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BEFORE THE ARIZONA CORPORATION COMMISSION

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JEFF HATCH-MILLER
Chairman
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Commissioner

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Arizona Corporation Commission
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MAR 18 2005

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AVIS READ, individually, and behalf of all others
similarly situated,

Complainant,

v.

ARIZONA PUBLIC SERVICE COMPANY,

Respondent.

DOCKET NO. E-01345A-04-0657

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR A
DECLARATORY ORDER REGARDING BILL
ESTIMATION PROCEDURES.

DOCKET NO. E-01345A-03-0775

ARIZONA CORPORATION
COMMISSION STAFF'S
TESTIMONY IN SUPPORT OF
PROPOSED SETTLEMENT

Staff of the Arizona Corporation Commission hereby files the Testimony of Perry L.
Wheaton and Linda Jaress in the above-referenced matter.

RESPECTFULLY SUBMITTED this 18th day of March 2005.

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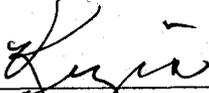
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**DIRECT
TESTIMONY
OF
LINDA A. JARESS
PERRY L. WHEATON**

DOCKET NOS. E-01345A-04-0657 & E-01345A-03-0775

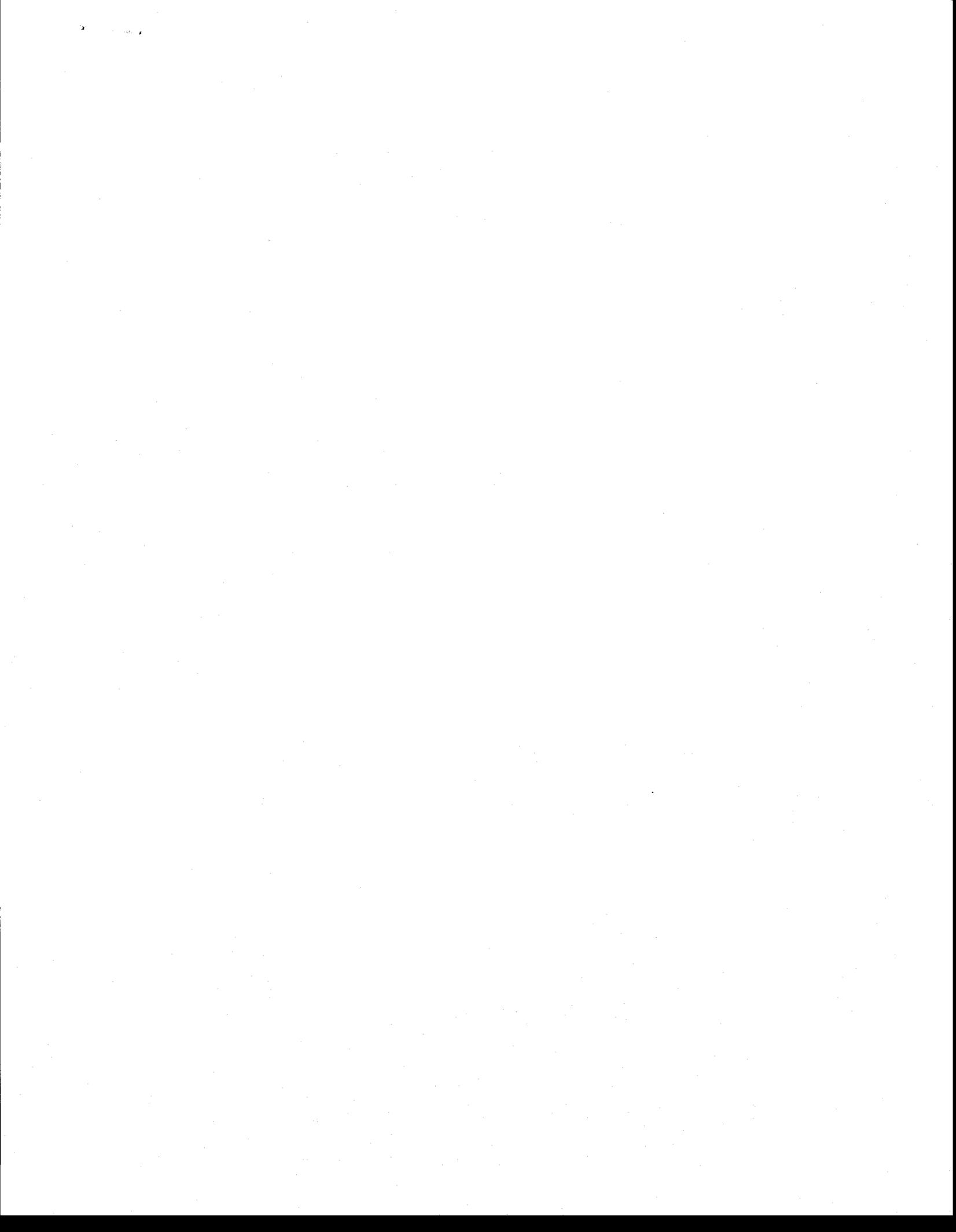
**AVIS READ; INDIVIDUALLY, AND ON BEHALF OF ALL
OTHERS SIMILARLY SITUATED,
COMPLAINANTS,**

V.

**ARIZONA PUBLIC SERVICE COMPANY,
RESPONDENT.**

**IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A DECLARATORY ORDER REGARDING BILL
ESTIMATION PROCEDURES**

MARCH 18, 2005



BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
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AVIS READ; individually, and on Behalf of All)
Others Similarly Situated,)
Complainants,)
v.)
ARIZONA PUBLIC SERVICE COMPANY,)
Respondent.)
_____)

DOCKET NO. E-01345A-04-0657

IN THE MATTER OF THE APPLICATION OF)
ARIZONA PUBLIC SERVICE COMPANY FOR)
A DECLARATORY ORDER REGARDING BILL)
ESTIMATION PROCEDURES)
_____)

DOCKET NO. E-01345A-03-0775

TESTIMONY

OF LINDA A. JARESS

IN SUPPORT OF THE PROPOSED SETTLEMENT AGREEMENT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 18, 2005

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**EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-03-0437**

Ms. Jaress' testimony discusses the proposed Settlement Agreement, provides the rationale behind settlement of several issues and explains why Staff believes that adoption of the Settlement Agreement by the Commission is in the public interest.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Linda A. Jaress. I am an Executive Consultant III in the Utilities Division of
4 the Arizona Corporation Commission ("ACC" or "Commission"). My business address
5 is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Please state your educational background and professional experience.**

8 A. I received a Bachelor of Arts Degree from Michigan State University and a Master of
9 Business Administration Degree from the University of Hawaii. I was employed as a
10 Research Analyst for the Hawaii Trucking Association from 1977 through 1978 and as a
11 Financial Analyst for the State of Hawaii, Division of Consumer Advocacy from 1980
12 through 1985. In 1985, I was employed by the Commission as a Senior Rate Analyst and
13 received a promotion to Manager, Financial Analysis in 1991. I also served as the Acting
14 Chief of the Accounting and Rates Section. On January 1, 2001, I was promoted to the
15 position of Executive Consultant III.

