



0000069553

32R

ORIGINAL

RECEIVED

ROSHKA HEYMAN & DEWULF, PLC  
ATTORNEYS AT LAW  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET  
SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

2002 JUN 11 P 3:15

AZ CORP COMMISSION  
DOCUMENT CONTROL

June 11, 2002

E-00000A-02-0051  
E-01345A-01-0822  
E-00000A-01-0630  
E-01933A-02-0069  
E-01933A-98-0471

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

Re: Tucson Electric Power Company's Rebuttal Testimony Track A Issues  
(Docket No. E-00000A-02-0051)

Docket Control:

Enclosed please find an original and 18 copies for filing of:

1. Rebuttal Testimony of Steven J. Glaser
2. Rebuttal Testimony of James Pignatelli
3. Rebuttal Testimony of Michael J. DeConcini

Please do not hesitate to contact me if you have any questions.

Sincerely,

Raymond S. Heyman  
For the Firm

RSH/srs  
enclosures  
cc: All parties of Record

Arizona Corporation Commission  
DOCKETED

JUN 11 2002

DOCKETED BY	CAR
-------------	-----

Electronic Mail Service List  
Docket No. E-00000A-02-0051

Michael A. Curtis  
William P. Sullivan  
Paul R. Michaud  
MARTINEZ & CURTIS, P.C.  
2712 North 7th Street  
Phoenix, Arizona 85006  
Attorneys for Arizona Municipal Power Users  
Association, Mohave Electric Cooperative, Inc.,  
Navopache Electric Cooperative, Inc., Reliant  
Resources, Inc. & Primesouth, Inc.  
[mcurtis401@aol.com](mailto:mcurtis401@aol.com)  
[wsullivan@martinezcurtis.com](mailto:wsullivan@martinezcurtis.com)  
[pmichaud@martinezcurtis.com](mailto:pmichaud@martinezcurtis.com)

C. Webb Crockett  
Jay L. Shapiro  
FENNEMORE CRAIG, PC  
3003 N. Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913  
Attorneys for Panda Gila River, L.P.  
[Wcrockett@fclaw.com](mailto:Wcrockett@fclaw.com)  
[Jshapiro@fclaw.com](mailto:Jshapiro@fclaw.com)

Lawrence V. Robertson Jr.  
MUNGER CHADWICK, PLC  
333 North Wilmot, Suite 300  
Tucson, Arizona 85711-2634  
Attorney for Southwestern Power Group, II,  
LLC; Bowie Power Station, LLC; Toltec Power  
Station, LLC; and Sempra Energy Resources  
[Lvrobertson@mungerchadwick.com](mailto:Lvrobertson@mungerchadwick.com)

Tom Wran  
Southwestern Power Group II  
[Twray@southwesternpower.com](mailto:Twray@southwesternpower.com)

Theodore E. Roberts  
SEMPRA ENERGY RESOURCES  
101 Ash Street, HQ 12-B  
San Diego, California 92101-3017  
[Troberts@sempra.com](mailto:Troberts@sempra.com)

William J. Murphy  
CITY OF PHOENIX  
200 West Washington Street, Suite 1400  
Phoenix, Arizona 85003-1611  
[Bill.murphy@phoenix.gov](mailto:Bill.murphy@phoenix.gov)

Russell E. Jones  
WATERFALL ECONOMIDIS CALDWELL  
HANSHAW & VILLAMANA, P.C.  
5210 E. Williams Circle, Suite 800  
Tucson, Arizona 85711

Attorneys for Trico Electric Cooperative, Inc.  
[Rjones@wechv.com](mailto:Rjones@wechv.com)

Christopher Hitchcock  
HITCHCOCK & HICKS  
P.O. Box 87  
Bisbee, Arizona 85603-0087  
Attorney for Sulphur Springs Valley Electric  
Cooperative, Inc.  
[Lawyers@bisbeelaw.com](mailto:Lawyers@bisbeelaw.com)

Michael Grant  
GALLAGHER & KENNEDY  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
Attorneys for AEPSCO, Graham County Electric  
Cooperative,  
and Duncan Valley Electric Cooperative.  
[Mmg@gknet.com](mailto:Mmg@gknet.com)

Jay I. Moyes  
MOYES STOREY  
3003 N. Central Ave., Suite 1250  
Phoenix, Arizona 85012  
Attorneys for PPL Southwest Generation  
Holdings, LLC; PPL EnergyPlus, LLC and PPL  
Sundance Energy, LLC  
[Jimoyes@lawms.com](mailto:Jimoyes@lawms.com)

Patricia Cooper  
AEPSCO/SSWEPCO  
P.O. Box 670  
Benson, Arizona 85602  
[Pcooper@aepnet.org](mailto:Pcooper@aepnet.org)

Patrick J. Sanderson  
ARIZONA INDEPENDENT SCHEDULING  
ADMINISTRATOR ASSOCIATION  
P.O. Box 6277  
Phoenix, Arizona 85005-6277  
[Psanderson@az-isa.org](mailto:Psanderson@az-isa.org)

Roger K. Ferland  
QUARLES & BRADY STREICH LANG L.L.P.  
Renaissance One  
Two North Central Avenue  
Phoenix, Arizona 85004-2391  
[Rferland@quarles.com](mailto:Rferland@quarles.com)

Jeffrey Guldner  
Thomas L. Mumaw  
SNELL & WILMER  
400 E. Van Buren

One Arizona Center  
Phoenix, Arizona 85004-0001  
[Tmumaw@swlaw.com](mailto:Tmumaw@swlaw.com)

Robert Baltes  
ARIZONA COGENERATION ASSOC.  
7250 N. 16<sup>th</sup> Street, Suite 102  
Phoenix, Arizona 85020-5270  
[Bbaltes@bvaeng.com](mailto:Bbaltes@bvaeng.com)

Jana Van Ness  
APS  
Mail Station 9905  
P.O. Box 53999  
Phoenix, Arizona 85072-3999  
[Jana.vanness@aps.com](mailto:Jana.vanness@aps.com)

Greg Patterson  
5432 E. Avalon  
Phoenix, Arizona 85018  
[Gpatterson@aol.com](mailto:Gpatterson@aol.com)

John Wallace  
Grand Canyon State Electric Co-op  
120 N. 44<sup>th</sup> Street, Suite 100  
Phoenix, Arizona 85034-1822  
[Jwallace@gcseca.org](mailto:Jwallace@gcseca.org)

Kelly Barr  
Jana Brandt  
SRP  
Mail Station PAB211  
P.O. Box 52025  
Phoenix, Arizona 85072-2025  
[Kjbarr@srpnet.com](mailto:Kjbarr@srpnet.com)  
[Jkbrandt@srpnet.com](mailto:Jkbrandt@srpnet.com)

Michael L. Kurtz  
BORHM KURTZ & LOWRY  
36 E. Seventh Street, Suite 2110  
Cincinnati, Ohio 45202  
[Mkurtzlaw@aol.com](mailto:Mkurtzlaw@aol.com)

William P. Inman  
Dept. of Revenue  
1600 W. Monroe, Room 911  
Phoenix, Arizona 85007  
[InmanW@revenue.state.az.us](mailto:InmanW@revenue.state.az.us)

Vicki G. Sandler  
c/o Linda Spell  
APS Energy Services  
P.O. Box 53901  
Mail Station 8103  
Phoenix, Arizona 85072-3901

[Linda\\_spell@apses.com](mailto:Linda_spell@apses.com)

Lori Glover  
STIRLING ENERGY SYSTEMS  
2920 E. Camelback Rd., Suite 150  
Phoenix, Arizona 85016  
[Lglover@stirlingenergy.com](mailto:Lglover@stirlingenergy.com)

Peter Van Haren  
CITY OF PHOENIX  
Attn: Jesse W. Sears  
200 W. Washington Street, Suite 1300  
Phoenix, Arizona 85003-1611  
[Jesse.sears@phoenix.gov](mailto:Jesse.sears@phoenix.gov)

