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BEFORE THE ARIZONA CORPORATION COMMISSION NOV 16 4:49

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC DIVISION OF CITIZENS COMMUNICATIONS COMPANY TO CHANGE THE CURRENT PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE, TO ESTABLISH A NEW PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE BANK, AND TO REQUEST APPROVED GUIDELINES FOR THE RECOVERY OF COSTS INCURRED IN CONNECTION WITH ENERGY RISK MANAGEMENT INITIATIVES.

DOCKET NO. E-01032C-00-0751

NOTICE OF FILING DIRECT TESTIMONY

Arizona Corporation Commission

DOCKETED

NOV 16 2001

DOCKETED BY [Signature]

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

In accordance with the November 15, 2001 Procedural Order, the Arizona Electric Division of Citizens Communications Company hereby files the direct testimony and exhibits of Sean Breen, Carl Dabelstein and Tom Ferry.

DATED this 16 day of November, 2001.

GALLAGHER & KENNEDY, P.A.

By [Signature]
Michael M. Grant
Todd C. Wiley
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for Citizens Communications Company

1 **Original** and ten copies filed this
2 16 day of November, 2001, with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

7 **Copies** of the foregoing mailed
8 this 16 day of November, 2001, to:

9 Daniel W. Pozefksy, Esq.
10 RUCO
11 Suite 1200
12 2828 North Central Avenue
13 Phoenix, Arizona 85004

14 Christine L. Nelson, Esq.
15 Deputy County Attorney
16 Post Office Box 7000
17 Kingman, Arizona 86402

18 Walter W. Meek, Esq.
19 AUIA
20 Suite 210
21 2100 North Central Avenue
22 Phoenix, Arizona 85004

23 Christopher Kempley, Esq.
24 Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ernest Johnson, Director
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

21 By: 
22 3099-0039/970418

CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION
DIRECT TESTIMONY OF SEAN R. BREEN

NOVEMBER 16, 2001

1 Q. Please state your name and business address.

2 A. My name is Sean R. Breen. My business address is Citizens
3 Communications Company, 1300 South Yale Street, Flagstaff, Arizona
4 86001.

5
6 Q. What are your position and responsibilities with Citizens Communications
7 Company ("Company" or "Citizens")?

8 A. My position is Director of Energy Supply. My responsibilities include the
9 acquisition and management of gas and electric supplies for Citizens'
10 Arizona Gas and Electric Divisions.

11
12 Q. Please summarize your background and qualifications.

13 A. I have been employed in the utility industry for eighteen years, the last ten
14 of which have been with Citizens. While at Citizens my roles in the
15 Company have spanned a wide range of responsibilities including directing
16 demand-side management activities in Citizens' Electric Divisions in Arizona
17 and Vermont, developing and managing Citizens' efforts in electric industry
18 restructuring, conducting strategic business planning for the Citizens' Public
19 Services sector, and most recently, managing the energy supply function
20 for Arizona electric and gas operations. In this latter role since 1998, I
21 have led the negotiation efforts for Citizens' power supply arrangements.
22 Prior to joining Citizens, I was employed by Green Mountain Power
23 Corporation ("GMPC") for eight years. Throughout my employment with
24 GMPC, I worked extensively with power supply planning matters. My last
25 position at GMPC was in the Energy Supply Department as the Manager of
26 Demand-Side Planning. From 1973 - 1977, I was enrolled in the College of
27 Engineering at the University of Colorado. After college, I founded, owned
28

29

1 and operated a business providing energy consulting services and the sale
2 of energy-related products to the residential and commercial market
3 segments.

4
5 Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to explain certain aspects of Citizens'
7 Purchased Power and Fuel Adjustment Clause ("PPFAC") application
8 including:

- 9 ■ the Company's supply arrangements with Arizona Public Service
10 Company/Pinnacle West Energy Corporation ("APS/PWEC");
- 11 ■ the investigation of APS/PWEC bills stemming from summer 2000
12 charges;
- 13 ■ the negotiations leading to Citizens' new contract with APS/PWEC;
- 14 ■ Citizens' transmission agreements with the Western Area Power
15 Administration ("WAPA"); and
- 16 ■ the sales forecast underlying the calculation of the proposed PPFAC
17 surcharge.

18
19 I also address the regulatory chronology of Citizens' prior Power Service
20 Agreement ("PSA") with APS/PWEC that was in effect from 1995 until the
21 recent signing of the new supply contract with APS/PWEC.

22
23 Q. Please address Citizens' power supply arrangements with APS/PWEC.

24 A. As described in the Company's original application filed September 28,
25 2000 in this docket, Citizens has acquired almost all of its power needs
26 from APS/PWEC since 1970 under long-term purchased power agreements,
27 which have been renegotiated from time to time over the years (see
28 Citizens' original application, pages 9-15 for a more complete description).

1 Under these agreements, Citizens' customers have enjoyed economical
2 power resources that resulted in the Company's electric services rates
3 being among the lowest in the State of Arizona for much of this period.
4 Unfortunately and surprisingly, the historically low prices for electricity
5 ended abruptly in May 2000 when Citizens first began to experience
6 unprecedented and unanticipated increases in the charges under the PSA.
7 As more fully described in Citizens' September 2000 application (see pages
8 16-27), the interplay of events occurring in the Western wholesale energy
9 markets, APS/PWEC's resource expansion decisions, and APS/PWEC's
10 interpretation of particular elements of the PSA, led to skyrocketing power
11 prices that far exceeded the generation cost-recovery elements of Citizens'
12 basic service rates. For example, the average cost of power billed by
13 APS/PWEC for the June - September 2000 period, during which Citizens'
14 customers consume approximately 40% of their total annual consumption,
15 was \$0.127 per kilowatt-hour ("kWh"), over 2.6 times the \$.04802/kWh
16 reflected in rates.

17
18 Q. What did Citizens do in response to these unprecedented charges?

19 A. As more fully described on pages 27-29 of Citizens' original application in
20 this docket, the Company initiated a three-phase investigation process to
21 ascertain whether it had been properly billed by APS/PWEC. Phase I of the
22 investigation identified the probable causes of the higher-than-expected
23 power bills and established the evaluation process for the next phase.
24 Phase II involved an in-depth evaluation intended to identify potentially
25 improper actions by APS/PWEC in acquiring and allocating electric power
26 resources and related costs to Citizens. Phase II did not reveal any
27 significant practices that would have likely resulted in excessive costs
28 charged to Citizens. The intent of Phase III of the investigation was to
29

1 determine whether APS/PWEC's resource procurement strategy resulted in
2 the lowest reasonable cost to Citizens. Citizens initiated the Phase III
3 process with a comprehensive information request from APS/PWEC,
4 however, APS/PWEC did not provide the requested data on the basis that
5 they were not contractually obligated to do so under the terms of the PSA.
6 Consequently Phase III could not be completed.

7
8 Q. Did Citizens take other steps to resolve the billing matters with APS/PWEC?

9 A. Yes. Citizens and APS/PWEC had numerous discussions regarding the
10 contract elements that were a factor in their billing of the significantly
11 higher power costs. Discussions ensued for several months, and it
12 ultimately became clear that resolution of these matters would not be
13 possible without litigation; both parties maintained firmly entrenched
14 positions. Given the inevitability of a protracted legal process, the
15 uncertainty of the outcome of the litigation, and the reality of continuing
16 high charges under the PSA, Citizens shifted its focus to the possibility of
17 negotiating prospective changes in the contract. Citizens then approached
18 APS/PWEC about the feasibility of resolving the contested matters through
19 a restructuring of the contract.

20
21 Q. What were Citizens' main goals for the restructured contract?

22 A. Citizens sought to attain a new contract that protected customers from
23 price volatility, that struck a proper balance between price risk and term of
24 commitment, and that could be in place prior to the high-cost summer
25 months of 2001 in order to shield customers a repeat of the summer 2000
26 experience.

1 Q. What do you mean by the "balance between price risk and term of
2 commitment?"

3 A. At the time of negotiation of the new contract, the wholesale electric
4 markets were inverted; that is, the futures prices for power were lower
5 than current cash prices. In order to achieve a more affordable price for
6 power, it was clear that a commitment for purchases extending several
7 years into the future would be necessary. The need for "balance" comes
8 from the recognition that lower prices are achievable for longer
9 commitments, but longer commitments bring greater concern about the
10 potential of locking into prices that turn out to be higher than market in the
11 long run.

12
13 Q. Why did Citizens negotiate with APS/PWEC rather than pursue alternative
14 suppliers?

15 A. Under the existing PSA with APS/PWEC, Citizens was obligated to purchase
16 virtually all its power supply requirements from them and was therefore not
17 in a position to pursue alternative supplier arrangements.

18
19 Q. What was the result of the new contract negotiations with APS/PWEC?

20 A. The result was a new contract for the full requirements of Citizens'
21 customers with fixed power pricing for a seven-year term. The
22 arrangement provides price certainty at reasonable levels and transfers the
23 risks of changes in future system load requirements to APS/PWEC. The
24 new contract insures Citizens' customers for seven years against future
25 anomalous events that could adversely impact electric prices. The full text
26 of the contract was provided as Exhibit No. 2 to Citizens' amended
27 application.

28
29

1 Q. Why is transferring the risks of future system load changes to APS/PWEC a
2 benefit to Citizens customers?

3 A. Purchasing power to meet uncertain future loads is a risky undertaking. On
4 the one hand, one must secure sufficient resources to meet load
5 requirements and if short, pay dearly for the deficit (and/or face the
6 potential for outages). On the other hand, securing greater resources than
7 necessary means, at best, under-utilized capacity, and at worst, potentially
8 having to pay for power never taken. Under the new contract APS/PWEC
9 retains the responsibility of serving Citizens' requirements in their entirety
10 – regardless of what changes may occur as a result of volatility of the
11 economy, sales loss due to competition, or dramatic load increase from
12 demands by new industry or rapid customer growth.

13
14 Q. Is it not true that APS was required to meet load changes under the former
15 contract?

16 A. Yes, it was, however, that obligation continues, but now at a fixed price.
17 Under the former contract, Citizens was exposed to volatile short-term
18 market prices to meet incremental loads. That risk has been eliminated.

19
20 Q. Please explain this further.

21 A. Under the former PSA, the amount billed Citizens for load reflected
22 APS/PWEC's system incremental costs. Since APS/PWEC frequently does
23 not have sufficient generation to meet its native load plus Citizens' load
24 during peak summer periods, it purchased power in the wholesale market
25 during such periods and passed whatever cost it had to pay onto to
26 Citizens. Under the new contract, all Citizens' load is priced uniformly
27 regardless of what changes in magnitude or shape may occur in Citizens'
28 load during the seven-year term.

