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2003 MAY 15 P 3:10

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

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 OF)
COSTS INCURRED IN CONNECTION)
WITH ENERGY RISK MANAGEMENT)
INITIATIVES.)

DOCKET NO. E-01032C-00-0751

SANTA CRUZ COUNTY'S
CLOSING MEMORANDUM

DOCKET NO. G-01032A-02-0598

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

DOCKET NO. E-01933A-02-0914
DOCKET NO. E-01032C-02-0914
DOCKET NO. G-01032A-02-0914

IN THE MATTER OF THE JOINT)
APPLICATION OF CITIZENS)
COMMUNICATIONS COMPANY AND)
UNISOURCE ENERGY CORPORATION FOR)
THE APPROVAL OF THE SALE OF)
CERTAIN ELECTRIC UTILITY AND GAS)
UTILITY ASSETS IN ARIZONA, THE)
TRANSFER OF CERTAIN CERTIFICATES)
OF CONVENIENCE AND NECESSITY)
FROM CITIZENS COMMUNICATIONS)
COMPANY TO UNISOURCE ENERGY)
CORPORATION, THE APPROVAL OF THE)
FINANCING FOR THE TRANSACTIONS)
AND OTHER RELATED MATTERS.)

Arizona Corporation Commission
DOCKETED

MAY 15 2003

DOCKETED BY

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Santa Cruz County hereby files its Closing Memorandum
in the above captioned matters.

RESPECTFULLY submitted this 14 day of May, 2003.

MARTHA S. CHASE
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By Holly J. Hawn
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MEMORANDUM

Santa Cruz County is a small, mostly rural county
situated on Arizona's border with Mexico. Though it is rich
in scenic beauty, cultural heritage and diversity as well as
economic potential, the County and its residents must struggle
with the reality of severe economic challenge. As noted by
more than one Intervenor in this case, Santa Cruz County
suffers from high unemployment and consequently a high
percentage of families and seniors struggling to live on
reduced incomes. Unemployment, which is in double digit
percentages nearly year round, reaches its height in the
summer months with the percentage of unemployed in excess of
25% in the City of Nogales and 20% countywide. These are the
same months in which utility usage and consequently bills are
the highest in Southern Arizona (Transcript Vol. I, page 233,
line 21 - p. 234, line 4). Economic development which leads
to more and better jobs is naturally a constant goal for any
community but it is especially crucial to Santa Cruz County.

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2 With this as a backdrop, Santa Cruz County has
3 carefully examined the Settlement Agreements at issue. Like
4 the RUCO staff, "affordability" is a major concern to Santa
5 Cruz County (Transcript Vol. III p. 537, line 19-16; RUCO
6 Exhibit 1, page 8, lines 9-17). Rate hikes of approximately
7 21-22% in both the gas and electric residential service will
8 have a major impact upon many residents' of Santa Cruz County
9 ability to pay for the basic necessities of life such as food
10 and medications. Rate increases at even higher rates for
11 commercial and industrial enterprises will have a detrimental
12 effect upon economic growth and the potential for an expanded
13 job market.

14 Santa Cruz County also looks, of course, to the
15 Corporation Commission to scrutinize the Settlement Agreement.
16 Article 15 §3 of the Arizona constitution provides in part:

17 The Corporation Commission shall have full power to,
18 and shall, prescribe just and reasonable classifications to be
19 used by public service corporations within the State for
20 service rendered therein, and make reasonable rules,
21 regulations, and orders, by which such corporations shall be
22 governed in the transactions of business within the State, . .

23 It should be noted from the outset that Joint Applicant
24 Unisource, through the testimony of Mr. Pignatelli (Vol. I,
25 page 74, line 19 - page 75, line 2), indicates that this
26 agreement has little room for modification. It is unfortunate
27 that Mr. Pignatelli seeks to hold the Commission and rate
28 payers "hostage" to this agreement as it currently exists with
such a statement. By its own terms the settlement agreement
recognizes the authority of the commission to order
modifications (Exhibit JA-6 p. 6 sec. 3). It is to be hoped

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2 that the Joint Applicants recognize that changes may be
3 necessary to fulfill the constitutional requirement of just
4 and reasonable rates and charges as well as the mandate that
5 the agreement be in the public interest.