16
17 **Q. Please list your duties and responsibilities as Executive Consultant III.**

18 A. I complete special projects for the Director and Assistant Directors. Among those
19 projects are the writing of reports and testimony and oversight of the RFP process for
20 many of the RFPs issued by the Utilities Division.

21
22 **Q. What is the purpose of this testimony?**

23 A. The purpose of this testimony is to explain why approval of the Proposed Settlement
24 Agreement among Arizona Public Service Company ("APS" or "the Company"), the
25 Estate of the late Mrs. Avis Read ("Ms. Read") and the Staff of the Arizona Corporation

1 Commission ("Staff") is in the public interest. I will also compare the Settlement
2 Agreement to the recommendations set forth by Staff in its Staff Report and direct
3 testimony.

4
5 **Q. What were Staff's concerns in this matter?**

6 A. The allegations in Ms. Read's action filed in Superior Court and her complaint filed with
7 the Commission were of concern to Staff. These allegations raised concerns about APS'
8 meter reading resources, billing language, demand and usage estimation practices and
9 about the accuracy of APS' bills to its customers.

10
11 During the course of Staff's inquiry into the billing and meter reading practices of APS
12 that was prompted by Ms. Read's complaint, more concerns came to light. Staff
13 discovered issues related to APS' implementation of its 1998 Customer Information
14 System ("CIS"). Staff also learned that there were instances in which APS failed to
15 appropriately credit customers when a demand estimate turned out to be higher than a
16 subsequent meter read. Staff was also very concerned about APS' apparent non-
17 compliance with sections of rate schedules EC-1 and ECT-1R that apply to residential
18 customers taking service through demand meters. These findings generated an overall
19 concern with APS' compliance with Commission-approved tariffs, in general.

20
21 Staff was also concerned about the expense of the remedy of these problems and how the
22 expenses would be recovered.
23
24
25

1 **Q. What were the results of Staff's inquiry?**

2 A. First, Staff concluded that the logical, root cause of most of the issues raised by the Read
3 complaint and Staff's inquiry was APS' ability to attain a meter read. If access to all
4 meters is maintained and APS has a sufficient number of meter readers, no meter reads
5 would be missed. Therefore, no estimated bills would result.

6
7 Staff found that Ms. Read, although the recipient of poor customer service from APS,
8 was underbilled rather than overbilled. Staff concluded that, contrary to Ms. Read's
9 allegations, APS' estimation practices most commonly result in underestimations, rather
10 than overestimations. Staff also determined that APS employs an adequate number of
11 meter readers.

12
13 However, Staff also concluded that rather than using the method for estimating demand
14 included in its tariff, APS has used and currently uses customer class average load factors
15 in its calculation of estimated demand. Staff compared APS' method to four other
16 methods to determine which produced the most accurate results and found that the use of
17 customer specific demand from the prior month produces the most accurate estimates of
18 the following month's demand.

19
20 Staff found that approximately 8 percent of APS' residential customers and 93 percent of
21 non-residential customers are served through demand meters and that this constitutes a
22 high number of demand meters compared to other electric utilities. Thus, problems
23 arising from non-access to demand meters and estimation of demand are significant in
24 both impacts on the customer and on APS' costs of achieving a meter read.

25

1 Finally, Staff concluded that the implementation of APS' new CIS caused certain
2 deficiencies in the bill estimation process and caused APS to miss sending bills to certain
3 customers for a limited time period.
4

5 THE SETTLEMENT AGREEMENT

6 **Q. How does the Settlement Agreement address Staff's concerns and the results of the**
7 **inquiry?**

8 A. Paragraph 23 of the Settlement Agreement directly addresses meter access problems
9 emanating from lack of physical access to meters by requiring APS to invest \$600,000 in
10 an Access Improvement Program. The details of the Program will be determined when
11 APS files the program for Commission approval, but its purpose is to invest in remote or
12 other alternative meter reading equipment whereby access to meters will be improved.
13 The Program replaces the recommendation within Staff's direct testimony for a \$573,000
14 fine against APS for its failure to send bills to Ms. Read for five months and for non-
15 compliance with the demand estimation methodology set forth in its EC-1 and ECT-1R
16 tariffs for over twenty years. Staff believes that the Program will be a positive step
17 toward reducing the number of bill estimations for all customers, not only those with
18 demand meters.
19

20 Within the Settlement Agreement in Paragraph 6, APS agrees that it did not implemented
21 the demand estimation methodology for residential customers with demand meters
22 contained in APS Rate Schedules EC-1 and ECT-1R when it designed its bill estimation
23 procedures for its CIS. The Agreement also sets forth the most accurate method of those
24 studied for estimating demand for all demand-metered customers and APS agrees to use

1 that method in Paragraph 12. These paragraphs resolve Staff's concerns regarding APS'
2 demand estimation procedures.

3
4 Paragraph 25 addresses potential costs of training, audits, reports and implementation of
5 improvements adopted by the Agreement and requires that they be absorbed by the
6 Company in most instances. Therefore, Staff's concerns about customers absorbing the
7 costs of remediation are allayed.

8
9 Several paragraphs of the Settlement Agreement call for ongoing audits and reporting to
10 aid the Commission in its oversight of APS' compliance with the decision in this case,
11 Commission rules and APS' own tariff. These paragraphs address Staff's concerns about
12 APS' current and future compliance with Commission rules, APS' tariff and with the
13 decision in this matter.

14
15 Finally, Paragraph 27 addresses Staff's concerns about billing language by adopting all
16 the recommendations made in the direct testimony of Staff Witness Matt Rowell. That
17 testimony recommended certain clarifying language be added to APS' estimated bills.
18 Paragraph 14 also requires APS to collaborate with Staff to develop appropriate language
19 to be used on estimated bills.

20
21 **Q. Why is the Settlement Agreement in this case in the public interest?**

22 A. This Settlement Agreement addresses and resolves the Read complaint and problems
23 associated with APS' meter reading and bill estimation procedures. It benefits all
24 customers by requiring an Access Improvement Program that should ultimately reduce
25 costs associated with no access to customers' meters. The Agreement also would

1 institute bill credits that could total over \$2.0 million for customers who were overbilled
2 due to APS' Customer Information System. Finally, the complaint of Ms. Read would
3 also be resolved by the Commission's adoption of the Settlement Agreement. For these
4 reasons, Staff believes the Settlement Agreement to be in the public interest.

