



0000112644

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

1999 JUN 30 A 11: 13

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE
APPLICATION OF TUCSON ELECTRIC
POWER COMPANY FOR APPROVAL
OF ITS STRANDED COST RECOVERY
AND FOR RELATED APPROVALS,
AUTHORIZATIONS AND WAIVERS

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. R14-2-1602 ET.
SEQ.

DOCKET NO. E-01933A-97-0772

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

DOCKET NO. RE-00000C-94-0165

**NOTICE OF FILING DIRECT TESTIMONY
OF KEVIN HIGGINS**

Pursuant to the Commission's Procedural Order dated June 23, 1999, counsel for Cyprus
Climax Metals Company, ASARCO Incorporated and Arizonans for Electric Choice and
Competition herein undersigned, hereby provides notice of the filing of the Direct Testimony of
Kevin C. Higgins in the above-captioned dockets.

...
...
...
...
...

Arizona Corporation Commission

DOCKETED

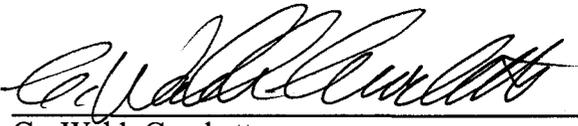
JUN 30 1999

DOCKETED BY

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

DATED this 30th day of June, 1999.

FENNEMORE CRAIG, P.C.

By 

C. Webb Crockett
Jay L. Shapiro
Suite 2600
3003 North Central Avenue
Phoenix, Arizona 85012
Attorneys for ASARCO Incorporated, Cyprus
Climax Metals Company and Arizonans for Electric
Choice and Competition

ORIGINAL AND TEN COPIES
of the foregoing hand-delivered
this 30th day of June, 1999, to:

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

COPIES OF THE FOREGOING
hand-delivered this 30th day
of June, 1999 to:

Carl J. Kunasek
Chairman
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Jim Irvin
Commissioner
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

William A. Mundell
Commissioner
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 Jerry Rudibaugh, Chief Hearing Officer
Hearing Division

2 Arizona Corporation Commission
1200 West Washington
3 Phoenix, Arizona 85007

4 Ray Williamson, Acting Director
Utilities Division
5 Arizona Corporation Commission
1200 West Washington
6 Phoenix, Arizona 85007

7 Paul Bullis, Chief Counsel
Legal Division
8 Arizona Corporation Commission
1200 West Washington
9 Phoenix, Arizona 85007

10 COPY OF THE FOREGOING
mailed this 30th day of June, 1999 to:

11 Service List for Docket No. RE-00000C-94-0165

12
13 By 

14
15
16
17
18
19
20
21
22
23
24
25
26

1 **DIRECT TESTIMONY OF KEVIN C. HIGGINS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Kevin C. Higgins, 39 Market Street, Suite 200, Salt Lake City, Utah, 84101.

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

5 A. I am employed by Energy Strategies, Inc. (ESI) as a senior associate. ESI is a
6 private consulting firm specializing in the economic and policy analysis applicable to
7 energy production, transportation, and consumption.

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

9 A. My testimony is being sponsored by Arizonans for Electric Choice and
10 Competition¹.

11 **Q. WHAT ARE YOUR QUALIFICATIONS TO TESTIFY IN THIS PROCEEDING?**

12 A. My academic background is in economics, and I have completed all course work
13 and examinations toward the Ph.D. in Economics at the University of Utah, and have
14 served on the adjunct faculties of both the University of Utah and Westminster College.
15 Prior to joining ESI, I held policy positions in state and local government. From 1983 to
16 1990, I was economist, then assistant director, for the Utah Energy Office, where I
17 testified regularly before the Utah Public Service Commission on matters involving
18 structural change in the provision of energy services, including introduction of retail
19 competition in the natural gas industry, implementation of rules governing small power
20 production and cogeneration, joint ownership of electric transmission facilities, and the
21 merger between major electric utilities. From 1991 to 1994, I was chief of staff to the
22

23 ¹ Arizonans for Electric Choice and Competition is a coalition of energy consumers in favor of competition and
24 includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Honeywell, Allied Signal,
25 Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets
26 Our Support, Arizona Food Marketing Alliance, Arizona Association of Industries, Arizona Multihousing
Association, Arizona Rock Products Association, Arizona Restaurant Association, Arizona Retailers Association,
Boeing, Arizona School Board Association, National Federation of Independent Business, Arizona Hospital
Association, Lockheed Martin, Abbot Labs, and Raytheon.

