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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF THE ARIZONA ELECTRIC DIVISION )  
OF CITIZENS COMMUNICATION )  
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. )

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. )

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 )

Arizona Corporation Commission

DOCKETED

JUN 25 2003

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Docket No.

- E-01032C-00-0751
- G-01032A-02-0598
- E-01933A-02-0914
- E-01032C-02-0914
- G-01032A-02-0914

SANTA CRUZ COUNTY  
EXCEPTIONS TO  
RECOMMENDATION

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FROM CITIZENS COMMUNICATIONS )  
COMPANY TO UNISOURCE ENERGY )  
CORPORATION, THE APPROVAL OF THE )  
FINANCING FOR THE TRANSACTIONS )  
AND OTHER RELATED MATTERS. )  
\_\_\_\_\_ )

Santa Cruz County, by and through counsel undersigned, hereby submits its exceptions to the recommendation of the Administrative Law Judge in the above captioned matter pursuant to A.A.C. R14-3-110(B).

Respectfully submitted June 24, 2003.

MARTHA S. CHASE  
Santa Cruz County Attorney

By Holly J. Hawn  
Holly J. Hawn  
Deputy County Attorney

MEMORANDUM

I. INTRODUCTION

On September 28, 2000, the Arizona Electric Division ("AED") of Citizens Communications Company ("Citizens") filed an application with the Arizona Corporation Commission ("Commission") to change Citizens Purchased Power and Fuel Adjustment Clause ("PPFAC") rate, to establish a new PPFAC bank, to begin accruing carrying charges and to request guidelines for the recovery of costs incurred in connection with energy risk management initiatives. This application was amended in September of 2001 to recover approximately \$100 million of the PPFAC bank's under recovered balance. This under recovered balance rose to approximately \$135 million by the time that this matter was heard in May of 2003.

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On August 6, 2002, Citizens' Arizona Gas Division ("AGD") filed an application to increase revenues in an amount that equated to a rate increase of approximately 29 percent.

On December 18, 2003, UniSource Energy Corporation ("UniSource"), Citizens, and Tucson Electric Power ("TEP") filed a Joint Application. The Joint Application requested authority for UniSource to acquire the gas and electric assets of Citizens in Arizona, to transfer Citizens' gas and electric Certificates of Convenience and Necessity to UniSource, and to receive approval for certain types of financing.

The dockets of the three cases were consolidated. Santa Cruz County together with other interested entities and individuals were granted intervenor status in the consolidated cases.

Prior to hearing in this case a Settlement Agreement was entered into by the Joint Applicants and Commission staff. It was filed on April 1, 2003. An evidentiary hearing was held concerning the Settlement Agreement on May 1, 2, and 5, 2003. The recommendation of Administrative Law Judge Dwight Nodes was filed in the form of an Opinion and Order on June 6, 2003.

II. EXCEPTION TO OPINION AND ORDER

A. Santa Cruz County has expressed its concern through the course of these proceedings that the rate and cost increases proposed by the Joint Applicants will be extremely difficult for Santa Cruz County residents and businesses to bear. Though the Settlement Agreement reduced the amount of the increases to 20.9 percent on the gas side and 22 percent on the electric side, these increases will

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severely impact this community. As was explained during the hearing, unemployment rates in Santa Cruz County are among the highest in the state. The summertime rates exceed 20 percent in the City of Nogales and are routinely in double digits for nearly the entire year through out the County.

Santa Cruz County understands that there have not been rate adjustments for some period of time and that costs increase as time goes by however there should be some relief to customers, both residential and industrial, who will be asked to shoulder these drastic rate increases all at one time. This will be exacerbated by the additional costs imposed upon customers as a result of the new transmission line that is to be built through Santa Cruz County. The concept of affordability as part of the equation to be considered in determining how to structure rate increases and the PPFAC costs seems to have been abandoned in this case.

