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BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

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FEB 9 1995

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CHAIRMAN
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COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

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IN THE MATTER OF THE COMPETITION) DOCKET NO. U-0000-94-165
IN THE PROVISION OF ELECTRIC)
SERVICES THROUGHOUT THE STATE OF) NOTICE OF FILING
ARIZONA.)

Staff hereby files its Draft Summary of the Working Group Meeting of January 25, 1995, and Agendas for the Task Force meetings in the above-captioned docket.

DATED THIS 9th DAY OF FEBRUARY, 1995.

Janice M Alward
Janice M. Alward
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and ten (10) copies of the foregoing filed this 9th day of February, 1995, with:

Docket Control
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Phoenix, AZ 85007

A copy of the foregoing was mailed this 9th day of February, 1995 to:

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P O DRAWER 9
AJO AZ 85321
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P O BOX 631
DEMING NM 88031
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15 CONTINENTAL DIVIDE ELECTRIC COOPERATIVE
P O BOX 1087
GRANTS NM 87020
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17 DIXIE ESCALANTE RURAL ELECTRIC ASSOCIATION
CR BOX 95
BERYL UT 84714
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19 GARKANE POWER ASSOCIATION INC
P O BOX 790
RICHFIELD UT 84701
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21 MOHAVE ELECTRIC COOPERATIVE INC
P O BOX 1045
BULLHEAD CITY AZ 86430
22
23 MORENCI WATER AND ELECTRIC COMPANY
P O BOX 68
MORENCI AZ 85540
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ARIZONA STATE AFL-CIO
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4 A copy of the foregoing was
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PHOENIX AZ 85001-0400

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BENSON AZ 85602

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P O BOX 3099
KINGMAN AZ 86402

21
22 CITIZENS UTILITIES COMPANY
P O BOX 280
NOGALES AZ 85628

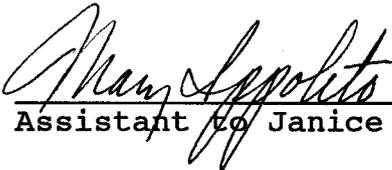
23
24 DUNCAN VALLEY ELECTRIC COOPERATIVE INC
P O BOX 440
DUNCAN AZ 85534

25
26 GRAHAM COUNTY ELECTRIC COOPERATIVE INC
P O BOX DRAWER B
PIMA AZ 85543

27
28 NAVOPACHE ELECTRIC COOPERATIVE INC
P O BOX 308
LAKESIDE AZ 85929

1 SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
P O BOX 820
2 WILLCOX AZ 85644

3 TRICO ELECTRIC COOPERATIVE INC
P O BOX 35970
4 TUCSON AZ 85740

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Assistant to Janice Alward

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MEMORANDUM

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TO: Parties to Retail Electric Competition Docket
(Docket No. U-0000-94-165)

FROM: David Berry
Chief, Economics and Research
Utilities Division
Arizona Corporation Commission

DATE: February 9, 1995

RE: WORKSHOP REPORT AND TASK FORCE AGENDAS

Enclosed is a draft summary of the Working Group meeting of January 25, 1995 on retail electric competition. In preparing the summary we attempted to pick out the major themes discussed at the meeting. We did not try to include every idea mentioned. Please let me know if you have any comments or proposed changes.

Also enclosed are agendas for the first meeting of the Task Forces and preliminary agendas for the subsequent meeting. The Regulatory Issues Legal Committee will informally discuss how to proceed at the first Regulatory Task Force meeting.

The Staff coordinators for the Task Forces are:

- ◆ Regulatory Task Force -- David Berry (602) 542-0742
- ◆ Regulatory Task Force Legal Committee -- Janice Alward (602) 542-3402
- ◆ Energy Efficiency & Environment Task Force -- Ray Williamson (602) 542-0828
- ◆ System & Markets Task Force -- Kim Clark (602) 542-0824

The fax number for the Utilities Division is (602) 542-2129.

