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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 ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS 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 COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. RE-00000C-94-0165 **NOTICE OF FILING REBUTTAL 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 Rebuttal Testimony of Kevin C. Higgins in the above-captioned dockets.

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DATED this 12th day of July, 1999.

FENNEMORE CRAIG, P.C.

By [signature]
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REBUTTAL TESTIMONY OF KEVIN C. HIGGINS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

A. My testimony is being sponsored by Cyprus Climax Metals Company, ASARCO Incorporated and Arizonans for Electric Choice and Competition (collectively, hereinafter, "AECC")[1].

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A. Yes. I have filed direct testimony supporting the Settlement Agreement.

Q. WHAT ISSUES WILL YOU BE ADDRESSING IN YOUR REBUTTAL TESTIMONY?

A. I will address the following areas in response to the direct testimony of other parties: (1) unbundled rates for Standard Offer customers, (2) viability of the competitive market for direct access customers, (3) the "shopping credit" for contract customers, and (4) market power.

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[1] Arizonans for Electric Choice and Competition is a coalition of energy consumers in favor of competition and includes Cable Systems International, BHP Copper, Motorola, Chemical Lime, Intel, Honeywell, Allied Signal, Cyprus Climax Metals, Asarco, Phelps Dodge, Homebuilders of Central Arizona, Arizona Mining Industry Gets 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.

UNBUNDLED RATES FOR STANDARD OFFER CUSTOMERS

Q. A NUMBER OF PARTIES HAVE MAINTAINED THAT THE SETTLEMENT AGREEMENT DOES NOT PROVIDE FOR THE UNBUNDLING OF STANDARD OFFER RATES. IS THIS VIEW CORRECT?

A. No. Section 2.1 of the Settlement Agreement plainly states: "Bills for Standard Offer service shall indicate individual unbundled service components to the extent required by the Electric Competition Rules." The proposed Rules spell out these unbundled billing requirements in R14-2-1612.N. The customer's bill is the most accessible source of pricing information for customers and requiring the inclusion of unbundled pricing information in the Standard Offer bill has been an important objective in the transition to competition. Thus, AECC sought to ensure that this provision was reinforced in the Settlement Agreement. A number of witnesses seem to have missed or disregarded this provision in their review of the Settlement Agreement, and assert that there is no requirement in the Agreement to unbundle Standard Offer rates.[2] This assertion, however, is incorrect.

VIABILITY OF THE COMPETITIVE MARKET

Q. A NUMBER OF PARTIES HAVE ARGUED THAT THE "SHOPPING CREDIT" IN THE SETTLEMENT AGREEMENT IS TOO LOW FOR VIABLE COMPETITION TO TAKE PLACE. DO YOU WISH TO COMMENT ON THIS POINT?

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[2] See, e.g., Direct testimony of Harry J. Kingerski (Enron), pp. 7-16, esp. p. 12, lines 1-7; Direct testimony of Lee Smith (Staff), p. 4, lines 16-18.

A. Certainly a higher "shopping credit" makes competitive alternatives more attractive and competition more viable. In negotiating the Settlement Agreement, AECC sought to achieve the maximum shopping credit achievable while still providing customers the benefit of reduced Standard Offer rates. This consideration is important because the simplest way to increase the shopping credit would be to refrain from reducing Standard Offer rates. However, it is not in customers' interests to forego guaranteed Standard Offer rate reductions in order to maintain a higher shopping credit. Therefore, I disagree with the suggestion of Mr. Williamson that consideration be given to obtaining a higher shopping credit through lowering the Standard Offer reductions.[3]

I believe that Standard Offer rate reductions and a viable competitive market can coexist. The Settlement Agreement seeks a balance by providing for annual reductions in the direct access unbundled tariffs that meet or exceed the Standard Offer reductions, which results in annual increases of the shopping credit. At the time the Settlement Agreement was executed in May, the shopping credit for all classes of customers provided sufficient "head room" for viable competition, given the prices in the NYMEX Palo Verde futures market, which averaged 25.5 mills per kwh (shaped to include off-peak periods) for the upcoming year. This price in May was in the middle range of the prices of the preceding nine months, which fluctuated between an approximate low of 24.3 mills in September 1998 to an approximate high of 27.0 mills in November 1998.

Q. SINCE THE COMPLETION OF THE SETTLEMENT AGREEMENT, HAVE WHOLESALE MARKET PRICES INCREASED?

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[3] See Direct testimony of Ray Williamson (Staff), p. 8, line 26.

