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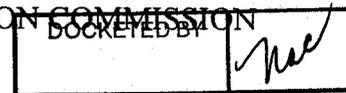
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Arizona Corporation Commission  
**DOCKETED**

JUN 14 1999

BEFORE THE ARIZONA CORPORATION COMMISSION



CARL J. KUNASEK  
Chairman  
JAMES M. IRVIN  
Commissioner  
TONY WEST  
Commissioner

IN THE MATTER OF THE STRANDED  
COST FILING AND REQUEST FOR A  
WAIVER OF CERTAIN PORTIONS OF THE  
RULES FILED BY TRICO ELECTRIC  
COOPERATIVE, INC.

Docket No. E-01461A-98-0466

IN THE MATTER OF THE FILING BY  
TRICO ELECTRIC COOPERATIVE, INC. OF  
UNBUNDLED AND STANDARD OFFER  
SERVICE TARIFFS PURSUANT TO A.A.C.  
R14-2-1606

Docket No. E-01461A-97-0696

TRICO ELECTRIC COOPERATIVE, INC., an Arizona nonprofit corporation ("Trico"),  
in support of its Filings in the above-entitled matters, states as follows:

1. Trico furnishes electricity at retail to its customers in portions of Pima, Pinal and Santa Cruz Counties, Arizona, pursuant to certificates of convenience and necessity issued to Trico by the Arizona Corporation Commission ("Commission").

1           2.       Trico owns no generation facilities. It has executed an all-requirements Wholesale  
2 Power Contract ("Contract") with Arizona Electric Power Cooperative, Inc. ("AEPCO") through  
3 the year 2020. Under the Contract, Trico is obligated to purchase and AEPCO is obligated to  
4 supply all of Trico's requirements for electricity to serve Trico's customers.

5  
6           3.       The Commission entered Decision Nos. 61677 and 61634 pertaining to generation  
7 Stranded Costs, including regulatory and social stranded costs and the Hearing Division on  
8 April 21, 1999, issued a Procedural Order which provides, *inter alia*, that Affected Utilities,  
9 including Trico, shall file supplements or amendments to Stranded Costs/Unbundled Tariffs  
10 filings on or before June 14, 1999.

11           4.       On February 13, 1998, Trico, pursuant to Orders of the Commission, filed its  
12 Notice of Filing and Unbundled Tariff Filing which was suspended for consideration by the  
13 Commission in Decisions Nos. 60701 and 60903. The Filing was made pursuant to R14-2-  
14 1606.B.1, -C and -G in the Retail Electric Competition Rules adopted by the Commission in  
15 Decision No. 59943 ("Original Rules"). In such Filing, Trico adopted its existing rates on  
16 December 31, 1997, as its Standard Offer Rates and filed Unbundled Rates based upon a cost-of-  
17 service study so that they were cost-based rates as required by the Original Rules. The cost-of-  
18 service study developed unbundled embedded or average costs for each of the unbundled  
19 distribution services as set forth in the Original Rules.  
20

21           5.       Subsequent to such filing, Trico and other distribution cooperatives participated in  
22 several meetings with the Commission's Staff regarding the computation of the rate components  
23 of the Unbundled Rates. The Staff's position was that the Unbundled Rate component should be  
24 equivalent to the charges in the Standard Offer tariff for each comparable class of service. The  
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1 Staff stated to Trico's representatives at such meetings that if Trico wished to offer Unbundled  
2 Rates that were based on a cost-of-service study rather than an unbundling of existing rates, Trico  
3 would be required to establish the Unbundled Rates in a rate proceeding. Rather than subject its  
4 customers to the costs associated with a rate proceeding, Trico filed amended Unbundled Rates  
5 on December 1, 1998, based on the methodology of Staff. The Commission approved the  
6 amended Unbundled Rate filing in Decision No. 61284 issued December 14, 1998.  
7

