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BEFORE THE ARIZONA CORPORATION COMMISSION

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DOUG LITTLE - Chairman  
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ANDY TOBIN

Arizona Corporation Commission  
**DOCKETED**

JUN 3 2016

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IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY FOR APPROVAL OF ITS 2016  
RENEWABLE ENERGY STANDARD  
IMPLEMENTATION PLAN.

DOCKET NO. E-01933A-15-0239

IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY FOR THE ESTABLISHMENT  
OF JUST AND REASONABLE RATES  
AND CHARGES DESIGNED TO REALIZE  
A REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF THE PROPERTIES  
OF TUCSON ELECTRIC POWER  
COMPANY DEVOTED TO ITS  
OPERATIONS THROUGHOUT THE  
STATE OF ARIZONA AND FOR  
RELATED APPROVALS.

DOCKET NO. E-01933A-15-0322

**WAL-MART STORES, INC.'S AND  
SAM'S WEST, INC.'S NOTICE OF  
FILING DIRECT TESTIMONY OF  
GREGORY W. TILLMAN  
(NON-RATE DESIGN)**

Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively, "Wal-Mart"), hereby  
provide notice of the filing of Gregory W. Tillman's direct testimony (non-rate design).

Dated this 3rd day of June, 2016.

HIENTON & CURRY, P.L.L.C.  
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1 ORIGINAL and 13 copies filed  
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7 COPY of the foregoing HAND-DELIVERED  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

**DOUG LITTLE, CHAIRMAN  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN**

**IN THE MATTER OF THE APPLICATION OF  
TUCSON ELECTRIC POWER COMPANY FOR  
FOR THE ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A REASONABLE  
RATE OF RETURN ON THE FAIR VALUE OF  
THE PROPERTIES OF TUCSON ELECTRIC  
POWER COMPANY DEVOTED TO ITS  
OPERATIONS THROUGHOUT THE STATE  
OF ARIZONA, AND FOR RELATED  
APPROVALS**

**DOCKET NO. E-01933A-15-0322**

**DIRECT TESTIMONY (NON-RATE DESIGN) AND EXHIBITS OF**

**GREGORY W. TILLMAN**

**ON BEHALF OF**

**WAL-MART STORES, INC. AND SAM'S WEST, INC.**

**JUNE 3, 2016**

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12      **Exhibits**

- 13      Exhibit GWT-1 – Witness Qualifications Statement
- 14      Exhibit GWT-2 – Calculation of the Change in TEP Weighted Average Cost of Capital
- 15      Exhibit GWT-3 – Calculation of Revenue Requirement Impact of TEP’s Proposed Increase
- 16                                      in ROE
- 17      Exhibit GWT-4 – Reported Authorized Returns on Equity, Electric Utility Rate Cases
- 18                                      Completed, 2013 to Present
- 19
- 20
- 21

**Introduction**

1  
2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

3 A. My name is Gregory W. Tillman. My business address is 2001 SE 10th St.,  
4 Bentonville, AR 72716-0550. I am employed by Wal-Mart Stores, Inc. as Senior  
5 Manager, Energy Regulatory Analysis.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?**

7 A. I am testifying on behalf of Wal-Mart Stores, Inc. and Sam's West, Inc. (collectively  
8 "Walmart").

9 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

10 A. I earned a Bachelor of Science in Electrical Engineering from the University of Tulsa  
11 in 1987. I have more than 23 years of experience in the regulated and deregulated  
12 energy industry including roles in regulatory, pricing, billing, and metering  
13 information. After serving on active duty as a Signal Officer in the United States  
14 Army, I joined Public Service Company of Oklahoma ("PSO") where I was  
15 employed in various positions in the Information Services, Business Planning, Rates  
16 and Regulatory, and Ventures departments from 1990 through 1997. Within the Rates  
17 and Regulatory department I served as the Supervisor of Power Billing and Data  
18 Collection. In this position I managed the billing for large industrial and commercial  
19 customers and led the implementation of the company's real-time pricing program. I  
20 also managed the implementation of real-time pricing for three other utilities within  
21 the Central and South West Corporation – Southwestern Electric Power Company  
22 ("SWEPCO"), Central Power and Light ("CPL") and West Texas Utilities ("WTU").  
23 Following my employment at PSO, I joined the Retail department of the Williams

1 Energy Company as the manager of systems for the retail gas and electric data and  
2 billing systems in 1997. During this time I also managed the customer billing function  
3 at Thermogas and billing and accounting systems support functions at Williams  
4 Communications. In 2000, I joined Automated Energy where I served as the Vice  
5 President of Energy Solutions for two years. Following several assignments as a  
6 consultant and project manager in various industries, I joined OG&E in 2008 as a  
7 senior pricing analyst, was promoted to Manager of Pricing in January 2010, and  
8 became the Product Development Pricing Leader in 2013. While at OG&E, I was  
9 instrumental in developing and managing OG&E's pricing strategy and products  
10 including the design and implementation of the OG&E's SmartHours™ rate. I have  
11 been in my current position as Senior Manager, Energy Regulatory Analysis at  
12 Walmart since November 2015. My Witness Qualification Statement is found in  
13 Exhibit GWT-1.

