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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN
Commissioner-Chairman
RENZ D. JENNINGS
Commissioner
CARL J. KUNASEK
Commissioner

IN THE MATTER OF THE STRANDED COST FILING AND REQUEST FOR A A WAIVER OF CERTAIN PORTIONS OF THE RULES FILED BY NAVOPACHE ELECTRIC COOPERATIVE, INC.	DOCKET NO. E-01787A-98-0465
IN THE MATTER OF THE STRANDED COST FILING AND REQUEST FOR A WAIVER OF A.A.C. R14-2-1607.D FILED BY TRICO ELECTRIC COOPERATIVE, INC.	DOCKET NO. E-01461A-98-0466
IN THE MATTER OF THE STRANDED COST FILING AND REQUEST FOR A A WAIVER OF CERTAIN PORTIONS OF THE RULES FILED BY MOHAVE ELECTRIC COOPERATIVE, INC.	DOCKET NO. E-01750A-98-0467
IN THE MATTER OF THE STRANDED COST FILING AND REQUEST FOR A A WAIVER OF CERTAIN PORTIONS OF THE RULES FILED BY GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.	DOCKET NO. E-01749A-98-0468
IN THE MATTER OF THE STRANDED COST FILING AND REQUEST FOR A A WAIVER OF CERTAIN PORTIONS OF THE RULES FILED BY DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.	DOCKET NO. E-01703A-98-0469
IN THE MATTER OF THE APPLICATION BY ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR APPROVAL OF ITS FILING AS TO REGULATORY ASSETS AND TRANSITION REVENUES	DOCKET NO. E-01773A-98-0470 **NOTICE OF FILING**

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS PLAN FOR STRANDED COST RECOVERY AND FOR RELATED APPROVALS, AUTHORIZATIONS AND WAIVERS.	DOCKET NO. E-01933A-98-0471
IN THE MATTER OF THE STRANDED COST FILING AND REQUEST FOR A A WAIVER OF CERTAIN PORTIONS OF THE RULES FILED BY SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.	DOCKET NO. E-01575A-98-0472
IN THE MATTER OF THE STRANDED COST COMPLIANCE FILING OF ARIZONA PUBLIC SERVICE COMPANY	DOCKET NO. E-01345A-98-0473
IN THE MATTER OF THE FILING OF THE STRANDED COST OPTIONS AND IMPLEMENTATION PLAN OF CITIZENS UTILITIES COMPANY	DOCKET NO. E-01032C-98-0474 **NOTICE OF FILING**

Pursuant to the October 16, 1998, Procedural Order in the above-captioned matters, Staff of the Arizona Corporation Commission hereby submits the attached Staff Report.

RESPECTFULLY SUBMITTED this 13th day of November, 1998

Paul A. Bullis

Paul A. Bullis
Christopher C. Kempley
Janice Alward
Attorneys, Legal Division
Arizona Corporation Commission

Original and ten copies of the foregoing document filed this 13th day of November, 1998 with:

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1200 West Washington
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Copy of the foregoing mailed this 13d day of November, 1998 to:

All parties on service list of Docket No. RE-00000C-94-0165

By: Mary Ippolito

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

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ARIZONA ELECTRIC POWER COOPERATIVE, INC.
APPROVAL OF ITS FILING AS TO REGULATORY
ASSETS AND TRANSITION REVENUES
DOCKET NO. E-01773A-98-0470

TUCSON ELECTRIC POWER COMPANY
FOR APPROVAL OF ITS PLAN
FOR STRANDED COST RECOVERY AND
FOR RELATED APPROVALS,
AUTHORIZATIONS AND WAIVERS
DOCKET NO. E-01933A-98-0471

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC.
STRANDED COST FILING AND REQUEST FOR A
A WAIVER OF CERTAIN PORTIONS
OF THE RULES
DOCKET NO. E-01575A-98-0472

