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~~Arizona Corporation Commission~~  
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MAR 16 4 27 PM '98

MAR 16 1998

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IN THE MATTER OF THE )  
COMPETITION IN THE PROVISION )  
OF ELECTRIC SERVICES THROUGH- )  
OUT THE STATE OF ARIZONA )

DOCKET NO. U-0000-94-165

**ACAA INITIAL BRIEF**

**I. SUMMARY OF ACAA'S POSITION**

Regarding policy development for stranded cost and competition, in general, Arizona Community Action Association is most concerned about the following:

- A price cap is necessary to protect small consumers both in the competitive market and on the standard offer.
- Only those customers in the competitive market should pay stranded costs, since captive customers are already paying these costs and should not be subject to double dipping.
- The recovery method should be bottom up, asset by asset, with the burden of proof placed on the utilities to produce evidence for every asset or obligation they believe is stranded. The recovery mechanism should be volumetric and based on a per kWh charge to protect low-income and other small consumers.

ACAA is also concerned that:

- Cost reductions should be the primary method of stranded cost mitigation as well as utility revenue enhancements, which should include any profits from assets or activities financed by ratepayers.
- The Commission should seek to balance the length of the recovery period and the per kWh charge. In order to promote an opportunity for a near-term rate

reduction, a longer time frame is better and will keep the per kWh charge smaller. On the other hand, the time frame must be as short as possible to allow consumers to realize the full benefits of competition as soon as possible. The time frame for recovery should be different for each utility and will depend on the magnitude of their stranded costs. The working group recommended three to seven years, which is prudent.

- Any changes to the rule should not reduce any consumer protections. The stranded cost definition does not need modification.
- Utilities should file stranded costs as soon as possible and practicable after the generic hearing.
- A true-up mechanism is acceptable only if it is limited to being downwardly flexible. Consumers are better served by having stranded costs set at a fixed level which will be the ceiling. That way they have a firm price tag guaranteed not to increase.

## II. ACAA RECOMMENDATIONS

### **A. Small consumers not likely to benefit from competition; should be held harmless.**

Time and time again, witnesses testified that small consumers (low-income, residential, and small commercial) are not likely to benefit under competition (Cooper, Bayless, Minson, Sterman, Landon) due to stranded cost recovery and other transition issues in the short term. In deed, Dr. Landon suggests that elected officials must provide those benefits by order or legislation and that consumers should avail themselves of the opportunity to contact officials (trans, p. 2868 L19-25, p. 2869 L1). Dr. Cooper maintains that transition issues often eat up the benefits of competition in the short-term, especially for consumers with little bargaining power (trans, p. 2462 L9-25, p. 2463 L1-6).

Since small consumers may not see any benefits, the Commission must hold small consumers harmless and leave them no worse off as a result of competition.

Residential consumers are not the parties pushing for competition. The Commission must balance the competing interests and do no harm to the little guy. At a minimum, existing consumer protections must continue, and any changes to the rule must ensure that those protections are not reduced in any way.

**B. Rate cap provides important consumer benefit/protection.**

If at all possible, the Commission should ensure that some benefits of competition accrue to small consumers. ACAA, along with several other parties (Staff, RUCO, Fessler, Sterman, Enron, Arizonans for Electric Choice, City of Tucson, Department of the Navy, and PG&E) recommend a rate cap. It is a fundamental protection for residential and low-income consumers. If competition will bring lower rates as some parties promise, then there should be no problem with a rate cap. As a point of clarification, ACAA sees the rate cap as a ceiling while allowing downward flexibility. ACAA does not support a rate freeze which would not have the downward movement and would allow utilities to over-recover in certain instances.

**C. Stranded costs should be shared; utilities responsible for some percentage.**

While we have not recommended a set amount, ACAA supports the position of shared responsibility and supports the parties who also recommend sharing (RUCO, LAW Fund, Arizonans for Choice, AG, Arizona Consumers Council, and Staff).

**D. Competitive customers should pay stranded costs; any recovery from captive customers should avoid double dipping.**

ACAA, along with several other parties, support limiting stranded cost recovery to customers in the competitive market. As a point of clarification, ACAA recommends that if it is determined that captive or stranded offer customers are paying less than their fair share (due to an accelerated time period), it would be appropriate to increase those costs only if it did not raise their rates above 1998 levels.

### III. CONCLUSION

It is clear that depending on the party and the utility, the magnitude of stranded costs ranges from positive to zero to negative (meaning the utility is or will over-recover from ratepayers). Without a reasonable estimate of stranded costs, the Commission will have to design a recovery mechanism and policy which is responsive to positive or negative stranded costs. The interests of the consumer and the utility must be balanced equitably and not lead to unintended consequences in the short-term as Dr. Coyle and others warn.

While we must push forward in order to meet competitive deadline, ACAA urges the Commission to above all do this right. It is not worth meeting an arbitrary deadline and in the process creating problems which will take longer to solve down the road. De-regulation of the electric industry is fundamentally different than banking or airlines, which have alternatives like money orders or buses. For society in general, there is no substitute for electricity. The alternative is to return to the civilization of the last century with a reliance on kerosene lamps and no cooling. Competition must be designed correctly at every step along the way or we will end up with some of our neighbors and rural communities priced out of the electric market unable to afford a fundamental necessity of modern life.

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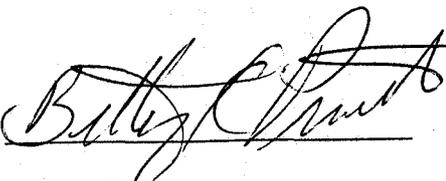
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