29

1 Q. Can APS/PWEC invoke minimum charges based on high market prices it
2 may be experiencing for serving Citizens' load under the new contract?

3 A. No. Prices are fixed under the new contract regardless of what may occur
4 in Western power markets.
5

6 Q. Did customers experience immediate savings under the new contract?

7 A. Yes, they did. Citizens estimates that, from June through September 2001,
8 the new contract saved customers approximately \$70 million. That
9 estimate is based on the assumption that Citizens would have been billed
10 charges comparable to the \$.189/kWh it was billed in May 2001, reflecting
11 hedged power prices.
12

13 Q. What other benefits does the new contract provide?

14 A. In addition to long-term price stability and immediate savings, the new
15 contract also unambiguously eliminates the potential for new generation
16 costs to be stranded by customer migration to competitive suppliers when
17 Citizens' service area is opened to competition. Moreover, the new contract
18 is significantly less difficult to administer than the PSA. The straight-
19 forward pricing structure not only reduces administrative costs, but virtually
20 eliminates interpretation and computational disputes.
21

22 Q. With respect to WAPA agreements, what is the nature of Citizens' request
23 relative to transmission resources?

24 A. Citizens recently entered a new contract with WAPA for additional
25 transmission capacity on its Northwest-Southwest Intertie System. The
26 three-part surcharge sought in Citizens' amended application includes a
27 factor intended to recover the incremental costs of the new contract, and to
28 reflect the WAPA rate changes that Citizens has experienced since the
29

1 establishment of the transmission cost component Citizens' basic service
2 rates in the last rate case. The requested transmission rate adjustment
3 and details of its calculation are provided in Exhibit No. 3 to Citizens'
4 amended application.

5
6 Q. Is Citizens' request for a PPFAC rate adjustor based on a forecast of various
7 quantities?

8 A. Yes, it is. Citizens has projected energy sales, quantities of generated and
9 purchased power, the costs for energy purchases, transmission costs and
10 generation costs as part of its amended application. The forecast was
11 developed to be consistent with the 7-year PPFAC recovery period reflected
12 in Citizens' application.

13
14 Q. What are the key drivers underlying the forecasted quantities?

15 A. Energy sales are the key drivers that form the basis of, and have the
16 greatest impact on, the outcome of all other forecasted quantities.

17
18 Q. How was Citizens' forecast of energy sales developed?

19 A. Citizens retained the services of R.W. Beck, Inc. to develop its long-term
20 sales forecast. The growth factors and assumptions underlying the forecast
21 have been provided to the Commission Staff and the Residential Utility
22 Consumers Office ("RUCO").

23
24 Q. Please address the regulatory history of the Power Service Agreement
25 under which Citizens formerly purchased power from APS/PWEC.

26 A. The PSA under which Citizens formerly purchased power was the product of
27 a re-negotiation effort that was completed in early 1995. In July 1995,
28 Citizens filed an application with the Commission requesting approval to
29

1 refund an over-collected PPFAC bank balance and to establish a negative
2 adjustment rate to reflect in rates the savings achieved through the re-
3 negotiation. In order to minimize the over-collection and provide
4 immediate benefit to customers, Staff recommended that review of the
5 APS/PWEC contract and other related issues be deferred to Citizens' next
6 general rate case that was to be filed later that year. In Decision No.
7 59170, the Commission concurred with Staff and ordered that analysis of
8 the purchased power contract with APS/PWEC be reviewed in the upcoming
9 rate case.

10
11 Q. Did Citizens file a rate case later that year and include details of its then-
12 new contract with APS/PWEC?

13 A. Yes, it did. In September 1995, Citizens filed a rate application with the
14 Commission including testimony fully explaining the new contract with
15 APS/PWEC along with a copy of the contract documents. In its application,
16 Citizens also proposed a suspension of its PPFAC in order to reflect the price
17 stability the Company had achieved with the new contract and to increase
18 its flexibility to attract and retain load in the restructured competitive
19 industry.

20
21 Q. Was Citizens' power contract with APS reviewed in the Company's rate
22 case?

23 A. Yes, extensively. Both Staff and RUCO filed extensive testimony on the
24 contract and argued that the Company should not be allowed to suspend its
25 PPFAC mechanism, because doing so would result in an over-recovery of
26 costs by Citizens.

1 Q. Why did Staff and RUCO make these assertions?

2 A. Staff and RUCO both projected that the new contract would result in
3 prospective declining power costs, and argued that the PPFAC mechanism
4 should be retained so that customers would realize the savings resulting
5 therefrom.

6
7 Q. In that rate case did Staff or RUCO ever allege that the new contract with
8 APS was in any way imprudent?

9 A. No. In fact, their arguments about the need to retain the PPFAC
10 mechanism were a resounding endorsement of the contract. Quoting from
11 Staff's Reply Brief (October 22, 1996):

12 "Staff has also proposed to retain the AED's PPFAC in order
13 to capture for AED's customers the declines in the fuel and
14 purchased power costs Citizens has projected to occur
15 outside the test year. This assures that AED customers
16 will receive the benefit of any decreases in the AED's
17 average fuel and purchased power costs that are actually
18 experienced, as well as provide Citizens a mechanism to
19 recover higher fuel and purchase power costs in the
20 unlikely event that would occur."

21 It is clear from this that Staff supported the pricing benefits of the
22 APS/PWEC contract and regarded the possibility of higher costs under the
23 contract as an "unlikely event."

24 Q. Was Citizens' PSA considered in any other proceedings before the
25 Commission?

26 A. Yes, it was. In two proceedings, a July 1999 PPFAC Application and in
27 Citizens' Stranded Cost and Unbundled Rates proceedings, the APS contract
28 was a principal consideration.

29

1 Q. What matters in the July 1999 PPFAC application made the APS/PWEC
2 contract a central consideration?

3 A. Citizens' PPFAC application in Docket No. E-01032C-99-0630 (for a net
4 negative adjustor) included the effects of two key APS/PWEC contract
5 matters: 1) a substantial one-time billing revision received by the
6 Company in May 1999 as a result of under-billing by APS/PWEC during
7 1998; and 2) cost reductions resulting from a renegotiation of demand
8 pricing under the PSA.

9

10 Q. What did the Commission conclude relative to the APS/PWEC contract
11 matters in that proceeding?

12 A. Decision No. 62094 in that proceeding allowed inclusion of the APS/PWEC
13 under-billed amount in the PPFAC bank subject to adjustment based on
14 Citizens' continuing investigation of the validity of the billing revision. The
15 decision also acknowledged the negotiated contract pricing reductions and
16 accepted the proposed adjustor components for passing those savings to
17 customers – a savings of over \$3.2 million per year.

18

19 Q. Did Citizens' continuing investigation of the validity of the billing revision
20 result in any adjustments?

21 A. Citizens' investigation raised a number of concerns about APS/PWEC's
22 billing procedures under the contract, and after several months of intense
23 discussions, the parties reached settlement in May 1999 through a
24 Memorandum of Understanding that in part resolved all outstanding billing
25 issues with a refund payment of \$1.5 million by APS/PWEC (see Citizens
26 original application, pages 14-15 for more details).

27

28

29

1 Q. Please describe the consideration of the PSA by the Commission in Citizens'
2 Stranded Cost and Unbundled Rates proceeding.

3 A. In the investigation of costs that could be "stranded" under the PSA and in
4 the design of Citizens' competitive transition charge to be included in its
5 unbundled rates, Citizens worked closely with Staff and RUCO and their
6 consultants as they thoroughly analyzed Citizens' purchased power
7 arrangements with APS/PWEC. That resulted in a settlement agreement
8 between Staff, RUCO, and the Company in which the parties supported a
9 complex process by which Citizens would track and calculate stranded costs
10 caused by the migration of customers to competitive generation providers.
11 The development of this calculation methodology required the parties to
12 have a clear understanding of the operation of the PSA.

13
14 Q. How is that relevant to the current proceedings?

15 A. It demonstrates the ongoing efforts by Citizens to achieve the lowest
16 possible power costs for its customers and the continuing review of Citizens'
17 power supply arrangements with APS/PWEC by the Commission. To the
18 extent the Commission considers the prudence of Citizens' power supply
19 contract with APS/PWEC as a condition of recovery of the PPFAC bank
20 balance, it must properly recognize the fact that it has already reviewed the
21 contract in the prior proceedings as described above and had multiple
22 opportunities to question any and all aspects of the agreement. In no
23 instance has the Commission or any intervening parties questioned the
24 prudence of the contract. I believe that the testimony in Citizens' last rate
25 case by Staff and RUCO are tantamount to a tacit endorsement of the
26 economy provided Citizens' customers by the former PSA.

1 Q. Does this conclude your testimony?

2 A. Yes, it does.

3

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CITIZENS COMMUNICATIONS COMPANY

ARIZONA ELECTRIC DIVISION

DIRECT TESTIMONY OF CARL W. DABELSTEIN

NOVEMBER 2001

1 **INTRODUCTION**

2 Q. Please state your name and address.

3 A. My name is Carl W. Dabelstein. My business address is 2901 North Central
4 Avenue, Suite 1660, Phoenix, Arizona 85012.

5
6 Q. By whom are you employed and in what capacity?

7 A. I am employed by Citizens Communications Company ("Citizens" or
8 "Company") as Vice President-Regulatory Affairs for its Public Service
9 Sector. The Public Service Sector provides water and wastewater, electric
10 and gas service through operating divisions and subsidiaries in ten states.

11
12 Q. Please state your professional qualifications.

13 A. A description of my education and professional qualifications is attached
14 hereto as Appendix A.

15
16 Q. What is the purpose of your testimony?

17 A. On September 19, 2001, on behalf of its Arizona Electric Division, Citizens
18 filed an amendment to an original application filed on September 28, 2000,
19 with the Arizona Corporation Commission ("Commission") seeking approval
20 to implement a surcharge that would enable the Company to recover
21 certain power supply costs that have significantly increased. The purpose
22 of my testimony is to provide an overview of the cost recovery application
23 and subsequent amendments thereto, to identify the other Company
24 witnesses filing direct testimony and their respective issue areas, and to
25 specifically address certain elements of the application. These elements
26 include the Purchased Power and Fuel Adjustment Clause ("PPFAC")
27 mechanism and the cost recovery methodology for which Citizens is seeking
28 Commission approval.

