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**BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

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**DOCKETED**

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

NOV 19 2002

ARIZONA CORPORATION COMMISSION  
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IN THE MATTER OF THE GENERIC PROCEEDINGS CONCERNING ELECTRIC RESTRUCTURING ISSUES

Docket No. E-00000A-02-0051

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR A VARIANCE OF CERTAIN REQUIREMENTS OF A.A.C. R14-2-1606

Docket No. E-01345A-01-0822

IN THE MATTER OF THE GENERIC PROCEEDING CONCERNING THE ARIZONA INDEPENDENT SCHEDULING ADMINISTRATOR

Docket No. E-00000A-01-0630

IN THE MATTER OF TUCSON ELECTRIC POWER COMPANY'S APPLICATION FOR A VARIANCE OF CERTAIN ELECTRIC COMPETITION RULES COMPLIANCE DATES

Docket No. E-01933A-02-0069

**NOTICE OF FILING SUMMARY OF REBUTTAL TESTIMONY**

Staff hereby provides notice of filing Summary of Rebuttal Testimony in this docket. An original and nineteen copies are submitted of the Summary of Rebuttal Testimony of Ernest G. Johnson, Alan Kessler, and Jerry D. Smith, and a Summary of Staff's October 25, 2002 Report on Track B: Competitive Solicitaitaion.

RESPECTFULLY SUBMITTED this 19<sup>th</sup> day of November 2002.

*Christopher C. Kempley*  
Christopher C. Kempley, Chief Counsel  
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1 Original and nineteen copies of the foregoing  
2 filed this 19<sup>th</sup> day of November 2002,  
3 with:

3 Docket Control  
4 Arizona Corporation Commission  
4 1200 West Washington  
5 Phoenix, AZ 85007

6 Copy of the foregoing mailed this 19<sup>th</sup>  
7 day of November 2002, to:

8 All parties of record  
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10 Nancy Roe  
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**SUMMARY**  
**TRACK B REBUTTAL TESTIMONY**  
**ERNEST G. JOHNSON**  
**GENERIC ELECTRIC RESTRUCTURING DOCKET**  
**DOCKET NO. E-00000A-02-0051, ET. AL.**

My rebuttal testimony responds to APS witness Steven M. Wheeler and focuses on two issues: **Expedited Contract Approval** and **Price to Beat**.

I conclude that Expedited Contract Approval is unnecessary, inappropriate and is not in the public interest, and could result in rates that are not just and reasonable. This conclusion is bolstered by the fact that this process is occurring against a backdrop of a wholesale marketplace which is not workably competitive as determined by the Commission in Order #65154. If adopted, an expedited approval process may inadvertently relieve the utility of its responsibility to procure power in a prudent manner resulting in rates that are not just and reasonable. Also, an expedited approval process may short change or limit the Commission's opportunity to thoughtfully and completely examine both the process and the results emanating therefrom. Such a result would clearly not be in the public interest.

Turning to the issue of Price to Beat, Staff proposed the price to beat concept as a compromise position which would provide some cost recovery assurance to the utilities and merchants within certain parameters, while avoiding the pitfalls of pre-approval. From Staff's review of the testimony, it would appear that some parties perceive Staff's proposal as too problematic or undesirable.

Therefore, Staff respectfully withdraws its proposed Price to Beat and urges the Commission not to pre-approve or allow for Expedited Contract Approval.

Rejection of Expedited or Automatic recovery is necessary in order to protect ratepayers against significant unknown economic harm without adequate recourse.

**SUMMARY**  
**TRACK B REBUTTAL TESTIMONY**  
**ALAN KESSLER**  
**GENERIC ELECTRIC RESTRUCTURING DOCKET**  
**DOCKET NO. E-00000A-02-0051, ET AL.**

Several witnesses have expressed concerns relating to the Staff's proposed use of a "price to beat." I explain why the Staff proposed the approach and the purpose to which the Staff intended to use the "price to beat" concept. I discuss APS' and TEP's approach to quantifying their unmet capacity and energy needs, as presented in the Needs Assessments they filed on November 4, 2002. Also, my testimony presents an amendment to the Staff Report that should be considered by the Commission. This change results from discussions held at the Workshop conducted on November 6, 2002, after the issuance of the Staff Report. The amendment clarifies the Staff's position on the issue of how to define "unmet needs." I discuss the Staff's position regarding communications among the utilities, the Staff, the Independent Monitor, potential bidders, and other persons having an interest in the solicitation process. Finally, I address the Staff's position on issues raised regarding how renewable energy resources should be treated in the initial solicitation.

**SUMMARY**  
**TRACK B REBUTTAL TESTIMONY**  
**JERRY D. SMITH**  
**GENERIC ELECTRIC RESTRUCTURING DOCKET**  
**DOCKET NO. E-00000A-02-0051, ET. AL.**

Mr. Smith's Track B rebuttal testimony identifies discrepancies and omission of RMR capacity and energy figures in the APS and TEP Track B needs assessment filings. In addition, he restates Staff's position regarding when RMR capacity and energy are legitimately contestable. Mr. Smith's testimony concludes with a Staff recommendation of including APS and TEP RMR capacity and energy in the contestable load tables of Staff's Track B report. He also recommends that the RMR Study results filed by APS and TEP with the Commission by January 31, 2003, should be used to adjust Staff's recommended contestable load offered in Track B.

**SUMMARY**  
**OCTOBER 25, 2002 STAFF REPORT**  
**ON TRACK B: COMPETITIVE SOLICITATION**  
**MATTHEW D. ROWELL**  
**GENERIC ELECTRIC RESTRUCTURING DOCKET**  
**DOCKET NO. E-00000A-02-0051, ET AL.**

Staff's goal is to have a transparent process that results in cost savings for ratepayers. The process described in the Staff Report is intended to be used by Arizona utilities, as applicable, in the initial solicitation for competitive power to be commenced by March 2003. Subsequent solicitations may be conducted using this process. More likely, changes to the process will be recommended based on lessons learned from the initial solicitation and changes in wholesale market conditions as well as consideration of non-price factors.

In the section "Detailed Staff Proposed Solicitation Process" the proposed solicitation process is described in detail. The process described is meant to be flexible and open. The scope of the 2003 solicitation is discussed. The roles and responsibilities of each of the participants in the solicitation are described. The pre-solicitation and preparation activities are described. Guidelines for the actual conduct of the solicitation are laid out. Also, the post selection requirements are described.

During the workshop process the parties reached consensus on several issues. The Staff Report lists thirteen issues on which consensus was reached during the workshop process.

The Staff Report Identifies seven issues on which consensus was not reached. Staff provides its recommendation for resolution of each of these issues. The seven unresolved issues are:

- A. What portion of APS' load represents its unmet needs?
- B. How the Staff will determine and use the "price to beat".
- C. The timing of Commission prudence evaluation of solicited contracts.
- D. Should the utility or a third party conduct the solicitation in 2003?
- E. The standards of conduct governing utility-affiliate communications.
- F. Whether a least-cost planning process should be adopted by the Commission.
- G. Whether the Commission should initiate a proceeding to address DSM and Environmental Risk Mitigation.