ARIZONA PUBLIC SERVICE COMPANY
STRANDED COST COMPLIANCE FILING
DOCKET NO. E-01345A-98-0473

CITIZENS UTILITIES COMPANY
STRANDED COST OPTIONS AND
IMPLEMENTATION PLAN
DOCKET NO. E-01032C-98-0474

November 13, 1998

STAFF ACKNOWLEDGMENT

The Staff Report on Stranded Costs, Docket Numbers E-01787A-98-0465, E-01461A-98-0466, E-01750A-98-0467, E-01749A-98-0468, E-01703A-98-0469, E-01773A-98-0470, E-01933A-98-0471, E-01575A-98-0472, E-01345A-98-0473 and E-01032C-98-0474 was the responsibility of the Staff persons and consultants listed below.

Sheryl L. Hubbard
Chief, Accounting and Rates

John V. Wallace
Utilities Chief Rate Analyst

LaCapra & Associates
Consultants

I. INTRODUCTION.

Pursuant to Decision No. 60977 dated June 22, 1998, the Affected Utilities (as defined in the Electric Competition Rules) were required to file their proposal for stranded cost recovery by August 21, 1998. Further, Decision No. 60977 required other interested parties to file their comments on the proposals of the Affected Utilities by September 21, 1998.

On September 21, 1998, the Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission") filed comments on the proposals. Further, Staff indicated that they would be filing a Staff Report on or before November 13, 1998 which would include Staff's analysis, evaluation and recommendations concerning the proposals and comments filed by the other parties.

The following report incorporates Staff's analysis, evaluation and recommendations concerning the proposals and comments filed by the other parties.

CITIZENS UTILITIES COMPANY
DOCKET NO. E-01032C-98-0474

Citizens Utilities Company ("Citizens" or "Company") has offered a complex plan designed to respond to the Commission order and to qualify itself for 100% stranded cost recovery. This plan raises a number of issues that have not been thoroughly explored. Also, the final stranded cost amount is not currently known. Citizens does not expect a final determination on the amount of stranded costs, but rather requests that the Commission make a ruling on general principles, and methods to be used in calculation of stranded costs.

Staff recommends the imposition of an Interim Stranded Cost charge until such time as these issues are resolved. The Interim Stranded Cost charge would be the difference between Citizens' current embedded generation costs and a Market Generation Credit. We recommend developing that credit on the same basis as the mechanism proposed in the TEP settlement. The credit would vary by quarter based on the NYMEX futures peak price and an estimate of a comparable off-peak price, and increased by 3.5 mills per kilowatt-hour ("kWh"). Both of these elements would be increased to reflect line losses between generation and retail service.

Citizens has proposed divestiture of its generating resources, except for the Valencia units, that it maintains are necessary for reliability in its southern territory. Citizens proposes to divest its assets by auction to an unaffiliated third party, which would make it eligible for 100% stranded cost recovery. Since its only generating asset consists of a contract with Arizona Public Service ("APS contract") which is priced above market costs and which it is obligated to purchase through 2011, it anticipates that it would have to pay $43 million to get someone to take on this contract.

While divestiture is a major goal of the Commission□s restructuring policy, and should also be the best method of determining the value of any generating resources, Staff is concerned that due to the nature of this resource there may not be an adequate number of buyers. For instance, if APS is the only entity interested in this contract, we would have a classic single buyer, or monopoly, situation, where the price demanded could be well above the stranded cost that would result from retaining the contract. Accordingly, it is Staff's opinion that any auction of this contract must be conducted under criteria that will protect the public interest in the event there are not an adequate number of interested buyers. The Commission should have the authority to review the bids received with respect to the APS contract prior to acceptance of any bid. In the event the Commission determines such bids are not representative of the market value of this resource, based on the nature of bids received and/or relevant market data, it may declare a failed auction with respect to the APS contract.

