



0000092899

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

BEFORE THE ARIZONA CORPORATIO

IN THE MATTER OF THE SALE AND)
TRANSITION BY ARIZONA PUBLIC)
SERVICE TO ELECTRICAL DISTRICT)
NO. 3 OF CERTAIN ELECTRICAL)
FACILITIES IN PINAL COUNTY)
PURSUANT TO A.R.S. § 40-285(A))
AND FOR DELETION FROM ITS)
CERTIFICATE OF CONVENIENCE AND)
NECESSITY CERTAIN AREAS OF PINAL)
COUNTY.)

DOCKET NO.
E-01345A-08-0426

EVIDENTIARY
HEARING

RECEIVED
APR 20 2009 P 2:56
DOCKET COMMISSION

At: Phoenix, Arizona

Date: April 2, 2009

Filed: APR 20 2009

REPORTER'S TRANSCRIPT OF PROCEEDINGS

Arizona Corporation Commission
DOCKETED

APR 20 2009

DOCKETED BY

ARIZONA REPORTING SERVICE, INC.
Court Reporting
Suite 502
2200 North Central Avenue
Phoenix, Arizona 85004-1481

By: MICHELE E. BALMER
Certified Reporter
Certificate No. 50489

Prepared for:

ACC

ORIGINAL

**FOR
INTERNAL
&
INTERAGENCY
USE
ONLY**

Pursuant to the contract with Arizona Reporting Service all transcripts are available electronically for internal agency use only.

Do not copy, forward or transmit outside the Arizona Corporation Commission.

INDEX TO EXAMINATIONS		
2	WITNESSES	PAGE
3	DANIEL FROETSCHER	
4	Direct Examination by Ms. Grabel	15
	Examination by Chmn. Mayes	39
5	Direct Examination Continued by Ms. Grabel	47
	Cross-Examination by Mr. Van Cleve	51
6	Further Examination by Chmn. Mayes	58
	Examination by ALJ Rodda	59
7	Further Examination by Chmn. Mayes	62
	Examination Continued by ALJ Rodda	66
8		
9		
10	Witness Panel:	
	DAVID BENEDICT, KENNETH R. SALINE,	
11	JERRY D. SMITH, JEFFREY J. WONER	
12	Direct Examination by Mr. Coyle	81
	Cross-Examination by Mr. Van Cleve	93
13	Examination by Chmn. Mayes	107
	Cross-Examination Cont'd by Mr. Van Cleve	109
14	Examination by ALJ Rodda	110
	Further Examination by Chmn. Mayes	115
15	Cross-Examination Cont'd by Mr. Van Cleve	131
	Further Examination by ALJ Rodda	134
16		
17	PREM K. BAHL	
18	Direct Examination by Mr. Van Cleve	153
	Examination by ALJ Rodda	157
19		
20	ALEXANDER IBHADE IGWE	
21	Direct Examination by Mr. Van Cleve	163
	Examination by ALJ Rodda	166
22		
23		
24		
25		

	INDEX TO EXHIBITS			
	NO.	DESCRIPTION	IDENTIFIED	ADMITTED
1				
2				
3	APS-1	Application	15	51
4	APS-2	Direct Testimony of Daniel Froetscher	16	51
5				
6	APS-3	Notice of Filing Errata	17	51
7	APS-4	Customer and Ak-Chin Notification of Application	22	51
8	APS-5	Affidavit of Public Notice	23	51
9	APS-6	Joint Transition Plan	33	51
10				
11	ED3-1	Direct Testimony of David Benedict	81	84
12	ED3-2	Direct Testimony of Kenneth R. Saline	84	89
13				
14	ED3-3	Direct Testimony of Jerry D. Smith	89	90
15	ED3-4	Direct Testimony of Jeffrey J. Woner	91	93
16				
17	ED3-5	Organization Chart of ED-3	81	84
18	ED3-6	ED-3 Audited Financial Statements for Years Ended 12/31/07 and 12/31/06	81	84
19				
20	ED3-7	Article on ED-3 as published in June 2008 Public Power Magazine	81	84
21				
22	ED3-8	Map Showing ED-3 Boundaries After Proposed Sale and Transfer	84	89
23				
24	ED3-9	2007 ED-3 Transmission Plan of Service Report	84	89
25				

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

INDEX TO EXHIBITS

NO.	DESCRIPTION	IDENTIFIED	ADMITTED
ED3-10	Santa Cruz Water and Power Districts Association, 10-Year Plan 2008-2017	84	89
ED3-11	Interconnection Agreement between ED-3 and APS, dated May 20, 2008	84	89
ED3-12	Comparison of Estimated Monthly Billings	91	93
ED3-13	Evaluation of Base Rate Increases Necessary to Cover Projected Costs Over Next 10 Years	91	93
ED3-14	Supplemental Direct Testimony of Jeffrey J. Woner	91	93
ED3-15	Updated Comparison of Estimated Seasonal and Annual Billings under ED-3's Residential Rates	91	93
S-1	Staff Report	156	165

1 BE IT REMEMBERED that the above-entitled and
2 numbered matter came on regularly to be heard before the
3 Arizona Corporation Commission, 1200 West Washington
4 Street, Phoenix, Arizona, commencing at 10:30 a.m. on the
5 2nd day of April, 2009.

6

7 BEFORE: KRISTIN K. MAYES, Chairman

8 JANE L. RODDA, Administrative Law Judge

9

APPEARANCES:

10

For the Arizona Corporation Commission Staff:

11

Mr. Wesley Van Cleve
Staff Attorney, Legal Division
1200 West Washington Street
Phoenix, Arizona 85007

12

13

14

For Arizona Public Service Company:

15

PINNACLE WEST LAW DEPARTMENT
By: Mr. Thomas L. Mumaw
Ms. Meghan H. Grabel
400 North 5th Street
P.O. Box 53999
Phoenix, Arizona 85072

16

17

18

19

For Electrical District No. 3:

20

DUNCAN & ALLEN
By: Mr. John P. Coyle
1575 Eye Street, N.W., Suite 300
Washington, D.C. 20005

21

22

23

24

MICHELE E. BALMER
Certified Reporter
Certificate No. 50489

25

1 ALJ RODDA: Let's go on the record if everyone is
2 here. All right. So this is the time set for the hearing
3 in Docket No. E-01345A-08-0426, which is the matter of the
4 sale of assets by APS to Electrical District No. 3, and
5 the deletion of a portion of APS's CC&N territory.

6 Good morning, everyone. My name is Jane Rodda,
7 and I'm the Administrative Law Judge who has been assigned
8 to this matter and will be presiding at today's hearing,
9 as well as writing the recommended opinion and order.

10 The first thing I'm going to do is to take
11 appearances of the parties. So on behalf of APS?

12 MS. GRABEL: Thank you, Your Honor. Meghan H.
13 Grabel and Thomas L. Mumaw from the Pinnacle West Law
14 Department on behalf of APS.

15 ALJ RODDA: All right. It's a pleasure to see
16 you.

17 And on behalf of the Electrical District No. 3?

18 MR. COYLE: Good morning, Your Honor. John
19 Coyle, C-o-y-l-e, of the firm Duncan & Allen, Washington,
20 D.C., appearing pro hac vice on behalf of Electrical
21 District No. 3.

22 ALJ RODDA: Great. Welcome.

23 And on behalf of Commission Staff?

24 MR. VAN CLEVE: Thank you, Your Honor. Wes Van
25 Cleve on behalf of Commission Staff.

1 ALJ RODDA: Great. It's nice to see you all.
2 Before we get started, I'll ask are there any
3 preliminary matters that we need to address? I'm not
4 aware of any pending motions or anything, but -- there
5 doesn't appear to be.

6 So then I will note for the record that this is
7 the time for public comment. And if there are any members
8 of the public present this morning who wish to give public
9 comment, they should so indicate and come forward.

10 (No response.)

11 ALJ RODDA: All right. We'll let the record
12 reflect that there are no members of the public wishing to
13 make public comment this morning.

14 All right. With that, I'll ask Ms. Grabel, do
15 you have an opening this morning?

16 MS. GRABEL: I do, Your Honor. Thank you.

17 Your Honor, this matter concerns an area located
18 in a portion of Pinal County near the Ak-Chin Indian
19 community that is presently served by both APS and
20 Electrical District No. 3, whom I will refer to as ED-3.
21 Historically, ED-3 served the area's irrigation pumping
22 load while APS served the area's commercial and
23 residential and industrial loads.

24 In 1960, this Commission approved the sale and
25 lease back from APS to ED-3 of much of the company's

1 electric infrastructure that existed within the ED-3
2 service territory at that time. As a result of that
3 arrangement, ED-3 owned much of the infrastructure, APS
4 still owned a limited portion of it, but APS operated and
5 maintained the area's entire electric system and served
6 all of the area's customers.

7 Since 1960, APS has added infrastructure in the
8 area in order to serve the company's customers there. For
9 the most part, this new infrastructure, which ranged from
10 simple, pole-mounted transformers to more extensive
11 distribution systems, is interconnected to and emanates
12 from the facilities owned by ED-3. The parties refer to
13 these facilities as the split ends.

14 The leaseback agreements effectuating this
15 arrangement expired in 2001, at which time ED-3 resumed
16 full possession and operational control over its electric
17 system. It also began to serve all customer classes in
18 that area, not just its irrigation customers. And, in
19 fact, many of APS's customers have actively requested that
20 they be transferred to ED-3 and are now served by the
21 district.

22 Both utilities, thus, now serve all customer
23 classes using what can best be described as a blending of
24 ED-3- and APS-owned electric infrastructure. This
25 situation has proven to be both complex and problematic.

1 The intermingled ownership of an electric system gives
2 rise to a host of problems. It duplicates the cost and
3 responsibility for planning infrastructure. It creates
4 operational and resource inefficiencies. Literally, both
5 utilities will respond to one customer call and kind of
6 look at the wires and, "Whose is that?" It confuses
7 customers. It's not a good situation for either the
8 utilities or their customers.

9 In 2002, the parties came to the table to try to
10 resolve these difficulties. They each reached an
11 agreement at that time, and APS applied to this Commission
12 requesting approval to sell some of its facilities in that
13 area to ED-3. It did not seek to sell all of its electric
14 infrastructure, nor did it seek to delete any of its
15 service territory from the company's CC&N.

16 As it turned out, the 2002 agreement just didn't
17 go far enough. The operational and other problems
18 continued, and the parties came to the realization that
19 the best solution was for a single provider to own the
20 electric system and serve the area's customers. Because
21 the great majority of customers in the area are now served
22 by ED-3, it makes sense for ED-3 to be that provider.

23 The parties signed a supplement to their previous
24 agreement memorializing that resolution, and APS withdrew
25 the previous application in this matter and filed the one

1 that is at issue today.

2 It is highly important to APS, and I believe to
3 ED-3, that the contemplated transfer of APS's customers to
4 ED-3 be as seamless as possible, and that the affected
5 customers not be adversely impacted by the change. And to
6 this end, as Mr. Daniel Froetscher will describe to you,
7 the two utilities have worked well together to notify
8 customers of the transaction, and to respond to any and
9 all customer questions that have been raised.

10 The current application, thus, requests four
11 things with respect to ED-3:

12 First, that the Commission approve APS's intended
13 sale to ED-3 of its property, including the split ends as
14 described in detail in both the company's application and
15 in Mr. Froetscher's testimony;

16 Two, that the Commission approve APS's request to
17 delete from its CC&N the proposed ED-3 service area, a
18 legal description of which is provided as an attachment to
19 Mr. Froetscher's testimony;

20 Three, that the Commission waive, if necessary,
21 the provision of Arizona Administrative Code
22 R14-2-203(A)(2), and allow APS to transfer customer
23 confidential information to ED-3, as necessary, for ED-3
24 to begin serving those customers;

25 And four, that the Commission include specific

1 language in its order that will allow the APS customers
2 affected by this application to continue to be able to
3 receive the incentives related to projects undertaken
4 pursuant to the Commission's renewable energy standards or
5 the company's demand-side management program, and APS may
6 in turn benefit from those customers' participation for
7 regulatory purposes. This is described in detail in the
8 parties' joint transition plan, and Mr. Froetscher will
9 speak to that as well.

10 Finally, APS's application also seeks approval to
11 delete the Ak-Chin Indian community territory from its
12 CC&N. Ak-Chin is located entirely within ED-3's proposed
13 service territory, so it made sense to include it within
14 this transaction.

15 As a result of the sale to Ak-Chin approved by
16 this Commission in 1997, APS no longer owns any assets on
17 the Ak-Chin lands, nor does it serve any customers in that
18 area or have any realistic prospect of obtaining future
19 customers there. Ak-Chin has been notified of this matter
20 and supports the company's application in this regard.
21 Therefore, in order to clean up, so to speak, the
22 company's CC&N in this area, APS also requests deletion of
23 the Ak-Chin territory from the company's CC&N.

24 Thank you.

25 ALJ RODDA: Great. Thank you very much.

1 Mr. Coyle.

2 MR. COYLE: Thank you, Your Honor. Very briefly,
3 ED-3 fully supports the application. It is the result, as
4 Ms. Grabel so indicates, of seven years of pretty hard,
5 relatively constant work figuring out how to make the
6 transition, how to integrate these customers.

7 At the same time, ED-3 has over those seven years
8 grown from a primarily agricultural pumping utility with a
9 load of about 35 megawatts, as I recall when I got
10 started, to a peak of 170 megawatts last year. So they've
11 been managing -- ED-3 has been managing some substantial
12 expansion of the infrastructure in the area.

13 We look forward to the Commission's favorable
14 action on the application and support it fully. We'll be
15 presenting four witnesses today in support of the
16 application, and those witnesses will be Mr. Brett
17 Benedict, who was the acting general manager at the time
18 his testimony was filed. He has now reverted to his prior
19 position of chief of financial services; Ken Saline of
20 K.R. Saline & Associates; Jerry Smith from K.R. Saline &
21 Associates; and finally, Jeff Woner of K.R. Saline &
22 Associates to address rate impact issues.

23 Thank you, Your Honor.

24 ALJ RODDA: Great. Thank you.

25 Mr. Van Cleve.

1 MR. VAN CLEVE: Good morning, Your Honor. Let me
2 just start out by saying that it's not every day in a case
3 at the Commission that you get a history lesson as has
4 been presented here. I found it very interesting learning
5 about the history of ED-3 and its origins, and also the
6 interplay that's existed between ED-3 and APS over, you
7 know, over 40 years.

8 What the witnesses and Staff will be presenting
9 today will show is that it's probably this interplay that
10 has caused APS to file this application. Because of the
11 intermingling of facilities, as Ms. Grabel had indicated,
12 there's been operational difficulties, safety concerns,
13 and then just generally customer confusion.

14 Staff believes that the sale of the assets in
15 this application, such as the split ends that were
16 mentioned, the Sexton substation, and an inoperable 69kV
17 line, will help to resolve these issues and will not
18 impair APS's ability to serve its customers.

19 It's also Staff's belief that APS and ED-3 have
20 very thoroughly -- have been very thorough in providing
21 notice to its customers, as well as educating those
22 customers as to this transaction and its effect on them as
23 a result of this transaction or application if it's
24 approved.

25 And then, finally, the infrastructure. Staff's

1 report, you will see, indicates that we believe that ED-3
2 has sufficient infrastructure and technical experience to
3 serve these customers if the application is approved, and
4 that the cancellation of the CC&N within APS's service
5 territory -- or ED-3's service territory, as well as the
6 deletion of the service area territory that currently
7 exists for the Ak-Chin Indian community, will help clarify
8 responsibility for the provision of service of electricity
9 in those areas.

10 In short, you will see from the Staff Report that
11 gets admitted here that Staff is recommending approval of
12 the application and will be presenting two witnesses, Prem
13 Bahl and Alexander Igwe.

14 Thank you, Your Honor.

15 ALJ RODDA: Thank you.

16 All right. Ms. Grabel, you want to call your
17 witness?

18 MS. GRABEL: Absolutely. Thank you, Your Honor.

19 I call Mr. Daniel Froetscher to the stand.

20 (Mr. Froetscher was duly sworn.)

21 MS. GRABEL: If you may indulge me, Your Honor, I
22 would like to hand out all of the exhibits at once. They
23 all will be admitted with the one witness. They have been
24 premarked.

25

1 DANIEL FROETSCHER,
2 called as a witness on behalf of the Applicant, having
3 been previously duly sworn by the Certified Reporter to
4 speak the truth and nothing but the truth, was examined
5 and testified as follows:

6

7

DIRECT EXAMINATION

8

9 Q. (BY MS. GRABEL) Good morning, Mr. Froetscher.

10 A. Good morning, Meghan.

11 Q. Please state your full name and business address
12 for the record.

13 A. Daniel T. Froetscher, 400 North 5th Street,
14 Phoenix, Arizona.

15 Q. And in what capacity do you work at APS?

16 A. I am the company's vice president of its energy
17 delivery business unit.

18 Q. Mr. Froetscher, do you have the APS exhibits in
19 front of you?

20 A. I do.

21 Q. Could you please turn to the document that has
22 previously been marked as APS Exhibit 1.

23 A. I'm ready.

24 Q. I'm going to hand you the ones so we're all
25 looking at them together.

1 A. Thank you.

2 Q. Would you please identify this document?

3 A. Exhibit 1 is the company's application to sell
4 certain facilities in Pinal County and delete from the
5 company's Certificate of Convenience and Necessity certain
6 properties also within Pinal County.

7 Q. Have you reviewed the company's application?

8 A. I have.

9 Q. Can you verify that the statements contained in
10 that application are true and correct to the best of your
11 knowledge?

12 A. I can, and I do.

13 Q. Thank you. If you will now turn to APS
14 Exhibit 2.

15 A. Got it.

16 Q. Please identify this document for the record.

17 A. Exhibit 2 would be my testimony that was filed
18 with the application.

19 Q. And was your testimony prepared by you or under
20 your supervision or direction and control?

21 A. It was.

22 Q. At this time do you have any corrections to that
23 testimony?

24 A. I believe since my testimony was originally filed
25 in August of last year that my position with the company

1 has changed. The testimony indicates that I was the
2 general manager of rural Arizona delivery for APS at the
3 time. I currently am the vice president for energy
4 delivery.

5 In addition, on Page 2 of the original testimony,
6 I had indicated that I had testified at the summer
7 preparedness meeting held in March of 2008. And that is,
8 in fact, the case, but in addition I have appeared before
9 the Commission this past March in our summer preparedness
10 2009 presentation.

11 Q. Thank you. Could you please also look at APS
12 Exhibit 3 and identify that document for the record.

13 A. Exhibit 3 is -- I believe, Meghan, you referenced
14 it as an errata filing, made on October 16, 2008, whose
15 sole purpose was to correct some minor legal description
16 matters associated with the proposed lands involved in
17 this application.

18 Q. Have you had a chance to review this errata?

19 A. I have.

20 Q. Is the information presented in it true and
21 correct to the best of your knowledge?

22 A. It is.

23 Q. Do you have any additional updates you would like
24 to make to your testimony?

25 I'll short circuit this. I know you have several

1 updates that you would like to make to your testimony.

2 A. Thank you, Meghan.

3 Q. You're welcome. If you could please turn to --

4 A. Would you care to ask what they are?

5 Q. Please turn to Page 15.

6 A. Of my testimony?

7 Q. Of your testimony.

8 A. Thank you.

9 Q. APS Exhibit No. 2. Beginning here, you start
10 discussing in detail the company's customers that will be
11 affected by this transaction and the numbers of customers
12 involved.

13 If you look at Page 15, the first Q and A, do you
14 have any updates that you would like to make to the
15 customer numbers that are discussed on this page?

16 A. At the top of Page 15 references at the time of
17 the application that there were approximately 3,993 active
18 APS customers that could be affected by this application.

19 We re-ran our query within the last few days, and
20 that number at present is approximately 3,831. The number
21 is not a static number because of the variable nature of
22 customers moving in and out of different properties. And
23 so in terms of an active status count, that number will
24 vary slightly on a day-to-day basis.

25 Q. So your testimony a little further down the page

1 that indicates the number of customers that will be
2 transferred to ED-3 if this matter is approved is still
3 estimated to be slightly under 4,000?

4 A. And that is correct and remains correct.

5 Q. On the same page you discuss APS's plan to notify
6 customers of this matter that APS and ED-3 intended at the
7 time of filing.

8 Since filing this application, would you please
9 describe for us how APS has notified the affected
10 customers of this pending potential transaction?

11 A. I would be happy to do that. APS has sent a
12 number of and prepared a number of communications for our
13 customers since the original filing date on August 11 of
14 last year. Specifically, there have been three letters
15 that have been authored by myself, one on August 22, which
16 was sent to the approximately 3,900 active APS customers
17 at that time, advising them that we had indeed made the
18 application and putting them on notice. We, frankly, did
19 not want our customers finding out in a backdoor fashion
20 that we had made the application to sell the distribution
21 facilities to ED-3.

22 The second letter under my signature went out on
23 October 6, again to that same group of 3,900 customers,
24 plus or minus, extending to them an invitation to attend
25 one of two, or both, open houses scheduled for the general

1 Maricopa and Stanfield area. And then, on February 20 of
2 this year, I sent a third letter to, again, that active
3 customer group, advising them of this very hearing
4 scheduled for April the 2nd.

5 When the initial letter to customers back on
6 August 22 was sent, the company at the same time
7 established a website, www.aps.com, slash, ED-3, and
8 established a local Casa Grande, Pinal County telephone
9 number, both of which were intended to be vehicles through
10 which customers could acquire additional information,
11 submit questions, concerns, raise issues, and essentially
12 learn more about this proposed transaction.

13 In addition, the company, APS, and ED-3 have made
14 two joint presentations at the City of Maricopa city
15 council meetings. One was held on July 15, 2008, in
16 advance of the application, and again in an effort to
17 advise them beforehand that said application was planned.
18 And then the second session, presentation, was held with
19 the city council for the City of Maricopa on October 21,
20 2008, immediately preceding the two open houses that were
21 scheduled for later that month.

22 Those open houses were held on October 23 at the
23 Stanfield Elementary School, which is essentially in the
24 southern portion of the proposed ED-3 service area. And a
25 second open house was held on October 28 up at the Global

1 Water service center up in the immediate Town of Maricopa
2 area, the 23rd and the 28th, respectively.

3 A little earlier this year, we received from this
4 Commission a procedural order which asked, directed the
5 company to provide notice not only to the approximately
6 3,900 active APS customers who might be affected by this
7 transaction, but also to notify any landowners within the
8 proposed ED-3 service area. So on March 3, we mailed
9 approximately 22,000 public notices to that population of
10 active customers and landowners within the proposed ED-3
11 service area advising them of this hearing today.

12 And in advance of both the open houses and this
13 hearing today, the company provided notification in the
14 Maricopa County Monitor and the Casa Grande Dispatch, two
15 local newspapers that receive active and ready readership
16 from the constituent customer groups that might be
17 affected by this order.

18 And finally, we've maintained a regular
19 correspondence with the mayor, city manager, elected
20 officials at the City of Maricopa, and through and with
21 the Board of Supervisors in Pinal County, including the
22 board supervisor responsible for this area. They have all
23 been provided copies of the three letters that were sent
24 from APS under my signature, advanced notice of the
25 proposed open houses and the corresponding public notices

1 that were published in the two local newspapers I
2 referenced, advanced notice of today's hearing, and,
3 again, the public notice that was aligned as well advising
4 of today's hearing.

5 Q. Mr. Froetscher, you referred to several letters
6 sent to the area's affected customers notifying them of
7 this transaction. If you take a look, please, at APS
8 No. 4.

9 A. Yes. I have it.

10 Q. Will you please identify this document for the
11 record.

12 A. I certainly can. This is a copy of the August 22
13 letter that I referenced earlier that went out to the plus
14 or minus 3,900 active APS customers at the time the
15 application was filed.

