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BEFORE THE ARIZONA CORPORATION COMMISS

Jim Irvin  
Chairman  
Renz D. Jennings  
Commissioner  
Carl J. Kunasek  
Commissioner

Arizona Corporation Commission  
**DOCKETED**

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IN THE MATTER OF THE )  
COMPETITION IN THE PROVISION )  
OF ELECTRIC SERVICES THROUGH- )  
OUT THE STATE OF ARIZONA )

DOCKET NO. U-0000-94-165

**ACAA COMMENTS ON STRANDED COSTS**

I. SUMMARY OF ACAA'S COMMENTS

Arizona Community Action Association is highly concerned about the potentially enormous magnitude of stranded costs and their impact on low-income and small consumers; we urge the Commission to be cautious in calculating the amount. As far as priorities, the two top issues are the recovery mechanism (who pays and how) and the price cap/rate freeze. Only those customers in the competitive market should pay stranded costs, since captive customers are already paying these costs and should not be subject to double dipping. The recovery method should be bottom up, asset by asset, with the burden of proof placed on the utilities to produce evidence for every asset or obligation they believe is stranded. The recovery mechanism should be volumetric and based on a per kWh charge to protect low-income and other small consumers.

ACAA's other suggestions include:

- A true-up mechanism is acceptable only if it is limited to being downwardly flexible. Consumers are better served by having stranded costs set at a fixed level which will be the ceiling. That way they have a firm price tag guaranteed not to increase.
- Cost reductions should be the primary method of mitigation as well as utility revenue enhancements.
- The stranded cost definition does not need modification.
- Utilities should file stranded costs as soon as possible and practicable after the generic hearing.

- Stranded costs calculation should be limited by the passage of the initial Rule in December, 1996, and only those costs incurred prior to that time should be considered for recovery.
- The Commission should seek to balance the length of the recovery period and the per kWh charge. In order to promote an opportunity for a near-term rate reduction, a longer time frame is better and will keep the per kWh charge smaller. On the other hand, the time frame must be as short as possible to allow consumers to realize the full benefits of competition as soon as possible. The time frame for recovery should be different for each utility and will depend on the magnitude of their stranded costs. The working group recommended three to seven years, which is prudent.

## II. INTRODUCTION

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. Betty K. Pruitt, 202 E. McDowell #255, Phoenix, Arizona 85004.

**Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am the Deputy Director and Energy Programs Coordinator of Arizona Community Action Association. I have worked for ACAA for five years, advocating on behalf of low-income utility consumers in many utility proceedings.

**Q. WHAT IS THE PURPOSE OF ACAA'S COMMENTS IN THIS PROCEEDING AND WHO PREPARED THESE COMMENTS?**

A. ACAA wishes to provide comments on the generic stranded cost issues as put forth in the Procedural Order. We believe that it is important that ACAA provide input on stranded costs from the perspective of low-income consumers, as well as other small consumers.

## III. COMMENTS

**Q. ISSUE NO. 1: SHOULD THE ELECTRIC COMPETITION RULES BE MODIFIED REGARDING STRANDED COSTS, IF SO HOW?**

A. The Rules should be changed only as much as is needed to fill in necessary details. In general, the Rules offer basic consumer protection policies on stranded costs and any

erosion of those protections is unacceptable. The definition of stranded costs should remain as is.

**Q. ISSUE NO. 2: WHEN SHOULD AFFECTED UTILITIES BE REQUIRED TO MAKE A STRANDED COST FILING?**

A. Utilities should be required to make stranded cost filings as soon as possible and practicable after the Order is issued in this proceeding in order to keep the pace moving. All utilities should file simultaneously so there is no advantage or disadvantage, but separate hearings should be scheduled in a reasonable manner.

**Q. ISSUE NO. 3: WHAT COSTS SHOULD BE INCLUDED AS PART OF STRANDED COSTS AND HOW SHOULD THOSE COSTS BE CALCULATED?**

A. The Rules adequately address what should be included. As far as how to calculate stranded costs, ACAA recommends that the bottom up, asset by asset approach be used. It is the method most fair to consumers and the burden of proof should be on the utilities to provide evidence of stranded cost for each and every asset or obligation that they believe is stranded. In addition, the bottom-up calculation method accounts for any and all assets whose market values are greater than their book values.

