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**BEFORE THE ARIZONA CORPORATION**

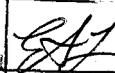
COMMISSIONERS

Arizona Corporation Commission

**DOCKETED**

OCT 25 2013

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

DOCKETED BY 

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

DECISION NO. 74172

**OPINION AND ORDER**

DATE OF HEARING: July 22 (pre-hearing conference) and 29, 2013

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Teena Jibilian

APPEARANCES: Mr. Michael M. Grant and Ms. Jennifer A. Cranston, GALLAGHER & KENNEDY, on behalf of Southwest Transmission Cooperative, Inc.;

Messrs. Michael W. Patten and Jason D. Gellman, ROSHKA DEWULF & PATTEN, PLC, on behalf of Trico Electric Cooperative, Inc.;

Mr. Jeffrey W. Crockett, BROWNSTEIN HYATT FARBER SCHRECK, on behalf of Sulphur Springs Valley Electric Cooperative, Inc.;

Messrs. Mr. William P. Sullivan and Michael A. Curtis, CURTIS, GOODWIN, SULLIVAN, UDALL & SCHWAB, PLC, on behalf of Mohave Electric Cooperative, Incorporated; and

Messrs. Scott Helsa and Charles Hains, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

1 **BY THE COMMISSION:**

2 \* \* \* \* \*

3 Having considered the entire record herein and being fully advised in the premises, the  
4 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:5 **FINDINGS OF FACT**6 **Procedural History**7 1. On August 3, 2012, Southwest Transmission Cooperative, Inc. ("SWTC" or  
8 "Cooperative") filed with the Arizona Corporation Commission ("Commission") an application for a  
9 revenue decrease. The application included the Direct Testimony of SWTC witnesses Gary E.  
10 Pierson and Peter Scott.11 2. On August 22, 2012, Trico Electric Cooperative, Inc. ("Trico") filed a Motion to  
12 Intervene.13 3. On September 4, 2012, the Commission's Utilities Division ("Staff") filed a letter of  
14 sufficiency.15 4. On September 5, 2012, Staff filed its Proposed Schedule for Filing Dates and a Notice  
16 of Errata.17 5. On September 11, 2012, SWTC filed a Response to Staff's Proposed Schedule  
18 requesting that the hearing be on the same date as the hearing in the rate case of AEPCO in Docket  
19 No. E-01773A-12-0305, but that the SWTC hearing begin at the conclusion of the rate case hearing  
20 in that docket.21 6. On September 11, 2012, a Rate Case Procedural Order was issued setting the hearing  
22 to begin on July 29, 2013, and setting associated procedural deadlines. The Rate Case Procedural  
23 Order also granted intervention to Trico.24 7. On September 21, 2012, SWTC filed an Affidavit of Mailing of the Notice of Hearing  
25 indicating that it mailed notice to each of its Class A Members on September 19, 2012.26 8. On December 20, 2012, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC")  
27 filed an Application for Leave to Intervene.

28

1           9.       On January 17, 2013, SWTC filed its Affidavit of Publication confirming that Notice  
2 of the Hearing was published on November 30 and December 14, 2012, in the *Sierra Vista Herald*  
3 and *Bisbee Daily Review*, the *Kingman Daily Miner*, and the *Arizona Daily Star*, and on December 1,  
4 2012, and December 15, 2013 in the *Eastern Arizona Courier*.

5           10.       On February 13, 2013, a Procedural Order was issued granting SSVEC intervention.

6           11.       On April 4, 2013, Staff filed the Direct Testimony of its witnesses Randall Vickroy,  
7 Dennis M. Kalbarczyk, and Richard Mazzini.

8           12.       On April 22, 2013, Staff filed the Direct Testimony on Rate Design of its witness  
9 Dennis M. Kalbarczyk.

10          13.       On April 24, 2013, Staff filed a Notice of Errata.

11          14.       On May 20, 2013, SWTC filed the Rebuttal Testimony of its witness Gary E. Pierson.

12          15.       On May 23, 2013, Mohave Electric Cooperative, Inc. ("Mohave") filed a Motion to  
13 Intervene.

14          16.       On May 29, 2013, by Procedural Order, Mohave was granted intervention.

