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BEFORE THE ARIZONA CORPORATION COMMISSION
DOCKETED



JAMES M. IRVIN
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- IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ITS PLAN FOR STRANDED COST RECOVERY. DOCKET NO. E-01345A-98-0473
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 APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS PLAN FOR STRANDED COST RECOVERY. DOCKET NO. E-01933A-98-0471
IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR APPROVAL OF ITS FILING AS TO REGULATORY ASSETS AND TRANSITION REVENUES. DOCKET NO. E-01773A-98-0470

ARIZONA UTILITY INVESTORS ASSOCIATION
REBUTTAL TO THE ATTORNEY GENERAL'S COMMENTS
ON AFFECTED UTILITIES' STRANDED COSTS FILINGS

I. Introduction

The Affected Utilities initiated the above captioned proceedings pursuant to Arizona Corporation Commission (Commission) Decision No. 60977, the opinion and order of the Commission dated June 22, 1998 (the order).

Other than the limited requirements of the order and Commission staff's approved plan to file a report on November 13, there are no procedural guidelines governing these matters. Therefore, it is unclear whether it is appropriate to respond to the comments of other parties at this juncture.

However, the comments filed by the Attorney General (AG) are so specious and so dishonest in presenting the facts that they demand a response. Thus, AUJA submits these rebuttal comments.

II. Comments

We will bypass the Attorney General's legal and moral opinions. He is certainly entitled to them, but they are largely a reprise of his complaint in *Woods v. Arizona Corporation Commission* (CV98-16025, Maricopa County Superior Court), and he will probably have his day in court.

Instead, we will focus on the factual representations in Section II. A. of the Attorney General's comments. Since almost every sentence of this section is palpably false or deliberately misleading, we will simply administer a dose of truth serum line by line.

At the outset, the Attorney General chooses to toss all of the stranded cost filings into the same trash can. Each filing is dissimilar, dealing with completely different assets and financial circumstances and proposing different methods of recovery. Never mind, as far as the AG is concerned, every filing is a travesty.

Next, the Attorney General inflates the combined stranded cost claims of the utilities by adding in nearly \$600 million of regulatory assets which are already being recovered by Arizona Public Service Co. (APS) on a schedule approved by the Commission more than 2 1/2 years ago.

The AG knows very well that APS' regulatory assets have nothing to do with its stranded cost claims but can't resist blowing up the stranded cost balloon.

Then, the Attorney General adds in stranded costs for Salt River Project (SRP), raising the statewide total to "an astonishing" \$4 billion. Again, the AG is well aware that SRP isn't regulated by the Commission, has no claim before the Commission and isn't involved in any of these cases.

However, this leads to a pinnacle of hyperbole: "The Affected Utilities and SRP are asking every electric customer to pay them (sic) over \$4 billion dollars for uneconomic, obsolete, inefficient and outmoded generation assets and costs," the AG says.

This statement is completely irresponsible, implying that every electric consumer in the state will have to share in the cost of every utility's stranded costs. In fact, electric customers would be responsible for paying only the stranded costs claimed by the utility company that serves them today. They would not be responsible for any other utility's stranded costs.

Furthermore, the Attorney General has no knowledge or evidence that these generation assets are "obsolete, inefficient and outmoded...." The AG simply refuses to acknowledge the reality of monopoly regulation, which is that every utility must have the capability of serving all present and future electric customers. The investment and repayment structure was established by regulators to meet that service requirement, not the terms of competition.

But there are further distortions.

All told, the Attorney General inflates the stranded cost total for the Affected Utilities by \$1.9 billion -- \$599 million for APS regulatory assets plus \$1.3 billion for imputed interest. The combined total rises from \$1.3 billion to \$3.2 billion.

Then he compares this number to State budget items such as public education (\$3 billion) and indigent health care (\$2 billion). Of course, he doesn't bother to explain that he is comparing annual state expenditures with a stranded cost figure that would be retired over six to 10 years. Thus, if the Department of Education spends \$3 billion a year on education, the six-year total would be upwards of \$18 billion for comparison with stranded costs.

In fact, if the AG did a little homework on how much "the entire State of Arizona spends on public education," he would learn that the annual amount is at least \$4.9 billion including primary and secondary property tax levies. So, the education expenditure for comparison purposes is about \$29.4 billion, more than 10 times stranded cost, even with interest added.

