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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

2013 SEP 20 P 12:33

AZ CORP COMMISSION
DOCKET CONTROL

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

**STAFF'S NOTICE OF FILING
RESPONSIVE TESTIMONY IN SUPPORT
OF THE SETTLEMENT AGREEMENT**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Responsive
Testimony of Steven M. Olea in Support of the Settlement Agreement in the above docket.

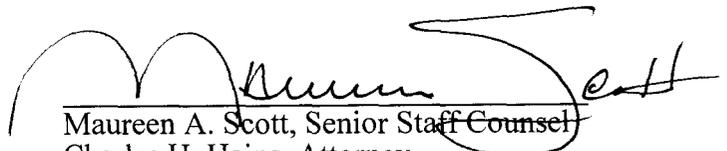
RESPECTFULLY SUBMITTED this 20th day of September 2013.

Arizona Corporation Commission

DOCKETED

SEP 20 2013

DOCKETED BY 



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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP
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GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-04204A-12-0504
UNS ELECTRIC, INC. FOR THE ESTABLISH-)
MENT 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)
_____)

TESTIMONY

IN SUPPORT OF

THE PROPOSED SETTLEMENT AGREEMENT

STEVEN M. OLEA

DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 20, 2013

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

Mr. Olea's testimony supports the adoption of the Settlement Agreement ("Agreement") as proposed by the Signatories in this case. This testimony describes the settlement process as open, candid, transparent and inclusive of all parties to this case. Mr. Olea explains why Staff believes this Agreement is in the public interest.

Mr. Olea's testimony recommends that the Commission adopt the Agreement as proposed.

1 **SECTION I – INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Steven M. Olea, 1200 West Washington, Phoenix, Arizona, 85007.

4
5 **Q. By whom and in what capacity are you employed?**

6 A. I am employed by the Arizona Corporation Commission (“Commission”) as the Director of
7 the Utilities Division.

8
9 **Q. Please state your educational background.**

10 A. I graduated from Arizona State University (“ASU”) in 1976 with a Bachelors Degree in Civil
11 Engineering. From 1976 to 1978 I obtained 47 graduate hours of credit in Environmental
12 Engineering at ASU.

13
14 **Q. Please state your pertinent work experience.**

15 A. From April 1978 to October 1978, I worked for the Engineering Services Section of the
16 Bureau of Air Quality Control in the Arizona Department of Health Services (“ADHS”). My
17 responsibilities were to inspect air pollution sources to determine compliance with ADHS
18 rules and regulations.

19
20 From November 1978 to July 1982, I was with the Technical Review Unit of the Bureau of
21 Water Quality Control (“BWQC”) in ADHS (this is now part of the Arizona Department of
22 Environmental Quality [“ADEQ”]). My responsibilities were to review water and
23 wastewater construction plans for compliance with ADHS rules, regulations, and
24 Engineering Bulletins.

25

1 From July 1982 to August 1983, I was with the Central Regional Office, BWQC, ADHS.
2 My responsibilities were to conduct construction inspections of water and wastewater
3 facilities to determine compliance with plans approved by the Technical Review Unit. I also
4 performed routine operation and maintenance inspections to determine compliance with
5 ADHS rules and regulations, and compliance with United States Environmental Protection
6 Agency requirements.

7
8 From August 1983 to August 1986, I was a Utilities Consultant/Water-Wastewater Engineer
9 with the Utilities Division. My responsibilities were to provide engineering analyses of
10 Commission regulated water and wastewater utilities for rate cases, financing cases, and
11 consumer complaint cases. I also provided testimony at hearings for those cases.

12
13 From August 1986 to August 1990, I was the Engineering Supervisor for the Division. My
14 primary responsibility was to oversee the activities of the Engineering Section, which
15 included one technician and eight Utilities Consultants. The Utilities Consultants included
16 one Telecommunications Engineer, three Electrical Engineers, and four Water-Wastewater
17 Engineers. I also assisted the Chief Engineer and performed some of the same tasks as I did
18 as a Utilities Consultant.

19
20 In August 1990, I was promoted to the position of Chief Engineer. My duties were
21 somewhat the same as when I was the Engineering Supervisor, except that now I was less
22 involved with the day-to-day supervision of the Engineering Staff and more involved with
23 the administrative and policy aspects of the Engineering Section.
24

1 In April 2000, I was promoted to the position of one of two Assistant Directors of the
2 Utilities Division. In this position, I assisted the Division Director in the policy aspects of the
3 Utilities Division. I was primarily responsible for matters dealing with water and energy.

