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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission Nov 20 9 29 AM '98

JIM IRVIN  
Commissioner-Chairman  
RENZ D. JENNINGS  
Commissioner  
CARL J. KUNASEK  
Commissioner

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IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR APPROVAL OF ITS  
PLAN FOR STRANDED COST  
RECOVERY

DOCKET NO. E-01345A-98-0473

IN THE MATTER OF THE FILING OF  
ARIZONA PUBLIC SERVICE COMPANY  
OF UNBUNDLED TARIFFS  
PURSUANT TO A.A.C. R14-2-1601 et seq.

DOCKET NO. E-01345A-97-0773

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

DOCKET NO. E-01933A-98-0471

IN THE MATTER OF THE FILING OF  
TUCSON ELECTRIC POWER COMPANY  
OF UNBUNDLED TARIFFS PURSUANT  
TO A.A.C. R14-2-1601 et seq.

DOCKET NO. E-01933A-97-0772

IN THE MATTER OF COMPETITION IN  
THE PROVISION OF ELECTRIC  
SERVICES THROUGHOUT THE STATE  
OF ARIZONA.

DOCKET NO. RE-00000C-94-165

NOTICE OF FILING

Staff of the Arizona Corporation Commission hereby files the testimony of Ray  
Williamson, Richard LaCapra and Lee Smith in the above-captioned dockets.

RESPECTFULLY SUBMITTED this 20<sup>th</sup> day of November, 1998.

By: Paul A. Bullis  
Paul A. Bullis  
Christopher C. Kempley  
Janice M. Alward  
Attorneys, Legal Division

1 Original and ten copies of the  
2 foregoing filed this 20<sup>th</sup> day  
of November, 1998 with:

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

6 A copy of the foregoing was  
7 hand-delivered and/or  
federal expressed this 20<sup>th</sup>  
day of November, 1998 to:

8 All parties on the service list for  
9 Docket No. RE-00000C-94-165

10 By Mary Appolito  
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**DIRECT**

**TESTIMONY OF**

**RAY T. WILLIAMSON**

**LEE SMITH**

**RICHARD LA CAPRA**

**DOCKET NO. E-01345A-98-0473, et al.**

**SEPTEMBER 28, 1998**

BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN

Commissioner - Chairman

RENZ D. JENNINGS

Commissioner

CARL J. KUNASEK

Commissioner

IN THE MATTER OF THE APPLICATION  
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DIRECT OF TESTIMONY

RAY T. WILLIAMSON

ACTING DIRECTOR

UTILITIES DIVISION

NOVEMBER 20, 1998

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1 **INTRODUCTION**

2 Q. Please state your name and business address for the record.

3 A. My name is Ray T. Williamson. My business address is the Arizona Corporation  
4 Commission (Commission or ACC), 1200 West Washington, Phoenix, Arizona 85007.

5  
6 Q. Prior to becoming Acting Director, where were you employed?

7 A. I have been employed at the Commission since 1992 in various positions, including  
8 Economist, Senior Rate Analyst and Chief of Economics and Research.

9  
10 Q. Please describe the balance of your background and experience.

11 A. My statement of Professional Qualifications is appended to this testimony as Schedule  
12 RTW-1.

13  
14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to discuss the policy decisions that led to the Arizona  
16 Public Service Company (APS) and Tucson Electric Power Company (TEP) settlement  
17 agreements.

18  
19 Q. What do you believe the benefits of the two settlement agreements will be?

20 A. First, the settlement agreements will guarantee permanent rate reductions for a number of  
21 years into the future. Second, the settlement agreements give competitors and customers  
22 certainty about key issues that must be resolved to ensure the start of meaningful  
23 competition on January 1<sup>st</sup>. Third, the settlement agreements will help to ensure that the  
24 transmission system will be open to all competitors on a non-discriminatory basis.

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1 Q. What were the Commission Staff's goals that led to the two settlement agreements?

2 A. The Commission Staff's goals were :1.) To ensure that all key decisions were made and  
3 all major issues addressed in order to facilitate the start of competition on time on  
4 January 1, 1999, 2.) To insure that the competitive marketplace will allow all  
5 competitors to compete fairly and equally, 3.) to give all Arizona electric customers,  
6 whether eligible for competitive service or not, the benefit of lower rates, 4.) To avoid or  
7 discourage the delaying tactics of those who wish to delay the start of competition by the  
8 use of legal challenges, calls for more studies or debate, or calls for lengthy unproductive  
9 hearings to re-debate issues already decided by Commission action or legislation.

10

11 Q. Why did Staff choose to address the issues as settlements rather than through evidentiary  
12 hearings on the individual issues?

13 A. Staff wants to foster the development of robust and meaningful competition at the earliest  
14 possible date. As a practical matter, had we not addressed these issues in the settlements,  
15 it is almost certain that competition would be slower to develop.

16

17 Competition will start on January 1, 1999, but without the resolution of the major issues  
18 included in the settlements, it is doubtful whether many competitors would offer service  
19 or whether many customers would risk signing a contract for competitive service. Issues  
20 such as stranded costs, competition transition charges, market generation credits, final  
21 unbundled tariffs and other issues are all matters considered by competitors and  
22 customers to determine whether they will be able to forge a better deal than is available  
23 from Affected Utilities.

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1 Q. Why is the Staff, through the settlements, recommending allowing stranded cost recovery  
2 to Arizona Public Service Company?

3 A. An underlying principle that Staff has relied upon in the development of the Retail  
4 Electric Competition Rules is that competition must result in a "level playing field" for  
5 all competitors. Inherent in that principle is the belief that the Commission should take  
6 appropriate steps to ensure that the existing vertically-integrated, monopoly electric  
7 utilities are prevented from using their existing market power to thwart real competition.  
8 For this reason, Staff has recommended that full recovery of Stranded Costs be  
9 contingent upon actions that remove the potential for Affected Utilities to interfere with  
10 the development of competition. This approach resulted in the provision of the Stranded  
11 Cost Order, Decision No. 60977, that required divestiture of generation in order to  
12 qualify for full Stranded Cost recovery.

