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BEFORE THE ARIZONA CORPORATION

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IN THE MATTER OF COMPETITION IN THE)
PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA)

DOCKET NO.
U-00094165

NOTICE OF FILING

The Arizona Utility Investors Association hereby provides notice of filing Direct Testimony as required by the Commission's procedural order in the above-captioned matter.

DATED THIS 21ST DAY OF JANUARY, 1998.

Walter W. MEEK

WALTER W. MEEK, PRESIDENT

Original and ten (10) copies of the referenced Testimony were filed this 21st day of January, 1998, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the referenced Testimony were hand-delivered this 21st day of January, 1998, to:

Paul M. Bullis, Legal Division
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Jerry Rudibaugh, Hearing Division
Arizona Corporation Commission
1200 W. Washington
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Copies of the referenced Testimony were mailed this 21st day of January, 1998, to all parties of record in the above-captioned docket.

Arizona Corporation Commission
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BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF COMPETITION
IN THE PROVISION OF ELECTRIC SERVICES
THROUGHOUT THE STATE OF ARIZONA

DOCKET NO. U-0000-94-165

DIRECT TESTIMONY OF
WALTER W. MEEK

ON BEHALF OF
THE ARIZONA UTILITY INVESTORS ASSOCIATION

JANUARY 21, 1998

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I. SUMMARY OF TESTIMONY

III. What Is Stranded Cost?

Stranded cost has nothing to do with "inefficient" or uneconomic generating plants. It results from fixed costs which were meant to be amortized over the life of the asset. (Pages 4-5)

IV. What Caused Stranded Cost?

Stranded costs are a product of the transition from a regulated power market to competition. Past regulatory decisions are the source of stranded costs. We offer seven examples. (Pages 5-7)

V. Stranded Cost Recovery Issues

Issue No. 3: The determination of stranded costs must flow from the Arizona constitutional requirement to determine fair value rate base and a reasonable rate of return. The closest proxy is the net revenues lost methodology which would also be less costly and time consuming than other methods. Allowed costs would include fixed costs, fuel cycle and other O&M, purchased power, taxes and regulatory assets. (Pages 8-9)

Sub-issue No. 3A: AUJA has made no assumptions regarding market clearing prices. (Pages 9-10)

Sub-issue No. 3B: The best protection against an adverse application of FAS 71 is a program which allows full recovery of stranded costs and in a reasonable time frame. (Page 10)

Issue No. 6: At the expiration of stranded cost recovery, competition will provide every customer with cost reductions. Therefore, every customer should share in stranded cost recovery. (Pages 10-11)

Issue No. 1: With regard to stranded cost recovery, the rules should be amended to provide a reasonable standard for mitigation and to enable all customers to contribute to stranded cost recovery. (Page 11)

Issue No. 8: There will be a de facto freeze on regulated rates during the transition to full competition. In the competitive market, a price cap makes no sense and it would be impossible to enforce. (Pages 11-12)

Issue No. 9: Mitigation factors apply only to power production costs. They can include reduced operating costs, refinancing and renegotiation of fuel and purchased power contracts. Securitization can also mitigate stranded costs. Utilities should be credited for recent rate reductions. (Pages 12-13)

1 Issue No. 2: Assuming that there is no conflict with court-
2 ordered hearings pursuant to A.R.S. 40-252, Affected Utilities
3 could be required to file rate cases for stranded cost recovery 60
4 days after an order is issued in this proceeding. (Page 13)

5
6 Issue No. 4: The time frame for calculating stranded costs may
7 depend on each utility's asset portfolio and could range from 10
8 to 20 years. (Page 13)

9
10 Issue No. 5: The time frame for recovering stranded investment
11 should fall within a range of four to seven years. (Page 14)

12
13 Issue No. 7: AUIA is ambivalent about a true-up except that it
14 should not require yearly rate proceedings. (Page 14)

