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BEFORE THE ARIZONA CORPORATION COMMISSION

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SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

Arizona Corporation Commission
DOCKETED
APR 23 2015
DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF DUNCAN VALLEY ELECTRIC
COOPERATIVE, INC. – ELECTRIC
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. E-01703A-14-0362
DECISION NO. 75040
ORDER

Open Meeting
April 14 and April 15, 2015
Phoenix, Arizona

BY THE COMMISSION:

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

FINDINGS OF FACT

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

2. Duncan Valley Electric Cooperative, Inc. – Electric Division (“DVEC” or “Cooperative”) is an Arizona member-owned non-profit rural electric distribution cooperative.

1 DVEC is a public service corporation providing electric distribution service to customers in Arizona
2 and New Mexico.

3 3. On September 5, 2014, DVEC submitted to the Commission's Utilities Division Staff
4 ("Staff") a Request for Pre-Filing Eligibility Review in accordance with Rule 107(C) which included a
5 draft application to increase rates and charges pursuant to Rule 107 and Arizona Revised Statutes
6 ("A.R.S") § 40-250, a proposed form of customer notice, and a proposed form of recommended
7 order.

8 4. On October 6, 2014, DVEC met with Staff as required by Rule 107(C)(3) to discuss
9 the Cooperative's eligibility under Rule 107(B), the proposed form of customer notice, and the
10 proposed form of recommended order. At the meeting, Staff advised DVEC that it met the eligibility
11 requirements of Rule 107(B) for filing a streamlined rate case. At the meeting, Staff also approved the
12 form of customer notice to be mailed to customers as required by Rule 107(C)(5) and Rule 107(D).

13 5. On October 6, 2014, in accordance with Rule 107(C)(4), DVEC filed a Request for
14 Docket Number and Notice of Filing Proposed Form of Customer Notice. The docket number was
15 assigned that same day.

16 6. On October 7, 2014, DVEC caused a copy of the approved customer notice to be
17 mailed via First Class Mail to all customers of record as of the date of mailing. On October 15, 2014,
18 DVEC docketed a Notice of Mailing Customer Notice certifying that the approved customer notice
19 was mailed via First Class Mail on October 7, 2014, to each customer of the Cooperative as required
20 by Rule 107(C)(5) and Rule 107(D). The customer notice set a deadline of November 7, 2014, for
21 customers of DVEC to file intervention requests and/or objections to the application that would be
22 filed.

23 7. On October 28, 2014, DVEC filed its application ("Application") pursuant to A.R.S. §
24 40-250 and Rule 107 to increase its rates and charges using a test year ending January 31, 2014.
25 DVEC requested that the Application be approved without a hearing.

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1 8. By the close of business on November 7, 2014, the Commission had received no
2 objections to the rate increase which is below the 5% of all customer accounts¹ or no more than 1,000
3 customer accounts, whichever is fewer, required to make DVEC ineligible for the Rule 107 process.
4 There were also no intervention requests filed.

5 9. On November 20, 2014, Staff filed a Notice of Eligibility pursuant to Rule 107(H)(2)
6 notifying DVEC that it met all of the eligibility requirements set forth in Rule 107(B) to file a rate case
7 under Rule 107.

8 10. On November 20, 2014, Staff filed a Notice of Sufficiency pursuant to Rule 107(H)(3)
9 notifying DVEC that the Application met all of the requirements of Rule 107(E) and classifying the
10 Cooperative as a Class B utility.

11 **DESCRIPTION OF DVEC**

12 11. DVEC is an Arizona member-owned non-profit rural electric distribution cooperative
13 headquartered in Duncan, Arizona. DVEC provides electric distribution service to approximately
14 2100 members/customers located in Greenlee and Graham Counties in Arizona and approximately
15 330 members/customers in New Mexico.

16 12. DVEC has an eight member Board of Directors ("Board") elected to oversee all
17 aspects of the Cooperative's operations. The Board approved the filing of the Application at a regular
18 meeting of the Board on August 18, 2014.

