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BEFORE THE ARIZONA CORPORATION COMMISSION
AZ CORP COMMISSION
DOCKET CONTROL

2013 JUL 8 PM 2 29

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC. FOR A HEARING TO DETERMINE THE
FAIR VALUE OF ITS PROPERTY FOR
RATEMAKING PURPOSES, TO FIX A JUST AND
REASONABLE RETURN THEREON AND TO
APPROVE RATES DESIGNED TO DEVELOP
SUCH RETURN

Docket No. E-04100A-12-0353

**SWTC'S NOTICE OF FILING
REJOINDER TESTIMONY**

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Notice is given that Southwest Transmission Cooperative, Inc. files the attached
Rejoinder Testimony of Gary E. Pierson.

RESPECTFULLY SUBMITTED this 8th day of July, 2013.

GALLAGHER & KENNEDY, P.A.

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Original and 13 copies filed this
8th day of July, 2013, with:

- Docket Control
- Arizona Corporation Commission
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- Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

JUL 08 2013

DOCKETED BY

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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3 BOB STUMP, Chairman
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15 SUCH RETURN

Docket No. E-04100A-12-0353

16 **Rejoinder Testimony of**

17 **Gary E. Pierson**

18 **on Behalf of**

19 **Southwest Transmission Cooperative, Inc.**

20
21 **July 8, 2013**

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TABLE OF CONTENTS

	<u>Page</u>
REVENUE REQUIREMENTS — SWTC REJOINDER POSITION.....	1
RATE DESIGN — SWTC REJOINDER POSITION	3
SUMMARY OF SWTC REJOINDER POSITION	6

1 **Q. Mr. Pierson, are you the same Gary E. Pierson who sponsored direct and rebuttal**
2 **testimonies for Southwest Transmission Cooperative, Inc. (“SWTC”) in this matter?**

3 A. Yes, I am.

4
5 **Q. Have you reviewed the surrebuttal testimony of Staff witness Dennis M. Kalbarczyk**
6 **filed on June 17, 2013 in this matter?**

7 A. Yes, I have. Page 3 of Mr. Kalbarczyk’s testimony contains a summary of his overall
8 recommendations to the Commission. With the one exception I discuss below, SWTC
9 accepts his recommendations, including his ultimate recommendation that the Commission
10 approve revised rates based on an approximate \$12.6 million reduction in revenue
11 requirements.

12

13 **REVENUE REQUIREMENTS — SWTC REJOINDER POSITION**

14 **Q. Mr. Kalbarczyk’s testimony discusses some additional adjustments to SWTC’s**
15 **revenue requirements. Please provide the Cooperative’s response to**
16 **Mr. Kalbarczyk’s testimony.**

17 A. In my rebuttal testimony, I proposed four rebuttal adjustments that total a net increase of
18 about \$355,000. At page 4 of his testimony, Mr. Kalbarczyk confirms that those proposed
19 rebuttal adjustments are reasonably supported and recommends that they be approved.
20 Mr. Kalbarczyk also recommends using an updated DSC as of March 31, 2013 to calculate
21 revenue requirements. In order to narrow disputed issues and reduce complexity, SWTC
22 accepts this proposal. This results in a downward adjustment of about \$158,000. As

23

24

1 summarized at page 5 of his testimony, the net effect of these adjustments is a revenue
2 requirements increase of slightly less than \$200,000.
3

4 **Q. Mr. Kalbarczyk also mentions SWTC's rate case expenses at page 5 of his testimony.**
5 **Please provide an update on this issue.**

6 A. On June 12, 2013, we submitted updated actual and anticipated rate case expenses to Staff,
7 including a revised estimate of \$220,000 for total rate case expenses compared to our
8 original estimate of \$240,000. Upon consultation with Staff, it was agreed that SWTC's
9 original normalization adjustment of \$80,000 (\$240,000 normalized over a three-year
10 period) need not be updated.
11

