

and Attachments to support the ACC in its consideration of issues raised in this docket. In addition to representing the Associations listed on this filing, it will be clear when reviewing this filing that the Coalition has worked closely in coordinating comments and sharing information in this docket with other parties. The Coalition has attached a proposed implementation time-line and a model retail access services tariff as requested by the ACC. The Coalition represents in excess 12,000 members and many more electricity customers located throughout Arizona. Conservatively, it is estimated that the members of the Coalition Association's consume in excess on 2,000 MW of power in Arizona.

The Coalition compliments the ACC for publication of the Working Group Report in October 1995 and for requesting additional comments on the questions posed in the February request. The study and thoughtfulness that has been conducted under the auspices of the ACC proceedings to date will assist all stakeholders in moving this process forward.

With this response, the Coalition believes it is time to move forward on developing a competitive electric marketplace in Arizona. The Coalition has provided detailed answers to the ACC questions posed in this docket. But more importantly, the Coalition proposes an aggressive and workable time-line for transitioning the electric industry in Arizona to one in which competitive forces will drive electric prices down for all consumers in the state. The Coalition's comments are provided as attachments to this introductory statement. The following attachments are provided:

- A. Responses to ACC Questions Regarding Electric Industry Restructuring.
- B. Comments on How Commission Listed Objectives Can Be Measured.
- C. A Proposed Time-line For Implementation of Competition in Arizona.

D. A Model Retail Access Tariff the Commission Can Adopt for Use by
Regulated Utilities in Arizona.

Description of Coalition Participants.

The following information briefly describes the participants in this Coalition.

Arizona Multihousing Association. The Arizona Multihousing Association (AMA), is a statewide, non-profit trade organization representing the apartment and rental-housing industry. The AMA has approximately 1,200 members who are property managers or owners of apartment communities. Together they represent about 175,000 housing units in 721 properties, or about 50 percent of all rental stock of two or more units in Arizona. These include over 75 percent of the apartment properties with 50 or more units. AMA's membership also includes approximately 350 suppliers who provide products and services to this industry.

AMA's membership provides high-quality, professionally managed housing for the one-in-four Arizonans who live in rental communities. These include a growing number of singles, couples and retired individuals. AMA believes that a competitive electric market will secure greater efficiencies for utility companies and lower prices for the end user, in their case, the residential renter.

Arizona Association of Industries. The Arizona Association of Industries (AAI) is the premier business association representing manufacturing and related industries in Arizona. AAI has been supporting over 500 members of the Arizona manufacturing community for over thirty years.

AAI's primary objective is to increase the growth and competitiveness of Arizona's manufacturer's through legislative, political and regulatory advocacy while

providing manufacturers with education and cost effective services. Injecting competition in the electric utility industry is a primary objective of AAI.

National Federation of Independent Businesses. The mission of the National Federation of Independent Business is to be an effective advocate and guardian of both small and independent business and a competitive free-enterprise system. The guiding principle of NFIB is to determine, by an opinion of the membership, policy positions on legislative and administrative issues affecting small and independent business.

In Arizona, NFIB represents over 8,000 Arizona businesses who are located throughout the State. In a recent survey of its members, NFIB in Arizona identified that electricity costs are a significant portion of operating expenses for small business in Arizona. NFIB, as an advocate for the free enterprise system believes that competition in the electric utility industry will lower costs and provide customers with increased products from which to chose. Nationally, NFIB is the largest small business advocacy group representing over 608,000 members.

Arizona Retailers Association. The Arizona Retailers Association (ARA) is a non-profit corporation formed in 1963. The ARA collectively works towards solving problems common to all forms of retailing. To protect the retail industry by working for legislation to improve laws and regulations concerning retailing and to promote and encourage the retailing industry to better serve the ultimate retail consumer.

The ARA represents over 1,600 members which include national, multiple chain store operations such as Sears, Penny's Dilliards as well as small retail utility customers in Arizona. The ARA believes that the issue of electric deregulation has evolved from being one of economic equity and efficiency to that of survival as Arizona and her

surrounding states look to preserve their job bases while attracting new businesses through cutting the cost of doing business. The subject of reducing electricity costs is very important to the retail community in Arizona because a typical retailer's utility expenses are second only to that of labor fees among operating expenses.

Arizona Food Marketing Alliance. Established in 1943, the Arizona Food Marketing Alliance (AFMA) is a statewide association representing 98 percent of all food dollars spent in Arizona. With over 1,300 retail locations, members include major chains, independent and convenience store operators across the state as well as food brokers, manufacturers and other industry suppliers. AFMA strives to make all members strong, efficient and profitable. AFMA serves as the representing entity of the Arizona retail grocery industry regarding its common interest concerning electricity cost issues and deregulation, governmental, educational, business and social issues that have implications with respect to the industry. AFMA believes that all businesses today must be driven by continuous improvement - finding these methods will create greater efficiencies and less cost burden on customers. The AFMA was able to lower their customer rates with APS by identifying efficiencies within their business. Competition was one of the factors that forced the rate reduction and the Coalition believes that competition will continue to drive costs even lower which will help all customers to benefit.

Arizona Hotel and Motel Association, Inc. The Arizona Hotel and Motel Association (AMHA) has represented the interests of the lodging industry in Arizona since 1938. Presently 560 members work together through AMHA to attract future employees, negotiate fair treatment by elected officials, educate the public on the economic impact of lodging and tourism and generally protect the very special character of the industry in

Arizona. AMHA members spend significant amounts of money on electric utility costs and for years have strived to find any means possible to lower these costs. AMHA believes that since electric deregulation is beginning to occur nationwide, industries other than electric generation need to become familiar with power generation and distribution. The financial impact on hotels will be major, thus becoming more involved in this issue will help to guide AMHA members in decision making in the future regarding construction, heating and cooling and the use of facilities.

Summary.

In summary, the Coalition proposal embodies several key features. It actively embraces and advocates competition for all customers in Arizona. It advocates the so called "bi-lateral" contract approach as the optimal new electric market structure. The Coalition believes that the transition to competition should not leave any customers out of the opportunity to benefit from the efficiencies and technological benefits that a competitive electric industry in Arizona will produce. The Coalition proposal recognizes that a thoughtful transition to competition is necessary and therefore the Coalition proposes a phase-in to competition rather than an immediate transition.

The ACC has many options on how to address moving Arizona towards a competitive environment. Two logical options to proceed include 1) initiating a working retail access phase-in program to gain real experience on how to transition to competition or 2) simply study issues associated with the transition to competition without the benefit of practical experience. The most important feature of the Coalition's comments are that they propose that the ACC begin a working, customer oriented retail access program now

so that the ACC and other stakeholders will have the opportunity to gain practical experience in a competitive retail marketplace.

