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ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
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JACK ROSE
SECRETARY

MAY 20 1998

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May 19, 1998

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Docket No. RE-00000C-94-0165

Dear Stakeholder in Retail Electric Competition:

Enclosed is a copy of Staff's position on some of the important issues of Retail Electric Competition. You might note that the position shown is similar, but not identical, to the position that Staff described in various stakeholder meetings over the past two weeks. Staff's position has changed somewhat, based upon comments from various stakeholders and upon the final changes made to HB 2663.

We would appreciate receiving your comments on this Statement of Position by fax or hand delivery to the Office of the Utilities Division Director by noon on Friday, May 22, 1998. We will be docketing the final Statement of Position by Friday, May 29. We anticipate asking for Commission feedback at a Special Open Meeting scheduled for June 3rd.

Our fax number is (602) 542-2129. The office is on the 2nd floor of the Commission Offices at 1200 W. Washington in Phoenix.

We would appreciate your comments. Thanks.

Ray T. Williamson

Ray T. Williamson
Acting Director
Utilities Division

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Statement of Position of the ACC Staff

The following represents Staff's position on several significant issues related to electric restructuring. Implementation of most of these positions will require revisions to the current rules.

A. Stranded Cost

The goals of the Arizona Corporation Commission are:

- To avoid vertical and horizontal market power;
- To provide Affected Utilities an opportunity for full recovery of stranded cost;
- To accurately assess the value of stranded cost;
- To ensure fair and reasonable treatment of all consumers; and,
- To ensure the financial viability of all Affected Utilities.

In order to accomplish these objectives, it is the policy of the Arizona Corporation Commission to encourage full divestiture of generation assets. Generation assets include, but are not limited to, generating plants, power purchase contracts, and fuel contracts. Affected Utilities that voluntarily divest all generation assets shall have the opportunity to recover 100% of unmitigated stranded cost. However, Affected Utilities are not required to divest generation assets.

"Stranded Cost" means the verifiable net difference between:

- a. The value of all the prudent jurisdictional assets and obligations necessary to furnish electricity (such as generating plants, purchase power contracts, fuel contracts, and regulatory assets), acquired or entered into ... under traditional regulation of Affected Utilities; and
- b. The market value of those assets and obligations directly attributed to the introduction of competition

In addition, unmitigated stranded cost shall include reasonable employee severance and retraining costs necessitated by electric competition, where not otherwise provided. Unmitigated stranded cost shall include reasonable costs associated with sale of generation assets.

Each Affected Utility choosing divestiture will submit a divestiture plan to the Commission for approval. No Affected Utility or its affiliate may purchase generation assets at any divestiture auction of any Affected Utility. This provision can be waived by the Commission for good cause shown. Each Affected Utility seeking to recover Stranded Cost shall submit a Stranded Cost Recovery Proposal for Commission

approval.

The sale of generating assets shall be completed prior to January 1, 2000 unless otherwise approved by the Commission. A transition charge, subject to true-up, will be estimated and collected beginning on January 1, 1999. Revenues from any such transition charge will be placed in a trust account and dispersed as generation is divested. Interest on such trust account shall be used to mitigate stranded cost.

The Commission shall determine appropriate stranded cost recovery mechanisms and recovery periods. Affected Utilities shall bear the burden of supporting their estimates of unmitigated stranded cost. Any mechanism used for the recovery of stranded cost shall be competitively neutral.

Stranded cost shall be allocated among customer classes in a manner consistent with the respective company's current rate treatment.

Special contract customers will not be assessed an additional charge for stranded cost or transition revenues during the term of the special contract. However, a stranded cost or transition charge for the special contract customers will be imputed to the contracts and borne by the Affected Utility, and not the Affected Utility's other customers. If a special contract is subject to either extensions or renegotiation clauses, the renegotiated contract must explicitly include an allocation for the recovery of any applicable stranded cost or transition charge in the renegotiated terms.