Market values and market clearing prices should be determined by using a combination of market and administrative methods. Some assets should be sold in the market (divested) and the resulting prices used as the market values in the analysis of stranded costs. Market values of other assets and obligations can be determined by using administrative methods. One such method would use the sale prices of similar assets sold by other utilities to estimate the market value of a given asset (i.e., a comparable value approach similar to real estate appraisals). Another approach would be to use independent appraisals of market value when prices of comparable assets sold in the market are not available.

Determining market clearing price is important only for those assets that continue to be held by the generation affiliate of an affected utility. For these assets, independent forecasts and evidentiary proceedings can be used to estimate market clearing prices.

Top-down, revenue lost methods should not be used. While top-down methods can be less complex to implement, their use could result in inaccurate estimates of stranded cost. They do poorly in estimating the amount of stranded costs if utilities lose sales, which is likely to some degree under retail electric competition.

**Q. ISSUE NO. 4: SHOULD THERE BE A LIMITATION ON THE TIME FRAME OVER WHICH STRANDED COSTS ARE CALCULATED?**

A. Yes. Stranded costs calculation should be limited by the passage of the initial Rule in December, 1996, and only those costs incurred prior to that time should be considered for recovery.

**Q. ISSUE NO. 5: SHOULD THERE BE A LIMITATION ON THE RECOVERY TIME FRAME FOR STRANDED COSTS?**

A. Yes. The Commission should seek to balance the length of the recovery period and the per kWh charge. In order to promote an opportunity for a near-term rate reduction, a longer time frame is better and will keep the per kWh charge smaller. On the other hand, the time frame must be as short as possible to allow consumers to realize the full benefits of competition as soon as possible. The time frame for recovery should be different for each utility and will depend on the magnitude of their stranded costs. The working group recommended three to seven years, which is prudent.

First, the magnitude of stranded costs should be fixed as a maximum for a utility, then the time period for recovery should be determined and fixed. Although, the time period may need to be shortened if load growth at the distribution level increases faster than assumed, or if the amount of stranded costs to be recovered is adjusted downward. In addition, the time value of money should be considered, with stranded costs adjusted for inflation.

**Q. ISSUE NO. 6: HOW AND WHO SHOULD PAY FOR STRANDED COSTS AND WHO, IF ANYONE, SHOULD BE EXCLUDED FROM PAYING STRANDED COSTS?**

A. No one in the competitive market should be excluded. Stranded costs should be recovered from everyone, utilities and their shareholders, new entrants to the Arizona market, and consumers who participate in (and expect to benefit from) the competitive market.

However, ACAA supports the rules that state that stranded costs may only be recovered from customers served competitively; so, captive customers still on the standard offer should be excluded. Residential and low income utility customers should not have to pay for any stranded costs resulting from competition in which they do not participate. Consumers not in the competitive market are already paying for these stranded assets through their rates and should not be subject to double dipping.

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.

Regarding recovery of a portion of stranded costs from new market entrants, these funds should be collected using a market access charge (or entrance or license fee) applied on a per kWh basis to the volume of in-state energy sales. The Commission should create a fund which the utilities could draw upon to pay for stranded costs. The non-bypassable distribution access charges and the new market entrant access charges (or license fees) collected for stranded costs should be deposited in this fund.

One method of paying stranded costs while providing a rate reduction which should be avoided is the California model. Consumers there are paying a high price for few benefits.

**Q. ISSUE NO. 7: SHOULD THERE BE A TRUE-UP MECHANISM AND, IF SO HOW WOULD IT OPERATE?**

A. Wide open true-up mechanisms hold far too much risk for consumers. While it is possible that the true-up could benefit consumers, it is also likely that it could work against consumers. It is better to establish an equitable set amount for stranded cost recovery, giving consumers a firm price tag up front.

The amount of stranded costs to be recovered from consumers and new market entrants should be set as a maximum, which could be adjusted downward if conditions change but could never exceed the maximum. Setting the amount of stranded costs to be recovered as a maximum will avoid surprises and eliminate any additional risk for consumers in the future. Commission staff and interested parties should be able to petition the Commission to reduce the amount of stranded costs to be recovered if conditions change (rather than having a regularly-scheduled reassessment).

