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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE
APPLICATION OF TUCSON ELECTRIC
POWER COMPANY FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON
THE FAIR VALUE OF ITS
OPERATIONS THROUGHOUT THE
STATE OF ARIZONA

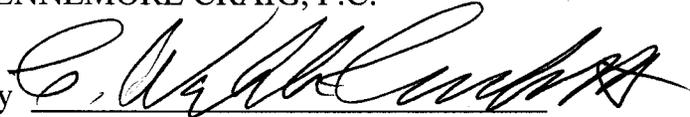
Docket No. E-01933A-12-0291

**NOTICE OF FILING RESPONSIVE
TESTIMONY OF KEVIN C.
HIGGINS ON BEHALF OF
FREEPORT-MCMORAN COPPER &
GOLD INC. AND ARIZONANS FOR
ELECTRIC CHOICE AND
COMPETITION IN SUPPORT OF
THE SETTLEMENT AGREEMENT**

Freeport-McMoRan Copper & Gold Inc. and Arizonans for Electric Choice and
Competition (collectively "AECC"), hereby submit the Responsive Testimony of Kevin C.
Higgins on behalf of AECC in support of the Settlement Agreement in the above captioned
Docket.

RESPECTFULLY SUBMITTED this 1st day of March 2013.

FENNEMORE CRAIG, P.C.

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Arizona Corporation Commission
DOCKETED

MAR 1 2013



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Competition

1 **ORIGINAL and 13 COPIES** of the foregoing
2 **FILED** this 1st day of March 2013 with:

3 Docket Control
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BEFORE THE ARIZONA CORPORATION COMMISSION

In the Matter of the Application of Tucson)
Electric Power Company for the)
Establishment of Just and Reasonable Rates)
And Charges Designed to Realize a)
Reasonable Rate of Return on the Fair)
Value of Its Operations Throughout the)
State of Arizona)

Docket No. E-01933A-12-0291

Responsive Testimony of Kevin C. Higgins

on behalf of

Freeport-McMoRan Copper & Gold Inc. and

Arizonans for Electric Choice & Competition

Settlement Agreement

March 1, 2013

DIRECT TESTIMONY OF KEVIN C. HIGGINS

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1 Energy Efficiency Project. It is my understanding that Mr. Schlegel's partial
2 opposition is also supported by the Sierra Club.

3 **Q. Please summarize your responsive testimony.**

4 A. I recommend that the Commission reject Mr. Schlegel's recommendation
5 to require TEP to file a proposal for full revenue decoupling.

6
7 **LOST FIXED-COST RECOVERY VERSUS DECOUPLING**

8 **Q. What does Mr. Schlegel recommend with respect to the Lost Fixed Cost
9 Recovery ("LFCR") mechanism proposed in the Agreement?**

10 A. Mr. Schlegel recommends that the Commission reject the LFCR
11 mechanism and require TEP to file a proposal for full revenue decoupling.

12 **Q. What is your response to Mr. Schlegel's position?**

13 A. Mr. Schlegel's recommendation should be rejected by the Commission.
14 There is strong customer opposition to full revenue decoupling in Arizona. This
15 opposition was very pronounced in the Arizona Public Service Company ("APS")
16 general rate case, Docket No. E-01345A-11-0224, concluded last year, in which
17 representatives of a wide spectrum of customer interests – from small customers
18 to large customers – weighed in against adoption of the revenue decoupling
19 proposal filed by APS. The parties to that case compromised and negotiated a
20 lost fixed cost recovery mechanism that is very similar to the LFCR mechanism
21 being proposed in the TEP Settlement Agreement. I note that Mr. Schegel also
22 opposed the lost fixed cost recovery mechanism adopted in the APS case.

23 The stated objective of revenue decoupling is to remove a utility's
24 financial disincentive to support energy efficiency, and by extension, to

1 implement any Commission-mandated energy efficiency requirements. TEP
2 proposed an LFCR mechanism in its direct testimony, rather than full revenue
3 decoupling, as a means to accomplish these objectives. TEP's support of the
4 LFCR mechanism, as presented in the Company's Application and in the
5 Settlement Agreement, is by itself sufficient grounds to refrain from imposing full
6 revenue decoupling: if the entity that decoupling is intended to "protect"
7 concludes that full decoupling is not necessary, there is no good reason to impose
8 decoupling over the objections of customers.

9 Representatives of a diversity of customer interests – such as RUCO,
10 AECC, and Kroger, as well as entities with an interest in advancing energy
11 efficiency and demand side management, such as Opower and EnerNOC, have
12 signed on in support of the LFCR mechanism contained in the Settlement
13 Agreement.

14 Revenue decoupling is not an end in itself. Just the opposite is true:
15 revenue decoupling is intended to address a very specific problem – utility
16 financial disincentives – and winds up capturing many unrelated effects, such as
17 weather, economic conditions, and changes in customer class composition. If the
18 specific problem that revenue decoupling is intended to address is adequately
19 addressed through an alternative approach – and the utility, its customers, and the
20 regulatory Staff agree on that alternative approach – then an overly-broad full
21 decoupling mechanism should certainly be avoided. I believe it would be unwise
22 for the Commission to override the Settlement Agreement in favor of Mr.
23 Schlegel's recommendation that TEP be ordered to file a full revenue decoupling
24 proposal.

1 Q. Does this conclude your responsive testimony?

2 A. Yes, it does.