Having corrected the Attorney General's faulty comparisons, we still have no explanation of what relevance there is between any State expenditure funded by taxes and utility stranded costs.

The Attorney General's misstatements continue.

He says, "To pay off this staggering debt, the average monthly CTC for a residential customer using 1MW a month* will be \$15.23 without SRP. With SRP the monthly average will be \$17.78...a significant figure for an elderly person on a fixed income." (emphasis added, see note below)

We have already demonstrated the gross inaccuracies built into the AG's figures from including APS' regulatory assets and assuming that all consumers pay for every utility's stranded costs.

Here, the AG also chooses to ignore the fact that a CTC is levied according to customer class, based on historic demand and energy usage. In other words, the averages cited by the AG are meaningless and purposely misleading for small consumers.

By invoking the plight of fixed income consumers, the intended implication is that these people will experience higher utility costs. In fact, no one has proposed raising prices due to stranded cost recovery. We might note that the shareholders we represent are mostly elderly and on fixed incomes.

To illustrate how far off base the AG's estimates are, SRP has filed its proposed rate schedules for 1999 including CTC charges for stranded cost recovery. For residential users the proposed CTC is \$.0067 per kWh. Thus, the monthly charge for the residential customer in the AG's example would be \$6.70, not \$17.78.

We will not dwell on other mathematical errors in the Attorney General's comments which simply betray an inability to add and subtract. Fortunately, no one in the AG's office will be required to pass the AIMS mathematics test as a condition of practicing law for the State of Arizona.

*** Note:** Since 1MW represents the demand of a small factory, we assume the Attorney General really means 1MWh which would correspond to 1,000 kWh per month. The AG admits to being terminology challenged. Therefore, we are including as Exhibit 1 to this rebuttal a convenient glossary of terms which we recommend should accompany all future filings for the benefit of the Attorney General's office.

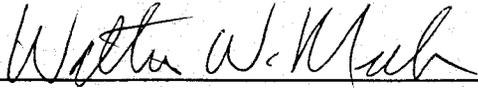
III. Conclusion

All of these errors, omissions and distortions have been crammed into a mere page and a half or 33 lines of the Attorney General's comments, a truly amazing feat that could only have been accomplished through unparalleled professional zeal.

Following this performance, the Attorney General ends with a sermon:
"Whatever, the Commission does, it must not overcompensate affected utilities at the expense of consumers, promote inefficiencies, perpetuate monopolies, impose illegal taxes or create new barriers to competition."

To which we can only respond, Amen.

Respectfully submitted, this 5th day of November, 1998



Walter W. Meek, President

CERTIFICATE OF SERVICE

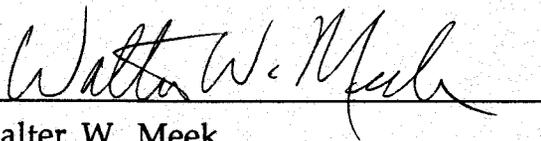
An original and ten copies of the foregoing Application to Intervene filed this 5th day of November, 1998, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the foregoing Application to Intervene hand delivered this 5th day of November, 1998, to:

Paul Bullis, Chief Counsel
Jerry L. Rudibaugh, Chief Hearing Officer
Ray Williamson, Acting Director, Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the foregoing Application mailed this 5th day of November, 1998, to all parties of record in the above-referenced Docket.

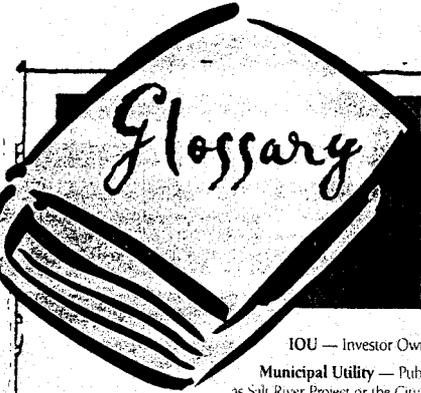


Walter W. Meek

INVESTOR OWNED UTILITY

ASSOCIATION

JULY 1997



Glossary

IOU — Investor Owned Utility.

Municipal Utility — Publicly owned utility such as Salt River Project or the City of Mesa utilities.

CC&N — Certificate of Convenience & Necessity — a special permit issued by a state commission (e.g. Arizona Corporation Commission) which authorizes a utility to engage in business, construct facilities or perform some other service within designated geographic boundaries, otherwise called exclusive service territories.