13  
14 Arizona Public Service Company is unwilling to divest its generation assets due to the  
15 fact that its major generation asset, with the largest amount of stranded cost, is the Palo  
16 Verde Nuclear Generating Station. It is doubtful whether APS would be allowed by the  
17 Nuclear Regulatory Commission to transfer its nuclear facility operating license to  
18 another company. It is also doubtful that APS would be able to find any bidders willing  
19 to bid on its portion of Palo Verde. Other than the divestiture of generation assets,  
20 another way for the Commission to eliminate the potential for abuse of market power is  
21 to require divestiture of transmission assets. This divestiture would break the generation-  
22 transmission-distribution integration of APS' monopoly. The Commission Staff believes  
23 that the divestiture of APS' transmission assets, via an asset swap with TEP, meets the  
24 Commission goal of ensuring a "level playing field" for all competitors and effectively  
25 blocks APS' potential to impede competition.

26 ...

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1 Q. Can you provide some background on what has led Staff to propose the two settlement  
2 agreements discussed in those dockets?

3 A. Yes. Arizona commenced an evaluation of Retail Electric Competition in 1994. This  
4 resulted in the adoption of Retail Electric Competition Rules on December 26, 1996 in  
5 Decision No. 59943. Competition will commence on January 1, 1999. The Retail  
6 Electric Competition Rules were amended on an emergency basis in August of 1998 and  
7 permanent rule adoption proceedings are now pending concerning the modifications. This  
8 past spring, the Commission held an evidentiary proceeding concerning Stranded Cost  
9 recovery and entered Decision No. 60977 on June 22, 1998, to provide for Stranded Cost  
10 recovery from the Affected Utilities' ratepayers.

11

12 Through the settlements, the Commission Staff hopes to address the major issues related  
13 to APS and TEP, which must be resolved in order to jump start competition on January 1,  
14 1999.

15

16 Q. Shouldn't Staff be concerned that the transfer of APS' transmission assets to the Transco  
17 that is being formed as an affiliate of TEP will create a new monopoly with horizontal  
18 market power?

19 A. No. A fundamental part of Arizona's move to competition will be a two-step process that  
20 will lead to independent control of the transmission network. First, an Independent  
21 System Administrator (ISA) will oversee the operation of Arizona's transmission system.  
22 In the second step, an Independent System Operator (ISO) will be established to operate  
23 the transmission system. The independent control of the transmission system operation  
24 will thwart any attempt by transmission owners to exert market power.

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1 Q. Why are the settlements a good deal for the customers of APS and TEP?

2 A. The purpose of moving toward retail electric competition is to allow customer choice and  
3 lower rates in a changing market structure. The beauty of these settlement agreements is  
4 that all customers, whether eligible for competition or not, will get lower rates starting in  
5 1999. This is particularly important for those customers who are unable to switch  
6 suppliers and for those whom the competitors may not be interested in serving.

7  
8 Let's take low-income residential customers for instance. In the filings that the  
9 Commission Staff has seen so far, few, if any competitors are planning on targeting  
10 residential customers. So, even if those customers are eligible to exercise choice, there  
11 may not be many competitors willing to offer them service. Remember that, in a free  
12 market, the competitors can choose to sell to any customers that they wish, or choose not  
13 to sell to certain customers. It is entirely possible that competitors may decide to by-pass  
14 low-income customers completely. If that is the case, these two settlements will ensure  
15 that low-income customers in Tucson will see a three (3) percent reduction in rates and  
16 APS customers will see a four (4) percent reduction in rates over the next few years.

17  
18 A major aspect of the settlements is that each of the two utilities has voluntarily agreed to  
19 ongoing rate reductions as part of the move to competition. APS will further reduce  
20 rates, in addition to the 8 percent reduction that it has produced in past years, by an  
21 additional 4 percent over four years. In addition, TEP will reduce rates by three (3)  
22 percent over three (3) years. The rate reduction for TEP has already been approved by  
23 the Commission.

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1 The Commission can not just arbitrarily impose rate reductions on Arizona utilities. The  
2 Commission can, after a protracted rate case, reduce rates if the rate case record justifies  
3 that such a reduction is appropriate. So, these settlements lock in real rate reductions for  
4 customers starting in January 1999 without the delay of a long, expensive rate case  
5 proceeding and the uncertainty of the final result.

6  
7 Q. Why is the resolution of litigation issues important and why is it included in the  
8 settlement?

9 A. Litigation of issues related to retail competition has the potential of becoming the  
10 ultimate stall tactic for those who want to fight competition. By delaying competition  
11 through lengthy, contentious litigation, those who want to delay will cost Arizona's  
12 electric customers millions of dollars in lost savings. For each month or year of delay,  
13 customers will lose opportunities for saving that they will never be able to recover.

14  
15 The Commission Staff made the issue of resolution of litigation a non-negotiable  
16 requirement of the settlement.

17  
18 Q. Why is the Memorandum of Understanding (MOU) between APS and TEP an important  
19 part of the settlement agreements?

20 A. The MOU sets a framework to ensure that the two largest electric utilities regulated by  
21 the Commission will not be able to use their existing market power in order to thwart  
22 competition. The MOU on the asset swap will remove that part of the APS' transmission  
23 system from APS control and will commence the divestiture of Tucson's generation  
24 assets.

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1 Q. Why is the January 1, 1999 start for competition so important?

2 A. First, that date is not just the start of competition for utilities regulated by the Corporation  
3 Commission. It is also the start of competition for public power utilities such as Salt  
4 River Project. To delay competition for ACC-regulated utilities could cause economic  
5 disruptions in Arizona. If SRP 's competition were to start on time, but the APS service  
6 area competition were delayed, new business locations or expansion could target the SRP  
7 territory while abandoning the APS service area.

8  
9 Q. Why is it important for competitors and customers to have resolution of the matter  
10 determined in the settlement agreements?

11 A. An important aspect of the settlements is the resolution of major issues now, rather than  
12 at some time in late 1999 after a lengthy and contentious series of hearings that would  
13 delay the effective start of meaningful competition. The reason for resolving the major  
14 issues now is critical. Competition will start on January 1st. However, if competitors do  
15 not know critical information about stranded costs and resulting competition transition  
16 changes, about unbundled tariffs and about various other elements included in these  
17 agreements, meaningful competition may take longer to develop. If competitors and  
18 customers are not certain of how the major issues will affect their electricity bills, they  
19 will be reluctant to offer or accept competitive contracts. That reluctance to act could  
20 stall the movement toward a competitive market.

21  
22 Q. Does this conclude your direct testimony?