19 13. DVEC's last rate case was filed on December 12, 2003, and approved in Decision No.
20 67433, dated December 3, 2004. The current rates and charges for DVEC's customers went into
21 effect January 1, 2005. A Single Phase Time of Use option to its rate schedules was added in Decision
22 No. 73259 dated July 30, 2012.

23 **DVEC PROPOSALS**

24 14. In the Application, DVEC utilized a test year ending January 31, 2014.

25 15. Also in the Application, DVEC requested to increase its Arizona annual gross revenue
26 requirement by \$146,412 from test year Arizona total revenues of \$2,957,905 to \$3,104,317. This
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¹ As of January 31, 2014, the total number of Arizona DVEC customer accounts was 2,121. Therefore, 5% of the customer accounts is 106.

1 increase represents an increase of 6% over test year Arizona base revenue from \$2,439,723 to
2 \$2,586,134.

3 16. In its filing, DVEC stated the rate application would result in Operating Income of
4 \$36,793.

5 17. The Application shows that a residential customer with monthly electric consumption
6 of 756 kWh (average usage) will see an increase in his/her bill of \$4.09 per month (from \$76.85 to
7 \$80.94), or 5.32%. A residential customer with monthly electric consumption of 597 kWh (median
8 usage) will see an increase in his/her bill of \$3.44 per month (from \$64.89 to \$68.33), or 5.30%.

9 18. DVEC stated the rate increase is necessary to recover operating costs and to maintain
10 the financial integrity of the Cooperative.

11 19. As attachments to the Application, DVEC submitted audited financial statements for
12 the year ended December 31, 2013, and a copy of its certified annual financial and statistical report to
13 the National Rural Utilities Cooperative Finance Corporation ("CFC") for calendar year 2013
14 including a divisional financial report.

15 **COOPERATIVE ELIGIBILITY**

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

20 **STAFF ANALYSIS**

21 21. As part of its review of the Application, Staff reviewed the purchased power costs; the
22 Purchased Power Cost Adjustor ("PPCA") bank balance; the base revenue increase and test year data;
23 the level of increase requested for each rate schedule/class; the trends in load growth and system
24 demand; acceptability of system losses and reliability indices; the proposed rate base, revenue, and
25 expenses; and the proposed revenue requirement. Staff also completed a compliance review.

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

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1 Purchased Power Costs

2 23. DVEC reported purchased power costs for the test year equal to \$2,220,581. Staff was
3 able to track and verify the purchased power costs through a sampling of invoices provided by DVEC
4 to support the reported costs.

5 24. Staff was able to track monthly PPCA filings for the test year with those costs and
6 volumes reported in the Application within a negligible amount which Staff attributed to rounding.

7 25. DVEC did not calculate a new base cost of power in the Application and held the
8 bank balance constant between the test year and proposed rates with test year data. Rule 107 specifies
9 that the increase request of a maximum of 6% is in base revenue, not attributed to revenue from an
10 adjustor mechanism. The base cost of power (\$0.05843 per kWh) remains unchanged for purposes of
11 calculating the PPCA. The PPCA is designed to recover or refund the difference between the base
12 cost of power included in the Cooperative's base rates and the actual cost of power.

13 26. DVEC has operations in both Arizona and New Mexico. The Application reported
14 purchased power costs for the entire system. DVEC completed an allocation process to split those
15 costs between Arizona and New Mexico. DVEC based its allocation on kWh sales by state compared
16 to total kWh sales. The Cooperative provided Staff with the support for the calculation of the
17 allocation.

18 Rate Design

19 27. DVEC provided proof of revenue broken down by rate schedule. In accordance with
20 Rule 107, all residential monthly system charge increases are less than 25%, the overall base revenue
21 increase, excluding PPCA revenue, is no more than 6%, and all rate class increases are within 150% of
22 the base revenue increase requested. DVEC did not propose any rate structure change or non-price
23 tariff change.

24 28. DVEC and Staff agree on the rates set forth in Exhibit A, which is attached hereto and
25 incorporated herein.

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1 Staff Engineering

2 29. Staff physically inspected DVEC's distribution facilities on November 6, 2014. Staff
3 inspected the offices, the equipment yard, the warehouse, the meter shop and toured a portion of the
4 DVEC system in Arizona.

