



0000166725

MEMORANDUM
RECEIVED

2015 NOV -6 A 11: 52

TO: Docket Control
FROM: Thomas M. Broderick
Director
Utilities Division

Thomas M. Broderick
ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

Date: November 6, 2015

RE: STAFF REPORT FOR THE APPLICATION OF GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. TO AMEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY AND TO TRANSFER CERTAIN OF ITS ASSETS TO THE CITY OF SAFFORD. (DOCKET NO. E-01749A-09-0185)

Attached is the Staff Report for the application of Graham County Electric Cooperative, Inc. for the Arizona Corporation Commission authority to transfer certain of its assets to the City of Safford and to amend its Certificate of Convenience & Necessity in relation thereto. Staff recommends approval.

TMB:BNC:red\MAS

Originator: Blessing Chukwu

Attachment: Original and 13 Copies

Arizona Corporation Commission

DOCKETED

NOV 06 2015

DOCKETED BY *AK*

Service List for: Graham County Electric Cooperative, Inc.
Docket No. E-01749A-09-0185

Ms. Jennifer A. Cranston
Gallagher & Kennedy, P. A.
2575 East Camelback Road
Phoenix, Arizona 885016-9225
(Attorney for Graham County Electric Cooperative, Inc.)

Mr. Jeffrey C. Zimmerman
Moyes, Sellers & Sims
1850 North Central Avenue
Suite 1100
Phoenix, AZ 85004-4417
(Attorney for the City of Safford)

Mr. Thomas M. Broderick
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice Alward
Chief Legal Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Dwight Nodes
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

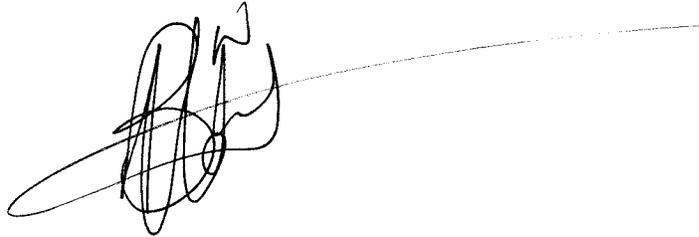
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0185

APPLICATION FOR COMMISSION AUTHORITY TO AMEND ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY AND TO TRANSFER CERTAIN OF ITS ASSETS TO
THE CITY OF SAFFORD.

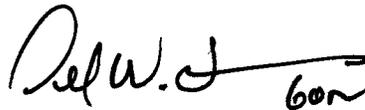
NOVEMBER 6, 2015

STAFF ACKNOWLEDGMENT

The Staff Report for Graham County Electric Cooperative, Inc., Docket No E-01749-09-0185, was prepared by the Staff members shown below. Blessing Chukwu was responsible for the review and analysis of the application. Margaret "Toby" Little was responsible for the engineering and technical analysis. Carmen Madrid was responsible for researching the Consumer Service issues in this proceeding.



Blessing Chukwu
Executive Consultant III



Margaret "Toby" Little
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst I

EXECUTIVE SUMMARY
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0185

On October 1, 2015, Graham County Electric Cooperative, Inc. ("Graham" or "Cooperative") filed an application the Arizona Corporation Commission ("Commission") to delete the Safford Service Area ("SSA") and transfer related assets to the City of Safford ("Safford" or "City"), and requested expedited consideration in order to obtain Commission consideration of the request to complete the transfer by December 31, 2015.

Graham is a non-profit electric distribution cooperative, certificated by the Commission in Decision No. 33006, dated April 6, 1961, to operate and maintain an electrical system in most areas of Graham County. The Cooperative serves areas located south and east of the San Carlos Apache Indian Reservation, but excludes areas within the corporate boundaries of the City and the Town of Thatcher. Graham currently serves approximately 6,500 members through rates and charges that were approved by the Commission in Decision No. 70289, dated April 24, 2008.

The City is a municipal corporation that operates electric distribution systems within and outside its corporate boundaries.

Prior to 1946, the Arizona General Utilities Company ("AGU") was the sole provider of electric service within Graham County. In 1946, Graham, Safford and the Town of Thatcher ("Thatcher") jointly acquired the assets of AGU. On January 22, 1946, Graham, Safford and Thatcher entered into a joint contract ("the 1946 Agreement") whereby Safford and Thatcher acquired the assets within their respective boundaries while Graham purchased the remaining assets.

In 2009, Graham and the City entered into a Territorial Settlement Agreement ("TSA"), in an attempt to fully resolve all issues surrounding service rights and obligations with the common service area. The TSA provides for Graham to serve the Walmart Property and load ("Walmart") through December 31, 2012. Effective January 1, 2013, the Cooperative was required to transfer the Walmart as well as the facilities for serving the load to Safford. In exchange, Graham assumed the right and responsibility for serving the Safford Municipal Airport. Also, the City swapped its distribution facilities for serving the Airport to Graham, in a quid pro quo transaction. In addition, the TSA delineated a geographic area, known as the Safford Service Area, which with certain exceptions, is the area Safford has the right to serve under the terms of TSA. The TSA also authorizes Graham to continue to serve its existing customers within the redefined SSA, from January 1, 2009 through December 31, 2015. Further, the TSA permits Graham to sign-on new customers during the intervening period, only when the City does not have the facilities to serve the new customer, at the time of requesting service. Further, the TSA requires Graham to file a new application, no later than January 15, 2015, for Commission authority to transfer to the City, its customers and facilities within the SSA, effective January 1, 2016. The instant application was filed in order to complete the final transfer.

In this application, Graham requests the following approvals: (1) that the portions of the SSA excluded from Decision No. 71471 be deleted from the Cooperative's Certificate of Convenience and Necessity ("CC&N"); (2) that Graham be authorized to transfer to Safford all distribution assets used to serve the load within the SSA; (3) that Graham be authorized to transfer

customer-specific information to Safford; and (4) that these approvals be granted prior to December 31, 2015, which is the Final Transfer Date identified in the TSA.

Staff has reviewed Graham's application and determined that (i) the City is capable of operating the electrical assets that will be transferred and of providing safe and reliable service to the customers being transferred from Graham; (ii) the City is ready, willing and able to provide service in the SSA and has taken steps to ensure that the same quality of service would be provided to the customers within the SSA who have been receiving electric service from Graham; (iii) no detrimental impact to service reliability will occur as a result of the transfer; (iv) Graham is still obligated to confirm via a certificate that the affected customers were given notice and informed of the hearing in this matter; opportunity to be heard; (v) the proposed modification of CC&N and transfer of assets is in the public interest; and (vi) the transfer of customer-specific information from Graham to the City is necessary to effectuate the transfer and would best serve the public interest.

Based on these factors, Staff recommends the following:

- (1) That the Commission grant Graham's request to delete from the Cooperative's CC&N the portions of the SSA excluded from Decision No. 71471.
- (2) That the Commission approve Graham's request to transfer to Safford all distribution assets used to serve the load within the SSA.
- (3) That the Commission grant Graham's request to transfer customer-specific information to Safford.
- (4) That the Commission require Graham to file with Docket Control, within seven (7) days after the hearing in this Docket, late-filed exhibits consisting of a documentation showing the final purchase price, an updated list of affected customers and an updated list of the facilities within the SSA to be transferred to the City.
- (5) That Graham be authorized to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.
- (6) That Graham be required to file all pertinent documents evidencing the consummation of this transaction, no longer than 30 days from the effective date of transaction.

TABLE OF CONTENTS

	PAGE
BACKGROUND.....	1
THE TRANSACTION.....	1
RATES AND TERMS OF SERVICE.....	3
CUSTOMER SECURITY DEPOSITS.....	3
LINE EXTENSION AGREEMENTS.....	3
CONSUMER SERVICE ISSUES.....	3
ACC COMPLIANCE.....	3
SPECIAL SERVICE PROGRAMS.....	4
STAFF ANALYSIS OF THE CC&N DELETION AND ASSET TRANSFER APPLICATION.....	4
<i>A. IS THE CITY CAPABLE OF OPERATING THE ELECTRICAL ASSETS THAT WILL BE TRANSFERRED AND OF PROVIDING SAFE AND RELIABLE SERVICE TO THE CUSTOMERS?.....</i>	<i>4</i>
<i>B. IS THE CITY READY, WILLING, AND ABLE TO SERVE IN THE SAFFORD SERVICE AREA?.....</i>	<i>5</i>
<i>C. NOTICE.....</i>	<i>6</i>
<i>D. PUBLIC INTEREST.....</i>	<i>6</i>
<i>E. CONCLUSIONS.....</i>	<i>7</i>
RECOMMENDATIONS.....	7

EXHIBITS

ENGINEERING REPORT.....	A
ENGINEERING MAPS.....	B
CONSUMER SERVICE REPORT.....	C
THE CITY OF SAFFORD CONFIDENTIALITY POLICY.....	D
GRAHAM'S REPORT ON CITY OF SAFFORD SPECIAL SERVICE PROGRAMS (RENEWABLE ENERGY, NET METERING, ENERGY EFFICIENCY AND LOW-INCOME ASSISTANCE PROGRAMS).....	E
STAFF REPORT FILED OCTOBER 19, 2009.....	F
COMPARISON OF RATES AND TERMS OF SERVICE.....	G

BACKGROUND

On January 26, 2010, the Arizona Corporation Commission (“ACC” or “Commission”) issued Decision No. 71471 which approved Graham County Electric Cooperative, Inc. (“Graham” or “Cooperative” or “GCEC”) application to modify its Certificate of Convenience and Necessity (“CC&N”) and to transfer certain assets to the City of Safford (“Safford” or “City”) as part of a comprehensive Territorial Settlement Agreement (“TSA”) between Graham and Safford. The TSA called for a multi-year transition period under which the final transfer of the Safford Service Area (“SSA”) and the related assets would not occur until January 1, 2016. Decision No. 71471 required Graham to file another application with the Commission by January 15, 2015.

On January 14, 2015, Graham filed, as a compliance item, a request to delete the remaining portions of the SSA from its CC&N and for approval of the asset transfer, but did not identify the filing as an “application”.

On October 1, 2015, Graham filed an Application to Delete the Safford Service Area and Transfer Related Assets, and requested expedited consideration in order to obtain Commission consideration of the request to complete the transfer by December 31, 2015.

On October 14, 2015, the Commission’s Utilities Division (“Staff”) filed a Request for Expedited Procedural Conference. Staff and Graham submitted a proposed schedule that would provide for an expedited procedural schedule and hearing.

On October 21, 2015, by procedural order, the hearing on the merits is set for November 16, 2015.

THE TRANSACTION

Graham is a non-profit, electric distribution cooperative certificated by the Commission in Decision No. 33006, dated April 6, 1961, to operate and maintain an electrical system in most areas of Graham County. The Cooperative serves areas located south and east of the San Carlos Apache Indian Reservation, but excludes areas within the corporate boundaries of the City and the Town of Thatcher. Graham currently serves approximately 6,500 members through rates and charges that were approved by the Commission in Decision No. 70289, dated April 24, 2008. According to Graham’s 2014 Annual Report, the Cooperative has 9,206 active meters.

The City is a municipal corporation that operates electric distribution systems within and outside its corporate boundaries.

Effective January 1, 2009, Graham and the City entered into a Territorial Settlement Agreement, in an attempt to fully resolve all issues surrounding service rights and obligations with the common service area. The TSA provides for Graham to serve the Walmart Property and load (“Walmart”) through December 31, 2012. Effective January 1, 2013, the Cooperative was required to transfer the Walmart as well as the facilities for serving the load to Safford. In exchange, Graham assumed the right and responsibility for serving the Safford Municipal Airport. Also, the City

swapped its distribution facilities for serving the Airport to Graham, in a quid pro quo transaction. In addition, the TSA delineated a geographic area, known as the Safford Service Area, which with certain exceptions, is the area Safford has the right to serve under the terms of TSA. The TSA also authorizes Graham to continue to serve its existing customers within the redefined SSA, from January 1, 2009 through December 31, 2015. Further, the TSA permits Graham to sign-on new customers during the intervening period, only when the City does not have the facilities to serve the new customer, at the time of requesting service. Further, the TSA requires Graham to file a new application, no later than January 15, 2015, for Commission authority to transfer to the City, its customers and facilities within the SSA, effective January 1, 2016. Following notice and hearing, the Commission approved the TSA in Decision No. 71471, issued on January 26, 2010. Under that Decision and the TSA, Graham continued to serve its existing customers in the SSA until January 1, 2016.

On October 1, 2015, pursuant to Decision No. 71471 and the TSA, Graham filed the instant application with the Commission to effect the final transfer of the service territory and the related assets from Graham to the City.

As shown on Exhibit 3, attached to Graham's current application, Graham has provided a list of its current customers within the SSA. As of October 1, 2015, Graham has a total of 778 electric meters and 600 customers in the SSA. In testimony, Graham witness Kirk Gray states that this number may change before the final transfer because there are active developments within the SSA that were excluded from Decision No. 71471 and therefore are currently within Graham's CC&N service territory. Mr. Gray anticipates that Graham may add as many as 12 new customers before the final transfer.

