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Arizona Corporation Commission

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

IN THE MATTER OF THE FILING OF TUCSON) DOCKET NO. E-01933A-97-0772
ELECTRIC POWER COMPANY OF UNBUNDLED)
TARIFFS PURSUANT TO A.A.C. R14-2-1602)
et seq.)

IN THE MATTER OF THE COMPETITION IN) DOCKET NO. RE-00000C-94-0165
THE PROVISION OF ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA.)
NOTICE OF FILING)

Pursuant to the Commission's Procedural Order dated June 23, 1999,
M-S-R Public Power Agency and the Southern California Public Power Authority
hereby file the direct testimony of Alan L. Hockenson in the above-captioned
matters.

RESPECTFULLY SUBMITTED this 28th day of July, 1999.

By *Robert S. Lynch*
Robert S. Lynch
Attorney at Law
340 E. Palm Lane Suite 140
Phoenix, AZ 85004-4529
Attorney for M-S-R Public Power Agency
and Southern California Public Power
Authority

Original and 10 copies of the
foregoing filed this 28th day
of July, 1999 with:

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

1 Copies of the foregoing hand
delivered this 28th day of
2 July, 1999 to:

3 Carl J. Kunasek, Chairman
Jim Irvin, Commissioner
4 William A. Mundell, Commissioner
Arizona Corporation Commission
1200 West Washington Street
5 Phoenix, Arizona 85007

6 Jerry L. Rudibaugh, Chief Hearing Officer
Hearing Division
7 Arizona Corporation Commission
1200 West Washington Street
8 Phoenix, Arizona 85007

9 Paul Bullis, Chief Counsel
Legal Division
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10 1200 West Washington Street
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11 Ray Williamson, Acting Director
Utilities Division
12 Arizona Corporation Commission
1200 West Washington Street
13 Phoenix, Arizona 85007

14 Copies of the foregoing mailed
this 28th day of July, 1999,
15 to:

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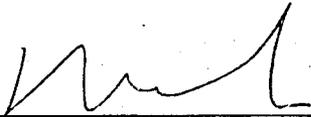
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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01933A-98-0471
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS STRANDED COST)
RECOVERY AND FOR RELATED APPROVALS,)
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IN THE MATTER OF THE FILING OF TUCSON) DOCKET NO. E-01933A-97-0772
ELECTRIC POWER COMPANY OF UNBUNDLED)
TARIFFS PURSUANT TO A.A.C. R14-2-1602)
et seq.)

IN THE MATTER OF THE COMPETITION IN)
THE PROVISION OF ELECTRIC SERVICES) DOCKET NO. RE-00000C-94-0165
THROUGHOUT THE STATE OF ARIZONA.)
) DIRECT TESTIMONY OF ALAN L. HOCKENSON
)

On Behalf of

M-S-R PUBLIC POWER AGENCY AND THE SOUTHERN CALIFORNIA PUBLIC
POWER AUTHORITY, INTERVENORS

JULY 28, 1999

1 PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 Alan L. Hockenson, 1300 Zinfandel Dr., Sacramento, California,
3 95670.

4
5 WHO IS YOUR EMPLOYER AND WHO ARE YOU TESTIFYING FOR IN THIS
6 PROCEEDING?

7 I am employed by RMI/Navigant Consulting, Inc. and testifying for
8 M-S-R Public Power Agency (M-S-R) and the Southern California Public
9 Power Authority (SCPPA).

10
11 WHO ARE M-S-R AND SCPPA AND WHAT IS THEIR RELATIONSHIP WITH THE TUCSON
12 ELECTRIC POWER COMPANY (TEP)?

13 M-S-R and SCPPA are joint powers agencies formed under the laws
14 of the State of California. M-S-R and SCPPA are comprised of members
15 which are municipal utilities or irrigation districts in Northern
16 California and Southern California, respectively. Both M-S-R and
17 SCPPA maintain an ownership in the San Juan Generating Station (San
18 Juan) located near Farmington, New Mexico, as does TEP. M-S-R
19 owns 28.8 percent of San Juan Unit No. 4, SCPPA owns 41.8 percent of
20 San Juan Unit No. 3, and TEP owns 50 percent of San Juan Units Nos. 1
21 and 2. Therefore, M-S-R, SCPPA, and TEP are partners in the
22 operation, maintenance, and management of San Juan. M-S-R and SCPPA
23 also have Interconnection Agreements with TEP under which TEP provides
24 services to M-S-R and SCPPA causing the delivery of generation from
25 San Juan to locations in Western Arizona. M-S-R and SCPPA are totally

1 dependent upon these services to assure delivery of San Juan
2 generation to their member utilities in California.

