BEFORE THE ARIZONA CORPORATION COMMISSION

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

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 UTILITY COMPANY.	DOCKET NO. E-01032C-98-0474
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
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

COMMENTS OF NEW ENERGY VENTURES SOUTHWEST, L.L.C. TO THE PROPOSED STRANDED COST FILINGS OF THE AFFECTED UTILITIES

New Energy Ventures Southwest, L.L.C. ("New Energy Ventures"), by and through undersigned counsel, hereby submits its comments to the Proposed Stranded Cost Filings of the Affected Utilities in the above-captioned dockets as follows:

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New Energy Ventures, as an energy service provider in Arizona, will be significantly affected by the stranded costs that the Commission authorizes. The magnitude of stranded costs, proposed recovery periods and calculation mechanisms will be key factors for customers to achieve cost savings and for energy service providers ("ESPs") to be competitive with Affected Utilities.

It is in this context that New Energy Ventures provides these comments to the stranded cost filings made by the Affected Utilities. In addition, while New Energy Ventures realizes that the Commission does not have jurisdiction over the Salt River Project ("SRP"), the issues addressed below are also germane to SRP's proposed approach to recovering stranded costs.

1. Develop a consistent approach to a market price.

One of New Energy Ventures' concerns with the stranded cost filings is that each Affected Utility appears to be taking a different approach to evaluating the market price for energy. This is a critical issue because the market price is the standard that ESPs must consider in setting rates that will be competitive. New Energy Ventures believes that any inconsistency in stranded cost mechanisms and approaches among the Affected Utilities will create obstacles for ESPs in planning, procuring and pricing energy in the competitive marketplace. Inconsistency will also create confusion for customers who may wish to participate in the competitive marketplace, especially those customers with sites in the service territories of multiple Affected Utilities. Accordingly, New Energy Ventures recommends that Staff work with all of the parties to decide upon a market price calculation method that is consistent statewide.

2. Require tariffs to be unbundled.

Many of the Affected Utilities appear to be using a "backout" mechanism for calculating the competitive transition charge ("CTC"). This is most apparent in APS's CTC. Under the APS method, when a customer switches to an ESP, APS will calculate its portion of the bill by crediting the market price for energy from the customer's old standard offer rate. Charges for CTC, transmission, distribution, ancillary services and other miscellaneous costs are all bundled together as a residual value.

While this approach appears on its face to be both practical and accurate, several potential problems can occur. First, there may not be an accurate accounting of how much CTC has been collected because it will be bundled with other costs. It is critical that the stranded costs be accurately accounted so that the CTC can be removed.

Second, the specific costs that are included in the bundled residual and in the CTC are not readily apparent. This creates a potential for Affected Utilities to create extra charges for costs that are already imbedded in the CTC or the bundled residual. This problem already appears to be surfacing in some of the proposed charges for ancillary services and scheduling fees and penalties. The result is that these costs will be charged twice to competitive customers, directly as an added charge and indirectly as an embedded component of the CTC or residual.

For example, several Affected Utilities are proposing significant penalties for errors in the hourly energy scheduling from the ESPs. These penalties will be additional direct charges that must be borne by the ESP or the customer. Such penalties will not be charged for the Affected Utilities' operators who must plan and schedule for standard offer customers. The problem with this approach is that significant costs for scheduling errors by the Affected Utilities' control area operator already are included and hidden in the embedded cost for generation. These costs occur as the Affected Utilities experience inevitable errors in short-term energy forecasts and are forced to purchase more expensive energy on the spot market or to increase the output of a generating plant to cover the shortfall. (This example refers to a case where the forecast was too low).

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Neither choice is likely to be optimal because they probably would not have been the planned action had the forecasting error not occurred.

The higher costs resulting from these errors are likely to be embedded in either the standard offer generation costs and, hence the CTC, or in the costs for transmission or ancillary services. However, the competitive customer is not credited with these cost savings when they no longer take generation or scheduling service from Affected Utilities. As a result, the competitive customer will be charged twice for these costs, once as direct penalty charges, and again as an embedded part of stranded costs, transmission, or ancillary services.

Such double charges (or charges without the appropriate concomitant credits) disrupt the level playing field and create an anti-competitive situation for ESPs. In this situation, it is no longer sufficient for the ESP to merely better the Affected Utilities' market price to save the customer money. The ESP must now beat the market price and the extra double charges, which could be very difficult.

Again, although New Energy Ventures has highlighted scheduling error penalties as an example of double charges, this problem also is surfacing in other charges, such as ancillary services.

The problems addressed herein arise when rate components are not unbundled and when the CTC and the residual of the standard offer rate and the market price for energy are not explicitly understood.

New Energy Ventures recommends that Affected Utilities be required to unbundle their rate components in sufficient detail to avoid the potential for double charges. New Energy Ventures believes that while this requirement is already provided for in R14-2-1606 D. of the Emergency Rules on Electric Competition, the Commission must ensure that this translates into reality.

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3. Ensure that charges and credits are symmetrical.

As the Affected Utilities begin to unbundle their rates, New Energy Ventures also urges that the Staff closely scrutinize the credits given for various services such as metering, billing, collections, and any ancillary services that can be provided from a competitive supplier. The potential risk is that the charge that Affected Utilities assess for a particular unbundled service (such as metering) may be inconsistent with the credit that the Affected Utilities allow for customers taking this same service from a competitive supplier.

New Energy Ventures has observed that some Affected Utilities are contemplating credits based on average costs and charges based on marginal costs, which are higher. The upshot of this is that charges and credits should be symmetrical and most, if not all, additional charges for competitive customers should have an offsetting credit.

4. Freeze the Utilities' specialty rates such as time-of-use, interruptible, and economic development.

The Affected Utilities are proposing to calculate and assess the CTC by rate class, which New Energy Ventures believes is appropriate. However, some issues concerning the CTC could arise when customers switch from standard rates to time of use rates ("TOU"). Under this scenario, the customer would not only save money from the lower generation costs, but also from a lower CTC. This potential loss of CTC from a standard offer TOU customer could have several undesirable effects. First, the lost CTC could be shifted to other customers and thereby lengthen the recovery period.

A greater problem is that TOU rates present the customer with a standard offer alternative that amounts to a CTC subsidization from other customers. To be competitive, an ESP would have to beat not only the market price for energy but also the reduced CTC. Again, the result is an uneven playing field and a barrier to competition.

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New Energy Ventures suggests that the standard offer should be just that – a general "fall-back" rate to ensure an orderly transition to competition. There should not be a myriad of options and alternatives which the Affected Utilities can market in order to keep generation customers. New Energy Ventures believes that R14-2-1605 clearly defines generation as a competitive service, and prohibits Affected Utilities from developing and marketing competitive generation offerings.

New Energy Ventures recommends that specialty rates such as TOU, interruptible, and economic development should be eliminated. Customers currently being served under these rates could be grandfathered until their contract term expires. Furthermore, New Energy Ventures recommends that there should be no term associated with any standard offer tariffs. Customers should be free to leave the standard offer at any time.

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5. Add solar to the CTC.

New Energy Ventures has recently commented on the potential problems with the solar portfolio requirement for ESPs. New Energy Ventures' recommendation was to remove the burden from the ESPs and create a solar investment paid for by all customers through the system benefit charge. However, another potential solution would be to require ESPs to provide a solar portfolio, but to include the additional solar costs in the CTC. This could be accomplished by including the solar costs in the market price credit given to competing customers. This would create the desired result that the ESP would only have to beat the market price standard and not an inflated value with additional solar costs.

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RESPECTFULLY SUBMITTED this 2nd day of October 1998.

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