Graham witness Kirk Gray presents several documents in his testimony in support of the application. Exhibits KG-2 and KG-3 to Mr. Gray's testimony are the inventory of the facilities serving existing customers and to be transferred to Stafford in 2016. In Exhibit KG-2, the list of facilities that were in place as of January 1, 2009, the Cooperative identified the assets, the related sales price and the net book value. In Exhibit KG-3, the list of facilities added after January 1, 2009, the Cooperative, instead of identifying the assets, identified the work orders per customer and the related material, labor and overhead costs. The purchase price of the facilities serving the existing load will be the sum of (i) an amount equal to the replacement cost less depreciation, but in no event less than \$950,000 or greater than \$1,250,000; plus (ii) the cost of any new facilities GCEC installs after January 1, 2009 (the effective date of the Territorial Settlement Agreement). The total purchase price is not yet known. Graham witness estimates that the final purchase price will be in the \$975,000 range. In testimony, Mr. Gray states that the number of facilities may also increase, for the same reasons that the number of customers within the SSA may increase prior to the final transfer. The final purchase price will be revised to incorporate cost data for facilities installed in September 2015 and over the next few months before the final transfer.

Upon Commission approval of this application, Safford would become the sole provider of electric service with the SSA. It is Staff's understanding that the transaction will be consummated in as seamless a manner as possible, with the objective of ensuring continuity and quality of electric service to all of the affected customers.

Staff recommends that Graham be required to file with Docket Control, within seven (7) days after the hearing in this Docket, late-filed exhibits consisting of a documentation showing the final purchase price, an updated list of affected customers and an updated list of the facilities within the SSA to be transferred to the City.

RATES AND TERMS OF SERVICE

The City's rates and charges are consistent with Graham's and in some cases lower than Graham's. The City's charges are higher than Graham's for new or additional service connection, reconnects after regular business hours, returned check fee, security lighting monthly minimum charge, late payment charge and purchased power adjustment. Attachment G is a comparative analysis of the rates and terms of service of Graham and Safford.

The City will NOT charge the affected customers the service connection charge of \$25.00.

CUSTOMER SECURITY DEPOSITS

Graham holds customer security deposits for some of the customers who will be transferred to Safford. Graham plans to refund the deposits to the customers as credits on their final bills. Where the deposit amount exceeds the final bill amount, Graham will refund the remaining balance via check to the customer directly.

LINE EXTENSION AGREEMENTS

Graham does not have any line extension agreements in the SSA boundaries, so there are no refund arrangements to address in the transfer to Safford.

CONSUMER SERVICE ISSUES

Staff's inquiry confirmed that Graham was in good standing with the Corporation Division of the Commission.

A search of Consumer Services database from 2012 through October 27, 2015, indicates that the Graham had eight (8) complaints. The complaints relate primarily to billing and service issues. The complaints have been fully resolved and closed.

ACC COMPLIANCE

A check of the Commission's Compliance Section database dated November 6, 2015, indicated that Graham had no delinquent ACC compliance items.

Graham has filed its 2014 ACC Utility Division Annual Report.

SPECIAL SERVICE PROGRAMS

Graham has approved Net Metering Tariff, Renewable Energy Standard Tariff and Energy Efficiency Plan on file. The Energy Efficiency Plan includes Refrigerator/Freezer Appliance Recycling Program, Residential Compact Fluorescent Lamps ("CFL") Lighting Program, Residential Low Income Weatherization Program, and Customer Energy Efficiency Program.

So that the transferred customers are not deprived of the benefits of those policies or programs, the Commission ordered Graham, in Decision No. 71471, to file with the Commission, no later than January 15, 2015, after consultation with the City, a report detailing the progress that has been made by the City toward developing renewable energy, net metering, energy efficiency and low income assistance policies that approximate the programs that are currently available to customers of Graham. Attachment E is Graham's Report on City of Safford Renewable Energy, Net Metering, Energy Efficiency and Low-Income Assistance Programs.

STAFF ANALYSIS OF THE CC&N DELETION AND ASSET TRANSFER APPLICATION

In any CC&N related proceeding, Staff is charged with reviewing the evidence submitted by an applicant to make a recommendation to the Commission based upon the facts contained in the application and any responses to the application by interested and/or affected parties. The issues in this proceeding is whether the City is capable of operating the electrical assets that will be transferred and of providing safe and reliable service to the customers, whether the City is willing, ready and able to serve in the Safford Service Area, whether the affected customers were given a Notice of the application and/or hearing on the merits and whether the transaction is in the public interest.

Attachment B includes maps that reflect the boundaries of Graham's CC&N; reflect the portions of Graham's CC&N within the SSA that will be transferred to the City; and identify any other regulated electric utilities in the vicinity.

During its review, Staff issued informal data requests to Graham¹. In evaluating the relief requested by Graham, Staff examined four issues: (i) whether the City is capable of operating the electrical assets that will be transferred and of providing safe and reliable service to the customers, (ii) whether the City is willing, ready and able to serve in the Safford Service Area; (iii) whether the Customers were given notice and informed to the hearing in this matter; and (iv) whether the transaction is in the public interest.

A. Is the City capable of operating the electrical assets that will be transferred and of providing safe and reliable service to the customers?

The City is a municipal corporation that operates electric distribution systems within and outside its corporate boundaries. Prior to 1946, the Arizona General Utilities Company ("AGU")

¹ Determined to be the most expeditious way to handle data requests due to the time constraints involved.

was the sole provider of electric service in Graham County. In 1946, GCEC, Safford and the Town of Thatcher ("Thatcher") jointly acquired the assets of AGU. On January 22, 1946, GCEC, Safford and Thatcher entered into a joint contract (the "1946 Agreement") whereby Safford and Thatcher acquired the AGU assets within their respective boundaries, and GCEC acquired the remaining assets. The City has been providing electric service since and currently serves approximately 4,000 customers within and outside its boundaries. Graham has a total of 778 electric meters in the SSA and anticipates that Graham may add as many as 12 new customers/meters in the SSA before the final transfer.

Attachment F is the Staff Report that was filed on October 19, 2009, in this docket, documenting the results of Staff's review of the initial application filed in April 2009 by Graham. An inspection was conducted in April 2009 of the Walmart Supercenter and the Airport facilities which were to be transferred on December 31, 2012. Staff also observed the distribution facilities that would be transferred to Safford on January 1, 2016.

Attachment A is Staff's 2015 Engineering Report documenting Staff's Review of the Electric Facilities. The report indicates that on October 15, 2015, Staff received responses to informal data requests about changes to the Graham and Safford distribution systems since the issuance of Decision No. 71471. Through Graham legal counsel, Cooperative Staff confirmed that the transfer of Walmart and Airport facilities was accomplished in January 2013 as planned and that there were no problems associated with the transfer, nor have any problems been encountered since then.

Staff concludes that the City is capable of operating the electrical assets that will be transferred and of providing safe and reliable service to the customers being transferred from Graham.

B. Is the City Ready, Willing, and Able to serve in the Safford Service Area?

Attachment A, the Staff's Engineering Report, indicates that in response to a question about changes to either the GCEC or Safford distribution systems since the Decision, GCEC staff outlined several changes that were made pursuant to a Wheeling and Transmission Agreement ("Agreement") between the two entities to increase reliability. Safford upgraded its substation and the 69 kV transmission switching capability to facilitate a 69 kV double circuit into the substation. A new 69 kV double circuit transmission line was built to provide a loop feed for reliability purposes and a primary distribution line was upgraded to handle the load. Under the terms of the Agreement, GCEC will own and operate the transmission line and Safford will own and operate the distribution line. In addition, Safford and GCEC have completed all necessary infrastructure and system upgrades to ensure that the customers transferred to Safford will receive the same quality of service.

Staff concludes that the City is ready, willing and able to provide service in the SSA. The City has taken steps to ensure that the same quality of service would be provided to the customers within the SSA who have been receiving electric service from Graham. Staff also concludes that no detrimental impact to service reliability will occur as a result of the transfer.

C. *Notice*

In any CC&N proceeding, notice is paramount to ensure that affected parties (landowners, customers, municipalities, counties, and/or other providers in the vicinity) have an opportunity to be heard. The burden of providing notice of an application generally falls on the applicant.

Per Graham, on October 31, 2015, it published a public notice of hearing for this application in the *Eastern Arizona Courier*, a newspaper of general circulation within and around its service territory. On October 30, 2015, it mailed the same public notice of hearing, and an additional notice which explains how the transfer will be physically accomplished were mailed to all customers of record as well as 20 property owners holding 40-acres or larger parcels of undeveloped land, within the SSA.

Per a Procedural Order issued October 21, 2015, Graham is directed to file certifications of mailing and publication of the hearing as soon as practical able after they have been completed.

Staff concludes that Graham is still obligated to confirm via a certificate that the affected customers were given notice and informed of the hearing in this matter.

D. *Public Interest*

Decision No. 71471 approved Graham's application to modify its CC&N and to transfer certain assets to the City as part of a comprehensive Territorial Settlement Agreement between Graham and Safford. The TSA, approved in Decision No. 71471, called for a multi-year transition period under which the final transfer of the Safford Service Area and the related assets would not occur until January 1, 2016. Decision No. 71471 and the TSA required Graham to file another application with the Commission by January 15, 2015. The instant application was filed in order to complete the final transfer.

The Commission found that "the TSA was in the public interest", hence, it was approved. The parties has the burden of proof of demonstrating the proposed modification of the CC&N and the transfer of assets is in the public interest. The six-year lengthy transition period allowed Graham and the City time to implement the requirements of the TSA, including to prepare for the final transfer. With the final transfer, Graham will resolve all territorial disputes, will retain the wheeling revenues from the City and will be protected from the City using its power of condemnation to acquire Graham's assets. The City has the capability and qualifications to provide the relevant service and is willing and able to provide the service at a reasonable rate to the consumers.

Staff concludes that the proposed modification of CC&N and transfer of assets is in the public interest.

Graham requests it be authorized to transfer customer-specific information to the City. Customer information, account information and related proprietary information are confidential unless specifically waived by the customer in writing. Attachment D is the City's Confidentiality Policy.

Staff concludes that the transfer of customer-specific information from Graham to the City is necessary to effectuate the transfer and would best serve the public interest.

Graham requests that the approvals of its requested relief be granted prior to December 31, 2015, which is the Final Transfer Date identified in the TSA.

E. Conclusions

Based on the information provided in this docket and from Staff's review of other available materials regarding Graham, Staff concludes that (i) the City is capable of operating the electrical assets that will be transferred and of providing safe and reliable service to the customers being transferred from Graham; (ii) the City is ready, willing and able to provide service in the SSA and has taken steps to ensure that the same quality of service would be provided to the customers within the SSA who have been receiving electric service from Graham; (iii) no detrimental impact to service reliability will occur as a result of the transfer; (iv) Graham is still obligated to confirm via a certificate that the affected customers were given notice and informed of the hearing in this matter; (v) the proposed modification of CC&N and transfer of assets is in the public interest; and (vi) the transfer of customer-specific information from Graham to the City is necessary to effectuate the transfer and would best serve the public interest.

RECOMMENDATIONS

Staff recommends the following:

- (1) That the Commission grant Graham's request to delete from the Cooperative's CC&N the portions of the SSA excluded from Decision No. 71471.
- (2) That the Commission approve Graham's request to transfer to Safford all distribution assets used to serve the load within the SSA.
- (3) That the Commission grant Graham's request to transfer customer-specific information to Safford.
- (4) That the Commission require Graham to file with Docket Control, within seven (7) days after the hearing in this Docket, late-filed exhibits consisting of a documentation showing the final purchase price, an updated list of affected customers and an updated list of the facilities within the SSA to be transferred to the City.
- (5) That Graham be authorized to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

- (6) That Graham be required to file all pertinent documents evidencing the consummation of this transaction, no longer than 30 days from the effective date of transaction.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant
Utilities Division

FROM: Margaret (Toby) Little *DL*
Consultant *601*
Utilities Division

THRU: Del Smith *DS*
Chief of Engineering *601*
Utilities Division

DATE: October 14, 2015

RE: ENGINEERING REPORT FOR APPLICATION TO DELETE THE
SAFFORD SERVICE AREA AND TRANSFER RELATED ASSETS (DOCKET
NO. E-01749A-09-0185)

On January 26, 2010, the Arizona Corporation Commission (“Commission”) issued Decision No. 71471 (“Decision”) approving the application of Graham County Electric Cooperative, Inc. (“GCEC” or the “Cooperative”) to modify the Cooperative’s Certificate of Convenience and Necessity (“CC&N”) to transfer certain assets to the City of Safford (“Safford”) as part of a comprehensive Territorial Settlement Agreement (the “TSA”) between GCEC and Safford. Because the TSA called for a multi-year transition period pursuant to which the final transfer of the Safford Service Area (“SSA”) and related assets would not occur until January 1, 2016, the Decision required GCEC to file another application with the Commission no later than January 15, 2015.