Robert Annan  
ARIZONA CLEAN ENERGY INDUSTRIES  
ALLIANCE  
6605 E. Evening Glow Drive  
Scottsdale, Arizona 85262  
[Annan@primenet.com](mailto:Annan@primenet.com)

Jeff Schlegel  
SWEEP  
1167 Samalayuca Drive  
Tucson, Arizona 85704-3224  
[Schlegelj@aol.com](mailto:Schlegelj@aol.com)

Philip Key  
RENEWABLE ENERGY LEADERSHIP  
GROUP  
10631 E. Autumn Sage Drive  
Scottsdale, Arizona 85259  
[Keytaic@aol.com](mailto:Keytaic@aol.com)

Howard Geller  
SWEEP  
2260 Baseline Rd., Suite 200  
Boulder, Colorado 80302  
[Hgeller@swenergy.org](mailto:Hgeller@swenergy.org)

Paul Bullis  
OFFICE OF THE ATTORNEY GENERAL  
1275 W. Washington Street  
Phoenix, Arizona 85007  
[Paul.bullis@ag.state.az.us](mailto:Paul.bullis@ag.state.az.us)

Mary-Ellen Kane  
ACAA  
2627 N. 3<sup>rd</sup> Street, Suite Two  
Phoenix, Arizona 85004  
[Mkane@azcaa.org](mailto:Mkane@azcaa.org)

Laurie Woodall  
OFFICE OF THE ATTORNEY GENERAL  
15 S. 15<sup>th</sup> Avenue

Phoenix, Arizona 85007  
[Laurie.woodall@ag.state.az.us](mailto:Laurie.woodall@ag.state.az.us)

Aaron Thomas  
AES NewEnergy  
350 S. Grand Avenue, Suite 2950  
Los Angeles, California 90071  
[Aaron.thomas@aes.com](mailto:Aaron.thomas@aes.com)

Donna M. Bronski  
CITY OF SCOTTSDALE  
3939 N. Drinkwater Blvd  
Scottsdale, Arizona 85251  
[Dbronski@ci.scottsdale.az.us](mailto:Dbronski@ci.scottsdale.az.us)

Theresa Mead  
AES NewEnergy  
P.O. Box 65447  
Tucson, Arizona 85728  
[Theresa.mead@aes.com](mailto:Theresa.mead@aes.com)

Larry F. Eisenstat  
Frederick D. Ochsenhirt  
Michael R. Engleman  
DICKSTEIN SHAPIRO MORIN &  
OSHINSKY LLP  
2101 L Street, NW  
Washington, DC 20037  
[Eisenstatl@dsmo.com](mailto:Eisenstatl@dsmo.com)  
[Ochsenhirtf@dsmo.com](mailto:Ochsenhirtf@dsmo.com)

Jesse Dillon  
PPL Services Corp.  
2 N. Ninth Street  
Allentown, Pennsylvania 18101-1179  
[Jadillon@pplweb.com](mailto:Jadillon@pplweb.com)

Gary A. Dodge  
HATCH, JAMES & DODGE  
10 W. Broadway, Suite 400  
Salt Lake City, Utah 84101  
[Gdodge@hjdllaw.com](mailto:Gdodge@hjdllaw.com)

David A. Crabtree  
Dierdre A. Brown  
TECO POWER SERVICES CORP.  
P.O. Box 111  
Tampa, Florida 33602  
[Dacrabtree@tecoenergy.com](mailto:Dacrabtree@tecoenergy.com)  
[Dabrown@tecoenergy.com](mailto:Dabrown@tecoenergy.com)

Michael A. Trentel  
Patrick W. Burnett  
PANDA ENERGY INTERNATIONAL INC  
4100 Spring Valley, Suite 1010  
Dallas, Texas 75244

[Michaelt@pandaenergy.com](mailto:Michaelt@pandaenergy.com)  
[Patb@pandaenergy.com](mailto:Patb@pandaenergy.com)

Gary A. Dodge  
HATCH, JAMES & DODGE  
10 W. Broadway, Suite 400  
Salt Lake City, Utah 84101  
[Gdodge@hjdllaw.com](mailto:Gdodge@hjdllaw.com)

John Wallace  
Director of Regulatory and Strategic Services  
Grand Canyon State Electric Cooperative  
Association  
120 N. 44<sup>th</sup> Street  
Phoenix, AZ 85034  
[jwallace@gcseca.org](mailto:jwallace@gcseca.org)

Joan Walker-Ratliff  
Manager, Regulatory Affairs  
Conoco Gas and Power  
1000 South Pine  
P.O. Box 1267 125-4 ST  
Ponca, OK 74602  
[joan.walker-ratliff@conoco.com](mailto:joan.walker-ratliff@conoco.com)

CONSOLIDATED ELECTRIC VARIANCE W/E-MAIL ADDRESSES--service list (4/23/02)

Lindy Funkhouser  
Scott S. Wakefield  
RUCO  
2828 N Central Ave, Suite 1200  
Phoenix, Arizona 85004

Michael A. Curtis  
William P. Sullivan  
Paul R. Michaud  
MARTINEZ & CURTIS, P.C.  
2712 North 7th Street  
Phoenix, Arizona 85006  
Attorneys for Arizona Municipal Power Users  
Association, Mohave Electric Cooperative, Inc.,  
Navopache Electric Cooperative, Inc., Reliant  
Resources, Inc. & Primesouth, Inc.  
[mcurtis401@aol.com](mailto:mcurtis401@aol.com)  
[wsullivan@martinezcurtis.com](mailto:wsullivan@martinezcurtis.com)  
[pmichaud@martinezcurtis.com](mailto:pmichaud@martinezcurtis.com)

Walter W. Meek, President  
ARIZONA UTILITY INVESTORS ASSOCIATION  
2100 N. Central Avenue, Suite 210  
Phoenix, Arizona 85004

Rick Gilliam  
Eric C. Guidry  
LAND AND WATER FUND OF THE ROCKIES  
ENERGY PROJECT  
2260 Baseline Road, Suite 200  
Boulder, Colorado 80302

Terry Frothun  
ARIZONA STATE AFL-CIO  
5818 N. 7th Street, Suite 200  
Phoenix, Arizona 85014-5811

Norman J. Furuta  
DEPARTMENT OF THE NAVY  
900 Commodore Drive, Building 107  
San Bruno, California 94066-5006

Barbara S. Bush  
COALITION FOR RESPONSIBLE ENERGY  
EDUCATION  
315 West Riviera Drive  
Tempe, Arizona 85252

Sam Defraw (Attn. Code 00I)  
Rate Intervention Division  
NAVAL FACILITIES ENGINEERING COMMAND  
Building 212, 4<sup>th</sup> Floor  
901 M Street, SE

Washington, DC 20374-5018

Rick Lavis  
ARIZONA COTTON GROWERS ASSOCIATION  
4139 East Broadway Road  
Phoenix, Arizona 85040

Steve Brittle  
DON'T WASTE ARIZONA, INC.  
6205 South 12th Street  
Phoenix, Arizona 85040

COLUMBUS ELECTRIC COOPERATIVE, INC.  
P.O. Box 631  
Deming, New Mexico 88031

CONTINENTAL DIVIDE ELECTRIC  
COOPERATIVE  
P.O. Box 1087  
Grants, New Mexico 87020

DIXIE ESCALANTE RURAL ELECTRIC  
ASSOCIATION  
CR Box 95  
Beryl, Utah 84714

GARKANE POWER ASSOCIATION, INC.  
P.O. Box 790  
Richfield, Utah 84701

ARIZONA DEPT. OF COMMERCE  
ENERGY OFFICE  
3800 North Central Avenue, 12th Floor  
Phoenix, Arizona 85012

