

ORIGINAL

OPEN MEETING ITEM



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MEMORANDUM

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AZ CORP COMMISSION
DOCKET CONTROL

2016 MAR 29 AM 9 55

TO: Docket Control Center

FROM: Thomas M. Broderick
Director
Utilities Division

W. M. Broderick

DATE: March 29, 2016

RE: IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION FOR A DETERMINATION OF THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN, AND FOR RELATED APPROVALS (DOCKET NO. G-02527A-15-0319)

Attached is the Staff Report for Graham County Utilities, Inc. – Gas Division’s application for a rate increase for a cooperative pursuant to Arizona Administrative Code (“A.A.C.”) R14-2-107. A.A.C. R14-2-107 is the streamlined processing of cooperative rate applications. Staff believes the increase proposed by Graham County Utilities, Inc. – Gas Division in its rate application is reasonable and recommends an increase in base revenue equal to 6.0 percent over actual test year base revenue resulting in a rate increase of \$114,237 (this is representative of an increase in test year base revenue from \$1,904,156 to \$2,018,393). Staff is not requesting that a hearing be held in this matter.

TMB:PJG:red\RWG

Originator: Pamela J. Genung

Attachment: Original and Thirteen copies

Arizona Corporation Commission

DOCKETED

MAR 29 2016

DOCKETED BY
RM *KE*

Service List for: GRAHAM COUNTY UTILITIES, INC.
Docket No. G-02527A-15-0319

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

GRAHAM COUNTY UTILITIES, INC.

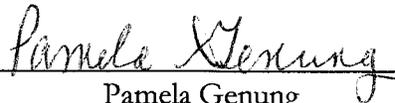
DOCKET NO. G-02527A-15-0319

**IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC.
- GAS DIVISION FOR A DETERMINATION OF THE FAIR VALUE OF ITS
PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE
RATE OF RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP
SUCH RETURN, AND FOR RELATED APPROVALS**

MARCH 29, 2016

STAFF ACKNOWLEDGMENT

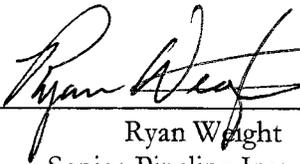
The Staff Report for Graham County Utilities, Inc. – Gas Division (“GCU”, “Cooperative”, or “Company”), Docket No. G-02527A-15-0319, was the responsibility of the Staff members listed below. Pamela Genung was responsible for the review and analyses of the Cooperative’s application and rate design. Brendan Aladi was responsible for the recommended revenue requirement and rate base. Ryan Weight was responsible for the pipeline safety audit/inspection analysis. Richard Martinez was responsible for reviewing the Commission’s records on the Cooperative, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



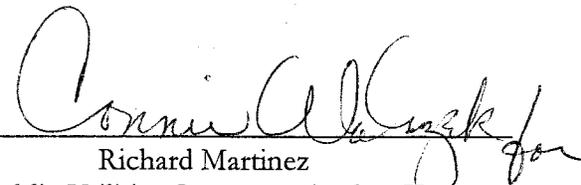
Pamela Genung
Executive Consultant III



Brendan Aladi
Public Utilities Analyst



Ryan Weight
Senior Pipeline Inspector



Richard Martinez
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
GRAHAM COUNTY UTILITIES, INC.
DOCKET NO. G-02527A-15-0319

Graham County Utilities, Inc. – Gas Division (“GCU”, “Cooperative”, or “Company”) is an Arizona member-owned non-profit natural gas distribution cooperative. GCU is a public service corporation providing natural gas distribution service to approximately 4,745 members/customers located in Graham County, Arizona. GCU is a Class B Utility under Arizona Administrative Code (“A.A.C.”) R14-2-103(A)(3)(q).

GCU proposed a \$114,237 revenue increase from \$3,033,696 to \$3,147,933 (this increase represents a 6.0 percent increase in test year base revenue from \$1,904,156 to \$2,018,393). The proposed revenue would produce an operating margin of \$150,202 resulting in a 5.65 percent rate of return.

The Cooperative’s requested rates, as modified by Staff, would increase a residential customer’s bill, with monthly natural gas consumption of 59 therms (average usage) in the winter, by \$1.35 (from \$37.30 to \$38.65), or 3.62 percent. A residential customer with monthly natural gas consumption of 46 therms (median usage) in the winter would see an increase in his/her bill of \$1.35 (from \$32.39 to \$33.74), or 4.16 percent.

Staff and GCU are in agreement on all issues in this case. Staff recommends adoption of GCU’s proposed revenue requirement of \$3,147,933.

STAFF’S RECOMMENDATIONS

Staff makes the following recommendations:

1. The Commission should approve GCU’s rates as proposed by GCU in the rate application filed on September 30, 2015, and as modified by Staff in PJG-1.
2. The Cooperative should file with Docket Control, as a compliance item in this Docket, tariffs with a new schedule of rates and charges on or before May 1, 2016.
3. The Cooperative should notify its customers of the revised schedules of rates and charges in a form acceptable to Staff included in its next regularly scheduled billing and by posting on its website.
4. The Cooperative’s base cost of gas and Purchased Gas Adjustor (“PGA”) should remain unchanged with the entire cost of gas contained in GCU’s PGA.
5. The Cooperative should file with Docket Control, as a compliance item in this Docket, beginning on or before December 31, 2016, and until filing of its next rate case, an annual status update detailing any gas throughput variance and any discussions GCU may have had with the interstate pipeline company regarding those variances.

6. Staff further recommends that a compliance item implemented by Decision No. 68298, in an ordering paragraph on page 6, lines 1-4 of the Decision, that directs GCU to provide Docket Control, a plan by June 30, 2006, and by June 30th each year thereafter, indicating any fixed price supplies the Company has acquired for the following winter heating season and how the Company plans to hedge its natural gas supplies prior to the following winter heating season, is no longer necessary and that the last report filed by GCU on November 6, 2015, fulfills the requirement of this compliance item.

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INTRODUCTION

On February 6, 2013, the Arizona Corporation Commission (“Commission”) adopted a new section in the Arizona Administrative Code (“A.A.C.”) R14-2-107, entitled “Electric or Natural Gas Cooperative Alternative Rate Application Filing Requirements and Process” (“Rule 107”), and amended A.A.C. R14-2-103, the existing rule establishing the filing and processing requirements for a public service corporation rate application (“Rule 103”).

Rule 107 established definitions, eligibility requirements, pre-filing requirements, notice requirements, filing requirements, and deadlines for objections and intervention requests; established the process and timeline for Staff analysis and processing of a cooperative’s rate application filed under Rule 107; and allows a cooperative to request processing of its application under Rule 103 if it is determined to be ineligible for processing under Rule 107.

