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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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3 WILLIAM A. MUNDELL
CHAIRMAN
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6

Arizona Corporation Commission

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AZ CORP COMMISSION
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7
8 IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
9 APPROVAL OF NEW PARTIAL REQUIRE-
MENTS SERVICE TARIFFS; MODIFICATION OF
10 EXISTING PARTIAL REQUIREMENTS
SERVICE TARIFF 101; AND ELIMINATION OF
11 QUALIFYING FACILITY TARIFFS.

Docket No. E-01933A-02-0345

**NOTICE OF FILING TUCSON
ELECTRIC POWER COMPANY'S
POST HEARING BRIEF**

12
13 Tucson Electric Power Company, through its undersigned counsel, hereby provides
14 this Notice of Filing Tucson Electric Power Company's Post Hearing Brief with Exhibits
15 on November 18, 2002.
16

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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QUALIFYING FACILITY TARIFFS.

Docket No. E-01933A-02-0345

**TUCSON ELECTRIC POWER
COMPANY'S POST-HEARING
BRIEF**

12 Tucson Electric Power Company ("TEP"), through undersigned counsel, hereby submits
13 this Post-Hearing Brief in support of its (a) motion for clarification of the calculation of its
14 Market Generation Credit ("MGC"); and (b) application for approval of new partial requirements
15 service ("PRS") tariffs, modification of existing PRS Service Tariff 101 and elimination of
16 Qualifying Facility ("QF") tariffs, as follows:

17
18
19 **I. INTRODUCTION.**

20 This proceeding is a consolidation of two separate filings by TEP.

21
22 The first is TEP's "Motion for Clarification of Settlement Agreement" that was filed with
23 the Commission on March 14, 2002 ("TEP Motion for Clarification"). The TEP Motion for
24 Clarification seeks approval to clarify the MGC calculation that is contained in the 1999 TEP
25 Settlement approved by the Commission in Decision No. 62103. No party opposed the TEP
26 Motion for Clarification.
27

1 The second is "Tucson Electric Power Company's Application" filed with the Arizona
2 Corporation Commission ("Commission") on May 10, 2002 (the "TEP Application"). The TEP
3 Application requests approval for new and updated tariffs to provide PRS service to distributed
4 generation ("DG") customers. No party opposed adoption of the new PRS tariffs, although there
5 was not a consensus among the participants as to how the tariffs should be implemented or
6 whether the existing tariffs should be eliminated.

7
8 The TEP Motion for Clarification and TEP Application were joined by the Presiding
9 Administrative Law Judge in a Procedural Order dated July 10, 2002. A hearing on both the
10 TEP Motion for Clarification and TEP Application were held on October 22, 2002. In addition
11 to TEP, the Department of Defense ("DOD"), Arizona Residential Utility Consumer Office
12 ("RUCO") and Commission Staff ("Staff") participated in the hearing. At the close of the
13 hearing, the Presiding Administrative Law Judge instructed the parties to submit post-hearing
14 briefs on or before November 18, 2002.

15
16
17 **II. THE TEP MOTION FOR CLARIFICATION.**

18 TEP witness Mr. Leland Snook testified that the 1999 TEP Settlement Agreement
19 authorized for TEP the opportunity to recover its stranded costs through the implementation of a
20 Competition Transition Charge ("CTC"). Mr. Snook also stated some clarification of the
21 provisions relating to the calculation of the MGC is required to insure complete and full
22 implementation of the 1999 TEP Settlement Agreement. (TEP-1 at 15; Ex.1)

23
24 Mr. Snook testified further that two (2) indices used in the calculation of the MGC are no
25 longer available. One index was provided by the California Power Exchange ("CALPX"), which
26 ceased operation in January 2001. The other index was the New York Mercantile Exchange
27 ("NYMEX") Palo Verde Electricity Futures, which were de-listed from NYMEX in April 2002.

1 (TEP-1 at 16; Ex. 2) Mr. Snook also cited to the following language in the 1999 Settlement
2 Agreement in support of the fact that potential modifications to the MGC methodology were
3 contemplated in the 1999 TEP Settlement Agreement:

4 [I]f the nature of the Palo Verde NYMEX changes such that it no longer
5 accurately reflects the intent of the Settlement, the Company, Staff or any
6 other interested party may request that an alternative index be utilized to
the extent such index is consistent with Settlement. (TEP-1 at 16; Ex. 3)

7 Mr. Snook supported the following changes to the MGC calculation:

<u>Previous Index Component</u>	<u>Proposed Index Component</u>
CALPX	Dow Jones Daily Palo Verde Index ("DJPVI")
NYMEX – Palo Verde electricity prices	Platts "Long-term Forward Assessments" Energy Prices for Palo Verde ("Platts Energy")

16 Mr. Snook also stated that TEP proposed to modify the timing and scope of the MGC
17 calculation. The previous calculation for the MGC was computed using the 45th, 46th, and 47th
18 days prior to the start of a quarter, which set the MGC for each month in the coming quarter.
19 The new calculation computes the MGC from the 30th, 31st, and the 32nd days prior to the
20 beginning of each month and sets the MGC only for the coming month. After discussing
21 alternatives with Staff, TEP agreed to calculate the MGC beginning with the delivery month of
22 January 2002. (TEP-1 at 17-18; Ex. 4) Mr. Snook testified that all signatories to the 1999 TEP
23 Settlement Agreement agree to the clarification and changes that TEP has proposed. (TEP-1 at
24 16; Ex. 5)
25
26
27

1 **III. THE TEP APPLICATION.**

2 Mr. Snook testified that the TEP Application seeks Commission approval for tariffs that
3 will provide PRS to a broadened scope of customers. TEP is requesting Commission approval of
4 new PRS tariffs, PRS-10, PRS-13 and PRS-14, and modified existing tariff PRS-101. The new
5 PRS tariffs are designed to replace the existing QF tariffs, so TEP is also requesting that the
6 Commission cancel existing QF tariffs 102, 103, 104, 105, 106, 107 and 108. (TEP-1 at 6; Ex. 6)

7 **1. Increase the Scope of Customers.**

8 Mr. Snook testified generally that TEP's QF tariffs, pursuant to which customers who
9 generate their own power can receive back-up/standby and supplemental service, require the
10 customers to be QFs, as that term is defined by The Public Utility Regulatory Policies Act of
11 1978 ("PURPA"). Mr. Snook testified that technology has changed since the implementation of
12 the QF tariffs and that there are potential self-generation customers who would need PRS but
13 would not qualify for that service pursuant to TEP's QF tariffs. To broaden the scope of
14 customers who may receive PRS, TEP has re-designed its tariffs to make PRS available to QF
15 and non-QF self-generation customers. (TEP-1 at 3; Ex. 7)

16 **2. Economic Reasons.**

17 Mr. Snook indicated that there were economic reasons for the new PRS tariffs, too. TEP
18 believes that if it tried to apply full requirements service tariffs to DG customers it would create
19 an economic mismatch of costs and revenues that would result in a revenue shortfall. The
20 installation of a DG unit by a customer reduces the number of hours an incumbent utility's
21 distribution and transmission systems are used by that customer. TEP's full-requirements tariffs
22 were designed based on assumptions of full-requirement utilization by customers. If only the
23 underlying assumptions for full customer utilization are changed, the cost to TEP of providing
24 the transmission and distribution service will be the same, but there will be less customer usage
25
26
27

1 from which TEP can recover the cost of the service. Mr. Snook stated that TEP believes that
2 providing PRS tariffs designed for full-requirements service would provide a DG customer with
3 a unilateral “discounted call” on generation from TEP at fixed prices—but TEP’s generation
4 costs are not fixed. TEP’s generation costs vary depending upon system configuration, unit
5 availability, load requirements, time-of-day, season, and the price of market power. (TEP-1 at 4-
6 5; Ex. 8)