A. Yes, they have. We have now entered the summer season, generally a period of relatively high wholesale market prices in Arizona. This year is no exception, and NYMEX Palo Verde futures prices have risen some eleven percent since mid-May to an average of 28.5 mills per kwh (shaped to include off-peak periods) for the upcoming year. This price increase certainly squeezes, and in some cases, eliminates competitive margins, particularly for customers in the industrial class (over 3 MW), although many small to middle-sized commercial customers (under 500 kw) can still realize savings in the competitive market, even at these higher prices.

Q. PLEASE PROVIDE AN EXAMPLE THAT SHOWS THE POTENTIAL FOR COMMERCIAL CUSTOMER SAVINGS AT THESE HIGHER PRICES.

A. The situation for a 500-kw customer with a 50 percent load factor is illustrated in Exhibit KCH-R1, Schedule 1, which shows the "incremental competitive margin" at these higher prices. The "incremental competitive margin" is a measure of "head room" and refers to the margin available for the ESP to cover its own costs and to offer savings to the customer below the Standard Offer rate. With the NYMEX Palo Verde market at 28.5 mills, the incremental competitive margin for this customer is about 4 percent of the Standard Offer price in 2000, and 5 percent in 2001. For a smaller commercial customer, the margin is greater, as shown in Schedule 2, which illustrates the case of a 200-kw customer. This customer would have an incremental competitive margin of 11 percent in 2000, and 12 percent in 2001. The reason for the higher margin is that Standard Offer rates for commercial customers are significantly higher at lower usage levels, making the competitive option more attractive.

Q. ARE THERE WAYS TO MITIGATE THE TYPE OF PRICE RISK ASSOCIATED WITH THE RECENT JUMP IN WHOLESALE MARKET PRICES?

A. Yes. The Settlement Agreement provides a price hedge for customers by offering them the option of Standard Offer service at rates that are guaranteed to decline through June 30, 2004. Apart from the Standard Offer service option, price risk can be mitigated through a CTC that "floats" inversely with market prices (with appropriate "head room" built in). While I see merit in this approach, it was not the direction the parties ultimately pursued in the Settlement Agreement because parties sought certain advantages inherent in a fixed CTC approach.

Q. WHAT ARE THE ADVANTAGES TO THE FIXED CTC APPROACH VERSUS A FLOATING CTC?

A. Under the fixed CTC arrangement in the Settlement Agreement, market participants are provided certainty regarding regulatory price parameters in advance, including the total amount of stranded cost, the level of CTC, the rates for unbundled services, etc. This is certainly advantageous, but there are also risks because the participants may be advantaged or disadvantaged when there are changes in market prices. The squeeze in competitive margins resulting from the recent surge in market prices is an example of the latter.

Q. DO YOU EXPECT ANY RELIEF FROM THE SQUEEZE ON COMPETITIVE MARGINS?

A. Forecasting prices is a hazardous endeavor, and there are absolutely no guarantees as to the direction prices will move. Last summer, temperatures were relatively mild. Nonetheless, July NYMEX prices for the upcoming year rose ten percent over the levels in May of that year, then subsided later in the summer. If the current NYMEX futures market were to follow a similar seasonal pattern, one might expect a softening of wholesale prices toward the end of this summer. This timing would coincide with the start-up of retail competition. Regardless of the direction prices move, some relief would come when the shopping credit is increased on January 1, 2000, due to the scheduled reduction in both the CTC and the regulatory asset charge (included in the unbundled distribution rate).

Q. DO YOU HAVE ANY COMMENTS ON THE PROPOSAL BY MS. SMITH FOR INCREASING THE SHOPPING CREDIT?

A. Yes. Ms. Smith proposes to increase the shopping credit by reducing the CTC in varying amounts for different customer classes, and deferring collection of the shortfall until after July 1, 2004, subject to a wholesale market price test.[4] Taken in isolation, Ms. Smith's proposal generally favors the objectives AECC pursued in negotiation. As I have indicated above, AECC endeavored to achieve the highest feasible shopping credit in its negotiations with APS. A significant part of this negotiation addressed stranded costs and the size of the CTC. In agreeing to settle at a stranded cost figure of $350 million,

[4] Direct testimony of Lee Smith (Staff), p. 14, line 21 to p. 17, line 22.

the parties adopted a compromise position, relinquishing, for the purposes of settlement, positions on stranded cost that they otherwise advocated. AECC, of course, preferred a smaller amount of stranded cost and a lower CTC. In contrast, APS sought a much higher stranded cost recovery and therefore a higher CTC would have resulted. Thus, the Settlement Agreement must be viewed in total, as a package resulting from those settlement negotiations.

