



0000071494

32

ARIZONA CORPORATION COMMISSION

Arizona Corporation  
**DOCKETED**

In the Matter of Competition in the Provision of Electric Services  
Throughout Arizona

RECEIVED  
AZ CORP COMMISSION  
JAN 20 2 32 PM '98  
DOCUMENT CONTROL

JAN 20 1998

Docket No. U-0000-94-165

DOCKETED BY *JH*

Summary of the Testimony of Ralph C. Smith  
On Behalf of the Department of Defense and All Other Federal Executive Agencies

Mr. Smith's testimony addresses Issues 1-5 and 7-9 of the Chief Hearing Officer's Original Procedural Order, dated December 1, 1997. Mr. Smith's overall recommendations are:

- The Electric Competition Rules should be modified to reflect the Commission's findings in this proceeding. Mr. Smith also recommends two specific modifications: (a) one to explicitly link the recovery of stranded costs to the introduction of competition, and (b) one to provide for an explicit date by which Affected Utilities must file estimates of unmitigated stranded costs.
- The Affected Utilities should be required to make a stranded cost filing by April 30, 1998.
- R14-2-1601(8) provides a reasonable definition of stranded costs, and the amount of stranded costs should be calculated based upon the difference between (a) book or embedded cost and (b) market value. Certain items should be specifically excluded from stranded costs.
- Certain standards should be considered in assessing market valuation.
- A limitation should be placed on the time frame over which stranded costs are calculated.
- The recovery time frame for stranded costs should be limited to a range of four to six years.
- True-ups, if allowed, should be limited to correcting for significant mis-estimates of stranded costs during the period the Commission finds appropriate for recovery.
- A price cap or rate freeze should be imposed on the Affected Utilities.
- The current rates being charged by the affected utilities should be unbundled into component parts, with a component for stranded costs.
- Mr. Smith provides a number of examples of sources of stranded cost mitigation.
- Incentives for the Affected Utilities to mitigate stranded costs should be built into the recovery mechanism.

Docket No: U-0000-94-165

Exhibit No: FEA-1

Witness: R.C. Smith

RECEIVED  
AZ CORP COMMISSION

JAN 20 2 32 PM '98

DOCKET CONTROL

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**In the Matter of the Competition  
In the Provision of Electric Services  
Throughout the State of Arizona**

**TESTIMONY AND EXHIBITS**

**OF**

**RALPH C. SMITH**

**ON BEHALF OF THE DEPARTMENT OF DEFENSE  
AND ALL OTHER FEDERAL EXECUTIVE AGENCIES**

Filed  
January 21, 1998

DIRECT TESTIMONY OF FEA WITNESS RALPH C. SMITH

TABLE OF CONTENTS

	<u>Page</u>
Introduction .....	1
Discussion of Issues .....	2
1. Should the Electric Competition Rules be modified regarding stranded costs, and, if so, how? .....	3
2. When should "Affected Utilities" be required to make a "stranded cost" filing pursuant to A.A.C. R14-2-1607? .....	4
3. What costs should be included as part of "stranded costs" and how should those costs be calculated? .....	5
4. Should there be a limitation on the time frame over which "stranded costs" are calculated? .....	10
5. Should there be a limitation on the recovery time frame for "stranded costs"? .....	10
6. How and who should pay for "stranded costs" and who, if anyone, should be excluded from paying for stranded costs? .....	11
7. Should there be a true-up mechanism and, if so, how would it operate? .....	11
8. Should there be price caps or a rate freeze imposed as part of the development of a stranded cost recovery program and, if so, how should it be calculated? .....	12
9. What factors should be considered for "mitigation" of stranded costs? .....	13

1            Introduction

2            Q.    Please state your name and business address.

3            A.    Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.

4

5            Q.    What is your occupation?

6            A.    I am a certified public accountant and a senior regulatory utility consultant with the firm of  
7            Larkin & Associates, a firm of certified public accountants and regulatory consultants.

8

9            Q.    What is your educational background and professional experience?

10           A.    Appendix I, attached hereto, is a summary of my experience and qualifications.

11

12           Q.    Have you appeared previously before this Commission?

13           A.    Yes. I have appeared before this Commission on several occasions. A listing of the cases  
14           in which I have appeared before this Commission is included in my qualifications, attached  
15           as Appendix I.