ARIZONA COMMUNITY ACTION ASSOC.  
2627 N. 3rd Street, Suite 2  
Phoenix, Arizona 85004

TUCSON ELECTRIC POWER CO.  
Legal Dept - DB203  
220 W 6<sup>th</sup> Street  
P.O. Box 711  
Tucson, Arizona 85702-0711

A.B. Baardson  
Mountain Country Co-Generation  
6463 N. Desert Breeze Court  
Tucson, AZ 85750

Jessica Youle  
PAB300  
SALT RIVER PROJECT

P.O. Box 52025  
Phoenix, Arizona 85072-2025

Joe Eichelberger  
MAGMA COPPER COMPANY  
P.O. Box 37  
Superior, Arizona 85273

Craig Marks  
CITIZENS UTILITIES COMPANY  
2901 N. Central Avenue, Suite 1660  
Phoenix, Arizona 85012-2736

Barry Huddleston  
DESTEC ENERGY  
P.O. Box 4411  
Houston, Texas 77210-4411

Steve Montgomery  
JOHNSON CONTROLS  
2032 West 4th Street  
Tempe, Arizona 85281

Terry Ross  
CENTER FOR ENERGY AND  
ECONOMIC DEVELOPMENT  
P.O. Box 288  
Franktown, Colorado 80116-0288

Clara Peterson  
AARP  
HC 31, Box 977  
Happy Jack, Arizona 86024

Larry McGraw  
USDA-RUS  
6266 Weeping Willow  
Rio Rancho, New Mexico 87124

Jim Driscoll  
ARIZONA CITIZEN ACTION  
5160 E. Bellevue Street, Apt. 101  
Tucson, AZ 85712-4828

William Baker  
ELECTRICAL DISTRICT NO. 6  
7310 N. 16<sup>th</sup> Street, Suite 320  
Phoenix, Arizona 85020

Robert Julian  
PPG  
1500 Merrell Lane  
Belgrade, Montana 59714

C. Webb Crockett

Jay L. Shapiro  
FENNEMORE CRAIG, PC  
3003 N. Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913  
Attorneys for Panda Gila River, L.P.  
[Wcrockett@fclaw.com](mailto:Wcrockett@fclaw.com)  
[Jshapiro@fclaw.com](mailto:Jshapiro@fclaw.com)

Robert S. Lynch  
340 E. Palm Lane, Suite 140  
Phoenix, Arizona 85004-4529  
Attorney for Arizona Transmission Dependent Utility  
Group

K.R. Saline  
K.R. SALINE & ASSOCIATES  
Consulting Engineers  
160 N. Pasadena, Suite 101  
Mesa, Arizona 85201-6764

Carl Robert Aron  
Executive Vice President and COO  
ITRON, INC.  
2818 N. Sullivan Road  
Spokane, Washington 99216

Douglas Nelson  
DOUGLAS C. NELSON PC  
7000 N. 16th Street, Suite 120-307  
Phoenix, Arizona 85020-5547  
Attorney for Calpine Power Services

Lawrence V. Robertson Jr.  
MUNGER CHADWICK, PLC  
333 North Wilmot, Suite 300  
Tucson, Arizona 85711-2634  
Attorney for Southwestern Power Group, II, LLC;  
Bowie Power Station, LLC; Toltec Power Station,  
LLC; and Sempra Energy Resources  
[Lvrobertson@mungerchadwick.com](mailto:Lvrobertson@mungerchadwick.com)

Tom Wran  
Southwestern Power Group II  
[Twray@southwesternpower.com](mailto:Twray@southwesternpower.com)

Theodore E. Roberts  
SEMPRA ENERGY RESOURCES  
101 Ash Street, HQ 12-B  
San Diego, California 92101-3017  
[Troberts@sempra.com](mailto:Troberts@sempra.com)

Albert Sterman  
ARIZONA CONSUMERS COUNCIL  
2849 East 8th Street  
Tucson, Arizona 85716

Michael Grant  
GALLAGHER & KENNEDY  
2575 East Camelback Road  
Phoenix, Arizona 85016-9225  
Attorneys for AEPCO, Graham County Electric  
Cooperative, and Duncan Valley Electric Cooperative  
[Mmg@gknet.com](mailto:Mmg@gknet.com)

Vinnie Hunt  
CITY OF TUCSON  
Department of Operations  
4004 S. Park Avenue, Building #2  
Tucson, Arizona 85714

Ryle J. Carl III  
INTERNATION BROTHERHOOD OF  
ELECTRICAL WORKERS, L.U. #1116  
750 S. Tucson Blvd.  
Tucson, Arizona 85716-5698

Carl Dabelstein  
CITIZENS COMMUNICATIONS  
2901 N. Central Ave., Suite 1660  
Phoenix, Arizona 85012

Roderick G. McDougall, City Attorney  
CITY OF PHOENIX  
Attn: Jesse Sears, Assistant Chief Counsel  
200 W Washington Street, Suite 1300  
Phoenix, Arizona 85003-1611

William J. Murphy  
CITY OF PHOENIX  
200 West Washington Street, Suite 1400  
Phoenix, Arizona 85003-1611  
[Bill.murphy@phoenix.gov](mailto:Bill.murphy@phoenix.gov)

Russell E. Jones  
WATERFALL ECONOMIDIS CALDWELL  
HANSHAW & VILLAMANA, P.C.  
5210 E. Williams Circle, Suite 800  
Tucson, Arizona 85711  
Attorneys for Trico Electric Cooperative, Inc.  
[Rjones@wechv.com](mailto:Rjones@wechv.com)

Christopher Hitchcock  
HITCHCOCK & HICKS  
P.O. Box 87  
Bisbee, Arizona 85603-0087  
Attorney for Sulphur Springs Valley Electric  
Cooperative, Inc.  
[Lawyers@bisbeelaw.com](mailto:Lawyers@bisbeelaw.com)

Andrew Bettwy  
Debra Jacobson

SOUTHWEST GAS CORPORATION  
5241 Spring Mountain Road  
Las Vegas, Nevada 89150-0001

Barbara R. Goldberg  
OFFICE OF THE CITY ATTORNEY  
3939 Civic Center Blvd.  
Scottsdale, Arizona 85251

Bradford A. Borman  
PACIFICORP  
201 S. Main, Suite 2000  
Salt Lake City, Utah 84140

Timothy M. Hogan  
ARIZONA CENTER FOR LAW IN THE PUBLIC  
INTEREST  
202 E. McDowell Rd., Suite 153  
Phoenix, Arizona 85004

Marcia Weeks  
18970 N. 116th Lane  
Surprise, Arizona 85374

John T. Travers  
William H. Nau  
272 Market Square, Suite 2724  
Lake Forest, Illinois 60045

Timothy Michael Toy  
WINTHROP, STIMSON, PUTNAM & ROBERTS  
One Battery Park Plaza  
New York, New York 10004-1490

Chuck Miessner  
NEV SOUTHWEST LLC  
P.O. Box 711, Mailstop-DA308  
Tucson, Arizona 85702-0711

Billie Dean  
AVIDD  
P O Box 97  
Marana, Arizona 85652-0987

Raymond B. Wuslich  
WINSTON & STRAWN  
1400 L Street, NW  
Washington, DC 20005

Steven C. Gross  
PORTER SIMON  
40200 Truckee Airport Road  
Truckee, California 96161-3307  
Attorneys for M-S-R Public Power Agency

Donald R. Allen  
John P. Coyle  
DUNCAN & ALLEN  
1575 Eye Street, N.W., Suite 300  
Washington, DC 20005

Ward Camp  
PHASER ADVANCED METERING SERVICES  
400 Gold SW, Suite 1200  
Albuquerque, New Mexico 87102

Theresa Drake  
IDAHO POWER COMPANY  
P.O. Box 70  
Boise, Idaho 83707

Libby Brydolf  
CALIFORNIA ENERGY MARKETS  
NEWSLETTER  
2419 Bancroft Street  
San Diego, California 92104