1 chairman of the Salt Lake County Commission, one of the larger municipal governments
2 in the western U.S., where I was responsible for development and implementation of a
3 broad spectrum of public policy. In 1995, I joined ESI, where I assist private and public-
4 sector clients in the area of energy-related economic and policy analysis, including the
5 provision of expert testimony. A more detailed description of my qualifications is
6 contained in Exhibit KCH-1, attached to this testimony.

7 **Q. WHAT HAS BEEN YOUR INVOLVEMENT IN THE ELECTRIC INDUSTRY**
8 **RESTRUCTURING EFFORT IN ARIZONA?**

9 A. For much of 1996, I was involved in the workshop process conducted by the
10 Arizona Corporation Commission to develop rules governing the implementation of retail
11 access. In 1997, I participated in the Working Group process established by the
12 Commission, serving as a consumer representative on the Stranded Cost Working Group;
13 as part of that effort, I participated in each of the Working Group's three subcommittees. I
14 also participated actively in the Reliability & Safety, Customer Selection, ISO, and
15 Unbundled Services & Standard Offer Working Groups established by the Commission.
16 Concurrently, I have been actively involved in the Desert STAR independent system
17 operator (ISO) feasibility assessment, participating on the Steering Committee, in the
18 Pricing and Operations Working Groups, and on the Legal & Negotiating Committee.

19 In 1998, I provided direct and rebuttal testimony before this Commission on
20 stranded cost recovery in the electric competition hearing, and submitted testimony on the
21 previously-proposed Arizona Public Service (APS) and Tucson Electric Power (TEP)
22 settlements at the end of that year. I also provided extensive comments to the SRP Board
23 as part of its effort to implement retail competition.

24 Most recently, I have submitted testimony to this Commission regarding the
25 customer group settlement with APS concerning that utility's transition to a competitive
26 retail market.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

I have also been very involved in addressing transmission access issues; I serve on the Board of the Arizona Independent Scheduling Administrator (AISA) and have chaired its Operating Committee, which is responsible for drafting the AISA's Protocols Manual.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

A. My testimony addresses the Settlement Agreement between AECC, RUCO, Arizona Community Action Association, and TEP. I believe this settlement is in the public interest and I recommend that the Commission approve the Settlement Agreement.

Q. ON WHAT BASIS ARE YOU FAMILIAR WITH THE SETTLEMENT AGREEMENT?

A. On behalf of AECC, I helped to negotiate the Settlement Agreement.

Q. WHY DO YOU BELIEVE THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST?

A. The Settlement Agreement provides a fair and comprehensive resolution to many of the difficult issues associated with effecting a transition to retail competition in TEP's distribution territory. In particular, the Settlement Agreement resolves the issue of stranded cost while providing viable competitive options and preserving rate reductions for customers. Further, the Settlement Agreement commits TEP to assuring non-discriminatory access to the transmission system through active support of the formation of the Desert STAR ISO and adherence to the AISA protocols.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. I will address key terms of the Settlement Agreement generally in the order in which they appear. I will emphasize those areas that I feel are of greatest importance from a customer perspective, and also which may require the most explanation to convey the terms of the compromise that has been reached.

1 **Implementation of retail access**

2 **Q. HOW DOES THE IMPLEMENTATION OF RETAIL ACCESS IN THE**
3 **SETTLEMENT AGREEMENT COMPARE WITH THE IMPLEMENTATION IN**
4 **THE COMMISSION'S PROPOSED ELECTRIC COMPETITION RULES?**

5 A. The start date for opening retail access to all customers is the same – January 1,
6 2001. During the phase-in, Section 1.2 of the Settlement Agreement requires TEP to
7 make an additional 54 megawatts of competitive load available for eligible non-
8 residential customers. This additional 54 megawatts restores the non-residential share of
9 the phase-in amount that these customers lost in December 1998 when the Commission
10 raised the residential set-aside from the 4 percent that had been originally proposed in the
11 Rules to 10 percent. (Because the total amount of load eligible for competition had not
12 been increased in the Rules, raising the residential set-aside had the effect of lowering the
13 amount of load eligible for competition for other customers.) Further, a contract
14 customer whose contract terminates prior to the opening of full competition can opt for
15 competitive retail access even if the amount of load available for competition under the
16 phase-in would otherwise preclude this option (Section 1.4).

17 Additionally, the 10 percent set-aside for residential customers under the proposed
18 Rules remains intact. Thus, the Settlement Agreement increases the total amount of load
19 that is eligible for competition during the phase-in, while providing the level of
20 residential participation required by the proposed Rules.

21 **Stranded cost recovery**

22 **Q. HOW DOES THE SETTLEMENT AGREEMENT PROVIDE FOR RECOVERY**
23 **OF STRANDED COSTS?**

24 A. Section 2.1(a) provides that stranded cost will be recovered through a competition
25 transition charge (CTC) that will have two components: a Fixed CTC and a Floating
26

1 CTC. Before I explain how these two components work, I wish to provide first an
2 overview of the stranded cost recovery principle that is used in the Settlement Agreement.