1 Q. Please identify the other Company witnesses filing direct testimony and
2 their respective issue areas.

3 A. Mr. Sean Breen, the Director for Arizona Energy Supply, will testify on the
4 Company's current power supply arrangements with Arizona Public Service
5 Company ("APS") and the Western Area Power Administration ("WAPA"),
6 the previous and new power supply contracts between Citizens and APS,
7 and the method used to develop the sales forecasts upon which the
8 Company's proposed cost recovery methodology is based. Mr. Tom Ferry,
9 Division Manager for Citizens' Arizona Electric operations, will testify
10 regarding the Company's efforts to address its customers' concerns about
11 increased power costs, including customer service, customer education,
12 energy conservation, and certain low-income initiatives associated with our
13 application.

14
15 **PPFAC**

16 Q. What is the PPFAC?

17 A. The PPFAC is a Commission-approved mechanism under which Citizens is
18 permitted to track in a special balance sheet account ("PPFAC Bank") the
19 cumulative difference between the costs it has incurred in procuring
20 electricity and the amounts recovered from customers. When the balance
21 in the PPFAC bank reaches a pre-established threshold, the Company is
22 required to make a formal application to the Commission with a plan for
23 addressing the account balance. If the account reflects a cumulative under-
24 recovery of power supply costs, the Company may seek a surcharge in the
25 form of a PPFAC Adjustor. If the PPFAC bank reflects an over-recovery of
26 costs, approval to either implement a surcredit on customer bills or to issue
27 refund checks may be sought. All PPFAC applications require a formal
28 hearing before a hearing officer, who then prepares a proposed order for
29

1 Commission consideration and approval at a regularly scheduled Open
2 Meeting. Generally, when Citizens' PPFAC bank has been in an under-
3 recovered position, the Commission has approved a prospective recovery
4 over six to twelve months through a per-kilowatt-hour surcharge. When
5 the balance has reflected an over-recovery, the Company has typically been
6 ordered to issue immediate refunds by check or one-time bill credits.
7

8 Q. Why is there a PPFAC mechanism?

9 A. Recognizing that fuel and purchased power costs are typically the largest
10 operating expenses of electric utilities, purchased power adjustors and fuel
11 clauses were introduced to allow the respective company to adjust rates in
12 order to follow variations experienced in such costs, either up or down,
13 outside a general rate case. Such pass-through mechanisms afford the
14 utility an opportunity to maintain its financial integrity during times of rising
15 prices, while conserving resources that would otherwise have to be used for
16 more frequent and costly general rate cases. The PPFAC also protects
17 consumers during times when fuel and purchased power prices may be
18 falling.
19

20 The Commission's support of a PPFAC mechanism may best be seen in its
21 Decision No. 56450, issued on April 13, 1989 wherein the Commission
22 stated (page 6):
23

24 "The principal justification for a fuel adjustor is volatility in
25 fuel prices. A fuel adjustor allows the Commission to
26 approve changes in rates for a utility in response to volatile
27 changes in fuel or purchased power prices without having
28 to conduct a rate case...The fuel adjustor overcomes these
29 shortcomings by passing along fuel and purchased power
price changes to ratepayers."

1 Q. How has the PPFAC mechanism evolved in Arizona?

2 A. The Commission first permitted the use of an adjustment clause in 1942,
3 when a predecessor to what is today Tucson Electric Power Company
4 ("TEP") was given the authority to pass through fluctuations in the cost of
5 its gas purchases. Adjustment clauses addressing changes in Arizona
6 electric companies' costs of fuel first appeared in 1952. Citizens was
7 granted fuel cost pass-through authority by the Commission in Decision No.
8 27040, issued in December of that year. Commission Decision No. 38826,
9 issued in February 1967, first permitted Citizens to pass through increases
10 in the cost of purchased power. The current PPFAC procedure was
11 approved in Commission Decision No. 49576, issued in December 1978
12 after an extensive generic proceeding.

13
14 Q. Specifically describe how the PPFAC mechanism is supposed to function.

15 A. As stated, the PPFAC is intended to reconcile the difference between power
16 supply costs incurred and recoveries from ratepayers. The current electric
17 service rates for Citizens' Arizona customers include a base power supply
18 cost component of \$.05194 per kilowatt-hour, as established in the
19 Company's last general rate case and approved by the Commission in
20 Decision No. 59951, issued on January 7, 1997. That base cost of power
21 rate is the benchmark against which future power supply costs are
22 measured for purposes of the PPFAC. It is comprised of two components:
23 \$.04802/kWh to cover the APS power bills and \$.00392/kWh for WAPA
24 transmission costs.

25
26 When Citizens receives power supply bills from APS and WAPA, they are
27 thoroughly checked and verified for accuracy, as well as whether they were
28 computed pursuant to the respective supply agreements. Upon such
29

1 verification, they are charged to the PPFAC Bank, Account No. 186,
2 Miscellaneous Deferred Debits. Invoiced costs of fuel (i.e. natural gas
3 and/or diesel oil) used for electric generation by Citizens' Valencia units, an
4 emergency back-up facility in Nogales, are also charged to the PPFAC Bank.
5 Any refunds received from APS, such as those representing Citizens' share
6 of refunds received by APS from its fuel suppliers or transporters, are
7 credited to the PPFAC Bank upon receipt. At the end of each month, the
8 total kilowatt-hour sales figure is multiplied by the \$.05194 base cost of
9 power rate to determine the total power costs recovered from customers
10 via basic service rates. That amount is credited to the PPFAC Bank account
11 and charged to Account No. 555, Purchased Power Expense. Thus, each
12 month the amount of purchased power expense reported reflects the power
13 supply costs recovered in basic service revenues, and the net change in the
14 PPFAC Bank balance represents the difference between power supply costs
15 incurred and costs recovered during that same period.

16
17 In accordance with Commission Decision No. 62094, issued on November
18 19, 1999, when the absolute value of the balance in the PPFAC Bank
19 exceeds a threshold of \$2,600,000, Citizens is required within 45 days of
20 exceeding the threshold to either:

- 21 • File for a PPFAC rate adjustment; or
- 22 • Contact Commission Staff to discuss why a PPFAC rate adjustment
23 is unnecessary.

24 When a PPFAC adjustor has been approved by the Commission, an
25 additional calculation and accounting entry are required for the PPFAC
26 Bank. The sales for the respective month are also multiplied by the
27 approved PPFAC adjustment factor. If the factor is positive, the result is
28 also credited to the PPFAC Bank and charged to Purchased Power Expense.

1 If the factor is negative, the entry is reversed—the PPFAC Bank is charged
2 and the Purchased Power Expense account is credited. In both cases, the
3 purchased power and fuel costs reflected in operating expenses equals the
4 amounts to recover such costs implicit in billed operating revenues.
5

6 Q. Are there reporting requirements associated with the PPFAC?

7 A. Yes, there are. In accordance with Commission Decision No. 49576, each
8 month Citizens submits a four-part PPFAC report to the Commission Staff.
9 A copy of a recent such report accompanies this testimony as Exhibit CWD-
10 1. Schedule FA-1 is an analysis of the PPFAC Bank for the reporting month.
11 Schedule FA-2 identifies the various quantities and costs of purchased
12 power and generation fuel during the period. Schedule FA-3 is a statistical
13 report of customer numbers, revenues and sales for the reporting month.
14 Schedule FA-4 is a six-month forecast of PPFAC Bank activity.
15

16 Q. How has the PPFAC mechanism fared over the years?

17 A. I believe that the mechanism has worked well in protecting the interests of
18 both the Company, and its customers. It continues to be a sound
19 ratemaking tool, particularly in today's times of wholesale market price
20 volatility. The accompanying Exhibit CWD- 2 summarizes the Commission
21 orders relative to Citizens' PPFAC since the issuance of Decision No. 49576
22 in 1978 when the current procedure was implemented. As indicated on
23 that exhibit, historically when the PPFAC Bank has been in an under-
24 recovered position, the Company was generally able to recover the
25 additional costs via a surcharge over a six to twelve month period. When
26 the balance has been in an over-recovered position, customers have either
27 received refunds or bill credits, or a PPFAC surcredit was put into place. It
28 is noteworthy that, historically, the approval for the implementation of a
29

1 PPFAC surcharge and the issuance of customer refunds was achieved in a
2 relatively timely fashion. In this instance, more than a year has passed
3 since Citizens initial filing.

4
5 Q. Have there been any changes made to the basic operation or format of the
6 current Citizens PPFAC mechanism since it was implemented 1978?

7 A. Various parties have proposed changes, however, the Commission in
8 addressing such modifications indicated that it did not feel that the facts
9 and circumstances existing at the time warranted any changes. The
10 Commission has consistently supported a continuation of the PPFAC
11 mechanism.

12
13 Q. Can you provide some examples of such proposed changes to the
14 mechanism that were rejected by the Commission?

15 A. Yes I can. First, in connection with a 1988 PPFAC hearing conducted to
16 evaluate a request by Citizens to refund an over-collected Bank balance, a
17 consultant for the Residential Utility Consumers Office ("RUCO")
18 recommended that the PPFAC be modified to include direct incentives to
19 encourage efficient operations. Specifically, RUCO recommended that the
20 PPFAC factor be intentionally set 5% lower than forecasted, as an incentive
21 for the Company to be more efficient. In Decision No. 56134, the
22 Commission denied the request because RUCO failed to demonstrate that
23 the proposed rate reduction would result in more efficient operations. Page
24 4 of that Order states, beginning at Line 23:

25
26 "While we concur there perhaps are no direct incentives
27 under the current PPFA clause, there are indirect
28 incentives. The scope of any PPFA hearing includes
29 reviewing the reasonableness of any fuel and purchased
power costs as well as the accuracy of the numbers.

1 Clearly, if it had been demonstrated that any of Citizens'
2 purchased power and fuel costs were not prudent then
3 those costs would not be allowed to be passed through to
4 ratepayers."

5 RUCO also proposed a change to the PPFAC mechanism, in another 1988
6 Citizens' PPFAC hearing. As described on Page 7 of Commission Decision
7 No. 56638, RUCO contended that, while the PPFAC had been a useful
8 ratemaking tool in times of rapidly fluctuating prices, it was no longer
9 needed because prices had become stable. In addressing the matter, the
10 Commission recognized a distinction between Citizens and APS and TEP
11 which had recently had their PPFACs eliminated. The Commission found
12 that Citizens' costs at the time were volatile, not stable. It also recognized
13 that APS had significant pending increases in its wholesale rates that were
14 the expected outcome from a proceeding before the FERC. The
15 Commission clearly concluded that Citizens' PPFAC should not be eliminated
16 at that time.