Rule 107 also allows for Staff, a cooperative, or an intervenor to request an evidentiary hearing. A cooperative is allowed to request withdrawal of its rate application, and the Hearing Division is required to rule on a request for hearing or request for withdrawal and to preside over all further proceedings if an evidentiary hearing is granted. In addition, Rule 107 caps a revenue increase in a rate case at six percent of a cooperative’s actual test year total base revenue; permits a cooperative to have a maximum of five Rule 107 rate cases within a 15-year period between Rule 103 rate cases; permits a cooperative to file only one Rule 107 rate application in any 12-month period; and allows the Commission at any stage of a Rule 107 rate case to determine that a cooperative’s rate application must instead proceed under Rule 103.

On August 4, 2015, Graham County Utilities, Inc. – Gas Division (“GCU”, “Cooperative”, or “Company”) began the process of a rate application under Rule 107. On that day, GCU submitted a Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C). The pre-filing eligibility review included a draft application, a proposed form of customer notice, and a proposed form of recommended order.

Over the next 30 days, Staff reviewed the draft application assessing Rule 107 compliance and also worked with GCU to revise the customer notice so it correctly highlighted the implications of a filing under Rule 107 and the possible bill impacts of the rate increase.

On September 3, 2015, GCU met with Staff in accordance with A.A.C. R14-2-107(C)(3) to review eligibility under A.A.C. R14-2-107(B), finalize the proposed form of customer notice, and discuss the proposed form of recommended order. After that meeting, GCU filed a Request for Docket Number and Notice of Filing Proposed Form of Customer Notice.

On September 21, 2015, GCU filed a certification of mailing for the Customer Notice. The Customer Notice was mailed via first class mail to all GCU customers on September 9, 2015. The Customer Notice stated that objections needed to be filed with the Commission by October 13, 2015. The Customer Notice also indicated that GCU anticipated filing its rate application on or around September 30, 2015. On September 30, 2015, GCU docketed its application for a rate increase (“the Application”) under Rule 107 in Docket No. G-02527A-15-0319.

By the close of business on October 13, 2015, the Commission had received two objections to the rate increase. There was no intervention requests filed. As defined in A.A.C. R14-2-107(B)(14), to proceed with processing a cooperative rate case under Rule 107 the number of objections submitted by the indicated deadline must represent no more than 5 percent of all customer accounts or no more than 1,000 customer accounts, whichever is fewer.

On October 27, 2015, Staff filed a notice of eligibility in the docket indicating that GCU had met all of the requirements outlined in Rule 107 to be eligible to file under the streamlined rules. At the same time, Staff filed a notice of sufficiency indicating the data provided by GCU in its rate application were sufficient in meeting the requirements of a cooperative rate application.

BACKGROUND

GCU is an Arizona member-owned non-profit natural gas distribution cooperative with its principal business office in Pima, Arizona. GCU is a public service corporation providing natural gas distribution service to approximately 4,745 members/customers located in Graham County, Arizona. Based on the Cooperative's 2014 Annual Report filed April 13, 2015, approximately 94 percent of GCU's total customers are Residential customers. The remainder are Commercial and Irrigation customers. GCU's Board of Directors oversees all aspects of GCU's operations. On June 2, 2015, GCU's Board of Directors approved the filing of this application. GCU is a Class B Utility under A.A.C. R14-2-103(A)(3)(q).

GCU's last rate case was filed on July 13, 2012. In Decision No. 74002 dated July 30, 2013, the Commission determined a revenue increase of 6.91 percent was justified and reasonable. This rate increase went into effect August 1, 2013.

THE APPLICATION

GCU is requesting a rate increase of 6.0 percent in test year base revenue. GCU's test year is the 12 months ending December 31, 2014. Actual test year base revenue was \$1,904,156. GCU's proposed rate increase of 6.0 percent is equal to \$114,237. The annual gross revenue for GCU inclusive of the increase will be \$3,147,933.

For a residential customer in the GCU service area with monthly natural gas consumption of 59 therms (average usage) in the winter, this rate change represents an increase to the customer monthly bill of \$1.30. For a residential customer with monthly natural gas consumption of 46 therms (median usage) in the winter, this rate change represents an increase to the customer monthly bill of \$1.30.

GCU indicated that the rate increase is necessary to recover operating costs and to maintain the financial integrity of the Cooperative.

ELIGIBILITY

For a cooperative to utilize the streamlined rate case process referred to as Rule 107, several eligibility requirements must be met prior to beginning the process. As documented in the notice of eligibility, Staff agrees that GCU has taken the necessary steps to comply with the eligibility requirements of Rule 107.

STAFF ANALYSIS

To complete analysis of the Application, Staff reviewed the purchased gas costs; the fuel bank balance; the base revenue increase and test year data; the level of increase requested for each rate schedule/class; the capital expenditures for the test year (including monies for infrastructure development consisting of new distribution mains and services, upgrades to existing systems, and installation of new equipment); proposed capital expenditure levels to ensure future system safety and reliability; the proposed rate base, revenue, and expenses; and the proposed revenue requirement. Staff also completed a compliance review.

GCU reported purchased gas costs for the test year equal to \$1,223,721. Staff was able to track and verify the purchased gas costs through a sampling of invoices provided by GCU to support the reported costs.

In addition, Staff was able to track monthly fuel adjustor filings for the test year with those costs and volumes reported in the Application, except for a variance between therms purchased from the supplier and therms billed to GCU's retail customers. Staff noted the therms purchased in the test year were 2,498,150. The therm sales during the test year were 2,547,838. Staff discussed the difference in therms with GCU. GCU indicated that the difference was due to a metering issue. During low flow months GCU regularly sells more therms than it purchases because the points on approximately 50 service taps do not register correctly with the interstate pipeline company. GCU also indicated it has had multiple discussions with the interstate pipeline company concerning the variance in throughput. GCU noted that the interstate pipeline company acknowledges the issue and has indicated that it is not cost effective to install small volume metering points to correct the problem. Duncan Valley Electric Cooperative, Inc. – Gas Division has a similar issue as noted in Decision No. 74996 dated March 16, 2015.

GCU did not calculate a new base cost of gas in the Application and held the bank balance constant between the test year and proposed rates with test year data. Rule 107 specifies that the increase request of a maximum of 6 percent is in base revenue, not attributed to revenue from an adjustor mechanism. As established in Decision No. 71690, the base cost of gas was set to zero moving the entire cost of gas to GCU's Purchased Gas Adjustor ("PGA"). Moving the entire cost of gas to the PGA was believed to be a simpler method for tracking the cost of gas and to help facilitate consumer understanding of bills. This Application does not propose a change to the existing PGA, adopt a new adjustor or surcharge mechanism, nor does it adopt a new hook-up fee.

As shown in Schedule PJG-1, GCU provided proof of revenue broken down by rate schedule. The residential monthly system charge increase is less than 25 percent, the overall base

revenue increase, excluding PGA revenue, is no more than 6 percent, and all rate class increases are within 150 percent of the base revenue increase requested. Schedule PJG-1 also contains Staff's revised proof of revenue which is slightly different from GCU's filing. Staff made an adjustment to the proposed rates for all customer classes to account for a miscalculation in the prorated partial system charge on Schedule H-2 in GCU's application. Staff's suggested rates are designed to collect the same revenue requirement as requested by GCU.

