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INTERVENTION ORIGINAL

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RE THE ARIZONA CORPORATION COMMISSION

- 2 WILLIAM A. MUNDELL
- 3 CHAIRMAN
- 4 JIM IRVIN
- 5 COMMISSIONER
- 6 MARC SPITZER
- 7 COMMISSIONER

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC DIVISION OF CITIZENS COMMUNICATIONS COMPANY TO CHANGE THE CURRENT PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE, TO ESTABLISH A NEW PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE BANK, AND TO REQUEST APPROVED GUIDELINES FOR THE RECOVERY AND COSTS INCURRED IN CONNECTION WITH ENERGY RISK MANAGEMENT INITIATIVES.

Docket No. E-01032C-00-0751

MARSHALL MAGRUDER

INTERVENOR TESTIMONY OF

MARSHALL MAGRUDER

SEPTEMBER 27, 2002

8

9 As a citizen, intervener, ratepayer, voter, taxpayer, systems engineer, graduate school

10 instructor, resident of Santa Cruz County and County/City of Nogales Energy Commissioner, I pay

11 one monthly bill to my electricity company. This electricity bill is the accumulation of many factors,

12 including those submitted by the Arizona Electric Division (AED) of Citizens Communications

13 Company (CCC), the "Applicants" in this docket. I am concerned with the cumulative impacts of all

14 charges. This testimony presents these concerns with respect to the proposed rates and actions in

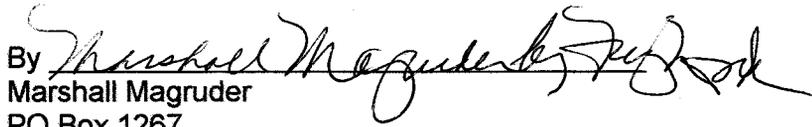
15 the Application, including its Amendments with emphasis on Santa Cruz County.

This document contains "Intervenor Testimony of Marshall Magruder"

Respectfully submitted this 27th day of September, 2002.

MARSHALL MAGRUDER

20

21 By 

22 Marshall Magruder

23 PO Box 1267

24 Tubac, Arizona 85646

- 25 Exhibits:
- 26 A – Additional Background Information
- 27 Original and Copies are certified filed this date as shown on the Service List (last page)

1
2 **Intervenor Testimony of Marshall Magruder**

3
4 **September 27, 2002**

5
6
7 1. Introduction.

8
9 Q. What is your name and address?

10 A. My name is Marshall Magruder. I am self-employed. My residence is in Tubac, Arizona.
11 Please see Exhibit A for additional background information.

12
13 2. Definitions of the key parties and contract phases.

14
15 Q. How are the terms "Citizens" and "APS" are used in this testimony?

16 A. The term "Citizens" is used herein as a generic term for the Citizens Utility Company
17 (CUC), later renamed as Citizens Communications Company (CCC), and its Arizona
18 Electrical Division (AED), all implied under the term "Citizens." In addition, "APS" is used
19 herein for the Arizona Public Service Company, now an entity of Pinnacle West Capital
20 Corporation (PWCC), with related entities, such as Pinnacle West Energy Company
21 (PWEC). My use of the generic term "APS" includes all PWCC entities.

22
23 Q. What do you consider to be the contract phases of this case?

24 A. There is a natural break between the time when Citizens was under the set of
25 agreements with APS before and after July 15, 2001. The factors leading to these two
26 phases and the Application and Amendments relate to these actions. For convenience,
27 the pre-July 15, 2001 phase APS-Citizens is under the Old Agreements and the present
28 one, of July 15, 2001, the New Agreement.

29
30 3. Old Agreement Issues.

31
32 Q. What went wrong during the Old Agreement between Citizens and APS?

1 A. Citizens and APS were unable to agree to some terms of the Old Agreement. This has
2 already been documented by others including Citizens.

3
4 Q. Did this Old Agreement disagreement impact the financial relationship?

5 A. From May 2000 through May 2001, Citizens received monthly bills for payment from APS
6 that Citizens considered as excessive. These billings precipitated the initial Application in
7 September 2000. Citizens continued to made payment on these APS billings, under
8 protest, and annotated them as disputed charges.

9
10 Q. Had APS monthly bills always been correct before this period?

11 A. No. Each month the Applicant reviewed the APS bills. Several discrepancies and errors,
12 some minor and others significant were questioned by Citizens before the above disputed
13 period between May 2000 and May 2001. Corrections had made by APS for billings prior
14 to the above disputed payments. In fact, during the beginning of the disputed period, APS
15 was refunding a previous overcharge of about \$1.5 million during the summer of 2000.

16
17 Q. Were the APS billings during this disputed period consistent with prior billing practices?

18 A. No, APS, Citizens considered that APS had changed the method of calculating the cost
19 for purchased power. This is a core issue that should be resolved in these hearings.

20
21 Q. Were the issues that caused excessive billing known to Citizens prior to this period?

22 A. Yes, in fact, these issues led to the "disputed charges" and had been under discussion for
23 over a year.

24
25 Q. Had Citizens preformed actions to correct the Old Agreements prior to the "disputed
26 payments"?

27 A. Yes, Citizens had initiated negotiations and had been negotiating with APS for months
28 without success.

29
30 Q. What did Citizens do to resolve the Old Agreement disagreements with APS prior to the
31 "disputed charges"?