17 Another example of the Commission's reluctance to change Citizens' PPFAC
18 mechanism occurred in a 1992 general rate case for Citizens' Arizona
19 Electric Division. In that case, the Company had proposed the exclusion of
20 purchased power demand charges from the PPFAC. Since such amounts
21 are largely fixed, Citizens opined that they would more appropriately be
22 recoverable in base rates. Both Commission Staff and RUCO strongly
23 objected. They contended that removing demand charges from the PPFAC
24 could create the perverse economic incentive to substitute higher-cost
25 purchased energy sources with relatively low demand costs for low-cost
26 energy sources with relatively high demand charges. In its Decision No.
27 58360, the Commission denied the requested exclusion.

1 A final example of the Commission's intent to maintain Citizens' PPFAC
2 mechanism occurred in the Company's last rate case. Citizens had just
3 completed renegotiation of a new power supply arrangement with APS that
4 was expected to significantly reduce volatility of wholesale power bills
5 through May of 1998. Accordingly, the Company proposed that the PPFAC
6 mechanism be suspended until that time. Both Commission Staff and RUCO
7 vehemently opposed any discontinuance of the PPFAC. As indicated on
8 Page 40 of Decision No. 59951, Staff and RUCO believed that a suspension
9 would deprive ratepayers of any power cost savings. In denying the
10 Company's request, the Commission reiterated its objective that the PPFAC
11 should respond to all cost/price changes, decreases as well as increases.
12

13 A common theme among these decisions is the Commission's clear support
14 for Citizens' PPFAC mechanism and its continuation in the existing form as a
15 useful ratemaking tool. It serves to protect the affected utility during times
16 of increasing fuel and purchased power prices, and benefits ratepayers
17 when such costs are decreasing.
18

19 **PPFAC APPLICATION**

20 Q. Please describe the events leading to Citizens' initial application in this
21 proceeding.

22 A. Such an explanation must begin with a filing made by the Company in July
23 1999. As of May 31 1999, the reported balance in the PPFAC Bank was an
24 over-recovery of \$3,493,914. It was necessary to adjust the Bank's
25 reported balance. One adjustment was made for the period January 1997
26 through May 1999, where the monthly calculation of power costs and cost
27 recoveries erroneously excluded amounts applicable to what were, prior to
28 January 1997, special contract customers exempt from the PPFAC. With
29

1 the special contracts being replaced by a new tariff for such service in
2 January 1997, the affected customers became subject to the PPFAC. The
3 adjustment reflected the costs and recoveries that should have been
4 included in the PPFAC.

5
6 Two other necessary adjustments to the PPFAC Bank also materialized
7 during the summer of 1999. The Company was informed by APS that
8 power supply invoices for the months January – November 1998 had been
9 recomputed to reflect a revision in APS' hourly system incremental costs.
10 As a result, a retroactive billing of an additional \$4,327,625 was sent to the
11 Company. At the same time, Citizens had completed renegotiating the
12 demand charges under the APS power supply agreement. A reduction in
13 demand charges retroactive to November 1, 1998 was achieved, resulting
14 in a refund check from APS in the amount of \$1,645,280. After reflecting
15 the above three adjustments to the PPFAC Bank, the revised May 31, 1999
16 balance was an over-recovered \$2,769,629.

17
18 The application filed by Citizens in July 1999 sought approval for the
19 following:

20 The implementation of a \$(.00553)/kWh PPFAC adjustor to refund the
21 \$ 2.7 million Bank balance over twelve months and to reflect the
22 estimated reduction in annual demand charges;

23 Replacing the existing one mill per kilowatt-hour threshold with an
24 equivalent \$2.6 million trigger;

25 The computation of the requested PPFAC adjustor appears on Exhibit CWD-
26 3. It was contemplated that the portion of the adjustor relating to the Bank
27
28
29

1 refund would cease after twelve months, while the remainder would
2 continue until either the next change in the Company's adjustor or rate
3 case.

4
5 The Commission approved the Company's application in its Decision No.
6 62094, issued in November 1999. The new adjustor appeared on customer
7 bills beginning in December 1999.

8
9 As the Company approached the summer of 2000, the power bills from APS
10 began to escalate to an unprecedented degree. During the months of May
11 through August, the average monthly per kilowatt-hour cost of purchased
12 power ranged from 11.4 cents to 17.5 cents, at a time when Citizens was
13 recovering only 4.64 cents, including the new PPFAC credit adjustor, from
14 customers. As more fully addressed by Company witness Sean Breen, this
15 was largely attributed to APS having to procure power in the volatile
16 wholesale market in order to fully serve Citizens' load.

17
18 Due to the substantially increasing power supply costs during the summer
19 of 2000, combined with the very limited cost recovery rates in place at that
20 time, the over-recovered balance in the PPFAC quickly disappeared and was
21 replaced by an ever-increasing deficit. By the end of September, it had
22 grown to \$54.2 million dollars.

23
24 On September 28, 2000, Citizens filed an application with the Commission
25 seeking approval to implement a surcharge that was intended to recover
26 the PPFAC Bank balance over time and to prospectively address the higher
27 costs of power that continued to be incurred.

1 Q. Please describe that initial application.

2 A. Under the traditional application of the PPFAC mechanism, with Citizens
3 seeking approval to implement a surcharge intended to recover the PPFAC
4 Bank deficit over a twelve-month period, the requested surcharge would
5 have been 7.5 cents. Clearly, this would have resulted in rate shock and an
6 economic nightmare for our customers. With current residential rates
7 averaging approximately 8.5 cents per kilowatt-hour, the increase would
8 amount to 88%, which the company recognized would be an economic
9 hardship for its customers. Instead, Citizens looked for other cost recovery
10 alternatives, well aware that extraordinary problems require extraordinary
11 solutions.

12

13 After considering various alternative recovery scenarios, the Citizens PPFAC
14 application filed on September 28, 2000, contained the following key
15 ratemaking elements:

16

- 17 • The existing \$(.00553) PPFAC factor would be terminated.
- 18 • The existing PPFAC Bank would be frozen at its September 30th
19 level and recovered through a fixed surcharge over three years.
- 20 • A new PPFAC bank would be created with an adjustment factor
21 based on a phased-in, rolling 12-month average costs.
- 22 • The implementation of monthly carrying charges to be accrued
23 on the PPFAC bank balance, net of tax benefits, at the customer
24 deposit rate of 6%.

24

25 Q. What was the underlying rationale for that unique cost recovery approach?

26 A. Back in 1998, there was a formal inquiry into the Purchased Gas
27 Adjustment ("PGA") mechanism that was used by local natural gas
28 distribution companies in Arizona. After two winter seasons of numerous
29

1 customer complaints about spikes in gas prices caused by the deregulation
2 in the wholesale segment of the natural gas industry, the Commission
3 wanted to explore the existing PGA and determine whether changes should
4 be made. At that time, the PGA methods were not uniform between
5 companies. The overriding objective of the inquiry was to standardize the
6 PGA mechanism to achieve rate stability.

7
8 On October 30, 1998, the Commission issued Decision No. 61225 adopting
9 a new, uniform PGA methodology for all gas distribution companies in the
10 State. Specifically, it ordered all companies to freeze the balances in their
11 existing PGA Banks and either recover any deficit from, or refund any
12 surplus to, customers over a twelve-month period, via surcharge or
13 surcredit. Each affected utility was also directed to establish a new PGA
14 Bank, with the costs of gas to be based on a twelve-month rolling average.
15 The Commission Order also recognized that there is an economic cost
16 associated with carrying balances in the PGA Bank, and therefore
17 authorized the companies to begin accruing interest on the month-end
18 balances at a rate equal to the current 90-day, non-financial, commercial
19 paper rate published by the Federal Reserve Bank. Under the new
20 procedure, the gas companies were also permitted to begin adjusting their
21 PGA rates monthly without formal approval, up to a stated cumulative
22 change limit over the most recent twelve-month period. Initially, the
23 twelve-month rate change cap was seven cents per therm, but was
24 subsequently increased to ten cents per therm, which reflected the
25 continued volatility of natural gas supply prices.

26
27 The inquiry into the PGA mechanism represents the most recent indication
28 of the Commission's philosophy with respect to the use of a pass-through
29

1 mechanism to recover the costs of a commodity where the price is
2 influenced by the volatility of deregulated wholesale markets. Therefore,
3 Citizens believed that it was a good starting point for developing an
4 alternative PPFAC cost recovery approach.
5

6 The initial PPFAC application filed on September 28, 2000, reflects most of
7 the features of the new PGA methodology. This approach enabled Citizens
8 to file for a surcharge that was much less than the 7.5 cents per kWh that
9 would have been requested under the traditional recovery scenario.
10

11 Q. What differences exist between the PPFAC recovery methodology proposed
12 in Citizens' initial filing in this matter and the newly-approved PGA
13 mechanism?

14 A. The basic difference exists with respect to the procedure for accruing
15 interest on the Bank balances. As previously stated, with the PGA, interest
16 is accrued on the monthly ending balances using the Federal Reserve
17 Banks' 90-day, non-financial commercial paper rate. In the PPFAC filing,
18 we propose that interest be accrued on the net difference between the
19 ending Bank balance, and any related accumulated deferred income taxes.
20 We also requested approval for the use of the current 6% customer deposit
21 interest rate as the appropriate accrual rate.
22

23 Q. Has the PPFAC mechanism historically provided for the accrual and
24 collection of interest on the Bank balance?

25 A. No, it has not.
26
27
28
29

1 Q. Why should the Commission now permit the accrual of interest on the
2 PPFAC Bank balances?

3 A. In its PGA Order, the Commission properly recognized that there is an
4 economic cost associated with carrying balances in the Bank account. The
5 PPFAC Bank is no different. Moreover, historically, under-recovered
6 balances were typically collected via surcharges over periods ranging from
7 six to twelve months. In Citizens initial application, it requested recovery of
8 the Bank over a period of three years. As I will explain later, that has now
9 been extended to seven years. The Company has already incurred
10 hundreds of thousands of dollars to finance the PPFAC balance, which is
11 money it will never recover. To the extent the Company has demonstrated
12 its willingness to extend the normal recovery period to avoid customer rate
13 shock, fairness dictates that it should be allowed to recover the associated
14 prospective financing costs.

15
16 Q. Why did you use a different interest accrual base in the PPFAC application
17 from that approved in connection with the new PGA mechanism?

18 A. As I have previously described, with the use of a PPFAC mechanism, the
19 total of the amounts for purchased power and fuel costs that are currently
20 recognized in expense is equal to the amounts applicable thereto implicit in
21 current revenues, irrespective of what was actually consumed. For income
22 tax purposes, however, such costs are deducted when the power and fuel is
23 consumed, irrespective of when the related revenues are reported. This
24 creates a book-tax timing difference for which deferred income taxes are
25 generally recognized and accumulated on the respective utility's balance
26 sheet. If the objective of accruing interest on the PPFAC Bank is to
27 recognize that there is an associated economic cost, then one must also
28 consider any income tax consequences attributable to the transactions.