3 **Q. PLEASE PROCEED.**

4 A. The recovery of stranded cost involves the use of a “shopping credit” approach
5 whereby a retail access customer, in effect, would pay the TEP bundled rate for electric
6 power minus a credit to account for the customer’s purchase of generation service in the
7 competitive market. In the Settlement Agreement, the shopping credit is comprised of
8 two components: (1) a market generation credit (MGC) to account for the market price of
9 power plus line losses, and (2) an Adder to account for the conversion of the wholesale-
10 based MGC into a retail product (Sections 2.1(c) and (d)). The Adder represents the
11 margin available to the Electric Service Provider (ESP) in order to provide savings
12 opportunities to competitive customers. The Adder will also be adjusted upward to
13 account for line losses.

14 Because TEP’s bundled rates already provide the Company with recovery of its
15 stranded cost, the use of the bundled rates in the shopping credit method similarly
16 provides TEP with stranded cost recovery from its retail access customers.

17 When the shopping credit is subtracted from TEP’s bundled rate, the remainder is
18 equal to the sum of the unbundled delivery charges (distribution, transmission, etc.) plus
19 stranded cost. To arrive at the stranded cost charges, each of the unbundled delivery
20 charges is also subtracted from (or “credited” against) the bundled rate, leaving stranded
21 cost as a residual. This residual is then divided into a Fixed CTC and a Floating CTC.
22 The Fixed CTC will average .93 cents per kwh and will remain fixed at that level through
23 at least December 31, 2004 (but no later than December 31, 2008). The Floating CTC
24 will vary month to month in direct inverse correspondence to changes in the MGC.
25
26

1 **Q. PLEASE ELABORATE ON WHAT YOU MEAN WHEN YOU STATE THAT**
2 **THE FLOATING CTC WILL VARY MONTH-TO-MONTH BASED ON**
3 **CHANGES IN THE MGC?**

4 A. Stranded cost can be viewed as being the difference between regulated rates and
5 retail market prices. Thus, when market prices increase, stranded cost is reduced. This
6 relationship is captured in the Floating CTC. For example, if the market price (i.e.,
7 MGC) were to increase 1 mill per kwh, the Floating CTC would decrease 1 mill per kwh,
8 and vice versa. From a customer's point of view, an advantage of this approach is that
9 when market prices increase, stranded cost charges will decline by the same amount,
10 preserving the benefits of the customer's competitive option. The main disadvantage is,
11 of course, the flip side: when market prices fall, the Floating CTC increases, nullifying
12 the potential incremental benefit of the lower market prices. In adopting a Floating CTC,
13 a method of stranded cost recovery is being used that will make competitive options as
14 viable when market prices are high as when they are low. Under this approach, the key to
15 assuring viable competitive options is the amount of the Adder – which, in the Settlement
16 Agreement, stays the same irrespective of the level of market price.

17 **Q. WHAT IS THE AMOUNT OF THE ADDER IN THE SETTLEMENT**
18 **AGREEMENT?**

19 A. The amount of the Adder is shown in Rider No. 1 in the Unbundled Tariff filing.
20 As can be seen, the amount of the Adder varies with customer class and load shape. The
21 Adder averages 3.5 mills per kwh, but is higher for customers with lower annual load
22 factors, because the ESPs for such customers will face higher costs when converting from
23 a wholesale to a retail product. For example, lower-load-factor residential customers will
24 have an Adder of 5.2 mills per kwh. The minimum Adder for any customer is 2.5 mills
25 per kwh.

26 **Q. HOW WAS THE AMOUNT OF THE ADDER DETERMINED?**

1 A. It was a compromise determined through negotiation. Under the terms of the
2 Settlement Agreement, the amount of the Adder will remain unchanged until December
3 31, 2004. Thereafter, changes in the Adder can be incorporated as part of the rate
4 modifications contemplated for January 1, 2005 (Section 2.1(f)); that rate adjustment can
5 accommodate changes in unbundled pricing components as long as overall unbundled
6 rates and/or Standard Offer rates decline (Section 5.2).

7 **Q. IS THE ADDER IN THE SETTLEMENT AGREEMENT SIMILAR TO THE**
8 **ADDER THAT WAS INCLUDED IN THE PREVIOUSLY-PROPOSED**
9 **SETTLEMENT BETWEEN STAFF AND TEP IN LATE 1998?**

10 A. The Adder in this Settlement Agreement is similar to the adder that was included
11 in the Staff/TEP proposal for calculation of an Interim CTC, but there is an important
12 difference. In the approach proposed in 1998, the customer's ESP would have had to use
13 the margin provided by the adder, in part, to pay for ancillary services, whereas in this
14 Settlement Agreement ancillary services are an unbundled tariff item (which is credited
15 against the calculation of the Floating CTC) and are not paid for out of the Adder. As a
16 result, the "adder – net of ancillary services" is higher in this Settlement Agreement.

