

ORIGINAL  
OPEN BILLING AGREEMENT



0000084657

BEFORE THE ARIZONA CORPORATION CO

COMMISSIONERS

- Mike Gleason, Chairman
- William A. Mundell
- Jeff Hatch-Miller
- Kristin K. Mayes
- Gary Pierce

RECEIVED

2008 MAY -1 P 1:10

ARIZONA CORPORATION  
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION  
OF UNS ELECTRIC, INC. FOR  
APPROVAL OF THE ESTABLISHMENT  
OF JUST AND REASONABLE RATES  
AND CHARGES DESIGNED TO REALIZE  
A REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF THE PROPERTIES  
OF UNS ELECTRIC, INC.

Docket No. E-04204A-06-0783

Notice and Filing of  
Exceptions to the  
Recommended Opinion and Order by  
Marshall Magruder  
5 May 2998

The ACC Executive Director's letter of 24 April 2008 provided the Recommended Opinion and Order (ROO) for this case and instructions on filing Exceptions that are herein filed by Marshall Magruder. This filing recommends eight exceptions to the ROO:

- Magruder Exception 1 - Consolidation of Santa Cruz and Mohave County rates for the Residential and Small General Service Rate Categories;
- Magruder Exception 2 - Mandatory Time of Use Rates (TOU);
- Magruder Exception 3 - Inverted (Inclining) Rate Block Structure;
- Magruder Exception 4 - Low-Income Customer Issues;
- Magruder Exception 5 - Outages for Customers on Life Support Equipment;
- Magruder Exception 6 - Magruder Proposed Rate Base Adjustment;
- Magruder Exception 7 - Student Loans and Scholarships; and
- Magruder Exception 8 - PPFAC "Cap".

I certify this filing has been mailed to all parties, as shown on the Service List.

Respectfully submitted on this 5<sup>th</sup> day of May 2008

MARSHALL MAGRUDER

Arizona Corporation Commission  
DOCKETED

By *Marshall Magruder*

MAY -1 2008

Marshall Magruder  
PO Box 1267  
Tubac, Arizona 85646-1267  
(520) 398-8587  
marshall@magruder.org

DOCKETED BY *nr*

RECEIVED

APR 29 2008

ARIZONA CORP. COMM

1 **Service List**

2 Original and 19 copies are filed this date:

3  
4 **Docket Control** (13 copies)  
5 **Arizona Corporation Commission**  
6 1200 West Washington Street  
7 Phoenix, Arizona 85007-2927

8 **Dwight Nodes**, Administrative Law Judge (1 copy)  
9 **Tenna Wolfe**, Administrative Law Judge (1 copy)  
10 **Ernest G. Johnson**, Director Utilities Division (1 copy)  
11 **Christopher Kempley**, Chief Counsel (1 copy)  
12 **Maureen Scott**, Senior Staff Counsel (1 copy)  
13 **Kevin Torrey**, Staff Attorney (1 copy)

14 Additional Distribution (1 copy each):

15 **Michael W. Patten**, Attorney for the Applicant  
16 Roshka, DeWulf & Patten, PLC  
17 One Arizona Center  
18 400 East Van Buren Street, Suite 800  
19 Phoenix, Arizona 85004-2262

20 **Raymond S. Heyman**, Corporate Counsel  
21 **Michelle Livengood**, Attorney  
22 UniSource Energy Services  
23 One South Church Avenue, Ste 200  
24 Tucson, Arizona 85701-1621

25 **Daniel Pozefsky**, Assistant to Chief Counsel  
26 Residential Utility Consumer Office (RUCO)  
27 1110 West Washington Street, Ste 220  
28 Phoenix, Arizona 85007-2958

29 **Robert J. Metli**, Attorney for PWCC and APS  
30 Snell & Wilmer, L.L.P.  
31 One Arizona Center  
32 400 East Van Buren Street  
33 Phoenix, Arizona 85004-2202

34 **Thomas L. Mumaw**, Attorney  
35 **Deborah A. Scott**, Attorney  
Pinnacle West Capital Corporation  
P. O. Box 53999, Mail Station 8695  
Phoenix, Arizona 85072-3999

**Barbara A. Clemstine**  
Arizona Public Service Company  
P. O. Box 53999, Mail Station 9708  
Phoenix, Arizona 85072-3999

