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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION

JIM IRVIN
Commissioner - Chairman
RENZ D. JENNINGS
Commissioner
CARL J. KUNASEK
Commissioner

Arizona Corporation Commission

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N THE MATTER OF THE COMPETITION) Docket No.: No. U-0000-94-165
IN THE PROVISION OF ELECTRIC) **NOTICE OF FILING**
SERVICES THROUGHOUT THE STATE)
OF ARIZONA.)

Pursuant to the Commission's Third Procedural Order dated January 5, 1998, The International Brotherhood of Electrical Workers hereby files the direct testimony for Elizabeth S. Firkins in the above captioned matter.

Dated this 21st day of January, 1998

Original and ten copies of the foregoing
Filed this 21st day of January, 1998, with:

Docket Control
ARIZONA CORPORATION COMMISSION
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Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

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JIM IRVIN
Commissioner - Chairman
RENZ D. JENNINGS
Commissioner
CARL J. KUNASEK
Commissioner

IN THE MATTER OF THE) Docket No.: No. U-0000-94-165
COMPETITION IN THE PROVISION OF)
ELECTRIC SERVICES THROUGHOUT)
THE STATE OF ARIZONA.)

TESTIMONY OF
ELIZABETH S. FIRKINS
ON BEHALF OF
THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

JANUARY 21, 1998

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8. Commission Question Number 4 11

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

9. Commission Question Number 2 11

When should "Affected Utilities" be required to make "stranded cost" filings pursuant to A.A.C R14-2-160?

1
2 **DIRECT TESTIMONY OF ELIZABETH S. FIRKINS**
3 **ON BEHALF OF**
4 **THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS**
5 **IN DOCKET NO. U-0000-94-165**

6 **Q. Please state your name and business address?**

7 A. Elizabeth S. Firkins, 750 S. Tucson Blvd., Tucson, AZ
8 85716.

9 **Q. What is your position with the International Brotherhood of**
10 **Electrical Workers (IBEW)?**

11 A. I am an Executive Board member representing Power
12 Production and a Control Room Operator at the Irvington
13 Power Plant in Tucson, AZ.

14 **Q. What is the purpose of your testimony and interest in these**
15 **proceedings?**

16 A. My primary purpose is to provide testimony on behalf of
17 9,000 workers in the State of Arizona represented by the
18 IBEW. I will present insight as it relates to stranded
19 workers and how these workers should be considered part of
20 stranded costs. IBEW members have an enormous interest in
21 utility industry reform since our lives and jobs are at
22 stake. At the same time, IBEW members are also consumers
23 and citizens and understand the importance to the economy
24 of providing electricity at the lowest price reasonably
25

1 possible in a safe and reliable fashion. In order to
2 maintain service at current levels, on-going training is
3 important and necessary. As our State makes the transition
4 to competition, it will become more evident what these
5 established standards of excellence are, especially if
6 standards are reduced or relaxed in order for utilities
7 headquartered in our State to compete successfully with
8 outside entrants that do not carry the burden or
9 responsibility for ensuring our States high reliability and
10 safety standards.
11

12 **Q. What cost should be included as part of "stranded costs"**
13 **and how should these costs be calculated?**

14 A. The Calculations Methodologies Subcommittee report agreed
15 to several possible components of stranded costs. These
16 include, but are not limited to:

- 17 • Generation Assets
- 18 • Power Purchase Agreements
- 19 • Fuel Contracts
- 20 • Regulatory Assets
- 21 • Employment Transition costs
- 22 • Environmental Mandates
- 23
- 24
- 25

1 We support these recommendations and believe the burden of
2 proof is on the Affected Utilities to demonstrate that a
3 particular cost is stranded.
4

5 Utilities have spent millions of dollars training workers
6 to operate and maintain a system that is intensely complex
7 and structured to meet the ever-changing demands for
8 electricity. The initial cost for a single journeyman
9 position is \$125,000-\$150,000. This cost is increased
10 through enhancement training for technology changes and
11 costs necessary to retain system safety and reliability.
12 These workers are part of the regulatory compact. The
13 obligation to serve coupled with a system that required a
14 high level of skill and knowledge demanded utilities to
15 invest in on-going programs to support and enhance this
16 knowledge. The public will not settle for anything less
17 than an electric system that is safe, reliable and
18 continuous. In order to provide this service, workers must
19 be kept whole and utilities compensated in the same manner
20 available as a generator, a boiler or other inanimate
21 objects associated with this unique service.
22
23