3
4 HOW ARE YOU QUALIFIED TO PROVIDE TESTIMONY ON BEHALF OF M-S-R AND
5 SCPPA BEFORE THE ACC?

6 I am a registered electrical engineer in the States of Arizona
7 and California. My resume is attached to this testimony as Exhibit
8 ALH-1. I have served as consultant to M-S-R relative to its interest
9 in San Juan and supporting contractual relationships on a continuous
10 basis since 1982. In this capacity, I have assisted M-S-R in the
11 negotiation and administration of its contracts related to San Juan
12 and TEP. When SCPPA purchased its interest in San Juan, M-S-R was
13 afforded a first right of refusal pursuant to contracts related to the
14 ownership of San Juan. I have reviewed the Interconnection Agreements
15 between M-S-R and TEP (M-S-R IA) and SCPPA and TEP (SCPPA IA) and
16 found the relationship to be very similar. Due to this similarity, I
17 am qualified to speak to the interests and concerns of both SCPPA and
18 M-S-R relative to the organizational plans of TEP and have been
19 retained by both organizations to testify on their joint behalf.

20
21 WHY ARE M-S-R AND SCPPA CONCERNED ABOUT THEIR AGREEMENTS WITH TEP IN
22 THE CONTEXT OF THIS PROCEEDING?

23 The Settlement Agreement of June 9, 1999 provides that TEP will
24 divest generation and other assets deemed to be competitive to a
25 subsidiary on or before December 31, 2002. Performance of the

1 Agreements between M-S-R and TEP and SCPPA and TEP require use of both
2 generation and transmission assets. We have asked in data requests of
3 TEP whether it intends to continue to perform its obligations under
4 these Agreements after such divestiture. The responses use
5 terminology such as "should not", "unsure", and "uncertain".
6 Moreover, TEP states that it is "unclear" whether these Agreements are
7 competitive assets. Nevertheless, TEP states that it intends to
8 fulfill existing contractual obligations. M-S-R and SCPPA are
9 concerned that nothing in this proceeding or any order approving the
10 Settlement Agreement in any way impair TEP's ability to continue to
11 perform its obligations under these Agreements.

12
13 WHAT ARE THE SPECIFIC CONTRACTUAL RELATIONSHIPS AND OBLIGATIONS THAT
14 M-S-R WOULD LIKE THE ARIZONA CORPORATION COMMISSION TO RECOGNIZE IN
15 THIS CASE?

16 M-S-R and TEP executed the San Juan Unit No. 4 Sale of Option
17 Agreement Dated as of November 29, 1982 Between Tucson Electric Power
18 Company and M-S-R Public Power Agency (Sale of Option Agreement). M-
19 S-R subsequently exercised the option with the Public Service Company
20 of New Mexico (PNM) resulting in M-S-R's 28.8 percent ownership
21 interest in San Juan Unit No. 4. Based on the current rating of San
22 Juan Unit No. 4, this ownership interest is approximately 146
23 megawatts (MW). The following obligation is contained in Section 8.4
24 of the Sale of Option Agreement:
25

1 "Furthermore, Tucson shall use its best efforts to protect the
2 interest of M-S-R in the San Juan Project." (See: Exhibit ALH-2,
3 attached.)

4 M-S-R believes that this obligation of TEP survives any
5 restructuring activities in the State of Arizona involving TEP, any
6 transactions between TEP and its affiliated organizations, any
7 transactions between TEP and third parties. Furthermore, M-S-R
8 believes that this obligation extends to any party ultimately owning
9 TEP's 50 percent ownership interest in San Juan Units Nos. 1 and 2.

10 On September 20, 1982, M-S-R and TEP executed the Interconnection
11 Agreement Between the Tucson Electric Power Company and M-S-R Public
12 Power Agency, the M-S-R IA. Appended to the M-S-R IA were five
13 service schedules under which TEP provided specific services to M-S-R.
14 The rates and charges for these services were not standard for TEP as
15 M-S-R pre-purchased such services and associated arrangements when the
16 Sale of Option Agreement was closed. Since the closing, three Service
17 Schedules have expired and two remain in effect.