14 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**  
15 **ARIZONA CORPORATION COMMISSION ("THE COMMISSION")?**

16 A. Yes, I submitted testimony in Docket No. E-04204A-15-0142.

17 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER**  
18 **STATE REGULATORY COMMISSIONS?**

19 A. Yes. I have submitted testimony in proceedings before the Oklahoma Corporation  
20 Commission and Arkansas Public Service Commission. My testimony addressed the  
21 topics of rate design, revenue allocation, pricing, customer impacts, tariffs and terms  
22 and conditions of service.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

2 A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

3 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN ARIZONA.**

4 A. Walmart operates 126 retail units and 4 distribution centers, employing 33,838  
5 associates in Arizona. In fiscal year ending 2016, Walmart purchased \$1.5 billion  
6 worth of goods and services from Arizona-based suppliers, supporting 25,731  
7 supplier jobs.<sup>1</sup>

8 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE**  
9 **COMPANY'S SERVICE TERRITORY.**

10 A. Walmart has 21 retail units that take electric service from Tucson Electric Power  
11 Company. ("TEP" or "the Company"). Primarily, Walmart stores take service under  
12 the Large General Service Time-of-Use Rate ("LGS-85").

13 **Purpose of Testimony**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. The purpose of my testimony is to address aspects of the TEP rate case filing and to  
16 provide recommendations to assist the Commission in its thorough and careful  
17 consideration of the impact on customers of the Company's proposed rate increase.  
18 Walmart will also file testimony in the cost of service and rate design portion of this  
19 docket.

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<sup>1</sup> <http://corporate.walmart.com/our-story/locations/united-states#/united-states/arizona>

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**Summary of Recommendations**

**Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.**

A. My recommendations to the Commission are as follows:

- 1) The Commission should thoroughly and carefully consider the impact on customers in examining the requested revenue requirement and ROE, in addition to all other facets of this case, to ensure that any increase in the Company's rates reflects the minimum amount necessary to compensate the Company for adequate and reliable service, while also providing TEP an opportunity to earn a reasonable return.
- 2) The Commission should closely examine the Company's proposed revenue requirement increase and the associated proposed increase in return on equity, especially when viewed in light of (a) the customer impact of the resulting revenue requirement increases and (b) the most recent Commission authorized ROEs within the state of Arizona and nationally. The Commission should also consider UNSE's recent stipulation to a 9.5% ROE in Docket No. E-04204A-15-0142 in the determination of the ROE awarded to TEP. Unless the Commission determines that TEP has sufficiently and substantially demonstrated significant changes in the economic environment faced by TEP since its last rate case and a significant difference in the economic conditions faced by TEP and UNSE, the Commission should approve an ROE no greater than 9.5%.

1 The fact that an issue is not addressed herein or in related filings should not be  
2 construed as an endorsement of any filed position.

3 **TEP Proposed Revenue Increase**

4 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED**  
5 **ELECTRIC REVENUE REQUIREMENT INCREASE?**

6 A. My understanding is that the Company proposes a \$109.5 million increase to non-fuel  
7 revenues based on a test-year ending June 30, 2015. This represents an increase of  
8 12.0% to the existing base rates. Based on a change in rate for the Purchased Power  
9 and Fuel Adjustment Clause ("PPFAC"), the Company asserts that the impact is  
10 reduced by \$44.3 million, for an actual rate increase of \$67.3 million, or 7.1%.<sup>1</sup>

11 **Q. ARE FUEL-RELATED COST REDUCTIONS RELEVANT TO THE**  
12 **COMMISSION'S CONSIDERATION OF THE MERITS OF TEP'S**  
13 **PROPOSED BASE RATE INCREASE?**

14 A. No. While any reductions in fuel-related expenses are beneficial to customers, those  
15 offsets are not relevant to the Commission's consideration of the merits of the  
16 Company's proposed base rate increase. At issue in this docket is the approval of  
17 fair, just, and reasonable rates related to TEP's provision of reliable electric service to  
18 its customers. Changes in the base rates reflect the permanent costs of providing  
19 service and should not be considered to be any more or less reasonable based on  
20 contemporaneous changes in other components of TEP's retail rates. In this docket

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<sup>1</sup> Direct Testimony of Dallas J. Dukes, page 32, line 23 – page 33, line 4.

1 specifically, customers began receiving the benefit of the reduced fuel costs in April  
2 2015. Therefore, when new rates are implemented, customers will experience the full  
3 effect of the \$109.5 million increase proposed by the Company, not a \$67.3 million  
4 increase as claimed by the Company.<sup>1</sup>

5 **Q. SHOULD THE COMMISSION GENERALLY CONSIDER THE IMPACT OF**  
6 **THE PROPOSED BASE RATE INCREASE OF \$109.5 MILLION ON**  
7 **CUSTOMERS IN SETTING THE REVENUE REQUIREMENT CHANGES**  
8 **AND ROE FOR THE COMPANY?**

9 A. Yes. Electricity represents a significant portion of a retailer's operating costs. When  
10 electric rates increase, the increase in cost to retailers puts pressure on consumer  
11 prices and on the other expenses required by a business to operate. The Commission  
12 should thoroughly and carefully consider the impact on customers in examining the  
13 requested revenue requirement and ROE, in addition to all other facets of this case, to  
14 ensure that any increase in the Company's rates reflects the minimum amount  
15 necessary to compensate the Company for adequate and reliable service, while also  
16 providing TEP an opportunity to earn a reasonable return.