7
8 **3. DGI Advisory Committee.**

9 Mr. Snook also testified that the new PRS tariffs reflect input from the Commission-
10 sponsored Distributed Generation Interconnections Investigation (“DGI”) Advisory Committee.
11 On June 28, 2000, the DGI Advisory Committee issued the “DGI Workgroup Final Report”
12 (Docket No. E-00000A-99-0431). The DGI recommended that the Commission, “design fair
13 and reasonable tariffs considering proper recovery of utility costs, back-up power or partial-
14 requirements tariffs, and PURPA Qualifying Facilities while providing consistent treatment of
15 DG relative to other consumer services.” Mr. Snook stated that TEP’s new PRS tariffs are
16 designed consistent with the DGI Advisory Committee’s recommendation to recover costs
17 incurred by TEP to provide PRS. Mr. Snook said that TEP matched “cost recovery” with the
18 “cost to serve” DG customers by (a) allocating fixed and variable costs for the transmission and
19 distribution system between customer, demand and energy charges based on lower system
20 utilization by partial requirements customers; and (b) separating distribution and transmission
21 cost (“delivery costs”) from generation costs. (TEP-1 at 7-8; Ex. 9)

22
23
24 **4. PURPA.**

25 TEP believes that the new PRS tariffs better reflect the intention of PURPA than the
26 existing QF tariffs. All similarly situated DG customers will receive the same service regardless
27

1 of QF status. Mr. Snook cited Section 292.305 (a) of the Code of Federal Regulations as
2 follows:

3 (1) Rates for sales: (i) Shall be just and reasonable and in the public
4 interest; and (ii) Shall not discriminate against any qualifying facility in
5 comparison to rates for sales to other customer served by the electric
6 utility. (2) Rates for sales which are based on accurate data and
7 consistent system-wide costing principles shall not be considered to
8 discriminate against any qualifying facility to the extent that such rates
9 apply to the utility's other customers with similar load or other cost-
10 related characteristics.

11 (TEP-1 at 11; Ex. 10)

12 **5. Benefits to TEP's Customers.**

13 Mr. Snook testified that TEP believes that the proposed changes to the tariffs will benefit
14 its customers, and is in the public interest, in the following ways: First, the new PRS tariffs
15 broaden the scope of those customers who will be eligible for partial requirements service.
16 Second, the generation pricing for the new PRS tariffs provides an incentive for self-generating
17 customers to peak-shave due to the nature of the on-peak and off-peak generation prices. Third,
18 the PRS tariffs will allow customers to obtain back-up/standby, maintenance and supplemental
19 generation service from a competitive electric service provider through direct access, while
20 acquiring distribution and transmission services for delivery from TEP. Fourth, PRS customers
21 continue to remain eligible to participate in TEP's GreenWatts program. And finally, by
22 modifying the MGC, the Commission will appropriately update the Settlement Agreement to
23 reflect changed circumstances. (TEP-1 at 18; Ex. 11)

24 **6. Department of Defense's Comments.**

25 The Department of Defense ("DOD") stated that it did not object to TEP "updating and
26 revising its QF tariffs, and augmenting these tariffs with partial requirements tariffs that would
27 be applicable to non-QF facilities." (Tr. at 57; Ex. 12) DOD did, however, claim that TEP's

1 proposed PRS tariffs were not cost based. DOD witness Mr. Dan Niedlinger stated that TEP's
2 current rates are the product of incorrect costing and pricing methods used in past rate
3 proceedings. (DOD-1 at 3; Ex.13) However, under cross-examination, Mr. Niedlinger admitted
4 that the Commission has approved TEP's ratemaking methodology in every docket that has
5 come before it in the past 15 years. (Tr. at 64; Ex. 14) Mr. Niedlinger also acknowledged that
6 the Commission has rejected his criticism of the TEP ratemaking methodology. (Tr. at 68; Ex.
7 15) Mr. Niedlinger did not present any evidence to justify TEP or the Commission abandoning
8 long accepted ratemaking practices in favor of his previously rejected ideas.
9

10 7. Staff's Concerns.

11 Staff witness Ms. Barbara Keene stated that Staff did not oppose the implementation of
12 the new TEP PRS tariffs. However, Staff does not want the existing QF tariffs to be eliminated.
13 (Tr. at 80-82; Ex. 16) In response, Mr. Snook pointed out that there are very few customers
14 taking service under the current tariffs. (Tr. at 24-25; Ex. 17) Also, in his rebuttal testimony Mr.
15 Snook states that Staff's reasons for keeping the QF tariffs in place are based only on
16 hypothetical concerns about what might occur without stating that negative results from
17 eliminating the QF tariffs would, in fact, occur. Mr. Snook stated as follows:
18

19 At page 7, lines 15-18 of her Direct Testimony, Ms. Keene says, with regard to
20 elimination of PRS-103:

21 Although no customers are currently being served under PRS-103,
22 customers **may** be planning facilities while relying on the fact that PRS-
103 is available.

23 At page 8, lines 23-25 of her Direct Testimony, Ms. Keene says, with regard to
24 elimination of PRS -103,104, 105 and 106:

25 Even though only one customer is currently being served on these tariffs,
26 **there may be other customers** planning facilities while relying on the
fact that these tariffs are available.

27 At page 9, lines 22-24 of her Direct Testimony, Ms. Keene says, with regard to
elimination of PRS-107 and 108:

1 Even though no customers are currently being served on these tariffs,
2 **there may be other customers** planning facilities while relying on the
3 fact that these tariffs are available.

4 But, there is no evidence that any customers are planning facilities in reliance on
5 PRS-203, 104, 105, 106, 107 or 108. Moreover, TEP notified all customers of
6 TEP's PRS tariff application through a direct mailing starting on the billing cycle
7 July 10, 2002. Customers relying on the QF tariffs have had the opportunity to
8 intervene in this process. It is also TEP's experience that customers make contact
9 with TEP in the planning stages of a project to develop pricing and
10 interconnection policies and procedures.

11 (TEP-3 at 6; Ex. 18)

12 Moreover, Mr. Snook indicated that by keeping the existing QF tariffs, TEP would be
13 sending inappropriate pricing signals to potential PRS customers. (TEP-3 at 4-5; Ex. 19)

14 Staff also raised the concern that the PRS rates could not be approved outside of a rate
15 case. (Tr. at 84; Ex. 20) However, when pressed by the Presiding Administrative Law Judge on
16 what type of proceeding would be appropriate for the approval of the PRS tariffs, Staff was not
17 clear. The following exchange occurred during the hearing:

18 Q: (ALJ Rodda) And so ultimately then, is your recommendation in terms of
19 what you want, what Staff's position is in terms of an order, would it be they
20 should re-file, because you would still need to be able to review that?

21 A: (Ms. Keene) Right. They would probably have to conduct a study of what it
22 would be and filed revised rates. I don't know if they could be approved by
23 Staff in compliance to the order or if it would need to be a proceeding like
24 through an Open Meeting before the Commission. (Tr. at 93-94; Ex. 21)

25 At the hearing Staff acknowledged that the DGI Working Group Final Report did reflect
26 Staff's position regarding DG related tariffs. (Tr. at 98-99; Ex. 22) However, Staff believed that
27 TEP should not take any action at this time to implement any of the recommendations or
conclusions stated in the DGI Working Group Final Report because additional workshops were
necessary. (Tr. at 79; Ex. 23) When asked during cross-examination why Staff had not
conducted any workshops from June 2000, when the DGI Working Group Final Report was

1 issued, to October 2002, when the hearings were held, Staff witness Ms. Keene cited problems of
2 time, resources and prioritization as the cause. (Tr. at 79-80; Ex. 24) TEP witness Mr. Snook,
3 on the other hand, indicated that TEP was acting now to meet the needs of its customers (who
4 should not have to wait until additional workshops are conducted) in a changing world. (Tr. at
5 18; Ex. 25)

6
7 **IV. CONCLUSION.**

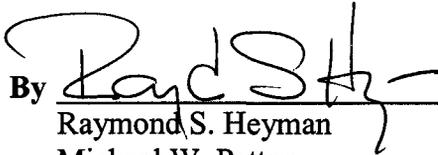
8 TEP believes that there are more areas of agreement among the parties in this
9 consolidated proceeding than areas of disagreement. No one objects to the TEP Motion for
10 Clarification. Accordingly, TEP requests that the Commission issue its order granting the
11 clarifications identified in the TEP Motion for Clarification.

