)	\$10.00	\$10.00
Meter Test Fee	\$10.00	\$10.00
Insufficient Funds Check	\$25.00	\$25.00
Interest Rate on Customer Deposits	6.00%	6.00%
Late Payment (Per Month & Per Total Bill)	1.50%	1.50%

**II. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

*\*GCU has requested no changes to the current "RATES AND CHARGES FOR OTHER SERVICES" tariff.*

**GRAHAM COUNTY UTILITIES, INC.  
AMENDED STATEMENT OF GAS RATES\***

<u>Description</u>	<u>(Current) Distribution Rate</u>	<u>(Proposed) Distribution Rate</u>
<b><u>Rate Schedule GA – Residential Gas Service</u></b>		
Monthly Service Availability Charge	\$13.00	\$16.25
Delivery Charge – Per Therm for all gas	\$0.34500	\$0.34500
<b><u>Rate Schedule GB – Commercial Gas Service</u></b>		
Monthly Service Availability Charge	\$24.00	\$30.00
Delivery Charge – Per Therm for all gas	\$0.34100	\$0.34100
<b><u>Rate Schedule GI – Irrigation Gas Service</u></b>		
Monthly Service Availability Charge	\$21.00	\$26.25
Delivery Charge – Per Therm for all gas	\$0.16000	\$0.16000

\* The above rates do not reflect the Purchased Gas Adjustor (PGA) that is subject to adjustment as described in Schedule PGA – Purchased Gas Adjustor. All Charges are subject to adjustment for any applicable taxes or regulatory assessments.

**Effective Date**

This rate schedule is effective for all service on or after XXXXXXXX, as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

ORIGINAL

BEFORE THE ARIZONA CORPORATION

RECEIVED

COMMISSIONERS

2012 AUG 10 A 11:47

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

AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

AUG 14 2012

DOCKETED  
*JM*

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

Graham County Utilities, Inc. ("GCU") filed its rate case application in this docket on July 13, 2012. Since that date, GCU has been working with Arizona Corporation Commission Staff to revise schedules per Staff's suggestions. A summary of each schedule and amendments is as follows:

- Schedule B-1 and B-2 have been amended to remove inconsistencies between these two schedules
- H-3 - this schedule was omitted from the application.
- H-2-1 - adjusted the column titles labeled "Gas" to label those columns "Energy" consistent with the column headings on H2-1b
- H-2-1a - adjusted the column titles labeled "Gas" to label those columns "Energy" consistent with the column headings on H2-1b
- H-5 page 1 of 3 - removed the entire line labeled "Median Annual Usage" from this schedule

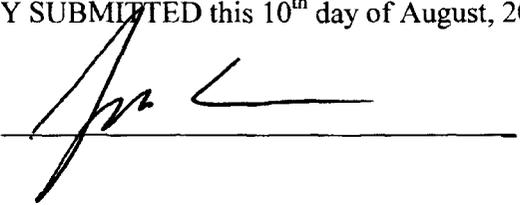
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- H-5 page 2 of 3 - removed the entire line labeled "Median Annual Usage" from this schedule
- H-5 page 3 of 3 - removed the entire line labeled "Median Annual Usage" from this schedule

Also attached are the amended Rate Schedules that show the highlighted changes to the current Rate Schedules. These amended Rate Schedules and the other amended Schedules should replace the existing Schedules contained in the application.

RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of August, 2012.

By



John V. Wallace  
Grand Canyon State Electric Cooperative Assn., Inc.  
Consultant for Graham County Electric Cooperative, Inc.

**Original** and thirteen (13) copies filed this 10<sup>th</sup> day of August, 2012, with:

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

**AMENDED SCHEDULE B-1**

Page 1 of 1

Date: August 10, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
SUMMARY OF ORIGINAL COST**

	<b>ORIGINAL COST RATE BASE</b>
<b><u>DISTRIBUTION:</u></b>	
GROSS PLANT	4,387,077
ACCUMULATED DEPRECIATION	<u>(2,129,775)</u>
<b>NET DISTRIBUTION PLANT</b>	<b><u>2,257,302</u></b>
<b><u>GENERAL &amp; INTANGIBLE</u></b>	
GROSS PLANT	247,166
ACCUMULATED DEPRECIATION	<u>(170,531)</u>
<b>NET GENERAL PLANT</b>	<b><u>76,635</u></b>
<b><u>TOTAL</u></b>	
GROSS PLANT	4,634,243
ACCUMULATED DEPRECIATION	<u>(2,300,306)</u>
<b>NET TOTAL PLANT</b>	<b><u>2,333,937</u></b>
<b><u>PLUS:</u></b>	
CONSTRUCTION WORK IN PROGRESS	211,559
MATERIALS AND SUPPLIES	79,032
PREPAYMENTS	23,205
<b><u>LESS:</u></b>	
CONSUMER DEPOSITS	<u>66,645</u>
	<b><u>2,581,088</u></b>

**Recap :**

A-1

AMENDED SCHEDULE B-2

Page 1 of 1

Date: August 10, 2012

GRAHAM COUNTY UTILITIES, INC. - GAS  
 ORIGINAL COST RATE BASE  
 PROFORMA ADJUSTMENTS  
 TEST FISCAL YEAR SEPTEMBER 30, 2011

	ACTUAL AT END OF TEST YEAR 9/30/11 <u>( a )</u>	PROFORMA ADJUSTMENTS 9/30/11	ADJUSTED AT END OF TEST YEAR 9/30/11 <u>( b )</u>
<b><u>DISTRIBUTION:</u></b>			
GROSS PLANT	4,387,077		4,387,077
ACCUMULATED DEPRECIATION	(2,129,775)	-	(2,129,775)
NET PLANT	2,257,302	-	2,257,302
<b><u>GENERAL &amp; INTANGIBLE</u></b>			
GROSS PLANT	247,166		247,166
ACCUMULATED DEPRECIATION	(170,531)	-	(170,531)
NET PLANT	76,635	-	76,635
<b><u>TOTAL</u></b>			
GROSS PLANT	4,634,243	-	4,634,243
ACCUMULATED DEPRECIATION	(2,300,306)	-	(2,300,306)
NET PLANT	2,333,937	-	2,333,937
<b><u>PLUS:</u></b>			
CONSTRUCTION WORK IN PROGRESS	211,559	-	211,559
MATERIALS AND SUPPLIES	79,032	-	79,032
PREPAYMENTS	23,205	-	23,205
<b><u>LESS:</u></b>			
CONSUMER DEPOSITS	66,645	-	66,645
	<u>2,581,088</u>		<u>2,581,088</u>

**SUPPORT SCHEDULES:**

( a ) E-5

**Recap :**

B-1

AMENDED SCHEDULE H-2-1

Page 1 of 1

Date: August 10, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PRESENT RATES REVENUE CALCULATIONS ( a )  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		<u>SERVICE AVAILABILITY</u>	<u>ENERGY</u>	<u>FUEL ADJUSTOR</u>
RESIDENTIAL	PER MONTH	13.00	0.34500	0.43705
IRRIGATION	PER MONTH	21.00	0.16000	0.43705
COMMERCIAL	PER MONTH	24.00	0.34100	0.43705

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>PGA</u>	<u>FUEL COST UNDERBILLED</u>	<u>PRESENT REVENUE</u>
RESIDENTIAL	748,994	676,430	856,911	101,620	2,383,955
IRRIGATION	234	2,890	7,895	936	11,955
COMMERCIAL	65,501	304,437	390,189	46,272	806,399
<b>TOTAL</b>	<b>814,729</b>	<b>983,758</b>	<b>1,254,995</b>	<b>148,828</b>	<b>3,202,310</b>

<u>PROOF:</u>	<u>CUSTOMER BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>TOTAL</u>
RESIDENTIAL	56,180	13.00	730,340	1,732	22,520	752,860
IRRIGATION	77	21.00	1,617	13	273	1,890
COMMERCIAL	3,142	24.00	75,408	39	937	76,345
	<b>59,399</b>		<b>807,365</b>	<b>1,784</b>	<b>23,730</b>	<b>831,095</b>

	<u>PARTIAL BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>NET</u>
RESIDENTIAL	1,732	13.00	22,516	1,732	22,516	-
IRRIGATION	13	21.00	273	13	273	-
COMMERCIAL	39	24.00	936	39	936	-
	<b>1,784</b>		<b>23,725</b>	<b>1,784</b>	<b>23,725</b>	<b>-</b>

AMENDED SCHEDULE H-2-1a

Page 1 of 1

Date: August 10, 2012

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROPOSED RATES REVENUE CALCULATIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

<u>RATES:</u>		SERVICE AVAILABILITY	ENERGY	FUEL ADJUSTOR
RESIDENTIAL	PER MONTH	16.25	0.34500	0.48888
IRRIGATION	PER MONTH	26.25	0.16000	0.48888
COMMERCIAL	PER MONTH	30.00	0.34100	0.48888

<u>SALES DATA:</u>	<u>THERMS</u>	<u>AVERAGE # OF CUSTOMERS</u>	<u>TOTAL BILLINGS</u>
RESIDENTIAL	1,960,668	4,826	57,912
IRRIGATION	18,064	8	90
COMMERCIAL	892,778	265	3,181
<b>TOTAL</b>	<b>2,871,510</b>	<b>5,099</b>	<b>61,183</b>

	<u>SERVICE AVAILABILITY</u>	<u>GAS</u>	<u>PGA</u>	<u>Proposed REVENUE</u>	
RESIDENTIAL	941,070	676,430	958,529	2,576,030	192,075
IRRIGATION	2,363	2,890	8,831	14,084	2,128
COMMERCIAL	95,430	304,437	436,460	836,328	29,929
<b>TOTAL</b>	<b>1,038,863</b>	<b>983,758</b>	<b>1,403,821</b>	<b>3,426,442</b>	<b>224,132</b>

<u>PROOF:</u>	<u>CUSTOMER BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>TOTAL</u>
RESIDENTIAL	56,180	16.25	912,925	1,732	28,150	941,075
IRRIGATION	77	26.25	2,021	13	341	2,363
COMMERCIAL	3,142	30.00	94,260	39	1,171	95,431
	<b>59,399</b>		<b>1,009,206</b>	<b>1,784</b>	<b>29,663</b>	<b>1,038,869</b>