The Company also includes in its stranded cost filing a number of other items. The first is a power purchase agreement ("PPA") with Arizona Public Service ("APS") to construct and operate a combustion turbine plant in Mohave County. The Company estimates that the cost to cancel this unit will be $1.9 million, based on costs incurred by APS to date. The Company also states that it will have to abandon the proposed transmission facilities associated with the same plant. Although no construction has occurred, Citizens has completed preliminary engineering and environmental assessments, and has incurred certain other costs. With regard to future facilities in Mohave County, it is not clear that they will be stranded. The Company states that after open access it will not longer have the ability to recover generation-related costs as a regulated distribution provider. While this is true, the PPA may have value in excess of the dollars required for Citizens to cancel its contract. If the location is valuable, and/or the unit will produce power at market rates, this PPA might not produce any positive stranded costs. The Citizens filing notes that there is "...increased interest in Mohave County as the site for "merchant" generation plants". The Company should attempt to sell its PPA as well as the development work related to the transmission facilities that it has already undertaken. These could be included in the same auction process as the APS contract.

There are a number of other minor issues addressed in Citizens filing. The Company requests recovery of costs associated with effectuating the divestiture and with pursuing renegotiations of the APS contract. Citizens also identifies $3 million in regulatory assets resulting from past DSM efforts. Finally, the Company identifies a number of "new functions" that will be necessary in a competitive market and estimates both one-time and ongoing costs associated with these functions.

The least controversial of the above is the regulatory assets. These should be allowed. The Company should identify the collection amount included in current rates and continue to collect on that basis until these regulatory assets have been recovered. The costs of implementing divestiture should be allowed, but are not yet known. Upon divestiture, actual stranded costs will be quantifiable and at that time, the costs of implementing divestiture could be included. The "new functions" are more problematic. The Company would need to demonstrate that such costs have been prudently incurred and that they cannot be recovered through existing rates before the Commission would allow such costs.

Citizens also proposes what they call an "Enhanced Divestiture Plan". Under this proposition, Citizens would auction the power-supply portion of their Certificate of Convenience and Necessity for an acquisition fee. Each bidder for this Certificate would have to guarantee a six-percent reduction in the generation component of the rate. The Company would retain half of the acquisition fee that might result from this process.

There are two issues here. One is whether Citizens should retain any portion of customer savings that might result from the bidding for Standard Offer service. We do not see any significant difference between this proposal and any other plan for auctioning the right to Standard Offer service. If acquiring power supply competitively reduces costs, the entire cost reduction (less auction expenses) should be passed on the ratepayers. The second question is whether there is much likelihood that such a process could reduce rates. If the cost of the APS contract divestiture is the annual difference between "market prices" and the full contract rates, then the only way that savings are possible would be to acquire Standard Offer power for less than the price of market power. However, if there are different judgments about the future cost of power, savings are possible. For example, suppose that the average cost of a contract is 6 cents. If some entity believes that market power will cost 5 cents on average over the length of the contract, their bid for the contract would be based on that assumption; they would want to be paid the difference of 1 cent and that would become a stranded cost charge. If market power turned out to actually cost only 4 cents (and we assume Standard Offer suppliers offer power at market prices), customers would save over their existing rates. In this example, all savings would go to customers. Citizens has not demonstrated that it would be providing any significant value to customers that would not be achieved by any utility that auctioned the provision of Standard Offer.

The proposal by Citizens to auction its CC&N for provision of power supply for standard offer customers need not be addressed in this proceeding. If Citizens desires to transfer its CC&N, Staff believes the appropriate vehicle is through an application to transfer pursuant to A.R.S. § 40-285.

ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-98-0470

Arizona Electric Power Cooperative, Inc. ("AEPCO") is requesting a stranded cost charge, and also a surcharge that would increase customers' current rates. However, it appears that AEPCO's actual net stranded costs are negative. In addition, the Staff has serious concerns regarding the integration of AEPCO's transmission and generation systems, particularly in light of AEPCO's proposed transmission tariff, which appears to have anti-competitive elements.