12 No one objects to the implementation of new PRS tariffs to take care of the needs of DG
13 customers who are not QFs. TEP believes that the evidence in the record of this case
14 demonstrates that the concerns expressed by DOD regarding ratemaking methodology are
15 unfounded and have been previously rejected by the Commission. Staff's concerns deal with the
16 proper forum and timing for implementing the new PRS tariffs and whether or not the existing
17 QF tariffs should be eliminated. Again, TEP believes that the evidence in the record shows that
18 there is no reason to delay the implementation of the new PRS tariffs and that there is no reason
19 to keep outdated QF tariffs that virtually no customers use.

20 For all of these reasons, TEP requests that the TEP Motion for Clarification and TEP
21 Application be granted.
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1 RESPECTFULLY SUBMITTED this 18th day of November, 2002.

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BEFORE THE ARIZONA CORPORATION COMMISSION

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BRIEF EXHIBITS**

NOVEMBER 18, 2002

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TP-1

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11 IN THE MATTER OF THE APPLICATION OF
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12 APPROVAL OF ITS STRANDED COST
RECOVERY

DOCKET NO. E-01933A-02-0345

DOCKET NO. E-01933A-98-0471

**DIRECT TESTIMONY OF
LELAND R. SNOOK**

13
14
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22 AUGUST 30, 2002
23
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1 Q. How is the replacement of QF tariffs 107 and 108 with new PRS-14 consistent with the
2 1999 TEP Settlement?

3 A. This is a good example of how the TEP Application is consistent with the TEP
4 Settlement. TEP is proposing to replace QF tariffs 107 and 108 with new PRS-14. PRS-
5 14 is broader in scope than QF tariffs 107 and 108 and provides consistent terms,
6 conditions and pricing for similarly situated customers. Also, PRS-14 provides
7 customers with back-up/standby, maintenance, and supplemental service while 107 and
8 108 provides only back-up/standby and maintenance services, respectively, while the
9 customers' supplemental service needs are not addressed.
10

11
12 Q. Are you aware of any other Arizona utilities that have filed tariffs similar to the new PRS
13 tariffs that have been approved by the Commission?

14 A. Yes. In 2001, APS received approval for its tariff E-36 (Station Use Service), which has
15 a pricing structure similar to TEP's new PRS tariffs.
16

17
18 **THE MODIFICATION OF TEP'S MARKET GENERATION CREDIT.**

19 Q. Please review the development of the TEP Market Generation Credit.

20 A. TEP, Arizonans for Electric Choice and Competition, the Residential Utility Consumer
21 Office and the Arizona Community Action Association were all signatories to the 1999
22 TEP Settlement Agreement. The 1999 TEP Settlement Agreement authorized TEP the
23 opportunity to recover its stranded costs through the implementation of a Competition
24 Transition Charge ("CTC"). Since the commencement of the implementation of the
25 1999 TEP Settlement Agreement, the parties concluded that some clarification of the
26 provisions relating to the calculation of the Market Generation Credit ("MGC") is
27
28

2

TP-1

BEFORE THE ARIZONA CORPORATION COMMISSION

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8 REQUIREMENTS SERVICE TARIFFS,
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11 IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
12 APPROVAL OF ITS STRANDED COST
RECOVERY

DOCKET NO. E-01933A-02-0345

DOCKET NO. E-01933A-98-0471

DIRECT TESTIMONY OF
LELAND R. SNOOK

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22 AUGUST 30, 2002
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1 required to insure complete and full implementation of the 1999 TEP Settlement
2 Agreement as intended by the signatories.

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4 Q. Why is TEP seeking to modify the MGC?

5 A. In simple terms, due to changed circumstances, TEP's current MGC is obsolete. Since
6 the effective date of the 1999 TEP Settlement Agreement two (2) indices that were used
7 in the calculation of the MGC are no longer available. One index was provided by the
8 California Power Exchange ("CALPX"), which ceased operation in January 2001. The
9 other index was the New York Mercantile Exchange ("NYMEX") Palo Verde Electricity
10 Futures, which were de-listed from NYMEX in April 2002. A revised calculation
11 schedule of MGC-1 is attached hereto as Exhibit 4, which includes a change to the
12 terminology of "futures" to "forward" and elimination of the reference to "hourly" prices
13 in the Dow Jones definitions in the Glossary.

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17 Q. Were modifications to the MGC methodology contemplated in the 1999 TEP Settlement
18 Agreement?

19 A. Yes, changes of this type were contemplated. The TEP 1999 Settlement Agreement
20 Section 2.1 (d) states, in part:

21 [I]f the nature of the Palo Verde NYMEX changes such that it no longer
22 accurately reflects the intent of the Settlement, the Company, Staff or any
23 other interested party may request that an alternative index be utilized to
the extent such index is consistent with Settlement.

24 Q. Have all signatories to TEP's Settlement agreed to TEP's proposed method of calculating
25 the MGC?

26 A. Yes. All signatories have agreed to the proposed method.
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TP-1

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1 Q. What new component indices is TEP proposing to use?

2 A. TEP is proposing the following changes to the MGC calculation:

3

<u>Previous Index Component</u>	<u>Proposed Index Component</u>
4 CALPX	Dow Jones Daily Palo Verde Index 5 ("DJPVI")
6 NYMEX – Palo Verde electricity prices	Platts "Long-term Forward Assessments" 7 Energy Prices for Palo Verde ("Platts 8 Energy")

9

10
11 For definitional purposes: (1) DJPVI contains an on and off peak daily calculation of actual firm
12 on-peak and firm off-peak weighted average prices for electricity traded at Palo Verde, Arizona
13 switchyard. DJPVI is used to develop the off-peak component; (2) Platts Energy is a McGraw-
14 Hill publication that provides an independent daily evaluation of on-peak forward market prices
15 of electricity at the Palo Verde, Arizona switchyard. Platts Energy prices are used to determine
16 the on-peak generation prices for the MGC.
17

18
19 Q. Did TEP consider other market priced indices?

20 A. Yes, but no other publicly available indices were found.
21

22
23 Q. Were there other changes that were made to the MGC calculation, and if so, why were
24 they made?

25 A. Yes. The timing and scope of the calculation was also modified. The previous
26 calculation for the MGC was computed using the 45th, 46th, and 47th days prior to the start
27 of a quarter, which set the MGC for each month in the coming quarter. The new
28

1 calculation computes the MGC from the 30th, 31st, and the 32nd days prior to the
2 beginning of each month and sets the MGC only for the coming month. The parties to
3 TEP's Settlement concurred that using market prices closer to the delivery month
4 provides more certainty and less risk for all market participants.

5
6 Q. What is TEP currently using for the MGC since both component indices have been
7 discontinued?

8
9 A. After discussing alternatives with the Commission Staff, TEP agreed to calculate the
10 MGC as it had proposed in its Application, beginning with the delivery month of January
11 2002.