16 And I think -- or if I'm wrong, I'm confident
17 you'll correct me -- but attached as well is a copy of the
18 August 26, 2008 letter that was sent under my signature to
19 Ms. Delia Carlyle, the Chairman at the time of the Ak-Chin
20 Indian community within -- whose lands lie within the
21 proposed ED-3 service area, and with whom APS has had an
22 operating and construction agreement for a number of
23 years.

24 Q. Thank you. If you look also at APS Exhibit
25 No. 5. Your testimony referred to a public notice filed

1 in two area newspapers. Can you please identify Exhibit
2 No. 5 for the record?

3 A. Yes. Exhibit No. 5 is a copy of the public
4 notice that was published in the Maricopa Monitor and in
5 the Casa Grande Dispatch in advance of this hearing today.

6 Q. And, in fact, contains the affidavit of
7 publication from both newspapers; is that correct?

8 A. It does indeed.

9 Q. On Page 16 of your testimony, you indicate that
10 APS and ED-3 intended to create a website containing the
11 information regarding this matter.

12 A. Yes. And we did, in fact, create that website.

13 Q. That was my question. Do you know whether it's
14 had any hits?

15 A. I do know whether it's had any hits. There have
16 been approximately 230 hits to that website between the
17 date that it was established in August of 2008 and last
18 week.

19 Q. Generally, how many customers or how have
20 customers, rather, responded to this matter?

21 A. There has not been overwhelming customer response
22 to the application, the open houses, or the company, or
23 the Electrical District's communications regarding this
24 matter.

25 You asked about the number of hits to the

1 website, and that number was about 230. I had indicated
2 earlier that we had established a local Casa Grande
3 telephone number for customers to contact the company and
4 request additional information, raise questions, or
5 otherwise inquire about the proposed transaction. And
6 we've received about 50, 51 telephone calls from
7 customers. And I believe Commission Staff, through its
8 Consumer Services Division here, has received six
9 inquiries, comments, questions, or complaints regarding
10 that.

11 Q. Have any specific concerns been expressed by the
12 customers?

13 A. The majority of customers who contacted APS
14 and/or ED-3 through the website and telephone number, or
15 Consumer Services here, expressed concerns about some of
16 the variable offerings that APS traditionally offers its
17 customers. That would include the ability to pay bills
18 through direct bank -- through direct bank transaction,
19 what we call our Sure Pay program, our budget payment
20 program or Equalizer program.

21 A couple of customers asked about the
22 availability of time-of-use rates through the district. A
23 couple of customers asked about the company's distributed
24 generation, more easily known as our rooftop solar
25 incentive program, whether such a program was available

1 through ED-3.

2 So the inquiries ran somewhat the gamut, mostly
3 centering, though, around some of the ancillary offerings
4 that APS has traditionally provided.

5 Q. Have the parties addressed those concerns?

6 A. We have. First and foremost, each of the
7 customer's comments, questions, and inquiries were
8 addressed on a personal basis by either our
9 representatives in Casa Grande, in some cases in
10 collaboration with ED-3, or through our consumer advocates
11 office here in the Phoenix area. So every customer's
12 issue was addressed.

13 Their comments and inquiries raised some issues
14 that, frankly, needed attention, and the company and ED-3
15 have worked collaboratively. And I need to give a good
16 deal of credit to ED-3 that in certain areas, i.e., a
17 distributed generation rooftop solar incentive-type
18 program that heretofore the district had not offered such a
19 program, and they've modified their service offerings to
20 include one moving forward.

21 Other items like time-of-use rates, budget
22 payment, those offerings have been available through ED-3.
23 So depending upon a specific inquiry, in some cases some
24 modification and the creation of a program or offering was
25 necessary through the district, in other cases they

1 already had one in play.

2 Q. Okay. If I could, I would like to direct your
3 attention to Pages 19 and 20 of your testimony. In that
4 portion you describe how APS intended to notify Ak-Chin of
5 its request to delete the community's land from the
6 company's CC&N, and specifically you note that APS will
7 notify Ak-Chin of its intent by sending written notice of
8 that intent to remove its service obligations from the
9 area to Leonard Gold, who is the Chairman of the Ak-Chin
10 Indian Community Tribal Council, and to the Chairman of
11 the Board of Ak-Chin Energy Services.

12 Did this notification, in fact, occur?

13 A. It did, Meghan. It did indeed occur. I
14 personally made a telephone call to Leonard Gold. Leonard
15 Gold's company is named Utility Strategies Consulting
16 Group. He's located in the Southeast Valley, and he's
17 been the utility consultant for the Ak-Chin since the
18 Ak-Chin purchased the distribution system from APS a
19 little more than 10 years ago. I mean, I have had a
20 fairly regular and extensive working relationship.

21 Much like we tried to do with our 3,900
22 residential customers in the area, I called Lenny the day
23 before we made the applicable here so that the Ak-Chin
24 would not be blind-sided, and then followed up with the
25 requisite letter to the Chairman of the Ak-Chin Indian

1 community, Ms. Delia Carlyle, on August 26, advising them
2 that the application had been made. And in addition,
3 provided copies of that letter to Mr. Charles Carlyle, who
4 happens to be the Chairman of the Ak-Chin Energy Services
5 organization, essentially the utility authority on the
6 Ak-Chin reservation, and to Mr. Gold himself.

7 Q. And if you look at APS Exhibit No. 4, and turn to
8 the third letter, which is the fourth page of that packet.

9 A. You want to try me again, Meghan?

10 Q. Sure. The fourth page of APS Exhibit No. 4 is a
11 letter with your signature --

12 A. Yes, it is.

13 Q. -- to Ms. Carlyle. Is this the letter to which
14 you referred?

15 A. I'm sorry. Yes, it is. I thought you were
16 taking me somewhere else.

17 Q. No.

18 What was Ak-Chin's response?

19 A. Ak-Chin indicated to APS in a letter dated
20 January 21, 2009 -- that letter was written by Mr. Louis
21 Manuel, Junior. He is the Chairman of the Ak-Chin Indian
22 Community now, having replaced Ms. Carlyle. That
23 January 21, 2009 letter indicated that the Ak-Chin
24 council, following discussion with the company, with ED-3,
25 and with Commission Staff, had voted to indicate its

1 agreement with the request for the deletion of the APS
2 CC&N from the Ak-Chin lands.

3 Q. I would like to turn to the company's request to
4 sell assets for a moment. The company's application
5 provides the net book value of its assets at issue in this
6 transaction as of June 2008 for the Sexton substation, and
7 October of 2007 for the split ends.

8 Do you have an update to these numbers now?

9 A. I do not. We've made a conscious decision, quite
10 frankly, not to update those numbers. The numbers
11 contained within the application were prepared on the
12 dates that you indicated in discussions with Electrical
13 District No. 3.

14 We, anticipating a regular progression of this
15 application, felt as though rather than making periodic
16 updates, that we would follow the course of this
17 application, and upon its completion and if approved, then
18 revise our numbers to reflect essentially two things that
19 could impact the valuation. One would be any system --
20 distribution system additions that APS has made to their
21 split ends, or as manifested in new split ends in the
22 proposed ED-3 service area. And secondly, to re-run the
23 calculations for net book value or original cost less
24 depreciation associated with the existing facilities
25 reflected in the numbers that you referenced.

1 Q. In your estimation, do you think that, when
2 provided, the updated numbers will be materially different
3 from those generally referred to in the application?

4 A. I don't. I suppose it depends on one's
5 definition of materiality. I believe there's been a
6 number of -- several work orders that have been conducted
7 by APS in the area since the application was made. So
8 there may be a couple of hundred thousand dollars of new
9 system additions out there.

10 At the same time, the existing system would have
11 experienced in excess of another year's worth of
12 depreciation. So there will be some offsetting, some net
13 effects. I would expect that number to move slightly,
14 slightly being not more than a couple of hundred thousand
15 dollars either direction.

16 Q. Are any of the split ends not included in the
17 sale to ED-3?

18 A. When we used the term split ends, it's a generic
19 term that reflects APS distribution facilities that have
20 been extended off of backbone or core ED-3 facilities.

21 Maybe I can ask Mr. Tom Yost to help me here.
22 Tom is my customer service manager in the Pinal district.
23 He's based in Casa Grande. I'm going to ask him to go
24 over to the map.

25 The map that you see demonstrated on the easel is

1 reflective -- the boxed area that mirrors very much in
2 shape almost the state of Arizona is the proposed ED-3
3 service area. And you see that there are seven locations
4 where there's a yellow box.

5 Starting in the far northwest corner, which would
6 be the upper left-hand corner, that is Highway 238 going
7 west out of Maricopa towards the Town of Mobile. APS
8 serves the Town of Mobile. It is seven or eight miles
9 further out Highway 238 from the Town of Maricopa. We
10 have about 70 to 80 customers out there. And the service
11 to Mobile is extended from the Maricopa area. So in
12 essence, we will have one continuing long split end going
13 out to Mobile as an extension of our system off the ED-3
14 system to continue to provide service there.

15 The yellow box on the top of the service area,
16 the north end, and the one on the bottom on the south end,
17 are each single line extensions that go north and south,
18 respectively, and serve one customer. On the north end,
19 it happens to be an FAA site that is geographically
20 located on reservation land. And on the south end, it is
21 also -- it's an El Paso Natural Gas cathodic protection
22 rectifier located on the lands of the Tohono O'odham
23 reservation. So in neither case do we believe that there
24 will be any significant growth or additional meters, and,
25 therefore, it seems to make sense to just leave things as

1 is as respective split ends.

2 The three locations on the east side of the
3 proposed service boundary involve split ends that include
4 customers numbering in the range of 20 to 25 to 30 per
5 split end.

6 In one of those locations on the south end, the
7 company has plans to build its own distribution line from
8 some nearby facilities at some point within the next 6 to
9 12 months, if the application is approved, which would, in
10 essence, relieve that group of customers from taking
11 service off the ED-3 system, and tie it it from an
12 integrated sense into the APS system and eliminate that
13 split end.

14 The other two locations are clusters of customers
15 within which APS does not have nearby facilities. The
16 district and APS agree that it makes -- it seems to make
17 sense to continue to serve those customers off of the ED-3
18 system.

19 From an administrative standpoint, we hope to
20 simplify that by installing what is called a primary meter
21 to measure the load flow into those two neighborhoods, and
22 eliminate the rather burdensome and at sometimes
23 cumbersome and confusing mechanism that we use today to
24 gather load data for the two respective organizations to
25 balance their books regarding power purchases and wheeling

1 arrangements.

2 Q. Does APS have any other assets in the proposed
3 ED-3 service territory that are not included as a part of
4 this transaction?

5 A. We do, Meghan, but they are extra high voltage or
6 EHV transmission assets. The Santa Rosa substation, which
7 is a receiving station that takes service at 230kV and
8 breaks it down to 69kV and has an adjacent 69kV yard that
9 brings service down to 12kV, is located within the ED-3
10 service area. And APS has a 230kV line that comes into it
11 and goes out of it.

12 Said substation and transmission lines are part
13 of the APS integrated transmission network and makes
14 little sense and has no impact from an operational
15 standpoint on the provision of service to retail
16 customers. Therefore, those facilities will continue to
17 remain under APS ownership. And they are used, in fact,
18 in part, to deliver the generation resources that ED-3
19 procures from APS and uses to service the area.

20 Q. Other than the assets that you have described
21 both in the split ends and in your most recent answer, is
22 APS selling all of its assets in the proposed ED-3 service
23 territory to ED-3?

24 A. We are.

25 Q. If you take a look, please, at the document that

1 has previously been marked APS Exhibit 6.

2 A. I have got it.

3 Q. Would you please identify this document for the
4 record.

5 A. Yes. This is a transition plan that was jointly
6 developed by Electrical District No. 3 and APS. As we
7 moved down the procedural path associated with this
8 application, we met on several occasions with Commission
9 Staff, and Commission Staff was very instructive in
10 providing some guidance about how we might best prepare
11 both Staff, Your Honor, and eventually the Commission with
12 some of the details regarding the proposed transaction,
13 and in doing so suggested that we prepare and submit,
14 file, a joint transition plan, which is referenced in this
15 exhibit.

16 Q. Have you reviewed this exhibit, Mr. Froetscher?

17 A. I have.

18 Q. The joint transition plan contains a number of
19 factual assertions regarding customer communications and
20 other matters that have been at play during this matter.

21 Have you reviewed those assertions?

22 A. I have.

23 Q. Can you verify that they are true and correct to
24 the best of your knowledge?

25 A. I can and do.

1 Q. And does this document accurately describe the
2 transition plan to which APS has agreed?

3 A. It does.

4 Q. I would like to walk you through the various
5 sections outlined in the plan.

6 On Pages 2 and 3, the plan describes how
7 customers were notified of the application. Is what is
8 described in this section consistent with your previous
9 testimony in that regard?

10 A. It is. It is not quite current in that there
11 have been additional communications to our customers and
12 to the landowners in general that I described earlier that
13 were pursuant to the procedural order issued by the
14 Commission. But as reflected to the point in time that
15 this transition plan was filed, it is an accurate
16 reflection of our customer communications.

17 Q. In other words, we've done more, not less than we
18 indicated here?

19 A. That's correct.

20 Q. On Pages 3 and 4, the plan describes the types of
21 communications that will be made to customers upon
22 approval of the company's application, if made.

23 What is the party's intent in that regard?

24 A. As you'll note on the bottom of Page 3 and on the
25 top of Page 4, upon approval or if approved, APS and

1 Electrical District No. 3 will provide the affected
2 customers written notice of that approval. We will also
3 provide within that or other communications information
4 regarding the proposed transition plan timeline and the
5 specifics as it relates to how that will be effected, and
6 how customers will be affected per that transition plan.

7 It is not noted in here, which should the
8 Commission decide not to rule in favor of this
9 application, we will be communicating with our customers
10 as well regarding whatever the outcome of this application
11 is.

12 Q. On Pages 4 through 6 of the transition plan, the
13 parties describe the various types of information that we
14 would be transferring from APS to ED-3 if this matter is
15 approved. Would you please describe the nature of that
16 information?

17 A. Absolutely. The bottom of Page 4 and continuing
18 on to the top of Page 5, there are some specific examples
19 of some of the information that the two organizations will
20 exchange as a matter of transitioning should this
21 application be approved. We have maps prepared, including
22 our GIS maps, our wall maps, what are called our one-lines
23 or operating diagrams associated with the distribution
24 system in the area, what are called cabinet details and
25 transformer details, specific depictions of the various

1 equipment, principally underground, that is used to
2 service this area.

3 We, of course, have with our facilities out in
4 the Maricopa and Stanfield area easements, rights-of-way,
5 and permits that we've acquired as a means of doing
6 business over the past 40-some-odd years. Those will, in
7 addition, be transferred to Electrical District No. 3.

8 We've been reading meters for those 3,990
9 customers as well, so we've got meter reading routes,
10 meter locations, and other information related to our
11 servicing of those customers.

12 And then from an operations perspective, all of
13 our switches, capacitors, regulators, what are called
14 OCRs, switches, fuse sizes, load information, power flow
15 analysis, those kinds of thing will all be shared and
16 provided to the district.

17 Q. Is any of the customer information that you have
18 described considered customer confidential by APS under
19 the applicable Arizona Administrative Code rules?

20 A. Yes, indeed there is. I believe you and this
21 Commission are both well aware that from a confidentiality
22 standpoint we're not at liberty to share account
23 information as it relates to our customers, who the
24 account holders are, social security numbers, mailing
25 addresses, credit standing, whether or not we have

1 deposits, things of that nature. We'll preserve that from
2 a confidential standpoint.

3 Q. Is APS making any requests with respect to that
4 information in this matter?

5 A. We are. We're asking for a waiver, a one-time
6 waiver as it relates to the specific customers to be
7 transferred to ED-3, as it relates to that regulation, so
8 that we can provide ED-3 in as easy and seamless a method
9 as possible the same customer information that they would
10 ask a customer to supply were the customer making
11 application for service to ED-3.

12 So we are, yes, asking for that one-time waiver
13 for certain customer confidential information. We've
14 asked and received assurances from the district that they
15 will keep said information confidential as well.

16 Q. On Pages 6 through 8 of the transition plan, it
17 describes the proposed treatment of customer applications
18 for installations that would qualify under the
19 Commission's renewable energy standards or APS's demand-
20 side management program.

21 Will you please describe the parties' intent in
22 that regard?

23 A. Certainly. In referencing back to your question
24 about what kind of concerns or issues were raised by
25 customers, I indicated that a handful of customers had

1 expressed interest in the company's distributed generation
2 rooftop solar incentive program. And so from a timing
3 standpoint, as we have moved through this, up until the
4 point we received the procedural order, timing was
5 nebulous at best. And we certainly did not want to
6 discourage any of our customers' interest in renewable and
7 distributed generation.

8 So in one of our meetings with Staff, we asked
9 the question as to whether or not we might be able to
10 request a waiver of some of our RES guidelines within
11 which we might allow customers who had made application
12 for such an incentive, either from a distributed
13 generation renewable standpoint or as it relates to our
14 DSM programs, that if such application has been made and
15 yet the installation has not yet been completed by the
16 customer on their premise, or inspected and approved.

17 In other words, from a transition standpoint, if
18 there could not be a window of time following the
19 effective date of this transaction, if approved, within
20 which customers could continue with that installation and
21 have the assurances that their incentive would, in fact,
22 be paid.

23 Commission Staff was very good about
24 understanding the issue. They, I think, are fully
25 supportive of the fact that a waiver -- if that's the

1 word -- as it relates to that particular component of our
2 RES and DSM programs, and it makes perfect sense in that
3 application and is the right thing to do for our
4 customers.

5 Q. Is APS making any requests to this Commission in
6 order to effectuate that purpose?

7 A. We are.

8 MS. GRABEL: And specifically, Your Honor, if you
9 would like to refer to it on Pages 7 and 8. On Page 7,
10 the first real paragraph describes specifically what the
11 company is requesting with respect to RES projects. And
12 the second real paragraph describes what the company is
13 requesting with respect to its DSM programs.

14 Finally, if you turn to Page 8, Mr. Froetscher.

15 CHMN. MAYES: Counsel, if I could ask a couple of
16 questions on this topic?

17 MS. GRABEL: Sure.

18

19

EXAMINATION

20

21 Q. (BY CHMN. MAYES) Good morning, Mr. Froetscher.

22 A. Good morning, Chairman.

23 Q. How are you?

24 A. I'm wonderful.

25 Q. Good. Me, too.

1 A. Good.

2 Q. Just I'm interested in this topic and wanted to
3 make sure that -- and I appreciate the efforts that
4 obviously the parties and the Staff have gone to to
5 address the issue.

6 I'm reading from the Staff Report in this matter,
7 Page 15, and I just want to understand what Staff's
8 recommendation is relative to what APS has worked out with
9 ED-3. That recommended condition states that -- states,
10 basically, that there should be a 12-month period where --
11 obviously where the requests are honored by APS. But then
12 also the Commission order in this proceeding should
13 authorize APS to continue to pay incentives to APS's
14 customers subsequent to being transferred to ED-3 and
15 permits APS to credit such incentives to APS RES-DG
16 targets.

17 So I guess my question is, when would -- and I
18 also want to get to the topic of what ED-3 is doing in
19 terms of creating a solar or renewable energy
20 standard-like program.

21 But when would APS stop paying incentives to
22 former APS customers? Is there a hard cut-off date in
23 Staff's proposal as you understand it? Because it didn't
24 sound like it to me. And obviously, maybe Staff can
25 address that, but I'm trying to understand when would APS

1 stop paying incentives, and when would ED-3's solar and
2 DSM programs be fully implemented?

3 A. The best answer I can give you there, Chairman,
4 is as follows. The handful of customers who have inquired
5 have all been of a residential nature. And so there's a
6 12-month window, a 12-month backstop within which -- if
7 they make the application prior to an order, they've got
8 12 months, then, from effective date within which to put
9 the installation on the home and get it installed.

10 And upon approval of both the installation and
11 the interconnect, then APS from the residential program
12 standpoint pays the incentive. It's a one-shot deal and
13 everybody is done. So the backstop from the residential
14 standpoint is the end of that 12-month window.

15 Q. So after 12 months, APS would be out of the game
16 with regard to those former customers?

17 A. That is exactly right.

18 Q. And that's under APS's proposal. And maybe Staff
19 can address that. Hopefully, Staff's witness can address
20 that issue if I'm not here, because I might not be here
21 this afternoon.

22 So then that makes the question of when ED-3's
23 programs will be implemented and what those programs look
24 like even more important. I understand that, you know,
25 the Staff Report states that ED-3 has agreed to -- and you

1 referred to this in your testimony -- to develop a solar
2 program. And, in fact, I think the Staff Report says they
3 have a solar program. Is that your understanding?

4 A. It is my understanding that ED-3 has developed a
5 solar program, and that it, in essence, Chairman, mirrors
6 the APS program in format, style, and incentive payment
7 levels.

8 Q. And has that been docketed in this case?

9 MR. COYLE: Excuse me. John Coyle for ED-3.

10 No, I don't believe that it has, Ms. Chairman.
11 We didn't see it as necessary.

12 CHMN. MAYES: Okay. Well, I do. So could you do
13 that for me? I would appreciate it if you would docket
14 that in the case.

15 MR. COYLE: The process would be to make that a
16 late-filed exhibit?

17 CHMN. MAYES: That's up to the Judge.

18 ALJ RODDA: That's fine.

19 MR. COYLE: We'll do it. Sure. Absolutely.

20 CHMN. MAYES: Great, thank you. Because I think
21 there would be other Commissioners that would be
22 interested in taking a look at that and seeing what you
23 have developed. And I think it's great that it mirrors
24 APS's program, because right now, at least with regard to
25 the DG program, it's the gold standard in Arizona right

1 now for distributed generation solar.

2 Q. (BY CHMN. MAYES) And the Staff Report states
3 that ED-3 is in the process of developing DSM programs for
4 its customers. Do you know when those programs will be
5 fully implemented?

6 A. I do not, Chairman.

7 CHMN. MAYES: Okay. And if ED-3 has a witness, I
8 would be interested in knowing when those programs will be
9 fully implemented, because that will be an issue for me
10 when I judge this case, to make sure that your customers
11 have access to the same kind of programs that APS
12 customers currently do.

13 MR. COYLE: We'll make sure that we get that
14 information on the record. I'm not sure as I sit here
15 which witness would address it, but I know that one of
16 them will.

17 CHMN. MAYES: Perfect. And if I could ask you to
18 docket any information that you have about those programs.
19 If they're not developed yet, then any information that
20 you have that would describe those programs, what they
21 look like and what they will look like once they're
22 implemented.

23 Q. (BY CHMN. MAYES) In terms of the low income
24 customers, the Staff Report states that ED-3 has agreed to
25 provide low income discounts to customers who are

1 currently enrolled in APS's LIAP, in amounts equal to the
2 benefit received by such low income customers under
3 Schedule E-3 and E-4.

4 Has ED-3 -- again, this may be a question for an
5 ED-3 witness. Has ED-3 agreed to develop a program that
6 could be accessed by future or new customers?

7 A. It is my understanding that ED-3 has committed to
8 developing or has developed a program, Commissioner, to
9 ensure that the 190 APS customers who are receiving a low
10 income discount continue to receive that discount upon
11 approval and after transition.

12 Q. Okay. But how about new customers in that area?

13 A. To my knowledge, that offer does not extend to
14 new customers, but you would be best directing that to
15 ED-3.

16 CHMN. MAYES: Okay. That seems like it's
17 important that ED-3 develop a commensurate low income
18 program that would be open for new customers in this
19 service territory.