Q. YOU STATED THAT MS. SMITH'S PROPOSAL FOR LOWERING THE CTC "GENERALLY" FAVORS THE OBJECTIVES AECC PURSUED IN NEGOTIATION. ARE THERE SPECIFIC ASPECTS OF HER PROPOSAL THAT DIFFER FROM AECC'S NEGOTIATING OBJECTIVES?

A. Yes. While the near-term benefit of a lower CTC (in isolation) is appealing for customers, the potential deferral of stranded cost recovery beyond 2004 involves a trade-off between near-term and longer-term costs and benefits. In other words, there is something to be said for getting stranded cost recovery over with sooner rather than later. A related issue is the credit toward stranded cost recovery that is attributable to customers who remain on the Standard Offer. Given that a fixed amount ($350 million) is to be recovered, lowering the CTC in the early years (for potential deferral to later years) could have the perverse effect of under-crediting stranded cost recovery from Standard Offer customers in the earlier period. This point is most obvious in the case of 1999. Although the Settlement Agreement strives to implement retail access as soon as feasible, it will be, at best, late 1999 before competition can occur. Yet application of the CTC toward stranded cost recovery will apply retroactively back to January 1 – with all customers, of

FENNEMORE CRAIG
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PHOENIX

course, on the Standard Offer. With that point in mind, it is preferable for as much stranded cost recovery to be attributable to 1999 as possible, alleviating the burden in future years, rather than lowering the CTC for 1999 – at the cost of a higher CTC later.

SHOPPING CREDIT FOR CONTRACT CUSTOMERS

Q. DO YOU WISH TO COMMENT ON MS. SMITH'S DISCUSSION OF THE SHOPPING CREDIT FOR CONTRACT CUSTOMERS?

A. Yes. Ms. Smith states that she calculates a shopping credit for contract customers of 3.5 cents – which exceeds her calculation of the shopping credit for customers in the Extra-Large General Service class. She states that this does not seem appropriate and could be construed as prior discrimination.[5]

I strongly disagree with Ms. Smith's assessment. The treatment of contract customers in the Settlement Agreement follows the proportionality provision in the proposed Rules and implements the requirement in the Commission's Stranded Cost Order that states that "No customer or customer class shall receive a rate increase as a result of stranded cost recovery by an Affected Utility . . . ."[6] In the Settlement Agreement, this objective is met by setting unbundled rates for these customers that continue the level of contribution to stranded cost recovery that is implicit in the customers' current bundled-service contract rates. This approach is essentially the same one used by FERC in determining stranded cost for contract customers under its jurisdiction.

[5] Direct testimony of Lee Smith (Staff), p. 21, lines 1-12.
[6] Arizona Corporation Commission Decision No. 61677 (April 27, 1999) Docket No. RE-00000C-94-0165.

Q. DOES MS. SMITH CORRECTLY REPRESENT THE SHOPPING CREDIT FOR CONTRACT CUSTOMERS?

A. No. The shopping credit for contract customers is not 3.5 cents as she has calculated, but ranges from 2.7 to 3.1 cents, the lowest shopping credit range of all customer classes.[7] The shopping credit, as Ms. Smith uses the term, is equal to the difference between the customer's rate for Standard Offer service and the direct access unbundled pricing components (i.e., unbundled costs exclusive of generation, transmission, and ancillary services). In calculating the shopping credit for contract customers, Ms. Smith apparently uses the E-34 tariff as the customers' Standard Offer rate; such an application, however, is not correct, because contract customers do not pay the E-34 rate for Standard Offer service – their Standard Offer rates are the *contract* rates they pay for bundled service. To measure whether a contract customer can benefit from retail access you need to compare the costs of the competitive option with the customer's contract price with the utility. The contract customer's shopping credit, therefore, is the difference between the bundled price for power in the contract and the direct access unbundled pricing components, which, as I have stated, ranges from 2.7 to 3.1 cents per kwh.

Q. WHAT WOULD BE THE CONSEQUENCES OF ALTERING THE PROVISIONS OF THE SETTLEMENT AGREEMENT THAT ADDRESS DIRECT ACCESS SERVICE FOR CONTRACT CUSTOMERS?