15
16 **VI. Conclusions**

17 Utility investors are asking the State of Arizona to keep its
18 promises. However, if their assets are taken by administrative
19 fiat, they will not be the only losers. Economic growth will
20 suffer due to financially crippled utilities and ultimately, people
21 will not invest in a state where the official double-cross is
22 engraved on the State Seal. (Page 14)

23

1 DIRECT TESTIMONY

2
3 OF

4
5 WALTER W. MEEK

6
7 **II. Introduction**

8
9 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

10 A. My name is Walter W. Meek. My business address is 2100 North Central
11 Avenue, Suite 210, Phoenix, Arizona 85004.

12
13 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

14 A. I am the president of the Arizona Utility Investors Association ("AUIA"
15 or "Association"), a non-profit organization formed to represent the
16 interests of shareholders and bondholders who are invested in utility
17 companies that are based in or do business in the state of Arizona.

18
19 Q. ARE SOME AUIA MEMBERS SHAREHOLDERS OF "AFFECTED
20 UTILITIES" AS THEY ARE DEFINED IN THIS DOCKET?

21 A. Yes. AUIA has approximately 6,000 members and a substantial
22 percentage are common shareholders of Pinnacle West Capital
23 Corporation or UniSource Energy Corporation or are member-owners of
24 various electric cooperatives in Arizona.

25
26 Q. WHAT IS YOUR BACKGROUND IN REPRESENTING SHAREHOLDER
27 CONCERNS AND INTERESTS?

28 A. I have been president of AUIA for nearly four years. Prior to that, my
29 consulting firm managed the affairs of the Pinnacle West Shareholders
30 Association for 13 years. During this time we have represented
31 shareholders in numerous rate cases and other regulatory matters and
32 have published many position papers, newsletters and other documents
33 in support of shareholder interests.

34
35 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

36 A. I am here to represent the views of the equity owners of the Affected
37 Utilities on the issues related to stranded costs. I should point out that
38 the equity owners are the only parties to this proceeding whose property
39 and personal savings are at risk.

1 Q. ARE YOU PREPARED TO RESPOND TO EACH OF THE QUESTIONS
2 PRESENTED BY THE CHIEF HEARING OFFICER?

3 A. Yes, but first I would like to discuss some common myths about stranded
4 cost: namely, what it is and who caused it.
5

6 **III. What Is Stranded Cost?**
7

8 Q. WHAT IS MISUNDERSTOOD ABOUT STRANDED COST?

9 A. Those who want to avoid paying stranded cost commonly describe it as a
10 payoff to utilities for "inefficient" or "uneconomic" generating plants
11 that won't be able to compete in an open market. That is nonsense, at
12 least in Arizona, and it is simply disinformation that confuses the issue.
13

14 Q. CAN YOU PROVIDE AN EXAMPLE OF THIS DISINFORMATION?

15 A. Yes. The Palo Verde Nuclear Generating Station is repeatedly cited as
16 the prime example of an uneconomic generating asset. But in terms of
17 both construction and operation, this is wrong. A \$40 million prudence
18 audit concluded that Palo Verde's construction was well managed.
19 Furthermore, Palo Verde won't shut down due to operating costs
20 because it is the most efficient baseload plant in the southwest.
21

22 Q. THEN WHAT IS STRANDED COST?

23 A. We are talking about fixed costs, the sunk costs to build and finance
24 these facilities which are still unamortized. Regulation has suppressed
25 rates by stretching cost repayment and the return to investors over the
26 life of the assets. In addition, long term obligations that are above
27 market for purchased power and fuel supplies would also qualify, as
28 would regulatory assets.
29

30 Q. HOW DOES THE PALO VERDE EXAMPLE APPLY HERE?

31 A. The prudence audit concluded that Palo Verde's construction costs
32 weren't out of line. Nevertheless, it was expensive to build and has
33 relatively high fixed costs. The tradeoff is low operating cost. Fixed costs
34 were meant to be recovered through regulated rates over the life of the
35 plant -- 40 years. Some portion of fixed costs will not be recoverable with
36 unregulated prices
37

