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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

AUG 11 1999

CARL J. KUNASEK
COMMISSIONER-CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY *JKM*

IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF ITS STRANDED COST
RECOVERY AND FOR RELATED
APPROVALS, AUTHORIZATIONS AND
WAIVERS.

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.
R14-2-1602 ET SEQ.

DOCKET NO. [REDACTED]

IN THE MATTER OF THE COMPETITION IN
THE PROVISION OF ELECTRIC SERVICES
THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. RE-00000C-94-0165

**NOTICE OF FILING COMMONWEALTH'S EXECUTIVE SUMMARY AND
SURREBUTTAL TO TEP'S REBUTTAL TESTIMONY**

Commonwealth Energy Corporation ("Commonwealth"), through undersigned counsel,
hereby provides notice of filing Commonwealth's Executive Summary and Surrebuttal to TEP's
Rebuttal Testimony.

DATED this 11th day of August, 1999.

DOUGLAS C. NELSON, P.C.
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Corporation

ORIGINAL and ten copies of the foregoing Notice and Testimony were
filed this 11th day of August, 1999 to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

1 **COPIES** of the foregoing Notice and Testimony were *hand-delivered*
this 11th day of August, 1999 to:

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Phoenix, Arizona 85007

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6 Janice Alward
7 Chief Counsel - Legal Division
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9 Ray Williamson, Acting Director
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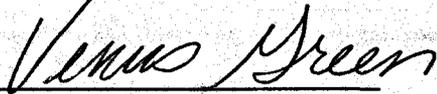
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **CARL J. KUNASEK**
3 **COMMISSIONER-CHAIRMAN**

4 **JIM IRVIN**
5 **COMMISSIONER**

6 **WILLIAM A. MUNDELL**
7 **COMMISSIONER**

8 **IN THE MATTER OF THE APPLICATION OF)**
9 **TUCSON ELECTRIC POWER COMPANY FOR)**
10 **APPROVAL OF ITS STRANDED COST)**
11 **RECOVERY AND FOR RELATED)**
12 **APPROVALS, AUTHORIZATIONS AND)**
13 **WAIVERS.)**

DOCKET NO. E-01933A-98-0471

14 **IN THE MATTER OF THE FILING OF TUCSON)**
15 **ELECTRIC POWER COMPANY OF)**
16 **UNBUNDLED TARIFFS PURSUANT TO A.A.C.)**
17 **R14-2-1602 ET SEQ.)**

DOCKET NO. E-01933A-97-0772

18 **IN THE MATTER OF THE COMPETITION IN)**
19 **THE PROVISION OF ELECTRIC SERVICES)**
20 **THROUGHOUT THE STATE OF ARIZONA.)**

DOCKET NO. RE-00000C-94-0165

21 **COMMONWEALTH'S EXECUTIVE SUMMARY AND SURREBUTTAL**
22 **TO TEP'S REBUTTAL TESTIMONY**

23 **COMMONWEALTH'S EXECUTIVE SUMMARY**

- 24 • Commonwealth urges the use of full embedded costs of competitive services be used in
25 determining "shopping credits."
26 • The market generation credit ("MGC") and the limited "load shaping" Adder will not create
27 a robust retail generation market in TEP's service area, as has been the experience in
California, Massachusetts, New Hampshire, and Rhode Island.
• TEP's generation and other competitive assets should be transferred only using "market"
values.
• Uniform affiliate transaction rules should apply throughout Arizona.

1 **COMMONWEALTH'S OUTLINE OF SURREBUTTAL TESTIMONY OF FREDERICK**
2 **BLOOM**

3 Q. TEP BELIEVES THAT THE ADDER SHOULD REFLECT ONLY TRULY AVOIDABLE
4 COSTS. [PIGNATELLI REBUTTAL AT 3, LINES 14-15.]

5 A. Use of the "avoidable costs" approach in quantifying credits, essentially means that
6 competitors are excluded from the retail electric market. For competition to occur on a level
7 playing field, electric service providers ("ESPs") must be able to meet or beat the fully
8 embedded generation costs the consumer is presently paying under the Standard Offer.
9 Otherwise that customer will be paying some imputed generation costs to TEP (including
10 TEP's generation-related G&A), in addition to the generation price offered by competitors.
11 This is anticompetitive and not in the public interest.

12 Q. DID COMMONWEALTH PARTICIPATE IN THE TEP SETTLEMENT. [PIGNATELLI
13 REBUTTAL AT 7, LINES 14-20.]

14 A. No, Commonwealth was only given a general outline of the Proposed Settlement shortly
15 before the Proposed Settlement was filed with the Commission. TEP only offered to explain
16 the terms and conditions of the Proposed Settlement. It did not seek any comments or
17 recommendations as to how the Settlement might be improved or altered so as to foster
18 competition.

19 Q. HOW DOES THE PHASE-IN OF RESIDENTIAL CONSUMER ACCESS RELATE TO
20 THIS PROPOSED SETTLEMENT? [PIGNATELLI REBUTTAL AT 7, LINES 21-27.]

21 A. ESPs must create brand identity which includes substantial capital investment and reliable
22 service. If certain consumers can not participate because of entry limits, it reflects poorly on
23 the ESP and creates inefficiencies in marketing and advertising expenditures. Furthermore,
24 commitments to the consumer cannot be continued, particularly because of all the variable
25 fluctuations in the MGC and other charges proposed by TEP which change from month-to-
26 month.

