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BEFORE THE ARIZONA POWER PLANT AND TRANSMISSION LINE SITING COMMITTEE
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. L-00000B-00-0105
SALT RIVER PROJECT, OR THEIR)
ASSIGNEE(S), IN CONFORMANCE WITH THE) NOTICE OF FILING DIRECT
REQUIREMENTS OF THE ARIZONA REVISED) TESTIMONY
STATUTES §§ 40-360.03 AND 40-360.06 FOR A)
CERTIFICATE OF ENVIRONMENTAL)
COMPATIBILITY AUTHORIZING THE)
CONSTRUCTION OF NATURAL GAS-FIRED,)
COMBINED CYCLE GENERATING FACILITIES)
AND ASSOCIATED INTRAPLANT)
TRANSMISSION LINES, SWITCHYARD IN)
GILBERT, ARIZONA LOCATED NEAR AND)
SOUTHEAST OF THE INTERSECTION OF VAL)
VISTA DRIVE AND WARNER ROAD.)

The Arizona Utility Investors Association ("AUIA"), through undersigned counsel, hereby provides notice that on this day it has filed the Direct Testimony of Walter W. Meek in the docket captioned above.

RESPECTFULLY SUBMITTED this 13th day of September, 2000.

ROSHKA HEYMAN & DEWULF, PLC

By:

Raymond S. Heyman
400 North 5th Street, Suite 1000
Phoenix, Arizona 85004
Attorneys For Arizona Utility Investors Association

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1 **Original and 25 copies of the foregoing**
filed this 13th day of September, 2000, with:

2
3 Docket Control
4 Arizona Corporation Commission
1200 West Washington Street
5 Phoenix, Arizona 85007

6 **Copy of the foregoing hand-delivered**
this 13th day of September, 2000, to:

7 Janice M. Alward, Esq.
8 Legal Division
9 Arizona Corporation Commission
10 1200 West Washington Street
11 Phoenix, Arizona 85007

12 Deborah Scott, Director
13 Utilities Division
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15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 **Copy of the foregoing mailed**
this 13th day of September, 2000, to:

18 Kenneth C. Sundlof, Esq.
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DIRECT TESTIMONY

OF

WALTER W. MEEK

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Walter W. Meek. My business address is 2100 North Central Avenue, Suite 210, Phoenix, Arizona 85004.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the president of the Arizona Utility Investors Association ("AUIA" or "Association"), a non-profit organization formed to represent the interests of shareholders and bondholders who are invested in utility companies based in or doing business in the state of Arizona.

Q. DO SOME AUIA MEMBERS HAVE FUNDS INVESTED IN SALT RIVER PROJECT BONDS ?

A. Yes. AUIA has approximately 6,500 individual members, including Salt River Project (SRP) bondholders.

Q. WHAT IS YOUR BACKGROUND IN REPRESENTING INVESTOR CONCERNS AND INTERESTS?

A. I have been president of AUIA for more than six years. Prior to that, my consulting firm managed the affairs of the Pinnacle West Shareholders Association for 13 years. During these periods we have represented utility investors in numerous rate cases and other regulatory matters and have published many position papers, newsletters and other documents in support of investor interests.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am here in support of SRP's application for a certificate of environmental compatibility for the expansion of its Santan Generating Station in Gilbert.

Q. ARE YOU FAMILIAR WITH RECENT TRENDS IN ELECTRIC CONSUMPTION AND DEMAND IN ARIZONA?

A. In general, yes.

1 Q. ARE YOU FAMILIAR WITH THE GENERATION, TRANSMISSION
2 AND DISTRIBUTION RESOURCES THAT ARIZONA UTILITIES,
3 INCLUDING SRP, HAVE AVAILABLE TO MEET DEMAND?

4 A. Generally, yes.

5
6 Q. HOW DID YOU COME BY THIS KNOWLEDGE?

7 A. AUIA has been actively involved since 1994 in the efforts to bring retail
8 competition to the electric industry in Arizona. As a result, we have
9 intervened in proceedings involving every generation and transmission
10 provider in the state. We have also been involved in the formation of
11 the Desert STAR independent system operator and the Arizona
12 independent system administrator and we have monitored most of the
13 applications that have come to this committee in the past 12 months.

14
15 Q. HOW WOULD YOU DESCRIBE THE TREND IN DEMAND?

16 A. It has been increasing at an alarming rate. This summer, both SRP and
17 Arizona Public Service Company (APS) have experienced successive
18 new records in peak demand and have barely avoided curtailing
19 customers. Depending on the combination of weather and demand,
20 electric reliability at peak periods could be in jeopardy over the next
21 three years.