Interested Parties (1 copy each) are filed this date by mail:

Santa Cruz County Supervisors:  
**Manny Ruiz**, Chairman  
**Bob Damon**, Supervisor  
**John Maynard**, Supervisor  
**Louis Parra**, Assistant Santa Cruz County Attorney  
Santa Cruz County Complex  
2150 North Congress Drive  
Nogales, Arizona 85621-1090

City of Nogales  
**Jose Machado**, Temporary City Attorney  
Nogales City Hall  
777 North Grand Avenue  
Nogales, Arizona 85621

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

**EXCEPTIONS TO THE  
RECOMMENDED OPINION AND ORDER**

**BY**

**MARSHALL MAGRUDER**

**05 MAY 2008**

**In the matter of  
the**

**APPLICATION  
OF UNS ELECTRIC, INC.,  
FOR THE APPROVAL OF THE  
ESTABLISHMENT OF JUST AND REASONABLE  
RATES AND CHARGES  
DESIGNED TO REALIZE A  
REASONABLE RATE OF RETURN ON THE  
FAIR VALUE OF THE PROPERTIES OF  
UNS ELECTRIC, INC.**

**Table of Contents**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

Notice of Filing .....	1
Service List .....	2
Title Page .....	3
Table of Contents .....	4
<b>Magruder Exception 1 - Consolidation of Santa Cruz and Mohave County rates for the Residential and Small General Service Rate Categories .....</b>	<b>5</b>
<b>Magruder Exception 2 - Mandatory Time of Use Rates (TOU).....</b>	<b>7</b>
<b>Magruder Exception 3 – Inverted (Inclining) Rate Block Structure.....</b>	<b>9</b>
<b>Magruder Exception 4 –Low-Income Customer Issues .....</b>	<b>11</b>
<b>Magruder Exception 5 – Outages for Customers on Life Support Equipment .....</b>	<b>13</b>
<b>Magruder Exception 6 – Magruder Proposed Rate Base Adjustment .....</b>	<b>15</b>
<b>Magruder Exception 7 – Student Loans and Scholarships .....</b>	<b>17</b>
<b>Magruder Exception 8 – PPFAC “Cap” .....</b>	<b>19</b>
<b>An Administrative Exception.....</b>	<b>21</b>

1 **Magruder Exception 1**

2 **Consolidation of Santa Cruz and Mohave County Rates for the**  
3 **Residential and Small General Service Rate Categories**

4 (ROO, at 52)

5  
6 Background.

7 All parties agreed the existing residential (including CARES) and small general service rate  
8 categories are higher in the Santa Cruz than in the Mohave service area. The Company, RUCO,  
9 and Magruder, agreed rate differences between counties are not used by other multi-county  
10 utilities, such as UNS Gas, APS, or Southwest Gas. This two county difference in rates is a legacy  
11 from the Citizens Utilities' acquisition of two electric companies with different rate schedules.  
12 Santa Cruz residents and small businesses have paid higher rates than their equivalent  
13 ratepayers in Mohave County for several decades. The other rate categories were consolidated  
14 years ago. All parties recommended consolidation of this rate inequity in residential (including  
15 CARES) and small general service rate categories in Santa Cruz and Mohave service areas. No  
16 reasons exist to continue with separate rates. The Staff agrees, but its consultant believes this  
17 should be done through two rate cases. The Staff consultant's concern was that the planned rate  
18 change, before 1 June 2008 would have been minor and a wrong price signal might be sent to  
19 ratepayers. He recommends this to occur incrementally over this and the next rate case. As  
20 discussed and recommended in the ROO at 70, a PPFAC adjustor rate change of 1.73 cents per  
21 kWh is to be implemented on 1 June 2008. It is not possible to implement the planned rate  
22 change before that date. The Staff is concerned about the possible price signal because of the  
23 rate case minor increase. However, the overall 16% PPFAC rate adjustor will dominate that  
24 change. The Company, RUCO and Magruder agree that the difference between the two counties  
25 should be eliminated in this rate case. The ROO concurs with Staff's recommendation.