In closing, the Coalition believes that the ACC has done a commendable job of studying the issues associated with competition in the electric industry. Now it is time to implement change. It is incumbent on the ACC to move ahead now in order to shape competitive policies that work for Arizona. The Coalition's proposal requests that the ACC adopt a Phase-in plan now. In a time period when the marginal costs of electric generation are at all time lows, the opportunity to provide meaningful savings to customers and to transition utilities to a competitive market by implementing a retail access program in Arizona will never be better. In the absence of ACC action now, the savings available in the marketplace to all consumers through a retail access program could be stranded forever. The Coalition proposal is a well reasoned, timely approach to moving forward and we request that the ACC implement this proposal. Questions in reference to this proposal should be forwarded to the Coalition's Project Manager, Mr. Scott A. Gutting c/o The Arizona Association of Industries at 2025 N. Third Street, Suite 175 Phoenix, Arizona 85004 or (602) 252-9415.

The attached responses are respectfully submitted this 26th day of June, 1986.

National Federation of
Independent Business

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UNRECORDED

ATTACHMENT A:

RESPONSES TO THE ACC

A1. *Affected Utilities. Which utilities should open their markets to competition?*

All Arizona utilities subject to the jurisdiction of the Arizona Corporation Commission (ACC) should be required to open their markets to competition. Non-ACC regulated entities are encouraged by the Coalition to participate in the ACC jurisdictional activities upon agreement that they offer reciprocal access to their service territories under circumstances corresponding to those which result from ACC actions in this docket.

A2. *Scope of Restructuring.*

a. *How much of the utilities' markets should be opened to competition?*

Utility markets should be opened to competition on a phased in basis. The Coalition proposes that Phase I begin in the first quarter of 1997. During Phase I, five (5%) percent of each utility's base period electric load (base period is defined as calendar year 1995), plus all incremental large commercial and industrial load, should be open to competition. Phase II should begin twelve months after Phase I begins. Phase II should allow unrestricted open access for all loads greater than 3000 kW peak load and a continued managed phase-in of smaller loads. Aggregation of customers from multiple sites, in loads exceeding 3,000 kW are eligible to participate in Phase II. All customers should be allowed to choose their suppliers no later than March 1, 2000.

The Coalition requests that upon receipt of this filing, the ACC initiate a process with a target completion date of December 31, 1996, that would result in Phase I of this program being able to begin no later than March 1, 1997.

Beginning in September 1996 and concurrent with Phase I of this plan, the Coalition proposes that the ACC initiate a process to resolve several "key" issues associated with moving towards full competition in Arizona. These issues are identified elsewhere in this plan and are included as Attachment C, which is a proposed time line the ACC can adopt as a tool to guide this part of the process.

The Coalition believes that this phase-in proposal can provide all parties and the ACC with valuable and **real** information and data that can then be used to assist the parties in constructing all aspects of future competitive markets in Arizona.

- b. *Which consumers should be allowed to shop around for power and energy?
Consider both geographic areas and consumer classes.*

All consumers in Arizona should be allowed to shop for power and energy supply.
The Coalition proposes a phase-in as follows:

Phase I

Starting date: No later than March 1, 1997

Residential - five (5%) percent of customers, eligible through lottery
Small Commercial - five (5%) percent of customers, eligible through lottery.
Large Commercial/Industrial - Each customer, whose peak load is greater than 3000 kW, will be permitted to purchase off-system for all loads in excess of 95 percent of base period (1995) load.

The five percent amount for each customer class is intended to allow a level of customer participation that is sufficient to gain a good cross section of customer types, while not opening up entire markets to customer choice. The 5% limitation will provide valuable real time experience on how issues such as reliability, class participation, transaction costs, etc. can be resolved.

Electric loads of residential customers who are eligible through the lottery process in Phase I should be allowed to be aggregated into employer loads who are also eligible to participate in Phase I and II.

Phase II

Starting date: Twelve months after Phase I begins
but no later than March 1, 1998.

Residential - Phase-in all customers by Mar. 1, 2000.
Small Commercial - Phase-in through Mar. 1, 2000.
Large Commercial/Industrial - Unrestricted open access for all customers with aggregated loads in excess of 3000 kW peak demand.

Phase III

Starting date: No later than March 1, 2000

Competition and comprehensive customer choice for all customer classes is available.

- c. *Should utility customers served under existing contracts be eligible to participate in the competitive market prior to expiration of the existing contracts?*

Yes, if there is voluntary and mutual agreement by the parties to an existing contract.

- d. *If divestiture were undertaken, how should it be accomplished?*

The Coalition is not advocating that divestiture be forced at this time. As part of this process, the ACC should, however, be sure that market power issues be addressed satisfactorily. "Functional" separation and full unbundling of services and prices of the generation, transmission, and distribution systems must be assured to foster competitive markets. Beginning on September 1, 1996, and concurrent with Phase I of this plan, issues associated with functional separation can be addressed with the goal of developing the necessary transitional rules by the beginning of Phase II or no later than March 1, 1998. During this process the need for and design of an Independent/Grid System Operator (ISO/GSO) can be established.

The Coalition suggests that functional separation include the following basic conditions:

- 1) All generation services and generation service providers are unregulated;
- 2) Transmission services will continue to be regulated by the Federal Energy Regulatory Commission (FERC) and the ACC where applicable (The transmission service provider will be obligated to connect to those seeking service;
- 3) Distribution services will continue to be regulated by the ACC. (The distribution service provider will be obligated to connect to those seeking service. Perhaps a performance based ratemaking program is in order for this regulated entity); and
- 4) Retail energy services (i.e. the provision of services by independent suppliers to an end use customer(s) or by an aggregator of retail customer load) are unregulated. To enhance the ability of individual residential customers to benefit from competitive market activities, customer aggregators should be encouraged to participate in all phases of this plan.

A3. Term of Restructuring.

a. When should competition start?

