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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman

2004 SEP 27 P 3:07

WILLIAM A. MUNDELL
Commissioner

AZ CORP COMMISSION
DOCUMENT CONTROL

JEFF HATCH-MILLER
Commissioner

Arizona Corporation Commission
DOCKETED

MIKE GLEASON
Commissioner

SEP 27 2004

KRISTIN K. MAYES
Commissioner

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN, AND FOR APPROVAL OF PURCHASED POWER CONTRACT

DOCKET NO. E-01345A-03-0437

NOTICE OF FILING DIRECT TESTIMONY OF JENNIFER CHAMBERLIN

SACKS TIERNEY P.A., LAWYERS
4250 NORTH DRINKWATER BOULEVARD
FOURTH FLOOR
SCOTTSDALE, ARIZONA 85251-3693

PLEASE TAKE NOTICE THAT Strategic Energy, L.L.C. hereby files the attached Direct Testimony of Jennifer Chamberlin in the above-captioned docket.

DATED this 27th day of September, 2004.

SACKS TIERNEY P.A.

By

Marvin S. Cohen
Charlene Gibson Robertson
Attorneys for Constellation
NewEnergy, Inc. and Strategic
Energy, L.L.C.

1 THE ORIGINAL AND 13 COPIES OF
2 THE FOREGOING FILED
3 this 27th day of September, 2004, with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES OF THE FOREGOING
9 HAND-DELIVERED
10 this 27th day of September, 2004, to:

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12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

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Lisa O'Brien

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2004 SEP 27 P 3: 11

**AZ CORP COMMISSION
DOCUMENT CONTROL**

**BEFORE THE
ARIZONA CORPORATION COMMISSION**

DIRECT TESTIMONY OF JENNIFER CHAMBERLIN

On Behalf of Strategic Energy, L.L.C.

Docket No. E-01345A-03-0437

Arizona Corporation Commission

DOCKETED

SEP 27 2004

DOCKETED BY	
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September 27, 2004

DIRECT TESTIMONY OF JENNIFER CHAMBERLIN

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Jennifer Chamberlin. My business address is 2633 Wellington Court, Clyde, CA 94520.

3
4 **Q. PLEASE DESCRIBE YOUR CURRENT EMPLOYMENT.**

5 A. I am employed as Strategic Energy's Manager of Regulatory Affairs for the Western
6 Region.

7 **Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS POSITION?**

8 A. In this capacity, I interact with state utility commissions and FERC, consumer advocates,
9 jurisdictional utilities, other competitive energy suppliers, Regional Transmission
10 Organizations ("RTOs") and legislative bodies, to shape legislation, regulations,
11 agreements and processes to foster the development of robust competitive electric supply
12 alternatives.

13
14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND EMPLOYMENT HISTORY.**

15 A. I earned a degree in Political Science from the University of California, Davis. Prior to
16 my employment with Strategic Energy, I served as the Manager of Regulatory Affairs for
17 Chevron Energy Solutions. In that capacity, I was responsible for coordinating the
18 company's regulatory and legislative activities with both external trade associations and
19 internally with other ChevronTexaco subsidiaries. I was previously employed as the
20 Manager of Market Development for PG&E Energy Services, handling regulatory
21 activities in the Pacific Northwest and Mid-Atlantic regions and as an Analyst for
22 Barakat and Chamberlin, an economic and management consulting firm working with
23 regulated and deregulating industries.

1 **Q. PLEASE DESCRIBE STRATEGIC ENERGY.**

2 A. Strategic Energy is an energy management company that provides electric load
3 aggregation and power supply coordination services. Founded in 1986, Strategic Energy
4 has transformed itself from an energy-consulting firm into one of the largest competitive
5 retail energy service providers in the United States. Strategic Energy is licensed to
6 provide electric service in 12 states and has more than 42,000 commercial and industrial
7 customers in states that have enacted retail choice, including Pennsylvania, Michigan,
8 Maryland, Ohio, New York, Massachusetts, Texas, and California—with many more
9 states expected to come online in the next few years. With its headquarters in Pittsburgh,
10 Pennsylvania and offices across the country, Strategic Energy's more than 250 full-time
11 energy professionals are devoted to objective electricity and natural gas management
12 and consulting. Strategic Energy manages or procures more than \$2 billion dollars of
13 electricity and natural gas per year.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. I am testifying in support of the Proposed Settlement document in Docket No E-01345A-
17 03-0437.

18

19 **Q: HOW HAS STRATEGIC ENERGY PARTICIPATED IN THIS DOCKET?**

20 A: Strategic Energy, jointly with Constellation NewEnergy (CNE) sponsored the testimony
21 of Witness Mark Fulmer and participated extensively in the Settlement conferences.

