Summary

The filings of Arizona Public Service and Tucson Electric Power are not consistent with the ACC's directives regarding stranded cost filings and are anti-competitive. As a result, evidentiary hearings should be scheduled to address stranded cost issues. In the event those proceedings are not concluded prior to January 1, 1999, the Arizona Corporation Commission should proceed with open access on January 1, 1999 and not allow any recovery of stranded costs until the completion of the evidentiary hearing process.

The appropriate method is to use a fixed, non-available Market Transition Charge (MTC) to recover a pre-determined, approved level of stranded costs over a pre-set number of years. This approach provides the opportunity for recovery of the requisite amounts of funds, does not distort the customer's choice of energy supplier or of market signals, and is not anti-competitive.

In addition, a stand-alone shopping credit must be calculated. It is critical that the shopping credit reflect all related cost of providing energy to the retail customer and not just the wholesale energy price. Otherwise, customers would be paying twice for services – once to the utility who no longer is providing the service and once to the new supplier who is providing the service.

The sum of MTC and the shopping credit replace the utility's embedded cost of generation in the rate structure. The recovery period of the MTC should be sufficient length to allow the shopping credit to be suffiently large to capture all the costs related to generation and still not exceed the ACC's goal with respect to the overall rate level.

Introduction

In accordance with Decision No. 60977 of the Arizona Corporation Commission, Enron hereby submits its comments on several of the filings for stranded cost recovery. Enron has specifically reviewed the filings of Arizona Public Service and Tucson Electric Power. Enron has not reviewed the other filings in sufficient detail to offer a critique.

Many of Enron's Comments are applicable to both APS and TEP. As a result, these Comments are being filed in both dockets. In addition, these Comments supplement those submitted by AECC.

The ACC's Finding of Fact # 26 in Decision No. 60977 was that "Any stranded cost recovery methodology must balance the interests of the Affected Utilities, ratepayers, and a move toward competition." Enron believes this finding was not followed by the APS or TEP in their stranded cost recovery plans.

Enron supports a reasonable opportunity being provided for utility recovery of all prudently incurred, unmitigable stranded costs that result from the transition from a regulated to competitive environment. However, this recovery should not come at the expense of ratepayers paying any more than necessary for stranded costs, or at the expense of delaying the move toward competition. These comments will briefly describe an approach to achieve this finding by the ACC and describe why the filings of APS and TEP do not achieve this goal.

General Comments

As a general proposition, stranded costs should not be recovered as the difference between the current regulated rate and some market price of energy and capacity and imposed until all recoverable costs are collected. This "residual" approach tends to prevent the accurate transmission of market signals. As market prices fluctuate, the residual between the regulated rate and the market price of energy and capacity will fluctuate in an inverse relationship to market changes. Customers will see no fluctuation in the rates they are paying, regardless of their choice of supplier and despite changes in market conditions.

There is an approach to stranded cost recovery which, in Enron's view, does balance the interests of utilities, ratepayers, and the move toward competition. Enron's preferred approach uses a fixed, non-avoidable Market Transition Charge (MTC) to recover a pre-determined, approved level of stranded costs over a pre-set number of years. Periodic reconciliation of MTC revenues with stranded costs may be necessary to adjust for certain factors, but the over-use of reconciliation during the recovery period should be recognized as a possible deterrent to effective utility mitigation of stranded costs.

Enron's approach to MTC is to create a collection mechanism which does not distort the customer's choice of energy supplier, while allowing collection of the requisite amount of funds. The fixed, non-bypassable MTC acomplishes this objective. The customer pays this charge regardless of which energy provider is chosen.

At the same time, a stand-alone shopping credit must be calculated separate from the MTC. The shopping credit must create opportunity for and movement toward competition. The shopping credit is the part of the utility's price for default service which the customer does not pay if energy is purchased from an alternative provider. Customers who shop for energy have this shopping credit as a target price which they must beat to make shopping worthwhile. Customers who do not shop pay the equivalent