

JIM IRVIN  
COMMISSIONER-CHAIRMAN  
TONY WEST  
COMMISSIONER  
CARL J. KUNASEK  
COMMISSIONER



0000122347

STUART R. BRACKNEY  
ACTING EXECUTIVE SECRETARY

RECEIVED  
AZ CORP COMMISSION

FEB 5 9 06 AM '99

ARIZONA CORPORATION COMMISSION  
**OPEN MEETING ITEM**

DOCUMENT CONTROL

DATE: FEBRUARY 5, 1999

DOCKET NO: RE-00000C-94-0165

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Jerry Rudibaugh. The recommendation has been filed in the form of an Order on:

ELECTRIC COMPETITION RULES  
(AMEND DECISION NO. 60977)

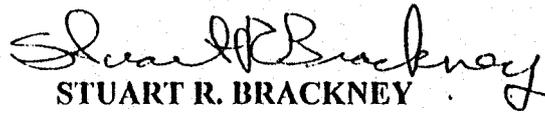
Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

FEBRUARY 16, 1999

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

FEBRUARY 17, 1999 and FEBRUARY 18, 1999

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

  
STUART R. BRACKNEY  
ACTING EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN  
COMMISSIONER-CHAIRMAN  
3 TONY WEST  
COMMISSIONER  
4 CARL J. KUNASEK  
COMMISSIONER

5 IN THE MATTER OF ~~THE~~ COMPETITION IN  
6 THE PROVISION OF ELECTRIC SERVICES  
7 THROUGHOUT THE STATE OF ARIZONA.

DOCKET NO. RE-00000C-94-0165

DECISION NO. \_\_\_\_\_

**ORDER**

8 Open Meeting  
9 February 17 and 18, 1999  
Phoenix, Arizona

10 **BY THE COMMISSION:**

11 On December 26, 1996, in Decision No. 59943, the Arizona Corporation Commission  
12 (“Commission”) enacted A.A.C. R14-2-1601 through R14-2-1616 (“Rules” or “Electric Competition  
13 Rules”). On June 22, 1998, the Commission issued Decision No. 60977 which required each  
14 Affected Utility to file a plan for stranded cost recovery. On December 11, 1998, the Commission  
15 issued Decision No. 61272, which adopted all of the Commission’s Utilities Division Staff (“Staff”)  
16 proposed Amendments to the Electric Competition Rules. The Commission held an Open Meeting  
17 on December 31, 1998, after the close of normal business hours, in order to issue Decision No.  
18 61309, which denied the numerous Applications for Rehearing of Decision No. 61272. On January  
19 11, 1999, the Commission issued Decision No. 61311 which stayed the effectiveness of the Rules and  
20 related Decisions, including Decision No. 60977.

21 **DISCUSSION**

22 Decision No. 60977 provided Affected Utilities with a choice of two options for stranded cost  
23 recovery: the Divestiture/Auction Methodology; and the Transition Revenues Methodology.

24 The first option was a mandatory divestiture/auction of all generation assets in order to  
25 determine the amount of stranded costs. The second option was to “provide sufficient revenues  
26 necessary to maintain financial integrity, such as avoiding default under currently existing financial  
27 instruments for a period of ten years . . .”. It appeared the second option was designed to provide  
28

1 sufficient revenues to stay out of bankruptcy. By limiting Affected Utilities to these two "options",  
2 the only viable option for stranded cost recovery was a forced divestiture/auction of all generation  
3 assets. Based on the record of this proceeding, we are not convinced that conditioning recovery of  
4 stranded costs upon forced divestiture is in the public interest.

5 Accordingly, we shall modify Decision No. 61311 to allow each Affected Utility to choose  
6 from the following four options:

7 Option No. 1 – Net Revenues Lost Methodology

8 Utilize a Net Revenues Lost Methodology similar to that set forth by APS  
9 witness Davis. In general, the APS proposal compares generation revenues with  
10 competition versus revenues without competition. The difference, if any, is  
11 considered as potential stranded costs. That amount is then allocated among rate  
12 classes utilizing traditional cost allocation and rate design principles. Those  
13 customers taking service on the standard offer tariff would already be paying their  
14 portion of stranded costs. Customers taking competitive generation service would  
15 be charged for their portion of stranded costs through a competitive transition  
16 charge ("CTC"). That amount will also be separated out in the standard offer to  
17 insure that standard offer customers do not pay twice. Under the APS proposal,  
18 the potential stranded costs would be spread over all customers including  
19 customers added during the year. If there is enough growth relative to customers  
20 taking competitive service, all customers could end up with a decrease in rates.  
21 However, there would be little incentive for customers to utilize another  
22 competitive service as they would have to purchase generation at below market  
23 price in order reap any savings. We believe such a result is a major flaw in the  
24 APS proposal. As a result we will modify the APS proposal to place the  
25 risk/reward of mitigation more directly on the Affected Utilities.

