



BEFORE THE ARIZONA CORPORATION COMMISSION

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ROBERT "BOB" BURNS  
Chairman  
BOYD DUNN  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
JUSTIN OLSON  
Commissioner  
LEA MÁRQUEZ PETERSON  
Commissioner

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-20-0203  
DECISION NO. 77838  
ORDER

Arizona Corporation Commission  
**DOCKETED**  
DEC 17 2020

Open Meeting  
November 4 and 5, 2020  
Phoenix, Arizona

DOCKETED BY  
LC

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

**Introduction**

*Duncan Valley Electric Cooperative, Inc.'s ("DVEC" or "Cooperative") Streamlined Arizona Administrative Code ("A.A.C.") R14-2-107 Rate Case*

1. Pursuant to Arizona Administrative Code ("A.A.C.") R14-2-107 ("Rule 107"), on June 11, 2020, DVEC began the process of a rate application under Rule 107 by submitting 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 and a proposed form of customer notice.

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1           2.       Over the next 28 days<sup>1</sup>, Commission (“ACC” or Commission”) Utilities Division  
2 Staff (“Staff”) reviewed the draft application assessing Rule 107 compliance and also worked with  
3 DVEC to revise the customer notice which highlighted the implications of a filing under Rule 107  
4 and the potential bill impacts of the rate increase.

5           3.       On July 9, 2020, DVEC met with Staff, in accordance with A.A.C. R14-2-107(E)(3)  
6 to review eligibility under A.A.C. R14-2-107(B), finalize the proposed form of customer notice, and  
7 discuss any corrections to the application. After that meeting, DVEC filed a Request for Docket  
8 Number and Notice of Filing Proposed Form of Customer Notice.

9           4.       On July 15, 2020, DVEC filed an affidavit of mailing for the Customer Notice. The  
10 Customer Notice was mailed via first class mail to all DVEC customers on July 15, 2020. The  
11 Customer Notice indicated that objections were required to be filed with the Commission by August  
12 14, 2020, and also indicated that DVEC anticipated filing its rate application on or around July 20,  
13 2020. DVEC filed its application for a rate increase (“Application”) under Rule 107 in Docket No.  
14 E-01703A-20-0203 on July 20, 2020.

15           5.       Pursuant to A.A.C. R14-2-107(B)(12), to proceed with processing a rate case under  
16 Rule 107, the number of objections submitted by the indicated deadline must represent no more than  
17 five percent of all customer accounts or no more than 1,000 customer accounts, whichever is fewer.  
18 As of the filing of this Staff Report, no objections were received and there have been no requests for  
19 intervention in this case.

20 *DVEC Eligibility and Sufficiency*

21           6.       On August 21, 2020, Staff filed its Notice of Eligibility in this docket indicating that  
22 Staff believed DVEC had met all of the requirements outlined in Rule 107 to be eligible to file its  
23 rate case application under Rule 107. On the same date, Staff filed a Notice of Sufficiency indicating  
24 the data provided by DVEC in its rate application were sufficient in meeting the requirements of a  
25 cooperative rate application under Rule 107.

26 \_\_\_\_\_  
27  
28 <sup>1</sup> A.A.C. R14-2-107(E)(3) requires at least 30 days between the cooperative’s requests a for pre-eligibility review and  
a meeting with Staff. However, due to the timing of 30 days and DVEC’s office hours, Staff met with DVEC two days  
prior to the minimum 30 days.

**DVEC BACKGROUND**

7. DVEC is an Arizona member-owned non-profit rural electric distribution cooperative headquartered in Duncan, Arizona. DVEC is a public service corporation providing electric distribution service to approximately 2,100 customers located in Graham and Greenlee Counties in Arizona. Approximately 330 additional customers are located in New Mexico. The majority of DVEC's customers are residential customers. The remaining customer base is comprised of commercial, industrial, irrigation and lighting customers.

8. DVEC's Board of Directors ("Board") oversees all aspects of DVEC's operations. DVEC has indicated that at a regular meeting of the Board, held on April 20, 2020, the Board approved the filing of this Application. According to its annual report filed on April 28, 2020, DVEC is classified as a Class B Utility under A.A.C. R14-2-103(A)(3)(q). DVEC's previous rate case filing (approved in Decision No. 76629, dated March 29, 2018) was filed under Rule 107 with new rates going into effect April 1, 2018.

**APPLICATION**

9. DVEC has requested a rate increase of six percent over test year base revenue (5.28 percent over test year total revenue). DVEC's proposed rate increase of six percent is equal to \$156,506 over test year base revenue of \$2,609,022. The increase is the same when compared to test year total revenue of \$2,962,135. The proposed six percent increase will produce \$2,765,528 in base revenue for DVEC in Arizona. DVEC's test year is the 12-months ending December 31, 2019. The Cooperative's requested rates would increase a residential customer's bill with average usage of 777 kilowatt-hours ("kWh") by \$5.21 (six percent) from \$86.90 to \$92.11.