26 This Exception makes changes to conform to the Company's initial recommendation.

27  
28 Recommendations:

- 29 a. Remove the inequality in this rate case with the Company, RUCO and Magruder positions.
- 30 b. Make the following changes to the ROO:
- 31 1. Page 53, lines 6 and 7 (an administrative correction), change first sentence to read:
- 32 "Mr. Magruder proposes the residential rates in both Counties be consolidated into
- 33 one residential rate and the small service customer rates in both Counties be
- 34 consolidated into one small general service rate."
- 35 2. Page 53, lines 10 to 16, change this paragraph to read:

1 "We believe the Staff's recommendation is appropriate; however, the anticipated  
2 pre-June 2008 rates will be implemented simultaneously with significant rate  
3 increases with a PPFAC adjustor rate cap of \$1.73 per kWh and a new DSM  
4 adjustor. This will minimize Staff's concerns. We adopt the Company's  
5 consolidated rates in this rate case in order to eliminate an existing rate inequality  
6 involving the two counties."

- 7 2. Page 80, line 16, add new paragraph 25 and renumber remaining to conform, with  
8 new paragraph 25 to read:

9 "25. Combine rates of residential customers, including CARES and CARES-M  
10 customers, and of small general service customers of Santa Cruz and Mohave  
11 Counties into one for each category, as proposed by UNSE."  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

1 **Magruder Exception 2**  
2 **Mandatory Time of Use Rates (TOU)**  
3 (ROO, at 50)  
4

5 Background.

6 At present, no Time of Use (TOU) rates are available for residential (including CARES) or small  
7 general service customers. All parties agree with the Company about the mutual benefits of a  
8 TOU rate structure; however, the Staff did not concur with making TOU mandatory. Staff  
9 recommends continuing to make TOU rates voluntary for these customers. The Staff witness's  
10 concern was that customers using less than 2,000 kWh per month may not benefit from TOU  
11 because of the additional \$30 required for a TOU meter. His concern about meter costs for new  
12 customers is not an issue because TOU rates proposed would only be for new customers in these  
13 categories. The Company testified this addition \$30 per TOU meters benefits Company; they are  
14 worth the cost because they provide near real time, objective, and accurate system data. TOU  
15 services are now an option for large general service customers. Only a few large service general  
16 ratepayers would need new TOU meters which might be the only costs to implement TOU rates  
17 for this category. New customers would purchase new meters, including TOU meters. The  
18 Company's long-term goal is to have all its customers using TOU rates. However, some  
19 customers may have exceptions that would be uncovered during their pre-service interviews with  
20 the Company. Non-TOU rates could be permitted on a case-by-case basis, as recommended by  
21 RUCO.

22 Existing residential and small general service customers may want the benefits of TOU rate  
23 structure. Mr. Magruder recommended that the Company also absorb the TOU meter conversion  
24 costs of converting to a TOU meter as those customers already paid for a meter.

25 Requiring TOU rates for all new customers is a way to shift peak demand to non-peak  
26 hours. TOU rates should be implemented along with allowing existing customers in the TOU rate  
27 categories to convert to the TOU rate structure without additional expense.

28 To help customers during the summer 2008 months, implementation of the limited  
29 mandatory TOU rates at the approval of this decision is preferred to waiting six months as  
30 recommended by the Company. Implementation of TOU in December would miss giving the price  
31 signals about peak rates this summer season when the 16% PPFAC adjustor is implemented.

32 This Exception makes changes to conform with the Company's initial recommendation  
33 providing a TOU opportunity for all UNSE customers, with only new and the few large general  
34 service customers being directed towards mandatory rates.  
35