12 CONCLUSION.

13 Q. Please summarize how granting the relief requested in TEP's Application would benefit
14 TEP's customers?

15 A. TEP believes that the relief requested in the TEP Application will benefit its customers,
16 and is in the public interest, in the following ways: First, the new PRS tariffs broaden the
17 scope of those customers who will be eligible for partial requirements service. Second,
18 the generation pricing for the new PRS tariffs provides an incentive for self-generating
19 customers to peak-shave due to the nature of the on-peak and off-peak generation prices.
20 Third, the PRS tariffs will allow customers to obtain back-up/standby, maintenance and
21 supplemental generation service from a competitive electric service provider through
22 direct access, while acquiring distribution and transmission services for delivery from
23 TEP. Fourth, PRS customers continue to remain eligible to participate in TEP's
24 GreenWatts program. And finally, by modifying the MGC as requested in the TEP
25 Application, the Commission will appropriately update the Settlement Agreement to
26 reflect changed circumstances.
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1 the cost of providing service to a PRS customer with periodic system needs is higher than
2 that of a full requirements customer. So, in order to maintain fair rates for full
3 requirements customers and to avoid PRS customers reaping a windfall at the expense of
4 the full requirements customer, TEP has designed new PRS rates that accurately reflect
5 the cost of service for PRS customers. Establishing tariffs that provide for safe, efficient,
6 reliable and fairly priced electric service is in the public interest. I believe that the new
7 PRS tariffs accomplish that goal for PRS customers.
8

9
10 **THE TEP APPLICATION.**

11 Q. Mr. Snook, please explain what is being requested in the TEP Application.

12 A. The TEP Application seeks Commission approval for those tariffs that will provide PRS
13 to a broadened scope of customers. Specifically, TEP is requesting Commission approval
14 of new PRS tariffs, PRS-10, PRS-13 and PRS-14, and modified existing tariff PRS-101.
15 The new PRS tariffs are designed to replace the existing QF tariffs, so TEP is also
16 requesting that the Commission cancel existing QF tariffs 102, 103, 104, 105, 106, 107
17 and 108.
18

19 Q. Please discuss the new PRS tariffs for which TEP is seeking approval.

20 A. PRS-10 for General Service provides PRS for customers with loads up to 200 kW. PRS-
21 13 for Large General Service provides PRS for customers with loads from 200 kW -
22 2,999 kW. PRS-14 for Large Light & Power Service provides PRS for customers with
23 loads of 3,000 kW or greater. A copy of each of these tariffs was submitted as Exhibit 1
24 to the TEP Application.
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1 Application and TEP Motion for Clarification were joined by the Presiding
2 Administrative Law Judge.

3
4 **BACKGROUND.**

5 Q. Please provide some background as to why TEP has filed the TEP Application?

6 A. TEP currently has in place tariffs pursuant to which customers who generate their own
7 power (sometimes called "self-generation customers" or "distributed generation" ("DG")
8 customers) can receive back-up/standby and supplemental service (collectively "partial
9 requirements service" or "PRS"). These tariffs, referred to as "QF" tariffs, require the
10 customers to be "Qualifying Facilities", as that term is defined by The Public Utility
11 Regulatory Policies Act of 1978 ("PURPA"). However, circumstances have changed
12 since the implementation of the QF tariffs. TEP realizes that there are potential self-
13 generation customers who would need PRS but would not qualify for that service
14 pursuant to TEP's QF tariffs because they are not PURPA-designated Qualifying
15 Facilities. So, TEP has re-designed its tariffs to make PRS service available to QF and
16 non-QF self-generation customers.
17
18

19
20 Q. Please explain back-up/standby service.

21 A. DG customers need to obtain electric power from a reliable source (such as TEP) when
22 their DG unit is not running due to either a maintenance outage or an unplanned outage.
23 In order to provide back-up/standby service, TEP must be able to obtain and deliver
24 capacity and energy to the DG customer at any time.
25

26
27 Q. Please explain supplemental service.
28

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1 A. DG customers need to obtain additional electric power, again from a reliable source,
2 when their power needs are greater than what the DG unit is able to generate. In these
3 instances, supplemental service would be provided by TEP even though the DG unit is
4 operating.

5
6 Q. Why does TEP believe that the existing QF tariffs do not meet the needs of potential DG
7 customers?

8
9 A. TEP does not believe that the absolute requirement that a PRS customer be a QF is
10 needed anymore. Technology and economics have developed to the point where there
11 are many viable potential DG customers whose facilities are not, and in fact, need not be
12 QFs. These non-QF DG customers should be able to receive PRS service pursuant to
13 tariffs that are specifically designed for their circumstances. PURPA standards define
14 how much waste heat must be used or how much useful power must be produced in terms
15 of fuel conversion efficiency. Many DG customers who utilize a "cogeneration" system
16 (one that produces both useful electrical power as well as useful thermal energy, such as
17 heat or steam) do not meet either PURPA's operating or efficiency standards.

18
19
20 Q. Why doesn't TEP just provide PRS service pursuant to TEP's full service requirements
21 tariffs?

22 A. There are several problems with that approach. First, the terms and conditions of TEP's
23 full service requirement tariffs do not provide for PRS. By definition, a DG customer,
24 whether a QF or not, simply is not a full requirements customer. Also, TEP believes that
25 if it tried to apply full requirements service tariffs to DG customers it would create an
26 economic mismatch of costs and revenues that would result in a revenue shortfall. The
27 installation of a DG unit by a customer reduces the number of hours an incumbent
28

1 utility's distribution and transmission systems are used by that customer. TEP's full-
2 requirements tariffs were designed based on assumptions of full-requirement utilization
3 by customers. If only the underlying assumptions for full customer utilization are
4 changed, the cost to TEP of providing the transmission and distribution service will be
5 the same, but there will be less customer usage from which TEP can recover the cost of
6 the service.

7
8 TEP also believes that providing PRS tariffs designed for full-requirements service would
9 provide a DG customer with a unilateral "discounted call" on generation from TEP at
10 fixed prices—but TEP's generation costs are not fixed. TEP's generation costs vary
11 depending upon system configuration, unit availability, load requirements, time-of-day,
12 season, and the price of market power.

13
14
15 Q. Why does TEP believe that the new PRS tariffs are in the public interest?

16
17 A. As I have indicated, PRS customers are different than full requirement service customers.
18 So, PRS tariffs should reflect that difference. PRS customers tend to require service at
19 times when it is most costly for TEP to serve them. TEP believes that it is in the public
20 interest for PRS customers to pay their fair share of the cost of providing service to
21 them—and not be subsidized by full service requirements customers.

22
23 As you can tell from my testimony regarding back-up/standby and supplemental service,
24 a PRS customer often requires service immediately (or on short notice) and at times when
25 power costs are high. For example, supplemental service is frequently needed during
26 peak power supply periods when full requirement service customers also need additional
27 power. The cost of electric power tends to be higher than during off-peak periods. Thus,
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Since the TEP Application was filed, the tariff for PRS-13 (Back-up/Standby Service) has been revised. The "Customer Charge" provision now reads "Customer Charge (first 200 kW)" and the "Standby Demand Charge per kW" provision has been changed to read "Standby Demand Charge (all additional kW)". These revisions will ensure that DG customers will only pay the Standby Demand Charge for their demand in excess of 200 kW and that the first 200 kW of demand will be included in the Customer Charge. I have attached a revised tariff sheet to my direct testimony as Exhibit 1.

These new tariffs will apply to any non-residential DG customer requiring PRS, under either a standard offer or direct access service arrangement.

Q. Did TEP rely upon any industry input in designing the new PRS tariffs?

A. Yes. The new PRS tariffs reflect input from the Commission-sponsored Distributed Generation Interconnections Investigation ("DGI") Advisory Committee. On June 28, 2000, the DGI Advisory Committee issued the "DGI Workgroup Final Report" (Docket No. E-00000A-99-0431). Therein, the DGI recommended that the Commission, "design fair and reasonable tariffs considering proper recovery of utility costs, back-up power or partial-requirements tariffs, and PURPA Qualifying Facilities while providing consistent treatment of DG relative to other consumer services."

I believe that TEP's new PRS tariffs are designed consistent with the DGI Advisory Committee's recommendation to recover costs incurred by TEP to provide PRS. In the new PRS tariffs, TEP matched "cost recovery" with the "cost to serve" DG customers. TEP achieved this by appropriately (a) allocating fixed and variable costs for the transmission and distribution system between customer, demand and energy charges

1 based on lower system utilization by partial requirements customers; and (b) separating
2 distribution and transmission cost ("delivery costs") from generation costs.

3
4 Q. Will the new PRS tariffs send the proper price signals to DG customers?

5 A. Yes, I believe they will. TEP uses market-based pricing for generation costs to send the
6 correct price signal to customers. DG customers can benefit from "peak-shaving" due to
7 the price differences that likely will occur between the on-peak and off-peak components
8 of the market-based pricing. Market price signals will also encourage DG customers to
9 schedule maintenance during low priced periods and promptly repair the unit when a
10 forced outage occurs during a high priced period.

