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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
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PAUL NEWMAN
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE
APPLICATION OF ARIZONA PUBLIC
SERVICE COMPANY FOR A
HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR
RATEMAKING PURPOSES, TO FIX A
JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE
RATE SCHEDULES DESIGNED TO
DEVELOP SUCH RETURN

Docket No. E-01345A-11-0224

**NOTICE OF FILING DIRECT
TESTIMONY OF KEVIN C. HIGGINS
ON BEHALF OF FREEPORT-
MCMORAN COPPER & GOLD INC.,
ARIZONANS FOR ELECTRIC
CHOICE AND COMPETITION,
NOBLE AMERICAS ENERGY
SOLUTIONS AND THE KROGER
CO.**

Freeport-McMoRan Copper & Gold Inc. and Arizonans for Electric Choice and
Competition (collectively "AECC"), Noble Americas Energy Solutions L.L.C.,
Constellation NewEnergy, Inc., Direct Energy, L.L.C. and Shell Energy North Americas
(US) L.P. ("Noble") and The Kroger Co. ("Kroger") hereby submit the Direct Testimony of
Kevin C. Higgins on behalf of AECC, Noble and Kroger in the above captioned Docket.

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Arizona Corporation Commission

DOCKETED

JUN 19 2014

DOCKETED BY [Signature]

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RESPECTFULLY SUBMITTED this 19th day of June 2014.

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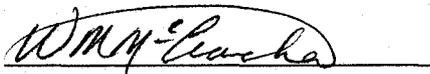
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BEFORE THE ARIZONA CORPORATION COMMISSION

In the Matter of the Application of Arizona)
Public Service Company for a Hearing to)
Determine the Fair Value of the Utility)
Property of the Company for Ratemaking)
Purposes, to Fix a Just and Reasonable)
Rate of Return Thereon, to Approve Rate)
Schedules Designed to Develop Such Return)

Docket No. E-01345A-11-0224

Direct Testimony of Kevin C. Higgins

on behalf of

Freeport-McMoRan Copper & Gold Inc.,

Arizonans for Electric Choice & Competition

Noble Americas Energy Solutions and

The Kroger Co.

June 19, 2014

DIRECT TESTIMONY OF KEVIN C. HIGGINS

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1 A. My academic background is in economics, and I have completed all
2 coursework and field examinations toward the Ph.D. in Economics at the
3 University of Utah. In addition, I have served on the adjunct faculties of both the
4 University of Utah and Westminster College, where I taught undergraduate and
5 graduate courses in economics. I joined Energy Strategies in 1995, where I assist
6 private and public sector clients in the areas of energy-related economic and
7 policy analysis, including evaluation of electric and gas utility rate matters.

8 Prior to joining Energy Strategies, I held policy positions in state and local
9 government. From 1983 to 1990, I was economist, then assistant director, for the
10 Utah Energy Office, where I helped develop and implement state energy policy.
11 From 1991 to 1994, I was chief of staff to the chairman of the Salt Lake County
12 Commission, where I was responsible for development and implementation of a
13 broad spectrum of public policy at the local government level.

14 **Q. Have you testified before this Commission in other dockets?**

15 A. Yes. I have testified in a number of proceedings before this Commission,
16 including the generic proceeding on retail electric competition (1998),² the
17 hearings on APS's 1999 Settlement Agreement (1999),³ the hearings on the
18 Tucson Electric Power Company's ("TEP") 1999 Settlement Agreement (1999),⁴
19 the Arizona Electric Power Cooperative, Inc.'s transition charge hearings (1999),⁵
20 the Commission's Track A proceeding (2002),⁶ the APS adjustment mechanism

² Docket No. RE-00000C-94-0165.

³ Docket Nos. RE-00000C-94-0165, E-01345A-98-0471, and E-01345A-98-0473.

⁴ Docket Nos. RE-00000C-94-0165, E-01933A-97-0772, and E-01933A-97-0773.

⁵ Docket No. E-01773A-98-0470.