16

17           Q.    On whose behalf are you appearing?

18           A.    My firm is under contract with the Navy Rate Intervention Office of the United States  
19           Department of the Navy to perform utility revenue requirement studies. In this  
20           proceeding, I am testifying for the Navy on behalf of the Department of Defense and all  
21           other Federal Executive Agencies (FEA).

22

23           Q.    Please describe the tasks you performed related to your testimony in this case.

1 A. I reviewed the Arizona Electric Competition Rules (ECR) and the Stranded Cost Working  
2 Group's Report that was filed with the Commission on October 1, 1997.

3  
4 Q. Have you participated in electric utility industry restructuring and stranded cost  
5 proceedings in other jurisdictions?

6 A. Yes. I have submitted testimony in electric utility industry restructuring and stranded cost  
7 proceedings in California and Pennsylvania.

8

9 Discussion of Issues

10 Q. What issues will you be addressing in your direct testimony?

11 A. My testimony addresses the following issues:

- 12 1. Should the Electric Competition Rules be modified regarding stranded costs, and,  
13 if so, how?  
14 2. When should "Affected Utilities" be required to make a "stranded cost" filing  
15 pursuant to A.A.C. R14-2-1607?  
16 3. What costs should be included as part of "stranded costs" and how should those  
17 costs be calculated?  
18 4. Should there be a limitation on the time frame over which "stranded costs" are  
19 calculated?  
20 5. Should there be a limitation on the recovery time frame for "stranded costs"?  
21 6. How and who should pay for "stranded costs" and who, if anyone, should be  
22 excluded from paying for stranded costs?  
23 7. Should there be a true-up mechanism and, if so, how would it operate?  
24 8. Should there be price caps or a rate freeze imposed as part of the development of a  
25 stranded cost recovery program and, if so, how should it be calculated?  
26 9. What factors should be considered for "mitigation" of stranded costs?  
27

28 Q. How is the remainder of your testimony organized?

29 A. It is organized by issue. In each section, I discuss one of the above-identified issues.

30

1 1. Should the Electric Competition Rules be modified regarding stranded costs, and, if so,  
2 how?

3 Q. Should the Electric Competition Rules be modified regarding stranded costs, and, if so,  
4 how?

5 A. Yes. The Rules should be modified, consistent with the Commission's findings in this  
6 proceeding. I specifically recommend that the Rules should be modified to explicitly link  
7 "stranded cost" recovery to the introduction of retail electric generation competition. I  
8 suggest this be accomplished by adjusting R14-2-1607(B) to read as follows:

9 *As an integral part of the introduction of retail electric generation competition in*  
10 *Arizona, the Commission shall allow the Affected Utilities an opportunity to recover*  
11 *unmitigated Stranded Cost.*  
12

13 Q. At this time, do you have any other specific modifications to the Rules?

14 A. Yes. Consistent with the discussion below under issue no. 2, R14-2-1607(G) should be  
15 modified to provide for an explicit date in the near future to indicate when the estimates  
16 from the Affected Utilities of their unmitigated Stranded Costs are required to be filed.  
17 Accordingly, I propose the following language for R14-2-1607(G):

18 *The Affected Utilities shall file estimates of unmitigated Stranded Cost no later than*  
19 *April 30, 1998. Such estimates shall be fully supported by analyses and by records of*  
20 *market transactions undertaken by willing buyers and sellers.*  
21

22 The April 30, 1998 date will have allowed the Affected Utilities sixteen months in which  
23 to compile their information since the Commission's issuance of Decision No. 59943 on  
24 December 26, 1996. While the Commission may decide upon a different date, it should be  
25 stressed that this information is needed and should be provided by the Affected Utilities as  
26 soon as possible.  
27

1 2. When should "Affected Utilities" be required to make a "stranded cost" filing pursuant to  
2 A.A.C. R14-2-1607?