12 **Q. Have you prepared exhibits that summarize SWTC's rejoinder positions and**
13 **requests?**

14 A. Yes, I have. Exhibit GEP-10 summarizes SWTC's original rate filing, Staff's direct
15 testimony, SWTC's rebuttal, Staff's surrebuttal and SWTC's rejoinder positions. Referring
16 to Columns D and E of Exhibit GEP-10, you'll see that Staff and SWTC agree as to
17 proposed test year revenues of approximately \$33.8 million, operating expenses of
18 \$24.7 million, electric operating income (margins) of \$9.1 million and a proposed net
19 margin of just under \$4.4 million. Lines 1 and 3 of Exhibit GEP-10 also show Staff and
20 SWTC's recommendation of a revenue decrease of approximately \$12.6 million, which is a
21 28.61% decrease compared to test year revenues under present rates.
22
23
24

1 **RATE DESIGN — SWTC REJOINDER POSITION**

2 **Q. Does Mr. Kalbarczyk’s surrebuttal testimony address rate design issues?**

3 A. Yes. At page 6, Mr. Kalbarczyk confirmed that Staff continues to support SWTC’s cost of
4 service study and rate design approach. Accordingly, my Exhibit GEP-11 summarizes
5 SWTC current rates, its filed rates, Staff’s rates in direct testimony, SWTC’s rebuttal rates,
6 Staff’s surrebuttal and SWTC’s rejoinder rate positions (which also reflect the adjustments
7 to revenue requirements I’ve discussed above).

8
9 **Q. Mr. Kalbarczyk also discusses SWTC’s proposed Transmission Revenue Adjustor
10 (“TRA”) at page 6 of his surrebuttal testimony. Please provide the Cooperative’s
11 response.**

12 A. Though he notes that SWTC supplied additional information regarding the TRA in our
13 rebuttal testimony, Mr. Kalbarczyk states that Staff did not have sufficient time to do an
14 effective review of the proposal and, therefore, recommends that the Commission reject the
15 TRA at this time. We apologize for the delay in supplying more details on our TRA
16 proposal, but as Staff and the Commission know, our small Cooperative staff has not only
17 been processing two rate cases simultaneously, but also has been fully occupied in
18 supporting AEPCO’s successful efforts to secure a grant of its Supplemental Petition for
19 Administrative Reconsideration on the EPA’s Federal Implementation Plan. We hope that
20 the following information – including our recent communications with Staff regarding some
21 modifications to the adjustor that we are willing to accept – will clarify why the TRA should
22 be approved.

1 **Q. Can you please explain how the TRA would work as originally proposed?**

2 A. As initially proposed and described in our draft Tariff and Plan of Administration
3 (Exhibits GEP-7 and GEP-8 to my rebuttal testimony), the TRA would apply only in the
4 limited circumstance of either the addition or termination of a Firm Point-To-Point Contract,
5 which is defined as a firm (*i.e.*, includes a monthly capacity charge), non-energy based,
6 point-to-point contract that is or was of a term one year or longer. The TRA impacts only
7 two categories of SWTC's rates – specifically, those calculated under its monthly Network
8 Transmission Service Revenue Requirement and its monthly Mohave 2 Network
9 Transmission Service Revenue Requirement (collectively, the “NTS Revenue
10 Requirements”).

11
12 In the event that an additional Firm Point-To-Point Contract is entered into in the future, the
13 Cooperative's monthly NTS Revenue Requirements in effect at the time the contract takes
14 effect will be adjusted downward by the amount of the expected monthly revenue from the
15 new Firm Point-To-Point Contract. In the event of termination of a Firm Point-To-Point
16 Contract, we initially intended that the monthly NTS Revenue Requirements in effect at the
17 time of termination would be adjusted upward – again by the monthly revenue provided by
18 the terminated Firm Point-To-Point Contract.