20 So Counsel, could you have a witness address that
21 issue as well?

22 MR. COYLE: We will have a witness address that
23 issue, yes, Madam Chairman.

24 CHMN. MAYES: Thank you very much. Let me just
25 check my notes here.

1 Q. (BY CHMN. MAYES) On the issue of the net gains
2 from the sale of the plant, can you tell me -- I know it's
3 a 50/50 sharing, which has been the practice in the past.
4 When would the gains from the asset -- gains from the
5 assets be presented to the Commission in the form of a
6 quarterly report? In other words, when is the next
7 quarterly report scheduled to come to the Commission, and
8 is it sooner or later than the APS rate case? That may be
9 a stumper, but --

10 MS. GRABEL: The answer, Madam Chairman, I
11 believe is that our next quarterly report is due in June,
12 and I can't answer the second part of that question.

13 CHMN. MAYES: Neither can I, I guess. Okay. So
14 the gains from this sale, if it's approved before June,
15 when is the next one after June?

16 MR. MUMAW: Yeah. It's, I think, 15 days -- this
17 is Tom Mumaw, I'm sorry, for APS. I believe, I'm looking
18 at Cynthia, 15 days after the close of the quarter or --

19 MS. JANKA: No, two months after the close.

20 MR. MUMAW: Two months after the close of the
21 quarter. So there's a two-month lag. So we can get gains
22 through the end of June in September.

23 ALJ RODDA: Okay.

24 CHMN. MAYES: So it would be June and September?

25 MR. MUMAW: Yes.

1 CHMN. MAYES: Okay. Is that -- if the APS rate
2 case comes before the Commission before this item is --
3 well, let's see. If the APS rate case comes before the
4 net utility gains report is presented to the Commission,
5 could this be something that could be addressed in the APS
6 rate case?

7 MR. MUMAW: Madam Chairman, this is Tom Mumaw
8 again. That could be handled in the rate case. In recent
9 history, what we have done with those gains is credit them
10 against the -- for just ease and simplicity, we've
11 credited those against the DSMAC account, but there's any
12 number of ways those could be handled by the Commission.

13 CHMN. MAYES: I wish you would stop calling it
14 the DSMAC account. There's got to be a better way to talk
15 about the energy efficiency account.

16 Okay. So there's any number of ways that we can
17 deal with that?

18 MR. MUMAW: There's -- yeah. Historically,
19 that's what we did, we credited it against the energy
20 efficiency adjustor account previously. We could do that
21 again. There are times it's actually been credited to the
22 PSA or its predecessor's account, or it can be taken care
23 of in a general rate case as well.

24 CHMN. MAYES: Okay. Thank you. I appreciate
25 that.

1 I think that's all I have, Your Honor. Sorry for
2 the interruption.

3 ALJ RODDA: That's fine.

4 Ms. Grabel.

5 MS. GRABEL: Thank you.

6

7 DIRECT EXAMINATION (Cont'd)

8

9 Q. (BY MS. GRABEL) Mr. Froetscher, to your
10 knowledge, has ED-3 agreed to the transition plan that we
11 were previously reviewing?

12 A. To my knowledge, they have.

13 Q. One moment.

14 Mr. Froetscher, do you know whether or not we
15 have any commercial customers who have requested
16 participation in the rooftop solar program?

17 A. We do not have any customers, Counselor, who have
18 requested participation or made application for the
19 rooftop -- distributed generation rooftop solar incentive
20 program.

21 We have heard from -- there's a fairly large
22 customer test track, Volkswagen of America, located within
23 the proposed ED-3 service area. APS currently serves that
24 customer, who at varying times over the last several years
25 has indicated interest in such an installation, but has

1 not put forth or forward any specific plans.

2 Mr. Yost?

3 MR. YOST: Excuse me. I believe it's Nissan.

4 THE WITNESS: I'm sorry. We believe it's Nissan,
5 not Volkswagen. My apologies. In fact, I hope I wasn't
6 showing my biases.

7 Q. (BY MS. GRABEL) Mr. Froetscher, if that
8 commercial customer were to make application within the
9 12-month window, do you have any knowledge about whether
10 or not APS would continue to make payments to that
11 customer after the 12-month window closes?

12 A. You know, I -- the commercial side, following the
13 Chairman's question, I suppose could be problematic,
14 quote/unquote. A lot of that depends on the size of the
15 installation and the associated incentive, and then the
16 corresponding payback period.

17 Clearly, the spirit of -- the conceptual spirit
18 here was that if a customer was in the queue prior to, if
19 approved, an effective date, that there would be
20 sufficient time within which the customer could complete
21 installation and the incentive would be honored. And the
22 spirit of that, I don't think, was limited to residential,
23 or at least it was not in my mind.

24 But you're asking specifics, quite frankly, that
25 I don't have an answer to that we may need to look at on a

1 case-by-case basis or consider in some fashion. I can
2 only speak to the fact that I think it's in all of our
3 interests that we not discourage, obviously, rooftop solar
4 in either class of customer, and see what we can do to
5 make sure that nobody is harmed.

6 Q. At present, this is limited to residential
7 customers, though. Not intended to be limited to
8 residential, but in practical application it is limited to
9 residential customers?

10 A. I would agree with that statement.

11 Q. Would you like to make any concluding remarks,
12 Mr. Froetscher?

13 A. I would only like to comment that, you know,
14 getting to this point has taken a lot of work from both an
15 ED-3 and an APS perspective. APS does not like to not
16 serve customers. We believe we do a nice job of taking
17 care of our customers, and, frankly, aren't in the
18 business of offering them to other service providers.

19 In this case, quite simply, because of the sale
20 of the system back in 1960 to ED-3, the preponderance of
21 the facilities in the area, the 69kV system, the
22 distribution substation and the 12kV feeders are owned by
23 the district, and the district upon expanding its service
24 offerings beginning in 2001 has proven that they're quite
25 capable of providing solid, reliable service and being

1 responsive.

2 From an operations, from an administration, from
3 a safety, from a planning standpoint, there's a lot of
4 reasons, I think, that this kind of a scenario in western
5 Pinal County support the idea that a single delivery
6 agent, a monopolistic take, if you will, delivering
7 electricity makes sense and seems to be the structure that
8 works or has worked within the industry.

9 And so we certainly don't want to send the
10 message to those 3,990 customers that we are abandoning
11 them, because, in fact, we are not intending to do that.
12 What we are intending to do is try to ensure that from a
13 utility planning, operations, and execution standpoint
14 that all of the customers within this geographic area are
15 taken care of, and we believe that Electrical District
16 No. 3 is quite capable of doing so.

17 I also want to thank, at least publicly,
18 Alexander and the balance of Staff. Again, we've met with
19 them on half a dozen occasions over the last couple of
20 years, and they've been very good and they've asked the
21 right questions. They've been very instructive in terms
22 of helping us put together the application and the
23 subsequent filings and dockets and testimony. And we're
24 appreciative, irrespective of the outcome, of the help
25 that you have provided.

1 MS. GRABEL: At this time, Your Honor, if I could
2 just move the admission of APS Exhibits No. 1 through 6.

3 ALJ RODDA: Okay. Is there any objection to
4 APS-1 through 6?

5 MR. COYLE: No objection, Your Honor.

6 MR. VAN CLEVE: No objection, Your Honor.

7 ALJ RODDA: So APS-1 through 6 are admitted.

8 (Exhibits APS-1, APS-2, APS-3, APS-4, APS-5, and
9 APS-6 were admitted into evidence.)

10 ALJ RODDA: And Mr. Coyle, do you have any
11 questions for this witness?

12 MR. COYLE: I have no questions for
13 Mr. Froetscher, Your Honor. Thank you.

14 ALJ RODDA: Thank you.

15 Mr. Van Cleve?

16 MR. VAN CLEVE: Thank you, Your Honor. I
17 actually only have a few after most of the information has
18 already been provided that I was going to ask questions
19 on.

20 CROSS-EXAMINATION

21

22 Q. (BY MR. VAN CLEVE) Mr. Froetscher, you had
23 mentioned -- or I believe maybe it was mentioned in the
24 opening statement about a 2002 application that had been
25 filed and withdrawn, correct?

1 A. Yes.

2 Q. What is the difference between that application
3 and the application we're here for today?

4 A. There's a couple of substantive differences
5 between the '02 application and the application we filed
6 in August of '08. The 2002 application, Mr. Van Cleve,
7 followed within relatively short order the settlement
8 agreement that the company and the Electrical District
9 No. 3 reached in 2001.

10 The original application in '02, however, did not
11 contain a couple of steps that, in order to effectuate
12 this completely, need to be included within the
13 application and are reflected in the August '08 filing.

14 For one, it didn't talk about the withdrawal or
15 the rescission of either the company's CC&N within the
16 proposed ED-3 service area, or the overlay that has
17 continued for the past 11 to 12 years over the Ak-Chin
18 area.

19 And two, the original service boundaries
20 associated with that 2002 application are not the same as
21 you see on that exhibit in the far corner of the room. In
22 fact, you see quite a bit of red area on the lower left,
23 the southwest portion of that map area. Those areas were
24 initially excluded. They were not part of the '02
25 application. Those facilities are APS's facilities, and

1 they are interconnected at numerous locations with ED-3
2 feeders.

3 And so I guess the best way I can summarize it is
4 that the '02 application was insufficient in terms of
5 effectively dealing with eliminating multiple, multiple
6 points of interconnection and resolving the operational,
7 the planning, the administrative issues associated with
8 this whole commingled set of wires.

9 Q. And the application today is for the sale of
10 assets as well as the cancellation of a portion of APS's
11 CC&N, correct?

12 A. That is correct.

13 Q. Is this an all-or-nothing proposition? If the
14 Commission decided that they would approve the sale of the
15 assets but not cancel the CC&N, is that something that APS
16 is seeking in this?

17 A. All right. Counselor, it's not an all-or-nothing
18 proposition in my mind, but there's a slightly different
19 twist on it, I guess, than what you presented.

20 With the underlying theme again being the
21 consolidated and effective, efficient operation of the
22 utility system, I believe that -- I believe the sale of
23 the assets and the withdrawal or rescission of the CC&Ns
24 are both important and both necessary.

25 If the Commission were to have second thoughts

1 about the transfer of customers, I believe there is room
2 in that regard. Framed from a standpoint of the 3,990
3 existing customers, if it were, for example, the
4 Commission's wish not to transfer them because they
5 believe it would be an undue burden, or for whatever the
6 rationale might be, from an APS perspective we could live
7 with having those customers from a service standpoint and
8 grandfathering them under APS service. I can't speak to
9 how ED-3 would feel about that.

10 But we would still need the assets to be sold and
11 the operating, construction, maintenance, administrative,
12 planning, and all of those responsibilities to transfer to
13 the district and have the district assume the
14 responsibility, the provider of last resort
15 responsibility. In other words, that's why the CC&N would
16 need to go as well.

17 We're halfway in and halfway out today. I would
18 have difficulty embracing a decision that leaves us in a
19 halfway in and halfway out position tomorrow. But if you
20 have one entity operating, building, maintaining the
21 system, even if we have -- APS has 4,000 customers
22 grandfathered underneath it, APS could probably live with
23 that.

24 Q. And I believe during your direct you had
25 mentioned -- or questions were asked regarding inquiries

1 by customers, I guess, that would be affected by this
2 transaction. And you had indicated they had some
3 inquiries, I believe, regarding like the rooftop solar and
4 things of that nature, correct?

5 A. Yes.

6 Q. Was there anybody -- or were there any customers
7 that are subject -- that would be subject to this
8 application that outright opposed the transfer or the
9 cancellation of the CC&N?

10 A. We had a number of customers out of the 51 who
11 contacted APS -- and I believe there's one or two who went
12 through Consumer Services here at the Commission. There
13 are a handful of customer who have flat out said, "I like
14 APS and I want to stay with APS. I'm opposed to this
15 transaction."

16 I spoke to several, and, you know, we've had the
17 discussion about why we are where we are and what the
18 underlying tenets of this application were founded upon,
19 and why in the long-term we believe it's in their best
20 interests. But if you're asking me if there's some
21 customers that are opposed to the proposed transaction,
22 the answer is yes.

23 Q. Do you have an estimate as to the percentage of
24 those that contacted APS that were outright opposed, I
25 guess, for lack of a better term?

1 A. I think if I were to hazard a guess, of the 50 to
2 51 with whom we spoke or answered a Consumer Services,
3 quote/unquote, complaint on it, having once sorted through
4 the different program offerings and remind them that from
5 a reliability, performance standpoint, for example, that
6 they're not moving to a system that hasn't been serving
7 them. They've been relying upon the ED-3 system from a
8 backbone standpoint for all of these years. And once you
9 talk through those nuances, Counselor, I would submit to
10 you that there may be 20 percent of those 50 who, given
11 their druthers, would stay with APS.

12 Q. And then as part of the -- I think it was part of
13 the transition, and I think it was in one of the notices
14 that might have been published for -- either for the
15 hearing or for the transaction, I think there was
16 information in there regarding the possibility of
17 transferring over the customer information from APS to
18 ED-3; is that correct?

19 A. I'm not sure I understand the question.

20 Q. Was there a notice that was provided to APS's
21 customers at this point indicating that you were seeking
22 permission to transfer this confidential customer
23 information?

24 A. I will make sure. Did we indicate that we
25 were -- we were requesting a waiver to transfer the

1 customer confidential information, but not that we had
2 transferred any.

3 Q. And if I said that, I'm sorry. I meant you were
4 seeking permission or waiver.

5 A. I'm sorry. No. Nor have we gone down that path;
6 we have not transferred any information.

7 Q. No, and I wasn't saying that.

8 A. No problem. We have advised our customers that
9 we have made that request.

10 Q. Has there been any opposition to that request
11 from any of your customers?

12 A. You know, in reviewing the 51 complaints that
13 we've dealt with, Counselor, that has not been one that
14 has been raised.

15 Q. So to the best of your knowledge, nobody said,
16 "Don't transfer my information"?

17 A. Correct.

18 Q. And I guess to the best of your knowledge, and
19 you have probably addressed this on some level already,
20 but is it your understanding that if this application is
21 approved in total and you're granted the permission to
22 transfer these customers over, that ED-3 will treat them
23 equally with its other customers?

24 A. Yes. That is my understanding, and that's been a
25 point of discussion. And despite the fact that the

1 proposed ED-3 service boundary is larger than the true
2 electrical district boundaries, the district has committed
3 that they will not have tiered service or terms and
4 conditions for service, and will, in fact, treat these
5 customers on a comparable basis with their existing retail
6 electric customers.

7 MR. VAN CLEVE: No further questions.

8 ALJ RODDA: Okay. Thank you.

9 Commissioner Mayes, did you have anything
10 further?

11 CHMN. MAYES: Well, a couple of questions,
12 additional questions.

13

14

FURTHER EXAMINATION

15

16 Q. (BY CHMN. MAYES) Mr. Froetscher, do you know --
17 and again, it may be a question for an ED-3 witness. But
18 do you know whether ED-3's solar program extends to their
19 entire service territory and all of their customers?

20 A. I believe it does.

21 Q. Okay. And do you know whether ED-3 has a
22 requirement that they purchase a certain amount of energy
23 or produce -- I guess they're not producers, but that they
24 purchase a certain amount of energy from renewables?

25 A. To my knowledge, they do not. But Chairman,

1 you're correct, that would be best directed to an ED-3
2 witness.

3 CHMN. MAYES: Okay. Thank you.

4 THE WITNESS: Thank you.

5 ALJ RODDA: And you have all been so thorough
6 that I just have a few questions. And I appreciate all of
7 your thoroughness, by the way.

8

9

EXAMINATION

10

11 Q. (BY ALJ RODDA) These approximate 4,000 APS
12 customers that will be transferred, are they clustered in
13 a location or are they spread out throughout the area?

14 A. A little bit of both, Your Honor. There clearly
15 is a large cluster in that lower left-hand corner, again,
16 the area in red. There are about 1,200 customers captured
17 within that singular geographic pocket, if you will.

18 The balance of the service area is shaded in
19 blue, and that's reflective of the ED-3 electrical
20 district true boundaries. You don't see a lot of red in
21 there, because all of the APS facilities are not mapped in
22 there. But what you have, really, in the balance of that
23 system is an ED-3 power line within which you have an APS
24 transformer and a service drop to a couple of customers.
25 You may go down the road another quarter mile, another

1 transformer, a service drop to a couple of customers.
2 Then go a little farther down the road, and APS has built
3 a three-pole extension over here to serve a couple of
4 customers. We've built a two-pole extension over here or
5 gone underground to two minipad transformers.

6 So there's an amalgamation, if you will, of how
7 the service is provided. There's a singular large pocket,
8 as I say, in that lower left-hand corner, but scattered
9 throughout the rest of the area are a lot of APS retail
10 residential customers.

11 Q. So explain to me again on that map that whole --
12 it sort of looks like the state of Arizona, as you were
13 saying. Is that the electrical district boundary, or is
14 the blue the electrical district's boundary?

15 A. This is essentially reflective of -- no. Let me
16 go to the other one.

17 Solid blue, Your Honor, the same bounds that you
18 saw on the other side, so that's the proposed ED-3 service
19 area. In yellow, those are -- that is the electrical
20 district's statutory boundaries.

21 Q. Oh, so the service territory and the statutory
22 boundaries of the district are different?

23 A. That's correct.

24 Q. And so since -- well, maybe it's like since --
25 was it 2001 when they started operating or started

1 offering extended service? Would APS -- how would new
2 connections be made, and how would it be determined
3 whether it would be an APS connection or an ED-3
4 connection?

5 A. You ask very good questions.

6 Q. Well, I'm just -- I don't know if they're
7 relevant to an ultimate decision, but it's just curious.

8 A. It might be more of the history for Mr. Van
9 Cleve.

10 Have you been to Maricopa?

11 Q. No.

12 A. The Town of Maricopa has undergone a great deal
13 of growth in the last six or seven years. A lot of
14 urbanization, planned area developments and subdivisions
15 have developed in and around the immediate old town site
16 of Maricopa. In 2001, when the agreements, the lease
17 agreements between APS and ED-3 terminated, that was the
18 point at which the district determined that it would like
19 to extend its service offerings beyond just the
20 agricultural community and into all classes of service.
21 Recall again that they owned the principal backbone and
22 infrastructure associated with the electrical system out
23 there.

24 So for the first year or so, this was when growth
25 was really beginning to emerge in that area, developers

1 and other customers would come, they would approach the
2 district, they would approach APS. In large part you
3 could say they were busy trying to shop for the best deal.
4 In order for APS to serve them, we were dependent upon
5 additional interconnect points from the ED-3 system.

6 Without trying to upset my friends at the
7 district with whom we have worked collaboratively over the
8 years, certainly ED-3 recognized that it had leverage in
9 terms of whether or not it would allow an interconnect
10 point to APS.

11 And so if you -- if I have described for you kind
12 of some of the dynamics associated with who was to serve
13 or who wanted what service and on what terms, therein is
14 probably the best description I can give about why two
15 service providers with intermingled and somewhat
16 dependent, although we are more dependent on the district
17 than the district has been on us for services and
18 facilities, why we have the conundrum that we have.

19 CHMN. MAYES: Quick question, because I have to
20 leave, Your Honor. I apologize.

21

22 FURTHER EXAMINATION

23

24 Q. (BY CHMN. MAYES) But I'm just curious,
25 Mr. Froetscher, why has APS decided that from a business

1 sense it's okay for you to give up all of this revenue? I
2 mean, these are customers that you are, as I would
3 understand it, voluntarily giving up. And it's my
4 experience you resist violently sometimes giving up any
5 revenue associated with anything, including sales from,
6 you know, sales that are lost as a result of our DSM
7 energy efficiency and solar programs.

8 So why would you just say, hey, okay, bye-bye to
9 several, you know, thousand customers?

10 A. Chairman, I appreciate the question. As I tried
11 to describe, we have customers that are interspersed
12 throughout the entire proposed ED-3 service area. So we
13 are running personnel out there and driving by customers
14 who are served by ED-3 to service our customers. They are
15 driving by customers who are served by APS while serving
16 their customers.

17 The two organizations have been very good in
18 working collaboratively, and thankfully there have not
19 been safety issues manifest. But to be honest with you,
20 we are pushing the envelope every day. If the lights go
21 out, both utilities respond, they both try to
22 troubleshoot. We end up meeting on the ditch bank to try
23 to figure out whose facilities they are that are
24 problematic; who needs to make repairs; who is affected;
25 how do you communicate that back to your different

1 operating centers, and all of those reasons.

2 And so you're right. You know, I've got a lot of
3 pride regarding this. I spent seven years in Casa Grande.
4 I have a lot of pride in terms of the service that we
5 provided those 4,000 customers and don't like to give them
6 up. I do believe that in what is in a sense, in essence,
7 a cost-neutral transaction, that it is in everyone's best
8 interests to have a single utility provider in that or any
9 geographic area.

10 And that in this case, because the district owns
11 the preponderance of the facilities and serves 17,000
12 customers, where APS serves 4,000, the right thing to do
13 is to turn those customers over and have them operate
14 them.

15 Q. Well, usually, in my experience, utilities, you
16 know, are not necessarily -- I mean, you're not a
17 philanthropic organization, right? I mean, you have
18 duties to your shareholders.

19 So you have decided that from the standpoint of
20 both your shareholders and your ratepayers, this is cost
21 neutral? This transaction is cost neutral for both
22 ratepayers and shareholders?

23 A. I'm not able, Chairman, to put in front of you a
24 financial spreadsheet that talks in terms of ROI or ROE.
25 We obviously -- if this application were to be approved,

1 APS will obviously see some economies of scale associated
2 with not having to service an area within which we don't
3 serve all of the customers. Those kilowatt hours that
4 we've been selling will go elsewhere or won't be produced.
5 So there's O&M and fuel and power plant savings, and you
6 know the business as well as I do.

7 We've agreed as well, and, in fact, going back to
8 your earlier question about gain on sale, we've agreed as
9 well that the sales price essentially reflects net book
10 value or original cost less depreciation, other than a
11 couple of thousand dollars associated with the Sexton
12 subpiece, a sales price that we agreed to back in 2001.
13 The balance of this transaction doesn't result in any net
14 gain for APS or its shareholders. Now, we were adamant
15 that at a minimum we needed to receive the value of those
16 facilities so that shareholders and customers are not
17 negatively affected.

18 But there's another underlying piece here that is
19 just simply a reality. And that is, again, because the
20 district owns the preponderance of the facilities in the
21 area, customers, in essence, have a choice today. And, in
22 fact, several hundred over the last six or seven years
23 have said, "I would prefer to take service from ED-3 than
24 from APS." And ED-3 is quite capable of extending its own
25 facilities, then, to serve a customer who is already

1 taking service from APS.

2 In essence, what I end up with then is a stranded
3 distribution asset in the field that eventually I'll need
4 to bear the expense of removing. And so it is in part as
5 well the avoided O&M expense associated with removing or
6 dismantling facilities that, in fact, could become
7 stranded that plays into this as well. So again, when you
8 look at all of those different factors, it to me makes a
9 lot of sense.

10 CHMN. MAYES: Okay. Thank you. Sorry.

11 ALJ RODDA: That's okay.

12

13

EXAMINATION (Cont'd)

14

15 Q. (BY ALJ RODDA) Now, when customers are going to
16 be transferred to ED-3, assuming approval, is it going to
17 be a -- is it going to be done all at once? Is it going
18 to be a one-by-one migration? Is it a cluster here? And
19 the timing, can you speak a little to the timing of that?

20 A. I can, Your Honor. If the application were to be
21 approved, the district and the company have talked and we
22 would like -- or we think an effective date of 60 to 90
23 days, for example, after said order would make some sense.
24 We certainly need and want to communicate with customers,
25 so we need some time to put together the requisite

1 information and timing and then send that communication
2 out.

3 The details around the actual transition, we
4 won't be going through this on a one-by-one.
5 Conceptually, what we've talked about is those 4,000
6 customers all fall within a meter reading cycle at a
7 certain time during the month.

