



0000120749

Corporation Commission
DOCKETED

} 2

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION
FEB 09 1998

RECEIVED
AZ CORP COMMISSION

JAMES M. IRVIN, Chairman-Commissioner
RENZ D. JENNINGS, Commissioner
CARL J. KUNASEK, Commissioner

DOCKETED BY

FEB 9 10 27 AM '98

IN THE MATTER OF THE COMPETITION IN THE)
PROVISION OF THE ELECTRIC SERVICES)
THROUGHOUT THE STATE OF ARIZONA)

DOCKET NO. U-0000-94-165
DOCUMENT CONTROL

Testimony for the Evidentiary Hearings, stranded costs of electric utilities
Docket U-0000-94-165 by Jim Driscoll representing Arizona Citizen Action

Arizona Citizen Action is concerned that the deregulation of electricity could disadvantage residential and rural customers in Arizona. We ask the Commission to meet its constitutional mandate to protect small customers by structuring competition to benefit small residential customers.

* We ask the Arizona Corporation Commission to hold standard offer customers harmless for the potential costs, especially stranded costs, of deregulation. While it may sound fair that all customers should pay stranded costs, it is not. Standard offer customers are already paying for those costs. Only customers benefiting from competition should be charged stranded costs. When we ask the Commission to hold standard offer customers harmless, we mean in all charges, rates, taxes, costs etc.

*Arizona Citizen Action asks the Commission to cap rates at their existing level. Small as well as large consumers should benefit from reductions.

*Arizona Citizen Action supports renewable resource goals and solar energy provisions in the existing rules. We also support conservation of energy and thus the recovery mechanism of per kW or per kWh.

*Arizona Citizen Action supports continuation of the Systems Benefit Charge to meet low income, hardship and other social obligations. These are not stranded costs. We oppose nuclear decommissioning recovery from the SBC fund or investors receiving monies from the Systems Benefit Charge.

*Arizona Citizen Action concurs with the position of witnesses for the Arizona Corporation Commission, the Residential Utility Consumers Office and the Arizona Consumers Council, who testify that not all stranded costs need to be recovered and that stranded costs should be split between the investors and the ratepayers.

*Arizona Citizen Action supports clean elections and a return to government working for its ordinary citizens. Thus, we are very disturbed to see that Arizona utilities are contributing large sums of money as they lobby for their special interests in Congress. (see attached article, "The Business Journal", APS ...)

*Arizona Citizen Action wishes to call to the Commission's attention another article in "The Business Journal", (Rising...). It points out that deregulation of airlines has had serious deleterious effects in service, especially in rural areas, and that rates have increased in many areas. Consequently there are bills being introduced in Congress 1) for regulation and 2) to promote service in areas that are not well served. We fear similar consequences from electric deregulation and ask that the utmost consideration be given to protect small residential and rural consumers.

*Arizona Citizen Action wishes to enter a document into the record: The Impact of Retail Wheeling on Tax Revenues in Texas, An Economic and Policy Analysis prepared by MGT of America, January 1997. This study suggests that Arizona could suffer "higher electrical rates for residential and small commercial customers", p. 2, and that school districts, and municipalities could suffer tax losses, p. 3. The study suggests that small residential rates will increase while large commercial, industrial electricity rates will decrease, p. 5. Arizona utilities as well as small customers could lose in the deregulation process.

Retail competition is likely to come to large users (e.g. industrial customers) of electricity first because of the size of their demand and, in general, their superior negotiating position. An electricity provider stands to gain much more revenue by persuading a large industrial customer to switch suppliers, which gives this new competitor a greater likelihood of recouping the significant capital cost of generating the capacity to serve that customer. This leaves the current provider with less revenue, but an obligation to continue to serve customers with lesser profit potential—typically the residential and small commercial user.

More important, the current provider, just coming out of a regulated environment (with its own set of rules, such as the obligation to serve all users) must pay for the cost of existing facilities from a suddenly smaller revenue base. This need for more revenue from existing customers will put upward pressure on the rates of remaining customers—again, the residential and small commercial customers. (p. 21)

*Arizona Citizen Action opposes exemptions to stranded costs except for the standard offer customers who are already paying the costs. Any exemption—no matter how beneficial it sounds—will mean additional and higher costs for the small residential consumers.

**In summary, Arizona Citizen Action supports holding harmless (re costs) standard offer consumers, a rate cap and reduction, solar provisions, systems benefits charges, per kWh recovery, less than 100% recovery that is split between investors and ratepayers. We oppose exemptions for stranded costs.

APS parent scrutinized for political donations

By KEN BROWN
The Business Journal

Executives with Arizona Public Service Co.'s parent company, Pinnacle West Capital Corp., count themselves among the biggest proponents of a deregulated electricity market.

And U.S. Sen. Frank Murkowski, an Alaska Republican who will help mold the deregulation process as chairman of the Senate Energy and Natural Resources Committee, counts them among his biggest contributors.

Pinnacle West and APS officials are getting national media attention for contributing more than \$11,000 and other favors to the senator.

The contributions, reported last week by liberal watchdog magazine *Mother Jones* and subsequently picked up by the Associated Press, came at a time when Murkowski was introducing legislation removing the tax-exempt status of bonds used to fund publicly owned utilities such as Salt River Project in Arizona.

According to the article, APS was the most prominent of several investor utility groups that collectively donated \$43,000 for the senator in the first six months of 1997.

In addition to \$11,000 in individual contributions from Pinnacle West executives, company chairman Richard Snell hosted a fund raiser at his home for Murkowski that netted \$17,000 for the senator. SRP co-sponsored the event, but reportedly gave only \$1,000.