On January 14, 2015, GCEC filed an application requesting deletion of the remaining portions of the SSA from its CC&N service area and approval of the asset transfer. It has recently been determined that the application filed in January was incorrectly identified as a compliance filing and has not yet been analyzed. The Cooperative therefore filed a subsequent application on October 1, 2015 (“Application”) in which it requested that the Commission (1) delete from GCEC’s CC&N the portions of the SSA not already deleted by the Commission’s prior Decision and (2) authorize the Cooperative’s transfer to Safford of all distribution assets used to serve the load within the SSA. Additionally, the Application requests that GCEC be allowed to transfer customer-specific information to Safford so that the transfer can be as seamless as possible for the customers involved. Finally, in order to facilitate the final transfer under the TSA by December 31, 2015, GCEC respectfully requests expedited consideration and approval of this Application no later than the Commission’s December 2015 Open Meeting.

Background

GCEC is a non-profit electric distribution cooperative which received its CC&N in 1961. The Cooperative serves areas located south and east of the San Carlos Apache Indian Reservation,

excluding locations currently served by Safford and the Town of Thatcher. Safford is a municipal corporation of the State of Arizona that operates an electric distribution system both within and outside of its corporate limits.

Since 1946, GCEC and Safford have been parties to an agreement that has been the subject of substantial dispute, including litigation over the effect of Safford's annexation of areas within the Cooperative's CC&N service territory. In an attempt to resolve ambiguities created by the prior agreement and prevent future disputes, GCEC and Safford entered into the TSA in December 2008.

The TSA clarifies each party's electric service rights and responsibilities within the corporate limits of Safford beginning in January 2009 and establishes a procedure for addressing any territory expansion by Safford in the future. With regard to service within the current corporate limits, the TSA identified the SSA territory and provides for a staged transfer of that territory from GCEC to Safford. Specifically, the parties agreed to the following timeline and division of service rights within the SSA, with the ultimate goal being the complete transfer of the SSA territory to Safford by January 2016:

- 1) From January 2009 through December 2015, GCEC will continue to serve its existing customers in the SSA;
- 2) From January 2009 through December 2015, Safford will continue to serve its existing customers and have the right to connect new customers in the SSA;
- 3) From January 2009 through December 2012, GCEC will continue to serve the Wal-Mart Supercenter;
- 4) On December 31, 2012, GCEC will transfer to Safford the Wal-Mart Supercenter load and related infrastructure and Safford will serve that area going forward, and concurrent with that transfer, Safford will transfer to GCEC the right to serve the Safford Municipal Airport properties (outside of the SSA);
- 5) On December 31, 2015, GCEC will transfer to Safford all its remaining customers and electrical infrastructure within the SSA and Safford will serve that area going forward.

In January 2010 the Commission entered its Decision concluding that the TSA was in the public interest and approving the TSA. In addition, the Decision also approved GCEC's request to delete the SSA territory from the Cooperative's CC&N, with the exception of the locations that were not scheduled to be transferred to Safford until January 2016. With regard to those locations as well as the transfer of the distribution assets needed to serve those locations, the Decision required future action by the Commission. The current Application requests that action.

Staff's Review of the Electric Facilities

Commission Utilities Division Staff ("Staff") filed a report on October 19, 2009 documenting the results of its review of the April 2009 application by GCEC. An inspection was made in April 2009 of the Walmart Supercenter and the Airport facilities which were to be transferred on December 31, 2012. Staff also observed the distribution facilities that would be transferred to Safford on January 1, 2016. The following conclusions and recommendation were made in that report:

"Based on a field inspection of Graham's electric facilities relative to the transfer of Walmart connection in 2013 and a general review of the distribution

system in the Safford Area for transfer in 2016, including discussion with the GCEC Financial Manager Russ Barney, and with Dennis Kouts, Operational Specialist, Staff concludes that the transfer of assets in the Service Area to Safford is reasonable under the terms of the Application and is in the public interest. Staff does not believe that a detrimental impact to service reliability will occur as a result of the transfer. That is because the Cooperative will reconfigure the system by disconnecting its feed into the current load center and let Safford connect the affected customers to its present distribution system.

Therefore, based on Staff's aforementioned engineering review and inspection of the electric facilities to be transferred by GCEC to Safford, Staff recommends that the Cooperative's Application to amend its CC&N and transfer certain facilities to Safford per the TSA be approved."¹

On October 15, 2015, Staff received responses to informal data requests about changes to the GCEC and Safford distribution systems since the Decision was issued². Through GCEC legal counsel, Cooperative Staff confirmed that the transfer of Walmart and Airport facilities was accomplished in January, 2013 as planned and that there were no problems associated with the transfer, nor have any problems been encountered since then. In response to a question about changes to either the GCEC or Safford distribution systems since the Decision, GCEC staff outlined several changes that were made pursuant to a Wheeling and Transmission Agreement ("Agreement") between the two entities to increase reliability. Safford upgraded its substation and the 69 kV transmission switching capability to facilitate a 69 kV double circuit into the substation. A new 69 kV double circuit transmission line was built to provide a loop feed for reliability purposes and a primary distribution line was upgraded to handle the load. Under the terms of the Agreement, GCEC will own and operate the transmission line and Safford will own and operate the distribution line. In addition, Safford and GCEC have completed all necessary infrastructure and system upgrades to ensure that the customers transferred to Safford will receive the same quality of service.

Conclusions and Recommendations

Based on both the engineering work that was done in support of the original application as well as a review of the Agreement and of the responses to data requests about system changes that have occurred since the Decision, Staff has the following conclusions and recommendations:

- 1) The transfer of assets in the SSA to Safford is reasonable under the terms of the Application and is in the public interest.
- 2) No detrimental impact to service reliability will occur as a result of the transfer.
- 3) The Cooperative's Application to amend its CC&N and transfer certain facilities to Safford per the TSA should be approved.

¹ Staff Memorandum, Prem Bahl to Alex Igwe, dated October 19, 2009, Docket No. E-01345A-08-0426.

² Determined to be the most expeditious way to handle data requests due to the time constraints involved.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant
Utilities Division

FROM: Lori H. Miller 
GIS Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: October 13, 2015

RE: GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. – APPLICATION TO
DELETE SAFFORD SERVICE AREA (DOCKET NO. E-01749A-09-0185)

The area requested by Graham County Electric Cooperative for a partial deletion of its CC&N has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Attached is a copy of the map and the legal description for your files.

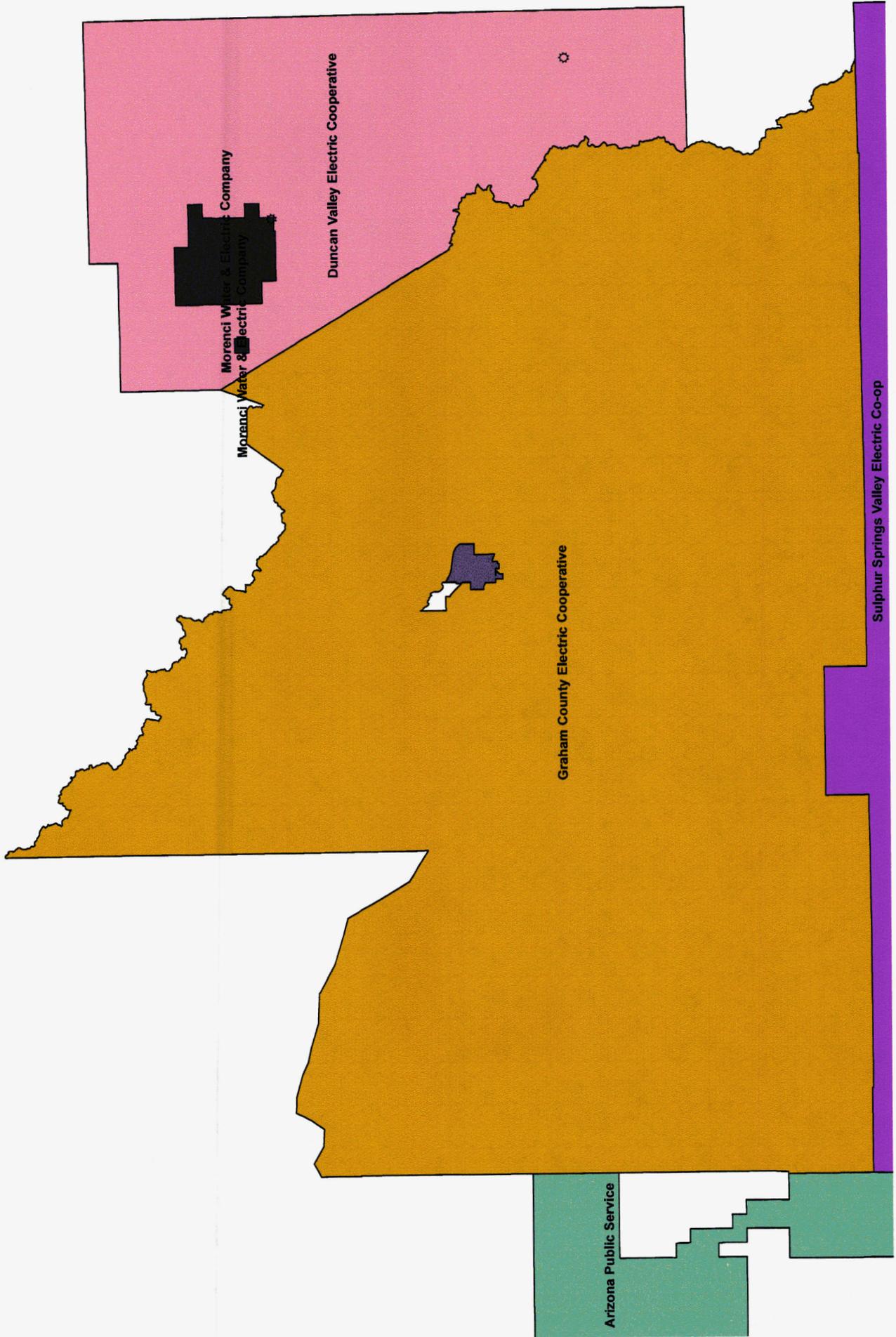
/lhm

Attachments

cc: Ms. Jennifer A. Cranston
Ms. Margaret "Toby" Little
Ms. Deb Person (Hand Carried)
File

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0185**

06	05	04	07S25E	02	01	06	05	04	07S26E	03	02	01
07	08	09	10	11	12	07	08	09	10	11	12	13
18	17	16	15	14	13	18	17	16	15	14	13	12
19	20	21	22	23	24	19	20	21	22	23	24	25
30	29	28	27	26	25	30	29	28	27	26	25	24
31	32	33	34	35	36	31	32	33	34	35	36	37



Morenci Water & Electric Company

Morenci Water & Electric Company

Duncan Valley Electric Cooperative

Graham County Electric Cooperative

Arizona Public Service

Sulphur Springs Valley Electric Co-op

EXHIBIT "A"

SERVICE BOUNDARY DESCRIPTION:

A boundary description for the Municipal Electric Utility Service Area of the City of Safford, Arizona, encompassing all or portions of Sections 5, 6, 7, 8, 9, 16, 17, 18, 19, 20, 29, 30, Township 7 South, Range 26 East AND Sections 12, 13, 24, Township 7 South, Range 25 East, all of Gila and Salt River Meridian, Graham County, Arizona, said boundary being more particularly described as follows;

COMMENCING at the Northwest corner of said Section 6;

Thence South $00^{\circ} 02' 48''$ West, along the West line of said Section 6, a distance of 2,239.79 feet to a point of intersection of said West line and the approximate centerline of the Gila River being a curve concave to the Northeast and the POINT OF BEGINNING of said boundary;

Thence Southeasterly along said Gila River approximate centerline, being a curve to the left, having a chord bearing of South $66^{\circ} 56' 09''$ East, a distance of 6,564.66 feet, a radius of 10,856.29 feet, and a central angle of $35^{\circ} 11' 49''$ for an arc distance of 6,669.03 feet;

Thence continue along said centerline South $82^{\circ} 37' 14''$ East, a distance of 4,534.80 feet to a point of curvature of a curve concave to the Southwest;

Thence Southeasterly along said centerline, along said curve to the right, having a chord bearing of South $56^{\circ} 44' 25''$ East, a distance of 4,543.12 feet, a radius of 5,508.17 feet, and a central angle of $48^{\circ} 42' 40''$ for an arc distance of 4,682.88 feet to the northeast corner of the current City of Safford City Limit boundary, and the Center-East Sixteenth Corner of said Section 9;

Thence leaving said Gila River centerline, South $00^{\circ} 02' 13''$ East, along the eastern City of Safford's City Limit boundary, being adjacent to the East Sixteenth line of said Sections 9 AND 16, a distance of 5,278.64 feet to a point of intersection with the Union Canal being the Center-East Sixteenth Corner of said Section 16;

EXHIBIT "A"

Thence along said Union Canal, North $89^{\circ} 38' 26''$ West, along the East-West Mid-section line of said Section 16, a distance of 3,921.38 feet to the West Quarter Corner of said Section 16;

Thence South $00^{\circ} 15' 29''$ West, along the East line of said Section 17 a distance of 2,635.04 feet to the Southeast corner of said Section 17.