1 Recommendations:

- 2 a. Provide mandatory TOU rates for all new residential and small general service rate categories,  
3 make mandatory TOU rates for large general service customers, and provide optional TOU  
4 rates for all other rate categories.
- 5 b. Make the following changes to the ROO:
- 6 1. Page 50, line 27, change "instead of continuing TOU as a voluntary option" to read  
7 "for all new residential and small general service rate categories and for existing  
8 large business service (>1,000 kWh) customers."
- 9 2. Page 51, lines 16 and 17, delete the sentence  
10 "However, we agree with Staff that a plan should not be made mandatory, at this  
11 time, because the vast majority of residential customers would not benefit from  
12 participation."
- 13 3. Page 51, after line 21, add a new paragraph:  
14 "We recommend the Company's proposed TOU mandatory rate structure, for new  
15 residential, new small general service customers, existing large general service  
16 (>1,000 kW) customers at the effective date of this decision. The Company will  
17 conduct an extensive information campaign for ratepayers. Further, the Company  
18 will develop and implement a process for existing customers to convert to the TOU  
19 rate structure within 30 days of a TOU conversion request. This should be done  
20 for all rate categories within 60 days after the effective date of this decision."
- 21 4. Page 65, line 10, delete "Given our rejection of UNSE's mandatory TOU proposal," and  
22 capitalize "It" to begin a new sentence.
- 23 5. Page 80, line 16, add new paragraphs 25 and 26 and renumber remaining to conform:  
24 "25. For new residential customers, including CARES and CARES-M customers, for  
25 new small general service customers, and for existing large general service (>1,000  
26 kW) customers, the mandatory Time of Use (TOU) rate mechanism proposed by  
27 USNE shall be implemented at the effective date of this decision. The Company will  
28 conduct an extensive TOU information and publicity program for new customers.  
29 26. The Company shall develop and implement a process for existing customers to  
30 convert to the TOU rate structure within 30 days of a TOU conversion request for all  
31 rate categories to be implemented 60 days after the effective date of this decision  
32 and following an extensive TOU conversion information publicity program."
- 33  
34  
35

1 **Magruder Exception 3**  
2 **Inverted (Inclining) Rate Block Structure**  
3 (R00, at 22)  
4

5 Background.

6 All parties agree with the Company's proposed inverted (Inclining) rate block structure will reduce  
7 total customer demand with mutual benefits for the Company and ratepayer. The Company,  
8 RUCO and Magruder agreed with the Company recommendation to approve inverted (inclining)  
9 block rate structure for residential and small general service customers. The Staff agrees, in  
10 principle, with this rate structure; however, its witness was concerned that with a minor rate  
11 increase, some customers might have decreased rates due to a small overall rate increase. Since  
12 the planned rate increase did not occur before the 1 June 2008, the Staff consultant  
13 recommended against adoption of the inverted rate block structure because it might cause  
14 confusion. Since this minor rate increase will be combined with a significant 1.73 cents per kWh  
15 PPFAC charge, this concern becomes much less of a concern. To help customers during the  
16 summer 2008 months, implementation of the inverted rate block structure on approval of this  
17 decision is preferred compared to six months later, after the summer season.

18 This Exception makes changes to conform to the Company's inverted (inclining) rate block  
19 structure recommendations.  
20

21 Recommendations:

- 22 a. Provide for inverted block rate structures for both the residential and small business service  
23 rate categories within three months.  
24 b. Make the following changes to the ROO:  
25 1. Page 52, lines 10 to 14, change to read as follows:

26 "We agree with Staff that the practical implications of designing an inverted block  
27 rate structure might create customer confusion if some customers were  
28 experiencing a rate decreases while others experience rate increases. Due to a 1  
29 June 2008 implementation of the new PPFAC adjustment that increases rates  
30 1.73 cents per kWh, such concerns become less important when compared to  
31 providing ratepayers an opportunity to use the "block" concept to save electricity  
32 costs. Customers can deliberately reduce their total demand to avoid impact of  
33 higher block rates.

34 We support the Company's proposed inverse (or inclining) block structure to be  
35 implemented at the approval of this order. We support the Company providing

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

information campaign about block structure impacts so customers understand the price signals this rate structure implements.”

2. Page 80, line 16, add new paragraph 25 and renumber remaining to conform, with new paragraph 25 to read:

“25. For all residential customers, including CARES and CARES-M customers and small general service customers, the UNSE proposed Inverse (or inclining) block rate structure will be implemented on the effective date of this decision. The Company will conduct an extensive publicity and information campaign explaining the inverse rate block structure to its customers.”

1 **Magruder Exception 4**  
2 **Low-Income Customer Issues**  
3 ROO, at 55)  
4

5 Background.

6 In general, the Company has provided a solution for using payday loan offices as its official "cash"  
7 payment agents. The Company's 22 February 2008 filing in Docket No. G-04304A-06-0463 et al  
8 provides this alternative and will cease the Company's fee payments to these bill payment agents  
9 with a customer charge fee of \$1.50 to use PayScan™ bill payment capability at any Circle K  
10 facility. The Company's filing also stated that payday loan companies may continue as a billing  
11 agent, without receiving a bill payment agent fee (less than 50 cents per payment) and remain a  
12 USNE (and UNSG) payment agent.