Typical bill analysis detail for each rate schedule, under GCU's proposed and Staff's proposed rates, can be seen in Schedule PJG-2. Staff's proposed rates on PJG-2 detail a 3.62 percent increase in base revenue for residential customers with average winter usage resulting in an increase in a customer's monthly bill of \$1.35; and a 4.16 percent increase in base revenue for residential customers with median winter usage resulting in an increase in a customer's monthly bill of \$1.35.

Attachment A details Staff's Pipeline Safety Audit/Inspection Report for the Application. As noted in the Pipeline Safety Report, Staff's annual audits include a procedure and records review in addition to an extensive field review of the system. Audits for years 2014 and 2015 produced minimal findings and no unresolved compliance issues. Staff concluded that GCU's capital expenditures for the test year were reasonable and appropriate to meet the needs of GCU's current customers and ensure public safety and service reliability. Staff further concluded that the proposed capital expenditure levels appear to be reasonable and appropriate to meet the projected needs of GCU's existing and new customers and ensure future system safety and reliability.

Attachment B details the Financial and Regulatory Analysis Review of the Application. Staff reviewed the Cooperative's proposed rate base, revenues, and expenses. No adjustments were requested by Staff.

The Financial and Regulatory Analysis Review also looked at the proposed revenue requirement which would produce an operating margin of \$150,202 for a 5.65 percent rate of return on an original cost rate base of \$2,340,224. Staff agreed with GCU's revenue requirement of \$3,147,933.

The Consumer Services Review of GCU included an examination of the complaint history, bill format compliance, and the Utilities Division and Corporations Division of the Commission status. Staff reviewed the Commission's records from January 1, 2012, through December 3, 2015, and found no complaints. Two opinions (objections) were filed during that period of time.

As noted above, Consumer Services received two customer opinions (objections) in opposition to the Application which is within the limits to proceed under Rule 107. Consumer Services also indicated the Cooperative's bill format is in compliance with A.A.C. R14-2-304(A) and the Cooperative is in "Good Standing" with the Utilities Division and the Corporations Division of the Commission.

STAFF'S RECOMMENDATIONS

As has been detailed above, Staff found that GCU is eligible to process a rate increase request under Rule 107 and found the Cooperative's supporting documentation sufficient to support its requested 6.0 percent increase in test year base revenue.

Staff recommends adoption of GCU's proposed test year adjusted rate base of \$2,340,224, adjusted test year revenues of \$3,033,696, and adjusted test year expenses of \$3,132,194.

Staff recommends an increase in total base revenue equal to 6.0 percent over actual test year total base revenue yielding a rate increase of \$114,237, similar to the requested increase filed in GCU's rate application.

Staff has reviewed the proposed rate increase for each customer class and recommends the Staff proposed increases as specified in PJG-1.

Staff recommends that GCU file with Docket Control, as a compliance item in this Docket, a tariff consistent with the rates and charges approved in this Docket on or before May 1, 2016.

Staff recommends that GCU provide notice to its customers of the rate increase approved by the Commission in the next regularly scheduled billing cycle in a form acceptable to Staff and by posting a notice on its website.

Staff concluded that GCU's capital expenditures for the test year were reasonable and appropriate to meet the needs of GCU's current customers and ensure public safety and service reliability. Staff further concluded that the proposed capital expenditure levels appear to be reasonable and appropriate to meet the projected needs of GCU's existing and new customers and ensure future system safety and reliability.

Staff recommends that GCU's base cost of gas and PGA should remain unchanged with the entire cost of gas contained in GCU's PGA.

Staff recommends that GCU file with Docket Control, as a compliance item in this Docket, beginning on or before December 31, 2016, and until filing of its next rate case, an annual status update detailing any gas throughput variance and any discussions GCU may have had with the interstate pipeline company regarding those variances.

Staff further recommends that a compliance item implemented by Decision No. 68298, in an ordering paragraph on page 6, lines 1-4 of the Decision, that directs GCU to provide Docket Control, a plan by June 30, 2006, and by June 30th each year thereafter, indicating any fixed price supplies the Company has acquired for the following winter heating season and how the Company plans to hedge its natural gas supplies prior to the following winter heating season, is no longer necessary and that the last report filed by GCU on November 6, 2015, fulfills the requirement of this compliance item.

Staff is not requesting that a hearing be held in this matter.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC. - Gas Division
 DOCKET NO. G-02527A-15-0319
 TEST YEAR ENDED DECEMBER 31, 2014
 TYPICAL BILL ANALYSIS - BASE REVENUE ONLY

Residential Customer	PRESENT			COMPANY PROPOSED			STAFF PROPOSED		
	RATES	\$ CHANGE	% CHANGE	RATES	\$ CHANGE	% CHANGE	RATES	\$ CHANGE	% CHANGE
System Charge	\$ 15.00	\$ 1.30	8.67%	\$ 16.30	\$ 1.30	8.67%	\$ 16.35	\$ 1.35	9.0%
Therm Charge	\$ 0.37800	\$ -	0.00%	\$ 0.37800	\$ -	0.00%	\$ 0.37800	\$ -	0.0%
Usage									
0	\$ 15.00	\$ 1.30	8.67%	\$ 16.30	\$ 1.30	8.67%	\$ 16.35	\$ 1.35	9.00%
25	\$ 24.45	\$ 1.30	5.32%	\$ 25.75	\$ 1.30	5.32%	\$ 25.80	\$ 1.35	5.52%
46 *	\$ 32.39	\$ 1.30	4.01%	\$ 33.69	\$ 1.30	4.01%	\$ 33.74	\$ 1.35	4.16%
50	\$ 33.90	\$ 1.30	3.83%	\$ 35.20	\$ 1.30	3.83%	\$ 35.25	\$ 1.35	3.98%
59 **	\$ 37.30	\$ 1.30	3.49%	\$ 38.60	\$ 1.30	3.49%	\$ 38.65	\$ 1.35	3.62%
60	\$ 37.68	\$ 1.30	3.45%	\$ 38.98	\$ 1.30	3.45%	\$ 39.03	\$ 1.35	3.58%
70	\$ 41.46	\$ 1.30	3.14%	\$ 42.76	\$ 1.30	3.14%	\$ 42.81	\$ 1.35	3.26%
80	\$ 45.24	\$ 1.30	2.87%	\$ 46.54	\$ 1.30	2.87%	\$ 46.59	\$ 1.35	2.98%
90	\$ 49.02	\$ 1.30	2.65%	\$ 50.32	\$ 1.30	2.65%	\$ 50.37	\$ 1.35	2.75%
100	\$ 52.80	\$ 1.30	2.46%	\$ 54.10	\$ 1.30	2.46%	\$ 54.15	\$ 1.35	2.56%
150	\$ 71.70	\$ 1.30	1.81%	\$ 73.00	\$ 1.30	1.81%	\$ 73.05	\$ 1.35	1.88%
200	\$ 90.60	\$ 1.30	1.43%	\$ 91.90	\$ 1.30	1.43%	\$ 91.95	\$ 1.35	1.49%
250	\$ 109.50	\$ 1.30	1.19%	\$ 110.80	\$ 1.30	1.19%	\$ 110.85	\$ 1.35	1.23%
300	\$ 128.40	\$ 1.30	1.01%	\$ 129.70	\$ 1.30	1.01%	\$ 129.75	\$ 1.35	1.05%
400	\$ 166.20	\$ 1.30	0.78%	\$ 167.50	\$ 1.30	0.78%	\$ 167.55	\$ 1.35	0.81%
500	\$ 204.00	\$ 1.30	0.64%	\$ 205.30	\$ 1.30	0.64%	\$ 205.35	\$ 1.35	0.66%
750	\$ 298.50	\$ 1.30	0.44%	\$ 299.80	\$ 1.30	0.44%	\$ 299.85	\$ 1.35	0.45%
1000	\$ 393.00	\$ 1.30	0.33%	\$ 394.30	\$ 1.30	0.33%	\$ 394.35	\$ 1.35	0.34%
1500	\$ 582.00	\$ 1.30	0.22%	\$ 583.30	\$ 1.30	0.22%	\$ 583.35	\$ 1.35	0.23%