In spite of the negative stranded costs, there are extenuating factors that result in Staff considering allowing AEPCO an annual stranded cost charge. If AEPCO either divested its transmission system or substantially modified its transmission tariff, so that the integration of transmission and generation did not limit competition, we would consider recommending such charges for two reasons. First, the below average costs that AEPCO will experience in a few years will serve to directly benefit AEPCO members. Second, since AEPCO has no shareholders, it may have financial difficulty, in the near term, if load decreases due to competition and average revenues fall below average costs.

Transmission ownership and transmission tariff

If AEPCO owns both transmission and generation, it is crucial that transmission is priced and operated in a manner that does not prevent the development of a competitive generation market. At a minimum, Staff would recommend modification to a number of tariff provisions that will make the transmission system more open to all users. Some specifics are listed below. There should be a settlement process to complete modification of the transmission tariff.

- Ability to reserve capacity should be available to load less than 1 MW
- Provision about existing firm service customers' right to continue to take transmission service should make this service available to existing load
- The provision that redispatch, network upgrade, or direct assignment facilities costs would be charged to incremental transmission customers should limit such charges to the portion of costs that do benefit the entire system.
- Ancillary service provisions should not require payment by customers who can provide their own ancillary services
- The words regarding non-provision of transmission service if it would jeopardize tax exempt status would seem to preclude full open access. Staff wants this provision removed; AEPCO should search for an alternative solution to maintaining tax exempt status.
- The provision that a transmission customer shall be responsible for metering to accurately account for the capacity and energy being transmitted would seem to preclude use of load profiling to provide service to customers without telemetering. AEPCO should offer some methodology that would allow competitive service to reach customers who do not have telemetering.

Stranded costs

AEPCO requests that the Commission approve accelerated collection of some regulatory assets that it would collect through a surcharge. The rationale seems to be that accounting rules require this. However, AEPCO's own filing indicates that it is "required to record regulatory assets and liabilities and to defer income statement of such items…", but also that it already has the required Commission orders allowing it to recover these regulatory assets.

AEPCO also requests that it be allowed a stranded cost charge on all kWh sold competitively. It appears that it needs to define a portion of its existing rates as a non-bypassable Competitive Transition Charge, so that it can recover this through its transmission service if a portion of its members' load is lost to competition. Such a charge would be passed through directly by the member cooperatives to their distribution and transmission customers. Although, as noted below, AEPCO has net negative stranded costs, it does have near-term stranded costs.

- AEPCO claims to have stranded costs, but its average embedded generation revenue requirements for its members will only be above market prices for a few years, after which it will be a below-market provider.
- According to any standard definition of stranded costs, AEPCO would be found to have negative rather than positive stranded costs.
- The costs, which AEPCO wants to recover on an accelerated basis through a stranded cost charge, are part of the reason why future costs will be below market.
- Currently over 50% of AEPCO's load is either long-term contracts or contracts which are priced below market prices. The potential for load loss on AEPCO's system is thus quite small.
- Once AEPCO's above market purchased power contracts end in 2001, AEPCO will no longer have stranded costs even on an annual basis.
- Since AEPCO's costs will be below market prices, it will be able to charge for fossil decommissioning closer to the time when decommissioning might occur, unless the unit is sold or life extended, which would remove the decommissioning obligation.
- If Staff were to recommend approval of a stranded cost charge, it would differ from that filed by the Company. From AEPCO's filing, we can calculate the stranded cost charge that when added to the market generation price (projected by AEPCO) would equal current embedded generation costs. The amount would be about one cent per kWh for two to three years. This would require adjusting the Company's filing to both remove the fossil decommissioning and to add back the existing charges for the amortization of the regulatory assets as is currently approved.

Staff does not recommend any stranded cost charge until such time as AEPCO has complied with the intent of the Order and has either made plans to divest its transmission or modified its transmission tariff.