Please see previous discussion. Upon acceptance of this proposal by the ACC, the Coalition suggests that the ACC set up several distinct processes, beginning on September 1, 1996, to implement the plan. These processes are identified and outlined in Attachment C, the Coalition's proposed implementation time line. This plan results in Arizona following other states in implementing competition, thus allowing parties to gain additional experience and knowledge by reviewing activities being conducted elsewhere. Despite the fact that Arizona is lagging behind other states, the Coalition does not believe that the proposed time line will severely disadvantage Arizona participants. To illustrate this, several brief examples of actions in other states and by other utilities are described below:

- New Hampshire SB1392, passed by the legislature and signed by the Governor, provides for full competition in 1998. A statewide pilot program began in May 1996.
- The California Public Utilities Commission Order issued in December 1995 establishes a combined retail wheeling/mandatory pooling environment for the state beginning January 1, 1998.
- The Massachusetts Department of Public Utilities has issued for comment proposed rules for the restructuring of the electric industry with a recommended start date for full competition of January 1, 1998.
- The New York Public Service Commission has ordered utilities to file restructuring plans by October 1996. Retail wheeling is to begin on a phased-in basis for all customer classes by 1998.
- Both Washington Water Power Co. and Puget Sound Power & Light Co. have proposed open access tariffs for use by various types of customers beginning in 1996 and 1997.
- Central Illinois Light & Power Co. and Illinois Power Co. both voluntarily filed customer choice pilot programs in 1995 which are currently underway.

- b. *If competition is in the form of a pilot or phase-in, how long should the pilot or phases run? Please describe the phases of a phase-in. Please consider that many larger customers of utilities are currently under contract and may not be able to shop around until those contracts expire.*

Please see response to Question A2. Beginning with a Commission Order adopting the Coalition's proposals and initiating a process to guide the plan forward, the ACC should, concurrently, proceed to address other key issues including functional separation issues and cost-based pricing for unbundled services, the technical requirements (i.e. metering) for small customer participation, the methodology for calculating and collecting stranded investment, the treatment of ACC programs identified in Question A10 and issues associated with supplying customers who chose not to participate in the programs proposed in this plan. It should be the intent of the ACC to complete deliberations on these issues by January 1, 1998.

The experience gained in providing retail access for customers during Phase I will be invaluable in helping the parties to address these issues. This experience will also assist in designing the complete transition to full competition for all customers during Phase II.

- c. *If competition is in the form of a pilot, how can the term of the pilot be set so as to avoid discouraging long term contracts signed under the pilot?*

The Coalition is proposing a Phase-in to full competition not a pilot program. Long-term contracts should be permitted and pose no special problem so long as customers are fully informed, by the ACC and by the Associations making up the Coalition, of the activities concerning restructuring the electric industry.

A4. *Services Available on a Competitive Basis. Which services should be available in a competitive market?*

- ◆ *Distributed energy services at market based rates (serving multiple consumers located in proximity, and not requiring transmission service from others) ; this is distinct from on-site self generation for just one consumer.*
- ◆ *Central station generation services at market based rates (generation serving one or more consumers located at a distance from consumers and requiring transmission service).*
- ◆ *Other services described in Sections A5, A6, A7 and A8.*
- ◆ *Other services (please describe).*

Generally, terms and pricing for distribution and transmission services will require continual regulation in order to support competition in the generation supply

sector, retail services and aggregation. The Coalition is not advocating at this time that transmission and distribution services or "use of the wires" be unregulated. Many of the services listed in A5, A6, A7, and A8 however should be available in a competitive market. Generally, there should be no limits on who or what types of companies are eligible to offer services that are made available on a competitive basis.

A5. *Necessary Services.* *Utilities and perhaps other parties will have to address the services listed below. Please indicate how these services should be offered, measured (metered), and priced on an unbundled basis.*

- ◆ *distribution service*
- ◆ *transmission service*
- ◆ *supplemental generation service*
- ◆ *imbalance service (including accounting for losses)*
- ◆ *back-up (standby) service*
- ◆ *voltage control*
- ◆ *other ancillary services necessary for maintaining system reliability*
- ◆ *scheduling of supplies and demands*
- ◆ *repairs/consumer complaints*
- ◆ *other necessary services--please describe*

In general the Coalition's overall philosophy is to let the marketplace provide as many of these services as possible. Information on many of these services are included in Attachment D, the Distribution Service Tariff. The following approaches are recommended for each of the specific service identified:

Distribution service - Should remain under ACC price and service regulation; priced on a cost-of-service or performance-based basis without inter-class subsidization. The distribution providers should be obligated to connect to any and all customers seeking service, whether it be sales services from that provider or "use of the lines" only service. Distribution service should be made available on a firm and non-firm basis.

Transmission service - Terms and conditions of transmission services should be similar to those anticipated in the FERC comparable access filings of affected Arizona utilities. Transmission service should be available on a non-discriminatory basis in a functionally-separated environment. Once the affected utilities have filed their comparable access tariffs, the ACC Staff should complete a thorough review of the tariffs to ensure that they are complete and meet FERC's open access objectives. Transmission service should be made available on a firm and non-firm basis.

Supplemental generation service - Basically all generation services including supplemental generation service should be allowed to be available in the marketplace.

Through negotiating bilateral contracts customers and suppliers will be able to identify exactly what generation services the customer desires. Aggregators and retail service providers will be able to acquire generation services for smaller customer groups.

Imbalance Service - Imbalance measurement will be determined by the regulated transmission and distribution service provider. Imbalance generation services or the responsibility to make up imbalances in a customer's account, can be provided by the customer's supplier. Imbalance issues should be incorporated into the retail access tariff, as is illustrated in the sample tariff included with this filing, see Attachment D.

Back-up Service - Back-up generation service should be available in a competitive market. The distribution company should be allowed to provide this service if it so chooses. The contracting process will provide the opportunity for the end-user and the provider to identify the specific nature of the back-up service.

Voltage Control - These services, to the extent necessary, can be provided by independent generators and the distribution Company. This service may require some form of transitional regulation.

Other Ancillary Services - Each utility will provide ancillary service offerings as part of the FERC comparable access tariff. The staff and other parties should review these filings, understand the services each utility is offering and use this document as the basis from which additional ancillary services will be provided. These filings can also be compared against comparable access filings and services of other utilities and power marketers in this process.

Scheduling of Supplies and Demands - FERC will require that scheduling, system control and dispatch be provided by the transmission service provider.

Metering of all of these above generational services will be conducted by the distribution or transmission company depending on the point of delivery. Repairs and consumer complaint issues can be addressed in the Consumers Protection portion of the attached time-line.

- A6. **Market Center Services.** *The market may benefit from the services listed below. Please indicate how these services should be offered and priced.*

With respect to many of the other services identified in this section, a climate should be established which encourages the availability of each in an open market. The market for offering and pricing each of the remaining identified services is likely to evolve naturally. Specific comments on each item are provided below.