Thence South $00^{\circ} 14' 30''$ East, along the East line of said Section 20, being adjacent to Welker Lane, a distance of 4,905.90 feet to a point of intersection with the approximate centerline of the Highline Canal;

Thence along said Highline Canal approximate centerline the following twenty-eight (28) courses:

Thence North $75^{\circ} 56' 45''$ West, a distance of 68.33 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $79^{\circ} 33' 45''$ West, a distance of 73.48 feet, a radius of 397.86 feet, and a central angle of $10^{\circ} 35' 50''$ for an arc distance of 73.59 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $80^{\circ} 32' 16''$ West, a distance of 75.19 feet, a radius of 3,328.84 feet, and a central angle of $01^{\circ} 17' 39''$ for an arc distance of 75.19 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $81^{\circ} 38' 03''$ West, a distance of 163.39 feet, a radius of 1,186.43 feet, and a central angle of $07^{\circ} 53' 47''$ for an arc distance of 163.51 feet to a point of curvature of a curve concave to the Northeast;

EXHIBIT "A"

Thence Northwesterly, along said curve to the right, having a chord bearing of North $73^{\circ} 18' 03''$ West, a distance of 59.56 feet, a radius of 248.98 feet, and a central angle of $13^{\circ} 44' 24''$ for an arc distance of 59.71 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $67^{\circ} 15' 30''$ West, a distance of 172.18 feet, a radius of 727.86 feet, and a central angle of $13^{\circ} 35' 07''$ for an arc distance of 172.58 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North $62^{\circ} 56' 58''$ West, a distance of 150.54 feet, a radius of 837.99 feet, and a central angle of $10^{\circ} 18' 24''$ for an arc distance of 150.74 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $61^{\circ} 14' 34''$ West, a distance of 88.94 feet, a radius of 364.17 feet, and a central angle of $14^{\circ} 01' 41''$ for an arc distance of 89.16 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North $59^{\circ} 36' 04''$ West, a distance of 82.68 feet, a radius of 160.87 feet, and a central angle of $29^{\circ} 46' 58''$ for an arc distance of 83.62 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $46^{\circ} 35' 02''$ West, a distance of 291.92 feet, a radius of 675.72 feet, and a central angle of $24^{\circ} 56' 56''$ for an arc distance of 294.24 feet to a point of curvature of a curve concave to the Northeast;

EXHIBIT "A"

Thence Northwesterly, along said curve to the right, having a chord bearing of North $50^{\circ} 06' 45''$ West, a distance of 154.39 feet, a radius of 1,294.59 feet, and a central angle of $06^{\circ} 50' 14''$ for an arc distance of 154.48 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $85^{\circ} 53' 24''$ West, a distance of 116.27 feet, a radius of 87.40 feet, and a central angle of $83^{\circ} 23' 24''$ for an arc distance of 127.21 feet;

Thence South $39^{\circ} 34' 23''$ West, a distance of 197.30 feet to a point of curvature of a curve concave to the Northwest;

Thence Southwesterly, along said curve to the right, having a chord bearing of South $64^{\circ} 17' 24''$ West, a distance of 41.62 feet, a radius of 51.38 feet, and a central angle of $47^{\circ} 47' 16''$ for an arc distance of 42.85 feet;

Thence North $85^{\circ} 24' 00''$ West, a distance of 60.61 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North $36^{\circ} 38' 44''$ West, a distance of 70.97 feet, a radius of 53.76 feet, and a central angle of $82^{\circ} 37' 02''$ for an arc distance of 77.52 feet;

Thence North $04^{\circ} 42' 28''$ East, a distance of 59.23 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $27^{\circ} 34' 28''$ West, a distance of 70.51 feet, a radius of 104.10 feet, and a central angle of $39^{\circ} 35' 27''$ for an arc distance of 71.93 feet to a point of curvature of a curve concave to the Southwest;

EXHIBIT "A"

Thence Northwesterly, along said curve to the left, having a chord bearing of North $57^{\circ} 05' 41''$ West, a distance of 140.61 feet, a radius of 208.76 feet, and a central angle of $39^{\circ} 21' 45''$ for an arc distance of 143.42 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North $57^{\circ} 55' 34''$ West, a distance of 61.47 feet, a radius of 81.24 feet, and a central angle of $44^{\circ} 27' 19''$ for an arc distance of 63.03 feet;

Thence North $40^{\circ} 12' 21''$ West, a distance of 76.38 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $66^{\circ} 22' 14''$ West, a distance of 60.64 feet, a radius of 66.96 feet, and a central angle of $53^{\circ} 50' 39''$ for an arc distance of 62.93 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North $85^{\circ} 06' 53''$ West, a distance of 81.55 feet, a radius of 384.94 feet, and a central angle of $12^{\circ} 09' 37''$ for an arc distance of 81.70 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North $85^{\circ} 27' 18''$ West, a distance of 99.14 feet, a radius of 701.53 feet, and a central angle of $08^{\circ} 06' 13''$ for an arc distance of 99.22 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North $83^{\circ} 38' 43''$ West, a distance of 112.93 feet, a radius of 483.08 feet, and a central angle of $13^{\circ} 25' 31''$ for an arc distance of 113.19 feet to a point of curvature of a curve concave to the Southwest;

EXHIBIT "A"

Thence Northwesterly, along said curve to the left, having a chord bearing of North 78° 54' 49" West, a distance of 161.39 feet, a radius of 957.47 feet, and a central angle of 09° 40' 09" for an arc distance of 161.58 feet to a point of curvature of a curve concave to the Northeast;

Thence Northwesterly, along said curve to the right, having a chord bearing of North 80° 10' 51" West, a distance of 109.94 feet, a radius of 338.75 feet, and a central angle of 18° 40' 43" for an arc distance of 110.43 feet to a point of curvature of a curve concave to the Southwest;

Thence Northwesterly, along said curve to the left, having a chord bearing of North 74° 30' 26" West, a distance of 212.44 feet, a radius of 2,508.66 feet, and a central angle of 04° 51' 13" for an arc distance of 212.51 feet to a point of intersection of the Highline Canal with the North-South Mid-section line of said Section 20;

Thence leaving said Highline Canal, South 00° 03' 08" East, along the North-South Mid-section line of said Sections 20 AND 29, being adjacent to Arizona State Highway 191, a distance of 1,802.19 feet to a point on the City of Safford's southern City Limit boundary;

Thence along said southern City Limit boundary the following eighteen (18) courses:

Thence South 89° 47' 27" West, a distance of 202.49 feet;

Thence South 00° 14' 08" East, a distance of 199.51 feet;

Thence South 89° 47' 28" West, a distance of 198.50 feet;

Thence South 00° 14' 12" East, a distance of 225.48 feet;

Thence South 89° 47' 30" West, a distance of 525.00 feet;

Thence South 00° 14' 10" East, a distance of 371.78 feet;

EXHIBIT "A"

Thence South 89° 55' 45" West, along the North Sixteenth line of said Section 29, a distance of 1,704.61 feet;

Thence North 00° 07' 49" West, along the West line of said Section 29, a distance of 1,317.71 feet;

Thence South 89° 47' 18" West, along the South line of said Section 19, a distance of 2,615.75 feet;

Thence South 00° 17' 29" East, a distance of 8.88 feet;

Thence North 89° 09' 06" East, a distance of 164.12 feet;

Thence South 80° 57' 10" East, a distance of 1,577.26 feet;

Thence South 41° 50' 05" West, a distance of 1,426.59 feet;

Thence South 89° 55' 45" West, a distance of 110.00 feet;

Thence South 00° 10' 25" East, a distance of 1,322.07 feet;

Thence South 89° 52' 51" West, along the East-West Mid-section line of said Section 30, a distance of 1,927.11 feet;

Thence North 00° 06' 11" East, along the West Sixteenth line of said Section 30, a distance of 2,589.18 feet;

Thence South 89° 47' 58" West, a distance of 1,322.45 feet to a point of intersection of said southern City Limit boundary with the City of Safford's western City Limit boundary;

EXHIBIT "A"

Thence along said western City Limit boundary the following thirteen (13) courses:

Thence North $00^{\circ} 02' 56''$ East, being adjacent to Twentieth Avenue, a distance of 3,742.22 feet;

Thence North $65^{\circ} 41' 15''$ West, a distance of 1,839.19 feet;

Thence South $82^{\circ} 18' 45''$ West, a distance of 924.50 feet;

Thence North $00^{\circ} 06' 09''$ East, along the North-South Mid-section line of said Sections 13 and 24, a distance of 4,917.39 feet;

Thence South $89^{\circ} 52' 59''$ East, along the North Sixteenth line of said Section 13, a distance of 2,634.80 feet;

Thence North $00^{\circ} 07' 21''$ East, along the West line of said Sections 7 and 18, being adjacent to Twentieth Avenue, a distance of 3,011.82 feet to a point of intersection of said West line and the South Right-of-Way line of Arizona State Highway 70 being a curve concave to the Northeast;

Thence Northwesterly along said South Right-of-Way line, along said curve to the right, having a chord bearing of North $52^{\circ} 13' 32''$ West, a distance of 612.03 feet, a radius of 3,695.58 feet, and a central angle of $09^{\circ} 29' 59''$ for an arc distance of 612.73 feet;

Thence leaving said South Right-of-Way line, North $00^{\circ} 25' 52''$ East, a distance of 1,864.49 feet;

Thence North $73^{\circ} 40' 50''$ East, a distance of 44.93 feet;

Thence North $79^{\circ} 11' 39''$ East, a distance of 106.30 feet;

Thence North $86^{\circ} 49' 49''$ East, a distance of 140.00 feet;

EXHIBIT "A"

Thence South $89^{\circ} 21' 17''$ East, a distance of 184.00 feet;

Thence North $00^{\circ} 03' 53''$ East, along the West line of said Sections 7 and 18, a distance of 1,304.25 feet;

Thence leaving said western City Limit boundary, North $00^{\circ} 02' 46''$ East, along the West line of said Section 6 a distance of 2,962.02 feet to the POINT OF BEGINNING.

MEMORANDUM
Updated October 27, 2015

TO: Blessing Chukwu
Executive Consultant
Utilities Division

FROM: Carmen Madrid
Public Utility Consumer Analyst
Utilities Division

DATE: April 24, 2009 – updated October 27, 2015

RE: **Graham County Electric Cooperative, Inc.**
Docket No. E-01749A-09-0185

Carmen Madrid

Graham County Electric Cooperative, Inc. has applied for amend its Certificate of Convenience and Necessity and to transfer certain of its assets to the City of Safford.

Per information received from the Corporations Section of the Arizona Corporation Commission on October 27, 2015, this company is in good standing.

In researching the Consumer Services database for complaints for this company, the following information was found;

- 2012 One complaint – billing
zero opinions
- 2013 One complaint – construction
zero opinions
- 2014 Two complaints – (1) billing, (1) deposit
zero opinions
- 2015 Four complaints – (3) billing, (1) disconnect/termination
zero opinions

All complaints have been resolved and closed.



City of Safford
Confidentiality Policy

"The City of Safford has the following practice concerning the disclosure of customer-specific information to third parties. Customer-specific information, such as that collected and used by the City of Safford for the determination of credit rating and security deposit at the time of new service connection, is not released without specific prior written customer authorization unless the information is requested by a law enforcement agency, is required for legitimate account collection activities, or is necessary to provide safe and reliable service to the customer. In addition, the City of Safford has a formal policy concerning the prevention and identification of identity theft with respect to its customers."

A handwritten signature in cursive script that reads "Horatio Skeete".

Horatio Skeete, City Manager

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
GRAHAM COUNTY UTILITIES, INC.
9 West Center Street, P.O. Drawer B
Pima, Arizona 85543**

*Serving The Beautiful Gila Valley
In Southeastern Arizona*

*Telephone (928) 485-2451
Fax (928) 485-9491*

**Report on City of Safford Renewable Energy, Net Metering,
Energy Efficiency and Low-Income Assistance Programs**

In Decision No. 71471 dated January 26, 2010, the Commission ordered Graham County Electric Cooperative, Inc. ("GCEC") "after consultation with the City of Safford, [to] file with the Commission a report detailing the progress that has been made by the City of Safford toward developing renewable energy, net metering, energy efficiency and low-income assistance policies that approximate the programs that are currently available to the customers of Graham County Electric Cooperative." As instructed, GCEC has discussed these subject matters with City of Safford ("Safford") personnel and this is what we have been advised:

Renewable Energy / Net Metering

Safford does not have in place at this time rebates or incentives for customers to install renewable devices. Safford does, however, have a Net Metering Policy in place that allows customers to receive and carry credits from month-to-month for electricity a customer generates in excess of his/her usage.