18 The M-S-R IA contains Revised Service Schedule D Power Exchange
19 Agreement (Power Exchange). The term of this agreement is through May
20 1, 2025. Pursuant to Section D3.1 thereof, TEP has the following
21 obligation:

22 "During the term hereof, M-S-R shall deliver to Tucson its
23 entitlement to generation at San Juan Generating Station. Hour
24 by hour, Tucson will deliver or will arrange for the provision to
25 M-S-R of a like amount of capacity and the delivery of a like

1 amount of associated energy at PVNGSS (Palo Verde Nuclear
2 Generating Station), the Moenkopi Substation, or the Westwing
3 Switchyard."

4 Section D6.1 further provides:

5 "There are no losses associated with the capacity and energy
6 deliveries made to Tucson at San Juan and to M-S-R at PVNGSS, the
7 Moenkopi Substation, or the Westwing Switchyard."

8 Section D7.1 further provides:

9 "There shall be no charges associated with the delivery of
10 capacity and energy associated with this Agreement." (See:
11 Exhibit ALH-3, attached.)

12 M-S-R believes the obligation of TEP to deliver capacity and
13 energy as specified in Service Schedule D with no losses or charges
14 must be maintained regardless of whether the Arizona Corporation
15 Commission requires TEP to divest its generation to a TEP subsidiary.
16 M-S-R requires its full entitlement in generation at San Juan to be
17 delivered to M-S-R's delivery points for the term of Service Schedule
18 D as scheduled by M-S-R.

19 The M-S-R IA also contains Revised Service Schedule E Reserve
20 Sharing which was amended on April 27, 1995. The agreement runs for
21 the life of San Juan Unit No. 4 or until terminated by either Party
22 upon three (3) years advance written notice. Pursuant to Section E5
23 thereof, TEP has the following obligation:

24 "It is understood that M-S-R will count as capacity one-half of
25 its generation entitlement in Unit No. 4 and one quarter in each

1 of Unit No. 1 and Unit No. 2, and will schedule from these units
2 based on their availability." (See: Exhibit ALH-4, attached.)

3 In addition, other provisions of Service Schedule E provide for
4 start-up energy obligations and the maintenance of energy imbalance
5 accounts. All of these services are provided at no charge to M-S-R
6 due to the pre-payment I previously mentioned.

7 M-S-R believes the obligation of TEP to perform the services as
8 specified in Service Schedule E at no cost survives any restructuring
9 requirements imposed by the Arizona Corporation Commission including
10 requiring TEP to divest its generation to a TEP subsidiary.

11
12 WHAT ARE THE SPECIFIC CONTRACTUAL RELATIONSHIPS AND OBLIGATIONS THAT
13 SCPPA WOULD LIKE THE ARIZONA CORPORATION COMMISSION TO RECOGNIZE IN
14 THIS CASE?

15 SCPPA purchased its interest in San Juan Unit No. 3 pursuant to
16 the San Juan Unit 3 Purchase Agreement dated March 25, 1993 between
17 SCPPA and Century Power Corporation (Century).

18 TEP and Century executed the Amended and Restated Interconnection
19 Agreement Between Tucson Electric Power Company and Century Power
20 Company on October 7, 1992. This agreement was assigned to SCPPA from
21 Century pursuant to the Assignment and Amendment No. 1 to the Amended
22 and Restated Interconnection Agreement dated March 1, 1993, which was
23 executed by SCPPA, TEP, and Century. Collectively, the
24 Interconnection Agreement assigned to SCPPA and the supporting
25 assignment comprise the SCPPA IA. Based on the current rating of San

1 Juan Unit No. 3, this ownership interest is approximately 208
2 megawatts (MW). The SCPPA IA runs concurrently with the commercial
3 operating life of San Juan Unit No. 3.

4 Appended to the SCPPA IA are five service schedules under which
5 TEP provided specific services to SCPPA. SCPPA is most concerned
6 about Service Schedule C Power Exchange Agreement (Power Exchange).