**PROPOSED AGENDA
ENERGY EFFICIENCY & ENVIRONMENT TASK FORCE MEETING
FEBRUARY 28, 1995**

Corporation Commission Hearing Room, 1st Floor
1200 W. Washington, Phoenix

- 9:00-9:30 Welcome and self-introductions
- 9:30-10:00 Review of major values/interests identified in the 1st meeting. Discussion of any new options.
- 10:00-10:45 DSM Topics
- Which issues related to DSM are important?
 - What would the future for DSM look like in a variety of competitive scenarios?
- 10:45-10:55 Break
- 10:55-11:45 DSM Topics (continued)
- What problems arise related to DSM in a competitive environment?
 - How might DSM be handled under the options to be considered?
- 11:45-1:00 Lunch (on your own)
- 1:00-1:30 Finish up DSM Topics
- 1:30-2:30 Renewables Topics
- Which issues related to Renewables are important?
 - What would the future for Renewables look like in a variety of competitive scenarios?
- 2:30-2:40 Break
- 2:40-3:45 Renewables Topics (continued)
- What problems arise related to Renewables in a competitive environment?
 - How might Renewables be handled under the options to be considered?
- 3:45-4:15 Discussion of future group activities & assignments for individuals. Discussion of agenda for next meeting & need for subgroups.

PRELIMINARY AGENDA
ENERGY EFFICIENCY & ENVIRONMENT TASK FORCE SECOND MEETING
no date set

Corporation Commission Hearing Room, 1st Floor
1200 W. Washington, Phoenix

- | | |
|-------------|--|
| 9:00-9:15 | Welcome & introduction of new participants & visitors |
| 9:15-9:30 | Sub-committee reports (if any) |
| 9:30-9:45 | Re-cap of first meeting's results and further discussion (if needed) |
| 9:45-10:45 | Environmental Consequences Topics <ul style="list-style-type: none">● What issues related to environmental consequences are important?● How might the environmental consequences be different under a variety of competitive scenarios? |
| 10:45-10:55 | Break |
| 10:55-11:45 | Environmental Consequences Topics (continued) <ul style="list-style-type: none">● How might environmental consequences be handled under the options to be considered? |
| 11:45-1:00 | Lunch (on your own) |
| 1:00-3:00 | Role of Integrated Resource Planning (IRP) <ul style="list-style-type: none">● What issues related to IRP are important?● What would the IRP process look like under a variety of competitive scenarios? |
| 3:00-3:10 | Break |
| 3:10-4:00 | Role of IRP (continued) <ul style="list-style-type: none">● What problems arise related to IRP in a competitive environment?● How might IRP be handled under the options being considered? |
| 4:00-4:15 | Discussion of the next meeting & its agenda. Discussion of future group direction and need for subgroups. |

PROPOSED AGENDA
SYSTEMS AND MARKETS TASK FORCE MEETING
MARCH 3, 1995
Corporation Commission Hearing Room, 1st Floor
1200 West Washington, Phoenix

- 9:00-9:15 Getting Started - What is Our Task?
- ◇ Describe the types of systems and markets that might evolve
 - ◇ Identify advantages and disadvantages of different scenarios
 - ◇ Explore implementation issues
- 9:15-10:30 Physical Operation of System*
- ◇ What operational paradigms might evolve under different regulatory environments?
 - ◇ What are the advantages and disadvantages of each paradigm?
- 10:30-10:45 Break
- 10:45-11:45 System Reliability*
- ◇ How could direct access affect short and long term reliability?
 - ◇ What are the options in the short run for controlling adverse impacts?
 - ◇ How might long term reliability be managed under each operational paradigm?
- 11:45-1:00 Lunch (on your own)
- 1:00-2:30 Power Markets*
- ◇ What types of markets might develop under each operational paradigm?
 - ⊕ How would market transactions integrate with system operations?
 - ⊕ How would unscheduled power flows and schedule imbalances be accounted for?
 - ◇ What are the costs and benefits of transacting in each type of market?
- 2:30-2:45 Break
- 2:45-3:30 Define subgroup assignments and discuss agenda for next meeting. Likely subgroup topics are operational paradigms and system reliability.

* **Given the complexity of these topics, it is unlikely we will finish them in one day. Subcommittees will be assigned to address some aspects of these topics and the subcommittees will report on their analyses at the next Task Force meeting. In addition, the next Task Force meeting can continue with these topics, as necessary.**

**PRELIMINARY AGENDA
SYSTEMS AND MARKETS TASK FORCE MEETING**

no date set

Corporation Commission Hearing Room, 1st Floor
1200 West Washington, Phoenix

- | | |
|-------------|---|
| 9:00-9:15 | Where have we been, where are we going? |
| 9:15-9:30 | Summary of subgroup report on operational paradigms |
| 9:30-10:30 | Discussion of paradigms |
| 10:30-10:45 | Break |
| 10:45-11:45 | Reconsideration of power market issues |
| 11:45-1:00 | Lunch (on your own) |
| 1:00-1:15 | Summary of subgroup report on reliability issues |
| 1:15-2:30 | Discussion of reliability issues |
| 2:30-3:00 | Where do we go from here? |