* Median-Winter Usage

** Average-Winter Usage

Commercial Customer	PRESENT			COMPANY PROPOSED			STAFF PROPOSED		
	RATES	\$ CHANGE	% CHANGE	RATES	\$ CHANGE	% CHANGE	RATES	\$ CHANGE	% CHANGE
System Charge	\$ 28.00	\$ 5.60	20.00%	\$ 33.60	\$ 5.60	20.00%	\$ 33.65	\$ 5.65	20.2%
Therm Charge	\$ 0.36000	\$ 0.02000	5.56%	\$ 0.38000	\$ 0.02000	5.56%	\$ 0.37994	\$ 0.01994	5.5%
Usage									
0	\$ 28.00	\$ 5.60	20.00%	\$ 33.60	\$ 5.60	20.00%	\$ 33.65	\$ 5.65	20.18%
10	\$ 31.60	\$ 5.80	18.35%	\$ 37.40	\$ 5.80	18.35%	\$ 37.45	\$ 5.85	18.51%
20	\$ 35.20	\$ 6.00	17.05%	\$ 41.20	\$ 6.00	17.05%	\$ 41.25	\$ 6.05	17.18%
30	\$ 38.80	\$ 6.20	15.98%	\$ 45.00	\$ 6.20	15.98%	\$ 45.05	\$ 6.25	16.10%
40	\$ 42.40	\$ 6.40	15.09%	\$ 48.80	\$ 6.40	15.09%	\$ 48.85	\$ 6.45	15.21%
50	\$ 46.00	\$ 6.60	14.35%	\$ 52.60	\$ 6.60	14.35%	\$ 52.65	\$ 6.65	14.45%
75	\$ 55.00	\$ 7.10	12.91%	\$ 62.10	\$ 7.10	12.91%	\$ 62.15	\$ 7.15	12.99%
100	\$ 64.00	\$ 7.60	11.88%	\$ 71.60	\$ 7.60	11.88%	\$ 71.64	\$ 7.64	11.94%
105 *	\$ 65.80	\$ 7.70	11.70%	\$ 73.50	\$ 7.70	11.70%	\$ 73.54	\$ 7.74	11.77%
125	\$ 73.00	\$ 8.10	11.10%	\$ 81.10	\$ 8.10	11.10%	\$ 81.14	\$ 8.14	11.15%
150	\$ 82.00	\$ 8.60	10.49%	\$ 90.60	\$ 8.60	10.49%	\$ 90.64	\$ 8.64	10.54%
175	\$ 91.00	\$ 9.10	10.00%	\$ 100.10	\$ 9.10	10.00%	\$ 100.14	\$ 9.14	10.04%
200	\$ 100.00	\$ 9.60	9.60%	\$ 109.60	\$ 9.60	9.60%	\$ 109.64	\$ 9.64	9.64%
300	\$ 136.00	\$ 11.60	8.53%	\$ 147.60	\$ 11.60	8.53%	\$ 147.63	\$ 11.63	8.55%
400	\$ 172.00	\$ 13.60	7.91%	\$ 185.60	\$ 13.60	7.91%	\$ 185.63	\$ 13.63	7.92%
469 **	\$ 196.84	\$ 14.98	7.61%	\$ 211.82	\$ 14.98	7.61%	\$ 211.84	\$ 15.00	7.62%
500	\$ 208.00	\$ 15.60	7.50%	\$ 223.60	\$ 15.60	7.50%	\$ 223.62	\$ 15.62	7.51%
600	\$ 244.00	\$ 17.60	7.21%	\$ 261.60	\$ 17.60	7.21%	\$ 261.61	\$ 17.61	7.22%
700	\$ 280.00	\$ 19.60	7.00%	\$ 299.60	\$ 19.60	7.00%	\$ 299.61	\$ 19.61	7.00%
800	\$ 316.00	\$ 21.60	6.84%	\$ 337.60	\$ 21.60	6.84%	\$ 337.60	\$ 21.60	6.84%
900	\$ 352.00	\$ 23.60	6.70%	\$ 375.60	\$ 23.60	6.70%	\$ 375.60	\$ 23.60	6.70%
1000	\$ 388.00	\$ 25.60	6.60%	\$ 413.60	\$ 25.60	6.60%	\$ 413.59	\$ 25.59	6.60%
2000	\$ 748.00	\$ 45.60	6.10%	\$ 793.60	\$ 45.60	6.10%	\$ 793.53	\$ 45.53	6.09%
3000	\$ 1,108.00	\$ 65.60	5.92%	\$ 1,173.60	\$ 65.60	5.92%	\$ 1,173.47	\$ 65.47	5.91%
4000	\$ 1,468.00	\$ 85.60	5.83%	\$ 1,553.60	\$ 85.60	5.83%	\$ 1,553.41	\$ 85.41	5.82%
5000	\$ 1,828.00	\$ 105.60	5.78%	\$ 1,933.60	\$ 105.60	5.78%	\$ 1,933.35	\$ 105.35	5.76%
10000	\$ 3,628.00	\$ 205.60	5.67%	\$ 3,833.60	\$ 205.60	5.67%	\$ 3,833.05	\$ 205.05	5.65%
15000	\$ 5,428.00	\$ 305.60	5.63%	\$ 5,733.60	\$ 305.60	5.63%	\$ 5,732.75	\$ 304.75	5.61%
20000	\$ 7,228.00	\$ 405.60	5.61%	\$ 7,633.60	\$ 405.60	5.61%	\$ 7,632.45	\$ 404.45	5.60%
25000	\$ 9,028.00	\$ 505.60	5.60%	\$ 9,533.60	\$ 505.60	5.60%	\$ 9,532.15	\$ 504.15	5.58%
26000	\$ 9,388.00	\$ 525.60	5.60%	\$ 9,913.60	\$ 525.60	5.60%	\$ 9,912.09	\$ 524.09	5.58%