[7] Ms. Smith's calculation of the shopping credit for the Extra-Large Customer Class does not appear to include the primary voltage discount that will apply to the unbundled distribution rate for the majority of these customers. Applying this discount would increase her shopping credit calculation for this class by about 1 mill to 3.1 cents.

A. This provision is an integral component of the Settlement Agreement. AECC would not have agreed to a settlement without a satisfactory resolution of this issue. Further, a simple inspection of the unbundled tariffs for contract customers would reveal that the overwhelming number of kilowatt-hours in this group comes from copper mines – one of which has already announced a major shut down due to the depressed state of the industry. Altering the Settlement to the detriment of contract customers would send a disastrous signal to the copper industry that its participation in retail access would only be permissible if it were accompanied by an increase in rates administered by the Commission.

MARKET POWER

Q. WITNESSES FROM ENRON HAVE RAISED MARKET POWER CONCERNS. DO YOU WISH TO COMMENT ON THIS ISSUE?

A. Yes. As Arizona moves forward with retail competition regulators must be vigilant with regard to market power, both vertical (which pertains to the relationship between generation, transmission, distribution, and retailing) and horizontal (which pertains to market dominance in the provision of a competitive service, e.g., generation). Such ongoing regulatory vigilance is necessary irrespective of the Settlement Agreement. Concerns about market power are not exacerbated by the Settlement Agreement. To the contrary, the agreement takes steps to alleviate such concerns.

Q. HOW DOES THE SETTLEMENT AGREEMENT TAKE STEPS TO ALLEVIATE MARKET POWER CONCERNS?

A. Vertical market power concerns will be greatly alleviated with the formation of a Regional Transmission Organization (RTO) as proposed by FERC in its Notice of Public Rulemaking dated May 13, 1999. The Settlement Agreement (Section 7.6) obligates APS to support the formation of the Desert STAR Independent System Operator (ISO) – which is being designed to meet the requirements of an RTO that would serve the Southwest. On behalf of retail customers, I have been very involved with other stakeholders in this effort, along with Mr. Delaney (Enron) and APS.

Further, since it is widely recognized that Desert STAR will not be ready in time to facilitate the initiation of retail access in Arizona, stakeholders have formed the Arizona Independent Scheduling Administrator (AISA), which is intended to ensure non-discriminatory access to the transmission system during the interim. The Settlement Agreement requires APS to actively support the formation of the AISA and to modify its open access transmission tariff (OATT) to be consistent with any FERC-approved AISA protocols.

Q. ARE YOU PERSONALLY FAMILIAR WITH THE DEVELOPMENT OF THE AISA?

A. Yes. I serve on the AISA Board, representing retail customers, and have been very active on its Operating Committee, which has prepared draft protocols for implementing retail access. Mr. Delaney (Enron) also serves on the Board, and both Enron and APS have been actively involved in the development of the draft protocols. These draft protocols must still be reviewed and approved by the AISA Board, and then submitted to FERC for approval as part of an AISA Tariff filing.

Q. MR. DELANEY MAINTAINS THAT THE AISA WILL NOT QUALIFY AS AN RTO.[8] DO YOU AGREE?

A. Yes. But the AISA was never intended to assume the scope of responsibilities of an RTO. The AISA is strictly an interim organization, intended to provide the necessary assurance that transmission access is allocated and managed fairly for the implementation of retail competition. Accordingly, it provides an alternative dispute resolution process and protocols governing transmission allocation, scheduling, must-run generation, ancillary services, energy imbalances, and emergency operations, among others. But the AISA does not take control over the operation of the grid. That responsibility will be the role of Desert STAR.

Q. IN HIS TESTIMONY, MR. DELANEY EXPRESSES CONCERNS ABOUT MARKET POWER IN THE PHOENIX AREA.[9] DO YOU WISH TO COMMENT ON THIS ISSUE?

A. There is no question that during times of heavy demand, APS will have considerable horizontal market power in the Phoenix area due to the limited transmission import capability into Phoenix. At such times, load must be met by generation that is located in the Phoenix area, all of which is currently owned or controlled by APS or SRP. Under a traditional monopoly model, there is no concern with this circumstance. However, in a competitive market, a mitigation strategy must be employed to address

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[8] Direct testimony of Tom Delaney (Enron), p. 10, line 22 to p. 11, line 5.

[9] Direct testimony of Tom Delaney (Enron), p. 4, line 20 to p. 5, line 5.

such extensive market power. This situation is the well-known "must-run generation" condition.

