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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
OF DUNCAN VALLEY ELECTRIC)
COOPERATIVE, 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-02528A-20-0208

DECISION NO. 77837

ORDER

Arizona Corporation Commission

DOCKETED

DEC 17 2020

DOCKETED BY

Open Meeting
November 4 and 5, 2020
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

Introduction

Duncan Valley Electric Cooperative, Inc. - Gas Division's ("DVEC" or "Cooperative") Current
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 days¹, Commission Utilities Division Staff (“Staff”) reviewed the
2 draft application assessing Rule 107 compliance and worked with DVEC to revise the customer
3 notice which highlighted the implications of a filing under Rule 107 and the potential bill impacts
4 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 indicated that DVEC anticipated filing its rate application on or around July 20, 2020.
13 DVEC filed its application for a rate increase (“Application”) under Rule 107 in Docket No. G-
14 02528A-20-0208 on July 20, 2020.

15 5. By the close of business on August 14, 2020, the Commission had received zero
16 objections to the requested rate increase. As of the filing of this Staff Report, no additional
17 objections were received after the August 14, 2020, deadline and there have been no requests for
18 intervention filed in this case. Pursuant to A.A.C. R14-2-107(B)(12), to proceed with processing a
19 rate case under Rule 107 the number of objections submitted by the indicated deadline must
20 represent no more than five percent of all customer accounts or no more than 1,000 customer
21 accounts, whichever is fewer.

22 *DVEC Eligibility and Sufficiency*

23 6. On August 21, 2020, Staff filed its Notice of Eligibility in this docket indicating that
24 Staff believed DVEC had met all of the requirements outlined in Rule 107 to be eligible to file its
25 rate case application under Rule 107. On the same date, Staff filed a Notice of Sufficiency indicating
26

27
28 ¹ A.A.C. R14-2-107(E)(3) requires at least 30 days between the Cooperative’s request for a 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.

1 the data provided by DVEC in its rate application were sufficient in meeting the requirements of a
2 cooperative rate application under Rule 107.

3 **DVEC Background**

4 7. DVEC is an Arizona member-owned, non-profit natural gas distribution cooperative
5 headquartered in Duncan, Arizona. The Cooperative provides natural gas distribution service to
6 approximately 700 members/customers located in Greenlee County. The majority of DVEC's
7 customers are residential customers. DVEC's Board of Directors ("Board") oversees all aspects of
8 DVEC's operations. DVEC has indicated that at a regular meeting of the Board, held on April 20,
9 2020, the Board approved the filing of this Application. According to its annual report filed on April
10 30, 2020, DVEC is classified as a Class D Utility under A.A.C. R14-2-103(A)(3)(q). DVEC's
11 previous rate case filing (approved in Decision No. 76630, dated March 29, 2018) was filed under
12 Rule 107 with new rates going into effect April 1, 2018.

13 **DVEC'S Application**

14 8. DVEC is proposing to increase its annual gross revenue requirement by \$25,634,
15 from Test Year revenues of \$529,323 to \$554,958, or from Test Year total base revenue of \$427,226
16 to \$452,860, an increase of six percent. The rate increase would yield an Operating Loss of \$24,637.
17 DVEC's proposal results in a negative 0.77 percent rate of return on the Original Cost Rate Base
18 ("OCRB") which is also the Fair Value Rate Base ("FVRB") of \$3,195,506. DVEC's Test Year is
19 the 12 months ending December 31, 2019.

20 9. A residential customer with monthly natural gas consumption of 59 therms (average
21 usage) in the winter will see an increase in their bill of \$0.36 per month (\$67.59 to \$67.95), or 0.53
22 percent, while a residential customer with a monthly natural gas consumption of 14 therms (average
23 usage) in the summer will see an increase in their bill of \$4.71 per month (\$28.71 to \$33.42), or
24 16.41 percent.

25 10. No customer of DVEC, or other party, filed an application to intervene in this docket.
26 As of the date of the deadline for submitting objections, no customers of the Cooperative submitted
27 objections to the Application.

28 ...

1 11. The Cooperative's Application states that the rate increase is necessary to recover
2 operating costs. The rate increase will allow DVEC to maintain the financial integrity of the
3 Cooperative. As attachments to the Application, DVEC submitted audited financial statements for
4 the year ended December 31, 2019, and a copy of its certified annual financial and statistical report
5 to the National Rural Utilities Cooperative Finance Corporation ("CFC") for calendar year 2019,
6 including a divisional financial report.