1 With a combined Federal-state income tax rate of 40%, it is reasonable to
2 assume that along with a \$1 million under-recovered purchased power or
3 fuel expenditure residing in the PPFAC Bank, there is a corresponding
4 \$400,000 accumulated deferred tax reserve reflecting the tax savings that
5 has already been realized by the Company in taking the \$1 million
6 deduction on its tax return. Citizens recognizes that interest should be
7 accrued on the net out-of-pocket expenditures, which requires that the
8 PPFAC Bank balance be reduced by any related accumulated deferred
9 income taxes. In the cost recovery model appearing in the PPFAC
10 application, Citizens has accrued interest on the month-end Bank balances,
11 net of related tax benefits.

12
13 Q. What interest accrual rate did Citizens use and why?

14 A. The 90-day, non-financial, commercial paper rate does not reflect the
15 Company's cost of financing investments with terms of three years or
16 longer. Accordingly, Citizens is requesting approval to use a 6% interest
17 rate. That is the stated rate for accruing interest on customer deposits, and
18 is the rate that was used for accruing interest in connection with a \$2.6
19 million PGA refund to the Company's Santa Cruz Gas customers
20 (Commission Decision No. 61913) in August 1999. It would appear that if
21 6% is an appropriate interest rate to compensate customers for the use of
22 their funds, then fairness and equity would require a similar rate to be used
23 in compensating the Company for the use of its funds. In the alternative,
24 Citizens proposes the use of its Allowance for Funds During Construction
25 rate. That was the rate approved by the Commission for accruing carrying
26 charges on the Company's investment in DSM program costs.

1 Q. Has the filing of the initial PPFAC application, and the underlying causes,
2 had any other regulatory implications?

3 A. As more fully described by Company witness Mr. Breen, in the spring of
4 2000 the company reached an agreement with the Commission Staff and
5 RUCO settling all outstanding issues associated with our stranded costs and
6 unbundled tariff filings. Citizens had committed that, when the agreement
7 was ultimately approved by the Commission, the Company would open its
8 entire service territory to competition. With the onset, however, of
9 substantial increased, under-recovered power supply costs in May 2000,
10 certain elements of the settlement became administratively infeasible. As a
11 result, the settlement agreement has effectively been put on hold. A
12 procedural order to that effect was issued on January 18, 2001.

13
14 Q. Has Citizens amended its initial PPFAC filing?

15 A. Yes, the Company has filed two amendments.

16
17 Q. Please describe the first amendment.

18 A. The first amendment was filed on October 13, 2000. Its purpose was to
19 update the actual PPFAC Bank balance data included in the original
20 application through the month of August 2000, to seek the immediate
21 termination of the \$(.00553) PPFAC adjustor, and to obtain approval for the
22 expansion of the Company's level-pay and deferred-pay plan eligibility
23 requirements to include small business customers.

24
25 On November 16, 2000, the Commission issued Decision No. 63139. That
26 Decision immediately set the PPFAC adjustor to zero and approved the
27 requested changes to the level-pay and deferred-pay plans.

1 Q. Please describe the second amendment.

2 A. As Citizens approached the summer of 2001, the initial application had not
3 yet been fully acted upon by the Commission, and the PPFAC Bank balance
4 continued to grow. The APS power bill for May reflected even higher costs
5 than the same month in 2000, raising the cumulative under-recovery to
6 more than \$84 million. As a result, as more fully described by Mr. Breen,
7 Citizens began negotiating with APS for changes to the power supply
8 agreement. The outcome was a new seven-year power supply agreement
9 retroactive to June 1, 2001 that locks in a fixed price of \$.05879/kWh.

10

11 The new APS agreement produces a future power supply cost stream
12 significantly different than that projected in the Company's initial PPFAC
13 application. As a result, it was necessary to revise the cost recovery
14 request to incorporate the effects of the new agreement and the significant
15 increase in the PPFAC Bank balance.

16

17 For these reasons, a second amendment to the initial application was filed
18 on September 19, 2001. Its key feature is a request to implement a
19 \$.0267/kWh surcharge. Unlike the initial application where a three-year
20 recovery period for the PPFAC Bank balance was sought, the amended
21 application proposes recovery over the seven-year term of the new APS
22 agreement.

23

24 As indicated on Page 9 of the amended application, the requested \$.0267
25 surcharge rate is comprised of three components. The first, \$.01781/kWh,
26 is intended to bring the current power cost recovery rate to a level
27 reflective of current APS costs. After factoring in the 10.69% energy loss
28 rate experienced during the test year in Citizens' last general rate case for
29

1 its Arizona Electric operations, the new \$.05879/kWh APS contract rate is
2 equivalent to a customer charge of \$.06583/kWh. After subtracting the
3 \$.04802/kwh generation cost implicit in current basic service rates, the
4 remaining \$.01781 is included in the requested PPFAC surcharge so that
5 current generation cost recoveries reflect current generation costs.

6
7 The second component of the requested surcharge is a \$.00044/kWh rate
8 intended to cover the increased costs for WAPA transmission service. This
9 was computed by projecting WAPA costs during the requested recovery
10 period.

11
12 The final component of the requested surcharge, \$.00843/kWh, represents
13 the factor necessary to reduce the PPFAC Bank, including future carrying
14 charge accruals, to zero over a seven-year period.

15
16 Q. What is the current balance in the PPFAC Bank?

17 A. As of August 31, 2001, the PPFAC Bank had an under-recovered balance of
18 \$94,441,309. Exhibit CWD-4 demonstrates how the balance has changed
19 from the over-recovered \$2,769,629 balance considered formally by the
20 Commission in connection with its Decision No. 62094 in November 1999.

21
22 **CONCLUSION**

23 Q. Please summarize your testimony.

24 A. The Commission has long recognized the PPFAC as a fair and useful
25 ratemaking tool. It serves to protect both the affected utilities and their
26 customers. Historically, surcharges have been allowed to enable Citizens to
27
28
29

1 recover Bank deficits over a relatively short time period, and surpluses
2 have promptly been refunded or credited to ratepayers. The situation is no
3 different now; only the amount is greater.

4
5 During the past year and one-half, through circumstances beyond its
6 control, Citizens has seen its PPFAC Bank grow to unprecedented levels.
7 The stark reality is that the current under-recovered balance is \$94 million;
8 Citizens' Arizona Electric Division's total operating revenues in 2000 was
9 \$102 million. The Arizona Electric Division has essentially been operating
10 at a cash loss for the past year. Fairness and equity demand that Citizens
11 be given a reasonable opportunity to recover all of the costs it is incurring
12 in connection with the provision of safe, reliable electric service.

13
14 In this request before the Commission, Citizens has proposed a recovery
15 scenario that minimizes the impact on customers, yet provides a fair
16 opportunity to recover its prudently incurred costs. Consistent with the
17 Commission's stated objective of price stability in the recent PGA
18 proceeding, it gives our electric customers price stability for the next seven
19 years. Moreover, approval of this request will result in prices that more
20 closely reflect the cost of service, thereby affording customers an
21 opportunity to better understand the economic consequences of the
22 quantity of and manner in which they consume electricity. That too, is a
23 desirable goal.

1 Finally, a timely resolution of this matter will enable the Company to
2 resume its dialogue with Commission Staff and RUCO to achieve a mutually
3 acceptable arrangement by which it can fully open its service territory to
4 competition and present its customers with new supply options for which
5 they have expressed a strong desire.

6
7 Q. Does this conclude your testimony?

8 A. Yes it does.

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1 Q. What is your educational background?

2 A. I graduated from the University of Nebraska with a Bachelor of Science
3 Degree in Business Administration, major in Accounting. I also received a
4 Master of Business Administration Degree, concentration in Finance from
5 Rockhurst College in Kansas City, Missouri.

6
7 Q. What has been your professional experience?

8 A. Upon graduation from college in 1968, I was employed by the international
9 public accounting firm Arthur Andersen & Co. in its Omaha office. During
10 such employment, I participated in and directed audits and other
11 engagements involving commercial banks, healthcare facilities, public
12 utilities, insurance carriers, and other clients.

13
14 In 1971, I accepted a position reporting to the controller at Central
15 Telephone & Utilities Corporation at its then headquarters in Lincoln,
16 Nebraska. During the five years I was employed by CTU, I directed such
17 activities as financial and regulatory accounting and reporting, internal
18 auditing, budgeting, corporate acquisitions and divestitures, rate cases and
19 other regulatory filings, banking relations, and corporate financings. From
20 1976 to 1981, I was employed by Kansas City Power & Light Company.

21
22 My responsibilities included the corporate audit function, operations
23 budgeting, and rate case filings in Kansas and Missouri and with the Federal
24 Energy Regulatory Commission. During that period, I also served as a
25 member of the Missouri Valley Electric Association, and the Finance and
26 Accounting Committee of the Standardized Nuclear Unit Power Plant
27 System.

28

29

1 From 1981 to 1991, I was employed as a Senior Project Manager for a
2 regulatory consulting firm and successor firm, directing rate case,
3 management audit, litigation support, and other engagements for a
4 clientele that included utility companies, utility regulatory agencies, and
5 intervenors in regulatory proceedings.

6
7 From 1991 through 1996, I was employed as an internal consultant with
8 Northern States Power Company in Minneapolis. My responsibilities
9 included accounting, taxation and cost allocation issues in rate cases and
10 special regulatory proceedings, performing capital investment evaluations,
11 accounting and tax research, developing cost recovery plans, and advising
12 senior management in connection with the development of performance-
13 based ratemaking proposals and strategic policies for a successful transition
14 to a competitive electric utility industry.

15
16 In late 1996, I accepted a position as Tax Research Coordinator for Tucson
17 Electric Power Company. My chief responsibilities included tax research and
18 planning, preparation and review of corporate tax returns, and meeting
19 with representatives of tax authorities. I also served on the corporate
20 planning team addressing industry deregulation and competitive issues, and
21 also directed the team charged with responsibility for creating and
22 implementing a system for strategic business units, and developing the
23 associated accounting and financial reporting practices.

24
25 In January 1997, I was appointed Director of Utilities for the Arizona
26 Corporation Commission. In that capacity, I directed a staff of
27 approximately ninety professional and clerical employees responsible for
28 overseeing railroad and pipeline safety in Arizona and for regulating the
29

1 water, telephone, electric, and natural gas distribution utilities in the State.

2
3 I accepted my current position as Vice President-Regulatory Affairs of the
4 Public Service Sector of Citizens Utilities in February 1998. In that
5 capacity, I coordinate regulatory activities in the ten states served by
6 Sector utilities. In addition, I am a member of the Arizona Utility Tax
7 Issues Group and the Arizona Corporation Commission's Water Utility Task
8 Force.