13 Loan companies that charge more than 36% interest (APR) are generally considered  
14 predatory. Payday loan companies used by UNSE as billing agents charge up to 400% interest  
15 (APR). Mr. Magruder recommended the Company be required to cease using payday loan  
16 companies as UNSE/UNSG billing agents unless it meets the requirements recommended by the  
17 Customer Law Center. Low-income customers remain the most vulnerable to high-interest,  
18 predatory loans. Last summer Congress passed a law that prohibits any loans to armed forces  
19 service personnel in excess of 36% (APR). The Consumer Law Center guidelines also consider  
20 36% (APR) to be the maximum loan rate for utility bill paying customers who pay their bills in  
21 cash. Unless these loan organizations conform to non-predatory (<36%) rates, then termination of  
22 that payday loan organization as an UNSE "bill payment agents" is appropriate. Upon  
23 termination, the UNSE/UNSG web sites and billing statements must be modified to delete any  
24 reference to known predatory loan companies. A minor correction is also included.

25 This Exception deletes use of high-interest loan organizations from acting as a Company bill  
26 payment agent.  
27

28 Recommendations:

- 29 a. Require the Company to cease using payday loan establishments as bill payment agents.  
30 b. Make the following changes to the ROO:  
31 1. Page 55, line 26, (administrative correction) change "Company" to read "payday loan  
32 company".  
33 2. Page 56, line 17, before the period add:  
34  
35

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

“, to terminate any bill payment agent who has loans that exceed 36% per annum interest rates, and to remove of all references to such organizations at UES (UNSE) websites, and from all customer billing statements.”

3. Page 81, line 16, before the period add:

“, to terminate any bill payment agent who offers loans with interest rates exceeding 36% per annum and to remove of all references to such organizations on UES (UNSE) websites, and from all customer billing statements.”

4. Page 85, line 6, before the period add:

“, terminate any bill payment agent who offers loans with interest rates exceeding 36% per annum and remove of all references by UNSE to such organizations.”

1 **Magruder Exception 5**  
2 **Outages for Customers on Life Support Equipment**  
3 (ROO, at 58)  
4

5 Background.

6 The Company has a program that provides lower rates for customers on life-support equipment  
7 called CARES-Medical. The Company is responsible for the safety of all its electricity customers  
8 and can not routinely terminate services for the CARES-M customers. The CARES-M program  
9 requires periodic customer updates that require a physician's verification signature on their  
10 CARES-M tariff applications.

11 Some other ratepayers are also on life support equipment. Most critical, life-support  
12 equipment has a battery backup capability or its loss of use is not life-threatening if power is lost  
13 for certain periods of time. Some of these customers have critical life support equipment that may  
14 cause harm to them, if a power outage exceeds a certain period of time. This is a critical safety  
15 concern.

16 Mr. Magruder recommended that a system be developed to notify all customers on life-support  
17 of an outage within the period of time before personal harm may occur.

18 The Company position opposes this because it (a) is concerned about sharing customer  
19 information with law enforcement agencies, (b) does not know where its customers are located,  
20 and (c) does not know what kinds of life-support equipment is used by its customers. The  
21 Company is the only source of a power outage. The third-party information sharing with law  
22 enforcement agencies is specifically permitted under the Arizona Administrative Code. The  
23 Company knows the physical location of all its meters. The Company requires all CARES-M  
24 customers to provide a special statement of their life support condition with their physician's  
25 signature.

26 County Sheriffs are responsible for overall coordination of public safety issues within their  
27 counties and its cities and towns. The Santa Cruz County Sheriff has agreed to set up a  
28 notification system so the appropriate First Responders can notify those who may be harmed by  
29 loss of life-support equipment during an electrical outage. The Company is the best source of  
30 outage information and the locations of its electrical customers' (i.e., meters).