5 30. In addition, Staff reviewed the customer load and peak demand for the past five years
6 and completed a review of the system losses and reliability indices.

7 31. Based on its analysis, Staff Engineering concluded that DVEC:

8 A. has had a moderate load growth over the past five years in spite of the
9 recession impacts on the Arizona economy;

10 B. all of the facilities inspected are well-maintained and operated and are
11 used and useful; and

12 C. system losses and reliability indices are within acceptable limits.

13 Rate Base, Revenues, and Expenses

14 32. In its filing, DVEC treats the original cost rate base ("OCRB") the same as the fair
15 value rate base ("FVRB").

16 33. The Application requested a rate base of \$3,236,535, test year Arizona total revenues
17 of \$3,104,317 and expenses of \$3,067,523.

18 34. DVEC and Staff are in agreement on the proposed rate base, revenues, and expenses
19 and recommends adoption.

20 Revenue Requirement and Rate of Return

21 35. DVEC proposed an Arizona revenue requirement of \$3,104,317. The proposed
22 revenue requirement would produce an operating margin of \$36,793 for a 1.14% rate of return on an
23 OCRB of \$3,236,535.

24 36. According to DVEC calculations, confirmed by Staff, the proposed revenue
25 requirement would produce a 2.88 times interest earned ratio and a 4.67 debt service coverage ratio.

26 37. Staff has recommended adoption of DVEC's proposed revenue requirement.

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1 Consumer Services

2 38. Staff reviewed the Commission's records from January 1, 2012, through January 23,
3 2015, and found no complaints or opinions during that period of time.

4 39. As noted above, Consumer Services received no customer opinions in opposition to
5 the Application which was within the limits to proceed under Rule 107. The Corporations Division of
6 the Commission finds the Cooperative in "Good Standing".

7 **CONCLUSIONS**

8 40. DVEC's application is in compliance with Rule 107 allowing DVEC's rate case to be
9 processed under the alternative streamlined process.

10 41. DVEC and Staff are not requesting a hearing in this matter.

11 42. DVEC's OCRB and FVRB are determined to be \$3,236,535.

12 43. DVEC's proposed rate increases for each customer class are within the guidelines
13 established in Rule 107.

14 44. During the thirty (30) days customers had in which to object to the rate increase, no
15 customers filed objections, which is below the number required to cease processing under Rule 107.

16 45. Staff is in agreement with DVEC's proposed rate base of \$3,236,535, test year Arizona
17 total revenues of \$3,104,317 and expenses of \$3,067,523.

18 46. The rates and charges approved herein will produce an operating margin of \$36,793
19 for a 1.14% rate of return on an OCRB of \$3,236,535.

20 47. The rates and charges approved herein will increase revenues by \$146,412 or a 6.0%
21 increase in test year Arizona base revenue from \$2,439,723 to \$2,586,134.

22 48. Staff's recommendations should be adopted.

23 49. The rate design proposed by DVEC and agreed to by Staff should be adopted.

24 50. The base cost of power should remain at \$0.05843 per kWh.

25 51. Under the rates approved herein, a residential customer with monthly usage of 756
26 kWh (average usage) will experience a rate increase of \$4.09 (5.32%) from the current amount of
27 \$76.85 to \$80.94. A residential customer with monthly usage of 597 kWh (median usage) will
28 experience a rate increase of \$3.44 (5.30%) from the current amount of \$64.89 to \$68.33.

1 52. DVEC and Staff are in agreement that a hearing is not requested in this case.

2 **CONCLUSIONS OF LAW**

3 1. Duncan Valley Electric Cooperative, Inc. – Electric Division is a public service
4 corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and
5 40-251.

6 2. The Commission has jurisdiction over Duncan Valley Electric Cooperative, Inc. –
7 Electric Division and the subject matter of the application.

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

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

10 5. It is just and reasonable and in the public interest to approve the rates and charges set
11 forth in Exhibit A.

12 6. Duncan Valley Electric Cooperative, Inc.’s Application meets the requirements of
13 A.A.C. R14-2-107.