10. DVEC's rate case application is comprised of a proposed increase in the monthly service charge for Single Phase, Single Phase Time-of-Use ("TOU"), Single Phase Demand, Three Phase, and Three Phase Demand customers; an increase in the energy charge for Single Phase, Single Phase Demand, Three Phase, and Three Phase Demand customers; an increase in the meter charge for Single Phase TOU customers; and an increase in charges for both Public Street Lighting and Private Security Lighting customers. DVEC indicated that the rate increase is necessary to recover increased operating costs and to maintain the financial integrity of the Cooperative.

1 **Staff Analysis**

2 *Purchased Power Costs*

3 11. As part of its review of the Application, Staff evaluated the purchased power costs;  
4 the fuel bank balance; the base revenue increase and test year data; the level of increase requested  
5 for each rate schedule/class; the electric system characteristics (including customer growth, peak  
6 demand and load profile), annual system losses, quality of service, distribution system inspection,  
7 and projected system growth (including system improvements, upgrades, and new additions) to  
8 ensure future system efficiency and reliability; the proposed rate base, revenue, and expenses; and  
9 the proposed revenue requirement. Staff has also completed a compliance review.

10 12. DVEC reported purchased power costs for the test year of \$1,995,000. Staff was able  
11 to track and verify the purchased power costs through a sampling of invoices provided by DVEC to  
12 support the reported costs. Once the differences were accounted for, Staff was able to reconcile the  
13 remainder of the sales in the Application. In addition, Staff was able to track the monthly Purchased  
14 Power Cost Adjustor ("PPCA") filings for the test year with those costs and volumes reported in the  
15 Application within a negligible amount which Staff attributed to rounding.

16 13. DVEC did not calculate a new base cost of power in the Application. As was  
17 approved in Decision No. 67433, the base cost of power (\$0.05843 per kWh) remains unchanged  
18 for the purpose of calculating the PPCA. The PPCA is designed to recover or refund the difference  
19 between the base cost of power included in the Cooperative's base rates and the actual cost of power.

20 14. DVEC has operations in both Arizona and New Mexico, purchased power costs are  
21 reported for the entire system. DVEC completes an allocation process to split those costs between  
22 Arizona and New Mexico. DVEC based its allocation of kWh sales by state compared to total kWh  
23 sales.

24 *Rate Design*

25 15. DVEC provided proof of revenue broken down by rate schedule. All residential  
26 monthly customer charge increases are less than 35 percent, pursuant to Rule 107. The overall base  
27 revenue increase, excluding PPCA revenue, is no more than six percent, and all rate class increases  
28 are within 150 percent of the base revenue increase requested, pursuant to Rule 107.

1           16.     Test year kWh sales data were broken down into volumes sold by rate schedule and  
2 rate class. According to DVEC, the kWh volumes from the monthly fuel adjustor reports include  
3 net metering kWh volumes that were not included in the Application. Staff was able to verify and  
4 reconcile the difference in kWh sales volumes. DVEC did not make adjustments to test year kWh  
5 volumes and indicated those volumes were reflective of future sales information.

6 *Engineering Review*

7           17.     Staff's Engineering analysis includes a review of the electric system, annual system  
8 losses, quality of service, and projected system growth. Staff did not conduct a site visit. DVEC  
9 identified for Staff that the Cooperative has undertaken only one major (greater than \$100,000)  
10 capital project since its last rate case in 2017 which was the construction of a new step-down  
11 substation constructed in 2017. In addition, there were no issues identified in DVEC's last rate case  
12 (Decision No. 76629, dated March 29, 2018) or in this rate case that Staff believed necessitated a  
13 field visit. Attachment A details Staff's Engineering Report for the Application.

14           18.     Staff reviewed the customer load and peak demand for the past five years and  
15 completed a review of the system loss and reliability indices.

16           19.     Based on the Engineering review of DVEC's Application, discussions with the  
17 Cooperative's staff as well as responses to data requests, Staff's conclusions are as follows:

- 18
- 19           a.     DVEC is operating and maintaining its electrical system properly.
- 20           b.     DVEC is carrying out system improvements, upgrades and new additions to  
21 meet the current and projected load of the Cooperative in an efficient and  
22 reliable manner.
- 23           c.     These improvements, system upgrades and new construction are reasonable  
24 and appropriate.
- 25           d.     The Cooperative's plant, facilities, and equipment in service for the Arizona  
26 service territory are "used and useful."
- 27           e.     The Cooperative has an acceptable level of system losses, consistent with the  
28 industry guidelines.
- f.     DVEC's record of service interruptions in the historic period from 2012 thru  
                2016 reflects a satisfactory quality of service.