- ◆ *title transfer* - This should occur at the point of delivery as determined by bilateral contracts between buyers and sellers.
- ◆ *transaction confirmation* - This should occur at the delivery point and will be confirmed by the transmission or distribution system operator depending on location.
- ◆ *establishing credit standards* - Credit standards will be determined within the context of bilateral contracts for services provided by the market. Credit standards between customers and regulated distribution or transmission entities will remain as they have been.
- ◆ *invoicing* - Invoicing for generation and other services for small-load customers can be performed by the retail energy service provider or aggregator and should include a breakdown of each of the unbundled cost components (ie., generation, transmission, distribution, stranded cost charge, etc.) necessary for bringing electric power to the customer's meter. Invoicing for larger customers can be done by a single service provider or if the customer so chooses by individual unbundled service providers.
- ◆ *dispatching of transmission/generation* - This process will be determined in a proceeding sponsored by the Commission that runs concurrent with Phase I of this plan. They will likely be performed by the transmission or distribution system operator.
- ◆ *exchanges/swaps* - These services will be provided in the marketplace at or prior to the point of delivery. Information will have to be readily available to the marketplace and should be made available by the transmission or distribution system operator.
- ◆ *interruption notification* - This process will be determined in a proceeding sponsored by the Commission that runs concurrently with Phase I. They will likely be performed by the transmission or distribution system operator.
- ◆ *imbalance trades* - These services will be provided in the marketplace at or prior to the point of delivery. Information will have to be readily available to the marketplace and should be made available by the transmission or distribution system operator.

A7. *Spot Market Services. The market may benefit from the services listed below. Please indicate how these services should be offered and priced.*

- ◆ *electronic bulletin boards for spot transactions/prices*
- ◆ *power pooling services*
- ◆ *coordination with futures/options markets*

Access to regional spot markets is likely to develop as a natural feature in a competitive market which utilizes bilateral contracting. Aggregators and retailing

services sector participants are likely to offer access to spot market transactions, exiting power pools, as well as coordination with futures/options markets. Power pooling services should build upon existing power pooling arrangements, which should be expanded to include participation by non-utility generators and customers.

A8. *Transmission Service.* *For a competitive market to work, utilities owning transmission facilities must provide transmission service. Please indicate how the following objectives would be met:*

- ◆ *services must be provided consistent with FERC tariffs.*
- ◆ *utilities must accept power delivered to their transmission systems by other suppliers and offer wheeling services comparable to services they provide to themselves.*
- ◆ *all sellers supplying consumers must have interconnection agreements with owners of necessary transmission facilities.*

The ACC should mandate that access to the transmission system be available to all parties on a nondiscriminatory basis. For the purposes of Phase I of the proposal, the terms and conditions of FERC-filed comparable access tariffs can be incorporated into relationships between customers and suppliers. Additional rules or modifications to the FERC-filed tariffs, if necessary, should be developed in concurrent rule making processes. During Phase I, as functional separation issues are more fully addressed, the relative merits of moving to an independent system operator will be determined.

A9. *Recovery of Stranded Investment.* *Please indicate how the recovery (if any) of stranded investment should be accomplished. Address each of the following issues:*

a. The definition of stranded investment.

Stranded investment is the difference between the market value of a utility's generation, transmission, and distribution system in a competitive environment and the net book value of that system under traditional regulation.

b. The fraction of stranded investment which should be recovered.

Logically, the cost of stranded investment is equal to the premium paid by captive ratepayers due to the current prohibition on accessing the competitive market. This premium has numerous causes, including past capital investment decisions by utilities. This circumstance indicates that some equitable sharing of stranded investment between ratepayers and shareholders is in order. The fraction of stranded investment should be determined in a separate ACC stranded investment recovery proceeding. Stranded investment determinations should take into account the initial timing of the movement

towards competition. In other words, utility investment decisions made after the passage of the Energy Policy Act of 1992 should not be included in any determinations of stranded investment. Future stranded investment charges, if any, should not apply to customers who chose, in the future, to implement existing competitive options at their facilities, or who relocate facilities or whose businesses discontinue for any reason whatsoever.

- c. *How the commission will determine the amount of stranded investment, taking into account: revenues under traditional tariffed rates (or existing special contracts); actual utility revenues from customers who obtain discounted rates or obtain service from others; increases in net revenues from wholesale sales and additional retail sales, including the effects of price elasticity of demand; increases in the value of assets due to new pricing or competition; mitigation of stranded investment; and other relevant factors.*

The definition in part a above requires that the computation of stranded investment incorporate offsetting benefits to a utility due to the introduction of competition. Potential benefits may include increased wholesale and additional retail sales, development of new services or business opportunities created for the utility by competitive markets, certain generation assets which appreciate in value in a competitive market and other factors. These benefits should all be netted out of stranded investment.

- d. *Preliminary estimates of the magnitude of stranded investment (please provide supporting analyses).*

The Coalition has not estimated stranded investment at this time. The existence of stranded investment, the methodology to calculate, the magnitude and the collection method of stranded investment should be addressed in a special docket that runs concurrently with the Phase I period. Utilities have surely made a calculation on their own view of stranded investments and therefore should be required to provide this information and all other findings necessary to perform the relevant calculations by October 1, 1996.

- e. *The proper ratemaking treatment of negative stranded investment.*

To the extent that certain utility assets result in negative stranded investment, i.e., market values in excess of net book values, there should be an offsetting deduction from the total stranded investment calculation.

- f. *From whom stranded investment should be recovered.*

See the answer to b. above.

g. The mechanism for recovery of stranded investment.

This mechanism should be developed in a rulemaking proceeding following the introduction of the phase-in program. If any stranded investment charge is levied, it should be structured as a competitive access charge on the transmission/distribution system. Customers should not be subject to a competitive access charge until they are given the opportunity to participate in the competitive market.

h. The time period over which stranded investment is to be recovered.

Recovery should be over as short a period as possible, to minimize market distortions that will result from imposition of the charges to recover any portion of stranded investment. In a time period where the marginal costs of electric generation are at all time lows, the opportunity for customers to capture savings by purchasing in the marketplace and to provide meaningful contributions to stranded investment are greatest. This fact alone for immediate ACC action to implement a competitive market. In the absence of immediate action by the ACC, the savings available to customers by being able to access the marketplace will be stranded.

i. How utilities can mitigate stranded investment.

Stranded investment is appropriately defined as "net" of possible utility mitigation, meaning that utilities should be expected to participate in markets for new services and redeploy assets to take advantage of competitive opportunities. Redeployment might result, for example, from using assets that are idled by competition to sell electrical service to customers located outside a utility's traditional service area. Stranded investment charges should not recover any costs relating to assets that can be employed or redeployed in this manner.