TRICO ELECTRIC COOPERATIVE, INC
DOCKET NO. E-01461A-98-0466

Trico Electric Cooperative, Inc. ("Trico") submitted a Stranded Cost Filing and Request for a Waiver of A.A.C. R14-2-1607.D. Trico is a Class A member of AEPCO and purchases all of it power and energy requirements from AEPCO under the provisions of an "all-requirements"contract. The basis of its requests is that Trico has no generation assets, except indirectly as a Class A Member-owner of Arizona Electric Power Cooperative, Inc. It has no regulatory assets. Based upon the foregoing, Trico submits that it can recover no stranded costs pursuant to the Commission's Decision No. 60977.

Because of the relationship between Trico and AEPCO, Trico asserts that it cannot determine its stranded costs related to generation assets and regulatory assets until AEPCO has filed and the Commission has approved AEPCO's mechanisms and charges for recovery of its stranded costs.

Trico also asserts that at present, it has no way of estimating the impact of competition on its jurisdictional assets and obligations and, as such, distribution-related stranded costs cannot be determined at this time.

Staff has reviewed the filing of Trico and agrees that the determination of Trico's stranded costs related to generation assets and regulatory asset cannot be performed until the Commission has approved a stranded cost calculation and recovery mechanism for AEPCO. For purposes of this Staff Report, the Staff would recommend that upon determination of the quantification of stranded costs, if any, of AEPCO, the Commission should also approve a pass-through mechanism applicable to Trico's distribution customers.

Trico has also requested that the Commission allow Trico to make a filing concerning its distribution stranded costs, if any, at such time as competitive services are offered in its service area and it has a reasonable opportunity to evaluate and estimate those stranded costs. The Staff has reviewed Trico's request and is of the opinion that the Company is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

MOHAVE ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01750A-98-0467

Mohave Electric Cooperative, Inc ("Mohave") is a Class A member of AEPCO and purchases all of it power and energy requirements from AEPCO under the provisions of an "all-requirements"contract. Mohave intends to select the Transition Revenue Method since it has no generation assets. It seeks a waiver of A.A.C. R14-2-1607 (D) and requests that it be allowed to make a subsequent filing after the Commission has reviewed and approved a stranded cost recovery mechanism for AEPCO and after Mohave has had the opportunity to determine distribution related stranded costs.

Because of the relationship between Mohave and AEPCO, Mohave asserts that it cannot determine its stranded costs related to generation assets and regulatory assets until AEPCO has filed and the Commission has approved AEPCO's mechanisms and charges for recovery of its stranded costs.

Mohave also asserts that at present, it has no way of estimating the impact of competition on its jurisdictional assets and obligations and, as such, distribution-related stranded costs cannot be determined at this time.

Staff has reviewed the filing of Mohave and agrees that the determination of Mohave's stranded costs related to generation assets and regulatory asset cannot be performed until the Commission has approved a stranded cost calculation and recovery mechanism for AEPCO. For purposes of this Staff Report, the Staff would recommend that upon determination of the quantification of stranded costs, if any, of AEPCO, the Commission should also approve a pass-through mechanism applicable to Mohave's distribution customers.

Mohave has also requested that the Commission allow it to make a filing concerning its distribution-related stranded costs, if any, after Mohave has had the opportunity to determine distribution related stranded costs. The Staff has reviewed Mohave's request and is of the opinion that the Company is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01749A-98-0468

Graham County Electric Cooperative, Inc ("Graham") is a Class A member of AEPCO and purchases all of it power and energy requirements from AEPCO under the provisions of an "all-requirements"contract. Graham seeks a waiver of A.A.C. R14-2-1607 (D) and requests that it be allowed to make a subsequent filing after the Commission has reviewed and approved a stranded cost recovery mechanism for AEPCO should inadequate allowance be made for transition revenue requirements and regulatory assets in relation to AEPCO's filing and after Graham has had the opportunity to determine distribution related stranded costs.