8 And so what we at least envision is coordinating
9 the transfer with the scheduled normal meter reading, in
10 whatever month it may be, 60 to 90 days after an order is
11 issued, and using that meter reading as a final read for
12 APS and the starting read for ED-3, and effect the
13 transition essentially on a meter reading cycle basis in
14 that manner. Does that make some sense?

15 Q. Uh-huh. Okay. And on that sort of -- on that
16 same area, I think I read somewhere that it's your
17 intent you're going to return to customers -- or in their
18 last bill credit them with any security deposits; is that
19 right?

20 A. Yes. And again, in order to make this as
21 seamless and hopefully painless as possible for our
22 customers, there's a couple of dynamics in play. When one
23 acquires that meter reading and it's used to close out
24 your service with APS and initiate it with ED-3, APS will
25 calculate the final bill. If there's a security deposit,

1 apply it against the bill; and if there are additional
2 dollars remaining, refund those dollars to the customer.

3 ED-3, again, has been very gracious, very
4 collaborative in that for those 3,990 customers, if we're
5 able to effect the transaction as I have described it,
6 they are willing to take those customers on without
7 imposing a security deposit requirement upon those
8 customers, nor with imposing a -- what you and I would
9 call a service establishment charge or an initial connect
10 fee upon those customers.

11 And so there is no additional out-of-pocket
12 expense for a customer who is being moved from APS to
13 ED-3, and they are starting their service, essentially,
14 with ED-3 absent any security deposit and have every
15 opportunity to stay that way provided that the bills are
16 paid on a monthly basis.

17 Q. And are there any line extension refund
18 obligations in the area that APS has?

19 A. There are. We have a couple of dozen active line
20 extensions within which we have what are called active
21 advances. Those were payments that were made by customers
22 and, depending upon the timing and the terms, are eligible
23 for potential refund within a certain five-year period
24 from when the line extension was constructed. However,
25 we'll be refunding all of those line extension advances to

1 those customers, because, in essence, the company is being
2 made whole for what the advance represented, the cost of
3 installing the facilities.

4 And since the district is purchasing the
5 facilities and purchasing them at the net book value on an
6 original cost less depreciation, APS is being made whole,
7 there's no compelling reason to hold those advances or to
8 manage them on an ongoing basis. There's no reason we
9 can't refund them.

10 Q. So for those customers they're sort of getting an
11 advantage because they're getting the money sooner than
12 they might normally get it?

13 A. They are either getting that money sooner than
14 they might otherwise, or they are getting that money --
15 they are getting that money --

16 Q. At all?

17 A. -- at all when they otherwise may not have.

18 Q. All right. And then you were talking -- when you
19 were having the interaction about the renewable programs
20 and the solar panels on the rooftops and there was -- you
21 had some discussion about the difference between
22 commercial and the residential. Chairman Mayes is much
23 more knowledgeable about those programs than I am,
24 especially with APS's programs.

25 So is the issue that you were discussing that

1 under the -- whatever APS's residential program, under
2 your program the customer would have to install the
3 facilities in 12 months anyway? I mean, that's how it's
4 structured or -- but for commercial it could take longer
5 than 12 months, or what was the issue?

6 A. What we've submitted and suggested to the
7 Commission is that if the transaction is approved and
8 there's an effective date, that a customer who has made an
9 application to put in rooftop residential solar prior to
10 that effective date have -- at least have the 12 months
11 following the effective date to complete the installation
12 at the house.

13 Q. And before you go on, was that just an arbitrary
14 12-month period, or is that related somehow to your
15 tariff?

16 A. It is not related to our tariff. It's an
17 arbitrary number that's related to their ability to
18 contact a vendor, a supplier, and for said vendor to order
19 the material. In other words, if you or I decided to put
20 rooftop solar on our house today, I submit it would be,
21 under the best of circumstances, a couple or three or four
22 month process, and in some cases can take longer.

23 Q. I didn't mean arbitrary in a negative sense.

24 A. No. I understand.

25 Q. Okay.

1 A. So that was where that came from.

2 MR. MUMAW: Excuse me, Judge Rodda. Tom Mumaw.
3 I just want to interject to make sure the point is clear
4 on this. For a typical residential installation, if it's
5 completed within the 12 months, as Mr. Froetscher
6 indicated, it's a one-time payment under the APS program.

7 For the commercial customers, especially a large
8 commercial project, quite often those are pay-for-
9 performance deals that may extend for a number of years.
10 And I think it was our belief that should such a large
11 commercial customer make application and put their
12 installation in within the 12 months, we would continue to
13 pay their incentives, but that may go over a period of
14 years outside the 12-month window that Mr. Froetscher
15 referenced.

16 THE WITNESS: Mr. Mumaw is exactly correct, Your
17 Honor.

18 Q. (BY ALJ RODDA) But the application has to be
19 made before the effective date of the order, right?

20 A. One needs to have made the application prior to
21 the effective date of the order, and then the physical
22 installation in the field needs to be completed within
23 12 months of the date of the order.

24 Again, the interest we've had to this point has
25 been in the residential area within which that upon

1 approval a check is cut, the payment is made, it's a
2 one-time deal, and everyone is done.

3 In the commercial arena, as Mr. Mumaw referenced,
4 depending upon the size of the installation, the incentive
5 checks can span a period of years, quite a number of years
6 as I understand it, if it is a large-scale installation.

7 The company, I believe, and we'll certainly
8 validate this, is under that same scenario. A customer
9 makes application, puts the facility into play, physically
10 installs it and it's approved within the 12-month period.
11 The company is willing to make the payments for multiple
12 years beyond, then, this transition, provided that the
13 RES -- the other RES program elements, how those credits
14 are applied and so on and so forth, are honored by the
15 Commission.

16 Q. Right. So as long as you get the benefit --

17 A. Yes.

18 Q. -- from the program?

19 A. The program benefit or credit back to APS, we'll
20 make the payments to the customer. That was the spirit in
21 which this was crafted.

22 Q. Okay. Now, do I understand it correctly, the
23 Ak-Chin community, they provide -- is it -- tell me the
24 relationship. They have their own energy services
25 corporation that is their provider, and they get technical

1 support from APS now? What does technical support mean?

2 A. The poles and wires, the distribution facilities
3 on the Ak-Chin Indian reservation were sold by APS to the
4 Ak-Chin, with Commission approval, about 12 years ago. So
5 we sold them the very kind of assets we're asking for
6 permission to sell to ED-3.

7 The Ak-Chin community is not very heavily
8 populated. There's some commercial, there's some
9 residential and some commercial, a casino and things of
10 that nature. But the Ak-Chins did not at the time have a
11 functional electric utility. They didn't have line
12 trucks. They didn't have linemen. They didn't have meter
13 readers. They had at that time and have today a very
14 well-respected electrical consultant.

15 So for the last 10 years, we've been operating,
16 constructing, maintaining their system for them much like
17 a third-party contractor would, and that's been our
18 relationship. ED-3 now will be supplanting APS as that
19 contractor for those operations, maintenance, and
20 construction services on behalf of Ak-Chin.

21 Q. Okay. So on your map, was the blank area that
22 was sort of in the middle of the ED-3 territory, is that
23 the Ak-Chin?

24 A. It is. And it's probably a little more easily
25 seen on the other side, so we'll -- sorry to keep

1 flip-flopping on you like this, but there's the Ak-Chin.

2 Q. Very good. Okay.

3 All right. Now, among the assets, besides a
4 substation and the split ends, it's been referred to as an
5 inoperable 69kV line. And so that sort of begs the
6 question of what does the Electrical District want with an
7 inoperable line?

8 I have heard testimony about storm damage or
9 something, but can you sort of explain the story behind
10 this inoperable -- a short version of the story behind
11 this inoperable line and it must -- and your opinion there
12 must be some value to the Electrical District, or why
13 would they want it?

14 A. I don't know, but don't discourage them.

15 MR. COYLE: It's a twelve forty-seven underbuild,
16 and it's still there.

17 ALJ RODDA: Okay. I have no idea what you just
18 said, but --

19 THE WITNESS: This is the substation, Your Honor,
20 in question. It's called Sexton, and you see where it's
21 located. The community of Casa Grande is over here, okay,
22 urban Casa Grande.

23 Years ago, APS had a 69kV line that came from
24 Casa Grande out to this substation. There are 69kV lines
25 that come this direction as well. So this Sexton sub at

1 one time had two sources. Okay.

2 At some point years ago, a storm took down a
3 portion of these poles. And when they were reconstructed,
4 we put the facilities that are used to serve residential
5 and commercial customers up to restore service, but we
6 didn't rebuild the 69 line at that time because this
7 substation had another source, and over the years we've
8 never replaced it.

9 So there's a few miles of remaining 69 line
10 between here and here going back towards Casa Grande that
11 weren't impacted by the storm; therefore, they're still in
12 the air. But they don't connect to anything, and the
13 source to the substation comes from a different direction.

14 Now, to Mr. Coyle's point, also on those poles is
15 a second set of wires that are used for service to homes
16 and businesses, and so there is some intrinsic value to
17 what has been characterized as an inoperable 69 line.

18 Q. (BY ALJ RODDA) Thank you very much. You're a
19 very good witness. I like you.

20 So does the sales price vary with the book value?

21 A. Yes.

22 Q. All right. So that will be determined at some --
23 whatever date you finally determine, this is it?

24 A. Yeah.

25 Q. Okay. And I have heard several witnesses, I

1 think, or in written testimony, refer to any expected gain
2 as being immaterial.

3 Do you have sort of an estimate in your mind of
4 what gain APS expects from this transaction?

5 A. Yes, Your Honor. I indicated a couple of
6 thousand dollars. I was probably a little loose with that
7 earlier. I believe -- I am looking at -- I'm looking at
8 the Staff Report, Page 13, where Staff indicates that as
9 of June 2008, APS's projected net gain could range from
10 \$5,728 to \$8,824 after accounting for income tax.

11 I'm confident that Staff received that number
12 from us. Those numbers look familiar, so it's on that
13 order.

14 MS. GRABEL: If I may interrupt, Your Honor, it's
15 actually located on APS Exhibit 2 on Page 23 in
16 Mr. Froetscher's testimony.

17 THE WITNESS: Yes.

18 ALJ RODDA: And that's the same -- without me
19 looking, that's the same numbers?

20 MS. GRABEL: The net gain indicated here is the
21 8,824 number. So that's after accounting for a tax impact
22 on the first number of 5,728.

23 Q. (BY ALJ RODDA) All right. When I first read
24 that in the Staff Report -- I remember that number in the
25 Staff Report. I was confused as to whether it was just

1 associated with one of the components, or whether it was
2 the entire gain from all of the components that are being
3 sold. But it sounds like it's the entire gain from this
4 whole transaction.

5 A. Well, interestingly, it's really both. Because
6 that number is really reflective of a small gain to be
7 realized on the sale of Sexton substation and the
8 abandoned 69kV line. The balance of the facilities are
9 being sold at net book value, or OCLD, whichever you
10 prefer. And so it is the net gain from a component, and
11 it's also the overall net gain.

12 Q. Well, that explains that. So everyone is right,
13 and I'm not crazy, so that's good.

14 It's probably in the Staff Report where it's
15 describing what areas are going to be deleted from APS's
16 CC&N, it makes -- or I have seen -- I attributed it to the
17 Staff Report -- within the ED-3 area, and they make
18 reference to adjacent areas that I think are -- facilities
19 may be physically located outside the ED-3 territory?
20 Does that ring a bell with you?

21 A. It does.

22 Q. And that is just because the facilities happen to
23 be located there?

24 A. It goes back to -- Mr. Yost, if you don't mind,
25 for Your Honor and I, flipping that map one more time.

1 The blue boundary versus the yellow boundary.

2 Q. Okay.

3 A. Okay.

4 Q. Yeah. It shows the blue and yellow here.

5 A. Right.

6 MR. YOST: This blue is the existing ED
7 territory, and this crosshatched area is the proposed
8 additions.

9 ALJ RODDA: Okay.

10 THE WITNESS: So the point that was trying to be
11 conveyed is that the sale of facilities includes
12 facilities that are both within the statutory electrical
13 district boundaries and outside of the statutory
14 electrical district boundaries, but are adjacent -- those
15 ones that are outside are adjacent to and all are
16 encompassed within the proposed ED-3 service area.

17 ALJ RODDA: Great. All right. I don't have
18 anything further. Did you have any redirect?

19 MS. GRABEL: I don't. Thank you, Your Honor.

20 ALJ RODDA: It's very thorough. Thank you very
21 much, Mr. Froetscher.

22 THE WITNESS: Thank you very much.

23 ALJ RODDA: I would propose a lunch break. If we
24 did a short one and came back at 1:00, could you all live
25 with that? Are you looking forward to a feast today?

1 MR. COYLE: I was looking forward to catching a
2 plane home today, if that's possible.

3 ALJ RODDA: And what time is that?

4 MR. COYLE: 4:55.

5 ALJ RODDA: Do you want to come back at quarter
6 to 1:00? Does half an hour -- a little over half an hour.

7 MR. COYLE: I think we can work with that, Your
8 Honor.

9 ALJ RODDA: Okay. Let's try that.

10 (A recess was taken from 12:09 p.m. to 12:53 p.m.)

11 ALJ RODDA: All right. Let's go back on the
12 record.

13 And Mr. Coyle, why don't you explain what we're
14 doing here.

15 MR. COYLE: With permission of the Judge and the
16 consent of Counsel, ED-3 would propose to present its four
17 witnesses as a panel. So what I will do is ask the
18 requisite foundation questions of each witness
19 individually, move the admission of their testimony and
20 exhibits, and tender them for cross-examination. But
21 those are the only questions that I would have of the
22 witnesses will be the typical foundation questions for the
23 admission of testimony.

24 Mr. Saline, who is, I believe, the only mustache
25 on the bench, will then sort of function as master of

1 ceremonies. If there are, you know, questions of any
2 witness, if you direct the question to Mr. Saline, he'll
3 subdirect it to the witness whose expertise it is. And
4 that way we can avoid a lot of time being consumed in
5 taking the witnesses one by one and having witnesses defer
6 questions to those having more expertise in the area. It
7 just seemed to be a more efficient way to proceed, if
8 that's acceptable, Your Honor.

9 ALJ RODDA: Thank you, Mr. Coyle.

10 And Counsel, Ms. Grabel, do you agree?

11 MS. GRABEL: I have no objection, Your Honor.

12 ALJ RODDA: Mr. Van Cleve?

13 MR. VAN CLEVE: No objection, Your Honor.

14 ALJ RODDA: Well, I appreciate the flexibility,
15 and it's probably the best way to proceed.

16 All right, Michele, would you swear in the
17 witnesses.

18

19 DAVID BENEDICT, KENNETH R. SALINE,

20 JERRY D. SMITH AND JEFFREY J. WONER,

21 called as witnesses on behalf of Electrical District
22 No. 3, having been first duly sworn by the Certified
23 Reporter to speak the truth and nothing but the truth,
24 were examined and testified as follows:

25

1 DIRECT EXAMINATION

2

3 Q. (BY MR. COYLE) Taking Mr. Benedict first, would
4 you state your name and business address for the record
5 please.

6 A. BY MR. BENEDICT: It's David Brett Benedict,
7 Electrical District No. 3, 41630 West Louis Johnson
8 Boulevard, Maricopa, Arizona.

9 Q. And in what capacity are you employed by ED-3?

10 A. BY MR. BENEDICT: I'm the director of financial
11 services.

12 Q. At the time that you filed your testimony, did
13 you have a different job responsibility?

14 A. BY MR. BENEDICT: I had two jobs. I was the
15 interim general manager and maintained the director
16 responsibilities.

17 Q. Okay. Do you have before you your prefilled
18 direct testimony, Exhibit ED3-1?

19 A. BY MR. BENEDICT: Yes, I do.

20 Q. And also Exhibit ED3-5, which is an
21 organizational chart?

22 A. BY MR. BENEDICT: Yes.

23 Q. Exhibit ED3-6, which are ED-3's audited financial
24 statements?

25 A. BY MR. BENEDICT: Yes, sir.

1 Q. For 2006 and 2007?

2 A. BY MR. BENEDICT: Yes.

3 Q. And Exhibit ED3-7, which is an article from
4 American Public Power Magazine?

5 A. BY MR. BENEDICT: Public Power Magazine, yes,
6 sir.

7 Q. Let me start with Exhibit ED3-1. If I could
8 particularly invite your attention to Page 12, Line 10.

9 Do you have any changes or corrections you wanted
10 to make to your prefiled testimony?

11 A. BY MR. BENEDICT: Yes, sir. A minor change to
12 that, easily represented by striking the word "continue,"
13 replace it with the word "moderate."

14 Q. And are there any other changes?

15 A. BY MR. BENEDICT: No other changes.

16 Q. Thank you. If I were to ask you -- let's see.
17 The testimony in ED3-1 was prepared by you or under your
18 supervision?

19 A. BY MR. BENEDICT: Under my supervision, yes.

20 Q. And the information conveyed therein is true and
21 correct to the best of your knowledge?

22 A. BY MR. BENEDICT: Yes, it is.

23 Q. And if I were to ask you the same questions that
24 appears in Exhibit ED3-1 here under oath today, would your
25 answers be the same.

1 A. BY MR. BENEDICT: Yes, sir.

2 Q. Going to Exhibit ED3-5, the organizational chart,
3 was the information contained in the organizational chart
4 accurate at the time your testimony was submitted?

5 A. BY MR. BENEDICT: Yes, sir.

6 Q. And is it still accurate today?

7 A. BY MR. BENEDICT: Essentially the same.

8 Q. Okay. With respect to the two audited financial
9 statements appearing in Exhibit ED3-6, are those true and
10 correct copies of the financial statements?

11 A. BY MR. BENEDICT: Yes, they are.

12 Q. And is the 2008 financial statement for ED-3
13 available at this time?

14 A. BY MR. BENEDICT: Not yet.

15 Q. Thank you. And finally, is ED3-7 a true and
16 correct copy of the article from the American Public Power
17 Magazine?

18 A. BY MR. BENEDICT: Yes. To the best of my
19 knowledge, it certainly is.

20 MR. COYLE: On that basis, Your Honor, subject to
21 ruling, I would move the admission of Exhibits ED3-1,
22 ED3-5, ED3-6, and ED3-7, and tender Mr. Benedict for
23 cross-examination after I have introduced the rest of the
24 witnesses and move their exhibits as well.

25 ALJ RODDA: Okay. Any objection to ED3-1, 5, 6

1 or 7?

2 MS. GRABEL: No objection, Your Honor.

3 ALJ RODDA: Then we will admit those.

4 (Exhibits ED3-1, ED3-5, ED3-6, and ED3-7 were
5 admitted into evidence.)

6 Q. (BY MR. COYLE) Okay. Next, Mr. Saline. Would
7 you please state your name and business address for the
8 record, please.

9 A. BY MR. SALINE: My name is Kenneth R. Saline. My
10 business address is 160 North Pasadena, Mesa, Arizona.

11 Q. And in what capacity are you employed by
12 K.R. Saline & Associates?

13 A. BY MR. SALINE: I'm the managing partner of the
14 firm.

15 Q. And you are testifying here today on behalf ED-3,
16 correct?

17 A. BY MR. SALINE: Yes, I am.

18 Q. Do you have before you Exhibits ED3-2; ED3-8,
19 which is a system map; ED3-9, which is ED-3's 2007
20 transmission plan of service; ED3-10, which is the Santa
21 Cruz Water & Irrigation District Association 10-year
22 transmission plan; and ED3-11, which is the
23 interconnection agreement between Electrical District
24 No. 3 and Arizona Public Service?

25 A. BY MR. SALINE: Yes, I do.

1 Q. Okay. With regard to Exhibit ED3-2, your
2 prefiled direct testimony, was that prepared by you or
3 under your direction?

4 A. BY MR. SALINE: Yes, it was.

5 Q. And is the information contained therein true and
6 correct to the best of your knowledge?

7 A. BY MR. SALINE: Yes.

8 Q. Do you have any changes or corrections that you
9 wish to offer at this time to ED3-2?

10 A. BY MR. SALINE: There are a couple of minor
11 changes in some statistical details contained in that that
12 have been supplanted by more recent information.

13 Q. Okay. If you would care to offer those updates
14 at this time.

15 A. BY MR. SALINE: Sure.

16 Q. Give us the page and line numbers.

17 A. BY MR. SALINE: Sure. On Page 5, on Line 11, the
18 number of 170 megawatts in 2007, it should be 148
19 megawatts. And the peak for 2008 is 174 megawatts.

20 Next, on Page 7, Line 22, we had previously
21 referred to a 17,031 today, which was in 2008. As of
22 February 2009, the new number is 17,674.

23 And on Line 23, approximately 100 customers each
24 month is now approximately 30.

25 I believe those are the end of my changes.

1 Q. Okay. And if I were to ask you each and every
2 question appearing in Exhibit ED3-2, your prefiled direct
3 testimony, here today under oath, would your answers be
4 the same?

5 A. BY MR. SALINE: Yes, they would.

6 Q. Would you explain briefly for the benefit of
7 Judge Rodda what ED3-8 is, the system map?

8 A. BY MR. SALINE: ED3-8 is a map that was prepared
9 by our company for the purpose of working with APS on
10 these negotiations. And it's previously been looked at as
11 the other side of the board.

12 On that map, we have depicted the proposed ED-3
13 service territory, which is the blue outer line; the
14 Electrical District No. 3 statutory boundaries, which is
15 the broad yellow line. We have reflected the land use on
16 such maps, and we have provided electrical system diagram
17 of the facilities that existed at that time, including the
18 12kV distribution facilities and the transmission
19 facilities.

20 Q. Okay. Thank you. Could you explain briefly for
21 the Judge what Exhibit ED3-9 is?

22 A. BY MR. SALINE: ED3-9 is an electrical
23 transmission plan that was prepared for ED-3 reflecting a
24 10-year planning horizon for their 69kV transmission
25 facilities and 230kV facilities, including their rights in

1 a 500kV substation on the western side of the district.

2 Q. Thank you. And the same for Exhibit ED3-10, if
3 you could briefly describe that for the record.

4 A. On ED3-10, Santa Cruz Water & Power Districts
5 Association is a joint association between Electrical
6 District No. 3, Electrical District No. 4, and the two
7 overriding irrigation districts, which are Central Arizona
8 Irrigation & Drainage District, and Maricopa-Stanfield
9 Irrigation & Drainage District.

10 Those four districts have been working together
11 regarding regional planning opportunities for efficiency
12 and integrating some of their services. This filing is a
13 filing of their 10-year transmission plan with the Arizona
14 Corporation Commission in accordance with the state
15 statutes for building transmission facilities.

16 Q. And finally, could you briefly explain what
17 Exhibit ED3-11 is?

18 A. BY MR. SALINE: As Mr. Froetscher had indicated
19 earlier, the main service substation into the ED-3 area is
20 the Santa Rosa substation, and adjacent to it is a
21 Maricopa substation, which is owned by Western Area Power
22 Administration. And since then, ED-3 has purchased that
23 substation and Western has built a new substation called
24 Test Track. And the Maricopa substation was over 50 years
25 old and the equipment was needing to be replaced and

1 repaired, and Western needed to convert their substation
2 from 115kV to 230kV. And so in doing so, it was easier to
3 rebuild a new location and then leave the old facilities
4 for ED-3. And they have some distribution facilities in
5 there, and they have their 69kV breakers in the Maricopa
6 substation. So ED-3 has purchased those facilities from
7 Western. This interconnection agreement, then, subsequent
8 to those electrical transactions is an agreement between
9 APS and ED-3 for connecting in a new transformer and for
10 establishing the electrical interconnections between APS's
11 area and ED-3's area.

12 MR. COYLE: At this time, Your Honor, I would
13 tender Mr. Saline for cross-examination and move the
14 admission of Exhibits ED3-2, ED3-8, ED3-9, ED3-10, and
15 ED3-11.