7 **Staff Analysis**

8 12. As part of its review of the Application, Staff evaluated the purchased gas costs; the
9 fuel bank balance; the base revenue increase and Test Year data; the level of increase requested for
10 each rate schedule/class; the capital expenditures for the Test Year (including monies for
11 infrastructure development consisting of new distribution mains and services, upgrades to existing
12 systems, and installation of new equipment); proposed capital expenditure levels to ensure future
13 system reliability; the proposed rate base, revenue, and expenses; and the proposed revenue
14 requirement. Staff has also completed a compliance review.

15 13. DVEC and Staff, the only parties to this case, agree on all issues.

16 *Purchased Gas Costs*

17 14. DVEC reported its 12-month rolling average gas costs of \$0.28234 per therm. DVEC
18 reported purchased gas costs for the Test Year equal to \$102,783. Staff was able to track and verify
19 the purchased gas costs through a sampling of invoices provided by DVEC to support the reported
20 costs. In addition, Staff was able to track the monthly Purchased Gas Adjustor ("PGA") filings for
21 the Test Year with those costs and volumes reported in the Application.

22 15. DVEC did not calculate a new base cost of gas in the Application and held the bank
23 balance constant between the Test Year and proposed rates with Test Year data. A.A.C. R14-2-107
24 specifies that the increase request of a maximum of six percent is in base revenue, not attributed to
25 revenue from an adjustor mechanism. As established in Decision No. 74996, the base cost of gas
26 was reset to zero, moving the entire cost of gas to DVEC's PGA. Moving the entire cost of gas to
27 the PGA was believed to be a simpler method for tracking the cost of gas and to help facilitate
28 consumer understanding of bills. This Application does not propose a change to the existing PGA,

1 adopt a new adjustor or surcharge mechanism, nor does it adopt a new type of fee.

2 *Rate Design*

3 16. As shown in Schedule TBH-1, DVEC provided proof of revenue broken down by
4 rate schedule. All residential monthly customer charge increases are less than 35 percent, pursuant
5 Rule 107. The overall base revenue increase is no more than six percent, and all rate class increases
6 are within 150 percent of the base revenue increase requested, pursuant to Rule 107.

7 17. Schedule TBH-2 displays typical bill analysis detail for each rate schedule. DVEC
8 and Staff agree to the rates set forth in Exhibit A, which is attached hereto and incorporated herein.

9 *Rate Base, Revenue and Expenses*

10 18. Staff recommends adoption of DVEC's proposed base revenue requirement of
11 \$452,860 (or a total revenue requirement of \$554,958) in Arizona as proposed by the Cooperative.
12 No adjustments were requested by Staff.

13 *Revenue Requirement and Rate of Return*

14 19. Staff finds that DVEC's request to adjust its rates to increase its annual gross revenue
15 requirement by \$25,634, from Test Year total revenue of \$529,323 to \$554,958, or from Test Year
16 base revenue of \$427,226 to \$452,860, an increase of six percent over the Test Year base revenue.
17 The rate increase would yield an operating loss of \$24,637, resulting in a negative 0.77 percent rate
18 of return on FVRB.

19 20. Staff reviewed the Cooperative's proposed revenue that would produce a negative
20 3.54 Times Interest Earned Ratio ("TIER") and a 2.95 Debt Service Coverage ("DSC") ratio, as
21 shown on Gas Schedule TDP-1. A DSC greater than 1.0 indicates that cash flow from operations is
22 sufficient to cover debt obligation. A TIER greater than 1.0 indicates that cash flow from operations
23 is sufficient to cover interest payment obligation. In this situation, because the accelerated rate case
24 process used in this case limits the increase to six percent, the Cooperative believes that it is more
25 prudent to continue with the small operating loss and negative TIER for the Gas division rather than
26 to attempt a full rate case process at this time.

27 21. A copy of the financial analysis report from the Utility Division's Finance and
28 Regulatory Analysis section is in Attachment A.