* Median-Winter Usage

** Average-Winter Usage

Irrigation Customer	PRESENT RATES		COMPANY PROPOSED		STAFF PROPOSED	
	RATES	% CHANGE	RATES	% CHANGE	RATES	% CHANGE
System Charge	\$ 24.00		\$ 27.55	14.79%	\$ 27.60	15.00%
Therm Charge	\$ 0.18000		\$ 0.19000	5.56%	\$ 0.19050	5.8%
Usage						
0	\$ 24.00		\$ 27.55	14.79%	\$ 27.60	15.00%
50	\$ 33.00		\$ 37.05	12.27%	\$ 37.13	12.50%
100	\$ 42.00		\$ 46.55	10.83%	\$ 46.65	11.07%
150	\$ 51.00		\$ 56.05	9.90%	\$ 56.18	10.15%
200	\$ 60.00		\$ 65.55	9.25%	\$ 65.70	9.50%
250	\$ 69.00		\$ 75.05	8.77%	\$ 75.23	9.02%
300	\$ 78.00		\$ 84.55	8.40%	\$ 84.75	8.65%
332 *	\$ 83.76		\$ 90.63	8.20%	\$ 90.85	8.46%
400	\$ 96.00		\$ 103.55	7.86%	\$ 103.80	8.13%
500	\$ 114.00		\$ 122.55	7.50%	\$ 122.85	7.76%
503 **	\$ 114.54		\$ 123.12	7.49%	\$ 123.42	7.75%
750	\$ 159.00		\$ 170.05	6.95%	\$ 170.48	7.22%
1000	\$ 204.00		\$ 217.55	6.64%	\$ 218.10	6.91%
1250	\$ 249.00		\$ 265.05	6.45%	\$ 265.73	6.72%
1500	\$ 294.00		\$ 312.55	6.31%	\$ 313.35	6.58%
2000	\$ 384.00		\$ 407.55	6.13%	\$ 408.60	6.41%
2500	\$ 474.00		\$ 502.55	6.02%	\$ 503.85	6.30%
3000	\$ 564.00		\$ 597.55	5.95%	\$ 599.10	6.22%

* Median-Summer Usage
** Average-Summer Usage

MEMORANDUM

TO: Pamela Genung, Ranelle Paladino
T&E Consultants
Utilities Division

FROM: Ryan Weight *RW*
Senior Pipeline Inspector
Pipeline Safety Section

DATE: December 9, 2015

SUBJECT: **PIPELINE SAFETY AUDIT/INSPECTION REPORT – GRAHAM COUNTY UTILITIES COOPERATIVE’S RATE CASE APPLICATION DATED SEPTEMBER 30, 2015 – DOCKET NO. G-02527A-15-0319.**

Graham County Utilities (“GCU” or “Cooperative” or “Company”) submitted an application on September 30, 2015 to the Arizona Corporation Commission (“Commission” or “ACC”) for authorization to increase rates in accordance with Arizona Administrative Code (“A.A.C.”) R14-2-107, which provides for a shortened timeframe for processing a cooperative’s rate application if the cooperative meets certain requirements.

BACKGROUND

GCU operates approximately 241 miles of natural gas main line and 134 miles of service lines providing natural gas to approximately 5,150 customers. This information is based on the 2014 annual report that was filed with the ACC Office of Pipeline Safety on March 11, 2015. According to the report filed by GCU personnel, there are 4,861 active residential accounts, 276 active commercial accounts and 10 active irrigation customer accounts. The natural gas pipeline materials that make up the pipeline system are both steel and polyethylene (“PE”) plastic. The natural gas system consists of approximately 56 service taps that are supplied by Kinder Morgan / El Paso Natural Gas, and are located throughout all areas of GCU service area with the primary areas being the towns of Thatcher, Pima, and Bylas. The outlet pressures for the city gate stations for the towns of Thatcher and Pima are 60 psig. The remaining taps operate at various pressures, depending on the tap location and number of customers that are supplied by each tap.

STAFF’S ANALYSIS

Staff has reviewed the GCU Application and reviewed the capital expenditures for the “Test Year”, which included monies for infrastructure development, including new distribution mains and services, upgrades to the existing systems and installation of new equipment such as measurement and pressure regulating stations.

Staff has also conducted annual compliance Audits on the GCU facilities during the 2014 and 2015 calendar years. These Audits include a review of GCU’s operations and maintenance procedures and CGU’s emergency response plan, a review of operations, maintenance, construction, and repair records, and a field inspection of pipeline facilities at various locations. These Audits are

conducted to verify GCU's compliance with Title 49, Code of Federal Regulations, Parts 191, 192, 199, and the Arizona Administrative Code R14-5-202 and R14-5-203 as the minimum standards for the transportation of natural gas by pipeline. The Audits for the 2014 and 2015 calendar years resulted in minimal findings, and Staff has determined that there are no unresolved compliance issues. Staff has determined that the responses by GCU to the items identified on the 2014 and 2015 Audits are acceptable.

GCU has had only one substantial capital build-out project since January 1, 2014, where approximately 18,000 feet of new mains and services were installed to supply natural gas to a new Bureau of Indian Affairs ("BIA") school and residential housing south of the town of Bylas. This work was completed between May and September of 2014. This project reflected in the increase of the miles of mains from 239 miles to 241 miles, according to the 2013 and 2014 annual reports.

In June 2015, GCU conducted a project to replace approximately 800 feet of existing steel mains and services in the San Jose area (located approximately 15 miles east of Safford) with new PE mains and services.

CONCLUSIONS

Based on its review, Staff believes that GCU's capital expenditures for the 2014 test year were reasonable and appropriate to meet the needs of GCU's existing customers and to ensure that the GCU system is maintained in a safe operating condition to ensure public safety and service reliability.

Staff further concludes that the capital expenditure levels proposed by the Company appear to be reasonable and appropriate to meet the projected needs of GCU's existing and new customers and ensure future system safety and reliability. However this does not imply a specific treatment of rate base for rate making purposes in the Company's future rate filings.

MEMORANDUM

TO: Pamela Genung
Executive Consultant III
Utilities Division

FROM: Brendan Aladi **BA**
Public Utilities Analyst
Utilities Division

DATE: December 10, 2015

RE: IN THE MATTER OF THE APPLICATION OF GRAHAM COUNTY UTILITIES, INC., GAS DIVISION FOR A DETERMINATION OF THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN, AND FOR RELATED APPROVALS (DOCKET NO. G-02527A-15-0319)

TEST YEAR RATE BASE, REVENUES, AND EXPENSES

Graham County Utilities, Inc. ("GCU" or "Cooperative") proposed a test year adjusted rate base of \$2,340,224, adjusted test year revenues of \$3,033,696, and adjusted test year expenses of \$3,132,194. Staff reviewed the Cooperative-proposed rate base, revenues, and expenses and recommends adoption of these proposed rate base, revenues and expense levels.

