DOCKETED

FEB 09 1998

DOCKETED BY

000120745

RE-00000C-94-165

47

Public Comments of
Joe Venne
Vice President of Facilities
On Behalf of Robinsons-May

Thank you for giving me the opportunity to meet with you today. My name is Joe Venne, I am Vice President of Facilities for Robinsons-May Department Stores. Robinsons-May owns and operates 8 large department stores in Arizona employing approximately 1,500 people in this state and through our corporate credit facilities located in Arizona we employ an additional 500 people.

Robinsons-May is proud of the extensive steps it has taken and the results it has obtained in the area of Energy Management, including conservation and monitoring. Since the beginning of 1992, we have spent $8 million on projects directed at reducing our electric energy consumption and we have achieved superior results. These projects consist of three major areas including the installation and upgrading of energy management systems (EMS), retrofitting mechanical equipment in stores, and installing energy efficient lighting systems.

Given all these steps and investments however, we have now reached a point where further spending of money on energy projects is not providing an acceptable rate of return. Further, next to employment costs, the cost of electricity is generally the second largest operating expense incurred by most retailers. Therefore, Robinsons-May finds it in its best interest to support and encourage the restructuring of the electric industry in Arizona which will ultimately lead to a competitive environment and aid in the growth of the State's economy.

Briefly, Robinsons-May supports the following six principles governing the restructuring of the electric utility industry and the introduction of competition to this currently regulated market.

- First. All customers must benefit from restructuring. In addition to the commercial and industrial customers, we believe that residential customers must be able to share in the benefits achieved from competition.
- Second. Restructuring is best accomplished through universal direct access rather than through a government-mandated pool.
- Third. Direct access should occur simultaneously for all customers. Although we have not seen any technical constraints in other states, if technical constraints or legislation (as proposed in Arizona) requires that direct access be phased-in, the phase-in should not disqualify or disadvantage any class of customer. Further, the phase-in should not create competitive advantages for certain customers.
- Fourth. Generation, transmission and distribution services must be unbundled, either functionally or through divestiture, to ensure that utilities do not unfairly shift generation expenses to their transmission and distribution functions, or otherwise give unfair advantage to their own generation components. In addition, we support the unbundling of what are known as "Revenue Cycle Services" such as meters, meter reading and billing. This extended unbundling is particularly beneficial for small consumers such as residential customers.

- Fifth. Aggregation should be supported. It is through aggregation that small consumers will be able to best receive the price benefits brought forth by competition.
- Sixth. Stranded cost recovery should be shared equitably by utility customers and by utility shareholders. We do not believe that utilities are entitled to 100% stranded cost recovery. Stranded costs caused by government mandate should be recovered to the extent that utilities are unable to mitigate those costs. Stranded costs caused by bad management decisions should not be recovered.

Because stranded cost is the main concern of this hearing today I would like to share some of our positions on this important topic. By far, stranded cost is the single most controversial issue facing state commissions, utilities, consumers, alternate energy suppliers and in fact all stakeholders as we move to a new environment in which competition in the generation market replaces regulation. There are myriad of issues including but not limited to: stranded cost determination, methods of determination, allocation of approved stranded cost both between ratepayers and shareholder as well as the allocation of ratepayer's responsibility to the various customer classes, stranded cost recovery methods and recovery periods.

- First - Stranded Cost Determination. A utility's claim for stranded costs must receive a thorough evidentiary review. Prudent investment and the "regulatory compact" are not an entitlement for automatic recovery of a utility's uneconomic investment. Inclusion of costs associated with prior Commission denials for rate base treatment must not be allowed. True-up mechanisms must be developed to prevent a utility from over-recovery of the approved stranded cost level.
- Second - Methods of Determination. The commission should select a proper method for the determination of stranded costs. The Lost Revenue Approach should be rejected outright. If all utilities are allowed to recover their entire stranded cost, as determined by the lost revenue approach, the poorly managed utilities will be rewarded while the better managed utilities will be harmed as they both enter a competitive marketplace. On the other hand, if a "Market Based" approach is used, the Commission must consider that the market value may change during the recovery period and therefore be prepared to deal with such an occurrence. Also, the final determination should include a netting of assets to account for situations where some generation resources may have a market value in excess of its book value. Such an occurrence is often referred to as "negative stranded costs" and in fairness they must be netted against the positive stranded costs a utility seeks to recover. Recently, utilities across the country have received prices for their generating facilities that have exceeded the book value of those assets.
- Third - Stranded Cost Allocation. Utilities should not automatically receive 100% recovery of stranded cost. There must be an equitable sharing of those cost between ratepayers and shareholders as determined by this Commission. Further, there should not be a shifting of stranded cost responsibility between customer classes.
- Fourth - Stranded Cost Recovery Methods. Utilities must not be allowed to charge "exit fees", rather the recovery should be accomplished by a "wires charge".
- Fifth - Stranded Cost Recovery Periods. It is important to note that as long as stranded

costs are being recovered a true competitive market does not exist and consumers are being denied the benefits of competition. Recovery periods should be as short as is reasonably practical.

I would like to thank you for your time and again express Robinsons-May's interest in the restructuring of the electric utility industry in Arizona.