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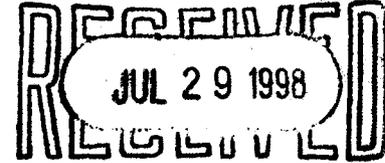
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JUL 30 ARIZONA POWER AUTHORITY

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ARIZONA CORPORATION
COMMISSION



Director of Utilities

July 28, 1998

Mr. Ray T. Williamson
Acting Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Re: ACC Proposed Rules for Electric Competition

Dear Mr. Williamson:

The Arizona Power Authority is a body corporate and politic of the State of Arizona which was established to receive, deliver, and dispose of Arizona's allocation of preference power from the Boulder Canyon Project to qualified purchasers in accordance with State and Federal law. The Authority presently distributes this preference power to thirty-one entities throughout the state of Arizona. Many of these customers are irrigation and electrical districts whose loads (principally irrigation pumps) are embedded within the service areas of Arizona Public Service ("APS") and Salt River Project ("SRP"). Therefore, the delivery of the Authority's preference power requires the use of APS's and SRP's distribution system.

This is not a new arrangement. The loads of these irrigation and electrical districts have existed for years and have utilized the distribution systems of APS and SRP for this same time period. These loads are like any other load presently served from these distribution systems, except that neither APS or SRP has any responsibility to build generation to serve these irrigation pumps. APS and SRP only have the responsibility to build and maintain the distribution facilities necessary to serve these loads and, in turn, the irrigation and electrical districts pay a distribution charge.

The Authority is concerned about the potential that APS and SRP may impose upon the Authority's irrigation and electrical district customers the proposed Competitive Transition Charge ("CTC") and System Benefit Charges ("SBC") as a result of these districts' receipt of power from the Authority. Per the Commission's proposed rules, both of these charges are intended to be recovered only from customers who once received

their power from the local utility but chose to have their future requirements provided through participation in and purchases from the competitive market. The Authority understands the basis for imposing such charges on entities whose loads were previously the responsibility of the local utility. However, this is not the case for any of the irrigation and electrical districts' loads whose electrical requirements have been provided through power obtained from the Authority rather than their local utility.

The Authority requests that the Commission explicitly exclude from the CTC and SBC any loads which were previously provided by a power supplier other than the local utility. Only those loads which were previously the responsibility of the local utility (but which chose to instead obtain their future power requirements through participation in the competitive market) should be subject to the CTC and SBC.

In addition to the issue of who should be subject to the CTC and SBC, the Authority is concerned about the proposed costs to be included in the SBC. The Authority believes that any costs associated with generation should be recovered through the CTC. The Commission's proposed rules include in the SBC costs related to renewable generation, nuclear disposal and nuclear power plant decommissioning, as well as environmental costs. Renewable generation and any nuclear related costs are obviously generation related expenses. Some portion of the environmental costs incurred by a utility is also related to generation.

It is standard ratemaking practice to recover costs in accordance with the activities which impose the costs. This would imply that all generation-related costs should be recovered through the energy component of standard offer rates, the revenues received from power sales in the competitive market, or as a component of the CTC.

The Authority appreciates this opportunity to provide comments to the Commission. We hope that these comments will receive sincere consideration and offer to respond to any questions the Commission may have related to these comments.

Sincerely,



Mark S. Mitchell
Executive Director

cc: APA Commissioners
APA Customers and Interested Parties
James P. Bartlett