	<u>PARTIAL BILLS</u>	<u>SERVICE AVAILABILITY</u>	<u>EXTENDED</u>	<u>PARTIAL BILLS</u>	<u>AVAILABILITY</u>	<u>NET</u>
RESIDENTIAL	1,732	16.25	28,145	1,732	28,145	-
IRRIGATION	13	26.25	341	13	341	-
COMMERCIAL	39	30.00	1,170	39	1,170	(0)
	<b>1,784</b>		<b>29,656</b>	<b>1,784</b>	<b>29,657</b>	<b>(0)</b>

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**CHANGE IN REPRESENTATIVE RATE SCHEDULES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2011**

RATE SCHEDULE	<u>BLOCK</u>	RATES PRESENT <u>(a)</u>	RATES PROPOSED <u>(b)</u>	<u>CHANGE</u>	<u>%</u>
<b><u>RESIDENTIAL</u></b>					
A	ALL THERMS	0.34500	0.34500	-	0.00%
	PGA	0.43705	0.48888	0.05183	11.86%
	SERVICE AVAILABILITY	13.00000	16.25000	3.25000	25.00%
<b><u>IRRIGATION</u></b>					
I	ALL THERMS	0.16000	0.16000	-	0.00%
	PGA	0.43705	0.48888	0.05183	11.86%
	SERVICE AVAILABILITY	21.00000	26.25000	5.25000	25.00%
<b><u>COMMERCIAL</u></b>					
B	ALL THERMS	0.34100	0.34100	-	0.00%
	PGA	0.43705	0.48888	0.05183	11.86%
	SERVICE AVAILABILITY	24.00000	30.00000	6.00000	25.00%
<b><u>SERVICE CHARGES</u></b>					
	Establishment of Service - Regular Hours	30.00	30.00	-	0.00%
	Establishment of Service - After Hours	50.00	50.00	-	0.00%
	Reconnection of Service - Regular Hours	30.00	30.00	-	0.00%
	Reconnection of Service - After Hours	50.00	50.00	-	0.00%
	After Hours Service Calls - Consumer Caused	50.00	50.00	-	0.00%
	Meter Reread Charge (No Charge for Read Error)	10.00	10.00	-	0.00%
	Meter Test Fee	10.00	10.00	-	0.00%
	Insufficient Funds Check	25.00	25.00	-	0.00%
	Interest Rate on Customer Deposits	6 %	6 %		
	Late Payment (Per Month & Per Total Bill)	1.5 %	1.5% with \$5 minimum		

**SUPPORTING SCHEDULES:**

- (a) TARIFF SCHEDULES EFFECTIVE 5-3-10 - DECISION NO. 71690
- (b) H-3-1 PROPOSED TARIFF SCHEDULES

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2011**

**RESIDENTIAL**

THERM RANGE	NUMBER OF BILLS	THERMS BY BLOCK	CUMULATIVE BILLS		CUMULATIVE THERM USAGE	
			NUMBER	% OF TOTAL	THERMS	% OF TOTAL
0-10	15,774	90,347	15,774	27.24%	90,347	4.61%
11-20	14,251	214,689	30,025	51.85%	305,036	15.56%
21-30	7,966	197,190	37,991	65.60%	502,226	25.62%
31-50	7,022	275,760	45,013	77.73%	777,986	39.68%
51-100	9,111	651,524	54,124	93.46%	1,429,510	72.91%
101-150	2,840	338,252	56,964	98.36%	1,767,762	90.16%
151-200	674	114,701	57,638	99.53%	1,882,463	96.01%
OVER 200	274	78,205	57,912	100.00%	1,960,668	100.00%
<b>TOTAL</b>	<b>57,912</b>	<b>1,960,668</b>				

AVERAGE NUMBER OF CUSTOMERS **4,826**  
 AVERAGE THERMS USED PER YEAR **406**

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2011  
IRRIGATION**

BLOCK	THERMS		<u>CUMULATIVE BILLS</u>		<u>CUMULATIVE THERMS USAGE</u>	
	<u>NUMBER OF BILLS</u>	<u>BY BLOCK</u>	<u>NUMBER</u>	<u>% OF TOTAL</u>	<u>AMOUNT</u>	<u>% OF TOTAL</u>
0-10	38	68	38	42.22%	68	0.38%
11-20	5	70	43	47.78%	138	0.76%
21-30	1	28	44	48.89%	166	0.92%
31-50	5	176	49	54.44%	342	1.89%
51-100	7	547	56	62.22%	889	4.92%
101-150	7	901	63	70.00%	1,790	9.91%
151-200	4	747	67	74.44%	2,537	14.04%
OVER 200	23	15,527	90	100.00%	18,064	100.00%
	<b>90</b>	<b>18,064</b>				

**AVERAGE NUMBER OF CUSTOMERS 8**  
**AVERAGE THERMS USED PER YEAR 2,409**

GRAHAM COUNTY UTILITIES, INC. - GAS  
 BILL COUNT  
 TEST FISCAL YEAR SEPTEMBER 30, 2011  
 COMMERCIAL

BLOCK	THERMS		CUMULATIVE BILLS		CUMULATIVE THERMS USAGE	
	NUMBER OF BILLS	BY BLOCK	NUMBER	% OF TOTAL	AMOUNT	% OF TOTAL
0-10	1,242	3,246	1,242	39.04%	3,246	0.36%
11-50	681	17,609	1,923	60.45%	20,855	2.34%
51-100	332	24,233	2,255	70.89%	45,088	5.05%
101-200	276	39,486	2,531	79.57%	84,574	9.47%
201-300	152	37,554	2,683	84.34%	122,128	13.68%
301-500	199	78,414	2,882	90.60%	200,542	22.46%
OVER 500	299	692,238	3,181	100.00%	892,780	100.00%
	<b>3,181</b>	<b>892,780</b>				

AVERAGE NUMBER OF CUSTOMERS 265  
 AVERAGE THERMS USED PER YEAR 3,368

**GRAHAM COUNTY UTILITIES, INC.**

**AMENDED RATE SCHEDULE GA - RESIDENTIAL GAS SERVICE**

**I. Availability**

Available to all residential customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

**GRAHAM COUNTY UTILITIES, INC.**

**AMENDED RATE SCHEDULE GB – COMMERCIAL GAS SERVICE**

**I. Availability**

Available to all commercial customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

**GRAHAM COUNTY UTILITIES, INC.**

**AMENDED RATE SCHEDULE GI – IRRIGATION GAS SERVICE**

**I. Availability**

Available to all irrigation customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Distribution Rates**

The monthly service availability charge and per therm gas delivery charge are set forth in the currently effective Statement of Rates of this Tariff and are incorporated herein by reference.

**IV. Purchased Gas Adjustor**

The rates specified for this schedule are subject to increases or decreases in the cost of gas purchased in accordance with those provisions set forth in the "Rate Schedule PGA – Purchased Gas Adjustor."

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXX dated XXXXXXXX.

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**AMENDED RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR**

**I. Applicability**

Applicable to all therm sales of gas provided to all customers within the Utility's certificated service area.

**II. Gas Adjustment Procedure**

The Purchased Gas Adjustor ("PGA") rate will be increased or decreased on a monthly basis to compensate for the difference between the actual cost of natural gas and the amount the Utility recovers for its cost of natural gas. The PGA rate is based on a rolling twelve month average cost, limited by a \$0.15 per therm annual bandwidth. The PGA rate cannot vary by more than \$0.15 per therm from any rate in place during the previous twelve months as authorized by the ACC in Decision No. 71690 dated May 3, 2010.

**III. PGA Bank Balance**

The Utility shall establish and maintain a PGA Bank Balance (PGABB). Entries shall be made to this account each month, if appropriate, as follows:

1. A debit or credit entry equal to the difference between (a) the actual purchased gas cost for the month and (b) the amount determined by multiplying the Purchased Gas Adjustor Rate as set forth on the Statement of Charges in this Tariff by the therms billed during the month under the applicable rate schedules of this Tariff.
2. A debit or credit entry for refunds or payments authorized by the ACC.
3. A debit or credit entry for interest to be applied to over- and under-collected bank balances based on the Three Month Financial Commercial Paper Rate as published by the Federal Reserve as authorized by the ACC in Decision No. 68600 dated March 23, 2006.

**IV. Monthly Informational Filings**

Each month the Utility shall make a cost of gas informational filing with Commission Staff to include any and all information required by Decision No. 61225 dated October 30, 1998.

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**AMENDED RATE SCHEDULE PGA – PURCHASED GAS ADJUSTOR**

*(Continued)*

**V. Additional Requirements**

A special review is required if the PGABB reaches an over- or under-collection in the amount of \$250,000 for three consecutive months as authorized by the ACC in Decision No. 71690 dated May 3, 2010. The Utility must file an application for a PGABB surcharge adjustment upon completing the Monthly Informational Filing that illustrates the threshold has been exceeded or file a notice in the docket explaining why an adjustment is not necessary at this time. The ACC, upon review, may authorize the balance to be amortized through a predetermined surcharge rate included as part of the PGA for a specified period.

**VI. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

*The description and word changes to the gas rate schedule tariffs can be summarized into the following four categories:*

- *Insert the word “availability” in the monthly service charge description of section III Distribution Rates for each rate schedule (GA, GB, GI). The reason for the change is to better describe the charges referred to in this section and to distinguish this charge from other service charges referred to in the “Rates and Charges for Other Services” tariff.*
- *Change description “Monthly Gas Cost” & “Rate Schedule MGCR – Monthly Gas Cost Rate” to “Purchased Gas Adjustor” & “Rate Schedule PGA – Purchased Gas Adjustor”. The reason for this change is because of a Miscellaneous Notice of Errata filed by John Wallace on 7/14/2010 as part of the last approved gas rate case in Decision No 71690, dated 5/3/2010. The filing corrected some of the language in the tariff but neglected to correct other sections of the tariff that needed the same conforming changes. This change is necessary to make the tariff uniform and comply with the conforming changes intended from Decision No 71690.*
- *Inserted decision numbers and dates for three paragraphs in “Rate Schedule PGA – Purchased Gas Adjustor” for reference purposes.*
- *Removed the effective date, decision number, and date for each tariff page in anticipation of a new decision to be issued upon ACC approval of this rate case.*

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**AMENDED RATES AND CHARGES FOR OTHER SERVICES**

	<b>(Current)</b>	<b>(Proposed)*</b>
<b><u>I. Description of Service</u></b>	<b><u>Rate</u></b>	
Establishment of Service - Regular Hours	\$30.00	\$30.00
Establishment of Service - After Hours	\$50.00	\$50.00
Reconnection of Service - Regular Hours	\$30.00	\$30.00
Reconnection of Service - After Hours	\$50.00	\$50.00
Meter Reread Charge (No Charge for Read Error)	\$10.00	\$10.00
Meter Test Fee	\$10.00	\$10.00
Insufficient Funds Check	\$25.00	\$25.00
Interest Rate on Customer Deposits	6.00%	6.00%
Late Payment (Per Month & Per Total Bill)	1.50%	1.50%

**II. Effective Date**

This rate schedule is effective for all billings on or after XXXXXXXX as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.