23 A. Yes, it does.  
24  
25  
26  
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28

RAY T. WILLIAMSON

STATEMENT OF PROFESSIONAL QUALIFICATIONS

**EDUCATION:**

M.B.A. (Finance)	Arizona State University, Tempe, AZ, 1982
M.P.S. (Public Administration)	Western Kentucky University, Bowling Green, KY, 1976
B.S. (Engineering)	U.S. Military Academy, West Point, NY, 1970

**PROFESSIONAL DESIGNATIONS:**

Certified Energy Manager (CEM), Association of Energy Engineers, 1984

**CURRENT PROFESSIONAL ACTIVITIES:**

- Chairman, Solar Electricity Division, American Solar Energy Society
- Member, Association of Energy Engineers
- Member, International Association for Energy Economics
- Member, American Solar Energy Society

**PAST PROFESSIONAL ACTIVITIES:**

- Member, Board of Directors, Solar Rating & Certification Corporation (SRCC), 1988-91; Treasurer, 1989; Secretary, 1990
- Member, Rating Methodology Committee of SRCC, 1981-84
- Member, Arizona Photovoltaic Applications Task Force, 1985-86
- Participant, Arizona Energy Policy & Plan Development, 1989-90
- State Representative, Western Regional Biomass Energy Program, 1988-91
- Member, Arizona Electric Vehicle Task Force, 1991-92
- Member, Executive Committee, Interstate Solar Coordination Council, 1991-92
- Member, Externalities Task Force of the Arizona Corporation Commission, 1992
- Member, Environmental Technology Industry Cluster, Governor's Strategic Partnership for Economic Development (GSPED), 1992
- Member, Executive Committee, Interstate Renewable Energy Council, 1994-95
- Member, National Photovoltaics for Utilities Steering Committee, 1994-95
- Ex Officio Member, Planning Committee, Southwest Regional Transmission Association (SWRTA)

1 **TEAM LEADERSHIP AND COMMITTEE COORDINATION EXPERIENCE:**

- 2 • Coordinator, Arizona Electric System Reliability and Safety Working Group, 1996-98  
3 • Coordinator, Arizona Photovoltaics for Utilities Cooperative, 1993-present  
4 • Co-founder & Coordinator, Arizona Electric Vehicle Enterprise Network, 1990-92  
5 • Founder & Chairman, Air Quality/Alternative Fuels Task Force of Phoenix Futures Forum,  
6 1990-1992  
7 • Coordinator, Externalities Prioritization Working Group, 1993-4  
8 • Coordinator, Arizona Renewables Working Group, 1994-95  
9 • Leader, Energy Efficiency & Environment Task Force, Retail Electric Competition Working  
10 Group, 1994-95

11 **PROFESSIONAL EXPERIENCE:**

12 **ARIZONA CORPORATION COMMISSION, PHOENIX, AZ (OCT '92 - PRESENT)**

13 **ACTING DIRECTOR, UTILITIES DIVISION, MAR '98-PRESENT:**

- 14 • Manages the 95-person Utilities Division  
15 • Directly supervises five Section Chiefs, two Supervisors, and an Assistant Director

16 **CHIEF, ECONOMICS AND RESEARCH, JUNE '97 –MAR '98:**

- 17 • Managed the Economics and Research Section of the Utilities Division  
18 • Supervised a staff of seven professionals  
19 • Read, reviewed, edited, and approved tariffs, special contracts and other Commission Open  
20 Meeting items  
21 • Prepared testimony for lawsuits regarding Retail Electric Competition  
22 • Coordinated the Electric System Reliability and Safety Working Group  
23 • Coordinated the Solar Portfolio Standard Subcommittee  
24 • Staffed the Unbundled Services and Standard Offer Working Group  
25 • Staffed the Independent System Operator and Spot Market Development Working Group  
26 • Coordinated the overall Retail Electric Competition effort for the Division  
27 • Wrote, edited, and published the Solar Portfolio Standard Subcommittee's final report  
28 • Co-wrote, edited, and published the Unbundled Services and Standard Offer Working  
Group's final report  
• From 12/15/97-2/6/98 performed duties of Acting Director for four weeks while Director was  
out of the country

1           **SENIOR RATE ANALYST, MAY '94 - JUNE '97:**

- 2
- 3       • Specialized in electric utility regulation activities and projects, including integrated resource
  - 4        planning, externalities, renewable energy resources, retail electric competition, and electric
  - 5        tariff review and evaluation
  - 6       • Evaluated and developed recommendations on utility renewable energy plans and projects
  - 7       • Served as the group leader of the Arizona Photovoltaics for Utilities Cooperative
  - 8       • Coordinated the activities of the collaborative Renewables Working Group
  - 9       • Wrote draft Commission rules for externalities and integrated resource planning
  - 10      • Served as the Task Force Leader of the Energy Efficiency and Environment Task Force in
  - 11      the Retail Electric Competition Working Group
  - 12      • Helped draft proposed Commission Retail Electric Competition Rules
  - 13      • Participated as a member of the Planning Committee of the Southwest Regional
  - 14      Transmission Association
  - 15      • Acted as the Coordinator of Arizona's Electric System Reliability and Safety Working Group

16           **ECONOMIST, OCT '92 - MAY 94:**

- 17
- 18      • Conducted economic and policy analyses of electric and telecommunications utility issues
  - 19      • Analyzed applications of utilities regarding rate levels, rate design, and service offerings
  - 20      • Prepared recommendations and testimony on renewable energy, energy conservation,
  - 21      demand-side management, integrated resource planning, special rates and contracts, and
  - 22      tariff filings
  - 23      • Served as the Coordinator of the Arizona Photovoltaics for Utilities Cooperative
  - 24      • Served as the Coordinator of the Externalities Prioritization Working Group
  - 25      • Wrote, edited, and published the Externalities Prioritization Working Group's final report

26           **ARIZONA DEPARTMENT OF COMMERCE, PHOENIX, AZ (JULY '85 - OCT '92)**

27           **ENERGY BUSINESS TECHNICAL SPECIALIST in the ARIZONA ENERGY OFFICE,**  
28           **MARCH '90 - OCT '92:**

- Prepared testimony and testified as an expert witness in the first cycle of the Corporation
- Commission's Integrated Resource Planning. The testimony resulted in the formation of
- two Commission Task Forces to consider externalities and sliding-scale hook-up fees.
- Participated in the two-year Arizona Energy Policy and Plan development program
- Founded the collaborative Arizona Photovoltaics for Utilities Cooperative and coordinated its
- activities