1 Q. WHO HAS THE RESPONSIBILITY FOR STRANDED COST?

2 A. There has never been any question that utility fixed costs, including a
3 reasonable rate of return, would be recovered in customer charges. If
4 there had been any doubt about cost recovery, no one would have
5 invested to pay for these facilities, at least not at regulated rates of return.
6

7 Q. WHO SUFFERS IF STRANDED COST RECOVERY IS NOT ALLOWED?

8 A. Hundreds of thousands of people who, either directly as shareholders or
9 indirectly as pension fund contributors, purchased stock in these
10 companies. Every dollar of stranded cost that is not recovered as it was
11 promised will reduce the value of investments which are depended
12 upon by retired people and the pension funds of teachers, firemen and
13 other working people. They are the unwitting victims of a political
14 power play they never bargained for.
15

16 **IV. What Caused Stranded Cost?**
17

18 Q. WHO OR WHAT CAUSED STRANDED COST?

19 A. Stranded costs are the product of the transition from a regulated retail
20 power market to a competitive one. Past regulatory policies and
21 decisions are the source of stranded cost.
22

23 Q. CAN YOU BE MORE SPECIFIC?

24 A. Yes. I'll offer seven examples, although there are others:

25 1. Service Obligations: Arizona utilities are required to serve any
26 customer who applies for service. For many years this commission has
27 required every Affected Utility to present a constantly updated 10-year
28 forecast of load requirements and how they will be met on a least-cost
29 basis. Salt River Project has voluntarily provided similar data. I submit
30 to you that no other industry is required to forecast demand 10 years out
31 and then raise and spend capital to meet those projections.
32

33 If a utility is required to meet or exceed a 10-year load forecast it will miss
34 the target sometimes, resulting temporarily in too much capacity,
35 inflated fixed costs or above-market fuel contracts. I predict that 10-year
36 planning by utilities will cease under competition.
37

1 2. Reserve Requirements: Electric utilities have been expected to
2 maintain operating reserve margins of about 20 percent. In a
3 competitive market, reserves will drop to 10 to 12 percent. In fact, I
4 submit that as a practical matter it is entirely possible that reserves will
5 approach zero in some circumstances. Today's inflated reserve margins
6 are at least partly responsible for making retail competition possible and
7 for creating stranded costs in a competitive environment.

8
9 3. CWIP in Rate Base: In the high growth years of the 1970s and 80s,
10 many jurisdictions decided to reduce the ultimate cost of capital for
11 ratepayers by including construction work in progress (CWIP) in utility
12 rate bases. Utilities under the jurisdiction of this commission asked
13 repeatedly and, except for one instance in 1984, were repeatedly denied
14 the use of this cost-saving device. A full-fledged commitment to CWIP
15 in rate base would have saved tens of millions of dollars in capital costs,
16 much of which is embedded in stranded cost today.

17
18 4. Life-of-the-Asset Accounting: It is a convention within the regulated
19 utility industry that depreciation schedules for generation assets and
20 utility balance sheets are constructed to amortize plant and equipment
21 over the life of the assets, often 30 to 40 years. Other businesses
22 depreciate equipment over its economic life, a much shorter time
23 period. Utility accounting is so unique that an entire set of accounting
24 standards have been developed to accommodate it.

25
26 Part of the theory of utility accounting is that regulators will continue to
27 allow a rate of return over the useful life of the asset. In a high growth
28 market like Arizona, the Commission also expected to spread the fixed
29 costs over an ever larger customer base. Clearly, when the Commission
30 abandons regulated rates for generation, the net result is that some
31 unamortized fixed costs become stranded.

32
33 5. Cost Deferrals: The competition rule defines stranded cost to include
34 "regulatory assets." All companies under ACC jurisdiction have
35 regulatory assets on their books. APS alone has over \$1 billion of
36 regulatory assets on its balance sheet.

