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12 And Arizonans for Electric Choice and Competition

**BEFORE THE ARIZONA CORPORATION COMMISSION**

8 IN THE MATTER OF THE APPLICATION OF  
9 TUCSON ELECTRIC POWER COMPANY  
10 FOR THE ESTABLISHMENT OF JUST AND  
11 REASONABLE RATES AND CHARGES  
12 DESIGNED TO REALIZE A REASONABLE  
13 RATE OF RETURN ON THE FAIR VALUE OF  
14 ITS OPERATIONS THROUGHOUT THE  
15 STATE OF ARIZONA.

Docket No. E-01933A-07-0402

13 THE MATTER OF THE FILING BY TUCSON  
14 ELECTRIC POWER COMPANY TO AMEND  
15 DECISION NO. 62103.

Docket No. E-01933A-05-0650

**NOTICE OF FILING OF SUMMARY OF DIRECT TESTIMONY OF KEVIN C.  
HIGGINS ON BEHALF OF PHELPS DODGE MINING COMPANY AND  
ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION  
(2008 SETTLEMENT AGREEMENT)**

17 Phelps Dodge Mining Company and Arizonans for Electric Choice and  
18 Competition (collectively "AECC"), hereby submit the Direct Testimony of Kevin C.  
19 Higgins on behalf of AECC (2008 Settlement Agreement) in the above captioned Docket.

20 RESPECTFULLY SUBMITTED this 8th day of July 2008.

21 FENNEMORE CRAIG, P.C.

22  
23 By: *C. Webb Crockett*

24 C. Webb Crockett  
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Attorneys for Phelps Dodge Mining Company and  
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8<sup>th</sup> day of July 2008 with:

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

**COPIES of the foregoing HAND DELIVERED**  
this 8<sup>th</sup> day of July 2008 to:

Jane L. Rodda  
Administrative Law Judge  
Hearing Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

MIKE GLEASON, Chairman  
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18 **COPIES of the foregoing E-MAILED**  
19 this 8<sup>th</sup> day of July 2008 to

20 Jane L. Rodda  
21 Administrative Law Judge  
22 Hearing Division  
23 Arizona Corporation Commission  
24 1200 West Washington  
25 Phoenix, AZ 85007  
26 [Jane.Rodda@azbar.org](mailto:Jane.Rodda@azbar.org)

24 and to the Parties of record:

25 By:   
26

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2  
3 IN THE MATTER OF THE APPLICATION )  
4 OF TUCSON ELECTRIC POWER )  
5 COMPANY FOR THE ESTABLISHMENT )  
6 OF JUST AND REASONABLE RATES )  
7 AND CHARGES DESIGNED TO REALIZE ) Docket No. E-01933A-07-0402  
8 A REASONABLE RATE OF RETURN ON )  
9 THE FAIR VALUE OF ITS OPERATIONS )  
10 THROUGHOUT THE STATE OF )  
11 ARIZONA )  
12 \_\_\_\_\_ )

13 IN THE MATTER OF THE FILING BY )  
14 TUCSON ELECTRIC POWER COMPANY ) Docket No. E-01933A-05-0650  
15 TO AMEND DECISION NO. 62103 )  
16

17 **SUMMARY**

18 **Direct Testimony of Kevin C. Higgins**

19 **on behalf of**

20 **Phelps Dodge Mining Company and**

21 **Arizonans for Electric Choice and Competition**

22  
23  
24 **2008 Settlement Agreement**

25  
26  
27 **June 11, 2008**

1 Mr. Higgins recommends that the 2008 Settlement Agreement be  
2 approved by the Commission. In his opinion, the 2008 Settlement Agreement  
3 produces just and reasonable rates and is in the public interest.  
4

5 Mr. Higgins recommends that new rates go into effect January 1, 2009.  
6 He further recommends that the greater of \$32.5 million or 50 percent of the  
7 True-Up Revenues be credited to customers in the PPFAC balancing account and  
8 that TEP be allowed to retain the remainder of the True-Up Revenues as part of  
9 the fair resolution of the issues outstanding in this proceeding.  
10

