

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 TOM FORESE – CHAIRMAN
4 BOB BURNS
5 DOUG LITTLE
6 ANDY TOBIN
7 BOYD DUNN

8 IN THE MATTER OF THE APPLICATION
9 OF DUNCAN VALLEY ELECTRIC
10 COOPERATIVE, INC. – GAS DIVISION FOR
11 A DETERMINATION OF THE FAIR VALUE
12 OF ITS PROPERTY FOR RATEMAKING
13 PURPOSES, TO FIX A JUST AND
14 REASONABLE RATE OF RETURN
15 THEREON, TO APPROVE RATES
16 DESIGNED TO DEVELOP SUCH RETURN,
17 AND FOR RELATED APPROVALS.

DOCKET NO. G-02528A-17-0277

**APPLICATION TO INCREASE
RATES AND CHARGES
PURSUANT TO A.A.C. R14-2-107**

18 Pursuant to Arizona Revised Statutes ("A.R.S.") § 40-250 and Arizona Administrative Code
19 ("A.A.C.") R14-2-107, Duncan Valley Electric Cooperative, Inc. ("DVEC" or the "Cooperative"),
20 hereby submits its Application for a Determination of the Fair Value of its Property for Ratemaking
21 Purposes, to Fix a Just and Reasonable Return Thereon, to Approve Rates Designed to Develop Such
22 Return, and for Related Approvals (the "Application"). In support of this Application, DVEC states as
23 follows:

24 **BACKGROUND**

25 1. In Decision 73649 (February 6, 2013), the Arizona Corporation Commission
26 ("Commission") adopted revisions to A.A.C. R14-2-103 and added a new section A.A.C. R14-2-107
27 which establish an alternative streamlined ratemaking application and process for nonprofit
28 cooperatives providing electric or natural gas utility service. DVEC is a non-profit cooperative which
provides electric service to customers in Arizona and New Mexico.

2. In its last rate case, DVEC filed its application as a Class C utility under A.A.C. R14-
2-107. In Decision No. 74810, The Commission changed the operating revenue levels that define
classes of utility. The requirements for a Class D utility filing under Rule 103 and a Class C Utility

1 filing under Rule 107 are slightly different, but information contained in the required schedules
2 provides substantially the same information. With Staff's and the Utility Director's approval, DVEC is
3 filing this rate application under A.A.C. R14-2-107 and requests that the requirements for A.A.C. R14-
4 2-107(B)(1) "The cooperative is classified as a Class A, B, or C utility" be waived..

5 3. On August 9, 2017, DVEC submitted to the Commission's Utilities Division Staff ("Staff")
6 a Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C) which included
7 a draft of this Application, a proposed form of customer notice and a proposed form of recommended
8 order.

9 4. On September 11, 2017, DVEC met with Staff as required by A.A.C. R14-2-107(C)(3) to
10 discuss the Cooperative's eligibility under A.A.C. R14-2-107(B), the proposed form of customer notice,
11 and the proposed form of recommended order. At that meeting, Staff advised DVEC that it meets the
12 eligibility requirements of A.A.C. R14-2-107(B) for filing a streamlined rate case. At that meeting, Staff
13 also approved the form of customer notice to be mailed to customers as required by A.A.C. R14-2-
14 107(C)(5) and A.A.C. R14-2-107(D).

15 5. After meeting with Staff, DVEC filed a Request for Docket Number and Notice of Filing
16 Proposed form of Customer Notice on September 12, 2017, in accordance with A.A.C. R14-2-
17 107(C)(4). The docket number in this docket was assigned that same day.

18 6. On September 13, 2017, DVEC caused a copy of the approved customer notice to be mailed
19 via First Class Mail to all customers of record as of the date of mailing. On September 29, 2017, DVEC
20 docketed a Notice of Mailing Customer Notice certifying that the approved customer notice was mailed
21 via First Class Mail on September 13, 2017 to each customer of the Cooperative as required by A.A.C.
22 R14-2-107(C)(5) and A.A.C. R14-2-107(D). The customer notice sets a deadline of October 13, 2017
23 for customers of DVEC to file intervention requests and/or objections to the Application.

24 7. DVEC is an Arizona member-owned non-profit distribution cooperative headquartered in
25 Duncan, Arizona. The Cooperative provides natural gas distribution service to approximately 700
26 members/customers located in Greenlee County. DVEC is a classified as a Class D utility under A.A.C.
27 R14-2-103(A)(3)(q).

1 8. DVEC's 8-member Board of Directors ("Board") is elected by the Cooperative's members
2 and oversees all aspects of the Cooperative's operations. At a regular meeting of the Board held on May
3 15, 2017, the Board approved the filing of this Application.

4
5 **REQUEST FOR RATE INCREASE**

6 9. DVEC's test year ("Test Year") is the twelve months ending December 31, 2016. DVEC
7 seeks authority from the Commission to increase its annual gross revenue requirement by \$24,457,
8 from adjusted Test Year revenues of \$530,545 to \$555,002, an increase of 6% over actual Test Year
9 total base revenue. The rate increase would yield an Operating Margin of \$56,052. DVEC's request, if
10 granted, will result in a 7.47% rate of return on Fair Value Rate Base ("FVRB").

11 10. The Application shows that an residential customer with monthly natural gas consumption
12 of 55 therms (average usage) in the winter will see an increase in his or her bill of \$1.32 per month
13 (\$63.32 to \$64.64), or 2.08%, while an residential customer with a monthly natural gas consumption of
14 15 therms (average usage) in the summer will see an increase in his/her bill of \$3.62 per month (\$25.43
15 to \$29.05), or 14.24%. A residential customer with monthly natural gas consumption of 40 therms
16 (median usage) in the winter will see an increase in his/her bill of \$1.77 per month (\$51.78 to \$53.55),
17 or 3.42%. A residential customer with monthly natural gas consumption of 11 therms (median usage)
18 in the summer will see an increase in his/her bill of \$3.45 per month (\$24.25 to \$27.70), or 14.23%.

19 11. The rate increase is necessary to recover operating costs. The rate increase will allow DVEC
20 to maintain the financial integrity of the Cooperative.

21 **ELIGIBILITY CRITERIA**

22 12. The eligibility requirements for filing a streamlined rate case are contained in A.A.C.
23 R14-2-107(B). As set forth below, DVEC meets all of the eligibility requirements of the rule.

24 a. DVEC is a cooperative and is classified as a Class D utility under A.A.C. R14-2-
25 103(A)(3)(q). In its last rate case, DVEC filed its application as a Class C utility under A.A.C. R14-2-
26 107. In Decision No. 74810, The Commission changed the operating revenue levels that define
27 classes of utility. The requirements for a Class D utility filing under Rule 103 and a Class C Utility
28 filing under Rule 107 are slightly different, but information contained in the required schedules

1 provides substantially the same information. With Staff's and the Utility Director's approval, DVEC
2 has filed this rate application under A.A.C. R14-2-107 and requests that the requirements for A.A.C.
3 R14-2-107(B)(1) "The cooperative is classified as a Class A, B, or C utility" be waived.

4 b. The last full permanent rate case decision for DVEC's Gas Division (filed under
5 Duncan Rural Services Corporation) was issued as Decision 68599 issued March 23, 2006, which is
6 within the 180-month period preceding the filing of this Application as required in A.A.C. R14-2-
7 107(B)(2).

8 c. DVEC's current rates were established in Decision No. 74996 issued March 16,
9 2015. DVEC's previous filing was greater than 12 months prior to this filing as per A.A.C. R14-2-
10 107(B)(3).

11 d. This rate application will be DVEC's second filing under A.A.C. R14-2-107(B)(4).

12 e. DVEC is required by law and/or contract to make a certified annual financial and
13 statistical report to its lender, the National Rural Utilities Cooperative Finance Corporation ("CFC").
14 CFC is a non-profit lender that specializes in the utility industry so the Cooperative meets the
15 eligibility requirement of A.A.C. R14-2-107(B)(5). A copy of the Cooperative's December 2016
16 financial and statistical report to CFC is attached hereto as Attachment 1.

17 f. DVEC is using January 2016 to December 2016 as its Test Year in this application.
18 The definition of a "test year" in A.A.C. R14-2-107(A)(14), and the eligibility requirement of A.A.C.
19 R14-2-107(B)(6) require that the test year end within in nine months of the application. DVEC
20 originally had intended to file its Gas Division application under Rule 103 which does not have the
21 nine month requirement. After discussions with Staff (see paragraphs 2 & 12), Staff recommended
22 filing under Rule 107. Due to schedule conflicts, DVEC and Staff were not able to hold a pre-filing
23 eligibility review meeting in a timely matter. Based on Staff's recommendations, DVEC is requesting
24 a waiver from requirement A.A.C. R14-2-107(B)(6) and the test year definition of A.A.C. R14-2-
25 107(A)(14).

26 g. Attached hereto as Attachment 2 are DVEC's audited financial statements for the
27 period ending December 31, 2016. The ending date is within the time frame permitted by A.A.C.
28 R14-2-107(B)(7).

1 h. DVEC is proposing an increase in actual Test Year total base revenue of 6% as
2 permitted under A.A.C. 14-2-107(B)(8).

3 i. DVEC's Application uses original cost rate base as its fair value rate base per
4 A.A.C. R14-2-107(B)(9).

5 j. DVEC's Application does not propose: (i) any change to an existing adjustor or
6 surcharge mechanism; (ii) adoption of any new adjustor or surcharge mechanism; or (iii) adoption of
7 a new hook-up fee or another new type of fee per A.A.C. R14-2-107(B)(10).

8 k. DVEC's Application does not propose a "rate structure change" as defined in
9 A.A.C. R14-2-107(A)(1) or any non-price tariff change per A.A.C. R14-2-107(B)(1).

10 l. DVEC's Application is not seek financing approval or consolidation with another
11 docket per A.A.C. R14-2-107(B)(12).

12 m. The customer notice provided by DVEC conformed to the requirements of A.A.C.
13 R14-2-107(D) and was approved by Staff on September 12, 2017, so the Cooperative meets the
14 eligibility requirement of A.A.C. R14-2-107(B)(13).

15 n. DVEC is a distribution cooperative. Pursuant to A.A.C. R14-2-107(B)(14),
16 objections to the Application timely submitted by the Cooperative's customers may represent no more
17 than 5% of all customer accounts or no more than 1,000 customer accounts, whichever is fewer. For
18 purposes of determining eligibility under this rule, the total number of DVEC customer accounts as of
19 December 31, 2016 was 704. Five percent of the customer accounts is 35, so the applicable objection
20 threshold for DVEC in this rate case is 35.

21 o. The eligibility requirement in A.A.C. R14-2-107(B)(15) applies to generation
22 cooperatives and does not apply to DVEC.

23 **FILING REQUIREMENTS**

24 13. The name of the Applicant is Duncan Valley Electric Cooperative, Inc.

25 14. The Test Year is the 12 months year ended December 31, 2016.

26 15. DVEC hereby waives the use of reconstruction cost new rate base to determine its fair
27 value rate base as required pursuant to A.A.C. R14-2-107(E)(2).

28

1 16. In accordance with A.A.C. R14-2-107(E)(3), a copy of the DVEC's December 2016
2 financial and statistical report to CFC is attached hereto as Attachment 1. This is the Cooperative's
3 most recent report to CFC.

4 17. In accordance with A.A.C. R14-2-107(E)(3), DVEC's audited financial statements for the
5 period ending December 31, 2016, are attached hereto as Attachment 2.

6 18. In accordance with A.A.C. R14-2-107(E)(5) and (6), attached hereto as Attachment 3 is
7 the information listed in the table in A.A.C. R14-2-103(B)(1) for Schedules A-1, A-4, A-5, B-2, B-5,
8 C-1 and C-1.1, C-2, C-3, D-2, E-1, E-2, E-5, E-6, E-7, E-8, E-9, F-1, F-2, F-3, F-4, H-1, H-2, H-3 and
9 H-3.1, H-4.0 through H-4.2, and H-5.0 through H-5.2.

10 19. Attached hereto as Attachment 4 is a copy of the notice that was mailed via First Class
11 Mail to each customer of DVEC as of the date of mailing. A copy of the Affidavit of Mailing
12 Customer Notice was previously docketed with the Commission on September 29, 2017.

13 20. Attached hereto as Attachment 5 is a proposed form of order.

14 21. DVEC requests that this Application be approved without a hearing.

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1 **APPLICANT'S CONTACT INFORMATION**

2 22. All communications, notices, and correspondence regarding this Application, including
3 discovery and pleadings with respect thereto, should be served upon the following:

4 Steven Lunt
5 PO Box 440
6 Duncan, Arizona 85534
7 928-359-2503
8 Email: stevel@dvec.org

9 WHEREFORE, in accordance with A.A.C. R14-2-107, DVEC requests that the Commission
10 enter its order approving the Application and the proposed rate increase.

11 RESPECTFULLY SUBMITTED this 3rd day of October, 2017.

12 By: _____
13 Steven Lunt
14 Chief Executive Officer
15 Duncan Valley Electric Cooperative, Inc.

16 ORIGINAL and 13 copies filed this
17 3rd day of October, 2017, with:

18 Docket Control
19 ARIZONA CORPORATION COMMISSION
20 1200 West Washington
21 Phoenix, Arizona 85007
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Attachment 1

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Duncan Valley Electric Cooperative, Inc
	BORROWER DESIGNATION	AZ023
	ENDING DATE	12/31/2016

Submit one electronic copy and one signed hard copy to CFC. Round all numbers to the nearest dollar.

CERTIFICATION	BALANCE CHECK RESULTS	AUTHORIZATION CHOICES
We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.	<div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin-right: 10px;"> <div style="background-color: red; color: white; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">4</div> <div style="margin-top: 10px;"> <div style="background-color: yellow; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">0</div> <div style="background-color: green; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">17</div> </div> </div> <div> <p style="color: red; margin: 0;">Needs Attention</p> <p style="color: yellow; margin: 0;">Please Review</p> <p style="color: green; margin: 0;">Matches</p> </div> </div>	<p style="text-align: center; font-weight: bold;">AUTHORIZATION CHOICES</p> <p style="color: red; font-weight: bold;">A. NRECA uses rural electric system data for legislative, regulatory and other purposes. May we provide this report from your system to NRECA?</p> <div style="display: flex; justify-content: center; gap: 20px;"> <input checked="" type="radio"/> YES <input type="radio"/> NO </div> <p style="color: red; font-weight: bold;">B. Will you authorize CFC to share your data with other cooperatives?</p> <div style="display: flex; justify-content: center; gap: 20px;"> <input checked="" type="radio"/> YES <input type="radio"/> NO </div>
<div style="margin-bottom: 10px;"> </div> <div style="display: flex; justify-content: space-between;"> 3/24/17 Date </div> <p style="font-size: small;">Signature of Office Manager or Accountant</p>		
<div style="margin-bottom: 10px;"> </div> <div style="display: flex; justify-content: space-between;"> 3/24/17 Date </div> <p style="font-size: small;">Signature of Manager</p>		

PART A. STATEMENT OF OPERATIONS				
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR	THIS YEAR	BUDGET	
	(a)	(b)	(c)	
1. Operating Revenue and Patronage Capital	3,858,798	4,001,789	4,326,706	328,091
2. Power Production Expense	0	0	0	0
3. Cost of Purchased Power	2,164,234	2,275,020	2,582,523	186,228
4. Transmission Expense	0	0	0	0
5. Regional Market Operations Expense	0	0	0	0
6. Distribution Expense - Operation	631,086	554,528	641,242	57,872
7. Distribution Expense - Maintenance	215,302	186,908	226,936	22,091
8. Consumer Accounts Expense	344,174	337,411	349,883	24,828
9. Customer Service and Informational Expense	24,990	25,440	26,611	3,602
10. Sales Expense	0	0	0	0
11. Administrative and General Expense	306,329	297,276	307,768	25,164
12. Total Operation & Maintenance Expense (2 thru 11)	3,686,117	3,676,582	4,134,963	319,785
13. Depreciation & Amortization Expense	305,844	317,958	317,854	27,192
14. Tax Expense - Property & Gross Receipts	0	0	0	0
15. Tax Expense - Other	0	0	0	0
16. Interest on Long-Term Debt	20,420	22,196	22,469	3,727
17. Interest Charged to Construction (Credit)	0	0	0	0
18. Interest Expense - Other	200	470	139	45
19. Other Deductions	0	0	0	0
20. Total Cost of Electric Service (12 thru 19)	4,012,581	4,017,206	4,475,425	350,750
21. Patronage Capital & Operating Margins (1 minus 20)	(153,783)	(15,417)	(148,719)	(22,659)
22. Non Operating Margins - Interest	116,415	156,551	36,611	112,924
23. Allowance for Funds Used During Construction	0	0	0	0
24. Income (Loss) from Equity Investments	56,235	62,784	58,362	5,042
25. Non Operating Margins - Other	1,521	(4,958)	0	0
26. Generation & Transmission Capital Credits	119,556	131,777	0	131,777
27. Other Capital Credits & Patronage Dividends	11,774	11,517	0	0
28. Extraordinary Items	0	0	0	0
29. Patronage Capital or Margins (21 thru 28)	151,719	342,255	(53,746)	227,084

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR	THIS YEAR		LAST YEAR	THIS YEAR
	(a)	(b)		(a)	(b)
1. New Services Connected	60	44	5. Miles Transmission	0	0
2. Services Retired	34	23	6. Miles Distribution Overhead	454	454
3. Total Services In Place	2,588	2,609	7. Miles Distribution Underground	3	3
4. Idle Services (Exclude Seasonal)	176	228	8. Total Miles Energized (5+6+7)	457	457

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT		BORROWER NAME	Duncan Valley E
		BORROWER DESIGNATION	AZ023
		ENDING DATE	12/31/2016

PART E. CHANGES IN UTILITY PLANT

	PLANT ITEM	BALANCE BEGINNING OF YEAR (a)	ADDITIONS (b)	RETIREMENTS (c)	ADJUSTMENTS AND TRANSFER (d)	BALANCE END OF YEAR (e)
1	Distribution Plant Subtotal	6,861,477	319,075	(57,528)	0	7,123,024
2	General Plant Subtotal	1,024,833	76,761	(69,304)	0	1,032,290
3	Headquarters Plant	645,733	4,400	0	0	650,133
4	Intangibles	176		0	0	176
5	Transmission Plant Subtotal	0		0	0	0
6	Regional Transmission and Market Operation Plant	0		0	0	0
7	Production Plant - Steam	0		0	0	0
8	Production Plant - Nuclear	0		0	0	0
9	Production Plant - Hydro	0		0	0	0
10	Production Plant - Other	0		0	0	0
11	All Other Utility Plant	1,626,364	158,430	(32,281)	0	1,752,513
12	SUBTOTAL: (1 thru 11)	10,158,582	558,665	159,112	0	10,558,136
13	Construction Work in Progress	63,557	52,841			116,398
14	TOTAL UTILITY PLANT (12+13)	10,222,139	611,507	159,112	0	10,674,533

CFC NO LONGER REQUIRES SECTIONS "F", "G", AND "N" DATA
Those sections refer to data on "Analysis of Accumulated Provision for Depreciation" (F),
"Materials and Supplies" (G), "Annual Meeting and Board Data" (N), and "Conservation Data" (P).

