

To: Electric Competition Advisory Group  
From: Tucson Electric Power & UNS Electric, Inc.  
Subject: Request for Reply Comments Regarding the Retail Electric  
Competition Rules  
Date: November 21, 2003

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Tucson Electric Power Co. ("TEP") and UNS Electric, Inc.<sup>1</sup> are submitting this response to the March 2003 comments of various interested parties that address the Arizona Corporation Commission's Retail Competition Rules<sup>2</sup>. (For purposes of this document, UNS Electric and TEP are collectively referred to as "the Companies"). Because the Commission continues to explore other possible configurations for competition in the electric industry, the Companies may provide additional comments as the discussion regarding electric competition continues both with the ECAG and the Commission.

### Background

On March 19, 2003, Staff requested comments from the Electric Competition Advisory Group (ECAG) regarding issues associated with the review of the Retail Electric Competition Rules. The purpose of that request was to identify key issues that may impede competition and specific areas of the Retail Electric Competition Rules that could be improved. Comments were received from thirteen entities participating in the ECAG. The comments are posted at the Commission's website at:

<http://www.cc.state.az.us/utility/electric/ecag.htm>

In an effort to further explore the issues raised by the first set of comments, Staff has requested that the ECAG participants provide written feedback on the initial comments in electronic format. These comments will also be posted to the Commission's website. To facilitate discussion on the issues raised by the participants, Staff has scheduled an ECAG meeting for December 5, 2003.

### The Companies' Response

#### TEP's "Adders"

Arizonans for Electric Choice and Competition ("AECC") has asserted that retail competition has not been sustained in TEP's territory because the established "Adders" used in calculating TEP's Floating CTC are set too low. AECC opines that this situation can be resolved by increasing the adders sufficiently. The "Adder" was intended to estimate the difference between

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<sup>1</sup> In August 2003, UniSource Electric Company, the holding company for Tucson Electric Power Co. ("TEP"), acquired Citizens Communications Company's Arizona electric properties. This new entity is UNS Electric, Inc.

<sup>2</sup> ACC R-14-2-1601 *et seq.*

the flat load costs associated with the Palo Verde NYMEX Index and the actual customer load characteristics, plus an additional amount for costs that will not be readily quantifiable until the Arizona market more fully develops.<sup>3</sup> It is TEP's position that the "Adders" are fair, reasonable and adequate for the intended purpose of shaping a flat load.

There are many reasons why retail competition has faltered in Arizona and in the western United States, none of which can be attributed to TEP's "Adders". As discussed by many of the other parties, some of the reasons for Arizona's lack of competition include the failure of competition in California, the increased volatility in natural gas prices, the lack of power suppliers, and the lack of a robust regional western competitive market. Artificially inflating the "Adders" would not spur a competitive market in TEP's territory.

#### **Authorization for Changes in Service Provider**

Constellation NewEnergy and Strategic Energy ("CNESE") has recommended that the Commission allow authorization for changes in service provider to be either electronic or by voice with independent verification to streamline the process. The Companies recognize that technology offers new ways to accomplish many tasks and agree that any approach that makes a process more effective and efficient should be permissible. It is the Companies' position that the entity requesting that an electric retail competition customer be switched should be the entity responsible for costs incurred with accomplishing the change. This would include the costs associated with verification.

#### **Customer Information**

CNESE has also suggested that customer lists, as well as meter information, customer's current rate class, load factor, account number(s) and other information, should be provided to registered [certificated] ESPs. CNESE states that "only limited amounts of information" is provided to an ESP prior to enrollment.

The Companies assert that customer privacy is critical in a competitive marketplace and should be given serious consideration in any process where a customer is changing his or her electric service provider. The Companies believe that it is essential that the Commission provide guidance as to what information may be shared with an outside third party. Once again, the Companies agree that any process that is adopted should be the most efficient possible, however, it is the Companies' position that the entity requesting the change should be responsible for costs incurred with accomplishing the switch. This would include the costs associated with obtaining customer information. Furthermore, it is important to note that a UDC may not have the staff or information systems capable of providing the data CNESE is requesting.

#### **Notification for Change in Provider**

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<sup>3</sup> TEP 1999 Settlement Agreement, section 2.1(f)

CNESE notes that under Rule R-14-2-1612(J) that there is a specific notification period in which an ESP must notify a UDC of its intent to terminate a service agreement and return the customer to the UDC's standard offer service. CNESE is advocating that a similar timeframe for a utility-customer switch to an ESP should be adopted. However, the situation is different when a utility-customer is switched to an ESP because the ESP has control of when a customer will be switched; the UDC only reacts to the ESP request.

Additionally, the Commission has established a Process Standardization Working Group ("PSWG") to develop specific technical standards and requirements to facilitate the implementation of practices for competitive electric services. The PSWG has established timing requirements in the Direct Access Service Request ("DASR") process that prevent a UDC from causing delays when switching customers to an ESP.

### **Transmission Issues**

Trico has recommended that the UDC should no longer be obligated to assure that adequate transmission import capability is available to meet the load requirements of all distribution customers within their service areas. The Companies assert that the requirement for adequate transmission import capabilities is a significant reliability requirement. It is the Companies' position that this requirement should remain in place until such time that a Regional Transmission Operator is functioning. Until that time, it is important to maintain regulatory approval and cost recovery for transmission systems for the sake of competitive as well as standard offer customers.

### **Conclusion**

The Companies urge the Electric Competition Advisory Group and the Commission to conform the Retail Electric Competition Rules to the orders that have been issued by the Commission and to simplify the provisions governing the conduct and communications between the utilities and their customers. The Companies reassert the position taken by TEP in its comments filed on April 14, 2003.