**Q. ISSUE NO. 8: SHOULD THERE BE PRICE CAPS OR A RATE FREEZE IMPOSED AS PART OF THE DEVELOPMENT OF A STRANDED COST RECOVERY PROGRAM AND IF SO, HOW SHOULD IT BE CALCULATED?**

A. Yes. Low-income and other small consumers will face many risks and have few opportunities to benefit from the competitive market. A price cap/rate freeze is a very meaningful mechanism for protecting small consumers against price and cost increases due to retail competition. Since proponents of retail competition have argued that competition

· will reduce prices for all customers, no party should have an objection to a price cap/rate freeze.

The price cap for customers in the competitive market and the rate freeze for customers on the standard offer should be based on regulated rates in effect as of 1/1/98.

**Q. ISSUE NO. 9: WHAT FACTORS SHOULD BE CONSIDERED FOR MITIGATION OF STRANDED COSTS?**

A. Cost reduction is the primary method of mitigation and includes refinancing debt, reducing overheads, re negotiating contracts, retiring uneconomic facilities, and selling excess generation capacity.

Original and ten copies of the foregoing filed this 21<sup>st</sup> day of January, 1998 in

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copies of the foregoing delivered this 21<sup>st</sup> day of January, 1998 to:

Jerry L. Rudibaugh  
Chief Hearing Officer  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

James M. Irvin  
Chairman  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

Renz D. Jennings  
Commissioner  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

Carl J. Kunasek  
Commissioner  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

Paul Bullis  
Chief Council  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007

David Jankovsky  
Interim Utilities Division Director  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Copies of the foregoing mailed this 21<sup>st</sup> day of January, 1998 to:

Louis A. Stahl  
Streich Lang  
Renaissance One  
Two North Central Avenue  
Phoenix, Arizona 85004

Lex Smith Michael Patten  
Brown & Bain PC  
Morenci Water And Electric  
2901 N. Central Avenue  
Phoenix, Arizona 85001-0400

Barry, Hetzer, Stickley &  
Schutzman  
Court Reporters  
2627 Third Street, Suite 3  
Phoenix, Arizona 85004-1103

Jessica Youle  
Salt River Project  
P.O. Box 52025 - PAB 300  
Phoenix, Arizona 85072-2025

Bradley Carroll  
Tucson Electric Power Company  
P.O. Box 711  
Tucson, Arizona 85701

Ajo Improvement Company  
P.O. Drawer 9  
Ajo, Arizona 85321

Patricia Cooper  
Arizona Electric Power Coop  
P.O. Box 670  
Benson, Arizona 85602-0670

Terry Ross  
Center for Energy Economic  
Development  
P.O. Box 288  
Franktown, Colorado 80116

Elisabeth S. Firkins  
IBEW L.U. #1116  
750 S. Tucson, Blvd.  
Tucson, Arizona 85716

Tom Broderick  
6900 East Camelback Rd.# 700  
Scottsdale, Arizona 85251

Andrew Bettwy  
Debra Jolue Walley  
Southwest Gas Corporation  
5241 Spring Mountain Road  
Las Vegas, Nevada 89102

Carl Robert Aron  
Executive Vice President and  
COO Itron Inc.  
2818 North Sullivan Road  
Spokane, Washington 99216

Continental Divide Electric  
Company  
P.O. Box 1087  
Grants New Mexico 87020

Dixie Escalante Rural Electric  
CR Box 95  
Beryl, Utah 84714

Garkane Power Association  
P.O. Box 790  
Richfield, Utah 84701

Babara Klemstine  
Arizona Public Service Co.  
P.O. Box 53999  
Phoenix, Arizona 85072-3999

Steve Kean  
ENRON  
P.O. Box 1188  
Houston, Texas 77251-1188

Myron L. Scott  
AZ. For a Better Enviornment  
1628 Southern Ave, No. 9-328  
Tempe, Arizona 85282-2179

Greg Patterson  
Deborah Scott, Chief Counsel  
RUCO  
2828 N. Central Ave. Ste. 1200  
Phoenix, Arizona 85004

Steven Wheeler  
Thomas M Mumaw  
Snell & Wilmer  
400 East Van Buren Street  
Phoenix, Arizona 85004