PART H. SERVICE INTERRUPTIONS

	ITEM	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	Avg. Minutes per Consumer by Cause	TOTAL (e)
		Power Supplier (a)	Major Event (b)	Planned (c)	All Other (d)	
1.	Present Year	0.00	5.38	30.78	36.16	72.32
2.	Five-Year Average	24.99	172.95	21.42	34.30	253.66

PART I. EMPLOYEE - HOUR AND PAYROLL STATISTICS

1.	Number of Full Time Employees	12	4.	Payroll - Expensed	518,979
2.	Employee - Hours Worked - Regular Time	23,589	5.	Payroll - Capitalized	170,740
3.	Employee - Hours Worked - Overtime	1,252	6.	Payroll - Other	11,404

PART J. PATRONAGE CAPITAL

	ITEM	THIS YEAR	CUMULATIVE	PART K. DUE FROM CONSUMERS FOR ELECTRIC SERVICE	
		(a)	(b)	1. Amount Due Over 60 Days:	2. Amount Written Off During Year:
				18,485	
1.	General Retirement	0	3,962,224		
2.	Special Retirements	0	0	0	
3.	Total Retirements (1+2)	0	3,962,224		
4.	Cash Received from Retirement of Patronage Capital by Suppliers of Electric Power	11,156			
5.	Cash Received from Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System	510			
6.	Total Cash Received (4+5)	11,666			

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT							BORROWER NAME		Duncan Valley E	
							BORROWER DESIGNATION		AZ023	
							ENDING DATE		12/31/2016	
PART L. KWH PURCHASED AND TOTAL COST										
	NAME OF SUPPLIER (a)	CFC USE ONLY SUPPLIER CODE (b)	RENEWABLE ENERGY PROGRAM NAME (c)	RENEWABLE FUEL TYPE (d)	KWH PURCHASED (e)	TOTAL COST (f)	AVERAGE COST PER KWH (cents) (g)	INCLUDED IN TOTAL COST		
								FUEL COST ADJUSTMENT (h)	WHEELING & OTHER CHARGES (or Credits) (i)	COMMENTS (j)
1	Arizona Electric Power Cooperative			0 None	28,970,938	2,150,515	7.42	0	0	Comments
2				0 None	0	0	0.00	0	0	Comments
3				0 None	0	0	0.00	0	0	Comments
4				0 None	0	0	0.00	0	0	Comments
5				0 None	0	0	0.00	0	0	Comments
6				0 None	0	0	0.00	0	0	Comments
7				0 None	0	0	0.00	0	0	Comments
8				0 None	0	0	0.00	0	0	Comments
9				0 None	0	0	0.00	0	0	Comments
10				0 None	0	0	0.00	0	0	Comments
11				0 None	0	0	0.00	0	0	Comments
12				0 None	0	0	0.00	0	0	Comments
13				0 None	0	0	0.00	0	0	Comments
14				0 None	0	0	0.00	0	0	Comments
15				0 None	0	0	0.00	0	0	Comments
16				0 None	0	0	0.00	0	0	Comments
17				0 None	0	0	0.00	0	0	Comments
18				0 None	0	0	0.00	0	0	Comments
19				0 None	0	0	0.00	0	0	Comments
20				0 None	0	0	0.00	0	0	Comments
21	TOTALS				28,970,938	2,150,515	7.42	0	0	

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Duncan Valley E
	BORROWER DESIGNATION	AZ023
	ENDING DATE	12/31/2016

PART L. KWH PURCHASED AND TOTAL COST (Continued)

COMMENTS	
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NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Duncan Valley E
	BORROWER DESIGNATION	AZ023
	ENDING DATE	12/31/2016

PART M. LONG-TERM LEASES (If additional space is needed, use separate sheet)

*LIST BELOW ALL "RESTRICTED PROPERTY" ** HELD UNDER "LONG TERM" LEASE. (If none, State "NONE")*

	NAME OF LESSOR	TYPE OF PROPERTY	RENTAL THIS YEAR
1.	Arizona State Land Department/BLM	Right of Way Leases	\$6,058
2.			\$0
3.		TOTAL	\$6,058

** "RESTRICTED PROPERTY" means all properties other than automobiles, trucks, tractors, other vehicles (including without limitation aircraft and ships), office and warehouse space and office equipment (including without limitation computers). "LONG TERM" means leases having unexpired terms in excess of 3 years and covering property having an initial cost in excess of \$250,000).

PART O. LONG-TERM DEBT SERVICE REQUIREMENTS

	NAME OF LENDER	BALANCE END OF YEAR	BILLED THIS YEAR			CFC USE ONLY (d)
			INTEREST (a)	PRINCIPAL (b)	TOTAL (c)	
1	National Rural Utilities Cooperative Finance Corporation	533,354	12,679	36,424	49,103	
2	NCSC	0	0	0	0	
3	Farmer Mac	0	0	0	0	
4	Truck Leases	161,220	9,517	55,564	65,081	
5		0	0	0	0	
6		0	0	0	0	
7		0	0	0	0	
8		0	0	0	0	
9		0	0	0	0	
10	Principal Payments Received from Ultimate Recipients of IRP Loans			0		
11	Principal Payments Received from Ultimate Recipients of REDL Loans			0		
12	TOTAL (Sum of 1 thru 9)	\$694,574	\$22,196	\$91,988	\$114,184	

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Duncan Valley E
	BORROWER DESIGNATION	AZ023
	ENDING DATE	12/31/2016

PART R. POWER REQUIREMENTS DATA BASE

CLASSIFICATION	CONSUMER, SALES, AND REVENUE DATA	JANUARY CONSUMERS (a)	DECEMBER CONSUMERS (b)	AVERAGE CONSUMERS (c)	TOTAL KWH SALES AND REVENUE (d)
1. Residential Sales (excluding seasonal)	a. No. Consumers Served	1,955	1,942	1,949	
	b. KWH Sold				17,716,417
	c. Revenue				2,298,006
2. Residential Sales - Seasonal	a. No. Consumers Served	0	0	0	
	b. KWH Sold				0
	c. Revenue				0
3. Irrigation Sales	a. No. Consumers Served	96	89	93	
	b. KWH Sold				2,653,906
	c. Revenue				345,831
4. Comm. and Ind. 1000 KVA or Less	a. No. Consumers Served	348	348	348	
	b. KWH Sold				6,329,343
	c. Revenue				761,867
5. Comm. and Ind. Over 1000 KVA	a. No. Consumers Served	0	0	0	
	b. KWH Sold				0
	c. Revenue				0
6. Public Street & Highway Lighting	a. No. Consumers Served	2	2	2	
	b. KWH Sold				130,148
	c. Revenue				16,331
7. Other Sales to Public Authority	a. No. Consumers Served	0	0	0	
	b. KWH Sold				0
	c. Revenue				0
8. Sales for Resales-RUS Borrowers	a. No. Consumers Served	0	0	0	
	b. KWH Sold				0
	c. Revenue				0
9. Sales for Resales-Other	a. No. Consumers Served	0	0	0	
	b. KWH Sold				0
	c. Revenue				0
10. TOTAL No. of Consumers (lines 1a thru 9a)		2,401	2,381	2,391	
11. TOTAL KWH Sold (lines 1b thru 9b)					26,829,814
12. TOTAL Revenue Received From Sales of Electric Energy (line 1c thru 9c)					3,422,035
13. Transmission Revenue					0
14. Other Electric Revenue					49,210
15. KWH - Own Use					84,127
16. TOTAL KWH Purchased					28,970,938
17. TOTAL KWH Generated					0
18. Cost of Purchases and Generation					2,150,515
19. Interchange - KWH - Net					0
20. Peak - Sum All KW Input (Metered)					7,646

None
 Non-coincident
 Coincident

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Duncan Valley E
	BORROWER DESIGNATION	AZ023
	ENDING DATE	12/31/2016

PART S. ENERGY EFFICIENCY PROGRAMS

Line #	Classification	Added This Year			Total To Date		
		Number of Consumers (a)	Amount Invested (b)	ESTIMATED MMBTU Savings (c)	Number of Consumers (d)	Amount Invested (e)	ESTIMATED MMBTU Savings (f)
1.	Residential Sales (excluding seasonal)	0	0	0	0	0	0
2.	Residential Sales - Seasonal	0	0	0	0	0	0
3.	Irrigation Sales	0	0	0	0	0	0
4.	Comm. and Ind. 1000 KVA or Less	0	0	0	0	0	0
5.	Comm. and Ind. Over 1000 KVA	0	0	0	0	0	0
6.	Public Street and Highway Lighting	0	0	0	0	0	0
7.	Other Sales to Public Authorities	0	0	0	0	0	0
8.	Sales for Resales - RUS Borrowers	0	0	0	0	0	0
9.	Sales for Resales - Other	0	0	0	0	0	0
10.	TOTAL	0	0	0	0	0	0

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT		BORROWER NAME Duncan Valley E		
		BORROWER DESIGNATION AZ023		
		ENDING DATE 12/31/2016		
(All investments refer to your most recent CFC Loan Agreement)				
7a - PART 1 - INVESTMENTS				
DESCRIPTION (a)	INCLUDED (\$) (b)	EXCLUDED (\$) (c)	INCOME OR LOSS (d)	
2. INVESTMENTS IN ASSOCIATED ORGANIZATIONS				
5	G&T and Statewide Cooperative	20,855	1,785,773	0
6	NRUCFC/NCSC	100	664,414	0
7	AZNEX - Stock	112,784		0
8	Others		76,781	0
Subtotal (Line 5 thru 8)		133,739	2,526,967	0
3. INVESTMENTS IN ECONOMIC DEVELOPMENT PROJECTS				
9		0	0	0
10		0	0	0
11		0	0	0
12		0	0	0
Subtotal (Line 9 thru 12)		0	0	0
4. OTHER INVESTMENTS				
13	Federated	36,125	0	0
14		0	0	0
15		0	0	0
16		0	0	0
Subtotal (Line 13 thru 16)		36,125	0	0
5. SPECIAL FUNDS				
17	Member Loans	34,241	0	0
18		0	0	0
19		0	0	0
20		0	0	0
Subtotal (Line 17 thru 20)		34,241	0	0
6. CASH - GENERAL				
21	OneAz Credit Union	130,424	0	0
22		0	0	0
23		0	0	0
24		0	0	0
Subtotal (Line 21 thru 24)		130,424	0	0
7. SPECIAL DEPOSITS				
25		0	0	0
26		0	0	0
27		0	0	0
28		0	0	0
Subtotal (Line 25 thru 28)		0	0	0
8. TEMPORARY INVESTMENTS				
29	Homestead Funds	1,444,113	0	0
30		0	0	0
31		0	0	0
32		0	0	0
Subtotal (Line 29 thru 32)		1,444,113	0	0
9. ACCOUNT & NOTES RECEIVABLE - NET				
33	Misc A/R	(53)	0	0
34		0	0	0
35		0	0	0
36		0	0	0
Subtotal (Line 33 thru 36)		(53)	0	0
10. COMMITMENTS TO INVEST WITHIN 12 MONTHS BUT NOT ACTUALLY PURCHASED				
37		0	0	0
38		0	0	0
39		0	0	0
40		0	0	0
Subtotal (Line 37 thru 40)		0	0	0
Total		1,778,589	2,526,967	0

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT	BORROWER NAME	Duncan Valley E
	BORROWER DESIGNATION	AZ023
	ENDING DATE	12/31/2016

(All investments refer to your most recent CFC Loan Agreement)

7a - PART II. LOAN GUARANTEES

Line No.	Organization & Guarantee Beneficiary (a)	Maturity Date of Guarantee Obligation (b)	Original Amount (\$) (c)	Performance Guarantee Exposure or Loan Balance (\$) (d)	Available Loans (Covered by Guarantees) (e)
1			0	0	0
2			0	0	0
3			0	0	0
4			0	0	0
5			0	0	0
TOTALS (Line 1 thru 5)			0	0	0

7a - PART III. LOANS

Line No.	Name of Organization (a)	Maturity Date (b)	Original Amount (\$) (c)	Loan Balance (\$) (d)	Available Loans (e)
1	Members Energy Efficiency Loans	11/30/2020	847,961	24,776	0
2			0	0	0
3			0	0	0
4			0	0	0
5			0	0	0
TOTALS (Line 1 thru 5)			847,961	24,776	0

7a - PART IV. TOTAL INVESTMENTS AND LOANS GUARANTEES

1	TOTAL (Part I, Total - Column b + Part II, Totals - Column d + Column e + Part III, Totals - Column d + Column e)	1,803,365
2	LARGER OF (a) OR (b)	4,042,592
	a. 15 percent of Total Utility Plant (CFC Form 7, Part C, Line 3)	1,601,180
	b. 50 percent of Total Equity (CFC Form 7, Part C, Line 35)	4,042,592

DUNCAN VALLEY ELECTRIC CO-OP - Gas FINANCIAL AND STATISTICAL REPORT	YEAR ENDING			
	December 31, 2016			

PART A. STATEMENT OF OPERATIONS

ITEM	YEAR-TO-DATE			December
	LAST YEAR	THIS YEAR	BUDGET	THIS MONTH
	(a)	(b)	(c)	(d)
1. Operating Revenue and Patronage Capital	531,317	530,545	598,414	61,887
2. Cost of Purchased Gas	125,435	124,505	181,573	14,036
3. Revenue Less Cost of Purchased Gas	405,882	406,040	416,841	47,851
	-	-	-	-
5. Distribution Expense-Operation	261,546	193,572	265,549	19,504
6. Distribution Expense-Maintenance	51,558	29,385	51,585	6,800
7. Consumer Accounts Expense	42,430	46,946	44,416	3,612
8. Customer Service and Informational Expense	5,383	5,719	5,471	203
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	26,097	21,126	27,653	1,456
11. Total Operation & Maintenance Expense (5 thru 10)	387,014	296,747	394,675	31,574
12. Depreciation and Amortization Expense	45,654	46,747	46,581	4,127
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	-	-	-	-
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	36	115	25	11
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 thru 18)	432,704	343,610	441,281	35,712
20. Operating Margins (3 - 19)	(26,822)	62,430	(24,439)	12,139
21. Non Operating Margins - Interest	-	-	-	-
23. Non Operating Margins - Other	(253)	-	-	-
27. Total Margins (20 thru 26)	(27,075)	62,430	(24,439)	12,139

PART B. DATA ON DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE	
	LAST YEAR	THIS YEAR
	(a)	(b)
1. New Services Connect	4	9
2. Services Retired	1	3
3. Total Services in Place	931	937
4. Idle Services (Exclude Seasonal)	202	233
8. Total Miles of Line	55	55

DUNCAN VALLEY ELECTRIC CO-OP - Gas FINANCIAL AND STATISTICAL REPORT		MONTH ENDING December 31, 2016	
PART C. BALANCE SHEET			
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	1,752,513	26. Equity Position - Divisional Balancing	1,288,415
2. Construction Work in Progress	3,052	27. Patronage Capital	-
3. Total Utility Plant (1 + 2)	1,755,566	28. Operating Margins - Prior Years	(552,910)
4. Accum. Provision for Depreciation & Amort	990,963	29. Operating Margins - Current Year	62,430
5. Net Utility Plant (3 - 4)	764,603	30. Non Operating Margins	-
6. Nonutility Property - Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	797,936
8. Invest in Assoc Org - General Funds	-	33. Long-Term Debt-DVEC 25 Year	-
9. Invest in Assoc Org - Nongeneral Funds	-	33a. Long-Term Debt-DVEC 35 Year	-
10. Other Investments	-	33b. Long-Term Debt-DVEC 25 Year	-
11. Special Funds	-	33c. Long-Term Debt-DVEC 25 Year	-
12. Total Other Property & Investments (6 thru 11)	-	34. Total Long-Term Debt	-
13. Cash - General Funds	-	35. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	36. Accounts Payable	14,036
15. Special Deposits	-	37. Consumers Deposits	23,235
16. Temporary Investments	-	38. Other Current & Accrued Liabilities	13,776
17. Notes Receivable - Net	-	39. Total Current & Accrued Liabilities (36 thru 39)	51,047
18. Accounts Receivable - Net Sales of Energy	70,499	40. Deferred Credits	-
19. Accounts Receivable - Net Other	-	41. Miscellaneous Operating Reserves	-
20. Materials & Supplies	20,739	42. Total Liabilities & Other Credits (32 + 34 + 39 thru 41)	848,982
21. Prepayments	5,789	ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION	
22. Other Current & Accrued Assets	-	Balance Beginning of Year	-
23. Total Current & Accrued Assets (13 thru 22)	97,027	Amounts Received This Year (Net)	-
24. Deferred Debits	(12,648)	TOTAL Contributions in Aid of Construction	-
25. Total Assets & Other Debits (5+12+23+24)	848,982	PART D. NOTES TO FINANCIAL STATEMENTS	
<p>THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. <i>(IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)</i></p>			

ARIZONA 23 DUNCAN

**DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARY**

DUNCAN, ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

ARIZONA 23 DUNCAN

**DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
AND SUBSIDIARY**

DUNCAN, ARIZONA

CONSOLIDATED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**ARIZONA 23 DUNCAN
DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
DUNCAN, ARIZONA**

**CONSOLIDATED FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

Board of Directors
Duncan Valley Electric Cooperative, Inc.
Duncan, Arizona

We have audited the accompanying consolidated financial statements of Duncan Valley Electric Cooperative, Inc. and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, patronage capital, and other comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duncan Valley Electric Cooperative, Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Information

Our Audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating schedules, schedule of electric plant, accumulated provision for depreciation, other property and investments, patronage capital, administrative and general expenses, five year comparative data, and divisional income statement are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 21, 2017

CONSOLIDATED FINANCIAL STATEMENTS

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Exhibit A

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

ASSETS

	December 31,	
	2016	2015
UTILITY PLANT AT COST		
Plant in Service	\$ 10,558,136	\$ 10,158,583
Construction Work in Progress	116,397	63,557
	\$ 10,674,533	\$ 10,222,140
Less: Accumulated Provision for Depreciation	6,363,515	6,198,384
	\$ 4,311,018	\$ 4,023,756
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Non-Utility Property	\$ 22,728	\$ 22,728
Investments in Associated Organizations	2,584,048	2,463,216
Temporary Investments - Other	1,444,113	1,294,602
Notes Receivable (Less allowance for uncollectibles of \$4,169 in 2016 and \$4,169 in 2015)	34,241	47,147
	\$ 4,085,130	\$ 3,827,693
CURRENT ASSETS		
Cash - General	\$ 132,266	\$ 76,645
Accounts Receivable (Less allowance for uncollectibles of \$14,143 in 2016 and \$12,094 in 2015)	422,776	408,907
Materials and Supplies	153,077	174,814
Interest Receivable	8,267	8,259
Other Current and Accrued Assets	50,913	50,082
	\$ 767,299	\$ 718,707
DEFERRED CHARGES	\$ 340,100	\$ 383,480
TOTAL ASSETS	\$ 9,503,547	\$ 8,953,636

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 8,000,199	\$ 7,720,373
Other Equities (Deficits)	(395,386)	(457,817)
Unrealized Gain on Available-for-Sale Securities	480,371	462,444
	\$ 8,085,184	\$ 7,725,000
LONG-TERM DEBT		
CFC Notes Payable	\$ 295,843	\$ 333,354
Loans Payable	3,148	
Capital Leases Less Current Maturities	93,957	123,143
	\$ 392,948	\$ 456,497
CURRENT LIABILITIES		
Current Portion of CFC Notes Payable	\$ 37,511	\$ 36,424
Current Portion of Capital Leases	29,186	27,665
Current Portion of Loans Payable	34,928	
Line of Credit Payable	200,000	
Accounts Payable - Purchased Power and Gas	181,209	194,848
Accounts Payable - Overbilled Power and Gas Cost	13,416	14,021
Accrued Taxes	51,895	48,559
Consumers' Deposits and Prepayments	67,420	68,255
Accrued Employee Compensated Absences	123,086	116,481
Accrued Payroll	16,661	13,286
Other Current and Accrued Liabilities	56,186	53,694
	\$ 811,498	\$ 573,233
DEFERRED CREDITS	\$ 213,917	\$ 198,906
TOTAL EQUITIES AND LIABILITIES	\$ 9,503,547	\$ 8,953,636

The accompanying notes are an integral part of these consolidated financial statements.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Exhibit B