5
6 **COMPARISON OF STAFF'S DIRECT CASE TO THE SETTLEMENT AGREEMENT**

7 **Q. Does the Settlement Agreement reflect Staff's recommendations as set forth in the**
8 **Staff Report dated December 28, 2004 and Staff's direct testimony dated January**
9 **24, 2005?**

10 A. Yes. The Settlement Agreement reflects the vast majority of Staff's recommendations
11 that appeared in the Staff Report and Staff's direct testimony.

12
13 **Q. Please summarize Staff's recommendations as set forth in the Staff Report and**
14 **direct testimony.**

15 A. Over twenty-five recommendations were made by Staff in its direct testimony and the
16 Staff Report. They included recommendations to set in place better meter reading
17 policies and procedures, to initiate more complete bill information, to require ongoing
18 reporting and audits, to require refunds to customers and to issue a fine against the
19 Company. They are listed on pages 37 through 43 of Perry Wheaton's direct testimony,
20 and on pages 18 and 19 and pages 27 and 28 of the direct testimony of Matt Rowell. The
21 March 18, 2005 testimony of Perry Wheaton provides a further discussion of Staff's
22 original recommendations.

23
24 **Q. What is the most significant difference between Staff's recommendations and the**
25 **Settlement Agreement?**

1 A. First and foremost, Staff's recommendation of a fine was eliminated in favor of a more
2 constructive remedy. Instead of the fine, the Settlement Agreement requires APS to
3 develop a "cost-effective Access Improvement Program to achieve a reduction in the
4 number of instances of kW and kWh estimation due to 'no access' issues" and to spend
5 \$600,000 on the Program. The \$600,000 investment in the Access Improvement
6 Program encompasses an amount equal to the recommended fine for APS' non-
7 compliance with its tariff and for the five-month non-billing of Ms. Read and includes an
8 additional \$27,000. The Settlement Agreement, in paragraphs 22 and 23, is careful to
9 ensure that the expenditures will be for assets or technology, in other words "specific
10 remedies" rather than studies, planning or administrative costs.

11
12 Staff believes that although this is a significant change from the recommendation for a
13 fine, it is a constructive change. Although a fine may have punitive aspects and serve as
14 a deterrent, a fine may not contribute to improvements in customer service to the same
15 degree as the Access Improvement Program. Also, the Access Improvement Program
16 directly addresses the root of the bill estimation issue, access to meters, which a fine
17 would not.

18
19 **Q. One of Staff's recommendations was that APS send certified letters to customers**
20 **whose service may be discontinued due to denial of APS' access to their meter. Why**
21 **did Staff agree to a Settlement Agreement that did not include this**
22 **recommendation?**

23 A. The expense and ultimate effectiveness of sending certified letters are the reasons Staff
24 agreed to their exclusion from the Settlement Agreement. The additional costs related to
25 this recommendation could ultimately be absorbed by all customers, including those who

1 consistently allow unrestricted access to their meters as required by the Commission
2 rules. The cost of sending a certified letter is \$2.67, not including APS' labor or
3 overhead. APS already provides notice of potential service termination via regular mail
4 so any benefit from the additional notice may be marginal at best.

5
6 **Q. Another recommendation was that APS be ordered to implement a pilot program**
7 **whereby APS would make meter reading appointments with customers who have a**
8 **history of not facilitating APS' access to their meters. Why did Staff agree to a**
9 **Settlement Agreement that did not include this recommendation?**

10 A. The potential expense, along with the possibly perverse incentive that such a program
11 might send to customers are the reasons Staff agreed to this recommendation's exclusion
12 from the Settlement Agreement. Certainly, APS should make reasonable efforts to
13 achieve access to customers' meters. But the implementation of meter-reading
14 appointments would result in additional labor costs of meter reading supervisors to
15 redesign meter reading routes and costs of special trips by meter readers.

16
17 Furthermore, pursuant to A.A.C. R14-2-209(D), customers must provide "safe
18 ingress...and egress" to the utility at the customer's premises to read the meter.
19 Ultimately, access to the meter is the responsibility of the customer. If a pilot program
20 were offered in which APS makes appointments with customers to read their meters,
21 customers may begin to believe that they may restrict APS' meter reading to times of the
22 customers' choosing.

23
24 **Q. Please describe other Staff recommendations not included or modified within the**
25 **Settlement Agreement.**

1 A. Staff's direct case and the Settlement Agreement differ in how they address audits and
2 compliance issues. Staff's original recommendations included a "third-party"
3 independent audit within 12 months of the Commission's decision that would evaluate
4 whether the Company's meter reading, billing and estimation practices and management
5 processes have improved and whether the Company has complied with the Commission's
6 decision in this matter. Staff also recommended that APS file an implementation plan for
7 Commission approval. Staff further recommended an internal audit be performed by
8 APS that would review its compliance with all Commission rules and tariffs and file the
9 results of the audit with the Commission twelve months from the close of the proceeding.

10
11 The Settlement Agreement somewhat modifies these requirements. In place of filing an
12 implementation plan, APS will file an Access Improvement Program for the
13 Commission's approval. Fifteen months after the Program's implementation, APS will
14 file a report regarding its success. This change reflects the Settlement Agreement's
15 adoption of the Access Improvement Program in place of the less defined
16 "implementation plan."

17
18 The Staff Report recommended that APS include on-going testing of usage estimation,
19 meter reading, and billing practices in an annual audit. By contrast, Paragraph 39 of the
20 Proposed Settlement Agreement requires APS' Regulatory Compliance Department to
21 conduct an audit of kW and kWh estimation, meter reading, and billing practices after the
22 Commission issues a final order in this matter and at least once every three years
23 thereafter.

24

1 The Staff Report also recommended that APS arrange for a third party audit with an
2 independent auditor selected by Staff and funded by APS. Staff intended for this audit to
3 evaluate whether the Company's meter reading, billing, and estimation practices have
4 improved and whether the Company has complied with the Commission's decision in this
5 matter. By contrast, Paragraph 41 of the Proposed Settlement Agreement defers the
6 Commission's decision of whether a third party audit is necessary to a later date.

7
8 Staff agreed to these changes with an eye toward reducing costs. However, when APS
9 presents its internal audit results to the Commission, the Commission may decide that a
10 third-party, independent audit should be conducted.