**PROPOSED AGENDA
REGULATORY TASK FORCE MEETING-- MARCH 8, 1995**

Corporation Commission Hearing Room, 1st Floor
1200 W. Washington, Phoenix

- 9:00-9:15 Preliminary Matters
- ◆ Framework: Options, Advantages & Disadvantages, Implementation Issues
 - ◆ Definition of Competition
- 9:15-10:30 Stranded Investment
- ◆ Definition & Characteristics
 - ◆ Options (Who Bears It?)
 - ◆ Implementation (How?)
 - ◆ Advantages & Disadvantages (Effects on Efficiency, Effects on Fairness, Accounting for Costs, Other Issues)
- 10:30-10:45 Break
- 10:45-11:45 Stranded Investment (Continued)
- 11:45-1:00 Lunch (On your own)
- 1:00-1:45 Stranded Investment (Continued)
- 1:45-2:15 Reducing Transaction Costs of Participating in a Competitive Market
- ◆ Definition
 - ◆ Components of Transaction Costs
 - ◆ Parties Affected by Transaction Costs
 - ◆ Commission Action to Reduce Transaction Costs
- 2:15-2:45 Commission Role in Dispute Resolution
- ◆ Types of Disputes
 - ◆ Commission Role
- 2:45-3:15 Overview of Legal & Jurisdictional Issues
- ◆ State v Federal Jurisdiction
 - ◆ Regulated v Unregulated Entities
 - ◆ Issues related to coops & municipalities
 - ◆ Status of Existing Contracts
- 3:15-3:45 Wrap-Up
- ◆ Refinement of Agenda for Next Meeting
 - ◆ Appointment of Subcommittees (if needed)
 - ◆ Legal Subcommittee Procedures

**PRELIMINARY AGENDA
SECOND REGULATORY TASK FORCE MEETING**

Corporation Commission Hearing Room, 1st Floor
1200 W. Washington, Phoenix

no date set

- 9:00-9:30 Preliminary Matters/Reports of Subcommittees (if any)
- 9:30-10:00 Reconsideration of Issues from First Meeting
- 10:00-10:30 Regulation in the Cosmos of Competition
- ◆ Options: Full Competition, Limited Retail Wheeling, No Retail Wheeling
 - ◆ Possible Objectives of Regulation
 - To achieve efficiency
 - To assure safety
 - To protect the environment
 - To meet constitutional or statutory requirements
 - To stabilize investment environment
 - To assure reliable electricity supplies over the long run
 - Other
 - To achieve fairness
 - To maintain & create jobs
- 10:30-10:45 Break
- 10:45-11:45 Types of Suitable Regulation for Basic Options
- To Encourage Competition
 - ◆ Require or Encourage Utilities to Spin Off Transmission and Generation Assets
 - ◆ Encourage Competition Immediately
 - ◆ Encourage Competition Slowly
 - To Allow Limited Competition
 - ◆ Within Specified Time Period
 - ◆ Within Specified Area
 - ◆ Within Specified MW Limit
 - ◆ For Specified Types of Consumers
 - To Discourage Retail Wheeling
 - ◆ But Allow Pricing Flexibility
 - ◆ But Encourage More Wholesale Competition
 - ◆ But Provide Incentives to Utilities to Lower Costs (e.g. Performance Based Rate Making)
 - ◆ Do Nothing -- Preserve Status Quo
- 11:45-12:45 Lunch (on your own)
- 12:45-2:30 Types of Suitable Regulation for Basic Options (Continued)
- 2:30-3:00 Utilities' Obligation to Serve
- 3:00-3:30 What Next?

**SUMMARY OF
WORKING GROUP MEETING
ON
RETAIL ELECTRIC COMPETITION
JANUARY 25, 1995**

Docket No. U-0000-94-165

**Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007**

D R A F T

**SUMMARY OF WORKING GROUP MEETING ON
RETAIL ELECTRIC COMPETITION
JANUARY 25, 1995**

The Commission established Docket No. U-0000-94-165 to investigate issues in retail electric competition. In September 1994, Staff conducted a workshop with invited speakers to review many of the issues associated with retail electric competition. A report on the September workshop was issued in October, 1994. Staff then established a Working Group of interested Arizona parties to develop an information base upon which policies on retail competition can be developed.

Objectives for the Working Group are:

- ◆ to invent or create policy choices dealing with retail competition,
- ◆ to identify advantages and disadvantages of options, and
- ◆ to identify and analyze implementation issues.

The Working Group will not make policy recommendations to the Commission. Rather, the Working Group is concerned with clarifying policy options.