Paul W. Taylor  
R W BECK  
2201 E. Camelback Rd Suite 115-B  
Phoenix, Arizona 85016-3433

James P. Barlett  
5333 N. 7<sup>th</sup> Street, Suite B-215  
Phoenix, Arizona 85014  
Attorney for Arizona Power Authority

Jay I. Moyes  
MOYES STOREY  
3003 N. Central Ave., Suite 1250  
Phoenix, Arizona 85012  
Attorneys for PPL Southwest Generation Holdings,  
LLC; PPL EnergyPlus, LLC and PPL Sundance  
Energy, LLC  
[Jimoyes@lawms.com](mailto:Jimoyes@lawms.com)

Stephen L. Teichler  
Stephanie A. Conaghan  
DUANE MORRIS & HECKSCHER, LLP  
1667 K Street NW, Suite 700  
Washington, DC 20006

Kathy T. Puckett  
SHELL OIL COMPANY  
200 N. Dairy Ashford  
Houston, Texas 77079

Andrew N. Chau  
SHELL ENERGY SERVICES CO., LLC  
1221 Lamar, Suite 1000

Houston, Texas 77010

Peter Q. Nyce, Jr.  
DEPARTMENT OF THE ARMY  
JALS-RS Suite 713  
901 N. Stuart Street  
Arlington, Virginia 22203-1837

Michelle Ahlmer  
ARIZONA RETAILERS ASSOCIATION  
224 W. 2<sup>nd</sup> Street  
Mesa, Arizona 85201-6504

Dan Neidlinger  
NEIDLINGER & ASSOCIATES  
3020 N. 17<sup>th</sup> Drive  
Phoenix, Arizona 85015

Chuck Garcia  
PNM, Law Department  
Alvarado Square, MS 0806  
Albuquerque, New Mexico 87158

Sanford J. Asman  
570 Vinington Court  
Dunwoody, Georgia 30350-5710

Patricia Cooper  
AEP/SSWEPCO  
P.O. Box 670  
Benson, Arizona 85602  
[Pcooper@aepnet.org](mailto:Pcooper@aepnet.org)

Holly E. Chastain  
SCHLUMBERGER RESOURCE  
MANAGEMENT SERVICES, INC.  
5430 Metric Place  
Norcross, Georgia 30092-2550

Leslie Lawner  
ENRON CORP  
712 North Lea  
Roswell, New Mexico 88201

Alan Watts  
Southern California Public Power Agency  
529 Hilda Court  
Anaheim, California 92806

Frederick M. Bloom  
Commonwealth Energy Corporation  
15991 Red Hill Avenue, Suite 201  
Tustin, California 92780

Margaret McConnell  
Maricopa Community Colleges  
2411 W. 14<sup>th</sup> Street  
Tempe, Arizona 85281-6942

Brian Soth  
FIRSTPOINT SERVICES, INC.  
1001 S.W. 5<sup>th</sup> Ave, Suite 500  
Portland, Oregon 92704

Jay Kaprosy  
PHOENIX CHAMBER OF COMMERCE  
201 N. Central Ave., 27<sup>th</sup> Floor  
Phoenix, Arizona 85073

Kevin McSpadden  
MILBANK, TWEED, HADLEY AND  
MCCLOY, LLP  
601 S. Figueroa, 30<sup>th</sup> Floor  
Los Angeles, California 90017

M.C. Arendes, Jr.  
C3 COMMUNICATIONS, INC.  
2600 Via Fortuna, Suite 500  
Austin, Texas 78746

Patrick J. Sanderson  
ARIZONA INDEPENDENT SCHEDULING  
ADMINISTRATOR ASSOCIATION  
P.O. Box 6277  
Phoenix, Arizona 85005-6277  
[Psanderson@az-isa.org](mailto:Psanderson@az-isa.org)

Roger K. Ferland  
QUARLES & BRADY STREICH LANG, L.L.P.  
Renaissance One  
Two North Central Avenue  
Phoenix, Arizona 85004-2391  
[Rferland@quarles.com](mailto:Rferland@quarles.com)

Charles T. Stevens  
ARIZONANS FOR ELECTRIC CHOICE &  
COMPETITION  
245 W. Roosevelt  
Phoenix, Arizona 85003

Mark Sirois  
ARIZONA COMMUNITY ACTION ASSOC.  
2627 N. Third Street, Suite 2  
Phoenix, Arizona 85004

Jeffrey Guldner  
Thomas L. Mumaw  
SNELL & WILMER

400 E. Van Buren,  
One Arizona Center  
Phoenix, Arizona 85004-0001  
[Tmumaw@swlaw.com](mailto:Tmumaw@swlaw.com)

Steven J. Duffy  
RIDGE & ISAACSON PC  
3101 N. Central Avenue, Suite 740  
Phoenix, Arizona 85012

Greg Patterson  
5432 E. Avalon  
Phoenix, Arizona 85018  
[Gpatterson@aol.com](mailto:Gpatterson@aol.com)

John Wallace  
Grand Canyon State Electric Co-op  
120 N. 44<sup>th</sup> Street, Suite 100  
Phoenix, Arizona 85034-1822  
[Jwallace@gcseca.org](mailto:Jwallace@gcseca.org)

Steven Lavigne  
DUKE ENERGY  
4 Triad Center, Suite 1000  
Salt Lake City, Utah 84180

Dennis L. Delaney  
K.R. SALINE & ASSOC.  
160 N. Pasadena, Suite 101  
Mesa, Arizona 85201-6764

Kevin C. Higgins  
ENERGY STRATEGIES, LLC  
30 Market Street, Suite 200  
Salt Lake City, Utah 84101

Michael L. Kurtz  
BORHM KURTZ & LOWRY  
36 E. Seventh Street, Suite 2110  
Cincinnati, Ohio 45202  
[Mkurtzlaw@aol.com](mailto:Mkurtzlaw@aol.com)

David Berry  
P.O. Box 1064  
Scottsdale, Arizona 85252

William P. Inman  
Dept. of Revenue  
1600 W. Monroe, Room 911  
Phoenix, Arizona 85007  
[InmanW@revenue.state.az.us](mailto:InmanW@revenue.state.az.us)

Robert Baltes  
ARIZONA COGENERATION ASSOC.  
7250 N. 16<sup>th</sup> Street, Suite 102

Phoenix, Arizona 85020-5270  
[Bbaltres@bvaeng.com](mailto:Bbaltres@bvaeng.com)

Jana Van Ness  
APS  
Mail Station 9905  
P.O. Box 53999  
Phoenix, Arizona 85072-3999  
[Jana.vanness@aps.com](mailto:Jana.vanness@aps.com)

David Couture  
TEP  
4350 E. Irvington Road  
Tucson, Arizona 85714

Kelly Barr  
Jana Brandt  
SRP  
Mail Station PAB211  
P.O. Box 52025  
Phoenix, Arizona 85072-2025  
[Kjbarr@srpnet.com](mailto:Kjbarr@srpnet.com)  
[Jkbrandt@srpnet.com](mailto:Jkbrandt@srpnet.com)

Randall H. Warner  
JONES SKELTON & HOCHULI PLC  
2901 N. Central Avenue, Suite 800  
Phoenix, Arizona 85012

John A. LaSota, Jr.  
MILLER LASOTA & PETERS, PLC  
5225 N. Central Ave., Suite 235  
Phoenix, Arizona 85012

Peter W. Frost  
Conoco Gas and Power Marketing  
600 N. Dairy Ashford, CH-1068  
Houston, Texas 77079

Joan Walker-Ratliff  
Conoco Gas and Power Marketing  
1000 S. Pine, 125-4 ST UPO  
Ponca City, Oklahoma 74602

