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AZ CORP COMMISSION
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April 14, 2003

Arizona Corporation Commission
DOCKETED

APR 14 2003

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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Re: Issues List for Electric Competition Advisory Group

RUCO appreciates the opportunity to suggest issues for consideration and areas for improvement regarding retail electric competition.

The Rules as currently drafted subject all retail customers, both standard offer and competitive customers, to the volatility of the wholesale electric market. When it adopted its Track A decision, the Commission recognized the danger wholesale electric markets pose to customers and prohibited divestiture by the utilities. The Track A decision allows standard offer rates to continue to be based, at least in part¹, on actual costs to generate electricity. Fortunately, during the recent wholesale market meltdown, standard offer rates were still cost-based, and Arizona customers were generally protected from unreasonable prices. However, RUCO is deeply concerned that any shortcoming in the retail or wholesale market structures could have dire consequences for residential customers, including standard offer customers. While the Commission has attempted to insure that standard offer customers are not over-exposed to wholesale market prices in the short term, FERC has yet to develop a wholesale market structure that can assure reasonable prices in the longer term. Until the Commission can insure customers that the wholesale electric market is in fact, and will always continue to be, workably competitive, residential customers should not be exposed to market-based prices.

¹ Pursuant to the Commission's Track B decision, standard offer customers will be served, in part, by generation obtained from the wholesale market. After rate caps for APS and TEP expire, standard offer rates will be influenced in part by the utilities costs to acquire power in that market.

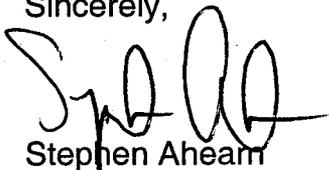
Residential customers in Arizona have never expressed a great desire to abandon cost-of-service electric rates in favor of market-based rates. Though the Commission took care in adopting the current Rules to protect residential customers from harms posed by competitive retail service (e.g. slamming, ESP's dropping customers, and affiliate abuses), the Rules do little to insulate standard offer customers from wholesale market dysfunctions. Even after the Track A decision, utilities are required, pursuant to the Track B process, to obtain an increasing portion of the power for standard offer customers from the wholesale market. The goals of the Track B process, as expressed in Decision No. 65743, is to "provide ratepayers with reliable power at the lowest cost while furthering the Commission's goal of encouraging the development of a vibrant wholesale generation market in Arizona." (Decision No. 65743, pg. 16.)

A vibrant, robust wholesale electric market is a laudable goal. However, unless the Commission can insure that one actually exists, exposing standard offer customers to wholesale prices that have proven to be extremely volatile may undermine the goal of providing customers with reliable power at the lowest possible cost. The Commission must be able to assure customers that the wholesale market is sufficiently developed and that the resulting standard offer rates will be stable, just and reasonable.

In addition, the current rules support the development of a regional transmission organization. The Commission has been one of a host of commenters who have questioned whether FERC is on the right track in overseeing the design of RTOs. The Commission should consider whether the current regulatory landscape is right for retaining the requirement of Rule 1609 to develop an RTO.

Recent experiences in California provide a reminder that residential customers do not favor price and reliability risk in their electric service. Prior to expending further efforts to modify the existing Rules, the Commission should address the fundamental question of whether a competitive retail electric marketplace is consistent with the concept of minimizing such risks.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Ahearn", written over a printed name.

Stephen Ahearn
Director

cc: All parties of record
sent via electronic mail