If an Affected Utility chooses not to divest, the Affected Utility will transfer its generation assets to a separate corporate affiliate at a value determined by the Commission to be fair and reasonable. The terms of such transfer shall be approved by the Commission and completed prior to January 1, 2000. Regulatory assets shall be fully recoverable unless there are offsetting stranded benefits associated with generation assets.

If an Affected Utility can demonstrate that divestiture of any particular Generation Asset is not practical and not in the public interest, the Commission in its discretion may provide the Affected Utility transition revenues, if necessary, to preserve its financial integrity, but only if such transition revenues are determined by the Commission to be in the public interest.

B. Affiliate Rules

The goals of the Arizona Corporation Commission are:

- To prevent cost sharing and cross-subsidization between competitive and monopoly activities;
- To facilitate ease of regulatory oversight; and,
- To reduce the regulatory burden on the competitive market.

In order to accomplish these objectives, it is the policy of the Arizona Corporation Commission that the Affected Utilities create separate corporate affiliates for competitive activities and monopoly activities. The Affected Utilities will transfer competitive assets to a separate corporate affiliate at a value determined by the Commission to be fair and reasonable. Costs associated with restructuring the affected utility into separate corporate affiliates shall be borne by the shareholders.

The Affected Utility must offer the same terms and conditions of service to all competitors and their customers as it offers to any of its affiliates and their customers. An Affected Utility shall neither provide, nor represent that it will provide, preferential treatment to its affiliates or its customers as compared to nonaffiliated companies or their customers.

Any activity that creates a potential sharing of costs between the Affected Utility and its affiliate is strictly forbidden unless approved by the Commission. Such activities include, but are not limited to, sharing of plant, capital, equipment, employees, information, and joint purchases.

Joint marketing programs between Affected Utilities and their affiliates are forbidden unless approved by the Commission. No trade, promotion or advertising of an affiliate's connection with the parent utility is allowed unless the affiliate discloses that the affiliate is separate from the Affected Utility.

C. Implementation of Competition

The goals of the Arizona Corporation Commission are:

- To provide the benefits of competition to all ratepayers in a timely manner;
- To ensure a smooth transition from monopoly to competition;
- To ensure that the implementation of competitive services is technically feasible; and,
- To reduce unnecessary burden caused by the transition.

In order to accomplish these objectives, it is the policy of the Arizona Corporation Commission to implement direct access where technically feasible, offer benefits in lieu of competition to customers without direct access, reduce the length of the transition period, and create a Residential Phase-In Program to enable Electric Service Providers (ESP) and residential customers to familiarize themselves with retail electric power competition.

1. Timing and Customer Selection

Customers with load of 1 MW and above will have access to competitive electric power services on 1/1/99.

Customers with load ≥ 20 kW can be aggregated to achieve the 1 MW threshold starting on 1/1/99.

All customers will have access to competitive electric services on 1/1/01.

2. Targeted Rate Decreases

The price of the Affected Utilities standard offer for retail customers who are unable to choose competitive electric generation during the transition period shall be reduced. These rate reductions are to be determined separately for each Affected Utility and are targeted to be in the range of 3%-5%.

3. Residential Phase-In Program

Affected Utilities will offer residential customers an opportunity to participate in a Residential Phase-In Program. 1/2 of 1% of residential customers will have access to competition on 7/1/99. The number of customers will be increased by 1/2 of 1% every quarter through the transition period. Access to the program will be on a first-come first-serve basis.

Affected Utilities will submit Residential Phase-In Program Proposals to the Commission for approval by March 31, 1999.

D. Metering and Billing

The goals of the Arizona Corporation Commission are:

- To ensure vigorous competition in the electric power market;
- To promote efficient consumption of electric power;
- To spur technological innovation;
- To ease the transactional burden of competitive access; and,
- To ensure reliability of the system.

In order to accomplish these objectives, competitive metering and billing services will be offered to customers with access to competitive electric power services.

1. Metering

Competitive metering shall be offered to customers having access to competitive electric power services as of 1/1/99. These services can be provided by the Affected Utility, the Electric Service Provider (ESP), or their Agents.