1 Regulatory assets are nothing more than expenses which would have
2 been collected through rates except that the Commission deferred
3 recovery to a future date to keep rates low and to spread the cost to
4 future customers.

5
6 6. After-the Fact Mandates: Many of the fixed costs associated with
7 generation assets are the result of safety and environmental
8 requirements imposed by regulators after the plants were planned and
9 under construction or even after they were built and in service.

10
11 Part of the unanticipated cost of building Palo Verde resulted from added
12 redundancy and other safety requirements that were imposed by the
13 Nuclear Regulatory Commission after the project was well under way.
14 Years after Four Corners Units 4 & 5 were built, the EPA required the
15 installation of scrubbers which cost more than the original plant. Today,
16 the owners of the Navajo plant are spending \$450 million to install
17 scrubbers on a plant that has been in service for more than 20 years.
18 These regulatory decisions have contributed to stranded cost.

19
20 7. The Competition Rule: Obviously, there would be no stranded cost
21 issue if the ACC had not declared generation to be a competitive service.
22 This decision crashes head-on into previous Commission policies which
23 required utilities to invest capital to stay ahead of the nation's fastest
24 customer growth and, at the same time, extended cost recovery into the
25 distant future. The inevitable result is stranded cost.

26
27 As I have indicated, virtually every dollar of stranded cost can be traced
28 to regulatory policies and decisions. There has never been a question
29 that utility customers are responsible for repaying fixed costs. Since the
30 Commission has changed the rules, it must provide a substitute
31 recovery method.

32
33 **V. Stranded Cost Recovery Issues**

34
35 Q. THE HEARING OFFICER INVITED PARTIES TO RESPOND TO HIS
36 QUESTIONS ACCORDING TO THEIR OWN PRIORITIES. HAVE YOU
37 CHANGED THE ORDER OF THE QUESTIONS?

1 A. Yes. The first five questions cover high priority issues for utility
2 investors. The next three questions are juxtaposed because they are
3 linked together in the operation of a recovery mechanism.
4

5 Q. WITH REGARD TO ISSUE NO. 3, WHAT COSTS SHOULD BE
6 INCLUDED AS PART OF "STRANDED COSTS" AND HOW SHOULD
7 THOSE COSTS BE CALCULATED?

8 A. The Arizona Constitution directs this Commission to set rates for Public
9 Service Corporations (PSCs) and to determine a company's fair value
10 rate base in order to establish rates for service and a reasonable return for
11 its investors. Nothing about deregulation changes that obligation until
12 the fixed costs associated with generation have been recovered.
13

14 We favor the revenues lost method of calculating stranded costs because:
15 a) It is a reasonable proxy for a rate case based on fair value and would
16 employ much of the same familiar methodology. b) As a result, it would
17 be less time consuming and less costly than other methods.
18

19 Q. HOW WOULD THE CALCULATION BE MADE AND WHAT COSTS
20 WOULD BE INCLUDED?

21 A. The revenue requirement would be projected over a reasonable period
22 of time and converted to a present value. The result would be compared
23 with the revenues generated under a competitive scenario, using either
24 a market price forecast or a proxy such as the California power exchange.
25 The difference -- stranded cost -- would be apportioned among customer
26 classes over the recovery period.
27

28 Allowed costs should include fixed costs associated with generating
29 assets, fuel cycle and other O&M costs, purchased power costs and taxes.
30 Regulatory assets should also be included for those companies that do
31 not already have an accelerated amortization schedule approved by the
32 Commission.
33

34 Q. WHAT IS THE INVESTORS' VIEW OF THE SO-CALLED "BOTTOM-
35 UP" OR ASSET BY ASSET APPROACH?

36 A. In the first place, if they are handled properly, the end result of this
37 approach and the revenues lost method should be the same.