17 **Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE THIS POINT?**

18 A. Yes. We can use a residential customer to illustrate this point. In the 1998
19 proposal, the adder for a residential customer was proposed to be 4.0 mills. Out of this
20 amount, the competitive customer's ESP would have had to purchase ancillary services
21 costing around 2.2 mills per kwh for a fifty-five percent (55%) load-factor customer,
22 resulting in an "adder – net of ancillary services" of 1.8 mills per kwh (4.0 mills minus
23 2.2). Under the current proposal, the comparable Adder for a residential customer ranges
24 from 3.2 to 5.2 mills per kwh, which is almost two to three times higher than the
25 previously-proposed amount. Higher comparable adders also result for commercial and
26

1 industrial customers. Taken as a whole, I believe that this design will result in viable
2 competitive options for customers.

3 **Q. HOW DOES THE FIXED CTC WORK?**

4 A. The Fixed CTC will be used to recover \$450 million (present value) in stranded
5 costs (Section 2.1(b)). The Fixed CTC will be recovered from all kwh purchased off the
6 grid – including Standard Offer service, although there will not be an increase in rates as
7 a result of this recovery. When the \$450 million is recovered, the Fixed CTC will be
8 removed from rates. In no case will the Fixed CTC extend beyond December 31, 2008.

9 **Q. WHAT PROCEDURE WILL BE USED TO ENSURE THAT TEP DOES NOT
10 OVER-RECOVER THE FIXED CTC?**

11 A. The actual payments of Fixed CTC will be tracked by TEP. Section 5.2 provides
12 that by June 1, 2004, TEP will file a report with the Staff director identifying any
13 required modifications to the Fixed CTC, Floating CTC, distribution tariffs, and other
14 unbundled components that would have the effect of reducing standard offer rates and/or
15 overall unbundled rates (while providing for TEP's recovery of costs associated with
16 provider of last resort service in standard offer rates). This report will include a specific
17 recommendation as to whether the Fixed CTC can be eliminated or otherwise reduced
18 prior to December 31, 2008.

19 **Q. WHEN THE FIXED CTC IS REMOVED FROM RATES WILL THE FLOATING
20 CTC BE INCREASED BY THIS AMOUNT?**

21 A. No. Removing the Fixed CTC from rates means that it is truly removed.

22 **Q. DOES THE SETTLEMENT AGREEMENT PROVIDE FOR FULL RECOVERY
23 OF TEP'S REGULATORY ASSETS?**

24 A. Yes. The recovery of regulatory assets is included in the Fixed CTC (Section
25 2.1(b)).
26

1 **Q. HOW ARE SELF-GENERATION AND OTHER REDUCTIONS IN PURCHASES**
2 **OFF THE GRID TREATED WITH RESPECT TO STRANDED COST?**

3 A. Section 2.1(i) of the Settlement Agreement reinforces the principle in the
4 proposed Electric Competition Rules that self-generation and other reductions in
5 purchases off the grid shall not be subject to the CTC. Concurrent with this provision of
6 the Settlement Agreement, the parties have agreed to a revised TEP tariff for Back-up
7 Service for Self-Generation Facilities over 3MW (Rate 107). The new tariff includes a
8 reservation charge for back-up service that is more compensatory to TEP than the current
9 rate, while still providing the service under reasonable terms and conditions for
10 customers. This new tariff, as well as a new tariff for Self-Generation Maintenance
11 Service (Rate 108), is included in the Unbundled Tariff filing.

12 **Q. HOW WERE THE RATES AND TERMS IN THE NEW RATE 107**
13 **DETERMINED?**

14 A. The rates and terms are the result of compromise reached through negotiation.
15 The rates and terms are very similar to those in APS' Partial Requirements Service rate
16 E-55.

17 **Unbundled rates**

18 **Q. WHAT PROVISIONS ARE MADE IN SETTLEMENT AGREEMENT FOR**
19 **UNBUNDLED TARIFFS?**

20 A. Exhibit B of the Settlement Agreement contains TEP's Unbundled Distribution
21 Tariffs. These tariffs unbundle the costs of the various components of retail service
22 required for direct access. The TEP unbundled tariffs perform two main functions: (1)
23 the tariffs identify the applicability of, and the rate charged for, each unbundled service,
24 and (2) the tariffs provide the unbundled pricing information necessary for the calculation
25 of the Floating CTC.