⁶ Docket Nos. E-00000A-02-0051; E-01345A-01-0822; E-00000A-01-0630; E-01933A-02-0069; E-01933A-98-0471.

1 proceeding (2003),⁷ the Arizona ISA proceeding (2003),⁸ the APS 2004 rate case
2 (2004),⁹ the Trico Electric Cooperative, Inc. 2004 rate case (2005),¹⁰ the TEP
3 2004 rate review (2005),¹¹ the APS 2006 interim rate proceeding (2006),¹² the
4 APS 2006 rate case (2006),¹³ TEP's request to amend Decision No. 62103
5 (2007),¹⁴ the TEP 2007 rate case (2008),¹⁵ the APS 2008 rate case (2008),¹⁶ the
6 APS 2011 rate case (2011-12),¹⁷ the TEP 2011 Energy Efficiency Plan (2012),¹⁸
7 and the TEP 2012 rate case (2012).¹⁹

8 **Q. Have you testified before utility regulatory commissions in other states?**

9 A. Yes. I have testified in approximately 170 other proceedings on the
10 subjects of utility rates and regulatory policy before state utility regulators in
11 Alaska, Arkansas, Colorado, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky,
12 Michigan, Minnesota, Missouri, Montana, Nevada, New Mexico, New York,
13 North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas,
14 Utah, Virginia, Washington, West Virginia, and Wyoming. I have also
15 participated in various Pricing Processes conducted by the Salt River Project
16 Board of Directors and have filed affidavits in proceedings at the Federal Energy
17 Regulatory Commission.

18

⁷ Docket No. E-01345A-02-0403.

⁸ Docket No. E-00000A-01-0630.

⁹ Docket No. E-01345A-03-0437.

¹⁰ Docket No. E-01461A-04-0607.

¹¹ Docket No. E-01933A-04-0408.

¹² Docket No. E-01345A-06-0009.

¹³ Docket No. E-01345A-05-0816.

¹⁴ Docket No. E-01933A-05-0650.

¹⁵ Docket No. E-01933A-07-0402.

¹⁶ Docket No. E-01345A-08-0172.

¹⁷ Docket No. E-01345A-11-0224.

¹⁸ Docket No. E-01933A-11-0055.

¹⁹ Docket No. E-01933A-12-0291.

1 **OVERVIEW AND CONCLUSIONS**

2 **Q. What is the purpose of your testimony in this phase of the proceeding?**

3 A. My testimony addresses the applicability to customers served under Rate
4 Schedule AG-1 of the Four Corners Adjustment rider proposed by APS.

5 **Q. What are your primary conclusions and recommendations?**

6 A. I disagree with APS's proposal to apply the Four Corners Adjustment
7 rider to a portion of the bills paid by customers taking service under Rate
8 Schedule AG-1. Charging AG-1 customers for Four-Corners-related costs does
9 not make sense conceptually and also is inconsistent with both the 2012
10 Settlement Agreement in APS' 2011 rate case, as approved by the Commission in
11 this docket on May 24, 2012, and the APS tariff.

12 Properly exempting AG-1 customers from the Four Corners Adjustment
13 rider would cause the rate in the rider to increase by only 0.02%, causing it to go
14 from 2.22% to 2.24%. Thus, correcting the APS proposal to make it consistent
15 with the 2012 Settlement Agreement and the APS tariff would not have an
16 appreciable impact on other customers.

17
18 **FOUR CORNERS ADJUSTMENT RIDER**

19 **Q. What is the Four Corners Adjustment rider?**

20 A. The Four Corners Adjustment rider, or Adjustment Schedule FCA, is the
21 mechanism proposed by APS to recover the incremental costs associated with
22 APS's acquisition and operation of Southern California Edison Company's share
23 of Units 4 and 5 of the Four Corners power plant. The proposed rider is presented
24 in Attachment EAB-9, Schedule 5, attached to the direct testimony of APS

1 witness Elizabeth Blankenship. It is proposed to be a 2.22% surcharge applied to
2 the base rates of all customers to which the rider is applicable, i.e., it would be
3 applied to the customer's monthly billed amount, excluding all other adjustments,
4 sales tax, regulatory assessment and franchise fees. This surcharge is intended to
5 recover the estimated \$62.53 million incremental annual revenue requirement
6 associated with the Four Corners acquisition.