15          17.       On June 17, 2013, Staff filed the Surrebuttal Testimony of its witness Dennis M.  
16 Kalbarczyk.

17          18.       On July 8, 2013, SWTC filed the Rejoinder Testimony of its witness Gary E. Pierson.

18          19.       On July 22, 2013, a pre-hearing conference convened as scheduled for the purpose of  
19 scheduling witnesses. SWTC, Trico, SSVEC, Mohave and Staff appeared through counsel, and  
20 reported that they had reached agreement on all issues.

21          20.       On July 23, 2013, SWTC filed Supplemental Rejoinder Exhibits and a revised page 1  
22 to the Direct Testimony of its witness Peter Scott to reflect his new position as Chief Financial  
23 Officer for Sierra Southwest Cooperative Services.

24          21.       On July 25, 2013, SWTC filed summaries of testimonies of Peter Scott and Gary E.  
25 Pierson.

26          22.       On July 25, 2013, Staff filed the summary of testimony of its witness Candrea Allen,  
27 indicating that she would testify at the hearing that Staff and SWTC had reached agreement on all  
28 issues.

1           23.     The hearing on the application convened as scheduled on July 29, 2013. Prior to the  
2 taking of evidence, members of the public appeared and provided comments in favor of the requested  
3 revenue decrease. SWTC, Trico, SSVEC, Mohave, and Staff appeared through counsel, presented  
4 evidence for the record through witnesses, and had an opportunity to cross-examine the witnesses of  
5 other parties. At the close of the hearing, parties were given an opportunity to provide closing  
6 statements, and the matter was taken under advisement.

7     **Description of SWTC**

8           24.     SWTC is a non-profit electric transmission cooperative that provides transmission  
9 service primarily to its six Class A Member distribution cooperatives, who provide electricity to their  
10 retail member-owners at retail. Arizona Electric Power Cooperative, Inc. ("AEPCO") and Sierra  
11 Southwest Cooperative Services ("Sierra"), affiliates of SWTC, are Class B Members of SWTC.

12           25.     SWTC was formed in 1998 in anticipation of the restructuring of AEPCO, which the  
13 Commission approved in Decision No. 63868 (July 25, 2001). On August 1, 2001, AEPCO's  
14 transmission assets were transferred to SWTC and SWTC commenced operations. Through that  
15 restructuring in 2001, AEPCO was reorganized into three entities: AEPCO, which serves the power  
16 supply needs of the member cooperatives; SWTC; and Sierra, which provides services and personnel  
17 for both AEPCO and SWTC.

18           26.     SWTC's Class A Member distribution cooperatives are the same as AEPCO's -  
19 SSVEC, Trico, Mohave, Graham County Electric Cooperative, Inc., and Duncan Valley Electric  
20 Cooperative, Inc., which provide electricity primarily to rural communities throughout Arizona, and  
21 Anza Electric Cooperative, Inc., which is located in south-central California.

22           27.     SWTC has a thirteen member Board of Directors; twelve members of which represent  
23 SWTC's six Class A member distribution cooperatives. The remaining Board member represents  
24 AEPCO and Sierra.

25           28.     SWTC is a "transmitting utility" under Section 211 of the Federal Power Act, and as  
26 such is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). In order  
27 to meet the requirements for reciprocity under FERC Order No. 888, SWTC maintains an Open  
28 Access Transmission Tariff ("OATT"). SWTC has umbrella service agreements under its OATT,

1 which enable entities to conduct real-time transactions on SWTC's Same Time Information System.  
2 SWTC also provides OATT-based wholesale transmission service to the City of Safford and the  
3 Town of Thatcher, and has pre-OATT transmission agreements with the Avra Valley Irrigation and  
4 Drainage District and the Silverbell Irrigation and Drainage District. From time to time, SWTC also  
5 enters into Firm Network and Firm and Non-Firm Point-to-Point Network transmission service  
6 agreements with other Eligible Customers pursuant to the terms of its Commission-approved tariffs  
7 and its OATT.

8 29. As a borrower from the Rural Utilities Service ("RUS"), a division of the United  
9 States Department of Agriculture, SWTC is subject to the mortgage requirements and regulations of  
10 RUS.