1 A. Citizens conducted company-to-company discussions as an attempt to resolve their
2 dispute. Citizens engaged various legal teams but all action was directed toward a
3 company-to-company resolution of this dispute.
4

5 Q. Did Citizens use the FERC dispute resolution procedures?

6 A. Based on discovery responses, Citizens did not use of the FERC dispute resolution
7 process nor provide rational for not using outside agencies to assist in resolution.
8

9 Q. Could Citizens have used other means to resolve this dispute, prior to or after receiving
10 billings for the "disputed payments" under the Old Agreement?

11 A. The A.R.S. §40-203 (Power to Examine Record and Personnel of Public Service
12 Corporations...) and A.R.S. §40.242 (Production of Records) permit the ACC to request
13 the records of any public service company in this State). The A.R.S. §40-202 (Complaint
14 by Public Service Corporation Hearing) provides a process that could be applied to
15 resolve such a complaint or dispute. All public service companies have these privileges.
16 Either company could initiate the process to bring a complaint before the Commission.
17 Citizens could have complained to the ACC about the disputed APS bills.
18

19 APS largest electricity customer is Citizens. APS electric bills should be able to be
20 disputed and resolved under A.A.R. §R14-2.212 and in A.A.R, Title 15.
21

22 The billing statements and details from APS to Citizens can retain their proprietary nature
23 as permitted by A.R.S §40.204. It seems plausible that Citizens could have used these
24 ACC complaint processes and procedures to resolve this dispute more expeditiously and
25 at less cost than by this Application or litigation. These clauses indicate the ACC Utility
26 Division could assist and enter into agreements with both companies. The ACC is
27 required to maintain confidentiality. Under these conditions, the ACC could clearly assist
28 in rapidly resolving or arbitrating this dispute to benefit both companies.
29

30 Responses during discovery indicate that Citizens did not consider of using the ACC to
31 resolve its dispute with APS at any time.
32

1 Citizens did consider "filing a complaint with the FERC on the contract interpretation
2 matter" which was "under consideration at the time as part of Citizens' legal analysis" as
3 described by Mr. Breen's Rebuttal, pages 15 to 16.

4
5 The New Agreement is clear. In the "Power Sale Agreement between Pinnacle West
6 Capital Corporation and Citizens Communications Company Under PWCC's Market Rate
7 Tariff and Service Agreement," (Application Enclosure 2), Article 10 (Alternative Dispute
8 Resolution) provides mediation and arbitration processes. These are required for "all
9 disputes arising under or relating to the terms of this agreement."

10
11 Q. If the disputed conditions in the Old Agreement had been resolved prior to May 2000,
12 would there have been excessive purchase power charges?

13 A. No, it appears the areas impacting the disputed charges, in the Old Agreement, were
14 known by both. These areas were not resolved prior to June 2000, when the California
15 energy and natural gas crises began.

16
17 Q. When did Citizens realize the impact that the summer 2000 energy crises would have on
18 the unresolved areas in the Old Contract?

19 A. There does not appear to be any indication that Citizens forecast or was aware of the
20 summer of 2000 energy and natural gas crises until about July of 2000 when the first
21 APS bills arrived using a disputed calculation method.

22
23 Q. Are there possible explanations why Citizens did not forecast the summer of 2000 energy
24 crisis?

25 A. Yes, some or all of the following factors could apply:

- 26 (1) Citizens management had no personnel to forecast energy market prices, in particular
27 fuel costs;
- 28 (2) Citizens was apparently unable to correlate impacts of higher natural gas prices on
29 purchased fuel costs for electricity as these two Citizens utilities, natural gas and
30 electricity, are in different business units;
- 31 (3) Citizens management might have been more interested and engaged in selling these
32 Arizona utilities;
- 33 (4) Citizens upper management was, possibly, not focused on the immediate market; and

1 (5) Citizens management was, apparently, not concerned or deeply interested in the early,
2 natural gas price increases since purchased power costs are a "pass through" to the
3 ratepayers; therefore, there are no profit incentives to control purchased power costs.
4

5 Q. Which of these do you feel was the cause of the belated reactions by Citizens?

6 A. Primarily, (5) above. Why? Much of Citizens literature stresses the fact that "Citizens
7 makes no profit on pass through purchase power costs." If there had not been so much
8 emphasis by Citizens about potential neutral profit impacts of "pass through" costs, then
9 all four, (1) to (4) above, appear to have been equal causes of the belated reactions by
10 Citizens management to the summer of 2000 energy crisis and its impacts on the Arizona
11 business unit and its customers.
12

13 Q. Who was responsible for solving any disputed terms of the Old Agreement?

14 A. Both APS and Citizens have a business responsibility and obligation to ensure both
15 agree to the terms of their contract. They had a dispute over some of these terms.
16 Neither APS nor Citizens appears to have considered using the FERC dispute resolution
17 process or the offices of the ACC to solve their disagreement. They were disagreeing a
18 year before the "disputed charges" occurred. After the disputed billing occurred, they
19 continued on a "discussion" track as the "disputed charges" continued to be billed to
20 Citizens and paid by Citizens.
21

22 Q. Were these actions and decisions correct during the Old Agreement disagreements?

23 A. The management at both APS and Citizens continued to make imprudent decisions by
24 letting this disagreement continue unresolved for so long. The Old Agreement
25 disagreements, which pertained to the disputed payments, have not been resolved.
26