*\*GCU has requested no changes to the current "RATES AND CHARGES FOR OTHER SERVICES" tariff.*

**GRAHAM COUNTY UTILITIES, INC.  
AMENDED STATEMENT OF GAS RATES\***

<u>Description</u>	<u>(Current) Distribution Rate</u>	<u>(Proposed) Distribution Rate</u>
<b><u>Rate Schedule GA – Residential Gas Service</u></b>		
Monthly Service Availability Charge	\$13.00	\$16.25
Delivery Charge – Per Therm for all gas	\$0.34500	\$0.34500
<b><u>Rate Schedule GB – Commercial Gas Service</u></b>		
Monthly Service Availability Charge	\$24.00	\$30.00
Delivery Charge – Per Therm for all gas	\$0.34100	\$0.34100
<b><u>Rate Schedule GI – Irrigation Gas Service</u></b>		
Monthly Service Availability Charge	\$21.00	\$26.25
Delivery Charge – Per Therm for all gas	\$0.16000	\$0.16000

\* The above rates do not reflect the Purchased Gas Adjustor (PGA) that is subject to adjustment as described in Schedule PGA – Purchased Gas Adjustor. All Charges are subject to adjustment for any applicable taxes or regulatory assessments.

**Effective Date**

This rate schedule is effective for all service on or after XXXXXXXX, as authorized by the ACC in Decision No. XXXXXX dated XXXXXXXX.



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BEFORE THE ARIZONA CORPORATION COMMISSION  
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COMMISSIONERS

2013 MAR -6 P 12: 02

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

ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

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

Graham County Utilities, Inc. ("GCU") hereby files the Rebuttal Testimony of John V. Wallace in the above docket.

RESPECTFULLY SUBMITTED this 6<sup>th</sup> day of March, 2013.

By Kirk Gray

Kirk Gray  
 Graham County Electric Cooperative, Inc. and Graham  
 County Utilities, Inc.

**Original** and thirteen (13) copies filed  
 this 6<sup>th</sup> day of March, 2013, with:

Docket Control  
 Arizona Corporation Commission  
 1200 W. Washington  
 Phoenix, AZ 85007

**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. G-02527A-12-0321  
GRAHAM COUNTY UTILITIES GAS DIVISION )  
INC. FOR A RATE INCREASE )  
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REBUTTAL  
TESTIMONY  
OF  
JOHN V. WALLACE  
GRAHAM COUNTY UTILITIES, INC.  
GAS DIVISION

March 6, 2013

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**I. INTRODUCTION**

Q. Please state your name address and occupation.

A. My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of Grand Canyon State Electric Cooperative Association (“GCSECA”). I am filing rebuttal testimony on behalf of Graham County Utilities, Inc. (“GCU” or “Cooperative”).

Q. Are you the same John V. Wallace that filed direct testimony in this case?

A. Yes, I am.

Q. Was this testimony prepared by you or under your direction?

A. Yes, it was.

Q. What areas does your testimony address?

A. My testimony addresses four primary areas of the Staff Witnesses’ direct testimony: revenue requirements, cost of service and class revenue allocations, rate design.

**II. SUMMARY OF RECOMENDATIONS**

Q. Please summarize your recommendations.

A. GCU agrees and stipulates to all of the recommendations in Staff Witness Brian K. Bozzo’s direct testimony.  
Regarding Mr. Bozzo’s recommendations on GCU’s proposed Line of Credit (“LOC”), GCU will commit to use the proposed LOC only when GCU experiences a cash shortfall and repay such LOC balances within a 12-month period. If GCU is approaching the \$500,000 LOC limit and cannot repay this LOC within a 12-month period, GCU will file a notice with Staff of such along with the reasons the LOC has been used and provide information on how this LOC will be repaid (i.e. by filing a financing and/or rate case).

GCU agrees and stipulates to all of the recommendations in the direct testimony of Staff

1 Witnesses Ranelle Paladino, Alan Borne and Prem Bahl.

2 GCU agrees and stipulates to all of the recommendations in Mr. Gray's direct testimony.  
3 Specifically, GCU stipulates to Mr. Gray's residential rate design proposal that has a  
4 customer monthly minimum of \$15 and \$0.378 for all therms used.

5  
6 In its next rate case, GCU will agree to file an inclining block rate design for its  
7 residential customer class as one of its rate design proposals. GCU will agree to do so  
8 with the understanding that GCU will not be ineligible to file a rate case under the R14-2-  
9 107 rules.

10  
11 **III. REVENUE REQUIREMENTS**

12  
13 Q. Please comment on the Staff Witness Brian K. Bozzo's testimony.

14 A. GCU agrees and stipulates to all of the recommendations in Mr. Bozzo's direct  
15 testimony.

16  
17 Q. Has GCU filed an application for financing as discussed in Mr. Bozzo's testimony  
18 beginning on page 12, line 19?

19  
20 A. Yes. On February 7, 2013, GCU filed an Application ("Finance Application") for  
21 authorization to borrow \$1,000,000 from the Graham County Electric Cooperative  
22 ("GCEC") to finance prior construction of plant in accordance with GCU's construction  
23 work plan and establish a \$500,000 line of credit with GCEC to address future capital  
24 needs (Docket No. G-02527A-13-0023). In its Finance Application, GCU requested that  
25 the Finance Application be consolidated with this pending rate case (Docket No.G-  
26 02527A -12-0321). Due to GCU's poor financial condition, GCU further requested that  
27 the Finance Application be processed concurrently with the rate case application and not  
28 delay the rate case application time clock.

1 Q. Please respond to GCU's appropriate use of Line of Credit ("LOC") as discussed in Mr.  
2 Bozzo's testimony beginning on page 15, line 20?

3 A. Concerning Mr. Bozzo testimony regarding GCU's commitment to the appropriate use of  
4 its proposed \$500,000 a LOC, GCU has the following comments. GCEC manages the  
5 operations of GCU's Gas and Water Divisions pursuant to an operations and management  
6 agreement. GCEC and GCU Gas and Water are operated as separate and distinct entities  
7 from each other. This being said, GCEC has to advance funds to GCU when necessary  
8 otherwise necessary financial commitments and plant additions could not be completed.  
9 GCU will commit to use the proposed LOC only when GCU experiences a cash shortfall  
10 and repay such LOC balances within a 12-month period. If GCU is approaching the  
11 \$500,000 limit and cannot repay this LOC within a 12-month period, GCU will file a  
12 notice with Staff of such along with the reasons the LOC has been used and provide  
13 information on how this LOC will be repaid (i.e. by filing a financing and/or rate case).

14  
15 Q. Please comment on the Staff Witness Ranelle Paladino's testimony.

16 A. GCU agrees and stipulates to all of the recommendations in Ms. Paladino's direct  
17 testimony.

18 Q. Please comment on the Staff Witness Alan Borne's testimony.

19 A. GCU agrees and stipulates to all of the recommendations in Mr. Borne's direct testimony.

20

21 **IV. COST OF SERVICE AND RATE DESIGN**

22

23 Q. Please comment on the Staff Witness Prem K. Bahl's testimony.

24 A. GCU agrees and stipulates to all of the recommendations in Mr. Bahl's direct testimony.

25 Q. Please comment on the Staff Witness Robert G. Gray's testimony.

26 A. GCU agrees with and stipulates to all of the recommendations in Mr. Gray's direct  
27 testimony. Specifically, GCU stipulates to Mr. Gray's residential rate design proposal  
28 that has a customer monthly minimum of \$15 and \$0.378 for all therms used.

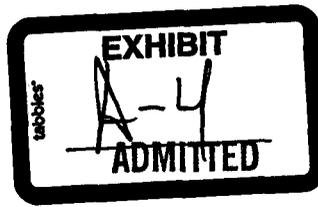
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Q. Please comment on Mr. Gray's alternative tiered rate design proposal for GCU's residential customer class.

A. Mr. Gray has proposed an alternative inclining block rate for the residential class in this case that is \$0.34 for the first 50 therms and \$0.40 for each therm over 50. As a part of its stipulation to the recommendations in Mr. Gray's direct testimony, GCU will agree to file an inclining block rate design for its residential customer class as one of its rate design proposals. GCU will agree to do so with the understanding that GCU will not be ineligible to file a rate case under the R14-2-107 rules (due to the filing of a new rate schedule as stated R14-2-107(A)(11)(a)). GCU should not be ineligible to file a rate case under the R14-2-107 rules due to the fact that the Commission, as a part of the decision in this matter, will be directing GCU to file a new rate schedule. In addition, the new tariff will be limited to the residential customer class and the time necessary to analyze this new rate design should be minimal.

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.



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DOCKET CONTROL

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF ) DOCKET NO. G-02527A-13-\_\_\_\_  
 GRAHAM COUNTY UTILITIES, INC. GAS )  
 DIVISION FOR APPROVAL OF A LOAN ) **FINANCE APPLICATION**

Pursuant to A.R.S. § 40-301 et seq., Graham County Utilities, Inc. Gas Division (“GCU”), hereby files with the Arizona Corporation Commission (“Commission”) an Application (“Finance Application”) for authorization to borrow \$1,000,000 from the Graham County Electric Cooperative (“GCEC”) to finance prior construction of plant in accordance with GCU’s construction work plan and establish a \$500,000 line of credit with GCEC to address future capital needs. In support of its Finance Application, GCU states as follows:

1. GCU and GCEC are non-profit corporations and public service corporations.

GCU holds a Certificate of Convenience and Necessity, to provide Gas Distribution Service to its member-customers in Graham County, Arizona. GCEC holds a Certificate of Convenience and Necessity, to provide Electric Distribution Service to its member-customers in Graham County, Arizona.

2. The Commission has jurisdiction over GCU and GCEC and the subject matter of this Finance Application.

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3. GCU currently provides gas service to approximately 5,393 members.