Graham also asserts that at present, it has no way of estimating the impact of competition on its jurisdictional assets and obligations and, as such, distribution-related stranded costs cannot be determined at this time.

Staff has reviewed the filing of Graham and asserts that the determination of Graham's stranded costs related to generation assets and regulatory asset should be performed at the time the Commission has approved a stranded cost calculation and recovery mechanism for AEPCO. For purposes of this Staff Report, the Staff would recommend that upon determination of the quantification of stranded costs, if any, of AEPCO, the Commission should also approve a pass-through mechanism applicable to Graham's distribution customers.

Graham has also requested that the Commission allow it to make a filing concerning its distribution-related stranded costs, if any, after Graham has had the opportunity to determine distribution related stranded costs. The Staff has reviewed Graham's request and is of the opinion that the Company is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC
DOCKET NO. E-01703A-98-0469

Duncan Valley Electric Cooperative, Inc ("Duncan") is a Class A member of AEPCO and purchases all of it power and energy requirements from AEPCO under the provisions of an "all-requirements"contract. Duncan seeks a waiver of A.A.C. R14-2-1607 (D). Duncan further requests that it be allowed to make a subsequent filing after the Commission has reviewed and approved a stranded cost recovery mechanism for AEPCO should inadequate allowance be made for transition revenue requirements and regulatory assets in relation to AEPCO's filing and after Duncan has had the opportunity to determine distribution related stranded costs.

Duncan also asserts that at present, it has no way of estimating the impact of competition on its jurisdictional assets and obligations and, as such, distribution-related stranded costs cannot be determined at this time.

Staff has reviewed the filing of Duncan and asserts that the determination of Duncan's stranded costs related to generation assets and regulatory asset should be performed at the time the Commission has approved a stranded cost calculation and recovery mechanism for AEPCO. For purposes of this Staff Report, the Staff would recommend that upon determination of the quantification of stranded costs, if any, of AEPCO, the Commission should also approve a pass-through mechanism applicable to Duncan's distribution customers.

Duncan has also requested that the Commission allow it to make a filing concerning its distribution-related stranded costs, if any, after Duncan has had the opportunity to determine distribution related stranded costs. The Staff has reviewed Duncan's request and is of the opinion that the Company is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

NAVOPACHE ELECTRIC COOPERATIVE, INC
DOCKET NO. E-01787A-98-0465

Navopache Electric Cooperative, Inc. ("Navopache") submitted a Stranded Cost Filing and Request for a Waiver of A.A.C. R14-2-1607.D. Navopache is a member of Plains Electric Generation and Transmission Cooperative ("Plains") and purchases all of it power and energy requirements from Plains under the provisions of an "all-requirements"contract. Because Plains is located in New Mexico, it is not subject to the jurisdiction of the Arizona Corporation Commission. Plains has not communicated to Navopache the amount of its stranded costs. Navopache intends to select the Transition Revenues Method pursuant to the Commission's Decision No. 60977 since it has no generation assets to divest.

Because of the relationship between Navopache and Plains, Navopache asserts that it cannot determine its stranded costs related to generation assets and regulatory assets until Plains and Navopache have determined what stranded costs, if any, are applicable to Plains.

Navopache also filed an application for an exemption or variation from A.A.C. R14-2-1603 to allow a retail electric competition experiment in rural Arizona pursuant to A.A.C. R14-2-1615 which may affect stranded costs.

Navopache also asserts that at present, it has no way of estimating the impact of competition on its jurisdictional assets and obligations and, as such, distribution-related stranded costs cannot be determined at this time.

Staff has reviewed the filing of Navopache and agrees that the determination of Navopache's stranded costs related to generation assets and regulatory asset cannot be performed until arrangements with Plains are closer to resolution. For purposes of this Staff Report, the Staff would recommend that upon determination of the quantification of stranded costs, if any, of Plains, the Commission should allow a subsequent filing by Navopache to determine a pass-through mechanism applicable to Navopache's distribution customers.

