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BEFORE THE ARIZONA CORPORATION COMMISSION

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JIM IRVIN
Commissioner - Chairman
TONY WEST
Commissioner
CARL J. KUNASEK
Commissioner

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IN THE MATTER OF THE COMPETITION IN) DOCKET NO. RE-00000C-94-0165
THE PROVISION OF ELECTRIC SERVICES) COMMENTS OF NEW ENERGY
THROUGHOUT THE STATE OF ARIZONA.) VENTURES SOUTHWEST LLC ON
) OUTSTANDING ELECTRIC
) COMPETITION ISSUES

New Energy Ventures Southwest, L.L.C. ("NEV Southwest"), through undersigned counsel and pursuant to the Procedural Order dated January 6, 1999 issued in this docket, hereby submits its comments on those issues identified by the Chief Hearing Officer regarding electric competition in Arizona as follows:

I. INTRODUCTION.

NEV Southwest has committed substantial time and resources to participate in the development of electric competition in Arizona. It has participated in the Commission's various proceedings related to electric competition. It has filed an application for a Certificate of Convenience and Necessity ("CC&N") to provide electric services in this state. It is involved in educating the public of the benefits of competition. It will continue to be involved in all of these activities. However, in light of the recent turn of events that resulted in the Commission's issuance of a stay of the Competition Rules, NEV Southwest is concerned that further delays in the implementation of competition could result in economic hardship for it and other new entrants into the retail electric market. Indeed, it would be difficult for any business to continue to operate with continual cost outlays that are not offset by current or future revenues. Accordingly, NEV

1 Southwest urges the Commission to maintain tight controls on this "revisiting process" and have as
2 a fundamental goal the implementation of competition at the earliest practical date.

3 NEV Southwest strongly believes that an essential element to be addressed by the
4 Commission for real electric competition to exist in Arizona is the future role of vertically
5 integrated utilities in providing competitive services, including energy, metering, and billing
6 services. In order to create an atmosphere where real competition can flourish in this state, NEV
7 Southwest would support joint action by the Commission and the Legislature to resolve the
8 disparity between the manner in which the Commission and SRP have dealt with competition.
9

10 **II. OUTSTANDING ELECTRIC COMPETITION ISSUES.**

11 A. Stranded Cost and Market Generation Credit ("MGC").

12 NEV Southwest believes that resolution of the stranded cost issue is fundamental to the
13 successful implementation of competitive energy markets in Arizona. In general, NEV Southwest
14 supports the Commission's decision regarding stranded cost methodologies and recovery and did
15 not object to the proposed settlement agreements between Staff and APS and TEP, respectively.
16 However, NEV Southwest is concerned with the generation credit to be given to competitive
17 customers or, in other words, the price that an ESP must "best" in order to save a customer money
18 over the standard offer rate. NEV Southwest believes that additional analysis needs to be
19 undertaken to ensure that MGCs are fair to both the UDCs and ESPs, that the methodologies for
20 determining MGCs are consistent for all UDCs and that the MGCs are set a level that will not
21 preclude ESP from being able to offer rates that are competitive.
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23 B. Unbundled Tariffs.

24 All of the UDCs' unbundled tariffs must be approved before competition can begin. In
25 connection therewith, NEV Southwest believes that the Commission must address the following
26 points:
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1 • Unbundled rates should include all 6 FERC defined ancillary services as well as
2 any others deemed necessary for retail competition;

3 • Schedule coordinators should be subject to the same rates and charges as end use
4 customers for transmission and ancillary services under the UDC's unbundled tariffs;

5 • ESPs should receive credits for unbundled competitive services not taken from the
6 UDC (metering, billing, etc.); and

7 • Tariffs and credits for unbundled competitive services should be consistent.

8
9 C. Competition Start Date.

10 NEV Southwest believes that even though the originally scheduled phase-in for
11 competition is to be delayed, the start date for full competition should not be delayed beyond
12 January 1, 2001. In addition, due to Y2K compliance issues, NEV Southwest recommends that the
13 new implementation date for the phase-in should not occur within the first quarter of January 1,
14 2000. NEV Southwest urges the Commission to set a schedule that would resolve all outstanding
15 competition-related issues and permit an implementation date for the phase-in to begin prior to the
16 fourth quarter of 1999.

17
18 In order to meet the new schedule proposed by NEV Southwest, UDCs and ESPs must
19 continue to implement the infrastructure, systems, processes, wholesale tariffs, and other items
20 necessary for competition while the regulatory process is underway.

