0000112587

RECEIVED
AZ CORP COMMISSION

Nov 30 12 29 PM '98

DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED
NOV 3 0 1998
DOCKETED BY

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

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 FILING OF ARIZONA PUBLIC SERVICE COMPANY OF UNBUNDLED TARIFFS PURSUANT TO A.A.C. R14-2-1601 et seq.	DOCKET NO. E-01345A-97-0773
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 FILING OF TUCSON ELECTRIC POWER COMPANY OF UNBUNDLED TARIFFS PURSUANT TO A.A.C. R14-2-1601 et seq.	DOCKET NO. E-01933A-97-0772
IN THE MATTER OF THE COMPETITION IN THE PROVISION OF ELECTRIC SERVICES THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. RE-00000C-94-0165

COMMENTS OF NEW ENERGY VENTURES SOUTHWEST, L.L.C. ON THE PROPOSED FILINGS AND SETTLEMENTS OF ARIZONA PUBLIC SERVICE AND TUCSON ELECTRIC POWER COMPANY CONCERNING STRANDED COSTS AND THE PROPOSED UNBUNDLED TARIFFS.

New Energy Ventures Southwest, L.L.C. ("NEV Southwest") will be an electric service provider ("ESP") in Arizona, and has an application for a certificate of convenience and necessity on file with the Arizona Corporation Commission ("Commission"). NEV Southwest has a significant interest in the stranded cost issue and the unbundled tariffs of Arizona Public Service Company ("APS") and Tucson Electric Power Company ("TEP"). NEV Southwest hereby offers the following comments for consideration in these matters.

NEV Southwest supports the proposed APS and TEP Settlement Agreements with Staff ("Settlements"). Several technical improvements could significantly enhance the implementation of electric competition in Arizona. The proposed improvements generally involve the calculation of the market generation credit ("MGC").

1. NEV Southwest encourages the Commission to adopt a consistent methodology for calculating the MGC statewide.The proposed Settlements include different methodologies for calculating the MGC for APS and TEP. This difference unnecessarily complicates the pricing and billing processes for ESPs and could potentially create confusion for customers who have accounts in each service territory.
2. NEV Southwest proposes a true-up as you go approach, similar to what APS proposed in its original stranded cost filing. This method would compute the MGC on a monthly basis as part of the energy settlements between ESPs and UDCs and avoid potential inaccuracies.
3. NEV Southwest proposes to base the MGC on actual customer-specific usage patterns, rather than class average load profiles. This would result in higher customer participation and greater accuracy in the calculation of MGC and stranded costs. Statistical load profiles could still be used for customers below 20kw and for all standard offer customers.The Settlements propose to calculate an MGC for each customer class based on average usage patterns or load profiles. This method would increase the potential savings from competitive energy for a small percent of customers with usage patterns well above average, while greatly reducing the potential savings for a majority of eligible customers. The potential result is that the number of eligible customers who actually participate in competition could be reduced by over 50%, which is especially critical given that only 20% of the load is eligible for competition during the phase-in period.

   While this method requires some effort, all the necessary data will be available. Hourly interval demand meters are required for all competitive customers 20 kW and above.

In fact, hourly load data will already be used to calculate portions of the UDCs charges and for monthly settlements between the UDCs and schedule coordinators. Also, hourly market price data will be available from the known NYMEX price for Palo Verde futures contracts over the last three trading days of the prior month (NYMEX) and actual California Power Exchange (CAPX) hourly prices from the billing month.

Although our proposed method is data intensive, so are the methods proposed in the Settlements. NEV Southwest believes that it is actually less complicated and more straight forward to perform the billing calculation only once rather than sending out a bill based on the estimated MGC and then subsequently performing intensive true-up calculations.

This can occur because under a class allocation methodology, customers with a load factor that is worse than the class average will be credited with an MGC that is less than the actual cost to serve that customer. Conversely, customers with a load factor which is better than class average will be credited with an MGC that is greater than the actual cost to serve that customer. ESPs may not choose to serve customers that receive an MGC that is less than the actual cost to serve the customer, thereby eliminating the customer's options.