27 Q. Are the ratepayers responsible for solving the Old Agreement known problem areas?

28 A. No, since these areas had negative consequences on Citizens ratepayers, it was Citizens
29 duty to resolve such a dispute prior to the billing. For APS, any negative consequences
30 from such a dispute would impact their cost of doing business or profit margins and not
31 directly impact the APS ratepayers. Both companies were at fault for not resolving this
32 dispute. Ratepayers are not a party to this issue.
33

1 Q. Should Citizens, as the Applicant, be reimbursed for these disputed charges?

2 A. No, reimbursement by ratepayers for bad management decisions and actions by a utility
3 company is not proper, permitted, or legal.
4

5 4. Repayment of the Disputed Charges under the Old Agreement.
6

7 Q. What is the amount of the disputed charges under the Old Agreement?

8 A. Without considering interest in the PPFAC account, the principal claimed by the Applicant
9 is approximately \$55 to 60 million in disputed charges. When a six (6) percent interest is
10 included, by November 2002, this is about \$127 million. Citizens reporting has included
11 both *principal plus interest since first disputed payment*, thus, *actual principal* appears
12 obscured by this monthly compounding process.
13

14 Q. For how much of the principal should the Citizens ratepayers be responsible?

15 A. Since both APS and Citizens have never been able to agree on the terms of the Old
16 Agreement, it is impossible to determine this amount.
17

18 Q. Why is it impossible to determine the principal for this PPFAC "loan"?

19 A. The disputed charges remain unresolved. The Application claims these disputed charges
20 are the ratepayer's responsibility. Since APS has already received payments (under
21 protest by Citizens), APS has no interest in resolving these charges. In fact, APS has
22 stated in the last two PWCC Annual Reports that will vigorously defend these charges, if
23 challenged by Citizens.
24

25 Until this dispute is resolved, the amount of these charges is unknown.
26

27 APS has not been called as a party to these hearings. APS side of this dispute is
28 unknown.
29

30 Q. Do you recommend that APS be summoned to be a party to these hearings?

31 A. That is one possible solution, another solution could be for Citizens and APS to resolve
32 the disputed amount of purchase power charges.
33

1 Q. Should these disputed charges be validated prior to continuing in these hearings?

2 A. Since the Application wants payment from the ratepayers for these disputed amounts,
3 there is no rationale for the Commission to raise customers' rates for "disputed" and
4 "unknown" charges that may or may not be reimbursable expenses.

5
6 Q. What could happen after the disputed charges are resolved?

7 A. After resolution, these hearings could be resumed, with a new Application that had a
8 basis; an amount agreed upon by APS and Citizens.

9
10 Q. What are ways the Citizens and APS could resolve their disagreements of the terms of
11 the Old Agreement?

12 A. There are several alternatives that should be exhausted prior to returning to these
13 PPFAC hearings. Perhaps the easiest would be to use the good offices of the ACC. In
14 addition, there is the FERC dispute resolution process, mediation, arbitration, or litigation,
15 at the federal or state levels; all appear to be alternatives.

16
17 Q. Are you saying that these hearings should not continue until the disagreement between
18 Citizens and APS is resolved over the Old Agreement?

19 A. Yes. It is clear that there is an amount that APS claims that Citizens be charged for
20 purchased power during the disputed time period. Until the actual amount is known, there
21 is no way to determine if Citizens should be granted the privilege of charging the Citizens
22 ratepayers more for purchased power.

23
24 Q. Why hasn't APS been called to be a party to these hearings?

25 A. The ACC Staff, RUCO, the Counties, or Citizens could perhaps answer this question. It
26 appears that any of these could subpoena APS testimony. This is beyond my limited
27 capabilities and capacity.

28
29 Q. What happens if APS does not want to participate in negotiations?

30 A. One action available to the Arizona Corporation Commission is to revoke the CC&N
31 License held by a utility company in this state. The threat of suspension or revocation
32 should be enough to obtain APS's participation.
33

1 Q. What about the PPFAC "interest" that is accruing in the PPFAC account?

2 A. Citizens requested in its Application that a 6 percent (6%) interest, compounded monthly,
3 be used. Until the principal is known, it is impossible to determine the interest.

4
5 Q. Should the PPFAC Loan interest be considered for reimbursement and added to the
6 rates paid by Citizens customers?

7 A. No interest should be paid for imprudent management decisions, such as this. Since both
8 Citizens and APS are at fault, neither should be paid "interest." Such "interest" should
9 rather be considered as non-reimbursable business costs.

10
11 5. New Agreement Issues.

12
13 Q. What are the principle differences between the Old and New Agreements?

14 A. The New Agreement is a seven-year, fixed rate, full service agreement. Electric power is
15 provided by APS at \$58.79 per Megawatt-Hour (MW-hr). The Old Agreement provided a
16 series of cost schedules for basic and peak loads, taking into account time of day.

17
18 Q. Are there advantages to Citizens and APS in the New Contract?

19 A. Yes, it avoids the disputed terms of the Old Contract and appears easier to administer.

20
21 Q. Are there disadvantages to Citizens in the New Contract?