14 **ORDER**

15 IT IS THEREFORE ORDERED that Duncan Valley Electric Cooperative, Inc. – Electric
16 Division is hereby directed to file, on or before May 1, 2015, tariffs with a new schedule of rates and
17 charges consistent with Exhibit A.

18 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be
19 effective for May 2015 usage billed on or after June 1, 2015.

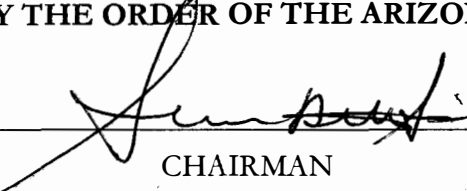

20 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. – Electric
21 Division shall notify its customers of the revised schedules of rates and charges authorized herein by
22 means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing after a
23 Decision in this case is effective and by posting on its website.

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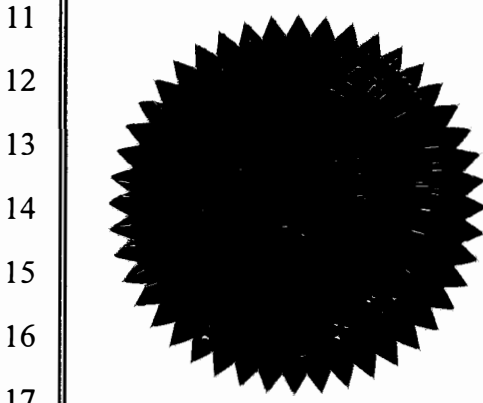
1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. – Electric
2 Division’s base cost of power remain at \$0.05843 per kWh.

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

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

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7 CHAIRMAN COMMISSIONER

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10 COMMISSIONER COMMISSIONER COMMISSIONER



11 IN WITNESS WHEREOF, I, JODI JERICH, Executive
12 Director of the Arizona Corporation Commission, have
13 hereunto, set my hand and caused the official seal of this
14 Commission to be affixed at the Capitol, in the City of
15 Phoenix, this 23rd day of April, 2015.

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18 JODI JERICH
19 EXECUTIVE DIRECTOR

20 DISSENT: _____

21 DISSENT: _____

22 SMO:RSP:vsc\RWG

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1 SERVICE LIST FOR: DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
2 DOCKET NO. E-01703A-14-0362

3 Mr. Steven Lunt
4 Chief Executive Officer
5 Duncan Valley Electric Cooperative, Inc.
6 379597 Az 75
7 P.O. Box 440
8 Duncan, Arizona 85534

9 Ms. Lyn A. Farmer, Esq.
10 Chief Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington Street
14 Phoenix, Arizona 85007

15 Mr. Steven M. Olea
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21 Chief Counsel, Legal Division
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DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

<u>Customer Classes</u>	<u>Present</u> <u>Rate</u>	<u>Approved</u> <u>Rate</u>
Single Phase		
System Charge	\$ 20.00	\$ 21.00
kWh Charge	\$ 0.07520	\$ 0.07928
Single Phase TOU		
System Charge	\$ 20.00	\$ 21.00
Metering Charge	\$ 2.35	\$ 2.50
kWh On Peak Charge	\$ 0.14100	\$ 0.14766
kWh Off Peak Charge	\$ 0.05150	\$ 0.05819
Single Phase Demand		
System Charge	\$ 30.00	\$ 31.50
kWh Charge	\$ 0.05650	\$ 0.06325
kW Charge >15 kW	\$ 10.00	\$ 10.00
Three Phase		
System Charge	\$ 40.00	\$ 42.00
kWh Charge	\$ 0.06560	\$ 0.06903
Three Phase Demand		
System Charge	\$ 40.00	\$ 42.00
kWh Charge	\$ 0.05966	\$ 0.06767
kW Charge >15 kW	\$ 10.00	\$ 10.00
Public Street and Highway Lighting		
400 Watt Lamp	\$ 13.70	\$ 14.40
175 Watt Lamp	\$ 8.50	\$ 8.95
100 Watt Lamp	\$ 6.00	\$ 6.30
Private Area Lighting		
100 & 175 Watt Lamp	\$ 8.00	\$ 8.40
100 & 175 Watt Lamp With Pole	\$ 9.20	\$ 9.65