• **MANAGER of the ARIZONA SOLAR ENERGY OFFICE, JULY '87 - MARCH '90:**

- Managed the entire solar energy program for the State of Arizona
- Managed the accomplishments of a staff of eight employees and numerous contractors and
- subcontractors

1           **ENERGY ECONOMIC ANALYST of the ARIZONA ENERGY OFFICE, JULY '85 -**  
2           **JUNE '87:**

- 3           • Prepared various economic analyses, including the impact of the 1986 oil price decline  
4           • Performed utility rate analyses and presented utility bill seminars to school officials and local  
            governments  
5           • Served on the Arizona Photovoltaic Applications Task Force established to evaluate the  
6           potential for the use of photovoltaics in Arizona and to make recommendations to the  
            Arizona Corporation Commission

7           **ARIZONA SOLAR ENERGY COMMISSION, PHOENIX, AZ (DEC '80 - JUNE '85)**

8           **ASSOCIATE DIRECTOR, FEDERAL PROGRAMS MANAGER, & SOLAR**  
9           **ENGINEERING SPECIALIST:**

- 10          • Developed strategies and marketing plans to enhance the commercialization of solar energy  
            products  
11          • Was responsible for revising, drafting, staffing, and coordinating work on Commission rules  
12          and the public hearings on rules

13          **RAMADA ENERGY SYSTEMS, INC., TEMPE, AZ (JUNE '79 - JULY '80)**

14          **MANAGER, MARKETING SERVICES:**

- 15          • Managed all services and support of the Marketing Department and of the company  
            distribution network  
16          • Established office administration programs, developed standard operating procedures for the  
17          Marketing Department, and initiated a comprehensive national inquiry response program  
18          • Developed and implemented advertising, publicity and public awareness plans

19          **SOLARON CORPORATION, DENVER, CO (JULY '76 - JUNE '79)**

20          **FEDERAL PROGRAMS ADMINISTRATOR, AUG '78 - JUNE '79:**

- 21          • Managed all activities of the federal solar grant programs  
22          • Wrote grant applications, assisted applicants with design and grant preparation, follow-up  
            reporting, and assistance on winning grants

23          **ASSISTANT TO THE MANAGER, DISTRIBUTOR SALES, SEP '77 - JUL '78:**

- 24          • Responsible for the day-to-day activities of the distributor network for Solaron products  
25          • Developed marketing plans for the distributor network  
26          • Assisted distributors in project design, computer simulation, and equipment selection  
27  
28

1                   **MARKETING ADMINISTRATOR, JUL '76 - AUG '77:**

- 2
- 3           • Coordinated office administration
  - 4           • Provided training and grant application preparation assistance to customers in federal grant  
5           programs. Sales through these grant programs accounted for 26 percent of all 1977  
6           Solaron sales
  - 7           • Served as a sales engineer, designing and selling individual systems in areas without  
8           distributors and sales to walk-in customers

9           **U.S. ARMY EXPERIENCE:** Commissioned Officer from June 1970-January 1976

10           **ADDITIONAL TRAINING:**

11           1984-1993   Arizona State University, College of Business: 36 semester hours of economics  
12           courses. This included course work in public utility economics & finance.

13           1976-1996   Attendance at 110+ seminars, conferences and workshops covering subjects such  
14           as: electric industry restructuring, energy conservation, demand-side management,  
15           thermal storage, energy economics, financing of energy projects, cogeneration, solar  
16           energy, integrated resource planning, solar energy in utilities, environmental concerns,  
17           electric vehicles, biomass, and energy-conserving building design.

18           **PUBLICATIONS**

19           Williamson, Ray T. "The Versatile Transparent Polymer Collector." Paper presented at the 1980  
20           Annual Meeting of the International Solar Energy Society, Phoenix, Arizona.

21           Williamson, Ray T. **Standards for Solar Devices.** Arizona Solar Energy Commission, May 1981.

22           Williamson, Ray T., Editor. **Information Sources for the Solar Industry.** Arizona Solar Energy  
23           Commission, May 1981.

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25           Commission, May 1981.

26           Williamson, Ray T., Editor. **Arizona's Solar Laws & Rules.** Arizona Solar Energy Commission,  
27           May 1981.

28           Williamson, Ray T., Editor. **Arizona's Solar Energy Tax Credits.** Arizona Solar Energy  
Commission, May 1981. "Standards for Solar Collectors." Arizona Solar Energy Commission,  
March 1982.

Williamson, Ray T. "Tax Credits for Photovoltaic Devices." Arizona Solar Energy Commission,  
March 1983.

1 Williamson, Ray T. **Standards for Solar Energy Devices in Arizona.** Arizona Solar Energy  
2 Commission, May 1983. "Standards for System Testing." AZ Solar Energy  
3 Commission, June 1983.

3 Williamson, Ray T., Richard Griswold and Frank Mancini. "Solar Energy Response Vehicle  
4 (SERV) Meets Emergency Needs." Paper presented at the 1991 Solar World Congress.  
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6 Denver, Colorado, 19-23 August 1991.

6 Williamson, Ray T., Doran Dalton and Robert Robin. "The Hopi Foundation's Solar Electric  
7 Enterprise: A Model for Renewable Industry Development in Developing Nations."  
8 Paper presented at the 1991 Solar Word Congress. **Proceedings of the Biennial  
9 Congress of the International Solar Energy Society,** Denver, Colorado, 19-23  
10 August 1991.

9 Williamson, Ray T., Peter Eckert, Tom Lepley, and Frank Mancini. "Testing and Evaluation of a  
10 Mobile Photovoltaic/Genset Hybrid System." Paper presented at the 22nd IEEE  
11 Photovoltaic Specialist Conference. **Proceedings of the 22nd Institute of Electrical  
12 and Electronics Engineers, Inc. Photovoltaic Specialists Conference,** Las Vegas,  
13 Nevada, 7-11 October 1991.

13 Williamson, Ray T., Editor/Co-author, and Robert Hammond, Frank Mancini, and James Arwood.  
14 "The Solar Electric Option (Instead of Power Line Extension)." A 16-page brochure  
15 published by the Arizona Corporation Commission and the Arizona Department of  
16 Commerce. Phoenix, Arizona, August 1993.