22
23 Q. WHAT IS YOUR CONCERN SPECIFIC TO SRP?

24 A. AUIA has serious concerns about whether SRP will be able to provide
25 reliable electric service at a reasonable cost to its rapidly growing
26 customer base beginning in 2002.

27
28 Q. WHY IS RELIABILITY A CONCERN OF UTILITY INVESTORS?

29 A. This is an instance in which the interests of investors and consumers are
30 aligned. A company that is unable to deliver electricity reliably and at a
31 reasonable price is not an investment grade operation and it may lose
32 customers because it fails to meet their needs.

33
34 Q. IS LOCAL GENERATION AN IMPORTANT PART OF THE
35 SOLUTION?

36 A. Not merely important but critical. In the near term, there is no solution
37 to meeting increased demand without new local generation.

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Q. DID AUIA SUPPORT SRP'S KYRENE EXPANSION PROJECT?

A. Yes. We were a vocal supporter of SRP's original plan to add 825 megawatts (MW) of gas-fired, combined-cycle generating capacity at the Kyrene Generating Station.

Q. DID YOU AGREE WITH THE DECISION TO REDUCE THE INCREMENTAL OUTPUT TO 250 MW AT KYRENE?

A. We were very disappointed with that outcome. 250 MW is better than nothing, but SRP will need all the resources it can muster to keep the lights on in the East Valley after 2002 if not before.

Q. HOW DOES THE KYRENE DECISION RELATE TO THE SANTAN PROJECT?

A. Santan becomes even more critical. According to current projections, SRP may have to add as much as 2,700 MW of new generation or import capability in this decade. Even with Santan in place, SRP could be 575 MW short of meeting peak demand in 2005.

Q. WE HEAR A LOT ABOUT THE BENEFITS OF ELECTRIC COMPETITION. CAN IT HAVE AN IMPACT ON THIS SITUATION?

A. Well, let me put this in context. Competition is thriving at the wholesale level, but we are just entering the new era of retail electric competition. So far, it seems likely that the retail market will evolve slowly and that SRP and APS will have the responsibility to provide electricity for most of their customer base for many years to come.

Q. BUT WON'T COMPETITION TEND TO BRING SUPPLY AND DEMAND INTO BALANCE?

A. In the long term, supply and demand should respond to competitive forces, but in the near term, the market is being contorted by the same set of problems that limit SRP's options: supply shortages, unstable prices and transmission constraints. Under these conditions, SRP must have local generation to protect its customers.

Q. LET'S DISCUSS SOME OF THE PROBLEMS YOU CITED, STARTING WITH SUPPLY SHORTAGES.

1 A. Supply shortages have afflicted the entire western region this summer,
2 but most dramatically in California.
3 When California deregulated electric generation four years ago, no new
4 power plants had been built there in a dozen years. In fact, a major study
5 by the California Energy Commission in 1995 predicted that virtually all
6 new capacity after 2000 would come from plants built in Arizona and
7 New Mexico.
8 At that time, there was some excess capacity in the western region, but it
9 has been absorbed faster than expected by a booming economy and by
10 increased usage in the high tech commercial and manufacturing sectors.
11 Beginning last June, slim operating reserves and extra hot weather
12 throughout the west produced a double whammy of near crisis
13 proportions. I've already noted that SRP and APS hit new record peaks
14 this summer and barely escaped cutting off customers. In California,
15 they experienced rolling blackouts and brownouts and nearly lost the
16 grid system in the San Francisco Bay Area.

17
18 Q. WHAT IS THE IMPACT OF THESE SHORTAGES ON SRP?

19 A. The point is that the shortages are regional and until they are solved,
20 SRP can't simply reach outside of the Phoenix area for unused energy in
21 peak periods because there isn't any.

22
23 Q. WHAT ABOUT ALL OF THE MERCHANT PLANTS THAT ARE
24 PROPOSED TO BE BUILT IN ARIZONA?

25 A. The Committee probably knows the facts better than I do, but the last I
26 knew, nearly 11,000 MW of new gas-fired generation has been proposed
27 for sites in Arizona in addition to the units planned by SRP. These
28 projects are a response to deregulation and to the pent up demand for
29 new supplies, although some of them won't be built. In any case, they
30 aren't the solution to SRP's near term needs.

31
32 Q. WHY NOT?

33 A. There are multiple reasons, beginning with the fact that SRP's customers
34 have no claim to the energy produced by these plants. They would be in
35 competition with other potential consumers throughout the region.
36 The other problems, which I mentioned earlier, are price volatility and
37 transmission constraints.

