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BEFORE THE ARIZONA CORPORATION COMMISSION

PROPOSED RULE ON RETAIL ELECTRIC )  
COMPETITION )

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COMMENTS OF AMERICAN ASSOCIATION OF RETIRED PERSONS

DECEMBER 17, 1996

Arizona Corporation Commission  
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Submitted by:

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The American Association of Retired Persons (AARP) submits the following comments regarding the Arizona Corporation Commission's Proposed Rule on Retail Competition. AARP has advocated on behalf of residential ratepayers, and persons over 50 years of age in particular, throughout the United States on issues affecting consumers in the various utility industries. We appreciate the opportunity to offer the following comments on proposed rules R14-2-1601 through R14-2-1616 concerning retail competition in the electric utility industry.

## I. Competitive Phases

AARP applauds the Corporation Commission for proposing that residential consumers participate simultaneously with other users. However, AARP believes that the larger the percentage of Eligible Demand made available for residential consumption, the better. AARP believes that regulators should do everything in their power to ensure the greatest participation possible from those least likely to benefit from retail competition -- namely residential ratepayers who have no bargaining power.

AARP also applauds the Commission for allowing for aggregation of loads of multiple consumers. This rule is an important step under retail competition in that it provides smaller consumers with a means to develop purchasing power that they otherwise will not have. However, AARP has doubts as to whether allowing aggregation, alone, will lead to benefits for residential ratepayers that many in the restructuring debate predict. In fact, actual aggregation of all residential customers is unlikely to occur. As a result, we recommend that the Commission examine the possibility of mandating that an entity be designated to serve as the aggregator for those residential customers who are not offered a fair opportunity to aggregate.

## II. Standard Offer

The Commission states that the Standard Offer is to remain in effect "until the Commission determines that competition has been 'substantially implemented' for a particular class of consumers. . . ." AARP is concerned that the term "substantially implemented" may be interpreted to mean that competition has developed for less than all residential ratepayers. In particular, we are concerned that those customers deemed "high risk" or those customers more expensive to serve and/or to aggregate will be the last to experience the benefits of a competitive industry. As a result, the market may be deemed competitive within the residential class of consumers, and the Standard Offer may be made unavailable, before all customers in this class have a chance to participate. This scenario could lead to serious cost shifting onto the more vulnerable segments of the residential class. AARP recommends that the Commission carefully consider this potential problem before adopting a fixed end date for the Standard Offer.

AARP agrees with the Commission that the Standard Offer should not result in rate increases for those who take the Standard Offer. In fact, AARP hopes that the Standard Offer's regulated rates fall in line with the competitive market rates so that those who take the Standard Offer are not paying a disproportionate amount for electricity.

AARP would like to participate in any workshop addressing this issue.

## II. Recovery of Stranded Costs of Affected Utilities

AARP is concerned about the estimation and allocation of stranded costs because these costs will affect if, when, and to what extent residential consumers benefit from retail competition. AARP believes that if stranded costs are not measured in the appropriate manner, shared fairly between ratepayers and shareholders, and shared equitably between ratepayer classes, then it is unlikely that residential customers will see any benefit from retail competition, at least in the short term.

AARP believes that there are a number of so-called "mitigation" factors that should be considered in determining the amount of stranded costs to be paid by stakeholders, e.g., inefficient investment, misallocation of costs, previously compensated risk, and new revenue opportunities under competition. AARP also believes that residential ratepayers should not end up paying for the majority of nonmitigable stranded costs.

Finally, AARP is currently studying different methodologies for estimating stranded costs and expects to produce a "whitepaper" in the early part of 1997 addressing questions involving stranded costs. In the meantime, AARP would like to participate in the working group studying, and ultimately recommending to the Commission, the appropriate recovery of stranded costs.

## III. System Benefits Charge

AARP applauds the Commission for recognizing that only consumers who participate in the competitive market should have to pay for a systems benefit charge.

## V. Spot Markets and Independent System Operation

AARP believes that the Independent System Operator should be truly independent.

### VIII. Service Quality, Consumer Protection, Safety, and Billing Requirements

AARP applauds the Commission for the consumer protection provisions in this rule. However, AARP believes that, where possible, rules should be implemented that hold participants in the competitive electric utility market to the same consumer protection standards that govern other competitive industries. In any competitive market there will be tremendous pressure on customers to choose between service providers. At the same time, competitors are certain to engage in very aggressive business practices. Regulators and legislators should take an active role in implementing rules and laws that discourage unfair and deceptive practices.

Again, AARP thanks the Commission for the opportunity to participate in this proceeding and looks forward to working with the Commission on the development of its retail competition rules.