16 Williamson, Ray T., Co-author, and Staff of Economics & Research Section, Arizona  
17 Corporation Commission. "Staff Report on Resource Planning." Arizona  
18 Corporation Commission, September 1993.

18 Williamson, Ray T. "Staff Report on Arizona Public Service Company's Carol Spring Mountain  
19 Project," (Docket No. U-1345-94-335), Arizona Corporation Commission, October 1994.

20 Williamson, Ray T., and Robert Gray. "Staff Report on Arizona Public Service Company's  
21 Photovoltaic Applications and Systems Development Program," (Docket No. U-1345-95-  
22 323), Arizona Corporation Commission, August 1995.

22 Williamson, Ray T., Co-author, and Staff of Economics & Research Section, Arizona  
23 Corporation Commission. "The Electric Industry In Arizona: Staff Report on  
24 Resource Planning." Arizona Corporation Commission, October 1996.

24 Williamson, Ray T., David Berry, and Kim Clark of Economics & Research Section, Arizona  
25 Corporation Commission. "Staff Discussion of the Proposed Rule on Electric Industry  
26 Restructuring," (Docket No. U-0000-94-165), Arizona Corporation Commission,  
27 October 1996.

1 Williamson, Ray T., "Incorporating Solar in a Restructured Electric Utility Industry,"  
2 **Proceedings of the 1997 Annual Conference of the American Solar Energy**  
3 **Society**, Washington, D.C., 25-30 April 1997.

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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN  
Commissioner - Chairman  
RENZ D. JENNINGS  
Commissioner  
CARL J. KUNASEK  
Commissioner

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR APPROVAL OF ITS  
PLAN FOR STRANDED COST  
RECOVERY

) DOCKET NO. E-01345A-98-0473  
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IN THE MATTER OF THE FILING OF  
ARIZONA PUBLIC SERVICE COMPANY  
OF UNBUNDLED TARIFFS  
PURSUANT TO A.A.C. R14-2-1601 et seq.

) DOCKET NO. E-01345A-97-0773  
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IN THE MATTER OF THE APPLICATION  
OF TUCSON ELECTRIC POWER  
COMPANY FOR APPROVAL OF ITS  
PLAN FOR STRANDED COST  
RECOVERY

) DOCKET NO. E-01933A-98-0471  
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IN THE MATTER OF THE FILING OF  
TUCSON ELECTRIC POWER COMPANY  
OF UNBUNDLED TARIFFS PURSUANT  
TO A.A.C. R14-2-1601 et seq.

) DOCKET NO. E-01933A-97-0772  
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IN THE MATTER OF COMPETITION IN  
THE PROVISION OF ELECTRIC  
SERVICES THROUGHOUT THE STATE  
OF ARIZONA

) DOCKET NO. RE-00000C-94-165  
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DIRECT TESTIMONY OF

LEE SMITH

LA CAPRA ASSOCIATES

CONSULTANT

NOVEMBER 20, 1998

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Introduction.....1

1 **INTRODUCTION**

2 Q. What is your name and business address?

3 A. My name is Lee Smith, and I work for La Capra Associates, 333 Washington St., Boston,  
4 Massachusetts.

5  
6 Q. What is your occupational experience?

7 A. I am a Senior Economist at La Capra Associates. I have been with this energy planning  
8 and regulatory economics firm for 14 years. Prior to my employment at La Capra  
9 Associates, I was Director of Rates and Research, in charge of gas, electric, and water  
10 rates, at the Massachusetts Department of Public Utilities. Prior to that period, I taught  
11 economics at the college level.

12  
13 Q. On whose behalf are you testifying in this proceeding?

14 A. I am testifying on behalf of the Arizona Corporation Commission (Commission).  
15

16 Q. What is the purpose of your testimony?

17 A. I am testifying as to the concepts in the 11 Page Settlement Agreement between Arizona  
18 Public Service (APS) and the Staff of the Commission.

19  
20 Q. What is your experience in electric industry restructuring?

21 A. I have assisted in rulemaking for a restructured industry and in drafting legislation in  
22 Massachusetts, and was a member of a number of NEPOOL committees that created the  
23 New England Independent System Operator. I have addressed restructuring issues in  
24 Maine, New Hampshire, and Vermont. I contributed to testimony in New Jersey for the  
25 Division of the Ratepayer Advocate. I testified in eight cases in Pennsylvania on rate  
26 unbundling and retail market generation costs, and continues to advise the Office of the  
27 Consumer Advocate. In Maryland, I am assisting the Office of the People's Advocate in  
28 electric restructuring cases.

1 Q. What major changes do we need to make to the regulation and organization of the electric  
2 industry in order to allow competition to flourish?

3 A. In order to have competition in the electric industry we need the following:

- 4 • to give customers the opportunity to purchase
- 5 electric services from a supplier of their choice;
- 6 • to inform customers of what they pay the utility for
- 7 each service, so they can compare different
- 8 providers;
- 9 • to give other suppliers fair access to the wires and to
- 10 customers;
- 11 • to avoid the subsidization of unregulated services
- 12 by regulated services, which would give the utility
- 13 an unfair advantage over competitive suppliers;
- 14

15 Q. Has the APS Settlement Agreement contributed toward these changes?

16 A. Yes. The APS Settlement Agreement has provided us with these basic building blocks  
17 for a competitive system. It also provides additional benefits to both customers who  
18 choose a competitive supplier, as well as standard offer customers.

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1 Q. How will the new APS rates and bills provide customers with the opportunity to purchase  
2 certain electric services competitively?

3 A. APS has agreed to "unbundle" its existing rates for customers who choose alternative  
4 providers. Customers will pay no more than their current bills if they remain full-service  
5 customers of APS. If customers choose alternative suppliers of generation, metering and  
6 or billing they will not pay APS for these services. The "credits" that customers will  
7 receive if they choose alternative providers will vary by month, as would market prices,  
8 but will be fixed in advance for an entire year to aid customers in deciding whether to  
9 remain with APS or to choose an alternative supplier. In other words, APS will inform  
10 customers by December 1<sup>st</sup> of each year as to the credits per month for the next year.

11  
12 Q. Does this mean that distribution rates will remain at their current levels?