Energy Efficiency / Low-Income Assistance

Safford advises that it does not have any energy efficiency rebate programs currently in place. On low-income assistance, Safford sponsors the "round up" program. Under this program, residents can choose to have their utility bill rounded up for a larger payment than the bill which is actually due. The difference is donated to a funding pool which goes towards assisting low-income individuals and senior citizens who need assistance with utility bill payments.

Than W Ashby

Than W. Ashby
Office Manager
Graham County Electric Cooperative, Inc.

ORIGINAL



0000104038

MEMORANDUM

20

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

Date: October 19, 2009

RE: STAFF REPORT FOR THE APPLICATION OF GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. TO AMEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY AND TO TRANSFER CERTAIN OF ITS ASSETS TO THE CITY OF SAFFORD. (DOCKET NO. E-01749A-09-0185)

Attached is the Staff Report for the application of Graham County Electric Cooperative, Inc. for the Arizona Corporation Commission authority to transfer certain of its assets to the City of Safford and to amend its Certificate of Convenience & Necessity in relation thereto. Staff recommends approval.

SMO:All:red

Originator: Alexander Ihade Igwe, CPA

Attachment: Original and 13 Copies

Arizona Corporation Commission
DOCKETED
OCT 19 2009

DOCKETED BY *[Signature]*

RECEIVED
2009 OCT 19 12 42
AZ CORPORATION COMMISSION
DOCKET CONTROL

Service List for: Graham County Electric Cooperative, Inc.
Docket No. E-01749A-09-0185

Mr. Michael M. Grant
Gallagher & Kennedy, P. A.
2575 East Camelback Road
Phoenix, Arizona 885016-9225
(Attorney for Energy West, Inc.)

Mr. Jeffrey C. Zimmerman
Moyes, Sellers & Sims
1850 North Central Avenue
Suite 1100
Phoenix, AZ 85004-4417
(Attorney for the City of Safford)

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Janice Alward
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0185**

**APPLICATION FOR COMMISSION AUTHORITY TO AMEND ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY AND TO TRANSFER CERTAIN OF ITS ASSETS TO
THE CITY OF SAFFORD.**

OCTOBER 19, 2009

E-01749A-09-0185

STAFF ACKNOWLEDGMENT

The Staff Report for Graham County Electric Cooperative, Inc., Docket No E-01749-09-0185, was prepared by the Staff members shown below. Alexander Ihade Igwe was responsible for reviewing the application and performing pertinent financial analysis; Prem Bahl analyzed the engineering issues; and Carmen Madrid researched the Consumer Service issues in this proceeding.



Alexander Ihade Igwe, CPA
Executive Consultant III



Prem Bahl, P. E.
Utilities Engineer



Carmen Madrid
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-09-0185

On April 17, 2009, Graham County Electric Cooperative, Inc. ("Graham" or "Cooperative") filed an application with the Arizona Corporation Commission ("Commission") for authorization to amend its Certificate of Convenience and Necessity ("CC&N") and to transfer certain of its assets to the City of Safford ("Safford" or "City").

Graham is a non-profit electric distribution cooperative, certificated by the Commission in Decision No. 33006, dated April 6, 1961, to operate and maintain an electrical system in most areas of Graham County. The Cooperative serves areas located south and east of the San Carlos Apache Indian Reservation, but excludes areas within the corporate boundaries of the City and the Town of Thatcher. Graham currently serves approximately 6,200 members through rates and charges that were approved by the Commission in Decision No. 70289, dated April 24, 2008.

The City of Safford ("Safford" or "City") is a municipal corporation that operates electric distribution systems within and outside its corporate boundaries.

Graham states that prior to 1946, the Arizona General Utilities Company ("AGU") was the sole provider of electric service within Graham County. In 1946, Graham, Safford and the Town of Thatcher ("Thatcher") jointly acquired the assets of AGU. On January 22, 1946, Graham, Safford and Thatcher entered into a joint contract ("the 1946 Agreement") whereby Safford and Thatcher acquired the assets within their respective boundaries while Graham purchased the remaining assets.

Graham claims that the City has exercised an Acquisition Clause in the 1946 Agreement, in annexing portions of its CC&N. Further, the Cooperative states that ambiguity surrounding interpretations of the 1946 Agreement has over the years resulted in many litigations. Graham and the City have pending counter lawsuit at Graham County Superior Court. As a result of the pending litigation, the Graham County Superior Court issued a preliminary injunction in 2005, restraining both parties from providing electric service to the Wal-Mart Supercenter.

On January 1, 2009, Graham and the City entered into a Territorial Settlement Agreement ("TSA"), in an attempt to fully resolve all issues surrounding service rights and obligations with the common service area. The TSA delineated a geographic area, known as the Safford Service Area ("SSA"), which with certain exceptions, is the area Safford has the right to serve under the terms of TSA. The TSA also authorizes Graham to continue to serve its existing customers within the redefined SSA, from January 1, 2009 through December 31, 2016. Further, the TSA permits Graham to sign-on new customers during the intervening period, only when the City does not have the facilities to serve the new customer, at the time of requesting service. Further, the TSA requires Graham to file a new application, no later than January 15, 2015, for Commission authority to transfer to the City, its customers and facilities within the SSA, effective January 1, 2016. In addition, the TSA provides for Graham to serve the Walmart Property and load ("Walmart") through December 31, 2012. Effective January 1, 2013, the

Cooperative is required to transfer the Walmart as well as the facilities for serving the load to Safford. In exchange, Graham would assume the right and responsibility for serving the Safford Municipal Airport. Also, the City will swap its distribution facilities for serving the Airport to Graham, in a quid pro quo transaction.

In this application, Graham seeks Commission authorization to:

1. Modify its CCN to exclude the SSA, subject to the exception sought in (2) below.
2. Retain the areas where it currently has customers and facilities within the SSA in its CC&N, through December 31, 2015.
3. Modify its CC&N to include Walmart, through December 31, 2012.
4. Modify its CC&N to exclude the Walmart, and transfer its distribution facilities for serving Walmart to Safford, effective January 1, 2013, with no further action of the Commission.

Staff has reviewed Graham's application and determined that the above transactions are in the public interest. Staff agrees with the Cooperative that the benefits of approving this application, far exceeds the demerits of a denial. First, it eliminates all disputed issues relating to the 1946 Agreement, and resolves pending litigations. Second, it eliminates the risk of the City obtaining Graham's customers and facilities within the SSA, by means of an Acquisition Clause in the 1946 Agreement; which the Cooperative considers to be unfavorable. Third, the TSA provides Graham with the opportunity to continue to serve its existing customers, and some opportunity to obtain new customers. As a result of this provision, the Cooperative's customers will not be immediately impacted by this transaction, but would have a lengthy transition period. Finally, it resolves all territorial disputes, and provides for an agreed-upon process for service territory expansion by both parties. Based on these factors, Staff recommends approval of this application.

TABLE OF CONTENTS

BACKGROUND 1

TERRITORIAL SETTLEMENT AGREEMENT 2

THE TRANSACTION..... 3

STAFF ANALYSIS..... 4

 ENGINEERING ANALYSIS 4

 ANALYSIS OF THE TRANSACTION 4

Existing and Prospective Customers within the SSA 4

Walmart Property and Load..... 5

PUBLIC NOTICE..... 6

CONSUMER SERVICE ISSUES..... 6

CONCLUSION AND RECOMMENDATIONS..... 6

EXHIBITS

ENGINEERING REPORT A

AFFIDAVIT OF PUBLICATION.....B

COMPANY EXHIBIT 2.....C

BACKGROUND

On April 17, 2009, Graham County Electric Cooperative, Inc. ("Graham" or "Cooperative") filed an application with the Arizona Corporation Commission ("Commission") for authorization to amend its Certificate of Convenience and Necessity ("CC&N"), and to transfer certain of its assets to the City of Safford ("Safford" or "City").

Graham is a non-profit, electric distribution cooperative certificated by the Commission in Decision No. 33006, dated April 6, 1961, to operate and maintain an electrical system in most areas of Graham County. The Cooperative serves areas located south and east of the San Carlos Apache Indian Reservation, but excludes areas within the corporate boundaries of the City and the Town of Thatcher. Graham currently serves approximately 6,200 members through rates and charges that were approved by the Commission in Decision No. 70289, dated April 24, 2008.

The City of Safford ("Safford" or "City") is a municipal corporation that operates electric distribution systems within and outside its corporate boundaries.

Graham states that prior to 1946, the Arizona General Utilities Company ("AGU") was the sole provider of electric service within Graham County. In 1946, Graham, Safford and the Town of Thatcher ("Thatcher") jointly acquired the assets of AGU. On January 22, 1946, Graham, Safford and Thatcher entered into a joint contract ("the 1946 Agreement") whereby Safford and Thatcher acquired the assets within their respective boundaries while Graham acquired the remaining assets. The 1946 agreement had an "Acquisition Clause", which states as follow:

"Safford and Thatcher, or either, upon the annexation or extension of their corporate limits, at any time in the future, of territory adjacent to either of the said towns, shall be sold the distribution facilities then existing in any such territory and owned by the Co-op upon a replacement new cost less depreciation basis, with no goodwill or going concern element considered, and in no event shall the Co-op require that condemnation proceedings be instituted for such acquisition."

Graham reports that since 1961, Safford has exercised the above Acquisition Clause in annexing several part of its certificated territory. Further, Graham states that because the 1946 Agreement was somewhat ambiguous, there have been on-going disputes between Safford and the Cooperative, regarding (1) rights, obligations and duties under the 1946 Agreement and Arizona laws, (2) provision of service to areas annexed by Safford, and (3) the correct interpretation and application of the Acquisition Clause. These disagreements have resulted in two litigations, ultimately decided by the Arizona Supreme Court. Graham cites the two cases as *Graham County Elec. Coop. v Town of Safford*, 84 Ariz, 15,322 P.2d 1078 (1958) ("Graham I") and *Graham County Elec. Coop. v Town of Safford*, 95 Ariz, 174, 388 P.2d 169 (1963) ("Graham II"). As of date, Graham and Safford have pending counter lawsuits, regarding which entity has the right to serve certain portions and customer loads within Safford. According to Graham,

these counter lawsuits have been consolidated into a single case, titled *City of Safford (Plaintiff/defendant) v. Graham County Cooperative Electric (Plaintiff/defendant)*, in Graham County Superior Court Case Nos. CV2005-081 and CV2005-083 ("the Litigation"). As a result of the pending Litigation, the Graham County Superior Court issued a preliminary injunction in 2005, restraining both parties from providing electric service to the Wal-Mart Supercenter.

TERRITORIAL SETTLEMENT AGREEMENT

On January 1, 2009, Graham and Safford entered into a comprehensive Territorial Settlement Agreement ("TSA"), in an attempt to fully resolve all disputed issues relating to the 1946 Agreement and the pending Litigations. The purpose of the TSA is to provide:

"...for a more orderly, mutually beneficial and rational allocation of electric service responsibilities within the corporate limits of Safford as they have expanded and as they will continue to expand from time to time in the future...."

By the TSA, the parties have delineated a geographic area, known as the Safford Service Area ("SSA"), which with certain exceptions, is the area Safford has the right to serve under the terms of agreement. The SSA encompasses the city limits, including areas in which Safford currently provides service, and certain areas in which it anticipates providing service in no distant future. The TSA requires Graham to seek Commission approval to modify portions of its CC&N overlapping the SSA, and to transfer certain of its assets to the City. However, the TSA authorizes Safford to continue to serve certain customers loads within the Safford Service area as follow:

"The Cooperative's CC&N will continue to include, and GCEC will have the right and obligation to serve, all of the existing loads and customers within the Safford Service Area that the Cooperative was serving as of January 1, 2009. These areas depicted on Exhibit 2 hereto, which shows the location of the Cooperative's distribution facilities (identified thereon in red as "GCEC Conductors") existing as of January 1, 2009 within the Safford Service Area that are used to serve existing loads and customers. To provide further clarity, a detailed list of the existing loads and customers covered by this exception is attached thereto as Exhibit 3."

As indicated above, the TSA provides for Graham to continue to serve its existing customers of record, as of January 1, 2009, within the redefined SSA, through December 31, 2015. The Cooperative currently serves approximately 682 customers within the TSA. On January 1, 2016, Graham is required by the TSA to transfer to Safford, all its customers and electric infrastructure within the SSA. To effectuate this provision, the TSA requires Graham to file a new application with the Commission, no later than January 15, 2015. The prospective application will request the Commission to delete any portion of its CC&N overlapping the SSA, and for authorization to transfer all its assets within the SSA to Safford, effective January 1,

2016. Upon approval of the January 15, 2015 filing, Safford will become the sole provider of electric service within the SSA.