Vicki G. Sandler  
c/o Linda Spell  
APS Energy Services  
P.O. Box 53901  
Mail Station 8103  
Phoenix, Arizona 85072-3901  
[Linda\\_spell@apses.com](mailto:Linda_spell@apses.com)

Lori Glover  
STIRLING ENERGY SYSTEMS  
2920 E. Camelback Rd., Suite 150

Phoenix, Arizona 85016  
[Lglover@stirlingenergy.com](mailto:Lglover@stirlingenergy.com)

Jeff Schlegel  
SWEEP  
1167 Samalayuca Drive  
Tucson, Arizona 85704-3224  
[Schlegelj@aol.com](mailto:Schlegelj@aol.com)

Howard Geller  
SWEEP  
2260 Baseline Rd., Suite 200  
Boulder, Colorado 80302  
[Hgeller@swenergy.org](mailto:Hgeller@swenergy.org)

Mary-Ellen Kane  
ACAA  
2627 N. 3<sup>rd</sup> Street, Suite Two  
Phoenix, Arizona 85004  
[Mkane@azcaa.org](mailto:Mkane@azcaa.org)

Aaron Thomas  
AES NewEnergy  
350 S. Grand Avenue, Suite 2950  
Los Angeles, California 90071  
[Aaron.thomas@aes.com](mailto:Aaron.thomas@aes.com)

Theresa Mead  
AES NewEnergy  
P.O. Box 65447  
Tucson, Arizona 85728  
[Theresa.mead@aes.com](mailto:Theresa.mead@aes.com)

Peter Van Haren  
CITY OF PHOENIX  
Attn: Jesse W. Sears  
200 W. Washington Street, Suite 1300  
Phoenix, Arizona 85003-1611  
[Jesse.sears@phoenix.gov](mailto:Jesse.sears@phoenix.gov)

Robert Annan  
ARIZONA CLEAN ENERGY INDUSTRIES  
ALLIANCE  
6605 E. Evening Glow Drive  
Scottsdale, Arizona 85262  
[Annan@primenet.com](mailto:Annan@primenet.com)

Curtis L. Kebler  
RELIANT RESOURCES, INC.  
8996 Etiwanda Avenue  
Rancho Cucamonga, California 91739

Philip Key  
RENEWABLE ENERGY LEADERSHIP GROUP  
10631 E. Autumn Sage Drive

Scottsdale, Arizona 85259  
[Keytaic@aol.com](mailto:Keytaic@aol.com)

Paul Bullis  
OFFICE OF THE ATTORNEY GENERAL  
1275 W. Washington Street  
Phoenix, Arizona 85007  
[Paul.bullis@ag.state.az.us](mailto:Paul.bullis@ag.state.az.us)

Laurie Woodall  
OFFICE OF THE ATTORNEY GENERAL  
15 S. 15<sup>th</sup> Avenue  
Phoenix, Arizona 85007  
[Laurie.woodall@ag.state.az.us](mailto:Laurie.woodall@ag.state.az.us)

Donna M. Bronski  
CITY OF SCOTTSDALE  
3939 N. Drinkwater Blvd  
Scottsdale, Arizona 85251  
[Dbronski@ci.scottsdale.az.us](mailto:Dbronski@ci.scottsdale.az.us)

Larry F. Eisenstat  
Frederick D. Ochsenhirt  
Michael R. Engleman  
DICKSTEIN SHAPIRO MORIN &  
OSHINSKY LLP  
2101 L Street, NW  
Washington, DC 20037  
[Eisenstatl@dsmo.com](mailto:Eisenstatl@dsmo.com)  
[Ochsenhirtf@dsmo.com](mailto:Ochsenhirtf@dsmo.com)

David A. Crabtree  
Dierdre A. Brown  
TECO POWER SERVICES CORP.  
P.O. Box 111  
Tampa, Florida 33602  
[Dacrabtree@tecoenergy.com](mailto:Dacrabtree@tecoenergy.com)  
[Dabrown@tecoenergy.com](mailto:Dabrown@tecoenergy.com)

Michael A. Trentel  
Patrick W. Burnett  
PANDA ENERGY INTERNATIONAL INC  
4100 Spring Valley, Suite 1010  
Dallas, Texas 75244  
[Michaelt@pandaenergy.com](mailto:Michaelt@pandaenergy.com)  
[Patb@pandaenergy.com](mailto:Patb@pandaenergy.com)

Jesse Dillon  
PPL Services Corp.  
2 N. Ninth Street  
Allentown, Pennsylvania 18101-1179  
[Jadillon@pplweb.com](mailto:Jadillon@pplweb.com)

Gary A. Dodge  
HATCH, JAMES & DODGE

10 W. Broadway, Suite 400  
Salt Lake City, Utah 84101  
[Gdodge@hjdllaw.com](mailto:Gdodge@hjdllaw.com)

Christopher Kempley, Chief Counsel  
ARIZONA CORPORATION COMMISSION  
1200 W. Washington Street  
Phoenix, Arizona 85007

Ernest G. Johnson, Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

ARIZONA REPORTING SERVICE, INC.  
2627 N. Third Street, Suite Three  
Phoenix, Arizona 85004-1104

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

1  
2 WILLIAM A. MUNDELL  
3 CHAIRMAN  
4 JIM IRVIN  
5 COMMISSIONER  
6 MARC SPITZER  
7 COMMISSIONER

2002 JUN 11 P 3: 16

AZ CORP COMMISSION  
DOCUMENT CONTROL

7 IN THE MATTER OF THE GENERIC  
8 PROCEEDINGS CONCERNING ELECTRIC  
9 RESTRUCTURING ISSUES.

Docket No. E-00000A-02-0051

9 IN THE MATTER OF ARIZONA PUBLIC  
10 SERVICE COMPANY'S REQUEST FOR  
11 VARIANCE OF CERTAIN REQUIREMENTS  
12 OF A.A.C. 4-14-2-1606

Docket No. E-01345A-01-0822

11 IN THE MATTER OF THE GENERIC  
12 PROCEEDINGS CONCERNING THE  
13 ARIZONA INDEPENDENT SCHEDULING  
14 ADMINISTRATOR

Docket No. E-00000A-01-0630

13 IN THE MATTER OF TUCSON ELECTRIC  
14 COMPANY'S APPLICATION FOR A  
15 VARIANCE OF CERTAIN ELECTRIC POWER  
16 COMPETITION RULES COMPLIANCE  
17 DATES

Docket No. E-01933A-98-0471

16 ISSUES IN THE MATTER OF TUCSON  
17 ELECTRIC POWER COMPANY'S  
18 APPLICATION FOR A VARIANCE OF  
19 CERTAIN ELECTRIC COMPETITION RULES  
20 COMPLIANCE DATES

Docket No. E01933A-02-0069

19 **REBUTTAL TESTIMONY OF STEVEN J. GLASER**

20 **TUCSON ELECTRIC POWER COMPANY**

21 **TRACK A ISSUES**

22  
23  
24  
25 **June 11, 2002**  
26  
27

**REBUTTAL TESTIMONY OF STEVEN J. GLASER**

**TABLE OF CONTENTS**

I.	INTRODUCTION .....	1
II.	SALE OR TRANSFERS AMONG UTILITY AFFILIATES.....	1
III.	TIMING OF TEP TRANSMISSION INVESTMENTS.....	3
IV.	ENSURING THAT CONSUMERS WILL RECEIVE RELIABLE ELECTRIC SERVICE AT JUST AND REASONABLE RATES .....	5

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

**REBUTTAL TESTIMONY OF STEVEN J. GLASER**  
**TRACK A ISSUES**  
**JUNE 11, 2002**

5 **I. INTRODUCTION.**

6 Q. Please state your name.

7 A. My name is Steven J. Glaser.

10 Q. What is the purpose of your rebuttal testimony?

11 A: In my rebuttal testimony I address the Commission Staff (a) recommendation  
12 regarding sales or transfers among utility affiliates; (b) suggestion that TEP delayed  
13 transmission investments; and (c) statement that its goal is to ensure that customers  
14 will receive reliable electric service at just and reasonable rates.  
15

17 **II. SALES OR TRANSFERS AMONG UTILITY AFFILIATES.**

18 Q: Mr. Glaser, Commission Staff witness Barbara Keene has recommended that sales  
19 or transfers from an affiliate to the utility should be priced at the lower of "cost" or  
20 "market price" and that sales or transfers from the utility to an affiliate should be  
21 priced at the higher of "cost" or "market price" (the "affiliate transaction  
22 recommendation"). Do you agree with the affiliate transaction recommendation?  
23

24 A: While I appreciate the analysis of affiliate transactions and codes of conduct that  
25 Ms. Keene has offered in her initial testimony, I do not agree with the  
26 recommendations that (a) sales or transfers from an affiliate to TEP should be  
27

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

priced at the lower of "cost" or "market price"; and (b) sales or transfers from TEP to its affiliates should be priced at the higher of "cost" or "market price."