George Allen  
Arizon Retailers Association  
137 University  
Mesa, Arizona 85201

Karen Glennon  
19037 North 44th Avenue  
Glendale, Arizona 85308

Douglas Nelson  
7000 North 16th Street  
Suite 120-307  
Phoenix, Arizona 85020

Michael A. Curtis  
Attorneys Arizona Municipal  
Power Users Association  
2712 North Seventh Street  
Phoenix, Arizona 85006-1003

Charles R. Huggins  
Arizona State AFL-CIO  
110 North 5th Avenue  
P.O. Box 13488  
Phoenix, Arizona 85002

David C. Kennedy  
Law Offices of David C. Kennedy  
100 West Clarendon Avenue, #200  
Phoenix, Arizona 85012-3525

Norman J. Furuta  
Department of the Navy  
P.O. Box 272 (Attn: Code 90C)  
San Bruno, California 94066-0720

Thomas C. Horne  
Michael S. Dulberg  
Horne, Kaplan & Bistrow, P.C.  
40 North Central Ave., # 2800  
Phoenix, Arizona 85004

Bill Meek  
President  
AZ Utilities Investors Assn.  
2100 N. Central Ave., # 210  
Phoenix, Arizona 85004

Craig Marks  
Citizens Utilities Company  
2901 North Central Ave., # 1660  
Phoenix, Arizona 85012-2736

Rick Gilliam  
Land & Water Fund of the  
Rockies  
2260 Baseline, Suite 200  
Boulder, Colorado 80302

Clifford Cauthen  
Graham County Electric Coop  
P.O. Box Drawer B  
Pima, Arizona 85543

Mohave Electric Cooperative  
P.O. Box 1045  
Bullhead City, Arizona 86430

Morenci Water & Electric Co  
P.O. Box 68  
Morenci, Arizona 85540

Sulpher Springs Valley  
Electric Coop  
P.O. Box 820  
Wilcox, Arizona 85644

Marv Athey  
Trico Electric Cooperative  
P.O. Box 35970  
Tucson, Arizona 85740

Thomas Pickrell  
AZ school Board Assn  
2100 N. Central Ave.  
Phoenix, Arizona 85004

Mike McElrath  
Cyprus Climax Metals Co.  
P.O. Box 22015  
Tempe, Arizona 85285-2015

Peter Glaser  
Doherty, Rumble & Butler  
1401 N.Y. Ave., N.W., #1110  
Washington, D.C. 20005

Steve Montgomery  
Johnson Controls  
2032 West 4th Street  
Tempe, Arizona 85281

Albert Sterman  
Arizona Consumers Council  
2849 E. 8th Street  
Tucson, Arizona 85716

Michael Rowley  
Calpine Power Services Co  
50 West San Fernando  
San Jose, California 95113

Stephen Ahearn  
Arizona D.O.C.  
3800 N. Central Ave., #1500  
Phoenix, Arizona 85012

Ken Saline & Jeff Woner  
K.R. Saline & Associates  
160 N. Pasadena  
Suite 101  
Mesa, AZ 85201

Carl W. Dabelstein  
2211 E. Edna Ave  
Phoenix, AZ 85022

Dan Neidlinger  
Neidlinger & Associates  
3020 North 17th Drive  
Phoenix, Arizona 85015

Rick Lavis  
Arizona Cotton Growers Assn  
4139 East Broadway Road  
Phoenix, Arizona 85040

Steve Brittle  
Don't Waste Arizona, Inc.  
6205 South 12th Street  
Phoenix, Arizona 85040

Barbara S. Bush  
Coalition for Responsible  
Energy Education  
315 West Riviera Drive  
Tempe, Arizona 85252

Sam Defraw  
Department of the Navy  
Naval Facilities Engineering  
901 M Street SE, Building 212  
Washington, D.C. 20374

John Jay List  
National Rural Utilities Coop  
Finance Corporation  
2201 Cooperative Way  
Herndon, Virginia 21071

Joe Eichelberger  
Magma Copper Company  
P.O. Box 37  
Superior, Arizona 85273

Sheryl Johnson  
Texas- New Mexico Power Co.  
4100 International Plaza  
Fort Worth, Texas 76109