26 **Q. WHAT IS THE DISTINCTION BETWEEN THESE TWO FUNCTIONS?**

1 A. For some unbundled services, such as distribution, there is virtually no difference
2 between these two functions. In the case of distribution, a direct access customer must
3 purchase this service from TEP at the applicable tariff rate, which in turn, is the same rate
4 used in determining the distribution service credit in the calculation of the Floating CTC.
5 (See Section 2.1(c) for the list of unbundled charges that are credited against the Floating
6 CTC.) On the other hand, while both transmission service and ancillary services are
7 necessary to effect a retail access transaction, these services will *not* be purchased directly
8 by the retail customer, but will be purchased by the scheduling coordinator that serves the
9 customer. For these services, the unbundled tariff contains the prices that will be charged
10 to the scheduling coordinator; at the same time, these unbundled tariff rates will be used
11 to determine the transmission and ancillary services credits in the calculation of the
12 Floating CTC charged to the retail customer.

13 **Q. WHAT UNBUNDLED TARIFF WILL A CONTRACT CUSTOMER USE IF THE**
14 **CUSTOMER ELECTS TO PARTICIPATE IN RETAIL ACCESS AFTER THE**
15 **CUSTOMER'S CONTRACT TERMINATES?**

16 A. The customer will use the unbundled tariff for which the customer would
17 otherwise qualify, given the customer's characteristics. However, in the calculation of
18 the Floating CTC, the bundled rate that is used will be that of the customer's bundled
19 contract price currently in effect. This provision adheres to the proportionality principle
20 in the proposed Rules, which states that stranded cost shall be recovered in substantially
21 the same proportion as such costs are recovered from customers under current rates.
22 [Electric Competition Rules, 1607.G.]

23 **Q. HOW DOES THE SETTLEMENT AGREEMENT PROVIDE FOR RECOVERY**
24 **OF PRUDENT COSTS ASSOCIATED WITH TEP'S IMPLEMENTATION OF**
25 **COMPETITIVE RETAIL ACCESS?**

26

1 A. Section 4.6 provides that TEP shall defer recovery of these costs until after
2 January 1, 2005, subject to review as part of TEP's June 1, 2004 filing. That filing can
3 result in rate changes as long as overall unbundled rates and/or Standard Offer rates
4 decline pursuant to Section 5.2.

5 **Q. DOES THIS PROVISION CONSTITUTE A "BLANK CHECK" FOR THE**
6 **UTILITY?**

7 A. No. This cost item is not intended to be a blank check for the utility. Before
8 implementation costs can be recovered, they must be found by the Commission to be
9 reasonable and prudent. The parties to this agreement are not waiving their rights to
10 review, and if necessary, challenge the reasonableness, prudence, or proper classification
11 of any of the costs that TEP seeks to recover pursuant to Section 4.6.

12 **Rate reductions**

13 **Q. WHAT RATE CHANGES ARE INCLUDED IN THE SETTLEMENT**
14 **AGREEMENT?**

15 A. For all non-contract customers, rates are scheduled to decline one percent
16 effective July 1, 1999 and another one percent effective July 1, 2000 (Section 5.1). The
17 rate reduction will apply both to Standard Offer and direct access customers.

18 **Q. HOW ARE THE RATE REDUCTIONS IMPLEMENTED FOR DIRECT ACCESS**
19 **CUSTOMERS?**

20 A. Mathematically, the reduction will be automatic when the Standard Offer rate
21 reductions take effect, because the Floating CTC uses the customer's bundled rate as the
22 basis of its calculation; thus, when the bundled rate declines one percent, all things being
23 equal, the Floating CTC will decline an equivalent dollar amount. At the same time, it is
24 desirable that the unbundled tariff be updated to reflect the lower Standard Offer price:
25 one of the principles in the Settlement Agreement is that the sum of the unbundled
26 pricing components must be equal to the bundled rate. I should note here that unbundled

1 tariff rates that have been filed are based on pre-rate reduction prices, and will need to be
2 updated to reflect the scheduled rate reductions.

3 **Q. WHAT LATITUDE WILL TEP HAVE TO SEEK HIGHER RATES DURING**
4 **THE TERM OF THE SETTLEMENT?**

5 A. TEP's ability to seek higher rates is limited to the emergency and regulatory
6 provisions of Section 13.4. But for these extraordinary circumstances, TEP's unbundled
7 and Standard Offer rates cannot increase through December 31, 2008; rate adjustments
8 are contemplated for the period starting January 1, 2005, but only in the context of
9 *reducing* standard offer and/or overall unbundled rates.