24 Utilities were required to build facilities and were
25 required to train and develop the respective workforce to

1 the highest possible level to ensure service, safety and
2 reliability and should be allowed to recover a reasonable
3 return as it relates to training and development of the
4 utilities respective workforce.
5

6 The IBEW supports the Net Revenues Lost approach for
7 calculation. It is a straightforward method that is known
8 to regulators and Affected Utilities. It is a relatively
9 simple calculation that would allow stranded cost recovery
10 to be handled as a regular rate case is handled. We
11 believe this method will best protect our members, the
12 utility workers of our State. This is the method adopted
13 by the FERC in Order 888 and also the method used in both
14 California and Pennsylvania.
15

16 **Q. How and who should pay for "stranded costs" and who, if
17 anyone should be excluded from paying for "stranded costs"?**

18 **A.** The IBEW Supports the Recovery Mechanism Subcommittee
19 recommendation Option B that reads:

20 *The 2nd sentence of Section R-14-2-1607(J) of the*
21 *Competition Rules should remain in effect but this*
22 *section should be amended to allow all customers to*
23 *pay stranded costs including customers who remain on*
24 *standard offer rates. However, the charge to standard*
25 *offer customers should account for contributions that*

1 are already being made toward stranded costs and
2 should not cause customers' prices to increase.

3 Customers should have the option of lump sum payment in
4 lieu of stranded cost charge.

5
6 We also support the Recovery Mechanism Subcommittee
7 recommendation that stranded costs should be allocated to
8 jurisdictions and classes in a manner consistent with the
9 specific company's current rate treatment of the stranded
10 asset in order to effect a recovery of stranded costs that
11 is in substantially the same proportion as the recovery of
12 similar costs from customers or customer classes under
13 current rates. Updated rate design to correct flaws in
14 current rate design would be acceptable. If a customer
15 uses less power, their cost is lower than a customer that
16 uses more power. This is fair and equitable and doesn't
17 burden the residential customer with charges that should be
18 allocated to the high end user.

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

22 **A.** If Affected Utilities are allowed to recover 100% of
23 prudent investments, which have been recognized as stranded
24 assets, there should be an imposed rate freeze that
25 coincides with the time frame for recovery of stranded

1 assets. Our belief is the residential customer will
2 already be paying additional costs associated with the
3 recovery of stranded assets. It would be improper to
4 burden these customers with rate increases while this
5 recovery time frame is in place.

6 **Q. Should the Electric Competition Rules be modified regarding**
7 **stranded costs, if so how?**

8 A. The IBEW supports the Stranded Cost Working Groups
9 recommendation to retain the definition of stranded costs
10 as presented in the Competition Rules.

11 **Q. Should there be a true up mechanism and if so, how would it**
12 **operate.**

13 A. A true up mechanism is reasonable because of the
14 uncertainty of future market prices for electricity. The
15 IBEW has no recommendation on how this true up would work.

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

18 A. There needs to be a time frame established but one-size
19 fits all isn't the answer. The utilities should be allowed
20 to recover all of their net unmitigated stranded costs, but
21 without price increase to the residential customer. With
22 original recovery of construction costs extending up to 30
23 years, what will be residential and small business' burden
24 if these costs are allocated to a time frame that is one-
25 half the initial recovery period? No one in our

1 organization is an economist, but it seems reasonable to
2 expect costs associated with and already in the rate
3 structure to at least double. Whatever the time frame full
4 recovery of stranded costs must be allowed without adverse
5 economic hardship to the groups (small business and
6 residential) least able to absorb added costs to their
7 budgets. Therefore, we do not recommend an actual time
8 frame with so many unknowns still present.

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

11 A. We are uncertain of the time frame for the calculation of
12 stranded costs but believe the time frame must be
13 accomplished in a reasonable and fair manner.

14 **Q. When should Affected Utilities be required to make a**
15 **"stranded cost" filing pursuant to AAC R14-2-1607?**

16 A. The IBEW supports a time frame that is reasonable and fair.
17 We believe the Affected Utilities already have begun
18 compiling information and preparing filings. Once the
19 final rule is in place 120 days is a reasonable time frame
20 with respect to the enormous amount of work that is
21 required of the Affected Utilities. No other entrant into
22 competition carries this burden or the costs associated
23 with the preparation to this filing.