4. On February 6, 2013, GCU's and GCEC's Board of Directors approved a Resolution for a loan from GCEC in the amount of \$1,000,000, to finance prior construction of plant and a \$500,000 LOC to fund future capital needs. GCU has attached to this application a schedule showing the net plant additions for the years 2008 through 2011. Among other things, GCU expended funds on new gas mains, services, meters and regulators and miscellaneous distribution equipment to improve and work on the gas distribution system. Graham County Electric Cooperative Inc. ("GCEC") has provided temporary financing to GCU for these plant additions. GCU will be using the Loan from GCEC to repay GCEC for funds that it has advanced to GCU. GCU will be using the LOC to fund additional/future capital investments.

5. GCU is submitting an application for long-term financing in the amount of \$1,000,000, with a maturity date to cover a period of ten (10) years and with fixed interest rate of 5.44 percent, to fund the construction of the facilities identified in GCU's schedule of net plant additions.

6. As a part of this application, GCU is requesting a LOC in the amount of \$500,000, with no maturity date and with a variable interest rate equal to the rate charged by the National Rural Cooperative Finance Corporation ("CFC") for an intermediate LOC (currently approximately 2.9 percent) to fund the future construction of facilities and financial contingencies. GCU would use the LOC to fund immediate capital needs as bridge financing that may be re-financed using a longer term loan upon ACC approval.

7. A copy of the GCU and GCEC Board of Directors' resolution approving the Loan and LOC Application is attached here to.

1           8.       GCU intends to repay, in substantial part, the cost of the Loan  
2 over a ten (10) year period and LOC through the use of its general funds. On July 13, 2012, GCU  
3 has filed an application for a rate case for the Gas Division in Docket No.G-02527A -12-0321.  
4 GCU requests that this financing application be consolidated with the pending rate case docket.  
5 Due to GCU's poor financial condition, GCU further requests that this application be processed  
6 concurrently with the rate case application and not delay the rate case application time clock.  
7

8           9.       GCU's Loan and LOC request is: (1) for lawful purpose; (2) within  
9 GCU's corporate powers; (3) compatible with the public interest; (4) within sound financial  
10 practices; and (5) within the proper performance of the Cooperative as a public service  
11 corporation. The Loan and LOC will improve GCU's ability to continue to provide safe and  
12 reliable gas distribution service to its member-customers.  
13

14           10.       The Loan and LOC are dependent upon authorization by this Commission.

15           11.       The aggregate amount of securities outstanding, and proposed to be  
16 outstanding, will not exceed the fair value of GCU's properties and business. A copy of GCU's  
17 audited financial statements for the years ended September 30, 2010 and 2011 is also attached  
18 here to.

19           12.       GCU requests that the Commission act on this application as soon as possible to  
20 assist GCU financially to maintain reliable gas distribution service.  
21

22           13.       All correspondence with regard to this Finance Application should be  
23 sent to:

24                           John V. Wallace  
25                           Grand Canyon State Electric Cooperative Association, Inc.  
26                           2210 South Priest Drive  
                              Tempe, Arizona 85282  
                              E-mail: [jwallace@gcseca.coop](mailto:jwallace@gcseca.coop)

1 With a copy to:

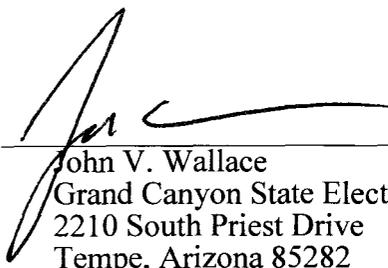
2 Kirk Gray  
3 GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.  
4 P. O. Drawer B  
5 Pima, Arizona 85543  
6 Email: kgray@gce.coop

7 WHEREFORE, GCU, having fully stated its Application and showing  
8 that it is in the public interest for the Cooperative to obtain the Loan to fund prior construction of  
9 facilities to serve its member-customers and to obtain a LOC for future capital needs, hereby  
10 requests that the Commission:

- 11 1. Accept GCU's Finance Application for filing.
- 12 2. Consolidate the Finance Application with the pending rate case (Docket No.G-  
13 02527A -12-0321).
- 14 3. Due to GCU's poor financial condition, GCU further requests that this application  
15 be processed concurrently with the rate case application and not delay the rate case  
16 application time clock.
- 17 4. Authorize GCU to borrow \$1,000,000 from GCEC for the lawful purposes set  
18 forth in this Finance application and establish a \$500,000 LOC with GCEC, and to  
19 authorize the Cooperative to take such actions necessary and appropriate to  
20 execute a mortgage to secure the Loan and LOC; and  
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- 22 5. Grant such other relief as may be in the public interest.  
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RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of February 2013.

By   
John V. Wallace

Grand Canyon State Electric Cooperative Association, Inc.  
2210 South Priest Drive  
Tempe, Arizona 85282

Original and thirteen (13) copies of  
GCU's Financing Application  
filed this 7<sup>th</sup> day of February, 2013  
with:

DOCKET CONTROL  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

GRAHAM COUNTY UTILITIES, INC. - GAS  
SCHEDULE OF PLANT  
TEST FISCAL YEAR SEPTEMBER 30, 2011

ACCOUNT #	DESCRIPTION	9/30/2006	NET ADDITIONS	9/30/2007	NET ADDITIONS	9/30/2008	NET ADDITIONS	9/30/2009	NET ADDITIONS	9/30/2010	NET ADDITIONS	9/30/11
2301.00	ORGANIZATION	42,522		42,522		42,522		42,522		42,522		42,522
2374.00	LAND & LAND RIGHTS	1,494		1,494		1,494		1,494		1,494		1,494
2376.00	MAINS	1,593,823	62,074	1,655,897	109,129	1,765,026	1,824,699	1,982,967	1,982,967	1,982,967	1,982,967	2,209,732
2380.00	SERVICES	697,194	44,552	741,746	50,949	792,695	814,772	94,688	94,688	909,460	181	909,641
2381.00	METERS & REGULATORS	910,135	70,385	980,520	81,024	1,061,544	1,124,774	99,135	99,135	1,223,909	42,301	1,266,210
2390.00	STRUCTURES & IMPROVEMENTS	3,309		3,309		3,309		3,309		3,309		3,309
2391.00	OFFICE EQUIPMENT	2,750		2,750		2,750		2,750		2,750		2,750
2392.00	TRANSPORTATION EQUIPMENT											
2394.00	TOOLS, SHOP & GARAGE EQUIPMENT	93,304	10,107	103,411	21,120	124,531	122,790	122,790		122,790	9,786	132,576
2396.00	POWER OPERATED EQUIPMENT	6,000		6,000	57,887	63,887	2,122	66,009		66,009		66,009
	<b>TOTAL</b>	<b>3,350,531</b>	<b>187,118</b>	<b>3,537,649</b>	<b>320,109</b>	<b>3,857,758</b>	<b>4,003,119</b>	<b>4,355,210</b>	<b>4,355,210</b>	<b>4,355,210</b>	<b>279,033</b>	<b>4,634,243</b>

**RECONCILIATION TO GENERAL LEDGER**

PER GENERAL LEDGER	3,506,173
LESS: ACQUISITION ADJUSTMENT	(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	259,843
<b>NET</b>	<b>3,350,531</b>

**RECONCILIATION TO GENERAL LEDGER**

2108.60	ACCUM PROV FOR DEPR - DIST PLANT	1,564,567
2108.70	ACCUM PROV FOR DEPR - GENERAL PLANT	96,953
	<b>TOTAL</b>	<b>1,661,520</b>

**RECONCILIATION TO GENERAL LEDGER**

PER GENERAL LEDGER	1,823,740
LESS: ACQUISITION ADJUSTMENT	(282,530)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	120,310
<b>NET</b>	<b>1,661,520</b>

(1) PER DECISION NO. 58437

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.  
GRAHAM COUNTY UTILITIES, INC.**

**BOARD RESOLUTION AUTHORIZING LONG TERM FINANCING AND A LINE OF  
CREDIT TO GRAHAM COUNTY UTILITIES, INC.**

**WHEREAS**, the Board of Directors of Graham County Utilities, Inc. (GCU) has requested long term financing for prior gas construction of plant and a line of credit agreement with Graham County Electric Cooperative, Inc., (GCEC).

**WHEREAS**, GCEC has determined that it will authorize long term financing and establish a line of credit to GCU.

Total Long Term Financing Requested by GCU: \$1,000,000.00  
Total Line of Credit Requested by GCU: \$500,000.00

**NOW, THEREFORE BE IT RESOLVED**, that Graham County Utilities, Inc., (Gas Division) be authorized to borrow \$1,000,000.00 from Graham County Electric Cooperative, Inc. (GCEC) to be used for financing prior gas construction of plant.

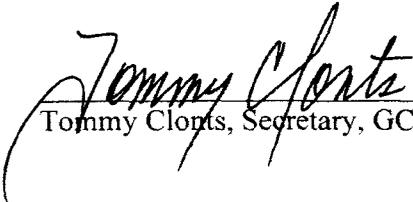
**BE IT ALSO RESOLVED**, that the financing shall provide for the repayment of the Loan; in monthly installments, including interest and principal payments. The term of the loan will be ten (10) years and the interest rate will be 5.44 percent.

**BE IT ALSO RESOLVED**, that the line of credit in the amount of \$500,000.00 shall be established between GCEC and GCU with no maturity date and with a variable interest rate equal to the rate charged by the National Rural Cooperative Finance Corporation (CFC) for an intermediate line of credit.

**BE IT FURTHER RESOLVED**, that the management be authorized to file with the Arizona Corporation Commission an application requesting financing.

**IN WITNESS WHEREOF**, I have hereunto set my hand and affixed the seal of Graham County Electric Cooperative, Inc., this 6<sup>th</sup> day of February, 2013.

CORPORATE SEAL

  
\_\_\_\_\_  
Tommy Clonts, Secretary, GCEC

**IN WITNESS WHEREOF**, I have hereunto set my hand and affixed the seal of Graham County Utilities, Inc., this 6<sup>th</sup> day of February, 2013.

