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5 IN THE MATTER OF THE APPLICA-)
6 TION OF CITIZENS UTILITIES)
7 COMPANY FOR APPROVAL OF ITS)
8 PLAN FOR STRANDED COST)
RECOVERY.)

DOCKET NO. E-01032C-98-0474

9 IN THE MATTER OF THE FILING BY)
10 CITIZENS UTILITIES COMPANY OF)
UNBUNDLED AND STANDARD)
11 OFFER SERVICE TARIFFS)
PURSUANT TO A.A.C. R14-2-1606.)

DOCKET NO. E-01032C-97-0774

12 IN THE MATTER OF COMPETITION IN)
13 THE PROVISIONS OF ELECTRIC)
SERVICES THROUGHOUT THE)
STATE OF ARIZONA.)

DOCKET NO. RE-00000C-94-0165

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Marylee Diaz Cortez, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 20th day of June, 2000.

Scott S. Wakefield
Chief Counsel

1 AN ORIGINAL AND TEN COPIES
of the foregoing filed this 20th day of
2 June, 2000 with:

3 Docket Control
Arizona Corporation Commission
4 1200 West Washington
Phoenix, Arizona 85007

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6 hand delivered/faxed this 20th day of
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CITIZENS UTILITIES COMPANY

DOCKET NO. E-01032C-98-0474

DOCKET NO. E-01032C-97-0774

DIRECT TESTIMONY
OF
MARYLEE DIAZ CORTEZ

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

JUNE 20, 2000

1 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

2 A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I am the
3 Utilities Audit Manager for the Residential Utility Consumer Office located at 2828
4 North Central, Suite 1200 Phoenix, Arizona.

5
6 Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

7 A. Appendix I, which is attached to this testimony, describes my educational
8 background and includes a list of the rate case and regulatory matters in which I
9 have participated.

10
11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12 A. The purpose of my testimony is to support the Settlement Agreement between
13 Commission Staff, Residential Utility Consumer Office (RUCO), and Citizens
14 Communications Company.

15
16 Q. PLEASE SUMMARIZE THE TERMS OF THE SETTLEMENT AGREEMENT.

17 A. There are ten main terms of the Settlement Agreement, which I believe on
18 balance render the Agreement in the public interest. The most important terms
19 are as follows:

20 1. The Agreement allows for retail access to begin as early as December
21 1, 2000 for all customers.

- 1 2. It establishes a procedure for dealing with any stranded generation
2 costs associated with Citizens' current all requirements purchased
3 power contract with Arizona Public Service Company (APS). This
4 procedure helps to ensure that ratepayers will not over-pay for
5 stranded costs, because it includes an annual true-up mechanism. It
6 also limits the rate of increase of the CTC from one year to the next to
7 2 mills per kWh, thus protecting ratepayers from sudden rate
8 increases.
- 9 3. It establishes a methodology for setting the generation rate for Citizens'
10 standard offer customers once retail access begins, and only allows
11 that rate to be changed once per year through the end of the transition
12 period in 2011.
- 13 4. It approves a previous unbundling of Citizens' electric rates. It also
14 shifts some Western Area Power Administration (WAPA) related
15 transmission costs and some Valencia-related system reliability costs
16 out of generation rates and into transmission and distribution rates.
- 17 5. It allows Citizens to use the significant cost reductions that have been
18 negotiated previously with APS with regard to the current purchased
19 power contract to satisfy the requirements of R14-2-1604.C as a rate
20 reduction for standard offer customers.

1 6. It establishes a procedure for Citizens to recover certain existing DSM
2 investments from all ratepayers, through a small system benefits
3 charge.

4 7. It allows for legitimate and prudent transition costs for establishing
5 retail competition to be recovered from ratepayers through a CTC
6 charge.

7 8. It makes the need to divest the purchased power contract with APS
8 much less likely.

9 9. It allows all but the very largest customers (greater than 1 megawatt)
10 to return to standard offer service if they leave that service, thus
11 protecting them from the possibility of significant rate increases if the
12 market price for power turns out to be well above Citizens' APS
13 contract price.

14 10. It will reduce transaction costs by not requiring the competitive market
15 purchase of standard offer generation.

16
17 Q. WHY ARE THESE PROVISIONS IN THE PUBLIC INTEREST?

18 A. It is important to understand that Citizens' situation is atypical within Arizona with
19 regard to stranded generation costs. Citizens buys all of its power under a
20 purchased power contract from Arizona Public Service. As of a couple of years
21 ago, that contract seemed somewhat above market prices, thus leading to the

1 belief that some of the costs of the purchased power would become stranded
2 costs. However, in the interim, Citizens has actively sought to reduce its
3 stranded costs, and has negotiated a rate reduction with APS. It has also
4 recently concluded a further re-negotiation of certain terms of the APS contract,
5 which allow Citizens to take less power if some of its load is lost to retail
6 competition. Citizens claims that beginning in May 2002 it should be able to
7 almost entirely avoid any stranded costs. Based on this understanding, RUCO
8 has agreed to the stranded cost determination and recovery procedures
9 described in the Settlement Agreement. The Agreement provides for a minimal
10 level of stranded costs to be paid by ratepayers in the short run, and almost no
11 stranded costs in the medium to long-run.