**CONSOLIDATED STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	Years Ended December 31,				Increase (Decrease)
	2016		2015		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 2,713,526	65.5	\$ 2,673,365	66.9	\$ 40,161
Irrigation	380,794	9.2	334,144	8.4	46,650
Commercial and Industrial	843,292	20.3	815,407	20.4	27,885
Public Street and Highway Lighting	16,331	0.4	15,301	0.4	1,030
Power and Gas Cost Over (Under) Billed	604	0.0	(38,205)	(1.0)	38,809
Internet Revenues	156,010	3.8	147,322	3.7	8,688
Rent from Electric Property	23,191	0.6	23,501	0.6	(310)
Other Operating Revenues	10,866	0.2	22,393	0.6	(11,527)
Total Operating Revenues	<u>\$ 4,144,614</u>	<u>100.0</u>	<u>\$ 3,993,228</u>	<u>100.0</u>	<u>\$ 151,386</u>
OPERATING EXPENSES					
Purchased Power and Gas	\$ 2,275,020	54.9	\$ 2,164,235	54.2	\$ 110,785
Distribution - Operation	546,134	13.2	623,073	15.6	(76,939)
Distribution - Maintenance	188,609	4.6	216,870	5.4	(28,261)
Customer Accounts	338,913	8.2	345,211	8.6	(6,298)
Customer Service and Information	19,721	0.5	19,607	0.5	114
Administrative and General	297,390	7.2	306,365	7.7	(8,975)
Internet Expenses	65,771	1.6	67,446	1.7	(1,675)
Depreciation	322,175	7.8	310,191	7.8	11,984
Other Interest	12,044	0.3	164	0.0	11,880
Total Operating Expenses	<u>\$ 4,065,777</u>	<u>98.3</u>	<u>\$ 4,053,162</u>	<u>101.5</u>	<u>\$ 12,615</u>
OPERATING MARGINS (LOSS) - BEFORE FIXED CHARGES	<u>\$ 78,837</u>	<u>1.7</u>	<u>\$ (59,934)</u>	<u>(1.5)</u>	<u>\$ 138,771</u>
FIXED CHARGES					
Interest on Long-Term Debt	<u>10,508</u>	<u>0.3</u>	<u>20,420</u>	<u>0.5</u>	<u>(9,912)</u>
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	<u>\$ 68,329</u>	<u>1.4</u>	<u>\$ (80,354)</u>	<u>(2.0)</u>	<u>\$ 148,683</u>
Capital Credits	<u>143,294</u>	<u>3.5</u>	<u>131,331</u>	<u>3.3</u>	<u>11,963</u>
NET OPERATING MARGINS	<u>\$ 211,623</u>	<u>4.9</u>	<u>\$ 50,977</u>	<u>1.3</u>	<u>\$ 160,646</u>
NONOPERATING MARGINS					
Interest Income	\$ 156,551	3.8	\$ 116,415	2.9	\$ 40,136
Other Nonoperating Gain (Loss)	<u>(4,959)</u>	<u>(0.1)</u>	<u>1,267</u>	<u>0.0</u>	<u>(6,226)</u>
	<u>\$ 151,592</u>	<u>3.7</u>	<u>\$ 117,682</u>	<u>2.9</u>	<u>\$ 33,910</u>
NET MARGINS - BEFORE INCOME TAX EXPENSE	<u>\$ 363,215</u>	<u>8.6</u>	<u>\$ 168,659</u>	<u>4.2</u>	<u>\$ 194,556</u>
Income Tax Expense - Current	<u>(20,958)</u>	<u>(0.5)</u>	<u>(17,195)</u>	<u>(0.4)</u>	<u>(3,763)</u>
NET MARGINS - BEFORE COMPREHENSIVE INCOME	<u>\$ 342,257</u>	<u>8.1</u>	<u>\$ 151,464</u>	<u>3.8</u>	<u>\$ 190,793</u>
COMPREHENSIVE INCOME					
Gain (Loss) on Securities Available-for-Sale	<u>17,927</u>	<u>0.4</u>	<u>(104,874)</u>	<u>(2.6)</u>	<u>122,801</u>
NET MARGINS - AFTER COMPREHENSIVE INCOME	<u>\$ 360,184</u>	<u>8.5</u>	<u>\$ 46,590</u>	<u>1.2</u>	<u>\$ 313,594</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	7,720,373		7,535,553		
Transfer of Comprehensive Income	(17,927)		104,874		
Transfer (Margins) Losses to Other (Deficits)	(62,431)		27,076		
Transfer Other (Deficits) to Patronage Capital			6,280		
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 8,000,199</u>		<u>\$ 7,720,373</u>		

The accompanying notes are an integral part of these consolidated financial statements.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

Exhibit C

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 342,257	\$ 151,464
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	353,194	335,481
Capital Credits - Noncash	(143,294)	(120,174)
Deferred Charges	43,380	47,544
Deferred Credits	15,011	16,539
Accounts Receivable	(13,869)	(24,327)
Inventories and Other Current Assets	20,898	54,958
Payables and Accrued Expenses	729	10,787
Net Cash Provided By Operating Activities	<u>\$ 618,306</u>	<u>\$ 472,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross Additions to Utility Plant	\$ (611,349)	\$ (446,322)
Salvage Value of Retirements and Other Credits	14,512	12,717
Plant Removal Costs	(43,619)	(45,752)
Investments in Associated Organizations	22,462	9,833
Notes Receivable - Energy Resource Loans (Net)	12,906	(15,251)
Investments in Temporary Investments - Other	(131,584)	(76,049)
Net Cash Used in Investing Activities	<u>\$ (736,672)</u>	<u>\$ (560,824)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	\$ 65,976	\$
Advances on Line of Credit	200,000	
Payments on Loans Payable	(27,900)	
Payments on NRUCFC Notes Payable	(27,665)	(26,223)
Payments on Capital Leases	(36,424)	(35,369)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 173,987</u>	<u>\$ (61,592)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ 55,621</u>	<u>\$ (150,144)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>76,645</u>	<u>226,789</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 132,266</u>	<u>\$ 76,645</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 20,025	\$ 20,420
Income Taxes	<u>\$ 19,028</u>	<u>\$ 15,331</u>

During the years ended December 31, 2016 and 2015, the Cooperative had unrealized gains (losses) of \$17,927 and (\$104,874), respectively, which changed unrealized gain on available for sale and temporary investments - other.

The accompanying notes are an integral part of these consolidated financial statements.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Duncan Valley Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Power delivered at retail is purchased wholesale from Arizona's G&T Cooperatives, of which the Cooperative is a member. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital equity in the balance sheet.

During 2008, the Cooperative merged Duncan Rural Services Corporation (DRSC) into the Cooperative as a division. DRSC acquired the gas and water utility systems serving the town of Duncan, Arizona, and surrounding area from Graham County Utilities, Inc. on November 1, 1989. Subsequently, the water system was transferred to the town of Duncan for the original purchase price.

During 1997, the Cooperative formed a subsidiary company, AZNEX Cooperative Services, Inc. The Subsidiary was formed to provide communication services. The Subsidiary has authorized 10,000,000 shares of no par value common stock of which 50,000 has been issued to the Cooperative. The Subsidiary began operations in January, 1998. In June 2008, AZNEX sold all of its plant to a third party and ceased operating as an internet company and now earns commissions on a percentage of revenue earned by the acquiring company.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary AZNEX Cooperative Services, Inc. All material intercompany transactions have been eliminated.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities modified for electric borrowers of the National Rural Utilities Cooperative Finance Corporation (CFC).

Plant in Service, Maintenance, and Depreciation

Plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric and Gas Revenues

The Cooperative's operating revenues are under the jurisdiction of the Arizona Corporation Commission and the New Mexico Public Regulatory Commission.

The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is not accrued for power delivered but not billed at the end of each month. The unbilled revenue was estimated to be \$92,948 and \$100,264 at December 31, 2016 and 2015, respectively. A recent FASB pronouncement related to revenue recognition will require the Cooperative to recognize unbilled revenue in future financial statements. The requirement will become effective for annual reporting periods during 2019 and will likely result in the recognition of this balance in the financial statements.

The Cooperative records gas revenues as billed to customers on a monthly basis. Revenue is not accrued for gas delivered but not billed at the end of each month. The unbilled revenue was estimated to be \$25,397 and \$29,088 at December 31, 2016 and 2015, respectively. A recent FASB pronouncement related to revenue recognition will require the Cooperative to recognize unbilled revenue in future financial statements. The requirement will become effective for annual reporting periods during 2019 and will likely result in the recognition of this balance in the financial statements.

The Cooperative's tariffs for electric and gas service include a power cost and gas cost recovery factor under which rates charged to customers are adjusted to reflect changes in the cost of power and gas. In order to match power costs and gas costs and related revenues, power cost and gas cost billed in advance is recorded as advance billings to consumers, and power cost and gas cost to be billed in subsequent periods is recognized as accrued unbilled revenue. Annual changes in these amounts appear as over and under billed power cost and gas cost revenue on the statement of income.

Receivables and Bad Debts

The Cooperative records a receivable for power delivered monthly. Periodically, the Board of Directors reviews accounts over 90 days and writes them off. The provision for bad debts is based on historical write-offs and expectations of future bad debts.

Patronage Capital Certificates

Patronage capital allocations received from other associated cooperatives is recorded at the stated amount of the certificates. Due to the timing of actual allocation notices from Arizona's G and T Cooperatives, the Cooperative records final allocations from the previous year as current year income.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The G and T patronage income recognized for the years 2016 and 2015 is as follows:

	December 31,	
	2016	2015
2014 Final Allocation	\$	\$ 119,556
2015 Final Allocation	131,777	
	<u>\$ 131,777</u>	<u>\$ 119,556</u>

Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers cash – general to be cash and cash equivalents.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Duncan, Arizona. The service area includes members in Greenlee County, Arizona, and Hidalgo and Grant Counties, New Mexico. The Cooperative records a receivable for electric and gas revenues as billed on a monthly basis. The Cooperative requires a deposit from consumers upon connection. The deposit accrues interest annually. Deposits are applied to any unpaid bills and fees in the event of default. Deposits on hand totaled \$67,420 and \$68,255 at December 31, 2016 and 2015, respectively. At times during the year, cash balances exceeded FDIC insurance limits.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal Income Tax Status

The Cooperative qualifies for exempt status under Internal Revenue Code section 501(c)(12) which requires that 85% or more of income consists of amounts collected from members.

AZNEX Cooperative Services, Inc. is a taxable C-corporation.

2. Assets Pledged

Currently the Cooperative has capital lease assets whose title remains with lessor throughout the lease term. In addition, the Cooperative has amounts owing National Rural Utilities Cooperative Finance Corporation (CFC) though no assets are pledged against that debt.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Plant in Service

The major classes of electric plant are as follows:

	December 31,	
	2016	2015
Duncan Valley Electric Cooperative, Inc.		
Intangible Plant	\$ 176	\$ 176
Distribution Plant	7,123,024	6,861,477
General Plant	1,682,423	1,670,566
Total Electric Plant in Service	<u>\$ 8,805,623</u>	<u>\$ 8,532,219</u>
Gas Utility Plant	\$ 1,710,225	\$ 1,585,905
Gas General Plant	42,288	40,459
Total Gas Plant in Service	<u>\$ 1,752,513</u>	<u>\$ 1,626,364</u>
Construction Work in Progress	\$ 116,397	\$ 63,557
Total Utility Plant	<u>\$ 10,674,533</u>	<u>\$ 10,222,140</u>

Provision has been made for depreciation of distribution plant at the straight-line composite rates as follows, for both 2016 and 2015:

Station Equipment	3.20%
Poles, Towers, and Fixtures	4.00%
Overhead Conductors and Devices	2.80%
Underground Conduit	2.30%
Underground Conductors and Devices	2.90%
Line Transformers	3.10%
Services	3.60%
Meters	3.40%
Street Lighting and Signal Systems	4.30%
Gas Utility Plant	2.80% - 9.60%

General plant depreciation rates have been applied on a straight-line basis and are as follows:

Structures	2.85% - 10.00%
Furniture and Equipment	16.67% - 25.00%
Transportation Equipment	6.36% - 10.00%
Stores Equipment	10.00% - 12.50%
Shop and Laboratory Equipment	8.34% - 20.00%
Communications Equipment	10.00% - 20.00%
Miscellaneous Equipment	20.00%

Depreciation for the years ended December 31, 2016 and 2015 was \$353,194 and \$335,481, respectively, of which \$322,175 and \$310,191 was charged to depreciation expense, and \$31,019 and \$25,290 allocated to other accounts.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Non-Utility Property

Non-utility property includes land (seven acres, cost \$22,728) not presently being used in the utility operations.

5. Investments in Associated Organizations

Investments in associated organizations consisted of the following as of December 31, 2016 and 2015:

	December 31,	
	<u>2016</u>	<u>2015</u>
CFC		
Membership	\$ 1,000	\$ 1,000
Capital Term Certificates	160,647	160,647
Member Capital Securities	500,000	500,000
Patronage Capital	2,767	2,244
Arizona's G&T Cooperatives		
Patronage Capital	1,785,618	1,664,559
Membership	5	105
NRTC		
Patronage Capital	66,269	68,142
Membership	1,000	1,000
Grand Canyon State Electric Cooperative, Inc.		
Membership	150	150
Building	20,855	21,416
Federated Insurance		
Patronage Capital	36,125	36,468
Other	9,612	7,485
	<u>\$ 2,584,048</u>	<u>\$ 2,463,216</u>

Patronage capital certificates are recorded at the stated amount of the certificates. All other investments are recorded at cost.

6. Notes Receivable

Notes receivable consist of the following:

	December 31,	
	<u>2016</u>	<u>2015</u>
Member Loans - Energy Efficiency Applications	\$ 38,410	\$ 51,316
Reserve for Uncollectible Loans	<u>(4,169)</u>	<u>(4,169)</u>
	<u>\$ 34,241</u>	<u>\$ 47,147</u>

During 1990, the Cooperative initiated a program to finance the cost and installation of heat pumps for members. The loans are to be repaid monthly over five years with an interest rate of 5.50%.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Temporary Cash Investments

	December 31,	
	2016	2015
Homestead Funds (at Fair Market Value)	\$ 1,324,252	\$ 1,179,624
Judy White Memorial Scholarship Fund (at Fair Market Value)	119,861	114,978
Total Investments	\$ 1,444,113	\$ 1,294,602

The Cooperative’s investment in available-for-sale securities is shown at fair market value. Gains and losses on securities classified as available-for-sale are recognized through the equity account.

The following available-for-sale securities were held as of December 31, 2016:

	Fair Value	Cost	Unrealized Gain
Homestead Funds	\$ 1,444,113	\$ 963,742	\$ 480,371
	\$ 1,444,113	\$ 963,742	\$ 480,371

Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

Level 2 - Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs are unobservable inputs for the asset or liability.

The securities above are considered Level 1.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Inventories

Inventories consist of:

	December 31,	
	2016	2015
Duncan Valley Electric Cooperative, Inc.		
Electric Construction Materials and Supplies	\$ 131,154	\$ 148,738
Resale	1,184	2,359
Gas Utility Construction Material and Supplies	20,739	23,717
Total Cooperative Inventory	<u>\$ 153,077</u>	<u>\$ 174,814</u>

9. Deferred Charges

Deferred charges consist of the following:

	December 31,	
	2016	2015
Right of Way	\$ 40,121	\$ 34,585
NRECA Retirement Funding Prepayment	296,937	344,447
Other	3,042	4,448
	<u>\$ 340,100</u>	<u>\$ 383,480</u>

The Cooperative prepaid premiums into the NRECA retirement plan during the year ended December 31, 2013 to receive reduced annual contribution rates. The related deferred charge is being recognized over the estimated benefit period of the prepayment, which was ten years.

10. Income Taxes

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as long as 85% of its revenue is from members for the sole purpose of meeting losses and expenses. For the year ended December 31, 2016, the Cooperative qualified for exemption.

AZNEX Cooperative Services, Inc. is a C-corporation subject to federal income taxes. This corporation files a federal income tax return. Current taxes and deferred taxes are allocated to each corporation on a standalone basis.

The Cooperative follows accounting standards for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Cooperative's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized and settled. As changes in the tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. Currently there are no timing differences between book income and taxable income and as such no deferred taxes are recognized.

The components of the provision for federal and state tax expense are as follows:

	December 31,	
	2016	2015
<u>Federal</u>		
Federal Income Tax Expense	\$ 15,123	\$ 12,078
<u>State</u>		
State Income Tax Expense	5,835	5,117
Total Provision for Federal and State Income Taxes	\$ <u>20,958</u>	\$ <u>17,195</u>

AZNEX Cooperative Services, Inc. does not have a net operating loss (NOL) carryover for state or federal income tax purposes.

The Cooperative and Subsidiary apply the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative and Subsidiary determined that it is more likely than not that their tax positions will be sustained upon examination by The Internal Revenue Service (IRS), or other State taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and the state of Arizona. The Cooperative and subsidiaries are no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2013, and state taxing authorities for years before 2012.

The Cooperative and Subsidiary recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2016 and 2015.

11. Return of Capital

No patronage capital has been retired in 2016 or 2015.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Patronage Capital

	December 31,	
	2016	2015
Assigned	\$ 11,497,777	\$ 11,497,777
Assignable	464,646	184,820
	\$ 11,962,423	\$ 11,682,597
Less: Retired	3,962,224	3,962,224
Balance	\$ 8,000,199	\$ 7,720,373

13. Other Equities (Deficits)

	December 31,	
	2016	2015
Retired Capital Credits - Gain	\$ 95,093	\$ 95,093
Unrecovered Losses	(490,479)	(552,910)
	\$ (395,386)	\$ (457,817)

14. Long-Term Debt

Capital Lease Obligations

During the year ended 2012, the Cooperative leased equipment from Altec Capital Services, LLC. The economic substance of the capital leases is that the Cooperative is financing the acquisition of the assets through the lease over their terms, and accordingly, they are reflected in the Cooperative's plant assets and liabilities.

The following is an analysis of the book value of the leased assets included in electric plant at December 31, 2016 and 2015, which is being depreciated on a straight-line basis over 15 years.

	December 31,	
	2016	2015
Cost	\$ 236,766	\$ 236,766
Accumulated Depreciation	(69,534)	(54,082)
	\$ 167,232	\$ 182,684

The capital lease obligation has an interest rate of 5.364% and will mature in 2019. The entire lease obligation to Altec Capital Services, LLC called for payments totaling \$243,222 over the term of the leases.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Below is a schedule by years of the future minimum payments required under the leases, with their present value at December 31, 2016 and 2015.

	December 31,	
	2016	2015
	Altec Leasing	Altec Leasing
2016	\$	\$ 35,081
2017	35,081	35,081
2018	35,081	35,081
2019	64,893	64,893
Total Minimum Lease Payments	\$ 135,055	\$ 170,136
Amount Representing Interest	(11,912)	(19,328)
Present Value of Lease Payments	<u>\$ 123,143</u>	<u>\$ 150,808</u>
Current Maturities	\$ 29,186	\$ 27,665
Non Current Maturities	93,957	123,143
	<u>\$ 123,143</u>	<u>\$ 150,808</u>

CFC Notes Payable

During 2013, the Cooperative borrowed \$475,099 from CFC for the purpose of funding the NRECA Accelerated Funding Payment for the Retirement and Security Plan. These funds were originally borrowed using the Cooperative's line of credit until permanent financing could be established. During 2014, a note was issued with a principal balance of \$431,000 to be paid over 11 years at 2.950%. As of December 31, 2016, the remaining unpaid principal was \$333,354.

Maturities for the next five years are as follows:

2017	\$ 37,511
2018	38,629
2019	39,782
2020	40,968
2021	42,190

Loans Payable

During 2016, the Cooperative purchased a new truck with a note from Ford Motor Credit. The note carries an interest rate of 4.89% and is due in monthly installments of principal and interest of approximately \$1,244 and matures in the year 2018.

Maturities for the next two years are as follows:

2017	\$ 34,928
2018	3,148

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Short-Term Borrowing

The Cooperative has a \$550,000 line of credit for short-term financing with CFC at an interest rate of 2.50% which expires on September 17, 2017. At December 31, 2016 and 2015, the Cooperative had \$200,000 and \$0 outstanding.

16. Deferred Credits

	December 31,	
	2016	2015
Judy White Memorial Scholarship Fund	\$ 81,416	\$ 66,094
Renewable Energy Standards Tariff - NM and AZ	98,741	99,518
Other	33,760	33,294
	<u>\$ 213,917</u>	<u>\$ 198,906</u>

17. Litigation, Commitments, and Contingencies

There is no pending litigation which would materially affect the financial position of the Cooperative.

The Cooperative is committed to purchase its electric power requirements from Arizona's G and T Cooperatives through the year 2035.

18. Pension Benefits

Narrative Description

The NRECA Retirement Security Plan (the RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative contributions to the RS Plan in 2016 and in 2015 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$154,543 in 2016 and \$150,830 in 2015. There have been no significant changes that affect the comparability of 2016 and 2015 contributions. Pension expense for the years ended December 31, 2016 and 2015, including amortization of R&S prepayment, was \$202,053 and \$198,340, respectively.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2016 and 2015 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Defined Contribution Plan

The employees also participate in a 401(k) plan, a defined contribution plan provided through National Rural Electric Cooperative Association. The Cooperative makes monthly contributions to the plan. The cost for the Cooperative was \$37,971 and \$41,916 for the years ended December 31, 2016 and 2015, respectively.

