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Arizona Corporation Commission  
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Via facsimile 542-2129

May 22, 1998

Mr. Ray Williamson  
Acting Director  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007-2996

Docket #: RE-00000C-94-0165

Re: *Comments on the Staff Position Statement*

Dear Ray:

We are writing to you to comment on the staff position statement which we received earlier this week.

We were surprised to see the recent statement of position of the staff. SRP has been an active participant in the rulemaking docket and the various working groups. Although SRP is not a party, we are actively monitoring the stranded cost proceedings. The staff statement seems to bypass this entire process, especially as it purports to state positions of the Commission. We need to be working hard on the details of implementing competition, not changing the rules this close to the start date.

While SRP management position differs substantially with many of the positions stated in the staff report, two issues are of particular importance in coordinating the efforts of the Commission and SRP.

The first issue involves the requirements in the position statement for participation in an ISO and requirements for distribution system access. As you know, all regional utilities, including utilities not within either of the ACC or SRP jurisdictions, have been working for some time to agree upon and implement appropriate structures and organizations. This effort is taking place because transmission is not sensitive to state boundaries, and because it is, of course, subject to FERC regulation. These meetings, through Desert STAR, are being held on a regular basis, and have been attended by an ACC representative.

It is physically impossible to implement an ISO before the end of the year. It is for this reason that an interim transmission solution is being developed. The parties will ultimately develop an appropriate regional ISO or other coordination mechanism. We ask that the

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Commission participate in this process, and not try to unilaterally impose rules on only some of the participants. Central to resolution of these issues is system reliability. This is an area where cooperation and coordination are at a premium.

Also along these lines are requirements regarding the details of distribution access. All participants in competition have been holding a series of meetings as the Arizona Direct Access Group. These meetings will establish the complicated details of how retail access will actually function at the end of this year. The next meeting is scheduled for June 2. We do not have the luxury to delay these efforts, at all. We ask that the Commission approach these meetings in a cooperative effort to actually make competition a reality.

One example where an understanding of the intricacies of providing retail access is essential is in establishing access criteria. The suggestion in the staff position would unnecessarily impose significant additional costs on distribution customers by broadly requiring "non-discriminatory" retail open access to transmission and distribution systems. This blanket requirement would also seriously jeopardize system reliability. While it is possible for SRP to follow different rules, it is highly impractical because of the significant interconnections between the APS and SRP systems. Coordination on this issue is therefore of particular importance.

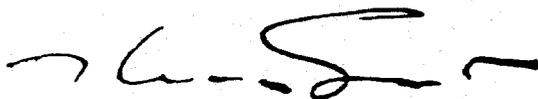
The second issue involves the suggestion that load over 20 kW could be aggregated beginning at the end of this year. This requirement would be a significant departure from the schedule of H.B. 2663, contrary to the understandings reached in legislative meetings, and contrary to the Commission's own rules. While we do not have specific data on the APS loads, we estimate that this requirement would open to competition to a substantial percentage of APS's total load. A massive effort will be necessary for the state to meet the 20 percent requirement at the end of the year. By now imposing a "flash cut", implementation will become close to impossible, and we will destroy the consistency which the ACC and SRP are both bound to achieve. We suggest that all parties adhere to the current schedule, so that competition can start on time.

We look forward to working with you to achieve our goals and the goals established by state law.

Very truly yours,

JENNINGS, STROUSS & SALMON, P.L.C.

By



Kenneth C. Sundlof, Jr.