11 30. SWTC owns approximately 622 miles of transmission lines and 24 substations, some  
12 of which are jointly owned with the Salt River Project ("SRP") and Tucson Electric Power ("TEP").  
13 SWTC has contracts to receive transmission service from SRP, TEP, Arizona Public Service  
14 Company, the Western Area Power Administration and Southern California Edison.

15 31. SWTC's current rates were set in Decision No. 72030 (December 10, 2010).

16 **Overview of Rate Application**

17 32. In the test year ended December 31, 2011, SWTC had total adjusted operating revenue  
18 of \$44,022,391, and adjusted net operating income (margin) of \$21,686,801, which resulted in a debt  
19 service coverage ratio of 1.35, and a 22.07 percent rate of return on an original cost rate base  
20 ("OCRB") of \$97,658,808.<sup>1</sup>

21 33. The application requested an overall 28.98 percent decrease in SWTC's revenue  
22 requirement.

23 34. SWTC subsequently modified its request to reflect a revenue decrease of  
24 \$12,596,041, or approximately a 28.61 percent decrease over its current revenues.<sup>2</sup>

25 35. The application also requests approval of new depreciation rates, and authorization of  
26 a new Network Transmission Revenue Adjustor mechanism.

27 <sup>1</sup> Rebuttal Testimony of SWTC witness Gary E. Pierson, Hearing Exhibit ("Exh") SWTC-3 at Exhibit GEP-4; Tr. at 24-  
28 25. Total Electric Revenue was \$44,022,391. (See Exh. SWTC-3 at Exhibit GEP-4, p. 3 of 4, lines 4 and 6.)

<sup>2</sup> Rejoinder Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-4 at Exhibit GEP-10.

**Rate Base**

36. The parties agree that SWTC's OCRB is \$97,658,808.

**Test Year Revenues**

37. There was no disagreement with SWTC's adjusted test year revenues of \$44,022,391.

**Expenses**

38. SWTC proposed, and no party disputed, adjusted test year expenses of \$24,747,485.

**Revenue Requirement**

39. SWTC proposes a revenue decrease of \$12,596,041, or a decrease of 28.61 percent from adjusted test year revenues of \$44,022,391, to produce operating income (margin) of \$9,090,760, for a 9.31 percent return on OCRB.<sup>3</sup> The proposed revenue decrease would provide a revenue level of \$31,426,350. The DSC ratio resulting from the requested revenues is 1.35,<sup>4</sup> the same DSC as that produced by the revenues approved in Decision No. 72030.

40. Staff's witness stated that considering the business environment and risk profile of SWTC, and recognizing the need to provide sufficient margins, coverage and cash generation, SWTC's proposed DSC of 1.35 is within a range of acceptable levels.<sup>5</sup>

41. No party objects to SWTC's requested revenue requirement.

**Rate Design**

42. SWTC prepared a fully allocated cost of service study ("COSS"), which it used to design its proposed rates.<sup>6</sup>

43. Staff's witness analyzed SWTC's COSS and rate design based thereon.<sup>7</sup> He found the COSS and proposed rate design is reasonably consistent with the methods approved in the prior rate case.

44. No party objects to SWTC's COSS and proposed rate design.

45. The rates proposed by SWTC and agreed to by all parties are set forth in Exhibit A, attached hereto and incorporated herein.

<sup>3</sup> Rejoinder Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-4 at Exhibit GEP-10.

<sup>4</sup> *Id.*

<sup>5</sup> Direct Testimony of Staff witness Randall Vickroy, Exh. S-1 at 14.

<sup>6</sup> Direct Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-2 at 13-15 and Schedules G-1, G-2 and G2A.

<sup>7</sup> Direct Testimony of Staff witness Dennis M. Kalbarczyk, Exh. S-3 at 3-8.

1 **Depreciation Rates**

2 46. SWTC retained a contractor to conduct a life assessment study of the SWTC  
3 transmission system.<sup>8</sup> Based on the results of that study, SWTC requests approval of the depreciation  
4 rates appearing in Exhibit PS-2 to the testimony of SWTC's witness Peter Scott.

5 47. No party objects to SWTC's proposed depreciation rates.

