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IN THE MATTER OF THE)
PROPOSED RULE-RETAIL)
ELECTRIC COMPETITION)

DOCKET NO. U-0000-94-165

Arizona Corporation Commission
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Comments on the Proposed Rule (Oct. 1, 1996 version)

Filed on behalf of Arizona consumers organizations:

**Arizona Community Action Association
Arizona Consumers Council
Arizona Citizens Action**

Respectfully submitted this 8th day of October, 1996

Betty Pruitt

Betty K. Pruitt

Comments on the Proposed Rule on Retail Electric Competition

(dated October 1, 1996)

**By Arizona Consumers Organizations, Including:
Arizona Community Action Association
Arizona Consumers Council
Arizona Citizen Action**

October 7, 1996

Throughout the process leading up to the development of the Proposed Rule, the consumers organizations have had four primary objectives:

1. Provide opportunities for low income and residential consumers to benefit from the introduction of retail electric competition.
2. Protect residential and low income consumers from increases in costs and risks that would occur under some forms of retail electric competition.
3. Protect low income and residential consumers from decreases in quality of service, including potential reductions in programs and services, that would occur under some forms of retail electric competition.
4. Ensure that the specific form of retail electric competition proposed for Arizona will provide net benefits to residential and low income consumers (i.e., benefits that exceed the drawbacks, including increases in costs and risks, and decreases in quality of service).

These four objectives must be met in order for the consumers organizations listed above to be able to support the Proposed Rule.

The Proposed Rule provides opportunities for at least some low income and residential consumers to benefit from retail electric competition. Specifically, some low income and residential consumers will have the opportunity to secure early benefits through the allocation of at least 30% of eligible demand by the second phase of implementation. This should help to accelerate the development of a competitive market to serve the needs of all low income and residential consumers.

However, the Proposed Rule does not provide sufficient protection for low income and residential consumers from the drawbacks of retail electric competition, particularly increases in costs and risks. In addition, the Proposed Rule does not ensure continuation of and sufficient funding for important system benefits programs (i.e., low income, demand-side management, renewables, environmental, and research and development programs), and does not provide adequate support for the modest goals of the solar portfolio standard.

Below we propose changes to four sections of the Proposed Rule that, if implemented, would increase the likelihood that the Proposed Rule would meet the objectives set forth above, and therefore would allow the consumers organizations to support the revised Proposed Rule:

1. A rate cap equivalent to current rate levels for Standard Offer services for residential consumers (including low income consumers);
2. Additions to the factors to be considered by the Commission when making determinations about stranded costs, and specifying a mechanism for utility recovery of stranded costs.
3. Revisions to the systems benefits section to specify the minimum funding level, and to clarify the funding categories, collection process, and regulatory review and approval procedures.
4. Setting the solar portfolio standard percentage applicable after December 31, 2001 as a minimum requirement which could be increased (but not decreased) by the Commission.

Rate Cap for Standard Offer Services

In this section we propose that:

1. The maximum rate for Standard Offer service for residential consumers be capped at the current rate levels;
2. The Standard Offer service be made available to residential consumers until all of these consumers have had an opportunity to obtain the benefits of retail electric competition, and until all stranded costs have been recovered (this would require a change in the wording of the Proposed Rule regarding the Commission determination of when "competition has been substantially implemented"); and
3. The customer bills for the Standard Offer service be required to display the components of the bundled rate in an unbundled manner so that consumers would be educated regarding the costs of the components of electric service. This would help to give consumers the information they need to make decisions about competitive electric services.

These revisions would give low income and residential consumers two choices for obtaining electric services. First, consumers could choose to purchase electricity in the competitive generation market from an electric service provider, and thereby secure the benefits of a competitive market. About 35-40% of residential consumers (equivalent to 30% of eligible demand) would be given this choice during the first two phases of implementation; the remaining consumers would have this option in the last phase. Second, consumers could choose to remain with their existing utility by selecting the Standard Offer service. Under this option the consumers would be guaranteed that their rates would not increase, though rates could decrease if utility costs decrease (e.g., as set forth under the APS rate reduction settlement).

We believe our proposal for a Standard Offer rate cap equivalent to current rates is very reasonable because the Commission has found that current rates are just and reasonable, and the Proposed Rule states that stranded costs and system benefits charges shall be paid by consumers who participate in the competitive market. Therefore, there is no justification for allowing rates to increase for the consumers who do not participate in the competitive market. (Technically, a very small rate increase -- less than 1% -- could potentially be justified to support the Standard Offer portion of the increased funding level of system benefits programs, as proposed below. However, we believe cost savings from ongoing utility efforts to reduce costs and increase efficiencies should be more than sufficient to offset this potential increase by the time the utilities file tariffs on or before December 31, 1997.)

The Standard Offer service should be continued until the Commission determines that retail electric competition has been "substantially implemented" in a manner that benefits the residential consumers (i.e., at a minimum, until all residential and low income customers have had an opportunity to obtain the benefits of retail competition, and until all stranded costs have been recovered).