The products of the Working Group activities will be:

- ◆ Staff summaries of meetings,
- ◆ Task Force reports
- ◆ Final Report

On January 25, 1995, the Working Group held its initial meeting. This report summarizes the discussions at the January meeting; participants are listed in Table 1.

The January Working Group meeting was devoted to brainstorming -- defined by the dictionary as "a method of shared problem solving in which all members of a group spontaneously contribute ideas." Brainstorming implies that the parties do not make commitments, do not evaluate positions or options, and do not criticize ideas that are put forth. We brainstormed on several topics: stakeholders, values, factors affecting values, relevant institutions, development of an initial list of options, and implementation issues.

The brainstorming sessions produced numerous concepts and suggestions. Boxes 1 through 5 summarize the major points and themes brought out during the meeting. It should be noted that many other points were made. To consolidate the day's thinking, the Staff judged the items in the boxes to be the most important, but some of the other points not included in the boxes may require further consideration in the future. The Staff's judgement on the relative importance of the concepts and issues listed in the boxes is based both on the major topics of discussions during the meeting and on the literature on retail electric competition.

To develop a comprehensive review of issues, the Working Group will meet in smaller Task Forces and Plenary Sessions as necessary. Three Task Forces were established:

- ◆ **Energy Efficiency and the Environment Task Force** -- role and implementation of demand side management; role and implementation of renewables; environmental consequences of power production; role of integrated resource planning; and related issues.
- ◆ **System and Markets Task Force** -- transmission access and prices; system reliability; transmission and generation system operation; functioning of markets; and related issues.
- ◆ **Regulatory Task Force** -- stranded investment; alternative rate regulation; obligation to serve; transaction costs of participating in the market; dispute resolution; legal and jurisdictional matters; and related issues.

Membership in the Task Forces is listed in Tables 2 through 4. The Regulatory task Force will also have a subgroup responsible for analyzing legal issues (Table 2A). Staff will coordinate Task Force activities.

Working Group on Retail Electric Competition -- Summary of Meeting of January 25, 1995

**Table 1
Participants in Working Group Meeting, January 25, 1995**

Organization	Names
Arizona Electric Power Cooperative	Donald Kimball, Patricia Cooper, Dennis Criswell, Dirk Minson, Gary Jurkin, Irena Callahan
Citizens Utilities	Jeff Pasquinelli
Arizona Public Service Company	Bill Maese, Vicki Sandler, Joe Branom, Jaron Norberg, Gary Volkenant, Barbara Klemstine
Tucson Electric Power Co.	Larry Lucero, Michael Raezer, Steve Glaser
Salt River Project	Charlie Duckworth, Diane Evans, Randy Dietrich
Navopache Electric Cooperative	Paul O'Dair, Dave Williams
Duncan Valley Electric Cooperative	Brad Boyd, Jack Shilling, Jackie Cooper
Trico Electric Cooperative	Charlie Emerson
Sulphur Springs Valley Electric Cooperative	Gordon Sloan, Rick Eskue, Mac Trahan, Howard Bethel
Diné Power Authority	Troy Tsosie, Lydelle Davies
Southwest Gas Corporation	Wally Kolberg, Brooks Congdon
Arizona Department of Commerce Energy Office	Stephen Ahearn, Jack Haenichen, Brian Fellows, Maureen Bureson
City of Mesa	Jerry Brouwer, Darrel Pichoff
Arizona Municipal Power Users Association	Michael Curtis
Arizona Power Pooling Association	Charles Reinhold
Fort Huachuca	Bill Stein
Arizona Utility Investors Association	T.J. Taub
Pinnacle West Capital Corp.	Arlyn Larson

Table 1 (continued)
Participants in Working Group Meeting, January 25, 1995

Organization	Names
International Brotherhood of Electrical Workers	William Turner, Ryle Carl, Danny McKinney, Gene Hill
RMI	David Rumolo, Alan Propper
Land & Water Fund	Rick Gilliam
Nordic Power	Andy Baardson
Enron Power Marketing	Steve Kean
Arizona Association of Industries	Nancy Russell
Phelps Dodge	Choi Lee, Melvin Bloom, Lex Smith
Karsten Manufacturing Corp.	Mike Oliver
Honeywell	Jeff Sutherland
Motorola	John Snyder
Intel	Phil Sarikas
Snell & Wilmer	Steve Wheeler, Thomas Mumaw
Vision Power Service	Mike Rowley
Natural Gas Clearinghouse	Terry Callender
Neidlinger & Associates	Dan Neidlinger
Douglas C. Nelson PC	Doug Nelson
Magma Copper Co.	Joe Eichelberger
Cyprus Climax Metals	Mike McElrath
Arizona Community Action Association	Jacqueline Moore
Commissioners & Commissioner Aides	Renz Jennings, Roland James, Carl Kunasek, Gerald Porter, Barbara Wytaske
Residential Utility Consumer Office	Jana Brandt, Marylee Diaz Cortez, Walter Hoolhorst, Dale Leavesley
Commission Staff	David Berry, Kim Clark, Ray Williamson, Janice Alward, Prem Bahl, Gary Yaquinto