6 **Network Transmission Revenue Adjustor ("TRA")**

7 48. SWTC requests that the Commission authorize a new Network Transmission Revenue  
8 Adjustor ("TRA"). The proposed TRA provides a mechanism by which transmission network rates  
9 can be adjusted down, with Commission approval, to account for the increased revenue from new  
10 Firm Point-To-Point transmission agreements, so that SWTC can pass the rate relief through to its  
11 distribution cooperatives without the need for a full rate case.<sup>9</sup> SWTC had originally proposed that  
12 the TRA could also function to increase transmission rates, but after discussions with Commission  
13 Staff, SWTC determined that the TRA should function only to decrease rates,<sup>10</sup> and filed the TRA  
14 and TRA Plan of Administration ("TRA POA") attached hereto and incorporated herein as Exhibit B.

15 49. The TRA is designed to apply only in the limited circumstance of the addition of a  
16 Firm Point-To-Point Contract, which is defined as a firm (*i.e.*, includes a monthly capacity charge),  
17 non-energy based, point-to-point contract that is or was of a term one year or longer.<sup>11</sup>

18 50. The TRA would impact only two categories of SWTC's rates - its monthly Network  
19 Transmission Service ("NTS") Revenue Requirement and its monthly Mohave 2 NTS.<sup>12</sup> If the  
20 proposed TRA is approved, whenever SWTC enters into an additional Firm Point-To-Point contract  
21 in the future, SWTC will file an application with the Commission that includes a copy of the contract,  
22 along with calculations and documentation showing how the monthly NTS Revenue Requirements in  
23 effect at the time the contract takes effect should be adjusted downward, by the amount of the  
24 expected monthly revenue from the new Firm Point-To-Point contract.<sup>13</sup> The proposed TRA POA

25 \_\_\_\_\_  
26 <sup>8</sup> Direct Testimony of SWTC witness Peter Scott, Exh. SWTC-1 at 6-7 and Exhibit PS-1 at III-1 through III-7.

27 <sup>9</sup> Rejoinder Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-4 at 5; Hearing Tr. ("Tr.") at 9.

28 <sup>10</sup> See Rejoinder Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-4 at 4-6.

<sup>11</sup> Rejoinder Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-4 at 4.

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 4-5.

1 provides that Staff will review the application, and within 60 days will prepare a Memorandum and  
2 Proposed Order with a form of TRA Tariff Rider attached, for the Commission's consideration.<sup>14</sup>

3 51. SWTC's witness explained that if the TRA is approved, SWTC will need to file some  
4 minor language changes to its NTS Tariff in conjunction with the TRA, in order to clarify how  
5 network rates are calculated as a function of monthly revenue requirements and how the TRA will  
6 work to adjust the NTS rates.<sup>15</sup>

7 52. No party objects to the TRA. Staff agrees with SWTC that the TRA and the TRA  
8 POA should be approved.<sup>16</sup>

9 **Conclusions**

10 53. FVRB. SWTC did not request a Reconstruction Cost New Rate Base, and thus its fair  
11 value rate base ("FVRB") is the same as its OCRB. A FVRB of \$97,658,808 is reasonable and  
12 supported by the evidence, and should be adopted.

13 54. Test Year Revenues and Expenses. Adjusted test year revenues of \$44,022,391 and  
14 operating expenses of \$24,747,485 are reasonable and supported by the evidence, and should be  
15 adopted.

16 55. Revenue Requirement. As of December 31, 2011, SWTC's equity as a percentage of  
17 total capitalization was 10.84 percent, which represents an improvement since Decision No. 72030,  
18 when its equity comprised about 8 percent of total capital. SWTC states that its requested revenues  
19 should allow it to continue to improve its equity position.<sup>17</sup> As in Decision No. 72030, we do not  
20 make a determination that any particular equity ratio should be a goal for SWTC, except that SWTC  
21 should continue to build equity from its current position. SWTC's proposed revenue level of  
22 \$31,426,350 will yield operating cash flow adequate to cover ongoing expenses, meet the  
23 Cooperative's principal and interest payments as they come due, and build working capital to support  
24 future operating needs, while considering the effect of rates on its member distribution cooperatives.  
25 As such, SWTC's proposed revenue level is just and reasonable and should be adopted.

26 \_\_\_\_\_  
27 <sup>14</sup> See Exhibit B, TRA POA at 3; Tr. at 17-18.