APS also has invited Murkowski's aides and others to a three-day energy conference next month at the Wigwam Resort in Goodyear.

APS dismissed the criticism, saying the company was doing nothing out of the ordinary.

"There is a temptation for people to draw inappropriate conclusions about cause-and-

effect influence from political contributions," said APS spokesman Jay Thome. "I'm not naive enough to suggest that never, ever happens, but it is far more ordinary for people to support candidates who represent their point of view. SRP and APS have both contributed to Murkowski."

Murkowski has proven a firm defender of investor-owned utilities, earning praise in memos from a Pinnacle West lobbyist last fall, particularly for his opposition toward tax-free bonds.

The exemption has been a sticky issue for proponents of investor-owned utilities, who say it gives their future competitors an unfair advantage.

Officials with SRP, which reported total contributions of \$61,000 to political campaigns last year, declined to comment about APS's lobbying efforts, but said political activism is an economic reality for the industry. Most of the SRP contributions went to Arizona's congressional delegation.

"Almost as old as the United States is, there's been tension between public- and investor-owned utilities, and that tension is reflected by the posturing in Washington," said SRP spokesman Jeff Lane. "Both sides are going to be affected by the process."

Despite the *Mother Jones* article mentioning a \$1,000 donation, SRP reported no donations to Murkowski during the 1997 calendar year. It has contributed to his campaign in the past, officials acknowledge.

Not surprisingly, the public utility has been a strong proponent of maintaining the tax-free bonds, saying they help keep rates low.

Despite the apparent advantage they create, Lane said, government-owned entities compete with their privately owned counterparts in many industries with no problem, including education and health care.

"The sooner the better for customer choice," he said.

Interlink Partnering with Clients to Provide Innovative Information System Solutions

- Enterprise Resource Planning • Custom Software Development •
- Client/Server • Internet/Intranet • Network Services •

Phoenix 602-905-5667 • Denver 303-831-9088 • Omaha 402-493-6999

GRAND OPENING
2
GRAND OPENING SPECIAL:
\$300 to \$750
OFF Suggested Retail.
These Prices WILL NOT Be Duplicated!

HOME GYMS • BIKES • STEPPERS • WEIGHT

TRUE
TREADMILLS
are Rated Number ONE

- | | |
|-------------------------------------|--------------|
| #1 Warranty | #1 Quietness |
| #1 Smoothness | #1 Stability |
| #1 Programming & Heart Rate Control | #1 Shock |

18 Treadmills options

NOW OPEN

Rising airfares push Congress to regulate

By SOUGATA MUKHERJEE
The Business Journal Washington Bureau

Spurred by escalating business airfares, some congressional members are pushing for legislation that would require the nation's biggest airlines to give up slots at major airports so that smaller and low-fare airlines can provide more competition.

Other legislation in the works calls for the Department of Transportation to play a more active role in how air service is distributed among the nation's big and smaller communities.

Why, after 20 years of deregulation, is Congress looking at giving the airline industry a dose of regulation?

Mainly because of high airfares for business-ees. Over the past two years, some studies show business fares have climbed almost 40 percent, with another 6 percent increase expected in 1998.

"Mid-sized communities are getting crushed by the exorbitant air fares charged by major airlines," said Rep. Louise Slaughter, D-N.Y. "Congress has to level the playing field to

"Congress has to level the playing field to allow smaller carriers to compete ..."

Louise Slaughter

allow smaller carriers to compete with them." That's not all.

Industry observers say small businesses are especially hard hit by the fare increases.

Dan Bohan, president of Omega World Travel in Washington, one of the biggest travel agencies in the country, said businesses with revenue between \$500,000 and \$3 million get no measurable discounts for their tickets.

"No doubt these businesses are getting the shaft," Bohan said. "Big businesses probably don't have to worry because carriers offer them deep discounts on every ticket." American Express' business airfare index

was at its highest level in its five-year history in late December. Studying 215 pair of flights between 40 cities, the index computed that business people are paying an average of \$445 for travel each way.

"That is simply ridiculous," said John Galbraith, a Rochester, N.Y.-based owner of a small advertising firm with annual revenue of \$2 million. "I have paid \$580 for 90-minute flights, and my competition in a different city could be paying half of that amount."

Galbraith recently wrote a letter to his congresswoman, stating that airline prices have made him less competitive in the marketplace and he is losing business as a result. Galbraith is not alone.

Among the 40 cities studied by American Express, only four cities saw a decline in business fares over the past 12 months: Austin, Texas; Denver; Nashville, Tenn.; and Omaha, Neb. Three of the four cities are served by the nation's most prominent low-fare carrier, Southwest Airlines.

Rep. John Duncan, R-Tenn., believes airfares are escalating because many communi-

ties are served by only one carrier, which can charge exorbitant fares.

Duncan has introduced a bill calling for the Department of Transportation to exempt carriers who add service at small and medium-sized airports from any requirement to give up slots to smaller airlines at the nation's four slot-controlled airports: Washington National, New York's Laguardia and Kennedy, and Chicago's O'Hare. Sen. Bill Frist, R-Tenn. has introduced a similar bill in the Senate.

Jim Coon, a House aviation committee staffer working on the Duncan bill, said the legislation would provide \$10 million to small and mid-sized airports in federal grants to market and lure additional air service to their communities.

Coon believes the Duncan bill should pass without any problems.

Not so, according to some industry critics. Kevin Mitchell, a longtime critic of big airlines and their pricing strategy, said they have enough clout on Capitol Hill to thwart any such regulatory efforts.