Q. HOW IS MUST-RUN GENERATION ADDRESSED IN THE SETTLEMENT AGREEMENT?

A. As I stated above, the Settlement Agreement requires APS to comply with the AISA protocols, one of which addresses must-run generation. According to the draft protocol, market participants will be told in advance how much local generation will be necessary to meet customer needs in Phoenix. Through their scheduling coordinators, ESPs will be able to meet their local generation requirement a number of ways, including: (1) acquiring additional transmission into Phoenix from another market participant, (2) contracting with a local generation provider (such as SRP or a merchant plant), (3) reducing demand through load reduction programs, and (4) purchasing "must-offer energy" from APS. "Must-offer energy" refers to energy that APS is obligated under the protocol to make available to scheduling coordinators at APS' cost-of-service. The must-offer obligation arises due to APS' market power during must-run conditions. This approach was developed by stakeholders in the AISA Operating Committee, and I believe it is a very reasonable way to address the Phoenix must-run situation for the near future, at least until there is a more diverse ownership of local generation facilities, or until Desert STAR implements a must-run protocol of its own.

Q. MR. DELANEY ALSO EXPRESSES CONCERN ABOUT THE CREATION OF THE APS GENERATING AFFILIATE.[10] DO YOU WISH TO COMMENT ON THIS ISSUE?

A. Yes. Mr. Delaney is concerned that the creation of the APS generating affiliate will lead to market power abuses, and he sees this as a problem with the Settlement Agreement. However, the requirement to separate competitive assets from the regulated portion of the company is a requirement of the Electric Competition Rules. Therefore, the need for vigilance against market power abuse arises first in the application of the Rules. The issue at hand is the need for a code of conduct with respect to affiliate transactions. As I stated in my direct testimony, the establishment of effective rules governing affiliate relationships is an integral part of successfully implementing retail competition. In the proposed Electric Competition Rules, this function had been fulfilled, in part, by the "Affiliate Transactions" section. Unfortunately, however, that section was deleted from the proposed Rules and replaced with a requirement for Affected Utilities to file a code of conduct within ninety days of the adoption of the Rules.

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

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[10] Direct testimony of Tom Delaney, p. 4, lines 5-18.

Given that the "Affiliate Transactions" section of the proposed Rules has been deleted, the approach taken in the Settlement Agreement is the most reasonable way to address code of conduct issues without adding further delay to the start of competition.

Q. DOES THE SETTLEMENT AGREEMENT PERMIT APS TO ENGAGE IN PRICING BEHAVIOR THAT ABUSES GENERATION MARKET POWER?

A. No. The APS generating affiliate will be under the jurisdiction of FERC, which should be expected to evaluate the market power conditions prevailing when the affiliate's wholesale pricing requirements are determined.

Q. DR. ROSENBERG'S TESTIMONY PROVIDES AN EXAMPLE OF HOW A CHANGED CAPITAL STRUCTURE CAN CAUSE HIGHER CAPITAL COSTS FOR A UTILITY'S REGULATED SUBSIDIARY.[11] DOES THE SETTLEMENT AGREEMENT ALLOW APS TO UNILATERALLY RESTRUCTURE ITS CAPITAL STRUCTURE FOR ITS REGULATED SUBSIDIARY TO THE DETRIMENT OF RATEPAYERS?

A. No, because the capital structure of the regulated subsidiary will remain under the scrutiny of the Commission. I agree with Dr. Rosenberg that it is important that the regulated affiliate not be allowed to end up with a more costly capital structure as a result of the corporate restructuring. Clearly, the final say in this matter rests with the Commission, which will be determining APS' allowed rate-of-return in the rate case scheduled to be completed by 2004. I believe it would be foolish for APS to present the Commission with a disadvantageous capital structure for its regulated affiliate, because it

[11] Direct testimony of Alan Rosenberg, p. 5, line 15 to p. 8, line 7.

would be doing so at its own risk. Certainly, in approving the Settlement Agreement, the Commission may see fit to serve notice that it will be paying careful attention to the capital structure of the regulated affiliate that results from the corporate restructuring.

Q. IN HIS TESTIMONY, MR. KINGERSKI MAINTAINS THAT APS WILL BE ALLOWED TO DEFER RECOVERY OF STANDARD OFFER COSTS UNTIL AFTER JULY 1, 2004 AND CITES THIS AS AN EXAMPLE OF PREDATORY PRICING IN THE SETTLEMENT AGREEMENT.[12] DO YOU WISH TO COMMENT ON THIS POINT?