16 ALJ RODDA: I was just going to save cross-
17 examination for after you do all of this.

18 MR. COYLE: Precisely.

19 ALJ RODDA: I wasn't focussing on that with the
20 first witness.

21 Anyway, any objections to ED3-2, 8, 9, 10, or 11?

22 MS. GRABEL: None.

23 MR. VAN CLEVE: No objection, Your Honor.

24 ALJ RODDA: Thanks. So we'll admit 2, 8, 9, 10,
25 and 11.

1 (Exhibits ED3-2, ED3-8, ED3-9, ED3-10, and ED3-11
2 were admitted into evidence.)

3 Q. (BY MR. COYLE) Next, Mr. Smith. Would you
4 please state your name and business address for the record
5 please.

6 A. BY MR. SMITH: Jerry D. Smith, 160 North
7 Pasadena, Mesa, Arizona.

8 Q. And are you employed, Mr. Smith?

9 A. BY MR. SMITH: I'm employed by K.R. Saline &
10 Associates.

11 Q. In what capacity?

12 A. BY MR. SMITH: I manage the firm's transmission
13 and distribution engineering function.

14 Q. Okay. Do you have before you what has been
15 marked for identification as Exhibit ED3-3?

16 A. BY MR. SMITH: Yes, I do.

17 Q. And is that your prefiled direct testimony?

18 A. BY MR. SMITH: Yes, it is.

19 Q. Was that testimony prepared by you or under your
20 direction.

21 A. BY MR. SMITH: Yes, it was.

22 Q. And is the information contained therein true and
23 correct to the best of your knowledge?

24 A. BY MR. SMITH: Yes, it is.

25 Q. Do you have any changes or corrections that you

1 wish to offer at this time?

2 A. BY MR. SMITH: I do not have any corrections.

3 Q. If I were to ask you each and every question
4 appearing in Exhibit ED3-3 here today under oath, would
5 your answers be the same as appear in the exhibit?

6 A. BY MR. SMITH: Yes.

7 MR. COYLE: Okay. Then, Your Honor, at this time
8 I would tender Mr. Smith for cross-examination and move
9 the admission of Exhibit ED3-3.

10 ALJ RODDA: Okay. Any objection to ED3-3?

11 MS. GRABEL: None.

12 ALJ RODDA: Okay. ED3-3 is admitted. I just
13 like saying that, ED3-3.

14 (Exhibit ED3-3 was admitted into evidence.)

15 MR. COYLE: Thank you, Your Honor.

16 Q. (BY MR. COYLE) Next, Mr. Woner.

17 A. BY MR. WONER: Yes, sir.

18 Q. Would you state your name and business address
19 for the record, please.

20 A. BY MR. WONER: My name is Jeffrey J. Woner.
21 That's W-o-n-e-r. Business address is 160 North Pasadena,
22 Mesa, Arizona.

23 Q. And are you employed, Mr. Woner?

24 A. BY MR. WONER: I am. I'm a partner in the firm
25 of K.R. Saline & Associates. I'm the manager of rates and

1 finance.

2 Q. Thank you. Do you have before you Exhibit ED3-4,
3 your prefiled direct testimony?

4 A. BY MR. WONER: Yes.

5 Q. And also Exhibit ED3-12, which is a retail bill
6 comparison?

7 A. BY MR. WONER: Yes.

8 Q. And Exhibit ED3-13?

9 A. BY MR. WONER: Yes.

10 Q. Could you explain briefly what Exhibit ED3-13 is?

11 A. BY MR. WONER: ED3-13 is a projection of ED-3's
12 financial operating results for a period of 10 years.

13 Q. Thank you. Did you also file supplemental direct
14 testimony in this proceeding recently?

15 A. BY MR. WONER: I did, yes.

16 Q. And do you have before you Exhibit ED3-14?

17 A. BY MR. WONER: Yes, I do.

18 Q. And is that your supplemental direct testimony?

19 A. BY MR. WONER: Yes.

20 Q. And does that testimony sponsor another exhibit,
21 ED3-15?

22 A. BY MR. WONER: Yes, it does.

23 Q. And what is Exhibit ED3-15?

24 A. BY MR. WONER: ED3-15 is an update of the rate
25 comparison that was presented under ED3-12, I believe --

1 yeah, ED3-12 -- to reflect changes in both APS's and
2 ED-3's rates since that exhibit was filed.

3 Q. Okay. Now, were all of those exhibits, ED3-4,
4 ED3-12, ED3-13, 14 and 15, prepared by you or under your
5 supervision?

6 A. BY MR. WONER: Yes.

7 Q. Is the information contained therein true and
8 correct to the best of your knowledge?

9 A. BY MR. WONER: Yes.

10 Q. If I were to ask you each and every question that
11 appears in Exhibit ED3-4 today here under oath, would your
12 answers be the same as appear in Exhibit ED3-4?

13 A. BY MR. WONER: Yes, they would.

14 Q. And if I were to ask you each and every question
15 that appears in Exhibit ED3-14, your supplemental direct,
16 here today under oath, would your answers be the same as
17 appear in that exhibit?

18 A. BY MR. WONER: Yes, they would.

19 MR. COYLE: Thank you.

20 Your Honor, at this time I tender Mr. Woner for
21 cross-examination, and move the admission of Exhibits
22 ED3-4, ED3-12, ED3-13, ED3-14, and ED3-15.

23 ALJ RODDA: Okay. Any objections?

24 MS. GRABEL: No objections.

25 ALJ RODDA: Okay. So ED3-4, 12, 13, 14, and 15

1 are admitted.

2 (Exhibits ED3-4, ED3-12, ED3-13, ED3-14, and
3 ED3-15 were admitted into evidence.)

4 MR. COYLE: At this point, I pass all the
5 witnesses for cross.

6 ALJ RODDA: All the witnesses.

7 Ms. Grabel, do you have any questions for the
8 panel?

9 MS. GRABEL: APS has no questions for the panel.

10 ALJ RODDA: Mr. Van Cleve?

11 MR. VAN CLEVE: Thank you, Your Honor.

12

13 CROSS-EXAMINATION

14

15 Q. (BY MR. VAN CLEVE) First, I guess I would like
16 to start out with some of the questions that were asked by
17 Chair Mayes regarding the solar programs that ED-3 has.
18 And I don't know who the witness would be, but if you
19 could kind of describe what solar programs you have in
20 place or are planning to put in place.

21 A. BY MR. WONER: I'll go ahead and answer that one.
22 ED-3 does have a solar program that was approved by its
23 board, I believe in September of 2008. And as
24 Mr. Froetscher stated, it does mimic APS's policy as close
25 as we could. There's one exception. I believe APS's

1 policy has a capital contribution up to \$75,000. ED-3's
2 for residential is capped at 15,000, and for commercial at
3 25,000.

4 Our renewable energy surcharges are also
5 different. That surcharge for ED-3 is at 3 cents a
6 kilowatt hour, or is it 3 mils? I'm sorry. 3 mils a
7 kilowatt hour, with a cap of 30 cents a month to a
8 residential customer, and a cap of \$12 to residential
9 customers -- or to commercial customers. Everything else,
10 to my knowledge, is identical to APS's.

11 Q. And under that same line of questioning, there
12 was some questions asked about commercial applications for
13 solar panels. If there was a customer within this
14 territory that we're talking about today that requested --
15 a commercial customer that requested solar panels to be
16 installed -- and from my understanding it's not a one-time
17 payment, it's a payment that occurs over a period of
18 years -- is ED-3 prepared to assume the responsibilities
19 of those incentives, or whatever it is that occurs over
20 that period of time?

21 A. BY MR. WONER: Actually, you point out another
22 difference between APS and ED-3. Their current commercial
23 rider that's applied is a one-time payment also. It's
24 capped at \$25,000.

25 ALJ RODDA: Wait a minute. That was ED-3's?

1 BY MR. WONER: That is ED-3's. I'm sorry if I
2 said APS.

3 Q. (BY MR. VAN CLEVE) So to the extent there was an
4 APS customer in this 12-month transition period that's
5 been discussed today that requested application from APS
6 and the payments weren't all taken care of before the
7 12-month period ended, would ED-3 be prepared to assume
8 that responsibility of paying those incentives or those
9 payments to the customer?

10 A. BY MR. WONER: I'm sorry. I'm not sure I
11 understand your question. So you have a scenario where a
12 commercial customer has requested through APS's program,
13 their solar incentive program --

14 Q. Correct.

15 A. BY MR. WONER: -- and the payments have not --

16 Q. Been completed yet.

17 A. BY MR. WONER: -- been completed.

18 Q. Because my understanding is that with residential
19 it's a one-time payment for APS, and with the commercial
20 it's something that takes place over a period of time.

21 A. BY MR. WONER: The way I understood Daniel
22 talking about APS's program was that those payments for
23 commercial would continue even after the 12-month period,
24 or did I misunderstand that?

25 ALJ RODDA: I think there's some confusion in the

1 question. I think APS -- my understanding -- maybe we
2 need to nail this down -- my understanding was that APS
3 was going to continue to make those payments, not that --
4 ED-3 would not be required.

5 MS. GRABEL: That is correct, Your Honor.

6 MR. VAN CLEVE: Okay. I wasn't sure on that.

7 Q. (BY MR. VAN CLEVE) And then switching gears
8 slightly to DSM programs, my understanding is -- does ED-3
9 currently have any sort of DSM mechanisms in place?

10 A. BY MR. WONER: They do not have a written DSM
11 program. But as I state in my testimony, they do do DSM.
12 Their largest customer, the Maricopa Irrigation & Drainage
13 District, participates in a program cooperatively with
14 ED-3 on efficiently using pumps, lowering the demand,
15 those kinds of things. They do not have a program in
16 ready.

17 They also have -- they have an aggressive
18 campaign of putting in I guess what you might call smart
19 meters that allow time-of-use rates, and also other things
20 that are envisioned, load management, those kinds of
21 things. Nothing has been put in writing yet.

22 Q. Is there an intention of putting that in writing?

23 A. BY MR. WONER: You know, you can try to answer
24 that. I would defer to the board of directors so --

25 A. BY MR. BENEDICT: Absolutely. The discussion --

1 ALJ RODDA: And this is Mr. Benedict. I know it
2 will show up in the transcript, but --

3 A. BY MR. BENEDICT: We continue to discuss exactly
4 what parts of DSM that we want to codify. As stated, the
5 district has for many years had the demand program with
6 our largest customer. And we have -- just repeating, we
7 have been aggressive putting in what you would call smart
8 meters in our system, and hope to utilize that system for
9 other demand control functions in the future.

10 Q. (BY MR. VAN CLEVE) And then I think this was
11 another question that was asked by Chairman Mayes
12 regarding some sort of program for ED-3 wherein they
13 purchase energy from renewable resources. Is there any
14 sort of program in place for that?

15 A. BY MR. SALINE: Ken Saline. ED-3 currently
16 purchases approximately 35 megawatts of federal hydro
17 power, which is a green resource. In addition to that,
18 under that program we provide an integrated resource plan
19 to the Western Area Power Administration, which includes
20 and has included a look at demand-side resources for ED-3,
21 and looking at other purchased fuel resources.

22 So we have had a program in place for
23 approximately 10 years to look at integrated resource
24 planning, and henceforth some of the advanced metering
25 infrastructure that's been put in place to enable those

1 programs to occur.

2 Q. And now switching gears to low income, I guess,
3 ratepayers. It's my understanding -- and correct me if
4 I'm wrong -- that the low income ratepayers that APS --
5 that are APS customers, when they're transferred over if
6 this application is approved, will continue to fall within
7 the low income program?

8 A. BY MR. WONER: Let me answer that. Jeff Woner.

9 ED-3 is reviewing a low income tariff similar to
10 APS's at this time. There's a couple of problems. One is
11 that it's -- I guess the benefit is that in the summertime
12 ED-3's rates to these customers would actually result in a
13 billing lower than APS's after their low income deduction.
14 So that's one issue.

15 We are in the process -- as we have stated in our
16 testimony, our intent is to hold those customers whole.
17 We're dealing with and we'll probably have for the board
18 of directors at their April board meeting a proposed low
19 income tariff.

20 Q. And you say you intend to hold them harmless in
21 this transfer. For how long?

22 A. BY MR. WONER: I think that's a legal question
23 more than anything. I understand that ED-3's board can't
24 bind future board decisions.

25 You know, just sort of as a general rule, for

1 competitive purposes ED-3 has tried to mimic APS's
2 policies, assure that its rates are competitive with APS,
3 and I expect that to continue into the future.

4 Q. Let me ask it a little different way then. Is
5 there any intention that you're aware of in the near
6 future to, you know, once they're transferred over, to
7 somehow transition them out of this low income tariff that
8 you're aware of?

9 A. BY MR. WONER: No.

10 Q. Okay. And I think this will be directed to
11 Mr. Benedict.

12 We've heard testimony today from APS regarding
13 the transition of customers from APS to ED-3 if this
14 application is approved. And if you can describe briefly
15 from ED-3's perspective how they were going to go about --
16 or how they're going to go about transitioning customers
17 over to make it as efficient and painless as possible.

18 A. BY MR. BENEDICT: I thought Mr. Froetscher's
19 description was right on to what the plans were. We've
20 had these discussions with APS quite a bit and vetted it
21 out in our company about how this transfer is going to
22 take place.

23 First, let me just reiterate just a little. We
24 first hope to have data transferred for each of those
25 customers so that our database will be ready and in place,

1 everything will be ready for this transfer.

2 And then, maybe to put it simply, we run our
3 meter reader with their meter reader, and at that cycle
4 that read would be APS's end read and our begin read. So
5 that the customer would see their APS bill this month, and
6 next month they'll see an ED-3 bill.

7 Q. Okay. And I believe it was in your testimony,
8 but correct me if I'm wrong. There was talk about the
9 impact of the purchase of the assets on ratepayers and how
10 it would affect the overall -- and I might not be stating
11 this correctly. I was wondering if you could sort of
12 discuss that a little further as to how --

13 A. BY MR. WONER: I think I just gave an example in
14 my testimony of the district's fixed costs being reduced
15 by the addition of another 4,000 customers.

16 Q. Okay. So, in general, it will go down even
17 though you're expending, what is it, approximately
18 13.1 million?

19 A. BY MR. WONER: Right.

20 Q. I guess this is for Mr. Saline. Is ED-3 capable
21 of handling the additional APS customers?

22 A. BY MR. SALINE: Yes, they are. As indicated in
23 previous testimony, ED-3 has been operating --
24 electrically operating the backbone system. And in the
25 last -- since 2001 when they took operational control,

1 their crews have been dispatched for, I would say, the
2 majority of any outages, as well as APS has been
3 dispatched for any APS customers. And so that's been, you
4 know, to APS's credit to have that type of side by side at
5 first, and then ED-3 has ramped up with their crews and
6 their operations now to where they're operating it on
7 their own, but for, I think, APS responds to just
8 individual customer issues. So at this time, ED-3 is
9 fully capable and has been for the last several years
10 operating the system.

11 Q. Okay. And I think it was on Page 8 of your
12 testimony, you mentioned -- and I think it's a requirement
13 perhaps in Maricopa, but replacement of overhead
14 facilities to underground facilities?

15 A. BY MR. SALINE: Yes.

16 Q. Is that something that you would have to do with
17 the assets that you're purchasing from APS if this
18 application is granted?

19 A. BY MR. SALINE: Yes, we will. As the development
20 occurs, the historical system was all overhead,
21 three-phase. And as new developments move in, they prefer
22 to have less and less conductors in the air. And so due
23 to the age of the facilities and the need to redesign the
24 system for a more reliable looped system, multiple feeds,
25 et cetera. And, of course, when you put facilities

1 underground, you build in more redundancy. So they will
2 be replacing those facilities over time.

3 I think that also augments what Mr. Froetscher
4 said earlier as to why APS may not find it so lucrative in
5 the sense that since ED-3 -- for at least on the northern
6 part of the map where all of the black is, all of those
7 overhead facilities have been taken down and completely
8 replaced. So as ED-3 would be systematically moving into
9 the urban areas, they would be taking down what would be
10 any APS old facilities and abandoning them in the process,
11 which would leave APS with any cost of removing them,
12 et cetera.

13 So when we realized what was happening with the
14 urbanization and completely having to rebuild the
15 underground systems, then we realized that it was just
16 going to create more abandoned assets that needed to be
17 taken care of. We did find that by purchasing the assets
18 this way, then we can use them for as long as we can and
19 get, you know, the maximum utilization until then a
20 developer comes in and makes some type of transition plan
21 to the underground facilities.

22 Q. If this application is not approved, along those
23 same lines, would ED-3 have to construct, I guess, what in
24 essence would be duplicate infrastructure?

25 A. BY MR. SALINE: They will. When the development

1 goes into the area, ED-3 being the operator of the
2 subtransmission system and the transmission facilities,
3 they have both for the retail customers and under their
4 wholesale agreement for wheeling for APS an obligation to
5 build their system to serve all electrical load. And so
6 they will go in and build the electrical wires sized to
7 serve the entire electrical load. And in many cases, when
8 the overhead is removed, then you would have APS
9 facilities basically stranded.

10 Q. And then on Page 14 of your testimony, you
11 reference the Sexton substation and you indicate that it's
12 only connected to the ED-3 system. And I think this is
13 correct, but -- and then the majority of the loads being
14 served by the Sexton substation are non-APS loads.

15 What do you mean by the majority? Are there
16 other loads being served on it?

17 A. BY MR. SALINE: I believe out of Sexton
18 substation there might be one of those small areas. Dan,
19 do you -- or Tom, do you know if there's any of those?

20 MR. FROETSCHER: I believe APS has a handful of
21 split ends off that circuit.

22 A. BY MR. SALINE: So I think the majority of it is
23 pumping load today. And then there's some small
24 residential customers there that would be part of this
25 transfer.

1 Q. (BY MR. VAN CLEVE) So the split ends would be
2 transferred over?

3 A. BY MR. SALINE: Yes, they would.

4 Q. This is for Mr. Smith. And I guess it's probably
5 been addressed to some extent already, but could you
6 briefly describe the public benefits of granting of this
7 application as it relates to ED-3?

8 A. BY MR. SMITH: I will try to be brief. In my
9 past role as a Commission staff member, I was advocating
10 the consolidation and elimination of overlapping service
11 areas between APS and ED-3. My testimony shares the fact
12 that my professional opinion is the same today that there
13 is public benefit and it's in the public interest to take
14 the proposed action that's before the Commission today.

15 In selling the assets from APS to ED-3,
16 Mr. Froetscher has already articulated, I think very
17 effectively, how that avoids confusion of whose facilities
18 are whose. It avoids some of the operational dilemma of
19 how do you coordinate the operational activities in the
20 field. It avoids potential safety risks for field
21 personnel. It also helps eliminate confusion to the
22 consumer as they're trying to report their outages, and
23 for the operational entities to understand whose facility
24 is really not functioning properly. So it helps resolve a
25 lot of those types of issues.

1 By resolving the service area issue, it
2 establishes a consolidated responsibility for provider of
3 last resort. And, in fact, operationally, that has been
4 occurring over the last couple of years in the operational
5 paradigm that's been in place. So by taking the action to
6 refine the service area boundaries as has been requested,
7 simply enables the parties to reflect what has been sort
8 of operationally occurring. And it's my belief that that
9 is to the consumers' interest because it will help avoid
10 any confusion about what party they need to be interacting
11 with.

12 I guess the other characterization that I would
13 offer is the proposed action in this docket avoids a
14 dilemma with the retail competition rules at the
15 Commission. It says that a wire service provider is a
16 single entity. It still leaves open-ended the question
17 that's been posed to Mr. Froetscher in terms of to what
18 degree does retail service from another supplier still
19 have the opportunity to be pursued by a customer, but it
20 resolves who is the wire service provider.

21 And again, I think that provides not only the
22 operational integrity, but it also assists consolidation
23 of the planning responsibilities that need to accompany
24 providing the infrastructure needed to serve the
25 customers.

1 Q. And if it's approved, does it provide, I guess,
2 more reliable service to the customers?

3 A. BY MR. SMITH: I believe that the action that is
4 being proposed is and has and will continue to see
5 reliability of service to improve in this area of the
6 system. In my years at the Commission, we did not have
7 outage records that you could use to make a comparison
8 with today, because all we had was that component that
9 were the split ends portions for APS's system. And to
10 compare that solely with the rest of the ED-3 system was
11 simply data that was not available.

12 I think systemically what we've seen over the
13 last seven years is what was previously a radial 69kV
14 system with radial distribution services is already
15 starting to emerge very significantly to being a looped
16 and networked 69kV system with improved distribution
17 feeder switching capability between substation areas.

18 While I haven't seen statistical data, I would
19 expect that they would show that the quality of service
20 has improved as a result of making those strategic changes
21 in the way the service is provided.

22 Q. And I think this will be directed to Mr. Woner.
23 There's testimony, I think on Page 5 of your testimony,
24 you refer to the board meetings that ED-3 holds.

25 A. BY MR. WONER: Uh-huh.

1 Q. What sort of participation is allowed by
2 ratepayers in those meetings as far as when ED-3 decides
3 it wants to change rates? What sort of mechanism is there
4 in place for the ratepayers to participate in that?

5 A. BY MR. WONER: In the past, all of the board
6 meetings are noticed at least 24 hours prior to them
7 happening. ED-3 has also in the past sent customer
8 mailings out notifying them of increasing costs coming
9 down the line. The customers of ED-3 are always welcome
10 to come to those board meetings and voice their concerns,
11 and they do, obviously, from time to time.

12 CHMN. MAYES: Mr. Van Cleve, can I jump in?

13 MR. VAN CLEVE: Absolutely.

14

15

EXAMINATION

16

17 Q. (BY CHMN. MAYES) But I think what Mr. Van Cleve
18 was trying to ask is -- well, part of, I think, his
19 question was: Do ratepayers get notice prior to those
20 hearings or meetings in which you make the decisions about
21 rate increases so that they can have, you know, an
22 opportunity to be heard in the same way that they had here
23 at the Commission?

24 A. BY MR. WONER: I don't think they have ever
25 received like a direct mailing with their bills.

1 Q. Prior to --

2 A. BY MR. BENEDICT: They have -- right. There's
3 public notice.

4 ALJ RODDA: Could you use the microphone?

5 A. BY MR. BENEDICT: This is Mr. Benedict. It is a
6 public body. It operates very similar to Salt River
7 Project. They have public notice of meetings that's
8 published just like every other -- just like most other, I
9 guess I should say, I don't know -- public bodies.

10 Q. (BY CHMN. MAYES) Well, I can't say that I can be
11 totally certain in this statement, but I think SRP
12 provides notice in their -- at least in their billings
13 that a meeting is forthcoming that would decide a rate
14 increase.

15 Can you commit to the Commission that that would
16 be your practice going forward?

17 A. BY MR. BENEDICT: Well, for one, I cannot commit
18 the board. That has not been the practice. It is
19 certainly something that we can bring up for
20 consideration.

21 Q. And would you be opposed if that was a condition
22 of this Commission's approval of this application?

23 A. BY MR. BENEDICT: Again, I can't commit to what
24 our board's action would be.

25 Q. Okay.

1 A. BY MR. WONER: Could I just provide a little bit
2 of follow-up? I know in the past we have had customer
3 meetings dealing with rates and issues. If a customer
4 comes to a board meeting and brings up a concern, we have
5 held special meetings where we can sit and they can ask
6 questions. The board meetings are fairly informal, but
7 they've got a lot of issues to deal with a lot of times.

8 So if some concerns are brought up by the
9 customers, we set aside a whole other meeting and let me
10 them ask, and usually we do a presentation of why we're
11 doing what we're doing. That's done in the board meeting
12 anyway, but it's more of an informal type thing. We did
13 that a couple of years ago, I believe was the last time.
14 It was requested.

