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BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE COMPANY)
FOR APPROVAL OF ITS 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 COMPETITION IN)
THE PROVISIONS OF ELECTRIC)
SERVICES THROUGHOUT THE STATE OF)
ARIZONA.)

DOCKET NO. RE-00000C-94-0165

RUCO'S CLOSING BRIEF

The Residential Utility Consumer Office ("RUCO") urges the Arizona Corporation Commission ("Commission") to adopt the Settlement Agreement between Arizona Public Service Company ("APS"), RUCO, Arizonans for Electric Choice and Competition ("AECC") and the Arizona Community Action Association ("ACAA"). Though various other parties have attempted to raise a smoke screen over the Settlement Agreement, their objections lack substance and should not cause the Commission to reject the Settlement Agreement.

1 **All interests were represented in Settlement discussions**

2 Opponents of the Settlement Agreement have raised two objections to the procedure by
3 which the Settlement Agreement was negotiated. First, they claim that the negotiation process
4 did not include representatives of all interests. Such is not the case. Throughout the
5 negotiations, two of the individuals at the negotiating table, Mr. Higgins and Mr. Crockett,
6 represented Enron, among others. Though Enron chose not to join in the Settlement
7 Agreement, the ESPs cannot legitimately claim that they had no representation in the
8 negotiating process.

9 The second procedural objection raised by opponents of the Settlement Agreement is
10 that RUCO did not perform an analysis of the terms of the Settlement and its impacts on
11 residential customers. Nothing could be further from the truth. RUCO did analyze the
12 Settlement Agreement. Tr. at 672, lines 12-24; pg. 690, line 21 – pg. 691, line 2. However,
13 this objection is nothing more than a red herring.¹ The issue is not whether RUCO has
14 performed a sufficient analysis of the Settlement, but whether the full record in this proceeding
15 is sufficient to allow the Commission to conclude that the Settlement is in the public interest.
16 As discussed below, there is substantial evidence that the Settlement Agreement is in the
17 public interest.

18
19 **The Settlement Agreement includes a reasonable stranded cost number**

20 After much negotiation, the parties to the Settlement Agreement were able to reach
21 consensus on a reasonable number for APS's stranded cost recovery of \$350 million. RUCO
22

23 ¹ The primary issue on which opponents alleged that RUCO's analysis was insufficient was the size of the
24 shopping credit for residential customers. Ironically, the only other truly independent party on that issue, Staff,
had almost no disagreement with the Settlement Agreement's credits for residential customers.

1 believes that \$350 million is a fair amount for APS to recover for its stranded costs. First, it is
2 less than the amount APS would have recovered under the November 1998 settlement with
3 the Commission Staff. RUCO Exh. 1 (Patterson), pg. 3, line 21. Second, it is less than APS
4 would recover under option 1 of the Commission-approved stranded cost recovery options of
5 Decision No. 61677. Tr. at 693.

6 In the February 1998 generic hearing on stranded cost calculation methodologies,
7 RUCO supported a calculation methodology that was not accepted by the Commission in
8 either Decision No. 60977 or Decision No. 61677. The Commission should not be fooled by
9 attempts to discredit RUCO's support for the current Settlement Agreement because it allows
10 APS to recover stranded costs in excess of what RUCO suggested might result from the
11 implementation of its rejected methodology. In addition to the fact that the Commission has
12 rejected the methodology that was the basis for RUCO's prior estimate of APS's stranded cost,
13 RUCO made it clear when it first presented the earlier numbers in January 1998 that they were
14 merely estimates. Commonwealth Exh. 7 pg. 40, line 3 and at Exhibit RAR-2 ("Summary of
15 Stranded Costs Estimates"); APS Exh. 15 pg. 47, lines 19-25.

16 17 **Rate decreases and shopping credits are appropriately balanced**

18 The Settlement Agreement provides a 7.5 percent rate decrease for Standard Offer
19 residential customers through 2004. Rate decreases have been a goal of the electric
20 restructuring process from the beginning. The rate decreases in the Settlement Agreement for
21 Standard Offer customers will allow customers who either choose not to participate in the
22 competitive market, or who find that they have no real opportunity to participate in the
23 competitive market, to experience rate decreases. Between the opening of competition and
24

1 December 31, 2000, residential participation will be limited to less than ten percent of the
2 customers. In addition, even after the transition period expires, residential customers may be
3 less likely to have competitive opportunities than other classes of customers. Staff Exh. 2
4 (Smith), pg. 10, lines 22-23; ACAA Exh. 2 (Pruitt), pg. 4. The rate decreases in the Settlement
5 Agreement for Standard Offer residential customers guarantee those customers a share in the
6 benefits of the transition to competition.