CORPORATE SEAL

  
\_\_\_\_\_  
Michael K. Crockett, Secretary, GCU

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2011 and 2010, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2011, on our consideration of the Cooperative's internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

November 22, 2011

**FINANCIAL STATEMENTS**

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GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**ASSETS**

	September 30,	
	2011	2010
<b>UTILITY PLANT</b>		
Plant in Service	\$ 7,928,538	\$ 7,472,982
Construction Work in Progress	436,018	589,566
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 9,390,208	\$ 9,088,200
Less: Accumulated Provision for Depreciation and Amortization	<u>4,672,504</u>	<u>4,395,875</u>
	<u>\$ 4,717,704</u>	<u>\$ 4,692,325</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	<u>\$ 319,797</u>	<u>\$ 234,833</u>
<b>CURRENT ASSETS</b>		
Cash - Restricted	\$ 52,725	\$ 46,648
Accounts Receivable (Less allowance for uncollectibles of \$76,993 in 2011 and \$84,544 in 2010)	84,531	40,161
Materials and Supplies	134,048	147,415
Other Current and Accrued Assets	<u>30,777</u>	<u>35,663</u>
Total Current Assets	<u>\$ 302,081</u>	<u>\$ 269,887</u>
<b>DEFERRED CHARGES</b>	<u>\$ 43,088</u>	<u>\$ 50,788</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,382,670</u>	<u>\$ 5,247,833</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 31,292	\$ 31,354
Accumulated Margins (Deficits)	<u>(349,918)</u>	<u>(427,859)</u>
	<u>\$ (318,626)</u>	<u>\$ (396,505)</u>
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 2,002,092	\$ 2,213,105
USDA Rural Development Note Payable Less Current Maturities	1,486,395	1,510,766
CIAC Refund Due	<u>88,151</u>	<u>154,189</u>
	<u>\$ 3,576,638</u>	<u>\$ 3,878,060</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 373,014	\$ 293,076
Accounts Payable - Other	82,111	82,099
Accounts Payable - Graham County Electric Coop	1,260,814	834,642
Overbilled Consumers Fuel Cost	230,169	378,378
Customers' Deposits and Prepayments	78,750	77,625
Accrued Taxes	57,453	58,299
Accrued Interest	19,923	19,506
Accrued Payroll	<u>22,424</u>	<u>22,653</u>
Total Current Liabilities	<u>\$ 2,124,658</u>	<u>\$ 1,766,278</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 5,382,670</u>	<u>\$ 5,247,833</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	2011	2010
OPERATING REVENUES	\$ 4,054,110	\$ 3,804,753
OPERATING EXPENSES		
Purchased Gas	\$ 1,399,908	\$ 1,644,748
Power for Pumping	54,478	49,922
Operations	439,780	368,856
Maintenance	545,659	464,199
Consumer Accounts	409,213	369,921
Administrative and General	590,172	672,726
Depreciation and Amortization	276,629	264,260
Other Interest	61,333	79,283
Total Operating Expenses	\$ 3,777,172	\$ 3,913,915
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ 276,938	\$ (109,162)
Interest on Long-Term Debt	213,719	174,908
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ 63,219	\$ (284,070)
Capital Credits	14,645	16,703
NET OPERATING (DEFICIT)	\$ 77,864	\$ (267,367)
NONOPERATING MARGINS		
Interest	77	457
NET MARGINS (DEFICIT)	\$ 77,941	\$ (266,910)
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(427,859)	(160,949)
ACCUMULATED DEFICIT - END OF YEAR	\$ (349,918)	\$ (427,859)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margin (Deficit)	\$ 77,941	\$ (266,910)
Adjustments to Reconcile Net Margins to		
Net Cash Provided by Operating Activities		
Depreciation and Amortization	276,629	264,260
Capital Credits - Noncash	(7,322)	(5,485)
Over/(Under)billed Fuel Cost	(148,209)	130,849
Deferred Charges	7,700	(10,560)
Accounts Receivable	(44,370)	(5,006)
Inventories and Other Current Assets	18,253	(15,173)
Payables and Accrued Expenses	479	8,616
Net Payments (to) from - Graham County Electric Cooperative	426,172	(505,518)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 607,273</u>	<u>\$ (404,927)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (302,008)	\$ (644,873)
Cash - Restricted	(6,077)	(69)
Investments in Associated Organizations	(77,642)	8,704
Net Cash Used in Investing Activities	<u>\$ (385,727)</u>	<u>\$ (636,238)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from CFC	\$	\$ 1,050,000
CIAC Refund Due		226,765
Payments on Note Payable to AEPCO		(25,667)
Payments on Long-Term Debt to CFC	(198,013)	(172,865)
Payments on Long-Term Debt to GCEC		(14,607)
Payments on Long-Term Debt to USDA	(23,471)	(22,736)
Memberships	(62)	275
Net Cash Provided by (Used in) Financing Activities	<u>\$ (221,546)</u>	<u>\$ 1,041,165</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 213,719</u>	<u>\$ 174,908</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

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**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2011 and 2010, was estimated to be \$46,978 and \$47,135, respectively, in the gas department and \$47,881 and \$51,039, respectively, in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2011 and 2010, the Cooperative was overbilled \$230,169 and \$378,378, respectively.

**Group Concentration of Credit Risk**

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$78,750 and \$77,625 at September 30, 2011 and 2010, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories which consist of construction materials and supplies are valued at average unit cost.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash – General.

Restricted Cash

As part of its agreement for loan funding from USDA Rural Development the Cooperative is required to accumulate a cash reserve fund. The fund balance at September 30, 2011 and 2010 was \$52,725 and \$46,648, respectively and was in compliance with funding requirements.

Federal Income Tax Status

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

On January 1, 2009, the Cooperative adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2008.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2011 and 2010.

Allowance for Uncollectible Accounts

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

Major classes of utility plant are summarized as follows:

	September 30,			
	2011			2010
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,630,076	1,630,076	1,475,189
Transmission		1,098,561	1,098,561	1,098,561
Distribution	4,125,817	653,276	4,779,093	4,488,211
General	204,645	112,010	316,655	306,868
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,374,400	\$ 3,554,138	\$ 7,928,538	\$ 7,472,982
Construction Work in Progress	211,559	224,459	436,018	589,566
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 5,001,443	\$ 4,388,765	\$ 9,390,208	\$ 9,088,200

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Provision has been made for depreciation on straight-line composite rates as follows:

	<u>Gas</u> <u>Department</u>	<u>Water</u> <u>Department</u>
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2011 and 2010, totaled \$235,603 and \$223,233, respectively.

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2011, are summarized as follows:

	<u>Gas</u> <u>Department</u>	<u>Water</u> <u>Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 349,007	\$ 512,540
Current Year	16,619	24,407
	<u>\$ 365,626</u>	<u>\$ 536,947</u>
Unamortized Adjustment	<u>\$ 49,858</u>	<u>\$ 73,221</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2011	2010
CFC		
Capital Term Certificates	\$ 205,692	\$ 128,049
Patronage Capital	101,245	93,924
Memberships	1,000	1,000
	<u>\$ 307,937</u>	<u>\$ 222,973</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 11,860	\$ 11,860
	<u>\$ 319,797</u>	<u>\$ 234,833</u>

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2011	2010
Gas Department		
Unamortized Debt Expense	\$ 7,413	\$ 11,280
Other	9,980	9,777
	<u>\$ 17,393</u>	<u>\$ 21,057</u>
Water Department		
Unamortized Debt Expense	\$ 16,472	\$ 20,576
Other	9,223	9,155
	<u>\$ 25,695</u>	<u>\$ 29,731</u>
Total	<u>\$ 43,088</u>	<u>\$ 50,788</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2011 and 2010, is \$7,971 and \$7,971, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

6. Memberships

Memberships are comprised of the following:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,627	21,689
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 31,292</u>	<u>\$ 31,354</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009	(400,801)	(85,705)	(486,506)
2010	(239,276)	5,043	(234,233)
2011 Nine Months	83,594	20,358	103,952
	<u>\$ (508,854)</u>	<u>\$ 240,971</u>	<u>\$ (267,883)</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (508,854)</u>	<u>\$ 158,936</u>	<u>\$ (349,918)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the years ended September 30, 2011 and 2010, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

**8. Mortgage Notes – CFC**

Following is a summary of long-term debt due CFC maturing between September 30, 2014 and July 7, 2040:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
Fixed - 7.10%	\$ 410,791	\$ 529,547
Fixed - 2.35% in 2011, 4.65% in 2010	139,907	182,393
Fixed - 7.45%	282,139	296,915
Fixed - 6.25%	342,858	351,250
Fixed - 7.00%	791,646	800,000
Fixed - 3.05%	244,751	250,000
	<u>\$ 2,212,092</u>	<u>\$ 2,410,105</u>
Less: Current Maturities	210,000	197,000
	<u>\$ 2,002,092</u>	<u>\$ 2,213,105</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2011, annual maturities of long-term debt due CFC for the next five years is as follows:

2012	\$ 210,000
2013	227,000
2014	240,000
2015	48,000
2016	50,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the years ended September 30, 2011 and 2010.

**9. USDA Rural Development Note Payable**

Following is a summary of long-term debt due USDA Rural Development:

	<u>September 30,</u>	
	<u>2011</u>	<u>2010</u>
5.000% Note Maturing March, 2032	\$ 133,600	\$ 137,260
4.500% Note Maturing August, 2035	236,737	242,152
4.500% Note Maturing July, 2040	83,540	84,931
4.125% Note Maturing March, 2047	1,056,918	1,069,923
	<u>\$ 1,510,795</u>	<u>\$ 1,534,266</u>
Less: Current Maturities	24,400	23,500
	<u>\$ 1,486,395</u>	<u>\$ 1,510,766</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2011, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2012	\$ 24,400
2013	25,600
2014	26,700
2015	27,900
2016	29,000

**10. CIAC Refund Due**

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and \$15,536 in the water division. The gas portion will be refunded over three years and is reflected in long term debt (\$88,151) and current maturities of long term debt (\$138,614). The water amount will be totally refunded in the next year and is reflected in Accounts Payable – Other.

**11. Related Parties**

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

Balances between the two Cooperatives are summarized as follows:

	September 30,	
	2011	2010
Graham County Utilities, Inc. Accounts Payable	\$ <u>(1,260,814)</u>	\$ <u>(834,642)</u>
Graham County Electric Cooperative, Inc. Accounts Receivable	\$ <u>1,260,814</u>	\$ <u>834,642</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**12. Litigation and Contingencies**

The Cooperative is not involved in any litigation that would materially affect the financial statements.

The Cooperative previously filed for rate increases in both water and gas companies with the Arizona Corporation Commission. During the prior period the rate cases were concluded and new rates were implemented in June 2010.