15 CHMN. MAYES: Okay. Thank you.

16

17 CROSS-EXAMINATION (Cont'd)

18

19 Q. (BY MR. VAN CLEVE) Could you also discuss a
20 little bit about the difference between -- I guess it
21 would be these APS customers that would be transferred
22 over in the event that the application is approved, the
23 difference between if they want to become a member of the
24 district or not, and is there a different participation
25 level? What is the distinction?

1 A. BY MR. WONER: I'm happy to take a stab at that.

2 Q. Whoever.

3 A. BY MR. WONER: ED-3 was legally formed by its
4 members back in the '20s. And so a group of people got
5 together and formed it. The group of customers that you
6 see outside of what we're calling ED-3's statutory
7 boundaries, they will be customers of ED-3, but they won't
8 be assessed by ED-3. And the only way that that can
9 happen, or that they can -- I don't think they can vote
10 for board members. And the only way that can happen is if
11 they request to be included. ED-3 cannot on its on go out
12 there and just include those people. They have to request
13 to be included. And that's a formal process, a hearing is
14 held.

15 Q. And that's only if they're outside of the
16 statutory boundary?

17 A. BY MR. WONER: That's correct.

18

19

EXAMINATION

20

21 Q. (BY ALJ RODDA) Wait. So inside the statutory
22 boundary they're assessed by the Electrical District?

23 A. BY MR. WONER: Yes.

24 Q. Okay. And that would be true for APS customers
25 inside the statutory --

1 A. BY MR. WONER: Yes.

2 A. BY MR. BENEDICT: Yes. That is true today. For
3 those customers -- for those split ends -- This is Brett
4 Benedict. That is true today for those APS customers that
5 are within the ED-3 boundaries.

6 Q. They are already being assessed.

7 A. BY MR. BENEDICT: Their property taxes have been
8 ED-3 assessed. Our assessment right now is very small,
9 but that's --

10 Q. So it's just like the little fire district in my
11 neighborhood?

12 A. BY MR. BENEDICT: It is very similar to what your
13 fire district would be. And I would certainly defer to an
14 attorney to explain all of that.

15 A. BY MR. WONER: I can tell you that there's a
16 similar process for people wishing to be excluded to the
17 district, from the district's assessments. But it's also,
18 again, you're giving up your right to be served and those
19 kinds of things, too. It's another legal process.

20 A. BY MR. BENEDICT: Well --

21 A. BY MR. WONER: Districts do that.

22 A. BY MR. BENEDICT: Right, I mean, it's just the
23 one -- again, this is Brett Benedict. Again, just the one
24 thing that he said that I stopped at was they would not
25 give up their right to be served. We would still be

1 serving any of those folks in that service area, serving
2 with electricity.

3 Q. Since we're on the topic, can you tell me why
4 there's a difference between the legal boundary and the
5 service boundary? And is there anything that prevents you
6 from serving wherever?

7 A. BY MR. SALINE: I'll take a stab at that one.
8 The main reason is because the other customers have not
9 requested to be included in the district.

10 Q. But they requested service from you?

11 A. BY MR. SALINE: For the ones inside the service
12 territory, they have requested service. Some of them,
13 approximately 200 or more, have requested service and we
14 have served them. Because they had paid their taxes, they
15 had a right to be in ED-3, and they had a right to avail
16 themselves of the opportunity for ED-3 service.

17 Q. But how did you know people outside of your legal
18 boundaries wanted service from you?

19 A. BY MR. SALINE: We may have had one or two
20 instances, I think there might have been a cell phone
21 tower or something. But other than that, no one outside
22 of the boundary has requested service from ED-3 today.

23 Q. So those are all APS?

24 A. BY MR. SALINE: Those are all APS customers.

25 Q. Then how did you -- so that blue boundary on that

1 map?

2 A. BY MR. SALINE: How did we pick that?

3 Q. Yeah.

4 A. Well, I'll try to make this short. Dan and I
5 only spent seven years, I think, on that.

6 At one point in time, we tried to modify the
7 boundary to include as much of the ED-3 system as
8 possible. And then we had a meeting with the Commission
9 Staff, and they looked at the number of line crossings
10 where we had picked those original boundaries.

11 And under general utility practice, that would
12 mean that you would have to go in and put in a three-
13 phased primary meter to meter the electricity crossing the
14 boundaries, and you would have to put in possibly load
15 control devices like breakers. And we started looking at
16 the expense, and we took the wise advice from Staff and
17 went back and looked at the map and said, "How can we
18 reduce this?" Because we literally had dozens of
19 crossings.

20 And so we then went and expanded the boundary to
21 the Maricopa/Pinal County line on the west. It abuts the
22 Tohono O'odham reservation on the south and it abuts the
23 Gila River Indian reservation on the north. And by doing
24 so, we have virtually eliminated any possibility of anyone
25 coming in and requesting service from outside ED-3. So

1 we've created a geographic area now that, one, can be
2 served from the ED-3 system electrically so it's an
3 efficient electrical configuration; and then secondly, by
4 abutting to the county line, which ED-3 is in Pinal
5 County, we've drawn that line and the Indian reservations
6 would eliminate any, if you want to, run-along rights.
7 And then on the eastern boundary, our agreement with APS,
8 we have agreed to not serve anyone out there.

9 Q. So that portion of the map, I think if we turn
10 the map over, you know, that's on the lower left, shaded,
11 kind of a brownish-orange crosshatch? Is that what it is?

12 A. BY MR. SALINE: Yes.

13 Q. So all of those facilities there that are going
14 to be -- I mean, I think in red those are the APS
15 facilities?

16 A. BY MR. SALINE: Yes, they are.

17 Q. Are there any ED-3 facilities in that area?

18 A. BY MR. SALINE: No, there's not. Those are APS
19 facilities, but they are served off of ED-3's main
20 feeders. So those are the split ends. In this case, it
21 was pieces of system actually added. On the other map, if
22 you saw it, the majority of that area is state land. So
23 that really, you know, depending on what happens with
24 state land over time, may or may not be developed.

25 ALJ RODDA: Okay. Commissioner Mayes.

1 CHMN. MAYES: Yeah. I apologize for jumping in
2 here and maybe taking us off this particular topic, but I
3 wanted to get a couple of questions in. And I'm sorry,
4 Mr. Van Cleve.

5 MR. VAN CLEVE: Not a problem.

6 CHMN. MAYES: I apologize.

7

8

FURTHER EXAMINATION

9

10 Q. (BY CHMN. MAYES) And I don't know if this is for
11 Mr. Benedict or for someone else, but going back to -- you
12 know, I just want to preface this by saying that I
13 certainly hear what Mr. Smith is saying, and a lot of this
14 seems to be very intuitive to me, the efficiencies that we
15 would gain and the reliability that it would appear we
16 gain.

17 And I just want to make sure that the customers
18 that would be exiting APS receive the same ancillary
19 benefits and services that they currently receive. And so
20 that's why I have asked these questions, and I appreciate
21 Mr. Van Cleve asking my questions about your renewable
22 energy policies, and I want to just follow up on that.

23 The company -- or ED-3, the district, has a solar
24 program. Can someone describe that for me?

25 A. BY MR. WONER: Absolutely. I'm happy to. I'm

1 Jeff Woner by the way.

2 In September -- we went over this a little bit
3 earlier, but in September ED-3 adopted a policy, a
4 renewable energy policy that was very similar to APS's
5 solar small generation policy. It contained a couple of
6 parts. One was a renewable energy surcharge that was
7 applied to all of the customers in ED-3. And I believe I
8 misspoke earlier and said that that was 3 mils. It's
9 actually 1 mil.

10 Q. Okay.

11 A. BY MR. WONER: The funds from that surcharge are
12 deposited into an account to be used to assist with
13 installations of solar on both commercial and residential.
14 For ED-3, they've capped that capital contribution at
15 \$15,000 for residential and \$25,000 for commercial.

16 Q. Okay. So that basically is your program?

17 A. BY MR. WONER: Yes.

18 Q. Okay. Does ED-3 -- and I heard what Mr. Saline
19 said about ED-3's purchases of hydro. Does ED-3 purchase
20 any other renewable energy?

21 A. BY MR. SALINE: Ken Saline. No, we do not.

22 Q. Okay. Is ED-3 planning to adopt a policy in
23 which you would utilize on a utility scale any renewable
24 energy other than hydro?

25 A. BY MR. SALINE: I think that as I indicated

1 earlier, ED-3 has utilized a process called integrated
2 resource planning. And under that planning approach, we
3 look at both demand side and supply side resources.

4 We have nothing, I should say, formalized yet,
5 but ED-3 has looked at low-head hydro units. They have
6 several applications on the canal system for potential
7 low-head hydro units, and they have talked to several
8 different developers over time on partnering up on solar
9 generation.

10 Currently, today, I think the outstanding
11 question is whether or not distributed solar can be or is
12 cheaper than mainstream solar, large-scale solar. And
13 with ED-3's location, they have several transmission
14 charges they have to pay in addition to get the power to
15 their system.

16 So based on some of the availability and some of
17 the available transmission capacity to ED-3 today, they
18 may or may not be able to make the same type of purchases,
19 unless they were geographically located in their area.

20 Q. Well, Mr. Saline, and I guess I suffer from a
21 great deal of knowledge of you and your passions, and that
22 one of them includes renewable energy, and especially
23 solar energy. And you have been a great advocate for the
24 use of solar energy and for transmission planning for
25 solar.

1 So, you know, wouldn't it be true that ED-3, when
2 a lot of that solar gets built along the PVD-2, potential
3 PVD-2 power line, and if and when that goes into service,
4 ED-3 could buy some of that power back into the Phoenix
5 and Casa Grande area?

6 A. BY MR. SALINE: They could. We currently have --
7 I think it's a six-year power supply agreement with APS in
8 place, and our goal is to now look at the future
9 resources. When we needed to implement a resource plan at
10 that time, we were in a little different world. Resources
11 were very limited, and we were looking at shortages. So
12 we were able to secure a six-year power supply agreement.
13 And when that agreement is terminated, ED-3 has actually
14 several options. One is participation in a generation
15 unit, and we are looking at solar options. So the answer
16 is yes.

17 Q. Okay. Do you think that -- would you agree with
18 me that the fact that APS purchases currently several
19 hundred megawatts, either purchases or is building several
20 hundred megawatts of renewable energy, is a benefit to
21 their customers?

22 A. I believe it's a benefit to their customers.

23 Q. Would you then agree with me that if ED-3 isn't
24 also purchasing renewable energy, that would be a loss of
25 benefit to their customers that would leave APS and then

1 go to ED-3?

2 A. BY MR. SALINE: I believe that ED-3 will be just
3 as aggressive for solar or other renewables as any other
4 utility.

5 Q. And yet they haven't purchased anything but
6 hydro? Why should I be convinced that that's true, I
7 guess. And my second question is -- you know, and really
8 this is what I'm driving at.

9 Would you be willing to accept a condition
10 associated with this application that would ask ED-3 to
11 implement a renewable energy standard at ED-3 akin to what
12 APS is required to live under?

13 A. BY MR. SALINE: I think as previous witnesses
14 have identified, that would be a board action. We
15 certainly have been, you know, trying to direct ED-3 in
16 the direction of renewable resources for some time. I
17 believe they're supportive of it, but there is a couple of
18 nuances with ED-3. ED-3 is not a generating utility, and
19 so non-generating utilities typically have to buy a
20 resource from someone else. And it's a lot more
21 complicated, plus you have to have the financial capacity
22 in this market to make those purchases.

23 With ED-3's expenditure on its system, it's very
24 slowly working forward. They're actually trying to find
25 joint action agency opportunities with other small

1 districts to where they could buy an ownership interest, a
2 long-term bilateral arrangement. That type of arrangement
3 I think they would be very interested in. But buying
4 market resources which have just, you know, short-term
5 lives to them, doesn't guarantee you the benefits of when
6 it's paid off.

7 Q. But, you know, I mean, frankly, right now, I
8 mean, APS has done a great job of going out and working
9 on, you know, the purchase of power from utility scale
10 projects that haven't yet been built, AKA Abengoa and
11 Solana. But right now really they're purchasing -- most
12 of the megawatts of renewable energy that they have in
13 their profile right now they're purchasing. A hundred, a
14 couple hundred now, probably, megawatts of wind from New
15 Mexico, some geothermal. SRP is the same way. They
16 purchase a lot of geothermal from the Imperial Valley.

17 And so why -- I guess my question is why
18 couldn't -- and they have a surcharge that allows them to
19 collect the above-market costs associated with that
20 renewable energy.

21 So why couldn't ED-3 implement a surcharge that
22 also collects enough funding to allow you to go out and
23 pay for that renewable energy on the wholesale renewable
24 energy market and using the surcharge fund to pay for the
25 above market costs? And I understand that you're not a

1 generator. I just don't understand why you can't do the
2 same thing.

3 A. BY MR. SALINE: We could do a -- I guess we could
4 try to do pieces in smaller packages. But when you
5 typically buy wholesale, you're buying in 25 megawatt
6 blocks. And when you look at our annual load shape, we
7 have a tremendous load in the summer, especially with the
8 irrigation on top of it. And lot of these resources are
9 annualized, and we actually have what I would consider to
10 be similar to a minimum load problem in the wintertime in
11 that our hydro resources meet our load.

12 So if we were to purchase wind or some of these
13 other intermittent resources, we are not actively involved
14 in the wholesale markets. We're not doing real-time
15 trading, and it's very expensive to get into real-time
16 trading. And so to manage those resources properly is
17 very difficult.

18 Part of the Santa Cruz group and part of some of
19 the other efforts they're exploring is to try and form a
20 larger group with CWCD, or the other districts, to where
21 they can get real-time energy management so they can try
22 to work those in.

23 You know, to give you an idea, we are
24 historically in a situation where we have to preschedule
25 for a month at a time. So we have to lock in a resource,

1 and then we have -- with APS's contract or with Salt River
2 Project district contracts, then there's a kind of a
3 deviation account. You either buy surplus energy or you
4 can store some of it, but it's pretty limited.

5 But the historical wholesale utilities in the
6 state are monthly schedulers, not hourly schedulers, and
7 not daily schedulers. And that makes it much more
8 difficult in these markets to manage such resources. Our
9 real focus has been more on distributed energy resources,
10 because that saves the transmission costs and it saves --

11 Q. How many total customers do you have now?

12 A. BY MR. SALINE: Approximately 17,000.

13 Q. 17,000. Okay. Well, I appreciate those answers.
14 Just two final comments. One, I think I would like to see
15 a plan from ED-3 regarding how much renewable energy it
16 believes it could do, you know, feasibly given its size
17 and its geographical status, both from a megawatt
18 standpoint and a percentage of total retail sales or
19 megawatt hours, whichever way you want to calculate that,
20 and two -- as part of this case, maybe as a late-filed
21 exhibit.

22 And two, I would just say that, you know, this is
23 a fascinating case because, you know, we're looking at a
24 utility whose genesis was not as a retail provider but
25 that has over time become a retail provider, and it's

1 become a major player in central Arizona. And so the
2 question is how do we -- if this Commission is going to
3 approve the shifting of more customers into your service
4 territory, shouldn't we also expect you to play by the
5 same rules that the other major utility players in the
6 state of Arizona are playing by?

7 And not just because, you know, we think that's a
8 good idea, but because your customers are accustomed to
9 it, at least the ones that we're going to be transferring
10 over. And those customers have grown used to knowing that
11 they have renewable energy, that they're using renewable
12 energy, and that they can put solar panels on their
13 rooftops if they have the means and the desire to do so.

14 So anyway, I appreciate your testimony and this
15 rather unique layout that we have here on the bench.

16 A. BY MR. SALINE: If I could add a couple of
17 additional comments?

18 Q. Sure.

19 A. BY MR. SALINE: The one issue, undoubtedly, that
20 ED-3 is facing today is this is all new infrastructure.
21 And so financing, you know, 2004 infrastructure has a very
22 high cost. And so, you know, managing the infrastructure
23 development has been our highest priority.

24 And two, again on the conservation side, ED-3 is
25 installing -- as we speak, they're installing

1 interruptible devices on their wells, and we're working
2 towards having 20 megawatts of controllable pumping load
3 so that we can trim our peak loads.

4 That does two things. It gives us a little bit
5 more capacity to react to intermittency so we can look at
6 solar resources. For example, if we can run solar during
7 the first peak of the day and then curtail our pumps in
8 the second half, then we could effectively create a true
9 solar peaker in the sense that we don't have the problem
10 that PV does of not hitting the second peak. And so we're
11 looking at trying to look at resources that actually get
12 rid of the capital cost.

13 Q. Let me ask you real quickly before I go about
14 your energy efficiency programs. When will those be
15 finalized?

16 A. BY MR. SALINE: They're in the process right now.
17 ED-3 is installing what we call the demand response units,
18 which are part of the AMI system. And I believe in the
19 next -- Brett, do you have an idea?

20 A. BY MR. BENEDICT: I couldn't tell you.

21 MALE VOICE: Our goal is June 1st.

22 A. BY MR. SALINE: So I believe by June 1, we're
23 going to have some quantity of pumps integrated, and then
24 it's going to cause some shifting.

25 Q. (BY CHMN. MAYES) I mean -- okay. What about for

1 your retail customers? I mean, what about for your
2 residential customers and your commercial customers, the
3 energy efficiency programs?

4 A. BY MR. SALINE: We have not developed a specific
5 energy efficiency program for them. What we have worked
6 on primarily is the biggest bang for the buck in our area,
7 which has been the irrigation system.

8 Q. But you have 17,000 customers?

9 A. BY MR. SALINE: We do. Well --

10 Q. Yeah. Okay. I have a problem. Hang on. That
11 is a real problem for me, because we're basically talking
12 about -- so you're not even working on energy efficiency
13 programs?

14 A. BY MR. SALINE: No. Maybe I didn't finish my
15 elaboration. On the AMI system, the automated meter
16 infrastructure system, we will be able to put demand
17 response units on the homes. So our goal is to actually
18 work on, quote, smart grid and try to go to real-time
19 pricing techniques, and we don't have a deadline on this.

20 These are, you know, additional hundred dollars a
21 meter to get it installed, and plus you have to have
22 customers who are willing to participate. But we have the
23 infrastructure in place on the entire system to be able to
24 do AMI and smart grid as we can roll that out. We're
25 trying to seek some federal funding authority to help us

1 in this regard so that we can put the meters in and get
2 the demand response units in, and then we can look at
3 controlling air conditioner load.

4 So we've been looking. You know, with the size
5 of ED-3, I know we have 17,000 customers, but your capital
6 is pretty limited. We've been trying to find programs
7 that save everyone money, as opposed to some of the
8 programs where the more affluent customers can avail
9 themselves and some of the others cannot. So we've been
10 trying to find the programs that I call easy pickings, the
11 ones that the utility can implement that benefits everyone
12 first.

13 Q. So you don't have a DSM adjustor mechanism? An
14 energy efficiency adjustor?

15 A. BY MR. SALINE: We do not.

16 Q. Okay. And right now you don't have any plans to
17 develop those? I understand you're seeking stimulus money
18 for smart grid or smart metering technology, which I
19 assume that means metering technology inside the homes so
20 people can know --

21 A. BY MR. SALINE: Right.

22 Q. -- what their real-time pricing is.

23 A. BY MR. SALINE: We have the meters installed and
24 we have the infrastructure installed. What is missing is
25 the control unit that hooks to the meter that allows you

1 to turn off the air conditioner or the hot water heater.
2 And so those, again, those devices are fairly new. For
3 example, one of the devices we just looked at was just
4 being available from the manufacturer today for these
5 wells, the three-phased demand response unit.

6 But our infrastructure is in place and our system
7 is set up to enable real-time pricing -- I wouldn't say
8 real-time pricing, because that's very difficult when we
9 don't operate real time.

10 Q. Do you know what your kilowatt conservation level
11 is as a percentage of total retail sales currently from
12 any energy efficiency programs that you have in place?

13 A. BY MR. SALINE: I don't know if we can name it as
14 a -- when we're doing load control, you're really shifting
15 load and not saving. So we're saving peak demand. I
16 would estimate that our current arrangements with
17 Maricopa-Stanfield are probably reducing 10 megawatts of
18 peak demand, and for ED-3 that's a very significant cost.

19 Q. But you don't have any programs in place
20 currently that allow your customers to control their
21 energy usage?

22 A. BY MR. SALINE: No, we don't. Not yet. But we
23 have the major costs in place.

24 Q. Okay. Would you object to this Commission
25 requiring as a condition of approval of this application

1 your adoption of energy efficiency programs that mimic the
2 ones available to APS customers?

3 A. BY MR. SALINE: Subject to our board approving
4 such matters, I think they would be very interested in
5 doing what they can.

6 A. BY MR. WONER: If I could just add a little bit.
7 Jeff Woner.

8 One of the major differences between ED-3 and APS
9 is the number of customers and the incremental impact to
10 an individual customer by adopting a DSM program. They
11 can be very expensive. ED-3 has always struggled with
12 that.

13 Q. Not the CFL light bulb program.

14 A. BY MR. WONER: No. And as a matter of fact --

15 Q. Do you have a CFL light bulb program?

16 A. BY MR. WONER: Through Ace Hardware.

17 Q. You do. How do you pay for that?

18 A. BY MR. BENEDICT: We have had a participation
19 program with the local Ace Hardware store. During public
20 power week, we allow our customers a credit for the CFLs
21 that they've bought from the local Ace Hardware store.

22 Q. Okay. Thanks. I appreciate that.

23 A. BY MR. SALINE: We're small and we're doing small
24 things, but we are progressive.

25 Q. Right. And you want 4,000 more customers who

1 have access to those programs right now. So I guess, you
2 know, that's the discomfort I'm having is, you know, we're
3 handing over -- we would be handing over 3- or 4,000
4 customers who currently have access to a heck of a lot
5 more than you're providing to your customers.

6 And that's just -- I mean, I have listened to the
7 testimony. I can tell you, that's the fact. You don't
8 purchase as much renewable energy, and then more
9 concerning is the fact that you don't have direct energy
10 efficiency programs for your customers.

11 I mean, Mr. Benedict, you're shaking your head,
12 but I don't know why that's not true based on what I have
13 heard.

14 A. BY MR. BENEDICT: Well, the first statement that
15 you made about that we purchase less renewable energy, I
16 just -- that's --

17 Q. Because of your hydro you think that?

18 A. BY MR. BENEDICT: We have 25 to 30 percent of our
19 power use is hydro. I mean, our customers are used to
20 being -- you know, you talked about that these 3- or 4,000
21 are used to being -- using those resources. We're already
22 ahead. When they step into us, we're already ahead of the
23 curve. I mean, if that's what those customers are
24 concerned about, that's already in place.

25 Q. Okay. Well, that's an argument. I mean, I would

1 suggest that some of them are also used to their utilities
2 participating in utility-scale solar and utility-scale
3 wind and others. But that's, I mean, I grant you, you
4 know, that is true by virtue of your ability to buy that
5 hydro. But on the energy efficiency side, that concerns
6 me greatly, because they just don't have access to direct
7 energy efficiency programs the way that APS customers do
8 right now.

9 A. BY MR. BENEDICT: No question.

10 Q. And we're ramping that up to potentially
11 20 percent.

12 A. BY MR. BENEDICT: No question that ED-3 doesn't
13 have as many programs as APS does. ED-3, as Mr. Saline
14 had talked about, we're trying to move into the highest
15 impact programs that we can. We're trying to take those
16 steps into those.

17 And again, it is very important to our district
18 that -- you know, it is our heart and lifeblood that 25,
19 30 percent of our load is hydro. Our base load is --

20 Q. Is hydro?

21 A. BY MR. BENEDICT: -- the best.

22 Q. I appreciate it. Thank you.

23 A. BY MR. SALINE: We would compare with APS on a
24 carbon basis.

25 Q. You would put your carbon footprint up against

1 theirs?

