BEFORE THE ARIZONA CORPORATION

TOM FORESE
Chairman
BOB BURNS
Commissioner
ANDY TOBIN
Commissioner
BOYD DUNN
Commissioner
JUSTIN OLSON
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
REATOMAKING PURPOSES, TO FIX A JUST
AND REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATES
DESIGNED TO DEVELOP SUCH
RETURN, AND FOR RELATED
APPROVALS.

ORDER

DOCKET NO. E-01703A-17-0278
DECISION NO. 76629

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
REATOMAKING PURPOSES, TO FIX A JUST
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Open Meeting
March 13, 2018
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

1. On February 6, 2013, in Decision No. 73649, the Arizona Corporation Commission
(“Commission”) adopted a new section in the Arizona Administrative Code (“A.A.C.”) R14-2-107
(“Rule 107”), entitled “Electric or Natural Gas Cooperative Alternative Rate Application Filing
Requirements and Process.”

2. On August 2, 2017, Duncan Valley Electric Cooperative, Inc. – Electric Division
(“DVEC” or “Cooperative”) began the process of a rate application under Rule 107. On that day,
DVEC submitted a Request for Pre-Filing Eligibility Review in accordance with Rule 107(C). The pre-
filing eligibility review included a draft application, a proposed form of customer notice, and a proposed form of recommended order.

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

4. On September 11, 2017, DVEC met with Staff in accordance with Rule 107(C)(3) to review eligibility under Rule 107(B), finalize the proposed form of customer notice, and discuss the proposed form of recommended order. After that meeting, DVEC filed a Request for Docket Number and Notice of Filing Proposed Form of Customer Notice.

5. On September 29, 2017, DVEC filed an affidavit of mailing for the Customer Notice. The Customer Notice was mailed via first class mail to all DVEC customers on September 29, 2017. The Customer Notice stated that objections needed to be filed with the Commission by October 13, 2017. The Customer Notice also indicated that DVEC anticipated filing its rate application on or around October 3, 2017.

6. On October 3, 2017, DVEC filed its application for a rate increase (“the Application”) under Rule 107 in Docket No. E-01703A-17-0278. DVEC’s previous rate case filing (approved in Decision No. 75040) was filed under Rule 107, which provides a shortened timeframe for processing a cooperative’s rate application, subject to certain requirements.

7. By the close of business on October 13, 2017, the Commission had received no objections to the rate increase. No objections were received after the October 13, 2017 deadline. There have been no requests for intervention filed in this case. As defined in Rule 107(B)(14), to proceed with processing a cooperative rate case under Rule 107, the number of objections submitted by the indicated deadline must represent no more than five percent of all customer accounts or no more than 1,000 customer accounts, whichever is fewer.

8. On October 27, 2017, Staff filed its Notice of Eligibility in this docket indicating that Staff believed DVEC had met all of the requirements outlined in Rule 107 to be eligible to file its rate case application under Rule 107, including the Cooperative’s request for waivers. On the same date,
Staff filed a Notice of Sufficiency indicating the data provided by DVEC in its rate application were sufficient in meeting the requirements of a cooperative rate application under Rule 107.

**Description of DVEC**

9. 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 340 additional customers are located in New Mexico.

10. The majority of DVEC's customers are Residential customers. The remainder is comprised of Commercial, Industrial, Irrigation, and Lighting customers. DVEC's Board of Directors oversees all aspects of DVEC's operations. DVEC has indicated that at a regular meeting of the Board, held on May 15, 2017, the Board approved the filing of this Application. DVEC is a Class B Utility under A.A.C. R14-2-103(A)(3)(q).

11. DVEC's last rate case was filed on October 28, 2014. In Decision No. 75040, dated April 23, 2015, the Commission determined a revenue increase of approximately six percent was justified and reasonable. New rates went into effect May 1, 2015.

**Application**

12. DVEC's test year is the 12 months ending December 31, 2016. DVEC is requesting a rate increase of six percent over adjusted test year base revenue (4.94 percent over adjusted test year total revenue). DVEC's proposed rate increase of six percent is equal to $147,636 over adjusted test year base revenue of $2,460,667. The increase is the same when compared to adjusted test year total revenue of $2,984,662. The proposed six percent increase will produce $2,608,303 in base revenue for DVEC in Arizona.

13. The Cooperative's requested rates would increase a residential customer's bill with average usage of 747 Kilowatt Hours ("kWh") by $4.25 (5.29 percent) from $80.22 to $84.47. A residential customer with a median monthly usage of 592 kWh would see an increase in his/her bill of $3.99 (5.87 percent) from $67.93 to $71.92.

14. DVEC's rate case application is comprised of proposed changes to the monthly service charges, energy charges, and meter charge for Single-Phase Time-of-Use ("TOU"). For Single-Phase

Decision No. 76629
TOU customers, the proposed increase to the monthly customer charge and meter charge will be partially offset by the proposed decrease in the per kWh energy charge. A comparison of the current and proposed rates is included in Schedule CLA-1 attached to the Staff Report.