13 A. For the near future, yes. We believe it is important that customers not receive increases  
14 that they might perceive to be caused by competition. APS may file a "revenue neutral"  
15 distribution rate case in September 1999. The rate design in this revenue neutral  
16 distribution case may seek increases or decreases in rates for particular classes, but will  
17 not result in an overall increase in revenues. The Commission will rule on any such  
18 filing by January 1, 2001.

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1 Q. Please describe the effect of the credit that customers will receive if they purchase  
2 generation from alternative suppliers.

3 A. One of the crucial issues in "unbundling" rates is how much credit customers will be  
4 given with which to "shop". In other words, how much will the bill go down if the  
5 customer does not purchase generation from the utility. If the customer can purchase  
6 generation from an alternative supplier for less than the "credit", the customer can save  
7 money by purchasing on the competitive market. If the credit is clearly lower than the  
8 market price, customers will not leave standard offer service because they cannot save  
9 any money. If the credit is "set" much higher than the market price, many customers will  
10 choose alternative suppliers but this may not increase economic efficiency. A  
11 deliberately high shopping credit would push customers to choose alternative suppliers  
12 because if they remain with the utility they would pay more than the competitive price.  
13 A shopping credit that is set "too high" may also, until the market is fully developed,  
14 allow suppliers to make additional profits. In other words, if there initially were very few  
15 competitors, rather than providing their "best" price they might be able to acquire load by  
16 offering prices just below the shopping credit.

17  
18 Q. What alternative was chosen in the APS Settlement Agreement?

19 A. In the APS Settlement Agreement, our objective was to establish the shopping credit at  
20 our best estimate of the cost of acquiring power on the competitive market. The Market  
21 Generation Credits (MGCs) are based upon forward prices using the Palo Verde Nymex  
22 futures price shaped by the California spot market for the next year, but are higher than  
23 these spot prices to reflect "ancillary services" and other costs of providing power to  
24 customers. If very little eligible load chooses competitive suppliers, these MGCs will be  
25 increased in 2001. This enables competitive suppliers to have an opportunity to "beat"  
26 the APS standard offer price.

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1 Q. Will this shopping credit actually allow competition to occur?

2 A. If the MGC and the market price are the same, there is often concern that customers will  
3 remain with standard offer service since they do not see savings from competitive  
4 suppliers. However, there will be incentives to switch. All customers are not "average",  
5 so some particular customers may be able to find lower market prices even though the  
6 average may not evidence any savings. There will be some suppliers that can provide  
7 prices somewhat below the average market price, which will attract customers. Finally,  
8 alternative suppliers may offer slightly different "products" which are attractive to  
9 customers. For instance, a supplier might offer a guaranteed price for several years  
10 which would be attractive to risk-averse customers. Other suppliers might offer energy  
11 management or other services in addition to generation. For these reasons, if we set the  
12 MGC "right", there will be competition. If very little eligible load chooses alternative  
13 suppliers, the MGC will automatically increase at the end of two years.

14  
15 Q. You mentioned earlier that the Agreement provides additional benefits to all customers.  
16 Please describe these.

17 A. In addition to the above rate provisions, APS has agreed to extend its current Rate  
18 Reduction Agreement for two years, and to add another two years of rate reductions for  
19 residential customers. This provision will guarantee that residential customers receive a  
20 minimum of four (4) percent rate reductions, although rate reductions may be higher if  
21 APS' costs and revenues warrant. The third and fourth year of rate decreases are aimed  
22 only at residential customers because of the general expectation that they will be slower  
23 than other customers to take full advantage of retail access.

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1 Q. What are APS' stranded costs?

2 A. Stranded costs are embedded costs that could not be collected if the utility charged all of  
3 its customers the market price of generation. Regulatory assets are always stranded,  
4 since they would not be recoverable in the market price. Generation costs may also be  
5 stranded, if the investment in generation assets that the Company still needs to recover is  
6 greater than the market value of those assets. The market value of generating assets is the  
7 amount that a willing buyer would pay for the assets, which will depend upon the total  
8 potential returns that would be earned by the assets in the competitive market.

9  
10 Q. Are customers currently paying for the costs of APS' plants that may be stranded?

11 A. Yes. In the Company's current rates, customers are paying for all prudently incurred  
12 plant costs. Allowing the Company to identify and charge a Competitive Transition  
13 Charge does not increase in any way the total charges that customers are currently  
14 paying. The bill simply identifies the market price and the stranded portion of the  
15 existing generating charge.

16  
17 Q. Does the APS Settlement Agreement allow APS to collect its stranded costs?

18 A. Yes, APS will be allowed to collect all of its stranded costs.

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1 Q. Please explain how these stranded costs will be collected.

2 A. There are essentially two different mechanisms for the collection of these costs. First, a  
3 charge for regulatory assets has been identified, and will continue to be collected from all  
4 customers until the middle of the year 2004 or until such time as all regulatory assets  
5 have been collected, whichever occurs first. Growth in sales will mean that regulatory  
6 assets will be collected in less time, and rates will decrease when the regulatory asset  
7 charge is removed. Second, stranded generation costs will be recovered over six (6)  
8 years through a Competitive Transition Charge (CTC) which "...shall be the residual after  
9 subtracting distribution, transmission, metering, billing, system benefits, the regulatory asset  
10 charge and the retail MGCs from the bundled tariff.". This means that if market prices in  
11 the future are higher than we anticipate, APS' CTC collection will be less than we  
12 anticipate.

13  
14 Q. Could the CTC be negative?

15 A. In the summer months, when the NYMEX spot prices are high, it is quite likely that the  
16 residual described above might be negative. If the Company does not want to show a  
17 negative CTC on customer bills, this amount could be credited to customers in future  
18 months.

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1 Q. Do you know how much stranded cost will be collected by APS?

2 A. No, not exactly, since the collection will depend upon actual spot prices and the adder.  
3 However, given current estimates of future MGCs and the terms of the Settlement  
4 Agreement, we can estimate what the total stranded cost collection will be. This requires  
5 a clear understanding of the definitions being used. In APS' stranded cost filing, APS  
6 included in stranded cost collection for the first two years only, the stranded costs paid  
7 directly by the portion of load that had customer choice. We believe that it is simplest to  
8 conceive of all customers as paying for stranded costs. For customers who choose  
9 competitive suppliers, there is a clearly identified Competitive Transition Charge.  
10 However, customers who do not choose a competitive supplier and remain on standard  
11 offer are still paying the same amount to the Company, although it is bundled with the  
12 competitive cost of generation. To take an extreme example, if no customers choose  
13 alternative suppliers, the Company would collect its embedded costs through standard  
14 offer rates.

