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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

2 **CARL J. KUNASEK**
3 Chairman
4 **JIM IRVIN**
5 Commissioner
6 **WILLIAM A. MUNDELL**
7 Commissioner

AZ CORP COMMISSION
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8 **IN THE MATTER OF THE STRANDED)**
9 **COST FILING AND REQUEST FOR A)**
10 **WAIVER OF CERTAIN PORTIONS OF)**
11 **THE RULES FILED BY NAVOPACHE)**
12 **ELECTRIC COOPERATIVE, INC.)**

DOCKET NO. E-01787A-98-0465

13 Pursuant to the Hearing Division's April 21, 1999, Procedural Order, Navopache

14 Electric Cooperative, Inc. ("Navopache") respectfully submits testimony of David Berry,

15 Navigant Consulting, Inc. in the above-captioned docket.

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RESPECTFULLY SUBMITTED this 25th day of August, 1999.

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2 the foregoing filed this 25th
3 day of August, 1999 with:

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8 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)
COST FILING AND REQUEST FOR A)
WAIVER OF CERTAIN PORTIONS OF)
THE RULES FILED BY NAVOPACHE)
ELECTRIC COOPERATIVE, INC.)
_____)

DOCKET NO. E-01787A-98-0465

Rebuttal Testimony of

David Berry

On Behalf of

Navopache Electric Cooperative, Inc.

August 25, 1999

1 Q. Please state your name, position, business address.
2

3 A. My name is David Berry. I am a Senior Manager with Navigant Consulting, Inc.
4 My 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

9 Q. Whom are you representing in this matter?
10

11 A. I am representing Navopache Electric Cooperative Inc. (Navopache).
12
13

14 Q. Did you file direct testimony regarding Navopache's stranded costs?
15

16 A. Yes. I filed direct testimony on June 14, 1999.
17
18

19 Q. What is the purpose of your rebuttal testimony?
20

21 A. I will respond to several points made by Staff witness Elaine Saunders, primarily
22 with regard to unbundled rates.
23
24

25 Q. What did staff recommend with regard to Navopache's Implementation Plan for
26 Stranded Cost Recovery?
27

28 A. Staff recommended that the Commission approve Navopache's Plan because it
29 contributes to the goal of allowing competition and provides substantial and
30 immediate rate relief to Navopache's customers (Testimony of Elaine Saunders, p. 5,
31 lines 13 to 16).
32
33

34 Q. Do you have any overall observations on Staff's testimony?
35

36 A. Yes. Navopache appreciates Staff's recommendation that the Commission approve
37 Navopache's Stranded Cost Implementation Plan. Ms. Saunders identifies the major
38 features of the Plan: that stranded cost was established by an open bidding process
39 and that Navopache and its members/customers who select standard offer service
40 will experience a large reduction in purchased power costs, including the recovery
41 of stranded costs.
42
43

44 Q. Staff indicates that Navopache's Stranded Cost Implementation Plan does not
45 directly address fair access for potential competitors to Navopache's customers.
46 Staff further indicates that fair access will be reviewed as part of the Code of
47 Conduct applicable to all distribution providers (Testimony of Elaine Saunders,

1 page 3, lines 17 to 21). Does the Commission's Code of Conduct rule pertain to
2 Navopache?

3
4 A. In general, no. A.A.C. R14-2-1615(A) states that all competitive generation assets
5 and competitive services shall be separated from an Affected Utility and transferred
6 to either an unaffiliated party or separate affiliates. However, A.A.C. R14-2-1615(C)
7 indicates that an electric distribution cooperative is not subject to the provisions of
8 R14-2-1615 unless it offers competitive electric services outside of the service
9 territory it had as of the effective date of the rules. Therefore, Navopache is not
10 required to put its competitive assets or services into an affiliate unless it offers
11 competitive services outside its traditional service area. A.A.C. R14-2-1616 states
12 that Affected Utilities which plan to offer noncompetitive services and competitive
13 services through their competitive affiliates shall propose a Code of Conduct to
14 prevent anti-competitive activities. Navopache does not have competitive affiliates
15 and therefore would not need to file a Code of Conduct with the Commission.
16

17
18 Q. How will Navopache ensure fair access by potential competitive suppliers to
19 Navopache's customers?

20
21 A. Navopache will ensure that competitors have fair access to its customers through
22 nondiscriminatory application of its unbundled rates. Such rates for distribution
23 and related services were approved in Decision No. 61283, dated December 14, 1998.
24

25
26 Q. Does Navopache face any practical problems in implementing unbundled rates for
27 standard offer customers?