While it is true that the original Citizens' requests were for approximately 45 percent (electric) and 28 percent (gas), it is equally true that the agreed upon rate increases still far exceed anything which could be absorbed by Santa Cruz County ratepayers without significant hardship. The school districts alone will need an additional \$145,000 to cover this increase in the upcoming fiscal year. This is only one example of the impact on a small rural county but it is illustrative of the effect of the Settlement Agreement. Santa Cruz County urges the Commission to reexamine the rate and cost hikes proposed and to adjust them downward in a manner that will allow for just and reasonable rates and charges but will also protect the interest of the consumer.

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B. The consumers in this case have been especially impacted on the electric side by the increase in the purchased power cost resulting from the “New Contract”. Though the current spot market price for power appears to be in the range of \$32.00 to \$35.00 per MW/h, the “New Contract” calls out \$58.79 per MW/h. While the Administrative Law Judge found that this price was “not an unreasonable rate for electricity considering all relevant factors.” (Opinion and Order p. 12, line 27), the analysis then goes on to conclude that “given current market conditions” UniSource should continue to negotiate with Pinnacle West for additional concessions> (Opinion and Order P. 13, line 7). With the specter of market manipulation at the time this contract was negotiated (June 2001), as well as the recognition at the time that Citizens’ Arizona service area could be called “Little California” (Magruder Exhibit 1), Santa Cruz county again urges the Commission to consider protection of the consumer of paramount interest in this case.

C. The gas side of the case is also cause for concern. The Commission Staff was justifiably concerned about the issues related to the Build-Out program as was RUCO. The cost overruns associated with the project led to an investigation by the Staff. A number of factors seem to have played into the high cost including Citizens underestimating the cost as well as faulty geologic (rock) information and changes in regulatory requirements. It was recognized by Commission Staff that these issues would likely result in litigation before the Commission to resolve. In any event Commission Staff has treated the 30.7 million negative acquisition premium as the equivalent of a “rate case disallowance”. There is also an

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additional 10 million of permanent gas plant disallowance attributable to the Build-Out program. The Settlement Agreement further provides that there by no prudency reviews of the Build-Out program or of Citizens' gas procurement practices, accounting practices, or balances existing on or before October 19, 2002. It is understood that these provisions were arrived at in good faith as part of the settlement process between the signatory parties. The result however is still an approximate increase of 21 percent to rate payers. Balancing the interest of the utility company in recouping its costs and that of the consumers and their need to be protected from costs which should be shouldered by shareholders is indeed a delicate proposition. It is Santa Cruz County's request that the commission review this portion of the Settlement Agreement and make a determination that if any increase in gas rate is warranted, that it be adjusted downward from the Settlement Agreement rate to more fairly balance the scale.

D. The Opinion and Order contains a recommendation that if the purchased power contract between Citizens and Pinnacle West is renegotiated, any savings flowing from a successful renegotiation of the contract should be split with 90 percent to benefit the ratepayers and 10 percent to UniSource as an incentive for negotiation. It further expresses the belief that Pinnacle West does have an incentive to renegotiate the contract in view of the introduction of retail competition in the near future. Testimony was also elicited to this effect during the evidentiary hearing. The ameliorating affect of a renegotiated purchased power contract pursuant to this recommendation could have an immediate and positive impact for the rate payers. Santa Cruz County therefore requests the Commission

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to explore the possibility of delaying any rate or PPFAC cost increases until these renegotiations are completed so that the ratepayers receive the benefit of the savings realized and are not impacted by rate and cost hikes prematurely.

III. CONCLUSION

It is therefore requested that the Commission amend Findings of Fact 21, 22, and 23 as necessary to reflect reduced rates and costs as determined by the Commission together with such changes as the Commission may impose regarding the implementation of rate and cost changes.

It is further requested that the Order entered by the Commission reflect the changes made in the Findings of Fact.

Submitted this 24<sup>th</sup> day of June, 2003

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The original and seventeen copies  
Of the foregoing were filed by  
Certified mail this 24<sup>th</sup> day of  
June, 2003, to:

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