12
13 This ought to allow customers the use of almost all of their current unbundled
14 generation rates under the standard offer as a baseline with which to shop for
15 alternative supplies of power. Because stranded costs are minimized the
16 possibility that all customers will be able to reduce their electric rates further, by
17 finding alternative generation suppliers who can under-bid the standard offer
18 rates is maximized. Further, if customers cannot reduce their rates in this
19 manner they are protected from further increases above the standard offer by the
20 APS contract rates for more than 10 years. Thus, this agreement appears to

1 maximize the possibility of retail competition, while minimizing both stranded
2 costs and the risks of future rate increases for Citizens' electric customers.

3
4 Q. ARE THERE ANY OTHER ADVANTAGES OF THE SETTLEMENT
5 AGREEMENT FOR RATEPAYERS?

6 A. Yes. The Agreement tends to minimize the transition costs for establishing retail
7 competition because it does not require competitive bidding for standard offer
8 generation. This is particularly important for a small utility like Citizens where the
9 costs of processing and negotiating new generation bids and contracts could be
10 quite significant per kWh sold. Therefore, the newly re-negotiated purchased
11 power contract with APS most likely will prove to be the lowest cost way of
12 meeting the power requirements of Citizens' standard offer customers.
13 Presumably, by now, the prices in the final version of the APS contract are
14 reasonably close to expected wholesale market prices in the region. In fact,
15 given the possible exercise of market power in the region, the prices in the re-
16 negotiated APS contract might turn out to be lower than actual market prices.

17
18 A requirement that Citizens go out to bid for generation for the standard offer
19 customers is therefore unnecessary because doing so would be duplicative of
20 the contract Citizens has successfully re-negotiated. Even prior to the re-
21 negotiation of the APS contract it would not have made sense for Citizens to

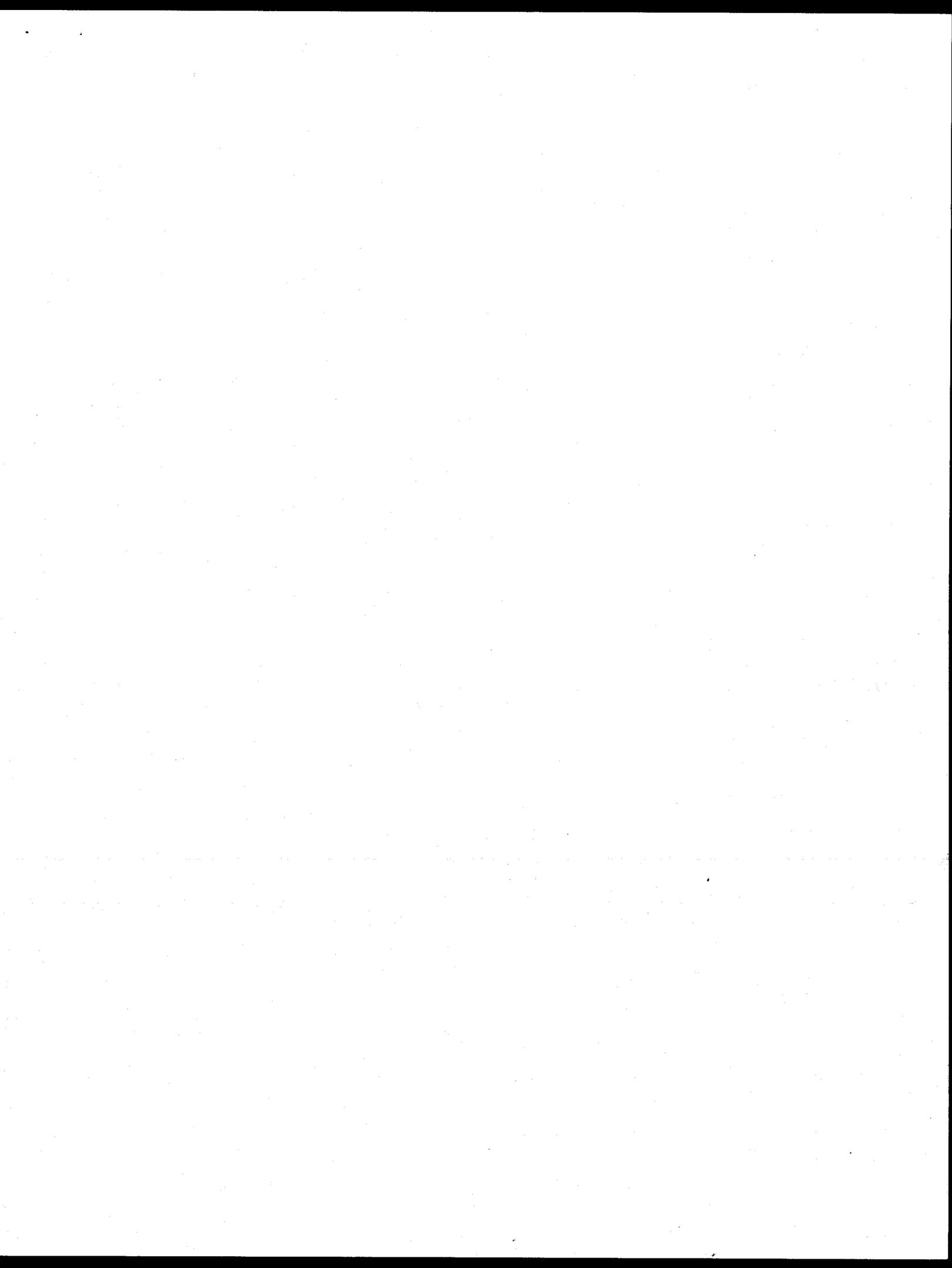
1 secure new purchased power contracts through bidding. The transaction costs
2 of arranging for these new contracts would most likely exceed any benefits that
3 could be obtained, thereby serving only to increase either stranded costs or
4 standard offer generation prices.