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

16. In the Application, DVEC included a request for a waiver of Rule 107(B)(6), which requires that “[t]he test year used in the cooperative’s rate application complies, without waiver, to the definition of a test year in subsection (A)…” Subsection (A)(14) of Rule 107 defines “test year” as “the one-year historical period used in determining rate case, operating income, and rate of return, which shall have an ending date within nine months before the filing date for the rate application under this Section...” (emphasis added). DVEC’s application included a test year that ended on December 31, 2016, while its rate application was filed on October 3, 2017, only four days beyond the nine-month deadline.

17. On November 29, 2017, Staff filed a Request for Waiver and Notice of Filing of Recommended Opinion and Order, which recommended approval of DVEC’s request for waiver of Rule 107(B)(6) and the definition of “test year” included in Rule 107(A)(14).

Eligibility

18. For a cooperative to utilize the Rule 107 rate case process, several eligibility requirements must be met prior to beginning the process. As documented in the Notice of Eligibility, filed October 27, 2017, Staff agreed that DVEC’s rate application, including its request for waiver from Rule 107(A)(14) and Rule 107(B)(6), has met the eligibility requirements of Rule 107. In addition, on January 3, 2018, the Commission, in Decision No. 76523, approved DVEC’s request for waiver of Rule 107(A)(14) and Rule 107(B)(6) and ordered that the Cooperative may proceed with this rate case application under Rule 107.

Staff Analysis

19. As part of its review of the Application, Staff reviewed the purchased power costs; the fuel bank balance; the base revenue increase and test year data; the level of increase requested for each rate schedule/class; the electric system characteristics (including customer growth, peak demand and load profile); annual system losses, quality of service, distribution system inspection, and projected

Decision No. 76629
system growth (including system improvements, upgrades, and new additions) to ensure future system
efficiency and reliability; the proposed rate base, revenue, and expenses; and the proposed revenue
requirement. Staff also completed a compliance review.

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

Purchased Power Costs

21. DVEC reported purchased power costs for the test year of $2,150,515. Staff was able
to track and verify the purchased power costs through a sampling of invoices provided by DVEC to
support the reported costs. In addition, DVEC included net metering kWh volumes in the Application
that were not included in the monthly fuel adjustor reports.

22. Once the differences were accounted for, Staff was able to reconcile the remainder of
sales in the Application. Further, Staff was able to track the monthly Purchased Power Cost Adjustor
("PPCA") filings for the test year with those costs and volumes reported in the Application within a
negligible amount which Staff attributed to rounding.

23. DVEC did not calculate a new base cost of power in the Application. Rule 107 specifies
that the increase request of a maximum of six percent is in base revenue, not attributed to revenue from
an adjustor mechanism. As established in Decision No. 67433, the base cost of power ($0.05843 per
kWh) remains unchanged for the purpose of calculating the PPCA. The PPCA is designed to recover
or refund the difference between the base cost of power included in the Cooperative's base rates and
the actual cost of power.

24. DVEC has operations in both Arizona and New Mexico. The Application reported
purchased power costs are reported for the entire system. DVEC completes an allocation process to
split those costs between Arizona and New Mexico. DVEC based its allocation on kWh sales by state
compared to total kWh sales.

Rate Design

25. DVEC provided proof of revenue broken down by rate schedule. All residential
monthly customer charge increases are less than 25 percent, per Rule 107. The overall base revenue
increase, excluding PPCA revenue, is no more than six percent, and all rate class increases are within
150 percent of the base revenue increase requested, per Rule 107.
26. DVEC and Staff agree to the rates set forth in Exhibit A, which is attached hereto and incorporated herein.

27. The Commission in Decision No. 75859, dated January 3, 2017, details how Arizona electric utilities will, on a going forward basis, compensate net metering customers. Decision No. 75859 also afforded cooperatives flexibility in developing rate design solutions for net metering customers.

28. Pursuant to Rule 107(B)(11), which prohibits a cooperative from proposing a rate structure change or a non-price tariff change, DVEC's application did not include a request for changes to its net metering tariff nor did DVEC request a waiver of Rule 107(B)(11) to include changes to its net metering tariff.

29. DVEC's most recent net metering tariff was approved in Decision No. 74159, dated October 25, 2013. DVEC has filed to update its net metering tariff in Docket No. E-01703A-17-0350, filed November 28, 2017. A Commission decision has not yet been issued in Docket No. E-01703A-17-0350.

30. Staff recommends that, in its next rate case, DVEC should consider making changes to its net metering tariff. In addition, should DVEC determine that a change to its net metering tariff is necessary in the future, the Cooperative should follow the procedures outlined in Decision No. 75859, and any subsequent decisions or rule revisions that may be approved by the Commission.

Staff Engineering

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

32. Based on its analysis, Staff Engineering concluded that:
   a. DVEC is operating and maintaining its electrical system properly.
   b. DVEC is carrying out system improvements, upgrades, and new additions to meet the current and projected load of the Cooperative in an efficient and reliable manner.
   c. These improvements, system upgrades, and new construction are reasonable and appropriate.
   d. The Cooperative's plants, facilities, and equipment in service for the Arizona service territory is "used and useful."
The Cooperative has an acceptable level of system losses, consistent with the industry guidelines, and

DVEC's record of service interruptions in the historic period from 2012 through 2016 reflects a satisfactory quality of service.