11
12 **Q. Staff's original recommendations included a requirement for APS to provide a list**
13 **of customers who were not issued three or more bills as a result of APS' Customer**
14 **Information System problems during late 1999 and early 2000. Why did Staff**
15 **agree to omit this requirement from the Settlement Agreement?**

16 **A.** Paragraph 38 of the Settlement Agreement recognizes that the rights of other customers
17 besides Ms. Read, who were not issued bills, are not diminished by the Proposed
18 Settlement Agreement. The number of customers who were not issued three or more
19 bills due to CIS problems during late 1999 and early 2000 is 143. In February 2000, APS
20 resolved the deficiencies in the CIS related to non-billing. In contrast, the number of bills
21 affected by APS failure to appropriately credit customers when a demand estimate turned
22 out to be higher than a subsequent meter was over 24,000. Due to the limited scope of
23 the non-billing problem and the suitable response by APS, Staff agreed not to request the
24 list of customers.

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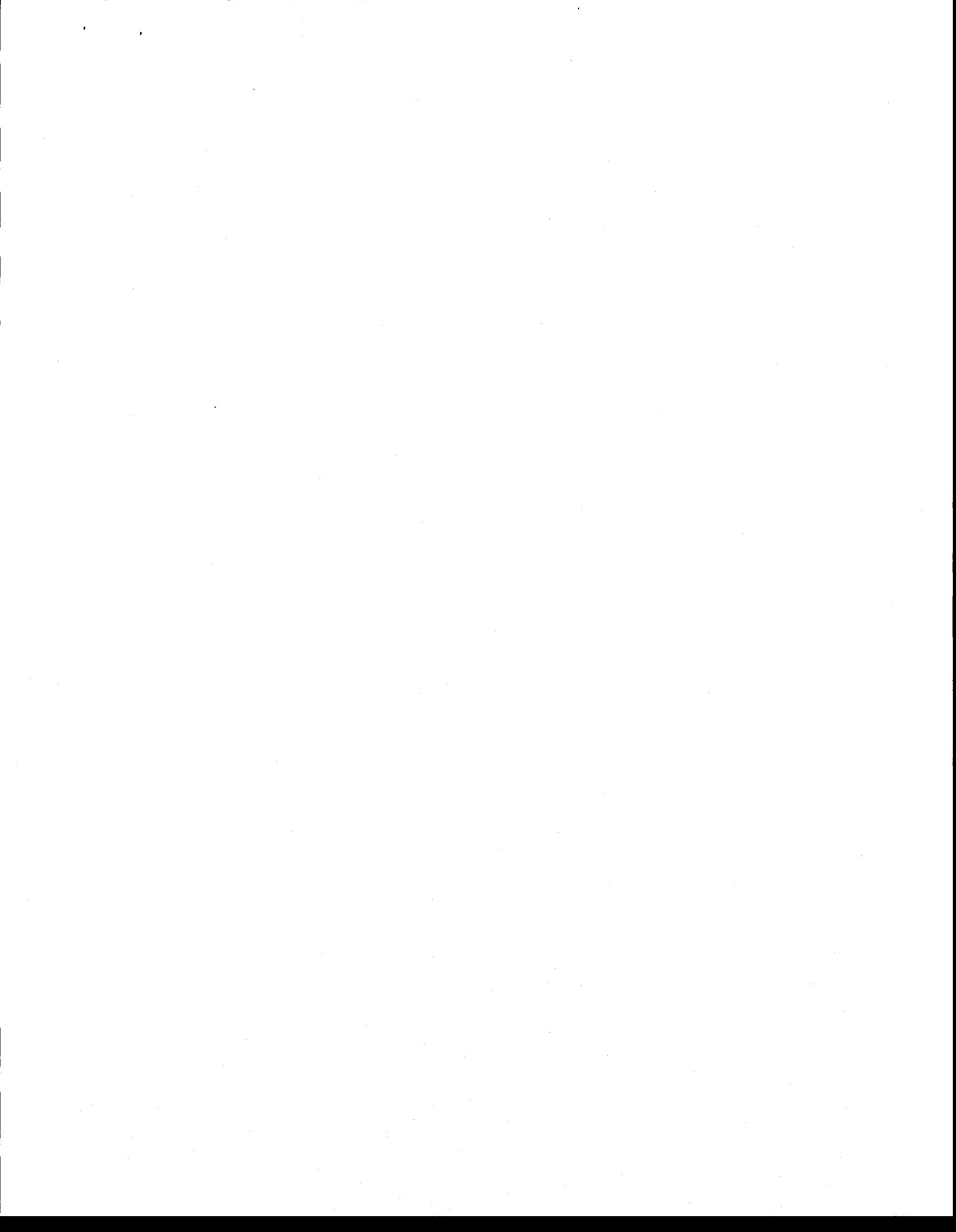
1 **CONCLUSION**

2 **Q. Does Staff recommend that the Commission approve the Settlement Agreement?**

3 A. Yes, Staff believes the Settlement Agreement is in the public interest and should be
4 approved by the Commission.

5
6 **Q. Does this conclude your direct testimony?**

7 A. Yes, it does.



BEFORE THE ARIZONA CORPORATION COMMISSION

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DOCKET NO. E-01345A-03-0775

TESTIMONY

OF

PERRY L. WHEATON

BARRINGTON-WELLESLEY GROUP, INC.

IN SUPPORT OF THE PROPOSED SETTLEMENT AGREEMENT

MARCH 18, 2005

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Exhibit PLW-1: Summary of Original Recommendations	

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INTRODUCTION

Q. Please state your name and occupation.

A. My name is Perry L. Wheaton. I am the Co-President and Co-Founder of the Barrington-Wellesley Group, Inc.

Q. Have you previously filed testimony in this docket?

A. Yes, I filed testimony in this docket on January 24, 2005.

Q. What is the scope of this testimony?

A. I am the BWG engagement director for the inquiry into the usage estimation, meter reading, and billing practices of APS on behalf of Commission Staff. I, along with Joel F. Jeanson and Joyce I. Steingass, who are two of my associates, produced a report in this matter which was filed on December 28, 2004. On January 24, 2005, I filed testimony that presented additional findings, conclusions, and recommendations based on work completed since the initial report was prepared.

My testimony in support of the settlement agreement describes certain recommendations contained in the Proposed Settlement Agreement, compares them to our original recommendations, and explains why they are reasonable and in the public interest.