5
6 Q. SHOULD THE SETTLEMENT AGREEMENT BE APPROVED?

7 A. Yes. The Settlement Agreement reaches fair and reasonable resolution of the
8 issues in this docket and is in the public interest.

9
10 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

11 A. Yes.



APPENDIX I

Qualifications of Marylee Diaz Cortez

EDUCATION: University of Michigan, Dearborn
B.S.A., Accounting 1989

CERTIFICATION: Certified Public Accountant - Michigan
Certified Public Accountant - Arizona

EXPERIENCE: Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85004
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85007
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer

throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Client</u>
Potomac Electric Power Co.	Formal Case No. 889	Peoples Counsel of District of Columbia
Puget Sound Power & Light Co.	Cause No. U-89-2688-T	U.S. Department of Defense - Navy
Northwestern Bell-Minnesota	P-421/EI-89-860	Minnesota Department of Public Service
Florida Power & Light Co.	890319-EI	Florida Office of Public Counsel
Gulf Power Company	890324-EI	Florida Office of Public Counsel
Consumers Power Company	Case No. U-9372	Michigan Coalition Against Unfair Utility Practices
Equitable Gas Company	R-911966	Pennsylvania Public Utilities Commission
Gulf Power Company	891345-EI	Florida Office of Public Counsel

Jersey Central Power & Light	ER881109RJ	New Jersey Department of Public Advocate Division of Rate Counsel
Green Mountain Power Corp.	5428	Vermont Department of Public Service
Systems Energy Resources	ER89-678-000 & EL90-16-000	Mississippi Public Service Commission
El Paso Electric Company	9165	City of El Paso
Long Island Lighting Co.	90-E-1185	New York Consumer Protection Board
Pennsylvania Gas & Water Co.	R-911966	Pennsylvania Office of Consumer Advocate
Southern States Utilities	900329-WS	Florida Office of Public Counsel
Central Vermont Public Service Co.	5491	Vermont Department of Public Service
Detroit Edison Company	Case No. U-9499	City of Novi
Systems Energy Resources	FA-89-28-000	Mississippi Public Service Commission
Green Mountain Power Corp.	5532	Vermont Department of Public Service
United Cities Gas Company	176-717-U	Kansas Corporation Commission
General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor

Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division
Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office
Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office

Paradise Valley Water	U-1303-94-310 U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office
Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office
Paradise Valley Water	U-1303-96-283 U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office
Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office

Vail Water Company	W-01651A-97-0539 W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company Northern States Power Company	G-01970A-98-0017 G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company Mummy Mountain Water Company	W-01303A-98-0678 W-01342A-98-0678	Residential Utility Consumer Office
Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company Nicksville Water Company	W-02465A-98-0458 W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company Interim Rates	WS-03478A-99-0144	Residential Utility Consumer Office
Vail Water Company Interim Rates	W-01651B-99-0355	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 SW-02334A-98-0577	Residential Utility Consumer Office
Southwest Gas Corporation ONEOK, Inc.	G-01551A-99-0112 G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications Citizens Utilities Company	T-01051B-99-0737 T-01954B-99-0737	Residential Utility Consumer Office