3 Q. When should "Affected Utilities" be required to make a "stranded cost" filing pursuant to  
4 A.A.C. R14-2-1607?

5 A. The Affected Utilities should be required to make a stranded cost filing pursuant to  
6 A.A.C. R14-2-1607 as soon as possible. A.A.C. R14-2-1607(C), (D) and (E) provided  
7 for the establishment of the Stranded Cost Working Group, and identified the issues it was  
8 supposed to address and the time frame for reporting. Many of the factors identified in  
9 R14-2-1607(D), such as the impact of stranded cost recovery on prices paid by consumers  
10 who participate in a competitive market and the degree to which some assets have values  
11 in excess of their book values, cannot be addressed without estimates from the Affected  
12 Utilities of their unmitigated stranded costs. R14-2-1607(G) specifies that: "The Affected  
13 Utilities shall file estimates of unmitigated Stranded Costs. Such estimates shall be fully  
14 supported by analyses and by records of market transactions undertaken by willing buyers  
15 and willing sellers." Ideally, the Affected Utilities would have provided their estimates of  
16 unmitigated stranded costs for consideration by the Stranded Cost Working Group so that  
17 all of the factors identified in R14-2-1607(D) could have been addressed, at least in some  
18 preliminary manner, by that Group. However, the Affected Utilities' estimates were not  
19 provided, and the Group's report indicates that a number of these factors were, therefore,  
20 effectively not considered. In R14-2-1604, the Commission has established a fairly  
21 aggressive schedule for the introduction of electric competition in Arizona, with the first  
22 phase to begin in 1999 and with full competition to begin in 2003. Customers and the  
23 utilities should have information on the amounts of stranded cost charges from the  
24 Affected Utilities at the earliest date possible. Such information will be influential in

1 customers' decisions in the purchase of electricity. All of this argues in favor of having  
2 the Affected Utilities file their estimates of unmitigated stranded costs as soon as possible.  
3 As noted above, under the discussion of issue no. 1, I recommend that the Affected  
4 Utilities be required to make these filings by April 30, 1998.

5  
6 3. What costs should be included as part of "stranded costs" and how should those costs be  
7 calculated?

8 Q. What costs should be included as part of "stranded costs"?

9 A. R14-2-1601(8) provides that "stranded cost" means the verifiable net difference between:

- 10 a. The value of all the prudent jurisdictional assets and obligations necessary to  
11 furnish electricity (such as generating plants, purchased power contracts, fuel  
12 contracts, and regulatory assets), acquired or entered into prior to the adoption  
13 of this Article, under transition regulation of Affected Utilities, and  
14  
15 b. The market value of those assets and obligations directly attributable to the  
16 introduction of competition under this Article.  
17

18 In my opinion, this is a reasonable definition of stranded costs, and provides guidance as  
19 to what should be included. Unmitigated costs associated with electric generating plants,  
20 purchased power contracts, fuel contracts, and regulatory assets that are in excess of their  
21 corresponding market value represent stranded costs that would be recoverable as such by  
22 the Affected Utilities.

23  
24 Q. How should those costs be calculated?

25 A. The amount of stranded costs should be calculated based upon the difference between (a)  
26 book or embedded cost and (b) market value.

27 To determine the book or embedded cost for balance sheet items, such as generating  
28 plant and regulatory assets, the Affected Utility's accounting records should provide the

1 relevant information. For example, the net book value of an Affected Utility's generating  
2 plant should be ascertainable from an examination of its accounting records. Similarly, the  
3 book value of an Affected Utility's regulatory assets, should also be ascertainable from its  
4 accounting records. The relevant amounts for generating plant and regulatory assets are  
5 found in the utility's balance sheet accounts. Some amounts, such as those for generating  
6 plant in service and regulatory assets should be identifiable with relative ease. Depending  
7 upon the level of detail maintained by the utility, it is possible that the accumulated  
8 depreciation related to the generating plant will also be easy to identify. This will be the  
9 case if the utility has maintained details for its accumulated depreciation balance by plant  
10 account.

11 Identifying the Affected Utilities' embedded costs associated with purchased power  
12 and fuel contracts will likely involve an examination of the terms of those contracts. A  
13 long-term contract for purchased power or fuel will typically involve a series of payments  
14 over time, but may also include terms that can vary, such as the quantity purchased, or  
15 price terms that can vary, depending upon a number of factors, such as an inflation index  
16 or pre-specified benchmark. Because such contracts involve a stream of future payments,  
17 the application of a discounted cash flow type of analysis could be applied to produce an  
18 equivalent present value. Under such analysis, the present value is dependent not only  
19 upon the amounts and timing of the cash payments, but also upon the discount rate  
20 selected. Therefore, the selection of an appropriate discount factor will need to be  
21 addressed.

22  
23 Q. Please discuss methods for determining the market value of those assets and obligations.