22 A. Yes, there are additional restrictions such as Citizens' use of its generation resources
23 (see below).

24
25 Q. What are the advantages to Citizens ratepayers under to New Agreement?

26 A. Known, fixed at steady rates until May 31, 2008, when the New Agreement expires.

27
28 Q. How does this fixed rate, at \$58.79 per MW-h, compare to today's market?

29 A. It is approximately twice that presently charged at western states switchyards, such as at
30 Palo Verde. Fixed charge contracts usually have higher rates to cover contingencies and
31 unknown risks, but twice the going rate appears excessive.

32
33 Q. How did Citizens agree to this New Agreement with such high charges?

1 A. During the negotiations between APS and Citizens, from late winter of 2000 through July
2 2001, the California energy crisis was on everyone's mind. The high charges in California
3 were impacting all western energy markets. Citizens was under pressure on many fronts,
4 which included:

5 (1) Resolving the Old Contract disputed charges with APS,

6 (2) Completing analytical studies described in the original Citizens Application,

7 (3) Keeping customer reliability high due to a class-action law suit (*Chilcote, et al versus*
8 *Citizens*),

9 (4) Negotiating with Tucson Electric Company (TEP) concerning an alternative to a
10 second source of electricity for Nogales,

11 (5) Keeping the AED sales agreement with CapRock, and

12 (6) Avoiding higher energy costs for the summer of 2001.

13 At the same time the western energy market was chaotic. These pressures must have
14 impacted the actual May-July 2001 negotiations and decision-making.

15
16 Q. Can anything now be done to reduce the rates in the New Agreement?

17 A. Yes. The governing FERC Order includes dispute mediation and arbitration had not been
18 exercised before Citizens originally applied for this rate increase.

19
20 Q. What if APS does not want to negotiate the New Agreement?

21 A. The same options, including the good offices of the ACC, FERC dispute resolution,
22 mediation, and binding arbitration are available without extensive litigation expense.

23
24 Q. Should Citizens ratepayers pay any unfair or unreasonable rates under the New
25 Agreement?

26 A. No, testimony provided by others in these hearings, has shown this fixed rate is above
27 the norm therefore unreasonable.

28
29 Q. Can the Arizona Corporation Commissioners reduce rates specified in the New
30 Agreement if they are found to be not fair and reasonable?

31 A. Of course. That is their obligation.
32

1 Q. Are the rates specified in the New Agreement fair and reasonable? Who should prove
2 that these new rates are fair and reasonable?

3 A. The Applicant, Citizens, should clearly prove that these new rates are fair and reasonable
4 for the ratepayers in the Citizens service area. There has been no proof that \$58.79 per
5 MW-hr is fair and reasonable.
6

7 6. Valencia Turbines.
8

9 Q. What are the Valencia turbines?

10 A. Citizens has three combustion turbines installed at the Valencia Substation in Nogales,
11 Arizona. These turbines have been described by Citizens as "peaking" or "backup"
12 turbines. They are rated at 15 to 18 MW each and together have carried loads in excess
13 of 45 MW serving all Citizens customers in Santa Cruz County. Rarely have the Santa
14 Cruz County customers required more than 45 MW.
15

16 Q. Are these turbines important to Citizens operations in Santa Cruz County?

17 A. After the Nogales Electric Company closed down its local generation operations, that city
18 has been reliant on a 115-kV transmission line from Tucson, that is, for about the past 45
19 years. The transmission line is operationally rated for 60 MW with recent upgrades to 100
20 MW. During lightning storms, the Valencia turbines are "spinning without loading" so that
21 backup electric power is readily available in case of an outage to the 115-kV line. These
22 outages have averaged 2.049 hours per year for the past five years, so such backup is
23 necessary but infrequently necessary. As a peaking plant, these turbines can be used to
24 provide additional power when the Santa Cruz County load approaches or exceeds 60
25 MW.
26

27 Q. Can these turbines provide cost-effective additional generation capabilities for Santa Cruz
28 County?

29 A. These turbines are capable of providing electricity for the entire load 99.9% of the time.
30 Further, they are economical and cost-effective to run during peak load periods when
31 purchased power on the market exceeds their operational cost. In general, they are
32 between one and a half (1.5) to almost three (3) times as expensive to operate when
33 compared to the fixed rate under the New Agreement. They have demonstrated an

1 average power production cost of \$151.89 per MW-h for all power these turbines
2 produced versus the \$58.79 per MW-h rate under the New Agreement. These figures
3 include extensive time periods when these turbines carried no load and were operated as
4 spinning reserves to ensure reliability, so the actual cost per MW-h is less. For example,
5 during the month of May 2002, Citizens operated these turbines to generate 863 MW-h at
6 an operational cost of \$79,962.27 for value of power generated at \$92.68 per MW-h. This
7 is about 1.6 times the New Agreement fixed rate but could be economically beneficial if
8 during selected high peak rates.

9
10 Q. Were these turbines used to provide economic electricity to Santa Cruz County, at rates
11 lower than the Old Agreement?

12 A. During May of 2001, these turbines were operated during peak hours by Citizens to avoid
13 high costs (disputed) under the Old Agreement. During this month, Citizens avoided
14 \$1,306,944 in purchase power costs from APS at a cost of \$540,884 in fuel used by
15 these generators. The overall savings (who is paying the bill seems to be disputed.) was
16 \$766,060.