19

20 **Q. Will the administration of the TRA require time-consuming oversight or complex**
21 **analysis by Commission Staff?**

22 A. No. The TRA will be fairly simple and easy for Staff to review. In order to adjust network
23 rates under the TRA, SWTC will file documentation reflecting the revised monthly NTS
24

1 Revenue Requirements. We will also supply a copy of the Firm Point-To-Point Contract at
2 issue, along with calculations supporting the revised NTS Revenue Requirements for Staff's
3 verification.

4
5 **Q. Mr. Kalbarczyk noted that no other Arizona utility has a TRA. Does SWTC have a**
6 **response?**

7 A. Yes, we do. To our knowledge, SWTC is the only Arizona transmission provider whose
8 transmission rates are directly and solely regulated by the Commission. Other Arizona
9 utilities with transmission facilities (such as Arizona Public Service Company and Tucson
10 Electric Power) have transmission rates that are set by the Federal Energy Regulatory
11 Commission under a different ratemaking structure. Accordingly, in light of this unique
12 status, it's not surprising that we would be the only company with a TRA.

13
14 **Q. What are the benefits of the TRA as initially proposed by SWTC?**

15 A. There are several. First, in the event of the addition of a Firm Point-To-Point Contract, the
16 TRA reduces our Members' network rates promptly, which is of considerable value to our
17 Members and their retail customers. In the event a Firm Point-To-Point Contract is
18 terminated, the originally proposed TRA would adjust the network rates upward, which
19 would provide timely support for the Cooperative's financial stability and equity position.
20 Additionally, the TRA aids SWTC, the Commission and Staff in avoiding the time and
21 expense associated with processing a full rate case in response to what are likely to be
22 relatively small positive or negative changes in point-to-point revenues.

1 **Q. Earlier you stated that SWTC and Staff recently discussed some modifications to the**
2 **adjustor mechanisms. Please explain.**

3 A. Upon receiving Staff's surrebuttal testimony, we contacted Staff to better understand their
4 concerns regarding the TRA. Through those discussions, we arrived at the following
5 modifications to the TRA, which we understand are acceptable to Staff. First, the TRA will
6 be limited to only adjusting the NTS Revenue Requirements downward in the event that
7 SWTC enters into a new Firm Point-To-Point Contract (*i.e.*, NTS Revenue Requirements
8 will not adjust up if a contract is cancelled). Second, any adjustment of the NTS Revenue
9 Requirements will not only be subject to Staff's 30-day review, but will require Commission
10 approval as well. Finally, there are some additional procedural issues that we have
11 committed to work through with Staff. Accordingly, we anticipate filing a revised TRA
12 Tariff and Plan of Administration acceptable to Staff on or before July 24, 2013, in
13 accordance with the Procedural Order's deadline for filing supplements to prefiled
14 testimony.

15

16 **SUMMARY OF SWTC REJOINDER POSITION**

17 **Q. Mr. Pierson, please summarize SWTC's rate case requests.**

18 A. SWTC asks that the Commission approve the rejoinder revenue requirements and rates as
19 shown in my Exhibits GEP-10 and GEP-11 and that the rates become effective on
20 November 1, 2013 (or at the same time as implementation of AEPCO's new rates).
21 Approval of the modified TRA concept as I've discussed is also requested. Lastly, the
22 revised depreciation rates stated in Exhibit PS-2 to Mr. Scott's direct testimony should
23 also be approved.