1 A. Perhaps the best indication of market value is the sales price resulting from a transaction  
2 between independent and willing buyers and sellers not acting in haste or under duress,  
3 i.e., free market sales. Another fundamental valuation approach, particularly where  
4 comparable sales are not available, is appraisal. California's electric restructuring statute  
5 (AB 1890), for example, provides for both forms of valuation: divestiture of generation  
6 assets (i.e., sales), and appraisals of the value of retained assets. A sale is one method of  
7 determining the valuation. However, whereas a sale in an arms' length transaction  
8 between unrelated parties may constitute a good indication of fair market value, a sale  
9 between related parties at less than arms' length may not represent a reliable valuation.  
10 Additionally, different appraisers are likely to derive different appraised values.

11  
12 Q. Does the Arizona ratemaking process typically result in a determination of the "fair value"  
13 of the utility's rate base?

14 A. Yes, it does, although the term "fair value" as it has been used in Arizona rate proceedings  
15 does not appear to be synonymous with the term "market value" as used in R14-2-  
16 1601(8)(b). It has been my experience that, in rate proceedings, the "fair value" rate base  
17 has typically been determined by applying some type of plant inflation index (e.g., the  
18 Handy-Whitman index) to book plant values to determine a Reconstruction Cost New  
19 Depreciated (RCND) value. Then, an averaging process of the original cost and RCND  
20 information has been employed to derive the "fair value" rate base. Therefore, while the  
21 RCND information that has historically been used by utilities in their rate cases may  
22 provide one source of information concerning the value of their utility plant, it does not  
23 seem that undue reliance should be placed upon this type of information to determine

1 "market value" for stranded cost identification purposes.

2

3 Q. What standards and principles do you suggest should be used to determine whether the  
4 market valuations are fair and equitable?

5 A. I suggest standards and principles such as the following be considered in assessing  
6 valuation issues:

- 7 1) Whether the sale is between independent parties who are not acting under duress.
- 8 2) Whether the valuation reasonably compares with prices received for similar assets in  
9 other sales.
- 10 3) Whether the appraisals are independently prepared and based upon reasonable  
11 assumptions.
- 12 4) In establishing the value of a multi-year contract of a long-lived asset, whether the  
13 valuation should consider data for a comparative period.
- 14 5) If the transaction involves a series of cash receipts or cash payments, whether the  
15 valuation amount compares to the net present value result produced by a discounted  
16 cash flow analysis.
- 17 6) Whether the asset being valued (e.g., land, buildings, vehicles) is subject to other uses.
- 18 7) Whether long-lived assets should be subject to different valuation measures than  
19 short-term assets.
- 20 8) Whether the valuations occurring at the Affected Utilities for similar assets are  
21 reasonably consistent with each other.
- 22 9) Whether the competitive market prices for generation are subject to significant  
23 variability over time, and, if so, whether an average rate should be employed for

1 valuation purposes, and how to select the period for applying an average market rate.

2 10) Whether the valuation appropriately took the tax effects into consideration.

3  
4 Q. Of the methods for the determination of "stranded costs" discussed in the Stranded Cost  
5 Working Group's Report, do you have a preference?

6 A. Yes. I recommend that the Commission use the Replacement Cost Valuation method,  
7 which the Report (p.22) indicates is being advocated by industrial consumers and others. I  
8 also believe that there is substantial merit to the Auction and Divestiture approach;  
9 however, that approach may not be feasible for use in Arizona if, as noted in the Report  
10 (p.25), the Commission lacks authority to order asset sales and divestitures.

11  
12 Q. What costs should not be included as part of "stranded costs"?

13 A. This issue will have to be addressed specifically by the Commission once the Affected  
14 Utilities file their claims for stranded costs. However, as general principles which may  
15 help define the issue of what is and is not properly included as a "stranded cost" I offer the  
16 following guidance for items that should not be accorded recovery by the Affected

17 Utilities as "stranded costs":

- 18 • Costs that could have, or should have, been mitigated should not be permitted for  
19 "stranded cost" recovery.
- 20  
21 • Costs that have traditionally been disallowed by this Commission in rate  
22 proceedings should not be eligible for stranded cost recovery.
- 23  
24 • Costs for generation added by the Affected Utilities after they were made aware  
25 that the market for electric generation would become competitive should not be  
26 eligible for stranded cost recovery unless the Affected Utilities can prove that  
27 such costs represented unavoidable commitments made prior to the date they  
28 became aware of the oncoming competition, or that such additions are cost-  
29 justified based upon reasonable expectations of competitive market prices.