17
18 Q. Are there restrictions on the turbines under the New Agreement?

19 A. Citizens can operate these turbines during storms for reliability purposes, but only for
20 economic reasons with advanced permission from APS. Based on the potential savings
21 to ratepayers demonstrated during May 2001, APS is unreasonably restricting Citizens in
22 its ability to serve customers at the best cost under the New Agreement

23
24 Q. Can this part of the agreement be modified?

25 A. There are at least two ways this could happen. Either

26 (1) Modify the New Agreement by methods discussed elsewhere, or the

27 (2) Commission could prohibit APS from restricting turbine operations when cost savings
28 are possible for Citizens ratepayers.

29
30 7. Impact of these hearings on the Sale of Citizens AED.

31
32 Q. Is there any concern that the magnitude of these PPFAC hearings may impact the
33 Citizens sale of AED?

1 A. Citizens acknowledges it has ongoing discussions with APS and others for the purchase
2 of AED. As APS could be directly impacted by the results of these PPFAC hearings,
3 Citizens has been queried in every way I can imagine to ensure that no pre-arranged
4 agreements exist between Citizens and APS, if both this sale occurs and a ruling is
5 unfavorable to Citizens concern. Citizen's responses have been consistent to these
6 questions and state that no such agreement(s) exist.

7
8 Q. The *Nogales International* has published articles that the City of Nogales is interested into
9 converting a part of Citizens AED into a municipal electric utility. Others have expressed
10 interest. Do you have knowledge that these hearings have influenced these discussions?

11 A. Citizens "does not know whether the current power supply agreement with Pinnacle West
12 Capital Corporation has impacted any opportunities to sell the Arizona electric
13 properties," in response to Data Request MM-2.10 (8). Citizens indicated APS
14 substantially interfered with opportunities to sell Citizens until the New Agreement.

15
16 Impacts on such a sale by a ruling from these hearings have not been determined.
17 However, logically, if the AED is strapped with a significant debt, such as denial of the
18 \$127 million rate increase, potential sales opportunities should diminish. If such a debt
19 were owed by AED, this debt could significantly reduce the book value and reduce any
20 potential gain for such a sale. For example, in this scenario, the Citizens and its
21 shareholders would be out \$127 million. Thus, the ACC denied Citizens the right to
22 collect \$127 million from ratepayers, with resultant the book value reductions of the AED
23 and ratepayer's purchased power energy costs are constant (see below).

24
25 If this same debt and interest were shifted to the ratepayers, where to ACC granted the
26 Application, the AED sale would be facilitated for Citizens and its shareholders, who
27 benefit by avoiding a \$127 million loss. This is at a \$127 million disadvantage to the
28 ratepayers. Citizens' customers have no choice in who provides them electricity. The
29 ratepayers will have their rates increased by an average over 40% for seven years in
30 order to pay for disputed charges and interest for a seven-year period plus 38% higher
31 purchased power energy costs (see below) under the New Agreement.

1 These hearings must be having a significant impact on the potential sale of Citizens AED
2 as consequences summarized above increases investor risk.

3
4 8. Calculation of Purchase Power and Fuel Adjustments under the New Agreement.

5
6 Q. What are the components used to calculate the total cost of power supply in Citizens
7 basic service rates?

8 A. These components are the cost of power, called energy price, plus the costs of
9 transmission to import power into Citizens service areas.

10
11 Q. The New Agreement Energy Price.

12 A. The Amended Application of 21 September 2001 on page 8 established a fixed price of
13 \$58.97 per MW-hr for all sales by APS to Citizens under the New Agreement.

14
15 Q. The New Agreement Transmission Costs.

16 A. The energy loss rate used for rate determination is 10.69% based on Citizens last rate
17 case to account for the cost to deliver to customer's meters or \$6.86 per MW-hr. This
18 increases the delivered electric cost from \$58.97 to \$65.83 per MW-hr, from page 7 of the
19 Amended Application. In addition, Citizens has negotiated a new transmission agreement
20 with WAPA that requires an additional \$0.44 per MW-hr for a total of \$66.29 per MW-hr.

21
22 Q. Are there additional transmission charges the Citizens ratepayers could incur during the
23 time frame of the New Agreement?

24 A. Yes, starting 31 December 2003 additional transmission line "wheeling" charges have
25 been agreed to by Citizens that will raise the Santa Cruz County ratepayer's rate about
26 \$15/customer per month for a 100 MW of "backup" firm electricity delivery. For additional
27 discussion, please see my Comments of 13 March 2002. Citizens' management agreed
28 to this in another Project Development Agreement (PDA) in January 2001 with Tucson
29 Electric Company (TEP) as a condition for TEP to build a new transmission line to Mexico
30 via Nogales.

31
32 Q. What impact does the New Agreement have on the typical customer rates under the Old
33 Agreement?

1 A. The Old Agreement, and the current customer service rate, is \$48.02 per MW-hr
2 (Amended Application p. 8). Thus the New Agreement, considering only Energy Price
3 and transmission costs is \$66.29 - \$48.02 or \$18.27 per MW-hr.
4

5 Q. What is the impact of the New Agreement and WAPA Agreement, when compared to the
6 Old Agreement, on the customer's rate?