Between January 1, 2009 and December 31, 2015, the TSA authorizes Graham to continue to sign-on two classes of prospective customers within the SSA. First, the TSA allows Graham to serve new or temporary loads that Safford does not have the necessary infrastructure to connect at the time service is requested. Second, Graham may provide service to new customers that request electric service directly from the Cooperative, prior to Commission approval of this application.

As it relates to the Walmart Supercenter load ("Walmart"), the TSA provides as follow:

"Through December 31, 2012, the Cooperative's CC&N will include, and the Cooperative will have the right and obligation to continue to serve, the Wal-Mart SuperCenter load, which is located within the Safford Service Area on a parcel of land in Safford bordered by 20th Avenue on the west and 17th avenue on the east, and by highway 70 on the north and 8th Street on the south, and which is more particularly described in Exhibit 4 hereto. The TSA provides that, subject to commission approval, Safford will then take over service to the Wal-Mart load on January 1, 2013, and GCEC will at that time convey to Safford its distribution facilities used in providing electric service to the Wal-Mart load."

Under the terms of the TSA, Graham is permitted to serve Walmart through December 31, 2012. On January 1, 2013, Graham will transfer Walmart and its infrastructure related thereto, to Safford. Concurrent with this transfer, Graham would assume responsibility for serving the Safford Municipal Airport properties ("Airport") from Safford, and acquire the City's infrastructure for serving the Airport, in a *quid pro quo* transaction. Because the Airport is currently within the Cooperative's CC&N, Graham contends that it would not require Commission prior authorization to serve the load.

THE TRANSACTION

The Cooperative seeks Commission authorization to:

1. Subject to the terms of the TSA as described in (2) below, delete the portion of Graham's CC&N within the redefined SSA.
2. Modify the Cooperative's CC&N to include areas and customers within the SSA, as described in Section 13(a) of this application.
3. As it relates to Walmart, the Cooperative seeks Commission authority to:
 - a. Modify its CC&N to include Walmart, from the effective date of the Commission decision through December 31, 2012,

- b. Delete Walmart from its CC&N, and transfer to Safford its electric infrastructure dedicated to serving Walmart, effective January 1, 2013.

STAFF ANALYSIS

Engineering Analysis

On July 14, 2009, Staff Engineer, Prem Bahl inspected the proposed SSA, accompanied by Dennis Kouts, the Cooperative's Operations Specialist. During this visit, Staff observed both Walmart and the Airport that would be swapped between Graham and Safford, on January 1, 2013. Staff also observed the distribution facilities that would be transferred by Graham to Safford, on January 1, 2016¹. A listing of Graham's current customers that would be transferred to Safford, showing their respective locations, classes and meter numbers is attached to this application as Exhibit 3. The inventory of facilities relative to these customers will be assessed and determined prior to the transfer of the remaining facilities on January 1, 2016. According to the Cooperative, it is in Graham's best interest to finalize this agreement to preserve the wheeling revenue from Safford and to save on expensive litigation fees.

Based on a field inspection of Graham's electric facilities relative to the transfer of Walmart connection in 2013 and a general review of the distribution system in the Safford Area for transfer in 2016, including discussions with the Cooperative's representatives, Staff concludes that the transfer of assets in the SSA is reasonable under the terms of the TSA, and is in the public interest. Staff does not believe that a detrimental impact to service reliability will occur as a result of the transfer. That is because the Cooperative will reconfigure the system by disconnecting its feed into the current load center and let Safford connect the affected customers to its present distribution system. Based on Staff's aforementioned engineering review and inspection of the electric facilities to be transferred by Graham to Safford, Staff recommends that the Cooperative's application to amend its CC&N and transfer certain facilities to Safford per the TSA be approved. Detail Engineering Analysis is attached as exhibit A.

Analysis of the Transaction

Existing and Prospective Customers within the SSA

Graham is requesting the Commission authority to delete the redefined SSA from its CC&N, except for portions of the SSA where it currently serves approximately 682 customers. The TSA authorizes Graham to continue to serve these customers through December 31, 2015. Also, the TSA authorizes Graham to sign-on new customers during the intervening period, only when Safford does not have the facilities to serve such a prospective customer. Graham states that such prospective customers will be served through a Borderline Agreement between the Cooperative and the City, subject to Commission approval. The TSA requires Graham to file a

¹ In accordance with the terms of the TSA, the distribution system, shown in red on Exhibit PB-1, and the customers being presently served by Graham will continue to be served by the Cooperative until December 31, 2015. These customers and the said distribution system facilities will be transferred to Safford on January 1, 2016.

new application, no later than January 15, 2015, for Commission authority to transfer all its customers and electric infrastructure within the SSA to Safford, effective January 1, 2016.

Staff's analysis indicates that the Company's proposal will result in fragmentation of Graham's CC&N within the SSA. As shown on the Cooperative's Exhibit 2 attached herewith, its customers are located in different portions of the SSA. Because Graham's customers are not located in a contiguous area, its subsisting CC&N will be scattered all over the SSA, if the Commission grants this request. Staff finds that fragmentation of Graham's CC&N within the SSA could result in customer confusion. However, Staff notes that perceived customer confusion is limited to the intervening period, from the effective date of a decision in this proceeding through December 31, 2015. In response to this concern, the Cooperative asserts that because its existing customers are known and the prospect of obtaining new customers is limited to the terms of the TSA, any customer confusion will be minimal. As shown on Exhibit 3, attached to this application, the Cooperative has provided a list of its current customers within the SSA, and agrees to provide an updated list by hearing date.

Staff agrees with the Cooperative that the benefits of approving this application, far exceeds the demerits of a denial. First, it eliminates all disputed issues relating to the 1946 Agreement, and resolves pending litigations. Second, it eliminates the risk of the City obtaining Graham's customers and facilities that are within the SSA, by means of an Acquisition Clause provided for in the 1946 Agreement; which the Cooperative considers to be unfavorable. Third, the TSA provides Graham with the opportunity to continue to serve its existing customers, and some opportunity to obtain new customers, through December 31, 2015. As a result of this provision, the Cooperative's customers will not be immediately impacted by this transaction, but would have a lengthy transition period. Finally, it resolves all territorial disputes, and provides for an agreed-upon process for service territory expansion by both parties. Based on these factors, Staff concludes that it is in the public interest to approve Graham's request to modify its CC&N within the SSA, as discussed above.

Staff did not find it necessary to analyze the Company's proposal to transfer its assets within the SSA to Safford, effective January 1, 2016. Staff believes that such analysis is best performed within the scope of its proposed January 15, 2015 filing. At that time, the Cooperative will be more able to identify such assets, the related sales price and net book value, and possible gains or losses relating thereto.

Walmart Property and Load

The Cooperative seeks Commission authority to include Walmart in its CC&N, from the effective date of a decision in this proceeding through December 31, 2012. According to the terms of agreement, on January 1, 2013, Graham will transfer Walmart, along with its related facilities to Safford. In return, Safford will transfer the Airport and the City's infrastructure for serving the Airport to Graham, in a quid pro quo transaction. In other words, this transaction will be effected through a swap, with no gain or loss to both parties. Finally, the Cooperative is requesting that the Commission to delete Walmart from its CC&N, effective January 1, 2013.

Staff finds that the TSA relating to this transaction is in the public interest. First, this agreement eliminates the legal dispute between Graham and the City regarding each party's right to serve the Walmart. Second, it guarantees a significant stream of revenue to the Cooperative through December 31, 2012. Third, it provides the Cooperative with the ability to earn continuous stream of income, once it assumes responsibility for serving the Airport. Staff agrees with Graham's assertion that because the Airport is currently located within its CC&N, it would not require Commission approval to commence serving it, effective January 1, 2013. Unlike the individual customers discussed above, Walmart is a distinct entity with a sizeable load. As a result, its addition and deletion from Graham's CC&N will be seamless. Based on these factors, Staff concludes that the Cooperative's proposal regarding Walmart is in the public interest.

PUBLIC NOTICE

On September 23, 2009, Graham published a notice of this application in the *Eastern Arizona Courier*, a newspaper of general circulation within and around its service territory. The related *Affidavit of Publication* was filed with Docket Control on October 2, 2009. Also, on October 2, 2009, the Cooperative provided an *Affidavit of Mailing* indicating that the same notice was mailed to all customers of record as well as 20 property owners holding 40-acres or larger parcels of undeveloped land, within the SSA.

CONSUMER SERVICE ISSUES

Staff's inquiry confirmed that Graham was in good standing with the Corporation Division of the Commission.

Our search of Consumer Services database from 2006 through October 6, 2009, indicates that the Cooperative had 13 complaints and 4 inquiries. The complaints and inquiries relate primarily to billing, rate case and service issues. The complaints have been fully resolved and closed.

CONCLUSION AND RECOMMENDATIONS

Staff finds that Graham's application to modify its CC&N to be consistent with the terms of the TSA, and in the public interest.

Staff recommends Commission approval of Graham's application to modify its CC&N to exclude the SSA, subject to the exception provided for by the TSA.

Staff further recommends that the Commission grant Graham's request to modify its CC&N to include all areas within the SSA, where it currently provides electric service, as depicted by the red lines shown on the Cooperative's Exhibit 2, attached herewith.

Staff further recommends that the Commission approve Graham's application to include Walmart in its CC&N, from the effective date of the decision in this proceeding through December 31, 2012.

Staff further recommends that the Commission grant Graham's request for deletion of Walmart from its CC&N, effective January 1, 2013.

Staff further recommends approval of Graham's request for Commission authority to transfer to Safford, Walmart, as well as its electric infrastructure for serving Walmart, effective January 1, 2013. Staff recommends that this approval become effective on January 1, 2013, with no further action of the Commission.

Staff further recommends authorizing Graham to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application. Staff recommends that Graham files all pertinent documents evidencing the consummation of this transaction, no longer than 30 days from the effective date of transaction.

MEMORANDUM

To: Alex Igwe
Executive Consultant
Utilities Division

From: Prem Bahl *Prem*
Electric Utilities Engineer
Utilities Division

Date: October 19, 2009

Subject: Graham County Electric Cooperative, Inc. to Amend its Certificate of Convenience and Necessity and to Transfer Certain of its Assets to the City of Safford
Docket No. E-01345A-08-0426

On April 17, 2009, Graham County Electric Cooperative ("Graham," "GCEC" or "Cooperative") submitted an application ("Application") to the Arizona Corporation Commission ("Commission") for authorization to amend its CC&N and to:

- Sell GCEC electric assets to the City of Safford ("Safford") in an area ("Service Area") delineated in the Territorial Settlement Agreement ("TSA") accompanying the Application. The map of the Service Area is attached herewith as Exhibit PB-1. The GCEC's Transmission Map is attached as Exhibit PB-2.
- Relinquish to Safford the right, obligation and responsibility to provide electric service to the customers in the Service Area as defined in the TSA accompanying the Application as Exhibit 1.

Utility Overview

GCEC is a non-profit, electric distribution cooperative, which supplies service to approximately 6,200 members in Graham County, Arizona. Safford is a municipal corporation in the State of Arizona, which operates and maintains an electric distribution system within its corporate boundaries to serve its load. GCEC also operates and maintains the distribution system to serve its load within the Safford Area (See red distribution lines in Exhibit PB-1). GCEC and Safford have an Agreement by which Safford can acquire (upon payment and other conditions) certain electric facilities of GCEC and thereafter provide electric service to customers in its corporate boundaries.

Background

In 1946, Graham, Safford and the town of Thatcher ("Thatcher") jointly purchased the electric system from Arizona General Utilities Company. Safford and Thatcher acquired the facilities within their respective city limits and Graham acquired the rest of the facilities in Graham County. In an agreement known as the "46 Agreement," both municipalities could acquire the facilities and service territory from GCEC upon annexation for replacement cost less depreciation.

The TSA was entered into to settle litigation and to preserve GCEC's wheeling revenue from Safford. With the completion of the new 69 kV transmission line from the Hackberry Substation to the Thatcher Plant by Southwest Transmission Cooperative, Inc. ("SWTC"), Safford would be able to build a new substation in its service territory tapping into this 69 kV transmission, if it chose to do so. That would result in GCEC losing wheeling revenue from Safford. One of the motivations for GCEC to enter into the TSA was to preserve its revenue stream from Safford.