7 **Q. Is the design of this recovery mechanism governed by any previous**
8 **agreements approved by the Commission?**

9 A. Yes. Section 10.3 of the 2012 Settlement Agreement approved by the
10 Commission in this docket on May 24, 2012 provides that, among other things,
11 the recovery mechanism for approved Four Corners incremental costs would be
12 an adjustment rider that recovers the rate base and non-PSA ("Power Supply
13 Adjustor") related expenses associated with any Four Corners acquisition on an
14 equal percentage basis across all rate schedules.

15 **Q. Are AECC, Kroger, and Noble Solutions signatories to the 2012 Settlement**
16 **Agreement?**

17 A. Yes.

18 **Q. Did you personally participate in the negotiation of the 2012 Settlement**
19 **Agreement?**

20 A. Yes, I did.

21 **Q. In your opinion, is Adjustment Schedule FCA as proposed by APS consistent**
22 **with all the provisions of the Settlement Agreement?**

23 A. No. In principle, I support the use of the equal percentage rider proposed
24 by APS. However, I disagree with APS's proposal to apply this rider to a portion

1 of the bills paid by customers taking service under Rate Schedule AG-1.

2 Charging AG-1 customers for Four-Corners-related costs does not make sense
3 conceptually and is inconsistent with both the 2012 Settlement Agreement and the
4 APS tariff.

5 **Q. What is Rate Schedule AG-1?**

6 A. Rate Schedule AG-1 is an experimental rate rider that was proposed by
7 APS in its 2011 rate case and was implemented (as revised through settlement
8 negotiations) pursuant to the terms of the 2012 Settlement Agreement. Rate
9 Schedule AG-1 is available to a limited amount of load on APS Rate Schedules E-
10 32, E-34, and E-35. It provides for alternative generation buy-through service
11 whereby APS customer participants arrange a power purchase from a third-party
12 Generation Service Provider that is facilitated by APS through its tariff. This
13 alternative buy-through generation is utilized for the AG-1 customers in lieu of
14 APS's own generation supply. Accordingly, except for certain specified
15 transition-type charges, and a charge for generation reserves, AG-1 customers do
16 not pay for APS generation service.

17 **Q. What transition-type charges were assessed to AG-1 customers?**

18 A. AG-1 customers were subject to the Historical Component of the PSA for
19 the first twelve months of their AG-1 service because the cost of that component
20 had been incurred on their behalf. AG-1 customers also were required to
21 compensate APS for the cost of unwinding their pro rata share of fuel supply
22 hedges. But, except for these transition-type charges, and a charge for generation
23 reserves, AG-1 customers are expressly exempt from APS's generation charges.

1 **Q. What is APS proposing with respect to the applicability of the Four Corners**
2 **Adjustment rider to AG-1 customers?**

3 A. As explained in the direct testimony of APS witness Jeffrey Guldner, the
4 Company is proposing to exempt AG-1 customers from the application of the
5 Four Corners Adjustment rider to the buy-through generation portion of AG-1
6 customers' bills, but is proposing to apply the surcharge to the non-generation
7 portion of their bills, i.e., the non-generation portion of Schedules E-32, E-34, or
8 E-35, whichever is applicable.

9 **Q. Please explain your disagreement with APS's proposed approach.**

10 A. At a conceptual level, APS's approach is unreasonable because the Four
11 Corners Adjustment rider is entirely a generation charge, and AG-1 customers are
12 purchasing the entirety of their AG-1 generation supply through non-APS
13 sources. Thus, it is not reasonable for AG-1 customers to be assigned the cost of
14 this APS generation resource, particularly when it is clear that the structure of the
15 AG-1 rate exempts AG-1 customers from paying for all other APS generation
16 resources.

