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Arizona Corporation Commission
BEFORE THE ARIZONA CORPORATION CO

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OCT 16 2000

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AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
CITIZENS UTILITIES COMPANY FOR
APPROVAL OF ITS PLAN FOR STRANDED
COST RECOVERY.

DOCKET NO. E-01032C-98-0474

IN THE MATTER OF THE FILING BY
CITIZENS UTILITIES COMPANY OF
UNBUNDLED AND STANDARD OFFER
SERVICE TARIFFS PURSUANT TO A.A.C.
R14-2-1606.

DOCKET NO. E-01032C-97-0774

IN THE MATTER OF COMPETITION IN
THE PROVISIONS OF ELECTRIC
SERVICES THROUGHOUT THE STATE OF
ARIZONA.

DOCKET NO. RE-0000C-94-0165

**CITIZENS COMMUNICATIONS
COMPANY'S REQUEST FOR
WAIVER OF CERTAIN
COMPETITION RULES**

The Arizona Electric Division of Citizens Communications Company ("Citizens") asks the Arizona Corporation Commission for waivers from the provisions of the Commission's Electric Competition Rules ("Rules") that concern the commencement of competition. In a companion motion also filed today, Citizens is asking that the record in this docket be reopened to allow parties to address recent developments in the competitive power market, including those issues identified in Docket No. E-01032C-00-0751 -- Citizens' September 28, 2000, application concerning its Purchased Power and Fuel Adjustment Clause ("PPFAC").

The purpose of the requested waivers is to allow time for the parties and the Commission to effectively deal with the issues raised by this summer's recent developments. The Settlement Agreement contemplated a Commission Order by

1 September 30, 2000, to allow competition to commence in Citizens' service
2 territory by December 31, 2000. That date has now passed and significant issues
3 must now be addressed. Citizens asks that competition now commence within
4 four months after a final Commission Order in the above-captioned dockets.

5 On June 26, 2000, Citizens filed with the Commission a Settlement
6 Agreement between Commission Staff, the Residential Utility Consumer Office
7 ("RUCO"), and Citizens resolving all issues related to the introduction of
8 competition in Citizens' Arizona Electric service areas. On July 5, 2000, hearings
9 were held in this matter; no party raised any substantive objections to any
10 element of the Settlement Agreement. On August 8, 2000, the parties submitted
11 a letter to the ALJ clarifying that the Settlement Agreement was based on the
12 Commission's fair-value determination in Citizens' last rate case and would not
13 affect Citizens' opportunity to earn its authorized rate of return.

14 While the ALJ was considering this matter, Citizens began receiving power
15 bills for the summer months from Arizona Public Service Company ("APS") that
16 were sharply higher than had ever been experienced under Citizens' long-
17 standing power-supply arrangements with APS. As a result of these increases,
18 which were roughly 150% greater than the power costs reflected in Citizen'
19 current retail rates, Citizens began accumulating an extraordinarily high balance
20 of uncollected power costs in its PPFAC bank. This is projected to exceed \$55
21 million as of September 30, 2000. On September 28, 2000, Citizens filed an
22 application in Docket No. E-01032C-00-0751 proposing to change several aspects
23 of its PPFAC procedures and to implement an adjustment factor to recover these
24 unprecedented expenses over a 3-year period.

25 The extraordinary events in the power industry in the summer of 2000
26 require Citizens and other interested parties to revisit and rethink how Citizens
27 should move forward with electric competition as set forth in the Settlement
28 Agreement. Based on this review, Citizens has determined that the events of this
29 past summer have rendered many aspects of the Settlement Agreement

1 unworkable.

2 In particular, Citizens has identified the following issues with the Settlement
3 Agreement in its current form:

- 4 • Because it has not been an issue of particular importance due to relatively
5 low bank balances, the Settlement Agreement did not address how to set
6 responsibility for an individual customer's portion of the PPFAC bank
7 balance upon departure from Citizens' generation service. Clearly, that
8 matter needs now to be addressed given the large current balances.
- 9 • In connection with the previous point, the Commission's decision on
10 Citizens' application to modify its PPFAC mechanism will not likely be issued
11 until late this year. This decision should significantly affect the design of
12 the Citizens' Competitive Transition Charge ("CTC"), the recovery of
13 Citizens' stranded costs, and other factors affecting Citizens' unbundled
14 rates. Consequently, the Commission's PPFAC decision is a necessary
15 prerequisite to implementing competition in Citizens' service territory.
16 Citizens can adhere to its commitment in the Settlement Agreement to
17 "endeavor to implement retail access within four calendar months" of a
18 Commission Order in the Stranded-Cost Dockets, but this order can likely
19 not be issued until sometime after the PPFAC matters are resolved.
20 Consequently, it is not possible for Citizens to open its service area to
21 competition by the Rule-specified opening date of January 1, 2001.
- 22 • Citizens' commitment to file Unbundled Rates within 30 days after a
23 Commission Order on the Settlement Agreement is also no longer possible
24 due to the complexities that may result from the PPFAC order.
- 25 • A 10% sales migration assumption for all rate classes may no longer be
26 realistic, as there is good reason to believe the PPFAC matter may inspire
27 higher migration rates. There may also be associated administrative issues
28 caused by a higher migration rate that need to be addressed.
- 29 • There is a need to revisit the two mill/kWh cap on annual CTC increases in

1 anticipation of the possible recurrence of the power-cost increases seen in
2 the summer 2000.