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<sup>1</sup> Ibid.

1 **Return on Equity**

2 **Q. WHAT IS THE COMPANY'S PROPOSED RETURN ON EQUITY ("ROE")**  
3 **IN THIS DOCKET?**

4 A. TEP has proposed an ROE of 10.35% based on a range of 10.00% to 10.60%.<sup>1</sup> This  
5 results in a proposed overall weighted average cost of capital ("WACC") of 7.34%.<sup>2</sup>

6 **Q. HOW DOES THE COMPANY CHARACTERIZE THE INCREASE IN COST**  
7 **OF CAPITAL AS COMPARED TO THAT APPROVED IN THE COMPANY'S**  
8 **MOST RECENT RATE CASE?**

9 A. According to Mr. Grant, TEP considers the WACC approved in the last case and the  
10 WACC requested in this case to be nearly the same. The capital structure and costs of  
11 debt and equity adopted in TEP's last rate case resulted in a WACC of 7.26%.<sup>3</sup>

12 **Q. DO YOU AGREE WITH THE COMPANY'S CLAIM THAT THE CHANGE**  
13 **IN TOTAL CAPITAL COST IS INSIGNIFICANT?**

14 A. No. While the proposed WACC may seem nearly equivalent on the surface, the  
15 Company has ignored the reduction in the cost of debt to TEP. The reduction in the  
16 Company's cost of debt since the last case from 5.18% to 4.32% results in a WACC  
17 of 6.78% when evaluated within TEP's currently authorized capital structure and cost  
18 of equity.<sup>4</sup> The true increase in the WACC being requested by the Company is  
19 actually 56 basis points.

---

<sup>1</sup> Direct testimony of Ann E. Bulkley, page 3, lines 17-20.

<sup>2</sup> Direct testimony of Kenton C. Grant, page 17, line 1.

<sup>3</sup> Ibid, page 17, lines 10-16.

<sup>4</sup> See Exhibit GWT-2

1 Q. DO YOU CONSIDER THE COMPANY'S SUCCESS IN REDUCING ITS  
2 COST OF DEBT TO BE A REASON FOR THE COMMISSION TO AWARD  
3 A HIGHER ROE TO THE COMPANY?

4 A. No. The reduction in cost of debt achieved by the Company, while admirable, is not  
5 a reason to increase the cost of equity awarded in this case. Not unlike any other  
6 reduction in expense, the reduction in the cost of debt should benefit the ratepayers  
7 for whom the debt is incurred. In fact, the beneficial reduction in the costs to  
8 customers through these savings is consistent with the Company's claim that the  
9 resulting savings are being passed to customers.<sup>1</sup> An increased ROE award based on  
10 debt cost reductions would serve only to transfer these benefits from the customers to  
11 whom they should be directed to the Company's shareowners. It is the Company's  
12 fiduciary responsibility to ensure that customers receive reliable electric service at the  
13 lowest possible cost.

14 Q. ARE YOU CONCERNED THAT THE COMPANY'S PROPOSED ROE OF  
15 10.35% IS EXCESSIVE?

16 A. Yes. I am concerned that the Company's proposed ROE is excessive, especially  
17 when viewed in light of the (a) the customer impact of the resulting revenue  
18 requirement increase as discussed above, and (b) recent rate case ROEs approved by  
19 commissions nationwide. Additionally, while the Commission has not issued a final

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<sup>1</sup> Direct Testimony of Kentton C. Grant, page 15, lines 1-3.

1 ruling in Docket E-04204A-15-0142, the stipulation to a 9.5% ROE in that docket is a  
2 relevant marker for the appropriate ROE to be awarded in this case.<sup>1</sup>

3 ***Customer Impact***

4 **Q. IS THE COMPANY'S PROPOSED ROE HIGHER THAN THE ROE**  
5 **APPROVED IN THE COMPANY'S MOST RECENT RATE CASE –**  
6 **DOCKET NO. E-01933A-12-0291?**

7 A. Yes. The proposed ROE of 10.35% represents an increase of 35 basis points from the  
8 ROE of 10.0% approved by the Commission in the Company's last general rate case.<sup>2</sup>

9 **Q. HAS THE COMPANY PROPOSED A CHANGE IN ITS CAPITAL**  
10 **STRUCTURE IN THIS CASE?**

11 A. Yes. The Company proposes a change in the capital structure from the currently  
12 approved equity portion of 43.5% to a proposed equity portion of 50.03%.<sup>3</sup>

13 **Q. DOES WALMART OPPOSE THE CAPITAL STRUCTURE AS PROPOSED**  
14 **BY TEP?**

15 A. No. The proposed capital structure reflects TEP's test year capital structure, adjusted  
16 as recommended by Mr. Grant<sup>4</sup>, and is not unreasonable. Notwithstanding our lack of  
17 opposition of the proposed capital structure, it should be noted that the proposed  
18 change in the capital structure coupled with the requested ROE increase creates a  
19 substantial impact on customers.