Staff's Review of the Electric Facilities

On July 14, 2009, Prem Bahl, Commission Utilities Division Staff ("Staff") toured the Service Area, accompanied by Dennis Kouts, Operations Specialist, and observed the Wal-Mart facility to be transferred to Safford, and the airport facility that would be transferred to GCEC in exchange of the Wal-Mart transfer. Both transfers are scheduled to take place on January 1, 2013. Staff also observed the distribution facilities that would be transferred to Safford on January 1, 2016¹. A list of the current customers that would be transferred to Safford showing their respective locations, classes and meter numbers is attached to the Application as Exhibit 3. The inventory of facilities relative to these customers will be assessed at that time, and determined prior to the transfer of the remaining facilities on January 1, 2016. According to the TSA, the formula for the cost of facilities to be transferred to Safford in 2016 will be replacement cost new less depreciation, with a minimum price of \$950,000 and a maximum price of \$1,250,000. According to the Cooperative, it is in Graham's best interest to finalize this agreement to preserve the wheeling revenue from Safford and to save on expensive litigation fees.

Conclusions and Recommendations

The Cooperative and the City have spent decades dealing with the difficulties and vagaries created by the 1946 Agreement. GCEC has incurred a great deal of time and legal expense in litigation and other disputes with Safford regarding its application and enforcement. For more than two years, the Cooperative, its Board and other representatives have expended considerable effort negotiating the TSA as a comprehensive solution to these longstanding

¹ In accordance with the terms of the TSA, the distribution system, shown in red on Exhibit PB-1, and the customers being presently served by Graham will continue to be served by the Cooperative until December 31, 2015. These customers and the said distribution system facilities will be transferred to Safford on January 1, 2016.

Graham County Electric Cooperative, Inc.
To amend its CC&N to transfer its assets to the City of Safford
Page 3 of 3

disputes. Both utilities, Safford and GCEC agree that the TSA will best serve not only the short- and long-term interests of the Cooperative and its members, but the best interests of all residents of Safford and Graham County.

Based on a field inspection of Graham's electric facilities relative to the transfer of Wal-Mart connection in 2013 and a general review of the distribution system in the Safford Area for transfer in 2016, including discussion with the GCEC Financial Manager Russ Barney, and with Dennis Kouts, Operational Specialist, Staff concludes that the transfer of assets in the Service Area to Safford is reasonable under the terms of the Application and is in the public interest. Staff does not believe that a detrimental impact to service reliability will occur as a result of the transfer. That is because the Cooperative will reconfigure the system by disconnecting its feed into the current load center and let Safford connect the affected customers to its present distribution system.

Therefore, based on Staff's aforementioned engineering review and inspection of the electric facilities to be transferred by GCEC to Safford, Staff recommends that the Cooperative's Application to amend its CC&N and transfer certain facilities to Safford per the TSA be approved.

GALLAGHER & KENNEDY

P.A.

LAW OFFICES

MICHAEL M. GRANT
DIRECT DIAL: (602) 530-8291
E-MAIL: MMG@GKNET.COM

RECEIVED

2009 OCT -2 P 4: 32

AZ CORP COMMISSION
DOCKET CONTROL

2575 EAST CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
PHONE: (602) 530-8000
FAX: (602) 530-8500
WWW.GKNET.COM

October 2, 2009

RECEIVED

OCT 05 2009

AZ CORP COMM
Director Utilities

HAND DELIVERED

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

Re: *Affidavit of Publication and Affidavit of Mailing in Relation to Graham County Electric Cooperative, Inc.'s ("GCEC") Application to Amend Its Certificate of Convenience and Necessity and Transfer Certain Assets to the City of Safford; Docket No. E-01749A-09-0185*

Dear Sir or Madam:

Enclosed are (1) the original and 13 copies of the Affidavit of Publication confirming published notice in this matter in the *Eastern Arizona Courier*, a newspaper of general circulation in Safford, Arizona and (2) the original and 13 copies of GCEC's Affidavit of Mailing of the notice in compliance with the requirements of the August 31, 2009 procedural order.

Your assistance in relation to this matter is appreciated.

Very truly yours,

GALLAGHER & KENNEDY, P.A.



By:

Michael M. Grant

MMG/plp
10430-13/2243161
Enclosures

cc (w/enclosures): Maureen Scott, Legal Division (delivered)
Alexander Igwe, Utilities Division (delivered)

Original and 13 copies filed with Docket Control this 2nd day of October, 2009.

AFFIDAVIT/PROOF OF PUBLICATION

EASTERN ARIZONA COURIER

301A E. Hwy 70 Safford, AZ 85546

Phone: (928)428-2560/Fax:(928)428-5396

E Mail: mwatson@eacourier.com

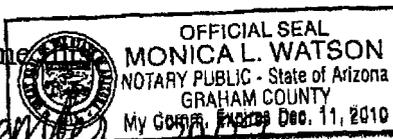
I, Doris A. Glenn, being duly sworn deposes and says; that she is the legal clerk of the EASTERN ARIZONA COURIER, a newspaper published in the City of Safford, Graham County, Arizona; that the legal described as follows:

Notice of Application by
Graham County Electric
Docket No. E-0149A-09-0185

a copy of which is hereunto attached, was first published in said newspaper in its issue dated September 23, 2009 and was published in each 1 issue(s) of said newspaper for 1 consecutive weeks/ issues, the last publication being in the issue dated September 23, 2009.

Signed: Doris A. Glenn

Subscribed and sworn to before me



29 day of September, 2009

Monica L. Watson
Notary Public

My Commission expires: December 11, 2010

**NOTICE OF APPLICATION BY GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. FOR PERMISSION TO TRANSFER CERTAIN ASSETS TO THE CITY OF SAFFORD AND TO AMEND HIS CERTIFICATE OF CONVENIENCE AND NECESSITY
DOCKET NO. E-01749A-09-0185**

On April 17, 2009, Graham County Electric Cooperative, Inc. ("GCEC") filed an application with the Arizona Corporation Commission ("Commission") to transfer certain assets to the City of Safford and to amend its Certificate of Convenience and Necessity. The Application is available for inspection during regular business hours at the offices of the Commission in Tucson at 400 West Congress Street, Suite 218, Tucson, Arizona, in Phoenix at 1200 West Washington Street, Phoenix, Arizona or on the Commission's website, www.azcc.gov, by using the Docket link, as well as at the offices of GCEC, 9 West Center, Pima, Arizona.

The Application concerns an agreement reached between GCEC and the City of Safford which involves the transfer of certain electric service territory and the right to supply electricity to that area from GCEC to the City. A mailing of notice will be made to persons currently receiving service from the Cooperative in this area. In general, what the agreement provides is that the City of Safford will supply electricity to any new customers wanting to establish service in this area. However, if you currently receive electric service in this area from the Cooperative, you will continue to be GCEC's customer until January 1, 2016.

The Commission will hold a hearing on this matter on **November 17, 2009, at 10:00 a.m.**, or as soon thereafter as is practical, at the Commission's Tucson offices, **Room 222, 400 West Congress Street, Tucson, Arizona 85701.**

You may have the right to intervene in the proceedings and participate as a party. Intervention will be in accordance with A.A.C. R14-3-105, except that all motions to intervene must be filed by October 23, 2009. Persons desiring to intervene must file a written motion with the Commission and send such motion to the Applicant or its counsel. The motion must, at a minimum, contain the name, address and telephone number of the proposed intervenor, a short statement of the proposed intervenor's interest in the proceeding and a statement certifying that a copy of the motion to intervene has been mailed to the Applicant or its counsel and to all parties of record in the case.

If you have questions about this application, you may contact the Applicant at (928) 485-2451. Comments may also be made by writing to the Commission in care of Docket Control, 1200 West Washington Street, Phoenix, Arizona 85007. All correspondence should contain the Docket No. E-01749A-09-0185. If you want further information on intervention or have questions on how to file comments, you may contact the Consumer Service Section of the Commission at 400 West Congress Street, Suite 218, Tucson, Arizona 85701 (1-800-535-0148), or 1200 West Washington Street, Phoenix, Arizona 85007 (1-800-222-7000).

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin Bernat, ADA Coordinator, voice phone number 602-542-3931, E-mail SBernat@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
GRAHAM COUNTY UTILITIES, INC.
9 West Center Street, P.O. Drawer B
Pima, Arizona 85543

Serving The Beautiful Gila Valley
In Southeastern Arizona

Telephone (928) 485-2451
Fax (928) 485-9491

AFFIDAVIT OF MAILING

I, Than W. Ashby, an employee of the Graham County Electric Cooperative, Inc. ("GCEC"), certify that on September 22, 2009 I caused to be deposited in the United States Mail, postage pre-paid, a copy of the attached Notice of Application addressed to (1) all GCEC members who are actively receiving service in the Safford Service Area as set forth in Exhibit 3 to the Application and (2) 20 property owners who hold 40 larger, undeveloped land parcels within the Safford Service Area.

Further your affiant sayeth not.

Than W. Ashby
(Signature of person superintending mailing)

State of Arizona

County of Graham

On this 22 day of September, 2009 before me personally appeared THAN W. ASHBY
(Date) (Month) (Year) (Printed Name of Employee)

known (or satisfactorily proven) to me to be the person who executed the Affidavit of Mailing and acknowledged to me that he/she executed the same.

Susan Romney
(Signature of Notary Public)

Stamp/Seal as required


**NOTICE OF APPLICATION BY
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
TO TRANSFER CERTAIN ASSETS TO THE CITY OF SAFFORD
AND AMEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY
DOCKET NO. E-01749A-09-0185**

Graham Electric Cooperative, Inc. ("GCEC"), your electric service provider, and the City of Safford have entered into an agreement which involves the transfer of certain electric service territory—including the area where you currently receive or may receive electric service—and the right to supply electricity to that area from the Cooperative to the City. A map outlining the boundaries of that area is attached.

In general, what this means is that the City will supply electricity to any new customers wanting to establish service in this area. However, if you currently receive electric service from the Cooperative, you will continue to be GCEC's customer until January 1, 2016.

On April 17, 2009, GCEC filed an application with the Arizona Corporation Commission ("Commission") to amend its Certificate of Convenience and Necessity to reflect this change in service territory. The Commission's docket number for this Application is E-01749A-09-0185. If you have questions about the Application, please contact the Cooperative at (928) 485-2451 and ask for Dennis Kouts or Steve Lines. The application is also available for review at the Cooperative's offices at 9 West Center, Pima, Arizona and at the offices of the Commission in Tucson at 400 West Congress Street, Suite 218, Tucson and in Phoenix at 1200 West Washington Street and on the Commission's website, www.azcc.gov, by using the eDocket function.

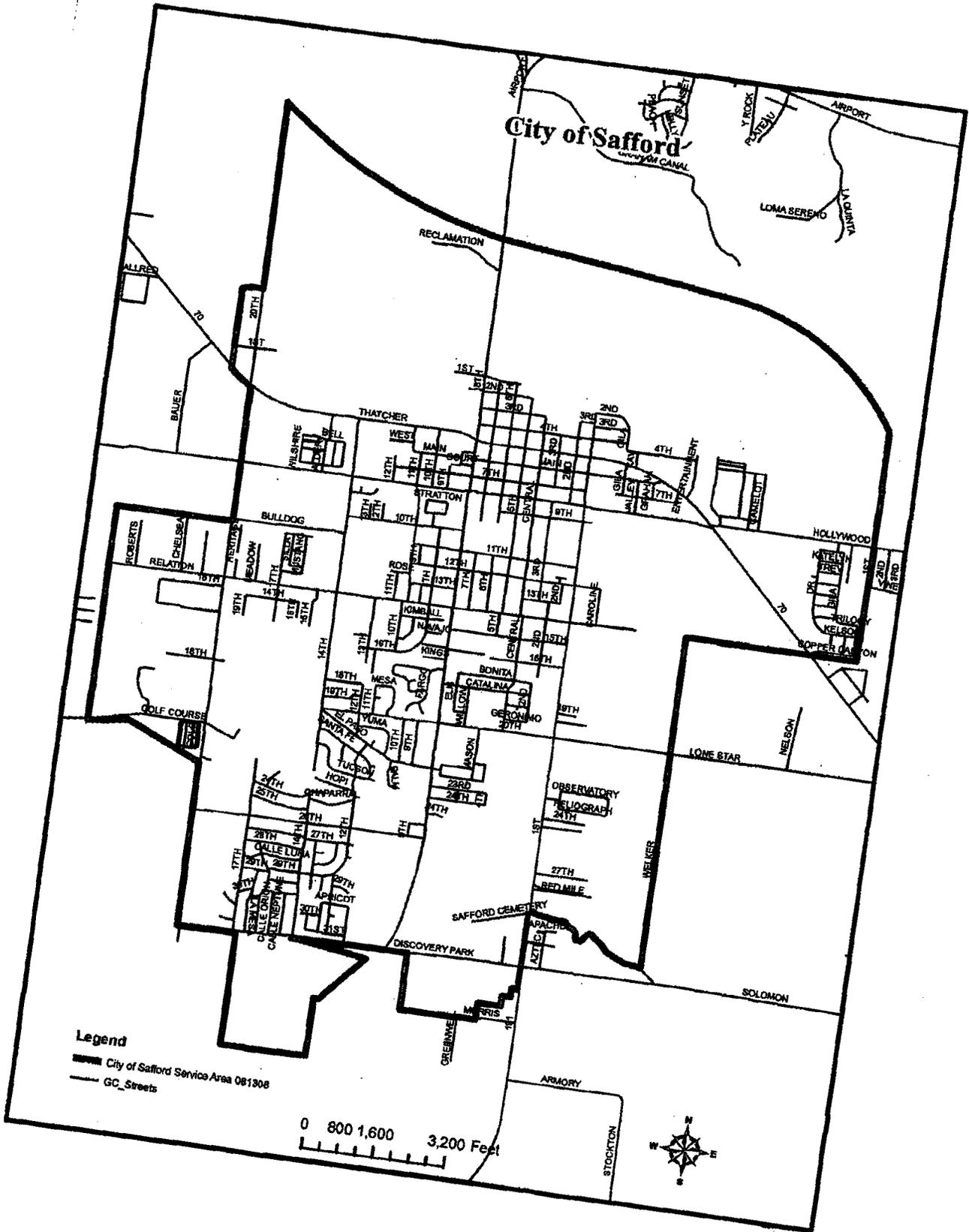
The Commission will hold a hearing on this matter on November 17, 2009, at 10:00 a.m., or as soon thereafter as is practical, at the Commission's Tucson offices, Room 222, 400 West Congress Street, Tucson, Arizona 85701.