<sup>15</sup> Rebuttal Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-3 at 8 and Exhibit GEP-9; Tr. at 30-31.

<sup>16</sup> Tr. at 33.

28 <sup>17</sup> Direct Testimony of SWTC witness Peter Scott, Exh. SWTC-1 at 6.

1           56.    COSS and Rate Design. The COSS and the rate design based thereon are reasonable  
2 and supported by the evidence, and should be adopted.

3           57.    TRA. The TRA as proposed provides a means for SWTC to pass on the effect of  
4 increased revenues from any new Firm Point-To-Point contract that SWTC enters into a pursuant to  
5 its OATT. Based on the evidence presented, we find that the TRA and the TRA POA provide a fair  
6 and reasonable means for SWTC to address a revenue-neutral fluctuation in revenues to the benefit of  
7 its Member cooperatives and in turn, their end-use retail customers, and will therefore approve it.

8           58.    Depreciation Rates. The proposed depreciation rates set forth in Exh. SWTC-1 at  
9 Exhibit PS-2 are reasonable and supported by the evidence, and should be adopted.

10          59.    Limitation of Patronage Capital Refunds. In Decision No. 72030, the Commission  
11 ordered that SWTC not make any patronage refunds while its equity remains below 20 percent of  
12 total capitalization and that patronage refunds be limited to 25 percent of net earnings if its equity is  
13 between 20 and 30 percent of its capitalization. It is reasonable that this directive remain in force.

14          60.    Engineering Issues. Staff did not identify any compliance issues or areas of urgent  
15 operational concern. The Staff consultant charged with the engineering analysis concluded that  
16 SWTC's technical performance and facilities are sound.<sup>18</sup> He found that facilities are in good  
17 condition and functioning as expected, that maintenance conforms to industry standards, that  
18 reliability performance is good, and SWTC has taken several corrective steps to reduce outages due  
19 to errors.<sup>19</sup> He noted that cost performance could be improved by bettering budget estimating  
20 practices.<sup>20</sup> SWTC responded that the Staff engineering conclusions and observations are being  
21 reviewed by SWTC's senior management and engineering personnel for further process  
22 improvements or refinements, and that SWTC has recently added a new position of Operation  
23 Engineer to further assist in the analysis and prevention of outages.<sup>21</sup>

24 ...

25 ...

26

27 <sup>18</sup> Direct Testimony of Staff witness Richard Mazzini, Exh. S-4 at Engineering Analysis Report at 1-2.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

28 <sup>21</sup> Rebuttal Testimony of SWTC witness Gary E. Pierson, Exh. SWTC-3 at 7.

**CONCLUSIONS OF LAW**

1  
2 1. SWTC is a public service corporation pursuant to Article XV of the Arizona  
3 Constitution and A.R.S. §§ 40-250 and 40-251.

4 2. The Commission has jurisdiction over SWTC's operations and the subject matter of  
5 the application.

6 3. Notice of the proceeding was provided in conformance with law.

7 4. SWTC's FVRB is \$97,658,808.

8 5. The rates and charges set forth in Exhibit A and authorized herein are just and  
9 reasonable.

10 6. It is just and reasonable and in the public interest to approve the depreciation rates set  
11 forth in Exh. SWTC-1 at Exhibit PS-2.

12 7. It is just and reasonable and in the public interest to approve the TRA and TRA POA  
13 as they appear in Exhibit B.

14 8. It is just and reasonable and in the public interest to continue to limit patronage  
15 refunds while SWTC's equity remains below 20 percent of total capitalization, and to limit patronage  
16 refunds to 25 percent of net earnings if SWTC's equity is between 20 and 30 percent of its  
17 capitalization.

18 **ORDER**

19 IT IS THEREFORE ORDERED that Southwest Transmission Cooperative, Inc. is hereby  
20 authorized and directed to file with the Commission, on or before October 31, 2013, a revised  
21 Network Transmission Service Tariff and schedules of rates and charges consistent with Exhibit A  
22 and the discussion herein.

23 IT IS FURTHER ORDERED that the revised rates and charges shall be effective for all  
24 service rendered on and after November 1, 2013.

25 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall notify its  
26 members of the revised schedules of rates and charges authorized herein within 30 days of the  
27 effective date of this Decision.