Q: What is the basis for your disagreement with the affiliate transaction recommendation?

A: I believe that the affiliate transaction recommendation places an unfair disadvantage on incumbent utilities and their affiliates. As Mr. Pignatelli indicated, TEP believes that if the Commission is going to establish a competitive electric market place, then all participants should operate on a "level playing field". This means that no participant should have an unfair advantage or disadvantage over the others. I do not believe that it is fair to single out incumbent utilities (such as TEP) and their affiliates and impose conditions for the price that can be charged for transactions between them that is different from the rest of the participants in the competitive market place. The Commission has implemented Affiliate Transaction Rules and approved Codes of Conduct as well as policies and procedures to ensure that dealings between incumbent utilities and their affiliates are undertaken in an "arms' length" fashion. Therefore, transactions between incumbent utilities and their affiliates should be no different than transactions between non-affiliated participants in the competitive market place. The affiliate transaction recommendation is unnecessary and would only create an artificial constraint on the economic value of transactions between TEP and its affiliates. This could impair the incumbents and their affiliates in the competitive market place because, under the affiliate

1 transaction recommendation, no other participants in the competitive electric market  
2 place would be so limited.  
3

4 I also believe that the affiliate transaction recommendation would send the wrong  
5 pricing signals to retail electric customers. As Mr. Pignatelli discusses, in a true  
6 competitive electric market place, the price of retail electric power will be subject to  
7 wholesale market volatility. And as I will address in more detail, TEP believes that  
8 one way this volatility can be mitigated is through the implementation of fuel  
9 adjustment mechanisms. However, TEP does not believe that the affiliate  
10 transaction recommendation will properly provide for the recovery of the wholesale  
11 market's price for electric power.  
12  
13  
14

15  
16 Q: Mr. Glaser, was the issue of pricing transactions between TEP and its affiliates  
17 discussed during the TEP Stranded Cost proceedings?

18 A: Yes, it was. In Decision No. 62103, the Commission approved the TEP Settlement  
19 Agreement. Pursuant to Section 12 (c) of the TEP Settlement Agreement, the  
20 Commission granted TEP a waiver that permits TEP and its affiliates to charge  
21 market price for sales, services and transfers.  
22  
23

24 **III. TIMING OF TEP TRANSMISSION INVESTMENTS.**

25 Q: Mr. Glaser, Commission Staff witness Jerry Smith has suggested that TEP  
26 "...play[ed] the waiting game and defer[ed] transmission investments by relying on  
27

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

RMR generation opportunities.” Do you agree with this suggestion?

A: I agree with what I believe to be Mr. Smith’s premise that transmission system adequacy and reliability are necessary components that must be in place in order for electric competition to function, but I do not believe that characterizing TEP as having played a waiting game accurately portrays how TEP has planned its transmission line and power plant construction.

TEP supports coordinated transmission planning and has been an active participant in the Central Arizona Transmission Study and Western Electric Coordinating Council proceedings.

In practice, TEP determines its transmission needs and proposes new transmission lines in a manner similar to the process Mr. Smith discusses in his initial testimony. To date, TEP’s construction of reliability must-run (“RMR”) units has been based on the economics of each such unit compared with the construction of new transmission facilities.

Also, when determining what type of facility to construct, TEP considers other important elements such as the fact that local generation alternatives provide additional capacity, energy and voltage support that a transmission alternative cannot provide.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

I believe that the transmission systems of vertically integrated utilities were not designed, nor should they have been designed, simply to maximize the ability of outside generation sources to compete to serve load within the load pocket.

**IV. ENSURING THAT CONSUMERS WILL RECEIVE RELIABLE ELECTRIC SERVICE AT JUST AND REASONABLE RATES.**

Q: Mr. Glaser, Commission Staff witness Matthew Rowell, in his initial testimony identified Staff's overriding goal as ensuring that consumers will receive reliable electric service at just and reasonable rates. Do you agree that this should be the overriding goal of electric competition?

A: Yes, I do. TEP has always stressed the importance of providing its customers with safe, reliable and fairly priced electric service. TEP has stressed the need to preserve its ability to continue to do so throughout the electric competition proceedings.

I also agree with the Commission Staff that in a competitive electric market place, Utility Distribution Companies ("UDCs") should be allowed the flexibility to obtain power in a variety of ways, including Requests For Proposals ("RFPs") and bilateral contracts, in order to achieve the best overall price for their Standard Offer customers.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

I believe that it will be important for the Commission and the UDCs to address the potential volatility of purchase power costs and how that will affect the rates paid by Standard Offer customers. I think that one of the best mechanisms for matching current electric power procurement costs with electric power use is through a Purchase Power and Fuel Adjustment ("PPFA") mechanism.

Q: Why would a PPFA mechanism be appropriate for UDCs to use in connection with their Standard Offer customers?

A: I concur with Mr. Pignatelli that as the competitive electric market matures, retail electric rates should reflect a market price rather than be set pursuant to a cost-based methodology. To me the concepts of a competitive market place and cost-based rates set by the Commission are not compatible. The potential volatility in electric power prices is one of the characteristics of a competitive market place that is different from a regulated ratemaking environment. Having said that, I do not think that it is in the best interest of retail electric customers to be subject to sudden swings in rates. I believe that electric customers want stability in their rates. I also believe that these aspects of the competitive market place are ones that the Commission must carefully examine as it re-evaluates the benefits and drawbacks of electric competition. In that regard, I join with Mr. Pignatelli in asking the Commission to look at the threshold issue of whether electric competition is, at this time, in the best interest of Arizona and, if so, then to make specific findings as to the expected benefits. This will help all of the participants in the electric industry

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

have a common understanding and goals to work towards in connection with a competitive market place.

I do believe that properly designed wholesale competition is the appropriate starting point for electric competition, whether it is implemented now or in the future. I think that if the Commission determines that it is going to proceed and implement electric competition then it should approve an appropriately designed PPFA mechanism to help mitigate the potential negative impact of significant price volatility to UDCs' Standard Offer customers. I would propose that the PPFA mechanism be designed to minimize the effect of electric power price swings over time by "banking" purchase price deviations above and below a pre-determined base cost and then, once an established level has been attained in the account, recovering or returning the bank balance amounts over a specified period of time.

As TEP witnesses have previously testified, TEP desires that if electric competition is implemented in the State, it be designed to meet the public's best interests and not jeopardize TEP's ability to provide safe, reliable and fairly priced electric service.

Q: Does that conclude your rebuttal testimony?