11 The 2008 Settlement Agreement establishes new base rates for TEP that  
12 are 6.0 percent higher than current base rates inclusive of the Fixed CTC (but  
13 excluding DSM-related revenues in current rates). These new proposed rates were  
14 derived using conventional cost-of-service principles; as such, the agreement  
15 resolves the major dispute between TEP and other parties as to the appropriate  
16 basis – market or cost – for establishing Standard Offer generation rates for the  
17 period beginning January 1, 2009. The resolution of this issue is a significant  
18 event, as the “market versus cost” dispute had already been the subject of a fully-  
19 litigated docket before the Commission in Docket No. E-01933A-05-0650.  
20 Moreover, as the “market versus cost” dispute had not been resolved by the  
21 Commission in that prior docket, the dispute had been carried forward into this  
22 proceeding, and had the potential for continuing beyond this proceeding to the  
23 courts. Resolving this issue through negotiation is a significant achievement.  
24

25 The 2008 Settlement Agreement also provides for base rate stability over  
26 the next four years, as under the terms of the agreement, the new base rates  
27 negotiated in the agreement are to remain essentially fixed until January 1, 2013.  
28 Taken together with the rate cap in place from 1999 until the end of 2008, the  
29 2008 Settlement Agreement will extend a remarkable period of rate stability for  
30 TEP customers spanning over thirteen years.  
31

32 The 2008 Settlement Agreement also calls for the establishment of a  
33 Purchased Power and Fuel Adjustment Clause (“PPFAC”) that is similar to the  
34 mechanism in place for Arizona Public Service Company. This charge would not  
35 be levied on low-income residential customers, nor would it apply to direct access  
36 service (as direct access customers would receive their generation service from  
37 suppliers other than TEP).  
38

39 In addition, the 2008 Settlement Agreement resolves in an equitable and  
40 reasonable manner numerous rate spread and rate design issues that are typical of  
41 any rate proceeding. The 6.0 percent revenue increase is to be effected through a  
42 6.1 percent increase on all rate schedules except low-income residential  
43 customers, who shall receive no rate increase at all. This approach produces a  
44 particularly favorable result for residential customers relative to cost-of-service.  
45

1           The rate design for non-residential customers properly aligns energy-  
2 related costs with energy charges and demand-related costs with demand charges,  
3 minimizing cross-subsidies among non-residential customers on the same rate  
4 schedules. Further, the 2008 Settlement Agreement provides for optional time-of-  
5 use ("TOU") rates for both residential and non-residential customers, giving  
6 customers the opportunity to be more responsive to price signals.

7  
8           The rate design also provides for fully unbundled rates that can  
9 accommodate direct access service, consistent with the requirements of the  
10 Commission's Electric Competition Rules. As indicated in Paragraph 12.1 of the  
11 agreement, the Signatories have agreed that if the Commission desires to address  
12 the issue of exclusivity of certificates of convenience and necessity ("CC&N"),  
13 then a generic docket is the appropriate means to do so. No change to TEP's  
14 CC&N is proposed in the 2008 Settlement Agreement.

15  
16           TEP has also committed to work with Staff and interested stakeholders to  
17 develop a new partial requirements rate schedule, a new interruptible rate  
18 schedule, and a new demand response rate schedule. These new rate schedules  
19 would be filed within 90 days of the effective date of the Commission's approval  
20 of the 2008 Settlement Agreement.

21  
22           The 2008 Settlement Agreement also establishes a Demand-Side  
23 Management ("DSM") Adjustor mechanism. The initial DSM Adjustor charge of  
24 \$.000639 would be levied on all retail rate schedules.

25  
26           Taken as a whole, the 2008 Settlement Agreement provides wide-ranging  
27 resolution to most of the issues being contested in this proceeding.