A10. Recovery of Costs of Commission-Mandated Utility Low Income, DSM, Environmental, and Nuclear Power Plant Decommissioning Programs("Mandated Programs").

a. How shall costs of mandated programs be recovered from participants in the competitive market?

Many mandated programs provide private and social benefits. Some programs are able to stand alone in the competitive marketplace but some may be incompatible with a competitive marketplace. Regulators should identify which programs can survive in a market environment (e.g., DSM) and take steps to effectuate an appropriate transition. Other programs (e.g., low-income) should be evaluated to determine if they will be affected by moving towards a competitive marketplace and if so how they should be

modified in response. Nuclear power plant decommissioning costs should be addressed in the stranded cost context. During Phase I of this plan these issues should be evaluated, identified and an appropriate "go forward" plan adopted.

b. *How shall the magnitude of the costs of mandated programs be determined?*

At this time, each program should be capped at its current total cost, pending its review in the Phase I evaluation.

A11. *Encouragement of Renewables.*

a. *How shall renewables be encouraged in a competitive environment? Please discuss such mechanisms as a requirement that x percent of energy sold in the competitive market must come from solar resources.*

Requiring that a given percentage of energy sold in a competitive market come from solar energy or other renewables is only possible to the extent that renewable generation plants exist. If these resources exist, then the level of renewables included in such a program should match the current level anticipated in existing or planned programs the ACC requires utilities to offer. A preferable alternative may be to transition renewables more fully to a market environment. In this regard, development of a "green tariff" may be a desirable option. This might allow customers the option to buy "green" power. Given the demand for "green" products in other industries, it is likely that customers will choose to purchase these products. Green tariffs should not be limited to renewables and should be designed, when possible, to include conservation products, if appropriate.

b. *How could progress in encouraging renewables be measured?*

An annual report should be prepared.

c. *How could a renewables program be enforced by the Commission?*

We do not understand the nature of this question and are unprepared to answer this question.

A12. *Pooling of Generation and Centralized Dispatch of Generation or Transmission.*

a. *Should pooling of generation or centralized dispatch of generation or transmission be mandatory or voluntary?*

Pooling of generation should not be mandated but centralized dispatch of the system may be necessary through an independent system operator. Access to the

transmission system must be governed in a non-discriminatory manner consistent with functional separation. The market structure model should be limited to bilateral contracts between eligible and willing buyers and sellers and not include mandatory, centralized pooling, poolco or any variations.

- b. *What technical requirements will be necessary to ensure reliable and efficient use of generation and transmission resources? Please propose specific requirements, if possible.*

The system should continue to use the existing reliability criteria of the Western Systems Coordinating Council (WSCC). Currently, the three regional transmission groups in the Western States are developing transmission planning processes to provide for the efficient use of existing and planned transmission facilities. Efficient use of generation will require the integration of this process with a competitive retail market.

- A13. *Non-Public Service Corporations.*** *How shall non-public service corporations such as municipal utilities be involved in a competitive market? For example, the service territories of Arizona utilities not regulated by the Commission may not be able to compete for sales in the service territories of the utilities identified in Section A1. Alternatively, any Arizona utility not regulated by the Commission may voluntarily participate in a competitive program if it makes its service territory available to competing sellers and if it agrees to all of the requirements of the Commission's competitive program.*

The Commission and Legislature should seek to design a system based on reciprocity among utilities within Arizona. However, the absence of such resolution should not delay the introduction of competition from power marketers or out-of-state utilities as generation suppliers. Similarly, the Commission should not interfere with any non-public service corporation which voluntarily participates in competitive, comparable programs by making its service territory available to competing sellers.

- A14. *Conditions for Returning to Utility Service After the Conclusions of a Pilot Program.*** *If a pilot program were adopted, please indicate what conditions are appropriate for returning to utility service after the conclusion of the pilot.*

Customers participating in any phase-in prior to full competition should be allowed to return to the utility system on a non-discriminatory basis as if they were new customers. The rules and conditions for returning to traditional service should be clearly spelled out in distribution utility service tariffs. The ACC can assist in providing consumer information about the conditions of service required. If stranded investment fees exist, customers should not be double charged for these fees.

A15. *Conditions for Returning to Utility Service.* Please indicate what conditions (if any) are appropriate for returning to utility service if a competitive market is on-going.

See answer to A14.

A16. *Administrative Requirements.*

a. *A utility may require consumers obtaining generation from another entity to adhere to reasonable scheduling notification requirements, accept reasonable deliver points, adhere to reasonable metering requirements, and accept reasonable remote control requirements for interruptions or other purposes. Please specify what you consider to be reasonable.*

See proposed tariff in Attachment D.

b. *How should the utilities identified in Section A1 notify their customers of the adoption of a competitive programs by the Commission?*

The ACC should develop a customer information package that should be distributed by utilities with customers' bills. The members of the Coalition will inform members about ACC activities. Customers can also be informed by utility customer service representatives and ACC consumer outreach efforts.

A17. *Impacts on Other Utility Customers.* Please indicate how adverse impacts on rates or service quality for utility customers not participating in the competitive market could be minimized.

Impact mitigation will differ depending upon specific circumstances and timing. For example, customers not participating in the competitive market because they are *captive* or they choose not to participate in competitive markets should still be assured of service under some form of rate regulation. This "universal service" or "provider of last resort" requirement should be developed during Phase I of this plan. Properly unbundled prices will help avoid any inequitable price impacts resulting from competition.

A18. *Reporting Requirements for All Sellers of Electricity to End Users.* Please indicate what reporting requirements (to the Commission) are appropriate and who should file reports.

Reporting requirements should include:

- (1) An annual financial report plus 5-year financial forecasts associated with the regulated transmission and distribution utilities.

- (2) An annual report discussing/justifying the allocation of common costs between regulated and non-regulated subsidiaries.
- (3) Transfer pricing report - A quarterly report that discusses how transfer pricing activities between utility affiliates conform to affiliated interest rules.
- (4) An annual report on the reliability of the regulated transmission and distribution companies.

A19. *Certificates of Convenience and Necessity.* *Please comment on whether competitive sellers who supply electricity to an end user must obtain a Certificate of Convenience and Necessity from the Commission (unless the seller already has an applicable Certificate). Please describe whether any conditions on the certificate would be necessary.*

Access to markets by sellers should not be impeded. No certificates of convenience and necessity should be required by generation sellers, aggregators or retail service companies. Registration of suppliers, retail sellers or aggregators is reasonable and should be done with the Commission. Registration would include a requirement for obtaining a business license and meeting all state consumer protection laws, etc.