31 A customer survey can be developed to obtain additional information, periodically, from life-  
32 support users. A list of impacted customers could be developed based on the customer's physical  
33 address and a list could be provided to the Sheriff. The company would need to inform the Sheriff  
34 of only those in the outage area. The Sheriff would determine the best fire, police or other first  
35 responder to inform life-support customers of the outage. No such system exists at this time.

1 This Exception establishes an outage notification program for all life-support customers.

2

3 Recommendations:

4 a. Require the Company to propose administrative changes to implement a notification process  
5 that might reduce the risk of harm to any customer on life-support equipment during an electrical  
6 outage.

7 b. Make the following change in the ROO.

8 1. Page 59, on line 1, change "may" to read "shall".

9 2. Page 86, on line 2, change "may" to read "shall".

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

1 **Magruder Exception 6**  
2 **Magruder Proposed Rate Base Adjustment**  
3 (ROO, at 59)  
4

5 Background.

6 The ACC Staff-Citizens (now UNSE) Settlement Agreement was implemented by ACC Order No.  
7 62011 of 2 November 1999. It included a detailed Plans of Action (POA) to improved reliability in  
8 the Santa Cruz service area. This POA was developed in response to an earlier ACC Decision  
9 No. 61383 by the Company, approved by the Staff, and implemented. Citizens submitted many  
10 tasks in it would accomplish. Distribution outages dominate customer reliability in the Santa Cruz  
11 service area. To improve distribution reliability, known defective underground cables and utility  
12 poles were detailed into 32 projects, each with a schedule of the number of feet of underground  
13 cable to be replaced or number of utility poles to be replaced each year, and the funding per year  
14 for each project. The total POA funding for these 32 projects was \$15,561,520. Many projects  
15 have not been started as of 2008, nor completed in designated housing developments or areas of  
16 the City of Nogales. A detailed accounting, by project, for the number of defective poles or feet of  
17 defective utility cable replaced and funds spent on each project is necessary to determine  
18 compliance. Mr. Magruder contends many known deficient poles and cables have not been  
19 replaced. The acquisition of Citizens by UniSource Energy did not eliminate the requirement of  
20 the details in this ACC Order for each individual project. In addition, a review of all UNSE projects  
21 completed since inception, a total amount of \$282,440 was completed prior to this acquisition and  
22 claimed by UNSE for pole and cable replacements. Mr. Magruder feels this \$282,440 and the  
23 \$15,651,520 for 32 defective cable and utility pole replacement projects should not be included  
24 the rate base for UNSE until compliance status is clearly presented by the Company.

25 This Exception sets up a process to determine the status of ACC-ordered projects contained in  
26 the Staff-Citizens Settlement Agreement including replacement of 20 defective utility pole  
27 projects, 12 defective underground cable projects, and other work accomplished prior to  
28 UniSource Energy's acquisition of Citizens.  
29

30 Recommendations:

- 31 a. Require the Company to provide evidence that each of the 32 projects has been completed  
32 and that the allocated budget for each project was spent on these reliability improvements.  
33 b. Require the Company to provide a revised Plan of Action for those projects not started or not  
34 completed and/or provide evidence that verifies each underground cable and/or utility pole not  
35 replaced presently meets or exceeds its performance specification(s).

1 c. Require the Company to determine if the \$232,440 for work accomplished prior to acquisition  
2 has already been claimed or is valid claim for UNSE's rate base.

3 d. Make the following changes to the ROO:

4 1. Page 60, line 14, after the period, add new sentences to read:

5 "This detailed response will provide evidence, (a) for each of the 20 utility pole  
6 replacement projects, the planned budget and the number of poles to be  
7 replaced, the actual number of poles replaced and the total cost of each project  
8 and (b) for each of the 12 underground cable replacement projects, the planned  
9 budget, the number of feet of cable to be replaced, the total number of feet of  
10 cable replaced and the total cost of that underground cable replacement project.  
11 Further, for any of these 32 projects not fully completed, the Company shall  
12 include a Plan of Action for completion of that project or validate that the poles  
13 or cable for that project which were not replaced meet or exceed the Company's  
14 technical performance specifications for that underground cable or utility pole.  
15 Also, in this filing, determine the rate base status of the \$232,440 work that Mr.  
16 Magruder claimed had been accomplished prior to the UNSE acquisition and  
17 the \$15,561,520 allocated to the 32 incomplete replacement cable and pole  
18 projects."

