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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
FOR THE ESTABLISHMENT OF JUST AND
10 REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
11 RATE OF RETURN ON THE FAIR VALUE OF
ITS OPERATIONS THROUGHOUT THE
12 STATE OF ARIZONA.

Docket No. E-01933A-07-0402

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

Docket No. E-01933A-05-0650

15 **NOTICE OF FILING OF SUMMARY OF DIRECT TESTIMONY OF KEVIN C.**
16 **HIGGINS ON BEHALF OF PHELPS DODGE MINING COMPANY AND**
17 **ARIZONANS FOR ELECTRIC CHOICE AND COMPETITION**
18 **(2008 SETTLEMENT AGREEMENT)**

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

21 RESPECTFULLY SUBMITTED this 8th day of July 2008.

FENNEMORE CRAIG, P.C.

22 By: *C. Webb Crockett*
23 C. Webb Crockett

24 Patrick J. Black
25 3003 North Central Ave., #2600
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26 Attorneys for Phelps Dodge Mining Company and
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8th day of July 2008 with:

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

COPIES of the foregoing HAND DELIVERED
this 8th 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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17
18 **COPIES of the foregoing E-MAILED**
19 this 8th day of July 2008 to

20 Jane L. Rodda
Administrative Law Judge
21 Hearing Division
Arizona Corporation Commission
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Phoenix, AZ 85007
23 Jane.Rodda@azbar.org

24 and to the Parties of record:

25 By: Mary Bollington
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.