FERC — Federal Energy Regulatory Commission, an independent regulatory agency in the Department of Energy. Regulates transactions conducted in interstate commerce — in the electric industry, that relates primarily to the transmission portion of the electric power system. As a function of interstate commerce, the wires will continue to be regulated.

Generation — That portion of the electric energy system that transforms other forms of energy (coal, natural gas, water, nuclear) into electric energy.

Renewables — Naturally occurring sources of power such as solar, wind, water, geo-thermal.

Transmission — That portion of the electric energy system which transports electricity in bulk from the generator to other principal parts of the system, frequently to the distribution portion of the system.

Distribution — That portion of the electric energy system that delivers electric energy from convenient points on the transmission system to the consumer.

Reliability — The guarantee of system performance at all times and under all reasonable conditions to assure constancy, quality, adequacy and economy of electricity. Also assures a continuous supply of electricity at the proper voltage and frequency.

Demand — The primary source of demand is the power-consuming equipment of customers.

Peak Demand or Load — The greatest demand occurring within a specified period of time.

Load Shifting — Shifting load from peak (high demand) to off-peak periods.

Firm Power — Power available to customers at all times including under adverse conditions.

Interruptible Power — Power made available under agreements which permit curtailment or cessation of delivery by the supplier.

Obligation to Serve — In a regulated environment, utilities are obligated to sell power to anyone who wants it within the utility's designated service territory.

Demand-side Management — Planning, implementation and monitoring of utility activities designed to influence customer use of electricity that will produce desired changes in the time pattern and magnitude of a utility's load.

Kilowatt (kW) — One kilowatt equals one thousand watts.

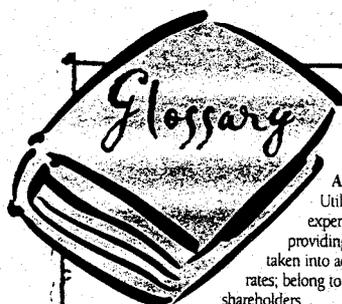
Megawatt (MW) — One megawatt equals one million watts.

Kilowatt-hour (kWh) — The basic measure of electric usage equaling one kW of consumption over one hour of time. Most consumers are charged for electricity by the kilowatt hour.

Mill — One mill is equal to one-tenth of a cent.

Tariffs — A document filed with the appropriate commission, prescribing a utility's rates, charges, rules and conditions under which the utility provides service to the public. A rate schedule is a form of a tariff.

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Above the Line — Utility revenues and expenses attributable to providing utility service, taken into account in setting rates; belong to customers vs. shareholders.

Below the Line — Utility revenues and expenses not attributable to providing utility service, not taken into account in setting rates; belong to shareholders vs. customers.

System Benefits — Low income, demand-side management, environmental, renewables, nuclear power plant decommissioning.

Stranded Investment/Cost — Any legitimate, prudent and verifiable cost incurred by a utility to provide service to customers in its regulated service territory. May include plant investment, deferred cost or contractual commitment allowed into rates by regulators.

Regulatory Assets — Usually, an expense which is carried on the books as an asset because regulators have assured repayment over a long period of time.

Mitigation — Efforts on the part of the utility to lessen or eliminate stranded costs.

Wires Charges — Charges attached to the price of sending power through the transmission and distribution wires.

Buy-through — Refers to the purchase of electricity by a utility at wholesale for a particular customer or group of customers.

Bundled Service — As a monopoly, the electric power industry is vertically integrated, supplying everything from power generation to transmission and distribution, meter-reading, billing and other related services. All of these elements are "bundled" for the consumer who pays at a particular rate that includes all of the bundled services.

Unbundled Service — Each element included in "bundled service" becomes priced and sold separately.

Standard Offer — Bundled service offered to all consumers in a designated area at regulated rates.

Power Marketer — A non-utility person or company that purchases power (on paper) from a power supplier and sells it to a consumer.

Aggregation — Grouping like power users, such as school districts, hotels, fast food restaurants, etc. Aggregation can be done in many ways, for example, by a city, a power marketer or a company such as McDonalds.

Reciprocity — Electric power sales into Arizona or an Arizona utility's service area must be linked with the ability of an Arizona utility to sell power in the other utility's service territory.