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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN  
COMMISSIONER-CHAIRMAN  
RENZ D. JENNINGS  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER

AZ CORP COMMISSION

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IN THE MATTER OF THE COMPETITION DOCKET NO. E-01032A-98-0474  
IN THE PROVISIONS OF ELECTRIC  
SERVICES THROUGHOUT THE  
STATE OF ARIZONA.

**AMENDMENT TO REQUEST  
ISSUANCE OF AN ACCOUNTING  
ORDER**

The Arizona Electric Division of Citizens Utilities Company ("Citizens") hereby files this amendment to its August 21, 1998, filing in the above-referenced docket. Citizens requests that the Commission issue an accounting order allowing Citizens to establish a deferral account to accumulate costs, not covered by the definition of stranded costs, that must be incurred in connection with the introduction of retail electric competition into its Arizona service areas.

**I. INTRODUCTION**

As required by the Commission's Decision No. 60977, on August 21, 1998, Citizens filed its estimate of, and recovery plan for, stranded costs created by the introduction of retail competition. In its filing Citizens identified as "stranded," costs associated with power supply, regulatory assets, metering, and billing functions that, in its view, meet the strict definition of Stranded Costs, as defined in Article 16 of the Commission's Emergency Retail Electric Competition Rules. In addition, Citizens identified certain types of anticipated expenditures relating to what it termed "New Functions Under Competition." These expenditures may not strictly meet the definition of Stranded Costs, but nonetheless will be reasonable, necessary, and legitimate costs of providing service, will be solely attributable to the introduction of competition, and will not be reflected in Citizens' revenue requirement underlying its existing service rates.

1 As indicated on page 8 of our initial stranded cost filing, Citizens estimates  
2 that it will incur \$1.8 million one-time costs, and a present value totaling \$4.1  
3 million of on-going costs in connection with the development and introduction of  
4 these new functions necessary to affect retail competition. To the extent such  
5 expenditures are not allowed for recovery as part of Citizens' requested stranded  
6 costs, there is a strong possibility they will forever be unrecoverable, absent  
7 some type of deferral accounting authorization for purposes of future rate  
8 consideration. Unless the Commission provides some reasonable assurance that  
9 such costs will be appropriately considered for future recovery, they will have to  
10 be charged to expense for financial reporting purposes, according to the  
11 requirements of Statement of Financial Accounting Standards No. 71 and the  
12 position of the Emerging Issues Task Force in its Issue No. 97-4.

13 This filing addresses such costs and amends Citizens' Stranded Cost filing to  
14 request Commission approval to establish a deferral account to accumulate these  
15 charges, with interest. Citizens anticipates that the Commission would then  
16 consider future recovery of these costs as part of base rates established in  
17 Citizens' next general rate case, or via some type of surcharge to be created after  
18 the introduction of competition.

## 19 **II. THE NATURE OF NEW FUNCTION COSTS**

20 The introduction of competition into the Arizona electric utility industry will  
21 necessitate new costs, operational practices, and customer service functions for  
22 regulated Utility Distribution Companies. In its December 1997 Unbundled Rates  
23 filing, Citizens identified four broad areas where these new functions will likely  
24 arise: energy supply and demand transactions; operational processes; regulation;  
25 and customer communication and education.

- 26 ♦ **Energy Supply and Demand Transactions** – New functions that  
27 will arise in this area include: load profiling for residential and small  
28 commercial loads; schedule coordination for standard offer and  
29 competitive transmission; Citizens' costs to support the Independent  
System Administrator; and the requirements for standard offer  
information disclosure per the Commission competition rules.

- 1       ♦     **Operational Processes** – The new operational functions will include  
2       management of multiple providers; development and operation of  
3       new information and accounting systems; and handling increased in-  
4       office and field customer service activities.
  
- 5       ♦     **Regulation** – The introduction of competition has required Citizens to  
6       incur significant costs associated with new regulatory requirements  
7       such as the activities required to prepare and support filings for  
8       unbundled rates and stranded cost valuation and recovery.  
9       Additionally, the electric competition rules specify increased  
10      regulatory reporting requirements, which will also generate increased  
11      expenditures.
  