19. Related Party Transactions

The Cooperative is represented on the Board of Directors of Arizona’s G and T Cooperatives and purchases all of its electric power from them. Margins earned by Arizona’s G and T Cooperatives have been allocated to the Cooperative and are included under Investments in Associated Organizations.

20. Subsequent Events

The Cooperative has evaluated subsequent events through February 21, 2017, the date which the financial statements were available to be issued.

21. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be clarified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. The Cooperative is evaluating the impact of the new standard on the financial statements.

CONSOLIDATING AND ACCOMPANYING INFORMATION

CONSOLIDATING INFORMATION

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 1

**CONSOLIDATING INFORMATION
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015**

ASSETS

	December 31,	
	2016	2015
UTILITY PLANT AT COST		
Plant in Service	\$ 10,558,136	\$ 10,158,583
Construction Work in Progress	116,397	63,557
	<u>\$ 10,674,533</u>	<u>\$ 10,222,140</u>
Less: Accumulated Provision for Depreciation	6,363,515	6,198,384
	<u>\$ 4,311,018</u>	<u>\$ 4,023,756</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Non-Utility Property	\$ 22,728	\$ 22,728
Investments in Associated Organizations	2,584,048	2,463,216
Temporary Investments - Other	1,444,113	1,294,602
Investment in Subsidiary Company	112,784	106,234
Notes Receivable (Less allowance for uncollectibles of \$4,169 in 2016 and \$4,169 in 2015)	34,241	47,147
	<u>\$ 4,197,914</u>	<u>\$ 3,933,927</u>
CURRENT ASSETS		
Cash - General	\$ 130,424	\$ 72,648
Accounts Receivable (Less allowance for uncollectibles of \$14,143 in 2016 and \$12,094 in 2015)	356,060	360,097
Materials and Supplies	153,077	174,809
Interest Receivable	8,267	8,259
Other Current and Accrued Assets	35,223	35,487
	<u>\$ 683,051</u>	<u>\$ 651,300</u>
DEFERRED CHARGES	\$ 340,100	\$ 383,480
TOTAL ASSETS	<u>\$ 9,532,083</u>	<u>\$ 8,992,463</u>
EQUITIES AND LIABILITIES		
EQUITIES		
Patronage Capital	\$ 8,000,199	\$ 7,720,373
Other (Deficits)	(395,386)	(457,817)
Unrealized Gain on Available-for-Sale	480,371	462,444
	<u>\$ 8,085,184</u>	<u>\$ 7,725,000</u>
LONG-TERM DEBT		
CFC Notes Payable	\$ 295,843	\$ 333,354
Loans Payable	3,148	
Capital Leases	93,957	123,143
	<u>\$ 392,948</u>	<u>\$ 456,497</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 101,625	\$ 64,089
Line of Credit Payable	200,000	
Accounts Payable - Purchased Power and Gas	181,209	194,848
Accounts Payable - Intercompany	49,109	56,380
Overbilled Power and Gas Cost	13,416	14,021
Accrued Taxes	51,895	48,559
Consumers' Deposits and Prepayments	67,420	68,255
Accrued Employee Compensated Absences	123,086	116,481
Accrued Payroll	16,661	13,286
Other Current and Accrued Liabilities	35,613	36,141
	<u>\$ 840,034</u>	<u>\$ 612,060</u>
DEFERRED CREDITS	\$ 213,917	\$ 198,906
TOTAL EQUITIES AND LIABILITIES	<u>\$ 9,532,083</u>	<u>\$ 8,992,463</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 2

CONSOLIDATING INFORMATION
STATEMENTS OF INCOME, PATRONAGE CAPITAL, AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Years Ended December 31,				Increase (Decrease)
	2016		2015		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 2,713,526	68.0	\$ 2,673,365	69.4	\$ 40,161
Irrigation	380,794	9.5	334,144	8.7	46,650
Commercial and Industrial	843,292	21.1	815,407	21.2	27,885
Public Street and Highway Lighting	16,331	0.4	15,301	0.4	1,030
Power and Gas Cost Over (Under) Billed	604	0.0	(38,205)	(1.0)	38,809
Rent from Electric Property	29,688	0.7	29,947	0.8	(259)
Other Operating Revenues	10,866	0.3	22,393	0.5	(11,527)
Total Operating Revenues	<u>\$ 3,995,101</u>	<u>100.0</u>	<u>\$ 3,852,352</u>	<u>100.0</u>	<u>\$ 142,749</u>
OPERATING EXPENSES					
Purchased Power and Gas	\$ 2,275,020	56.9	\$ 2,164,235	56.2	\$ 110,785
Distribution - Operation	546,134	13.7	623,073	16.2	(76,939)
Distribution - Maintenance	188,609	4.7	216,870	5.6	(28,261)
Customer Accounts	338,913	8.5	345,211	9.0	(6,298)
Customer Service and Information	19,721	0.5	19,607	0.5	114
Administrative and General	297,390	7.4	306,365	8.0	(8,975)
Depreciation	322,175	8.1	310,191	8.1	11,984
Other Interest	12,044	0.3	164	0.0	11,880
Total Operating Expenses	<u>\$ 4,000,006</u>	<u>100.1</u>	<u>\$ 3,985,716</u>	<u>103.6</u>	<u>\$ 14,290</u>
OPERATING LOSS - BEFORE FIXED CHARGES	<u>\$ (4,905)</u>	<u>(0.1)</u>	<u>\$ (133,364)</u>	<u>(3.6)</u>	<u>\$ 128,459</u>
FIXED CHARGES					
Interest on Long-Term Debt	<u>10,508</u>	<u>0.3</u>	<u>20,420</u>	<u>0.5</u>	<u>(9,912)</u>
OPERATING LOSS - AFTER FIXED CHARGES	<u>\$ (15,413)</u>	<u>(0.4)</u>	<u>\$ (153,784)</u>	<u>(4.1)</u>	<u>\$ 138,371</u>
Capital Credits	<u>143,294</u>	<u>3.6</u>	<u>131,331</u>	<u>3.4</u>	<u>11,963</u>
NET OPERATING MARGINS (LOSS)	<u>\$ 127,881</u>	<u>3.2</u>	<u>\$ (22,453)</u>	<u>(0.7)</u>	<u>\$ 150,334</u>
NONOPERATING MARGINS					
Interest Income	\$ 156,551	3.9	\$ 116,415	3.0	\$ 40,136
Other Nonoperating Gain (Loss)	(4,959)	(0.1)	1,268	0.0	(6,227)
Income from Subsidiary	62,784	1.6	56,234	1.5	6,550
	<u>\$ 214,376</u>	<u>5.4</u>	<u>\$ 173,917</u>	<u>4.5</u>	<u>\$ 40,459</u>
NET MARGINS - BEFORE COMPREHENSIVE INCOME	<u>\$ 342,257</u>	<u>8.6</u>	<u>\$ 151,464</u>	<u>3.8</u>	<u>\$ 190,793</u>
COMPREHENSIVE INCOME					
Gain (Loss) on Securities Available for Sale	<u>17,927</u>	<u>0.4</u>	<u>(104,874)</u>	<u>(2.7)</u>	<u>122,801</u>
NET MARGINS - AFTER COMPREHENSIVE INCOME	<u>\$ 360,184</u>	<u>9.0</u>	<u>\$ 46,590</u>	<u>1.1</u>	<u>\$ 313,594</u>
PATRONAGE CAPITAL - BEGINNING OF YEAR	7,720,373		7,535,553		
Transfer of Comprehensive Income	(17,927)		104,874		
Transfer (Margins) Losses to Other (Deficits)	(62,431)		27,076		
Transfer Other (Deficits) to Patronage Capital			6,280		
PATRONAGE CAPITAL - END OF YEAR	<u>\$ 8,000,199</u>		<u>\$ 7,720,373</u>		

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 3

**CONSOLIDATING INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 342,257	\$ 151,464
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation	353,194	335,481
Income from Subsidiary	(62,784)	(56,234)
Deferred Charges	43,380	47,544
Deferred Credits	15,011	16,539
Accounts Receivable	4,037	(24,498)
Inventories and Other Current Assets	21,988	52,516
Payables and Accrued Expenses	(9,562)	8,948
Net Cash Provided by Operating Activities	\$ 707,521	\$ 531,760
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross Additions to Utility Plant	\$ (611,349)	\$ (446,322)
Salvage Value of Retirements and Other Credits	14,512	12,717
Plant Removal Costs	(43,619)	(45,752)
Investments in Associated Organizations	(120,832)	(110,341)
Notes Receivable - Energy Resource Loans (Net)	12,906	(15,251)
Dividends Received	56,234	58,294
Investments in Temporary Investment	(131,584)	(76,049)
Net Cash Used in Investing Activities	\$ (823,732)	\$ (622,704)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	\$ 65,976	\$
Advances on Line of Credit	200,000	
Payments on Loans Payable	(27,900)	
Payments on Capital Leases	(27,665)	(26,223)
Payments on CFC Notes Payable	(36,424)	(35,369)
Net Cash Provided Used in Financing Activities	\$ 173,987	\$ (61,592)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 57,776	\$ (152,536)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	72,648	225,184
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 130,424	\$ 72,648
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 20,025	\$ 20,420
Income Taxes	\$ 0	\$ 0

During the years ended December 31, 2016 and 2015, the Cooperative had unrealized gains (losses) of \$17,927 and (\$104,874), respectively, which changed unrealized gain on available for sale and temporary investments - other.

AZNEX COOPERATIVE SERVICES, INC.

Schedule 4

**CONSOLIDATING INFORMATION
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015**

ASSETS

	December 31,	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash - General	\$ 1,842	\$ 3,997
Accounts Receivable	66,716	48,810
Accounts Receivable - Intercompany	49,109	56,380
Prepaid Income Taxes	15,690	14,600
	<u>\$ 133,357</u>	<u>\$ 123,787</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accrued Liabilities	\$ <u>20,573</u>	\$ <u>17,553</u>
	<u>\$ 20,573</u>	<u>\$ 17,553</u>
STOCKHOLDERS' EQUITY		
Capital Stock; No Par Value; 10,000,000 Shares Authorized; 50,000 Shares Issued and Outstanding	\$ 50,000	\$ 50,000
Retained Earnings	62,784	56,234
	<u>\$ 112,784</u>	<u>\$ 106,234</u>
	<u>\$ 133,357</u>	<u>\$ 123,787</u>

AZNEX COOPERATIVE SERVICES, INC.

Schedule 5

**CONSOLIDATING INFORMATION
STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	December 31,	
	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Commission Revenue	\$ <u>156,010</u>	\$ <u>147,322</u>
	\$ <u>156,010</u>	\$ <u>147,322</u>
OPERATING EXPENSES		
Commission Expenses	\$ <u>72,268</u>	\$ <u>73,893</u>
	\$ <u>72,268</u>	\$ <u>73,893</u>
OPERATING MARGINS - BEFORE INCOME TAXES	\$ 83,742	\$ 73,429
INCOME TAX EXPENSE	<u>(20,958)</u>	<u>(17,195)</u>
OPERATING MARGINS - AFTER INCOME TAXES	\$ 62,784	\$ 56,234
RETAINED EARNINGS - BEGINNING OF YEAR	56,234	58,294
DIVIDENDS	<u>(56,234)</u>	<u>(58,294)</u>
RETAINED EARNINGS - END OF YEAR	\$ <u><u>62,784</u></u>	\$ <u><u>56,234</u></u>

AZNEX COOPERATIVE SERVICES, INC.

Schedule 6

**CONSOLIDATING INFORMATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	December 31,	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 62,784	\$ 56,234
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Accounts Receivable	(17,906)	171
Accounts Receivable - Intercompany	7,271	2,415
Prepaid Income Taxes	(1,090)	2,440
Payables and Accrued Expenses	3,020	(575)
Net Cash Provided by Operating Activities	<u>\$ 54,079</u>	<u>\$ 60,685</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Provided by (Used in) Investing Activities	<u>\$ 0</u>	<u>\$ 0</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends Paid	<u>\$ (56,234)</u>	<u>\$ (58,294)</u>
Net Cash Used in Financing Activities	<u>\$ (56,234)</u>	<u>\$ (58,294)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (2,155)	\$ 2,391
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,997</u>	<u>1,606</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,842</u></u>	<u><u>\$ 3,997</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	<u>\$ 0</u>	<u>\$ 0</u>
Income Taxes	<u>\$ 19,028</u>	<u>\$ 15,331</u>

ACCOMPANYING INFORMATION

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 7

**ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Balance 1/1/2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2016</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Intangible Plant	\$ 176	\$ 0	\$ 0	\$ 176
Distribution Plant				
Land and Land Rights	\$ 2,397	\$ 1,000	\$	\$ 3,397
Station Equipment	145,413			145,413
Poles, Towers, and Fixtures	2,094,971	83,846	17,434	2,161,383
Overhead Conductors and Devices	1,608,065	30,681	17,097	1,621,649
Underground Conduit	21,336			21,336
Underground Conductors and Devices	141,876			141,876
Line Transformers	1,469,931	50,656	12,615	1,507,972
Services	625,742	33,786	5,825	653,703
Meters	562,486	103,724		666,210
Street Light and Signal Systems	189,260	15,381	4,556	200,085
Total	<u>\$ 6,861,477</u>	<u>\$ 319,074</u>	<u>\$ 57,527</u>	<u>\$ 7,123,024</u>
General Plant				
Land and Land Rights	\$ 9,740	\$	\$	\$ 9,740
Structures and Improvements	635,993	4,400		640,393
Office Furniture and Equipment	149,096	2,572		151,668
Transportation Equipment	408,666	74,189	69,304	413,551
Stores Equipment	30,190			30,190
Tools, Shop, and Garage Equipment	16,218			16,218
Laboratory Equipment	19,264			19,264
Power Operated Equipment	256,765			256,765
Communications Equipment	54,715			54,715
Miscellaneous Equipment	89,919			89,919
Total	<u>\$ 1,670,566</u>	<u>\$ 81,161</u>	<u>\$ 69,304</u>	<u>\$ 1,682,423</u>
Total Classified Electric Plant in Service	<u>\$ 8,532,219</u>	<u>\$ 400,235</u>	<u>\$ 126,831</u>	<u>\$ 8,805,623</u>
Gas Plant in Service				
Distribution Plant	\$ 1,585,905	\$ 156,445	\$ 32,125	\$ 1,710,225
General Plant	40,459	1,829		42,288
Total Gas Plant in Service	<u>\$ 1,626,364</u>	<u>\$ 158,274</u>	<u>\$ 32,125</u>	<u>\$ 1,752,513</u>
Construction Work in Progress	<u>\$ 63,557</u>	<u>\$ 52,840</u>	<u>\$ 0</u>	<u>\$ 116,397</u>
Total Utility Plant	<u><u>\$ 10,222,140</u></u>	<u><u>\$ 611,349</u></u>	<u><u>\$ 158,956</u></u>	<u><u>\$ 10,674,533</u></u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 8

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Balance 1/1/2016</u>	<u>Depreciation Accruals</u>	<u>Retirements</u>	<u>Balance 12/31/2016</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Distribution Plant	\$ 3,968,897	\$ 237,160	\$ 86,817	\$ 4,119,240
General Plant				
Structures and Improvements	\$ 580,844	\$ 16,520	\$	\$ 597,364
Laboratory Equipment	19,264			19,264
Office Furniture and Fixtures	119,841	13,311		133,152
Transportation Equipment	260,839	19,256	61,804	218,291
Tools, Shop, and Garage Equipment	16,217			16,217
Communications Equipment	48,608	1,116		49,724
Stores Equipment	30,191			30,191
Power Operated Equipment	117,856	11,763	2,627	126,992
Miscellaneous Equipment	54,864	7,319	(2,627)	64,810
Total General Plant	<u>\$ 1,248,524</u>	<u>\$ 69,285</u>	<u>\$ 61,804</u>	<u>\$ 1,256,005</u>
Total Classified Electric Plant in Service	<u>\$ 5,217,421</u>	<u>\$ 306,445</u>	<u>\$ 148,621</u>	<u>\$ 5,375,245</u>
Gas Plant in Service				
Distribution Plant	\$ 950,665	\$ 46,507	\$ 42,423	\$ 954,749
General Plant	36,442	242		36,684
Total Gas Plant in Service	<u>\$ 987,107</u>	<u>\$ 46,749</u>	<u>\$ 42,423</u>	<u>\$ 991,433</u>
Retirement Work in Progress	<u>\$ (6,144)</u>	<u>\$</u>	<u>\$ (2,981)</u>	<u>\$ (3,163)</u>
	<u>\$ 6,198,384</u>	<u>\$ 353,194</u>	<u>\$ 188,063</u>	<u>\$ 6,363,515</u>
		(1)	(2)	
(1) Charged to Depreciation Expense		\$ 322,175		
Charged to Clearing Accounts		<u>31,019</u>		
		<u>\$ 353,194</u>		
(2) Cost of Units Retired			\$ 158,956	
Add: Cost of Removal			43,619	
Less: Salvage and Other Credits			<u>14,512</u>	
Loss Due to Retirements			<u>\$ 188,063</u>	

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 9

OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2016 AND 2015

	December 31,	
	<u>2016</u>	<u>2015</u>
NON-UTILITY PROPERTY		
Land	\$ <u>22,728</u>	\$ <u>22,728</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Patronage Capital Credits		
Arizona Electric Power Cooperative, Inc.	\$ 1,785,618	\$ 1,664,559
CFC	2,767	2,244
NRTC	66,269	68,142
Western United	9,512	7,005
Memberships		
CFC	1,000	1,000
Grand Canyon State Electric Cooperatives Association	150	150
Grand Canyon State Electric Cooperatives- Building	20,855	21,416
Arizona's G&T Cooperatives	5	105
National Cooperative Services Corporation	100	100
NRTC	1,000	1,000
Capital Term Certificates - CFC	160,647	160,647
Member Capital Securities - CFC	500,000	500,000
Investment - Federated Insurance	36,125	36,848
	\$ <u>2,584,048</u>	\$ <u>2,463,216</u>
TEMPORARY INVESTMENTS - OTHER		
Homestead Funds	\$ 1,324,253	\$ 1,179,624
Judy White Memorial Scholarship Fund	119,860	114,978
	\$ <u>1,444,113</u>	\$ <u>1,294,602</u>
INVESTMENT IN SUBSIDIARY - AZNEX, INC.		
Capital Stock	\$ 50,000	\$ 50,000
Accumulated Margins	62,784	56,234
	\$ <u>112,784</u>	\$ <u>106,234</u>
NOTES RECEIVABLE		
Member Loans - Heat Pump Installations	\$ 38,410	\$ 51,316
Reserve for Uncollectible Loans	(4,169)	(4,169)
	\$ <u>34,241</u>	\$ <u>47,147</u>
Total Other Property and Investments	\$ <u>4,197,914</u>	\$ <u>3,933,927</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 10

PATRONAGE CAPITAL
DECEMBER 31, 2016

Year	Assignable		Assigned		Retired	Balance
	G&T	Distribution	G&T	Distribution		
1962	\$	\$	\$	\$ 18,451	\$ 18,451	\$
1963				28,331	28,331	
1964				24,321	24,321	
1965				22,136	22,136	
1966				14,129	14,129	
1967				26,314	26,314	
1968				18,407	18,407	
1969			2,449	21,870	21,870	2,449
1970			3,311	29,124	29,124	3,311
1971			9,430	25,016	25,016	9,430
1972			10,177	31,557	31,557	10,177
1973			11,000	27,481	27,481	11,000
1974			16,741	33,261	33,261	16,741
1975				17,181	17,181	
1976				67,323	67,323	
1977				6,692	6,692	
1978				298,176	298,176	
1979				688,746	688,746	
1980				557,245	557,245	
1981				695,070	695,070	
1982				430,960	430,960	
1983				232,451	232,451	
1984				392,534	392,534	
1985				470,802	255,448	215,354
1986				450,792		450,792
1987				416,247		416,247
1988				404,833		404,833
1989				394,443		394,443
1990				568,865		568,865
1991				550,305		550,305
1992				451,779		451,779
1993				446,191		446,191
1994				501,539		501,539
1995				601,994		601,994
1996				146,067		146,067
1997				615,366		615,366
1998				1,443,833		1,443,833
2001			93,791			93,791
2002			125,726			125,726
2003			55,320			55,320
2014		6,280				6,280
2015		119,556				178,540
2016		131,777				279,826
	\$	<u>257,613</u>	\$	<u>207,033</u>	\$	<u>327,945</u>
			\$	<u>11,169,832</u>	\$	<u>3,962,224</u>
			\$		\$	<u>8,000,199</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 11

ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	December 31,		Increase
	<u>2016</u>	<u>2015</u>	<u>(Decrease)</u>
Office Supplies and Expense	\$ 61,806	\$ 60,314	\$ 1,492
Outside Services Employed	29,995	28,316	1,679
Directors' Fees and Expense	88,817	90,421	(1,604)
Annual Meeting Expense	7,958	8,939	(981)
Dues to Associated Organizations	28,112	28,044	68
Miscellaneous General Expense	54,861	63,709	(8,848)
Utility Commission Related Expenses	21,096	21,651	(555)
Maintenance of General Plant	6,880	7,273	(393)
Duplicate Charges (Credit)	<u>(2,135)</u>	<u>(2,302)</u>	<u>167</u>
Total	<u>\$ 297,390</u>	<u>\$ 306,365</u>	<u>\$ (8,975)</u>

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 12

FIVE YEAR COMPARATIVE DATA

	Years Ended December 31,				
	2016	2015	2014	2013	2012
OPERATING REVENUES					
Residential	\$ 2,713,526	\$ 2,673,365	\$ 2,559,622	\$ 2,737,722	\$ 2,651,843
Irrigation	380,794	334,144	397,568	435,275	478,351
Commercial and Industrial	843,292	815,407	825,081	863,637	752,161
Public Street and Highway Lighting	16,331	15,301	14,445	15,310	15,614
Power and Gas Cost Under (Over) Billed	604	(38,205)	77,162	(66,368)	21,083
Rent from Electric Property	29,688	29,947	25,204	23,812	28,718
Other Operating Revenues	10,866	22,393	32,545	21,160	16,671
Total Operating Revenues	<u>\$ 3,995,101</u>	<u>\$ 3,852,352</u>	<u>\$ 3,931,627</u>	<u>\$ 4,030,548</u>	<u>\$ 3,964,441</u>
OPERATING EXPENSES					
Purchased Power and Gas	\$ 2,275,020	\$ 2,164,235	\$ 2,324,983	\$ 2,395,616	\$ 2,412,465
Distribution - Operation	546,134	623,073	672,438	601,175	586,392
Distribution - Maintenance	188,609	216,870	238,281	220,670	186,947
Customer Accounts	338,913	345,211	326,014	340,590	331,868
Customer Service and Information	19,721	19,607	16,876	20,230	25,344
Administrative and General Expense	297,390	306,365	307,959	294,646	276,316
Depreciation and Amortization	322,175	310,191	306,010	295,347	282,632
Other Interest	12,044	164	136	93	142
Total Operating Expenses	<u>\$ 4,000,006</u>	<u>\$ 3,985,716</u>	<u>\$ 4,192,697</u>	<u>\$ 4,168,367</u>	<u>\$ 4,102,106</u>
OPERATING LOSS - BEFORE FIXED CHARGES					
	\$ (4,905)	\$ (133,364)	\$ (261,070)	\$ (137,819)	\$ (137,665)
FIXED CHARGES					
Interest on Long-Term Debt	<u>10,508</u>	<u>20,420</u>	<u>22,689</u>	<u>21,694</u>	<u>6,224</u>
OPERATING LOSS - AFTER FIXED CHARGES					
	\$ (15,413)	\$ (153,784)	\$ (283,759)	\$ (159,513)	\$ (143,889)
Capital Credits	<u>143,294</u>	<u>131,331</u>	<u>243,492</u>	<u>97,205</u>	<u>28,451</u>
NET OPERATING LOSS					
	<u>\$ 127,881</u>	<u>\$ (22,453)</u>	<u>\$ (40,267)</u>	<u>\$ (62,308)</u>	<u>\$ (115,438)</u>
NONOPERATING MARGINS					
Interest Income	\$ 156,551	\$ 116,415	\$ 68,885	\$ 67,569	\$ 64,577
Other Nonoperating Income (Loss)	(4,959)	1,268	(948)	990	
Income of Subsidiary	62,784	56,234	58,294	55,842	34,912
	<u>\$ 214,376</u>	<u>\$ 173,917</u>	<u>\$ 126,231</u>	<u>\$ 124,401</u>	<u>\$ 99,489</u>
NET MARGINS (LOSS)					
	<u>\$ 342,257</u>	<u>\$ 151,464</u>	<u>\$ 85,964</u>	<u>\$ 62,093</u>	<u>\$ (15,949)</u>
Miscellaneous Statistics					
Equity to Total Assets	84.82	85.91	84.58	84.58	89.31
Equity to Total Capitalization	94.24	93.69	92.18	92.18	96.93

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Schedule 13

**DIVISIONAL INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Year Ended December 31, 2016			
	Electric		Gas	
	Amount	%	Amount	%
OPERATING REVENUES				
Residential	\$ 2,313,675	66.6	\$ 399,851	75.4
Irrigation	333,684	9.6	47,110	8.9
Commercial and Industrial	760,585	21.9	82,707	15.6
Public Street and Highway Lighting	16,331	0.5		0.0
Power and Gas Cost Over Billed	3,097	0.1	(2,493)	(0.5)
Rent from Electric Property	36,471	1.1		0.0
Other Operating Revenues	7,406	0.2	3,460	0.7
Total Operating Revenues	<u>\$ 3,471,249</u>	<u>100.0</u>	<u>\$ 530,635</u>	<u>100.0</u>
OPERATING EXPENSES				
Purchased Power and Gas	\$ 2,150,515	62.0	\$ 124,505	23.5
Distribution - Operation	360,956	10.4	185,178	34.9
Distribution - Maintenance	157,523	4.5	37,869	7.1
Customer Accounts	286,248	8.2	52,665	9.9
Customer Service and Information	19,721	0.6		0.0
Administrative and General	276,150	8.0	21,240	4.0
Depreciation	275,428	7.9	46,747	8.8
Other Interest	12,044	0.3		0.0
Total Operating Expenses	<u>\$ 3,538,585</u>	<u>101.9</u>	<u>\$ 468,204</u>	<u>88.2</u>
OPERATING INCOME (LOSS) - BEFORE FIXED CHARGES				
	\$ (67,336)	(1.9)	\$ 62,431	11.8
FIXED CHARGES				
Interest on Long-Term Debt	<u>10,508</u>	<u>0.3</u>		
OPERATING INCOME (LOSS) - AFTER FIXED CHARGES				
	\$ (77,844)	(2.3)	\$ 62,431	11.8
Capital Credits	<u>143,294</u>	<u>4.1</u>		
NET OPERATING MARGINS				
	<u>\$ 65,450</u>	<u>1.9</u>	<u>\$ 62,431</u>	<u>11.8</u>
NONOPERATING MARGINS				
Interest Income	\$ 156,551	4.5	\$	
Other Nonoperating Expense	(4,959)	(0.1)		
	<u>\$ 151,592</u>	<u>4.4</u>	<u>\$ 0</u>	<u>0.0</u>
DIVISIONAL INCOME				
	<u>\$ 217,042</u>	<u>6.2</u>	<u>\$ 62,431</u>	<u>11.8</u>

COMPLIANCE SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES
CONCERNING AUDITS OF CFC BORROWERS**

Board of Directors
Duncan Valley Electric Cooperative, Inc.
Duncan, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Duncan Valley Electric Cooperative, Inc. (the Cooperative), for the year ended December 31, 2016, and have issued our report thereon dated February 21, 2017.

In connection with our audits, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

The Cooperative's accounting and reporting procedures were considered adequate in all material respects. The records were maintained in accordance with the prescribed Uniform System of Accounts. The procedures used in accounting for material, transportation, labor, and overhead costs provide a fair distribution of these costs to construction, retirement, and maintenance or other expense accounts.

This report is intended solely for the information and use of the Board of Directors and management of Duncan Valley Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

February 21, 2017

Attachment 3

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS
Schedule A-1
Supporting Schedules: C-1, H-1

1 Adjusted Rate Base	\$	752,196
2 Adjusted Operating Income	\$	31,595
3 Current Rate of Return		4.20%
4 Required Operating Income	\$	56,052
5 Required Rate of Return		7.45%
6 Operating Income Deficiency	\$	(24,457)
7 Gross Revenue Conversion Factor		1.00
8 Increase in Gross Revenue Requirement	\$	24,457

Customer Classification	Projected Increase Due to Rates	
	Revenue	Percent
Small Meter <250 CFH	\$ 21,902	6.1%
Medium Meter >250 <425 CFH	\$ 2,899	9.0%
Large Meter >425 CFH	\$ (343)	-2.2%
Total Revenue	\$ 24,457	6.0%
Residential Customers	\$ 20,581	6.4%

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE

Schedule A-4

Supporting Schedules: E-5, F-3

		Beginning Plant	Distribution Plant		Net General Plant	Ending Plant	Accumulated Depreciation	Net Plant
			Additions	Retirements				
	2014	\$ 1,545,279	\$ 56,183	\$ (14,264)	\$ (4,282)	\$ 1,582,917	\$ 954,674	\$ 628,243
	2015	\$ 1,582,917	\$ 91,127	\$ (9,207)	\$ (1,180)	\$ 1,663,657	\$ 981,883	\$ 681,774
Test Year	2016	\$ 1,663,657	\$ 122,205	\$ (32,124)	\$ 1,828	\$ 1,755,566	\$ 990,963	\$ 764,603
Projected	2017	\$ 1,755,566	\$ 70,000	\$ (15,000)	\$ -	\$ 1,810,566	\$ 1,060,856	\$ 749,710
Projected	2018	\$ 1,810,566	\$ 70,000	\$ (15,000)	\$ -	\$ 1,865,566	\$ 1,093,082	\$ 772,484
Projected	2019	\$ 1,865,566	\$ 70,000	\$ (15,000)	\$ -	\$ 1,920,566	\$ 1,125,308	\$ 795,258

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

ORIGINAL COST RATE BASE AND PRO FORMA ADJUSTMENTS
Schedule B-2
Recap Schedules: A-1
Supporting Schedules: B-5, E-1

	Test Year	Adjustments	Adjusted
			Test Year
Distribution Plant (does not include CWIP)	\$ 1,710,225		\$ 1,710,225
General Plant	\$ 42,288		\$ 42,288
Total Utility Plant in Service	\$ 1,752,513		\$ 1,752,513
Less Accumulated Depreciation	\$ 990,963		\$ 990,963
Net Utility Plant in Service	\$ 761,550		\$ 761,550
Less Contributions in Aid of Construction	\$ -		\$ -
Consumer Deposits	\$ (23,235)		\$ (23,235)
Materials & Supplies	\$ 20,739		\$ 20,739
Prepayments	\$ (6,858)		\$ (6,858)
Add Allowance for Working Capital	\$ (9,354)		\$ (9,354)
Total Rate Base	\$ 752,196		\$ 752,196

Note: Company is not seeking to use Reconstruction Costs New - Depreciated.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COMPUTATION OF WORKING CAPITAL
Schedule B-5
Recap Schedules: E-1

AVERAGE MATERIALS & SUPPLIES, PREPAYMENTS & CONSUMER DEPOSITS

	Materials & Supplies	Prepayments	Consumer Deposits	Working Capital
Jan-2016	\$ 25,106	\$ (9,426)	\$ (23,670)	\$ (7,990)
Feb-2016	\$ 24,590	\$ (13,971)	\$ (24,070)	\$ (13,451)
Mar-2016	\$ 24,439	\$ (15,128)	\$ (23,835)	\$ (14,524)
Apr-2016	\$ 24,430	\$ (17,359)	\$ (23,535)	\$ (16,464)
May-2016	\$ 26,026	\$ (1,858)	\$ (23,735)	\$ 433
Jun-2016	\$ 25,956	\$ (3,855)	\$ (23,735)	\$ (1,634)
Jul-2016	\$ 25,505	\$ (2,784)	\$ (23,535)	\$ (815)
Aug-2016	\$ 25,293	\$ (1,717)	\$ (23,635)	\$ (59)
Sep-2016	\$ 25,503	\$ (1,151)	\$ (24,035)	\$ 317
Oct-2016	\$ 21,662	\$ (2,071)	\$ (23,735)	\$ (4,144)
Nov-2016	\$ 19,425	\$ 1,418	\$ (23,835)	\$ (2,992)
Dec-2016	\$ 20,739	\$ (6,858)	\$ (23,235)	\$ (9,354)
Average	\$ 24,056	\$ (6,230)	\$ (23,716)	\$ (5,890)

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

ADJUSTED TEST YEAR INCOME STATEMENT
Schedule C-1
Recap Schedules: A-1, E-2

G/L #	Revenue	Test Year	Adjustments	Adjusted
480 Residential		\$ 399,851		\$ 399,851
481.1 Irrigation		\$ 82,707		\$ 82,707
481.2 Commercial		\$ 47,110		\$ 47,110
Subtotal Revenue from Gas Sales		\$ 529,668		\$ 529,668
447 Purchased Gas Adjuster		\$ (2,493)		\$ (2,493)
451 Misc. Service Revenue		\$ 3,369		\$ 3,369
Subtotal Other Gas Revenue		\$ 876		\$ 876
TOTAL REVENUE		\$ 530,545		\$ 530,545
	Expenses			
804 Cost of Gas		\$ 124,505		\$ 124,505
874 Mains & Services		\$ 159,358	\$ 14,349	\$ 173,707
877 Measuring & Stations		\$ 20,096	\$ 1,835	\$ 21,930
878 Metering		\$ 5,724	\$ 1,960	\$ 7,684
880 Other Miscellaneous		\$ 1,609		\$ 1,609
881 Rents		\$ 6,784		\$ 6,784
Subtotal Distribution/Operations		\$ 193,572	\$ 18,143	\$ 211,715
887 Mains & Services		\$ 19,450	\$ 2,565	\$ 22,014
891 Measuring & Stations		\$ 1,418	\$ 102	\$ 1,519
893 Metering		\$ 8,518	\$ 701	\$ 9,219
Subtotal Distribution/Maintenance		\$ 29,385	\$ 3,367	\$ 32,752
902 Meter Reading		\$ 23,620	\$ 1,189	\$ 24,808
903 Consumer Expense		\$ 23,326	\$ 2,269	\$ 25,596
904 Reserve for Bad Debt		\$ -		\$ -
Subtotal Consumer Accounting		\$ 46,946	\$ 3,458	\$ 50,404
909 Marketing		\$ 5,719	\$ 327	\$ 6,046
910 Information		\$ -		\$ -
Subtotal Customer Information		\$ 5,719	\$ 327	\$ 6,046
921 Office Supplies		\$ 5,676		\$ 5,676
923 Outside Services		\$ 6,441		\$ 6,441
928 Regulatory		\$ 1,452		\$ 1,452
930 Miscellaneous General		\$ 7,556		\$ 7,556
932 General Plant Maintenance		\$ -		\$ -
Subtotal Administrative & General		\$ 21,126		\$ 21,126
TOTAL OPERATIONS & MAINTENANCE EXPENSE		\$ 421,252	\$ 25,296	\$ 446,548
403 Depreciation Distribution		\$ 46,507		\$ 46,507
403 Depreciation General Plant		\$ 241		\$ 241
Subtotal Depreciation		\$ 46,747		\$ 46,747
427 Interest Debt		\$ -	\$ 5,540	\$ 5,540
431 Interest Consumer Deposits		\$ 115		\$ 115
Subtotal Interest		\$ 115	\$ 5,540	\$ 5,655
TOTAL COST OF SERVICE		\$ 468,114	\$ 30,836	\$ 498,950
OPERATING MARGINS		\$ 62,430	\$ (30,836)	\$ 31,595

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

ADJUSTED TEST YEAR INCOME STATEMENT - DETAIL OF OTHER REVENUE
Schedule C-1.1
Recap Schedule: C-1

447	Purchased Gas Adjuster	\$	(2,493)
	<i>Cumulative revenue adjustments for over/under collections to fuel bank.</i>		
451	Misc. Service Revenue	\$	3,369
	<i>Connect Fees</i>	\$	2,310
	<i>Connect Fees - After Hours</i>	\$	50
	<i>Reconnect Fees</i>	\$	250
	<i>Re-establishment Fees</i>	\$	850
	<i>Misc. Expense for Material Charged to Customer</i>	\$	(91)
	Total Other Gas Revenue	\$	876

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

SUMMARY OF INCOME STATEMENT PRO FORMA ADJUSTMENTS

Schedule C-2

Recap Schedules: N/A

Payroll Adjustments

New Employee Started April 2016			
568 hours (3 Months) @ 2016 Rate of Pay (\$24/hr)	\$	13,632.00	
FICA (7.65%)	\$	1,042.85	
401k Match (6%)	\$	817.92	
Work Comp (2.74%)	\$	373.52	
Medical Insurance (Jan-Mar)	\$	2,919.00	
Retirement Plan (May-Dec 2017)	\$	4,182.88	\$ 22,968.16
Wage Increase Jul-Dec(2017) 2%	\$	8,320.00	
Wage Increase Jan-Jun(2017) 3%	\$	12,071.00	
Total Wage Increase	\$	20,391.00	
FICA (7.65%)	\$	1,559.91	
401k Match (6%)	\$	1,223.46	
Work Comp (2.74%)	\$	558.71	
Gas 20% of Total Wages	\$	23,733.08	\$ 4,746.62
Retirement Increase (Gas 20% of Total Wages)	\$	10,256.04	\$ 2,051.21
Total Payroll Increases			<u>\$ 29,765.99</u>

Typical Distribution of Wages	100.00%	
Capitalized	15.02%	\$ 4,470.45
874	48.21%	\$ 14,348.73
877	6.16%	\$ 1,834.62
878	6.58%	\$ 1,959.78
887	8.62%	\$ 2,564.75
891	0.34%	\$ 101.52
893	2.36%	\$ 701.07
902	3.99%	\$ 1,188.61
903	7.62%	\$ 2,269.34
909	1.10%	\$ 327.11
Total Expensed		\$ 25,295.53

Gas Share(20%) of Retirement Prepay Interest \$ 10,507.96 \$ **2,101.59**

Estimated Interest Gas Share(21%) of Long Term Debt
400,000 4.125% 30 Years \$ 16,373.55 \$ **3,438.45** \$ 5,540.04

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COMPUTATION OF GROSS REVENUE CONVERSION FACTOR

Schedule C-3

Recap Schedules: E-2

There are no income taxes or other expenses to compute an incremental gross revenue factor.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COST OF LONG-TERM AND SHORT-TERM DEBT

Schedule D-2

Recap Schedules: N/A

DVEC's Gas Division showed no interest expenses for Test Year 2016
Beginning in 2017 and continuing for term of financing, DVEC will allocate interest
to Gas Division as follows:

Long Term Debt Estimate

An apportionment of Interest will be assigned based on new construction
and short term financing that began in 2016. See #6 - Schedule F-4

Years	30	Payment	Interest	Principal	Balance
Rate	4.125%				\$ 400,000.00
		\$ (5,825.88)	\$ (4,125.00)	\$ (1,700.88)	\$ 398,299.12
		\$ (5,825.88)	\$ (4,107.46)	\$ (2,380.28)	\$ 395,918.84
		\$ (5,825.88)	\$ (4,082.91)	\$ (2,398.13)	\$ 393,520.71
		\$ (5,825.88)	\$ (4,058.18)	\$ (2,416.12)	\$ 391,104.59
First Year Interest			\$ (16,373.55)		
DVEC Gas Division Share			21%	\$ (3,438.45)	

NRECA Retirement Prepay - 11 years @ 2.95% (Began 4/2014)

	Payment	Interest	Principal	Balance
				\$ 369,777.81
31-Mar-16	\$ (11,733.04)	\$ (2,727.11)	\$ (9,005.93)	\$ 360,771.88
30-Jun-16	\$ (11,733.04)	\$ (2,660.69)	\$ (9,072.35)	\$ 351,699.53
30-Sep-16	\$ (11,733.04)	\$ (2,593.78)	\$ (9,139.26)	\$ 342,560.27
31-Dec-16	\$ (11,733.04)	\$ (2,526.38)	\$ (9,206.66)	\$ 333,353.61
2016 Interest		\$ (10,507.96)		
DVEC Gas Division Share		20%	\$ (2,101.59)	

