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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

8 IN THE MATTER OF THE APPLICATION OF
 9 GARKANE ENERGY COOPERATIVE, INC. FOR
 10 A DETERMINATION OF THE FAIR VALUE OF
 11 ITS PROPERTY FOR RATEMAKING PURPOSES,
 12 TO FIX A JUST AND REASONABLE RETURN
 13 THEREON, AND TO APPROVE RATES
 14 DESIGNED TO DEVELOP SUCH RETURN AND
 15 REQUEST FOR WAIVER.

DOCKET NO. E-01891A-15-0176

**STAFF'S NOTICE OF FILING
LATE-FILED EXHIBIT**

16 The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
 17 hereby files the Staff Report on Evaluation and Cost of Service Study in the above-captioned matter.

18 RESPECTFULLY SUBMITTED this 30th day of March, 2016.

19 Robin R. Mitchell
 20 Matthew Laudone
 21 Attorneys, Legal Division
 22 Arizona Corporation Commission
 23 1200 West Washington Street
 24 Phoenix, Arizona 85007
 25 (602) 542-3402

26 Original and thirteen (13) copies
 27 of the foregoing filed this 30th
 28 day of March, 2016, with:

29 Docket Control
 30 Arizona Corporation Commission
 31 1200 West Washington Street
 32 Phoenix, Arizona 85007

33 Copy of the foregoing mailed this
 34 30th day of March, 2016, to:

35 William P. Sullivan
 36 LAW OFFICES OF WILLIAM P. SULLIVAN, PLLC
 37 501 East Thomas Road
 38 Phoenix, AZ 85012-3205
 39 Attorneys for Garkane Energy Cooperative, Inc.

Arizona Corporation Commission

DOCKETED

MAR 30 2016

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3 Attorney for the Alliance for Solar Choice

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Kayla Christine

MEMORANDUM

TO: Eric Hill
Executive Consultant
Utilities Division

FROM: Margaret (Toby) Little
Electric Utilities Engineer
Utilities Division

THRU: Del Smith
Engineering Supervisor
Utilities Division

DATE: January 20, 2016

RE: STAFF REPORT ON EVALUATION OF COST OF SERVICE STUDY FOR APPLICATION OF GARKANE ENERGY COOPERATIVE, INC., AN ELECTRIC COOPERATIVE NONPROFIT MEMBERSHIP CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON, AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN AND REQUEST FOR WAIVER. (DOCKET NO. E-09891A-15-0176)

GENERAL

Garkane Energy Cooperative, Inc. ("Garkane" or "Cooperative" or "GEC") submitted an application on June 1, 2015 to the Arizona Corporation Commission ("Commission") for determination of the fair value of its property for ratemaking purposes, to fix a just and reasonable return thereon, to approve rates, charges, and tariffs designed to develop such return, and for approval of a Prepaid Service Tariff, a Net Metering Service Tariff, and a Line Extension Policy that are consistent with terms and conditions applicable to GEC's member/customers located in Utah. The Cooperative also submitted for re-filing its Electric Service Regulations that have been on file with the Commission since 1998 (corrected for typographical errors and factual updates as to GEC's name and primary business location). In addition, to allow for more uniform rates and terms of service system-wide, the Cooperative seeks in the Application a waiver of any and all Commission rules inconsistent with the rates, tariffs, and regulations approved in the Application docket.

Garkane's service area is located primarily in Central and Southern Utah and includes a portion of northeastern Arizona. GEC is a member owned non-profit electric cooperative. It is governed by an 11 member Board of Directors elected by its member-customers. Its 16,000 square miles of service territory encompass parts of six counties in South-Central Utah, as well as part of Mohave and Coconino Counties in Arizona. Ninety percent of its service territory consists of federal and state lands, including four National Parks, two National Monuments and a National Recreational Area. Despite its extensive service territory, GEC serves only 11,405 members in Utah

and 1,439 members in Arizona. Approximately 18 percent of its total revenue is generated from Arizona members. The division between Arizona and Utah is driven solely by the happenstance of jurisdictional boundaries of two adjoining States, not by operational realities.

COST OF SERVICE EVALUATION

General

Performing a Cost of Service Study (“COSS”) involves three steps: 1) Functionalization of costs, 2) Classification of costs, and 3) Allocation of costs. The first step in performing a COSS is to classify the utility’s test year revenue requirements (investments and expenses) by function, such as generation, transmission, distribution, or customer service. Second, the costs are classified as customer-related, demand-related, or energy-related. Finally, the study breaks down costs by customer rate class to reflect, as closely as possible, the cost causation by respective customer rate class. The result of the COSS provides a benchmark for the revenues needed from each customer rate class.

There is no standard methodology for designing a COSS, but most models follow a range of alternatives to identify which allocations are most reasonable. For that reason, the COSS should be used as a general guide only and is one of many considerations in designing rates.

Garkane COSS Review

Staff did not conduct an independent COSS but rather reviewed and analyzed the COSS performed by Guernsey, Engineers, Architects and Consultants (“Guernsey”) on behalf of Garkane. Garkane’s COSS was developed both for the entire system and also for the Arizona portion of the system. Staff first reviewed results of the model used by Guernsey in developing various allocation factors for the entire Garkane system and for the Arizona portion of the system. Second, the rate base, revenues and expenses for the Test Year ended December 31, 2013, as adjusted by Pro Forma adjustments, were reviewed and matched with the appropriate schedules contained in the application. Third, the changes in revenue requirements made by Staff Witness Phan Tsan were sent to Guernsey. The COSS model was re-run with the changes in revenue requirements; Staff then reviewed the results and compared them to the original schedules.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on its evaluation and analysis of Garkane’s Cost of Service study results, Staff concludes that:

- 1) Garkane has performed the COSS consistent with a methodology generally accepted in the industry, and developed the allocation factors appropriately.
- 2) Based on an evaluation of the COSS model utilized by Garkane, the results of the COSS are satisfactory.

Recommendations

Staff therefore recommends that:

- 1) The Commission accept Garkane's Cost of Service Study for use in this case.
- 2) Garkane continue to use the same COSS model in future rate cases.