9
10 Q. What are your professional certifications and affiliations?

11 A. I hold Certified Public Accountant Certificates issued by the respective
12 Boards of Accountancy in Nebraska and Kansas. I am a member of the
13 American Institute of Certified Public Accountants, the National Association
14 of Radio and Telecommunications Engineers ("NARTE"), and the National
15 Association of Railroad and Public Utility Tax Representatives.

16
17 Q. What technical licenses do you hold?

18 A. I hold an Advanced Class FCC Radio License and a Technician Class NARTE
19 certification with regulatory and antennas endorsements.

20
21 Q. What is your teaching experience?

22 A. I have developed and conducted seminars on a variety of topics for
23 employees of public utilities, regulatory agencies, and consulting firms.
24 Since 1993, I have been a member of the faculty of the NARUC Regulatory
25 Studies Program at the Public Utility Institute at Michigan State University.
26 For the past two years I have been an instructor at the Western Utility Rate
27 School, jointly sponsored by NARUC and the Center for Professional
28 Development at Florida State University. I have also taught classes on
29

1 behalf of the U.S. Telephone Association. In connection with my teaching, I
2 have written three instructional books: *Public Utility Income Taxation and*
3 *Ratemaking, Public Utility Working Capital, and Generally Accepted*
4 *Accounting Principles for Utilities.*

5
6 Q. What has been your experience in regulatory proceedings?

7 A. During the past thirty years, I have participated in numerous rate cases
8 and other regulatory and litigation proceedings involving electric, gas
9 transmission and distribution, telephone, water, and wastewater utilities
10 conducted in Alaska, Arizona, California, Colorado, Connecticut, District of
11 Columbia, Florida, Hawaii, Illinois, Indiana, Kansas, Maryland, Minnesota,
12 Missouri, Nevada, New Mexico, North Carolina, North Dakota, South
13 Dakota, Vermont, Virginia, and Wisconsin, as well as proceedings before
14 the Federal Energy Regulatory Commission and the National Energy Board
15 of Canada. I have also spoken before legislative bodies in connection with
16 proposed legislation. I have testified on matters involving financial and
17 regulatory accounting and reporting, auditing, cost allocation, financial
18 forecasting, capital and operations budgeting, taxation, corporate
19 acquisitions, holding companies, valuation and transfer pricing,
20 deregulation, the cost of capital, industry restructuring, and regulatory
21 policy.

**CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION
PURCHASED POWER AND FUEL ADJUSTOR
BANK BALANCE REPORT FA-1
For the Month of August 2001**

Line No.

1	Ending Balance - Prior Month	Under Collected	\$ 91,041,881
2	Jurisdictional Sales	127,156,403	
3	Actual Cost of Generated and Purchased Power	10,003,933	
4	Unit Cost of Power (\$/kWh) (line 3 / line 2)		0.078674
5	Authorized Base Cost of Power (\$/kWh)	0.051940	
6	Authorized Purchased Power Adjustor (\$/kWh)	-	
7	Net Power Costs Billed Customers (\$/kWh) (line 5 + line 6)	0.051940	
8	(Over) / Under-recovery of Power Supply Costs (\$/kWh) (line 4 - line 7)		0.026734
9	Net Increase / (Decrease) in Bank Balance (line 2 X line 8)		3,399,399
10	Adjustments to Bank Balance: Computational Roundings		30
11	Ending Bank Balance - Current Month (line 1 + line 9 + line 10)		\$ 94,441,310
			Under-collected

**CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION
PURCHASED POWER AND FUEL ADJUSTOR
GENERAL INFORMATION FA-2
For the Month of August 2001**

Company Number: E-1032
Company Name: Citizens Communications Company - Arizona Electric Division
Mailing Address: 2901 North Avenue, Suite 1660
Phoenix, Arizona 85012
Contact Person: Carl Dabelstein
Contact Telephone No: (602) 532-4424

Generation:

Gas-fired	\$ 1,618	
Oil-fired	\$ 127,989	
Coal-fired	-	
Other	-	
Total	<u> </u>	\$ 129,606

Purchased Power:

Base Meter Charge	-	
Demand Charge	469,769	
Energy Charge	9,404,558	
Total		<u>9,874,327</u>

Total Cost of Generation and Purchased Power \$10,003,933

Purchased Power (KWh) 159,968,669

Unit Cost of Generated and Purchased Power (\$/kWh) (line 15/ line 16) \$ 0.062537

**CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION
ADDITIONAL INFORMATION
BANK BALANCE REPORT FA-3
For the Month of August 2001**

I. Sales (kWh)

Residential	66,601,750
Commercial	35,560,556
Wholesale	-
Promotional	-
Industrial	12,139,962
Irrigation	22,773
Municipality	12,761,480
Street Lights	<u>69,882</u>
Total Sales	<u><u>127,156,403</u></u>

II. Revenues (\$)

Residential	\$ 5,409,109
Commercial	3,053,819
Wholesale	-
Promotional	-
Industrial	511,447
Irrigation	4,269
Municipality	1,198,368
Street Lights	<u>36,521</u>
Total Revenues (a)	<u><u>\$ 10,213,534</u></u>

III. Number of Customers

Residential	62,985
Commercial	8,207
Wholesale	-
Promotional	-
Industrial	24
Irrigation	33
Municipality	4,437
Street Lights	<u>28</u>
Total Customers	<u><u>75,714</u></u>

(a) Revenue amounts include EFPS surcharges

Note: All amounts are actual; no estimates.

**CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION
Fuel Adjustment Six-Month Forecast
Reporting Month - August 2001**

Line No.	Description	Units	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002
1	Generated and Purchased Power	kWh	120,215,667	99,333,682	104,243,994	115,714,230	112,952,424	106,744,545
2	Sales	kWh	126,332,039	99,001,920	87,190,549	108,205,879	108,690,523	103,029,109
3	Generation Costs:							
4	Gas-fired	\$	-	-	-	-	-	-
5	Oil-fired	\$	200,000	-	-	-	-	-
6	Coal-fired	\$	-	-	-	-	-	-
7	Purchased Power Costs:							
8	Base Meter Charge	\$	-	-	-	-	-	-
9	Demand Charge	\$	457,555	457,555	457,555	457,555	457,555	457,555
10	Energy Charge	\$	7,067,479	5,839,827	6,128,504	6,802,840	6,640,473	6,275,512
11	Total Cost of Generation and Purchased Power	\$	7,725,034	6,297,382	6,586,059	7,260,394	7,098,027	6,733,066
12	Less: Costs to Serve Exempt Customers	\$	-	-	-	-	-	-
13	Net Cost of Generation and Purchased Power	\$	7,725,034	6,297,382	6,586,059	7,260,394	7,098,027	6,733,066
14	Net Unit Cost (line 13 / line 2)	\$/kWh	0.061149	0.063609	0.075536	0.067097963	0.065304935	0.065351107
15	Power Cost in Base Rates	\$/kWh	0.051940	0.051940	0.051940	0.051940	0.051940	0.051940
16	PPFAC Adjustment Factor	\$/kWh	-	-	-	-	-	-
17	Net Power Costs Billed	\$/kWh	0.051940	0.051940	0.051940	0.051940	0.051940	0.051940
18	Net Unit Cost (Over) / Under Recovery (line 14 - line 17)	\$/kWh	0.009209	0.011669	0.023596	0.015158	0.013365	0.013411
19	Net (Over)/Under Power Supply Cost Recovery (ln 2 X ln 18)	\$	1,163,347	1,155,222	2,057,382	1,640,181	1,452,642	1,381,734
20	Beginning PPFAC Bank Balance	\$	94,441,340	95,604,688	96,759,910	98,817,292	100,457,472	101,910,114
21	Ending PPFAC Bank Balance	\$	95,604,688	96,759,910	98,817,292	100,457,472	101,910,114	103,291,849

Citizens Communications Company

Arizona Electric Division

ACC PPFAC Decisions Since 1978

Decision No. 50128 (August 2, 1979)

A \$.014839/kWh PPFAC adjustor was authorized to be added to the existing \$.02202/kWh base cost of power for Mohave and Santa Cruz in order to reduce the under-recovered PPFAC Bank balance over six months.

Decision No. 51702 (December 30, 1980)

In a general rate case for Mohave the PPFAC adjustor was rolled into base rates thereby producing new base cost of \$.036859.

Decision No. 51703 (December 30, 1980)

Commission approved a request to separate the PPFAC Banks for Mohave and Santa Cruz, and the requested increases (\$.00765 for Mohave and \$.007305 for Santa Cruz) in the adjustors developed with the objective of reducing the projected under-recovered PPFAC Bank balance to zero in six months.

Decision No. 52503 (October 2, 1981)

Commission approved increasing the adjustors for Mohave and Santa Cruz by \$.008674 and \$.005580 to reflect increased APS wholesale rates.

Decision No. 53095 (June 28, 1982)

In connection with a Mohave general rate case, the PPFAC adjustor was reset to zero. The new base cost of power was set at \$.058192/kWh.

Decision No. 53195 (August 26, 1982)

New adjustors of \$.005009 and \$.004912 for Mohave and Santa Cruz, respectively, were approved in connection with an expected 22% wholesale price increase by APS.

Decision No. 53347 (December 21, 1982)

This Decision modified the new adjustors approved in the previous order to reflect the actual APS wholesale rate increase. The modified adjustors were \$.012623 for Mohave and \$.005730 for Santa Cruz.

Decision No. 54113 (July 18, 1984)

A \$2.9 million APS refund to Citizens, resulting from a Federal Energy Regulatory Commission ("FERC") compliance audit, was credited to the PPFAC Bank resulting in an over-recovered balance. The Commission directed that the Mohave portion of the refund (\$2.7 million), plus interest accrued at a rate of 10.65% from the date (March 1984) of receipt of the APS refund check, be refunded to customers by check.

Decision No. 54114 (July 18, 1984)

This is the Santa Cruz companion order to the above Decision No. 54113. The Santa Cruz portion of the APS refund was \$500,000. It too, was directed to be refunded to customers, including interest accrued at a rate of 10.65%.

Decision No. 54520 (May 8, 1985)

Citizens proposed a PPFAC surcredit to reflect a \$1.8 million over-recovery in the Mohave Bank balance and the effect of a settlement agreement with APS. During the proceeding, however, a new wholesale rate increase request by APS became known. The Commission ordered a refund of \$1.8 million by a one-time bill credit, and the existing PPFAC adjustor rolled into base rates thereby producing a new power supply rate of \$.070815.

