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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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COMMISSIONERS

- BOB STUMP – Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

IN THE MATTER OF THE APPLICATION OF
 UNS ELECTRIC, INC. FOR THE
 ESTABLISHMENT OF JUST AND
 REASONABLE RATES AND CHARGES
 DESIGNED TO REALIZE A REASONABLE
 RATE OF RETURN ON THE FAIR VALUE
 OF THE PROPERTIES OF UNS ELECTRIC,
 INC. DEVOTED TO ITS OPERATIONS
 THROUGHOUT THE STATE OF ARIZONA
 AND FOR RELATED APPROVALS.

Docket No. E-04204A-12-0504

Arizona Corporation Commission

DOCKETED

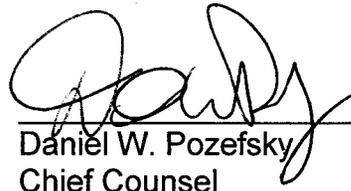
SEP 20 2013

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NOTICE OF FILING

The Residential Utility Consumer Office (“RUCO”) hereby provides notice of filing
 the Direct Testimony of Patrick J. Quinn in support of the Settlement Agreement, in the
 above-referenced matter.

RESPECTFULLY SUBMITTED this 20th day of September, 2013.


 Daniel W. Pozefsky
 Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 20th day
3 of September, 2013 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 20th day of September, 2013 to:

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UNS ELECTRIC, INC.
DOCKET NO. E-04204A-12-0504

DIRECT TESTIMONY
OF
PATRICK J. QUINN
IN SUPPORT OF
SETTLEMENT AGREEMENT

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

SEPTEMBER 20, 2013

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EXECUTIVE SUMMARY

The Arizona Residential Utility Consumer Office (“RUCO”) presents the direct testimony of RUCO Director Patrick J. Quinn in support of the Proposed Settlement Agreement of the UNS Electric, Inc. (“UNSE”) Rate Case that resolves all issues. Mr. Quinn recommends that the Arizona Corporation Commission adopt the Proposed Settlement Agreement for the following reasons:

The Proposed Settlement Agreement reflects an outcome that is fair to both the consumer and UNSE and is in the public interest.

The Proposed Settlement Agreement is a comprehensive settlement agreement. Its terms settle a wide range of issues that were of significant interest to the parties. The parties will be filing testimony on the issue, separately.

RUCO supports the Proposed Settlement Agreement in its entirety because it contains numerous benefits to the consumer which will be discussed in Mr. Quinn’s testimony.

The Proposed Settlement Agreement resolved several areas of importance to RUCO in the underlying rate case. This resolution of all issues included the amount of revenue increase authorized for UNSE, the effect of the increase on consumers' rates, and requiring the Company to file another rate case by July 1, 2017. All of these issues were addressed satisfactorily in the Proposed Settlement Agreement and will be explained more fully in Mr. Quinn’s testimony.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation and business address for the**
3 **record.**

4 A. My name is Patrick J. Quinn. I am the Director of the Arizona Residential
5 Utility Consumer Office ("RUCO"). My business address is 1110 W.
6 Washington Street, Suite 220, Phoenix, Arizona 85007.

7
8 **Q. Please state your educational background and qualifications in the**
9 **utility regulation field.**

10 A. I have a BS in Mathematics and a MBA from the University of South
11 Dakota. Additionally, I have 35 plus years of experience in the
12 Telecommunications Industry and the Consulting business dealing with
13 utility regulation. I have testified over 50 times before state and federal
14 regulatory commissions on issues including finance, economics, pricing,
15 policy and other related areas.

16
17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to explain RUCO's support of UNSE's
19 Proposed Settlement Agreement ("Agreement").

20
21 ...

22 ...

23 ...

1 **Q. Have you participated in other settlement negotiations?**

2 A. Yes. I have participated in settlement negotiations in other matters that
3 have come before the Arizona Corporation Commission ("ACC" or
4 "Commission") both from the utility and consumer side. The majority of
5 these negotiations have resulted in reaching an accord with the utility and
6 the other settling parties, leading to the signing and supporting of a
7 settlement agreement. On the other hand, I have walked away from
8 settlement talks when negotiations produced a result I could not support. I
9 have been involved in several recent negotiations where I represented
10 RUCO. Some have resulted in settlements and others did not settle
11 because RUCO found that they were not in the best interest of residential
12 ratepayers. RUCO does not enter into settlements lightly. RUCO will not
13 agree to settle simply as a means of avoiding litigation. However, in this
14 matter, negotiations did produce reasonable and fair terms that RUCO can
15 and does support.

16
17 **THE SETTLEMENT PROCESS**

18 **Q. Was the negotiation process that resulted in the Settlement**
19 **Agreement a proper and fair process?**

20 A. Yes. The Agreement is the result of numerous hours of negotiation and a
21 willingness among the parties to compromise. The negotiations were
22 conducted in a fair and reasonable way that allowed each party the
23 opportunity to participate. All intervenors had an opportunity to participate

1 in every step of the negotiation. Notice for each scheduled meeting was
2 sent to all parties electronically. Persons were able to participate via
3 teleconference, if necessary.