A. Under the Settlement Agreement, APS is allowed such a deferral only in the limited case of customers who return to Standard Offer service after having left for the competitive market and by returning cause APS to incur commodity costs that are not otherwise recoverable under standard offer rates. In general, however, there is no deferral of costs associated with Standard Offer service. Prior to July 1, 2004, APS is completely at risk for recovery of costs associated with this service.

<u>CONCLUSION</u>

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. The membership of AECC has participated diligently in the electric competition process conducted by the Commission through numerous rounds of hearings and workshops. The Settlement Agreement represents a good faith effort by AECC, other customer interests, and APS to resolve the many impediments that have heretofore stymied the implementation of retail access. Even with approval of the agreement by the

[12] Direct testimony of Harry J. Kingerski (Enron), p. 10, line 10 to page 11, line 10.

Commission, it would not be the final word on the subject, but just a first – albeit significant -- step. Still ahead lies final adoption of the AISA protocols (which should continue to evolve over time), the establishment of a Code of Conduct to be approved by the Commission, the development of Desert STAR, and continued regulatory oversight pertaining to market power issues. I recommend that the Commission approve the Settlement Agreement and allow retail access to proceed, bearing in mind that the implementation of retail access is not yet complete.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

Incremental Competitive Margin for a Commercial-sized APS Customer

Customer Assumptions	
Competitive supply available	Sep-99
Annual kWh consumption	2,190,000
Load Factor	50%
KW	500
Line loss factor Transmission	2.50%
Line loss factor Distribution	4.30%
Forward Price Inflator (beyond 18 months)	2.00%
NYMEX PV Prices adjusted for weekend and off-peak periods, as of	07/07/99