**13. Subsequent Events**

The Cooperative has evaluated subsequent events through November 22, 2011, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 16 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 22, 2011

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 1

BALANCE SHEET  
SEPTEMBER 30, 2011 AND 2010

ASSETS

	September 30,	
	2011	2010
UTILITY PLANT		
Plant in Service	\$ 4,374,400	\$ 4,095,366
Construction Work in Progress	211,559	366,322
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 5,001,443</u>	<u>\$ 4,877,172</u>
Less: Accumulated Provision for Depreciation and Amortization	2,509,706	2,353,251
	<u>\$ 2,491,737</u>	<u>\$ 2,523,921</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 199,180	\$ 131,388
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$64,981 in 2011 and \$70,453 in 2010)	\$ 44,253	\$ 20,842
Materials and Supplies	79,032	84,805
Other Current and Accrued Assets	23,205	26,747
Total Current Assets	<u>\$ 146,490</u>	<u>\$ 132,394</u>
Deferred Charges	\$ 17,393	\$ 21,057
TOTAL ASSETS	<u>\$ 2,854,800</u>	<u>\$ 2,808,760</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,792	\$ 28,854
Accumulated Margins (Deficits)	(508,854)	(542,878)
	<u>\$ (480,062)</u>	<u>\$ (514,024)</u>
LONG -TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,583,883	\$ 1,709,163
CIAC Refunds Due	88,151	154,189
	<u>\$ 1,672,034</u>	<u>\$ 1,863,352</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 263,244	\$ 188,906
Accounts Payable - Other	51,712	60,616
Accounts Payable - Graham County Electric Cooperative	985,487	699,527
Overbilled Consumers Fuel Cost	230,169	378,378
Accrued Taxes	34,294	34,846
Customers' Deposits and Prepayments	66,645	67,220
Accrued Interest	13,664	13,282
Accrued Payroll	17,613	16,657
Total Current Liabilities	<u>\$ 1,662,828</u>	<u>\$ 1,459,432</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 2,854,800</u>	<u>\$ 2,808,760</u>

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,		Increase (Decrease)
	2011	2010	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,273,160	\$ 2,380,373	\$ (107,213)
Irrigation	11,400	6,681	4,719
Commercial and Industrial	768,921	843,054	(74,133)
Fuel Cost Under (Over) Billed	148,828	24,648	124,180
Other Operating Revenues	40,043	(129,990)	170,033
Total Operating Revenues	<u>\$ 3,242,352</u>	<u>\$ 3,124,766</u>	<u>\$ 117,586</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,399,908	\$ 1,644,748	\$ (244,840)
Operations	374,592	303,884	70,708
Maintenance	328,460	283,816	44,644
Customer Accounts	327,997	306,437	21,560
Administrative and General	463,325	541,444	(78,119)
Depreciation and Amortization	156,455	145,705	10,750
Other Interest	47,571	62,047	(14,476)
Total Operating Expenses	<u>\$ 3,098,308</u>	<u>\$ 3,288,081</u>	<u>\$ (189,773)</u>
<b>OPERATING MARGIN (DEFICIT) - Before Fixed Charges</b>	<u>\$ 144,044</u>	<u>\$ (163,315)</u>	<u>\$ 307,359</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>121,332</u>	<u>82,985</u>	<u>38,347</u>
<b>OPERATING MARGIN (DEFICIT) - After Fixed Charges</b>	<u>\$ 22,712</u>	<u>\$ (246,300)</u>	<u>\$ 269,012</u>
Capital Credits	<u>11,312</u>	<u>8,050</u>	<u>3,262</u>
<b>NET OPERATING MARGIN (DEFICIT)</b>	<u>\$ 34,024</u>	<u>\$ (238,250)</u>	<u>\$ 272,274</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>_____</u>	<u>388</u>	<u>(388)</u>
<b>NET MARGIN (DEFICIT)</b>	<u>\$ 34,024</u>	<u>\$ (237,862)</u>	<u>\$ 271,886</u>
<b>ACCUMULATED DEFICIT - BEGINNING OF YEAR</b>	<u>(542,878)</u>	<u>(305,016)</u>	
<b>ACCUMULATED DEFICIT - END OF YEAR</b>	<u>\$ (508,854)</u>	<u>\$ (542,878)</u>	

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Deficit)	\$ 34,024	\$ (237,862)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	156,455	145,705
Capital Credits - Noncash	(5,655)	(4,025)
Deferred Charges	3,664	(5,509)
Over/(Under)billed Fuel Cost - Net	(148,209)	130,849
Accounts Receivable	(23,411)	704
Inventories and Other Current Assets	9,315	(13,974)
Payables and Accrued Expenses	(8,693)	(7,211)
Net Payments from - Graham County Electric Cooperative	285,960	(403,705)
Net Cash Provided by (Used in) Operating Activities	\$ 303,450	\$ (395,028)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (124,271)	\$ (522,607)
Investments in Associated Organizations	(62,137)	6,978
Net Cash Used in Investing Activities	\$ (186,408)	\$ (515,629)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt - CFC	\$	\$ 800,000
CIAC Refunds Due		226,765
Payments on Long-Term Debt - CFC	(116,980)	(101,776)
Payments on Long-Term Debt - Graham County Electric Cooperative Memberships	(62)	275
Net Cash Provided by (Used in) Operating Activities	\$ (117,042)	\$ 910,657
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 121,332	\$ 82,985
Federal Income Tax	0	0

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2011 AND 2010

ASSETS

	September 30,	
	2011	2010
UTILITY PLANT AT COST		
Water Plant in Service	\$ 3,554,138	\$ 3,377,616
Construction Work in Progress	224,459	223,244
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,388,765</u>	<u>\$ 4,211,028</u>
Less: Accumulated Provision for Depreciation and Amortization	2,162,798	2,042,624
	<u>\$ 2,225,967</u>	<u>\$ 2,168,404</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 120,617	\$ 103,445
CURRENT ASSETS		
Cash - Restricted	\$ 52,725	\$ 46,648
Accounts Receivable - Customers (Less allowance for uncollectibles of \$12,012 in 2011 and \$14,091 in 2010)	40,278	19,319
Materials and Supplies	55,016	62,610
Other Current and Accrued Assets	7,572	8,916
Total Current Assets	<u>\$ 155,591</u>	<u>\$ 137,493</u>
DEFERRED CHARGES	\$ 25,695	\$ 29,731
NET ASSETS	<u>\$ 2,527,870</u>	<u>\$ 2,439,073</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	158,936	115,019
	<u>\$ 161,436</u>	<u>\$ 117,519</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 418,209	\$ 503,942
USDA Rural Development Notes Less Current Maturities	1,486,395	1,510,766
	<u>\$ 1,904,604</u>	<u>\$ 2,014,708</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 109,770	\$ 104,170
Accounts Payable - Other	30,399	21,483
Accounts Payable - Graham County Electric Cooperative	275,327	135,115
Accrued Taxes	23,159	23,453
Customers' Deposits and Prepayments	12,105	10,405
Accrued Interest	6,259	6,224
Accrued Payroll	4,811	5,996
Total Current Liabilities	<u>\$ 461,830</u>	<u>\$ 306,846</u>
NET EQUITIES AND LIABILITIES	<u>\$ 2,527,870</u>	<u>\$ 2,439,073</u>

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,		Increase (Decrease)
	2011	2010	
OPERATING REVENUES			
Residential	\$ 667,546	\$ 575,793	\$ 91,753
Commercial and Industrial	78,544	60,484	18,060
Sales for Resale	49,957	38,719	11,238
Other Operating Revenues	15,711	4,991	10,720
Total Operating Revenues	<u>\$ 811,758</u>	<u>\$ 679,987</u>	<u>\$ 131,771</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 54,478	\$ 49,922	\$ 4,556
Operations	65,188	64,972	216
Maintenance	217,199	180,383	36,816
Customer Accounts	81,216	63,484	17,732
Administrative and General	126,847	131,282	(4,435)
Depreciation and Amortization	120,174	118,555	1,619
Other Interest	13,762	17,236	(3,474)
Total Operating Expenses	<u>\$ 678,864</u>	<u>\$ 625,834</u>	<u>\$ 53,030</u>
OPERATING MARGINS - Before Fixed Charges	\$ 132,894	\$ 54,153	\$ 78,741
FIXED CHARGES			
Interest on Long-Term Debt	<u>92,387</u>	<u>91,923</u>	<u>464</u>
OPERATING MARGIN (DEFICIT) - After Fixed Charges	\$ 40,507	\$ (37,770)	\$ 78,277
Capital Credits	<u>3,333</u>	<u>8,653</u>	<u>(5,320)</u>
NET OPERATING MARGIN (DEFICIT)	\$ 43,840	\$ (29,117)	\$ 72,957
NONOPERATING MARGINS			
Interest	<u>77</u>	<u>69</u>	<u>8</u>
NET MARGIN (DEFICIT)	\$ 43,917	\$ (29,048)	\$ <u>72,965</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>115,019</u>	<u>144,067</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 158,936</u>	<u>\$ 115,019</u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	September 30,	
	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Deficit)	\$ 43,917	\$ (29,048)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	120,174	118,555
Capital Credits - Noncash	(1,667)	(1,460)
Deferred Charges	4,036	(5,051)
Accounts Receivable	(20,959)	(5,710)
Inventories and Other Current Assets	8,938	(1,199)
Payables and Accrued Expenses	9,172	16,028
Net Payments from (to) - Graham County Electric Cooperative	140,212	(101,813)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 303,823</u>	<u>\$ (9,698)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (177,737)	\$ (122,467)
Cash - Restricted	(6,077)	(69)
Investments in Associated Organizations	(15,505)	1,726
Net Cash Used in Investing Activities	<u>\$ (199,319)</u>	<u>\$ (120,810)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from CFC	\$	\$ 250,000
Payments on Note Payable to AEPCO		(25,667)
Payments on Long-Term Debt to CFC	(81,033)	(71,089)
Payments on Long-Term Debt to USDA	(23,471)	(22,736)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (104,504)</u>	<u>\$ 130,508</u>
CHANGE IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 92,387</u>	<u>\$ 91,923</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2010 and 2009, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2010, on our consideration of the Cooperative's internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 2, 2010