22

1 Q: **WHY IS THE PROPOSED SETTLEMENT IN THE PUBLIC INTEREST?**

2
3 A: The Proposed Settlement was achieved through a collaborative process involving almost
4 30 diverse parties, including: residential customers, commercial and industrial customers,
5 independent power producers and generators, utility companies, federal agencies, electric
6 service providers, distributed generation, energy efficiency, solar producers, stock
7 holders and the Commission Staff. Each represented interest participated in all aspects of
8 the discussions, ensuring that each issue was considered from a variety of perspectives.
9 Only one interested party opposed the Proposed Settlement.

10
11 The parties who participated in the settlement discussions realized that litigating in a
12 proceeding with the breadth of issues involved in this APS General Rate Case would be
13 an expensive and risky proposition for all parties. It's very difficult to ensure that, during
14 the litigation process, the entire gamut of issues will be examined effectively from all
15 perspectives. The Proposed Settlement, crafted through a collaboration of parties
16 representing the gamut of Arizona's ratepayer interests, addresses these issues
17 effectively. We believe the proposals agreed upon by this broad coalition of interested
18 parties resolve these issues in a manner that serves the public interest.

19
20 Q: **GENERALLY, WHY DO YOU SUPPORT THE PROPOSED SETTLEMENT?**

21
22 A: In becoming involved in the APS Rate Case, Strategic Energy was interested in ensuring
23 that the interests of a competitive marketplace and potential direct access customers were
24 considered in all aspects of this proceeding. Our goal was that the outcome would help

1 foster a robust competitive retail and wholesale marketplace within Arizona. As a
2 national retail energy service provider we have seen the benefits that competitive markets
3 can provide consumers including providing customers with customized products (such as
4 fixed price products for budget certainty), reduced energy costs, and innovative service
5 offerings such as “green” or renewable products, demand response, energy efficiency and
6 specialized billing options. We’ve seen over 52,000 MW of peak load benefit from
7 choosing direct access electric supply across the country and wanted a market structure
8 that would allow APS customers to benefit also.

9
10 We believe that the collaborative process undertaken to achieve the Proposed Settlement
11 took into account the interests of each party entering into the proceeding and achieved a
12 balanced result that is an excellent compromise for all parties involved and for the
13 ratepayers of Arizona.

14
15 **Q: WHAT ASPECTS OF THE PROPOSED SETTLEMENT DO YOU FEEL**
16 **FOSTER COMPETITION?**

17 **A:** There are several elements in the Proposed Settlement that specifically address
18 competitive market issues:

19 PWEC Assets: The Proposed Settlement finds that it is in public interest for APS to
20 acquire and to rate base the PWEC assets (Paragraph 6), which could be very
21 troublesome for competitive market interests. However, the Proposed Settlement
22 includes the following additional aspects, which mitigate these concerns:

1 1) Paragraph 8 requires APS to forgo any stranded cost claims associated with
2 these assets now and in the future. This is critical – in order for competitive
3 markets to flourish they must not be under the threat of “new” stranded costs once
4 stranded cost collection has been completed.

5 2) Paragraph 15 adds West Phoenix CC-4 and West Phoenix CC-5 to the pool of
6 “local generation assets” defined by the AISA or successor protocol, which will
7 allow generation from these assets to be made available to serve direct access load
8 during must-run conditions. We believe this is an appropriate treatment of this
9 portion of the PWEC assets.

10 3) Section IX provides for APS to engage in a Competitive Power Procurement
11 process. While we would defer to direct testimony provided by Alliance members
12 being filed in support of this Proposed Settlement as to the specific benefits of this
13 process, we believe this is a critical counterpoint to the rate basing of the PWEC
14 assets if a viable competitive wholesale market is to develop.

15 4) Section XI also provides that APS will not, prior to 2015, add self-built
16 generation to its system unless the Commission determines that the wholesale
17 market is unable to efficiently meet APS’s power needs. This incentive for the
18 development of additional alternative independent power production in Arizona
19 should provide useful resources to retail energy service providers like Strategic
20 Energy.

1 Rate Design: A key component in fostering retail competition is providing customers
2 with an unbundled generation component (or “shopping credit” or “price to beat” as it is
3 called in some jurisdictions) that is adequate to allow a customer to shop for alternative
4 energy supply. The rate designs for commercial and industrial customers in the Proposed
5 Settlement (as filed in Appendix J; E-32, E-34, and E-35) reflect parties’
6 acknowledgment of the need to bring the generation component of APS rates to a cost of
7 service level in order to properly reflect the costs associated with power usage and to
8 improve customers’ opportunity to take advantage of competitive markets.

9
10 These rate structures properly allocate costs of Revenue Cycle Services on a cost of
11 service basis. This allocation allows all customers access to these services in a non-
12 discriminatory manner (Paragraph 119).

13 Transmission Cost Adjustor (TCA): The TCA described in Section XVI will help ensure
14 that customers have equal costs for electric transmission whether they are on bundled
15 utility service or taking Direct Access service.

16 Demand Side Management (DSM): The Proposed Settlement calls for a significant
17 increase in DSM spending funded via base rates and adjustor mechanisms. Paragraph 53
18 ensures that Direct Access customers will be allowed to benefit from the programs they
19 are funding.

1 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A. Yes it does.

3