### Rate Base, Revenue, and Expenses

33. Pursuant to Rule 107, DVEC treats the Original Cost Rate Base ("OCR"B") the same as the Fair Value Rate Base ("FVRB").

34. DVEC's application requested a rate base of $3,260,476, adjusted test year Arizona total revenues of $3,132,298, and expenses of $2,805,755.

35. DVEC and Staff are in agreement on the proposed rate base, revenues, and expenses, and Staff has recommended their adoption.

### Revenue Requirement and Rate of Return

36. DVEC proposed an Arizona total revenue requirement of $3,132,298. The proposed revenue requirement would yield an operating margin/income of $72,451 for a 2.22 percent rate of return on an OCRB of $3,260,476.

37. The Cooperative's proposed revenue would produce a 28.29 Times Interest Ratio ("TIER") and a 4.30 Debt Service Coverage Ratio ("DSC").

38. Staff recommended adoption of DVEC's proposed revenue requirement.

### Consumer Services

39. Staff reviewed the Commission’s records from January 1, 2014 through November 24, 2017, and found one complaint during that time-period related to quality of service. The complaint was resolved and closed.

40. As noted above, Consumer Services had received no oppositions to the rate application that were filed by customers of DVEC. There have been no requests for intervention filed. The Corporations Division of the Commission finds the Cooperative in "Good Standing".

### Conclusions

41. DVEC's application is in compliance with Rule 107 allowing DVEC's rate case to be processed under the alternative rate case process.
DVEC and Staff are not requesting a hearing in this matter.

DVEC's OCRB and FVRB are determined to be $3,260,476.

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

During the 30 days customers had in which to object to the rate case application, no customers filed objections. No DVEC customers filed for intervention in this docket.

Staff is in agreement with DVEC's proposed rate base of $3,260,476, adjusted test year total revenues of $3,132,298, and expenses of $2,805,755.

The rates and charges approved herein will produce an operating margin of $72,451 for a 2.22 percent rate of return on an OCRB of $3,260,476.

The rates and charges approved herein will produce a 28.29 TIER and a 4.30 DSC ratio.

The rates and charges approved herein will increase revenues by $147,636 or a six percent increase in adjusted base revenue (the same dollar increase is 4.94 percent over adjusted total revenue).

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

Under the rates approved herein, a residential customer with average usage will experience a rate increase of $4.25 per month. A residential customer with median usage will experience a rate increase of $3.99 per month.

Staff's recommendations should be adopted.

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

DVEC requests the Commission exercise its authority under A.A.C. R14-2-107.T to order a limited Phase 2 proceeding pursuant to A.A.C. R14-2-103 for the sole purposes of establishing an export rate for DVEC's retail customers exporting distributed generation and freezing new connections under DVEC's net metering tariff.

Directing a limited Phase 2 proceeding as requested by DVEC is consistent with Decision No. 75859, including subsequent determinations and decisions.
CONCLUSIONS OF LAW

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

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

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

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

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

6. Duncan Valley Electric Cooperative, Inc.’s Application meets the requirements of Rule 107.

7. Pursuant to A.A.C. R14-2-107.T the Commission may direct a rate application filed pursuant to A.A.C. R14-2-107 to proceed pursuant to A.A.C. R14-2-103 at any stage of the proceeding.

ORDER

IT IS THEREFORE ORDERED that Duncan Valley Electric Cooperative, Inc. is hereby directed to file, no later than April 1, 2018, tariffs with a new schedule of rates and charges consistent with Exhibit A of this Order.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for March 2018 usage billed on or after April 1, 2018.

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

IT IS FURTHER ORDERED that a limited phase 2 proceeding shall be conducted pursuant to A.A.C R14-2-103 for the limited purposes of establishing an export rate for Duncan Valley Electric Cooperative, Inc.’s retail customers exporting distributed generation and to consider freezing new connections under Duncan Valley Electric Cooperative Inc.’s net metering tariff.
IT IS FURTHER ORDERED that the Hearing Division is directed to establish a procedural schedule for the Phase 2 proceeding within 60 days of this Decision.

IT IS FURTHERED ORDERED that the Hearing Division is directed to issue a procedural order that requires the Company to provide customer notice of the Phase 2 proceeding, and that allows additional requests for intervention.

IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc.'s base cost of power shall remain at $0.05843 per kWh.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN FORESE
COMMISSIONER DUNN

COMMISSIONER TOBIN
COMMISSIONER OLSON
COMMISSIONER BURNS

IN WITNESS WHEREOF, I, TED VOGT, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 29th day of March, 2018.

TED VOGT
EXECUTIVE DIRECTOR

Dissent: ________________________________

Dissent: ________________________________

EOA:CLA:elr/SJE

Decision No. 76629
Docket No. E-01703A-17-0278

Duncan Valley Electric Cooperative, Inc.
Docket No. E-01703A-17-0278

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Consented to Service by Email
### Single Phase

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Decision No. 76629