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1 **Q. Does this conclude your rejoinder testimony?**

2 **A. Yes, it does.**

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EXHIBIT GEP-10

Southwest Transmission Cooperative, Inc.
Comparison of Increase in Gross Revenue Requirement
Test Year Ended December 31, 2011

Line No.	Description	Col. A	Col. B	Col. C	Col. D	Col. E
		Company As Filed Position	Staff Direct Position	Company Rebuttal Position	Staff Surrebuttal Position	Company Rejoinder Position
1	Summary of Revenue Increase Proposed:					
2	Proposed Revenue Decrease	\$ (12,757,213)	\$ (12,794,662)	\$ (12,439,893)	\$ (12,596,041)	\$ (12,596,041)
3	Revenues in Test Year - Present Rates	\$ 44,022,391	\$ 44,022,391	\$ 44,022,391	\$ 44,022,391	\$ 44,022,391
3	Revenue Increase Percentage	-28.98%	-29.06%	-28.26%	-28.61%	-28.61%
4						
5	Pro Forma Statement of Operations					
6	with Proposed Rates:					
7	Operating Revenues	\$ 33,677,073	\$ 33,639,624	\$ 33,994,393	\$ 33,838,245	\$ 33,838,245
8	Operating Expense	24,430,165	24,392,716	24,747,485	24,747,485	24,747,485
9	Electric Operating Margins	9,246,908	9,246,908	9,246,908	9,090,760	9,090,760
10	Interest & Other Deductions	5,170,450	5,170,450	5,170,450	5,012,248	5,012,248
11	Operating Margins	4,076,458	4,076,458	4,076,458	4,078,512	4,078,512
12	Non-Operating Margins	307,780	307,780	307,780	307,780	307,780
13	Net Patronage Capital or Margins	\$ 4,384,238	\$ 4,384,238	\$ 4,384,238	\$ 4,386,292	\$ 4,386,292
14						
15	Times Interest Earned Ratio:					
16	Net Patronage Capital or Margins	\$ 4,384,238	\$ 4,384,238	\$ 4,384,238	\$ 4,386,292	\$ 4,386,292
17	Interest on Long Term Debt	5,008,818	5,008,818	5,008,818	4,850,616	4,850,616
18	Total	\$ 9,393,056	\$ 9,393,056	\$ 9,393,056	\$ 9,236,908	\$ 9,236,908
19	Times Interest Earned Ratio	1.88	1.88	1.88	1.90	1.90
20						
21	Debt Service Coverage Ratio:					
22	Net Patronage Capital or Margins	\$ 4,384,238	\$ 4,384,238	\$ 4,384,238	\$ 4,386,292	\$ 4,386,292
23	Depreciation & Amortization	4,033,584	4,033,584	4,033,584	4,033,584	4,033,584
24	Interest on Long Term Debt	5,008,818	5,008,818	5,008,818	4,850,616	4,850,616
25	Total	\$ 13,426,640	\$ 13,426,640	\$ 13,426,640	\$ 13,270,492	\$ 13,270,492
26						
27	Interest on Long Term Debt	\$ 5,008,818	\$ 5,008,818	\$ 5,008,818	\$ 4,850,616	\$ 4,850,616
28	Principal Payments	4,936,841	4,936,841	4,936,841	4,979,379	4,979,379
29	Debt Service	\$ 9,945,659	\$ 9,945,659	\$ 9,945,659	\$ 9,829,995	\$ 9,829,995
30	Debt Service Coverage Ratio	1.35	1.35	1.35	1.35	1.35
31						
32	Return on Fair Value Rate Base:					
33	Electric Operating Margins	\$ 9,246,908	\$ 9,246,908	\$ 9,246,908	\$ 9,090,760	\$ 9,090,760
34	Rate Base	\$ 99,009,871	\$ 97,658,808	\$ 97,658,808	\$ 97,658,808	\$ 97,658,808
35	Return on Fair Value Rate Base	9.34%	9.47%	9.47%	9.31%	9.31%
36						

References:

38 Column (A): Company Original Filed Schedules

Column (B): Staff Direct Testimony Schedules

39 Column (C): Company Rebuttal Testimony Schedules

Column (D): Staff Surrebuttal DMK Exhibit 1

EXHIBIT GEP-11

Southwest Transmission Cooperative, Inc.