11
12
13 Customers will benefit from market-based pricing under the new PRS tariffs because they
14 will only pay for generation when it is used as opposed to the QF tariffs where generation
15 capacity must be reserved. Market pricing will allow DG customers to receive the
16 benefits of low energy market prices as well as bear the risk of high energy market prices.

17
18
19 Q. Please explain how TEP developed the new PRS tariffs.

20 A. The charges in the new PRS tariffs were developed for each customer rate class (General
21 Service, Large General Service and Large Light and Power). In order to separate
22 transmission and distribution from generation tariff components, the starting points for
23 designing the PRS tariffs were the average unbundled rates for each customer rate class
24 on a per kWh basis using TEP's approved unbundled tariff components, customer and
25 sales data.
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1 A. Yes, TEP believes that the new PRS tariffs better reflect the intention of PURPA than the
2 existing QF tariffs. All similarly situated DG customers will receive the same service
3 regardless of QF status. Section 292.305 (a) of the Code of Federal Regulation states:

4 (1) Rates for sales: (i) Shall be just and reasonable and in the public
5 interest; and (ii) Shall not discriminate against any qualifying facility in
6 comparison to rates for sales to other customer served by the electric
7 utility. (2) Rates for sales which are based on accurate data and consistent
8 system-wide costing principles shall not be considered to discriminate
9 against any qualifying facility to the extent that such rates apply to the
10 utility's other customers with similar load or other cost-related
11 characteristics.

12 Q. TEP is also requesting that QF-102, for buyback of power from QF's less than 100 kW
13 on a firm basis, be cancelled. Why is TEP seeking this?

14 A. TEP believes that these customers cannot feasibly provide firm power to TEP from a
15 single generation unit. By definition, the buyback power provided to TEP is unit
16 contingent. If the single generation unit is out of service due to either a planned or
17 unplanned outage, there is no alternative source of generation to ensure that TEP receives
18 firm power.

19 Q. How will new TEP's PRS tariffs be more favorable to DG customers than TEP's existing
20 QF tariffs?

21 A. One important way is that TEP's new PRS tariffs will be applicable to customers utilizing
22 any type of DG, whereas TEP's existing QF tariffs only apply to DG that meets the
23 PURPA requirements.
24

25 Q. Do you believe that TEP's new PRS tariffs will be more readily understood by customers
26 than TEP's existing QF tariffs?
27
28

11

TRP-1

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LELAND R. SNOOK**

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22 AUGUST 30, 2002
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1 calculation computes the MGC from the 30th, 31st, and the 32nd days prior to the
2 beginning of each month and sets the MGC only for the coming month. The parties to
3 TEP's Settlement concurred that using market prices closer to the delivery month
4 provides more certainty and less risk for all market participants.

5
6 Q. What is TEP currently using for the MGC since both component indices have been
7 discontinued?

8
9 A. After discussing alternatives with the Commission Staff, TEP agreed to calculate the
10 MGC as it had proposed in its Application, beginning with the delivery month of January
11 2002.

12 CONCLUSION.

13 Q. Please summarize how granting the relief requested in TEP's Application would benefit
14 TEP's customers?

15 A. TEP believes that the relief requested in the TEP Application will benefit its customers,
16 and is in the public interest, in the following ways: First, the new PRS tariffs broaden the
17 scope of those customers who will be eligible for partial requirements service. Second,
18 the generation pricing for the new PRS tariffs provides an incentive for self-generating
19 customers to peak-shave due to the nature of the on-peak and off-peak generation prices.
20 Third, the PRS tariffs will allow customers to obtain back-up/standby, maintenance and
21 supplemental generation service from a competitive electric service provider through
22 direct access, while acquiring distribution and transmission services for delivery from
23 TEP. Fourth, PRS customers continue to remain eligible to participate in TEP's
24 GreenWatts program. And finally, by modifying the MGC as requested in the TEP
25 Application, the Commission will appropriately update the Settlement Agreement to
26 reflect changed circumstances.
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12

1 BEFORE THE ARIZONA CORPORATION COMMISSION

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4 IN THE MATTER OF THE APPLICATION)
 4 OF TUCSON ELECTRIC POWER COMPANY) DOCKET NO.
 5 FOR APPROVAL OF NEW PARTIAL) E-01933A-02-0345
 5 REQUIREMENTS SERVICE TARIFFS,)
 6 MODIFICATION OF EXISTING PARTIAL)
 6 REQUIREMENTS SERVICE TARIFF 101,)
 6 AND ELIMINATION OF QUALIFYING)
 7 FACILITY TARIFFS.)

8 IN THE MATTER OF THE APPLICATION) DOCKET NO.
 8 OF TUCSON ELECTRIC POWER COMPANY) E-01933A-98-0471
 9 FOR APPROVAL OF ITS STRANDED)
 9 COST RECOVERY.)

10

11

12 At: Tucson, Arizona

13 Date: October 22, 2002

14 Filed: NOV - 6 2002

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16 REPORTER'S TRANSCRIPT OF PROCEEDINGS

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By: DAWNA J. BOSWELL, RPR
 Certified Court Reporter
 Certificate No. 50326

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Prepared for:

25

TEP

1 MR. NYCE: Your Honor, at this point, I would
2 like to move DOD-1 subject to cross-examination.

3 ALJ RODDA: Any objection to DOD-1?

4 MR. GELLMAN: No objection, Your Honor.

5 ALJ RODDA: DOD-1 is admitted.

6 Q. (BY MR. NYCE) Would you now provide a
7 summary of your testimony.

8 A. Yes.

9 I've listened closely this morning to the
10 presentation to date. I have no, absolutely no
11 objection to the company updating and revising its QF
12 tariffs, and augmenting these tariffs with partial
13 requirements tariffs that would be applicable to
14 non-QF facilities. My basic problem with the filing
15 at this point in time is that it's just not cost
16 related. By that I mean it, as a matter of fact, has
17 some significant anti-competitive overtones to it due
18 to the level and the magnitude of the charges that
19 would be incurred under these tariffs by future
20 partial requirements customers.

21 Recognizing the fact that there are only a
22 handful of customers taking service under the current
23 tariffs, one should initially ask the question, if the
24 company is giving away the store, so to speak, with
25 the current tariffs, why doesn't the company have

13

BEFORE THE ARIZONA CORPORATION COMMISSION

TUCSON ELECTRIC POWER COMPANY

Docket Nos. E-01933A-02-0345 & E-01933A-98-0471

DIRECT TESTIMONY OF DAN L. NEIDLINGER

ON BEHALF OF

THE DEPARTMENT OF DEFENSE

SEPTEMBER 27, 2002

8

A. TEP's current rates are the product of the incorrect costing and pricing methods used in past rate proceedings. As a result, the Company's commercial and industrial customers have been required to pay rates that exceed the cost to serve them. Price signals to these customers have been further blurred by improper rate designs; excessive amounts of demand costs are included in the energy component of TEP's commercial and industrial rates. Accordingly, customers with lower-than-average load factors, such as PRS customers, tend to under-recover demand related costs. Now, TEP is seeking to correct these rate design errors as related to PRS service.

Q. WHAT IS THE MAGNITUDE OF THE "WINDFALL" CURRENTLY REALIZED BY TEP'S PRS CUSTOMERS?

A. I don't know. The magnitude of the alleged windfall, in terms of dollars currently under-recovered, was not quantified by Mr. Snook. An estimate by TEP of current and future revenue shortfalls attributable to partial requirements customers would be helpful to the Commission in deciding this matter.

III. PROPOSED PRS TARIFFS

Q. HAVE YOU REVIEWED TEP'S PROPOSED PRS TARIFFS, PRS-10, PRS-13 AND PRS-14?

A. Yes. The Company is proposing three new rate schedules: PRS-10 for partial requirements service less than 200 kilowatts ("KW"), PRS-13 for partial requirements service from 200 KW to less than 3,000 KW and PRS-14 for partial requirements service of 3,000 KW and greater. In addition, the Company has proposed modifications to existing rate schedule PRS-101. The new PRS rate schedules include proposed customer, demand and energy charges for backup and/or standby service and separate demand and energy charges for supplemental service.