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<sup>1</sup> Docket No. E-04204A-15-0142, Initial Post-hearing Brief of UNS Electric, Inc. page 12, line 17

<sup>2</sup> Decision No. 73912, para. 38 on page 71, line 38.

<sup>3</sup> Direct Testimony of Kentton C. Grant page 12, lines 9-14.

<sup>4</sup> Ibid page 11, line 26 thru page 12, line 8.

1     **Q.     HOW DOES THE PROPOSED ROE AND CAPITAL STRUCTURE IMPACT**  
2     **CUSTOMERS?**

3     A.     The combination of these proposed changes reflect an increase in the cost of equity of  
4     83 basis points or 19% more than is currently authorized.

	Equity Ratio	Cost of Equity	Weighted Cost of Equity
Current ROE	43.50%	10.00%	4.35%
Proposed ROE	50.03%	10.35%	5.18%
Increase			0.83%

5     **Q.     WHAT IS THE REVENUE REQUIREMENT IMPACT OF THE PROPOSED**  
6     **INCREASE IN THE COST OF CAPITAL?**

7     A.     The aggregate impact of the changes to ROE and capital structure is an increase to  
8     revenue requirement of approximately \$26.7 million as compared to that resulting  
9     from the current capital structure, cost of equity, and cost of debt. The requested  
10    increase in the total cost of capital constitutes approximately 24.4% of the base  
11    revenue increase requested by TEP.<sup>1</sup>

12    **Q.     HAVE ANY OTHER STATES RECOGNIZED THE IMPORTANCE OF**  
13    **CONSIDERING RATEPAYER IMPACTS IN THE ROE DETERMINATION**  
14    **PROCESS?**

15    A.     Yes. While I am not an attorney, I understand that the North Carolina Supreme Court  
16    determined that impacts on ratepayers should be considered in awarding the proper  
17    ROE for a public utility. Specifically, the Court stated:

18            “Given the legislature’s goal of balancing customer and investor interests, the  
19            customer-focused purpose of Chapter 62, and this Court’s recognition that the

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<sup>1</sup> See Exhibit GWT-3

1 Commission must consider all evidence presented by interested parties, which  
2 necessarily includes customers, it is apparent that customer interests cannot be  
3 measured only indirectly or treated as mere afterthoughts and that Chapter 62's  
4 ROE provisions cannot be read in isolation as only protecting public utilities and  
5 their shareholders. Instead, it is clear that the Commission must take customer  
6 interests into account when making an ROE determination. Therefore, we hold  
7 that in retail electric service rate cases the Commission must make findings of fact  
8 regarding the impact of changing economic conditions on customers when  
9 determining the proper ROE for a public utility." See *State Ex Rel. Utils. Comm'n*  
10 *v. Cooper*, 366 N.C. 484, 739 S.E.2d 541, 547 (2013) (emphasis in original).

11 This language is instructive as to the need to consider the economic conditions faced  
12 by customers in conjunction with the Commission's consideration of the utility's  
13 interests.

14 ***National Utility Industry ROE Trends***

15 **Q. IS THE COMPANY'S PROPOSED ROE HIGHER THAN THE AVERAGES**  
16 **OF THOSE APPROVED BY OTHER UTILITY REGULATORY**  
17 **COMMISSIONS?**

18 **A.** Yes. The requested ROE exceeds the average ROE approved by other utility  
19 regulatory commissions in 2013, 2014, 2015 and thus far in 2016.

20 **Q. WHAT IS YOUR UNDERSTANDING OF THE ROE AWARDED IN RECENT**  
21 **RATE CASES?**

22 **A.** According to data from SNL Financial, a financial news and reporting company, the  
23 average of the 98 reported electric utility rate case ROEs authorized by state  
24 regulatory commissions to investor-owned electric utilities in 2013, 2014, 2015, and

1 so far in 2016, is 9.74%. The range of reported authorized ROEs for the period is  
2 8.72% to 10.95%, and the median authorized ROE is 9.75%.<sup>1</sup>

3 **Q. SEVERAL OF THE REPORTED AUTHORIZED ROES ARE FOR**  
4 **DISTRIBUTION-ONLY UTILITIES OR FOR ONLY A UTILITY'S**  
5 **DISTRIBUTION SERVICE RATES. WHAT IS THE AVERAGE**  
6 **AUTHORIZED ROE IN THE REPORTED GROUP FOR VERTICALLY**  
7 **INTEGRATED UTILITIES LIKE TEP?**

8 **A.** In the group reported by SNL Financial, the average ROE for vertically integrated  
9 utilities authorized from 2013 to present is 9.89%.<sup>2</sup> However, there is a continuing  
10 declining trend in authorized ROE for vertically integrated utilities over this time  
11 period.