6 The nature of any settlement agreement is that of a
7 contract. It is necessary that "consideration" be given and
8 received for the contract to be effective. It is this concept
9 that has caused difficulty between Santa Cruz County and Joint
10 Applicants. Santa Cruz County is cognizant of the
11 approximately 135 million dollar "write off" of the
12 uncollected PPFAC balance and believes that this is
13 appropriate. Joint applicants, in their testimony spent much
14 time justifying the "new contract" and its purchased power
15 price as well as its decision to forgo resolution with FERC
16 regarding disputed contract language that contributed to the
17 PPFAC balance. Santa Cruz County is still troubled with the
18 effect the dysfunctional market existent in both the gas and
19 electric arenas played in contributing to the costs Citizens
20 incurred. Articles such as Magruder, Exhibit 1, contribute to
21 the perception that Citizens was unfairly taken advantage of
22 in what turned out to be a dysfunctional market. The
23 implications of the phrase "Little California" - as applied to
24 Citizens service area, are not positive (Vol. III, page 528,
25 line 18 - page 529, line 16). Commissioner Mundell's
26 questions to Mr. Meek are particularly telling (Vol. III, page
27 533, line 17- page 534, line 14) regarding the legitimacy of
28 the concerns related to the electric and gas market of

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2000-2001. In any event, Joint Applicants assert that "forfeiture" of the PPFAC balance is consideration given. If this balance should not have been incurred, it is not consideration for the Settlement Agreement.

The Settlement Agreement further makes no concession to rate payers relating to the original request of the Joint Applicants regarding the electrical side of the charges to rate payers. (Vol. III p.575 lines 9-15) This level of increase will also be exacerbated by the charge to rate payers for the additional cost of the new transmission line in Santa Cruz County that has been ordered by the Commission (Vol. I page 90, line 14).

Another area of the Settlement Agreement that concerns Santa Cruz County is the provision calling for a 60 percent/40 percent split of any savings resulting from a renegotiated power purchase price with Pinnacle West/APS. It is understood that in the negotiation process there is "give and take" for each of the participants and the agreement must be examined as a whole. It is extremely difficult, however, to justify passing 40 percent of any realized savings to Unisource when this is a pass through cost to rate payers who are being asked to absorb rate increases in excess of 20% for residential gas and electric service as well as new transmission line charges yet to be determined. It is not in the public interest to approve the provision which RUCO has called a "windfall" (Vol. III p. 545 line 20 - p 546, line 12). Unisource has been unable to justify the allocation of 40% potential savings to

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it other than to say it is "appropriate" (Vol. I p. 191, lines 7-11) or defensible based upon the aggravation factor in dealing with APS. (Vol. I p. 98, line 18-24). Representatives of Citizens have testified that negotiations with Pinnacle West/APS are currently in progress and that there is room for improvement in the existing contract. (Vol. I, page 191, lines 7-11). It is the request of Santa Cruz County that the proposal made by RUCO, regarding the split of any savings, be approved.

CONCLUSION

At the beginning of the hearing in this case on May 1, 2003, Santa Cruz county stated in its opening that it was most concerned about the economic impact of this Settlement Agreement upon its residents and businesses due to the severity of the rate and charge increases proposed. The need for a fair rate of return for the utility company versus the public interest in accompanying affordable rates is a delicate balance. The detrimental economic impact, however, of utility rate and charge hikes in excess of 20% are obvious. While increases for gas and electrical service are to be expected, an attempt must be made to keep those increases to reasonable levels so that consumers do not have to make the choice between using air cooling systems and taking life saving medication. Such choices are a too common reality in a community that struggles with economic problems.

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It is the request of Santa Cruz County that modifications be made to the Settlement Agreement which would lessen the burden of the proposed price increases upon consumers of electric and gas service by lowering the percentage rate and charge increases and passing through to consumers 90% of any realized savings resultant from the Pinnacle West/APS contract renegotiation. Santa Cruz County believes that these adjustments will help result in a Settlement Agreement that properly reflects the balance between the utility company's need for a fair rate of return and public's need for affordable utility service.

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The original and thirteen copies
of the foregoing were filed
by certified mail this 14th
day of May, 2003, to:

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