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COMPARATIVE BALANCE SHEET
Schedule E-1
Recap Schedules: E-5

	Test Year		
	2016	2015	2014
ASSETS & DEBITS			
Total Utility Plant in Service	\$ 1,752,513	\$ 1,626,364	\$ 1,581,419
Construction Work in Progress	\$ 3,052	\$ 37,293	\$ 1,498
Total Utility Plant	\$ 1,755,566	\$ 1,663,657	\$ 1,582,917
Accum. Provision for Depreciation	\$ 990,963	\$ 981,883	\$ 954,674
Net Utility Plant	\$ 764,603	\$ 681,774	\$ 628,243
Nonutility Property - Net	\$ -	\$ -	\$ -
Other Investments	\$ -	\$ -	\$ -
Special Funds	\$ -	\$ -	\$ -
Total Property & Investments	\$ -	\$ -	\$ -
Cash-General Funds	\$ -	\$ -	\$ -
Temporary Investments	\$ -	\$ -	\$ -
Accounts Receivable - Net Sales	\$ 70,499	\$ 88,426	\$ 82,707
Accounts Receivable - Net Other	\$ -	\$ -	\$ -
Materials & Supplies	\$ 20,739	\$ 23,717	\$ 22,457
Prepayments	\$ 5,789	\$ 5,730	\$ 4,365
Other Current & Accrued Assets	\$ -	\$ -	\$ -
Total Current Assets	\$ 97,027	\$ 117,873	\$ 109,529
Deferred Debits	\$ (12,648)	\$ (10,155)	\$ 16,095
Total Assets & Other Debits	\$ 848,982	\$ 789,492	\$ 753,867
LIABILITIES & CREDITS			
Equity Position - Divisional Balancing	\$ 1,288,415	\$ 1,285,336	\$ 1,220,026
Patronage Capital	\$ -	\$ -	\$ -
Operating Margins - Prior Years	\$ (552,910)	\$ (525,835)	\$ (481,107)
Operating Margins - Current Year	\$ 62,430	\$ (26,822)	\$ (44,728)
Non Operating Margins	\$ -	\$ -	\$ -
Other Margins and Equities	\$ -	\$ -	\$ -
Total Margins & Equities	\$ 797,936	\$ 732,679	\$ 694,192
Long Term Debt	\$ -	\$ -	\$ -
Accounts Payable	\$ 14,036	\$ 18,341	\$ 27,257
Consumer Deposits	\$ 23,235	\$ 24,070	\$ 23,670
Other Current & Accrued Liabilities	\$ 13,776	\$ 14,655	\$ 8,748
Total Current Liabilities	\$ 51,047	\$ 57,065	\$ 59,675
Deferred Credits	\$ -	\$ -	\$ -
Total Liabilities & Other Credits	\$ 848,982	\$ 789,745	\$ 753,867

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COMPARATIVE INCOME STATEMENTS
Schedule E-2
Recap Schedules: E-6

	Test Year		
	2016	2015	2014
Operating Revenue	\$ 530,545	\$ 531,317	\$ 572,883
Cost of Purchased Gas	\$ 124,505	\$ 125,435	\$ 180,226
Distribution Expense Operations	\$ 193,572	\$ 261,546	\$ 290,064
Distribution Expense Maintenance	\$ 29,385	\$ 51,558	\$ 30,684
Consumer Accounting	\$ 46,946	\$ 42,430	\$ 41,635
Customer Information	\$ 5,719	\$ 5,383	\$ 4,233
Administrative & General	\$ 21,126	\$ 26,097	\$ 26,983
Total Operations/Maintenance Expense	\$ 421,252	\$ 512,448	\$ 573,825
Depreciation	\$ 46,747	\$ 45,654	\$ 43,762
Interest on Long Term Debt	\$ -	\$ -	\$ -
Interest on Consumer Deposits	\$ 115	\$ 36	\$ 24
Total Cost of Service	\$ 468,114	\$ 558,139	\$ 617,611
Operation Margins	\$ 62,430	\$ (26,822)	\$ (44,728)
Interest Earned	\$ -	\$ -	\$ -
Other Non-Operating Margins	\$ -	\$ (253)	\$ -
Total Margins	\$ 62,430	\$ (27,075)	\$ (44,728)

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

DETAIL OF UTILITY PLANT
Schedule E-5
Recap Schedules: A-4, E-1

	Year End 2015	Total Net Additions	Test Year Year End 2016
Distribution Plant			
376.10 Distribution Mains	\$ 667,711	\$ 86,270	\$ 753,981
376.20 Distribution Mains - Acquisition Adj.	\$ 175,799	\$ -	\$ 175,799
377.10 Distribution Mains - Anodes	\$ 138,715	\$ 2,817	\$ 141,532
379.10 City Gates	\$ 10,104	\$ -	\$ 10,104
379.20 City Gates - Acquisition Adj.	\$ 20,339	\$ -	\$ 20,339
380.10 Services	\$ 193,003	\$ 13,237	\$ 206,241
380.20 Services - Acquisition Adj.	\$ 78,490	\$ -	\$ 78,490
382.10 Meters & Regulators	\$ 204,184	\$ 21,996	\$ 226,181
382.20 Meters & Regulators - Acquisition Adj.	\$ 97,559	\$ -	\$ 97,559
Subtotal	\$ 1,585,905	\$ 124,320	\$ 1,710,225
General Plant			
391.20 Office Equipment - Acquisition Adj.	\$ 2,000	\$ -	\$ 2,000
393.00 Stores Equipment	\$ 1,413	\$ -	\$ 1,413
394.00 Shop & Garage Equipment	\$ 6,310	\$ 1,828	\$ 8,139
394.20 Shop & Garage Equipment - Acquisition Adj.	\$ 15,778	\$ -	\$ 15,778
395.00 Laboratory Equipment	\$ 11,832	\$ -	\$ 11,832
395.20 Laboratory Equipment - Acquisition Adj.	\$ (2,230)	\$ -	\$ (2,230)
396.20 Power Equipment	\$ 1,116	\$ -	\$ 1,116
397.20 Communications Equipment - Acquisition Adj.	\$ 788	\$ -	\$ 788
398.20 Miscellaneous Equipment - Acquisition Adj.	\$ 3,452	\$ -	\$ 3,452
Subtotal	\$ 40,459	\$ 1,828	\$ 42,288
Total Plant	\$ 1,626,364	\$ 126,149	\$ 1,752,513
107.22 Construction Work in Progress	\$ 37,293	\$ (34,240)	\$ 3,052
Total Plant in Service	\$ 1,663,657	\$ 91,909	\$ 1,755,566
Accumulated Depreciation			
108.50 Distribution	\$ (575,644)	\$ (4,084)	\$ (579,727)
108.52 Distribution - Acquisition Adj.	\$ (375,022)	\$ -	\$ (375,022)
108.7x General	\$ (18,374)	\$ (241)	\$ (18,615)
108.72 General - Acquisition Adj.	\$ (18,069)	\$ -	\$ (18,069)
108.82 Retirement Work in Progress	\$ 5,226	\$ (4,755)	\$ 471
Subtotal	\$ (981,883)	\$ (9,080)	\$ (990,963)
Total Net Utility Plant	\$ 681,774	\$ 82,829	\$ 764,603

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENTS
Schedule E-6
Recap Schedules: E-2

All schedules reflect gas division operations.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

OPERATING STATISTICS
Schedule E-7

	Test Year		
	2016	2015	2014
Therm Sales			
<u>Type of Service</u>			
Small Meter <250 CFH	287,567	294,803	295,486
Medium Meter >250 <425 CFH	71,144	57,527	77,690
Large Meter >425 CFH	20,105	17,662	12,834
Total	378,816	369,992	386,010
<u>Consumer Based Revenue Classes</u>			
Residential	244,520	251,747	250,950
Irrigation	70,724	65,566	62,115
Commercial	63,572	52,679	72,945
Total	378,816	369,992	386,010
Average Number of Customers			
<u>Type of Service</u>			
Small Meter <250 CFH	697	717	722
Medium Meter >250 <425 CFH	15	19	18
Large Meter >425 CFH	2	2	2
Total	714	738	742
<u>Consumer Based Revenue Classes</u>			
Residential	649	670	674
Irrigation	51	57	51
Commercial	14	10	17
Total	714	737	742
Average Monthly Therm Use			
<u>Type of Service</u>			
Small Meter <250 CFH	34	34	34
Medium Meter >250 <425 CFH	391	252	360
Large Meter >425 CFH	838	736	535
<u>Consumer Based Revenue Classes</u>			
Residential	31	31	31
Irrigation	116	96	101
Commercial	378	439	358
Average Annual Revenue per Residential Customer			
Annual	\$ 616.10	\$ 637.66	\$ 618.20
Monthly	\$ 51.34	\$ 53.14	\$ 51.52
Therm Purchase Expense			
Therms Purchased	378,190	360,020	368,460
Total Cost	\$ 169,683	\$ 125,435	\$ 180,226

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

TAXES CHARGED TO OPERATIONS
Schedule E-8
Recap Schedules: E-2

DVEC operates as a not-for-profit, non-taxable entity.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

NOTES TO FINANCIAL STATEMENTS
Schedule E-9

Accounting Method

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for natural gas utilities.

Depreciation Lives and Methods Employed by Major Classifications of Utility Property

Provision for depreciation of distribution plant at straight-line composite rates as follows:

Distribution Mains	2.80%
Distribution Mains - Anodes	9.60%
City Gates	2.80%
Services	4.10%
Meters & Regulators	2.60%

Provision for depreciation of general plant rates on a straight-line basis as follows:

Stores Equipment		9.60%
Tools, Shop & Garage Equipment	14.00% to	20.00%
Laboratory Equipment	8.00% to	20.00%

Income Tax Treatment

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as long as 85% of its revenue is from members for the sole purpose of meeting losses and expenses. For the year ended December 31, 2013, the Cooperative qualified for exemption.

The Cooperative and Subsidiary have adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its' filing status as a tax exempt entity. The Cooperative and Subsidiary determined that it is more likely than not that their tax positions will be sustained upon examination by The Internal Revenue Service (IRS), or other State taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

Interest Rate Used to Charge Interest During Construction, If Applicable

The Cooperative does not charge interest during construction.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
DOCKET NO. G-02528A-17-0277
Test Year Ended December 31, 2016

PROJECTED INCOME STATEMENT - PRESENT & PROPOSED RATES
Schedule F-1
Recap Schedules: E-2

	Present Rates	Proposed Rates Adjusted Test Year w/ Rate Change
	Test Year	
Revenue from Gas Sales	\$ 529,668	\$ 554,125
Purchased Gas Adjuster	\$ (2,493)	\$ (2,493)
Misc. Service Revenue	\$ 3,369	\$ 3,369
Subtotal Other Gas Revenue	\$ 876	\$ 876
TOTAL REVENUE	\$ 530,545	\$ 555,002
Expenses		
Cost of Gas	\$ 124,505	\$ 124,505
Mains & Services	\$ 159,358	\$ 173,707
Measuring & Stations	\$ 20,096	\$ 21,930
Metering	\$ 5,724	\$ 7,684
Other Miscellaneous	\$ 1,609	\$ 1,609
Rents	\$ 6,784	\$ 6,784
Subtotal Distribution/Operations	\$ 193,572	\$ 211,715
Mains & Services	\$ 19,450	\$ 22,014
Measuring & Stations	\$ 1,418	\$ 1,519
Metering	\$ 8,518	\$ 9,219
Subtotal Distribution/Maintenance	\$ 29,385	\$ 32,752
Meter Reading	\$ 23,620	\$ 24,808
Consumer Expense	\$ 23,326	\$ 25,596
Reserve for Bad Debt	\$ -	\$ -
Subtotal Consumer Accounting	\$ 46,946	\$ 50,404
Marketing	\$ 5,719	\$ 6,046
Information	\$ -	\$ -
Subtotal Customer Information	\$ 5,719	\$ 6,046
Office Supplies	\$ 5,676	\$ 5,676
Outside Services	\$ 6,441	\$ 6,441
Regulatory	\$ 1,452	\$ 1,452
Miscellaneous General	\$ 7,556	\$ 7,556
General Plant Maintenance	\$ -	\$ -
Subtotal Administrative & General	\$ 21,126	\$ 21,126
TOTAL OPER/MAINT EXP.	\$ 421,252	\$ 446,548
Depreciation Distribution	\$ 46,507	\$ 46,507
Depreciation General Plant	\$ 241	\$ 241
Subtotal Depreciation	\$ 46,747	\$ 46,747
Interest Debt	\$ -	\$ 5,540
Interest Consumer Deposits	\$ 115	\$ 115
Subtotal Interest	\$ 115	\$ 5,655
TOTAL COST OF SERVICE	\$ 468,114	\$ 498,950
OPERATING MARGINS	\$ 62,430	\$ 56,052

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
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Test Year Ended December 31, 2016

PROJECTED CHANGES IN FINANCIAL POSITION
Schedule F-2
Recap Schedules: A-5, F-3

	Proposed Rates	Test Year 2016	2015	2014
<u>Sources of Funds</u>				
Net Margins	\$ 56,052	\$ 31,595	\$ (27,075)	\$ (44,728)
Depreciation	\$ 46,747	\$ 46,747	\$ 45,654	\$ 43,762
Cash Margins from Operations	\$ 102,799	\$ 78,342	\$ 18,579	\$ (966)
Intracompany Funding	\$ 9,458	\$ 33,915	\$ 65,309	\$ 64,722
	0			
Total Funds Received	\$ 112,257	\$ 112,257	\$ 83,889	\$ 63,756
<u>Application of Funds</u>				
Plant Expenditures	\$ (129,819)	\$ (129,819)	\$ (99,367)	\$ (59,365)
Net Change in Current Assets/Liabilities	\$ 112,257	\$ 112,257	\$ 83,889	\$ 63,756
Total Funds Applied	\$ (112,257)	\$ (112,257)	\$ (83,889)	\$ (63,756)
Change in Funds All Activities	\$ -	\$ -	\$ -	\$ -
Beginning Cash General Funds	\$ -	\$ -	\$ -	\$ -
Ending Cash General Funds	\$ -	\$ -	\$ -	\$ -

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
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PROJECTED CONSTRUCTION REQUIREMENTS

Schedule F-3

Recap Schedules: A-4, F-2

		Distribution	General	Total
	2014	\$ 56,183	\$ (4,282)	\$ 51,902
	2015	\$ 91,127	\$ (1,180)	\$ 89,947
	2016	\$ 122,205	\$ 1,828	\$ 124,033
Projected	2017	\$ 70,000	\$ -	\$ 70,000
Projected	2018	\$ 70,000	\$ -	\$ 70,000
Projected	2019	\$ 70,000	\$ -	\$ 70,000

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
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Test Year Ended December 31, 2016

ASSUMPTIONS USED IN DEVELOPING PROJECTION
Schedule F-4

1 Customer growth

No adjustment for customer growth was made

2 Growth in consumption and customer demand

No adjustment to test year customer usage was made

3 Changes in expenses

Increased expenses were estimated based on assumptions outlined in schedule "C-02" for increased payroll expenses and interest costs.

4 Construction requirements including production reserves and changes in plant capacity

Construction projections are based on prior years net plant additions.
DVEC is a distribution cooperative and has no production facilities.

5 Capital structure changes

All capital structure changes are current and reflected in the test year data. No changes were made beyond test year data.

6 Financing costs, interest rates

DVEC estimates it will need to convert 400,000 in short term borrowing to a 30 year long-term debt instrument at 4.125% interest based on recent CFC rates. DVEC will be filing for financing approval later this year.

An apportionment of Interest will be assigned based on new construction and short term financing that began in 2016.

Financing Costs are estimated based on Gas Division's ratio (21%) of plant additions compared to DVEC's Electric Division (79%).

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
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SUMMARY OF REVENUES BY CUSTOMER CLASSIFICATION - PRESENT AND PROPOSED RATES
Schedule H-1
Recap Schedules: A-1, H-2

		Present Rates	Proposed Rates	Revenue Increase	Percent Increase
Small Meter <250 CFH	Winter	\$ 234,649	\$ 238,793	\$ 4,144	1.77%
	Summer	\$ 125,132	\$ 142,890	\$ 17,758	14.19%
Medium Meter >250 <425 CFH	Winter	\$ 10,657	\$ 10,568	\$ (89)	-0.84%
	Summer	\$ 21,547	\$ 24,535	\$ 2,988	13.87%
Large Meter >425 CFH	Winter	\$ 14,524	\$ 14,025	\$ (500)	-3.44%
	Summer	\$ 1,112	\$ 1,268	\$ 156	14.05%
Totals		\$ 407,622	\$ 432,079	\$ 24,457	6.00%
Purchase Gas Adjustor Billed		\$ 122,121	\$ 122,121		
Total - Test Year		\$ 529,668	\$ 554,199		
From C-1 Revenue from Gas Sales		\$ 529,668			

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ANALYSIS OF REVENUE BY DETAILED CLASS
Schedule H-2
Recap Schedules: H-1

	Billing Units	Present Rates		Proposed Rates		Revenue Increase	Percent Increase
		Charge	Revenue	Charge	Revenue		
Small Meter <250 CFH							
Winter							
System Charge	3,510	\$ 21.00	\$ 73,710	\$ 24.00	\$ 84,240	\$ 10,530	14.3%
Therm Charge	209,177	\$ 0.76939	\$ 160,939	\$ 0.73886	\$ 154,553	\$ (6,386)	-4.0%
Revenue Totals			\$ 234,649		\$ 238,793	\$ 4,144	1.8%
Summer							
System Charge	4,855	\$ 21.00	\$ 101,955	\$ 24.00	\$ 116,520	\$ 14,565	14.3%
Therm Charge	78,390	\$ 0.29566	\$ 23,177	\$ 0.33639	\$ 26,370	\$ 3,193	13.8%
Revenue Totals			\$ 125,132		\$ 142,890	\$ 17,758	14.2%
Total Small	Sys Chg	8,365	\$ 359,780	\$ 381,682	\$ 21,902	6.09%	
	Therms	287,567					
Medium Meter >250 <425 CFH							
Winter							
System Charge	58	\$ 31.50	\$ 1,827	\$ 36.00	\$ 2,088	\$ 261	14.3%
Therm Charge	11,477	\$ 0.76939	\$ 8,830	\$ 0.73886	\$ 8,480	\$ (350)	-4.0%
Revenue Totals			\$ 10,657		\$ 10,568	\$ (89)	-0.8%
Summer							
System Charge	124	\$ 31.50	\$ 3,906	\$ 36.00	\$ 4,464	\$ 558	14.3%
Therm Charge	59,667	\$ 0.29566	\$ 17,641	\$ 0.33639	\$ 20,071	\$ 2,430	13.8%
Revenue Totals			\$ 21,547		\$ 24,535	\$ 2,988	13.9%
Total Medium	Sys Chg	182	\$ 32,204	\$ 35,103	\$ 2,899	9.00%	
	Therms	71,144					
Large Meter >425 CFH							
Winter							
System Charge	10	\$ 42.00	\$ 420	\$ 48.00	\$ 480	\$ 60	14.3%
Therm Charge	18,332	\$ 0.76939	\$ 14,104	\$ 0.73886	\$ 13,545	\$ (560)	-4.0%
Revenue Totals			\$ 14,524		\$ 14,025	\$ (500)	-3.4%
Summer							
System Charge	14	\$ 42.00	\$ 588	\$ 48.00	\$ 672	\$ 84	14.3%
Therm Charge	1,773	\$ 0.29566	\$ 524	\$ 0.33639	\$ 596	\$ 72	13.8%
Revenue Totals			\$ 1,112		\$ 1,268	\$ 156	14.0%
Total Large	Sys Chg	24	\$ 15,637	\$ 15,293	\$ (343)	-2.20%	
	Therms	20,105					
Totals	Sys Chg	8,571	\$ 407,622	\$ 432,079	\$ 24,457	6.00%	
	Therms	378,816					
Purchase Cost Adjustor			\$ 122,121				
Prior Year Bill Correction		-96	\$ (74)				
Total - Test Year		378,816	\$ 529,668				
From C-1 Revenue			\$ 529,668				