**FINANCIAL STATEMENTS**

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

ASSETS

	September 30,	
	2010	2009
UTILITY PLANT		
Plant in Service	\$ 7,472,982	\$ 7,020,363
Construction Work in Progress	589,566	397,312
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 9,088,200	\$ 8,443,327
Less: Accumulated Provision for Depreciation and Amortization	<u>4,395,875</u>	<u>4,131,615</u>
	\$ <u>4,692,325</u>	\$ <u>4,311,712</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ <u>234,833</u>	\$ <u>238,052</u>
CURRENT ASSETS		
Cash - General	\$ 46,648	\$ 46,579
Accounts Receivable (Less allowance for uncollectibles of \$84,544 in 2010 and \$92,362 in 2009)	40,161	35,155
Materials and Supplies	147,415	138,178
Other Current and Accrued Assets	35,663	29,727
Total Current Assets	\$ <u>269,887</u>	\$ <u>249,639</u>
DEFERRED CHARGES	\$ <u>50,788</u>	\$ <u>40,228</u>
TOTAL ASSETS	\$ <u>5,247,833</u>	\$ <u>4,839,631</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 31,354	\$ 31,079
Accumulated Margins (Deficits)	<u>(427,859)</u>	<u>(160,949)</u>
	\$ <u>(396,505)</u>	\$ <u>(129,870)</u>
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 2,213,105	\$ 1,360,070
AEP CO Note Payable Less Current Maturities		3,667
USDA Rural Development Note Payable Less Current Maturities	1,510,766	1,534,502
CIAC Refund Due	<u>154,189</u>	
	\$ <u>3,878,060</u>	\$ <u>2,898,239</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 293,076	\$ 232,007
Accounts Payable - Other	82,099	81,476
Accounts Payable - Graham County Electric Coop	834,642	1,340,160
Overbilled Consumers Fuel Cost	378,378	247,529
Customers' Deposits and Prepayments	77,625	77,250
Accrued Taxes	58,299	57,317
Accrued Interest	19,506	19,199
Accrued Payroll	<u>22,653</u>	<u>16,324</u>
Total Current Liabilities	\$ <u>1,766,278</u>	\$ <u>2,071,262</u>
TOTAL EQUITIES AND LIABILITIES	\$ <u>5,247,833</u>	\$ <u>4,839,631</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	<u>2010</u>	<u>2009</u>
OPERATING REVENUES	\$ 3,804,753	\$ 4,034,707
OPERATING EXPENSES		
Purchased Gas	\$ 1,644,748	\$ 2,100,652
Power for Pumping	49,922	40,037
Operations	368,856	375,477
Maintenance	464,199	539,626
Consumer Accounts	369,921	342,675
Administrative and General	672,726	630,740
Depreciation and Amortization	264,260	282,852
Other Interest	79,283	69,033
Total Operating Expenses	\$ 3,913,915	\$ 4,381,092
OPERATING MARGINS (DEFICIT) - BEFORE FIXED CHARGES	\$ (109,162)	\$ (346,385)
Interest on Long-Term Debt	<u>174,908</u>	<u>180,664</u>
OPERATING (DEFICIT) - AFTER FIXED CHARGES	\$ (284,070)	\$ (527,049)
Capital Credits	<u>16,703</u>	<u>9,951</u>
NET OPERATING (DEFICIT)	\$ (267,367)	\$ (517,098)
NONOPERATING MARGINS		
Interest	<u>457</u>	<u>608</u>
NET (DEFICIT)	\$ (266,910)	\$ (516,490)
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>(160,949)</u>	<u>355,541</u>
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	\$ <u>(427,859)</u>	\$ <u>(160,949)</u>

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

Exhibit C

**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	September 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (Deficit)	\$ (266,910)	\$ (516,490)
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	264,260	282,852
Capital Credits - Noncash	(5,485)	(11,951)
Over/(Under)billed Fuel Cost	130,849	279,946
Deferred Charges	(10,560)	(4,350)
Accounts Receivable	(5,006)	36,610
Inventories and Other Current Assets	(15,173)	6,796
Payables and Accrued Expenses	8,616	(53,304)
Net Payments (to) from - Graham County Electric Cooperative	(505,518)	522,467
Net Cash Provided by (Used in) Operating Activities	\$ (404,927)	\$ 542,576
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (644,873)	\$ (315,580)
Investments in Associated Organizations	8,704	16,998
Net Cash Used in Investing Activities	\$ (636,169)	\$ (298,582)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from CFC	\$ 1,050,000	\$
CIAC Refund Due	226,765	
Payments on Note Payable to AEPSCO	(25,667)	(22,000)
Payments on Long-Term Debt to CFC	(172,865)	(157,329)
Payments on Long-Term Debt to GCEC	(14,607)	(41,728)
Payments on Long-Term Debt to USDA	(22,736)	(21,325)
Memberships	275	450
Net Cash Provided by (Used in) Financing Activities	\$ 1,041,165	\$ (241,932)
<b>INCREASE (DECREASE) IN CASH</b>	\$ 69	\$ 2,062
<b>CASH - BEGINNING OF YEAR</b>	46,579	44,517
<b>CASH - END OF YEAR</b>	\$ 46,648	\$ 46,579
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 174,908	\$ 179,621
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2010 and 2009, was estimated to be \$47,135 and \$57,282, respectively, in the gas department and \$51,039 and \$39,691, respectively, in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2010 and 2009, the Cooperative was overbilled \$378,378 and \$247,529, respectively.

**Group Concentration of Credit Risk**

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$77,625 and \$77,250 at September 30, 2010 and 2009, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash – General.

**Federal Income Tax Status**

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

On January 1, 2009, the Cooperative adopted the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2007.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2010 and 2009.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

3. Utility Plant and Depreciation

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

Major classes of utility plant are summarized as follows:

	September 30,			
	2010		2009	
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,475,189	1,475,189	1,475,189
Transmission		1,098,561	1,098,561	1,098,561
Distribution	3,856,570	631,641	4,488,211	4,036,149
General	194,858	112,010	306,868	306,311
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,095,366	\$ 3,377,616	\$ 7,472,982	\$ 7,020,363
Construction Work in Progress	366,322	223,244	589,566	397,312
Utility Plant Acquisition				
Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 4,877,172	\$ 4,211,028	\$ 9,088,200	\$ 8,443,327

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2010 and 2009, totaled \$223,233 and \$241,826, respectively.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2010, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 332,388	\$ 488,134
Current Year	16,619	24,407
	<u>\$ 349,007</u>	<u>\$ 512,541</u>
Unamortized Adjustment	<u>\$ 66,477</u>	<u>\$ 97,627</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
CFC		
Capital Term Certificates	\$ 128,049	\$ 137,512
Patronage Capital	93,924	93,414
Memberships	1,000	1,000
	<u>\$ 222,973</u>	<u>\$ 231,926</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	<u>\$ 11,860</u>	<u>\$ 6,126</u>
	<u>\$ 234,833</u>	<u>\$ 238,052</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2010	2009
Gas Department		
Unamortized Debt Expense	\$ 11,280	\$ 15,148
Other	9,777	400
	<u>\$ 21,057</u>	<u>\$ 15,548</u>
Water Department		
Unamortized Debt Expense	\$ 20,576	\$ 24,680
Other	9,155	
	<u>\$ 29,731</u>	<u>\$ 24,680</u>
Total	<u>\$ 50,788</u>	<u>\$ 40,228</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2010 and 2009, is \$7,971 and \$8,983, respectively.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2010	2009
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,689	21,414
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 31,354</u>	<u>\$ 31,079</u>

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GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

**7. Accumulated Margins (Deficits)**

This balance consists of net margins or (losses) as follows:

Calendar Year	<u>Gas</u> <u>Department</u>	<u>Water</u> <u>Department</u>	<u>Total</u>
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009	(400,801)	(85,705)	(486,506)
2010 Nine Months	(189,706)	(18,516)	(208,222)
	<u>\$ (542,878)</u>	<u>\$ 197,054</u>	<u>\$ (345,824)</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (542,878)</u>	<u>\$ 115,019</u>	<u>\$ (427,859)</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2010 and 2009, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing between September 30, 2014 and July 7, 2040:

	September 30,	
	2010	2009
Fixed - 7.10%	\$ 529,547	\$ 640,232
Fixed - 4.65%	182,393	222,961
Fixed - 7.45%	296,915	310,640
Fixed - 6.25%	351,250	359,137
Fixed - 7.00%	800,000	
Fixed - 3.05%	250,000	
	<u>\$ 2,410,105</u>	<u>\$ 1,532,970</u>
Less: Current Maturities	<u>197,000</u>	<u>172,900</u>
	<u>\$ 2,213,105</u>	<u>\$ 1,360,070</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$66,200. As of September 30, 2009, annual maturities of long-term debt due CFC for the next 5 years is as follows:

2011	\$ 197,000
2012	210,000
2013	227,000
2014	240,000
2015	48,000

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were not met during the year ended September 30, 2010 and 2009.

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**9. USDA Rural Development Note Payable**

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2010	2009
5.000% Note Maturing March, 2032	\$ 137,260	\$ 140,742
4.500% Note Maturing August, 2035	242,152	247,329
4.500% Note Maturing July, 2040	84,931	86,261
4.125% Note Maturing March, 2047	1,069,923	1,082,670
	\$ 1,534,266	\$ 1,557,002
Less: Current Maturities	23,500	22,500
	\$ 1,510,766	\$ 1,534,502

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2010, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2011	\$ 23,500
2012	24,400
2013	25,600
2014	26,700
2015	27,900

**10. Graham County Electric Note Payable**

During 1998, the Cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance was paid off during the current period.

**11. AEPCO Note Payable**

During 1999, the Cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance was paid off during the current period.

**12. CIAC Refund Due**

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

\$15,536 in the water division. The gas portion will be refunded over three years and is reflected in long term debt (\$154,189) and current maturities of long term debt (\$72,576). The water amount will be totally refunded in the next year and is reflected in Accounts Payable – Other.

13. Related Parties

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

Balances between the two Cooperatives are summarized as follows:

	<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>
Graham County Utilities, Inc.		
Accounts Payable	\$ (834,642)	\$ (1,340,164)
Note Payable		(14,607)
Net Due to Affiliated Cooperative	<u>\$ (834,642)</u>	<u>\$ (1,354,771)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 834,642	\$ 1,340,164
Note Receivable		14,607
Net Due from Affiliated Cooperative	<u>\$ 834,642</u>	<u>\$ 1,354,771</u>

14. Litigation and Contingencies

The Cooperative is not involved in any litigation that would materially affect the financial statements.

The Cooperative previously filed for rate increases in both water and gas companies with the Arizona Corporation Commission. During the current period the rate cases were concluded and new rates were implemented in June 2010.