- 3 • Because Citizens anticipates it will have a generation rate that varies by
4 month under its PPFAC proposals, the annual-adjustment limit to
5 generation shopping credits may no longer be workable.
- 6 • The \$3 million cap on the CTC balance for accelerated recovery will need to
7 be revisited.
- 8 • The annual adjustment of the PPFAC contemplated by the Settlement may
9 not comport with the Commission's decision in the current PPFAC matter.
- 10 • The reference to divestiture of the APS agreement *only* in cases of
11 migration-related impact on the CTC needs to be re-visited. The acceptable
12 reasons for divestiture may need to be broadened.
- 13 • The waiver of competitive market purchasing of Standard Offer generation
14 only while Citizens retains the APS contract may need to be revisited,
15 particularly if "competitive market purchase" implies short-term purchases
16 in the spot market.

17 For all these reasons, Citizens respectfully requests that the Commission
18 grant it a waiver from the provisions of the Rules related to the January 1, 2001,
19 commencement date for competition. These provisions include R14-2-1604A(4),
20 R14-2-1604D, R14-2-1606B, R14-2-1606C(6), R14-2-1615A, and R14-2-1605B
21 and are repeated below for convenience.

22 **R14-2-1604A(4):**

23 4. Effective January 1, 2001, all Affected Utility customers irrespective
24 of size will be eligible for Aggregation and Self-Aggregation. Aggregation
25 and Self-Aggregation customers purchasing their electricity and related
26 services at any time after the effective date of these rules must do so from
27 a certificated Electric Provider as provided for in these rules.

28 **R14-2-1604D:**

29 D. All customers shall be eligible to obtain competitive electric services

1 no later than January 1, 2001.

2 **R14-2-1606B:**

3 B. After January 1, 2001, power purchased by an investor owned Utility
4 Distribution Company for Standard Offer Service shall be acquired from the
5 competitive market through prudent, arm's length transactions, and with at
6 least 50% through a competitive bid process.

7 **R14-2-1606C(6):**

8 6. After January 2, 2001 tariffs for Standard Offer Service shall not
9 include any special discounts or contracts with terms, or any tariff which
10 prevents the customer from accessing a competitive option, other than
11 time-of-use rates, interruptible rates, or self-generation deferral rates.

12 **R14-2-1615A:**

13 A. All competitive generation assets and competitive services shall be
14 separated from an Affected Utility prior to January 1, 2001. Such
15 separation shall either be to an unaffiliated party or to a separate corporate
16 affiliate or affiliates. If an Affected Utility chooses to transfer its
17 competitive generation assets or competitive services to a competitive
18 electric affiliate, such transfer shall be at a value determined by the
19 Commission to be fair and reasonable.

20 **R14-2-1615B:**

21 B. Beginning January 1, 2001, an Affected Utility or Utility Distribution
22 Company shall not provide Competitive Services as defined in R14-2-1601.
23 To allow Citizens adequate time to implement compliant unbundled rates,
24 an appropriate CTC mechanism, and necessary retail open-access administrative
25 systems (all of which will likely be affected by the Commission's order in Citizens'
26 PPFAC docket), Citizens respectfully requests that the Commission establish a
27 commencement date for electric competition that is at least 120 days after a final
28 order in the above-captioned dockets.

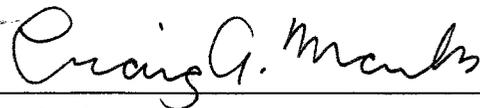
29 Citizens will be undertaking a number of measures over the next several

1 months to mitigate its exposure to high power prices, but it recognizes that
2 power costs in summer 2001 could very well be similar to those experienced this
3 summer. Citizens further recognizes that many of its customers, in preparation
4 for summer 2001, may wish to seek alternative generation suppliers. For these
5 reasons, Citizens believes it would be best to open its territory to competition
6 before the summer of 2001, when prices may again escalate. Accordingly,
7 Citizens again emphasizes the importance of the Commission's completion of the
8 PPFAC docket in time for a final order in the above-captioned dockets, that would
9 allow Citizens to open its service territory to competition by May 1, 2001.

10 **Requested Relief**

11 Citizens asks the Arizona Corporation Commission for waivers from the
12 identified provisions of the Electric Competition Rules that concern the
13 commencement of competition. The purpose of the waivers is to allow
14 competition in Citizens' service areas to commence no later than four months
15 after the issuance of a final Commission Order in the above-captioned dockets.
16 Finally, Citizens asks the Commission issue that Order soon enough to allow
17 Citizens to open its service territory to competition by May 1, 2001.

1 RESPECTFULLY SUBMITTED on October 16, 2000.

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4
5 Craig A. Marks
6 Associate General Counsel
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10 (Signed October 13, 2000)

11 Original and ten copies filed on
12 October 16, 2000, with:

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18 on October 16, 2000, to:

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