1 *Rate Base, Revenue, and Expenses*

2 20. Pursuant to Rule 107, DVEC treats the Original Cost Rate Base (“OCRB”) the same  
3 as the Fair Value Rate Base (“FVRB”).

4 21. DVEC’s application requested a rate base of \$3,690,142, test year Arizona total  
5 revenues of \$3,118,642 and test year expenses of \$2,857,530.

6 22. DVEC and Staff are in agreement on the proposed rate base, revenues, and expenses,  
7 and Staff recommends their adoption.

8 *Revenue Requirement and Rate of Return*

9 23. DVEC proposed an Arizona total revenue requirement of \$3,118,642. The proposed  
10 revenue requirement would produce an operating loss of \$7,600 for a negative 0.21 percent rate of  
11 return on a rate base of \$3,690,142.

12 24. The Cooperative’s proposed revenue would produce a 26.22 Times Interest Ratio  
13 (“TIER”) and a 17.36 Debt Service Coverage (“DSC”) Ratio.

14 25. Staff recommends adoption of DVEC’s proposed revenue requirement increase of  
15 \$156,506.

16 *Consumer Service Review*

17 26. Staff reviewed the Commission’s records from January 1, 2017, through August 14,  
18 2020, and found one billing complaint during that time period. The Complaint has been resolved  
19 and closed.

20 27. As noted, Consumer Services received zero objections to the rate increase from  
21 customers of DVEC, as of the August 14, 2020. There have been no requests for intervention as of  
22 the filing date of this Staff Report. Consumer Services also indicated the Cooperative’s bill format  
23 is in compliance with A.A.C. R14-2-210(B)(2) and the Corporations Division of the Commission  
24 finds the Cooperative in “Good Standing”.

25 **Staff Conclusions and Recommendations**

26 28. As detailed above, DVEC’s application is eligible to proceed under Rule 107 and  
27 Staff found the Cooperative’s supporting documentation sufficient to support its requested six  
28 percent increase in adjusted test year base revenue.

1           29.     DVEC's OCRB and FVRB are determined to be \$3,690,142.

2           30.     DVEC's proposed rate increase for each customer rate class are within the guidelines  
3 established in Rule 107.

4           31.     During the 30-day timeframe that customers had in which to object to the rate case  
5 application, no customer objections were filed. No DVEC customers filed for intervention in the  
6 docket.

7           32.     Staff is in agreement with DVEC's proposed rate base of \$3,690,142, test year  
8 Arizona total revenues of \$3,118,642 and test year expenses of \$2,857,530.

9           33.     The rates and charges approved herein will produce an operating loss of \$7,600 for a  
10 negative 0.21 percent rate of return.

11          34.     The rates and charges approved herein will produce a 26.22 TIER and 17.36 DSC  
12 ratio.

13          35.     The rates and charges approved herein will increase base revenues by \$156,506 or  
14 six percent from \$2,609,022 to \$2,765,528 (the proposed increase represents a 5.28 percent increase  
15 from test year total revenue of \$2,962,135 to \$3,118,642).

16          36.     The base cost of power should remain at \$0.05843 per kWh.

17          37.     Under the rates approved herein, a residential customer with average usage of 777  
18 per kWh per month will experience a rate increase of \$5.21 per month.

19          38.     Staff recommends adoption of DVEC's proposed test year rate base of \$3,690,142,  
20 test year total revenues of \$3,118,642, and test year expenses of \$2,857,530. Staff recommends an  
21 increase in total revenue of six percent over test year base revenue yielding a revenue requirement  
22 increase of \$156,506 as filed in DVEC's Application. Staff has reviewed the proposed rate increase  
23 for each customer class and is in agreement with the proposed increases.

24          39.     Staff recommends that DVEC file with Docket Control, as a compliance item in this  
25 Docket, tariffs consistent with the rates and charges approved in this Decision on or before December  
26 1, 2020. Staff recommends that DVEC provide notice to its customers of the rate increase approved  
27 by the Commission in the next regularly scheduled billing cycle in a form acceptable to Staff and by  
28 posting a notice on its website.

1 40. The rate design proposed by DVEC and agreed to by Staff is reasonable and should  
2 be adopted.

3 41. Staff's recommendations are reasonable and should be adopted.

4 42. Neither DVEC nor Staff are requesting a hearing in this matter.

5 CONCLUSIONS OF LAW

6 1. Duncan Valley Electric Cooperative, Inc. is a public service corporation within the  
7 meaning of Article XV of the Arizona Constitution and Arizona Revised Statute §§ 40-250 and 40-  
8 251.

9 2. The Commission has jurisdiction over Duncan Valley Electric Cooperative, Inc. and  
10 the subject matter of the Application.

11 3. Notice of the Application was given in accordance with the law.

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

13 5. It is just and reasonable and in the public interest to approve the rates and charges set  
14 forth in Exhibit A of this Order.