15. Subsequent Events

The Cooperative has evaluated subsequent events through November 2, 2010, the date the financial statements were available to be issued.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 2, 2010

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**GRAHAM COUNTY UTILITIES, INC.**  
**GAS DEPARTMENT**

Schedule 1

**BALANCE SHEET**  
**SEPTEMBER 30, 2010 AND 2009**

**ASSETS**

	September 30,	
	2010	2009
<b>UTILITY PLANT</b>		
Plant in Service	\$ 4,095,366	\$ 3,743,276
Construction Work in Progress	366,322	195,805
Plant Acquisition Adjustment	415,484	415,484
	\$ 4,877,172	\$ 4,354,565
Less: Accumulated Provision for Depreciation and Amortization	2,353,251	2,207,546
	\$ 2,523,921	\$ 2,147,019
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 131,388	\$ 134,341
 <b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$70,453 in 2010 and \$76,885 in 2009)	\$ 20,842	\$ 21,546
Materials and Supplies	84,805	75,283
Other Current and Accrued Assets	26,747	22,295
Total Current Assets	\$ 132,394	\$ 119,124
 Deferred Charges	\$ 21,057	\$ 15,548
 <b>TOTAL ASSETS</b>	\$ 2,808,760	\$ 2,416,032

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 28,854	\$ 28,579
Accumulated Margins (Deficits)	(542,878)	(305,016)
	\$ (514,024)	\$ (276,437)
 <b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,709,163	\$ 982,069
CIAC Refunds Due	154,189	
	\$ 1,863,352	\$ 982,069
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 188,906	\$ 159,807
Accounts Payable - Other	60,616	69,351
Accounts Payable - Graham County Electric Cooperative	699,527	1,103,232
Overbilled Consumers Fuel Cost	378,378	247,529
Accrued Taxes	34,846	36,220
Customers' Deposits and Prepayments	67,220	68,845
Accrued Interest	13,282	13,096
Accrued Payroll	16,657	12,320
Total Current Liabilities	\$ 1,459,432	\$ 1,710,400
 <b>TOTAL EQUITIES AND LIABILITIES</b>	\$ 2,808,760	\$ 2,416,032

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,		Increase (Decrease)
	2010	2009	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,380,373	\$ 2,678,432	\$ (298,059)
Irrigation	6,681	8,456	(1,775)
Commercial and Industrial	843,054	976,257	(133,203)
Fuel Cost Under (Over) Billed	24,648	19,960	4,688
Other Operating Revenues	(129,990)	(280,168)	150,178
Total Operating Revenues	<u>\$ 3,124,766</u>	<u>\$ 3,402,937</u>	<u>\$ (278,171)</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,644,748	\$ 2,100,652	\$ (455,904)
Operations	303,884	309,874	(5,990)
Maintenance	283,816	376,161	(92,345)
Customer Accounts	306,437	283,581	22,856
Administrative and General	541,444	499,297	42,147
Depreciation and Amortization	145,705	137,095	8,610
Other Interest	62,047	54,993	7,054
Total Operating Expenses	<u>\$ 3,288,081</u>	<u>\$ 3,761,653</u>	<u>\$ (473,572)</u>
OPERATING (DEFICIT) - Before Fixed Charges	\$ (163,315)	\$ (358,716)	\$ 195,401
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>82,985</u>	<u>79,858</u>	<u>3,127</u>
OPERATING (DEFICIT) - After Fixed Charges	\$ (246,300)	\$ (438,574)	\$ 192,274
Capital Credits	<u>8,050</u>	<u>7,229</u>	<u>821</u>
NET OPERATING (DEFICIT)	\$ (238,250)	\$ (431,345)	\$ 193,095
<b>NONOPERATING MARGINS</b>			
Interest	<u>388</u>	<u>546</u>	<u>(158)</u>
NET (DEFICIT)	\$ (237,862)	\$ (430,799)	\$ <u>192,937</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>(305,016)</u>	<u>125,783</u>	
ACCUMULATED MARGINS (DEFICIT) - END OF YEAR	<u>\$ (542,878)</u>	<u>\$ (305,016)</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Deficit)	\$ (237,862)	\$ (430,799)
Adjustments to Reconcile Net (Deficit) to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	145,705	137,095
Capital Credits - Noncash	(4,025)	(9,229)
Deferred Charges	(5,509)	3,467
Over/(Under)billed Fuel Cost - Net	130,849	279,946
Accounts Receivable	704	35,674
Inventories and Other Current Assets	(13,974)	14,051
Payables and Accrued Expenses	(7,211)	(19,624)
Net Payments from - Graham County Electric Cooperative	(403,705)	352,481
Net Cash Provided by (Used in) Operating Activities	<u>\$ (395,028)</u>	<u>\$ 363,062</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (522,607)	\$ (239,405)
Investments in Associated Organizations	6,978	10,481
Net Cash Used in Investing Activities	<u>\$ (515,629)</u>	<u>\$ (228,924)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt - CFC	\$ 800,000	\$
CIAC Refunds Due	226,765	
Payments on Long-Term Debt - CFC	(101,776)	(92,860)
Payments on Long-Term Debt - Graham County Electric Cooperative	(14,607)	(41,728)
Memberships	275	450
Net Cash Provided by (Used in) Operating Activities	<u>\$ 910,657</u>	<u>\$ (134,138)</u>
INCREASE (DECREASE) IN CASH	\$ 0	\$ 0
CASH - BEGINNING OF YEAR	<u>0</u>	<u>0</u>
CASH - END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	<u>\$ 82,985</u>	<u>\$ 82,630</u>
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

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**GRAHAM COUNTY UTILITIES, INC.**  
**WATER DEPARTMENT**

Schedule 4

**BALANCE SHEET**  
**SEPTEMBER 30, 2010 AND 2009**

**ASSETS**

	September 30,	
	2010	2009
UTILITY PLANT AT COST		
Water Plant in Service	\$ 3,377,616	\$ 3,277,087
Construction Work in Progress	223,244	201,507
Plant Acquisition Adjustment	610,168	610,168
	\$ 4,211,028	\$ 4,088,762
Less: Accumulated Provision for Depreciation and Amortization	2,042,624	1,924,069
	\$ 2,168,404	\$ 2,164,693
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 103,445	\$ 103,711
CURRENT ASSETS		
Cash - General	\$ 46,648	\$ 46,579
Accounts Receivable - Customers (Less allowance for uncollectibles of \$14,091 in 2010 and \$15,477 in 2009)	19,319	13,609
Materials and Supplies	62,610	62,895
Other Current and Accrued Assets	8,916	7,432
Total Current Assets	\$ 137,493	\$ 130,515
DEFERRED CHARGES	\$ 29,731	\$ 24,680
NET ASSETS	\$ 2,439,073	\$ 2,423,599

**EQUITIES AND LIABILITIES**

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	115,019	144,067
	\$ 117,519	\$ 146,567
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 503,942	\$ 378,001
AEPKO Notes Payable Less Current Maturities		3,667
USDA Rural Development Notes Less Current Maturities	1,510,766	1,534,502
	\$ 2,014,708	\$ 1,916,170
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 104,170	\$ 72,200
Accounts Payable - Other	21,483	12,125
Accounts Payable - Graham County Electric Cooperative	135,115	236,928
Accrued Taxes	23,453	21,097
Customers' Deposits and Prepayments	10,405	8,405
Accrued Interest	6,224	6,103
Accrued Payroll	5,996	4,004
Total Current Liabilities	\$ 306,846	\$ 360,862
NET EQUITIES AND LIABILITIES	\$ 2,439,073	\$ 2,423,599

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

Schedule 5

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	September 30,		Increase (Decrease)
	2010	2009	
<b>OPERATING REVENUES</b>			
Residential	\$ 575,793	\$ 546,737	\$ 29,056
Commercial and Industrial	60,484	50,027	10,457
Sales for Resale	38,719	31,186	7,533
Other Operating Revenues	4,991	3,820	1,171
Total Operating Revenues	<u>\$ 679,987</u>	<u>\$ 631,770</u>	<u>\$ 48,217</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 49,922	\$ 40,037	\$ 9,885
Operations	64,972	65,603	(631)
Maintenance	180,383	163,465	16,918
Customer Accounts	63,484	59,094	4,390
Administrative and General	131,282	131,443	(161)
Depreciation and Amortization	118,555	145,757	(27,202)
Other Interest	17,236	14,040	3,196
Total Operating Expenses	<u>\$ 625,834</u>	<u>\$ 619,439</u>	<u>\$ 6,395</u>
OPERATING MARGINS - Before			
Fixed Charges	\$ 54,153	\$ 12,331	\$ 41,822
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>91,923</u>	<u>100,806</u>	<u>(8,883)</u>
OPERATING (DEFICIT) - After Fixed Charges	\$ (37,770)	\$ (88,475)	\$ 50,705
Capital Credits	<u>8,653</u>	<u>2,722</u>	<u>5,931</u>
NET OPERATING (DEFICIT)	\$ (29,117)	\$ (85,753)	\$ 56,636
<b>NONOPERATING MARGINS</b>			
Interest	<u>69</u>	<u>62</u>	<u>7</u>
NET (DEFICIT)	\$ (29,048)	\$ (85,691)	<u>\$ 56,643</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>			
	<u>144,067</u>	<u>229,758</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 115,019</u>	<u>\$ 144,067</u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Deficit)	\$ (29,048)	\$ (85,691)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	118,555	145,757
Capital Credits - Noncash	(1,460)	(2,722)
Deferred Charges	(5,051)	(7,817)
Accounts Receivable	(5,710)	936
Inventories and Other Current Assets	(1,199)	(7,255)
Payables and Accrued Expenses	16,028	(33,680)
Net Payments from (to) - Graham County Electric Cooperative	(101,813)	169,986
Net Cash Provided by (Used in) Operating Activities	\$ (9,698)	\$ 179,514
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (122,467)	\$ (76,175)
Investments in Associated Organizations	1,726	6,517
Net Cash Used in Investing Activities	\$ (120,741)	\$ (69,658)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from CFC	\$ 250,000	\$
Payments on Note Payable to AEPSCO	(25,667)	(22,000)
Payments on Long-Term Debt to CFC	(71,089)	(64,469)
Payments on Long-Term Debt to USDA	(22,736)	(21,325)
Net Cash Provided by (Used in) Financing Activities	\$ 130,508	\$ (107,794)
INCREASE IN CASH	\$ 69	\$ 2,062
CASH - BEGINNING OF YEAR	46,579	44,517
CASH - END OF YEAR	\$ 46,648	\$ 46,579
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 91,923	\$ 96,991
Federal Income Tax	\$ 0	\$ 0