Customers who would likely be affected, among others, are many government facilities, churches and synagogues, office buildings, "9 to 5" businesses and non-profit organizations, firms closed on weekends, department stores and other weekday dominant retailers and businesses with significant weather related cooling/heating loads. Using a twenty-four hour time-of-use method removes this obstacle because each customer sees the market price in the hour that they actually consume the energy. The Competitive Transition Charge (CTC) for APS and Interim Transition Charge (ITC) for TEP fall out of the calculation because the starting point for all calculations is the Embedded Cost of Generation (ECG) in each customer's existing tariff or standard offer tariff, which is a flat number across all hours. The sum of MGC and CTC or ITC in a single hour will always be equal to the ECG.

4. The Settlements propose a method which forecasts the MGC in advance, which is designed to create more certainty in competitive energy prices. Ironically, NEV Southwest believes that this approach actually introduces more uncertainty for ESPs, because any forecasting errors will be added back to the MGC at a later date in the true-up process. In addition, we believe that the forecast method will not result in increased price certainty for customers because competitive energy prices are typically based on fixed discounts off of a standard offer tariff.

5. Regarding the CAPX hourly prices for the billing month, the Settlements use the day ahead unconstrained price. Whether for an estimate of MGC using historical data or actual hourly prices from the billing month, NEV Southwest proposes to use the day ahead ex-post zonal pricing for the Palo Verde Switchyard, which is designated as zone AZ3. This ex-post

zonal pricing, which would account for zonal congestion and transmission constraints, is a more accurate use in setting the market price for Arizona.

6. NEV Southwest believes that the Dow Jones Palo Verde Index (PVI) should not be used for true-up calculations or otherwise be used in the MGC calculation as proposed in TEPs Settlement. With the inception of the CAPX, the liquidity of the PVI has been reduced dramatically as reported volumes have declined substantially. NEV Southwest supports a NYMEX price for Palo Verde futures contracts over the last three trading days of the prior month in the original billing calculation, a true-up as you go approach.

7. NEV Southwest supports the addition to the MGC calculation of a distribution loss factor and an adder to promote competition and credit customers for ancillary services. Regarding the two slightly different proposed methods for calculating the adder, NEV Southwest again requests a consistent statewide approach and supports the methodology proposed in the TEP Settlement, where residential and commercial customers are given a 4.0 mill adder and industrial customers are given a 2.6 mill adder.

8. NEV Southwest believes the Settlements should provide that if CTC is recovered more quickly than expected, recovery should end at the earliest date of 1) full recovery of CTC or 2) on December 31, 2004 for APS and December 31, 2008 for TEP respectively.

9. APS seeks waiver of the requirement to submit contracts and agreements for transactions between regulated utility and nonregulated affilates and the books and records of such affiliates and Staff agrees as to contracts (or books and records) which are not covered by the Code of Conduct required by the Retail Competition Rules or not subject to FERC approval. NEV Southwest seeks to clarify that any agreements between APS, until its generation assets are in a separate affiliate, and possibly thereafter, and its energy services affiliate, regarding the sale of capacity or energy, should be subject to FERC approval. NEV Southwest contends, as a case in precedent, that because TEP's relationship between its NEV affiliates are governed by a FERC approved affiliate tariff, which addresses among other things the sale of capacity or energy by TEP to NEV, APS and its affiliates should also be governed by the same requirement.

TEP's affiliate tariff requires a posting of all transactions on TEP's corporate website with the condition that the transaction be available to any interested party under the same terms and conditions as the affiliate transaction. NEV Southwest's goal is simply a level playing field for all competitors. If APS does not file an affiliate tariff at FERC, NEV Southwest requests that the ACC place such requirement on APS. If the ACC does not believe this requirement is necessary, NEV Southwest request the ACC's support in amending the TEP-NEV affiliate tariff at the FERC so that a level playing field will exist between NEV Southwest and APS' energy services affiliate.

RESPECTFULLY SUBMITTED this 30th day of November 1998.

New Energy Ventures Southwest, L.L.C.

By:______________________________

Chuck Miessner
Director, Operations and Regulatory Affairs
3030 N. Central Ave., Suite 401
Phoenix, AZ 85012-2715

Original and ten copies of the foregoing filed this 30th day of November, 1998, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing delivered This 30th day of November, 1998, to:

Jerry L. Rudibaugh, Chief Hearing Officer
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Paul Bullis, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ray Williamson, Acting Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007