Q. Please identify those paragraphs in the Proposed Settlement Agreement that will be addressed in your testimony.

A. This testimony will address the following paragraphs:

Estimation Issues: 12-15, 17, 19-21

Meter Reading Issues: 32-33

Compliance: 39-41

1 of initial bills covering a period of fewer than fifteen days, we recommended that
2 APS bill the customer a pro rata amount for the initial billing period based on the
3 actual demand reading obtained in the following month. By contrast, the Proposed
4 Settlement provides that initial bills covering periods of fewer than eleven days
5 will not be billed kW.
6

7 The Proposed Settlement also describes how customers will be billed the basic
8 service charge and kWh for initial bills covering periods of fewer than eleven days.
9 This detail was not provided in our original recommendations.
10

11 **Q. Are these changes reasonable?**

12 A. Yes, the Proposed Settlement is more favorable to customers than our original
13 recommendation, which provided that APS should prorate kW when estimating an
14 initial bill that covers fewer than fifteen days. The Proposed Settlement provides
15 that customers will not be billed kW for initial bills covering fewer than eleven
16 days. As a result, customers should be billed fewer kW under the settlement than
17 they would have been billed under our original recommendation. In addition, the
18 processes described in the Proposed Settlement for billing basic service charges
19 and kWh for initial bills covering fewer than eleven days are reasonable.
20

21 **Q. Do these changes materially alter the substance of your recommendation?**

22 A. The recommendations set forth in the Proposed Settlement Agreement are
23 consistent with the recommendations included in our December 28th report and our
24 January 24th testimony, a summary of which is attached as Exhibit PLW-1.
25
26

1 **Q. Why are the recommendations set forth in Paragraphs 12-15 of the Proposed**
2 **Settlement Agreement important?**

3 A. Our evaluation considered a total of five methods for estimating demand,
4 including two different methods based upon historical customer specific demand
5 (one using customer specific kW from the prior month and the other using
6 historical kW from the same month in the prior year). In our statistical samples,
7 estimating demand based on customer specific kW from the previous month
8 produced more accurate results than the other four methodologies that we
9 examined. We therefore concluded that using customer specific kW from the
10 previous month to estimate demand in place of the Company's class average load
11 factor method will reduce the number of instances in which demand is
12 significantly overestimated or underestimated. Because the use of customer
13 specific demand from the prior month will result in more accurate demand
14 estimates, we believe that the adoption of this method for all APS rate schedules,
15 as the Settlement proposes, is in the public interest. In addition, the use of
16 customer specific kW from the prior month effectively addresses the naturally
17 occurring phenomenon of rising demand that occurs in the months approaching
18 summer. The use of this method will also enhance the likelihood that customer
19 specific demand history will be available.

20
21 **Q. What are the customer benefits associated with Paragraphs 12-15?**

22 A. These paragraphs will benefit customers because the adoption of Staff's
23 recommended demand estimation methodology will improve the accuracy of
24 estimated bills.

25

1 **Q. Please describe the recommendations pertaining to kWh estimation**
2 **contained in the "Estimation Issues" section of the proposed Settlement**
3 **Agreement.**

4 A. Paragraph 17 requires APS to conduct a study to determine the impact of
5 reclassifying May as a non-summer month for purposes of kWh estimation. APS
6 is required to file a report by December 30, 2005 that discusses the results of the
7 study and that discusses whether revisions to its bill estimation procedures are
8 desirable.

9
10 **Q. In what respects does your original recommendation pertaining to kWh**
11 **estimation differ from that proposed by the Settlement Agreement?**

12 A. Except for the due date, Paragraph 17 is identical to our original recommendation.
13 We had originally recommended that the Commission require APS to file the
14 report within ninety days of the issuance of a Commission decision in this matter.

15
16 **Q. Does this change materially alter the substance of your recommendation?**

17 A. No, I do not view the change in the due date as a material change.

18
19 **Q. Why are the recommendations set forth in Paragraph 17 of the Proposed**
20 **Settlement Agreement important?**

21 A. During our review of customer billing data in connection with our analysis of
22 alternative demand estimation methodologies, it appeared to us that kWh may be
23 estimated more accurately if the month of May is considered to be a non-summer
24 month.

25
26

1 **Q. What are the customer benefits associated with Paragraph 17?**

2 A. If the study recommended in Paragraph 17 confirms that reclassifying May as a
3 non-summer month for purposes of kWh estimation will result in more accurately
4 estimated bills, then customers will benefit by having more accurate bills in both
5 May and the subsequent month, when actual reads are obtained and kWh is trued-
6 up to the actual meter reading.

7
8 **Q. Please describe the recommendations pertaining to refunding overbilled**
9 **demand included in the "Estimation Issues" section of the Proposed**
10 **Settlement Agreement.**

11 A. APS' policy is to credit a customer's account when a demand estimate turns out to
12 be higher than the following meter read. We agree that this is an appropriate
13 practice. However, APS failed to implement this practice for a period of time
14 following the implementation of its customer information system. Paragraph 19 of
15 the Proposed Settlement Agreement requires APS to credit all customers who,
16 between September 1, 1998 and October 1, 2003, had an actual demand reading
17 that was lower than the preceding estimate. Credits shall include interest.
18 Paragraphs 20 and 21 address how credits shall be handled for customers who have
19 left APS' system.

20
21 **Q. In what respects do your original recommendations differ from those**
22 **proposed by the settlement agreement?**

23 A. Exhibit A to the Proposed Settlement includes an estimate of the potential refund
24 due to general service customers that was not available when we filed our
25 testimony. In addition, the settlement describes the efforts required by APS to

1 locate customers who have left its system and provides for the disposition of funds
2 associated with credits for customers who cannot be located.

3

4 **Q. Do these changes materially alter the substance of your recommendations?**

5 A. These paragraphs are consistent with the recommendations included in our January
6 24th testimony related to the refund of overbilled demand. Exhibit PLW-1 provides
7 a summary of our original recommendations.

8

9 **Q. Why are the recommendations set forth in Paragraphs 19-21 of the Proposed**
10 **Settlement Agreement important?**

11 A. APS should be required to credit customers any overbilled demand charges plus
12 interest that occurred from September 1998, when the new customer information
13 system was implemented, through September 2003, when changes were made to
14 correct the problem. Without these adjustments, customers who are entitled to
15 refunds within this period of time will not receive them.

16

17 **Q. What are the customer benefits associated with Paragraphs 19-21?**

18 A. Although the total amount of the refunds will be subject to certain offsets, these
19 paragraphs currently estimate that refunds will total approximately \$2 million for
20 general service customers and approximately \$170,000 for residential customers.

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SECTION TWO- METER READING ISSUES

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Q. Please describe the recommendations contained in the “Meter Reading Issues” section of the proposed Settlement Agreement related to decreasing the incidence of “no access” to customers’ meters.

A. Paragraph 32 of the Proposed Settlement contains twelve separate recommendations related to decreasing the incidence of “no access” to customers’ meters. These twelve recommendations are almost identical to recommendations contained in our December 28th report and in our January 24th testimony. A summary of our original meter reading recommendations as contained in the December 28th report and the January 24th testimony is attached to this testimony as Exhibit PLW-1.