19 2. Page 84, line 20, after the period, add new sentence to read:

20 "The Company will provide complete information and evidence for each of the 32  
21 replacement cable and pole projects in this filing."  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

**Magruder Exception 7**  
**Student Loans and Scholarships**  
(ROO, at 60)

Background.

In 1999, Citizens (now UNSE) and the City of Nogales entered into a Settlement Agreement to resolve unreliable electrical service; on the side of the City, was settled with prejudice. The Agreement provided a series of measures intended to improve both the reliability and relationships between the Company and the City. This Settlement Agreement was approved by the Commission and implemented in ACC Order No. 61793 on 29 June 1999. Provisions included establishing a Citizens Advisory Council to receive input from the public and discuss alternatives to community issues, and to keep the public informed, for example about PPFAC, DSM and REST adjustors implemented in this rate case, and submission of a plan to improve reliability implemented in a later ACC Staff-Citizens Settlement Agreement. The Company's Plan of Action for replacement defective utility poles and underground cables is in the ACC Staff-Citizens Settlement Agreement, not the City of Nogales-Citizens Settlement Agreement. Most Articles in the City of Nogales agreement have been fully implemented.

A student scholarship/loan Article has several conditions including an annual award funded by the Company to be a four-year, \$3000 award to a high school student in Santa Cruz County, providing the student attend an Arizona university, and this scholarship to be in the form of an interest-free loan and "forgiven" if awardees return to work in the County for two years. Otherwise this interest-free loan would have to be repaid to the Company. The Company would work with others to expand this local scholarship-loan into a long-term program. To date, no such scholarship-loans have been awarded that meet these conditions. Mr. Pignatelli stated he had complied with seven awards. As of 1 January 2008, the Company is \$93,000 in arrears of such awards. Mr. Magruder recommends that two or more annual scholarship loans until the Company makes up its deficiency.

This Exception establishes a process to ensure that compliance with the student scholarship/loan program is established and that prior funding requirements not met are recovered in future years.

Recommendations:

- a. Require the Company to meet all the annual funding requirements, including those in arrears, and all terms and conditions for student scholarships and loans from the City of Nogales-Citizens Settlement Agreement that was implemented in an ACC Order.

1 b. Make the following changes to the ROO:

- 2 1. Page 60, line 18, change the word "Company" to read "UNSE's predecessor Company  
3 Citizens".  
4 2. Page 61, line 5, change "\$3,000 annual" to read "an annual four-year \$3,000".  
5 3. Page 61, lines 13 to 24, change to read:

6 "It is not clear from the evidentiary record, but the late-filed exhibits submitted by  
7 Mr. Magruder; clearly show that UNSE is not in compliance with its obligations  
8 under the prior City of Nogales-Citizens Settlement Agreement. Mr. Magruder has  
9 taken the position that this agreement has never been fulfilled by either Citizens or  
10 UNSE. Mr. Magruder has met with UNSE's Vice President Mr. Ferry and provided  
11 him copies of the Settlement Agreement to ensure the Company understood its  
12 obligations prior to filing of the Reply Briefs. The resultant Company Reply Brief  
13 filing contained new information of prior scholarship loan awards that led Mr.  
14 Magruder to the details he had previously requested by data requests that were  
15 denied by UNSE. This new information resulted in Mr. Magruder's late-filed  
16 evidence. His late-filed evidence that contains exhibits detailing noncompliance. It  
17 showed that the Company is in arrears \$93,000 as of 1 January 2008 and has not  
18 adhered to the terms and conditions for the four-year, \$3000 annual scholarship-  
19 loans. Furthermore, Mr. Magruder showed that none of the seven awards claimed  
20 by Mr. Pignatelli were made by Citizens, only three of seven meet the condition  
21 that recipients attend Arizona schools, none had the proscribed annual amount of 4  
22 x \$3,000, no loans were for four years, and none included the loan interest-free or  
23 forgiveness condition if recipients returned to Santa Cruz County to work for two-  
24 years after graduation. This last condition is significant in a mostly rural county  
25 where 19.4% of its citizens over 25 years old have less than a ninth-grade  
26 education and 60% have not graduated from high school.