- 1  
2 • Stranded cost recovery should not be permitted for costs that are not  
3 appropriately related to the Affected Utilities' generation function.  
4  
5 • Stranded cost recovery can include accelerated depreciation for uneconomic  
6 generation-related assets, but should not include any depreciation associated with  
7 the write-down of these assets below fair market value.  
8  
9 • To preserve and promote competitive neutrality, the Affected Utilities should not  
10 receive stranded cost recovery for their current variable costs where competitive  
11 generators are required to recover similar costs only from the market price of  
12 electricity.  
13

14 4. Should there be a limitation on the time frame over which "stranded costs" are calculated?

15 Q. Should there be a limitation on the time frame over which "stranded costs" are calculated?

16 A. Yes. There should be a limitation on the time frame over which "stranded costs" are  
17 calculated. For example, the stranded cost calculation should not extend beyond the  
18 current remaining lives of the generating plants that are being stranded, other than perhaps  
19 to consider the cost of removal and decommissioning. Similarly, the time frame over  
20 which "stranded costs" are calculated for purchased power and fuel contracts should not  
21 extend beyond the terms of those contracts. Nor should the currently applicable recovery  
22 periods for regulatory assets be extended.

23  
24 5. Should there be a limitation on the recovery time frame for "stranded costs"?

25 Q. Should there be a limitation on the recovery time frame for "stranded costs"?

26 A. Yes. R14-2-1604 provides for full competition for electric generation to begin in 2003,  
27 with the first phase of such competition beginning in 1999. This represents a four-year  
28 "transition" period. Depending upon the size of each Affected Utility's stranded costs that  
29 are found appropriate by this Commission, I would recommend a recovery period in the

1 range of four to six years. At the expiration of this recovery period, the "stranded cost"  
2 charge would terminate, and the Affected Utilities would recover their generation-related  
3 costs solely through the market price for generation. This recovery period would occur in  
4 conjunction with having the rates of the Affected Utilities capped at current levels, as  
5 discussed below under issue no. 8.

6  
7 6. How and who should pay for "stranded costs" and who, if anyone, should be excluded  
8 from paying for stranded costs?

9 Q. How and who should pay for "stranded costs" and who should be excluded from paying?

10 A. This issue is being addressed by Mr. Dan L. Neidlinger in an accompanying testimony.

11  
12 7. Should there be a true-up mechanism and, if so, how would it operate?

13 Q. Should there be a true-up mechanism and, if so, how would it operate?

14 A. There is merit in a true-up mechanism. However, whether there is a need for some type of  
15 true-up mechanism would appear to be dependent upon the particular method selected by  
16 the Commission for stranded cost quantification and recovery. It is unlikely that  
17 reasonably accurate estimates of stranded costs would be available until reliable market  
18 price information exists. Because the valuation will, of necessity, be based upon estimates  
19 which could vary substantially from actual market prices, without some form of true-up,  
20 there is a danger that some of the affected parties could be either unjustly benefitted or  
21 hurt from the use of inaccurate estimates.

22 On the other hand, the potential for a later true-up introduces an element of price  
23 uncertainty into the electricity purchasing plans of customers, and could therefore interfere  
24 with the development of competition. Because of the potential for "true-up" adjustments,

1 customers are uncertain as to the price of electricity. Therefore, any true-ups should be  
2 limited to correcting for significant mis-estimates of stranded costs during the period that  
3 the Commission finds appropriate for "stranded cost" recovery. After that period expires,  
4 i.e., once there is effective competition, the price for electric generation should be based  
5 upon the market price, without the imposition of surcharges for true-ups of "stranded  
6 cost" recovery.

7  
8 8. Should there be price caps or a rate freeze imposed as part of the development of a  
9 stranded cost recovery program and, if so, how should it be calculated?

10 Q. Should there be price caps or a rate freeze imposed as part of the development of a  
11 stranded cost recovery program and, if so, how should it be calculated?

12 A. Yes. The basic purpose of introducing retail competition for electric generation into this  
13 jurisdiction is to benefit consumers and give them the opportunity to save on their electric  
14 bills as the result of having available alternative suppliers operating in the market.  
15 Therefore, the introduction of competition should produce cost savings for consumers,  
16 and should not result in their rates for electric service being increased. To assure that all  
17 customers have an opportunity to benefit from electric competition, and to assure that no  
18 direct harm in the form of price increases occurs to any rate class, it would be appropriate  
19 and necessary to impose a price cap or rate freeze upon the Affected Utilities in  
20 conjunction with allowing them an opportunity for recovering stranded costs. Provided  
21 that it is recognized that the Affected Utilities should be in a declining cost situation  
22 during the next several years, the difference between their current rates — which would be  
23 capped at present levels — and their decreasing costs would represent the opportunity for  
24 their recovery of "stranded costs" resulting from the introduction of competition.