PROPOSED REVENUE REQUIREMENT

Graham seeks authorization from the Commission to adjust its rates to increase its annual gross revenue requirement by \$114,237, from adjusted test year revenue of \$3,033,696 to \$3,147,933, an increase of 6.0 percent over actual test year total base revenue. The rate increase would yield an operating margin of \$150,202. Graham's request if granted, will result in a 5.65 percent rate of return on an original cost rate base ("OCRB") of \$2,340,224. The Company treats the original cost rate base OCRB the same as fair value rate base ("FVRB"). The rate increase is necessary to recover operating costs.

GCU's proposed revenue would produce a 2.07 times interest earned ratio ("TIER") and a 1.34 debt service coverage ratio ("DSC").¹ A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligation. A TIER greater than 1.0 indicates that cash flow from operations is sufficient to cover interest payment obligations.

¹ Staff's calculations show a pro forma TIER of 2.10 and a DSC of 1.36 as shown on Schedule BCA-1.

RECOMMENDATION

Staff recommends approval.

Graham County Utilities, Inc. - Gas Division
 Times Interested Earned Ratio - Debt Service Coverage
 Test Year 12-31-14 and Proposed Rates Test Year w/Rate Change
 Docket No. G-02527A-15-0319

	[A]	[B]
	<u>Company as of 12/31/2014</u>	<u>Company as of 12/31/2014</u> <u>Pro Forma</u>
Debt Service Coverage 12-31-14		Debt Service Coverage Proposed Rates 12-31-14
1 Operating Margin and Patronage Capital	\$ 40,979	\$ 155,216
2 Depreciation and Amortization	162,140	162,140
3 Interest Expense	<u>140,683</u>	<u>140,683</u>
4		
5 Interest Expense	140,683	140,683
6 Repayment and Principal	\$ 196,948	\$ 196,948
7		
8		
9 DSC	1.02	1.36
10 $[1+2+3] / [5+6]$		
11		
12		
13		
14 TIER Test Year 12-31-14		TIER Proposed Rates 12-31-14
15		
16 Interest on Long-Term Debt	140,683	140,683
17 Patronage Capital or Margins	<u>\$ 40,979</u>	<u>\$ 155,216</u>
18		
19		
20 Interest on Long-Term Debt	140,683	140,683
21		
22 TIER Test Year Ended 12-31-14	1.29	2.10
23		
24 Column [A] is based on financial information for the period ending December 31, 2014 provided in the application.		
25 Column [B] is Column [A] modified to reflect proposed rate change.		

BEFORE THE ARIZONA CORPORATION COMMISSION

1 DOUG LITTLE
2 Chairman
3 BOB STUMP
4 Commissioner
5 BOB BURNS
6 Commissioner
7 TOM FORESE
8 Commissioner
9 ANDY TOBIN
10 Commissioner
11
12
13
14

8 IN THE MATTER OF THE APPLICATION)
9 OF GRAHAM COUNTY UTILITIES, INC. -)
10 GAS DIVISION FOR A DETERMINATION)
11 OF THE FAIR VALUE OF ITS PROPERTY)
12 FOR RATEMAKING PURPOSES, TO FIX A)
13 JUST AND REASONABLE RATE OF)
14 RETURN THEREON, TO APPROVE)
15 RATES DESIGNED TO DEVELOP SUCH)
16 RETURN, AND FOR RELATED)
17 APPROVALS)

DOCKET NO. G-02527A-15-0319

DECISION NO. _____

ORDER

15 Open Meeting
16 April 12 and April 13, 2016
17 Phoenix, Arizona

18 BY THE COMMISSION:

19 * * * * *

20 Having considered the entire record herein and being fully advised in the premises, the
21 Arizona Corporation Commission ("Commission") finds, concludes and orders that:

22 **FINDINGS OF FACT**

23 1. In Decision No. 73649, dated February 6, 2013, the Commission adopted revisions to
24 Arizona Administrative Code ("A.A.C.") R14-2-103 and added a new section A.A.C. R14-2-107
25 establishing an alternative streamlined ratemaking application and process for non-profit cooperatives
26 providing electric or natural gas utility service ("Rule 107").

27 2. Graham County Utilities, Inc. - Gas Division ("GCU", "Cooperative", or
28 "Company") is a non-profit cooperative which provides natural gas service to customers in Arizona.

1 3. On August 4, 2015, GCU submitted to the Commission's Utilities Division ("Staff") a
2 Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C) which included a
3 draft application to increase rates and charges pursuant to A.A.C. R14-2-107 and Arizona Revised
4 Statutes ("A.R.S") § 40-250, a proposed form of customer notice, and a proposed form of
5 recommended order.

6 4. On September 3, 2015, GCU met with Staff as required by A.A.C. R14-2-107(C)(3) to
7 discuss the Cooperative's eligibility under A.A.C. R14-2-107(B), the proposed form of customer
8 notice, and the proposed form of recommended order. At the meeting, Staff advised GCU that
9 GCU's Pre-Filing documents met the eligibility requirements of A.A.C. R14-2-107(B) for filing a
10 streamlined rate case. At the meeting, Staff also approved the form of customer notice to be mailed
11 to customers as required by A.A.C. R14-2-107(C)(5) and A.A.C. R14-2-107(D).

12 5. On September 3, 2015, in accordance with A.A.C. R14-2-107(C)(4), GCU filed a
13 Request for Docket Number and Notice of Filing Proposed Form of Customer Notice. The docket
14 number was assigned that same day.

15 6. On September 9, 2015, GCU caused a copy of the approved customer notice to be
16 mailed via First Class Mail to all customers of record as of the date of mailing. On September 21,
17 2015, GCU docketed a Notice of Mailing Customer Notice certifying that the approved customer
18 notice was mailed via First Class Mail on September 9, 2015, to each customer of the Cooperative as
19 required by A.A.C. R14-2-107(C)(5) and A.A.C. R14-2-107(D). The customer notice set a deadline of
20 October 13, 2015, for customers of GCU to file intervention requests and/or objections to the
21 application that would be filed.

22 7. On September 30, 2015, GCU filed its application ("Application") pursuant to A.R.S. §
23 40-250 and A.A.C. R14-2-107 to increase its rates and charges using a test year ending December 31,
24 2014. GCU requested that the Application be approved without a hearing.

25 8. By the close of business on October 13, 2015, the Commission had received two
26 objections to the rate increase which is below the 5 percent of all customer accounts¹ or no more than
27

28

¹ As of September 30, 2015, the total number of Arizona GCU members/customers was 4,745. Therefore, 5% of the members/customers is 237.

1 1,000 customer accounts, whichever are fewer, required to make GCU ineligible for the Rule 107
2 process. There were also no intervention requests filed.

3 9. On October 27, 2015, Staff filed a Notice of Eligibility pursuant to A.A.C. R14-2-
4 107(H)(2) notifying GCU that it met all of the eligibility requirements set forth in A.A.C. R14-2-
5 107(B) to file a rate case under Rule 107.

