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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Chairman

Arizona Corporation Commission

AZ CORP COMMISSION
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JIM IRVIN

DOCKETED

Commissioner

AUG 25 1999

WILLIAM A. MUNDELL

Commissioner

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IN THE MATTER OF THE STRANDED)
COST FILING AND REQUEST FOR A)
WAIVER OF CERTAIN PORTIONS OF)
THE RULES FILED BY MOHAVE)
ELECTRIC COOPERATIVE, INC.)

DOCKET NO. E-01750A-98-0467

Pursuant to the Hearing Division's April 21, 1999, Procedural Order, Mohave Electric Cooperative, Inc. ("Mohave") respectfully submits testimony of David Rumolo, Navigant Consulting, Inc., in the above-captioned docket.

RESPECTFULLY SUBMITTED this 25th day of August, 1999.

MARTINEZ & CURTIS, P.C.

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1 **The original and ten (10) copies of**
2 **the foregoing filed this 25th**
3 **day of August, 1999 with:**

4 DOCKET CONTROL
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 and

9 **A copy of the foregoing mailed**
10 **this 25th day of August, 1999 to:**

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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 STRANDED) DOCKET NO. E—01750A-98-0467
COST AND UNBUNDLED RATE FILINGS)
AND REQUESTS FOR WAIVERS OF)
CERTAIN PORTIONS OF THE RULES FILED BY)
MOHAVE ELECTRIC COOPERATIVE, INC.)

Rebuttal Testimony of

David Rumolo

On Behalf of

Mohave Electric Cooperative, Inc.

August 25, 1999

1 Q. Please state your name, position, and business address.

2
3 A. My name is David Rumolo. I am a Principal with Navigant Consulting, Inc. My
4 business address is 302 North First Avenue, Suite 810, Phoenix, Arizona 85003.
5 Navigant Consulting, Inc. is the new name of Resource Management International,
6 Inc.

7
8 Q. Would you please summarize your experience in cost of service analysis, rate design
9 and related issues?

10
11 A. I hold Bachelor of Science Degrees in Electrical Engineering and Business (Finance
12 as the area of emphasis) and have been involved in utility planning and financial
13 issues since 1974. I have been responsible for cost of service analyses, rate design,
14 and rate related analyses for rural electric cooperatives throughout the western
15 United States and have provided expert witness testimony on rate issues before
16 several regulatory bodies. I have performed rate and cost analyses for municipal
17 and investor owned utilities. I have also provided expert witness testimony on the
18 valuation of utility properties.

19
20 Q. Whom are you representing in this matter?

21
22 A. I am representing Mohave Electric Cooperative Inc. (MEC).

23
24 Q. Do you provide consulting services to other distribution cooperatives, in addition to
25 MEC?

26
27 A. Yes, our firm represents Sulphur Springs Valley Electric Cooperative, Inc. (SSVEC),
28 Trico Electric Cooperative, Inc. (Trico), and Navopache Electric Cooperative, Inc.
29 SSVEC, Trico and MEC are members of AEPCO.

30
31 Q. What is the purpose of your rebuttal testimony?

32
33 A. I will respond to several points made by Staff witness Elaine Saunders, primarily
34 with regard to unbundled rates as it applies to distribution cooperatives. I will also
35 address the issue of stranded cost recovery for AEPCO members. The Staff witness
36 addressed the issue of Stranded Cost Recovery for Navopache Electric Cooperative
37 which is not an AEPCO member but did not offer testimony regarding Stranded
38 Cost Recovery for AEPCO members.

39
40 Q. Did Staff make a recommendation regarding the distribution cooperatives'
41 distribution related stranded cost?

42
43 A. Yes, Staff recommended that a distribution cooperative may request "reasonable
44 costs of operation in the context of a distribution rate case".

45
46 Q. Do you see any difficulties with the Staff recommendations
47

1 A. Yes, first, it is uncertain whether "reasonable cost of operation" is the same as
2 stranded costs under the Rules. Second, the Rules provide a mechanism for
3 recovery of stranded costs. A distribution cooperative should not have to bear the
4 expense and endure the time delay of a rate case to recover distribution related
5 stranded costs. The Rules define stranded costs as including other transition and
6 restructuring costs as approved by the ACC as part of the determination of an
7 Affected Utility's stranded cost. Therefore, distribution cooperatives have the
8 opportunity to request recovery of such costs outside a rate case and need not wait
9 until a rate case to receive authorization for recovery of transition costs. The Staff's
10 position conflicts with the Rules and MEC wishes to reserve the right to apply the
11 Rules if it identifies significant transition and restructuring costs. These costs may
12 include investments in new billing systems and metering equipment.
13

14
15 Q. Did SSVEC, Trico, and MEC file implementation plans for Stranded Cost Recovery?
16

17 A. Each cooperative filed a waiver request regarding Stranded Cost Recovery. The
18 AEPCO members cannot file a final plan until the Arizona Corporation Commission
19 (ACC) issues a final order regarding AEPCO's Stranded Cost Recovery. When such
20 an order is issued, each cooperative will file a compliance filing that will reflect the
21 AEPCO plan. Each cooperative may also, in the future, file plans for recovery of
22 distribution system stranded costs, if any. Since Staff witnesses did not address the
23 waiver requests, we have assumed that Staff supports the requested waivers.
24

25 Q. Did Staff make any recommendations regarding MEC's unbundled rates?
26

27 A. Yes. Staff recommended that MEC unbundle its standard offer rates to the greatest
28 extent possible and that MEC be allowed to amend its unbundled rates if the
29 Commission allows Arizona Public Service Company to use an avoided cost
30 approach to designing unbundled rates. To the extent that other generation
31 components remain bundled, Staff proposes that MEC inform customers of the
32 bundled purchases through a footnote or other means.
33

34 Q. What actions has the ACC taken in the past regarding MEC's Standard Offer rates
35 and Unbundled Rates.
36

37 A. On December 14, 1998, the ACC approved MEC's request that the existing bundled
38 tariff be adopted as MEC's Standard Offer tariff (Decision 61308). The ACC had also
39 approved MEC's unbundled distribution services tariff. This decision was based on
40 the then current Competition Rules.
41

42 Q. What is MEC's response to Staff's proposal regarding unbundled standard offer
43 rates?
44

45 A. As noted in our waiver request, MEC purchases resources from AEPCO on a
46 bundled basis and can only unbundle our tariff to the degree that we have the data
47 available. Therefore, we propose that our existing bundled tariff continue as our
48 Standard Offer tariff in accordance with the decision issued by the ACC. In the

1 future, should our power supplies be obtained on an unbundled basis, we will
2 unbundle our retail rates. In the interim, we will provide customers information
3 regarding the average cost of bundled components to the degree possible as
4 suggested by the Staff witness. Our existing bundled tariff includes power supply
5 costs that reflect current bundled embedded costs as adjusted through a purchased
6 power adjustment mechanism. Actual bundled purchased power costs per kWh
7 vary from month to month. Therefore, we need to maintain our existing structure.
8 However, in compliance with future decisions issued by the ACC, MEC will modify
9 its existing filed tariffs. These modifications will include a rate schedule that
10 indicates the CTC approved by the ACC for MEC. We may also prepare filings to
11 adopt rate forms, such as the avoided cost methodology, that may be adopted by the
12 ACC for other utilities.

13
14 Q. Does this conclude your rebuttal testimony?

15
16 A. Yes.