4
5 All four parties participated in the Agreement, UNSE, NUCOR,
6 Commission Staff ("Staff") and RUCO.

7
8 **Q. Did all the parties sign the Agreement?**

9 A. Yes.

10
11 **Q. Why is a negotiated settlement process an appropriate way to**
12 **resolve this matter?**

13 A. By its very nature, a settlement finds middle ground that the parties can
14 support. All the parties that participated in the settlement talks were
15 sophisticated parties who were well seasoned in the ACC's regulatory
16 processes and veterans of the negotiating table. The fact that all four
17 parties representing such varied interests were able to come together to
18 reach consensus illustrates the balance, moderation and compromise of
19 the document.

20
21 Settlement negotiations began only after each party had the opportunity to
22 analyze UNSE's Application, file its direct testimony and read the direct
23 testimony of other intervenors. Of course, the Agreement in no way

1 eliminates the ACC's constitutional right and duty to review this matter and
2 to make its own determination whether the Agreement is truly balanced
3 and the rates are just and reasonable.
4

5 **SUMMARY OF TESTIMONY**

6 **Q. Please summarize your testimony.**

7 A. The Agreement reflects an outcome that is fair to both the consumer and
8 UNSE and is in the public interest. Furthermore, this is a comprehensive
9 agreement. Its terms settle a wide range of issues that were of significant
10 interest to all the parties.
11

12 RUCO supports the Agreement in its entirety because it contains
13 numerous benefits to the consumer. I will list those benefits later. There
14 were three areas of importance that needed to be resolved in the
15 Agreement before RUCO could become a signatory. They were the
16 amount of revenue increase that UNSE was granted, the impact on
17 residential rates and the requirement to file a rate case no later than July
18 1, 2017. All of these were addressed satisfactorily in the Agreement and
19 will be explained later in my testimony.
20

21 **SETTLEMENT PROVISIONS**

22 **Q. In summary, what are the benefits to the residential consumer?**

23 A. The benefits to the residential consumer are as follows:

- 1 • A revenue increase that is 42 percent of what the Company requested
- 2 • Rate increase in the first year of only \$0.41 because of DSM credit
- 3 • Rate increase after first year for average residential customers of 2.18
- 4 percent or \$1.88 per month
- 5 • The Company will be required to file a rate case on or before July 1,
- 6 2017
- 7 • Ratepayers will have a fixed rate option in lieu of the
- 8 • Continued billing assistance for low income customers
- 9 • Improved Purchase Power and Fuel Adjustment Clause that will
- 10 smooth the impact of changes in fuel and purchased power

11

12 **PUBLIC INTEREST**

13 **Q. How is the public interest satisfied by the Agreement?**

14 A. At the most fundamental level, the Agreement satisfies the public interest
15 from RUCO's perspective in that it provides favorable terms and
16 protections for residential consumers as defined above. The Agreement
17 also satisfies the public interest by providing a fair and balanced approach
18 to addressing the Company's concerns on financial and operating issues.

19

20

21

22

1 **THREE AREAS OF IMPORTANCE**

2 **Q. You mentioned three areas of importance that are critical for RUCO**
3 **to sign on to the Agreement. Would you like to address them?**

4 A. Yes. One of the major issues in a rate case is how much is the Company
5 going to be allowed to increase their revenues. The rate increases to
6 consumers is affected directly by the increase in revenues. During the
7 negotiation process the Company and parties made adjustments to the
8 authorized rate of return, revenues, operating expenses and rate base. In
9 this case the results of these negotiated adjustments ended up reducing
10 the original request of the Company by 58 percent. This translated into
11 significantly smaller rate increases.

12

13 **Q. Another concern is the issue on the amount of increase to residential**
14 **rates. Please explain this issue.**

15 A. Yes. One of RUCO's main priorities is to analyze monthly rate increases
16 to determine if the increases are in the best interest of the residential
17 ratepayer. Through the negotiation process in this settlement there will be
18 a first year increase on the average residential consumers' rates of \$0.41.
19 This is because of a DSM credit that is owed the customers. The actual
20 increase that will occur in year two and beyond is \$1.88 or 2.18 percent.
21 This increase is considerably less than originally asked for by the
22 Company.

23

1 **Q. Additionally there is always a concern on when should the company**
2 **file a new rate case. Please explain this issue.**

3 A. Depending on the situation settlements may include a stay out provision
4 that prevents a company from filing a rate case before a certain date or
5 may include a date by which the Company must file. In this case RUCO
6 thought that it was appropriate to require the Company to file a rate case
7 no later than July 1, 2017. The date was negotiated and agreed to by the
8 Company.

9
10 **Q. Does this conclude your testimony on the Agreement?**

11 A. Yes it does.