6 10. On October 27, 2015, Staff filed a Notice of Sufficiency pursuant to A.A.C. R14-2-
7 107(H)(3) notifying GCU that the Application met all of the requirements of A.A.C. R14-2-107(E)
8 and classifying the Cooperative as a Class B utility.

9 **DESCRIPTION OF GCU**

10 11. GCU is an Arizona member-owned non-profit natural gas distribution cooperative
11 headquartered in Pima, Arizona. GCU provides natural gas distribution service to approximately
12 4,745 members/customers located in Graham County, Arizona.

13 12. GCU has a nine member Board of Directors ("Board") elected to oversee all aspects
14 of the Cooperative's operations. The Board approved the filing of the Application at a regular
15 meeting of the Board on June 2, 2015.

16 13. GCU's last rate case was filed on July 13, 2012 (based on a test year ending September
17 30, 2011) and approved in Decision No. 74002, dated July 30, 2013. The current rates and charges
18 went into effect August 1, 2013, for GCU's customers.

19 **GCU PROPOSALS**

20 14. In the Application, GCU utilized a test year ending December 31, 2014.

21 15. Also in the Application, GCU requested to increase its annual gross revenue
22 requirement by \$114,237, from test year revenues of \$3,033,696 to \$3,147,933. This increase
23 represents an increase of 6 percent over test year base revenue from \$1,904,156 to \$2,018,393.

24 16. In its filing, GCU stated the rate application would result in an Operating Margin of
25 \$150,202.

26 17. The Application shows that a residential customer with monthly natural gas
27 consumption of 59 therms (average usage) in the winter will see an increase in his/her bill of \$1.30 per
28 month (from \$37.30 to \$38.60), or 3.5 percent. A residential customer with monthly natural gas

1 consumption of 46 therms (median usage) in the winter will see an increase in his/her bill of \$1.30 per
2 month (from \$32.39 to \$33.69), or 4 percent.

3 18. GCU stated the rate increase is necessary to recover operating costs. The rate increase
4 would allow GCU to maintain the financial integrity of the Cooperative.

5 19. As attachments to the Application, GCU submitted audited financial statements for
6 the year ended September 30, 2014, and a copy of its certified annual financial and statistical report to
7 the National Rural Utilities Cooperative Finance Corporation ("CFC") for calendar year 2014
8 including a divisional financial report.

9 **COOPERATIVE ELIGIBILITY**

10 20. For a cooperative to utilize the streamlined rate case process referred to as Rule 107,
11 several eligibility requirements must be met prior to beginning the process. As documented in the
12 notice of eligibility, Staff agrees that GCU has taken the necessary steps to comply with the eligibility
13 requirements of Rule 107.

14 **STAFF ANALYSIS**

15 21. As part of its review of the Application, Staff reviewed the purchased gas costs; the
16 fuel bank balance; the base revenue increase and test year data; the level of increase requested for each
17 rate schedule/class; the capital expenditures for the test year (including monies for infrastructure
18 development consisting of new distribution mains and services, upgrades to existing systems, and
19 installation of new equipment); proposed capital expenditure levels to ensure future system safety and
20 reliability; the proposed rate base, revenue, and expenses; and the proposed revenue requirement.
21 Staff also completed a compliance review.

22 22. GCU and Staff, the only parties to this case, are in agreement on all issues in this case.

23 *Purchased Gas Costs*

24 23. GCU reported purchased gas costs for the test year equal to \$1,223,721. Staff was able
25 to track and verify the purchased gas costs through a sampling of invoices provided by GCU to
26 support the reported costs.

27 24. Staff was able to track monthly fuel adjustor filings for the test year with those costs
28 and volumes reported in the Application, except for a variance between therms purchased from the

1 supplier and therms billed to GCU's retail customers. Staff noted the therms purchased in the test
2 year were 2,498,150. The therm sales during the test year were 2,547,838. Staff discussed the
3 difference in therms with GCU. GCU indicated that the difference was due to a metering issue.
4 During low flow months GCU regularly sells more therms than it purchases because the points on
5 approximately 50 service taps do not register correctly with the interstate pipeline company. GCU
6 also indicated it has had multiple discussions with the interstate pipeline company concerning the
7 variance in throughput. GCU noted that the interstate pipeline company acknowledges the issue and
8 has indicated that it is not cost effective to install small volume metering points to correct the
9 problem. Duncan Valley Electric Cooperative, Inc. – Gas Division has a similar issue as noted in
10 Decision No. 74996 dated March 16, 2015.

11 25. GCU did not calculate a new base cost of gas in the Application and held the bank
12 balance constant between the test year and proposed rates with test year data. Rule 107 specifies that
13 the increase request of a maximum of 6 percent is in base revenue, not attributed to revenue from an
14 adjustor mechanism. As established in Decision No. 71690, the base cost of gas was set to zero
15 moving the entire cost of gas to GCU's Purchased Gas Adjustor ("PGA"). Moving the entire cost of
16 gas to the PGA was believed to be a simpler method for tracking the cost of gas and to help facilitate
17 consumer understanding of bills. This Application does not propose a change to the existing PGA,
18 adopt a new adjustor or surcharge mechanism, nor does it adopt a new hook-up fee.

19 *Rate Design*

20 26. GCU provided proof of revenue broken down by rate schedule. In accordance with
21 Rule 107, all residential monthly system charge increases are less than 25 percent, the overall base
22 revenue increase, excluding PGA revenue, is no more than 6 percent, and all rate class increases are
23 within 150 percent of the base revenue increase requested. GCU did not propose any rate structure
24 change or non-price tariff change. Staff made an adjustment to the proposed rates for all customer
25 classes to account for a miscalculation in the prorated partial system charge on Schedule H-2 in
26 GCU's application. Staff's suggested rates are designed to collect the same revenue requirement as
27 requested by GCU.

28 ...

1 27. Staff proposed rates detail a 3.62 percent increase in base revenue for residential
 2 customers with average winter usage resulting in an increase in a customer’s monthly bill of \$1.35, and
 3 a 4.16 percent increase in base revenue for residential customers with median winter usage resulting in
 4 an increase in a customer’s monthly bill of \$1.35.

5 28. GCU and Staff agree on the rates set forth in Exhibit A, which is attached hereto and
 6 incorporated herein.

7 *Staff Pipeline Safety Section*

8 29. Staff Senior Pipeline Inspector, Ryan Weight, analyzed the GCU application and
 9 reviewed the capital expenditures for the test year, which included monies for infrastructure
 10 development, including new distribution mains and services, upgrades to the existing systems and
 11 installation of new equipment such as measurement and pressure regulating stations. Staff also
 12 performed annual audits which include a procedure and records review in addition to an extensive
 13 field review of the system. These Audits focus on the operator’s compliance with Title 49, Code of
 14 Federal Regulations, Parts 191, 192, 199, and the A.A.C. R14-5-202 and R14-5-203, as the minimum
 15 standards for the transportation of natural gas by pipeline. Audits for years 2014 and 2015 produced
 16 minimal findings and no unresolved compliance issues.