12 **Q. PLEASE ELABORATE ON THE DECLINING TREND OF ROE**  
13 **AUTHORIZED FOR VERTICALLY INTEGRATED UTILITIES?**

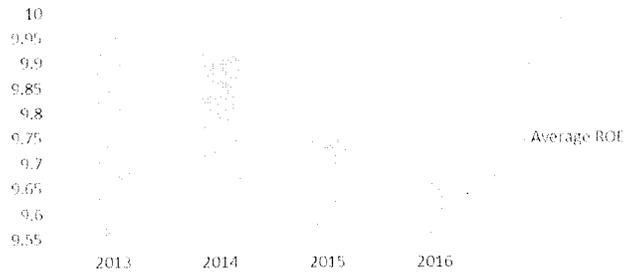
14 **A.** The average authorized ROE for vertically integrated utilities in 2013 was 9.97%, in  
15 2014 it was 9.92%, in 2015 it was 9.75% and so far in 2016 it is 9.70%. It should be  
16 noted that in 2015 and 2016, of the 20 vertically integrated utility authorized ROEs,  
17 nine have been authorized ROEs of 9.60% or lower and none have received an ROE  
18 greater than 10.30%. As such, the Company's proposed 10.35% ROE in this case is a  
19 move counter to broader electric industry trends. Graphically, this trend can be seen  
20 in the following chart.

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<sup>1</sup> See Exhibit GWT-4

<sup>2</sup> Ibid.

Average Authorized ROE for Vertically  
Integrated Utilities



**ROE Stipulation in UNSE Docket E-04204A-15-0142**

**Q. WHAT IS YOUR UNDERSTANDING OF THE STIPULATED ROE TO WHICH UNS ELECTRIC (“UNSE”) HAS AGREED IN ITS CURRENT RATE CASE?**

**A.** UNSE, a sister company to TEP within the UNS Energy Corporation, agreed with Commission Staff, RUCO, and Walmart to a 9.5% ROE<sup>1</sup> in Docket E-04204A-15-0142.

**Q. SHOULD THE UNSE STIPULATION TO A 9.5% ROE BE CONSIDERED BY THE COMMISSION IN ITS DECISION REGARDING THE AUTHORIZED ROE FOR TEP?**

**A.** Yes. UNSE’s stipulation to a 9.5% ROE indicates agreement among several parties in that case that an authorized ROE of 9.5% provides the Company with the opportunity to earn a reasonable return on the investment required to provide reliable service to its customers.

<sup>1</sup> Docket No. E-04204A-15-0142, Initial Post-hearing Brief of UNS Electric, Inc. page 12, line 17

1     **Conclusion**

2     **Q.    GENERALLY, WHAT IS YOUR RECOMMENDATION TO THE**  
3     **COMMISSION ON THE COMPANY'S PROPOSED INCREASE IN ROE?**

4     **A.**    The Commission should closely examine TEP's proposed revenue requirement  
5     increase and the associated ROE with careful attention to its impact on customers and  
6     recent ROEs approved in other jurisdictions nationwide. In addition, the Commission  
7     should consider UNSE's stipulation to a 9.5% ROE in the UNSE rate case currently  
8     under consideration. Should the Commission find that the Company has not  
9     demonstrated significant changes in the economic conditions it faces now versus the  
10    economic conditions faced by TEP at the time of its last rate case, or no significant  
11    differences exist between the conditions faced by UNSE and TEP, the Commission  
12    should approve an ROE of no more than 9.5%

13    **Q.    ASSUMING THE COMMISSION APPROVES AN ROE OF 9.5%, HOW**  
14    **WOULD THE RESULTING WACC COMPARE TO THAT APPROVED IN**  
15    **THE COMPANY'S LAST RATE CASE?**

16    **A.**    The WACC would be 13 basis points higher than the Company's currently authorized  
17    WACC. As previously discussed within my testimony, the current WACC is 6.78%  
18    when taking into account the reduced debt costs. The recommended ROE of 9.5%  
19    results in a WACC of 6.91% at the Company's proposed capital structure.

**Weighted Average Cost of Capital at 9.5% ROE**

<b>Capital Component</b>	<b>Percent of Total</b>	<b>Cost</b>	<b>Weighted Cost</b>
Long-term Debt	49.97%	4.32%	2.16%
Common Equity	50.03%	9.50%	4.75%
<b>Total</b>			<b>6.91%</b>

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

# Gregory W. Tillman

Senior Manager, Energy Regulatory Analysis

Wal-Mart Stores, Inc.