Q. In what respects do your original recommendations differ from those proposed by the settlement agreement?

A. The requirements contained in paragraph 32 of the Proposed Settlement Agreement are identical to our original recommendations except as noted below.

- In Paragraph 32 (e), the Proposed Settlement requires APS to provide the Commission with biannual reports related to the status of APS’ remote meter reading pilot program. Originally, we had recommended that APS provide these reports quarterly.
- In Paragraph 32 (f), the Proposed Settlement requires APS to implement a pilot program to evaluate whether using an auto-dialer to communicate with customers who have experienced two consecutive months of “no access” will facilitate resolution of access issues. In our December 28th Report, we had recommended that APS should place these calls “prior to the scheduled

1 read date.” By contrast, the Settlement Agreement requires APS to place
2 these calls “within ninety-six hours before the scheduled read date.”

- 3 • In Paragraph 32 (g), the Proposed Settlement requires APS to implement a
4 policy to ensure that meter reading supervisors or their designees
5 periodically inspect meter locations reported as “no access” to verify that
6 corrective measures are taken. The Proposed Settlement adds the phrase
7 “or their designees” to our original recommendation.
- 8 • In Paragraph 32 (h), the Proposed Settlement requires APS to participate in
9 benchmarking studies that compare APS’ practices to those of other utilities.
10 This paragraph also requires APS to provide these analyses to the
11 Commission within ninety days of their completion. In our December 28th
12 Report, we had recommended that the studies be provided to the
13 Commission “on a quarterly basis,” instead of “within ninety days of the
14 completion of such studies,” as is provided in the Proposed Settlement.

15
16 In addition, two of our original recommendations are not included in the proposed
17 settlement agreement. These recommendations relate to the use of certified letters
18 to notify customers that continued “no access” may result in discontinuance of
19 service and to the implementation of a pilot program to schedule appointments with
20 “no access” customers.

21
22 **Q. Do these changes materially alter the substance of your recommendations?**

23 **A.** I do not view the changes embodied in Paragraphs 32(e) through 32(h) as material.

24
25 Although the omission of the two recommendations referred to in my previous
26 answer is a material change, it is nonetheless a reasonable outcome. Upon further

1 discussion with APS regarding the potential costs of implementing these two
2 recommendations and upon consideration of the incremental benefits that they
3 would achieve, especially in light of the other requirements included in the
4 proposed settlement, we believe that the potential benefits of these
5 recommendations do not outweigh the likely implementation costs.

6
7 **Q. Why are the recommendations set forth in Paragraph 32 of the Proposed**
8 **Settlement Agreement important?**

9 A. Paragraph 32 of the Proposed Settlement Agreement sets forth measures that are
10 designed to decrease the incidence of “no access” to customer meters. While the
11 use of customer-specific kW from the previous month as the primary method for
12 estimating demand, as described in Paragraphs 12-15 of the Proposed Settlement,
13 will reduce the number of instances in which demand is significantly over or
14 under-estimated, no demand estimating methodology can accurately predict
15 customer behavior and the resulting energy use all the time. The most effective
16 means to improve the accuracy of demand billing is to increase the percentage of
17 times that demand billing is based on an actual demand meter reading. The
18 measures set forth in Paragraph 32 are designed to achieve this result.

19
20 **Q. What are the customer benefits associated with Paragraph 32?**

21 A. The measures set forth in Paragraph 32 are designed to decrease APS’ incidence
22 of “no access” to meters. Decreasing the incidence of “no access” should
23 decrease the frequency of estimated bills.

24
25

1 **Q. Please describe the recommendations contained in the “Meter Reading**
2 **Issues” section of the Proposed Settlement Agreement related to improving**
3 **APS’ communications with its customers.**

4 A. Paragraph 33 of the Proposed Settlement contains two recommendations related to
5 improving APS’ communications with its customers. These two recommendations
6 are almost identical to recommendations contained in our December 28, 2004
7 report. A summary of our original recommendations as contained in the December
8 28th report is attached to this testimony as Exhibit PLW-1.

9
10 **Q. In what respects do your original recommendations differ from those**
11 **proposed by the settlement agreement?**

12 A. The recommendations contained in Paragraph 33 are substantially the same as our
13 original recommendations.

14
15 Paragraph 33 (a) requires APS to train its personnel to appreciate that customers
16 value an accurate bill, to recognize that underestimation of kW and kWh may
17 result in problems for customers, and to understand applicable Commission rules
18 and tariffs. Paragraph 33(a) adds language that our original recommendation did
19 not include; specifically, it defines “usage” to mean both kW and kWh and adds
20 language stressing “the importance of APS’ adherence to Commission rules and
21 APS tariffs.”

22
23 Paragraph 33 (b) requires APS to clarify its billing notice for instances in which a
24 new bill replaces a previously issued bill. Paragraph 33(b) does not include our
25 original language that would have required APS to consult with Staff on the bill

1 notice language related to re-billed amounts. Although Paragraph 33(b) omits this
2 language, Paragraph 27 contains similar provisions.

3

4 **Q. Do these changes materially alter the substance of your recommendations?**

5 A. No, the changes do not materially alter the substance of our recommendations.

6

7 **Q. Why are the recommendations set forth in Paragraph 33 of the Proposed**
8 **Settlement Agreement important?**

9 A. Through the investigation of the Avis Read complaint, we identified opportunities
10 for APS to both reduce the incidences of “no access” to meters and to improve its
11 customer service. Recommendations related to decreasing the incidence of “no
12 access” to meters are included in Paragraph 32 of the proposed settlement. The
13 measures set forth in Paragraph 33 are intended to improve APS’ customer service
14 by improving APS’ communications with its customers. These issues are
15 important because effective communications with customers may enable both the
16 Company and its customers to more readily resolve billing issues and perhaps
17 avoid protracted disputes.

18

19 **Q. What are the customer benefits associated with Paragraph 33?**

20 A. Customers will benefit by receiving bills that more accurately reflect consumption
21 in the period being billed. By training Billing Services Representatives to
22 understand that customers value an accurate bill more than an underestimated bill,
23 APS will be able to reduce the instances in which true-up bills reflect large
24 adjustments to previously under-estimated amounts.

25

1 Customers also benefit when APS fully adheres to all applicable Commission
2 rules and tariffs. The training program required by Paragraph 33 will provide
3 greater assurance that APS will adhere to all applicable Commission rules and
4 tariffs.

5
6 When an actual read in a subsequent period indicates that an estimated bill was
7 significantly over- or under-estimated, APS cancels the estimated bill and issues a
8 new bill (or re-bill) based on the actual meter reading in the subsequent period. In
9 these instances, the customer may be confused over which bill to pay. By
10 providing a clearer notice on the re-billed amount, the likelihood that a customer
11 will pay both the original estimated bill and the rebilled amount are reduced.