Comparison of Proposed Transmission & Ancillary Service Rates Test Year Ended December 31, 2011

Line No.	Description	Col. 1 Company Current Rates	Col. 2 Company As Filed Position	Col. 3 Staff Direct Position	Col. 4 Company Rebuttal Position	Col. 5 Staff Surrebuttal Position	Col. 6 Company Rejoinder Position
1	<u>Transmission Services:</u>						
2	Firm Network Service - \$ Monthly Rev. Req.*	\$ 2,187,176	\$ 1,570,730	\$ 1,568,836	\$ 1,587,307	\$ 1,579,106	\$ 1,579,106
3	Firm Network Service - \$ Annual Rev. Req.	\$ 26,246,111	\$ 18,848,758	\$ 18,826,032	\$ 19,047,686	\$ 18,949,274	\$ 18,949,274
4	Firm Network Service - Moh Elec 2 \$ Monthly Rev. Req.*	\$ 2,056,562	\$ 1,251,434	\$ 1,247,255	\$ 1,265,727	\$ 1,260,481	\$ 1,260,481
5	Firm Network Service - Moh Elec 2 \$ Annual Rev. Req.	\$ 24,678,748	\$ 15,017,214	\$ 14,967,065	\$ 15,188,718	\$ 15,125,776	\$ 15,125,776
6	Firm Point-to-Point Network Transmission (\$/kW)	\$ 3,608	\$ 2,558	\$ 2,555	\$ 2,586	\$ 2,572	\$ 2,572
7	Non-Firm Point-to-Point Network Transmission \$/kW	\$ 3,608	\$ 2,558	\$ 2,555	\$ 2,586	\$ 2,572	\$ 2,572
8							
9	<u>Mandatory Ancillary Services:</u>						
10	Sch. 1 - Network - System Control & Load Dispatch - (\$/kW)	\$ 0.245	\$ 0.173	\$ 0.173	\$ 0.173	\$ 0.173	\$ 0.173
11	Sch. 1 - Point-to-Point - System Control & Load Dispatch - (\$/kW)	\$ 0.245	\$ 0.173	\$ 0.173	\$ 0.173	\$ 0.173	\$ 0.173
12	Sch. 2 - Network - Var Support/ Voltage Control - (\$/kW)	\$ 0.067	\$ 0.096	\$ 0.097	\$ 0.097	\$ 0.096	\$ 0.096
13	Sch. 2 - Point-to-Point - Var Support/ Voltage Control - (\$/kW)	\$ 0.049	\$ 0.070	\$ 0.071	\$ 0.071	\$ 0.070	\$ 0.070
14							
15	<u>FERC Optional Ancillary Services - AEPCCO</u>						
16	Sch. 3 - Network - Req. & Freq. Resp (\$/kW)	\$ 0.5325	\$ 0.2602	\$ 0.2589	\$ 0.2589	\$ 0.2575	\$ 0.2575
17	Sch. 4 - Network - Energy Imbalance - Eng In-Kind +/-1.5% (\$/MW)	\$ 36.68	\$ 32.63	\$ 32.63	\$ 32.63	\$ 32.63	\$ 32.63
18	AEPCCO Pays Positive Imbalance	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
19	Customer Pays Negative Imbalance	\$ 0.7060	\$ 0.7232	\$ 0.7196	\$ 0.7196	\$ 0.7157	\$ 0.7157
20	Sch. 5 - Network - Oper. Reserves - Spinning (\$/kW)	\$ 0.4981	\$ 0.5009	\$ 0.4985	\$ 0.4985	\$ 0.4959	\$ 0.4959
21	Sch. 6 - Network - Oper. Reserve - Supplemental (\$/kW)						
22							
23	<u>Direct Assignment Facilities</u>						
24	Direct Assignment Facilities - (\$/Mth)	\$ 133,210	\$ 133,210	\$ 133,210	\$ 133,210	\$ 133,210	\$ 133,210
25							
26	* Member Rate: \$ annual rev req /12 x ratio of Memb's Currnt 12Mth avg Load to that of same Sum of Total Members Load.						