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BEFORE THE ARIZONA CORPORATION COMMISSION
AZ CORP COMMISSION

Jim Irvin
Chairman
Renz D. Jennings
Commissioner
Carl J. Kunasek
Commissioner

~~Arizona Corporation Commission~~
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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 STRANDED COSTS REPLY BRIEF

ISSUE NO. 1: SHOULD THE ELECTRIC COMPETITION RULES BE MODIFIED REGARDING STRANDED COSTS, IF SO HOW?

The rules should be changed only as much as is needed to fill in necessary details. In general, the rules offer basic consumer protection policies on stranded costs and any erosion of those protections is unacceptable. The definition of stranded costs should remain as is. However, ACAA supports the Staff position (I.B. at 23) "to modify the rules to accomplish three goals: 1) clarify that there is no guarantee of stranded cost recovery, 2) limit stranded cost recovery to minimize the impact of recovery of the effectiveness of competition, and 3) clarify that the opportunity to recover stranded costs should be the result of utility efforts to be more efficient."

APS has suggested that the rules should be changed to recover nuclear fuel disposal costs in the system benefits charge. ACAA opposes that and agrees with RUCO that nuclear fuel disposal costs and decommissioning charges are directly related to generation and should be a part of stranded costs not system benefits.

APS also suggests changing the rules to disallow stranded cost mitigation from profits associated with non-regulated or affiliate activities, saying that it is tantamount to denying stranded cost recovery. ACAA strongly disagrees, it is the fair use of ratepayer investments and an equitable method of mitigation.

ISSUE NO. 3: WHAT COSTS SHOULD BE INCLUDED AS PART OF STRANDED COSTS AND HOW SHOULD THOSE COSTS BE CALCULATED?

As RUCO states (I.B. at 21) stranded cost calculations should include the life span of the generation asset to allow full future economic benefits to be credited to ratepayers since ratepayers have paid many years of net economic losses with the expectation of long-term benefits of lower than market prices. ACAA has advocated this position from the beginning.

ACAA continues to recommend that the bottom up, asset by asset approach be used. It is the method most fair to consumers and places the burden of proof on the utilities to provide evidence of stranded cost for each and every asset or obligation that they believe is stranded. In addition, the bottom-up calculation method accounts for any and all assets whose market values are greater than their book values. Further, the Rules adequately address what should be included and should not be changed.

ISSUE NO. 6: HOW AND WHO SHOULD PAY FOR STRANDED COSTS AND WHO, IF ANYONE, SHOULD BE EXCLUDED FROM PAYING STRANDED COSTS?

Stranded costs should be recovered from utilities and their shareholders, new entrants to the Arizona market, and consumers who participate in (and expect to benefit from) the competitive market. APS asserts that self generation and interruptible customers should be responsible for some stranded costs since they rely to some degree on utility generation assets. ACAA would agree to the extent that only those customers taking competitive power should be subject to stranded cost recovery and supports RUCO (I.B. at 23) in this regard. No one in the competitive market should be excluded.

ACAA disagrees with APS and continues to support the rule which states that stranded costs may only be recovered from customers served competitively. Consumers not in the competitive market are already paying for these stranded assets through their rates and should not be subject to double dipping. In our initial brief, ACAA wrote that if it is determined that captive or standard offer customers are paying less than their fair share (due to an accelerated time period) then it might be appropriate to increase those costs as long as it did not raise their rates above regulated 1998 levels.

ACAA would add at this time that some equitable consideration must be given to low-income and residential customers who are not driving this change to competition and are not likely to benefit from it. Indeed, APS would prefer that small customers <3mW not be allowed the opportunity even to enter the competitive market at the beginning. Therefore,

APS' proposal to saddle standard offer customers with extra stranded costs is unacceptable and should be rejected. Captive customers still on the standard offer should be excluded. Residential and low-income customers should not have to pay for any stranded costs resulting from competition in which they do not participate.

The stranded costs to be recovered from consumers receiving competitive services should be collected using a non-bypassable distribution access charge applied on a per kWh basis to the volume of energy sales to these consumers.

ACAA also suggests that a portion of stranded costs should be recovered from new market entrants; these funds could be collected using a market access charge (or entrance or license fee) applied on a per kWh basis to the volume of in-state energy sales. The Commission should create a fund which the utilities could draw upon to pay for stranded costs. The non-bypassable distribution access charges and the new market entrant access charges (or license fees) collected for stranded costs should be deposited in this fund.

Sharing proposals:

Although ACAA has not advocated for a particular level of sharing of stranded costs, we maintain it is necessary and appropriate to have some level of cost sharing. APS has taken the position that sharing proposals are rank regulatory opportunism and are disingenuous and deceitful. This is tantamount to the beach bully utility kicking sand in consumers faces and calling them names. It is important to remember that low-income and small consumers are being dragged into the competitive market while being made to pay for the privilege. If the terms disingenuous, and deceitful apply anywhere, they certainly apply to the concept of making small consumers pay for something they do not want, may not be able to participate in until later (according to the APS proposal), and will likely not see any benefits for many years. This scenario reeks of opportunism. If competition is not well crafted, small consumers will be eating a steady diet of sand for years to come. ACAA strongly supports that stranded costs be shared by all competitive parties.

ISSUE NO. 8: SHOULD THERE BE PRICE CAPS OR A RATE FREEZE IMPOSED AS PART OF THE DEVELOPMENT OF A STRANDED COST RECOVERY PROGRAM AND IF SO, HOW SHOULD IT BE CALCULATED?

Multiple parties support a price cap. ACAA maintains that low-income and other small consumers will face many risks and have few opportunities to benefit from the

competitive market. A price cap is a very meaningful mechanism for protecting small consumers.

ISSUE NO. 9: WHAT FACTORS SHOULD BE CONSIDERED FOR MITIGATION OF STRANDED COSTS?

Cost reduction is the primary method of mitigation and includes refinancing debt, reducing overheads, renegotiating contracts, retiring uneconomic facilities, and selling excess generation capacity. In as much as APS has taken an aggressive approach to reducing costs, they should not be penalized. APS customers have enjoyed the benefits of rate reductions over several years. It would be appropriate to account for these mitigation activities as long as they are not double counted.

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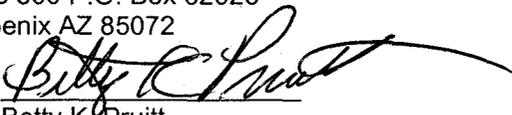
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