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BEFORE THE ARIZONA CORPORATION COMMISSION

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JAN 20 1999

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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-94-165

COMMENTS OF CALPINE
POWER SERVICES

Calpine Power Services ("Calpine") hereby files its comments to the Procedural Order of January 6, 1999. In the format suggested by the Hearing Officer, these comments address the four following subjects:

1. Issues That Remain Unresolved in Electric Industry Restructuring
2. The Order in Which the Issues Should be Resolved
3. The Method and Timing for Resolving Those Issues
4. Specific Comments Regarding the Proposed Procedural Schedule Filed by RUCO and the Attorney General's Office on January 4, 1999.

I. ISSUES THAT REMAIN UNRESOLVED

For almost 5 years, the Commission, its Staff and stakeholders have been working on resolving electric competition issues. The only significant remaining issues pertain to the numbers: what are the unbundled rates of the affected utilities and what are the legitimate and reasonable stranded costs? All other issues, including those suggested by Staff in its January 15, 1999 Comments, may later be addressed during the maturation of the competitive electric market.

Aside from unbundled tariffs and stranded costs, these other issues may be resolved in the parallel rulemaking process or outside of this docket.

1. Affiliate Interests

Codes of Conduct for the affected utilities should be adopted no later than April 1, 1999, after a consolidated hearing and approval by the Commission. These practices should be in place while the affected utilities are moving into the competitive environment. The Rules presently provide for

1 the treatment of affiliate transactions and the separation of competitive activities. This matter, if need
2 be, could be addressed during the rulemaking docket.

3 **2. Operational Protocols**

4 Changes in operational procedurals have been going on for some time, in anticipation of the
5 January 1, 1999 competition deadline. Again, no further delay or new issue should be raised to
6 further postpone competition. If a legitimate issue is raised, it could be addressed in the rulemaking
7 docket.

8 **3. Independent System Administrator (ISA), Independent System Operator (ISO) 9 and Transmission Issues**

10 Transmission service is within the jurisdiction of the Federal Energy Regulatory Commission
11 (FERC). On the local level, these issues are being resolved through Desert STAR and the Arizona
12 Independent Scheduling Administrator Association. These arrangements have already been addressed
13 in the Electric Competition Rules. To the extent future modifications may be needed, they can be
14 addressed in the rulemaking docket.

15 **4. Must-Run Generation**

16 The designation of must-run units involves FERC, and to the extent must-run units are
17 included within bundled rates, those costs should be separated out in the unbundled tariff proceeding.

18 **II. ORDER IN WHICH TO RESOLVE THE ISSUES**

19 Prompt implementation of electric restructuring could occur by an interim order that reinstates
20 the Electric Competition Rules and sets interim unbundled rates and competition transition charges
21 (CTC), subject to verification during hearings. Implementation of interim unbundled tariffs is a
22 critical component to this process. Consumers and new entrants need to know the cost components
23 in order to make "apple to apple" comparisons. Furthermore, the cost basis of unbundled services
24 assures consumers and new entrants that they are not paying twice for the same facility or service.

25 **III. METHOD AND TIMING FOR RESOLVING THESE ISSUES**

26 Parallel proceedings could occur, one for implementing unbundled tariffs and CTCs and the
27 other for any final adjustment to the rules.
28

1 As to the unbundled tariff/CTC proceeding, the dockets for each affected utility could be
2 consolidated with sequential hearings for each of the affected utilities within one contested case. One
3 may expect that most, if not all, stakeholders will appear in each proceeding of affected utilities.
4 Consequently, one docket that addresses "overlapping" issues seem preferable. Experts could testify
5 one time on all points of concern affecting all affected utilities. The rulemaking docket could then
6 incorporate that final decision and make any necessary amendments to the rules.

7 **IV. COMMENTS ON RUCO AND THE ATTORNEY GENERAL'S OFFICE**
8 **SCHEDULE**

9 The proposal filed by RUCO and the Attorney General's Office is a reasonable process.
10 Without unbundled distribution tariffs, electric service providers are unable to market and contract
11 with customers. See TEP's Request for a Stay and its Exceptions to the Proposed Order Adopting
12 Rule Amendments (December 9, 1998) at 3. Many days of hearings have already been held on
13 stranded cost. After a brief time period (of not more than 14 calendar days), the affected utilities
14 could supplement their previous unbundled tariff and stranded cost filings. This information has
15 already been available for many months. Thereafter, interveners and Staff could respond within a
16 short time period (of not more than 14 calendar days). All parties could reply within seven calendar
17 days. In general, the time periods suggested by RUCO and the Attorney General's Office could be
18 accelerated and the total time frame could be compressed.

19 **V. CLOSING REMARKS**

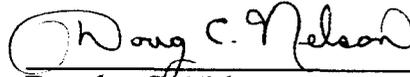
20 Settlement efforts should be encouraged. A date certain for lifting of the stay of the Electric
21 Competition Rules would put pressure on the stakeholders to resolve these issues. For instance, the
22 Commission could order that the six month time period, until June 30, 1999, is a reasonable time
23 period in which to comply with due process and if the Commission does not issue a new decision by
24 that date, the Electric Competition Rules will go into effect without amendment.

25 Delay in implementing electric competition only benefits the affected utilities, not consumers
26 or new entrants. As time moves on, the benefits derived from lower-cost generation decline and entry
27 barriers for new entrants rise. A procedural schedule for the prompt resolution of these issues and
28

1 the interim unbundled tariffs would motivate the affected utilities to move more quickly toward
2 electric competition.

3 RESPECTFULLY submitted this 20th day of January, 1999.

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5 DOUGLAS C. NELSON, P.C.

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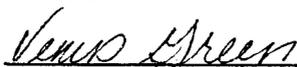
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25 All parties on the service list for
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