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BEFORE THE ARIZONA CORPORATION

1
2 WILLIAM A. MUNDELL
Chairman
3 JIM IRVIN
Commissioner
4 MARC SPITZER
Commissioner
5

Arizona Corporation Commission

DOCKETED

AUG 22 2002

DOCKETED BY 

6 IN THE MATTER OF THE PETITION OF)
ARIZONA ELECTRIC POWER COOPERATIVE,)
7 INC. TO SET ITS COMPETITION TRANSITION)
CHARGE FOR THE PERIOD OF JULY 1, 2002)
8 TO JUNE 30, 2003)

DOCKET NO. E-01773A-98-0470

DECISION NO. 65119

OPINION AND ORDER

9
10 Open Meeting
August 20 and 21, 2002
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 1. The Arizona Electric Power Cooperative, Inc. ("AEP CO") is a non-profit Arizona rural
15 electric generation and transmission cooperative. It supplies electric power generation services to its
16 six Class A member-owned distribution cooperatives and to various other wholesale customers.

17 2. On April 29, 2002, AEP CO filed a letter with Staff containing the calculation of
18 AEP CO's Competitive Transition Charge ("CTC") to be applied from July 1, 2002 through June 30,
19 2003. AEP CO's CTC was originally implemented pursuant to Decisions Nos. 60977 and 62758.

20 3. Decision No. 60977, dated June 22, 1998, defined "stranded costs" as the difference
21 between market based prices for electricity and the regulated cost of power." The Decision listed as
22 a primary objective "to provide the Affected Utilities a reasonable opportunity to collect 100 percent
23 of unmitigated stranded costs."

24 4. The Decision allowed each Affected Utility to choose from two methodologies for
25 recovery of its stranded costs. The first methodology was divestiture or auction of all generation assets
26 and recovery of the stranded costs for a period no longer than 10 years. The other methodology

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1 allowed by the Commission for recovery of stranded costs was the transition revenue methodology
2 whereby an Affected Utility received revenues necessary to maintain financial integrity. The transition
3 revenues would be collected for a period of ten years.

4 5. The Decision also confirmed A.A.C. R14-2-1607(J) which limits recovery of stranded
5 costs only "from customer purchases made in the competitive market."

6 6. Decision No. 62758, dated July 27, 2000, approved AEPCO's choice of one of the two
7 methodologies for collecting stranded costs set forth in Decision No. 60977.

8 7. AEPCO chose to implement a Regulatory Asset Charge ("RAC") to recover "stranded"
9 deferred assets including debt refinancing costs and the costs associated with the buy-out of its Carbon
10 Coal all-requirements contract.

11 8. AEPCO chose the financial integrity methodology to recover transitional revenue. The
12 transitional revenue was defined in Decision No. 62758 as "the difference between its total generation
13 revenue requirement for Class A Members...less total generation market price revenues."

14 9. The Competition Transition Charge or CTC would be assessed on AEPCO's member
15 distribution cooperatives, which, in turn, would add it to their unbundled tariffs and collect it from
16 their retail customers who elect to take power from another supplier.

17 10. The Decision also found that the CTC would not be "trued-up" for either over or
18 undercollection but would be reset on July 1, 2001 and on each July 1 through 2004 with the CTC
19 ending on July 1, 2005.

20 11. If calculations produced a zero or negative number, the Decision found there would be
21 no CTC in effect for that year.

22 12. AEPCO's initial CTC of \$0.0091 per kWh was also approved in the Decision. The
23 charge was calculated by subtracting the forecasted market price of \$0.03 per kWh from AEPCO's
24 forecasted revenue requirement of \$0.0391 per kWh for the year commencing July 1, 2000 to June 30
25 2001.

26 13. The Commission reset the CTC for the period of July 1, 2001 to June 30, 2002 in
27 Decision No. 63862, dated July 9, 2001. The new charge was set at zero. The charge was calculated
28 by subtracting the forecasted market price of \$0.08384 per kWh from AEPCO's forecasted revenue

1 requirement of \$0.0379 per kWh. Pursuant to Decision No 62758, the CTC cannot be negative. Thus,
2 the CTC was set at zero.