15  
16 Given this definition of stranded costs, it is our estimate that the Company will collect  
17 roughly \$300 million in stranded cost. The Company's testimony cited the number of  
18 \$533 million of stranded costs, which was based upon the assumption that all customers  
19 eligible for choice exercised their choice. In other words, 20 percent of the load is eligible  
20 in 1999 and 2000 with 100 percent being eligible starting in 2001. The APS computation  
21 of stranded costs does not include the stranded cost revenues received from customers  
22 who do not have choice. If APS had used the definition that I am using, APS would have  
23 portrayed their collection of stranded costs as approximately \$790 million<sup>1</sup>. The APS  
24 estimate of total market price in 1999 of 2.69 cents should be compared to the market  
25 generation credit of an average of 3.2 cents that results from the Settlement Agreement.

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<sup>1</sup> The difference between Staff's \$300 million estimate and the Company's \$790 million estimate is based upon a difference in estimated market prices not upon a disallowance of stranded cost by Staff.

1 Q. Do you think it is a problem that we do not know the exact amount of the stranded cost  
2 collection?

3 A. No. Since the collection of stranded costs will depend upon actual changes in the market,  
4 the collection of stranded costs is to some extent self-reconciling. The difficulty with  
5 setting a fixed target for stranded cost collection is that if market prices turn out to be  
6 higher than expected, the utility will be able to sell its generation for more and its actual  
7 stranded costs will turn out to be less than the estimate. This treatment of stranded costs  
8 will mean that higher than expected market prices in the next six (6) years will decrease  
9 stranded cost collection, through a lower CTC.

10  
11 Q. Does the Settlement address potential differences between the projected MGC and the  
12 MGC that would have resulted from more current spot prices?

13 A. Yes. The Settlement provides for reconciliation of these differences to be applied to  
14 competitive sales. The Settlement states "the difference between these two forward prices  
15 for the same month multiplied by the competitive sales in a month shall be interpreted as an  
16 over or undercollection of stranded costs. Monthly under and overcollections shall be  
17 accumulated with a reasonable carrying charge. If the accumulated undercollection reaches  
18 \$5 million, the Company may increase the generation component of all rates by a factor that  
19 would collect these dollars within one year. At the end of the fixed rate period (end of 2002)  
20 or upon the cessation of the regulatory asset charge, if this occurs earlier, the Company shall  
21 increase or decrease generation rate charges to collect or return this amount during the  
22 remaining CTC period". Thus neither customers nor the Company would be disadvantaged  
23 by any deviations from the year ahead price to the actual monthly price.

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1 Q. In the future, how will competitive and monopoly services be separated?

2 A. The Company has agreed to transfer its generation assets and competitive services into a  
3 separate corporate affiliate by December 31, 2002. After this date, the Company will  
4 remain the Provider of Last Resort of bundled service, but shall have to acquire  
5 generation by competitive bid to provide this service. The method of recovering such  
6 costs shall be determined by the Commission after the Company and Staff have presented  
7 their recommendations.

8  
9 Q. The rules require that all energy service providers meet a solar portfolio standard, and  
10 that distribution utilities that provide standard offer service meet these standards in 2002.  
11 Does the Settlement Agreement address this requirement?

12 A. Yes. APS has agreed to meet the solar portfolio standard established by the Commission  
13 in August 1998. The Settlement Agreement establishes that this requirement will be met  
14 through the purchase of the necessary solar power through an RFP process. If APS is  
15 unable to recover the cost of this solar portfolio from its Standard Offer customers or  
16 from sales to others (such as competitive suppliers that must also meet the solar  
17 standard), APS will be allowed to defer such costs for future recovery.

18  
19 Q. Do you recommend that the commission approve the APS Settlement Agreement?

20 A. Yes. I recommend that the Commission approve the 11 Page settlement document. My  
21 testimony does not address the attachments to this document.

22  
23 Q. Does this conclude your direct testimony?

24 A. Yes, it does.  
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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN

Commissioner - Chairman

RENZ D. JENNINGS

Commissioner

CARL J. KUNASEK

Commissioner

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR APPROVAL OF ITS  
PLAN FOR STRANDED COST  
RECOVERY

) DOCKET NO. E-01345A-98-0473

IN THE MATTER OF THE FILING OF  
ARIZONA PUBLIC SERVICE COMPANY  
OF UNBUNDLED TARIFFS  
PURSUANT TO A.A.C. R14-2-1601 et seq.

) DOCKET NO. E-01345A-97-0773

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

) DOCKET NO. E-01933A-98-0471

IN THE MATTER OF THE FILING OF  
TUCSON ELECTRIC POWER COMPANY  
OF UNBUNDLED TARIFFS PURSUANT  
TO A.A.C. R14-2-1601 et seq.

) DOCKET NO. E-01933A-97-0772

IN THE MATTER OF COMPETITION IN  
THE PROVISION OF ELECTRIC  
SERVICES THROUGHOUT THE STATE  
OF ARIZONA

) DOCKET NO. RE-00000C-94-165

DIRECT TESTIMONY OF

RICHARD LA CAPRA

LA CAPRA ASSOCIATES

CONSULTANT

NOVEMBER 20, 1998

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1 **INTRODUCTION**

2 Q. Mr. La Capra, please identify yourself and summarize your experience and qualifications.

3 A. My name is Richard La Capra and my business address is 333 Washington Street,  
4 Boston, MA 02108. I am a principal of La Capra Associates, a Boston-based consulting  
5 firm specializing in energy planning and regulatory economics. I hold degrees in  
6 electrical and mechanical engineering from Stevens Institute of Technology. In addition,  
7 I also hold a Master of Business Administration degree from Fairleigh Dickenson  
8 University, and have done advanced studies in Finance at New York University. I  
9 founded La Capra Associates in 1980 with a goal of providing state-of-the-art, innovative  
10 financial and technical analysis to the utility industry. I had previously been in charge of  
11 the utility business division of Charles T. Main, Inc.