ANALYSIS OF REVENUE - RESIDENTIAL CUSTOMERS

	Billing Units	Present Rates		Proposed Rates		Revenue Increase	Percent Increase
		Charge	Revenue	Charge	Revenue		
Small Meter <251 CFH							
Winter							
System Charge	3,267	\$ 21.00	\$ 68,607	\$ 24.00	\$ 78,408	\$ 9,801	14.3%
Therm Charge	178,732	\$ 0.76939	\$ 137,515	\$ 0.73886	\$ 132,058	\$ (5,457)	-4.0%
Revenue Totals			\$ 206,122		\$ 210,466	\$ 4,344	2.1%
Summer							
System Charge	4,519	\$ 21.00	\$ 94,899	\$ 24.00	\$ 108,456	\$ 13,557	14.3%
Therm Charge	65,788	\$ 0.29566	\$ 19,451	\$ 0.33639	\$ 22,130	\$ 2,680	13.8%
Revenue Totals			\$ 114,350		\$ 130,586	\$ 16,237	14.2%
Total Residential	Sys Chg	7,786	\$ 320,471	\$ 341,052	\$ 20,581	6.42%	
	Therms	244,520					

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CHANGES IN REPRESENTATIVE RATE SCHEDULES
Schedule H-3

	Present Rates	Proposed Rates	Change
Small Meter <250 CFH			
Winter			
System Charge	\$ 21.00	\$ 24.00	\$ 3.00
Therm Charge	0.76939	0.73886	-0.03053
Summer			
System Charge	\$ 21.00	\$ 24.00	\$ 3.00
Therm Charge	0.29566	0.33639	0.04073
Medium Meter >250 <425 CFH			
Winter			
System Charge	\$ 31.50	\$ 36.00	\$ 4.50
Therm Charge	0.76939	0.73886	-0.03053
Summer			
System Charge	\$ 31.50	\$ 36.00	\$ 4.50
Therm Charge	0.29566	0.33639	0.04073
Large Meter >425 CFH			
Winter			
System Charge	\$ 42.00	\$ 48.00	\$ 6.00
Therm Charge	0.76939	0.73886	-0.03053
Summer			
System Charge	\$ 42.00	\$ 48.00	\$ 6.00
Therm Charge	0.29566	0.33639	0.04073

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CHANGES IN REPRESENTATIVE RATE SCHEDULES
Schedule H-3.1

	Increase in Monthly Service Charge	Increase (Decrease) in per Therm Energy Charge	% Increase Rate Class	% Increase Average Usage	% Increase Median Usage
Small Meter <250 CFH	\$3.00	(\$0.03053) Winter \$0.04073 Summer	6.09%	1.74% 14.19%	3.33% 14.23%
Medium Meter >250 <425 CFH	\$4.50	(\$0.03053) Winter \$0.04073 Summer	9.00%	-0.84% 13.87%	14.29% 13.97%
Large Meter >425 CFH	\$6.00	(\$0.03053) Winter \$0.04073 Summer	-2.20%	-3.36% 14.04%	-3.44% 14.12%

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division
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TYPICAL BILL ANALYSIS - BASE REVENUE ONLY
Schedule H-4.0

Small Meter <250 CFH	Present Rates	Proposed Rates	\$ Change	% Change
System Charge	\$ 21.00	\$ 24.00	\$ 3.00	14.29%
Therm Charge Winter	\$ 0.76939	\$ 0.73886	\$ (0.03053)	-3.97%
Therm Charge Summer	\$ 0.29566	\$ 0.33639	\$ 0.04073	13.78%
Usage				
		Winter		
0	\$ 21.00	\$ 24.00	\$ 3.00	14.29%
25	\$ 40.23	\$ 42.47	\$ 2.24	5.57%
40 ^	\$ 51.78	\$ 53.55	\$ 1.77	3.42%
41 *	\$ 52.54	\$ 54.29	\$ 1.75	3.33%
50	\$ 59.47	\$ 60.94	\$ 1.47	2.47%
55 ^^	\$ 63.32	\$ 64.64	\$ 1.32	2.08%
60 **	\$ 67.16	\$ 68.33	\$ 1.17	1.74%
75	\$ 78.70	\$ 79.41	\$ 0.71	0.90%
100	\$ 97.94	\$ 97.89	\$ (0.05)	-0.05%
150	\$ 136.41	\$ 134.83	\$ (1.58)	-1.16%
200	\$ 174.88	\$ 171.77	\$ (3.11)	-1.78%
250	\$ 213.35	\$ 208.72	\$ (4.63)	-2.17%
300	\$ 251.82	\$ 245.66	\$ (6.16)	-2.45%
400	\$ 328.76	\$ 319.54	\$ (9.22)	-2.80%
500	\$ 405.70	\$ 393.43	\$ (12.27)	-3.02%
750	\$ 598.04	\$ 578.15	\$ (19.89)	-3.33%
1000	\$ 790.39	\$ 762.86	\$ (27.53)	-3.48%
1500	\$ 1,175.09	\$ 1,132.29	\$ (42.80)	-3.64%
Usage				
		Summer		
0	\$ 21.00	\$ 24.00	\$ 3.00	14.29%
11 * ^	\$ 24.25	\$ 27.70	\$ 3.45	14.23%
15 ^^	\$ 25.43	\$ 29.05	\$ 3.62	14.24%
16 **	\$ 25.73	\$ 29.38	\$ 3.65	14.19%
25	\$ 28.39	\$ 32.41	\$ 4.02	14.16%
50	\$ 35.78	\$ 40.82	\$ 5.04	14.09%
75	\$ 43.17	\$ 49.23	\$ 6.06	14.04%
100	\$ 50.57	\$ 57.64	\$ 7.07	13.98%
150	\$ 65.35	\$ 74.46	\$ 9.11	13.94%
200	\$ 80.13	\$ 91.28	\$ 11.15	13.91%
250	\$ 94.92	\$ 108.10	\$ 13.18	13.89%
300	\$ 109.70	\$ 124.92	\$ 15.22	13.87%
400	\$ 139.26	\$ 158.56	\$ 19.30	13.86%
500	\$ 168.83	\$ 192.20	\$ 23.37	13.84%
750	\$ 242.75	\$ 276.29	\$ 33.54	13.82%
1000	\$ 316.66	\$ 360.39	\$ 43.73	13.81%
1500	\$ 464.49	\$ 528.59	\$ 64.10	13.80%

^Residential Median
^^Residential Average
*Median
**Average

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TYPICAL BILL ANALYSIS - BASE REVENUE ONLY
Schedule H-4.1

Medium Meter >250 <425 CFH	Present Rates	Proposed Rates	\$ Change	% Change
System Charge	\$ 31.50	\$ 36.00	\$ 4.50	14.29%
Therm Charge Winter	\$ 0.76939	\$ 0.73886	\$ (0.03053)	-3.97%
Therm Charge Summer	\$ 0.29566	\$ 0.33639	\$ 0.04073	13.78%
Usage				
			Winter	
0 *	\$ 31.50	\$ 36.00	\$ 4.50	14.29%
1	\$ 32.27	\$ 36.74	\$ 4.47	13.85%
50	\$ 69.97	\$ 72.94	\$ 2.97	4.24%
100	\$ 108.44	\$ 109.89	\$ 1.45	1.34%
150	\$ 146.91	\$ 146.83	\$ (0.08)	-0.05%
198 **	\$ 183.84	\$ 182.29	\$ (1.55)	-0.84%
200	\$ 185.38	\$ 183.77	\$ (1.61)	-0.87%
250	\$ 223.85	\$ 220.72	\$ (3.13)	-1.40%
300	\$ 262.32	\$ 257.66	\$ (4.66)	-1.78%
400	\$ 339.26	\$ 331.54	\$ (7.72)	-2.28%
500	\$ 416.20	\$ 405.43	\$ (10.77)	-2.59%
750	\$ 608.54	\$ 590.15	\$ (18.39)	-3.02%
1000	\$ 800.89	\$ 774.86	\$ (26.03)	-3.25%
1500	\$ 1,185.59	\$ 1,144.29	\$ (41.30)	-3.48%
2000	\$ 1,570.28	\$ 1,513.72	\$ (56.56)	-3.60%
2500	\$ 1,954.98	\$ 1,883.15	\$ (71.83)	-3.67%
3000	\$ 2,339.67	\$ 2,252.58	\$ (87.09)	-3.72%
Usage			Summer	
0	\$ 31.50	\$ 36.00	\$ 4.50	14.29%
50	\$ 46.28	\$ 52.82	\$ 6.54	14.13%
100	\$ 61.07	\$ 69.64	\$ 8.57	14.03%
150	\$ 75.85	\$ 86.46	\$ 10.61	13.99%
179 *	\$ 84.42	\$ 96.21	\$ 11.79	13.97%
200	\$ 90.63	\$ 103.28	\$ 12.65	13.96%
250	\$ 105.42	\$ 120.10	\$ 14.68	13.93%
300	\$ 120.20	\$ 136.92	\$ 16.72	13.91%
400	\$ 149.76	\$ 170.56	\$ 20.80	13.89%
481 **	\$ 173.71	\$ 197.80	\$ 24.09	13.87%
500	\$ 179.33	\$ 204.20	\$ 24.87	13.87%
750	\$ 253.25	\$ 288.29	\$ 35.04	13.84%
1000	\$ 327.16	\$ 372.39	\$ 45.23	13.83%
1500	\$ 474.99	\$ 540.59	\$ 65.60	13.81%
2000	\$ 622.82	\$ 708.78	\$ 85.96	13.80%
2500	\$ 770.65	\$ 876.98	\$ 106.33	13.80%
3000	\$ 918.48	\$ 1,045.17	\$ 126.69	13.79%

*Median

**Average

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TYPICAL BILL ANALYSIS - BASE REVENUE ONLY
Schedule H-4.2

Large Meter >425 CFH	Present Rates	Proposed Rates	\$ Change	% Change
System Charge	\$ 42.00	\$ 48.00	\$ 6.00	14.29%
Therm Charge Winter	\$ 0.76939	\$ 0.73886	\$ (0.03053)	-3.97%
Therm Charge Summer	\$ 0.29566	\$ 0.33639	\$ 0.04073	13.78%
Usage				
				Winter
0	\$ 42.00	\$ 48.00	\$ 6.00	14.29%
50	\$ 80.47	\$ 84.94	\$ 4.47	5.55%
100	\$ 118.94	\$ 121.89	\$ 2.95	2.48%
150	\$ 157.41	\$ 158.83	\$ 1.42	0.90%
200	\$ 195.88	\$ 195.77	\$ (0.11)	-0.06%
250	\$ 234.35	\$ 232.72	\$ (1.63)	-0.70%
300	\$ 272.82	\$ 269.66	\$ (3.16)	-1.16%
400	\$ 349.76	\$ 343.54	\$ (6.22)	-1.78%
500	\$ 426.70	\$ 417.43	\$ (9.27)	-2.17%
750	\$ 619.04	\$ 602.15	\$ (16.89)	-2.73%
1000	\$ 811.39	\$ 786.86	\$ (24.53)	-3.02%
1500	\$ 1,196.09	\$ 1,156.29	\$ (39.80)	-3.33%
1592 *	\$ 1,266.87	\$ 1,224.27	\$ (42.60)	-3.36%
1833 **	\$ 1,452.29	\$ 1,402.33	\$ (49.96)	-3.44%
2000	\$ 1,580.78	\$ 1,525.72	\$ (55.06)	-3.48%
2500	\$ 1,965.48	\$ 1,895.15	\$ (70.33)	-3.58%
3000	\$ 2,350.17	\$ 2,264.58	\$ (85.59)	-3.64%
Usage				
				Summer
0	\$ 42.00	\$ 48.00	\$ 6.00	14.29%
50	\$ 56.78	\$ 64.82	\$ 8.04	14.16%
61 *	\$ 60.04	\$ 68.52	\$ 8.48	14.12%
75	\$ 64.17	\$ 73.23	\$ 9.06	14.12%
100	\$ 71.57	\$ 81.64	\$ 10.07	14.07%
127 **	\$ 79.55	\$ 90.72	\$ 11.17	14.04%
150	\$ 86.35	\$ 98.46	\$ 12.11	14.02%
200	\$ 101.13	\$ 115.28	\$ 14.15	13.99%
250	\$ 115.92	\$ 132.10	\$ 16.18	13.96%
300	\$ 130.70	\$ 148.92	\$ 18.22	13.94%
400	\$ 160.26	\$ 182.56	\$ 22.30	13.91%
500	\$ 189.83	\$ 216.20	\$ 26.37	13.89%
750	\$ 263.75	\$ 300.29	\$ 36.54	13.85%
1000	\$ 337.66	\$ 384.39	\$ 46.73	13.84%
1500	\$ 485.49	\$ 552.59	\$ 67.10	13.82%
2000	\$ 633.32	\$ 720.78	\$ 87.46	13.81%
2500	\$ 781.15	\$ 888.98	\$ 107.83	13.80%
3000	\$ 928.98	\$ 1,057.17	\$ 128.19	13.80%

*Median

**Average

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division

DOCKET NO. G-02528A-17-0277

Test Year Ended December 31, 2016

BILL COUNT

Schedule H-5.0

Small Meter <250 CFH

-Winter-

START	END	# BILLS		% BILLS		# Therms		% Therms	
BLOCK	BLOCK	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	151	151	4.30%	4.30%	0	0	0.00%	0.00%
1	10	346	497	9.86%	14.16%	1,979	1,979	0.95%	0.95%
11	25	750	1,247	21.37%	35.53%	13,540	15,519	6.47%	7.42%
26	50	750	1,997	21.37%	56.89%	27,810	43,329	13.29%	20.71%
51	75	530	2,527	15.10%	71.99%	33,074	76,403	15.81%	36.53%
76	100	384	2,911	10.94%	82.93%	33,556	109,959	16.04%	52.57%
101	125	251	3,162	7.15%	90.09%	27,898	137,857	13.34%	65.90%
126	150	119	3,281	3.39%	93.48%	16,303	154,160	7.79%	73.70%
151	200	118	3,399	3.36%	96.84%	20,122	174,282	9.62%	83.32%
201	300	64	3,463	1.82%	98.66%	14,996	189,278	7.17%	90.49%
301	500	39	3,502	1.11%	99.77%	14,654	203,932	7.01%	97.49%
501	700	5	3,507	0.14%	99.91%	2,917	206,849	1.39%	98.89%
701	900	3	3,510	0.09%	100.00%	2,328	209,177	1.11%	100.00%

Totals 3,510 209,177
 from H-2 3,510 209,177

AVERAGE NUMBER OF CUSTOMERS 702
 AVERAGE CONSUMPTION 60
 MEDIAN CONSUMPTION 41

-Summer-

START	END	# BILLS		% BILLS		# Therms		% Therms	
BLOCK	BLOCK	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	406	406	8.36%	8.36%	0	0	0.00%	0.00%
1	10	1,878	2,284	38.68%	47.04%	10,900	10,900	13.90%	13.90%
11	25	1,883	4,167	38.78%	85.83%	30,847	41,747	39.35%	53.26%
26	50	520	4,687	10.71%	96.54%	17,723	59,470	22.61%	75.86%
51	75	86	4,773	1.77%	98.31%	5,031	64,501	6.42%	82.28%
76	100	20	4,793	0.41%	98.72%	1,737	66,238	2.22%	84.50%
101	125	14	4,807	0.29%	99.01%	1,526	67,764	1.95%	86.44%
126	150	4	4,811	0.08%	99.09%	536	68,300	0.68%	87.13%
151	200	16	4,827	0.33%	99.42%	2,835	71,135	3.62%	90.74%
201	250	12	4,839	0.25%	99.67%	2,688	73,823	3.43%	94.17%
251	300	11	4,850	0.23%	99.90%	2,981	76,804	3.80%	97.98%
301	500	5	4,855	0.10%	100.00%	1,586	78,390	2.02%	100.00%

Totals 4,855 78,390
 from H-2 4,855 78,390

AVERAGE NUMBER OF CUSTOMERS 694
 AVERAGE CONSUMPTION 16
 MEDIAN CONSUMPTION 11

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division

DOCKET NO. G-02528A-17-0277

Test Year Ended December 31, 2016

BILL COUNT
Schedule H-5.1

Medium Meter >250 <425 CFH -Winter-

START BLOCK	END BLOCK	# BILLS		% BILLS		# Therms		% Therms	
		BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	31	31	53.45%	53.45%	0	0	0.00%	0.00%
1	50	11	42	18.97%	72.41%	120	120	1.05%	1.05%
51	100	0	42	0.00%	72.41%	0	120	0.00%	1.05%
101	200	5	47	8.62%	81.03%	743	863	6.47%	7.52%
201	400	2	49	3.45%	84.48%	529	1,392	4.61%	12.13%
401	600	1	50	1.72%	86.21%	434	1,826	3.78%	15.91%
601	800	1	51	1.72%	87.93%	726	2,552	6.33%	22.24%
801	1,000	2	53	3.45%	91.38%	1,901	4,453	16.56%	38.80%
1,001	1,200	2	55	3.45%	94.83%	2,268	6,721	19.76%	58.56%
1,201	1,400	0	55	0.00%	94.83%	0	6,721	0.00%	58.56%
1,401	1,700	3	58	5.17%	100.00%	4,756	11,477	41.44%	100.00%
1,701	2,000	0	58	0.00%	100.00%	0	11,477	0.00%	100.00%
2,001	2,500	0	58	0.00%	100.00%	0	11,477	0.00%	100.00%
Totals		58				11,477			
from H-2		58				11,477			

AVERAGE NUMBER OF CUSTOMERS	12
AVERAGE CONSUMPTION	198
MEDIAN CONSUMPTION	0

-Summer-

START BLOCK	END BLOCK	# BILLS		% BILLS		# Therms		% Therms	
		BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	25	25	20.16%	20.16%	0	0	0.00%	0.00%
1	50	18	43	14.52%	34.68%	226	226	0.38%	0.38%
51	100	10	53	8.06%	42.74%	795	1,021	1.33%	1.71%
101	200	10	63	8.06%	50.81%	1,475	2,496	2.47%	4.18%
201	400	15	78	12.10%	62.90%	4,182	6,678	7.01%	11.19%
401	600	15	93	12.10%	75.00%	7,121	13,799	11.93%	23.13%
601	800	4	97	3.23%	78.23%	2,646	16,445	4.43%	27.56%
801	1,000	5	102	4.03%	82.26%	4,560	21,005	7.64%	35.20%
1,001	1,200	6	108	4.84%	87.10%	6,597	27,602	11.06%	46.26%
1,201	1,400	5	113	4.03%	91.13%	6,491	34,093	10.88%	57.14%
1,401	1,700	1	114	0.81%	91.94%	1,697	35,790	2.84%	59.98%
1,701	2,000	4	118	3.23%	95.16%	7,589	43,379	12.72%	72.70%
2,001	2,500	2	120	1.61%	96.77%	4,442	47,821	7.44%	80.15%
2,501	3,200	4	124	3.23%	100.00%	11,846	59,667	19.85%	100.00%
Totals		124				59,667			
from H-2		124				59,667			

AVERAGE NUMBER OF CUSTOMERS	18
AVERAGE CONSUMPTION	481
MEDIAN CONSUMPTION	179

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division

DOCKET NO. G-02528A-17-0277

Test Year Ended December 31, 2016

BILL COUNT
Schedule H-5.2

Large Meter >425 CFH

-Winter-

START BLOCK	END BLOCK	# BILLS		% BILLS		# Therms		% Therms	
		BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	0	0	0.00%	0.00%	0	0	0.00%	0.00%
1	50	0	0	0.00%	0.00%	0	0	0.00%	0.00%
51	100	0	0	0.00%	0.00%	0	0	0.00%	0.00%
101	250	0	0	0.00%	0.00%	0	0	0.00%	0.00%
251	500	2	2	20.00%	20.00%	701	701	3.82%	3.82%
501	750	0	2	0.00%	20.00%	0	701	0.00%	3.82%
751	1,000	0	2	0.00%	20.00%	0	701	0.00%	3.82%
1,001	1,250	1	3	10.00%	30.00%	1,126	1,827	6.14%	9.97%
1,251	1,500	1	4	10.00%	40.00%	1,420	3,247	7.75%	17.71%
1,501	1,750	2	6	20.00%	60.00%	3,183	6,430	17.36%	35.08%
1,751	2,000	0	6	0.00%	60.00%	0	6,430	0.00%	35.08%
2,001	2,500	2	8	20.00%	80.00%	4,506	10,936	24.58%	59.66%
2,501	3,000	1	9	10.00%	90.00%	2,605	13,541	14.21%	73.87%
3,001	5,000	1	10	10.00%	100.00%	4,791	18,332	26.13%	100.00%
Totals		10				18,332			
from H-2		10				18,332			

AVERAGE NUMBER OF CUSTOMERS	2
AVERAGE CONSUMPTION	1,833
MEDIAN CONSUMPTION	1,592

-Summer-

START BLOCK	END BLOCK	# BILLS		% BILLS		# Therms		% Therms	
		BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	1	1	7.14%	7.14%	0	0	0.00%	0.00%
1	50	3	4	21.43%	28.57%	77	77	4.34%	4.34%
51	100	7	11	50.00%	78.57%	438	515	24.70%	29.05%
101	250	1	12	7.14%	85.71%	180	695	10.15%	39.20%
251	500	1	13	7.14%	92.86%	270	965	15.23%	54.43%
501	750	0	13	0.00%	92.86%	0	965	0.00%	54.43%
751	1,000	1	14	7.14%	100.00%	808	1,773	45.57%	100.00%
1,001	1,250	0	14	0.00%	100.00%	0	1,773	0.00%	100.00%
1,251	1,500	0	14	0.00%	100.00%	0	1,773	0.00%	100.00%
1,501	1,750	0	14	0.00%	100.00%	0	1,773	0.00%	100.00%
1,751	2,000	0	14	0.00%	100.00%	0	1,773	0.00%	100.00%
2,001	2,500	0	14	0.00%	100.00%	0	1,773	0.00%	100.00%
2,501	4,000	0	14	0.00%	100.00%	0	1,773	0.00%	100.00%
Totals		14				1,773			
from H-2		14				1,773			

AVERAGE NUMBER OF CUSTOMERS	2
AVERAGE CONSUMPTION	127
MEDIAN CONSUMPTION	61

Attachment 4

IMPORTANT RATE INCREASE NOTICE - PLEASE READ

Duncan Valley Electric Cooperative-Gas Division ("DVEC" or "Cooperative") has notified the Arizona Corporation Commission ("Commission") that it intends to file a streamlined application ("Streamlined Application") on or about October 3, 2017, to increase its rates and charges pursuant to A.R.S. § 40-250 and A.A.C. R14-2-107 ("Rule 107"), the Commission's rule authorizing the filing of streamlined rate applications for electric and natural gas cooperatives. DVEC is requesting an overall rate increase of \$24,457 or 6% over actual test year total Arizona base revenue (this is the maximum allowed per Rule 107). DVEC-Gas Division's test year for this rate filing is year ending December 31, 2016. DVEC-Gas Division states that the rate increase is necessary to recover operating costs. The last general rate increase for DVEC-Gas Division was effective April 1, 2015.