28
29 A. Yes. As indicated by Navopache in its request of June 14, 1999, Navopache cannot
30 unbundle its power supply costs (for standard offer service) incurred as a result of
31 its bundled purchases of power, transmission, and ancillary services from Plains
32 Electric Generation and Transmission Cooperative, Inc. (Plains). Further,
33 Navopache does not currently have billing software which can print out unbundled
34 charges.
35

36
37 Q. Did Staff make any recommendations regarding Navopache's unbundled rates?

38
39 A. Yes. Staff recommended that Navopache unbundle its standard offer rates to the
40 greatest extent possible and that Navopache be allowed to amend its unbundled
41 rates if the Commission allows Arizona Public Service Company to use an avoided
42 cost approach to designing unbundled rates. With regard to unbundled standard
43 offer rates, Ms. Saunders indicates (p. 6, lines 5 to 13) that once the PNM contract
44 becomes effective, Navopache will be able to unbundle generation costs, including
45 stranded costs. To the extent that other generation components remain bundled,
46 Staff proposes that Navopache inform customers of the bundled purchases through
47 a footnote or other means. In addition, Staff notes that until Navopache's billing

1 system can accommodate unbundled bills, Navopache's unbundled standard offer
2 rates will be available on tariffs filed with the Commission.
3
4

5 Q. What is Navopache's response to Staff's proposal regarding unbundled standard
6 offer rates?
7

8 A. In Decision No. 61283, dated December 14, 1998, the Commission approved the use
9 of Navopache's current tariffs as its standard offer tariffs. However, in compliance
10 with the decision issued in this matter, Navopache will file an unbundled standard
11 offer tariff. In the tariff, Navopache will unbundle its standard offer distribution
12 rates as set forth in its approved (or amended) unbundled services rates, and will
13 indicate that power supply costs will reflect current bundled embedded costs *as*
14 *adjusted through a purchased power adjustment mechanism.* Actual bundled purchased
15 power costs per kWh vary from month to month.
16

17 With regard to the purchased power cost adjustment mechanism, the tariff will
18 denote two situations. First, while Navopache continues to purchase power on a
19 bundled basis from Plains, there will be no breakdown of power supply costs into
20 component parts. Second, the tariff will indicate that, after Navopache begins
21 obtaining power supply from Public Service Company of New Mexico, the stranded
22 cost charge will be \$0.00605 per kWh and that the stranded cost charge will be
23 modified annually as total kWh sales (including kWh sales by third parties to
24 Navopache's distribution customers) in its service territory change. The tariff will
25 also indicate that the purchased power adjustment factor presented on unbundled
26 bills will report average unbundled power supply charges and average transmission
27 charges per kWh which will vary from month to month.
28

29 Until Navopache has tested and implemented its new billing system, it will not be
30 able to include unbundled rates in its bills. After the new billing system is in place,
31 bills will show the unbundled rates and purchased power adjustment factors
32 described above, to the extent allowed by the billing software.
33

34 Navopache requests that it be permitted to deviate from the rules (A.A.C. R14-2-
35 1606(C) and R-14-1612(N)) as described above with regard to unbundled standard
36 offer rates.
37

38
39 Q In your direct testimony you indicated that Navopache may incur costs associated
40 with the introduction of retail electric competition. For example, Navopache may
41 have to invest in new billing software or new metering earlier than it would
42 otherwise have had to make such investments in order to meet the requirements of
43 the Commission's competition rule. Therefore, Navopache wishes to reserve the
44 right to request recovery of other competition transition costs in the future as those
45 costs, if any, become known. Staff stated that Navopache is not precluded from
46 requesting reasonable costs of operation in the context of a distribution rate case
47 (Testimony of Elaine Saunders, page 6, lines 20 to 21). What is your response to
48 Staff's position?

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A. A.A.C. R14-2-1601(35) defines stranded cost as including other transition and restructuring costs as approved by the Commission as part of the Affected Utility's stranded cost determination pursuant to R14-2-1607. Therefore, Navopache has the opportunity to request recovery of such costs outside a rate case and need not wait until a rate case for the Commission to authorize recovery of transition costs. Staff's proposal conflicts with the Commission's rules and Navopache wishes to reserve the right to apply the rules if it identifies significant transition and restructuring costs of the type I suggested in my direct testimony.

Q. Does this conclude your rebuttal testimony?

A. Yes.