10 **Code of Conduct**

11 **Q. WHAT IS THE PURPOSE OF THE CODE OF CONDUCT PROVISIONS IN**
12 **SECTION 7.1 OF THE SETTLEMENT AGREEMENT?**

13 A. In my opinion, the establishment of effective rules governing affiliate
14 relationships is an integral part of successfully implementing retail competition. In the
15 proposed Electric Competition Rules, this function had been fulfilled, in part, by the
16 "Affiliate Transactions" section. Unfortunately, however, the "Affiliate Transactions"
17 section was deleted from the proposed Rules and replaced with a requirement that
18 Affected Utilities file a code of conduct within ninety days of the adoption of the Rules.
19 The code of conduct is intended to prevent anti-competitive abuses and must be approved
20 by the Commission.

21 The Settlement Agreement contemplates that TEP's code of conduct filing will
22 proceed in accordance with the Commission's proposed Rules. The parties to the
23 Settlement Agreement are free to participate in any such code of conduct proceeding and
24 to advocate their own positions at such time. In the meantime, TEP will adhere to a
25 voluntary, interim code of conduct that will be served on the parties within thirty days of
26 Commission approval of the Settlement Agreement.

1 I believe that given the deletion of the "Affiliate Transactions" section of the
2 proposed Rules, the approach taken in the Settlement Agreement is the most reasonable
3 way to address code of conduct issues without adding further delay to the start of
4 competition.

5 **Transmission Access**

6 **Q. WHAT PROVISIONS ARE MADE TO ENSURE NON-DISCRIMINATORY**
7 **ACCESS TO THE TRANSMISSION SYSTEM?**

8 A. Over the past two years, stakeholders in the southwestern U.S. have been
9 negotiating the terms of transmission access. The long-term resolution of this issue lies
10 in the formation of the Desert STAR Independent System Operator, and the interim
11 solution requires implementation of the AISA protocols and its oversight. Section 9.1 of
12 the Settlement Agreement requires TEP to fully support the AISA and the formation of
13 the Desert STAR Independent System Operator. In addition, TEP agrees to modify its
14 OATT to be consistent with any FERC-approved AISA protocols, and to file such
15 changes within ten days of Commission approval of the Settlement Agreement. I believe
16 these provisions are the appropriate steps for ensuring non-discriminatory access to the
17 transmission system.

18 **Conclusion**

19 **Q. IN CONCLUSION, WHAT IS YOUR RECOMMENDATION TO THE**
20 **COMMISSION REGARDING THE SETTLEMENT AGREEMENT?**

21 A. I believe that the Settlement Agreement is in the public interest. The Settlement
22 Agreement provides a fair and comprehensive resolution to many of the difficult issues
23 associated with effecting a transition to retail competition in TEP's distribution territory.
24 In particular, it resolves the issue of stranded cost while providing viable competitive
25 options and preserving rate reductions for customers. Further, the Settlement Agreement
26 commits TEP to assuring non-discriminatory access to the transmission system through

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

active support of the formation of the Desert STAR ISO and adherence to the AISA protocols.

I recommend that the Settlement Agreement be approved by the Commission.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Exhibit A

KEVIN C. HIGGINS
Senior Associate, Energy Strategies, Inc.
39 Market St., Suite 200, Salt Lake City, UT 84101
(801) 355-4365

Vitae

PROFESSIONAL EXPERIENCE

Senior Associate, Energy Strategies, Inc., Salt Lake City, Utah, February 1995 to present. Responsible for energy-related economic and policy analysis, regulatory intervention, and strategic negotiation on behalf of industrial, commercial, and public sector interests.

Adjunct Instructor in Economics, Westminster College, Salt Lake City, Utah. September 1981 to May 1982; September 1987 to May 1995. Taught in the economics and M.B.A. programs. Awarded Adjunct Professor of the Year, Gore School of Business, 1990-91.

Chief of Staff to the Chairman, Salt Lake County Board of Commissioners. Salt Lake City, Utah, January 1991 to January 1995. Senior executive responsibility for all matters of county government, including formulation and execution of public policy, delivery of approximately 140 government services, budget adoption and fiscal management (over \$300 million), strategic planning, coordination with elected officials, and communication with consultants and media.

Assistant Director, Utah Energy Office, Utah Department of Natural Resources, Salt Lake City, Utah, August 1985 to January 1991. Directed the agency's resource development section, which provided energy policy analysis to the Governor, implemented state energy development policy, coordinated state energy data collection and dissemination, and managed energy technology demonstration programs. Position responsibilities included policy formulation and implementation, design and administration of energy technology demonstration programs, strategic management of the agency's interventions before the Utah Public Service Commission, budget preparation, and staff development. Supervised a staff of economists, engineers, and policy analysts, and served as lead economist on selected projects.

