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ADMITTED TO PRACTICE IN:
ARIZONA, COLORADO, MONTANA,
NEVADA, TEXAS, WYOMING,
DISTRICT OF COLUMBIA

OF COUNSEL TO
MUNGER CHADWICK, P.L.C.

July 8, 2008

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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AZ CORP COMMISSION
DOCKET CONTROL

Re: Tucson Electric Power Company
Docket Nos. E-01933A-07-0402 and E-01933A-05-0050

To Whom It May Concern:

Pursuant to the May 12, 2008 Procedural Order, enclosed for filing in the above-referenced proceeding on behalf of Mesquite Power, L.L.C., Southwestern Power Group II, L.L.C. Bowie Power Station, L.L.C. and Sempra Energy Solutions LLC are (i) the original and fifteen (15) copies of the prepared Rebuttal Testimony of Greg Bass and (ii) sixteen (16) copies of a Summary of the prepared Direct Testimony of Leesa Nayudu and Greg Bass and a Summary of prepared Rebuttal Testimony of Greg Bass.

Thank you for your assistance with regard to this matter.

Sincerely,

Lawrence V. Robertson, Jr.

cc: Chairman Gleason
Commissioner Mundell
Commissioner Hatch-Miller
Commissioner Mayes
Commissioner Pierce
Administrative Law Judge Jane Rodda
Parties of Record

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BEFORE THE ARIZONA CORPORATION COMMISSION

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MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
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KRISTIN K. MAYES
GARY PIERCE

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-07-0402
TUCSON ELECTRIC POWER COMPANY FOR)
THE ESTABLISHMENT OF JUST AND)
REASONABLE RATES AND CHARGES)
DESIGNED TO REALIZE A REASONABLE)
RATE OF RETURN ON THE FAIR VALUE OF)
ITS OPERATIONS THROUGHOUT THE STATE)
OF ARIZONA.)

IN THE MATTER OF THE FILING BY) DOCKET NO. E-01933A-05-0650
TUCSON ELECTRIC POWER COMPANY TO)
AMEND DECISION NO. 62103.)

REBUTTAL TESTIMONY OF GREG BASS ON BEHALF OF

MESQUITE POWER, L.L.C., SOUTHWESTERN POWER GROUP II, L.L.C.,
BOWIE POWER STATION, L.L.C. AND SEMPRA ENERGY SOLUTIONS LLC
(COLLECTIVELY "MESQUITE, ET AL.")

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**REBUTTAL TESTIMONY
OF
GREG BASS**

Q.1 Are you the same Greg Bass whose prepared Direct Testimony (along with that of Leesa Nayudu) was filed upon behalf of Mesquite et al. on June 11, 2008 in Docket Nos. E-01933A-07-0402 and E-01933A-05-0650?

A.1 Yes, I am.

Q.2 What is the purpose of this prepared Rebuttal Testimony on behalf of Mesquite et al.?

A.2 By means of this prepared Rebuttal Testimony, Mesquite et al. desire to rebut the suggestion set forth by Residential Utility Consumer Office (“RUCO”) witness William A. Rigsby in his July 2, 2008 prepared Direct Testimony that the Commission should address in these proceedings the status of retail electric competition in Tucson Electric Power Company’s (“TEP”) service area. In that regard, and in the interest of brevity, by way of background and as a part of this prepared Rebuttal Testimony, Mesquite et al. incorporate by reference the discussion set forth at page 5, line 5 through page 7, line 10 of their June 11, 2008 prepared Direct Testimony in these proceedings. In addition, I will briefly comment upon a portion of the prepared Direct Testimony of IBEW Local No. 1116 witness Frank Grijalva.

Q.3 In their prepared Direct Testimony, Mesquite et al. discuss why they believe that the approach reflected in Sections XII and XIII of the Settlement Agreement represents the appropriate manner for addressing the subject of retail electric competition for purposes of these proceedings. Why do Mesquite et al. believe that RUCO’s suggestion is inappropriate?

1 A.3 Because RUCO, in effect, is attempting to reverse the Commission's previous
2 promulgation of regulations providing for retail electric competition in Arizona through
3 the procedural means of a rate case involving a single electric public service corporation.
4 As Section XII of the Settlement Agreement observes, a generic docket is the appropriate
5 procedural means by which the Commission may revisit the status of retail electric
6 competition in the service territory of TEP and all other Affected Utilities, "should the
7 Commission choose to do so."