12  
13 My experience has encompassed financial, pricing and power supply issues. Over the  
14 last 30 years, I have worked on behalf of more than 100 clients in 36 states, and in several  
15 foreign countries, on energy issues. Since 1994 much of my work has been in assisting  
16 parties in deregulation issues and the mechanics of transitioning various utility functions  
17 to competitively supplied services.

18  
19 Q. Would you please describe your role in the proposed settlement with Tucson Electric  
20 Power Company (TEP)?

21 A. Yes. I have assisted the Arizona Corporation Commission (Commission) Staff in  
22 reaching an agreement with TEP on a wide range of issues, which will allow a  
23 competitive market to form in the TEP service area.

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1 Q. Would you please summarize the elements of the proposed settlement with TEP?

2 A. The settlement will require TEP to unbundle its retail electric rates into regulated and  
3 competitive services. The regulated services will include the transmission and  
4 distribution functions, transition charges, system benefits charges and regulatory asset  
5 charges. The competitive services will include power supply, metering and billing. To  
6 assure that the competitive market will not be stifled by the exercise of market power,  
7 TEP must also divest its generation facilities such that it provides only power delivery or  
8 transportation services in Arizona. To the extent that TEP customers do not chose an  
9 alternative power supplier, TEP may supply default or "standard offer" service, but it  
10 must acquire this power competitively. To assure that TEP is not financially penalized for  
11 the divestiture of its generation assets and its transition to competitive markets, the  
12 proposed settlement provides for a full recovery of all transition costs. The transition  
13 costs will include regulatory assets incurred as a result of prior Commission orders made  
14 in the context of TEP as a vertically integrated utility and shortfalls between the  
15 generation asset value realized in the divestiture and the remaining unamortized book  
16 value of the generation assets.

17  
18 As part of a separate but related agreement, TEP will be allowed to acquire further  
19 transmission facilities from the Arizona Public Service Company (APS) in exchange for  
20 certain TEP generation facilities, specifically its 7.5 percent shares in the Navajo and  
21 Four Corners Stations.

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1 Q. How will the TEP divestiture proceed?

2 A. TEP will auction all of its generation assets except those being valued for sale to APS in  
3 exchange for APS' 500 kV and 345 kV transmission assets. The proposed settlement  
4 will require TEP to submit the ultimate bid results to the Commission for approval. The  
5 Commission will determine the success of the auction by making a finding as to level of  
6 stranded cost mitigation provided by the auction. To the extent that the Commission  
7 finds that the auction increases stranded costs or otherwise burdens TEP's retail  
8 customers either in total or on an individual asset basis, the Commission may declare a  
9 failed auction and set TEP's generation stranded costs by an administrative process.

10

11 Q. Does the proposed settlement provide for any further cost mitigation?

12 A. Yes, the proposed settlement allows for TEP to securitize all its regulatory assets and  
13 stranded costs to the extent that the total customer cost is reduced. Securitization will  
14 lower the cost to the retail customers if the annual charges of the securitized debt plus  
15 transactions costs to issue the transition bonds is lower than TEP's pre-tax cost of capital  
16 on its regulatory assets and stranded costs. The Commission will make a finding as to the  
17 ability of securitization to lower TEP's customer costs.

18

19 Q. Will there be opportunities for reductions for all customers?

20 A. The settlement calls for a transition period to allow all customers to access competitive  
21 markets by 2001. Understanding that retail access may not provide immediate benefits or  
22 as great a benefit to smaller customers, the proposed settlement calls for across-the-board  
23 rate reductions of 1.1 percent, 1.0 percent and 1.0 percent in 1998, 1999 and 2000  
24 respectively for standard offer customers.

25 ...

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28 ...

1 Q. How will the new unbundled TEP rates and bills provide customers with the opportunity  
2 to purchase some electric services competitively?

3 A. TEP's bills will "unbundle" its existing rates. Customers will not pay more than their  
4 current bills if they remain full-service customers of TEP. If customers choose  
5 alternative suppliers of generating, metering and/or billing they will not pay TEP for  
6 these services. The "credits" that customers will receive if they choose alternative  
7 providers will vary by quarter, just as market prices vary by quarter, but will be fixed in  
8 advance for an entire year to aid customers in deciding whether to remain with TEP or to  
9 choose an alternative supplier.

10

11 Q. Will distribution rates remain at their current levels?

12 A. For the near future, yes. We believe it is important that customers not receive increases  
13 that they might perceive to be caused by competition.

14

15 Q. Please describe the effect of the credit that customers will receive if they purchase  
16 generation from alternative suppliers.

17 A. One of the crucial issues in "unbundling" rates is how much credit customers will be  
18 given with which to "shop." In other words, how much will the bill go down if the  
19 customer does not purchase generation from the utility? If the customer can purchase  
20 generation from an alternative supplier for less than the "credit", the customer can  
21 save money by purchasing on the competitive market. If the credit is clearly lower  
22 than the market price, customers will not leave utility service because they cannot  
23 save any money. If the credit is "set" much higher than the market price, many  
24 customers will choose alternative suppliers but this may not increase economic  
25 efficiency.

26 ...

27 ...

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1 The deliberately high credit would push customers to choose alternative suppliers  
2 because they would pay more than the competitive price if they remain with the  
3 utility. A credit that is set "too high" may also, until the market is fully developed,  
4 allow suppliers to make additional profits. In other words, if there initially were very  
5 few competitors, rather than providing their "best" price they might be able to acquire  
6 load by offering prices just below the shopping credit.

7  
8 Q. What generation credit was chosen in the TEP settlement?

9 A. In the TEP Settlement, our objective was to establish the credit at our best estimate of the  
10 cost of acquiring power on the competitive market. The Market Generation Credits  
11 (MGCs) are based upon NYMEX futures prices shaped by the California spot market for  
12 the next year, plus a 3.5 mill/kWh adder to reflect "ancillary services" and other costs of  
13 providing power to retail customers. If very little eligible load chooses competitive  
14 suppliers, the MGCs will be increased in 2001. This will enable other generation  
15 suppliers to fairly compete with the TEP Standard Offer price.

16  
17 Q. Do you believe that this settlement provides the best opportunity to begin competition in  
18 Arizona?

19 A. Yes, clearly there are many conflicting interests and uncertainties, but overall we believe  
20 based on our experience in many other restructuring activities, this settlement provides a  
21 fair starting point with a high probability of encouraging competitive markets.

22  
23 Q. Does this conclude your direct testimony?

24 A. Yes, it does.  
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