7 A. This is equivalent to raising the MW-hr Energy Price from \$48.02 to \$66.29. Using
8 $66.29/48.02 = 1.380$, then this equals a 38.0% increase in Energy Price. This is a
9 significant increase in consumer's cost for electricity.
10

11 Q. Does this 38% increase include just purchase and delivery costs increases from the New
12 Agreement and WAPA Agreements?

13 A. These are the increases only for these two Agreements, to "deliver electricity to the
14 Citizens ratepayers." This increase does not include any disputed charges or loan
15 carrying charges being claimed by the Applicant or the TEP "wheeling" charges. The
16 ratepayer will have this 38% increase until May 31, 2008, for just the New and WAPA
17 Agreements increases if the Amended Application are approved.
18

19 Q. Do other claims in the Amended Application increase customer costs?

20 A. Yes, the Applicant requested all "disputed" charges and PPFAC loan interest. These are
21 the ever-increasing loan interest in each update to Exhibit No. 3 of the Amended
22 Application. If these are considered as reimbursable expenses, or any part of them
23 considered appropriate, the ratepayers will see increase greater starting at 38%. A
24 significantly higher increase is likely if the "bank amortization" for the disputed charges for
25 carrying cost (interest) is included in this PPFAC settlement.
26

27 Q. Do you recommend that the Commission approve the New Agreement and WAPA
28 Agreement increases that are recommended in the proposed Amended Application?

29 A. Only the WAPA Agreement should be approved, without change.
30

31 The New Application has an Energy Price that is high compared to the market. APS could
32 cover for all risks with high prices during May-June 2001 when Citizens was in a stressed
33 negotiation environment. Diverse financial and operational pressures impacted Citizens

1 during negotiations in May to July 2001 which may have led to the New Agreement under
2 adverse environmental conditions or duress. Market characteristics since May-June of
3 2001 have changed. The California energy crisis of 2000 has come and gone, Enron
4 collapsed, ACC changed its deregulation plans, natural gas prices are back to normal,
5 FERC proposed a standard market design plan, the ACC is planning a Solicitation in
6 2003, FERC has conducted several detailed investigations concerning price gouging in
7 the Western states (which could be related). In general, the electrical market returned to
8 its former, more stable condition. Now Citizens needs to see if the Energy Price of \$58.97
9 could be reduced to a level that still give a fair and reasonable profit to APS, something
10 on the order of \$45 to \$50 per MW-hr, nearer to the current service rate of \$48.02.
11

12 9. Demand Side Management.

13 Q. The original Application proposed by Citizens to reduce electric costs by effective
14 Demand Side Management (DSM). What are the results of DSM by Citizens?

15 A. Citizens provides semi-annual reports on Demand Side Management Programs to the
16 ACC Staff. In the latest report of 30 August 2002, Citizens stated its total cost of
17 approximately \$113,227 during this six month period provided savings of 2,788 MW-h per
18 year. A review of material concerning Citizens ongoing DSM program indicated excellent
19 literature concerning energy conservation and efficiency.
20

21 Q. What is Citizens definition for DSM?

22 A. Citizens response to Data Request MM-2.11 (10), "Demand Side Management is the
23 effort to improve the efficiency of using electric energy and power."
24

25 Q. What is the Department of Energy (DOE) definition for DSM?

26 A. The DOE DSM program states:

27 Demand-side management (DSM) programs consist of the planning, implementing,
28 and monitoring activities of electric utilities which are designed to encourage
29 consumers to modify their level and pattern of electricity usage. In the past, the
30 primary objective of most DSM programs was to provide cost-effective energy and
31 capacity resources to help defer the need for new sources of power, including
32 generating facilities, power purchases, and transmission and distribution capacity
33 additions. However, due to changes that are occurring within the industry, electric
34 utilities are also using DSM as a way to enhance customer service. DSM refers to
35 only energy and load-shape modifying activities that are undertaken in response to
36 utility-administered programs. It does not refer to energy and load-shape changes

1 arising from the normal operation of the marketplace or from government-mandated
2 energy-efficiency standards.

3 (See http://www.eia.doe.gov/cneaf/electricity/dsm/dsm_sum.html)
4

5 Q. What are the differences between these definitions?

6 A. The Citizens definition is an energy efficiency or conservation definition, which consists of
7 admirable programs. Unfortunately, the DSM action words "load-shape" is missing. It is
8 by load-shaping that saves generation resources, transmission and distribution costs,
9 during peak demand periods.
10

11 The Citizens DSM program fails to imply load-shaping is a DSM consideration.
12

13 By having customers shift loads from peak to non-peak periods Citizens could reduce its
14 highest cost demand and provide non-peak power at lower rates. Having large users
15 accept interruptible instead of firm delivery services, is also a savings option for Citizens
16 and its customers. Both of these "shape" loads so more efficient capital equipment usage
17 results. For example, in Santa Cruz County, when there was the 60 MW transmission
18 line, by having a few key industrial loads shift from peak to non-peak or to interruptible
19 from firm service, during times when the loads approach 60 MW, upgrading that line to
20 100 MW could have been delayed for several years. On June 18, 2002, Citizens peaked
21 at 57.3 MW. A 5 MW load-shift would have given safer reserve. Utilities usually offer
22 financial incentives to customers to shift from peak to non-peak or from firm to
23 interruptible delivery options. Citizens failed to have any fundamental load-shift options in
24 their "DSM" program.
25

26 Q. Do you recommend Citizens enhance load shaping in its DSM Program?

27 A. Citizens should implement financial incentives to ratepayers for load shaping, publicize
28 such a program, and statistically measure actual load shifts changes from such
29 customers to ensure compliance. Further, the ACC Utility Division maybe remiss in not
30 monitoring DSM programs more closely and promoting DSM actions aggressively in
31 order to reduce capital and O&M expenses by utilities.
32
33
34

1 10. Conclusions.

