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November 12, 1998

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Arizona Corporation Commission
DOCKETED

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DOCKETED BY 

RE: November 4, 1998 Settlement Agreements between APS and TEP and Arizona Corporation Commission, In re Docket E-01933A-98-0471, E-01933A-97-0772, E-01345A-98-0473, E-01345A-97-0773 and RE-00000C-94-0165

Gentlemen:

The Attorney General, a party to this proceeding, hereby requests that Arizona Public Service Corporation, Tucson Electric Power Company and the Arizona Corporation Commission Staff provide answers to the following questions, and produce the requested documents within twenty-four (24) hours in accordance with the Procedural Order in the above referenced dockets dated November 6, 1998. This may not be the last request for information propounded by the Attorney General. Given that Staff proposes an unreasonably short time permitted to analyze the agreements, complete discovery, prepare and file testimony, and prepare to participate in the hearings on the proposed Agreements, these requests are propounded despite the possibility that they may contain errors or misunderstood matters that more time to analyze the Agreements would have prevented.

DEFINITIONS

"Agreements" shall mean the Settlement Agreement dated November 4, 1998, between Tucson Electric Power Company and Arizona Corporation Commission, and the Settlement Agreement dated November 4, 1998, between Arizona Public Service Company and the Arizona Corporation Commission. The "TEP Agreement" shall mean the agreement signed by TEP, and the "APS Agreement" shall mean the agreement signed by APS.

"Affiliate" shall mean, with respect to any person, any other person directly or indirectly controlling, controlled by, or under common control with that person, and includes any agents of that person.

"ACC" or "Commission" shall mean the Arizona Corporation Commission.

"TEP" shall mean Tucson Electric Power Company, Inc. and all parents, subsidiaries and affiliates thereof.

"APS" shall mean Arizona public Service Company and all parents, subsidiaries and affiliates thereof.

"SRP" shall mean Salt River Project and all parents, subsidiaries and affiliates thereof.

"Identify" shall mean to state the date, time, location with respect to an event, and to state the name, address and title of any individual.

"Person" or "you" shall mean the corporate entities TEP and APS and all of their affiliates, and the Commission Staff.

"Staff" shall mean the Staff of the Arizona Corporation Commission.

DATA REQUESTS

1. Identify all communications with any party, other than TEP or APS, with respect to the possible sale of any generation or transmission asset during the last four (4) years, and also identify any person who has participated in any such communication and produce all documents concerning such communications.
2. To APS and TEP: Identify all internal documents regarding the value of TEP's generation assets and APS's transmission assets, and produce all such documents.

3. Identify and produce any market studies respecting market power of APS, TEP or SRP in transmission, distribution, generation, and customer service, including metering, within the State of Arizona or elsewhere.
4. State in dollars the amount of money TEP paid to or received from APS, APS paid to or received from TEP, and APS or TEP paid to or received from SRP in fiscal year 1997, and also identify the reason for the payment or receipt and produce all contracts concerning these payments or receipts.
5. To APS and TEP: State your market share in terms of a percentage within the State of Arizona for each of the following product markets:
 - a) transmission
 - b) distribution
 - c) generation
 - d) billing services
 - e) metering supply
 - f) meter reading services
 - g) security systems
 - h) heating and air-conditioning systems
 - I) wholesale power sales.
6. State your market share in terms of the above-referenced product markets in the Western Region.
7. State the factual basis for your response to the market share questions above. Identify and produce all documents concerning your market shares identified above.
8. Produce all economic or market studies in your possession and control for the last two (2) years regarding any aspect of your business, and identify who conducted the study, who paid for it, to whom it was delivered, to whom you communicated a copy.
9. Identify all parents, subsidiaries and affiliates of APS or TEP of which you are aware, and also state the date of the creation of the company, all ownership interests therein, describe all business conducted or contemplated to be done by the company, and identify all sources of revenue for the company. With respect to unregulated subsidiaries, state whether the company has generated sufficient revenues to pay for all of the operating expenses of the company and, if not, identify the source of revenues into the company to

pay for operating expenses.

