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BEFORE THE ARIZONA CORPORATION COMMISSION

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RENZ D. JENNINGS  
Chairman  
MARCIA WEEKS  
Commissioner  
CARL J. KUNASEK  
Commissioner

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

DOCKET NO. U-0000-94-165

COMMENTS OF THE  
NATIONAL RURAL ELECTRIC  
COOPERATIVE ASSOCIATION

The National Rural Electric Cooperative Association (NRECA) submits the following comments on the rules proposed by the Commission in Decision No. 59870 concerning the introduction of retail electric competition in Arizona.

NRECA is a not-for-profit national service organization. It represents approximately 1000 rural electric cooperatives (RECs) which provide central station service to approximately 30 million consumers in 46 states. Of these rural systems, more than 60 are generation and transmission (G&T) cooperatives, which are owned by and serve approximately 780 of the more than 900 distribution cooperatives. Kilowatt-hour sales by RECs amount to 7.4% of total electricity sales in the United States, and produce revenues of over \$14 billion. RECs own approximately 32.8 million kilowatts of installed electric capacity, or 4.5% of all capacity in this country. NRECA has an interest in this proceeding because a number of its members are located in Arizona, and will be subject to the outcome of the new rules being promulgated in this docket.

NRECA filed earlier comments in this docket concerning Staff's draft rules.<sup>1</sup> In those comments, NRECA discussed how RECs differ from investor-owned utilities and how they would be differently affected by the draft rules proposed. NRECA highlighted a number of

<sup>1</sup> By this reference NRECA incorporates herein its comments contained in its filing dated September 11, 1996.

1 those differences and asked that the Commission give them full consideration in the rule  
2 making process.

3 Some of those differences include: ownership of the utility by the member-customers  
4 themselves; RECs' disaggregated structure (with separate G&T and distribution entities); the  
5 ownership of G&Ts by their member distribution cooperatives; their interlocking financial  
6 structures based on all-requirements power supply contracts (which provide the basis for asset  
7 financing guaranteed or provided by the federal government through the Rural Utilities  
8 services (RUS) to Rural Electrification Act beneficiaries); RUS oversight of cooperatives; low  
9 customer density; G&Ts' low equity ratios; and the tax exempt not-for-profit nature of most  
10 RECs.

11 NRECA also suggested approaches to resolve some of the problems those differences  
12 cause, e.g.: universal service requirements, methods to ensure stranded cost recovery by both  
13 the G&T and the distribution cooperatives, and pricing and rate policies. NRECA requested  
14 the Commission to revise its Staff's draft rules to avoid damaging Arizona's RECs, which  
15 form a small but vital segment of Arizona's electric industry.

16 In its Proposed Rules, the Commission indeed recognized some of the unique  
17 characteristics of RECs. The Commission provided each REC a mechanism in R14-2-1605(H)  
18 to request a modification of the implementation schedule to preserve the REC's tax exempt  
19 status or allow time to modify financing and power supply contracts. NRECA deeply  
20 appreciates the Commission's recognition of the unique issues which restructuring presents for  
21 RECs, and its inclusion of the R14-2-1605(H) mechanism in its rules.

22 However, while RECs may be able to themselves modify or compensate for certain of  
23 their unique characteristics, others are inherent in nature or depend on the actions of other  
24 entities, such as Congress, or federal agencies. NRECA understands that the Arizona RECs  
25 believe that the better policy result in this docket would therefore be for the Commission to:  
26 (1) carve out an exemption for RECs from the rules; (2) remove them from the list of Affected  
27 Utilities; and (3) allow them to participate voluntarily under the provisions of R14-2-1611(B).

1       Such an approach would still encourage Arizona's RECs to resolve those issues they  
2 could influence and to seek resolution of those they cannot, without having to expend their  
3 scarce resources by simultaneously meeting the Proposed Rules' other requirements (e.g.,  
4 filing tariffs, etc.). But most important, such a Commission policy would recognize the ability  
5 of a REC's members themselves, through their votes, to decide if they want the benefits of  
6 retail competition in spite of the burdens that might accompany it (i.e., foregoing tax-exempt  
7 status, paying off RUS debt, etc.). The right to vote on the future direction of the utility is not  
8 available to customers of investor-owned utilities.

9       Finally, such a Commission decision would allow Arizona's RECs to seek the  
10 assistance of NRECA and their sister cooperatives across America in finding solutions to  
11 cooperative-specific issues which will arise under retail competition regimes.