7 See: Exhibit ALH-5, attached. Pursuant to Section C.6.2 thereof, TEP
8 has the following obligation:

9 "Tucson shall have a firm obligation to deliver and make
10 available to Century (now SCPPA) capacity and energy at the
11 Exchange Points of Delivery equivalent to Century (now SCPPA)'s
12 San Juan Unit 3 generation (less third party losses as provided
13 in Section C.7) from any source available to Tucson. . ."

14 Pursuant to Section C.7 thereof, TEP has made the following
15 commitment to SCPPA:

16 "There are no losses associated with the capacity and energy
17 deliveries made pursuant to Section C.6.1 hereof, provided,
18 however, that if Tucson is required to reimburse third parties
19 for losses due to inadvertent power flows as a result of
20 deliveries to any of the Exchange Points of Delivery other than
21 San Juan Four Corners . . . Century (now SCPPA) shall bear its
22 proportional share of such losses."

23 However, TEP has the right to curtail the Power Exchange
24 arrangement in the event of an unplanned or extraordinary circumstance
25 and must follow a strict curtailment priority procedure. All actions

1 must be with the exercise of prudent operating procedures and
2 generally accepted utility practices.

3 SCPPA believes the obligation of TEP to perform the services as
4 specified in Service Schedule C must be maintained regardless of
5 whether the Arizona Corporation Commission allows TEP to divest its
6 generation to a TEP subsidiary. SCPPA requires its full entitlement
7 in generation at San Juan to be delivered to the Exchange Points of
8 Delivery which are: (1) the Palo Verde Generation Station 500-kV
9 Switchyard; (2) the Westwing 500-kV Switchyard; (3) the Four Corners
10 345-kV Switchyard; and (4) the San Juan 345-kV Switchyard, for the
11 term of Service Schedule C as scheduled by SCPPA.

12 Pursuant to Section C.8 thereof, TEP has made the following
13 commitment to SCPPA:

14 "The delivery of capacity and energy associated with the Service
15 Schedule C will be by capacity and energy exchange, and there
16 shall be no additional charge associated with this Service
17 Schedule C."

18 SCPPA believes the obligation of TEP to perform the services as
19 specified in Service Schedule C with no losses (except as noted above)
20 or charges must be maintained regardless of whether the Arizona
21 Corporation Commission allows TEP to divest its generation to a TEP
22 subsidiary. SCPPA requires its full entitlement in generation at San
23 Juan to be delivered to SCPPA's delivery points for the term of
24 Service Schedule C as scheduled by SCPPA (except as noted above).

1 Pursuant to Service Schedule D of the SCPPA IA (Start-up, Area
2 Control and Regulation) TEP has agreed to provide SCPPA with specific
3 services at specific rates. Given that the Federal Energy Regulatory
4 Commission (FERC) has jurisdiction over this TEP rate setting process,
5 SCPPA is concerned that actions taken by the Arizona Corporation
6 Commission regarding this case do not result in cost-shifting between
7 TEP's functions which could ultimately result in greater costs for the
8 services being provided to SCPPA.

9
10 WHAT CONCLUSIONS WOULD YOU HAVE THE ARIZONA CORPORATION COMMISSION
11 DRAW FROM YOUR TESTIMONY?

12 M-S-R is steadfast in its position that the services currently
13 being provided by TEP as enumerated above must continue to be
14 performed in a manner that is of a quality and efficiency currently
15 being enjoyed by M-S-R. Furthermore, M-S-R is wary of the accounting
16 changes being considered by TEP and will not accept any losses or
17 charges from TEP and/or its successors associated with the services
18 identified above. If the Arizona Corporation Commission approves the
19 Settlement Agreement, it should condition its approval, including
20 approval for TEP to divest its generation to a TEP subsidiary or any
21 other entity, on TEP by contract or otherwise continuing to perform
22 its obligations under existing contracts as if generation had not been
23 divested to another entity.

24 SCPPA is steadfast in its position that the services currently
25 being provided by TEP as enumerated above must continue to be

1 performed in a manner that is of a quality and efficiency currently
2 being enjoyed by SCPPA. Furthermore, SCPPA is wary of the accounting
3 changes being considered by TEP and will not accept any losses or
4 charges from TEP and/or its successors associated with the services
5 identified above unless TEP sufficiently documents the instances when
6 contractual exceptions were applied. If the Arizona Corporation
7 Commission approves the Settlement Agreement, it should condition its
8 approval, including approval for TEP to divest its generation to a TEP
9 subsidiary or any other entity, on TEP by contract or otherwise
10 continuing to perform its obligations under existing contracts as if
11 generation had not been divested to another entity.