A: Yes it does.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

8 IN THE MATTER OF THE GENERIC  
9 PROCEEDINGS CONCERNING ELECTRIC  
10 RESTRUCTURING ISSUES.

Docket No. E-00000A-02-0051

11 IN THE MATTER OF ARIZONA PUBLIC  
12 SERVICE COMPANY'S REQUEST FOR  
13 VARIANCE OF CERTAIN REQUIREMENTS  
14 OF A.A.C. 4-14-2-1606

Docket No. E-01345A-01-0822

15 IN THE MATTER OF THE GENERIC  
16 PROCEEDINGS CONCERNING THE  
17 ARIZONA INDEPENDENT SCHEDULING  
18 ADMINISTRATOR

Docket No. E-00000A-01-0630

19 IN THE MATTER OF TUCSON ELECTRIC  
20 COMPANY'S APPLICATION FOR A  
21 VARIANCE OF CERTAIN ELECTRIC POWER  
22 COMPETITION RULES COMPLIANCE  
23 DATES

Docket No. E-01933A-98-0471

24 ISSUES IN THE MATTER OF TUCSON  
25 ELECTRIC POWER COMPANY'S  
26 APPLICATION FOR A VARIANCE OF  
27 CERTAIN ELECTRIC COMPETITION RULES  
COMPLIANCE DATES

Docket No. E01933A-02-0069

19 **REBUTTAL TESTIMONY OF MICHAEL J. DECONCINI**

20 **TUCSON ELECTRIC POWER COMPANY**

21 **TRACK A ISSUES**

22  
23  
24  
25 **June 11, 2002**  
26  
27

**REBUTTAL TESTIMONY OF MICHAEL J. DECONCINI**

**TABLE OF CONTENTS**

I.	INTRODUCTION .....	1
II.	MARKET POWER.....	2
III.	WHOLESALE COMPETITION .....	4
IV.	RECOMMENDATIONS REGARDING ASSET TRANSFER AND TIMELINE.....	6



1       **II.    MARKET POWER.**

2       **Q:**    Mr. DeConcini did you review the discussions in the initial testimony  
3            regarding Market Power?

4       **A:**    Yes, I believe that every participant had at least one witness that discussed  
5            market power.  
6

7  
8       **Q:**    Please define Market Power as you use that term.

9       **A:**    I define Market Power as the ability of a market participant, or group of  
10            participants, to directly (horizontal market power) or indirectly (vertical  
11            market power) influence the price of a good or service. In the context of the  
12            initial testimony, market power referred to electric power.  
13

14  
15  
16       **Q:**    Did all the participants share the same view as to whether (post-divestiture)  
17            utility generation affiliates would have market power?

18       **A:**    No, they did not. The initial testimony contained a wide variety of market  
19            power indices and tests, which came to different conclusions. It seems to  
20            me that the manner by which to determine market power must be more  
21            clearly defined. Obviously, if market power is something that is going to be  
22            monitored then there needs to be uniformity in its definition, determination  
23            and resolution.  
24  
25  
26  
27

1 Q: What is your opinion on the Market Power issue?

2 A: I believe that depending on how you define market power every utility could  
3 be expected to be deemed to have market power and that there will be times  
4 during a day at some time of the year that a utility's existing generation  
5 resources will be required to meet local must-run requirements for system  
6 reliability reasons ("RMR generation").  
7

8  
9 However, I should point out that at the same time there will be existing  
10 utility generation resources that could not cause market power. For  
11 example, TEP owns small portions of other remote generation facilities that  
12 would not be able to exhibit market power due its (small) ownership  
13 percentages and the number of other participants at those sites<sup>1</sup>.  
14  
15

16  
17 Q: Are there ways to mitigate the perceived risks of RMR Market Power?

18 A: Yes, this is not a new concept. Generally, RMR Market Power issues are  
19 addressed in the "must-run generation" protocol of the Arizona Independent  
20 Scheduling Administrator ("AISA"). I believe that if the Commission  
21 determines that the AISA protocol is inadequate protection from RMR  
22 Market Power, then another solution would be for the TEP generation  
23 affiliate to supply the RMR capacity and energy to TEP's UDC affiliate  
24  
25

26  
27 <sup>1</sup> TEP owns 7.5% of the Navajo Generating Station and 11.7% of Generation in the Four  
Corners/San Juan area.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

under a cost-based PPA approved by the Commission. This PPA would be in place until the Commission determines that Market Power is eliminated through other means (e.g. transmission and/or generation additions, RTO or other market protocols/ rules, etc.).

TEP realizes that this solution may require the formation of more than one generation affiliate or subsidiary. In my initial testimony I mentioned that this was an option that TEP was considering.

**III. WHOLESALE COMPETITION.**

Q: What did the participants say about competition and the wholesale electric power market?

A: It seems that all of the parties agreed that there must be real competition in the wholesale electric power market before there can be meaningful retail electric competition.

Q: Did all of the participants agree about the current state of the wholesale electric power market?

A: No. There were differing views as to the current functionality and competitiveness of the wholesale markets; however, most participants agreed that the current state was not sufficient to support retail competition.

1 Q: Did the participants propose changes to the wholesale electric power market  
2 to make it more competitive?

3 A: Yes, it seems to me that most of the changes addressed how to (a) ensure  
4 equal access to transmission; (b) establish market rules and monitoring to  
5 mitigate market power; and (c) stimulate wholesale competition through  
6 competitive bidding.  
7

8  
9 Q: Do you support any of the changes to the wholesale electric power market  
10 proposed in the initial testimony?

11  
12 A: Yes, there are several components of various proposals that I can support.  
13 For example, I agree with the recommendation of Panda Gila River L.P.'s  
14 witness Dr. Craig Roach's a UDC's should be permitted to procure a  
15 portfolio of competitive supplies in order to limit its exposure to the price  
16 volatility of the "spot markets". I also agree with Commission Staff witness  
17 Ms. Erinn Andreasen's recommendation to establish an "Electric  
18 Competition Advisory Group" that would address such issues as market  
19 power measurement. I support Reliant Resources, Inc.'s witness Mr. Curtis  
20 Kebler's recognition of the interrelation between the Track A and Track B  
21 proceedings. And, I support Commission Staff witness Mr. Matthew  
22 Rowell's statements that (a) the overriding goal of Staff should be to ensure  
23 that electric customers receive reliable electric service at just and reasonable  
24 rates; (b) the "financial health of the UDC's cannot be forgotten"; and (c)  
25  
26  
27

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

that "Staff does not intend for its recommendations to impose undue restrictions on the UDC's", but rather "believes that the UDC's must be afforded a great deal of flexibility in order for them to procure (or produce) power in a just and reasonable manner".

**IV. RECOMMENDATIONS REGARDING ASSET TRANSFER & TIMELINE.**

Q: What are TEP's recommendations for moving forward with asset transfer and retail competition?

A: I want to join with Mr. Pignatelli and Mr. Glaser to strongly urge the Commission to grant the TEP Request for Variance to ensure that this Track A proceeding, the Track B proceeding and any other proceedings that are necessary to complete a thorough re-evaluation or the Electric Competition Rules are not impeded by the premature divestiture of generation assets and implementation of competitive solicitation.

By granting the TEP Request for Variance, the Commission will help to afford TEP sufficient time to act in compliance with the ultimate divestiture and competitive solicitation requirements ordered by the Commission. This will allow TEP to effect the transfer of its assets, negotiate PPA's and implement the competitive bidding protocols according to the requirements that ultimately result from these proceedings.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

Although I realize that some of these issues will be addressed in the Track B proceeding, it is important to note that the introduction of a competitive solicitation process should be designed such that the utilities are able to create diverse portfolios for their power supply in order to mitigate price volatility which will ultimately be borne by the customers.

Q: Does this conclude your rebuttal testimony?