28 ...

1 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall use the  
2 proposed depreciation rates set forth in Exh. SWTC-1 at Exhibit PS-2 on a going forward basis.

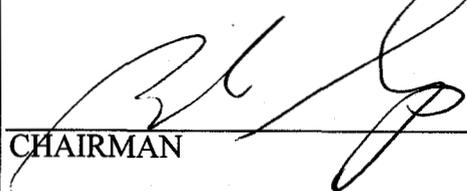
3 IT IS FURTHER ORDERED that the Network Transmission Revenue Adjustor and the  
4 Network Transmission Revenue Adjustor Plan of Administration as they appear in Exhibit B are  
5 hereby approved, and that Southwest Transmission Cooperative, Inc. shall file a conforming tariff  
6 and Plan of Administration on or before October 31, 2013. The filing of the conforming tariff by  
7 October 31, 2013 shall not trigger the compliance reporting requirement set forth in the Plan of  
8 Administration at page 3, lines 22-38. Instead, the compliance reporting requirement set forth in the  
9 Plan of Administration shall be triggered by the first Network Transmission Revenue Adjustor Tariff  
10 Rider approved by the Commission after November 1, 2013.

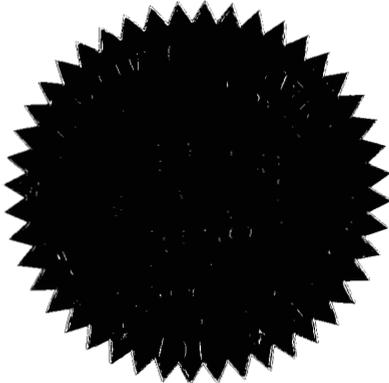
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1 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall not make  
2 any patronage refunds while its equity remains below 20 percent of total capitalization and that  
3 patronage refunds shall be limited to 25 percent of net earnings if its equity is between 20 and 30  
4 percent of its capitalization.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

7  
8  
9  CHAIRMAN  COMMISSIONER  
10  COMMISSIONER  COMMISSIONER  COMMISSIONER  
11



12  
13 IN WITNESS WHEREOF, I, JODI JERICH, Executive  
14 Director of the Arizona Corporation Commission, have  
15 hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this 25<sup>th</sup> day of October 2013.

18   
19 JODI JERICH  
20 EXECUTIVE DIRECTOR

21 DISSENT \_\_\_\_\_

22 DISSENT \_\_\_\_\_

23 TJ:tv  
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1 SERVICE LIST FOR: SOUTHWEST TRANSMISSION COOPERATIVE,  
2 INC.  
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**EXHIBIT A****Transmission Services**

Firm Network Service - \$ Monthly Rev. Req.*	\$ 1,579,106
Firm Network Service - \$ Annual Rev. Req.	18,949,274
Firm Network Service - Moh Elec 2 \$ Monthly Rev. Req.*	1,260,481
Firm Network Service - Moh Elec 2 \$ Annual Rev. Req.	15,125,776
Firm Point-to-Point Network Transmission (\$/kW)	2.572
Non-Firm Point-to-Point Network Transmission (\$/kW)	2.572

\* Member Rate: \$ annual revenue requirement/12 x ratio of member's current month average load to that of same sum of total members' load.

**Mandatory Ancillary Services**

Sch. 1 - Network - System Control & Load Dispatch - (\$/kW)	\$ 0.173
Sch. 1 - Point-to-Point - System Control & Load Dispatch - (\$/kW)	0.173
Sch. 2 - Network - Var Support/Voltage Control - (\$/kW)	0.096
Sch. 2 - Point-to-Point - Var Support/Voltage Control - (\$/kW)	0.070

**FERC Optional Ancillary Services - AEPCO**

Sch. 3 - Network - Req. & Freq. Resp (\$/kW)	\$ .2575
Sch. 4 - Network - Energy Imbalance - Eng In-Kind +/-1.5% (\$/MW)	
AEPCO Pays Positive Imbalance	32.63
Customer Pays Negative Imbalance	100.00
Sch. 5 - Network - Oper. Reserves - Spinning (\$/kW)	0.7157
Sch. 6 - Network - Oper. Reserves - Supplemental (\$/kW)	0.4959

**Direct Assignment Facilities**

Direct Assignment Facilities - (\$/Month)	\$ 133,210
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**EXHIBIT B**

**SOUTHWEST TRANSMISSION COOPERATIVE, INC.**

NETWORK TRANSMISSION REVENUE ADJUSTOR (TRA)

TARIFF RIDER

TEMPORARY\*

Effective Date: [INSERT]

APPLICABILITY OF NETWORK TRANSMISSION REVENUE ADJUSTOR (TRA)

Applicable to all customers that receive service under SWTC's Network Transmission Service Tariff.