8 RUCO witness Rigby's prepared Direct Testimony unequivocally states that RUCO is
9 opposed to the prospect of retail electric competition for residential ratepayers under any
10 circumstances. However, the procedural means and timing that RUCO has suggested for
11 achieving its stated goal are inappropriate. The issues RUCO presumably seeks to
12 address, and the arguments it may wish to make, are not peculiar to TEP and its
13 residential ratepayers. Rather, they are industry-wide in nature, and, if they are to be
14 addressed at some future date, it should be within the context of a general proceeding
15 instituted for that purpose.

16
17 **Q.4 In his prepared Direct Testimony in support of the May 29, 2008 Settlement**
18 **Agreement, IBEW Local No. 1116 witness Frank Grijalva states that the union**
19 **would have preferred that**

20 **"...the important matters addressed in Paragraph 12.1 had**
21 **been tackled in the instant proceeding instead of some yet-to-**
22 **be filed generic docket." [page 4, lines 1-4]**

23 **Do you wish to comment upon that statement at this time?**

24 A.4 Only to the extent of noting that, while that may have been the preferred negotiating
25 posture of the union at one point in time, its official and final negotiating posture is that
26 Mr. Grijalva is offering testimony at this time

27 **"...to express the Union's unqualified support for the proposed**
28 **Settlement Agreement." [page 1, lines 10-14] [emphasis added];**
and,

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he further states that

“...IBEW Local 1116 fully and strongly supports the Commission’s adoption of the proposed Settlement Agreement in toto.”[page 4, lines 11-13] [emphasis added]

which includes Sections XII and XIII of the May 29, 2008 Settlement Agreement.

Q.5 Does that complete the prepared Rebuttal Testimony of Mesquite et al.?

A.5 Yes, it does.

**Summary of the
Prepared Direct Testimony of
Leesa Nayudu and Greg Bass
On behalf of
Mesquite Power, L.L.C., Southwest Power Group II, L.L.C., Bowie Power Station, L.L.C.
and Sempra Energy Solutions LLC (collectively "Mesquite et al.")**

**Docket Nos.
E-01933A-07-0402 and E-01933A-05-0650**

In their joint prepared Direct Testimony, Ms. Nayudu and Mr. Bass provide testimony in support of the May 29, 2008 Settlement Agreement, and offer specific comment with reference to Sections I, II, VII, XII and XIII of the May 29, 2008 Settlement Agreement. As indicated by Ms. Nayudu and Mr. Bass, Mesquite et al. support Commission approval of the proposed increase in average base rates and Commission approval of the Proposed Purchased Power and Fuel Adjustment Clause ("PPFAC") because they believe Commission adoption of the same will enable Tucson Electric Power Company ("TEP") to be a creditworthy purchaser in the competitive wholesale market in Arizona. In that regard, they anticipate that TEP will be required to comply with the Recommended Best Practices For Procurement ("Best Practices") criteria adopted by the Commission in Decision No. 70032 in connection with any purchased power and fuel expense proposed to be recovered through the PPFAC.

In addition, Mesquite et al. support inclusion of TEP's current and future generating assets in rate base, with the express understanding that such inclusion in no way creates a presumption in favor of company-owned generation. Rather, and as the May 29, 2008 Settlement Agreement expressly provides in Section 3.1, "TEP is obligated to consider all reasonable alternatives when evaluating how to meet its service obligations to its customers." In that regard, Mesquite et al. understands that such "reasonable alternatives" will include consideration of alternatives available from the competitive wholesale market pursuant to the aforesaid Best Practices.

Finally, Mesquite et al. support the provisions of Section XII of the May 29, 2008 Settlement Agreement which preserve the "status quo" of retail electric competition in Arizona; and, they support the provisions of Section XIII of the Settlement Agreement which are consistent with both preservation of the aforesaid status quo" and the current Direct Access tariff approach utilized by Arizona Power Service Company.

**Summary of the
Rebuttal Testimony of
Greg Bass
On behalf of
Mesquite Power, L.L.C., Southwest Power Group II, L.L.C., Bowie Power Station, L.L.C.
and Sempra Energy Solutions LLC (collectively "Mesquite et al.")**

Docket Nos.

E-01933A-07-0402 and E-01933A-05-0650

In his prepared Rebuttal Testimony, Mr. Bass discusses why the suggestion set forth in the prepared Direct Testimony of Residential Utility Consumer Office witness William A. Rigsby that the Commission should address the industry-wide subject of retail electric competition within the limited context of a rate case proceeding involving a single utility is inappropriate, and why the preservation of the "status quo" of retail electric competition provided for in Section XII of the May 29, 2008 Settlement Agreement is appropriate. In addition, he comments upon the prepared Direct Testimony of IBEW Local No. 1115 witness Frank Grijalva to the extent it addresses the subject of retail electric competition.