1 *Staff Engineering Review*

2 22. Under A.A.C. R14-2-107, no engineering inspection is required as part of Staff's
3 review. However, during February 2020, the Commission's Office of Pipeline Safety ("AZOPS")
4 conducted an audit of DVEC's gas operations. The audit consisted of a review of the Operation and
5 Maintenance Plan, Emergency Plan, Anti-Drug and Alcohol Prevention Programs, Operator
6 Qualification Program, a random review of records, and a field inspection of pipeline facilities.
7 There were probable noncompliance items noted during this audit. All of these probable
8 noncompliance items identified were applied to the entire pipeline system. The 2020 Code
9 Compliance Audit was provided to DVEC on March 13, 2020. Subsequently, DVEC responded to
10 the probable noncompliance items to AZPOS and a letter on July 9, 2020, addressed these items.
11 AZPOS determined that DVEC responses were acceptable as noted in a follow-up letter on July 31,
12 2020. The Audit 2020 Code Compliance Audit and follow-up letters on July 9, 2020, and July 31,
13 2020, are all provided in Attachment B.

14 *Consumer Services Review*

15 23. The Consumer Services review of DVEC included an examination of the complaint
16 history, bill format compliance, miscellaneous service charges, and the DVEC's status with the
17 Corporations Division of the Commission. Staff reviewed the Commission's records from January
18 1, 2017, through August 14, 2020, and found no billing complaints during that time period. DVEC
19 also proposed no changes to miscellaneous services charges.

20 24. As noted, Consumer Services received zero objections to the rate increase as of the
21 August 14, 2020, the objection due date. There have been no requests for intervention filed 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 R14-2-310(B)(2) and the Corporations Division of the Commission
24 finds the Cooperative in "Good Standing". A copy of the memorandum dated August 18, 2020,
25 from the Consumer Services review is provided in Attachment C.

26 **Staff Conclusions and Recommendations**

27 25. As detailed above, Staff has found that DVEC is eligible to proceed with its rate
28 application under Rule 107 and found the Cooperative's supporting documentation sufficient to

1 support its requested six percent increase in Test Year base revenue.

2 26. DVEC's OCRB and FVRB are \$3,195,506.

3 27. DVEC's proposed rate increase for each customer rate class and found they are within
4 the guidelines established in Rule 107.

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

8 29. Staff is in agreement with DVEC's proposed Test Year rate base of \$3,195,506, Test
9 Year total revenues of \$554,958 and Test Year expenses of \$515,058.

10 30. The rates and charges approved herein will produce an operating loss of \$24,637 for
11 a negative 0.77 percent rate of return on an OCRB of \$3,195,506.

12 31. The rates and charges approved herein will produce a TIER ratio of a negative 3.54
13 and a DSC ratio of 2.95.

14 32. The rates and charges approved herein will increase revenues by \$25,634 or a six
15 percent increase in Test Year base revenue.

16 33. Under the rates approved herein, a residential customer with average monthly usage
17 of 59 therms in the winter will experience a rate increase of \$0.36 per month and a residential
18 customer with average monthly usage of 14 therms in the summer will experience a rate increase of
19 \$4.71 per month.

20 34. Staff recommends adoption of DVEC's proposed Test Year rate base of \$3,195,506,
21 Test Year total revenues of \$554,958, and Test Year expenses of \$515,058. Staff recommends a
22 base revenue requirement of \$452,860 (or a total revenue requirement of \$554,958) in Arizona as
23 proposed by DVEC. Staff recommends an increase in total revenue equal to six percent over
24 adjusted Test Year base revenue yielding a revenue requirement increase of \$25,634 as filed in
25 DVEC's Application. Staff has reviewed the proposed rate increase for each customer class and is
26 in agreement with the proposed increases.

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1 35. Staff recommends that DVEC file with Docket Control, as a compliance item in this
2 Docket, tariffs consistent with the rates and charges approved in this Decision on or before December
3 1, 2020.

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

7 37. The rate design proposed by DVEC and agreed to by Staff is reasonable and should
8 be adopted.

9 38. Staff's recommendations are reasonable and should be adopted.

10 39. Neither DVEC nor Staff are requesting a hearing in this matter.

11 CONCLUSIONS OF LAW

12 1. Duncan Valley Electric Cooperative, Inc. – Gas Division is a public service
13 corporation within the meaning to Article XV of the Arizona Constitution and Arizona Revised
14 Statute §§ 40-250 and 40-251.

15 2. The Commission has jurisdiction over Duncan Valley Electric Cooperative, Inc. –
16 Gas Division and the subject matter of the Application.

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

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

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

21 6. Duncan Valley Electric Cooperative, Inc. – Gas Division's Application meets the
22 requirements of Arizona Administrative Code R14-2-107.