15 6. Duncan Valley Electric Cooperative, Inc.'s Application meets the requirements of  
16 Arizona Administrative Code R14-2-107.

17 ORDER

18 IT IS THEREFORE ORDERED that Duncan Valley Electric Cooperative, Inc. is hereby  
19 directed to file, no later than December 1, 2020, tariffs with a new schedule of rates and charges  
20 consistent with Exhibit A of this Order.

21 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be  
22 effective for November 2020 usage billed on or after December 1, 2020.

23 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. shall notify its  
24 customers of the revised schedules of rates and charges authorized herein by means of a bill insert,  
25 in a form acceptable to Staff, included in its next scheduled billing after a Decision in this case is  
26 issued and by posting on the Cooperative's website.

27 ...

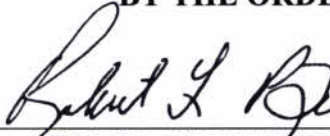
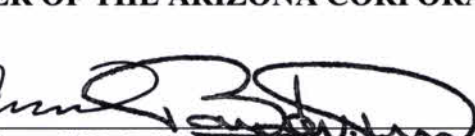
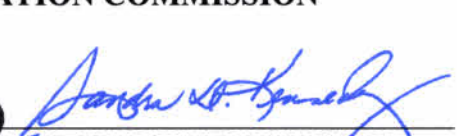
28 ...



1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc.'s base cost of  
2 power shall remain at \$0.05843 per kWh as approved in Decision No. 67433.

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

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

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8 CHAIRMAN BURNS COMMISSIONER DUNN COMMISSIONER KENNEDY

9    
10 COMMISSIONER OLSON COMMISSIONER MRQUEZ PETERSON



11  
12 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,  
13 Executive Director of the Arizona Corporation Commission,  
14 have hereunto, set my hand and caused the official seal of this  
15 Commission to be affixed at the Capitol, in the City of  
16 Phoenix, this 17 day of December, 2020.

17   
18 MATTHEW J. NEUBERT  
19 EXECUTIVE DIRECTOR

20 DISSENT: \_\_\_\_\_

21 DISSENT: \_\_\_\_\_

22 EOA:CLA:elr/RWG

1 Duncan Valley Electric Cooperative, Inc.  
2 Docket No. E-01703A-20-0203

3 Kassi Mortensen  
4 Duncan Valley Electric Cooperative  
5 379597 Arizona 75  
6 Post Office Box 440  
7 Duncan, Arizona 85534  
8 kassi@dvec.org

9 **Consented to Service by Email**

10 Robin Mitchell  
11 Director/Chief Counsel, Legal Division  
12 Arizona Corporation Commission  
13 1200 West Washington Street  
14 Phoenix, Arizona 85007  
15 legaldiv@azcc.gov  
16 utildivservicebyemail@azcc.gov

17 **Consented to Service by Email**

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DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

	<u>Current</u> <u>Rates</u>	<u>Proposed</u> <u>Rates</u>	<u>Change</u>
<b><u>Single Phase</u></b>			
System Charge	\$ 24.00	\$ 28.00	\$ 4.00
kWh Charge	\$ 0.08095	\$ 0.08251	\$ 0.00156
<b><u>Single Phase TOU</u></b>			
System Charge	\$ 24.00	\$ 28.00	\$ 4.00
Metering Charge	\$ 2.85	\$ 3.00	\$ 0.15
kWh On-Peak Charge	\$ 0.14726	\$ 0.14726	\$ -
kWh Off-Peak Charge	\$ 0.05778	\$ 0.05778	\$ -
<b><u>Single Phase Demand</u></b>			
System Charge	\$ 36.00	\$ 40.00	\$ 4.00
kWh Charge	\$ 0.06996	\$ 0.07720	\$ 0.00724
kW Charge >15 kW	\$ 10.00	\$ 10.00	\$ -
<b><u>Three Phase</u></b>			
System Charge	\$ 48.00	\$ 52.00	\$ 4.00
kWh Charge	\$ 0.07307	\$ 0.07383	\$ 0.00076
<b><u>Three Phase Demand</u></b>			
System Charge	\$ 48.00	\$ 56.00	\$ 8.00
kWh Charge	\$ 0.07561	\$ 0.07959	\$ 0.00398
kW Charge >15 kW	\$ 10.00	\$ 10.00	\$ -
<b><u>Public Street Lighting</u></b>			
400 Watt	\$ 15.25	\$ 16.20	\$ 0.95
170 Watt	\$ 9.50	\$ 10.10	\$ 0.60
100 Watt	\$ 6.70	\$ 7.10	\$ 0.40
<b><u>Private Security Lighting</u></b>			
No Pole	\$ 8.90	\$ 9.45	\$ 0.55
With Pole	\$ 10.25	\$ 10.85	\$ 0.60