You may have the right to intervene in the proceeding and participate as a party. Intervention will be in accordance with A.A.C. R14-3-105, except that all motions to intervene must be filed by October 23, 2009. Persons desiring to intervene must file a written motion with the Commission and send such motion to the Applicant or its counsel. The motion must, at a minimum, contain the name, address and telephone number of the proposed intervenor, a short statement of the proposed intervenor's interest in the proceeding, and a statement certifying that a copy of the motion to intervene has been mailed to the Applicant or its counsel and to all parties of record in this case.

Comments may also be made by writing to the Commission in care of Docket Control, 1200 West Washington Street, Phoenix, Arizona 85007. All correspondence should contain the Docket No. E-01749A-09-0185. If you want further information on intervention or have questions on how to file comments, you may contact the Consumer Service Section of the Commission at 400 West Congress Street, Suite 218, Tucson, Arizona 85701 (1-800-535-0148), or 1200 West Washington Street, Phoenix, Arizona 85007 (1-800-222-7000).

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail Sbernal@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

City of Safford



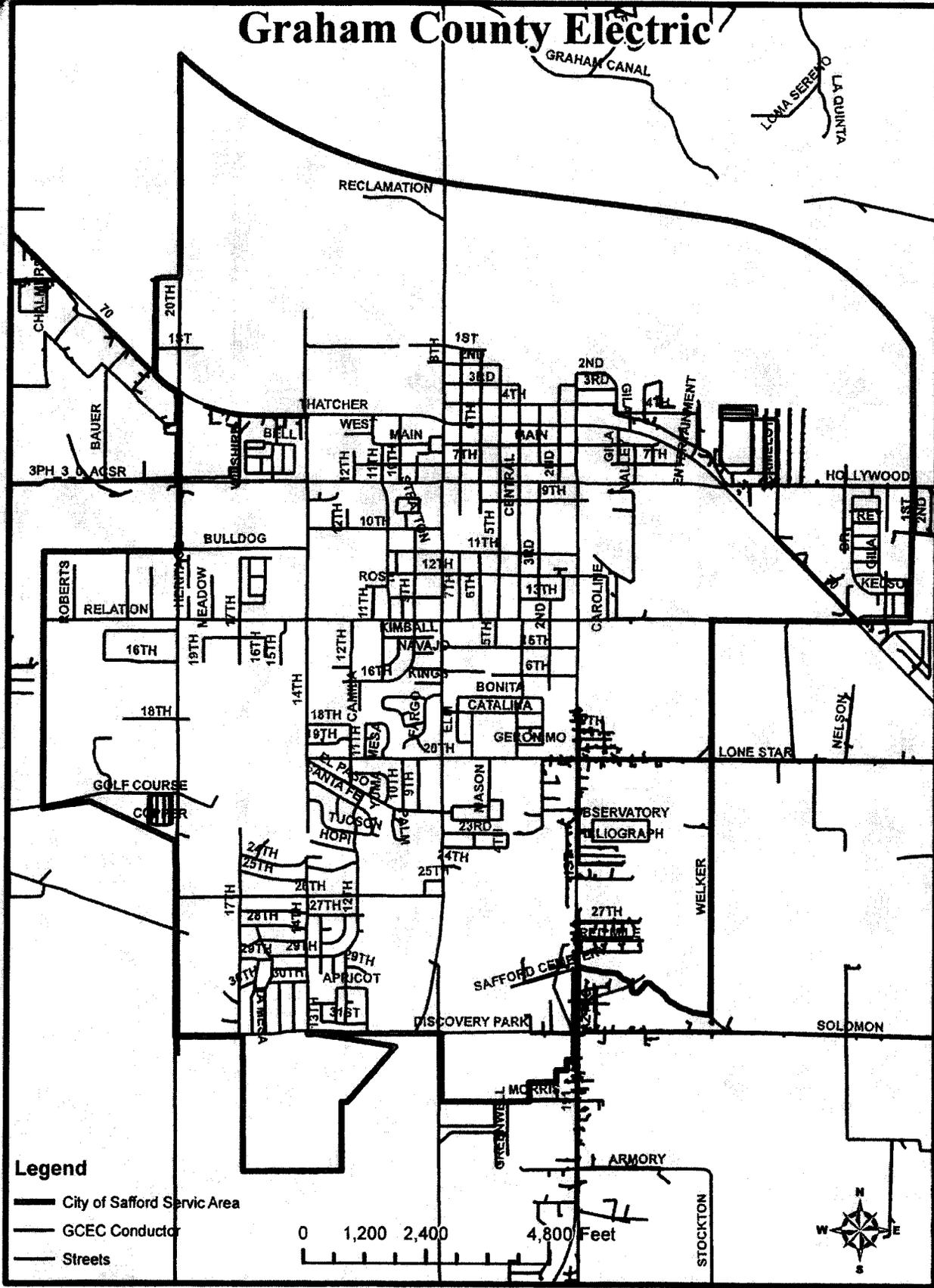
Legend

- City of Safford Service Area 081308
- GC_Streets

0 800 1,600 3,200 Feet



Graham County Electric



Legend

- City of Safford Servic Area
- GCEC Conductor
- Streets

0 1,200 2,400 4,800 Feet



Exhibit KG-4

Graham County Electric Cooperative, Inc.
ACC Docket No. E-01749A-09-0185
Comparison of Rates and Terms of Service

Pursuant to Decision No. 70289 in Docket No. E-01749A-07-0236, Graham County Electric Cooperative, Inc. ("GCEC") currently has in place the following relevant¹ tariffs:

- Rate Schedule A, Residential Service
- Rate Schedule B, General Service & Small Commercial
- Rate Schedule C, Large Commercial and Gins
- Rate Schedule I, Irrigation Service
- Rate Schedule SCL, Security Lighting
- Rate Schedule SC, Service Charges
- Schedule EM, Estimation Methodologies
- Schedule NM, Net Metering Tariff²

The City of Safford ("Safford") has in place the following relevant tariffs:

- Rate Schedule ER, Residential Service
- Rate Schedule EC, General Commercial Service
- Rate Schedule ECLD, Large Commercial Service
- Adjustment Schedule PPA, Purchased Power Adjustment

The chart below compares GCEC's and Safford's rates and charges:

	GCEC	Safford
Residential monthly minimum charge	\$9.00	\$9.00
Residential commodity charge per kWh	\$0.11038	\$0.0935
Small Commercial monthly minimum charge	\$15.00	\$12.00
Small Commercial commodity charge per kWh	\$0.10969	\$0.1000
Large Commercial monthly minimum charge	\$50.00	\$50.00
Large Commercial commodity charge per kWh	\$0.09876	\$0.0660

¹ GCEC also has certain tariffs in place that are not relevant to this proceeding because (1) they do not apply to the GCEC customers currently located in the Safford Service Area and/or (2) the City of Safford does not have a comparable schedule or program. Those GCEC tariffs include Rate Schedule OIR (Optional Interruptible Rate For Irrigation Pumps 50 HP or Greater), Rate Schedule SL (Street Lighting), Rate Schedule CP (Contract Power Service), Schedule QF (Co-Generation Qualifying Facilities and Small Power Production Facilities Under 100 kW), Schedule Cogen (Optional Electric Service For Qualified Cogeneration And Small Power Production Facilities Over 100 kW), Schedule A-DSM (Demand Side Management Adjustment), Renewable Energy Standard Tariff and Experimental Schedule A-TOU (Residential Time of Use Service).

² GCEC's current net metering tariff was approved in Decision No. 74874 in Docket No. E-01749A-14-0257.

Irrigation Service monthly minimum charge	\$23.00	\$12.00
Irrigation Service commodity charge per kWh	\$0.11554	\$0.1000
Security Lighting monthly minimum charge (small)	\$5.77	\$8.00 (residential) \$12.00 (commercial) \$8.00 (government)
Security Lighting monthly minimum charge (large)	\$7.06	N/A
Security Lighting commodity charge per kWh	\$0.07651	\$0.1000 (commercial)
New or Additional Service Connection charge	\$10.00	\$25.00
Service Connection Callbacks	\$10.00	N/A
Service Calls after Regular Business hours	\$50.00	\$35.00
Disconnects	\$10.00	N/A
Reconnects during Regular Business hours	\$10.00	N/A
Reconnects after Regular Business hours	\$30.00	\$35.00
Returned Check Fee	\$25.00	\$27.50 (check) \$35.00 (electronic payment)
Late Payment Charge	1.5%	5% (after first warning) Greater of \$10.00 or 5% (for repeat occurrences)
Meter Test	\$10.00	N/A
Meter Rereads (if original not in error)	\$10.00	N/A
Purchased Power Adjustment	(\$0.005) ³	\$0.024

In addition to the above-referenced rates and charges, GCEC and Safford have in place the following relevant terms of service policies:

Meter Readings:

- GCEC's meter readings and billings are based on actual meter readings, which readings are made as close as practical on the same day of each month on a cycle basis. However, in the event that a valid meter reading cannot be acquired, GCEC applies the estimation procedures set forth in its Schedule EM.
- Safford's meter reading and billing practices are set forth in Municipal Code § 13.04.150. Bills are based on actual meter readings except when specified otherwise in the city code. Meter readings are made as closely as practical on the same day of each month. Meters shall be readily accessible to the meter reader. The customer shall maintain said access in such manner that will not be hazardous or difficult to the meter reader. If access does not

³ Per GCEC's PPA filing in Docket No. E-01749A-07-0236 on September 10, 2014.

comply with the above, billing may be averaged until such time as satisfactory access is restored. Also, pursuant to § 13.04.080, if a meter is found to be not registering or registering incorrectly, the charge for that utility service, for the period then ending, shall equal the charge for the same service for a like period.

Terms of Payment:

- GCEC's bills for electric service are due and payable no later than fifteen (15) days from the billing date. Bills become delinquent (and subject to a late payment charge) twenty-five (25) days from the billing date and are subject to disconnect upon five (5) days written notice.
- Pursuant to Safford's Municipal Code § 13.04.160, all charges for utility service shall be due and payable on the first day of the month and shall be deemed delinquent after the twentieth day of the calendar month. Section 13.04.200 provides that, if the charges for utility service for any month, or partial month, be not fully paid before the close of the business day of the twenty-fifth day of the month following the period for which such charges are incurred, the utility service shall be discontinued.

Line Extensions:

- Pursuant to GCEC's line extension tariff, upon request, GCEC shall prepare, without charge, a preliminary sketch and rough estimate of cost of installation to be paid by the applicant. If the applicant requests detailed plans, specifications or costs estimates, a deposit may be required. The details of a line extension agreement shall be set forth in a written agreement, which shall include payment terms and refunding provisions, if applicable. No footage or equipment allowance are provided by GCEC at no charge.
- Safford requires the applicant to provide engineered electrical plans to the Planning and Community Services department. After approval, Safford provides to the applicant an estimate for material and labor without charge. A line extension is typically approved through a plan review process, and any refund arrangements are memorialized in a development agreement.

Net Metering:

- Under GCEC's net metering tariff, if the electricity generated by the customer's net metering facilities and delivered back to GCEC exceeds the electric kWh energy supplied in the billing period, the excess kWh is credited to reduce the kWh supplied and billed during subsequent billing periods. Once each calendar year, GCEC issues a check or billing credit for the balance of any credit due.
- Safford adopted a net metering policy in 2010 pursuant to which a customer's net excess generation is carried over to the customer's next bill as a kWh credit. Any credit balance remaining at the end of the calendar year is not carried forward or otherwise credited to the customer's account.