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July 24, 2000

Chairman Carl J. Kunasek
Commissioner Jim Irvin
Commissioner William A. Mundell
Deborah R. Scott, Utilities Division Director
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: The Cooperatives' concerns regarding the standardization of competition in Arizona, and request for a meeting with the Commissioners and the Director of the Utilities Division - Docket No. RE-00000C-00-0275.

Dear Chairman Kunasek, Commissioner Irvin, Commissioner Mundell and Ms. Scott:

A. INTRODUCTION

In Arizona, seven of the twelve Affected Utilities under the jurisdiction of the Arizona Corporation ("Commission") are rural electric cooperatives ("Cooperatives"). The Cooperatives include Navopache Electric Cooperative, Inc ("Navopache"), Trico Electric Cooperative, Inc. ("Trico"), Mohave Electric Cooperative, Inc. ("Mohave"), Duncan Valley Electric Cooperative, Inc. ("Duncan Valley"), Graham County Electric Cooperative, Inc. ("Graham County"), Sulphur Springs Valley Electric Cooperative, Inc. ("Sulphur Springs"), and the Arizona Electric Power Cooperative, Inc. ("AEPCO").

The Cooperatives provide a large block of electricity to consumers in Arizona. For example, the Cooperatives, together, serve over 111,000 consumers comprising more than 800 MWs of load in the rural portions of the State. Specifically, Navopache serves over 30,000 meters, Trico serves 26,025 meters, Mohave serves 29,564 meters, Duncan Valley serves 2,220 meters, Graham County serves 7,369 meters, and Sulphur Springs serves 43,435 meters.

AEPCO currently provides generation and transmission services to all of the Cooperatives, except Navopache. Public Service Company of New Mexico ("PNM"), located in New Mexico, currently provides generation and transmission services to Navopache.

The Cooperatives primarily serve rural Arizona. The rural nature of the Cooperatives' service areas cannot be over-emphasized. For example, although the Cooperatives serve more than 111,000 member-consumers, this service is delivered by the Cooperatives through 11,286 miles of distribution line. Thus, this equates to less than 12 consumers served per mile of distribution line. The Cooperatives are also non-profit and are owned by their customers/members. Thus, unlike the Investor Owned Utilities ("IOUs") and the competitive Electric Service Providers ("ESPs"), the Cooperatives' mission is not to make a profit for shareholders, but to make electric service available to consumers in rural Arizona at the lowest possible cost without sacrificing system reliability.

B. PROCESS STANDARDIZATION WORKING GROUP ("PSWG")

The Commission established the Process Standardization Working Group ("PSWG") to develop a standardized process for the orderly implementation of full electric competition in Arizona. The Cooperatives have devoted a substantial proportion of their limited resources to participating in the PSWG process. The Cooperatives want their distinctiveness, in contrast to the IOUs, to be recognized and integrated into the PSWG final report recommendations and any electric competition rule changes. This is because the Cooperatives believe that only a standardized process, which takes into account the Cooperative model as well as the IOU model is best in the long-term to allow customer choice and foster a competitive market for electricity in all of Arizona, including rural Arizona.

There are three important reasons why the rural Cooperative model must be distinguished from the IOU model in the PSWG process. First, the Cooperatives individually are very small compared to most of the IOUs and SRP. Moreover, the Cooperatives do not have shareholders to absorb the costs associated with the implementation to full competition, as do the IOUs and ESPs. In fact, the Cooperatives' only source of funding, other than debt for capital improvements, comes directly from the Cooperatives' consumers/members. Thus, many of the standardized processes being developed by the PSWG for Arizona Public Service ("APS"), Tucson Electric Power ("TEP"), the ESPs and also Salt River Project ("SRP")¹ cannot be implemented by the Cooperatives without placing a significant cost burden on the Cooperatives' tiny consumer base. Therefore, to impose operational standards on the Cooperatives designed for the IOUs, larger utilities, and the ESPs will result in economic hardship on consumers in rural Arizona in the name of competition.

Second, the Cooperatives' lack of an industrial and commercial customer base, coupled with a very rural residential customer base, makes the Cooperatives' service areas unattractive to ESPs. The fact is large industrial and commercial users represent only a small fraction of the total customer base of the Cooperatives. Most of the ESPs are currently interested only in the large industrial and commercial class customers where the profit margins are.² For example,

¹ Although not regulated by the Commission, SRP is actively participating in the PSWG process and its representatives hold key chair positions on the various sub-committees.

² It is worth noting that the Cooperatives were formed in the first place because the IOUs were simply not interested investing in and serving the limited and geographically - disbursed markets in rural Arizona.

Arizona Public Service Company Energy Services ("APSES") has publicly stated it has no intention in selling electric power to the residential service areas of the Cooperatives in the near future.³ The PSWG report on the status of the direct access program in Arizona underscores and supports such a business position when it states:

Despite the fact the Affected Utility markets have been open to competitive choice for anywhere from 2 to 16 months, depending on the service territory, customer-switching activity has been extremely limited. Of the 20% of the customer load that is presently eligible for competitive choice, approximately 2.5% of **the eligible MWs** have been switched to a competitive provider to date. All of the switching to date has been by business customers, as no residential customers are currently being served by a competitive provider. (Emphasis supplied.)