Business Address: 2001 SE 10<sup>th</sup> Street, Bentonville, AR, 72716-0550

Business Phone: (479) 204-7993

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## EXPERIENCE

**November 2015 – Present**

Wal-Mart Stores, Inc., Bentonville, AR

Senior Manager, Energy Regulatory Analysis

**November 2008 – November 2015**

Oklahoma Gas & Electric, Oklahoma City, OK

Product Development Pricing Leader

Manager, Pricing

Senior Pricing Analyst

**May 2006 – November 2008**

LSG Solutions, Oklahoma City, OK

Project Manager, International Registration Plan/Interstate Fuel Tax Agreement Systems Development

**August 2002 – May 2006**

OnPeak Utility Solutions, Oklahoma City, OK

Owner/Consultant

**May 2000 – August 2002**

Automated Energy, Inc., Oklahoma City, OK

Vice President, Utility Solutions

**November 1997 – May 2000**

Williams Energy, Tulsa, OK

Sr. Manager Accounting Services

Process Manager, Customer Billing and Accounting

Retail Systems Manager, Billing and Electricity

**May 1990 – November 1997**

Public Service Company of Oklahoma, Tulsa, OK

Manager, Software Development and Support

Supervisor, Data Translation and Power Billing

Administrator, Disaster Recovery and Research and Development

Programmer/Analyst

**June 1987 – May 1990**

United States Army, Signal Command, Ft. Monmouth, NJ

Project Officer, Joint Tactical Information Distribution System

**EDUCATION**

1991-1994	<b>The University of Tulsa</b>	Graduate Coursework, M.B.A.
1987	<b>The University of Tulsa</b>	B.S., Electrical Engineering

**TESTIMONY BEFORE REGULATORY COMMISSIONS**

2015

Arizona Corporation Commission Docket No. E-04204A-15-0142: In the Matter of the Application of UNS Electric, Inc. For the Establishment of Just and Reasonable Rates and Charges Designed to Realize a Reasonable Rate of Return on the Fair Value of the Properties of UNS Electric, Inc. Devoted to Its Operations Throughout the State of Arizona, and for Related Approvals.

2012

Arkansas Public Service Commission Docket No. 12-067U: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order Approving a Temporary Surcharge to Recover the Costs of a Renewable Wind Generation Facility.

2011

Oklahoma Corporation Commission Cause No. PUD 201100087: In the Matter of the Application of Oklahoma Gas and Electric Company for an Order of the Commission Authorizing Applicant to Modify its Rates, Charges, and Tariffs for Retail Electric Service in Oklahoma.

2010

Arkansas Public Service Commission Docket No. 10-067U: In the Matter of the Application of Oklahoma Gas and Electric Company for Approval of a General Change in Rates and Tariffs

**Calculation of the Change in TEP Weighted Average Cost of Capital****Calculated as per Decision 73912**

(1)	<b>Capital Component</b>	<b>Percent of Total</b>	<b>Cost</b>	<b>Weighted Cost</b>
(2)	Long-term Debt	55.97%	5.18%	2.90%
(3)	Common Equity	43.50%	10.00%	4.35%
(4)	Short-term Debt	0.53%	1.42%	0.01%
(5)	<b>Total</b>	<b>100.00%</b>		<b>7.26%</b>

**Adjusted for Current Cost of Debt**

	<b>Capital Component</b>	<b>Percent of Total</b>	<b>Cost</b>	<b>Weighted Cost</b>
(6)	Long-term Debt	55.97%	4.32%	2.42%
(7)	Common Equity	43.50%	10.00%	4.35%
(8)	Short-term Debt	0.53%	1.42%	0.01%
(9)	<b>Total</b>	<b>100.00%</b>		<b>6.78%</b>
(10)	<b>TEP Proposed Cost of Capital</b>			<b>7.34%</b>
(11)	<b>Change in Cost of Capital</b>			<b>0.56%</b>

Sources Decision 73912, para. 37, 38  
Direct Testimony of Kentton C. Grant, page 14, line 16; page

## Calculation of Revenue Requirement Impact of TEP's Proposed Increase in ROE

(1) TEP Requested Rate of Return 7.34%

1) Calculate Rate of Return at Current ROE, Cost of Debt, and Capital Structure

	Capital Component	Percent of Total	Cost	Weighted Cost	
(2)	Short-term Debt	0.53%	1.42%	0.01%	note 1
(3)	Long-term Debt	55.97%	4.32%	2.42%	note 2
(4)	Common Equity	43.50%	10.00%	4.35%	
(5)	<b>Total</b>			<b>6.78%</b>	

2) Revenue Requirement Impact

(6)	Fair Value Rate Base (\$000)		\$ 2,913,279
(7)	= (5) Rate of Return (ROE = 10.0%)		6.78%
(8)	Fair Value Adjustment		-1.65%
(9)	Required Rate of Return		5.13%
(10)	(6) x (9) Adjusted Operating Income (ROE = 10.0%)		\$ 149,318
(11)	TEP Proposed Operating Income (\$000)		\$ 165,898
(12)	(11) - (10) Difference in Operating Income (\$000)		\$ 16,580
(13)	Conversion Factor		1.6223
(14)	(12) x (13) Difference in Revenue Requirement (\$000)		\$ 26,898
(15)	Requested Revenue Requirement Increase (\$000)		\$ 109,534
(16)	(14) / (15) Increase Request from ROE Increase		24.56%

