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EXCEPTION

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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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Arizona Corporation Commission

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JUN 25 2003

ARIZONA CORPORATION COMMISSION  
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8 IN THE MATTER OF THE APPLICATION OF THE  
9 ARIZONA ELECTRIC DIVISION OF CITIZENS  
10 COMMUNICATIONS COMPANY TO CHANGE THE  
11 CURRENT PURCHASED POWER AND FUEL  
12 ADJUSTMENT CLAUSE RATE, TO ESTABLISH A  
13 NEW PURCHASED POWER AND FUEL ADJUSTMENT  
14 CLAUSE BANK, AND TO REQUEST APPROVED  
15 GUIDELINES FOR THE RECOVERY OF COSTS  
16 INCURRED IN CONNECTION WITH ENERGY RISK  
17 MANAGEMENT INITIATIVES.

Docket No. E-01032C-00-0751

13 IN THE MATTER OF THE APPLICATION OF CITIZENS  
14 COMMUNICATIONS COMPANY, ARIZONA GAS  
15 DIVISION, FOR A HEARING TO DETERMINE THE  
16 FAIR VALUE OF ITS PROPERTIES FOR  
17 RATEMAKING PURPOSES, TO FIX A JUST AND  
18 REASONABLE RATE OF RETURN THEREON, AND  
19 TO APPROVE RATE SCHEDULES DESIGNED TO  
20 PROVIDE SUCH RATE OF RETURN.

Docket No. G-01032A-02-0598

17 IN THE MATTER OF THE JOINT APPLICATION OF  
18 CITIZENS COMMUNICATIONS COMPANY AND  
19 UNISOURCE ENERGY CORPORATION FOR THE  
20 APPROVAL OF THE SALE OF CERTAIN ELECTRIC  
21 UTILITY AND GAS UTILITY ASSETS IN ARIZONA,  
22 THE TRANSFER OF CERTAIN CERTIFICATES OF  
23 CONVENIENCE AND NECESSITY FROM CITIZENS  
24 COMMUNICATIONS COMPANY TO UNISOURCE  
ENERGY CORPORATION, THE APPROVAL OF THE  
FINANCING FOR THE TRANSACTIONS AND OTHER  
RELATED MATTERS.

Docket Nos. G-01032A-02-0914  
E-01933A-02-0914  
E-01032C-02-0914

**RUCO'S EXCEPTIONS TO THE  
RECOMMENDED OPINION AND  
ORDER**

1 **Do Not Reject a Tool to Ease Bill Impact of Settlement Merely Because It Involves**  
2 **DSM**

3 The Settlement Agreement will result in rate increases of almost 21 percent for  
4 Citizens' gas customers, and 22 percent for electric customers. Tr. at 537. Though  
5 perhaps unavoidable, those increases are substantial. Exh. RUCO-1 at 8; Tr. at 549.  
6 Therefore, the Residential Utility Consumer Office ("RUCO") recommended that the  
7 Commission require additional investment in demand-side management ("DSM") programs  
8 to provide additional tools for customers to mitigate the considerable rate increases of the  
9 Settlement Agreement. The Recommended Opinion and Order ("RO&O") rejects RUCO's  
10 recommendation for additional DSM investment, concluding "the better means of  
11 addressing the issue of DSM is through a generic investigation of the costs and benefits of  
12 such measures." RO&O, pg. 24. RUCO urges the Commission not to overlook the benefit  
13 of its proposal merely because it involves DSM.

14 The RO&O refers to "the issue of DSM" when it concludes that consideration of  
15 such an issue is best left to another proceeding. However, the issue is not DSM, but  
16 mitigation of the impacts of the Settlement Agreement's rate increases. RUCO did not  
17 propose additional DSM investment for the purpose of furthering many of the traditional  
18 goals of DSM, such as decreasing the requirement to build generation and transmission,  
19 and alleviating environmental impacts. Instead, RUCO's proposal was motivated to  
20 achieve the economic benefits of customers reducing their bills, which would otherwise  
21 increase significantly pursuant to the Settlement Agreement. Tr. at 577-578.