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

Q. How should this be accomplished?

A. The current rates being charged by the Affected Utilities should be unbundled into their component parts. One of those components would be a charge for “stranded cost” recovery. However, the overall rate being paid by each customer class would not increase, but rather would be capped at its present level under the rate freeze. This rate freeze should apply for the duration of the stranded cost recovery period.

9. What factors should be considered for “mitigation” of stranded costs?

Q. What factors should be considered for “mitigation” of stranded costs?

A. There is a wide range of factors to consider for mitigation of stranded cost. As provided in R14-2-1607: “The Affected Utilities shall take every feasible, cost-effective measure to mitigate or offset Stranded Cost by means such as expanding wholesale or retail markets, or offering a wider scope of services for profit, among others.” Therefore, a review of the Affected Utilities’ mitigation efforts is an important part of the stranded cost recovery process. As provided in the above-quoted rule, the mitigation measures must be cost-effective. I interpret this to mean that the mitigation measures undertaken by a utility must actually reduce its stranded costs. While it is not possible at this stage to identify all possible sources of stranded cost mitigation, the following list contains a number of examples. If feasible and cost-effective, the Affected Utility can attempt to:

- Renegotiate uneconomic purchase power and fuel contracts;
- Where uneconomic purchased power and fuel contracts contain cancellation or termination clauses, exercise such clauses to avoid incurrence of additional

- 1                   uneconomic costs;
- 2                   •     Find other uses for assets;
- 3                   •     Retire uneconomic plant;
- 4                   •     Reduce overhead;
- 5                   •     Find new markets for its power;
- 6                   •     Explore other opportunities for services provided by its power generation work
- 7                   force;
- 8                   •     Spread overhead and administrative costs over a wider range of services;
- 9                   •     If authorized, securitize a portion of its "stranded costs" that are eventually
- 10                  authorized by the Commission for recovery, to reduce the net financial cost of
- 11                  such recovery;
- 12                  •     Structure the recovery of "stranded costs" to maximize tax deductions and result
- 13                  in the least cost to ratepayers;
- 14                  •     Accelerate depreciation on uneconomic plant;
- 15                  •     Accelerate the amortization of regulatory assets;
- 16                  •     Extend the life of economic plant;
- 17                  •     Sell assets that are of less value to the Affected Utility than to potential buyers;
- 18                  •     Accept a reduced return on common equity for the uneconomic generation-
- 19                  related assets that are being recovered through a "stranded cost" charge.

20

21     Q.     Should incentives for the Affected Utilities to mitigate stranded costs be built into the

22             stranded cost recovery mechanism?

23     A.     Yes. It would be appropriate to provide the Affected Utilities with incentives to reduce

1 their stranded costs. Making the Affected Utilities responsible for some portion of their  
2 stranded costs would provide a direct financial incentive to them to reduce such costs.

3 Another method of providing an incentive to the Affected Utilities to reduce stranded  
4 costs could involve allowing them to retain a portion of the cost savings, e.g., allowing the  
5 shareholders of the Affected Utilities to retain 10% of the cost savings produced by their  
6 renegotiation of fuel and purchased power contracts. A combination of these two forms  
7 of incentives could be employed to help motivate the Affected Utilities in their stranded  
8 cost mitigation efforts.

9  
10 Q. Does that conclude your testimony?

11 A. Yes, it does.

## APPENDIX I

RALPH C. SMITH

### SUMMARY STATEMENT OF QUALIFICATIONS

- Mr. Smith's professional credentials include being a certified financial planner, a licensed certified public accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.
- Since 1979, as a regulatory consultant with Larkin & Associates (and its predecessor firm), Mr. Smith has been performing work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Carolina, Ohio, North Dakota, Pennsylvania, South Carolina, South Dakota, Texas, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

#### Previous Positions

- With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.
- Installed computerized accounting system for a realty management firm.

#### Education

- Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.
- Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.
- Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.
- Continuing education required to maintain CPA license and CFP certificate.
- Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.
- Michigan Association of Certified Public Accountants.
- Michigan Bar Association.
- American Bar Association, sections on public utility law and taxation.