4
5 In August 2009, I was promoted to my present position as Director of the Utilities Division.
6 In this position, I manage the day-to-day operations of the Utilities Division with the
7 assistance of the two Utilities Division Assistant Directors and oversee the management of
8 the Utilities Division's Telecom & Energy Section, the Financial & Regulatory Analysis
9 Section, the Consumer Services Section, the Engineering Section, the Compliance Section
10 and the Administrative Section. In addition, I am responsible for making policy decisions for
11 the Utilities Division.

12
13 In early 2010, I was given the task of being the Interim Director for the Commission's Safety
14 Division (Railroad and Pipeline). The day-to-day activities of the Safety Division were
15 overseen by the managers of the Railroad Safety Section and the Pipeline Safety Section with
16 input from me. Together with the Commission's Executive Director, I was responsible for
17 the policy decisions for the Safety Division up until a permanent Safety Division Director
18 was hired late in 2012.

19
20 **Q. What is the purpose of your testimony in this case?**

21 A. The purpose of my testimony is to support the Proposed Settlement Agreement
22 ("Agreement"). I will also provide testimony which addresses the settlement process,
23 public interest benefits and general policy considerations.

1 **Q. How is your testimony being presented?**

2 A. My testimony is organized into four sections. Section I is this introduction, Section II
3 provides discussion of the settlement process, Section III discusses the various parts of the
4 Agreement, and Section IV identifies and discusses the reasons why the Agreement is in
5 the public interest.

6
7 **Q. Will there be other Staff witnesses providing testimony in this case?**

8 A. No, however, all other Utilities Division Staff ("Staff") witnesses and Staff consultants
9 that filed Direct Testimony in this docket prior to the Agreement will be available if the
10 Commission has questions for them.

11

12 **SECTION II – SETTLEMENT PROCESS**

13 **Q. Did you participate in the negotiations that led to the execution of the Agreement?**

14 A. Yes, I did.

15

16 **Q. Please discuss the settlement process.**

17 A. The settlement process was open, transparent and inclusive. All parties received notice of
18 the settlement meetings and were accorded an opportunity to raise, discuss, and propose
19 resolution to any issue that they desired.

20

21 **Q. Over what period did the Settlement meetings take place?**

22 A. Meetings were held on July 29 and 30, 2013.

1 **Q. Who participated in those meetings?**

2 A. The participants were UNS Electric, Inc. (“UNSE” or “Company”), NUCOR Corporation
3 (“NUCOR”), the Residential Utility Consumer Office (“RUCO”), and Staff (collectively,
4 “Signatories”).

5
6 **Q. Could you identify the interests that were involved in this process?**

7 A. Yes. The interests included those of Staff, residential customers, the Company and
8 industrial customers.

9
10 **Q. How many of these parties executed the Agreement?**

11 A. All parties involved signed the Agreement.

12
13 **Q. Was there an opportunity for all issues of each participant to be discussed and
14 considered?**

15 A. Yes, each party had the opportunity to raise any issue and have it considered.

16
17 **Q. Were the Signatories able to resolve all issues?**

18 A. Yes.

19
20 **Q. How would you describe the negotiations?**

21 A. I believe that all participants zealously advocated and represented their interests. I would
22 characterize the discussions as candid but professional. All parties had the opportunity to
23 be heard and to have their positions fairly considered.

24

1 **Q. Would you describe the process as requiring give and take?**

2 A. Yes, I would. As a result of the varied interests represented in the settlement process,
3 willingness to compromise was necessary. As evidenced in the Agreement, the
4 Signatories compromised on different litigation positions.

5
6 **Q. Because of such compromising, do you believe the public interest was compromised?**

7 A. No. As I will discuss later in this testimony, I believe that the compromises made by the
8 Signatories further the public interest.

9
10 **Q. Mr. Olea, you have indicated that the Agreement incorporates varied interests**
11 **including those of residential customers, the Company and industrial customers.**
12 **Please discuss how the Agreement addresses those interests.**

13 A. In the Agreement, there are provisions which address the concerns expressed by the
14 various interests. For customers, it provides a minimal overall bill impact while giving the
15 Company the opportunity to earn adequate revenues to continue providing reliable, proper
16 and safe electric service to its customers. For industrial customers, such as NUCOR, there
17 are provisions that require UNSE to look into and propose certain rate designs in its next
18 rate case that may be beneficial to industrial customers without being detrimental to other
19 customer classes.