Q. HOW DOES THE COMPANY DETERMINE WHETHER A CUSTOMER SHOULD BE PLACED ON ONE OF THESE NEW TARIFFS?

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BEFORE THE ARIZONA CORPORATION COMMISSION

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 OF TUCSON ELECTRIC POWER COMPANY) DOCKET NO.
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 MODIFICATION OF EXISTING PARTIAL)
 REQUIREMENTS SERVICE TARIFF 101,)
 AND ELIMINATION OF QUALIFYING)
 FACILITY TARIFFS.)

IN THE MATTER OF THE APPLICATION) DOCKET NO.
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TEP

1 has to do with including fixed costs and allocating
2 those costs among customer classes on an energy basis.

3 Q. In what specific docket were these alleged
4 incorrect methods used?

5 A. Every docket that I can recall within the
6 last 15 years.

7 Q. And who determined that these methods are
8 incorrect?

9 A. The Commission adopted the methods presented
10 by the company. My point and my testimony is that in
11 my view, the methods were incorrect. The Commission
12 adopted those methods. They did. But in my view,
13 they're wrong, and now the company is beginning to see
14 that those type of rate design policies can come back
15 and bite them, so to speak, under these conditions.

16 Q. You go on in your testimony in the same
17 paragraph to state that TEP's industrial and
18 commercial customers are paying rates that exceed
19 their cost of service?

20 A. Yes.

21 Q. Did you perform a cost of service study to
22 determine that?

23 A. Not a current one, no. I had historical cost
24 of service studies that document that, yes.

25 Q. When the Commission is designing rates for

15

1 BEFORE THE ARIZONA CORPORATION COMMISSION

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28 TEP

1 A. In my view, yes, that's correct.

2 Q. And I think you also acknowledged that the
3 Commission has not accepted your view at this time?

4 A. In recent past, that's correct.

5 Q. Okay. You indicated that the Department of
6 Defense is involved with Davis-Monthan and Fort
7 Huachuca. Is Fort Huachuca served from a dedicated
8 transmission line?

9 A. Yes, it is. I might add the dedicated
10 transmission line with the exception of some recent
11 upgrades is fully depreciated.

12 MR. HEYMAN: Give me one second.

13 I think that's all the questions I have for
14 you. Thank you, Mr. Neidlinger.

15

16 EXAMINATION

17

18 Q. (BY ALJ RODDA) I just want to make sure I
19 understand. What I think I heard you say was that TEP
20 might have a point in trying to move some of the fixed
21 costs into the demand charge, and isn't that what
22 they're trying to do here?

23 A. That's what they have done, yes. In contrast
24 to their rate design for a full requirements customer
25 which includes a lot of fixed costs in the energy

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Prepared for:
 TEP

1 is that correct?

2 A. It's the same issue of the time constraint.

3 Q. What are the time constraints that prevent
4 Staff from initiating workshops?

5 A. Not enough Staff people for the amount of
6 work that we need to do on various issues.

7 Q. There have been a number of workshops that
8 have been held since June of 2002 conducted by Staff
9 on a variety of other issues, though, isn't that
10 correct?

11 A. That is correct.

12 Q. Could it be that it's a prioritization issue
13 of Staff as to which workshops it's going to hold and
14 which it's not?

15 A. Yes.

16 Q. Okay.

17 I need to ask you about what I think I
18 understand your testimony is a concern that you have
19 that PRS tariffs not be adopted at this time because
20 we're not in a rate case proceeding, is that correct?

21 A. No. I did not say that the PRS tariffs
22 should not be adopted. I suggested some modifications
23 to them. I didn't want the QF tariffs to be
24 eliminated.

25 Q. So just so that I'm clear, it is not Staff's

1 concern that the Application be acted upon outside of
2 a rate case proceeding?

3 A. Well, I do have a concern with tariffs being
4 eliminated outside of a rate case proceeding as well
5 as any rates increased for a customer or potential
6 customer outside a rate case proceeding.

7 Q. Okay. Well, let me go through this then so
8 that the record is clear. On page 5 of your
9 testimony, beginning on line 15, you do indicate that
10 some of the proposed changes to PRS-101 would be
11 acceptable to Staff, isn't that correct?

12 A. That's correct.

13 Q. And then if we flip over in your testimony to
14 page 10, line 18, where the question is "What is
15 Staff's recommendation regarding PRS-10," Staff
16 recommends that PRS-10 be approved with modifications
17 in this proceeding?

18 A. That is correct.

19 Q. Okay. And if we then flip over to page 11,
20 line 22, "What is Staff's recommendation regarding PRS
21 13," the answer is, "Staff recommends that PRS 13 be
22 approved with modifications, "as well, is that
23 correct?

24 A. That's correct.

25 Q. And that's in this proceeding as well?

1 A. That's correct.

2 Q. Okay.

3 I asked Mr. Snook a couple of questions about
4 the chronology of the Commission's decisions that you
5 cited in your testimony and FERC Order 888. I want to
6 see if there's some agreement in the record on this.
7 My understanding is that Decision Number 52345 was
8 issued in 1981. Is that your understanding as well?

9 A. I forget the decision numbers.

10 Q. It was the first.

11 A. The first one that I cited was 1981.

12 Q. And Decision Number 56271 was issued around
13 1989, is that correct?

14 A. 1988.

15 Q. 1988. And do you agree that FERC Order 888
16 was issued subsequent to Decision Number 56271?

17 A. That is correct.

18 Q. Do you also agree with Mr. Snook's testimony
19 that prior to FERC Order 888, generation and
20 transmission costs were bundled for ratemaking
21 purposes?

22 A. On retail rates they were bundled much longer
23 than that.

24 Q. Right. What about wholesale rates, what's
25 your understanding?

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BEFORE THE ARIZONA CORPORATION COMMISSION

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MODIFICATION OF EXISTING PARTIAL)
REQUIREMENTS SERVICE TARIFF 101,)
AND ELIMINATION OF QUALIFYING)
FACILITY TARIFFS.)

) DOCKET NO.
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Prepared for:

TEP

1 the total load of the customer. In this particular
2 instance, TEP is aware of the installations, has
3 discussed those installations with the customer, and
4 they further the company and the state's goal of
5 advancing the deployment of renewable generation
6 resources.

7 Q. How many customers does the company currently
8 serve under QF tariffs 101 through 106?

9 A. I believe from data requests and from my
10 direct testimony, there's 31 in total.

11 Q. Okay. Can you indicate the number of
12 customers under each tariff?

13 A. There are 30 customers taking service under
14 PRS-101, and there is one customer that as a component
15 of its special contract has PRS-106.

16 Q. Are there currently any pending applications
17 for service under any of these tariffs?

18 A. The company has no pending applications for
19 service.

20 Q. How many customers does the company currently
21 serve under optional self-generation tariffs 107 or
22 108?

23 A. There are no customers that are being served
24 under 107 or 108.

25 Q. Are there currently any pending applications

1 for service under 107 or 108?

2 A. No, there's not.

3 Q. Referring you to page 4, line 25 of your
4 direct testimony, you state that applying full
5 requirements tariffs to DG customers would create "an
6 economic mismatch of costs and revenues that would
7 result in a revenue shortfall." Can you provide an
8 estimate of the annual revenue shortfall currently
9 experienced by TEP attributable to its QF or DG
10 customers?

11 A. The 30 customers that are taking service
12 under PRS-101, most are unaffected by the proposed
13 changes, and there is no revenue shortfall associated
14 with those customers. The customer under PRS-106,
15 that's part of the special contract arrangement. And
16 106 has actually never been utilized, so there's no
17 revenue shortfall associated with that existing
18 customer as it stands at this time. That statement in
19 my direct testimony is referring to prospectively
20 rather than looking backwards.