1 Q. PLEASE DISCUSS PRICE VOLATILITY.

2 A. This summer, wholesale prices in the western region have spiked as
3 much as 30 times normal levels. Some large businesses in the
4 northwest, such as mines, smelters and pulp mills, have shut down
5 rather than pay these prices.

6 When deregulation was implemented in California, investor-owned
7 utilities were required to divest their fossil-fueled power plants, so they
8 are now at the mercy of the open market.

9 As a result, some utilities have suffered large losses, but consumers in
10 most of the state have been shielded from market spikes by price caps
11 that were imposed in California's deregulation legislation. The exception
12 is San Diego where price caps were lifted this year. There, consumer bills
13 have increased 200 to 300 percent this summer over last year.

14 As stopgap measures, the state has set limits on rates that can be charged
15 to smaller customers of San Diego Gas & Electric Company and placed a
16 ceiling on the price that California's transmission agency will pay for
17 electricity in the wholesale market. Of course, it is questionable whether
18 price controls will work without destroying the competitive market.

19
20 Q. ARE ARIZONA CONSUMERS AFFECTED BY THIS VOLATILITY?

21 A. There are rural areas of the state that are subject to the vagaries of the
22 wholesale market and they have taken a beating this summer. But price
23 caps are in effect at APS, SRP and Tucson Electric Power, so most
24 Arizonans are not directly or immediately affected. Nevertheless, the
25 pricing environment probably will be unstable when the new merchant
26 plants come on line. Anyone who wants to purchase their output will
27 be in a bidding war with California and other regional buyers.

28
29 Q. WILL THESE PRICE SWINGS SETTLE DOWN?

30 A. Eventually, increased supplies should bring more normal pricing, even
31 at peak periods. However, the West is growing faster than the rest of the
32 country and it will require a lot of new capacity just to keep pace. For
33 example, California alone requires about 1,500 MW of new capacity each
34 year at a 3 percent growth rate.

35 Q. WHAT ABOUT LONG TERM PRICES IN THE COMPETITIVE
36 MARKET?

1 A. California may skew regional pricing for some time. In the study I
2 mentioned earlier, the California Energy Commission forecast that after
3 deregulation, electricity will cost significantly more in California than in
4 neighboring states through at least the end of this decade.

5
6 Q. HOW DOES THAT AFFECT THIS DISCUSSION?

7 A. I think it means that even if regional shortages are eased and pricing
8 extremes are curtailed, the California market will apply upward pressure
9 on prices in the foreseeable future. In other words, if you're going to rely
10 on the open market for power, you may have to pay California prices.

11
12 Q. THE THIRD PROBLEM YOU MENTIONED WAS TRANSMISSION.

13 A. Yes. Arizona has three load pockets which are loosely defined by the
14 ability or lack of it to import power over the high-voltage transmission
15 system. These pockets are the Phoenix, Tucson and Yuma load centers.
16 The Phoenix area has four "gates" or pathways into the load center and
17 the import capability is limited by the capacity through those gates.

18
19 Q. WHAT ARE THE PREVAILING CONDITIONS FOR IMPORTS?

20 A. There are some differences of opinion over exact numbers, but in
21 general there is little uncommitted transmission capacity during off-
22 peak periods and there is no available capacity at peak times.

23
24 Q. SO, LOCAL UTILITIES CAN'T SIMPLY IMPORT MORE ELECTRICITY
25 WHEN THEY NEED IT MOST?

26 A. That's right. And that is a key reason why APS and SRP are building local
27 generation inside the load center.

28
29 Q. HOW ARE THE NEW MERCHANT PLANTS AFFECTED?

30 A. Virtually all of them are outside the Phoenix load pocket, so they have
31 no assured access to Phoenix-area customers.

32
33 Q. AREN'T SOME OF THEM CONNECTING TO THE PALO VERDE HUB?

34 A. Yes, but Palo Verde is outside the load center and is constrained by the
35 same transmission limitations we've discussed.

36 By connecting to the Palo Verde switchyard, the merchant plants gain
37 access to the regional grid but not to the Phoenix load center.

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Q. CAN'T THEY TAKE ADVANTAGE OF THE FEDERAL ENERGY REGULATORY COMMISSION'S RULES TO GET ACCESS TO EXISTING TRANSMISSION CAPACITY?

A. That can be a fairly complicated issue, but in general, it is true that FERC rules require equal access to the transmission system. However, that doesn't improve the situation. If a merchant plant gets access in a constrained transmission path, it simply displaces someone else on the system. It doesn't add any new capacity.

Q. IS THERE A SOLUTION TO THE TRANSMISSION CONSTRAINTS?

A. Of course. Eventually, there will have to be additional transmission lines built to provide greater flexibility in meeting demand. Unfortunately, siting high-voltage transmission lines through urban areas is contentious, time-consuming and potentially very expensive.