Decision No. 55535 (April 23, 1987)

In connection with a show-cause proceeding associated with a different matter, Citizens requested that it be allowed to reset its PPFAC base rates for Mohave and Santa Cruz. The commission agreed with a Staff recommendation that such changes would better be addressed in a PPFAC proceeding.

Decision No. 55779 (November 13, 1987)

The Commission approved Citizens' request to refund via a one-time bill credit the projected over-collected PPFAC balances of \$2.8 million and \$700,000 for Mohave and Santa Cruz, respectively.

Decision No. 55998 (May 26, 1988)

The Commission approved Citizens' request to refund \$2.7 million and \$600,000 over-collected balances in the PPFAC Bank, for Mohave and Santa Cruz, respectively.

Decision No. 56013 (June 13, 1988)

The Commission approved Citizens' proposed PPFAC adjustor reductions of \$.004 and \$.005, respectively, for Mohave and Santa Cruz.

Decision No. 56134 (September 15, 1988)

Based on existing bank balances and projected costs, the Commission ordered new PPFAC rates that, when combined with the cost of power in base rates, would produce a total recovery more closely in line with current costs. The new adjustors were \$(.015518) and \$(.004975) for Mohave and Santa Cruz, respectively.

Decision No. 56638 (September 14, 1989)

The Company proposed a reduction in its PPFAC rates and requested that the entire revenue requirement associated with the new Valencia turbines located in Nogales be allowed to flow through the PPFAC. During the proceeding, APS filed for a wholesale rate increase with the FERC. The Commission denied the request to include Valencia in the PPFAC and ordered that the current PPFAC adjustors remain in place, pending the outcome of the APS application before the FERC.

Decision No. 56764 (December 20, 1989)

This application was filed by Citizens to incorporate the effects of an APS wholesale price increase. During the proceeding, a settlement was reached between APS and the Company. The Commission ordered a continuation of the existing PPFAC adjustors. It also ordered refunds of the Mohave and Santa Cruz PPFAC Bank balances existing as of the end of 1989.

Decision No. 58360 (July 23, 1993)

This was a general rate case for Citizens' Arizona Electric Division. The Company proposed the consolidation of the two PPFAC banks and the removal of demand charges from the PPFAC. In this Decision, the Commission approved combining the Banks, but denied the request to exclude demand charges. A new base power rate of \$.054029/kWh was also approved.

Decision No. 59170 (July 20, 1995)

This filing was made shortly after Citizens had renegotiated its power supply agreement with APS. The Company proposed a refund of a \$3.4 million over-recovered balance in the PPFAC Bank via check, and the establishment of a new PPFAC factor of \$(.001946). The Commission approved the Company's application and ordered that the Commission Staff perform an audit of the PPFAC Bank and the new agreement with APS in conjunction with Citizens' next electric rate case.

Decision No. 59951 (January 3, 1997)

As part of this general rate case application, Citizens requested that the PPFAC Mechanism be suspended. The Company indicated that, as a result of the new APS agreement, it did not foresee any significant volatility in power supply costs through May 1998. Because there remained uncertainty with respect to the potential effect associated with the expiration of certain features of the contract after May 1998, the Company did not seek termination of the PPFAC. In this Decision, the Commission ordered a continuation of the PPFAC mechanism and a refunding of the existing PPFAC Bank balance (\$2.9 million). The Commission also eliminated the existing PPFAC adjustor and reset the base cost of power to \$.05194/kWh.

Decision No. 62094 (November 11, 1999)

Due to certain retroactive bill adjustments received from APS and an error discovered in the PPFAC Bank accounting entries, the balance was in an over-collected position. Citizens also had been successful in negotiating a reduction in APS demand charges. As a result, the Company made an application to refund the Bank balance over twelve months and reflect the reduction in demand charges by establishing a new PPFAC adjustor. The Commission approved a new PPFAC factor of \$(.00553)/kWh. This is comprised of two elements, one for \$(.00256) to refund the Bank balance over twelve months, and the remaining \$(.00297) as an on-going adjustment to reflect the demand charge reductions.

Decision No. 63139 (November 16, 2000)

Reflecting the magnitude of the initial PPFAC surcharge application made on September 28, 2000, the Commission approved the Company's request to reset the adjustor to zero, on an interim basis.

Citizens Communications Company - Arizona Electric Division

Computation of PPFAC Adjustment Factor

Commission Decision No. 62094

PPFAC Bank Balance as of May 31, 1999	\$ (3,493,914)
Correction for exclusion of special contract customers	(1,958,060)
APS billing adjustment for January - November 1998	4,327,625
Retroactive refund for reduced APS demand charges	<u>(1,645,280)</u>
PPFAC Bank Balance, as adjusted	(2,769,629)
Projected annual demand charge reductions	<u>(3,210,480)</u>
Total costs for PPFAC Adjustor	(5,980,109)
Sales (kWh) during 12 months ending May 31, 1999	<u>1,081,545,954</u>
PPFAC Adjustor	<u><u>\$ (0.00553)</u></u>
Adjustor components -	
PPFAC Bank refund (12 months)	\$ (0.00256)
Demand charge reductions	<u>(0.00297)</u>
Total Adjustor	<u><u>(0.00553)</u></u>

Citizens Communications Company - Arizona Electric Division
 Analysis of Purchased Power and Fuel Costs and Recoveries
 May 1999 - August 2001

<u>Month</u>	<u>Beg. Balance</u>	<u>Purch. Power and Fuel Costs</u>	<u>Sales (kWh)</u>	<u>Base Rate Recoveries @ \$.05194</u>	<u>PPFAC Recoveries @\$(.00553)</u>	<u>Total Recoveries</u>	<u>Adjustments and Roundings</u>	<u>Ending Balance</u>
1999 -								
May	(3,816,294)	4,197,073	74,599,408	3,874,693	-	3,874,693	4,327,625 (a) (1,645,280) (b) (1,958,060) (c)	(2,769,629)
June	(2,769,629)	5,403,138	91,605,382	4,757,984	-	4,757,984		(2,124,475)
July	(2,124,475)	6,215,774	121,885,984	6,330,758	-	6,330,758		(2,239,459)
Aug.	(2,239,459)	6,427,542	110,038,659	5,715,408	-	5,715,408		(1,527,325)
Sep.	(1,527,325)	5,731,841	123,389,827	6,408,868	-	6,408,868		(2,204,351)
Oct.	(2,204,351)	4,434,701	98,667,328	5,124,781	-	5,124,781		(2,894,431)
Nov.	(2,894,431)	3,748,142	76,210,272	3,958,362	-	3,958,362		(3,104,651)
Dec.	(3,104,651)	4,295,122	79,661,848	4,137,636	(440,530)	3,697,106		(2,506,635)
2000 -								
Jan.	(2,506,635)	4,014,768	92,653,402	4,812,418	(512,373)	4,300,044		(2,791,912)
Feb.	(2,791,912)	3,735,554	81,277,993	4,221,579	(449,467)	3,772,112		(2,828,469)
March	(2,828,469)	3,771,286	78,004,636	4,051,561	(431,366)	3,620,195		(2,677,378)
April	(2,677,378)	4,341,731	83,326,472	4,327,977	(460,795)	3,867,182		(2,202,829)
May	(2,202,829)	9,818,131	85,650,223	4,448,673	(473,646)	3,975,027		3,640,275
June	3,640,275	16,087,848	112,423,491	5,839,276	(621,702)	5,217,574		14,510,549
July	14,510,549	20,014,536	126,673,741	6,579,434	(700,506)	5,878,928		28,646,157
Aug.	28,646,157	24,464,665	139,610,062	7,251,347	(772,044)	6,479,303		46,631,519
Sep.	46,631,519	13,517,529	126,820,066	6,587,034	(701,315)	5,885,719		54,263,328
Oct.	54,263,328	6,471,485	104,746,279	5,440,522	(579,247)	4,861,275		55,873,539
Nov.	55,873,539	3,488,711	88,546,355	4,599,098	(296,933)	4,302,165	565,372 (e)	55,060,194
Dec.	55,060,194	5,169,217	85,510,681	4,441,425		4,441,425		56,353,358

<u>Month</u>	<u>Beg. Balance</u>	<u>Purch. Power and Fuel Costs</u>	<u>Sales (kWh)</u>	<u>Base Rate Recoveries @ \$.05194</u>	<u>PPFAC Recoveries @\$(.00553)</u>	<u>Total Recoveries</u>	<u>Adjustments and Roundings</u>	<u>Ending Balance</u>
2001 -								
Jan.	56,353,358	7,042,052	101,621,534	5,278,222	-	5,278,222	122,571 (f)	58,239,759
Feb.	58,239,759	5,803,046	97,342,033	5,055,945	-	5,055,945		58,986,860
March	58,986,860	5,451,914	82,358,803	4,277,716	-	4,277,716		60,161,057
April	60,161,057	10,043,506	86,063,301	4,470,128	-	4,470,128		65,734,435
May	65,734,435	23,581,603	88,621,692	4,603,011	-	4,603,011	(35,996) (g)	84,677,032
June	84,677,032	9,343,796	120,342,085	6,250,568	-	6,250,568		87,770,260
July	87,770,260	9,883,904	127,306,206	6,612,284	-	6,612,284		91,041,880
Aug.	91,041,880	10,003,933	127,156,403	6,604,504	-	6,604,504		94,441,309

Notes:

- (a) Retroactive APS Bill Adjustment for January - November, 1998.
- (b) Retroactive Refunds for November 1998 - May 1999 due to APS Contract negotiations.
- (c) Correction of PPFAC computational errors during January 1997 - May 1999.
Special contract customers' erroneously reflected in PPFAC Bank.
- (d) Partial month only. Commission Decision No. 62094 terminated the \$(.00553) adjustor as of November 19th. It was applied only to 53,695,026 kWh sales.
- (e) Correction to APS Bills for Sept. - Nov.
Refund from Burlington Northern-Santa Fe
616,299
(50,927)
565,372
- (f) Correction to APS Bills for Nov. - Dec.
Correction of computational error in PPFAC Bank
210,315
(87,744)
122,571
- (g) Refund from Burlington Northern-Santa Fe
Uncashed refund checks per Dec. 62759
(12,732)
(23,264)
(35,996)

CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION
DIRECT TESTIMONY OF THOMAS J. FERRY

NOVEMBER 16, 2001

1 Q. Please state your name and business address.

2 A. My name is Thomas J. Ferry. My business address is 2202 Stockton Hill
3 Road, Kingman, Arizona 86401.

4
5 Q. By whom and in what capacity are you employed?

6 A. I am employed by Citizens Communications Company, formerly known as
7 Citizens Utilities Company, ("Citizens" or "Company"). I am the Division
8 Manager, Arizona Electric Division.