- 12     ♦     **Customer Communication and Education** – All parties in the  
13      Arizona electric competition docket agree that extensive customer  
14      communication and education is a critical ingredient for successful  
15      implementation. The Commission working group responsible for  
16      addressing this issue has developed and submitted recommendations  
17      covering the type and level of communications and educational  
18      activities needed. Citizens' stranded cost filing includes its estimate  
19      of costs to be incurred in support of this undertaking.

20       As previously stated, Citizens' August 1998 Stranded Cost filing estimated  
21      \$1.8 million of one-time costs and an on-going annual cost level of approximately  
22      \$600,000 (averaged over the 1999-2008 stranded cost recovery period), solely  
23      attributable to the introduction of retail competition. Citizens is not seeking  
24      recovery of these costs based on the estimates in its filing; rather, it seeks to  
25      establish a deferral account to accumulate such expenditures, and some  
26      indication from the Commission as to the manner and timing of their ultimate  
27      recovery, to the extent they are not allowed as part of Citizens' competition  
28      transition charge.

### 29     **III. RATIONALE FOR RECOVERY**

      Unlike other Arizona utilities that own and operate significant generation  
and bulk-power transmission facilities and associated support functions to provide  
electrical energy to their customers, Citizens has been, and expects to continue  
to be, essentially a distribution utility with few generation or high-voltage  
transmission facilities of its own. Historically, Citizens has relied upon purchases

1 from other generating and transmitting utilities, like Arizona Public Service  
2 ("APS") and Tucson Electric Power ("TEP") and the Western Area Power  
3 Administration ("WAPA") to supply its power and transmission requirements. As  
4 such, Citizens' electric operations have not developed an extensive administrative  
5 infrastructure that would be needed to support the generation and transmission  
6 functions, like what exists at most vertically-integrated electric utilities. With the  
7 introduction of electric competition, all affected utilities will be forced to incur the  
8 kind of new-functions costs described above. Once these vertically-integrated  
9 utilities separate or divest their generation and transmission functions, they are  
10 also likely to see offsetting reductions in the administrative costs associated with  
11 supporting the remaining distribution functions. However in Citizens case, no  
12 such offsetting cost reductions are likely; one cannot reduce costs that have  
13 never been incurred. Consequently, the introduction of competition results in a  
14 net increase in costs for Citizens for functions that are reasonable, legitimate and  
15 necessary to enable its customers to realize the benefits of buying power  
16 competitively.

17 **IV. RECOVERY MECHANISM**

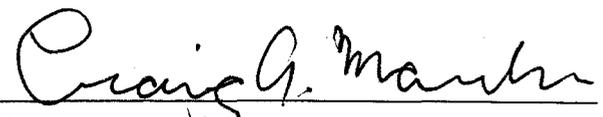
18 Citizens' August 1998 filing proposes to establish a surcharge mechanism  
19 that would pass approved actual costs to customers as they occur over time.  
20 Through this amendment Citizens is not asking to alter the basic structure of its  
21 proposed recovery mechanism. It is however, asking to make the necessary  
22 modifications to allow Citizens to:

- 23 ♦ Establish a Competitive Transition Deferral Account ("CTDA") to  
24 accumulate the New-Function Costs incurred beginning January 1,  
25 1998, as described in its Stranded Cost filing;
- 26 ♦ Accrue carrying charges on the unamortized balance in the CTDA  
27 using Citizens' currently-authorized rate-of-return for its Arizona  
28 Electric Division; and
- 29 ♦ Amortize the deferred costs over a prescribed period for recovery via  
a Commission-approved surcharge or through basic service rates  
established in Citizens' next general rate case.

1 The above process would apply only to costs incurred during the initial  
2 stages of electric competition that would otherwise be unrecoverable in the  
3 Competition Transition Charge or customer service rates. Once retail competition  
4 evolves, Citizens expects that these activities will become ordinary and recurring,  
5 with their associated costs recovered as a part of Citizens' base rates. It would  
6 therefore be Citizens' intent to reflect these costs in the cost-of-service  
7 underlying Citizens' next rate case.

8 **WHEREFORE**, Citizens requests that the Commission issue an accounting  
9 order allowing Citizens to establish a deferral account to accumulate costs, not  
10 covered by the definition of stranded costs, that must be incurred in connection  
11 with the introduction of retail electric competition into its Arizona service areas.

12 RESPECTFULLY SUBMITTED on October 21, 1998.

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14 

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