12
13 **SECTION THREE - COMPLIANCE**

14
15 **Q. Please describe the recommendations contained in the "Compliance" section**
16 **of the Settlement Agreement.**

17 A. The "Compliance" section of the Settlement Agreement contains three
18 recommendations: Paragraphs 39 and 40 are related to internal audits or reviews
19 that are required to be completed by APS to ensure compliance with Commission
20 tariffs, rules, and regulations; Paragraph 41 is related to a possible third-party
21 audit. These three recommendations are substantially the same as the
22 recommendations contained in our December 28th report and January 24th
23 testimony. A summary of our original recommendations as contained in the
24 December 28th report and the January 24th testimony is attached to this testimony
25 as Exhibit PLW-1.

26

1 **Q. In what respects do your original recommendations differ from those**
2 **proposed by the settlement agreement?**

3 A. Our recommendations envisioned that the internal audits would be performed by
4 APS' internal audit department and included in the Audit Services Department's
5 annual audit plan. Our original recommendations also required APS to implement
6 any findings reported in previous audit reports and to file the results of its internal
7 audits with the Commission. By contrast, the Proposed Settlement provides that
8 these internal audits and/or reviews shall be performed by APS' Regulatory
9 Compliance Department at least once every three years. The proposed settlement
10 also provides that APS shall either implement the audit's recommendations or
11 provide the Commission with a written explanation as to why any
12 recommendations were not implemented.

13
14 In addition, we had originally recommended that the Commission require a third-
15 party audit to evaluate whether the Company's billing-related processes have
16 improved. Paragraph 41 of the Proposed Settlement Agreement essentially defers
17 the issue of whether the Commission desires a third-party audit to a later time.

18
19 **Q. Do these changes materially alter the substance of your recommendations?**

20 A. No. While we believe that the Audit Services Department is likely to possess
21 certain auditing expertise, we also believe that audits completed by APS'
22 Regulatory Compliance Department can be effective. We trust the Commission's
23 good judgment as to whether a third-party audit by an independent auditor is
24 required.

25

1 **Q. Why are the recommendations set forth in Paragraph 39-41 of the Proposed**
2 **Settlement Agreement important?**

3 A. These recommendations will ensure that APS complies with any Commission
4 order issued in this case, that APS' meter reading, billing practices, estimation
5 methods, and related management processes are adequate, and that APS has
6 effectively implemented internal processes to ensure compliance with Commission
7 rules, regulations, and tariffs on an on-going basis.

8
9 **Q. What are the customer benefits associated with Paragraphs 39-41?**

10 A. The requirements of the Proposed Settlement provide many benefits to APS'
11 customers. These benefits are described throughout my testimony. The audits
12 required by Paragraphs 39-41 provide assurance that the requirements of the
13 Proposed Settlement will be implemented as intended.

14
15 **SECTION FOUR – MISCELLANEOUS**

16
17 **Q. Do you have any corrections to information provided in your January 24,**
18 **2005 testimony and December 28, 2004 report?**

19 A. Yes, subsequent to the filing of my January 24th testimony, we received
20 supplemental information from Tucson Electric Power Company ("TEP") that
21 corrected previously provided information regarding the number of estimated bills.
22 In that testimony, I reported that the range of the average percent of estimated bills
23 during the period 1995 through 2004 was 0.12% - 1.22%. For the ten year period,
24 TEP estimated 180,323 bills, or 0.55% of the total number of bills issued.

25

1 Using the corrected information provided by TEP on February 3, 2005, the range
2 of the average percent of estimated bills during the period 1995 through 2004 is
3 0.16% - 1.22%. For the ten year period, TEP estimated 205,231 bills, or 0.63% of
4 the total number of bills issued.

5
6 **SECTION FIVE – CONCLUSION**
7

8 **Q. What is your overall conclusion regarding the Proposed Settlement**
9 **Agreement?**

10 A. I believe that the Proposed Settlement is reasonable, appropriate, and in the public
11 interest. The proposed settlement agreement includes all substantive requirements
12 of our original recommendations and, when implemented, should result in
13 noticeable improvements in APS' meter reading, billing, and usage estimation
14 processes.

15
16 **Q. Does this conclude your direct testimony?**

17 A. Yes, it does.

ESTIMATION ISSUES

1

2

3 1. APS should be required to change the methodology that it uses to estimate demand
4 from one using class average load factors to one using customer-specific, prior
5 month kW. The use of customer specific demand history results in more accurate
6 demand estimates.

7

8 2. If customer-specific kW from the previous month is used to estimate demand, the
9 only instances in which customer-specific history will not be available are when
10 the bill is the customer's initial bill or when the prior month's bill was estimated.
11 For initial bills covering a period of less than fifteen days, we believe that APS
12 should not bill demand until the actual demand reading is obtained in the
13 following month. In this case, the customer should be billed a pro rata amount for
14 the initial billing period. For initial bills covering a period of fifteen or more
15 days, demand should be billed using actual premises history from the prior month
16 unless the Company knows that the general characteristics of the previous
17 customer's operations vary significantly from those of the current customer.

18

19 3. If the prior month's bill was estimated, APS should use the same month from the
20 prior year as the basis for the estimated demand reading. In the event this
21 historical information is not available, APS should consider its experience with
22 other customers of the same class in that area with the general characteristics of
23 the customer's operations."

24

25 4. APS should perform an analysis to determine whether the inclusion of May as a
26 summer season month for purposes of estimating kWh is appropriate. This

1 analysis should be filed with the Commission within 90 days of the conclusion of
2 this matter. In reviewing the detailed analyses supporting Mr. Rumolo's
3 November 23, 2004 testimony, we noticed that estimated kWh consumption is
4 generally higher than the actual kWh consumption in the month of May. May is
5 the first month of the summer season; therefore, CIS estimates consumption billed
6 in May using the summer seasonal average. Due to cycle billing, approximately
7 one-half of consumption billed in May will represent energy used in April. This
8 trend is reversed to some degree in the early winter season months.

9

10 5. APS should be required to refund to customers the overbilled demand charges
11 plus interest that occurred from September 1998 with the implementation of the
12 new CIS through September 2003 when changes were made to the Company's
13 CIS to correct this problem. There were 9,056 residential customers who were
14 overbilled based upon inaccurate demand estimation, and the overbilling was not
15 subsequently credited to the customer's account. The amount of the overbilling
16 which should be credited to the appropriate residential customers' accounts totals
17 \$171,686. APS is still compiling similar data for general service customers. Staff
18 will update this testimony once it receives that information. APS' calculation of
19 these refunds will be subject to verification as part of the independent audit
20 recommended by Staff.

