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EXCEPTION

IN REPLY REFER TO:

11300  
D0079F  
May 28, 1998

FEDERAL EXPRESS - OVERNIGHT DELIVERY

Docket Control Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Attn: Docket Control Clerk

Re: Docket No. RE-00000C-94-0165  
Competition in the Provision of Electric Service  
Throughout the State of Arizona

RECEIVED  
AZ CORP COMMISSION  
MAY 29 1 14 PM '98  
DEPARTMENT OF DEFENSE

Dear Sir/Madam:

Enclosed are the original and ten copies of the Exceptions of the Department of Defense to the Proposed Order in the matter referenced above.

If you have any questions, please feel free to contact me at (650) 244-2100.

Yours truly,

~~Arizona~~ Corporation Commission  
**DOCKETED**

**MAY 29 1998**

DOCKETED BY

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EXCEPTION

BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN  
COMMISSIONER-CHAIRMAN  
RENZ D. JENNINGS  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER

RECEIVED  
AZ CORP COMMISSION

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DOCUMENT CONTROL

**In the Matter of the Competition  
In the Provision of Electric Services  
Throughout the State of Arizona**

Docket No. RE-00000C-94-0165

EXCEPTIONS  
OF  
THE DEPARTMENT OF DEFENSE  
AND ALL OTHER FEDERAL EXECUTIVE AGENCIES  
TO THE PROPOSED ORDER

~~Arizona Corporation Commission~~  
**DOCKETED**

MAY 29 1998

DOCKETED BY *[Signature]*

Filed  
May 29, 1998

**Competition of Electric Services Throughout the State of Arizona  
(Electric Competition)  
Docket No. RE-00000C-94-0165**

**Exceptions of the Department of Defense**

Overall, the Department of Defense finds Hearing Officer Rudibaugh's recommendations filed in the form of an Opinion and Order in this case to be reasonable, with one major exception: The 10-year transition period is much too long.

**DOD Exception #1:** The transition period for collection of stranded costs by the Affected Utilities should be limited to a period no longer than six years. At page 8, line 12, the Hearing Officer correctly notes that one of the primary objectives is to: "Accelerate the collection of stranded costs into as short of a transition period as possible consistent with other objectives[.]" At page 20, lines 3-4, the proposed Decision states that: "... we believe the Affected Utilities will have a reasonable opportunity to collect 100 percent of their stranded costs over a relatively short transition period ..." (Emphasis supplied.) Ten years is not a relatively short transition period. At page 9, line 12-13, the Hearing Officer also recognized that: "Generally, most of the parties recommended a transition period somewhere between three to six years." The maximum period allowed for collection of stranded costs, therefore, should be six years. The time limit for the collection of stranded costs by the Affected Utilities provided for under each of the three Options listed on pages 11-13 should be limited to a maximum of six years. The specific language for each of the three Options should be revised accordingly to replace the ten year collection period with a six year period.

DOD therefore recommends the following revisions to the Proposed Order:

Option 1, Footnote 5 on page 12 should read:

Including the initial five year period, any rate of return will be phased out after a total of ~~ten~~ six years.

Option 2, sentence starting at page 12, line 19 should read:

We will permit the Affected Utility to collect 100 percent of the stranded costs on an equal basis over a ~~ten~~ six year period.

Option 3, page 12, line 24 through page 13, line 3, should read:

The third option would be to maintain financial viability of the Affected Utility for a maximum period of ~~ten~~ six years. This would require sufficient revenues to meet minimum financial ratios. At the end of ~~ten~~ six years, there would be no remaining stranded costs. All customers would have to pay their share either through the standard offer or CTC charges.

Other Comments

DOD recommends that two other clarifications be made to the Proposed Order:

**DOD Exception #2:** At page 15, line 20, it appears that the sentence should read as follows:

Accordingly, we do not find it necessary to change Rule 1607(G).

**DOD Exception #3:** Finding of fact #21, on page 22, should be revised as follows:

21. Securitization is a financing method that can be utilized to spread stranded costs over a longer period, at a cost of capital that may be lower than the Affected Utility's present cost of capital, and thus minimize the annual impact.

Respectfully submitted,



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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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In the Matter of the Competition in the  
Provision of Electric Services Throughout  
the State of Arizona

Docket No. RE-00000C-94-0165

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing Exceptions of the Department of Defense on all parties of record in this proceeding by mailing a copy thereof, properly addressed with first class postage prepaid to:

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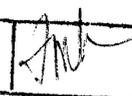
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**DOCKETED**

MAY 29 1998

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Dated at San Bruno, California, this 29<sup>th</sup> day of May 1998.

  
Leticia G. Byrd, Secretary