1 Furthermore, this approach contains the same uncertainties involving
2 future market prices as the revenues lost method. The proponents of
3 bottom-up hope to obtain a more favorable result by limiting the
4 consideration of operating costs. But operating costs are critical to
5 evaluating the market or replacement value of any asset.
6

7 I would offer these concerns about the bottom-up approach: It would
8 require everyone involved to become experts in power plant
9 construction and operation. It could easily get bogged down in prudence
10 issues involving decisions which were made many years ago and which
11 have been reviewed and approved by the Commission. It would
12 produce a more expensive and time-consuming proceeding.
13

14 Q. HOW DO UTILITY INVESTORS VIEW DIVESTITURE OF
15 GENERATION AS A WAY OF RESOLVING STRANDED COST?

16 A. First, a couple of general comments: The Commission has no authority
17 to require divestiture and AUIA would oppose it vigorously. Also, a
18 divestiture plan would entail state guarantees (e.g., bonding to assure
19 book values) and the Commission could not accomplish that without
20 approval from the Arizona Legislature. While divestiture might appear
21 to simplify the Commission's task of resolving stranded cost, it may be
22 directly opposed to the state's economic interests.
23

24 At this juncture, divestiture would severely and prematurely limit the
25 companies' business options and these are decisions that belong to
26 management, not regulators. In addition, there could be serious
27 unintended social and economic consequences associated with
28 divestiture. These include the fact that Arizona would become entirely
29 dependent on out-of-state owners of generation resources and that
30 Arizona generation, which tends to be at or below the median cost in the
31 region, could be diverted completely to out-of-state use.
32

33 Q. THE FIRST AMENDED PROCEDURAL ORDER ADDED TWO SUB-
34 ISSUES TO ISSUE NO.3. WITH RESPECT TO SUB-ISSUE 3A, DOES
35 YOUR RECOMMENDATION INCLUDE ANY ASSUMPTIONS
36 REGARDING MARKET CLEARING PRICE?

1 A. No, other than the broad premise that some proxy for market price will
2 have to be utilized.

3
4 Q. WITH RESPECT TO SUB-ISSUE 3B, ARE THERE ANY IMPLICATIONS
5 OF STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO.
6 71 RESULTING FROM YOUR RECOMMENDED STRANDED COST
7 CALCULATION AND RECOVERY METHODOLOGY?

8 A. The short answer is, I hope not. However, the precise application of FAS
9 71 in the context of stranded cost recovery is still murky and, to my
10 knowledge, has not been resolved by the Emerging Issues Committee or
11 the Securities & Exchange Commission. My impression is that the best
12 protection against an adverse application of FAS 71 is a program which
13 allows full recovery of stranded costs and which accomplishes that
14 objective in a reasonable time frame.

15
16 Q. WITH REGARD TO ISSUE NO. 6, HOW AND WHO SHOULD PAY FOR
17 STRANDED COSTS AND WHO, IF ANYONE, SHOULD BE EXCLUDED
18 FROM PAYING FOR STRANDED COSTS?

19 A. Every ratepayer has benefited from the cost deferrals we cited earlier and
20 every customer will benefit from competition. Hence, everyone should
21 share in stranded cost recovery. The rule currently exempts utility
22 customers who are not served competitively, presumably during the
23 transition. Thus, 80 percent of the customers are exempted until 2001
24 and 50 percent are exempted until 2003 when the entire market embraces
25 competition. When stranded cost recovery is completed, all customers
26 should experience a permanent reduction in their cost of electricity.

27
28 As the Working Group recommended, stranded costs should be
29 apportioned roughly according to existing cost of service allocations
30 among customer classes and should reflect demand characteristics.
31 There are several plausible ways of collecting stranded costs through a
32 competitive transition charge (CTC). The CTC could be imposed on a
33 kWh basis which would capture new customers but could have the
34 unintended consequence of depressing consumption. It could also be
35 assessed as a meter charge based on historical usage with a profiled
36 charge for new customers.