Date	Standard Offer	Unbundled Cost Distribution	Transmission	System Benefits	CTC	Ancillary	Market Price	Market Price adjusted for Line Losses	Total Competitive Cost	Incremental Competitive Margin	Incremental Competitive Margin
	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	%
Sep-99	$0.07610	$0.02970	$0.00368	$0.00115	$0.00675	$0.00092	$0.04202	$0.04488	$0.08707	-$0.01098	-14%
Oct-99	$0.07522	$0.02932	$0.00356	$0.00115	$0.00653	$0.00089	$0.02715	$0.02900	$0.07045	$0.00477	6%
Nov-99	$0.06836	$0.02663	$0.00368	$0.00115	$0.00675	$0.00092	$0.02364	$0.02525	$0.06438	$0.00398	6%
Dec-99	$0.06750	$0.02629	$0.00356	$0.00115	$0.00653	$0.00089	$0.02608	$0.02785	$0.06628	$0.00123	2%
Jan-00	$0.06750	$0.02518	$0.00356	$0.00115	$0.00591	$0.00089	$0.02317	$0.02475	$0.06144	$0.00606	9%
Feb-00	$0.07025	$0.02622	$0.00395	$0.00115	$0.00655	$0.00098	$0.02109	$0.02252	$0.06137	$0.00888	13%
Mar-00	$0.06750	$0.02518	$0.00356	$0.00115	$0.00591	$0.00089	$0.02155	$0.02302	$0.05971	$0.00779	12%
Apr-00	$0.06836	$0.02550	$0.00368	$0.00115	$0.00611	$0.00092	$0.02225	$0.02376	$0.06113	$0.00723	11%
May-00	$0.07515	$0.02809	$0.00356	$0.00115	$0.00591	$0.00089	$0.02089	$0.02231	$0.06192	$0.01324	18%
Jun-00	$0.07610	$0.02845	$0.00368	$0.00115	$0.00611	$0.00092	$0.02412	$0.02576	$0.06607	$0.01003	13%
Jul-00	$0.07403	$0.02809	$0.00356	$0.00115	$0.00591	$0.00089	$0.03695	$0.03946	$0.07907	-$0.00504	-7%
Aug-00	$0.07403	$0.02809	$0.00356	$0.00115	$0.00591	$0.00089	$0.04936	$0.05272	$0.09232	-$0.01829	-25%
Sep-00	$0.07496	$0.02845	$0.00368	$0.00115	$0.00611	$0.00092	$0.04241	$0.04529	$0.08560	-$0.01065	-14%
Oct-00	$0.07409	$0.02809	$0.00356	$0.00115	$0.00591	$0.00089	$0.02737	$0.02923	$0.06884	$0.00526	7%
Nov-00	$0.06733	$0.02550	$0.00368	$0.00115	$0.00611	$0.00092	$0.02451	$0.02618	$0.06354	$0.00379	6%
Dec-00	$0.06649	$0.02518	$0.00356	$0.00115	$0.00591	$0.00089	$0.02703	$0.02887	$0.06556	$0.00093	1%
Jan-01	$0.06649	$0.02417	$0.00356	$0.00115	$0.00446	$0.00089	$0.02363	$0.02524	$0.05947	$0.00702	11%
Feb-01	$0.06920	$0.02517	$0.00395	$0.00115	$0.00494	$0.00098	$0.02151	$0.02297	$0.05916	$0.01003	14%
Mar-01	$0.06649	$0.02417	$0.00356	$0.00115	$0.00446	$0.00089	$0.02198	$0.02348	$0.05771	$0.00878	13%
Apr-01	$0.06733	$0.02448	$0.00368	$0.00115	$0.00461	$0.00092	$0.02270	$0.02424	$0.05908	$0.00825	12%
May-01	$0.07403	$0.02696	$0.00356	$0.00115	$0.00446	$0.00089	$0.02131	$0.02276	$0.05978	$0.01425	19%
Jun-01	$0.07496	$0.02730	$0.00368	$0.00115	$0.00461	$0.00092	$0.02460	$0.02628	$0.06394	$0.01102	15%
Jul-01	$0.07292	$0.02696	$0.00356	$0.00115	$0.00446	$0.00089	$0.03769	$0.04025	$0.07728	-$0.00436	-6%
Aug-01	$0.07292	$0.02696	$0.00356	$0.00115	$0.00446	$0.00089	$0.05035	$0.05377	$0.09079	-$0.01788	-25%
Sep-01	$0.07383	$0.02730	$0.00368	$0.00115	$0.00461	$0.00092	$0.04326	$0.04620	$0.08386	-$0.01003	-14%
Oct-01	$0.07298	$0.02696	$0.00356	$0.00115	$0.00446	$0.00089	$0.02792	$0.02982	$0.06684	$0.00614	8%
Nov-01	$0.06632	$0.02448	$0.00368	$0.00115	$0.00461	$0.00092	$0.02500	$0.02670	$0.06154	$0.00478	7%
Dec-01	$0.06549	$0.02417	$0.00356	$0.00115	$0.00446	$0.00089	$0.02757	$0.02945	$0.06368	$0.00182	3%
Annual Summary											
2000 Average	$0.07132	$0.02683	$0.00363	$0.00115	$0.00603	$0.00091	$0.02839	$0.03032	$0.06888	$0.00244	4%
2001 Average	$0.07025	$0.02576	$0.00363	$0.00115	$0.00455	$0.00091	$0.02896	$0.03093	$0.06693	$0.00332	5%

Incremental Competitive Margin for a Commercial-sized APS Customer

KCH - R1

Schedule 2

Customer Assumptions

Competitive supply available	Sep-99
Annual kWh consumption	876,000
Load Factor	50%
KW	200
Line loss factor Transmission	2.50%
Line loss factor Distribution	4.30%
Forward Price Inflator (beyond 18 months)	2.00%
NYMEX PV Prices adjusted for weekend and off-peak periods, as of	07/07/99