26 We will clearly separate stranded costs into generation related assets and  
27 regulatory assets. Any growth in customers will not be part of the customer base  
28 used in calculating the generation related asset stranded costs. Any such growth  
would be considered as mitigation which the Affected Utilities can retain. In turn,  
the percentage of stranded costs that the Affected Utilities will be permitted  
collect via the CTC charge will be reduced each year. We will utilize the  
customer base of the Affected Utility as of December 31, 1998 to calculate  
stranded costs for each year. Any Affected Utility choosing this method will be  
permitted to collect 100 percent of its stranded costs in Year No. 1, from all  
distribution customers either through a CTC charge to any customer who elects to  
purchase from competitors; in year No. 2, the Affected Utility will be permitted to  
calculate its stranded costs over the same December 31, 1998 customer base.  
However, only 80 percent of the proportionate amount can be recovered in a CTC  
charge to any customer who elects to purchase from competition. Those  
remaining on the standard offer will still be paying 100 percent of their  
proportionate share of stranded costs. Any shortfall the Affected Utility may have

1 from the December 1998 customer base could be more than made up from post  
2 1998 customer growth. In Years Nos. 3, 4, and 5, the Affected Utility will utilize  
3 the same methodology only the percentages to be collected via the CTC charge  
4 will be 60, 40, and 20 percent, respectively.

5 Because regulatory assets are more difficult for an Affected Utilities to  
6 mitigate and as such need to have different treatment, we will permit an Affected  
7 Utility to collect 100 percent of the appropriate regulatory assets over its existing  
8 amortization period. Further, all existing and future customers should bear their  
9 portion of the regulatory assets either as part of the standard offer or as part of the  
10 CTC charge. In order to encourage Affected Utilities to make the maximum  
11 effort to mitigate regulatory assets, we will begin phasing out any return on such  
12 assets after a five year period. For regulatory assets which are receiving a rate of  
13 return, such rate of return should be reduced by 20 percent per year so that after  
14 five years <sup>1</sup> there would be no return allowed on such assets. As the rate of return  
15 is reduced, all rates including those customers on standard offer rates should be  
16 reduced accordingly. Upon expiration of the amortization period for regulatory  
17 assets, standard offer rates should be reduced to reflect the removal of the  
18 regulatory assets. If an Affected Utility believes other costs have increased to  
19 offset the removal of the regulatory assets<sup>2</sup>, it shall file a rate case at least a year  
20 before regulatory assets are extinguished.

### 21 Option No. 2 – Divestiture/Auction Methodology

22 The second option is to determine the amount of stranded costs by  
23 divesting/auctioning off all non-essential generation assets. Each generation asset  
24 will have to include its portion of the appropriate regulatory assets. The  
25 difference between the net market value and book value will be stranded costs.  
26 We will permit the Affected Utility to collect 100 percent of the stranded costs on  
27 an equal basis over a ten year period.<sup>3</sup> All customers connected to the Affected  
28 Utilities grid shall pay their appropriate share either through a CTC charge or  
through the standard offer rate. We will not allow any carrying charges on the  
unamortized balance. If the resulting customer charge would result in an increase  
in the standard offer rate, the Affected Utility will have to defer those excess  
amounts for future periods without any carrying charges.

### 21 Option No. 3 – Financial Integrity Methodology

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

26 <sup>1</sup> Including the initial five-year period, any rate of return will be completely phased out after a total of ten years.

27 <sup>2</sup> If the Affected Utility voluntarily reduces rates prior to extinguishment of the regulatory assets, those voluntary  
28 reductions can be used to offset the removal of the regulatory assets.

<sup>3</sup> If the stranded costs amount is determined to be negative, ratepayers and shareholders should receive an equal  
share of such amount.



1 generation.

2 10. The Commission has neither considered nor approved unbundled tariffs for APS, TEP,  
3 or Citizens Utilities Company.

4 11. The Commission has not resolved the issue of stranded costs for any Affected Utility.

5 12. On January 11, 1999, the Commission issued Decision No. 61311 which stayed the  
6 effectiveness of the Rules and related Decisions, including Decision No. 60977.

7 **CONCLUSIONS OF LAW**

8 1. The Affected Utilities are public service corporations within the meaning of the  
9 Arizona Constitution, Article XV, under A.R.S. §§ 40-202, -203, -250, -321, -322, -331, -332, -336, -  
10 361, -365, -367, and under the Arizona Revised Statutes, Title 40, generally.

11 2. The Commission has jurisdiction over the Affected Utilities and of the subject matter  
12 contained herein.

13 3. On January 11, 1999, the Commission issued Decision No. 61311 which stayed the  
14 effectiveness of the Rules and related Decisions, including Decision No. 60977.

15 4. There is good cause for the Commission to modify Decision No. 60977.

16 **ORDER**

17 IT IS THEREFORE ORDERED that Decision No. 60977 is hereby amended consistent with  
18 the Discussion contained herein.

19 ...  
20 ...  
21 ...  
22 ...  
23 ...  
24 ...  
25 ...  
26 ...  
27 ...  
28 ...

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

IT IS FURTHER ORDERED that the Hearing Division shall issue a Procedural Order setting forth procedural dates and hearing dates for consideration of stranded cost and unbundled tariffs for each Affected Utility.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

\_\_\_\_\_  
COMMISSIONER-CHAIRMAN

\_\_\_\_\_  
COMMISSIONER

\_\_\_\_\_  
COMMISSIONER

IN WITNESS WHEREOF, I, STUART R. BRACKNEY, Acting Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_ day of \_\_\_\_\_, 1999.

\_\_\_\_\_  
STUART R. BRACKNEY  
ACTING EXECUTIVE SECRETARY

DISSENT \_\_\_\_\_  
JLR:dap

1 SERVICE LIST FOR:

ELECTRIC COMPETITION RULES

2 DOCKET NO.

RE-00000C-94-0165

3

Copies mailed to Service of Docket No. RE-00000C-94-0165

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28