17 30. Staff also noted that GCU had one substantial capital build-out project that was
 18 completed between May and September 2014. The project consisted of installation of approximately
 19 18,000 feet of new mains and services to supply natural gas to a new Bureau of Indian Affairs school
 20 and residential housing project near the town of Bylas.

21 31. GCU also conducted a project in June 2015 to replace approximately 800 feet of
 22 existing steel mains and services with new polyethylene (“PE”) mains and services in the San Jose area.

23 32. Based on its analysis, Staff Pipeline Safety concluded that:

- 24 1. capital expenditures for the test year were reasonable and appropriate to meet
- 25 the needs of GCU’s existing customers and ensure public safety and service
- 26 reliability;

27 ...

28 ...

- 1 2. capital expenditure levels proposed by GCU appear to be reasonable and
2 appropriate to meet the projected needs of GCU's existing and new customers
3 and ensure future system safety and reliability; however
4 3. this does not imply a specific treatment of rate base for rate making purposes
5 in GCU's future rate filings.

6 *Rate Base, Revenues, and Expenses*

7 33. In its filing, GCU treats the original cost rate base ("OCRB") the same as the fair value
8 rate base ("FVRB").

9 34. The Application requested a rate base of \$2,340,224, test year revenues of \$3,033,696
10 and expenses of \$3,132,194.

11 35. GCU and Staff are in agreement on the proposed rate base, revenues, and expenses
12 and recommends adoption.

13 *Revenue Requirement and Rate of Return*

14 36. GCU proposed a revenue requirement of \$114,237. The proposed revenue
15 requirement would produce an operating margin of \$150,202 resulting in a 5.65 percent rate of return
16 on an OCRB of \$2,340,224.

17 37. Staff has recommended adoption of GCU's proposed revenue requirement.

18 *Consumer Services*

19 38. Staff reviewed the Commission's records from January 1, 2012, through December 3,
20 2015, and found no complaints. Two opinions (objections) were filed during that period of time.

21 39. As noted above, Consumer Services received two customer opinions (objections) in
22 opposition to the Application which was within the limits to proceed under Rule 107. The
23 Corporations Division of the Commission finds the Cooperative in "Good Standing".

24 **CONCLUSIONS**

25 40. GCU's application is in compliance with Rule 107 allowing GCU's rate case to be
26 processed under the alternative streamlined process.

27 41. GCU and Staff are not requesting a hearing in this matter.

28 42. GCU's OCRB and FVRB are determined to be \$2,340,224.

1 43. GCU's proposed rate increases for each customer class are within the guidelines
2 established in Rule 107.

3 44. During the thirty (30) days customers had in which to object to the rate increase, two
4 customers filed objections, which is below the number required to cease processing under Rule 107.

5 45. Staff is in agreement with GCU's proposed rate base of \$2,340,224, test year revenues
6 of \$3,033,696, and expenses of \$3,132,194.

7 46. The rates and charges approved herein will produce an operating margin of \$150,202
8 for a 5.65 percent rate of return on an OCRB of \$2,340,224.

9 47. The rate design proposed by GCU and modified by Staff should be adopted.

10 48. The rates and charges approved herein will increase revenues by \$114,237 or a 6.0
11 percent increase in test year base revenue from \$1,904,156 to \$2,018,393.

12 49. Staff's Pipeline Safety Section's recommendations should be adopted.

13 50. The base cost of gas and PGA should remain unchanged with the entire cost of gas
14 contained in GCU's PGA.

15 51. Under the rates approved herein, a residential customer with monthly natural gas
16 consumption of 59 therms (average usage) in the winter will see an increase in his/her bill of \$1.35 per
17 month (from \$37.30 to \$38.65), or 3.62 percent. A residential customer with monthly natural gas
18 consumption of 46 therms (median usage) in the winter will see an increase in his/her bill of \$1.35 per
19 month (from \$32.39 to \$33.74), or 4.16 percent.

20 52. GCU and Staff are in agreement that a hearing is not requested in this case.

21 **CONCLUSIONS OF LAW**

22 1. Graham County Utilities, Inc. – Gas Division is a public service corporation within the
23 meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

24 2. The Commission has jurisdiction over Graham County Utilities, Inc. – Gas Division
25 and the subject matter of the application.

26 3. Notice of the application was given in accordance with law.

27 4. The rates and charges authorized herein are just and reasonable.

28 ...

1 IT IS FURTHER ORDERED that a compliance item implemented by Decision No. 68298,
 2 in an ordering paragraph on page 6, lines 1-4 of the Decision, that directs Graham County Utilities,
 3 Inc. – Gas Division to provide Docket Control, a plan by June 30, 2006, and by June 30th each year
 4 thereafter, indicating any fixed price supplies the Company has acquired for the following winter
 5 heating season and how the Company plans to hedge its natural gas supplies prior to the following
 6 winter heating season, is no longer necessary and that the last report filed by Graham County Utilities,
 7 Inc. – Gas Division on November 6, 2015, fulfills the requirement of this compliance item.

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

9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

12	CHAIRMAN	COMMISSIONER
13		
14		
15	COMMISSIONER	COMMISSIONER
		COMMISSIONER

16 IN WITNESS WHEREOF, I, JODI JERICH, Executive
 17 Director of the Arizona Corporation Commission, have
 18 hereunto, set my hand and caused the official seal of this
 19 Commission to be affixed at the Capitol, in the City of
 20 Phoenix, this _____ day of _____, 2016.

21 _____
 22 JODI JERICH
 23 EXECUTIVE DIRECTOR

24 DISSENT: _____

25 DISSENT: _____

26 TMB:PJG:red\RWG

1 SERVICE LIST FOR: GRAHAM COUNTY UTILITIES, INC.
2 DOCKET NO. G-02527A-15-0319

3 Mr. Kirk Gray
4 Assistant General Manager
5 Graham County Utilities, Inc.
6 P.O. Drawer B
7 Pima, Arizona 85543

8 Mr. Thomas M. Broderick
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

18 Mr. Dwight Nodes
19 Chief Administrative Law Judge, Hearing Division
20 Arizona Corporation Commission
21 1200 West Washington Street
22 Phoenix, Arizona 85007

23
24
25
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GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION

	<u>Distribution Rates</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Rate</u>	<u>Rate</u>
<i>Rate Schedule GA - Residential Gas Service</i>		
Monthly Service Availability Charge	\$ 15.00	\$ 16.35
Delivery Charge - Per Therm for all gas	\$ 0.37800	\$ 0.37800
<i>Rate Schedule GB - Commercial Gas Service</i>		
Monthly Service Availability Charge	\$ 28.00	\$ 33.65
Delivery Charge - Per Therm for all gas	\$ 0.36000	\$ 0.37994
<i>Rate Schedule GI - Irrigation Gas Service</i>		
Monthly Service Availability Charge	\$ 24.00	\$ 27.60
Delivery Charge - Per Therm for all gas	\$ 0.18000	\$ 0.19050