2 A. BY MR. SALINE: Yes, we would.

3 CHMN. MAYES: Thank you, Your Honor. I
4 appreciate it.

5 ALJ RODDA: Okay. That was exhausting.

6 MR. VAN CLEVE: Hopefully just a few more
7 questions, Your Honor.

8 ALJ RODDA: Back to Mr. Van Cleve.

9

10 CROSS-EXAMINATION (Cont'd)

11

12 Q. (BY MR. VAN CLEVE) I wanted to just revisit
13 briefly the distinction between the district boundaries --
14 or the statutory boundaries and the service territory.

15 What does ED-3 have to do to increase its
16 statutory boundaries?

17 A. BY MR. SALINE: This is Ken Saline. ED-3 cannot
18 extend its statutory boundary unless the customers outside
19 of its statutory boundary request to be included, and that
20 would be also requesting to have a tax imposed upon them.
21 So historically that has been pretty much a preclusionary
22 concept for them to want to take on additional tax. But
23 nothing precludes them from requesting it. And I believe,
24 quite frankly, if ED-3 could make the entire area blue,
25 they would.

1 Q. So those red areas that are located on the map,
2 if those are transferred over in this application and
3 they --

4 A. BY MR. SALINE: Request it for inclusion.

5 Q. -- request it, then that boundary increases?

6 A. BY MR. SALINE: Sure.

7 A. BY MR. WONER: Absolutely.

8 Q. And then a distinction I also wanted to revisit
9 was the difference between members who are members of
10 the -- or participating in the district and those that
11 aren't.

12 Is there any difference in what their
13 participation level could be if they have concerns
14 regarding rate increases, or does it just relate to voting
15 for board members?

16 A. BY MR. SALINE: The only place that I know that
17 that issue ever arises is during the voting to where you
18 have the voting issue. But when a customer comes in, no
19 one asks, "Are you in the district or out of the
20 district?" And I'm not sure anyone would know. And
21 typically, all of the customers are treated on a
22 nondiscriminatory basis and their issues are addressed.

23 A. BY MR. BENEDICT: This is Brett Benedict. It
24 would be an operational nightmare to try to differentiate
25 between the customers that are in and the customers that

1 are out. It would just be -- we do not now at all, and I
2 just can't see that that would ever be something that --
3 it would be a nightmare.

4 Q. I guess one final question, and I posed this to
5 the APS witness. This apparently isn't an all-or-nothing
6 application.

7 If the Commission decided to only grant the sale
8 of the assets and not the cancellation of the CC&N, does
9 that, for lack of a better term, sour ED-3 on the whole
10 purchase, or what is the response to that?

11 A. BY MR. SALINE: This is Ken Saline. I believe
12 that that would not be looked favorably upon by the ED-3
13 board of directors because of the amount of investment and
14 time they've put into this, for one. And second of all, I
15 think that they look at having an autonomy of operations,
16 an autonomy of customer coordination, and trying to
17 eliminate some of what has been seven years of a lot of
18 fun.

19 Q. And I have one more question. Does ED-3
20 participate in a group called the Southwest Public Power
21 Resources Group?

22 A. BY MR. WONER: Yes, they do.

23 A. BY MR. SALINE: Yes, they do.

24 Q. What is that? If you don't mind explaining it
25 for my benefit, if no one else.

1 A. BY MR. SALINE: SPUR is an attempt of ED-3 to get
2 with other similarly sized districts to attain enough
3 financial capacity to build a power plant or to make
4 decisions regarding purchasing renewables, et cetera.

5 Typically, a small district does not have the
6 ability to efficiently purchase these resources on their
7 own. So ED-3, ED-4, ED-2, other members of SPUR, are
8 looking at the gambit of resources, including gas-fired
9 generation. Because of the hydro, we actually need base
10 load resources, not peaking resources. And so the purpose
11 of SPUR is for them to try to get a group with enough
12 financial capacity to own a unit.

13 MR. VAN CLEVE: Thank you. No further questions
14 Your Honor.

15 ALJ RODDA: All right. I'm going to go ahead
16 without taking a break. Although, off the record.

17 (A brief discussion was held off the record.)

18 ALJ RODDA: Oh, let's take 10-minutes.

19 (A recess was taken from to 2:08 p.m. to 2:19 p.m.)

20 ALJ RODDA: Back on the report after the break.

21

22

EXAMINATION

23

24 Q. (BY ALJ RODDA) And I think I'll start with
25 Mr. Benedict, because it was your change in your testimony

1 on Page 12 where you changed a word from "continue" to
2 "moderate," and the trend, I think, of your investment.

3 And I presume that's because of the economic
4 downturn and you've seen lower growth in the area?

5 A. BY MR. BENEDICT: That's exactly right.

6 Q. Do you have a feel for what the change has been
7 or is it --

8 A. BY MR. BENEDICT: What the change -- okay.
9 Specifically the question is what the change has been. An
10 example, I guess, would be -- I think it was in Ken's
11 testimony that we had planned on 100 new connections every
12 month. We're down now to 30, 20.

13 Q. And how does that --

14 A. BY MR. BENEDICT: 30 or 20 a month.

15 Q. How does that affect your budget, though, your
16 construction budget or --

17 A. BY MR. BENEDICT: Well --

18 Q. Or does it?

19 A. BY MR. BENEDICT: There isn't the demand for new
20 construction. Does that make sense?

21 Q. Right. So you're not going to have to add as
22 much facilities as you originally thought?

23 A. BY MR. BENEDICT: Right. And in this testimony,
24 we were talking about in the last -- I was discussing in
25 the last three years or so we've added \$25- to \$30 million

1 of infrastructure every year. Well, for instance, in
2 2008, we didn't -- and I'm sorry, I don't have the number,
3 but it wasn't near that amount.

4 Q. Right. So you already saw last year the trend
5 had already started?

6 A. BY MR. BENEDICT: Right. And we don't expect
7 2009 to be much at all in building infrastructure, new
8 infrastructure.

9 Q. How does that affect you financially? Is it a
10 good thing, though, or where do you get your financing
11 from?

12 A. BY MR. BENEDICT: Currently, we have issued
13 bonds, tax-free bonds that we can issue as an entity
14 similar to what a city would do. That's been the bulk of
15 our financing for infrastructure. So if we were to go out
16 again, we would do a similar financing, a similar thing.

17 Q. Okay.

18 A. BY MR. SALINE: This is Ken Saline. I would like
19 to respond to one part of your question, which was how
20 does it affect ED-3. When you're having the very large
21 load growth, you're having to order parts and plan on
22 substations and line additions, you know, because things
23 are coming in so fast when you're going from 40 megawatts
24 to 170 megawatts in five years.

25 And in that area where there was so much ground

1 purchased by developers for development and platted for
2 development, at the time before everything stopped, it was
3 a very, very aggressive growth scenario. So you have
4 commitments for capital parts, and you have put some parts
5 in anticipating that load growth. When it stops growing,
6 then you don't have the load there to pay for it. So it
7 creates a problem with the rates of having all of those
8 capital expenditures, and then you don't have the fill-in,
9 if you want to, to use those expenditures as fast.

10 When you build a subdivision and put in the lines
11 and such and then you're expecting it to fill out so that
12 you have a very good efficiency of the use of that
13 capital, when it slows down, that efficiency isn't as
14 good.

15 Q. Okay, thanks. All right. Here's another
16 history. Back to history.

17 What happened to Electrical District 1? Was that
18 like nearby or something and absorbed, or what went on
19 when you consolidated 1 and 3?

20 A. BY MR. SALINE: This is Ken Saline. ED-1 --
21 originally, each of the districts had a separate
22 territory. And ED-1 was kind of the area to the south of
23 the blue area. It would be kind of that southern part of
24 the map in the blue. And then they all formed the
25 irrigation district over the top.

1 Originally, they were formed for pumping
2 irrigation water and trying to get federal hydro power to
3 bring in more affordable pumping. And then they formed
4 the irrigation district and they got a CAP allocation and
5 built the canal. So at that point in time when CAP water
6 actually started serving that area, they turned off over
7 300 wells in that area. That's an awful lot of irrigation
8 water that wasn't being pumped anymore. When that
9 happened, though, quite a few of the wells in ED-1 were
10 turned over to Maricopa-Stanfield, so Maricopa-Stanfield
11 now runs them.

12 So the need of ED-1, and since they had no retail
13 customers to manage the wells, pretty much it had been --
14 the well ownership was turned over to the irrigation
15 district. So ED-1's function was just a pass-through, and
16 so they went ahead and folded ED-1 into ED-3.

17 Q. Thank you. And what was the driving force behind
18 the decision to start serving residential customers or
19 commercial customers? There must have been something
20 where -- was it the growth came to you or was the law
21 changed? Was it --

22 A. BY MR. SALINE: Development. On the other map
23 or -- well, you can still see the large quantity of red
24 lines up in that central area is the development area of
25 Maricopa. And there was a single landowner that came in

1 and had, I guess, 14,000 acres -- or no -- 5,000 acres,
2 and about 11,000 customers. And so those black lines are
3 actual printouts of individual distribution service lines.

4 And so when that developer came into the area and
5 talked to ED-3, they realized that they were going to have
6 to rebuild substations, they were going to have to rebuild
7 the local underground lines, and also their APS agreement
8 was terminating.

9 So they were basically sitting there saying,
10 well, I can release this to APS. But at the time that
11 that occurred, APS had just gone through unbundling. And
12 in the past, in the previous agreements when APS sold
13 bundled power, then they were able to sell something to
14 ED-3, if you want to, at a preferred price for pumping,
15 but then APS got the other retail customers. Well, when
16 the unbundling happened, the ability of APS to continue
17 providing those kind of subsidies were basically
18 eliminated.

19 So ED-3 was in the process of having to go out to
20 the market now and buy market power. So if you're going
21 to be buying market power and you're going to have to pay
22 for building the infrastructure up, the decision to
23 provide service to everyone off of a system that you had
24 bought in the 1960s was the logical place to go.

25 Q. Okay. I want to make sure that I understand the

1 rate issues, so Mr. Woner. I guess the most -- the newest
2 or the best comparison, is that the exhibit --

3 A. BY MR. WONER: Exhibit 15, yeah.

4 Q. Exhibit 15. Can you just walk me through that a
5 little bit and show me what I'm seeing here?

6 A. BY MR. WONER: Absolutely. There's a comparison
7 of a few things going on here. One is, is APS has
8 time-of-use rates; ED-3 has time-of-use rates.

9 To add another layer of complexity, ED-3 has what
10 they consider their overhead customers. Those are
11 customers receiving service from overhead lines rather
12 than underground, which is the majority of these new
13 subdivisions.

14 The first set of columns, what these are is these
15 are based on an average profile of those customers out
16 there, an average annual bill, average monthly annual
17 bill. How do I say this? An average monthly bill based
18 on an annual number.

19 Q. So the annual number divided by 12?

20 A. BY MR. WONER: Correct. And then you have APS
21 has rates that change in the summer and winter, as ED-3
22 has on its time-of-use rate. So you have different summer
23 and winter rates.

24 The first column you see there, APS's current
25 E-12, that's their standard residential rate that

1 customers are paying today with all of the adjustors. So
2 the interim adjustor, all of the RES charges, the
3 competition charges, all of that.

4 The next column to the right is APS's proposed
5 E-12 rate. That's what they've proposed in their current
6 rate case.

7 Q. The one that's pending now?

8 A. BY MR. WONER: Pending, uh-huh.

9 Moving again to the next column on the right,
10 that is ED-3's current residential overhead rate. The
11 next column, last one over on the right, is ED-3's current
12 underground rate.

13 Yeah. It's worth noting also, that's why it's
14 highlighted kind of in orange there, that all of these
15 customers coming over would be served under this overhead
16 rate. There are customers receiving service overhead
17 currently.

18 Moving down to the next chart below, it's the
19 same comparison but using APS's and ED-3's time-of-use
20 rates. Again, APS's current 9:00 to 9:00. You know, APS
21 has, I think, seven residential rates. So the top is
22 APS's E-12, the bottom is APS's time-of-use rate, 9:00 to
23 9:00. 9:00 a.m. to 9:00 p.m. is considered on peak.
24 APS's proposed ET-1.

25 And then ED-3's time-of-use rates, again,

1 overhead and underground, with the same time-of-use time
2 period, 9:00 to 9:00.

3 Q. You have the same time periods?

4 A. BY MR. WONER: Right. APS has, I think, three or
5 four time-of-use rates. They have a 9:00 to 9:00, a 7:00
6 to noon, and the customers can choose. Today, ED-3 only
7 has a 9:00 to 9:00.

8 Q. All right. So tell me a little bit, too, about
9 the different -- throughout the testimony it's talked
10 about how the ultimate average bill seems to be the same
11 or very similar. But your structure, how does that
12 compare? Like, APS has all of those adjustors and
13 pass-throughs. Do you have those same things?

14 A. BY MR. WONER: We have what we call our purchased
15 power cost adjustor. That is calculated identically to
16 the way APS calculates its PSA surcharge, their power
17 supply adjustor. There's a forward 12-month forecast with
18 a true-up of the previous 12 months actuals to estimates,
19 and that results in the new power cost adjustor. We have
20 the exact same kind of development of that number.

21 We also have a renewable energy surcharge just
22 like APS does.

23 Q. And your renewal surcharge, so that's to finance
24 the solar panel project?

25 A. BY MR. WONER: Correct. It's solar and a lot

1 more. It's essentially -- you know, I think the first
2 goal is to try and provide incentive for residential
3 customers to install it and assist with that capital, but
4 it also isn't a closed box. If ED-3 -- if there wasn't a
5 lot of interest in using that money from the customers,
6 ED-3 could theoretically go and put solar on their office
7 building, or, like Commissioner Mayes was requesting,
8 maybe invest in a solar project. So it's a fund of money
9 to be used towards renewable energy type, light bulb
10 assistance, those kinds of things.

11 Q. And so is the board of directors, or whatever you
12 call your board, they determine the uses for that pot of
13 money?

14 A. BY MR. WONER: You know, we have identified in
15 the rules and regulations uses today, but also the rider
16 says it's subject to change. So if a customer was to come
17 to the board with a use and it made good sense, then the
18 board would look at that.

19 Q. Now, so a lot of your programs seem to mirror
20 that of APS. And is that because they're your big
21 neighbor and you were doing it as a competitive thing, or
22 was it just like you saw, oh, hey, that's a great idea;
23 they've done all of the work for us and it works.

24 A. BY MR. WONER: Yes to both. I mean, ED-3 is
25 continually compared to APS, like other residential

1 customers compare themselves to SRP or ED-2 or AEPCO. And
2 so over the years, we've tried to align our policies as
3 close as we can to APS just so that we can say we compare
4 favorably.

5 Recently, ED-3 put in the ability to do the
6 levelized billing. The customers can spread their bills
7 out over an equal amount over the year. That came as a
8 request from the customers. So they're kind of evolving
9 based on the customers' requests, which ultimately are
10 driven by APS or some other utility that they come from
11 California, those kind of things.

12 Q. All right. And so then you said something
13 interesting, sort of almost in passing earlier, about the
14 low income program. I think it had to do with your summer
15 rates. Why don't you tell me, because one of the -- when
16 I read the testimony, it said, well, ED-3 is committing to
17 hold the APS low income customers harmless.

18 A. BY MR. WONER: Right.

19 Q. But it's like, for a month? For a year? For
20 whatever, you can't tell. And once the Commission
21 approves them, they're gone, so we can't tell you what to
22 do anymore.

23 A. BY MR. WONER: Right.

24 Q. But then you said maybe they wouldn't be -- I
25 mean, did I hear you say maybe they wouldn't be better off

1 necessarily under the low income tariff?

2 A. BY MR. WONER: Under ED-3's current rate
3 structure, the customers -- the low income customers on
4 the higher end of the energy usage -- and I think -- I
5 can't remember. It's on the 1,500 kilowatt hours a month.
6 Because of the tiers in APS's rates, they go from 7 cents
7 to 11, to almost 15 cents in their tiers. In ED-3's, it's
8 steady at a little over 9 cents. And so the low income
9 customers that are using more energy would actually save
10 more under ED-3's current rates than they would APS's
11 rates with the low income adjustor.

12 One of the things that I would like to look at is
13 how those customers are using energy. We're not able to
14 see this. So do I design a low income rate that provides
15 an even lower rate to them, even though they're going to
16 be saving more than they would have from APS? That's kind
17 of the thing we're looking at.

18 And then also, we're trying to get a feel for
19 what that financial impact is to the rest of ED-3's
20 customers. Obviously, a low income assistance requires
21 revenues from everyone else. What is the impact to those
22 customers by applying a low income program?

23 Q. Do you have a feel for how many low income
24 customers you would be receiving in this transfer?

25 A. BY MR. WONER: I think it's 190; is that right?

1 A. BY MR. BENEDICT: Approximately.

2 Q. Okay. Just from what I have been hearing today,
3 it sounds like, because the district is small, that the
4 board is able to sort of react to customer requests kind
5 of nimbly. I mean, if someone comes up with a good idea,
6 they're able to act on that probably fairly quickly.

7 Have you had any customers approach you about
8 your own -- you know, any of your current customers
9 approach you about low income, or have you noticed
10 delinquencies going up, or have you noticed issues like
11 that?

12 A. BY MR. BENEDICT: Certainly in the last six
13 months we have seen an increase in delinquencies; not as
14 much as we had feared. We have not had folks approach us
15 with that specific request that there be a low rate. They
16 have asked for other programs that weren't like APS's.
17 And it wasn't -- APS's is kind of a percentage discount
18 off of their rate. We had people have other ideas that
19 they thought we ought to put in place, and I would say
20 that's very few, you know.

21 One of the comments that you made, can I address?

22 Q. Uh-huh.

23 A. BY MR. BENEDICT: One of the things that has
24 bothered me and is of concern to me, you made a comment
25 that these customers are gone. This board is a publicly

1 elected body just like so many other publicly elected
2 bodies. I mean, the district can't go off into some
3 space, because we're -- the board is elected just like --

4 Q. I just meant that they're gone from Commission
5 jurisdiction.

6 A. BY MR. BENEDICT: I understand that. I mean, I
7 understand what you're saying. I just think it's
8 significant that, you know, these folks are -- they can
9 vote. They have input into a public process.

10 Q. Well, they can vote if they're members of the
11 district?

12 A. BY MR. BENEDICT: They have input into it. Just
13 like all other public processes, we have input if we fit
14 the right.

15 Q. Okay. Mr. Smith is sitting back there quietly
16 out of the fray.

17 I know you have testified in favor of this
18 application. Do you think that the transfer of the assets
19 and also the transfer of the customers is consistent with
20 past Commission decisions? And I ask you because you have
21 some Commission experience.

22 A. BY MR. SMITH: I would say to not do that would
23 be inconsistent with what I knew Commission Staff
24 preference was when I was still at Staff. To not adjust
25 ED-3's boundary to what is being proposed and withdraw

1 APS's -- the area out of APS's CC&N, would leave the
2 jurisdictional overlap issue in place that was part of the
3 problems that we've had over time. And so I know it's
4 being characterized as an all-or-nothing proposal, but I
5 think it's like two pieces of the puzzle. You don't have
6 the answer unless you address both pieces.

7 In terms of the issue of customers outside a
8 district having the right to seek service, this case is
9 not precedential in that regard, because there are other
10 cases where the courts have ruled that parties outside a
11 district have the right to request those services. So I'm
12 not seeing anything new or counter to what this Commission
13 would have addressed in past years.

14 Q. I'm not sure who to address this question, so
15 whoever seems to grab the microphone.

16 If this application were approved in its
17 entirety, is there any impact on the state of retail
18 competition in the state of Arizona? Is it affected in
19 any way?

20 A. BY MR. SALINE: I'll try to address that. I
21 don't believe it's affected in any way. And, in fact, the
22 several hundred customers who have already chosen ED-3
23 have availed themselves of that opportunity.

24 Q. Okay. I think I had read in the Staff Report --
25 and I can't remember whose testimony would address this,

1 but it has to do with the refund of line extensions.

2 The Staff Report states that ED-3 has stated that
3 it would honor any refund obligations under line
4 extensions, but I think I have heard APS say that they
5 were going to refund any line advances that would be owed.

6 Who would deal with that?

7 A. BY MR. WONER: I think it was in my testimony,
8 and I think what was envisioned is that any line
9 extension, so facilities that are associated with those,
10 would be included in the sales price. So in effect, the
11 way I see it is ED-3 is paying APS for the facilities, and
12 APS is then honoring its refund back to the customers.

13 Q. So from this transaction, APS is honoring its
14 refund obligations. ED-3 wouldn't have any continuing
15 obligation under those extension agreements?

16 A. BY MR. WONER: I can't think of how. Yeah.

17 Q. But if for some reason there was such a thing,
18 would ED-3 be honoring that obligation?

19 A. BY MR. WONER: I just don't think -- I think that
20 it's an APS obligation, and ED-3 is paying its part
21 through the final payment.

22 Q. Okay. That's what I heard from APS's testimony.

23 All right. So then from what I can tell, just to
24 confirm, I think I have asked APS the same question, or a
25 similar question.

1 For the Ak-Chin community, their only difference
2 is you're now going to be operating the system as opposed
3 to APS; is that right?

4 A. BY MR. WONER: You know, Ak-Chin can choose who
5 they want, just today they have an agreement with ED-3 to
6 assist with the operation of the system. I think if you
7 were to ask them, they would like to eventually do it on
8 their own, but they have got to get their load up and
9 so --

10 Q. But for right now, the agreement, are you doing
11 that service for them today?

12 A. BY MR. BENEDICT: Yes.

13 A. BY MR. WONER: Yes.

14 Q. Okay. So for them, really, they're just being
15 taken out of APS's CC&N territory, but nothing else
16 changes for them?

17 A. BY MR. BENEDICT: Not that I can think of.

18 A. BY MR. WONER: No.

19 A. BY MR. BENEDICT: That change has already
20 happened.

21 Q. All right. And so then, I think with respect to
22 APS, you're paying book value for all of the split ends,
23 and a negotiated price, from what I understand, for the
24 substation and that -- what has been characterized as an
25 unused or inoperable 69kV line; is that correct?

1 A. BY MR. SALINE: That's correct.

2 Q. And that might be slightly over what net book
3 value would be?

4 A. BY MR. SALINE: That's correct. We just picked a
5 number for that facility.

6 Q. Okay. But you do have some use for that line?

7 A. BY MR. SALINE: It's currently used today to
8 serve load.

9 Q. Okay. And just to confirm what I believe I read,
10 the APS customers who would be joining the ED-3 system are
11 not going to be required to pay any new security deposit
12 up front just to join?

13 A. BY MR. BENEDICT: That's correct.

14 Q. As well as the installation charge or --

15 A. BY MR. BENEDICT: Service establishment fee.
16 That's correct, they are not.

17 Q. Okay. And do you have a feel for how ED-3's
18 privacy policy with respect to the customer information,
19 how that compares with APS's current policy?

20 A. BY MR. BENEDICT: I don't know APS's policies.
21 All utilities are under several rules, and they are very
22 strictly maintained.

23 MR. COYLE: Your Honor, if I could, John Coyle.
24 To some extent, from our perspective, that's a legal
25 issue. We, unlike APS, are subject to public documents

1 law in Arizona. We are a political subdivision, and,
2 therefore, subject to the public documents law, Freedom of
3 Information Act. And I can address this issue, I think,
4 better on brief in terms of how ED-3 has determined to
5 handle confidentiality issues that are consistent with its
6 obligations under the Freedom of Information Act.

7 But I'm not sure, because that policy hasn't been
8 officially adopted, other than between the general counsel
9 and myself, that Mr. Benedict could really speak to it.
10 I'll address the issue on brief.

11 ALJ RODDA: Okay. I appreciate that. I have to
12 admit that that didn't occur to me until you just said
13 that, but, of course, you have other issues. But I'm sure
14 you have dealt with them in the past.