21 Q. So what you're saying is currently, there's
22 no revenue shortfall?

23 A. That's correct.

24 Q. Since there are no pending applications for
25 QF or DG service, there isn't a revenue shortfall

18

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF NEW PARTIAL
REQUIREMENTS SERVICE TARIFFS,
MODIFICATION OF EXISTING PARTIAL
REQUIREMENTS SERVICE TARIFF 101, AND
ELIMINATION OF QUALIFYING FACILITY
TARIFFS.

DOCKET NO. E-01933A-02-0345

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF ITS STRANDED COST
RECOVERY

DOCKET NO. E-01933A-98-0471

REBUTTAL TESTIMONY OF LELAND R. SNOOK

On Behalf of
TUCSON ELECTRIC POWER COMPANY

OCTOBER 11, 2002

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1 A. No, Staff did not. Ms. Keene's testimony only raised hypothetical concerns about what
2 might occur without stating that negative results would, in fact, occur. Let me give you a
3 few examples:

4 At page 7, lines 15-18 of her Direct Testimony, Ms. Keene says, with regard to
5 elimination of PRS-103:

6 Although no customers are currently being served under PRS-103,
7 customers **may** be planning facilities while relying on the fact that PRS-
8 103 is available.

9 At page 8, lines 23-25 of her Direct Testimony, Ms. Keene says, with regard to
10 elimination of PRS -103,104, 105 and 106:

11 Even though only one customer is currently being served on these tariffs,
12 **there may be other customers** planning facilities while relying on the
13 fact that these tariffs are available.

14 At page 9, lines 22-24 of her Direct Testimony, Ms. Keene says, with regard to
15 elimination of PRS-107 and 108:

16 Even though no customers are currently being served on these tariffs,
17 **there may be other customers** planning facilities while relying on the
18 fact that these tariffs are available.

19 But, there is no evidence that any customers are planning facilities in reliance on PRS-
20 203, 104, 105, 106, 107 or 108. Moreover, TEP notified all customers of TEP's PRS
21 tariff application through a direct mailing starting on the billing cycle July 10, 2002.
22 Customers relying on the QF tariffs have had the opportunity to intervene in this process.
23 It is also TEP's experience that customers make contact with TEP in the planning stages
24 of a project to develop pricing and interconnection policies and procedures.

25
26 Q. Commission Staff that TEP retain the PRS-102 tariff. Do you agree with this
27 recommendation?
28

19

TP-3

BEFORE THE ARIZONA CORPORATION COMMISSION

1
2 WILLIAM A. MUNDELL
3 CHAIRMAN

4 JIM IRVIN
5 COMMISSIONER

6 MARC SPITZER
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATION OF
9 TUCSON ELECTRIC POWER COMPANY FOR
10 APPROVAL OF NEW PARTIAL
11 REQUIREMENTS SERVICE TARIFFS,
12 MODIFICATION OF EXISTING PARTIAL
13 REQUIREMENTS SERVICE TARIFF 101, AND
14 ELIMINATION OF QUALIFYING FACILITY
15 TARIFFS.

DOCKET NO. E-01933A-02-0345

16 IN THE MATTER OF THE APPLICATION OF
17 TUCSON ELECTRIC POWER COMPANY FOR
18 APPROVAL OF ITS STRANDED COST
19 RECOVERY

DOCKET NO. E-01933A-98-0471

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REBUTTAL TESTIMONY OF LELAND R. SNOOK

**On Behalf of
TUCSON ELECTRIC POWER COMPANY**

OCTOBER 11, 2002

1 The evolution did not stop in 1988. Since the issuance of Decision No. 56271 other
2 issues and circumstances have come about such that the policy set forth in those
3 Decisions is obsolete on many issues. Some of the significant changes that have occurred
4 since 1988 include (a) changes in transmission pricing and access policies due to the
5 implementation of FERC Orders 888 and 889; (b) the advent of Retail Access Programs;
6 (c) unbundling of rates; and (d) pending legislation to change existing PURPA
7 requirements.

8
9 I believe that the Commission authorized the DGI Working Group in recognition of these
10 changes as well as the possibility that other circumstances may require changes to be
11 made in the policies of Decision No. 56271.

12
13 Q. Do the charges in the existing QF tariffs accurately reflect TEP's costs?

14 A. No. Supplemental service at the full-requirements terms and conditions does not recover
15 TEP's costs. The backup/standby service does not accurately reflect the cost recovery of
16 TEP's facilities. For example, for the first year of backup service under PRS-106 a QF
17 customer will be billed \$2.20 per kW-month for all facilities including distribution,
18 transmission, and generation. However, TEP's transmission and ancillary service costs
19 total \$3.886 per kW-month, without considering recovery of distribution and generation
20 cost.
21

22
23 Under the scenario when a customer's DG unit does not experience forced outages or
24 does not operate for purely economic reasons, the customer would be not be charged for
25 service under PRS-106. In these situations, the appropriate costs of TEP's transmission
26 and distribution facilities would not be recovered. Under an opposite scenario, a
27 customer's DG unit would not operate but the customer would be billed \$22 per kW-
28

1 month. The \$22 per kW-month represents only TEP's embedded transmission and
2 generation costs, without considering TEP's cost of distribution facilities.

3
4 For these reasons TEP believes that the customer who chooses to put in DG units should
5 pay for the distribution and transmission facilities on the same basis as other customers
6 (based on customer class characteristics). This would be accomplished through TEP's
7 new PRS tariffs. Generation does not have to be reserved by the DG customer since it is
8 a cost to the customer only when it requires generation. Again this is accomplished
9 through TEP's new PRS tariffs by the market generation price. To sum this up, TEP's
10 new PRS tariffs better match expenses with costs than TEP's existing QF tariffs.
11

12
13 Q. Are there additional concerns with the existing QF tariffs?

14 A. Yes. TEP's existing QF tariffs provide DG customers with an opportunity to take fixed
15 price energy in inappropriate circumstances. For example, when the costs of operating the
16 customer's DG unit exceed the fixed tariff price, the customer may reduce output,
17 schedule maintenance or shut down operation of the DG unit and exercise the purchase
18 power option available in the QF tariff. With the volatility that has been experienced in
19 the market in the recent past, there is the potential that TEP could incur purchase power
20 costs that exceed TEP's fixed tariff prices.
21

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24 Q. Mr. Snook, did Staff present any evidence of how TEP's proposed tariffs would harm
25 customers?
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1 BEFORE THE ARIZONA CORPORATION COMMISSION

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Prepared for:

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25 TEP

1 as long as the rates are the proper rates and that
2 they don't discourage distributed generation unduly.

3 Q. So you don't object to TEP implementing new
4 and revised rates for distributed generation
5 customers. Your dispute with TEP is more over how to
6 do it?

7 A. Well, right now, there aren't enough tariffs
8 that deal, that would serve customers who are not QFs,
9 so we need to have those tariffs in place. But as far
10 as changing the rates for the QF customers or
11 potential customers, I would rather see that be done
12 in the context of a general rate case.

13 Q. Okay. In your analysis of TEP's proposed PRS
14 rates, the new ones, do you agree with Mr. Snook's
15 assessment that they are broad enough to provide
16 service to self-generation units that are QF's as well
17 as non-QF's?

18 A. I would agree.

19 Q. And I asked Mr. Snook this question, and I'll
20 ask you. Do you believe that DG units that are not
21 QFs should be treated differently in TEP's tariffs
22 than QFs are?

23 A. There may be reasons to treat QFs
24 differently. There is federal support to PURPA that
25 does give QF's certain advantages. The purpose is to

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IN THE MATTER OF THE APPLICATION)
 OF TUCSON ELECTRIC POWER COMPANY) DOCKET NO.
 FOR APPROVAL OF NEW PARTIAL) E-01933A-02-0345
 REQUIREMENTS SERVICE TARIFFS,)
 MODIFICATION OF EXISTING PARTIAL)
 REQUIREMENTS SERVICE TARIFF 101,)
 AND ELIMINATION OF QUALIFYING)
FACILITY TARIFFS.)