TERMS AND CONDITIONS OF TRANSMISSION REVENUE ADJUSTOR (TRA)

The TRA adjusts SWTC's monthly Network Transmission Service Revenue Requirement and its monthly Mohave 2 Network Transmission Service Revenue Requirement (collectively, the "NTS Revenue Requirements") in the event of the addition of a long term point-to-point transmission service agreement ("Firm Point-To-Point Contract"), defined as a firm (i.e., includes a monthly capacity charge), non-energy based, point-to-point contract that is of a term one year or longer.

In the event that an additional Firm Point-To-Point Contract is entered into, the Company's monthly NTS Revenue Requirements in effect at the time the contract takes effect will be adjusted downward.

Only those revenues derived from the actual transmission service component of a Firm Point-To-Point Contract shall be used in calculating the TRA adjustment. System Control and Load Dispatch revenues and any other Ancillary Service revenues associated with the Firm Point-To-Point Contract(s) will not be included in the calculation of the TRA adjustment.

RATE

As of the Effective Date of this Rider, the following TRA amounts would be applied as credits to the NTS Revenue Requirements as specified in the Network Transmission Service Tariff:

**[insert cumulative amount of downward adjustment].**

\*These revised rates will remain in effect until Commission approval of a subsequent TRA adjustment in response to an additional Firm Point-To-Point Contract.

**Southwest Transmission Cooperative,  
Inc.**

**Transmission Revenue Adjustor (TRA)  
Plan of Administration**

1                    **Transmission Revenue Adjustor - Plan of Administration**

2                    **General Description:**

3                    The purpose of the Southwest Transmission Cooperative, Inc. ("SWTC") Network  
4                    Transmission Revenue Adjustor ("TRA") is to track changes in SWTC's firm point-to-  
5                    point transmission contract revenue and to return increases in those revenues through an  
6                    adjustor mechanism applied to the Network Transmission Service and Mohave 2  
7                    Network Transmission Service Revenue Requirements.

8                    **Key Definitions:**

9                    1. Annual Network Transmission Service Revenue Requirement – Annual network  
10                    transmission service revenue requirement as authorized by the Arizona  
11                    Corporation Commission in the Company's most recent rate filing, Decision No.  
12                    [insert].

13                    2. Annual Mohave 2 Network Transmission Service Revenue Requirement – Annual  
14                    network transmission service revenue requirement related to service under the  
15                    Mohave 2 contract as authorized by the Arizona Corporation Commission in the  
16                    Company's most recent rate filing, Decision No. [insert].

17                    3. Monthly Network Transmission Service Revenue Requirement – Annual Network  
18                    Transmission Service Revenue Requirement divided by 12 and as specified in  
19                    SWTC's Network Transmission Service Tariff, Exhibit A.

20                    4. Monthly Mohave 2 Network Transmission Service Revenue Requirement –  
21                    Annual Mohave 2 Network Transmission Service Revenue Requirement divided  
22                    by 12 and as specified in SWTC's Network Transmission Service Tariff, Exhibit  
23                    A.

24                    5. Long Term Point-to-Point Transmission Service Agreement (Firm Point-to-Point  
25                    Contract) - Firm (i.e., includes a monthly capacity charge), non-energy based,  
26                    point-to-point contract that is or was of a term one year or longer.

27                    6. Network Transmission Service Revenue – Revenues collected under the terms  
28                    and conditions of SWTC's Network Transmission Service Tariff and as recorded  
29                    in Rural Utilities Service ("RUS") Accounts 447 and 456.