12
13 DOES THIS CONCLUDE YOUR TESTIMONY?

14 Yes, it does.
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25

ALAN L. HOCKENSON

Alan Hockenson is a professional electrical engineer with over 22 years of experience in the electric utility industry. He has a broad base of expertise, including power supply and transmission planning, contract development and negotiation, project development and management, ownership representation, and financing support. Mr. Hockenson has prepared long-term utility resource plans, performed production-cost model simulations, and conducted planning studies associated with transmission interconnections and new transmission facilities. He has also negotiated power purchase contracts and prepared consultant's reports in support of resource acquisitions. In addition, Mr. Hockenson has substantial experience working in support of a California joint powers agency's ownership in a coal-fired generating station located in New Mexico, as well as assisting the agency in evaluating resource alternatives in the Pacific Northwest. In this capacity, he has helped the agency develop an official statement in support of revenue bond financings, develop power purchase contracts, and perform feasibility assessments of power supply options. He also assists the agency with the planning and development of a variety of 500-kV transmission facilities in California, Arizona, and Nevada.

EDUCATION

B.S. - Electrical and Electronics Engineering
California State University, Chico

**PROFESSIONAL
HISTORY**

Resource Management International, Inc.
Principal Executive Consultant

California Department of Water Resources
Associate Electric Utilities Engineer

**REPRESENTATIVE
PROJECT
EXPERIENCE**

Common Forecasting Methodology (CFM6/CFM7). City of Redding, Redding, California. 1985, 1987.

Prepared resource plans in support of a utility's filing of a Common Forecasting Methodology before a state energy commission.

M-S-R Resource Investigations. M-S-R Public Power Agency. Sacramento, California. 1983-1991.

Performed a variety of feasibility assessments of various power supply options, including coal-fired, nuclear, geothermal, and hydroelectric generating projects; transmission projects; and potential power purchases.

Pacific Gas & Electric Company-Rate Forecast Development. M-S-R Public Power Agency. Sacramento, California. 1983-1985, 1987.

Performed production-cost model simulations of a large electric utility.

Operating Agreement Development. M-S-R Public Power Agency. Sacramento, California. 1989, 1990.

Developed the internal mechanisms necessary for a joint powers agency to schedule its purchased resources among its members.

ALAN L. HOCKENSON

Brokerage Energy Account. M-S-R Public Power Agency. Albuquerque, New Mexico. 1984, 1985.

Negotiated the scheduling parameters for contracts between a joint powers agency and several utilities.

Resource Plan Development. City of Redding. Redding, California. 1984.

Prepared a resource plan for a utility in consideration of future resource acquisitions, new project development, and annexation of new service territory.

M-S-R Financing Analysis. M-S-R Public Power Agency. Sacramento, California. 1982, 1983, 1987-1988.

In support of resource decisions of a joint powers agency, performed analysis of the members' collective generation requirements.

Marketing of Tucson Electric Power Company Energy. M-S-R Public Power Agency. Tucson, Arizona. 1984, 1985, 1986.

Marketed resources available to a utility from another utility's system to other utilities in the region.

Mead-Phoenix/Mead-Adelanto. M-S-R Public Power Agency. Phoenix, Arizona & Las Vegas, Nevada & Victorville, California. 1985-1994.

Assisted a joint power agency in the planning and development of a variety of 500-kV transmission facilities to be jointly owned by a large group of utilities.

San Juan Project Management. M-S-R Public Power Agency. Farmington/Albuquerque, New Mexico. 1983-1994.

As the technical representative for a joint powers agency, managed its investment in a coal-fired generating resource through participation at many project committees.

San Juan Project Administration. M-S-R Public Power Agency. Sacramento, California & Albuquerque, New Mexico. 1983-1994.

Managed many of the day-to-day administrative functions associated with a joint powers agency ownership in a coal-fired generating resource through. Responsibilities included dealing with representatives of other utilities in the areas of generation engineering, fuels management, accounting, contracts, public relations, risk management, financial management, and scheduling and dispatching.