10. State why, if TEP or APS does not obtain regulatory approvals, the method of collecting stranded costs defaults to the net lost revenues methodology.
11. State why TEP divests only part of its generation assets under the Agreements.
12. State the dollar value carried on TEP's books of the generation assets the Agreements contemplate it will transfer to APS.
13. State the dollar value carried on APS's books of the transmission assets the Agreements contemplate APS will transfer to TEP.
14. State whether SRP and AEPCO had agreed to transfer their transmission assets to TEP as of the time the Agreements were signed.
15. State how the Staff contemplates the Commission will be able to compel SRP to transfer transmission assets to TEP under the Agreements.
16. State whether any efficiency analysis on TEP's efficiencies as a generation, distribution or transmission provider was performed before the Agreements were signed. If so, produce all documents concerning any such analysis.
17. Identify the efficiencies that will be gained, in terms of dollars of reduced costs of TEP and APS, as a result of the generation-transmission swap contemplated by the Agreements. State how these savings will reduce stranded costs.
18. State whether any horizontal market control issues were considered by any party to the Agreements before they were signed. If so, produce all documents concerning any horizontal market control issues considered.
19. Identify every expert who assisted any party to the Agreements in the negotiations that led up to them, and also every expert you intend to call as a witness during the hearings on the Agreements. Produce every document created or reviewed by such experts.
20. State what books and records the Commission has access to now that it will no longer have access to under the Agreements.

21. Explain how the Commission can issue a "non-appealable" order as contemplated in the Agreements.
22. To TEP and APS: State the percentage of your annual revenues that come from transmission services sales.
23. To TEP and APS: What percentage of your bundled rate for residential consumers are costs associated with:
 - a. Transmission
 - b. Distribution
 - c. Generation
 - d. Metering
 - e. Meter reading
 - f. Billing and customer service.

If you do not have the exact percentages, please estimate them in response to this request.

24. To TEP and APS: What percentage of your unbundled rate for residential consumers are costs associated with:
 - a. Transmission
 - b. Distribution
 - c. Generation
 - d. Metering
 - e. Meter reading
 - f. Billing and customer service.

If you do not have the exact percentages, please estimate them in response to this request.

25. Describe how the "adder" of 3.5 mills was arrived at, and also state what was said, and by whom, during the negotiations leading to the Agreement regarding this adder.
26. State your understanding of why TEP is not being required to divest all generation assets, as required by the Emergency Competition Rules, in order to qualify for 100% of stranded costs.
27. State why APS is not being required to divest all generation as required by the Rules to qualify for one-hundred percent (100%) recovery of stranded costs.

28. State your understanding about whether a party who was willing to bid more for TEP's generation assets than would be recovered by the proposed APS/TEP transmission-generation stop could, under the Agreements, acquire those assets.
29. State why under the Agreements, TEP, rather than an independent third company, is being set up as the Transco or monopoly transmission company.
30. State why stranded costs must be adjudicated before January 1, 1999.
31. Explain how a bid-auction for TEP's generation assets could occur under the Agreements.
32. To Staff: State in terms of percentage of gross revenues what would be an acceptable, efficient, level of administrative costs in a Transco. State what is an acceptable level currently for affected utilities.
33. Identify all incentives in the Agreements for TEP or APS to cut costs during the performance of the Agreements.
34. State whether the approval of TEP bondholders would be required before the Agreements can be performed. State how long these approvals would take.
35. State how the Agreements provide incentives to competitors to enter the market. Produce all documents concerning whether Staff, TEP or APS expect competitors to enter the markets after implementation of the Agreements.
36. State what incentives any customer of APS or TEP will have to switch electric service providers after the Agreements are effected.
37. State why APS is transferring only its above 345 kV transmission assets to TEP under the Agreements.
38. Produce all drafts of the Agreements in your possession or control.
39. Identify all business relationships that have existed for the last four (4) years between APS and TEP or any affiliate thereof, including, but not limited to, all joint ventures, jointly-owned generation, distribution, transmission or other assets, all power buy or sell contracts, all common stock ownership, including by management.