1 Q. TEP CLAIMS IT IS IN THE PUBLIC INTEREST IF IT HAS A REASONABLE
2 OPPORTUNITY TO RECOVER STRANDED COSTS AND BECAUSE IT BELIEVES
3 EFFICIENT ESPs HAVE AN OPPORTUNITY TO COMPETE. [PIGNATELLI
4 REBUTTAL AT 7 & 8]. PLEASE COMMENT.

5 A. Commonwealth believes the public interest should be measured by consumer benefits from
6 a robust retail electric market, not the recovery of stranded costs. TEP's approach is a
7 replication of the California method in which the wholesale generation and CTC are inversely
8 related so as to leave out customer choice, until the CTC is gone.

9 Q. DR. ROSEN ADDRESSED THE COMPONENTS OF THE ADDER. [PIGNATELLI
10 REBUTTAL AT 9, LINES 10-14]. PLEASE EXPLAIN.

11 A. When a generation shopping credit starts with a wholesale price index, such as the Palo Verde
12 NYMEX, several adjustments and wholesale-to-retail transaction costs must be recovered in
13 order to create a retail market. TEP and AECC acknowledge that the Adder only addresses
14 the reshaping of the 100% wholesale price index to the average use of a customer class. It
15 does not cover any of the wholesale-to-retail marketing and transaction costs that Dr. Rosen
16 identified. My Attachment FB-S1 compares the TEP proposal to the California PX, along
17 with my recommendation.

18 Q. HAS TEP PREPARED A STEP BY STEP PROCESS FOR CALCULATING THE
19 MCG/ADDER? [PIGNATELLI REBUTTAL AT 8, LINES 19-23.]

20 A. Commonwealth requested TEP to present a step by step computation of the complex MGC
21 with the Adder, with the identification of the source. It has not done so except for the brief
22 example in the rebuttal testimony provided by Mr. Erdworm. (Exhibit DBE-2).

23 Q. HOW DOES TEP PROPOSE TO SET THE VALUE FOR THE TRANSFER OF ITS
24 GENERATION ASSETS TO ITS AFFILIATE? [PIGNATELLI REBUTTAL AT PAGE 8,
25 LINE 24 THROUGH PAGE 9, LINE 9.]

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27

1 A. TEP is not using a market price since setting the value of its generation. It is in essence using
2 the "expected revenues less expected expenses" accounting approach. This may result in TEP
3 purchasing its own generation below market value and in turn selling that generation to its
4 Standard Offer customers and ESPs at prices above TEP's "purchase" value.

5 Q. DOES COMMONWEALTH PROPOSE THAT THE ONLY SOLUTION IS A
6 REJECTION OF THE SETTLEMENT? [PIGNATELLI REBUTTAL AT 9, LINES 10-19.]

7 A. No, Commonwealth urges that the Proposed Settlement be revised to provide for the full
8 embedded generation costs to be reflected as the "shopping credits." In addition,
9 Commonwealth has made specific other recommendations, such as the reinstatement of a
10 uniform affiliate transaction rule. In a practical sense, if the Proposed Settlement is approved
11 in its entirety, Commonwealth does not believe that a robust competitive market will develop
12 in the TEP service area as least until the CTC is discontinued. Therefore, the Proposed
13 Settlement would in essence foreclose competition and no Proposed Settlement is better than
14 this settlement.

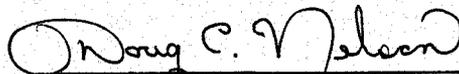
15 Q. WHAT IS YOUR POSITION REGARDING THE SHOPPING CREDITS FOR
16 METERING, METER READING, AND BILLING AND COLLECTION SERVICES?
17 [ERDWURM AT 5, LINES 8-23.]

18 A. Consistently, I have argued that the cost of service for metering, meter reading, and billing
19 and collection services should reflect the full embedded costs, including the proper allocation
20 of G&A and rate of return, on these functions. Furthermore, these costs should be brought
21 up to date so that Direct Access customers are not subsidizing TEP if they purchase those
22 same services from an ESP. This is the only way in which all the unbundled embedded costs
23 of the Standard Offer customer can match the full unbundled costs for the Direct Access
24 customer, as illustrated in Attachment FB-3 of my direct testimony.

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1 RESPECTFULLY SUBMITTED this 10th day of August, 1999.

2 DOUGLAS C. NELSON, P.C.

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Generation Shopping Credit Comparison

TEP's MGC	CalPX	Commonwealth's Proposal
Palo Verde NYMEX + Adder for 100% wholesale load factor adjusted to retail class load profiles	Wholesale generation market	"Generation Shopping Credit" would equal the unbundled generation component (full embedded cost using annualized average for each direct access customer class)
<p style="text-align: center;">CTC</p> Fixed CTC ¹ Floating CTC ² (expands and contracts to reflect TEP's "imputed" generation cost differential from the Palo Verde NYMEX)	<p style="text-align: center;">CTC</p>	<p style="text-align: center;">CTC - fixed for duration of recovery period</p>
Margin is included in Adder, <u>without</u> retailing costs ³	No margin and no significant competition is occurring in California	Margin is equal to difference in Customer's unbundled generation component and market price for generation.

c:\Commonwealth\Generation.tbl

¹ Average charge for customer class using TEP's average annual load factor (9.3 mills or 0.93 cents/kWh).

² This is the bundled Standard Offer rate minus the sum of MGC, Adder, Fixed CTC, and unbundled service charge for distribution, transmission, meter services, meter reading services, billing and collection, DSM, customer information and life-line discount system benefits charges, uncollectible accounts, ancillary services and fixed must-run generation. It runs through December 31, 2008 with possible adjustment after December 31, 2004.

³Retailing costs include marketing, advertising, procurement and scheduling, load forecasting, load balancing, financing costs, risk management, rate design, customer service and G&A costs.