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September 18, 1998

Arizona Corporation Commission
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DOCKETED BY

Ray T. Williamson
Acting Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007-2996

RE-00000C-94-0165

Re: Utility Stranded Cost and Unbundled Rate Proceedings before the Arizona Corporation Commission

Dear Mr. Williamson:

CellNet Data Systems ("CellNet") respectfully submits these comments on the above-captioned proceedings, in which CellNet is an interested party. CellNet is a metering services provider that operates nationwide, currently servicing approximately 1.5 million meters and adding approximately 100,000 meters per month. CellNet was the first metering services provider approved to operate throughout California in that state's deregulated energy market. CellNet has been an active participant in the regulatory process in Arizona and throughout the U.S., filing comments, participating in (and chairing) working groups, and testifying before state public utility commissions and legislatures, as well as the U.S. House of Representative Commerce Committee. CellNet's goal is to help streamline implementation of competition, in those states that have decided to implement competition, and, thus, to reduce transaction costs and other costs to customers.

Electricity Generation Credit

Both the Stranded Cost and Unbundled Rate proceedings are likely to affect the calculation of the electricity generation credit, or "shopping credit." This is the amount per kWh by which a customer's utility bill is reduced when that customer chooses an alternate supplier. Proper determination of this credit is essential to making the competitive market work. For example, credits in California, Massachusetts, and Rhode Island are below the total wholesale cost of power, making it nearly impossible for alternate suppliers to offer savings to consumers; less than one percent of customers have switched in six months. In contrast, shopping credits have been set deliberately high in Pennsylvania by that state's commission; the result: about half of the customers eligible to switch have asked to switch, even though the market does not open until January 1, 1999.

Today, the utility's rate for generation has three primary components: the cost of generation (including capital, fuel, and operating expenses), overheads (including A&G

and other expenses), and a stranded cost amount. The stranded cost amount is generally agreed to be the difference between the utilities generation cost and the wholesale price of electricity.
In Pennsylvania, Massachusetts and Rhode Island, commissions developed forecasts of the wholesale price of electricity and established shopping credits based on those forecasts. This regulated approach inherently conflicts with the notion of competitive markets.

CellNet understands that Arizona Public Service ("APS") is proposing shopping credits that have major element's of California's approach. CellNet urges the Commission to adopt a primary feature of APS's proposal, which, like California, is to base shopping credits on the actual wholesale power price. This basic approach gives neither the utility nor alternate suppliers a cost advantage to start with.

However, the Commission is urged to correct a major problem in California's credit, and APS's proposal, that has resulted in that state failing to achieve a vibrant market. While California's shopping credit is based on the wholesale power price, it includes only that wholesale price and no allocation of overhead expenses. Alternate suppliers are having tremendous difficulty, because they must be able to provide customer savings and pay for marketing and overhead costs *in addition* to paying for wholesale power. Thus, the competitive playing field is highly skewed in favor of the utility. Adopting the same approach in Arizona would cause the same problems and lack of customer choice as has occurred in California. For these reasons, CellNet urges the Commission to correct this problem by establishing shopping credits equal to the wholesale price of power *plus* a reasonable allocation of utility A&G and overheads associated with the generation function.

CellNet understands APS's credit proposal has another feature, which is to calculate stranded cost, or Competitive Transition Charge ("CTC"), amounts at different costs per kWh for every individual customer. APS's proposal is to calculate a CTC rate per kWh that changes for every customer and for every hour of the year. California's commission considered and rejected this approach as unfair. Instead, the Commission should adopt a rate design for credits that averages the CTC rate for all customers within a class. An example illustrates how unfair the APS proposal is to customers:

1. Assume APS's total generation rate is 5.0 cents per kWh and that the average shopping credit is 2.5 cents. This makes the CTC an average of 2.5 cents.
2. Assume Customer A is a high on-peak user, using 25 percent of his or her electricity during peak hours and that, as a result, the wholesale cost of power (including overheads) for Customer A is 3.0 cents.
3. Assume Customer B is a very low on-peak user, using only 10 percent of electricity on-peak, with a wholesale power cost of 2.0 cents.
4. APS would set the CTC for Customer A at 2.0 cents per kWh and for B at 3.0 cents per kWh, so they pay exactly the same amount, even though Customer A is costing much more to serve. Customer B is actually being penalized – having to pay a higher stranded cost charge – for being a good user with low on-peak usage!

Adopting an averaged CTC charge eliminates this unfair result and treats all customers equally with regard to recovering stranded costs.

Unbundled Rates

Two states have completed at least one step in the process of unbundling rates: California and Nevada. The Commission is urged to adopt Nevada's approach for several reasons. First, Nevada is the only state that has unbundled rates to the extent being done in Arizona; California's process unbundled only the generation, transmission, and distribution rates and did not include unbundling of billing and metering services. Nevada's commission adopted its unbundling methodology on August 20, 1998. Second, Nevada's unbundled rates were the result of a consensus-based process involving utilities, alternate energy suppliers, generators, major customer groups, consumer advocates, and regulators. Third, Nevada's approach is easily transferable to Arizona, because it makes heavy use of universally used Federal Energy Regulatory Commission ("FERC") Form 1 accounts. These accounts are required for all investor owned utilities in the U.S. The FERC accounts have been used for unbundling studies elsewhere, such as by Idaho's commission. Also, these accounts have a long history, have been used for ratemaking frequently, and are easily audited.

For these reasons, CellNet urges the Commission to consider Nevada's rate unbundling methodology for adoption in Arizona. CellNet would be pleased to provide copies of Nevada's methodology upon request.

Finally, CellNet urges the Commission to disallow any DASR transaction charges in utility-filed Unbundled Rates. Most states allow at least one free customer switch at the onset of competition, with subsequent changes billed by the distribution utility at a typical charge of $5. Further, customers signing up new should be able to select an ESP from day one with no fee for switching.

CellNet greatly appreciates the opportunity to comment.

Respectfully,

Paul Taylor for Chris King

Chris S. King
Vice President
Strategic Planning and Regulatory Affairs