2
3 Q. Do you have any conclusions concerning the Old Agreement?

4 A. Yes, the disputed terms should have been resolved in much shorter period of time so that
5 the disputed charges would have been minimal or insignificant. Citizens failed to act in a
6 timely, prudent manner to avoid these more and excessive charges.

7
8 Q. Do you have any conclusions concerning the New Agreement and the Valencia turbines?

9 A. Yes, this contract disallows Citizens the use of its own generation capabilities to avoid
10 charges by APS. This needs to be changed.

11
12 Q. Did the New Agreement solve these disputed charges from the Old Agreement?

13 A. No, the New Agreement did not solve the disputed charges from the Old Contract. And,
14 Citizens has not attempted to use available means to recover these costs and interest on
15 these costs other than this Application for recovery from the ratepayers. Such an attempt
16 to avoid collection or disputes with APS is unconscionable, highly immoral, and unethical
17 *corporate attitude towards its customers, who have no option but to use Citizens as their*
18 *electrical provider. For these reasons and until the disputed costs have been validated as*
19 *not disputed costs, Citizens should not be reimbursed for these costs and any possible*
20 interest associated with these costs.

21
22 Q. Do the WASA Agreement costs appear to be fair and reasonable?

23 A. These costs, as described in the Application, appear to meet these criteria and should be
24 recovered from the ratepayers.

25
26 Q. Has Citizens taken actions to implement a load-shape capability?

27 A. No, the DSM plan implemented by Citizens is a conservation and efficiency plan that fails
28 to shape the load. In addition to Citizens being at fault with a poor DSM plan, the ACC
29 Staff has failed to provide effective feedback to Citizens. Until the ACC Staff reviews and
30 provides feedback to each utility, the Semi-Annual DSM Program Reports, Citizens and
31 *the other utilities should not be permitted to deduct DSM expenses without providing*
32 measures and indicators that show that actual DSM load-shaping results.
33

1 11. Recommendations.

2
3 Q. What are your recommendations for reimbursement to Citizens as requested by the
4 Amended Application?

5 A. The following Application requested reimbursements are recommended:

- 6 a. For any disputed fuel costs under the Old Agreement – zero
7 b. For non-disputed fuel, costs under the Old Agreement – after a judgment from
8 litigation, dispute resolution, or negotiations – a future PPFAC hearing should
9 determine what is fair and reasonable.
10 c. For interest on disputed fuel costs under Old Agreement – zero
11 d. For increases in the rates from the New Agreement – to a value between \$45.00 and
12 \$ 50.00 per MW-hr, similar to the Old Agreement rates.
13 e. For increases in rates for the WASA Agreement – as requested.
14 f. For risk management programs – zero

15
16 Q. Do you have additional recommendations?

17 A. Yes, see my *Comments of 13 March 2002 to this docket for recommendations not*
18 *included in this testimony. Some of those recommendations were modified herein based*
19 *on information and circumstances since then. In general, the significant recommendation*
20 *concerning placing Citizens into receivership is to be emphasized and enlarged in later*
21 *submittals to this docket. One of Citizens goals is divesture of the AED. Accomplishment*
22 *of that corporate goal is an objective with a possibly, fair and reasonable compensation*
23 *return to Citizens from new owners of various elements of Citizens AED.*

24 12. Conclusion of Testimony.

25 Q Has this testimony been made by you without reservations?

26 A. Yes, I have avoided footnotes, but all facts provided are from references that have been
27 furnished by Citizens during these hearings. Where unique references were considered
28 important, they are provided in the text. A few numbers were derived from data. When
29 costs were in \$/kW-hr, they were changed to \$/MW-hr throughout all discussions. When
30 arithmetic was used to change a value, it was described, and usually the steps are in the
31 testimony. Thank you for your attention.

1 **Exhibit A**

2 Additional Background Information

3
4 Q. Please provide additional background information about yourself?

5 A. At present, my consulting practice involves systems engineering and systems architecture for
6 military and aerospace companies. This year, for example, I performed consulting tasks for
7 Raytheon groups in San Diego and Fullerton, California and Marlborough, Massachusetts
8 doing front-end systems engineering, architecture framework development, interoperability
9 planning, with reconfiguration analysis studies and presentations for the Joint Command and
10 Control Ship (JCCX Program Office) and developing an initial IT architecture framework
11 proposal for the Raytheon group in Plano Texas for the Objective Force Warrior (OFW), Land
12 Warrior III Program Office; the US Army at Fort Huachuca, Arizona, for the Development
13 Testing Command's Virtual Proving Ground (VPG), and Minister of Defence in the United
14 Kingdom, Defense Procurement Agency, Future Aircraft Carrier (CVF) Programs Office,
15 Abby Hill Station, Bristol, United Kingdom. I prepare income taxes for H&R Block as a
16 seasonal employee and as AARP volunteer for the IRS Tax Consulting for the Elderly
17 program. I teach operations management and managing innovation courses in the University
18 of Phoenix MBA curricula. I was appointed and served as a Commissioner on the Santa Cruz
19 County/City of Nogales Energy Commission in spring 2001.