3 14. AEPCO has requested approval of a new CTC of \$0.01125 per kWh for the period
4 July 1, 2002 to June 30, 2003. The April 29th filing supporting this request includes the projection
5 of AEPCO's load, revenue requirement and projected market price.

6 15. The schedule attached to the filing includes AEPCO's estimate of its revenue
7 requirement of \$0.04125 per kWh and a projected market price of \$0.03 per kWh resulting in a CTC
8 of \$0.01125. AEPCO based its forecasted market price on its third party sales experience in the
9 second half of 2001, current market data and projections.

10 16. The CTC would be charged only to AEPCO's member distribution cooperatives in cases
11 where a member of a distribution cooperative purchased electricity from a different Electric Service
12 Provider than AEPCO. Currently, none of the distribution cooperatives' customers are purchasing
13 electricity from other parties.

14 17. In a Procedural Order dated January 25, 2000, an Administrative Law Judge vacated
15 a schedule for a hearing on stranded costs and unbundled and standard offer service tariffs of AEPCO's
16 five Arizona electric distribution cooperative members. The Procedural Order found that "It is in the
17 public interest that the stranded costs and unbundled and standard offer tariff hearings...be continued
18 until after the Commission has made a determination concerning AEPCO's stranded costs and tariffs."

19 18. AEPCO's stranded costs and tariffs were determined in Decision No. 62758, dated
20 July 27, 2000. The member cooperatives have not requested that the matters be reset for hearing.

21 19. Because AEPCO's Arizona members' service territories are not open to competition,
22 AEPCO has not collected any amounts in connection with the CTC. For this reason, the resetting of
23 the CTC has no practical impact and will not until the members' territories are open to competition.
24 Currently, there is no procedural schedule for the determination of members' unbundled and standard
25 offer tariffs or for the determination of their stranded costs.

26 20. Until such determinations have been made, setting a new CTC is not necessary.

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1 21. Staff recommends that the portion of Decision No. 62758 that requires the annual
2 approval of a CTC be suspended until, through Commission decision, the service territories of the
3 AEPCO members are open to retail competition.

4 22. Staff further recommends that when a Commission decision opens the service
5 territories of AEPCO's member cooperatives territories to retail competition, the suspension of the
6 portion of Decision No. 62758 that requires the annual approval of the CTC should be lifted and
7 AEPCO should file for approval of a new CTC using then current forecasts.

8 **CONCLUSIONS OF LAW**

9 1. AEPCO is a public service corporation within the meaning of Article XV of the
10 Arizona Constitution and A.R.S. Sections 40-202,-203,-250, -321, -322, -336, -361, 365,, -367, and
11 under the Arizona Revised Statutes, Title 40, generally.

12 **ORDER**

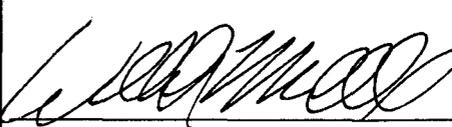
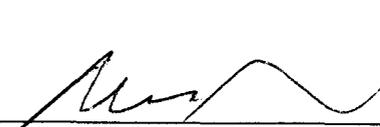
13 IT IS THEREFORE ORDERED that the portion of Decision No. 62758 that requires the
14 annual approval of a CTC be suspended until, through Commission decision, the service territories
15 of the AEPCO members are open to retail competition.

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1 IT IS FURTHER ORDERED that when a Commission decision opens the AEPCO members'
 2 service territories to retail competition, the suspension of the portion of Decision No. 62758 that
 3 requires the annual approval of the CTC should be lifted. At that time, AEPCO should file for
 4 approval of a new CTC using then current forecasts.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

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 9 CHAIRMAN COMMISSIONER COMMISSIONER

10 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
 11 Secretary of the Arizona Corporation Commission, have
 12 hereunto, set my hand and caused the official seal of this
 13 Commission to be affixed at the Capitol, in the City of
 14 Phoenix, this 22nd day of AUGUST, 2002.

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 16 BRIAN C. McNEIL
 17 Executive Secretary

18 DISSENT: _____

19 EGJ:LAJ:miVFW

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1 Service List for: Arizona Electric Power Cooperative, Inc.
2 Docket No. E-01773A-98-0470

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