Pacific Gas & Electric Company-Rate Forecast Development. M-S-R Public Power Agency. Sacramento, California. 1983-1985, 1987.

Performed multiple analyses of an electric utility in order to determine the probable future wholesale rates to municipal customers.

Economic and Financial Services-Financing Support

M-S-R Financing Support. M-S-R Public Power Agency. San Francisco, California. 1982-1989, 1991.

Assisted in the preparation of four consultant's reports in support of a joint powers agency's acquisition of a coal-fired generating facility. The face value of the original financing and subsequent refinancings have totaled over \$1.5 billion.

San Juan Project Development. M-S-R Public Power Agency. San Francisco, California. 1982, 1983.

Assisted in the development and overall management of an official statement for a joint powers agency for revenue bond financings totaling more than \$1.2 billion.

Public Service Company of New Mexico Contract Negotiation. M-S-R Public Power Agency. Albuquerque, New Mexico. 1986, 1987, 1989.

Negotiated contract amendments with specific utilities in order to make a refinancing feasible for a joint powers agency.

Operating Agreement Development. M-S-R Public Power Agency. Sacramento, California. 1989.

Developed internal operating agreements for a joint powers agency regarding purchase power contracts developed by the agency.

San Juan Project Administration. M-S-R Public Power Agency. Albuquerque, New Mexico. 1983, 1986, 1989, 1990.

Negotiated contract amendments and other supporting letter agreements relating to a joint powers agency ownership in a jointly owned coal-fired generating facility.

Brokerage Energy Account. M-S-R Public Power Agency. Albuquerque, New Mexico. 1984, 1985.

Negotiated the scheduling parameters for contracts between a joint powers agency and several utilities.

San Juan Project Administration. M-S-R Public Power Agency. Sacramento, California & Albuquerque, New Mexico. 1983-1994.

Managed many of the day-to-day administrative functions associated with a joint powers agency ownership in a coal-fired generating resource. Responsibilities included dealing with representatives of other utilities in the areas of generation engineering, fuels management, accounting, contracts, public

ALAN L. HOCKENSON

relations, risk management, financial management, and scheduling
and dispatching.

**PROFESSIONAL
MEMBERSHIPS**

Institute of Electrical and Electronics Engineers

utmost good faith and the highest fidelity.

1
2 8.2 Tucson shall have the continuing obligation to inform
3 M-S-R, promptly in writing, of any information which
4 may materially affect the interest of M-S-R in the San
5 Juan Project including, but not limited to, all
6 material legal, legislative, regulatory,
7 environmental, and operational developments pertaining
8 thereto.

9 8.3 Tucson recognizes that M-S-R will have a non-voting
10 right to participate in all San Juan Project
11 participant committee discussions of matters affecting
12 Unit No. 4 in accordance with the Purchase and
13 Participation Agreement. Tucson, in accordance with
14 Section 13.3.4 of the Purchase and Participation
15 Agreement, shall have full voting rights, on all San
16 Juan Project Committees with respect to all matters
17 solely involving Unit No. 4, even though Tucson will
18 have no ownership interest in Unit No. 4. Tucson
19 acknowledges that one of the primary inducements for
20 M-S-R entering into this Agreement is Tucson's
21 agreement to represent and protect the interests of
22 M-S-R in San Juan Unit No. 4.

23 8.4 After the Purchase Closing (as that term is defined in
24 the Purchase and Participation Agreement), Tucson, as
25 a member of all Project Committees, and Tucson's
26 President, as a member of the dispute resolution
27 group, shall vote as directed by M-S-R on all matters
28 that relate solely to Unit 4. After notice of

1 exercise of the Tucson Option but prior to the
2 Purchase Closing, Tucson shall so vote on all matters
3 that involve or may involve significant operating
4 costs or capital expenditures or significantly affect
5 the Purchase Price of the Ownership Interest.
6 Furthermore, Tucson shall use its best efforts to
7 protect the interest of M-S-R in the San Juan
8 Project. To achieve this result, Tucson shall consult
9 with M-S-R on all matters involving the San Juan
10 Project which affect Unit No. 4, with the
11 understanding that Tucson has reserved the right to
12 exercise final judgment on such matters involving the
13 remainder of the San Juan Project.