20
21 **Q. What is the return on equity ("ROE") requested by UNSE compared to what is in**
22 **the Agreement?**

23 A. The Company requested an ROE of 10.5 percent. In its Direct Testimony, Staff
24 recommended an ROE of 9.25 percent. The Agreement contains an ROE of 9.5 percent.
25 In addition, in its application UNSE requested a 1.61 percent return on its "fair value

1 increment”, while Staff’s Direct Testimony recommended a 0.5 percent return. The
2 Agreement contains Staff’s 0.5 percent return.

3
4 **SECTION III – SETTLEMENT AGREEMENT**

5 **Q. Please describe Part I of the Agreement.**

6 A. Part I is a general description of the settlement process and the Agreement itself, which
7 also includes a brief description about why the Signatories believe the terms of the
8 Agreement are just, reasonable, fair and in the public interest.

9
10 **Q. Please describe Part II of the Agreement.**

11 A. Part II of the Agreement describes the revenue increase. This increase is made up of two
12 parts, the non-fuel piece and the fuel piece. The total increase is \$14,533,854 for a total
13 revenue requirement of \$176,427,018 on a fair value rate base of \$282,823,283.

14
15 **Q. Please describe Part III of the Agreement.**

16 A. This section of the Agreement addresses bill impacts resulting from the settlement.
17 Average residential use on the UNSE system is approximately 850 kWh per month.
18 Taking into account the base rate increase contained in the Agreement, the reduction in
19 purchased fuel and power costs and the reduction in Demand Side Management (“DSM”)
20 charges, a customer using 850 kWh would see an increase in her/his monthly bill of
21 approximately \$0.41.

22
23 **Q. Please discuss Part IV of the Agreement.**

24 A. This section contains the capital structure (47.4 percent debt and 52.6 percent common
25 equity), the ROE of 9.5 percent, the cost of debt of 5.97 percent, the fair value increment
26 rate of return of 0.5 percent, and the fair value rate of return of 6.02 percent.

1 **Q. Please describe Part V of the Agreement.**

2 A. This section discusses the purchased power and fuel adjustment clause (“PPFAC”).
3 According to the Agreement, the Company will recover its base fuel costs (set at \$0.05706
4 per kWh average cost) through base rates. Any increase or decrease in fuel costs will flow
5 through this adjustor. The PPFAC rate will be set at zero on the effective date of new
6 rates in this case. Currently, the PPFAC rate is negative \$0.004010 per kWh for most
7 customers and negative \$0.003841 for CARES customers. In addition, the PPFAC will be
8 modified to adjust monthly, based on a twelve (12) month rolling average similar to what
9 the Commission has approved for natural gas utilities.

10

11 **Q. Please describe Part VI of the Agreement.**

12 A. This section deals with energy efficiency (“EE”). The Signatories agree that UNSE will
13 abide by whatever EE requirements are contained in the decision resulting from Docket
14 No. E-04204A-12-0219 (UNSE’s 2013-2014 EE Implementation Plan). The Agreement
15 also states that UNSE will be allowed to revise the performance incentive for the EE plan
16 approved in Docket No. E-04204A-12-0219 to mirror that recently approved for Tucson
17 Electric Power Company by having a performance incentive of eight (8) percent of net
18 benefits capped at \$0.0125 per kWh saved.

19

20 **Q. Please describe Part VII of the Agreement.**

21 A. Part VII explains the lost fixed cost recovery (“LFCR”) mechanism. The LFCR herein is
22 similar to that approved by the Commission for other Arizona utilities. This section also
23 explains the residential fixed rate LFCR that will be \$2.50 per month for those residential
24 customers using less than 2,000 kWh per month and \$6.50 for those using 2,000 or more
25 kWh per month.

26

1 **Q. Please describe Part VIII of the Agreement.**

2 A. This section of the Agreement addresses the transmission cost adjustor ("TCA")
3 mechanism. The TCA in this Agreement is similar to that approved by the Commission
4 for Arizona Public Service Company. UNSE also agrees to fund a consultant of Staff's
5 choosing for the next three years (up to \$25,000 per year) if Staff believes it needs to hire
6 a consultant to properly review UNSE's annual TCA filings.

7
8 **Q. Please describe Part IX of the Agreement.**

9 A. Part IX states that UNSE agrees to adopt Staff's operation recommendations as contained
10 in the Direct Testimony of Staff consultant Michael Lewis. The main provision of these
11 recommendations is the preparation, on an annual basis, of a listing of the worst
12 performing circuits identified by service area and reliability indices. UNSE will adopt a
13 program to use this information to target annual circuit maintenance as an efficient means
14 of improving reliability.