Date	Standard Offer			Unbundled Cost			Market Price	Market Price adjusted for Line Losses	Total Competitive Cost	Incremental Competitive Margin	Incremental Competitive Margin
		Distribution	*Transmission*	*System Benefits*	*CTC*	*Ancillary*					
	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	$/kWh	%
Sep-99	$0.08668	$0.03389	$0.00368	$0.00115	$0.00675	$0.00092	$0.04202	$0.04488	$0.09127	-$0.00458	-5%
Oct-99	$0.08556	$0.03338	$0.00356	$0.00115	$0.00653	$0.00089	$0.02715	$0.02900	$0.07451	$0.01105	13%
Nov-99	$0.07794	$0.03042	$0.00368	$0.00115	$0.00675	$0.00092	$0.02364	$0.02525	$0.06817	$0.00977	13%
Dec-99	$0.07677	$0.02996	$0.00356	$0.00115	$0.00653	$0.00089	$0.02608	$0.02785	$0.06995	$0.00683	9%
Jan-00	$0.07677	$0.02869	$0.00356	$0.00115	$0.00591	$0.00089	$0.02317	$0.02475	$0.06496	$0.01182	15%
Feb-00	$0.08051	$0.03011	$0.00395	$0.00115	$0.00655	$0.00098	$0.02109	$0.02252	$0.06526	$0.01525	19%
Mar-00	$0.07677	$0.02869	$0.00356	$0.00115	$0.00591	$0.00089	$0.02155	$0.02302	$0.06323	$0.01355	18%
Apr-00	$0.07794	$0.02913	$0.00368	$0.00115	$0.00611	$0.00092	$0.02225	$0.02376	$0.06476	$0.01318	17%
May-00	$0.08540	$0.03197	$0.00356	$0.00115	$0.00591	$0.00089	$0.02089	$0.02231	$0.06580	$0.01960	23%
Jun-00	$0.08668	$0.03246	$0.00368	$0.00115	$0.00611	$0.00092	$0.02412	$0.02576	$0.07008	$0.01660	19%
Jul-00	$0.08412	$0.03197	$0.00356	$0.00115	$0.00591	$0.00089	$0.03695	$0.03946	$0.08295	$0.00116	1%
Aug-00	$0.08412	$0.03197	$0.00356	$0.00115	$0.00591	$0.00089	$0.04936	$0.05272	$0.09621	-$0.01209	-14%
Sep-00	$0.08538	$0.03246	$0.00368	$0.00115	$0.00611	$0.00092	$0.04241	$0.04529	$0.08962	-$0.00423	-5%
Oct-00	$0.08428	$0.03197	$0.00356	$0.00115	$0.00591	$0.00089	$0.02737	$0.02923	$0.07272	$0.01156	14%
Nov-00	$0.07677	$0.02913	$0.00368	$0.00115	$0.00611	$0.00092	$0.02451	$0.02618	$0.06717	$0.00959	12%
Dec-00	$0.07562	$0.02869	$0.00356	$0.00115	$0.00591	$0.00089	$0.02703	$0.02887	$0.06908	$0.00654	9%
Jan-01	$0.07562	$0.02754	$0.00356	$0.00115	$0.00446	$0.00089	$0.02363	$0.02524	$0.06285	$0.01278	17%
Feb-01	$0.07930	$0.02890	$0.00395	$0.00115	$0.00494	$0.00098	$0.02151	$0.02297	$0.06290	$0.01641	21%
Mar-01	$0.07562	$0.02754	$0.00356	$0.00115	$0.00446	$0.00089	$0.02198	$0.02348	$0.06108	$0.01454	19%
Apr-01	$0.07677	$0.02797	$0.00368	$0.00115	$0.00461	$0.00092	$0.02270	$0.02424	$0.06257	$0.01420	19%
May-01	$0.08412	$0.03069	$0.00356	$0.00115	$0.00446	$0.00089	$0.02131	$0.02276	$0.06351	$0.02061	24%
Jun-01	$0.08538	$0.03116	$0.00368	$0.00115	$0.00461	$0.00092	$0.02460	$0.02628	$0.06779	$0.01759	21%
Jul-01	$0.08285	$0.03069	$0.00356	$0.00115	$0.00446	$0.00089	$0.03769	$0.04025	$0.08101	$0.00185	2%
Aug-01	$0.08285	$0.03069	$0.00356	$0.00115	$0.00446	$0.00089	$0.05035	$0.05377	$0.09452	-$0.01167	-14%
Sep-01	$0.08410	$0.03116	$0.00368	$0.00115	$0.00461	$0.00092	$0.04326	$0.04620	$0.08772	-$0.00362	-4%
Oct-01	$0.08302	$0.03069	$0.00356	$0.00115	$0.00446	$0.00089	$0.02792	$0.02982	$0.07057	$0.01245	15%
Nov-01	$0.07562	$0.02797	$0.00368	$0.00115	$0.00461	$0.00092	$0.02500	$0.02670	$0.06503	$0.01059	14%
Dec-01	$0.07449	$0.02754	$0.00356	$0.00115	$0.00446	$0.00089	$0.02757	$0.02945	$0.06705	$0.00744	10%

Annual Summary

2000 Average	$0.08120	$0.03061	$0.00363	$0.00115	$0.00603	$0.00091	$0.02839	$0.03032	$0.07265	$0.00854	11%
2001 Average	$0.07998	$0.02938	$0.00363	$0.00115	$0.00455	$0.00091	$0.02896	$0.03093	$0.07055	$0.00943	12%