IN THE MATTER OF THE APPLICATION) DOCKET NO.
 OF TUCSON ELECTRIC POWER COMPANY) E-01933A-98-0471
 FOR APPROVAL OF ITS STRANDED)
COST RECOVERY.)

At: Tucson, Arizona
 Date: October 22, 2002
 Filed: **NOV - 6 2002**

REPORTER'S TRANSCRIPT OF PROCEEDINGS

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ARIZONA REPORTING SERVICE, INC.
 Court Reporting
 Suite Three
 2627 North Third Street
 Phoenix, Arizona 85004-1103

By: DAWNA J. BOSWELL, RPR
 Certified Court Reporter
 Certificate No. 50326

Prepared for:
 TEP

1 Q. And so I guess I'm not sure how you can
2 recommend that they be approved if they're not
3 properly priced. I mean, I'm not sure if I can
4 reconcile exactly what it is you're recommending. So
5 maybe you could explain to me --

6 A. Yes. There's two major recommendations. One
7 is that supplemental power be priced at the full
8 requirement rate. That is what every other utility
9 does, including APS. When they had E-51 frozen in
10 their last rate case the two new tariffs, 52 and 53,
11 did contain that provision, that the supplemental
12 power would be priced at the otherwise applicable
13 tariff, actually less the basic service charge, so
14 it's even less.

15 Then my other recommendation was that they
16 lower the rates by the amount of savings that would be
17 achieved by having to distribute generation in their
18 area.

19 Q. Do you have a quantification of that amount?

20 A. No, I don't. I think the company would be in
21 the best position to come up with those numbers.

22 Q. And so ultimately then, is your
23 recommendation in terms of what you want, what Staff's
24 position is in terms of an order, would it be they
25 should refile, because you would still need to be able

1 to review that?

2 A. Right. They would probably have to conduct a
3 study of what it would be and file revised rates. I
4 don't know if they could be approved by Staff in
5 compliance to the order or if it would need to be a
6 proceeding like through an Open Meeting before the
7 Commission.

8 Q. In terms of basic assumptions that TEP used
9 when they were providing these tariffs in terms of
10 load factors, did you review that as part of your
11 review?

12 A. I did review some cost data that they
13 provided, and I really wasn't sure about that aspect.

14 Q. Okay. Then there's been some discussions
15 about the structure of the rates in terms of demand
16 charges and energy charges. I'm not sure how that, I
17 mean, does Staff have an opinion on whether they are
18 fairly allocating the transmission and distribution
19 costs, or is it, do they fairly allocate transmission
20 costs, partial service requirements to customers?

21 A. Well, they started with the full requirements
22 rates, and if those were allocated properly, then
23 these other rates may be allocated properly. But
24 it's, it was very difficult to determine.

25 Q. And what do you, what would you need to make

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1 A. That is correct.

2 Q. And some of those societal benefits would be,
3 for example, to support renewable generation, even on
4 a small scale basis?

5 A. Yes.

6 Q. And to support perhaps more efficient uses of
7 energy such as cogeneration?

8 A. Yes.

9 Q. So even though from, I guess a cost of, or
10 from a TEP or utility standpoint, there might be no
11 difference, from a customer or societal standpoint,
12 there could be a significant difference between
13 qualified facilities and non-qualified facilities?

14 A. Yes.

15 Q. With regards to the DGI Working Group we've
16 been talking about all morning and into the afternoon,
17 is it your understanding that it's, Staff agrees with
18 the findings in the DGI Working Group Report that has
19 been presented as part of Exhibit S-2?

20 A. I think the report is more of a compilation
21 of ideas expressed at the workshop. I don't know that
22 it's a matter of Staff agreeing to it or not.

23 Q. But it would be fair to say that Staff's
24 position is reflected largely in that Working Group
25 Report, correct?

1 A. Since Staff wrote that report, that's
2 probably correct.

3 Q. And it would probably be fair to say and it's
4 probably your understanding that Staff -- let me
5 rephrase the question. It's your understanding that
6 Staff supports the idea in the DGI working report
7 regarding additional workshops to address additional
8 issues cited on page 12 that haven't yet been
9 addressed?

10 A. That is correct.

11 Q. And one of the issues in this case is that
12 even though TEP has gone forward and even though there
13 has been some time constraints and some issues with
14 priorities, we don't know at this point whether the
15 Commission would support TEP's interpretation of how
16 these additional issues should be interpreted?

17 A. That's correct.

18 Q. Regarding Commission Decision 56271, is it
19 your understanding that even though that decision is
20 old, it still has some applicability in today's day
21 and age?

22 A. Yes, it does.

23 Q. And even though there's been a lot of changes
24 in, with electric restructuring and in the electric
25 utility industry, Decision 56271 is still the

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1 recommendations from the DGI Working Group Report.

2 Would you agree with that assessment?

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

4 Q. Okay. TEP has made the statement that it did
5 not believe that Staff was unified in how to proceed
6 with implementing the recommendations and the findings
7 of the Final Report of the DGI Working Group. Would
8 you agree with that observation by TEP?

9 A. No, not really. The report recommended that
10 working groups be held to clarify some issues like the
11 tariffs. That was one thing that -- there were
12 several issues, not just the ones that weren't
13 addressed, but the ones that there was not consensus
14 on. And those workshops have not been held. It's not
15 a matter, though, of Staff not agreeing on whether,
16 how to proceed with holding those workshops. I think
17 it's more of a time constraint issue.

18 Q. So that I understand, it's your testimony
19 that since June of 2000 to October of 2002, there have
20 been time constraints that have prevented Commission
21 Staff from holding additional DGI workshops?

22 A. That is correct.

23 Q. There was also some recommendations about
24 rulemaking taking place, and there has not been a
25 rulemaking docket opened with regard to PRS tariffs,

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17 it's more of a time constraint issue.

18 Q. So that I understand, it's your testimony
19 that since June of 2000 to October of 2002, there have
20 been time constraints that have prevented Commission
21 Staff from holding additional DGI workshops?

22 A. That is correct.

23 Q. There was also some recommendations about
24 rulemaking taking place, and there has not been a
25 rulemaking docket opened with regard to PRS tariffs,

1 is that correct?

2 A. It's the same issue of the time constraint.

3 Q. What are the time constraints that prevent
4 Staff from initiating workshops?

5 A. Not enough Staff people for the amount of
6 work that we need to do on various issues.

7 Q. There have been a number of workshops that
8 have been held since June of 2002 conducted by Staff
9 on a variety of other issues, though, isn't that
10 correct?

11 A. That is correct.

12 Q. Could it be that it's a prioritization issue
13 of Staff as to which workshops it's going to hold and
14 which it's not?

15 A. Yes.

16 Q. Okay.

17 I need to ask you about what I think I
18 understand your testimony is a concern that you have
19 that PRS tariffs not be adopted at this time because
20 we're not in a rate case proceeding, is that correct?

21 A. No. I did not say that the PRS tariffs
22 should not be adopted. I suggested some modifications
23 to them. I didn't want the QF tariffs to be
24 eliminated.

25 Q. So just so that I'm clear, it is not Staff's

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1 case.

2 A. I am sponsoring Tucson Electric Power's
3 application filed with the Arizona Corporation
4 Commission on May 10th of 2002. I'm also sponsoring
5 TEP's motion for clarification of the settlement
6 agreement which was filed with the Commission on March
7 14 of 2002 and which has been joined with TEP's
8 application by the presiding administrative law judge.

9 TEP currently has QF tariffs in place whereby
10 customers who generate their own power can receive
11 backup, standby and supplemental service, what TEP has
12 referred to as partial requirements service, provided
13 that the customer is a qualifying facility as that
14 term is defined by PURPA.

15 However, circumstances have changed since the
16 implementation of the QF tariffs. Technology and
17 economics have developed to the point where there are
18 many viable potential DG customers whose facilities
19 are not and in fact need not be QFs. These non-QF DG
20 customers should be able to receive partial
21 requirement service pursuant to tariffs that are
22 specifically designed for their circumstances.

23 In light of this, TEP has designed new PRS
24 tariffs to be an improvement of the QF tariffs, and
25 better match the changing electric industry by making