ATTACHMENT B:

COMMENTS ON HOW THE ACC'S OBJECTIVES CAN BE MEASURED

The Coalition recommend the following actions and measurements with respect to each of the objectives of restructuring identified by ACC staff. These recommendations are presented in conjunction with respondents' proposed two-stage phase-in to competition, which is described in more detail in Attachment A of this filing. This session lists the ACC objective and provides comments on actions and measurement.

1. *Encourage the benefits of retail competition.*

Recommended action

- Phase-in retail competition for all customers as described in Attachment A

Measurement

- Monitor price level changes to consumers
- Monitor the numbers of suppliers, participants and products/services

2. *Limit the potential harm to utilities and utility investors.*

Recommended action

- Develop stranded investment recovery mechanism
- Do not mandate divestiture at this time

Measurement

- Monitor bond ratings and stock rating/rankings of utilities
- Monitor utility subsidiary and investment affiliate and wholesale activities

3. *Enable a wide range of consumers to participate in competitive market.*

Recommended action

- Phase-in retail competition for all customers as described in Attachment A

Measurement

- Monitor participation levels by customer class during phase-in
- Monitor number of product and service options available to different customer classes

4. *Limit the potential for decreases in electric system reliability.*

Recommended action

- Continue to use the reliability criteria of utilities and the WSCC
- Require ancillary reliability services to be offered in transmission tariffs

Measurement

- Identify historical utility reliability performance
- Measure the number of forced outages by extent and location against historic data

5. *Limit the potential for market impediments.*

Recommended action

- Require functional separation of traditional utility services to ensure non-discriminatory access to the transmission and distribution systems and the unregulated generation market.
- Avoid institutional/regulatory impediments to supply-side participation

Measurement

- Apply industry concentration indices, such as the Herfindahl-Hirschman Index, to the electric generation and retail supplier markets

6. *Encourage a variety of market developments.*

Recommended action

- Follow the stated course of action to let the market reveal solutions rather than attempt to impose them at the outset

Measurement

- Market activities identified in Attachment A can be assessed during the transition to competition by means of an annual staff report
- Compare regional prices for unbundled services
- Prepare annual report describing new service options and services

7. *Promote renewable resources.*

Recommended action

- Establish/encourage green tariff(s)

Measurement

- Monitor green tariff participation levels
- Monitor green tariff price differential

8. *Protect important public programs.*

Recommended action

- Identify programs to be transitioned to other forums
- Apply cost-benefit analysis to identify funding levels for remaining programs
- Identify programs that cannot be phased out

Measurement

- Depending upon the programs retained, measurement could include program participation levels, emissions levels, renewable kWh output level, percentage of decommissioning cost achieved etc.

9. *Shield inelastic customers (not participating in competitive programs).*

Recommended action

- Implement policy regarding provider of last resort service

Measurement

- Identify cost-of-service for captive or non-participating customers
- Track program participation levels

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ATTACHMENT D:
MODEL RETAIL ACCESS TARIFF

RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE
FOR OFF-SYSTEM PURCHASES
(Distribution Level Voltage)

The following retail distribution tariff is a model which is intended to facilitate the analysis and approval of retail wheeling at the distribution voltage level in Arizona as part of the phase-in of retail competition. The tariff has incorporated information from ① the retail transmission and distribution tariff that has been adopted as a part of the Central Illinois Light Company ("CILCO") retail access pilot program, ② various Western electric utility FERC comparable access tariffs, ③ Puget Sound Power & Light Washington Water Power Co. retail access tariffs and ④ FERC Order 888. This tariff as designed is applicable to individual retail distribution customers.

Rates for services are blank in this tariff, but should reflect actual costs of service in Arizona.

Presentation of this D-1 tariff is intended to address many of the terms and service-related issues that are raised in the ACC Staff's questions. This model should provide a helpful framework for the implementation of the retail distribution tariff that is necessary to implement retail competition.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 **I. Availability:**

8 Service under this tariff is available immediately after this Tariff's initial effective
9 date. The effective date of this tariff shall be March 1, 1997.

10 **II. Definitions:**

11 As used in this tariff, the following terms shall have the meanings specified:

12 "ACC" means the Arizona Corporation Commission.

13 "Available Receipt Point" means a Receipt Point that the Company has
14 determined has adequate capacity under normal operating conditions to
15 accept delivery of scheduled Off-system Purchases without impairing the
16 reliability of the Company's electric system or the quality of service to other
17 Customers.

18 "Company" means any distribution company that is regulated by the ACC
19 or a generation affiliate of such a distribution company.

20 "Control Area" means a portion of a power grid which regulates its
21 generation in order to maintain its interchange schedule with other Control
22 Areas or systems.

23 "Customer" means an electric utility consumer of an Arizona distribution
24 utility.

25 "Delivery Day" means the 24-hour period from midnight to midnight, local
time, when Off-system Purchases may be scheduled for delivery to Available
Receipt Points.

"Delivery Point" means a point where the Company's electric system is
connected to a Rate D-1 Customer.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 **“Distribution Capacity”** means electric lines and related facilities
8 operating at normal system voltage levels of Distribution Level Voltage.

9 **“Distribution Level Voltage”** means voltages that are less than 49 kV.

10 **“NERC”** means the North American Electric Reliability Council.

11 **“Off-system Purchases”** means electric power purchased by Rate D-1
12 Customers from electric suppliers other than the Company.

13 **“Person”** means an individual, corporation, partnership, association,
14 governmental body or agency, or other recognized entity.

15 **“Receipt Point”** means a point or points where the Company is
16 interconnected with another public utility or with any other supplier of
17 electric energy.

18 **“Supplier”** means any Person that contracts with a Customer to furnish Off-
19 system Purchases or any other service that Customers are permitted by this
20 tariff to purchase off-system.

21 **“Transmission Capacity”** means electric lines and related facilities
22 operating at normal system voltage levels of Transmission Level Voltage.

23 **“Transmission Level Voltage”** means 46 kV and above.

24 **“WSCC”** means the Western Systems Coordinating Council.

25 **III. Nature of Service:**

The Company will contract to deliver Off-system Purchases to a Rate D-1 Customer, in an amount equal to the Customer’s total energy to be purchased from Off-system suppliers.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 The services provided by the Company under this tariff will include firm delivery of
8 Off-system Purchases from an Available Receipt Point to the Customer's Delivery
9 Point. In addition, the Company will provide Scheduling, System Control and
10 Dispatch Service and, to the extent not otherwise provided, Reactive Supply and
11 Voltage Control from Generation Sources Service, Regulation and Frequency
12 Response (Load Following) Service, Energy Imbalance Service, Operating Reserve
13 -Spinning Reserve Service and Operating Reserve - Supplemental Reserve Service.

