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Arizona Corporation Commission
BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION

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DOCKETED
JUN 20 1996
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IN THE MATTER OF ELECTRIC INDUSTRY)
RESTRUCTURING.)
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DOCKET U-0000-94-165

STATEMENT BY
LOTHAR SCHMIDT

My response to the request by Gary Yaquinto on April 23, 1996 on the above captioned matter follows.

1. Options for introduction to retail competition

Both a pilot and a phased-in competition are preferred. The pilot program would complete first.

2. Objectives

1 and 9 conflict in part. Increases in the latter are inconsistent with "work to hold prices down" in the former.

7 has to do with the industry not restructuring. Promotion will come from the aggressive, competent super-utility.

8 is achieved today by legislation or as a cost of doing business, except for low-income assistance. Utility managers at Arizona Corporation Commission meetings are callous to ratepayers who don't pay. They refuse service. The Salvation Army uses S.H.A.R.E. dollars from APS consumer donation.

All objectives are wide in scope.

3. Comments on two issues: measurement and a pilot program

How to measure objectives?

No doubt as Staff functions today. Reviewing peer publications, professional membership and conventions, reading, telephoning and maintaining contact within the utility industry.

Pilot program?

Perhaps Staff has a unique expert knowledge of the docket matter and can be correctly objective. An in-house software simulation holds promise especially if it were modeled on an Arizona utility other than the big three.

"Restructuring after the pilot" ought to depend on the results of the in-house simulation. I would ask AEPCO and Citizens Utilities to critique the proposed simulation and comment on the findings.

See also next section, 4.

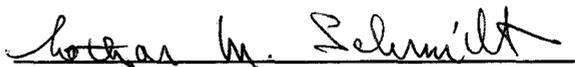
4. Attachment A

The four week extension to June 28, 1996 suggests that questions A1 to A19 are difficult. This electric bond and share holder believes that there are others who could aid in answering. The possibility exists that some responses will be self-serving and fail to conform with the nine objectives; a "fox guarding the chickens" has been suggested. In the event that replies are inadequate, a two-day workshop could provide broader perceptions. Invited guests ought to include staff from California, Massachusetts and Georgia public utility commissions and interested parties from the U-0000-94-165 mailing list. In 1995, a Georgia utility, The Southern Company, had a shareholder common stock dividend at \$241 against the Standard and Poors Electric Utility Index of \$177.

5. In closing, the volume of subject matter mail has been shared with two energy managers at large Federal installations in Yuma. Two of

the three of us admit that mail can become arcane. Nevertheless,
teletypewriter dated and sent on June 17, 1996 is filed as an attachment
to my response.

RESPECTFULLY SUBMITTED this 18th day of June 1996.



Lothar Schmidt, Ph.D. (Engineering)

P.O. Box 10963

Yuma, Arizona 85366-8963

AN ORIGINAL AND TEN COPIES
are filed this 18th day of
June 1996 with Docket Control.

TEL:

Jun 17 '96

10:45 No.002 P.01

file: ACCDOC

To Ron, please give to Lothar Schmidt a copy.
Thanks

17 June 96

COMMENTS ON ACC DOCKET

SUBJ: ARIZONA CORPORATION COMMISSION, Docket U-0000-94-165, Industry Restructuring

1. My comments are as follows regarding how to develop retail competition in the electric utility industry in the state of AZ.

I think that a five year phased in period of eventual full competition with or without divestiture of vertical integrated utilities into transmission, distribution, and generation with a built in five year grace period for amortization of their investment would be appropriate. The grace period should be concurrent with the phased in period to reduce the overall economic shock to the industry in our state. This time period also allows for adjustment to utility contract agreements, and allows for a smooth dynamic change to the open competition market place by both the industry, and the electric utility customers.

I believe that the five year phases should be divided into stages such as bulk power purchases by industrial accounts, next stage, commercial accounts, and the final stage should be residential accounts.

Additionally, I think that the existing utility industry suppliers should be given first rights to provide existing customers with a bid for a least cost contract to supply power, and energy in the newly created competitive market place. The Customer should then retain the optional right of refusal and be able to shop around in the new market place for a more competitive agreement, if the local supplier does not provide his initial needs, say in a one year grace period.

This arrangement will force both customers and suppliers to review their contractual arrangement to make them more competitive in a changing market, while reducing the shock to the utility suppliers.

I still think that the local utility industry wheeling rates and wheeling terms should be regulated in order to ensure that an open and fair market is provided to customers both during and beyond the five year transition period.

Jack Nixon
Energy Engineer