8 6. Since Trico's Unbundled Rates were approved by the Commission, the  
9 Commission has issued several decisions granting certificates of convenience and necessity to  
10 Electric Service Providers ("ESP") regarding pricing of Unbundled Services. For example, in  
11 approving the application for PG&E Energy Services Corporation for a certificate of convenience  
12 ("CC&N") and necessity as an ESP, a tariff was approved providing for a maximum rate of \$25  
13 per kWh that was downwardly flexible not below marginal cost without requiring Commission  
14 approval. The average cost of a kWh as testified in the hearing regarding PG&E's application for  
15 a CC&N is from 3¢ to 5¢ and such maximum rate was not based upon cost. In the Amended  
16 Permanent Rules adopted by the Commission in Decision No. 61272 on December 11, 1998, and  
17 in its Proposed Rules issued in Decision No. 61634 entered April 23, 1999, R14-2-1611.E  
18 provides that an ESP holding a CC&N may price its Competitive Services at or below maximum  
19 rates specified in its filed tariff without Commission approval, provided the price is not less than  
20 the marginal cost of providing the service. Trico and other Affected Utilities, on the other hand  
21 pursuant to the Proposed Rules, must obtain Commission approval before their Unbundled Rates  
22 may be downwardly flexible as set forth in R14-2-1606.H.3. Accordingly, Trico's Unbundled  
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1 Rates filed consistent with Staff's position are radically different than the Proposed Rules provide  
2 with respect to ESPs.

3 7. On May 17, 1999, Arizona Public Service Company ("APS") in its settlement  
4 filing proposed a "shopping credit" approach to Unbundled Services. As an example, the  
5 residential tariff includes a \$10.00 monthly basic delivery charge (as compared to the current  
6 residential monthly charges of \$7.50, \$10.00 or \$15.00, depending on the rate option). The  
7 proposed rate provides for credits against the \$10.00 monthly charge for services that are  
8 purchased on the open market. Apparently the credits are based on the marginal costs of  
9 providing of services and reflect the potential cost savings that APS will experience should a  
10 customer elect to purchase competitive services elsewhere. The California Public Utilities  
11 Commission adopted a similar approach and the regulated utilities filed net avoided cost analyses  
12 that determined the savings that the incumbent utility would experience if customers purchased  
13 electricity (electrons) elsewhere. Trico has reviewed the APS approach and believes that it has  
14 substantial merit. The approach prevents cost shifting to customers who elect to receive Standard  
15 Offer Service. This method will also tend to mitigate distribution-related Stranded Costs and  
16 Competition Transition Costs ("CTCs"). At this time, Trico is performing analyses of its net  
17 avoided cost and will consider the APS approach for future filing.

18 8. Trico cannot submit to the Commission any proposals relative to generation and  
19 regulatory stranded costs until the Commission determines such Stranded Costs for AEPCO and  
20 the CTC to implement the recovery of such stranded costs. Because of the Contract and as to  
21 generated-related costs, Trico requests that the Commission authorize it to pass-through to its  
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1 customers the Stranded Cost and Regulatory Asset Recovery Charges authorized by the  
2 Commission for AEPCO.

3 9. As to distribution-related Stranded Costs, Trico may incur such costs but it cannot  
4 estimate or determine those costs at this time or prior to the implementation of retail competition  
5 in Trico's certificated areas. Trico has installed meters in its system in an amount in excess of  
6 \$2,570,000. Some portion of that investment may be stranded as certain customers shift to  
7 competitive metering, but Trico cannot estimate the extent of such costs, if any, at this time. In  
8 addition, Trico has invested substantial sums of money in computers and other facilities used by it  
9 in connection with its billings and collections, and some of that investment may also become  
10 stranded if the amount of use of such computers and other equipment is substantially reduced.