Andrew Gregorich  
BHP Copper  
P.O. Box M.  
San Manuel, Arizona

Jim Driscoll  
Arizona Citizen Action  
2430 S. Mill, Suite 237  
Tempe, Arizona 85282

C. Webb Crockett  
Asarco ,Inc., Cyprus Climax  
Metals Co.,Eron,Inc. and AAEC  
3003 N. Central Ave.,#2600  
Phoenix, Arizona 85012-2913

Douglas A. Oglesby  
Vantus Energy Corporation  
353 Sacramento St. # 1900  
San Francisco, California 94111

Vinnie Hunt  
City of Tucson  
Department of Operations  
4004 S. Park Avenue, Building #2  
Tucson, Arizona 85714

Wallace Kolberg  
Southwest Gas Corporation  
P.O. Box 98510  
Las Vegas, Nevada 89193-8510

Ellen Corkhill  
American Association of Retired  
Persons  
5606 North 17th Street  
Phoenix, Arizona 85016

William D. Baker  
Electric District No. 6  
Pinal County, Arizona  
P.O. Box 16450  
Phoenix, Arizona 85011

Wayne Retzlaff  
Navopache Electric Co-Op INC.  
P.O. Box 308  
Lakeside, Arizona 85929

Phyllis Rowe  
Arizona Consumers Council  
6841 N. 15th Place  
Phoenix, Arizona 85014

Larry McGraw  
USDA-RUS  
6266 Weeping Willow  
Rio Rancho, New Mexico 87124

Robert Julian  
PPG  
1500 Merrall Lane  
Belgrade, Montana 59714

Robert S. Lynch  
340 East Palm Lane, Suite 140  
Phoenix, Arizona 85004-4529

Michael Block  
Goldwater Institute  
Concourse Level  
201 N. Central  
Phoenix, Arizona 85004

William Sullivan  
Martinez & Curtis, P.C.  
Mohave and Navopache Coop  
750 S. Tucson Blvd.  
Tucson, Arizona 85006

Nancy Russell  
Arizona Assn. of Industries  
2025 N. Third Street, #175  
Phoenix, Arizona 85004

A.B. Baardson  
Nordric Power  
4281 N. Summerset  
Tucson, Arizona 85715

Barry N. P. Huddleston  
Destec Energy  
P.O. Box 4411  
Houston, Texas 77042

Suzanne M. Dallimore  
Attorney General's Office  
Department of Law Building  
1275 West Washington Street  
Phoenix, AZ 85007

Douglas Mitchell  
San Diego Gas and Electric Co  
P.O. Box 1831  
San Diego, California 92112

Christopher Hitchcock  
Sulphur Springs Valley Coop  
P.O. Box 87  
Bisbee, AZ 85603-0087

Michael Grant  
Gallagher & Kennedy  
2600 N. Central  
Phoenix, AZ 85004-3020

Roderick G. McDougall,  
City Attorney  
Attn: Jesse Sears,  
200 W. Washington St.,#1300  
Phoenix, AZ 85003-1611

William J. Murphy  
200 W. Washington St, #140  
Phoenix, AZ 85003-1611

Stan Barnes  
Copper State Consulting  
Group  
100 W. Washington St.,# 1415  
Phoenix, Arizona 85003

Choi-Lee  
Phelps Dodge Corp.  
2600 N. Central Ave.  
Phoenix, Arizona 85004-3014

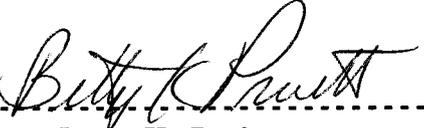
Columbus Electric Coop  
P.O. Box 631  
Deming, New Mexico 88031

Lawrence V. Robertson Jr.  
Munger chadwick PLC  
Attorney for PGE Energy  
333 N. Wilmot, Suite 300  
Tucson, Arizona 85711-2634

Babara R. Goldberg  
Office of The City Attorney  
3939 Civic Center Blvd.  
Scottsdale, Arizona 85251

Russell E. Jones  
33 N. Stone Ave., Suite 2100  
P.O. Box 2268  
Tucson, Arizona 85702

Larry K. Udall  
AZ Municipal Power Users  
2712 N. 7th Street  
Phoenix, Arizona 85006-1090

By: 

Betty K. Pruitt  
ACAA Energy Programs Coordinator