14 = 8.5 Upon receipt by Tucson or distribution by the
15 Operating Agent, Tucson shall promptly furnish, or
16 arrange for the Operating Agent to furnish, to M-S-R
17 complete copies of all meeting notices, agendas,
18 minutes, staff, executive, committee and other reports
19 relating to the San Juan Project.

20 8.6 Upon notification from the Operating Agent, Tucson
21 shall immediately notify M-S-R in writing and
22 simultaneously by telephone or other practical
23 electronic medium of any question which may affect
24 Unit No. 4 and be considered for a vote by any project
25 committee so that M-S-R has sufficient time to (i)
26 consider the question, (ii) attend the meeting of the
27 project committee, and (iii) direct Tucson to vote on
28 behalf of M-S-R, in accordance with this Section 8.

by mutual agreement of the Parties. This Agreement is binding upon the Parties upon the execution hereof.

SECTION D3
EXCHANGE

D3.1 During the term hereof, M-S-R shall deliver to Tucson its entitlement to generation at the San Juan Generating Station. Hour by hour, Tucson will deliver or will arrange for the provision to M-S-R of a like amount of capacity and the delivery of a like amount of associated energy at PVNGSS, the Moenkopi Substation, or the Westwing Switchyard.

D3.2 There should be no imbalance in energy deliveries. In the event that such imbalances should occur due to scheduled or nonscheduled outages, the Operating Committee representatives will arrange for schedules and delivery rates to correct the imbalance.

SECTION D4
SCHEDULING

D4.1 During the period of the Agreement, M-S-R shall schedule energy deliveries to Tucson by providing Tucson by the twenty-fifth (25th) day of each month a written estimate of the daily schedules for the following month. In addition, M-S-R will provide by 2 p.m. Mountain Standard Time each day during the term hereof an estimate of the following day's hour-by-hour

twenty-four (24) hour schedule.

SECTION D5
POINT(S) OF DELIVERY

D5.1 The Point(s) of Delivery for transactions hereunder shall be:

- (a) From M-S-R to Tucson at the San Juan Generating Station 345 kV Switchyard.
- (b) From Tucson to M-S-R at PVNGSS, the Moenkopi Substation, or the Westwing Switchyard.
- (c) Other points of delivery as the Operating Committee representatives may mutually agree upon.

SECTION D6
LOSSES

D6.1 There are no losses associated with the capacity and energy deliveries made to Tucson at San Juan and to M-S-R at PVNGSS, the Moenkopi Substation, or the Westwing Switchyard.

SECTION D7
CHARGES

D7.1 There shall be no charges associated with the delivery of capacity and energy associated with this Agreement.

Tucson for reserve purposes one-half of M-S-R's capacity rights in Unit No. 4 and Tucson will in turn assign to M-S-R for reserve purposes an equal amount of Tucson's capacity rights in Unit No. 1 and Unit No. 2.

E.4 It is recognized that this Service Schedule E is entered into for the purpose of reducing the reserve requirements of M-S-R and Tucson only and it is understood that no ownership rights are in any way to be affected by this Service Schedule E.

E.5 It is understood that M-S-R will count as capacity one-half of its generation entitlement in Unit No. 4 and one quarter in each of Unit No. 1 and Unit No. 2, and will schedule from these units based on their availability. For purposes of energy accounting, M-S-R hourly energy entitlements shall be determined by multiplying the M-S-R participation percentage expressed as a decimal quantity by Unit No. 4 hourly capability less the M-S-R hourly curtailment of Unit No. 1 and Unit No. 2 less the M-S-R hourly curtailment of Unit No. 4. Energy schedules will be adjusted to reduce imbalances in the course of the year based on the M-S-R energy entitlements. Adjustments in the deliveries of energy to M-S-R during the first two months of the succeeding calendar year will be made based upon the year end equalization.

This two-month period may be extended by mutual agreement of the Operations Committee if winter or spring maintenance is scheduled on Unit No. 1, Unit No. 2 or Unit No. 4 and the resulting energy shift is in a balancing direction.

E.6 No time limit will be placed on the sharing of reserves in Unit No. 1, Unit No. 2 or Unit No. 4. However, energy imbalances resulting from the sharing of reserves will be limited to the energy equivalent of 60 days' operation at 100 percent capacity factor operation of one-half of the M-S-R entitlement in Unit No. 4.

line is converted to 345-kV operating (estimated 1994), the Four Corners 345-kV Switchyard.

