0000113013

ORIGINAL

32

RECEIVED

1999 AUG 11 P 2:27

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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. 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

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.
Douglas C. Nelson, Esq.
7000 North 16th Street, #120-307
Phoenix, Arizona 85020
Attorney on behalf of Commonwealth Energy 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

Arizona Corporation Commission
DOCKETED

AUG 11 1999

DOCKETED BY ycm

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

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

Paul Bullis
Janice Alward
Chief Counsel - Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

Ray Williamson, Acting Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPIES of the foregoing Notice and Testimony were *mailed* this 11th day of August, 1999 to:

Bradley Carroll, Esq.
TUCSON ELECTRIC POWER CO.
220 W. Sixth Street
P.O. Box 711
Tucson, Arizona 85702-0711

Steve Wheeler, Esq.
Thomas M. Mumaw, Esq.
SNELL & WILMER
One Arizona Center
400 E.Van Buren Street
Phoenix, Arizona 85004-0001
Attorneys for Arizona Public Service Company

C. Webb Crockett, Esq.
FENNEMORE CRAIG
3003 North Central Avenue, Ste. 2600
Phoenix, Arizona 85012-2913
Attorney for AECC, et al.

Robert S. Lynch, Esq.
340 E. Palm Lane, Ste. 140
Phoenix, Arizona 85004-4529
Attorney for AZ Transmission Dependent Utility Group

K.R. Saline
K.R. SALINE & ASSOCIATES
160 N. Pasadena, Ste. 101
Mesa, Arizona 85201-6764

Walter W. Meek
Arizona Utility Investors Association
2100 N. Central Avenue, Ste. 210
Phoenix, Arizona 85004

Lawrence V. Robertson, Jr.
MUNGER CHADWICK, PLC
333 North Wilmot, Ste. 300
Tucson, Arizona 85711
Attorney for PG&E Energy Services

Timothy M. Hogan
AZ CENTER FOR LAW IN THE PUBLIC INTEREST
202 E. McDowell Road, Ste. 153
Phoenix, Arizona 85004
Attorney for Arizona Consumers Council

Leslie Lawner
ENRON CORP.
712 N. Lea
Rosewell, New Mexico 88201

Christopher Hitchcock
HITCHCOCK HICKS & CONLOGUE
P.O. Box 87
Bisbee, Arizona 85603-0087
Attorney for Sulphur Springs Valley Electric Cooperative, Inc.

Chuck Miessner
NEV SOUTHWEST, LLC
5151 Broadway, Ste. 100
Tucson, Arizona 85711

Raymond S. Heyman
ROSHKA HEYMAN & DEWULF, PLC
Two Arizona Center
400 North 5th Street, Ste. 1000
Phoenix, Arizona 85004
Attorney for NEV Southwest, LLC

Jesse W. Sears
CITY OF PHOENIX
200 W. Washington, #1300
Phoenix, Arizona 85003-1611

Bill Murphy, P.E.
CITY OF PHOENIX
101 S. Central Avenue
Phoenix, Arizona 85004

Lex J. Smith
BROWN & BAIN, P.A.
2901 N. Central Avenue
Phoenix, Arizona 85001-0400
Attorneys for Ajo Improvement Company and Morenci Water and Electric Company

Michael A. Curtis
MARTINEZ & CURTIS, P.C.
2716 N. 7th Street
Phoenix, Arizona 85006
Attorneys for Mohave Electric Cooperative and Navopache Electric Cooperative

Margaret McConnell
MARICOPA COMMUNITY COLLEGES
2411 W. 14th Street
Tempe, Arizona 85281-6942

Scott Wakefield
RESIDENTIAL UTILITY CONSUMERS OFFICE
2828 North Central, Suite 1200
Phoenix, Arizona 85004

Barbara Klemstine
ARIZONA PUBLIC SERVICE COMPANY
400 North 5th Street
Phoenix, Arizona 85072

Kenneth C. Sundlof, Esq.
JENNINGS, STROUSS & SALMON, P.L.C.
One Renaissance Square
Two North Central Avenue
Phoenix, Arizona 85004
Attorney for New West Energy

Alan Watts
SOUTHERN CALIFORNIA PUBLIC POWER AGENCY
529 Hilda Court
Anaheim, California 92806

Steven C. Gross, Esq.
LAW OFFICE OF PORTER SIMON
10200 Truckee Airport Road
Truckee, California 96161
Attorney for Southern California Public Power Agency & M-S-R Public Power Agency

Peter W. Nyce, Jr., Esq.
U.S. ARMY LEGAL SERVICES AGENCY
Department of the Army
901 N. Stuart Street, Ste. 700
Arlington, Virginia 22203-1837
Attorney for Department of Defense

Margaret A. Rostker, Esq.
Jerry R. Bloom, Esq.
WHITE & CASE LLP
633 West Fifth Street
Los Angeles, California 90071
Attorney for DFO Partnership

Leonardo Loo, Esq.
O'CONNOR CAVANAGH
One East Camelback Rd., Ste. 100
Phoenix, Arizona 85004
Attorney for DFO Partnership

David L. Deibel, Esq.
TUCSON CITY ATTORNEY'S OFFICE
P.O. Box 27210
Tucson, Arizona 85726

Dan Neidlinger
NEIDLINGER & ASSOCIATES
3020 North 17th Drive
Phoenix, Arizona 85015

Katherine Hammack
APS ENERGY SERVICES CO, INC.
One Arizona Center
Phoenix, Arizona 85004

Charles V. Garcia, Esq.
PUBLIC SERVICE COMPANY OF NEW MEXICO
Law Department
Alvarado Square, MS 0806
Albuquerque, New Mexico 87158

H. Ward Camp, General Manager
PHASER ADVANCED METERING SERVICES
400 Gold Avenue S.W., Suite 1200
Albuquerque, New Mexico 87102

By Venus Green

c:\Commonwealth\Pleadings\TEP Settlement\Summary.not

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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. 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

COMMONWEALTH'S EXECUTIVE SUMMARY AND SURREBUTTAL TO TEP'S REBUTTAL TESTIMONY

COMMONWEALTH'S EXECUTIVE SUMMARY

- Commonwealth urges the use of full embedded costs of competitive services be used in determining "shopping credits."
- The market generation credit ("MGC") and the limited "load shaping" Adder will not create 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.

COMMONWEALTH'S OUTLINE OF SURREBUTTAL TESTIMONY OF FREDERICK BLOOM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESPECTFULLY SUBMITTED this 10th day of August, 1999.

DOUGLAS C. NELSON, P.C.

Doug C. Nelson

Douglas C. Nelson, Esq.
7000 North 16th Street, #120-307
Phoenix, Arizona 85020
Attorney on behalf of Commonwealth Energy Corporation

8/11/99

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)
CTC Fixed CTC[1] Floating CTC[2] (expands and contracts to reflect TEP's "imputed" generation cost differential from the Palo Verde NYMEX)	CTC	CTC - fixed for duration of recovery period
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 <u>minus</u> 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.

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