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SOUTHWEST GAS CORPORATION

September 10, 1996

Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

SEP 12 1996

Attention: Docket Control
Docket No. U-0000-94-165

DOCKETED BY

Enclosed for filing are the original plus eleven copies of Southwest Gas Corporation's Comments on Proposed Rule for Retail Electric Competition. These comments are submitted pursuant to Commission Staff letter dated August 28, 1996.

Other interested parties may obtain a copy of Southwest's Comments upon request. One additional copy is enclosed for date stamp and return in the enclosed self-addressed envelope.

Thank you for your assistance in this matter.

Respectfully submitted,

Debra S. Jacobson
Manager, State Regulatory Affairs

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Enclosures

BEFORE THE ARIZONA CORPORATION COMMISSION

RENZ D. JENNINGS
CHAIRMAN
MARCIA WEEKS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

Arizona Corporation Commission
DOCKETED

SEP 12 1996

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IN THE MATTER OF THE)
COMPETITION IN THE PROVISION)
OF ELECTRIC SERVICES)
THROUGHOUT THE STATE)
OF ARIZONA)
_____)

DOCKET No. U-0000-94-165
COMMENTS OF SOUTHWEST GAS
CORPORATION ON THE PROPOSED
RULE FOR ELECTRIC RESTRUCTURING

The natural gas industry has been in a process of deregulation for many years. The electric industry, while starting later, is considering a more rapid move toward a fully unbundled, competitive market for all classes of customers. The proposed rule certainly contemplates such a rapid move towards electric industry restructuring. Of significant concern to Southwest Gas Corporation (Southwest) is the utility's traditional "obligation to serve." This obligation, while a ubiquitous feature of regulated utility service, needs to be reexamined in a restructured electric or gas industry. The proposed rule is silent on this issue. Southwest believes that an explicit discussion of the obligation to serve needs to be included. These comments outline the issues associated with the affected utility's obligation to serve.

Universal Service

One aspect of the obligation to serve is the requirement to provide universal service. Under existing

regulation, utilities must provide all of the services associated with the production and delivery of electricity. The provision of the rule requiring Standard Offer bundled services implies a continuation of this obligation for the Affected Utilities in the short run. The question remains as to what happens after a determination that competition has been substantially implemented. Does anyone have an obligation at that point to provide universal service? Assuming that distribution systems are not duplicated, the ability to obtain a physical connection to the distribution grid is a service obligation that should be continued by the utility. Beyond that connection, the competitive market can provide access to other services. In a competitive market, utilities should therefore be relieved of their obligation to provide all but the interconnection to the distribution grid. This would allow a utility, if they desire, to divest themselves of the business functions of providing other services.

Provider of Last Resort

Accepting the argument above that the utility must provide a connection to the distribution system, does this imply a further responsibility for the distribution company to become the provider of last resort? Control technologies certainly exist to interrupt large customers on a relatively cost effective basis. To the extent that the suppliers of generation and transmission services fail (and any backup service purchased also fails), the distribution supplier should be able to interrupt service to that customer. However, the technology to interrupt smaller customers who may be receiving service from an aggregator is not currently available on a cost effective basis. To the extent that these aggregators fail to deliver supply, these customers cannot be selectively interrupted. It seems then that the distribution company (in the absence of an independent system operator performing this

function) will, by default, become the provider of last resort. In order to prevent an outage, the distribution company must obtain supplies to keep their system operating. The alternative is to interrupt a group of customers including customers who supplies have not failed (since, as stated previously, the ability to selectively interrupt customer is not feasible at this level). Who will compensate the distribution company for this service? Will the customer pay a fee through an established tariff (either through an insurance prepayment or an after-the-fact reimbursement) to the distribution company? Or will the distribution company be allowed to impose an obligation on the supplier to pay the cost of providing this backup service? These questions should be addressed in the proposed rule.

Dated at Las Vegas, Nevada this 11th day of September, 1996.

Respectfully submitted,

Debra S. Jacobson / ~~XAS~~
Debra S. Jacobson
Manager, State Regulatory Affairs
Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89118