C.5 PVNGSS and the aforementioned San Juan and Westwing Switchyards and at such time as the Shiprock-Four Corners transmission line is converted to 345-kV operation the Four Corners 345-kV Switchyard are hereby designated as "Exchange Points of Delivery".

C.6 EXCHANGE: Tucson and Century by this Service Schedule C will exchange capacity and energy as follows:

C.6.1 During the term of this Agreement Century shall deliver its entitlement to generation of San Juan Unit 3 to Tucson's transmission facilities at the San Juan 345-kV Switchyard. Hour by hour, Tucson shall deliver a like amount of capacity and associated energy for the account of Century to any one, more or all of the Exchange Points of Delivery in accordance with the schedules of Century or its customers.

C.6.2 Tucson shall have a firm obligation to deliver and make available to Century capacity and energy at the Exchange Points of Delivery equivalent to Century's San Juan Unit 3 generation (less third party losses as provided in Section C.7) from any source available to Tucson, subject only to Tucson's right, in the exercise of prudent operating procedures and generally accepted utility practices, to

curtail San Juan Unit 3 exchange services as follows:

In the event an unplanned event or extraordinary circumstance jeopardizes or may imminently jeopardize the capability of the transmission system or continuity of service within or to Tucson's control area, Tucson may interrupt or reduce deliveries at the Exchange Points of Delivery to the extent needed to eliminate such jeopardy. The order of curtailment shall be:

1. Nonfirm or economy transactions.
2. Commitments made after June 1, 1984.
3. Century San Juan Unit 3 exchange.
4. Commitments for firm transmission or exchange service prior to June 1, 1984 (M-S-R Public Power Agency including the January 23, 1985 Service Schedule E-Reserve Sharing, Public Service Company of New Mexico and El Paso Electric).
5. Tucson's retail customers.

Tucson has supplied Century with true and correct copies of the contracts evidencing Tucson's pre-June 1, 1984 transmission and exchange commitments to M-S-R including the January 23, 1985 Service Schedule E-Reserve Sharing, Public Service Company of New Mexico, and El Paso Electric, and Tucson covenants and agrees that it shall not alter, modify, or

supplement such contracts in any manner that could result in an impairment or diminution of Century's rights under this Service Schedule C.

C.6.3 There should be no imbalance in energy deliveries. In the event that such imbalances should occur, the Operating Representatives will arrange for schedules and delivery rates to correct the imbalance.

C.6.4 Century or its customers shall schedule energy deliveries to Tucson by providing Tucson by the twenty-fifth (25th) day of each month a written estimate of the daily schedules for the following month. In addition, Century will provide by 2 p.m. Mountain Standard Time each day during the term hereof an estimate of the following day's hour-by-hour twenty-four (24) hour schedule. Century or its customers may change the schedule for any hour upon notice to Tucson at least 30 minutes before the hour, provided that such schedule change is achievable with the ramping capability of San Juan Unit 3.

C.7 LOSSES: There are no losses associated with the capacity and energy deliveries made pursuant to Section C.6.1 hereof, provided, however, that if Tucson is required to reimburse third parties for losses due to inadvertent power flows as a result of deliveries to

any of the Exchange Points of Delivery other than San Juan and Four Corners (for which no third party losses shall be charged), and provided further that such third party losses are determined by a procedure established by the Operating Committee, Century shall bear its proportional share of such losses.

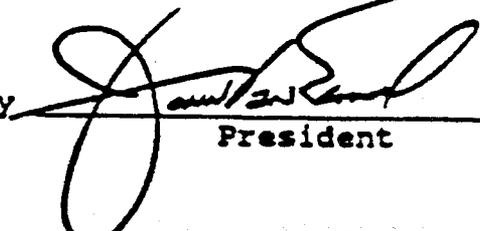
C.8 CHARGES: The delivery of capacity and energy associated with this Service Schedule C will be by capacity and energy exchange, and there shall be no additional charge associated with this Service Schedule C.

This Service Schedule C is executed in duplicate as of the 7th day of October, 1992.

TUCSON ELECTRIC POWER COMPANY

By 
Sr. Vice President

CENTURY POWER CORPORATION

By 
President