1 7. Firm Point-to-Point Transmission Service Revenue – Revenues collected under  
 2 the terms and conditions of SWTC’s Point-to-Point Transmission Service Tariff  
 3 for Firm Point-To-Point Contract customers and as recorded in RUS Accounts  
 4 447 and 456, but not including Ancillary Service Revenues.

5 8. Ancillary Service Revenues – Revenues associated with services provided by  
 6 SWTC which are necessary to support the transmission of electric power from a  
 7 seller to a purchaser given the obligations of control areas and transmitting  
 8 utilities within those control areas to maintain reliable operations of the  
 9 interconnected transmission system as defined by the Federal Energy Regulatory  
 10 Commission (“FERC”). The FERC identifies six different kinds of ancillary  
 11 services.

12 **Test Year Data:**

13 Based on the most recent test year data and as ordered by the Commission, initial values  
 14 to be used for the computation of the revised Monthly Network Transmission Service  
 15 Revenue Requirement and revised Monthly Mohave 2 Network Transmission Service  
 16 Revenue Requirement are as follows:

17 1. Monthly Network Transmission Service Revenue Requirement = [Insert  
 18 Value]

19 2. Monthly Mohave 2 Network Transmission Service Revenue Requirement =  
 20 [Insert Value]

21 **Computations:**

22 The revised Monthly Network Transmission Service Revenue Requirement and Monthly  
 23 Mohave 2 Network Transmission Service Revenue Requirement shall be calculated as  
 24 follows:

25  
 26 **Revised Monthly Network Transmission Service Revenue Requirement**

27  
 28 The Revised Monthly Network Transmission Service Revenue Requirement = the  
 29 Monthly Network Transmission Service Revenue Requirement as specified in  
 30 Exhibit A of the Network Transmission Service Tariff minus the monthly  
 31 revenue(s) to be received as the result of service supplied pursuant to the  
 32 Additional Firm Point-to-Point Contract(s) (but not including Ancillary Service  
 33 Revenues)  
 34  
 35  
 36

1  
2 Revised Monthly Mohave 2 Network Transmission Service Revenue Requirement  
3

4 The Revised Monthly Mohave 2 Network Transmission Service Revenue  
5 Requirement = the Monthly Mohave 2 Network Transmission Service Revenue  
6 Requirement as specified in Exhibit A of the Network Transmission Service  
7 Tariff minus the monthly revenue(s) to be received as the result of service  
8 supplied pursuant to the Additional Firm Point-to-Point Contract(s) (but not  
9 including Ancillary Service Revenues)  
10  
11

12 ACC Revised Network Transmission Service Tariff Filing Requirements:

13 In the event of the addition of a Firm Point-To-Point Contract, SWTC will file a Network  
14 Transmission Revenue Adjustor Tariff Rider ("TRA Rider") that reflects the amount of  
15 the adjustment to the revenue requirements shown in Exhibit A to the Network  
16 Transmission Service Tariff along with the contract documentation and calculations  
17 supporting the TRA Rider. The TRA Rider will be subject to a sixty (60) day Arizona  
18 Corporation Commission Staff review period and shall become effective upon  
19 Commission approval.  
20  
21

22 Compliance Reports:

23 Six months following the effective date of the first TRA Rider, SWTC will file a report  
24 containing the following information:  
25

- 26 1. The customers and their associated revenues collected under the terms and  
27 conditions of SWTC's Network Transmission Service Tariff.  
28
- 29 2. The customers and their associated revenues collected under the terms and  
30 conditions of SWTC's Point-to-Point Transmission Service Tariff for Firm Point-  
31 To-Point Contract customers.  
32

33 SWTC will file these compliance reports every six months thereafter. In order to provide  
34 SWTC with sufficient time to compile the data, the reports will contain data for the  
35 twelve month period ended two months prior to the report date.

36 In addition, each report will be accompanied by a certification from SWTC's Chief  
37 Executive Officer or Chief Financial Officer that all information provided in the filing is  
38 true and accurate to the best of his or her information and belief.  
39

1 **Notification:**

- 2 Within fifteen (15) days of the Commission's approval of a TRA Rider, SWTC will  
3 provide its Network Transmission Service customers a notice of the revised Monthly  
4 Network Transmission Service Revenue Requirement and revised Monthly Mohave 2  
5 Network Transmission Service Revenue Requirement.