21 NEV Southwest is concerned that Affected Utilities may shield customers from
22 competition during the "delay period" by signing contracts for special rates, interruptible tariffs,
23 time-of-use or other specialty rates which require a contract with a term that extends beyond the
24 anticipated competitive start date. The Commission should address this potential problem.
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1 D. Service Acquisition Agreements.

2 NEV Southwest believes that one of the key issues for implementing an efficient
3 competitive energy market is to establish streamlined and consistent rules for dealing with the
4 UDCs, and the ISA or ISO. NEV Southwest believes that additional work needs to be done to
5 ensure that agreements and procedures are established to allow consistency among UDCs, to
6 provide for consolidated billing, to ensure that credit requirements are not duplicated, and to allow
7 for a wide array of state-of-the-art metering equipment.

8 E. Metering and Billing.

9 The Competition Rules, in their current state, are unclear as to the circumstances, terms,
10 and prices for which UDCs can offer metering and billing services. The applicable provisions of
11 the Competition Rules should be clarified.

12 F. Solar Portfolio Requirement.

13 NEV Southwest believes that solar power is a social investment that is appropriately
14 handled in the system benefits charge. Customers that have a desire to meet their energy demands
15 through solar or other alternative generation sources should be able to readily find providers who
16 can meet their demands. Requiring all ESPs to meet this requirement is inconsistent with a
17 competitive energy market, and could be uneconomical for an ESP in light of the anticipated thin
18 margins on the electric commodity.

19 NEV Southwest recommends that the solar portfolio requirement in A.A.C. R14-2-1609
20 should be eliminated and replaced with options for solar programs, such as incentives for green
21 pricing programs, which would be funded through system benefits charges.

22 G. Residential Phase-in.

23 In the event that the implementation date for full competition remains at January 2001,
24 then NEV Southwest recommends the following:
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1 • Any increases in residential participation (above the original 4%) should be
2 accommodated by increasing the allowed participation for all customers, rather than by decreasing
3 commercial and industrial participation; and

4 • If the permitted percentage of residential participation is not fully subscribed by a
5 specified date, then the potential competitive load should be made available to additional
6 commercial and industrial customers.

7
8 H. Compliance Issues.

9 There are a number of issues in the Competition Rules that address consumer protection.
10 NEV Southwest believes that consumers have well informed choices and that fraud and other
11 illegitimate business practices will be minimized in the Arizona energy market. However, NEV
12 Southwest also believes there is a balance between prudent oversight and costly and inefficient
13 regulations. Therefore, NEV Southwest proposes that R14-2-1612, R14-2-1615, and R14-2-1618
14 should apply to residential customers only.

15
16 I. Arizona Independent System Administrator ("AISA").

17 NEV Southwest supports the AISA-Operations Committee as the responsible entity for
18 addressing any remaining operational issues for implementing competition. NEV Southwest
19 believes that this effort should remain on an aggressive schedule and that UDCs should not delay
20 in filing open access transmission tariffs, which are required for a competitive energy market.

21 **III. PRIORITY OF EACH ISSUE.**

22 The issues presented in Section "II" above are listed in the priority NEV Southwest
23 believes the Commission should address them. NEV Southwest believes that the following four
24 issues are the most important issues for successfully implementing retail electric competition in
25 Arizona and therefore, summarizes them once more:
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1 (1) Resolving the stranded cost issue and establishing a market generation credit
2 which is fair for both UDCs and ESPs and allows for the potential for customers to save money
3 under competition;

4 (2) Approving unbundled tariffs which include all significant costs (including
5 ancillary services) and do not shift or double count costs;

6 (3) Implementing full competition sooner, rather than later, in light of the current
7 delay of the phase-in period; and

8 (4) Creating consistent and fair service acquisition agreements to allow for an efficient
9 competitive process.
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11 **IV. THE METHOD AND TIMING TO RESOLVE THE ISSUES.**

12 NEV Southwest believes that all of these issues could and should be resolved through a
13 settlement of the interested parties. Furthermore, many of these issues are already well underway
14 through committees, ongoing work by Staff, and discussions between parties. Therefore, NEV
15 Southwest believes that the resolution should not require a complicated and lengthy hearing
16 process, which could result in an undue delay of competition. A potential settlement process could
17 be:
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19 (1) Identify issues;

20 (2) Prioritize issues;

21 (3) Interested parties file a position brief;

22 (4) Staff coordinates resolution through settlement or hearings; and

23 (5) Commission approves resolution.
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1 **Original and ten copies of the foregoing**
2 **filed this 20th day of January, 1999 with:**

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
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7 **Copy of the foregoing hand-delivered**
8 **this 20th day of January, 1999 to:**

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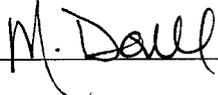
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