7 The competitive electric service providers argue that the rate decreases in the
8 Settlement Agreement are too large. They believe that lower Standard Offer rates will make it
9 too difficult for them to win customers by offering even lower rates. However, the margins
10 between the Standard Offer rates and the Direct Access rates that are a part of the Settlement
11 Agreement are adequate for all classes of customers. Mr. Higgins testified that the margins for
12 small, medium and large commercial customers, and industrial customers, are adequate for
13 competitors to compete. Tr. at 100, 101. In addition, the Settlement Agreement's shopping
14 credits are almost identical to those Staff testified would be adequate for residential customers.
15 Staff proposed a credit that is one mill greater than the Settlement Agreement in 1999, when
16 residential participation will likely be limited to 5 percent by the end of the year. During 2004,
17 however, Staff proposed a credit that was one mill less than that in the Settlement Agreement.
18 In all the other years, Staff's proposed shopping credit is identical to the credit resulting from
19 the Settlement Agreement for residential customers. Staff Exh. 2 (Smith) pg. 15, lines 22-23.
20 The Settlement Agreement provides adequate shopping credits, while at the same time
21 lowering rates up to 7.5 percent.

22 The Commission should avoid raising the Standard Offer rates contained in the
23 Settlement Agreement to provide competitors a greater margin in which to compete. Doing so
24

1 would decrease the benefits of the Settlement Agreement to the residential customers.
2 Additionally, accepting higher Standard Offer rates will increase the already-adequate margins
3 for commercial and industrial customers, and allow ESPs greater profit margins at the expense
4 of the Standard Offer customers. The Commission should avoid shifting the residential
5 customers' benefits of restructuring to commercial and industrial customers and ESPs.
6

7 **APS's proposal to reflect unbundled rates on the bill is reasonable**

8 APS proposes to include a second page to the Standard Offer bill that would reflect the
9 amounts that the customers would have been billed if they had been Direct Access customers.
10 APS's proposal includes computing the difference between the Standard Offer Service bill and
11 the Direct Access bill, so that the customers can determine what they could pay a competitive
12 electric service provider for generation without exceeding the Standard Offer price.

13 The APS-proposed second page of the Standard Offer bill embodies the spirit, if not the
14 letter, of proposed rule R14-2-1612(N). The proposed bill lists each of the billing elements
15 required by section N that APS would be providing if the customer were taking Direct Access
16 service rather than Standard Offer Service. The proposed page 2 of the Standard Offer bill
17 provides customers with all the necessary information for them to compare Standard Offer
18 rates with those of competitive suppliers.
19

20 **Transfer of competitive assets at book value is appropriate**

21 The Settlement Agreement provides that APS shall transfer competitive service assets
22 to an affiliate at book value. Opponents of the Settlement Agreement argue that APS's
23 generation affiliate will gain a competitive advantage if it receives the assets at book value,
24

1 rather than market value. APS's Genco would only have a competitive advantage if book
2 value at the time of transfer is less than market value. However, APS's Genco will be
3 receiving the assets at a book value that, on the whole, exceeds the market value of the
4 assets.² In addition, generally accepted accounting principles require that APS transfer the
5 competitive assets to an affiliate at book value. APS Exh. 9 (Davis), pg. 23, lines 23-25.

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7 **Code of Conduct is the appropriate procedure to address affiliate issues**

8 APS, after consultation with the settling parties, will file an interim Code of Conduct to
9 address affiliate issues. At the hearing, APS indicated it will also consult with the non-settling
10 intervenors prior to filing the interim Code of Conduct. In addition, the proposed rules provide
11 for a final Code of Conduct that will be subject to Commission approval.

12 The Commission has already determined, by deleting the proposed detailed affiliate
13 rules, that codes of conduct are appropriate mechanisms to address affiliate relationships.
14 APS has committed to subject itself to an interim Code of Conduct even before it would be
15 subject to a final Code of Conduct approved by the Commission. An interim code of conduct is
16 an adequate remedy to allay concerns about affiliate issues, but to allow the Commission to
17 move ahead to achieve competition. The Commission should approve the Settlement
18 Agreement now, rather than delaying competition until a final Code of Conduct is adopted.

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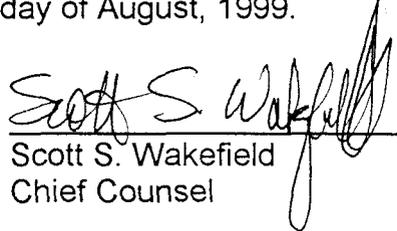
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24 ² If APS's competitive assets, as a whole, had a market value that exceeded book value, APS would have negative stranded costs. No party has suggested that APS's stranded costs are negative.

1 **Conclusion**

2 The Settlement Agreement is a reasonable compromise on the numerous issues that
3 will open the door to competition. The Commission can conclude that the Settlement
4 Agreement is in the public interest based on the record before it, and should approve the
5 Agreement as written.

6
7 RESPECTFULLY SUBMITTED this 5th day of August, 1999.

8 
9 Scott S. Wakefield
Chief Counsel

10 An original and ten copies of the foregoing
11 filed this 5th day of August, 1999 with:

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