Utility Economist, Utah Energy Office, January 1985 to August 1985. Provided policy and economic analysis pertaining to energy conservation and resource development, with an emphasis on utility issues. Testified before the state Public Service Commission as an expert witness in cases related to the above.

Acting Assistant Director, Utah Energy Office, June 1984 to January 1985. Same responsibilities as Assistant Director identified above.

Research Economist, Utah Energy Office, October 1983 to June 1984. Provided economic

analysis pertaining to renewable energy resource development and utility issues. Experience includes preparation of testimony, development of strategy, and appearance as an expert witness for the Energy Office before the Utah PSC.

Operations Research Assistant, Corporate Modeling and Operations Research Department, Utah Power and Light Company, Salt Lake City, Utah, May 1983 to September 1983. Primary area of responsibility: designing and conducting energy load forecasts.

Instructor in Economics, University of Utah, Salt Lake City, Utah, January 1982 to April 1983. Taught intermediate microeconomics, principles of macroeconomics, and economics as a social science.

Teacher, Vernon-Verona-Sherrill School District, Verona, New York, September 1976 to June 1978.

EDUCATION

Ph.D. Candidate, Economics. University of Utah (coursework and exams completed, 1981).

Fields of Specialization: Public Finance, Urban and Regional Economics, Economic Development, International Economics, History of Economic Doctrines.

Bachelor of Science, Education, State University of New York at Plattsburgh, 1976 (cum laude).

Danish International Studies Program, University of Copenhagen, 1975.

SCHOLARSHIPS AND FELLOWSHIPS

University Research Fellow, University of Utah, Salt Lake City, Utah 1982 to 1983.

Research Fellow, Institute of Human Resources Management, University of Utah, 1980 to 1982.

Teaching Fellow, Economics Department, University of Utah, 1978 to 1980.

New York State Regents Scholar, 1972 to 1976.

EXPERT TESTIMONY

"In the Matter of the Implementation of Rules Governing Cogeneration and Small Power Production in Utah," Utah Public Service Commission, Case No. 80-999-06, pp. 1293-1318. Prefiled testimony submitted January 13, 1984 (avoided costs), May 9, 1986 (security for levelized contracts) and November 17, 1986 (avoided costs); cross-examined February 29, 1984 (avoided costs), April 11, 1985 (standard form contracts), May 22-23, 1986 (security for

levelized contracts) and December 16-17, 1986 (avoided costs).

"In the Matter of the Investigation of Demand-Side Alternatives to Capacity Expansion for Electric Utilities," Utah Public Service Commission, Case No. 84-999-20. Prefiled direct testimony submitted June 17, 1985. Prefiled rebuttal testimony submitted July 29, 1985; Cross-examined August 19, 1985.

"In the Matter of the Application of Sunnyside Cogeneration Associates for Approval of the Cogeneration Power Purchase Agreement," Utah Public Service Commission, Case No. 86-2018-01. Rebuttal testimony submitted July 16, 1986; cross-examined July 17, 1986.

"In the Matter of the Investigation of Rates for Backup, Maintenance, Supplementary, and Standby Power for Utah Power and Light Company," Utah Public Service Commission, Case No. 86-035-13; prefiled direct testimony submitted January 5, 1987. Case settled by stipulation approved August 1987.

"Cogeneration: Small Power Production," Federal Energy Regulatory Commission, Docket No. RM87-12-000. Statement delivered March 27, 1987, on behalf of State of Utah, in San Francisco.

"In the Matter of the Application of Utah Power and Light Company for an Order Approving a Power Purchase Agreement," Utah Public Service Commission, Case No. 87-035-18. Oral testimony delivered July 8, 1987.

"In the Matter of the Application of Mountain Fuel Supply Company for Approval of Interruptible Industrial Transportation Rates," Utah Public Service Commission, Case No. 86-057-07. Prefiled direct testimony submitted January 15, 1988; cross-examined March 30, 1988.

"In the Matter of the Application of Utah Power & Light Company and PC/UP&L Merging Corp. (to be renamed PacifiCorp) for an Order Authorizing the Merger of Utah Power & Light Company and PacifiCorp into PC/UP&L Merging Corp. and Authorizing the Issuance of Securities, Adoption of Tariffs, and Transfer of Certificates of Public Convenience and Necessity and Authorities in Connection Therewith," Utah Public Service Commission, Case No. 87-035-27; prefiled direct testimony submitted April 11, 1988; cross-examined May 12, 1988 (economic impact of UP&L merger with PacifiCorp).

"In the Matter of the Review of the Rates of Utah Power and Light Company pursuant to The Order in Case No. 87-035-27," Utah Public Service Commission, Case No. 89-035-10. Rebuttal testimony submitted November 15, 1989; cross-examined December 1, 1989 (rate schedule changes for state facilities).