1 The meter charge could be amortized over the recovery period or paid in
2 a lump sum. In any case, the CTC should be non-bypassable as long as it
3 is in effect.
4

5 Q. WITH REGARD TO ISSUE NO. 1, SHOULD THE ELECTRIC
6 COMPETITION RULES BE MODIFIED REGARDING STRANDED
7 COSTS, IF SO, HOW?

8 A. The rule should be modified in several areas, but with regard to stranded
9 costs only, the rules should be amended in three respects, as follows:
10

11 1. The definition of stranded cost at R14-2-1601 (8)(a) should be revised
12 by substituting the word "cost" for the word "value" and by eliminating
13 the phrase "prior to the adoption of this Article." The first change is
14 simply for meaning; the word "value" is unintelligible in this context.
15 Where the second change is concerned, the definition as it is written
16 asserts that no stranded investment can occur after December 26, 1996,
17 which is palpably untrue. The Commission should reach a judgment
18 based on the facts in each case.
19

20 2. The section of the rule dealing with stranded cost recovery at R14-2-
21 1607 (A) sets up an impossible and dangerous standard by suggesting that
22 Affected Utilities should be required to consider any quick buck scheme
23 that comes along in order to meet the mitigation requirement. This
24 section should be amended by substituting the word "reasonable" in
25 place of the word "feasible" and by placing a period after "markets" and
26 striking the phrase, "or offering a wider scope of services for profit,
27 among others."
28

29 3. In order to make it possible to collect stranded costs from the entire
30 customer base, it is necessary to revise R14-2-1607 (J). The Working
31 Group recommended amending this section. The amendment would
32 simply be to strike the first sentence of the section.
33

34 Q. WITH REGARD TO ISSUE NO. 8, SHOULD THERE BE PRICE CAPS OR
35 A RATE FREEZE IMPOSED AS PART OF THE DEVELOPMENT OF A
36 STRANDED COST RECOVERY PROGRAM AND, IF SO, HOW WOULD
37 IT OPERATE?

1 A. The simple answer is no. Not because investors would necessarily suffer
2 from a price cap but because no price cap could be devised that would not
3 allow some people to "game" the system and that would not create
4 inequities and confusion among customers.

5
6 First, let's distinguish between regulated and competitive customers. As
7 a practical matter, the Commission will control regulated rates during
8 the transition and there is no likelihood that they will be allowed to go
9 up due to stranded cost. In the context of regulated rates, the issue is not
10 whether stranded costs will increase rates but how much the companies
11 will be allowed to earn. If the Commission wants to declare a rate freeze
12 as a policy matter, it will simply reflect reality.

13
14 A price cap would be a different matter since it would be applied in the
15 competitive market. Its ostensible purpose would be to assure
16 consumers that a CTC would not push their cost of electricity above
17 what it is today. However, it is inconceivable that a price cap formula
18 could be devised that could not be manipulated by some users.

19
20 In an open market there may be 100 ways to buy electricity, finance the
21 purchase and express the resulting cost. How would you enforce such a
22 provision in an environment in which every customer's approach to its
23 energy needs might be different? The result could be thousands of
24 complaints and mini rate cases. Finally, if the CTC is the adjustable part
25 of the formula, it is no longer uniform or non-bypassable. How could
26 the Commission assure equity among customers if their final cost of
27 electricity depended on how adept they were at shaving the CTC?

28
29 Q. WITH REGARD TO ISSUE NO. 9, WHAT FACTORS SHOULD BE
30 CONSIDERED FOR "MITIGATION" OF STRANDED COSTS?

31 A. Mitigation factors should include reduced operating costs that affect
32 electric production, refinancing to obtain lower interest costs and
33 renegotiation of fuel and purchased power contracts. Utilities should
34 receive credit for recent rate reductions and securitization of stranded
35 costs could be considered as a mitigating factor.