20
21 Q. On whose behalf are you testifying in this proceeding?

22 A. I am testifying solely on my behalf as a resident, ratepayer, and concerned citizen of Santa
23 Cruz County and as an Arizona taxpayer who is interested in ensuring fair and equitable
24 rates with steady, reliable and efficient electrical service.

25
26 Q. Please describe your background and experience?

27 A. I have broad systems engineering background which have involved design and development
28 of large systems, varying from the Kingdom of Saudi Arabia to multi-state training ranges to
29 naval battle groups with platforms varying from aircraft carriers to all classes of warships to
30 individual soldiers with self-contained electrical systems. As a systems engineer I have
31 performed the preliminary front-end analyses, including site surveys, to assess the situation
32 that leads to defined requirements that are specified for various acquisitions and
33 procurements. I have preformed this for industry and various federal and state government

1 agencies as a prime and as a subcontractor. I have led major program teams for several
2 different projects valued in billions of dollars.

3
4 Q. What is your educational background?

5 A. I graduated from the United States Naval Academy in 1962 with a Bachelor of Science
6 degree with extra courses in operational and systems analysis, in 1970, from the United
7 States Naval Postgraduate School with a Master of Science degree in Physical
8 Oceanography and in 1980, the University of Southern California with a Master of Science
9 degree in Systems Management (MSSM). In addition, I took post-masters level courses in
10 electrical engineering at the University of Rhode Island and while employed at Hughes
11 Aircraft Company/Raytheon I participated in many technical, engineering and company
12 management courses primarily concerning engineering management, total systems analysis
13 including total ownership and life-cycle cost estimation, all phases of software development,
14 system and program risk management systems implementation and monitoring processes,
15 and arranged and took the only C4ISR Systems Architecture Implementation course on-site
16 for fellow employees. I have completed at least two-dozen tax courses, varying in length from
17 three to sixty-six hours. As a naval instructor and University of Phoenix MBA instructor, I
18 have instructed tactical oceanography, underwater acoustics, anti-submarine warfare, joint
19 command and control, and operations management for over seven years.

20
21 Q. What experience do you have with electric systems?

22 A. At the US Naval Academy, my curriculum consisted of two years of electricity and electronics
23 classes and laboratory sessions with additional emphasis in other courses. I have worked in
24 a destroyer's engine and boiler firerooms at all positions providing, operational and
25 maintenance experiences at all positions from generation to distribution of electricity
26 throughout the ship system. Later in my career, while qualifying to be an Engineering
27 Department Head, we operated all engineering positions in "casualty" modes, imposing
28 outages, including "black ship" dead-in-the-water, restart operations, again at all positions. I
29 have lit-off boilers, synchronized electrical loads, split and distributed electrical power, and
30 even manually rerouted power. As a naval instructor, I managed and coordinated afloat
31 engineering training on gas turbine ships. I have also conducted operational and
32 maintenance inspections on fossil and nuclear-powered ships, including eight different
33 aircraft carriers. As the lead systems engineer for the new aircraft carrier and surface

1 combatant programs, I have participated in the design of these electric-drive ships. The
2 ships' propulsion systems will, in essence, be large electric motors, as the US Navy
3 *transforms toward all-electric ships. The new aircraft carriers will have six times the electric*
4 *generation capability as today's carriers, in order to drive the electro-magnetic aircraft*
5 *recovery system/electro-magnetic aircraft launching system (EARS/EMALS) systems,*
6 *directed energy weapons and other equipment.*

7
8 I served as a member of the Academic Board at the US Naval Postgraduate School, where I
9 recommended and had approved an additional "electromagnetic compatibility" course for a
10 technical curriculum. As a systems architect, my recent consulting contracts have been to
11 develop the operational, technical and systems architectures, using a relational database
12 management system to integrate, coordinate and correlate an interoperable design through
13 build to implementation approach for major Army, Navy, Coast Guard, and DoD programs.

14
15 Q. What is the purpose of your testimony?

16 A. My testimony represents my assessment of the Citizens Communications Company's (CCC)
17 application and amendments for its Purchase Power Fuel Adjustment (PPFAC). I would like
18 made beneficial recommendations to resolve the conflicts this application has presented so
19 that CCC, or its successor, provides fair and reasonable rates to its consumers, with
20 *particular emphasis on my areas of experience, Santa Cruz County.*

21
22 Q. What is your role in these hearings?

23 A. I am an Intervener. I no a Protestor. In some areas, I support the Applicant. I want to make
24 progress to a quality electric utility in our county. These hearings protect all customers,
25 ratepayers, and shareholders. They want to be proud to be associated with their utility.

26
27 Q. How was your testimony prepared?

28 A. I prepared my testimony to facilitate the parties understanding the issues and their impacts
29 on consumers, residents and ratepayers in Santa Cruz County.

1
2
3
4
5

Q. Do you have in financial interest in this matter?

A. No. All of my efforts in these hearings are unpaid. I do not expect nor would not accept payment or employment from Citizens, APS, or any of the entities expected which may replace Citizens this service area.

1 **Service List**

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