11 10. In accordance with a Procedural Order issued by the Hearing Division, Trico made  
12 its Stranded Cost filing and request for waiver of A.A.C. R14-2-1607.D on August 21, 1998. In  
13 such filing Trico stated that it could not determine the amount of its distribution Stranded Costs  
14 until retail competition is implemented in its certificated areas, and Trico requested that the  
15 Commission waive the provisions of R14-2-1607.D.  
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18 11. On November 17, 1998, Staff issued its report in connection with Trico's Stranded  
19 Cost filing and the Stranded Cost filings of other Affected Utilities. In such report Staff agreed  
20 with Trico that Trico cannot determine its Stranded Costs related to generation and regulatory  
21 assets until the Commission has approved a Stranded Cost calculation and recovery mechanism  
22 for AEPCO, and upon such determination, the Commission should approve a pass-through  
23 mechanism applicable to Trico's distribution customers. Accordingly, Staff has recommended  
24 that Trico's request that R14-2-1607.D be waived be granted by the Commission. Staff stated that  
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1 it was of the opinion that Trico is not precluded from requesting reasonable costs of operation in  
2 the context of a distribution rate case. Trico has repeatedly made filings with the Commission  
3 setting forth the complete unfairness of providing for recovery of distribution Stranded Costs in  
4 rate cases which can only apply to Standard Offer customers. Any distribution Stranded Costs  
5 will be caused by those customers who elect to take metering, meter reading, billing and/or  
6 collection from other than Trico and, accordingly, they should be the ones that pay for Trico's  
7 distribution Stranded Costs, not Trico's Standard Offer customers.  
8

9 12. Since Trico has an approved Unbundled Service tariff on file with the  
10 Commission, Trico is not proposing any amendments or modifications thereto at this time.  
11 However, Trico may seek to amend such tariff in the future depending upon the Commission  
12 approval of such approach proposed by APS. In this connection, Trico requests that the  
13 Commission permit Trico to file or amend its Unbundled Service rates after the Commission has  
14 issued an opinion and order in the APS settlement docket.  
15

16 13. Trico requests a waiver as to R14-2-1606.H and -1612.N to file Unbundled  
17 Standard Offer rates for each of the following reasons:

18 A. The Proposed Rules require unbundling of several services including  
19 generation, must-run generation, ancillary and transmission services.  
20

21 B. As an all-requirements member of AEPCO, Trico purchases all generation  
22 services and bulk transmission services based upon a bundled rate.

23 C. Until such time that AEPCO unbundles such services and Trico performs  
24 analyses that allocate the Unbundled Services for each customer class, Trico does not have the  
25 ability to provide the required data in an Unbundled format.  
26

1           D.     The APS settlement filing contemplates the use of existing bundled service  
2 tariffs for Standard Offer service. The Commission should adopt a uniform policy with respect to  
3 all Affected Utilities in connection with the unbundling of Standard Offer service.

4           WHEREFORE, having fully stated its position with relationship to the Procedural Order  
5 entered April 21, 1999, as set forth in paragraphs 11 and 13 above, Trico requests the  
6 Commission enter its Order:  
7

8           1.     Waiving the requirements of Rules R14-2-1606.C.2 and -1612.N pertaining to  
9 separate billing elements for Standard Offer bills, waiving R14-2-1606.D requiring Trico to file  
10 Unbundled Service tariffs with respect to its Non-competitive Services tariff and waiving R14-2-  
11 1607.D requiring Trico to request Commission approval by July 1, 1999, of distribution charges  
12 or other means of unmitigated Stranded Cost;

13           2.     Authorizing Trico to pass through to its customers any Stranded Cost and  
14 Regulatory Asset Charges the Commission approves for AEPCO;

15           3.     Authorizing Trico to apply for recovery of distribution-related Stranded Costs as  
16 and when they arise;

17           4.     Authorizing Trico to amend its Unbundled Rate filing in the event circumstances  
18 arise in the future which warrant such amendment; and

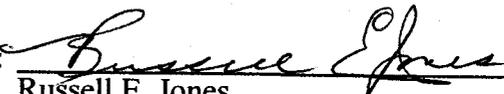
19           5.     Authorizing Trico to provide unbundled services at less than those on file with the  
20 Commission without Commission approval.  
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RESPECTFULLY SUBMITTED,

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Original and 10 copies of the foregoing document filed the 14th day of June, 1999, with:

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