"In the Matter of the Investigation of the Reasonableness of the Rates and Tariffs of Mountain Fuel Supply Company," Utah Public Service Commission, Case No. 89-057-15. Pre-filed direct

testimony submitted July 1990. Surrebuttal testimony submitted August 1990.

"In the Matter of the Application of Mountain Fuel Supply Company for an Increase in Rates and Charges," Utah Public Service Commission, Case No. 95-057-02. Prefiled direct testimony submitted June 19, 1995. Rebuttal testimony submitted July 25, 1995. Surrebuttal testimony submitted August 1995.

"Questar Pipeline Company," Federal Energy Regulatory Commission, Docket No. RP95-407. Direct testimony prepared, but withheld subject to settlement. Settlement approved July 1, 1996.

"In the Matter of the Application of PacifiCorp, dba Pacific Power & Light Company, for Approval of Revised Tariff Schedules and an Alternative Form of Regulation Plan," Wyoming Public Service Commission, Docket No. 2000-ER-95-99. Prefiled direct testimony submitted April 8, 1996.

"In the Matter of Arizona Public Service Company's Rate Reduction Agreement." Arizona Corporation Commission, Docket No. U-1345-95-491. Direct testimony prepared, but withheld consequent to issue resolution. Agreement approved April 18, 1996.

"In the Matter of the Petition of Sunnyside Cogeneration Associates for Enforcement of Contract Provisions." Utah Public Service Commission, Docket No. 96-2018-01. Prefiled direct testimony submitted July 8, 1996.

"In the Matter of Consolidated Edison Company of New York, Inc.'s Plans for (1) Electric Rate Restructuring Pursuant to Opinion No. 96-12; and (2) the Formation of a Holding Company Pursuant to PSL, Sections 70, 108, and 110, and Certain Related Transactions." New York Public Service Commission, Case 96-E-0897. Testimony filed April 9, 1997. Cross examined May 5, 1997.

"In the Matter of the Competition in the Provision of Electric Service Throughout the State of Arizona," Arizona Corporation Commission, Docket No. U-0000-94-165. Direct and rebuttal testimony filed January 21, 1998. Cross-examined February 25, 1998.

"Hearings on Customer Choice," Salt River Project Board of Directors, written and oral comments provided June 22, 1998; June 29, 1998; July 9, 1998; August 7, 1998; and August 14, 1998.

"Hearings on Pricing," Salt River Project Board of Directors, written and oral comments provided November 9, 1998.

OTHER RELATED ACTIVITY

Board Member, Arizona Independent Scheduling Administrator Association, October 1998 to present.

Acting Chairman, Operating Committee, Arizona Independent Scheduling Administrator Association, October 1998 to present.

Member, Desert Star ISO Investigation Working Groups: Operations, Pricing, and Governance April 1997 to present.

Participant, Independent System Operator and Spot Market Working Group, Arizona Corporation Commission, April 1997 to September 1997.

Participant, Unbundled Services and Standard Offer Working Group, Arizona Corporation Commission, April 1997 to October 1997.

Participant, Customer Selection Working Group, Arizona Corporation Commission, March 1997 to September 1997.

Member, Stranded Cost Working Group, Arizona Corporation Commission, March 1997 to September 1997.

Member, Electric System Reliability & Safety Working Group, Arizona Corporation Commission, November 1996 to present.

Consultant to business customers, "In the Matter of Competition in the Provision of Electric Services Throughout the State of Arizona," Arizona Corporation Commission, Docket No. U-0000-94-165. Preparation of comments and participation in staff workshops. Rule on retail electric competition adopted December 23, 1996.

Chairman, Salt Palace Renovation and Expansion Committee, Salt Lake County/State of Utah/Salt Lake City, multi-government entity responsible for implementation of planning, design, finance, and construction of an \$85 million renovation of the Salt Palace Convention Center, Salt Lake City, Utah, May 1991 to December 1994.

State of Utah Representative, Committee on Regional Electric Power Cooperation, a joint effort of the Western Interstate Energy Board and the Western Conference of Public Service Commissioners, January 1987 to December 1990.

Member, Utah Governor's Economic Coordinating Committee, January 1987 to December 1990.

Chairman, Standard Contract Task Force, established by Utah Public Service Commission to address contractual problems relating to qualifying facility sales under PURPA, March 1986 to December 1990.

Chairman, Load Management and Energy Conservation Task Force, Utah Public Service

Commission, August 1985 to December 1990.

Alternate delegate for Utah, Western Interstate Energy Board, Denver, Colorado, August 1985 to December 1990.

Articles Editor, Economic Forum, September 1980 to August 1981.