14 Except as hereinafter set forth, Rate D-1 Customers shall be entitled to service under
15 and shall continue to be subject to the charges in the respective rates and contracts
16 under which the Customers were served immediately prior to elective service under
17 this tariff D-1, including any changes in those rates that may be approved by the
18 Commission from time to time.

19 All energy and capacity scheduled by the Company and delivered from an alternate supplier
20 will be deemed "first through the meter" for monthly billing purposes, except when the
21 Customer is purchasing Regulation and Frequency Response (Load Following) Service Off-
22 system, in which event the Off-system Purchases delivered to the Customer shall be deemed
23 to be the last power and energy through the Customer's meter.

24 **IV. Special Terms and Conditions:**

25 A. Within thirty days after reserving capacity under this tariff, and before
receiving service under this tariff, a Customer must enter into a contract with
the Company for such service, in a standard form approved by the ACC or
in another form mutually agreeable to the Customer and the Company. The
contract shall specify the capacity to be reserved on the Company's
transmission/distribution systems for delivery of Off-system Purchases, the
primary Receipt Points for the Customer's Off-system Purchases, the services
that are to be furnished by off-system Suppliers, and the services that are to
be furnished by the Company. The primary Receipt Points designated in an
executed contract shall be deemed Available Receipt Points with respect to
that contract.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

- 7 B. The Company shall have no responsibility for delivery of Off-system
8 Purchases until the power has been received into the Company's system. In
9 the event of a lack of capacity to handle all electric flows at an Available
10 Receipt Point, the Company will comply with the rules, regulations, and
11 guidelines of WSCC and NERC applicable to such situations. In the event
12 the Company is unable, for any reason that is the fault of the Customer, to
13 deliver to a Rate D-1 Customer any scheduled Off-system Purchases that the
14 Company is otherwise able to receive into its system for the account of such
15 Customer, the Customer shall either interrupt the delivery to the Company of
16 such Off-system Purchases during the period the Company is unable to
17 deliver to the Customer, or shall sell the Off-system Purchases to the
18 Company during such period at the Company's avoided energy cost.
- 19 C. Before the Company commences delivery of Off-system Purchases to a
20 Customer, the Customer shall furnish to the Company, at a minimum, the
21 following information: the name and address of the Suppliers of the
22 Customer's Off-system Purchases; the identity of the Control Area from
23 which the Off-system Purchase are to be delivered to the Customer at the
24 Receipt Point or Receipt Points, and the identify of the Control Area to which
25 the capacity and energy to be transmitted is to be delivered by the Company
at the Receipt Point or Receipt Points; a specification of the Available
Receipt Points where the Off-system Purchases are to be delivered to the
Company; and a representation that each such Supplier is contractually
obligated to notify the Company by telephone within ten minutes if, for any
reason, the Supplier ceases to furnish all or any part of the power scheduled
to be furnished for the Customer's account and is contractually obligated to
notify the Company immediately after supply is resumed. Updated
information shall be furnished to the Company promptly after it is available
to the Customer.
- D. A Customer electing service under this tariff shall be obligated to contract
and pay for transmission/distribution on the Company's system for a
minimum term of ninety days. By written requests to the Company, the

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 Customer may from time to time increase the amount of contracted capacity
8 and the related payment obligation during the balance of the contract term.
9 A Customer shall be permitted, upon 24 hour advance written notice, to
10 reduce the amount of contracted capacity and the related payment obligation,
11 provided, however, the Customer may not thereafter increase the amount of
12 contracted capacity under this tariff except upon thirty day advance written
13 notice. Any capacity that is released under this provision may be
14 contractually assigned by the Customer to a third party who agrees to be
15 bound by the provisions of this D-1 tariff or, if the Customer makes no such
16 assignment or if the third party does not agree to be bound by the provisions
17 of this D-1 tariff, the released capacity shall be available for reservation by
18 any other Rate D-1 Customers on a first come, first served basis, subject to
19 all of the limitations set forth above.

- 20 E. Not later than noon of the twenty-fifth day of each calendar month, each Rate
21 D-1 Customer shall furnish the Company, in writing, a schedule of Off-
22 system Purchases. The schedule shall be delivered to the Company for the
23 account of the Customer during the immediately succeeding calendar month.
24 Scheduling shall be done in increments that match the customer's Off-system
25 purchases. The schedule may provide for delivery to the Company of Off-
system Purchases on an hourly, daily, weekly or monthly basis, in total
amounts running from zero to the Customer's maximum contracted capacity,
and shall specify the Receipt Points for the Off-system Purchases. Not later
than 10:00 a.m. of the day preceding the Delivery Day, the Customer may
amend the delivery schedule for the Delivery Day. All amended schedules
shall be furnished to the Company in writing. If the Company determines it
is unable for any reason to accept Off-system Purchases at any Receipt Point
scheduled by a Customer, the Company will notify the Customer
immediately after such determination is made, and cooperate with the
Customer to schedule delivery of the Customer's Off-system Purchases so
that the reliability of the Company's electric system is not impaired and the
quality of the service to other Customers is not diminished.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

- 7 F. Schedules shall be furnished to the Company's energy control center by
8 messenger, by certified or registered mail, return receipt requested or by
9 telephone facsimile, provided, however, that facsimile delivery will not be
10 accepted by the Company unless the Customer confirms by telephone, within
11 thirty minutes after sending the facsimile message, that the message has been
12 received at the Company's energy control center. Rate D-1 Customers shall
13 provide the Company with Customer telephone numbers to receive notice.
- 14 G. At the request of any eligible Customer that has elected service under this
15 tariff, and subject to receipt of all necessary regulatory approvals, the
16 Company will enlarge existing interconnections and will add an
17 interconnection with any adjacent Supplier of energy, subject to the Facilities
18 Charge specified in this tariff.
- 19 H. A Rate D-1 Customer may schedule delivery of Off-system Purchases to the
20 Company's system through any Available Receipt Point.
- 21 I. No Customer receiving service under this tariff may elect to have load
22 following service provided by any Supplier other than the Company unless
23 that Customer installs the necessary telemetry to allow the Company, the
24 Supplier providing the load following service, and the control area where the
25 Supplier's generation is located to ascertain instantly all changes in the
Customer's usage of power. The Company shall not be required to pay the
Customer's cost of installing telemetry.
- J. In addition to the foregoing Special Terms and Conditions, service under this
D-1 tariff shall be subject to the Company's General Terms and Conditions
applicable to electric service. In the event of any conflict between the
Company's General Terms and Conditions and the Special Terms and
Conditions contained in this tariff, the Special Terms and Conditions shall
control with respect to service under this tariff, and the General Terms and
Conditions shall control with respect to service under any other applicable
rate.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 **V. Charges for Services Which Must Be Purchased from the Company:**

8 1. **Transmission Component:** \$___ per kilowatt of contracted
9 Transmission Capacity per month.