### Sources

Schedule A-1

Schedule D-1, page 1

### Notes

1) Assumes no change in short-term debt cost from Decision 73912

2) Calculated at the current cost of long-term debt

## Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2013 to Present

State	Utility	Docket	Decision Date	Vertically Integrated (V)/Distribution (D)	Return on Equity (%)
Missouri	Kansas City Power & Light	ER-2012-0174	1/9/2013	V	9.70%
Missouri	KCP&L Greater Missouri Op Co	ER-2012-0175	1/9/2013	V	9.70%
Indiana	Indiana Michigan Power Co.	44075	2/13/2013	V	10.20%
Maryland	Baltimore Gas and Electric Co.	9299	2/22/2013	D	9.75%
Louisiana	Southwestern Electric Power Co	U-32220	2/27/2013	V	10.00%
New York	Niagara Mohawk Power Corp.	12-E-0201	3/14/2013	D	9.30%
Idaho	Avista Corp.	AVU-E-12-08	3/27/2013	V	9.80%
Ohio	Duke Energy Ohio Inc.	12-1682-EL-AIR	5/1/2013	D	9.84%
Michigan	Consumers Energy Co.	U-17087	5/15/2013	V	10.30%
North Carolina	Duke Energy Progress Inc.	E-2, Sub 1023	5/30/2013	V	10.20%
Hawaii	Maui Electric Company Ltd	2011-0092	5/31/2013	V	9.00%
Arizona	Tucson Electric Power Co.	E-01933A-12-0291	6/11/2013	V	10.00%
New Jersey	Atlantic City Electric Co.	ER-12121071	6/21/2013	D	9.75%
Washington	Puget Sound Energy Inc.	UE-130137	6/25/2013	V	9.80%
Maryland	Potomac Electric Power Co.	9311	7/12/2013	D	9.36%
Minnesota	Northern States Power Co.	E-002/GR-12-961	8/8/2013	V	9.83%
Connecticut	United Illuminating Co.	13-01-19	8/14/2013	D	9.15%
Florida	Tampa Electric Co.	130040-EI	9/11/2013	V	10.25%
South Carolina	Duke Energy Carolinas LLC	2013-59-E	9/11/2013	V	10.20%
North Carolina	Duke Energy Carolinas LLC	E-7, Sub 1026	9/24/2013	V	10.20%
Texas	Southwestern Electric Power Co	40443	10/3/2013	V	9.65%
Wisconsin	Wisconsin Public Service Corp.	6690-UR-122	11/6/2013	V	10.20%
Kansas	Westar Energy Inc.	13-WSEE-629-RTS	11/21/2013	V	10.00%
Virginia	Virginia Electric & Power Co.	PUE-2013-00020	11/26/2013	V	10.00%
Florida	Gulf Power Co.	130140-EI	12/3/2013	V	10.25%
Washington	PacifiCorp	UE-130043	12/4/2013	V	9.50%
Wisconsin	Northern States Power Co.	4220-UR-119	12/5/2013	V	10.20%
Illinois	Ameren Illinois	13-0301	12/9/2013	D	8.72%
Oregon	Portland General Electric Co.	UE-262	12/9/2013	V	9.75%
Maryland	Baltimore Gas and Electric Co.	9326	12/13/2013	D	9.75%
Louisiana	Entergy Gulf States LA LLC	U-32707	12/16/2013	V	9.95%
Louisiana	Entergy Louisiana LLC	U-32708	12/16/2013	V	9.95%
Nevada	Sierra Pacific Power Co.	13-06002	12/16/2013	V	10.12%
Arizona	UNS Electric Inc.	E-04204A-12-0504	12/17/2013	V	9.50%
Georgia	Georgia Power Co.	36989	12/17/2013	V	10.95%
Illinois	Commonwealth Edison Co.	13-0318	12/18/2013	D	8.72%
Oregon	PacifiCorp	UE-263	12/18/2013	V	9.80%
Michigan	Upper Peninsula Power Co.	U-17274	12/19/2013	V	10.15%
New York	Consolidated Edison Co. of NY	13-E-0030	2/20/2014	D	9.20%
North Dakota	Northern States Power Co.	PU-12-813	2/26/2014	V	9.75%
New Hampshire	Liberty Utilities Granite St	DE-13-063	3/17/2014	D	9.55%
District of Columbia	Potomac Electric Power Co.	1103-2013-E	3/26/2014	D	9.40%
New Mexico	Southwestern Public Service Co	12-00350-UT	3/26/2014	V	9.96%
Delaware	Delmarva Power & Light Co.	13-115	4/2/2014	D	9.70%
Texas	Entergy Texas Inc.	41791	5/16/2014	V	9.80%
Massachusetts	Fitchburg Gas & Electric Light	13-90	5/30/2014	D	9.70%
Wisconsin	Wisconsin Power and Light Co	6680-UR-119	6/6/2014	V	10.40%
Maine	Emera Maine	2013-00443	6/30/2014	D	9.55%
Maryland	Potomac Electric Power Co.	9336	7/2/2014	D	9.62%
Louisiana	Entergy Louisiana LLC (New Orleans)	UD-13-01	7/10/2014	V	9.95%

## Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2013 to Present

State	Utility	Docket	Decision Date	Vertically Integrated (V)/Distribution (D)	Return on Equity (%)
New Jersey	Rockland Electric Company	ER-13111135	7/23/2014	D	9.75%
Maine	Central Maine Power Co.	2013-00168	7/29/2014	D	9.45%
Wyoming	Cheyenne Light Fuel Power Co.	20003-132-ER-13	7/31/2014	V	9.90%
Arkansas	Entergy Arkansas Inc.	13-028-U <sup>1</sup>	8/15/2014	V	9.50%
New Jersey	Atlantic City Electric Co.	ER-14030245	8/20/2014	D	9.75%
Vermont	Green Mountain Power Corp	8190, 8191	8/25/2014	V	9.60%
Utah	PacifiCorp	13-035-184	8/29/2014	V	9.80%
Florida	Florida Public Utilities Co.	140025-EI	9/15/2014	V	10.25%
Nevada	Nevada Power Co.	14-05004	10/9/2014	V	9.80%
Illinois	MidAmerican Energy Co.	14-0066	11/6/2014	V	9.56%
Wisconsin	Wisconsin Public Service Corp.	6690-UR-123	11/6/2014	V	10.20%
Wisconsin	Wisconsin Electric Power Co.	05-UR-107	11/14/2014	V	10.20%
Virginia	Appalachian Power Co.	PUE-2014-00026	11/26/2014	V	9.70%
Wisconsin	Madison Gas and Electric Co.	3270-UR-120	11/26/2014	V	10.20%
Oregon	Portland General Electric Co.	UE-283	12/4/2014	V	9.68%
Illinois	Commonwealth Edison Co.	14-0312	12/10/2014	D	9.25%
Illinois	Ameren Illinois	14-0317	12/10/2014	D	9.25%
Mississippi	Entergy Mississippi Inc.	2014-UN-0132	12/11/2014	V	10.07%
Wisconsin	Northern States Power Co.	4220-UR-120	12/12/2014	V	10.20%
Connecticut	Connecticut Light & Power Co.	14-05-06	12/17/2014	D	9.17%
Colorado	Black Hills Colorado Electric	14AL-0393E	12/18/2014	V	9.83%
Wyoming	PacifiCorp	20000-446-ER-14	1/23/2015	V	9.50%
Colorado	Public Service Co. of CO	14AL-0660E	2/24/2015	V	9.83%
New Jersey	Jersey Central Power & Light Co.	ER-12111052	3/18/2015	D	9.75%
Washington	PacifiCorp	UE-140762	3/25/2015	V	9.50%
Minnesota	Northern States Power Co.	E-002/GR-13-868	3/26/2015	V	9.72%
Michigan	Wisconsin Public Service Corp.	U-17669	4/23/2015	V	10.20%
Missouri	Union Electric Co.	ER-2014-0258	4/29/2015	V	9.53%
West Virginia	Appalachian Power Co.	14-1152-E-42-T	5/26/2015	V	9.75%
New York	Central Hudson Gas & Electric	14-E-0318	6/17/2015	D	9.00%
New York	Consolidated Edison Co. of NY	15-E-0050	6/17/2015	D	9.00%
Missouri	Kansas City Power & Light	ER-2014-0370	9/2/2015	V	9.50%
Kansas	Kansas City Power & Light	15-KCPE-116-RTS	9/10/2015	V	9.30%
New York	Orange & Rockland Utls Inc.	14-E-0493	10/15/2015	D	9.00%
Michigan	Consumers Energy Co.	U-17735	11/19/2015	V	10.30%
Wisconsin	Wisconsin Public Service Corp.	6690-UR-124	11/19/2015	V	10.00%
Wisconsin	Northern States Power Co.	4220-UR-121	12/3/2015	V	10.00%
Illinois	Ameren Illinois	15-0305	12/9/2015	D	9.14%
Illinois	Commonwealth Edison Co.	15-0287	12/9/2015	D	9.14%
Michigan	DTE Electric Co.	U-17767	12/11/2015	V	10.30%
Oregon	Portland General Electric Co.	UE 294	12/15/2015	V	9.60%
Texas	Southwestern Public Service Co	43695	12/17/2015	V	9.70%
Idaho	Avista Corp.	AVU-E-15-05	12/18/2015	V	9.50%
Wyoming	PacifiCorp	20000-469-ER-15	12/30/2015	V	9.50%
Washington	Avista Corp.	UE-150204	1/6/2016	V	9.50%
Arkansas	Entergy Arkansas Inc.	15-015-U	2/13/2016	V	9.75%
Indiana	Indianapolis Power & Light Co.	44576	3/16/2016	V	9.85%
Massachusetts	Fitchburg Gas & Electric Light	15-80	4/29/2016	D	9.80%

<sup>1</sup> The Arkansas Public Service Commission originally approved a 9.3% ROE, but increased it to 9.5% on rehearing. See Order No. 35, Arkansas Docket 13-028-U.