15 MR. COYLE: Yes. We have a satisfactory answer
16 to the question.

17 ALJ RODDA: Okay. I'm just trying to read my
18 handwriting. I don't think I have any further questions.

19 Did you have anything on redirect?

20 MR. COYLE: I do not, Your Honor. Thank you.

21 ALJ RODDA: Did you have anything further,
22 Mr. Van Cleve?

23 MR. VAN CLEVE: Nothing further, Your Honor.

24 ALJ RODDA: Ms. Grabel?

25 MS. GRABEL: I do not. Thank you.

1 ALJ RODDA: All right. Gentlemen, well, thank
2 you very much.

3 After they all clear out, I'll ask Mr. Van Cleve,
4 do you want to call your first witness?

5 MR. VAN CLEVE: Thank you, Your Honor. Staff
6 calls Prem Bahl as its first witness.

7
8 PREM K. BAHL,
9 called as a witness on behalf of ACC Staff, having been
10 first duly sworn by the Certified Reporter to speak the
11 truth and nothing but the truth, was examined and
12 testified as follows:

13

14

DIRECT EXAMINATION

15

16 Q. (BY MR. VAN CLEVE) Good afternoon.

17 A. Good afternoon.

18 Q. Would you please state your full name for the
19 record, please.

20 A. My name is Prem K. Ball.

21 Q. And by whom are you employed and at what address?

22 A. Arizona Corporation Commission, 1200 West
23 Washington, Phoenix, Arizona, 85007.

24 Q. And what is your position with the Arizona
25 Corporation Commission?

1 A. My position is as electric utilities engineer.

2 Q. And what are your duties as an engineer?

3 A. To deal with all aspects of electric utility
4 industry, especially in case of regulation of
5 jurisdictional utilities in terms of managing some
6 portions of their rate cases, inspection of distribution
7 and transmission systems and generation systems.

8 I am involved in transmission planning for the
9 state of Arizona, to some extent resource planning, and
10 also involved with approval of transmission lines and
11 power plants regarding CC&N applications that are
12 submitted by the utilities and other entities.

13 Q. And what were your responsibilities with regard
14 to the application in this matter?

15 A. This was a case of -- a long, drawn-out case for
16 that matter, between Arizona Public Service Company and
17 Electrical District No. 3 where, as you heard in
18 substantial detail today, historically speaking, several
19 years ago when APS sold their facilities serving the
20 ED-3's territory or around that, but it had to lease it
21 back from them to serve some of the customers that they
22 were already serving. And due to the growth of the load
23 and customer addition in their CC&N, that portion of the
24 service territory, some of the backbone, some of the
25 distribution system had to be expanded from the backbone

1 system that belonged to ED-3.

2 Several years ago that lease expired, and APS had
3 to make a decision how to continue to serve their
4 customers. If they had a clear choice of providing
5 transmission service and distribution service for their
6 customers, they probably would have continued to do what
7 they had been doing so far. But since they were dependent
8 on the ED-3 system, and because of the spur lines that you
9 heard a lot about today, there came a time when there was
10 intermingling of customers and facilities, which created a
11 problem from operational standpoint in terms of
12 maintaining the system, in terms of worrying about the
13 safety of the electrical personnel and the customers.

14 That is what this application is about, to
15 transfer those assets, which are called spur ends -- split
16 ends, and to relinquish the CC&N portion where such
17 customers are being served. In fact, this case has
18 lingered on for several years just because in the initial
19 stages APS was not willing to part with their CC&N. They
20 wanted to sell the assets only.

21 That would not have eliminated the problem
22 entirely, because then they would have the responsibility
23 not only to serve these customers that were in their CC&N,
24 but also to welcome the new customers that would apply to
25 them. Therefore, in order to have a clean sort of a

1 segment of two systems, that is what this application is
2 about.

3 Q. And did you prepare a Staff Report?

4 A. I did.

5 Q. And in front of you, you should have a document
6 that's been marked as Exhibit S-1 for identification.

7 A. I do.

8 Q. Do you see that document? Could you turn to what
9 has been -- I guess it's labeled Attachment A towards the
10 back of that document.

11 A. Yes, I have it before me.

12 Q. Could you please identify that document?

13 A. This is the engineering Staff Report which is
14 about APS's sale of transmission and distribution system
15 assets, and transfer of a portion of the CC&N to
16 Electrical District No. 3.

17 Q. And was that report prepared by you or under your
18 direction and supervision?

19 A. It was.

20 Q. And do you have any corrections, modifications,
21 or clarifications to make to it?

22 A. I do not have any corrections or modifications.

23 Q. Do you adopt it as your sworn testimony here
24 today?

25 A. I do.

1 MR. VAN CLEVE: With that, Your Honor, I move
2 for -- well, scratch that. No further questions for this
3 witness.

4 ALJ RODDA: Thank you.

5 Ms. Grabel, do you have any questions for this
6 witness?

7 MS. GRABEL: APS has no questions, but would like
8 to thank Mr. Bahl for his hard work on this matter for
9 this long time.

10 ALJ RODDA: Mr. Coyle, do you have questions?

11 MR. COYLE: I also have no questions, and also
12 would like to thank Mr. Bahl for his assistance over the
13 years. He's been a big help to us.

14 THE WITNESS: You're welcome.

15

16

EXAMINATION

17

18 Q. (BY ALJ RODDA) Mr. Bahl, were you around in 2002
19 when the first application was filed?

20 A. I was. In fact, I came back the second time
21 around to the Commission.

22 Q. And it was still here.

23 A. I tried to step into Jerry Smith's shoes. He was
24 handling that case and slowly parted with it, praying,
25 this is your baby now, and finally parted with us.

1 ALJ RODDA: That's funny. You can't get away
2 from it, can you, Jerry? Okay.

3 Q. (BY ALJ RODDA) Mr. Bahl, in your investigation
4 and involvement in this matter, have you been able to
5 compare the reliability of the APS system with the ED-3
6 system?

7 A. I have. In fact, I have worked with ED-3 in
8 several forums. They have participated in the joint
9 planning, the regional joint planning. They also
10 participated in the formation of the original transmission
11 operator, previously known as independent system operator.
12 In fact, Mr. Dennis Delaney, who was also a partner -- one
13 of the partners of the K.R. Saline & Associates, was
14 Chairman of one of the committees under that.

15 And as far as ED-3 is concerned, I had the
16 privilege and the honor to go with Mr. K.R. Saline and
17 inspect their system and had a tour of most part of their
18 system, and I could see how the system was being
19 maintained.

20 Sometimes we go to see these distribution
21 systems, the pole is leaning, and one wonders which way
22 the leaning is. Is it leaning towards some direction
23 where it would be helpful to leave it in that direction,
24 or could it really fall on something, either a person or
25 some building. Everything was upright and everything

1 was -- I didn't find anything in clearances that you could
2 see that, oh, this line is sagging too much. I must duck
3 when I go underneath that. I didn't see that situation.

4 To make a long story short, they have maintained
5 their system very well. Not only that, in the past few
6 years -- not few years. In fact, in the recent past, as
7 probably was expressed by Mr. K.R. Saline & Associates,
8 they have spent tens of thousands of dollars in upgrading
9 their system and building new substations and transmission
10 lines. And, in fact, all of that is included in the
11 exhibits that you would see, or you have seen already.

12 APS is definitely the largest utility in the
13 state and has a lot of resources to do everything in the
14 best possible form, whether it's maintenance, whether it's
15 new construction. I do not know on what level one would
16 compare the two because of the shear difference in sizes
17 of the two utilities.

18 As far as the quality of work is concerned and
19 quality of service and satisfaction to the consumers in
20 terms of responding to their outages and making sure that
21 all of their troubles are not only heard but also
22 rectified, I have not heard any complaints about the ED-3
23 service from either any documents or from any person.

24 Q. If there's a question that is better addressed to
25 Mr. Igwe, you just let me know. Because sometimes it's

1 hard to know how the division of work is or what your
2 investigation entailed.

3 So you just mentioned you're not aware -- you
4 didn't see any documents about customer complaints, but
5 would you have in the course of your investigation of this
6 matter? I mean, with our regulated utilities we get
7 people calling the Commission, we get Consumer Services
8 filing reports, and we have sort of Commission records.
9 But we wouldn't have that for ED-3 would we?

10 A. Not in the regular course of events. But I think
11 when this case came before us, our Consumer Services
12 probably investigated it, and I have not seen any report
13 from them of any dissatisfaction.

14 Also, one clear indication of good service is
15 that all of these 4,000 customers or nearly 4,000
16 customers have agreed to shift to ED-3. They're living
17 with their neighbors who belong to the ED-3 system. If
18 there was any suspicion on the part of these transferring
19 customers, they probably wouldn't have opted to shift over
20 to ED-3. That's another indication.

21 Q. Well, when you say opted to shift over, what are
22 you basing that on?

23 A. In terms of being transferred from APS to ED-3.
24 They were all given notices. They were all even consulted
25 personally. If there was -- as we heard from

1 Mr. Froetscher's testimony, there was a handful of
2 customers, less than 10 percent, who probably could remain
3 with APS. But a great majority of customers opted to go
4 with ED-3, or at least they did not have any objection.

5 Q. At least they didn't object?

6 A. Yes. Yes. So that also tells me that the
7 customer service and the quality of service has been
8 adequately satisfactory, if you will.

9 Q. Do you know if the Commission has reviewed the
10 legal descriptions that have been provided for the area to
11 be deleted?

12 A. I'm personally not involved with the
13 investigation of that. But we have in our department, and
14 you know her, Barb Wells. She's in charge of all of these
15 maps. And when the filing was made, I believe she did
16 verify what those ranges and sections were in defining
17 those CC&N portions.

18 Q. So as far as you know, the legal descriptions
19 that have been provided with the application, at least the
20 update that was provided, is an accurate description of
21 the area that they're seeking to delete?

22 A. I believe it is, but subject to verification by
23 Barb Wells.

24 Q. If for some reason you learn subsequent to today
25 that it wasn't, you would file something, wouldn't you?

1 A. Certainly, certainly. Because that would be a
2 correction to the present application. And I believe it
3 would be amended either by APS or jointly by APS and ED-3
4 is my guess.

5 ALJ RODDA: I have just learned by experience to
6 verify that all legal descriptions are accurate before the
7 order is signed. That's all.

8 I don't think I have any further questions for
9 this witness. Did you have anything on redirect?

10 MR. VAN CLEVE: No, Your Honor.

11 ALJ RODDA: Okay. Did anyone else have any?
12 Mr. Coyle?

13 MR. COYLE: No, Your Honor. I did just want to
14 mention, it was my understanding that some segment of the
15 ACC Staff had, in fact, verified the correctness of the
16 legal descriptions, and that that was filed by Staff, I
17 think.

18 ALJ RODDA: Okay.

19 MR. COYLE: I believe it's docketed in this
20 proceeding to the best of my knowledge.

21 ALJ RODDA: I'll check. I'll check the record.
22 I appreciate that.

23 Thank you, Mr. Bahl.

24 THE WITNESS: Thank you.

25 MR. VAN CLEVE: Your Honor, Staff calls Alexander

1 Igwe as its next witness.

2

3

ALEXANDER IBHADE IGWE,

4 called as a witness on behalf of ACC Staff, having been

5 first duly sworn by the Certified Reporter to speak the

6 truth and nothing but the truth, was examined and

7 testified as follows:

8

9

DIRECT EXAMINATION

10

11 Q. (BY MR. VAN CLEVE) Good afternoon. Would you
12 please state your full name for the record.

13 A. My name is Alexander Ibhade Igwe.

14 Q. And by whom are you employed and at what address?

15 A. I'm employed by the Utilities Division of the
16 Arizona Corporation Commission. My business address is
17 1200 West Washington, Phoenix, Arizona, 85007.

18 Q. And in what capacity are you employed by the
19 Arizona Corporation Commission?

20 A. I'm an Executive Consultant III with the
21 Utilities Division of the Arizona Corporation Commission.

22 Q. And what are your duties in that position? What
23 are your duties?

24 A. My responsibilities are rather broad. It
25 includes review of rate applications, finance

1 applications, application for CC&N, CC&N extension, and
2 any other, you know, matters that might be assigned.

3 Q. And you were assigned to this application,
4 correct?

5 A. Certainly. Twice.

6 Q. And did you -- twice. And did you perform an
7 analysis with regard to this application?

8 A. I performed the overall review of the
9 application. I also performed the financial analysis
10 relating to this application.

11 Q. Okay. And did you create a Staff Report as a
12 follow-up to your analysis and evaluation?

13 A. I did.

14 Q. You should have in front of you a document that's
15 been marked as Exhibit S-1.

16 It's not there? Just a moment.

17 A. Thank you.

18 Q. Now you should have a document that's been marked
19 as S-1 for identification.

20 A. Yes, I do.

21 Q. Could you please identify this document.

22 A. S-1 is the Staff Report relating to this
23 proceeding. It encompasses my review of the application,
24 financial analysis. It also includes a brief summary of
25 engineering that is relating to Mr. Bahl's testimony in

1 this proceeding, as well as Consumer Services' research
2 relating to this application, specifically as it relates
3 to APS.

4 Q. And did you prepare this document or was it
5 prepared under your direction and supervision?

6 A. Yes, it was.

7 Q. And do you adopt it as your sworn testimony
8 today?

9 A. Yes, I do.

10 MR. VAN CLEVE: Your Honor, I move admission of
11 S-1.

12 ALJ RODDA: Any objections to S-1?

13 Hearing none, S-1 is admitted.

14 (Exhibit S-1 was admitted into evidence.)

15 Q. (BY MR. VAN CLEVE) Have you heard anything today
16 in the testimony that changes what Staff's recommendations
17 are in this matter?

18 A. I don't believe so.

19 MR. VAN CLEVE: No further questions, Your Honor.

20 ALJ RODDA: Okay. Ms. Grabel, do you have any?

21 MS. GRABEL: We have none, but again would like
22 to thank Mr. Igwe for his hard work on this matter as
23 well.

24 ALJ RODDA: Mr. Coyle?

25 MR. COYLE: No questions, but a vote of thanks

1 for Mr. Igwe's patience with us over this long period.
2 Thank you.

3

4

EXAMINATION

5

6 Q. (BY ALJ RODDA) Good afternoon, Mr. Igwe.

7 A. Good afternoon.

8 Q. Did the Commission receive any consumer
9 complaints in response to the notices that the customers
10 received in this proceeding?

11 A. There were no complaints relating to this
12 proceeding specifically, but there were customers who had
13 called the Commission to inquire as to the availability of
14 renewables.

15 There was a specific customer that was at the
16 stage of, you know, purchasing a photovoltaic unit with
17 APS, and was concerned that if their account was
18 transferred to ED-3, as to whether such a policy would be
19 available. And I think that issue is now moot now that
20 APS has offered to allow customers a 12-month transition
21 period, and ED-3 also has a similar program available to
22 such a customer.

23 Q. So as far as you know, customers were concerned
24 that they wanted to take advantage of the -- whatever
25 solar installation programs that APS had, and that you

1 think that's been addressed?

2 A. It's been fully addressed in this proceeding.

3 Q. Okay. And you have heard some testimony, I think
4 here today, about APS's commercial program, you know, for
5 the larger installations of solar and how it might take
6 longer than 12 months.

7 I think my understanding is that APS would sort
8 of honor that, as long as they got the benefit. Does
9 Staff have any problem with that?

10 A. I don't suppose we do. If we do, we will file --
11 we'll make a filing in response to that prior to your
12 issuance of the recommended opinion and order in this
13 proceeding.

14 Q. Okay. With respect to the transfer of the
15 confidential customer information, has Staff compared the
16 privacy policies of the two entities?

17 A. No.

18 Q. Okay. I think I read in the Staff Report -- and
19 you can correct me if I'm wrong, if I'm mischaracterizing
20 it -- but I think I read that Staff does not believe that
21 APS needs a waiver of the R14-2-203(A)(3); is that right?
22 That you think that this falls under one of the exceptions
23 to when they can transfer the information?

24 A. Yes, that is Staff's understanding. Staff also
25 recommended that if the Commission deem that a waiver is

1 necessary, that a waiver be granted to APS to enable
2 them to help facilitate transfer of the customer
3 information to ED-3.

4 Q. Will Staff have any role in any future notices
5 that are sent to those APS customers who would be
6 transferred? Let's say the Commission approves the
7 transfer, and I presume there's going to be some future
8 notices to customers about transitioning, when they're
9 going to be transitioned.

10 Would Staff have any role in those notices, or
11 could Staff or would Staff play a role?

12 A. It's my understanding that, you know, subsequent
13 to approval of this application by the Commission, APS
14 would then notify the customers of the approval and would
15 also indicate to them the transition phases.

16 It seemed to me that, you know, having worked
17 with APS on a few cases, that they would advise us. Those
18 documents would be docketed with the Commission. And if
19 we have any exception to those, you know, notices, we
20 would make those known at that time.

21 Q. Okay. With everything -- and I think you have
22 probably already testified to this in response to your
23 Counsel's question, but with everything that you have
24 heard here today, does Staff believe that in addition to
25 the transfer of assets that the customers as well should

1 be transferred -- migrated to the ED-3 system?

2 A. Like Mr. Bahl, I was dismayed. You know, I've
3 been involved in this, you know, 2002 filing. I left the
4 Commission, came back, and got reassigned to the case.
5 And the critical issue in the 2002 filing is APS's
6 unwillingness to transfer the CC&N and transfer the
7 customers.

8 I think with this application that issue will be
9 resolved in the sense that there will be one entity
10 providing service to all customers within the defined --
11 the proposed ED-3 service territory, and their customer
12 will be provided with one company who has the
13 responsibility for the operations of all of the
14 infrastructure within that defined service territory. So
15 I think this is a better proposal than the 2002 proposal.

16 And Staff believes that, you know, that we have
17 no concern relating to how customers will be served. We
18 believe that, you know, ED-3 will be able to fulfill its
19 obligations to customers that are transferred to them.

20 Q. And just to be complete, is it Staff's opinion
21 that ED-3 has the financial and technical capability to
22 serve all of the customers that they would have?

23 A. Mr. Bahl advises me that ED-3 has the technical
24 capability to provide service. There's nothing on the
25 record that indicates ED-3's inability financially to meet

1 the obligations relating to their service territory.

2 Q. Okay. So there's nothing on the record to
3 indicate financially they can't serve it. But you did a
4 financial analysis, so you think that they can, correct?

5 A. I did not perform the financial analysis of ED-3.
6 I did not perform an analysis of ED-3's financial
7 position. I reviewed the application as it relates to the
8 sale of assets.

9 But like I stated previously, based on what we
10 see, their financials looks good. A cursory review of
11 their financials indicates that they should have the
12 ability to meet the -- provide service to their customers.
13 But I have nothing -- you know, I didn't conduct an audit
14 of their financial statements. I can't speak to that
15 emphatically.

16 Q. But to date they have been able to finance all of
17 the infrastructure they've needed to finance and to serve
18 the customers, the 17,000 customers that they have to
19 date. They've been able to do that fine, right?

20 A. That's my understanding.

21 ALJ RODDA: Okay. I don't have anything further.
22 Did you have redirect?

23 MR. VAN CLEVE: No redirect, Your Honor.

24 ALJ RODDA: Okay. No one has anything further
25 for this witness?

1 MR. COYLE: No, Your Honor.

2 ALJ RODDA: All right. Thank you, Mr. Igwe.

3 THE WITNESS: Thank you.

4 ALJ RODDA: Let's go off the record for a minute.

5 (A recess was taken from 3:13 p.m. to 3:20 p.m.)

6 ALJ RODDA: Let's go back on the record then.

7 So in our off-the-record discussion, we discussed
8 the necessity for briefs in this case. And the general
9 consensus, I believe, with my approval, was that briefs
10 are not required in this case as the legal issues are
11 fairly well defined and not at controversy.

12 However, Mr. Coyle on behalf of ED-3, is going to
13 file some late-filed exhibits. And those are going to --
14 one is going to address the distributed generation rate
15 schedule.

16 MR. COYLE: That's correct.

17 ALJ RODDA: A second is a rate or a tariff for
18 the low income transition.

19 MR. COYLE: Transitioning low income customers,
20 that's correct.

21 ALJ RODDA: Right. And addressing how the hold
22 harmless is going to -- your understanding of what that
23 means, I guess.

24 The third is a plan or -- a plan for renewable
25 acquisitions, I guess, or what you think is doable. I was

1 trying to understand what Commissioner Mayes wanted.

2 MR. COYLE: On that one, Your Honor, I think I
3 would like to review the transcript and review it with
4 Mr. Saline and try to put forward something that
5 constructively engages the Chairman's concerns, consistent
6 with the constraints under which ED-3 operates.

7 ALJ RODDA: Okay. That's good. And the fourth
8 and final one was a memorandum or some other analysis on
9 how ED-3 will treat confidential customer -- or customer
10 information that's considered confidential under
11 Commission rules. What processes the district has in
12 place or will put in place or --

13 MR. COYLE: Right.

14 ALJ RODDA: Right. Okay. So we understand.

15 MR. COYLE: Got it, yes.

16 ALJ RODDA: All right. So I'll ask Ms. Grabel,
17 do you have anything in closing?

18 MS. GRABEL: I do not. Thank you, Your Honor.

19 ALJ RODDA: Mr. Coyle?

20 MR. COYLE: The only question that I would have
21 is with respect to the late-filed exhibits. Some, you
22 know, were already asked and those are relatively easy to
23 produce. Others will require a bit of work. If Your
24 Honor would give us some guidance as to when you want
25 these filed by, that would be helpful for us.

1 ALJ RODDA: Well, I think -- and I think in
2 particular the one about the renewables and your request
3 to review the transcript is probably a good idea to sort
4 of see. So that's going to take a while for that to be
5 available. But after that -- I mean, so 10 days for a
6 transcript, business days. Two weeks after that, is that
7 sufficient time or --

8 MR. COYLE: If I could have a moment to confer?

9 ALJ RODDA: Are you the one -- do you all have a
10 sense of urgency? Does this need to be done sooner than
11 later?

12 MR. COYLE: If you give us a moment off the
13 record, Your Honor.

14 ALJ RODDA: Yes.

15 (A brief discussion was held off the record.)

16 MR. COYLE: We would like to request delivery of
17 the transcript, plus 20 days, if that's okay.

18 ALJ RODDA: That's fine with me. No one has any
19 objection?

20 MR. VAN CLEVE: No objection, Your Honor.

21 ALJ RODDA: APS? Can't wait to get rid of 4,000
22 customers so --

23 MS. GRABEL: No objection, Your Honor.

24 ALJ RODDA: I appreciate that.

25 That's fine. And that's actually not setting a

1 deadline. That's just sort of a guideline for you. So if
2 you can make that, that's great.

3 Anything else, Mr. Coyle, before I move on?

4 MR. COYLE: I don't have anything else, Your
5 Honor. Thank you.

6 ALJ RODDA: Mr. Van Cleve?

7 MR. VAN CLEVE: Just one item. I was handed a
8 document entitled memorandum that talks about the legal
9 description. It says it's been docketed, and it's dated
10 February 23, 2009. What Staff proposes is that we'll
11 compare what's been supplied with the application in this
12 matter with our understanding, and if there is some sort
13 of a discrepancy we'll address that.

14 ALJ RODDA: I appreciate that. Thank you. I
15 just have experience where I have had the wrong legal
16 description, you know, when you change an order with the
17 legal description. Oh, Barb, doesn't like it one little
18 bit.

19 Well, then, I'll take the matter under advisement
20 pending the submission of those late-filed exhibits from
21 ED-3. And thank you all for your participation, and
22 thanks to all of the witnesses for the history lesson and
23 the detailed testimony that they gave. I appreciate it,
24 and I will see you at a future Open Meeting. Thank you.

25 (The Hearing concluded at 3:30 p.m.)