40. State who will set the price for which APS is to purchase the TEP generation assets to be divested under the Agreement.
41. Identify every person who attended any meeting, formal or informal, concerning the Agreements.
42. Produce all sign-in sheets or other documents identifying any person who attended any meeting concerning the Agreements.
43. Identify every person Staff asked to sign a confidentiality agreement in connection with negotiations concerning the Agreements.
44. Identify every person who did sign a confidentiality agreement in connection with negotiations concerning the Agreements.
45. Identify every person who declined to sign a confidentiality agreement in connection with negotiations concerning the Agreements.
46. Produce all confidentiality agreements concerning the Agreements signed by you or in your possession or control.
47. Identify every person invited or asked to participate in the meetings regarding the Agreements.
48. State who made the decision of whom to include in the negotiations concerning the Agreements.
49. State your understanding as to why the Attorney General was excluded from the settlement discussions regarding the Agreements.
50. State who drafted the confidentiality agreements.
51. State whether there was any discussion at the settlement meetings about the effect the Agreements would have on any pending litigation concerning stranded costs, divestiture or the Commission's Electric Competition Rules.

52. State whether any person employed by, or serving as an agent, attorney, consultant or lobbyist for Staff, TEP or APS has, at any time, communicated with any Commissioner concerning the Agreements. If so, identify the communication and state what was said and by whom.
53. State your understanding of whether Arizona State open meeting laws apply to the communications that gave rise to the Agreements. Identify any legal opinion or research in your possession, or control on this question.

ADMIT/DENY

Admit the following, or, if you deny it, state the factual basis for the denial:

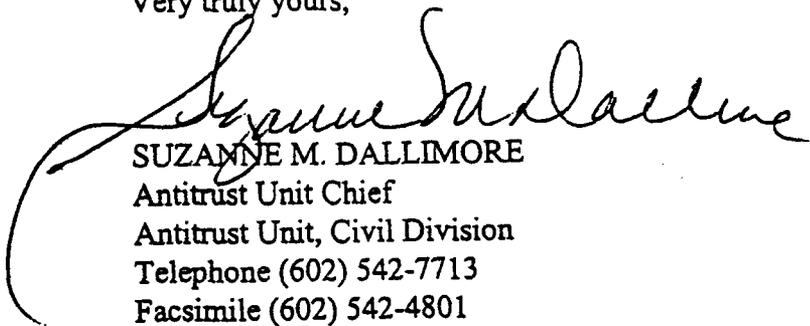
54. Admit that the Agreements purport to bind future Commissioners or to limit their authority in changing the manner of stranded cost recovery provided for in the Agreements.
55. Admit that it is your intention to argue, in collateral and subsequent legal proceedings that, if the Agreements are adopted by the Commission, all parties' legal and equitable claims will be moot or resolved, and/or that the parties' will be collaterally estopped from asserting those claims in other forums.
56. Admit that the Agreements foreclose the possibility of a third party paying substantially more for TEP's Navajo and Four Corners generation assets than will be received in the APS/TEP swap provided for in the Agreements.
57. Admit that the Agreements contravene more than one provision of the Emergency Electric Competition Rules.
58. Admit that the Agreements concede Commission authority over TEP's stranded costs to TEP, by means of the provisions in the Agreements that allow TEP to declare a failed auction and rely on net lost revenues to recover stranded costs, and by allowing TEP to select its recovery method after the divestiture process.
59. Admit that TEP could recover stranded costs in excess of \$1.2 billion pursuant to the agreements.
60. Admit that the level of Commission scrutiny of TEP's and APS's stranded costs is

Arizona Corporation Commission
Arizona Public Service Corporation
Tucson Electric Power Company
November 12, 1998
Page 9

reduced by virtue of the Agreements.

61. Admit that APS and TEP have market power within their certificated areas in the State of Arizona in the following product markets:
- a) Transmission
 - b) Distribution
 - c) Generation
 - d) Billing, metering and customer service.
62. Admit that FERC fully regulates transmission and requires open access.
63. Admit that after the acquisition of market power in transmission, TEP will still be engaged in generation.
64. Admit that the Agreements have no effect on your market power in product markets other than transmission.
65. To Staff: Admit that you refused to permit any party to participate in the negotiations leading up to the Agreements unless the party signed a confidentiality agreement.
66. Admit that the Attorney General is the chief legal officer of the State of Arizona and represents the interests of the people of this State.

Very truly yours,



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cc: Parties of Record