Current Status Of The Direct Access Program In Arizona, Process Standardization Working Group, June 15th 2000 Status Report to the ACC, page 13.

Accordingly, it is safe to say that for the first several years of competition, there will be little or no competition in the service areas of the Cooperatives, except to large "contract" customers. For the few customers who do choose direct access, the Cooperatives can process these transactions with the respective ESPs manually, providing no barrier to competition. Therefore, to force the Cooperatives to install expensive software to allow for volume transactions for the few customers who may choose direct access simply imposes an unnecessary cost burden on the Cooperatives and their members/consumers.

Third, with regard to many of the operational issues that would impose unnecessary financial burdens on the Cooperatives and their rural consumers, many of the various stakeholders participating in the PSWG process seem to agree to providing the Cooperatives temporary exemptions and waivers. This is because these stakeholders recognize that the vast majority of the transactions resulting from customers choosing direct access, as a result of competition, will occur in the more metropolitan service areas of the IOUs, and not in the mostly rural service areas of the Cooperatives. Thus, it is simply prudent for the stakeholders to quickly proceed with a standardized process for the metropolitan service areas without expending precious time integrating the rural Cooperative model.

In conclusion, the Cooperatives generally agree with the mission of the PSWG to develop a standardized process to implement full electric competition in Arizona. The Cooperatives, however, fear that a "one-size-fits-all" approach, if adopted by the Commission, will bring economic harm to rural consumers as a result of electric competition. Therefore, the Cooperatives urge the Commission to account for the distinctiveness of the Cooperative Model

³ APSES made this statement at a PSWG committee meeting on May 3, 2000. Of the five ESPs actively involved in the PSWG process, APSES is one of only two ESPs that provide electric service directly to end-users. (See *Current Status Of The Direct Access Program In Arizona*, Process Standardization Working Group, June 15th 2000 Status Report to the ACC, page 13.)

by: (1) mandating the PSWG to develop a standardization process that takes into account the Cooperative model as well as the IOU and large utility models; or, (2) providing the Cooperatives general exemptions or waivers to the various "standardized" processing requirements and allow the Cooperatives to process direct access transactions manually. Either of these two actions by the Commission will give the Cooperatives the time necessary to: (1) develop and implement Cooperative specific protocols and business practices as they are needed to foster competition, while at the same time not impose barriers to competition; and, (2) avoid imposing unreasonable economic burdens on rural consumers in the name of competition.

C. THE COOPERATIVES ARE CONCERNED WITH THE PSWG PROCESS

It is important to point out that the Cooperatives have been making a diligent effort to be involved in the PSWG committee and sub-committee activities. But it is impossible for the Cooperatives to fully participate in the PSWG process and also manage their respective utility operations. This is due in part to the lesser amount of resources possessed by the rural electric Cooperatives compared to the larger IOUs and SRP. For example, if a large IOU or SRP has twelve (12) fully staffed departments to accomplish twelve (12) specific tasks under the PSWG process, a distribution Cooperative may have a total of only five (5) persons to accomplish the same twelve (12) tasks.

Travel distances to the meetings are also a problem for the Cooperatives. For example, several of the Cooperatives' employees must travel three to four hours (each way) in order to attend the various committee and sub-committee meetings in Phoenix and Mesa.

Accordingly, the Cooperatives submit that lack of attendance by any of the Cooperatives should not be interpreted as lack of interest, nor should the Cooperatives' silence on any particular issue be interpreted as consent to any resolution of that issue.

D. THE COOPERATIVES REQUEST TO MEET WITH THE COMMISSON

Using this letter as the basis for discussion, management representatives from each of Arizona's rural electric Cooperatives, as a unified stakeholder group, respectfully request to meet with Chairman Kunasek, Commissioner Irvin and Commissioner Mundell, as well as with the Utilities Director, Ms. Scott. The Cooperatives would be pleased to meet with each Commissioner individually, or as a group at a special open meeting, at the pleasure of the Commission.

Sincerely,

(Signatures of the Cooperatives are contained on the following pages.)

NAVOPACHE ELECTRIC COOPERATIVE, INC.

Wayne K. Glegg
Name

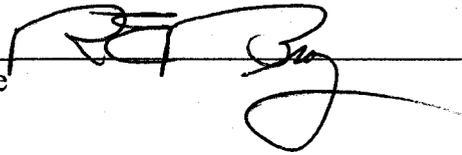
General Manager
Title

TRICO ELECTRIC COOPERATIVE, INC.

Man O'Beary
Name _____

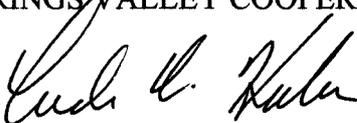
General Manager
Title _____

MOHAVE ELECTRIC COOPERATIVE, INC.

Name 

Chief Executive Officer
Title

SULPHUR SPRINGS VALLEY COOPERATIVE, INC.



Name

CREDEN W. HUBER
CHIEF EXECUTIVE OFFICER

Title

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

Donald W. Kimball
Name

Executive Vice President & General Manager
Title

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.

Name Jack Shilling

Title C.E.O.

GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.

Nelson Paul
Name

Manager 6-26-2000
Title