To implement these changes, revisions are needed in the following sections:

- R14-2-1606.(A.). Add a number 3 to clearly define that for the residential class, "substantially implemented" means when all residential and low income customers have had an opportunity to obtain the benefits of retail competition, and all stranded costs have been recovered.
- R14-2-1606.(B.). Three additions are needed. First, add a number 4 stating that such rates shall not exceed the existing rates in place at the time of adoption of this Article. Second, add a number 5 stating that consumers receiving Standard Offer service are eligible for potential future rate reductions (e.g., under the APS rate reduction agreement). Third, add a number 6 stating that customer bills for Standard Offer service shall display the components of the rate in an unbundled manner [at a minimum, distribution service (including system benefits), transmission service, and generation service, plus a notice that informs the customer of stranded cost and system benefits charges they must pay in the event they choose competitive generation services].

Stranded Costs

We propose that the following factors be added in R14-2-1607.(E.) to the list of factors the Commission shall consider in making its determination regarding stranded cost mechanisms and charges:

- Imprudent investments;
- New revenue opportunities that will be available under competition, including assets whose market values will increase substantially under competition (e.g., fiber optic distribution systems); and
- Previously compensated risk (i.e., risk premiums paid to utility shareholders).

We support subsection R14-2-1607.(F.) of the Proposed Rule that states that stranded costs may only be recovered from consumer purchases made in the competitive market. Residential and low income utility customers should not have to pay for any stranded costs resulting from competition in which they do not participate.

The Proposed Rule should set forth a stranded cost recovery mechanism. The stranded costs to be recovered from consumers receiving competitive services should be collected using a non-bypassable distribution access charge applied on a per kWh basis to the volume of energy sales to these consumers. The Commission should create a fund which the utilities could draw upon to pay for the stranded costs. The non-bypassable distribution access charges for stranded costs should be deposited in this fund.

System Benefits

The system benefits charge is included as an element of restructuring policies and principles to ensure that important public interests, developed and implemented in a regulated environment, are not lost in the transition to retail electric competition. The Proposed Rule proposes to recover the costs related to these public programs through a segregated, non-bypassable charge. New programs, e.g. the solar portfolio standard, are not to be recovered through the system benefits charge.

The system benefits charge as presently proposed appears to leave the development, implementation, and recovery of costs related to system benefits entirely in the hands of the utilities. As such, utilities have little incentive to maintain even present commitment levels of energy efficiency, low income, research and development, and renewable programs. A floor based upon present commitments to these important public programs is needed to ensure that they are continued at sufficient levels to be able to meet these commitments.

We recommend that the appropriate system benefits charge minimums be established on a utility-specific basis. The present commitment levels for each system should serve as the floor in the Proposed Rule. By summing the present funding levels for energy efficiency, low income, and R&D with the amounts needed to achieve the IRP renewables commitments, we find that the system benefits charge should be 2% of retail revenues for APS and TEP.¹

For affected utilities who presently do not have all of these programs, it would be appropriate to use the average % of revenues of those that do as the minimum.

In addition, we recommend that the nuclear power plant decommissioning monies be collected in a separate fund which should not be included in the amount for system benefits programs.

¹For reference purposes, California has set a system benefits charge equivalent to 2.75% of revenues for energy efficiency, low income, R&D, and renewables programs; and Rhode Island has set a charge equivalent to 2.5% of revenues for energy efficiency and renewables programs.

To implement these changes, revisions are needed in the following subsections of R14-2-1608:

Insert a new "B" as follows:

- B. The nuclear power plant decommissioning monies shall be collected in a separate fund which shall not be included in the amount for System Benefits programs. (Alternatively, nuclear decommissioning costs could be recovered as a stranded cost with the remainder of the regulatory assets.)

Insert a new "C" as follows:

- C. The System Benefits charge shall be non-bypassable, and shall be applied on a per kWh basis to the volume of energy sales for all distribution consumers.

Modify the old "B" (new "D") as follows:

- D. The amount collected annually through the System Benefits charge shall, at a minimum, be sufficient to fund affected utilities' present commitments to energy efficiency, low income, research and development, and renewable resources programs. For affected utilities Arizona Public Service and Tucson Electric Power, this amount is equivalent to 2% of 1996 retail revenues. Each affected utility shall provide adequate supporting documentation for its proposed rates for System Benefits.

Insert the following sentence as the first sentence in old "C" (new "E"):

- E. The System Benefits charge shall be a tariffed rate, approved by the Commission in an annual filing which (1) reviews/reports the most current period of System Benefits charge revenue collection, allocation, and component program implementation, (2) establishes the rate and component allocation for the coming year, and (3) projects the same for the following two years.

Solar Portfolio Standard

The proposed solar portfolio standard is quite modest, even based on the present cost of solar thermal and photovoltaic technologies. As such, it should be understood that this compromise is predicated upon the portfolio standard serving as a minimum requirement, and is in addition to both existing resource planning commitments to renewables and system benefits programs for renewables. Therefore, section R14-1609.(B.)(2.) should be revised to make it clear that any changes in the solar portfolio standard percentage applicable after December 31, 2001 would only be to increase the percentage requirement.

To implement this change, the following revision to section R14-1609.(B.)(2.) is needed: substitute increase for change in the first line.

Thank you for the opportunity to submit these comments, and we look forward to your thoughtful review.

**Original and ten copies of the foregoing filed
this 8th day of October, 1996:**

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