27 We always expect full compliance with each condition, therefore UNSE will file  
28 a plan to all parties in this docket and the City of Nogales within 60 days after the  
29 effective date of this Decision to makeup any arrears funding and to comply with  
30 every condition in the City of Nogales-Citizens Settlement Agreement in the future.  
31 Furthermore, in succeeding rate cases, UNSE (or its successor) will provide full  
32 financial details of the annual awards and show compliance with the Settlement  
33 Agreement conditions, through the year 2020, unless the City of Nogales  
34 Settlement Agreement is modified."

- 35 4. Page 85, lines 7 to 10, replace with the following paragraph:

1 "UNSE will file a plan to all parties in this docket and the City of Nogales within 60  
2 days after the effective date of this Decision to makeup any arrears funding and to  
3 comply with every condition in the City of Nogales-Citizens Settlement Agreement  
4 in the future Furthermore, in succeeding rate cases, UNSE (or its successor) will  
5 provide financial details of the annual awards including total awards to date  
6 compared to an annual award amount of at least \$12,000, loans that were  
7 forgiven or converted into no-interest loans showing compliance with the  
8 Settlement Agreement conditions, through the year 2020, unless Santa Cruz  
9 County scholarship-loan program is modified or deleted and this information is  
10 also filed in this docket and in the re-opened Docket No E-01032A-99-0401 (ACC  
11 Decision No. 82011) within 30 days after any such modification."  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35

1 **Magruder Exception 8**

2 **PPFAC "Cap"**

3 (ROO, at 68)

4  
5 Background.

6 Mr. Magruder does not take exception to the recommended PPFAC process, an annual PPFAC  
7 adjutor 'cap" of \$1.73 per kWh to reduce rate shock, or not having a "circuit breaker". The new  
8 PPFAC adjutor will be at "cap" on the implementation date of 1 June 2008. This rate increase is  
9 significantly higher than an anticipated rate on an effective date of this rate case in January 2008.  
10 The rate changes from this rate case and the PPFAC adjutor will be implemented  
11 simultaneously. This "exception" is to ensure both occur on the same date, so customers have  
12 only one rate change. The inclusion of the combining of Santa Cruz and Mohave rates for  
13 residential and small general service customers, Time of Use, and Inverted (inclining) rate block  
14 changes are all logical rate changes providing customers with TOU, a way to lower peak demand  
15 costs, and with lower monthly demand costs of the rate block mechanism.

16 This Exception ensures multiple rate changes occur on 1 June 2008.

17  
18 Recommendations:

- 19 a. Adopt the ROO recommendations for the PPFAC process and PPFAC adjutor rate cap of  
20 \$1.73 per kWh.
- 21 b. Make the following changes to the ROO.
- 22 1. Page 83, change lines 4 and 5, to read:
- 23 "IT IS FURTHER ORDERED that the revised schedules of rates and charges, the  
24 2008 DSM adjutor, and the 2008 PPFAC adjustors shall be effective for all  
25 service rendered on and after 1 June 2008. The REST adjutor was previously  
26 ordered in another docket."
- 27 2. Page 84, on line 13; (administrative) change the first 2009, to read "2008".
- 28  
29  
30  
31  
32  
33  
34  
35

## Administrative Exceptions

### Background.

During the course of the review of the ROO, several administrative (minor) changes were noted that would either correct or clarify the wording of the ROO. These are numbered below.

### Recommendations:

1. Page 3, at line 9, the filing date for Mr. Magruder was indicated as "July 13, 2007". This filing was made at the Tucson ACC Offices on 12 July 2007, stamped on that date and is equivalent to being received simultaneously at ACC Docket Control in Phoenix. Further, this and all other the Magruder filings were made at the Tucson ACC offices on or prior to the filing due date. The resultant corrections are recommended:
  - a. Page 3, line 9, replace the first period and with ", and" and delete "on July 13, 2007".
  - b. Page 3, lines 15 and 16, replace the period, with ", and" and delete "on August 28, 2007".
  - c. Page 4, lines 4 and, after "UNSE," insert "Mr. Magruder," and delete second sentence starting with "Mr. Magruder..."
  - d. Page 79, lines 18 and 19, to read as "...Staff, RUCO and Mr. Magruder."