Navopache has also requested that the Commission allow Navopache to make a filing concerning its distribution stranded costs, if any, at such time as competitive services are offered in its service area and it has a reasonable opportunity to evaluate and estimate those stranded costs. The Staff has reviewed Navopache's request and is of the opinion that the Company is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

DOCKET NO. E-01575A-98-0472

Sulphur Springs Electric Cooperative, Inc ("Sulphur Springs") is a Class A member of AEPCO and purchases all of it power and energy requirements from AEPCO under the provisions of an "all-requirements"contract through 2020. Sulphur Springs intends to select the Transition Revenue Method for recovery of other regulatory assets identified in Decision No. 58358 and it has no generation assets to divest. Sulphur Springs seeks a waiver of A.A.C. R14-2-1607 (D) and requests that it be allowed to make a subsequent filing after the Commission has reviewed and approved a stranded cost recovery mechanism for AEPCO should inadequate allowance be made for transition revenue requirements and regulatory assets in relation to AEPCO's filing and after Sulphur Springs has had the opportunity to determine distribution related stranded costs.

Because of the relationship between Sulphur Springs and AEPCO, Sulphur Springs asserts that it cannot determine its stranded costs related to generation assets and regulatory assets until AEPCO has filed and the Commission has approved AEPCO's mechanisms and charges for recovery of its stranded costs.

Sulphur Springs also asserts that at present, it has no way of estimating the impact of competition on its jurisdictional assets and obligations and, as such, distribution-related stranded costs cannot be determined at this time but believes such information could be provided by July 1999.

Staff has reviewed the filing of Sulphur Springs and agrees that the determination of Sulphur Springs' stranded costs related to generation assets and regulatory asset cannot be performed until the Commission has approved a stranded cost calculation and recovery mechanism for AEPCO. For purposes of this Staff Report, the Staff would recommend that upon determination of the quantification of stranded costs, if any, of AEPCO, the Commission should also approve a pass-through mechanism applicable to Sulphur Springs' distribution customers.

Sulphur Springs has also requested that the Commission allow it to make a filing concerning its distribution-related stranded costs, if any, after Sulphur Springs has had the opportunity to determine distribution related stranded costs. The Staff has reviewed Sulphur Springs' request and is of the opinion that the Company is not precluded from requesting reasonable costs of operation in the context of a distribution rate case.

AJO IMPROVEMENT COMPANY

Ajo Improvement Company did not make a stranded cost filing.

MORENCI WATER AND ELECTRIC COMPANY

Morenci Water and Electric Company did not make a stranded cost filing.

ARIZONA PUBLIC SERVICE
DOCKET NO. E-01345A-98-0473

The Staff and Arizona Public Service ("APS") have filed a settlement agreement dated November 5, 1998 which addresses the stranded cost filing of APS. If, for some reason, the settlement agreement is not approved by the Commission, the Staff would request and opportunity to file a Staff Report to address the stranded costs of APS at a later time.

TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-98-0471

The Staff and Tucson Electric Power Company ("TEP") have filed a settlement agreement dated November 5, 1998 which addresses the stranded cost filing of TEP. If, for some reason, the settlement agreement is not approved by the Commission, the Staff would request and opportunity to file a Staff Report to address the stranded costs of TEP at a later time.

ARIZONA CORPORATION COMMISSION

November 17, 1998

Craig A. Marks
Associate General Counsel
2901 N. Central Avenue, Suite 1660
Phoenix, Arizona 85012

RE: CITIZENS UTILITIES COMPANY

DOCKET NO. E-01032C-98-0474

Attached hereto, please find the Staff Report filed relating to the above referenced matter.

Sincerely,

Noreen Cantu
Examiner Tech I
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