21

22 6. APS should calculate interest on overbilling using the same rate it currently uses
23 to calculate interest on customers' deposits.

24

25 7. APS should take reasonable steps to locate those customers who are no longer
26 active customers. For those customers located, APS should issue refund checks

1 for the amount of the unadjusted overbilling and related interest. We recognize,
2 however, that it is not reasonable for APS to incur costs to locate customers when
3 the amount of the potential refund is insignificant. Therefore, we recommend that
4 APS be required to make refunds to inactive customers only in those instances in
5 which the potential refund is greater than \$5.00. APS should be required to
6 maintain documentation of steps taken to locate individual inactive customers.”

7 8 **METER READING ISSUES**

- 9
- 10 8. APS should be required to develop and install performance measures to document
11 the efforts that it has taken to comply with the Commission requirement that
12 “(a)fter the second consecutive month of estimating the customer’s bill for
13 reasons other than severe weather, the utility will attempt to secure an accurate
14 reading of the meter.” (R14-2-210. A. 3.).
- 15
- 16 9. APS should specifically include the use of EZ-Read as one of the steps taken to
17 resolve a “no access” situation.
- 18
- 19 10. APS should utilize available DB Microware reports to review lock-outs by route
20 to monitor trends in lock-outs and reduce the number of “no access” meters.
- 21
- 22 11. APS should establish an internal process whereby after three consecutive
23 estimates, continued instances of consecutive estimates due to “no access”
24 situations are reported and made visible to increasing levels of APS management.
- 25

1 12. APS should be required to provide evidence to the Commission that new
2 procedures have been put in place to ensure that staffing resources are sufficient to
3 address emergency short-term needs for meter reading shops that are either smaller
4 or remote. A report that describes the new procedures and explains how they
5 reduce the potential for “skipped” meter readings due to staffing resource issues
6 should be provided to the Commission within six months of a decision in this
7 matter.

8

9 13. APS should be required to revise the “No Access Meters” report, KM06R20, to
10 provide the following additional features:

11

12 a. Report the present number of consecutive months that the meter reading
13 department could not access the meter so that the Administrative
14 Coordinator can track the steps required for each month of access problems
15 and prioritize the APS response.

16

17 b. Report the other instances that the meter reading department was unable to
18 read the meter during the previous twenty-four months to simplify
19 identification of recurring “no access” problems at the same premises.

20

21 c. Prioritize accounts to focus first on demand-billed customers when working
22 the “no access” report. APS should compile and maintain these reports for
23 purposes of the independent audit.

24

25 14. APS should develop and install a performance measure to monitor the extent to
26 which APS is complying with the Commission requirement to read meters each

1 month (no less than twenty-five days after the last meter read and no more than
2 thirty-five days after the last meter reading). APS should provide to the
3 Commission a description of its performance measure and the results of its
4 analysis within six months of a decision in this matter.

5
6 15. APS should change the options settings in the Itron software in all locations so that
7 the Itron HHC used by meter readers in each of the APS meter read shops no
8 longer includes the last month's usage and last month's meter reading. This
9 feature should be disabled throughout APS' service territory within 30 days of a
10 decision in this matter.

11
12 16. APS should provide the Commission with quarterly reports related to the status of
13 the remote meter reading pilot and implementation plans. The reports should
14 provide a description of the meter reading technology being implemented, APS'
15 plan for implementation, the number and type of customers involved in the pilot
16 program, the costs associated with its implementation, and the operational
17 efficiencies associated with its implementation.

18
19 17. APS should implement a pilot program to evaluate whether using an auto-dialer to
20 communicate with "no access" account customers prior to the scheduled read date,
21 in addition to the other methods presently used, will facilitate resolution of
22 additional "no access" accounts. The Company should maintain records on the
23 number of instances that the auto-dialer is used to call customers in these
24 circumstances so that one may determine whether use of the auto-dialer improves
25 APS' access to "no access" meters. The results of the pilot program should be
26 reported to the Commission in quarterly reports.

- 1 18. APS should be required to implement a policy to ensure that meter reading
2 supervisors periodically inspect meter locations reported as “no access” to verify
3 that appropriate corrective measures are taken. APS should be required to file a
4 copy of this policy with the Commission within ninety days of a decision in this
5 matter.
6
- 7 19. APS should continue to participate in benchmarking studies that compare its
8 practices to other utilities in the industry. APS should provide such benchmarking
9 analysis to Staff on a quarterly basis.
10
- 11 20. APS should be required to train Billing Services Representatives (BSRs) and
12 others involved in the usage estimation, meter reading and billing process to
13 understand that customers value an accurate bill more than an underestimated bill.
14 APS should also train them to recognize situations in which the underestimation of
15 usage may result in problems for their customers. APS should provide Staff with a
16 description of the changes to its training process within six months of a decision in
17 this matter.
18
- 19 21. APS should be required to provide a clearer notice on a re-billed account. Such
20 notice should clearly state that the new bill replaces the previously issued bill and
21 that the customer should only pay the reissued bill amount. APS should consult
22 with Staff in determining the appropriate language and placement on the bill
23 within 30 days of a decision in this matter. In addition, APS should be required to
24 make the appropriate modifications to its billing system to implement this change
25 within sixty days of a decision in this matter.

1 22. APS should enhance its “no access” resolution process to include the sending of
2 certified letters at the time it notifies customers that continued “no access” will
3 result in the possible discontinuance of service.

4

5 23. APS should implement a pilot program to evaluate whether scheduling
6 appointments with “no access” account customers results in a reduction of
7 estimated reads due to “no access” problems. The results of the pilot program
8 should be reported to the Commission in quarterly reports.

9

10

COMPLIANCE

11

12 24. APS should be required to participate in a third party audit by an independent
13 auditor selected by Staff and funded by APS. This audit would be focused on
14 evaluating whether the Company's meter reading, billing, and estimation practices
15 and management processes have been improved. The audit would also evaluate
16 whether the Company has complied with the decision in this matter. The audit
17 would take place within twelve months of a decision in this matter.

18

19 25. APS should be required to file an implementation plan with the Commission
20 within sixty days of a decision in this matter that identifies how it will comply
21 with the decision in this matter. This implementation plan should be submitted
22 for Commission approval.

23

24 26. APS should be required to commence an internal audit of its compliance with
25 Commission rules and Commission-approved tariffs within three months of the
26 close of this proceeding and complete the audit, with a copy of the audit report to

1 be filed with the Commission, within twelve months of the close of this
2 proceeding.

3

4 27. APS' Audit Services Department should include on-going testing of usage
5 estimation, meter reading and billing practices in its annual audit plan. APS
6 should also ensure that it has completely implemented any findings reported in
7 previous audit reports. APS should file the results of its internal audits with the
8 Commission.