36

1 Utilities should not be required to apply profits from affiliated
2 operations to stranded cost requirements, nor should they be required to
3 risk shareholder capital in mitigation schemes unless the Commission is
4 prepared to include any losses in stranded cost. If the revenues lost
5 approach is replaced by some other calculation method, some mitigation
6 factors might not apply.
7

8 Q. WITH REGARD TO ISSUE NO. 2, WHEN SHOULD "AFFECTED
9 UTILITIES" BE REQUIRED TO MAKE A "STRANDED COST" FILING
10 PURSUANT TO A.A.C. R14-2-1607?

11 A. Clearly, it is in the interest of the Affected Utilities to resolve the
12 stranded cost issue as soon as possible and no mandatory filing date
13 should be necessary. It would be helpful -- perhaps crucial -- for the
14 Commission to resolve a number of outstanding issues regarding
15 competition, including those addressed in this proceeding, before
16 tackling stranded cost determinations.
17

18 Stranded costs arise from competition and the Superior Court has ruled
19 that competitive CC&Ns may not be issued until hearings have been
20 held pursuant to A.R.S. 40-252. Therefore, it is unclear which
21 proceeding should come first. Absent that issue, it would be reasonable
22 to require filings within 60 days after an order is issued in this
23 proceeding.
24

25 Q. WITH REGARD TO ISSUE NO. 4, SHOULD THERE BE A LIMITATION
26 ON THE TIME FRAME OVER WHICH "STRANDED COSTS" ARE
27 CALCULATED?

28 A. Yes. As with some other stranded cost issues, this question may need to
29 be answered on a company-by-company basis. In general, AUJA believes
30 the calculation should be long enough to capture some depreciation but
31 not so long that it stretches the limits of credulity. For example, the
32 suggestion in the Working Group report that the calculation period
33 should encompass the 30-year regulatory life of Palo Verde seems
34 excessive. We suggest that the calculation period should fall within a
35 range of 10 to 20 years.
36

1 Q. WITH REGARD TO ISSUE NO. 5, SHOULD THERE BE A LIMITATION
2 ON THE RECOVERY TIME FRAME FOR "STRANDED COSTS?"

3 A. Yes. One of the few areas of agreement within the Working Group was
4 that the recovery period should fall within a range of four to seven
5 years. Virtually all participants agree that the recovery period should be
6 as short as possible, but it must be long enough to allow stranded cost
7 recovery without creating a price hardship for consumers.
8

9 Q. WITH REGARD TO ISSUE NO. 7, SHOULD THERE BE A TRUE-UP
10 MECHANISM AND, IF SO, HOW WOULD IT OPERATE?

11 A. There was little agreement within the Working Group on the nature of
12 a true-up because it may be no more reliable in terms of market price
13 estimates than the original calculation. AUIA is ambivalent about this
14 issue except that we believe it is in no one's interest to require what
15 amounts to a rate case in every year of the recovery period.
16 If a true-up is employed, it should be a one-time, mid-term course
17 correction based on a single index which would serve as a proxy for the
18 market clearing price in the WSCC region.
19

20 VI. Conclusion

21
22 Q. DO YOU HAVE ANY CONCLUDING REMARKS?

23 A. Yes. Investors in Arizona utilities have consistently accepted the hand
24 that was dealt to them and have obeyed the rules set down by regulators.
25 Today, they are simply asking the State of Arizona to keep its promises.
26 They have endured prudence audits, multi-million-dollar write-offs,
27 massive cost-deferrals and a regulatory climate that rating agencies have
28 described as the most negative in the United States.
29

30 If the assets that investors have paid for are taken from them by
31 administrative fiat, they will not be the only losers. The domestic
32 utilities will lose their ability to raise capital at reasonable cost -- perhaps
33 at any cost -- and they will be unable to support the state's growth. That
34 will hurt everyone in Arizona. Ultimately, people will not invest in a
35 state where the official double-cross is engraved on the State Seal.
36
37