Q. DO YOU KNOW OF A CURRENT EXAMPLE?

A. Yes, SRP and APS have been working together for about three years to site and build a new 500 kv transmission line from Palo Verde into the West Valley. Every proposed route has spawned local opposition and they haven't yet settled on a route for this Committee's consideration. If that line follows the path of least resistance, it could be 120 miles long.

Q. WHY CAN'T SRP SIMPLY GO TO SOME UNPOPULATED AREA TO BUILD A NEW PLANT?

A. That's not as easy as it sounds. Whatever the location, you have to have natural gas for fuel and a source of cooling water that is acceptable under the groundwater code. Then, you have to build transmission lines to reach the load center. It would certainly take several years to accomplish all of that and it might turn out to be so expensive that it would be an unacceptable alternative. Finally, a power plant at a remote location would have reduced ability to provide voltage support.

1 Q. WHAT IS THE IMPORTANCE OF VOLTAGE SUPPORT?

2 A. Voltage support, or the lack of it, almost caused the collapse of the grid
3 system in northern California last June. Even if customer demand could
4 be met entirely with imported energy, SRP would still need local
5 generation to keep the delivery system stable.

6 Maintaining constant voltage is a problem over long distances. Local
7 generation provides the power to keep voltage at acceptable levels,
8 protecting against system failures. As the overall electric load increases,
9 the need for voltage control rises. The effectiveness of voltage control is
10 diminished as generation gets farther away from the load center.

11
12 Q. ARE YOU FAMILIAR WITH THE ARGUMENTS PUT FORWARD BY
13 THE OPPONENTS TO THE SANTAN EXPANSION?

14 A. I have read the statements filed in this docket as of September 11 and I
15 have read most of what has appeared, pro and con, in the *Tribune*
16 newspaper and in the East Valley edition of *The Arizona Republic*.

17
18 Q. WHAT IS YOUR REACTION TO THE OPPONENTS' POSITION?

19 A. They have raised some environmental issues which this Committee is
20 perfectly capable of evaluating and I don't think I can add anything to
21 those discussions. However, I have been struck by their refusal to
22 acknowledge the need for new generation or the constraints facing SRP.
23 In a paper* filed in the docket by Mr. Mark Sequeira of Citizens Opposed
24 to San Tan (COST), he basically accused SRP of fabricating the power
25 need and argued that SRP wants to build locally so that it can free up
26 generation at its other plants for sale to California. Of course, that is
27 absolutely contrary to the facts as I understand them.

28 Since COST dismisses the need for new power resources, they also don't
29 accept any responsibility for it. But the problem SRP is trying to address
30 is growth in the East Valley and Gilbert is the fastest growing
31 community here. With an estimated population of 108,000, Gilbert has
32 doubled in size every five years during the past decade.

33 * (See "Notice of Protest" dated July 7, 2000.)
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Q. DO YOU HAVE ANY OTHER REACTIONS?

A. I'm surprised that the number of written protests are relatively few and that they have been so heavily orchestrated to appear to be more than they really are.

Q. WOULD YOU ELABORATE?

A. As of September 11, the docket contained about 230 letters opposing the project. Out of a community of 108,000 residents, that number of opposition letters seems fairly small for a project that has received so much negative criticism from COST in the news media. In fact, all but a handful of those letters are form letters and more than half are duplicates, meaning they were signed in different versions by the same people or were signed by different people in the same household. Environmental issues and property values are visceral issues for most people. It seems odd to resort to form letters and then to inflate their numbers if there is as much at stake as COST would have us believe.

Q. HAVE YOU SEEN OTHER EVIDENCE OF COMMUNITY REACTION?

A. Yes. I have reviewed the letters, opinion pieces and editorials that have appeared in local newspapers and they have presented a more balanced picture. Even there, about half of the opposition letters were generated by just six COST leaders. The balance of the material indicates to me that most of the Gilbert community recognizes that there is a serious need to be met and that the Santan project is an acceptable way to do it.

Q. WHAT IS AUIA'S RECOMMENDATION TO THIS COMMITTEE AND TO THE CORPORATION COMMISSION?

A. We urge the Committee and the Commission to stay focused on the big picture. There is a critical need for the output of this power project and SRP has almost no other options. We are in a race to keep the lights on in the East Valley. AUIA is confident that SRP can meet all state and federal requirements for environmental protection and mitigation. If so, the Committee and the Commission should issue a Certificate of Environmental Compatibility for Santan quickly so that SRP can get this project under way.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.