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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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Arizona Corporation Commission

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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
TESTIMONY SUMMARIES**

GALLAGHER & KENNEDY, P.A.
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Notice is given that, pursuant to the Procedural Order dated September 11, 2012 in this docket, Southwest Transmission Cooperative, Inc. ("SWTC") files the testimony summaries of Peter Scott and Gary E. Pierson.

RESPECTFULLY SUBMITTED this 25th day of July, 2013.

GALLAGHER & KENNEDY, P.A.

By

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1 **Original and 13 copies** filed this
25th day of July, 2013, with:

2 Docket Control
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5 **Two copies** of the foregoing delivered
this 25th day of July, 2013, to:

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Direct Testimony Summary of Peter Scott
Southwest Transmission Cooperative, Inc. ("SWTC" or the "Cooperative")
Rate Case
Docket No. E-04100A-12-0353

Peter Scott is the Chief Financial Officer of SWTC. He serves on the Division Managers Group and reports directly to the Chief Executive Officer. His direct testimony provides background information on the Cooperative, its facilities, its membership and Board of Directors. Mr. Scott discusses the fact that, in addition to regulation by the Arizona Corporation Commission, SWTC is also subject to regulation by the Rural Utilities Service ("RUS"), a division of the U.S. Department of Agriculture, and to the jurisdiction of another federal agency, the Federal Energy Regulatory Commission.

Mr. Scott explains that there are two primary reasons for the Cooperative's rate filing. First, Mr. Scott states that SWTC needs to implement revised depreciation rates based on a study conducted by Burns & McDonnell, a copy of which is attached to his testimony as Exhibit PS-1. Mr. Scott requests that the Commission approve the revised depreciation rates summarized on Exhibit PS-2. The second reason for SWTC's rate filing, as discussed by Mr. Scott, is to recognize increased revenues from a new 205 MW Point-to-Point transmission agreement with Arizona Electric Power Cooperative, Inc. ("AEPSCO").

Mr. Scott explains that the combined impact of the revised depreciation rates and the new AEPSCO Point-to-Point contract on the Cooperative's revenues supports SWTC's requested rate decrease of almost 29%. Mr. Scott states that the revised rates are designed to produce a TIER of 1.88 and a DSC of 1.35, which will keep the Cooperative in compliance with RUS rules and mortgage standards. Additionally, Mr. Scott requests that the SWTC rates go into effect on November 1, 2013, which is the same implementation date requested in the companion AEPSCO rate case.

Finally, Mr. Scott discusses SWTC's proposal for a Transmission Revenue Adjustor ("TRA"). He explains that the purpose of the TRA mechanism is to allow the Cooperative to adjust its Network transmission rates in direct response to actual changes in Point-to-Point billing units without requiring the time and expense of a formal rate filing.

Testimony Summaries of Gary E. Pierson
Southwest Transmission Cooperative, Inc. ("SWTC" or the "Cooperative")
Rate Case
Docket No. E-04100A-12-0353

Direct Testimony

Gary E. Pierson is the Manager of Financial Services for Sierra Southwest Cooperative Services, Inc., which provides various support services to SWTC. His direct testimony supports the Cooperative's application for a general rate decrease. He reviews the financial Schedules A-H in his direct testimony, including the summary A Schedules and the C Schedules, which contain the adjusted test year data, as well as the supporting schedules for the income statements. He also describes the G Schedules regarding cost of service and the H Schedules, which show the effect of the proposed rates on Cooperative revenues.

Mr. Pierson's direct testimony describes SWTC's proposed Transmission Revenue Adjustor ("TRA") and provides an illustration of how it would adjust Network revenue requirements in response to the addition or termination of a Point-to-Point service agreement.

Rebuttal Testimony

Mr. Pierson's rebuttal testimony provides the Cooperative's responses to the direct testimonies of Staff witnesses Messrs. Vickroy, Kalbarczyk and Mazzini.

Concerning Mr. Vickroy's testimony, Mr. Pierson confirms that SWTC and Staff are in agreement regarding rate sufficiency, equity levels, revenue requirements and the recommended DSC of 1.35. In response to Mr. Vickroy's discussion of cost of long-term and short-term debt, Mr. Pierson provides updated cost of capital information at Exhibit GEP-3.

Mr. Pierson states SWTC's acceptance of Mr. Kalbarczyk's proposed rate base and fair value. Regarding operating income, Mr. Pierson accepts Mr. Kalbarczyk's pro forma adjustments and proposes four additional rebuttal adjustments, detailed on Exhibit GEP-4. Because the parties agree on rate design, Mr. Pierson provides an exhibit (Exhibit GEP-5) that incorporates SWTC's rebuttal adjustments into proposed revised rates.

Mr. Pierson explains that the Cooperative agrees with Mr. Mazzini's major conclusions that SWTC's property placed in service should be considered "used and useful" for ratemaking purposes; SWTC's maintenance practices "conform to industry standards" and it employs a state-of-the-art maintenance management system; and its reliability performance is generally good. In response to Mr. Mazzini's suggestions for

potential improvement in the future, Mr. Pierson confirms that the conclusions and observations are being reviewed by SWTC's senior management and engineering personnel, who are already in the process of implementing additional process improvements and refinements.

Finally, Mr. Pierson offers additional information regarding the TRA proposal, including a draft Tariff and Plan of Administration.

Rejoinder Testimony

In his rejoinder testimony, Mr. Pierson responds to Mr. Kalbarczyk's surrebuttal testimony. Specifically, he states that, in order to narrow disputed issues, SWTC accepts the proposal to use a cost of debt as of March 31, 2013 to calculate revenue requirements. Mr. Pierson also confirms that Staff has accepted SWTC's proposed rate case expense adjustment.

With his rejoinder testimony, Mr. Pierson provides exhibits demonstrating the parties' agreement as to proposed test year revenues of approximately \$33.8 million, operating expenses of \$24.7 million, electric operating income (margins) of \$9.1 million and a proposed net margin of just under \$4.4 million. Mr. Pierson's exhibits also show that SWTC and Staff agree to a revenue decrease of approximately \$12.6 million, which is a 28.61% decrease compared to test year revenues under present rates. Mr. Pierson's Exhibit GEP-11 presents SWTC's rejoinder position regarding rates, which incorporate all agreed-to adjustments.

As to the TRA proposal, Mr. Pierson provides additional detail regarding how the mechanism would function and the Cooperative's purpose in proposing it. Mr. Pierson also explains that, following Staff's surrebuttal filing, the parties met and agreed to certain revisions to the TRA. Mr. Pierson relates Staff's support of the TRA based on two substantive modifications: (1) the TRA will only operate to adjust Network revenue requirements downward and (2) any adjustment to revenue requirements pursuant to the TRA must receive Commission approval in order to become effective. Mr. Pierson indicates that SWTC will file as supplemental exhibits the revised, Staff-approved versions of the TRA Tariff and Plan of Administration.

Lastly, Mr. Pierson summarizes SWTC's request that the Commission approve (1) the Cooperative's decreased revenue requirements and rates to become effective on November 1, 2013, (2) the TRA as modified and (3) the revised depreciation rates stated in Exhibit PS-2.

Supplemental Rejoinder Exhibits

Pursuant to Mr. Pierson's rejoinder testimony, on July 23, 2013, SWTC filed revised, Staff-approved versions of the TRA Tariff and Plan of Administration as Exhibits GEP-12 and GEP-13, respectively.