22 The Commission's broader policy examination into DSM will address such issues as  
23 the process of competitively acquiring DSM and development of an environmental risk  
24 management policy. Decision No. 65743 at 49. These issues go far beyond the rate

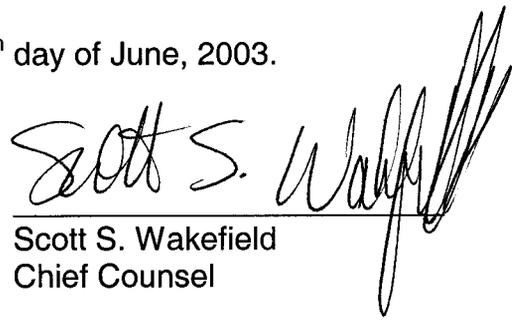
1 implications of the Settlement Agreement on customers in Santa Cruz and Mohave  
2 Counties. Acquiring DSM through competitive bids is completely irrelevant to Citizens'  
3 electric operations, as Citizens has a full requirements contract with Pinnacle West and  
4 therefore will not be undertaking competitive bidding for the duration of that contract.  
5 Further, the environmental risk management policy will consider the environmental  
6 benefits of DSM, which is not the purpose of RUCO's proposal. RUCO is not asking for  
7 additional DSM investment to achieve environmental benefits. Any such benefits are  
8 merely "icing on the cake." Tr. at 577-578. The purpose of RUCO's proposal is to allow  
9 Citizens' customers to alleviate the consequence of the Settlement Agreement on their  
10 bills. Such a goal should not be delayed merely because the mechanism involves DSM.

11 In a sense, it is fortunate that the Settlement Agreement's increase for electric  
12 customers is entirely embedded in the commodity rate. Exh. RUCO-1 at 9. As a  
13 consequence, any decrease in consumption will decrease a customer's bill by more than  
14 the amount of the rate increase per kwh. In fact, a 19 percent reduction in consumption  
15 would hold an average residential customer harmless from the entire increase. *Id.*  
16 Additional DSM investment can provide customers with the opportunity to mitigate some,  
17 or all, of the impact of the electric rate increase. Tr. at 537.

18 The Commission should not reject RUCO's proposal to create additional resources  
19 to ease customers' bill impacts from the Settlement Agreement merely because the  
20 proposal involves DSM. The Commission should require Citizens to increase its DSM  
21 expenditures so that customers can have additional devices to mitigate the impacts of the  
22 Settlement Agreement on their monthly bills. A proposed amendment to the RO&O is  
23 attached.

24

1 RESPECTFULLY SUBMITTED this 25<sup>th</sup> day of June, 2003.

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Chief Counsel

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1 AN ORIGINAL AND  
2 TWENTY-ONE COPIES  
3 of the foregoing filed this 25<sup>th</sup> day of  
4 June, 2003 with:

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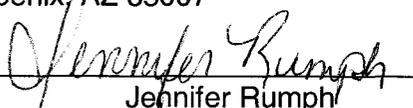
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By   
Jennifer Rumph

1 **RUCO'S PROPOSED AMENDMENT**

2  
3 Page 24

4 INSERT at line 8, after "(II).":

5 "The Settlement Agreement's increase for electric customers is entirely  
6 embedded in the commodity rate. Therefore, any decrease in consumption  
7 will decrease a customer's bill by more than the amount of the rate increase  
8 per kwh. In fact, a 19 percent reduction in consumption would hold an  
9 average residential customer harmless from the entire increase. (RUCO Exh.  
10 1, at 9)."

11  
12  
13  
14  
15 DELETE lines 16-24

16 INSERT "While RUCO's DSM proposal could result in upward pressure on  
17 customer *rates*, cost-effective DSM programs can reduce customer *bills*. Our  
18 forthcoming workshop to develop a DSM acquisition process and an  
19 environmental risk management policy will be addressing issues that go  
20 beyond the bill impacts that are of great concern to the customers subject to  
21 the Settlement Agreement. Therefore, because RUCO's proposal provides  
22 an additional tool for customers to mitigate the impact of the Settlement on  
23 their bills, we will require its adoption."

24  
Page 28, line 24

INSERT after "Stipulation.":

"In addition, we adopt RUCO's recommendation for increased DSM funding."

Page 31, line 22

INSERT "IT IS FUTHER ORDERED that ElecCo shall increase funding for  
demand side management programs as outlined in Appendix II to RUCO's  
witness' testimony."