17 **Q. Why doesn't the partial exemption from the Four Corners Adjustment rider**
18 **proposed by APS for AG-1 customers adequately address your concerns?**

19 A. The partial exemption proposed by APS, i.e., exempting only the
20 generation portion of AG-1 customer bills, does not adequately address my
21 concerns precisely because it is only a partial exemption. Even if the surcharge is
22 restricted to the non-generation portion of AG-1 customer bills, the upshot of
23 APS's proposal is that AG-1 customers would be forced to pay for APS
24 generation costs even though these customers are purchasing the entirety of their

1 AG-1 generation supply from non-APS sources. Moreover, APS's proposal is
2 inconsistent with both the 2012 Settlement Agreement as a whole and APS's
3 tariff.

4 **Q. Please explain. How is APS's proposal inconsistent with the 2012 Settlement**
5 **Agreement as a whole?**

6 A. Attachment J to the 2012 Settlement Agreement is the AG-1 rate schedule
7 negotiated by the parties. On page 4 of the attachment, under the "Rates"
8 heading, it states: "All provisions, charges and adjustments in the customer's
9 applicable retail rate schedule will continue to apply except as follows:...." The
10 very first exception listed states: "The generation charges will not apply;"

11 It is clear in this very first exception that a fundamental feature of the AG-
12 1 rate schedule negotiated by the parties to the 2012 Settlement Agreement is that
13 AG-1 customers are not intended to pay for APS generation charges. The limited
14 exceptions to this principle (which were discussed above) are expressly spelled
15 out in the rate section of Attachment J. Paying a surcharge for Four Corners
16 generation costs is not among the exceptions listed.

17 I further note that the statement, "The generation charges will not apply"
18 is a general reference to generation charges; that is, "generation charges" is in
19 lower case and does not refer to a specific charge in the tariff; thus, it should be
20 read to include all generation charges, including the proposed Four Corners
21 Adjustment rider, unless expressly stated otherwise.

22 **Q. How is APS's proposal inconsistent with the Company's tariff?**

23 A. After the approval of the 2012 Settlement Agreement by the Commission,
24 Attachment J was incorporated into the APS tariff. Thus, the language stating

1 that generation charges do not apply to AG-1 customers is now part of the
2 approved tariff. Consequently, APS's proposal to charge AG-1 customers for
3 Four Corners generation service is inconsistent with its tariff.

4 **Q. Is your proposal to exempt AG-1 customers from the Four Corners**
5 **Adjustment rider consistent with Section 10.3 of the 2012 Settlement**
6 **Agreement, which requires the Four Corners Adjustment rider to recover the**
7 **costs on an equal percentage basis across all rate schedules?**

8 A. Yes, it is. Under my proposed treatment, the Four Corners Adjustment
9 rider would be structured as an equal percentage surcharge applied to all rate
10 schedules, including Schedules 32, 34, and 35, consistent with Section 10.3 of the
11 2012 Settlement Agreement. The exemption for AG-1 would simply be applied
12 to the *individual customers* taking service under the AG-1 rider for the portion of
13 their service provided pursuant to AG-1.

14 **Q. Does exempting the individual customers entirely from the Four Corners**
15 **Adjustment rider cause the equal percentage rider to be higher than it would**
16 **be under APS's proposal?**

17 A. Yes, by a very small amount. According to information provided by APS
18 in the technical conference conducted February 19, 2014, the full exemption of
19 AG-1 customers from the Four Corners Adjustment rider would cause the rider to
20 increase by only 0.02%, causing it to go from 2.22% to 2.24%, or about 2 cents
21 per month for a typical customer with a base energy bill of \$125 per month.
22 Thus, correcting the APS proposal to make it consistent with the 2012 Settlement
23 Agreement and the APS tariff would not have an appreciable impact on other
24 customers.

1 Q. Does this conclude your direct testimony?

2 A. Yes, it does.