9
10 Q. What are your duties and responsibilities?

11 A. I have overall management responsibility for the operation of the electric
12 properties for Arizona Electric Sector. My responsibilities include the
13 operational, financial, planning, and managerial duties that are required to
14 provide electric services to customers within Arizona.

15
16 Q. What is your educational background?

17 A. I received an Associate of Arts and Sciences degree in Electronics
18 Technology from Iowa State University. I have furthered my education
19 since then with several classes related to business law, accounting,
20 business relations and management development at Mohave Community
21 College.

22
23 Q. Please outline your employment history.

24 A. I worked on electric utility industry substation and distribution design and
25 in-service start up for Stanley Consultants in Muscatine, Iowa. In 1972, I
26 joined Citizens as an Engineering Technician and subsequently worked as
27 Distribution Engineer and District Engineer, until I became District Manager
28 for the Lake Havasu District from 1979 to 1985. I served as Property
29

1 Manager for Citizens' Idaho electric and water operations from 1985 to
2 1990, at which time I was promoted to Mohave Electric Division Manager. I
3 was responsible for Arizona Electric operations for a brief time in 1997,
4 prior to joining the corporate's SAP financial system conversion team in
5 Stamford, Connecticut. I served in that capacity until last year, when I
6 again assumed the Division Manager responsibilities for Arizona Electric.
7

8 Q. What geographic areas in Arizona are provided electric service by Citizens?

9 A. Citizens serves customers in Mohave County, which is located in
10 northwestern Arizona, and customers in Santa Cruz County, which is
11 located in the southern part of the state.
12

13 Q. What communities are located in the Arizona Electric Divisions?

14 A. Citizens serves the cities of Kingman, Lake Havasu City, Nogales, and the
15 smaller surrounding communities in Mohave and Santa Cruz Counties.
16

17 Q. How many customers does the Mohave Electric Division serve?

18 A. Citizens serves approximately 59,000 customers in Mohave County and
19 16,000 customers in Santa Cruz County. Approximately 85% of our
20 Mohave County customers are residential, 12% are commercial, and less
21 than 1% are industrial. In Santa Cruz County, approximately 75% of our
22 customers are residential, 14% are commercial, and less than 1% are
23 industrial.
24

25 Q. What is the purpose of your testimony?

26 A. The purpose of my testimony is to explain the initiatives that Citizens has
27 implemented or will implement to assist customers and mitigate the impact
28 of electric price increases caused by purchased power cost increases.
29

1 These initiatives include more flexible payment terms and energy efficiency
2 opportunities. In addition, Citizens has acknowledged the need to increase
3 the lines of communications with our customers regarding the many
4 changes in the electric industry.

5
6 Q. What kinds of initiatives has Citizens undertaken to help customers with
7 their higher monthly bills?

8 A. Citizens has adopted several initiatives designed to assist customers to pay
9 the higher electric bills that result from higher power charges. Citizens has
10 continued its existing low-income programs, enhanced and expanded
11 customer payment options, and implemented new low-income outreach
12 efforts.

13
14 Q. What programs has Citizens implemented to help low-income customers?

15 A. Citizens has continued the CARES program, which provides bill discounts to
16 30% of eligible low-income customers. This program is administered with
17 the assistance of the Arizona Department of Economic Security, the
18 Western Area Council of Government, and the Southeastern Human
19 Resources Council. These agencies identify, qualify, and enroll low-income
20 customers. Additionally, Citizens has worked with these agencies in an
21 effort to increase eligible customer participation in the program.

22
23 Q. Is the CARES program the only assistance for low-income customers?

24 A. No. Citizens also provides a Low Income Outreach Program for the purpose
25 of providing energy efficiency measures to Low Income customers through
26 Community Action Agencies serving the AED service territories. The
27 program includes repair, replacement, or tune-up of electric space and
28 water heating/cooling equipment, and general weatherization measures
29

1 such as installing insulation, repairing ductwork, reducing air infiltration, or
2 minor structural/building envelope repairs. Community Action Agencies is
3 authorized to also use these funds for energy education. In addition,
4 Citizens intends to establish an Electricity Assistance Fund to supplement
5 current government programs for qualifying low-income residential
6 customers. Citizens has directed \$100,000.00 to this fund. Citizens will
7 work with social service agencies to identify eligible candidates and Citizens
8 will credit these customer accounts. The assistance payments will be
9 tracked to avoid duplicate payments. Citizens anticipates that this program
10 will be implemented by the time this case is concluded.

11
12 Q. Is there any other assistance available for these customers?

13 A. Yes. Citizens has recommended another low income assistance effort that
14 provides an opportunity for other customers to help those customers with
15 needs. This is done by the customers remitting additional funds to the
16 "Helping Hands Program". Citizens will match all customer contributions
17 dollar-for-dollar, up to \$10,000.00 per year, and the total funds will be
18 added to the Electricity Assistance Fund.

19
20 Q. Has Citizens attempted to address the concerns of the rest of the
21 company's customers, who may not qualify for low income assistance, but
22 may still be struggling with the higher power costs?

23 A. Yes, Citizens has made expanded payment options available to customers.
24 Citizens has enhanced its Levelized Billing program by extending the
25 program to small commercial customers. In the past, only customers that
26 had not been disconnected for non-payment in the previous 12-month
27 period were eligible for enrollment in the program. As part of this
28
29

1 enhanced program, Citizens now allows customers with two or fewer non-
2 payment disconnects in a 12-month period to enroll in the program. This
3 has increased customer eligibility in the program.
4

5 Q. Has Citizens initiated any other programs?

6 A. Yes, Citizens has provided customers with more flexible payment options.
7 When special circumstances dictate, Citizens has extended the time
8 between the disconnect notice that it sends to delinquent customers and
9 the time that service is disconnected, which gives customers more time to
10 pay. In addition, Citizens will work with customers and arrange for a
11 different payment date for their electric bills to coincide with the time that
12 customers anticipate arrival of their regular paychecks or social security
13 checks. Finally, Citizens has researched debit card and credit card payment
14 options for customers, which would be available for a nominal service fee.
15

16 Q. What steps has Citizens taken to help commercial customers mitigate
17 higher power costs?

18 A. Citizens has implemented several demand-side initiatives targeting
19 commercial customers. To better educate these customers, Citizens has
20 provided a book that details energy conservation measures for commercial
21 customers, and a pamphlet that describes "low-cost, no-cost" measures
22 that have the greatest potential impact on electricity costs to commercial
23 customers. This information has also been distributed at energy seminars,
24 fair booths and programs given to various community groups. Citizens,
25 through its "Good Cents Program" also developed a detailed set of
26 recommended Commercial Building Standards. To further aid commercial
27 customers, Citizens developed a summary "tip sheet" of these
28 recommendations and a guide to working with a professional or
29

1 performance contractor to complete energy improvements. Citizens also
2 began implementation of a Voluntary Load Curtailment program for
3 commercial, industrial and public authority customers whereby they could
4 curtail their load in response to prior day pricing signals received from
5 Citizens' supplier. The program has been suspended because the new
6 service agreement with APS has eliminated the need for this program.
7

8 Q. Did Citizens provide assistance to commercial customers regarding energy
9 efficiency?

10 A. Citizens made three commercial energy auditors available to its commercial
11 customers. The energy auditors performed energy audits for school
12 districts and commercial customers upon request. Citizens sent the results
13 of approximately 600 energy audits that had been previously performed to
14 its commercial customers along with a letter encouraging them to
15 implement energy efficiency recommendations not already completed.
16 Based on those audits, Citizens recommended specific energy efficiency
17 measures to customers, and quantified the potential savings if the
18 measures were implemented. Citizens' energy auditors also reviewed the
19 proposed new construction and expansion plans of several commercial and
20 industrial customers.
21

22 Q. What has Citizens done to inform and educate its customers about the
23 changes in the electric industry and its effect on the customers' bills?

24 A. Citizens has allocated the human and financial resources necessary to
25 implement communication initiatives that are designed to provide timely
26 and accurate information to its customers and other interested parties.
27 Citizens believes it is important to keep its customers informed of all key
28 developments associated with Citizens' request to recover its uncollected
29

1 purchased power costs. Therefore, Citizens has provided status reports to
2 customers and the media through press releases, radio, television and
3 newspaper interviews, press conferences, newsletters, and updated website
4 information. Citizens will continue to provide status reports to employees
5 through customer service training and employee meetings.

6
7 In addition, Citizens continues to provide targeted status reports to key
8 customers, community leaders, low-income agencies, and service clubs. To
9 address and clarify any customer misunderstandings or confusion regarding
10 Citizens' electric power purchases and Citizens' electric operations, Citizens'
11 representatives have visited key community leaders, customers, submitted
12 press releases, newspaper advertising, and updated the company website.

13
14 Finally, Citizens continues to educate the public about energy-savings
15 programs and other customer payment initiatives through a number of
16 channels, including press releases; targeted communications, including
17 personal visits to key customers, community leaders, and low-income
18 agencies; newspaper advertising; and participation on radio and television
19 talk shows.

20
21 Q. Does Citizens encourage its customers to conserve electricity?

22 A. Citizens is implementing aggressive customer energy efficiency measures
23 to educate customers about energy efficiency opportunities, as a means to
24 decrease customer bills and moderate demand during the peak summer
25 electricity usage months. Citizens has expanded and updated the energy
26 efficiency section of its website by including interactive tools such as an
27 appliance energy calculator with associated efficiency recommendations, an
28 index of energy considerations for customers to use when making new
29

1 appliance purchase decisions, an index of energy considerations for
2 residential and commercial customers to use when making construction
3 decisions, and on-line energy self-audits. During the second half of 2000,
4 Citizens offered an incentive program to customers for upgrades to high
5 efficiency air conditioning and approximately 160 customers took
6 advantage of this program to improve the efficiency of their a/c systems.
7 Citizens is currently refining this program and intends to offer it again in
8 late 2001.

9
10 Q. Does Citizens have specific energy efficient programs for residential
11 customers?

12 A. Citizens has implemented a variety of residential energy saving initiatives.
13 Citizens has distributed printed energy conservation materials to residential
14 customers upon request. In addition, Citizens' Good Cents Program for
15 new residential construction will continue. Citizens has also completed a
16 baseline survey of Residential New Construction. Since Citizens began its
17 DSM programs in 1994, the baseline for energy efficient residential
18 construction has improved and Citizens continues to work with its
19 contractors to implement higher efficiency standards for new residential
20 construction. Under a new feature of the program, customers can qualify
21 for a Good Cents Environmental Home by meeting certain criteria including
22 the use of renewable resources.

23
24 Q. Does this conclude your testimony?

25 A. Yes.
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27
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29