10 2. **Distribution Component:** \$___ per kilowatt of contracted
11 Distribution Capacity per month.

12 **A. Scheduling, System Control and Dispatch Service:** ___ mills per kilowatt
13 hour for all energy delivered to the Customer under this tariff. Scheduling
14 is the control room procedure which establishes a predetermined use of
15 generation resources and/or distribution facilities to meet anticipated load.
16 Dispatching is the control room operation of all generation resources and/or
17 distribution facilities on a real-time basis to meet load within the Company's
18 Control Area.

19 **B. Reactive Supply and Voltage Control from Generation Sources Service:**
20 ___ mills per kilowatt hour for all energy delivered to the Customer under
21 this tariff. To maintain distribution voltages on the Company's distribution
22 facilities within acceptable limits, distribution facilities and some or all
23 generation facilities in the service area are operated to produce or absorb
24 reactive power. This service will be provided at each of the Receipt Points
25 and Delivery Points.

**VI. Charges for Services Which Must Be Purchased, But May Be Provided by
Suppliers Other Than the Company:**

A. Regulation and Frequency Response (Load Following Service Charge):
___ mills per kilowatt hour for energy delivered to the Customer, which
requires load following services. This service provides for the continuous
balancing of resources (generation and interchange) with loads within the
Company's Control Area. Regulation and frequency response service is

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 accomplished by committing on-line generation, the output of which is
8 increased or reduced as necessary, usually through the use of automatic
9 generation control, to follow the moment-by-moment changes in Customer's
10 loads. Because of the nature of this service, unless other arrangements are
11 made, the Company's generators will provide the capacity required to match
12 Customer's loads and resources on a real-time basis.

13 **B. Energy Imbalance Service:** This service is provided when a difference
14 occurs between the hourly scheduled amount and the hourly metered (actual
15 delivered) amount associated with distribution to Customer's load located
16 within the Company's Control Area. Typically, an energy imbalance is
17 eliminated during a future period by returning energy in-kind under
18 conditions similar to those when the initial energy was delivered. A positive
19 deviation refers to any hour when more energy is delivered to the Company
20 by the Supplier at the Receipt Point(s) than to the Customer by the Company
21 at the Point(s) of Delivery. A negative deviation refers to any hour when
22 more energy is delivered to the Customer by the Company at the Delivery
23 Point(s) than to Company by the Supplier at the Receipt Point(s).

24 The Company shall allow a deviation band of ___ percent of the
25 scheduled transaction to be applied hourly to any energy imbalance that
occurs as a result of the Customer's scheduled transaction(s). All energy
imbalances occurring within the deviation band, whether positive or negative,
shall be applied to an energy imbalance account to be maintained by the
Company. The Parties shall eliminate energy imbalances applied to the
energy imbalance account within thirty (30) days after Company has notified
a Customer as to the amount applied to the energy imbalance account during
a billing month. If the amount of the energy imbalances for which the
Customer has been notified is not eliminated within such thirty (30) day
period, the amount specified in such notification remaining in the energy
imbalance account shall be eliminated with the Customer paying the
Company as provided below if the amount is negative and the Company
paying the Customer as provided below if the amount is positive.

1 **ATTACHMENT D:**
2 **MODEL RETAIL ACCESS TARIFF**

3 **RATE D-1**
4 **PHASE-IN ELECTRIC DISTRIBUTION SERVICE**
5 **FOR OFF-SYSTEM PURCHASES**
6 **(Distribution Level Voltage)**

7 Energy imbalances at interconnections between Company's Control
8 Area and other Control Areas shall be in accordance with the NERC and
9 WSCC guidelines regarding Control Area operations.

10 1. Payment for Positive Deviation Energy Imbalances in Excess of the
11 greater of ___ percent of the Hourly Schedule: Company shall pay the
12 Customer ___ mills per kilowatt-hour for all energy associated with
13 unintended positive deviation energy imbalance occurring in any hour
14 which is in excess of the greater of ___ percent of the Hourly
15 Schedule. No payment shall be owed for Positive Deviation Energy
16 Imbalances intentionally delivered by the to the Company.

17 2. Charges for Negative Deviation Energy Imbalances in Excess of the
18 greater of ___ percent of the Hourly Schedule: The Customer shall
19 pay Company ___ mills per kilowatt-hour for all energy associated
20 with negative deviation energy imbalance occurring in any hour
21 which is in excess of the greater of ___ percent of the Hourly
22 Schedule.

23 3. Exceptions: During any hour that a Customer has an excess Negative
24 Deviation Imbalance which is due to an unscheduled outage of a
25 generation resource located within Company's Control Area and for
which the Customer is paying the Company for Operating Reserves,
such excess imbalance shall be applied to the energy balance account
and the charges provided above shall not apply unless the energy
account balance is not eliminated at the end of the billing month as
described above.

C. Operating Reserve - Spinning Reserve Service: ___ mills per kilowatt
hour for all energy delivered to the Customer under this tariff. The Company
must have adequate operating reserves in order to maintain the integrity of its
distribution facilities in the event of unscheduled interruption of energy
deliveries. Spinning reserve is provided by units that are on line and

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**ATTACHMENT D:
MODEL RETAIL ACCESS TARIFF**

**RATE D-1
PHASE-IN ELECTRIC DISTRIBUTION SERVICE
FOR OFF-SYSTEM PURCHASES
(Distribution Level Voltage)**

operating at less than maximum output. They are available to serve load immediately in an unexpected contingency.

D. Operating Reserve - Supplemental Reserve Service: ____ mills per kilowatt hour for all energy delivered to the Customer under this tariff. The Company must have adequate operating reserves in order to maintain the integrity of its distribution facilities in the event of unscheduled interruption of energy deliveries. Supplemental reserve is generating capacity that can be used to respond to contingency situations. Supplemental reserve is not available instantaneously, but is available with ten (10) minutes notice.