A Universal Node Identifier shall be assigned for each service delivery point by the Affected Utility whose distribution system serves the customer.

All competitive metering data shall be translated into a consistent, statewide format that can be used by Affected Utilities and the Electric Service Providers. Data translation does not have to occur at the meter. The transmittal of billing data among suppliers will

be via electronic data interface (EDI) data file format.

Competitive customers with an hourly load less than 20 kW will be permitted to use load profiling after the transition period.

2. Billing

Customers having access to competitive electric power services can choose whether bills will be provided by the Affected Utility or the ESP or both.

Functionally, disconnects and connects should be coordinated by the Affected Utility. Only the Affected Utility may order connects, disconnects and reconnects.

Customer specific billing data will only be released to parties to whom customers have given authorization.

All delinquent bills shall be subject to the provisions of the Affected Utility's termination procedures.

E. Local Distribution Company Services

The goals of the Arizona Corporation Commission are:

- To create a safe haven for customers not choosing competitive electric power services;
- To ensure access to electric power for all customers; and,
- To ensure the continued regulation of these services.

In order to accomplish these objectives, an Affected Utility acting as a Local Distribution Company shall continue to offer bundled electric power service, or standard offer, to all customers. This service shall continue to be regulated. In addition, the Affected Utilities shall continue to finance programs through a system benefits charge.

1. Standard Offer

The Affected Utility will provide Standard Offer Service.

Customers can change suppliers at the end of their existing electric service provider's billing cycle. There shall be no additional constraints for a consumer switching to or from the Standard Offer Service.

Subsequent to the transition period, power purchased to serve standard offer customers will be acquired through competitive bid. These contracts shall contain provisions allowing the Affected Utility to ratchet down its power purchases.

The Affected Utility shall be the Provider of Last Resort. Reasonable costs incurred in fulfilling this duty may be recovered through a distribution system-wide tariff approved by the Commission.

2. System Benefits

The Affected Utility shall continue to offer programs, such as low-income assistance, demand-side management, and nuclear decommissioning, financed through a system benefits charge.

F. Transmission and Dispatch

The goals of the Arizona Corporation Commission are:

- To ensure fair and non-discriminatory retail access to the transmission and distribution system;
- To promote the development of a competitive market for retail generation; and,
- To ensure continued system reliability.

Affected Utilities shall provide non-discriminatory open access to transmission and distribution facilities to serve all customers. No preference shall be given to any distribution customer based upon whether the customer is purchasing power under the Affected Utility's standard offer or in the competitive market.

Affected Utilities must join an independent system operator whose activities include, but are not limited to, the following:

1. Short-run reliability;
2. Administration of grid-wide tariff;
3. Managing congestion and establishing congestion pricing;
4. Planning transmission expansion for reliability and commercial needs;
5. Emergency operations;
6. Provision and pricing of ancillary services;
7. Facilitate Alternative Dispute Resolution (ADR) process;
8. Operate the Open Access Same-time Information System (OASIS);
9. Resolve "seams" issues; and,
10. Either develop its own reliability standards or follow WSCC/NERC (NAERO) standards.

Until an independent system operator is created, the Affected Utilities must participate in an independent scheduling administrator whose duties include, but are not limited to, the following:

1. Participate in the determination of Total Transmission Capacity (TTC);
2. Define, review and exercise oversight of committed use;
3. Responsible for Available Transmission Capacity (ATC) calculation;
4. Operate overarching OASIS;
5. Receive copy of transmission schedule;
6. Receive and post curtailment information; and,
7. Provide dispute resolution process for transmission use denials and curtailment orders.

Costs associated with the establishment and operation of the independent scheduling administrator shall be recovered through a distribution charge assessed to competitive customers.

Costs associated with the establishment and operation of the independent system operator shall be recovered from customers using the transmission system, including the transmission owner's customers, through FERC-regulated prices, which are set on a non-discriminatory basis.

The Commission shall determine which generation units are must-run units for distribution reliability and mitigation of market power, and will regulate the price of power from such units.

The terms of the must-run contracts will be finalized prior to the divestiture of the must-run units.