A: Yes, it does.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

8 IN THE MATTER OF THE GENERIC  
9 PROCEEDINGS CONCERNING ELECTRIC  
10 RESTRUCTURING ISSUES.

Docket No. E-00000A-02-0051

11 IN THE MATTER OF ARIZONA PUBLIC  
12 SERVICE COMPANY'S REQUEST FOR  
13 VARIANCE OF CERTAIN REQUIREMENTS  
14 OF A.A.C. 4-14-2-1606

Docket No. E-01345A-01-0822

15 IN THE MATTER OF THE GENERIC  
16 PROCEEDINGS CONCERNING THE  
17 ARIZONA INDEPENDENT SCHEDULING  
18 ADMINISTRATOR

Docket No. E-00000A-01-0630

19 IN THE MATTER OF TUCSON ELECTRIC  
20 COMPANY'S APPLICATION FOR A  
21 VARIANCE OF CERTAIN ELECTRIC POWER  
22 COMPETITION RULES COMPLIANCE  
23 DATES

Docket No. E-01933A-98-0471

24 ISSUES IN THE MATTER OF TUCSON  
25 ELECTRIC POWER COMPANY'S  
26 APPLICATION FOR A VARIANCE OF  
27 CERTAIN ELECTRIC COMPETITION RULES  
COMPLIANCE DATES

Docket No. E01933A-02-0069

19 **REBUTTAL TESTIMONY OF JAMES S. PIGNATELLI**

20 **TUCSON ELECTRIC POWER COMPANY**

21 **TRACK A ISSUES**

22 **June 11, 2002**

**REBUTTAL TESTIMONY OF JAMES S. PIGNATELLI**

**TABLE OF CONTENTS**

I.	INTRODUCTION .....	1
II.	DETERMINATION OF THE NEED AND BENEFITS OF COMPETITION .....	2
III.	DIVESTITURE AND COMPETITIVE SOLICITATION .....	4
IV.	WHOLESALE ELECTRIC POWER MARKET .....	6



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

wholesale electric generation. There is very little support for the concept of across-the-board retail competition.

Also, almost every participant recognizes that the divestiture and competitive solicitation requirements in the Electric Competition Rules need to be modified.

Consequently, the parties also seem to agree that we should not rush to implement electric competition, but we must have a comprehensive and coordinated process to review and revise the current Electric Competition Rules.

**II. DETERMINATION OF THE NEED AND BENEFITS OF COMPETITION.**

Q: What do you mean that there must be a well-defined procedure for re-evaluating the need for electric competition and the Electric Competition Rules?

A: It seems to me that a philosophical shift has taken place among the parties with regards to the scope and benefits of electric competition. Almost all of the parties that filed initial testimony now believe that the Commission should focus on competition in the electric power wholesale market. I seem to recall that in the mid-1990s, when the benefits of electric competition were being presented and debated, that the primary advantages were said to be the availability of greater choice and lower rates for retail electric customers. I believe that the benefits to the retail customer were the primary motivation for the Commission to enact the Electric Competition Rules.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

In my initial testimony I recommended that the Commission re-evaluate the benefits of electric competition. My belief that this seminal issue must be analyzed is strengthened by the positions of the other parties, who are now urging the development of a competitive wholesale market before any retail competition occurs. Indeed, it seems to me that the most logical starting point for the Commission's re-evaluation of electric competition would be to determine what the benefits are and if they outweigh any drawbacks.

My concern is that there is no procedure in place for the Commission to take evidence on this issue. Neither the Track A issues nor the Track B issues address the benefits and drawbacks of electric competition. I am not aware of any stage in the re-evaluation process where the Commission has provided for the determination of (a) whether electric competition, as it is now defined and has been implemented, is in the public interest; and (b) what the benefits of competition, as it is now defined, will be.

Q: Mr. Pignatelli, does your recommendation indicate that TEP does not support the implementation of electric competition in Arizona?

A: No, not at all. TEP has always indicated its support for electric competition that is properly designed and implemented so as to meet the public interest. TEP's involvement in prior competition-related proceedings and in this docket has centered on making sure that all parties have a fair and level playing field and that

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

there is a realistic and meaningful benefit to Arizona ratepayers. My recommendation that the Commission analyze whether electric competition, as it is being discussed today, is in the public interest and that the anticipated benefits be memorialized is wholly consistent with TEP's prior involvement in the electric competition process. In fact, in my initial testimony I also suggest that if the Commission proceeds with electric competition, then it should include not only wholesale generators but retail customers with loads of 3 MW or greater.

**III. DIVESTITURE AND COMPETITIVE SOLICITATION.**

**Q:** Mr. Pignatelli, please summarize your understanding of the parties' positions on the divestiture and competitive solicitation requirements of the Electric Competition Rules?

**A:** In my initial testimony I addressed the TEP Request for Variance, which seeks to temporarily suspend the deadlines for divestiture and procurement of electric power through a competitive solicitation process pending the resolution of the Commission's re-evaluation of the Electric Competition Rules. I should note that Commissioner Spitzer has requested that an Open Meeting be scheduled to consider the TEP Request for Variance. TEP hopes that the matter is resolved prior to the hearing scheduled on the Track A issues.

Previously, APS sought a variance from certain provisions of A.A.C. R14-2-1606 and (in A.C.C. Docket No. E-01345A-01-0822) filed testimony specifically related

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

to its request. Commission Staff has indicated that it does not support requiring utilities to transfer their assets, but would not object to allowing discretionary transfers contingent upon the completion of Commission's market power studies. RUCO recommends that if the Commission decides to keep the divestiture requirement that the deadline should be postponed until at least January 1, 2004. Panda Gila River L.P. recommends that the Commission prohibit the transfer of generation assets to affiliates until the affiliates face a competitive challenge and believes that the deadlines can be extended. Reliant Resources, Inc. proposes that the generation assets be transferred together with an auction for a portion of the output of the capacity represented by the transferred assets.

Q: What does TEP believe the Commission should do with the divestiture and competitive solicitation requirements of the Electric Competition Rules?

A: Other than to grant the TEP Request for Variance, I do not believe that I can answer this question in a definitive manner at this point in the proceedings. The various options are obvious. The Commission can abandon the requirements, postpone the requirements, modify the requirements or keep the requirements intact. My difficulty in selecting an appropriate option to recommend is that I do not know the context in which the Arizona electric industry will be operating in the future.

While TEP has applauded the Commission for undertaking its re-evaluation of electric competition, the inherent uncertainty of where this process will ultimately

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

lead has placed TEP in a difficult position. The current Electric Competition Rules (and the TEP Settlement Agreement) require TEP to divest its generation assets on or before January 1, 2003. We have taken steps toward the divestiture. However, at the same time, we have been concerned that TEP would spend significant resources to divest its generation assets and begin the competitive solicitation process only to have the Commission determine that these actions were no longer necessary or relevant to the future Arizona electric industry. TEP is not only concerned with the economic impact of this scenario, but with the effect that divesting the generation assets may have on the Commission's jurisdiction. As I have mentioned previously, those reasons are the basis for the TEP Request for Variance.

The initial testimony has heightened my concern over the uncertainty of the Arizona electric market. The parties have submitted a variety of proposals, which could lead the Commission to take action, including the repeal or significant modification of the divestiture and competitive solicitation requirements.

**IV. WHOLESALE ELECTRIC POWER MARKET.**

Q: Mr. Pignatelli, after reviewing the initial testimony, do you believe that the Commission should focus on strengthening the wholesale electric generation market?

A: Yes, I do. As I previously mentioned, the majority of the initial testimony concentrated on what needed to take place in the wholesale electric power markets

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

in order to implement competition in Arizona. TEP witness Mr. DeConcini addressed the topic in his initial testimony and will discuss it some more in his rebuttal testimony.

Q: Is it reasonable to anticipate that under a competitive regime, that electric customer rates will remain "cost-based"?

A: No, I do not think that it is reasonable to anticipate that. It seems to me that as the competitive marketplace develops, customer rates will reflect market forces rather than be "cost-based", which is a ratemaking principle tied to the monopolistic-regulated regime. Mr. Glaser, in his rebuttal testimony will address mechanisms, such as fuel clauses that might help stabilize the rates that are charged to electric customers.

Q: Does this conclude your testimony?

A: Yes, it does