23 ORDER

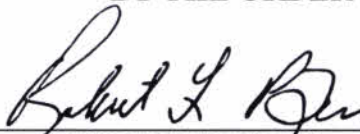
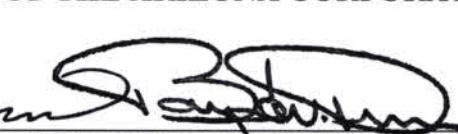
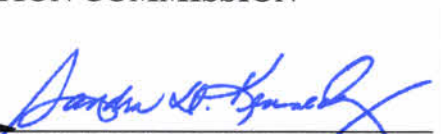
24 IT IS THEREFORE ORDERED that Duncan Valley Electric Cooperative, Inc. – Gas
25 Division is hereby directed to file, no later than December 1, 2020, tariffs with a new schedule of
26 rates and charges consistent with Exhibit A of this Order.

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

1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. – Gas Division
 2 shall notify its customers of the revised schedules of rates and charges authorized herein by means
 3 of a bill insert, in a form acceptable to Staff, included in its next scheduled billing after a Decision
 4 in this case is issued and by posting on Duncan Valley Electric Cooperative, Inc. – Gas Division’s
 5 website.

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

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

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 11 CHAIRMAN BURNS COMMISSIONER DUNN COMMISSIONER KENNEDY

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 13  
 14 COMMISSIONER OLSON COMMISSIONER MÁRQUEZ PETERSON

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



22
 23 
 24 MATTHEW J. NEUBERT
 25 EXECUTIVE DIRECTOR

26 DISSENT: _____

27 DISSENT: _____

28 EOA:TBH:elr/RWG

1 Duncan Valley Electric Cooperative, Inc. – Gas Division
2 Docket No. G-02528A-20-0208

3 Kassi Mortensen
4 Duncan Valley Electric Cooperative
5 379597 Arizona 75
6 Post Office Box 440
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9 **Consented to Service by Email**

10 Robin Mitchell
11 Director/Chief Counsel, Legal Division
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17 **Consented to Service by Email**

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ANALYSIS OF REVENUE BY DETAILED CLASS
Schedule Present and Proposed Rates
Recap Schedules: H-1

Customer Class	Billing	Present Rates	Proposed Rates	Revenue	Revenue	Revenue	Percent
		Charge	Charge	Revenue	Increase	Increase	
Small Meter <250 CFH							
Winter							
System Charge		\$ 24.00	\$ 28.00	\$ 96,936	\$ 13,848		16.7%
Therm Charge		\$ 0.73886	\$ 0.67704	\$ 149,241	\$ (13,627)		-8.4%
Revenue Totals				\$ 246,177	\$ 221		0.1%
Summer							
System Charge		\$ 24.00	\$ 28.00	\$ 135,212	\$ 19,316		16.7%
Therm Charge		\$ 0.33639	\$ 0.38736	\$ 29,126	\$ 3,833		15.2%
Revenue Totals				\$ 164,338	\$ 23,149		16.4%
Total Small	Sys Chg			\$ 410,516	\$ 23,369		6.04%
	Therms						
Medium Meter >250 <425 CFH							
Winter							
System Charge		\$ 36.00	\$ 40.00	\$ 2,920	\$ 292		11.1%
Therm Charge		\$ 0.73886	\$ 0.67704	\$ 5,854	\$ (535)		-8.4%
Revenue Totals				\$ 8,774	\$ (243)		-2.7%
Summer							
System Charge		\$ 36.00	\$ 40.00	\$ 5,520	\$ 552		11.1%
Therm Charge		\$ 0.33639	\$ 0.38736	\$ 17,741	\$ 2,334		15.2%
Revenue Totals				\$ 23,261	\$ 2,886		14.2%
Total Medium	Sys Chg			\$ 32,035	\$ 2,644		9.00%
	Therms						

ANALYSIS OF REVENUE BY DETAILED CLASS

Large Meter >425 CFH

Winter

System Charge	\$ 48.00	\$ 56.00	\$ 840	\$ 120	16.7%
Therm Charge	\$ 0.73886	\$ 0.67704	\$ 7,888	\$ (720)	-8.4%
Revenue Totals			\$ 8,728	\$ (600)	-6.4%

Summer

System Charge	\$ 48.00	\$ 56.00	\$ 1,176	\$ 168	16.7%
Therm Charge	\$ 0.33639	\$ 0.38736	\$ 405	\$ 53	15.2%
Revenue Totals			\$ 1,581	\$ 221	16.3%

Total Large		Sys Chg Therms	\$ 10,309	\$ (379)	-3.55%
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Totals		Sys Chg Therms	\$ 452,860	\$ 25,634	6.00%
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