15
16 **Q. Please describe Part X of the Agreement.**

17 A. Part X discusses how the Company will handle its low income programs. CARES
18 (Customer Assistance Residential Energy Support) customers will see approximately the
19 same increase in rates resulting from this Agreement as those customers on the standard
20 residential R-01 rate. All adjustor rates will apply to CARES customers except the DSM
21 surcharge adjustment rate.

22
23 **Q. Please describe Part XI of the Agreement.**

24 A. Part XI is the rate design portion of the Agreement, details of which are contained in
25 Attachment G to the Agreement. The Agreement calls for the rate design portion of this
26 case to remain open until January 1, 2015, to allow the Commission to make any revenue

1 neutral adjustments to rate design the Commission may feel are necessary in order to
2 correct any customer rate impacts that are determined to be inconsistent with the public
3 interest.

4
5 **Q. Please describe Part XII of the Agreement.**

6 A. Part XII states that the Signatories agree to the revisions to UNSE's Rules and Regulations
7 as contained in Attachment H to the Agreement.

8
9 **Q. Please describe Part XIII of the Agreement.**

10 A. Part XIII states that UNSE will eliminate its Green Watts Tariff since it is covered by
11 other UNSE Renewable Energy Standard Tariff ("REST") programs.

12
13 **Q. Please describe Part XIV of the Agreement.**

14 A. Part XIV eliminates duplicative and/or outdated compliance filings required of UNSE.

15
16 **Q. Please describe Part XV of the Agreement.**

17 A. Part XV addresses issues for industrial and/or larger customers, as I stated earlier, that
18 have to do with cost of service and rate design proposals that UNSE will be required to
19 make in its next rate case that may be beneficial to these customers without being
20 detrimental to other customer classes.

21
22 **Q. Please describe Part XVI of the Agreement.**

23 A. This portion of the Agreement is typical to settlement agreements presented to the
24 Commission and states that the Commission is not bound by the Agreement and will
25 review it independently. It also discusses the responsibilities and options of the
26 Signatories to the Agreement if the Commission does or does not approve the Agreement.

1 **Q. Please describe Part XVII of the Agreement.**

2 A. This part of the Agreement contains the typical miscellaneous provisions of a settlement
3 agreement.

4
5 **SECTION IV – PUBLIC INTEREST**

6 **Q. Mr. Olea, is the Agreement in the public interest?**

7 A. Yes, in Staff's opinion, the Agreement is fair, balanced, and in the public interest.

8
9 **Q. Would you summarize the reasons that lead Staff to conclude that the Agreement is**
10 **fair, balanced, and in the public interest?**

11 A. This Agreement results in a settlement package that results in a bill increase of
12 approximately 41 cents for a residential customer using 850 kWh in a month. This was
13 the average residential usage in the test year. The Agreement continues assistance for
14 qualifying low income customers and provides for rate design proposals in UNSE's next
15 rate case that could benefit larger customers. The Agreement also simplifies time of use
16 ("TOU") rates while at the same time providing more off-peak hours, which should make
17 these TOU rates attractive to a larger portion of the customer base. In addition, the
18 Agreement allows the Commission to set EE and REST requirements however and at
19 whatever level the Commissioners desire.

20
21 **Q. Mr. Olea, do you believe that the Agreement results in just and reasonable rates for**
22 **consumers?**

23 A. Yes.

24

1 **Q. Mr. Olea, what was Staff's goal when it agreed to be a Signatory to the Agreement?**

2 A. The primary goal of Staff in this matter, as in all rate proceedings before the Commission,
3 is to protect the public interest by recommending rates that are just, fair and reasonable for
4 both the ratepayers and the Company. Staff believes it has accomplished this by
5 reviewing the facts presented and making the appropriate recommendations to the
6 Commission for its consideration. Staff believes its recommendations balance the interests
7 of UNSE and the ratepayers, by ensuring that the Company has the tools and financial
8 health to provide safe, adequate and reliable service, while complying with Commission
9 requirements at just and reasonable rates.

10

11 **Q. Is there anything else you would like to add regarding the Agreement?**

12 A. I would like to reiterate that the settlement discussions were transparent, candid,
13 professional and open to all parties in this docket. All parties were allowed to openly
14 express their views and opinions on all issues. I believe the Settlement Agreement is in
15 the public interest.

16

17 **Q. Does this conclude your testimony?**

18 A. Yes, it does.