A residential customer with monthly natural gas consumption of 55 therms (average usage) in the winter will see an increase in his or her bill of \$1.32 per month (\$63.32 to \$64.64), or 2.08%, while a residential customer with a monthly natural gas consumption of 15 therms (average usage) in the summer will see an increase in his/her bill of \$3.62 per month (\$25.43 to \$29.05), or 14.24%.

A residential customer with monthly natural gas consumption of 40 therms (median usage) in the winter will see an increase in his/her bill of \$1.77 per month (\$51.78 to \$53.55), or 3.42%. A residential customer with monthly natural gas consumption of 11 therms (median usage) in the summer will see an increase in his/her bill of \$3.45 per month (\$24.25 to \$27.70), or 14.23%.

The proposed percentage increases by rate class over existing base rates are:

Small Meter 250 CFH* and below	6.09%
Medium Meter Above 250 CFH to 425 CFH	9.00%
Large Meter Above 425 CFH	-2.20%
*CFH – Cubic Feet per Hour	

Processing the Streamlined Application

Rule 107 provides streamlined procedures that should reduce rate case expenses for processing rate applications of electric and natural gas cooperatives where (i) the requested increase in total base revenue does not exceed 6% of the actual test year total base revenue; (ii) the change in base revenue generated by any one rate class is no greater than 150% of the overall base revenue increase; (iii) there is no change greater than 25% in the customer charge within a rate schedule for residential customers; and (iv) there is no change in the rate blocks or the percentage relationship of the prices among rate blocks. The rule requires that not sooner than 20 days or later than 50 days after providing this notice to customers, DVEC may file its Streamlined Application to increase rates. Streamlined refers to the fact that such an application will be processed under a shorter time-frame than a rate increase application filed pursuant to A.A.C. R14-2-103 ("Rule 103") and, therefore, receive a less comprehensive (possibly less costly) review/analysis by Commission Staff than a Rule 103 review/analysis. DVEC's Streamlined Application may be approved without a formal evidentiary hearing. However, the Commission may at any time - at the request of Staff, an intervenor, or on its own - require DVEC's rate increase application to be processed pursuant to the more comprehensive Rule 103 requirements. You can view the entire Rule 103 and 107 at http://apps.azsos.gov/public_services/Title_14/14-02.pdf.

Public Comment and Intervention

A person desiring to object to the Streamlined Application or to request intervention in the rate case must file the objection or the intervention request not later than the date specified below. Within 14 days after the deadline for objections and intervention requests, the Commission's Utilities Division Staff must determine the eligibility and sufficiency of the Streamlined Application under Rule 107.

Written public comments regarding DVEC-Gas Division's Streamlined Application, including objections to it being processed pursuant to the alternative Rule 107 streamlined requirements, may be submitted by mailing a letter

referencing Docket No. G-02528A-17-0277 to the Commission's Consumer Services Section at 1200 W. Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to: <http://eservice.azcc.gov/Utilities/PublicComment>.

Requests to intervene may be filed in Docket No. G-02528A-17-0277 by any person entitled by law to intervene or who is directly and substantially affected by the proceeding. If you require assistance, either to provide public comment or to seek intervention, you may contact the Commission's Consumer Services Section during normal business hours at 602-542-4251 or 1-800-222-7000 (Phoenix office); or 520-628-6550 or 1-800-535-0148 (Tucson office); or you may contact DVEC during normal business hours at 928-359-2503 or 800-669-2503. All motions to intervene and all objections to the streamlined Application must be filed on or before October 13, 2017.

The Rule 107 streamlined rate process is available to DVEC-Gas Division only if the Commission receives objections from less than 35 DVEC-Gas Division customers by October 13, 2017. If the Commission receives objections from at least 35 DVEC-Gas Division customers by October 13, 2017, DVEC-Electric Division will not be eligible to use the Rule 107 streamlined process, but will instead need to use the Rule 103 rate increase application process which would involve a formal evidentiary hearing and a more comprehensive review/analysis by Commission Staff.

How You Can View or Obtain a Copy of the Application and Other Filed Documents

A copy of the Streamlined Application is available for public inspection during regular business hours at DVEC's offices located at 379597 Az 75, Duncan, Arizona 85534. A copy of the Streamlined Application is also available at DVEC's website (www.dvec.org). After October 3, 2017, a copy of the Streamlined Application will also be available for public inspection during regular business hours at the Commission's Docket Control Center at 1200 W. Washington Street, Phoenix, Arizona, 85007, in the Commission's Tucson Office at 400 W. Congress, Tucson, Arizona, 85701 and on the Internet via the Commission's website (www.azcc.gov) using the e-Docket function.

DVEC Contact Information

Duncan Valley Electric Cooperative, Inc. - Gas Division
379597 Az 75
PO Box 440
Duncan, Arizona 85534
Phone: 928-359-2503 or 800-669-2503

ADA/Equal Access Information

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Kacie Cannon, e-mail kcannon@azcc.gov, voice phone number 602-542-3931. Requests should be made as soon as possible to allow time to arrange the accommodation.

Attachment 5

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 TOM FORESE – CHAIRMAN
4 BOB BURNS
5 DOUG LITTLE
6 ANDY TOBIN
7 BOYD DUNN

8 IN THE MATTER OF THE APPLICATION
9 OF DUNCAN VALLEY ELECTRIC
10 COOPERATIVE, INC. - GAS DIVISION FOR
11 A DETERMINATION OF THE FAIR VALUE
12 OF ITS PROPERTY FOR RATEMAKING
13 PURPOSES, TO FIX A JUST AND
14 REASONABLE RATE OF RETURN
15 THEREON, TO APPROVE RATES
16 DESIGNED TO DEVELOP SUCH RETURN,
17 AND FOR RELATED APPROVALS.

DOCKET NO. G-02528A-17-0277

DECISION NO. _____

ORDER

13 Open Meeting
14 [INSERT DATE]
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 * * * * *

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

20 **FINDINGS OF FACT**

21 1. In Decision 73649 (February 6, 2013), the Arizona Corporation Commission
22 ("Commission") adopted revisions to A.A.C. R14-2-103 and added a new section A.A.C. R14-2-107
23 establishing an alternative streamlined ratemaking application and process for nonprofit cooperatives
24 providing electric or natural gas utility service.

25 2. Duncan Valley Electric Cooperative, Inc., ("DVEC" or the "Cooperative") is a non-
26 profit cooperative which provides natural gas service to customers in Arizona.

27 3. In its last rate case, DVEC filed its application as a Class C utility under A.A.C. R14-2-
28 107. In Decision No. 74810, The Commission changed the operating revenue levels that define classes

1 of utility. The requirements for a Class D utility filing under Rule 103 and a Class C Utility filing under
2 Rule 107 are slightly different, but information contained in the required schedules provides substantially
3 the same information. With Staff's and the Utility Director's approval, DVEC has filed this rate
4 application under A.A.C. R14-2-107 and requests that the requirements for A.A.C. R14-2-107(B)(1) "The
5 cooperative is classified as a Class A, B, or C utility" be waived.

6 4. On August 9, 2017, DVEC submitted to the Commission's Utilities Division Staff
7 ("Staff") a Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C) which
8 included a draft of an application ("Application") to increase rates and charges pursuant to A.A.C. R14-
9 2-107 and A.R.S. § 40-250, a proposed form of customer notice, and a proposed form of recommended
10 order. Due to schedule conflicts, DVEC and Staff were not able to meet to discuss the Cooperative's
11 eligibility under A.A.C. R14-2-107(B) in a timely manner to fulfill the requirement of A.A.C. R14-2-
12 107(B)(6) and the test year definition of A.A.C. R14-2-107(A)(14) and thus DVEC was not able to file
13 its Application until 3 days after the timeline for the test year definition. With Staff's recommendation,
14 DVEC requests that the requirement of A.A.C. R14-2-107(B)(6) and the test year definition of A.A.C.
15 R14-2-107(A)(14) be waived.

16 5. On September 11, 2017, DVEC met with Staff as required by A.A.C. R14-2-107(C)(3)
17 to discuss the Cooperative's eligibility under A.A.C. R14-2-107(B), the proposed form of customer
18 notice, and the proposed form of recommended order. At the meeting, Staff advised DVEC that it met
19 the eligibility requirements of A.A.C. R14-2-107(B) for filing a streamlined rate case. At the meeting,
20 Staff also approved the form of customer notice to be mailed to customers as required by A.A.C. R14-2-
21 107(C)(5) and A.A.C. R14-2-107(D).

22 6. DVEC filed a Request for Docket Number and Notice of Filing Proposed form of
23 Customer Notice on September 12, 2017, in accordance with A.A.C. R14-2-107(C)(4). The docket
24 number was assigned that same day.

25 7. On September 13, 2017 DVEC caused a copy of the approved customer notice to be
26 mailed via First Class Mail to all customers of record as of the date of mailing. On September 29, 2017,
27 DVEC docketed a Notice of Mailing Customer Notice certifying that the approved customer notice was
28 mailed via First Class Mail on September 13, 2017 to each customer of the Cooperative as required by

1 A.A.C. R14-2-107(C)(5) and A.A.C. R14-2-107(D). The customer notice set a deadline of October 13,
2 2017 for customers of DVEC to file intervention requests and/or objections to the Application.

3 8. On October 3, 2017, DVEC filed its Application pursuant to A.R.S. § 40-250 and A.A.C.
4 R14-2-107 to increase its rates and charges using a test year ending December 31, 2016 ("Test Year").
5 DVEC requested that the Application be approved without a hearing.

6 9. No customer of DVEC filed an application to intervene in this docket. As of the date of
7 the deadline for submitting objections, [INSERT NUMBER OF OBJECTIONS] customers of the
8 Cooperative submitted objections to the Application.

9 10. On October 27, 2017, Staff filed a Notice of Eligibility pursuant to A.A.C. R14-2-
10 107(H)(2) notifying DVEC that it met all of the eligibility requirements set forth in A.A.C. R14-2-107(B)
11 to file a rate case under A.A.C. R14-2-107.

12 11. On October 27, 2017, Staff filed a Notice of Sufficiency pursuant to A.A.C. R14-2-
13 107(H)(3) notifying DVEC that the Application met all of the requirements of R14-2-107(E) and
14 classifying the Cooperative as a Class D utility.

15 12. On [INSERT DATE], Staff filed a Staff Report recommending approval of the
16 Application without a hearing.

17 13. On [INSERT DATE], DVEC filed a response to the Staff Report.

18 14. DVEC is an Arizona member-owned non-profit natural gas distribution cooperative
19 headquartered in Duncan, Arizona. The Cooperative provides natural gas distribution service to
20 approximately 700 members/customers located in Greenlee County.

21 15. DVEC has an 8-member Board of Directors ("Board") which is elected by the
22 membership of the Cooperative to oversee all aspects of the Cooperative's operations. The Board
23 approved the filing of the Application at a regular meeting of the Board on May 15, 2017.

24 16. DVEC's current rates were established in Decision No. 74996 issued March 16, 2015.

25 17. In its Application, DVEC sought to increase its annual gross revenue requirement by
26 \$24,457, from adjusted Test Year revenues of \$530,545 to \$555,002, an increase of 6% over actual Test
27 Year total base revenue. The rate increase would yield an Operating Margin of \$56,052. DVEC's proposal
28 results in a 7.47% rate of return on Fair Value Rate Base ("FVRB").

1 18. A residential customer with monthly natural gas consumption of 55 therms (average
2 usage) in the winter will see an increase in his or her bill of \$1.32 per month (\$63.32 to \$64.64), or 2.08%,
3 while a residential customer with a monthly natural gas consumption of 15 therms (average usage) in the
4 summer will see an increase in his/her bill of \$3.62 per month (\$25.43 to \$29.05), or 14.24%. A residential
5 customer with monthly natural gas consumption of 40 therms (median usage) in the winter will see an
6 increase in his/her bill of \$1.77 per month (\$51.78 to \$53.55), or 3.42%. A residential customer with
7 monthly natural gas consumption of 11 therms (median usage) in the summer will see an increase in
8 his/her bill of \$3.45 per month (\$24.25 to \$27.70), or 14.23%.

9 19. The Cooperative's Application states that the rate increase is necessary to recover
10 operating costs. The rate increase will allow DVEC to maintain the financial integrity of the Cooperative.

11 20. As attachments to the Application, DVEC submitted audited financial statements for the
12 year ended December 31, 2016, and a copy of its certified annual financial and statistical report to the
13 National Rural Utilities Cooperative Finance Corporation ("CFC") for calendar year 2016 including a
14 divisional financial report.

15 21. The Application uses Original Cost Rate Base as FVRB. DVEC waived the use of
16 reconstruction cost new rate base to determine the Cooperative's fair value rate base as required by A.A.C.
17 R14-2-107(E)(2).

18 22. The Application does not propose (i) any change to an existing adjustor or surcharge
19 mechanism; (ii) adoption of any new adjustor or surcharge mechanism; (iii) adoption of a new hook-up
20 fee or another new type of fee; (iv) any rate structure change as defined in 13 A.A.C. R14-2-107(A)(11);
21 or (v) any non-price tariff change. The Application does not seek financing approval or consolidation
22 with another docket.

23 23. DVEC is a distribution cooperative. Pursuant to A.A.C. R14-2-107(B)(14), objections to
24 the Application timely submitted by the Cooperative's customers may represent no more than 5% of all
25 customer accounts or no more than 1,000 customer accounts, whichever is fewer. For purposes of
26 determining eligibility under this rule, the total number of Arizona DVEC customer accounts as of
27 December 31, 2016 was 704. Five percent of the customer accounts is 35 accounts, so the applicable
28 complaint threshold for DVEC is 35. As of October 13, 2017 objection deadline, the Commission

1 received [INSERT NUMBER OF COMPLAINTS] customer objections to the Application, which is
2 below the threshold under A.A.C. R14-2-107(B)(14).

3 24. DVEC's FVRB is determined to be \$614,803, which is the same as its OCRB.

4 25. In the Test Year, DVEC had adjusted total revenues of \$529,668.

5 26. We find that DVEC's request to increase its annual gross revenue requirement by
6 \$25,145, from adjusted Test Year revenues of \$529,668 to \$554,125, complies with A.A.C. R14-2-107.
7 The rate increase will yield an Operating Margin of \$56,052, resulting in a 7.47% rate of return on FVRB.

8 27. We find that DVEC's Application complies with the requirements of A.A.C. R14-2-107.

9 28. DVEC's proposed increase to customer rates and charges as set forth in the Application
10 is reasonable and should be adopted.

11 CONCLUSIONS OF LAW

12 1. DVEC is a public service corporation pursuant to Article XV of the Arizona Constitution
13 and A.R.S. § 40-250 and 40-251.

14 2. The Commission has jurisdiction over DVEC and the subject matter of the application.

15 3. Notice of the proceeding was provided in conformance with A.A.C. R14-2-107(D).

16 4. A full permanent rate case decision for DVEC was issued within the 180-month period
17 immediately preceding the filing of the Application in this docket.

18 5. This is the second application filed by DVEC under A.A.C. R14-2-107.

19 6. DVEC is required by law and/or contract to make a certified annual financial and
20 statistical report to CFC.

21 7. The Test Year used by DVEC complies with the definition of a test year in A.A.C. R14-
22 2-107(A).

23 8. DVEC's Application does not propose an increase in actual Test Year total base revenue
24 of more than 6%.

25 9. The rates, charges, approvals and conditions of service approved herein are just and
26 reasonable and in the public interest.

27 ORDER

28 IT IS THEREFORE ORDERED that the requirements of A.A.C. R14-2-107(B)(1)"The
cooperative is classified as a Class A, B, or C utility" in FINDINGS OF FACT paragraph 3 are waived.

1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc., - Gas Division is
2 hereby directed to file, on or before [INSERT DATE], tariffs with a new schedule of rates and charges
3 consistent with Exhibit A.

4 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective
5 for all service rendered on or after [INSERT DATE].

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

10 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. - Gas Division's base
11 cost of gas and PGA should remain unchanged with the entire cost of gas contained in Duncan Valley
12 Electric Cooperative, Inc. – Gas Division's PGA.

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

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

15
16
17 CHAIRMAN

COMMISSIONER

18
19 COMMISSIONER

COMMISSIONER

COMMISSIONER

21 IN WITNESS WHEREOF, I, TED VOGT, Executive
22 Director of the Arizona Corporation Commission, have
23 hereunto, set my hand and caused the official seal of this
24 Commission to be affixed at the Capitol, in the City of
Phoenix, this ____ day of _____, _____

25 _____
26 TED VOGT
27 EXECUTIVE DIRECTOR

28 DISSENT: _____

DISSENT: _____

Decision No. _____

Exhibit A**DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - Gas Division**

<u>Customer Classes</u>	<u>Present Rate</u>	<u>Approved Rate</u>
Small Meter <250 CFH		
Monthly Service Charge	\$ 21.00	\$ 24.00
Winter Delivery Charge (Nov-Mar) - Per Therm	\$ 0.76939	\$ 0.73886
Summer Delivery Charge (Apr-Oct) - Per Therm	\$ 0.29566	\$ 0.33639
Medium Meter >250 <425 CFH		
Monthly Service Charge	\$ 31.50	\$ 36.00
Winter Delivery Charge (Nov-Mar) - Per Therm	\$ 0.76939	\$ 0.73886
Summer Delivery Charge (Apr-Oct) - Per Therm	\$ 0.29566	\$ 0.33639
Large Meter >425 CFH		
Monthly Service Charge	\$ 42.00	\$ 48.00
Winter Delivery Charge (Nov-Mar) - Per Therm	\$ 0.76939	\$ 0.73886
Summer Delivery Charge (Apr-Oct) - Per Therm	\$ 0.29566	\$ 0.33639