MAJOR STAKEHOLDERS

Society (both now and in the future)

- **Electricity Consumers**
 - ◆ **Residential**
 - * Rural
 - * Low Income
 - * Urban
 - * Indian Communities
 - ◆ **Commercial & Industrial Consumers**
 - * Small & Mid Size Business
 - * Agriculture & Related
 - * Other
 - * Large Business
 - * Govt & Institutional
- **Furnishers of Electricity (serving AZ and elsewhere)**
 - ◆ **Investor Owned Utilities**
 - * Investors
 - * Financial Organizations
 - ◆ **Consumer Owned Utilities & Cooperatives**
 - * Bondholders
 - ◆ **Government Utilities/Power Authorities**
 - ◆ **Self Generators**
 - ◆ **Independent Power Producers**
 - * Investors
 - * Financial Organizations
 - ◆ **Power Aggregators/Marketers**
 - ◆ **Industry Organizations (e.g. EPRI, NIEP)**
 - ◆ **Transmission Groups & Organizations**
 - ◆ **Employees of Furnishers of Electricity**
 - ◆ **Suppliers to Furnishers of Electricity**
- **Government**
 - ◆ **Public Utility Commissions**
 - ◆ **Siting Authorities**
 - ◆ **Federal Agencies (including FERC)**
 - ◆ **Consumer Advocates**
 - ◆ **Other**
- **Natural Environment/Environmental Organizations**

Box 1

MAJOR VALUES AND INTERESTS

- **Economic Efficiency**
 - ◆ **Competitiveness of Businesses**
 - ◆ **Consumer Choice Among Suppliers (including transmission access)**
 - ◆ **Energy Efficiency (including efficient Demand Side Management)**
- **Fairness of Electric Rates, Terms & Conditions**
 - ◆ **Affordability**
 - ◆ **Stability & Predictability**
 - ◆ **Nondiscriminatory Rates & Services**
 - * **Equitable Distribution of Responsibility for Power Production Costs**
 - * **Similarity to Rates Paid in Other Areas**
 - * **Similarity to Rates Paid by Other Consumers**
 - * **Similar Consumer Choices Among Suppliers Available to All**
 - ◆ **Understandability of Choices**
 - ◆ **Fair Dispute Resolution Process**
- **Reliability of Supply**
 - ◆ **Availability of Power**
 - ◆ **Long Term Stability in Availability of Power (Sustainability of Power Supply)**
 - ◆ **Adequacy of Supply**
 - ◆ **Adequacy of Quality (e.g. absence of voltage fluctuations)**
- **Stability of Investment Environment**
 - ◆ **Preservation of Capital and Maintenance of Return on Investment**
- **Safety**
- **Maintenance & Creation of Jobs**
- **Protection of Environmental Quality**

Box 2

MAJOR FACTORS AFFECTING VALUES

- **Nature and Extent of Competition**
- **Regulation (State & Federal)**
 - ◆ **Of Power Production, Delivery, and Service**
 - ◆ **Of Environment**
- **Demand for Electricity**
 - ◆ **Demographic Factors**
 - ◆ **Economic Factors**
- **Price of Electricity**
 - ◆ **Supplier Cost Structure**
 - ◆ **Potential for Efficiency Improvements**
 - ◆ **Historical Costs of Facilities**
 - ◆ **Incremental Costs**
 - ◆ **Market Forces**
 - ◆ **Regulation of Rates/Subsidies**
- **Availability of Financial Instruments (e.g. to permit hedging)**
- **Availability of Investment Funds**
 - ◆ **Expectations about Future Fuel Prices & Availability**
 - ◆ **Treatment of Existing Contracts**
 - ◆ **Cost Structures of Competitors**
- **Treatment of Stranded Investment**
- **Degree of Coordination Among Suppliers**
 - ◆ **Transmission Access & Pricing**
 - ◆ **Pooled Transmission & Dispatch ?**
- **Incentives for Innovation and Cost Reduction**
 - ◆ **For Power Production (Technological Improvements, System Operation)**
 - ◆ **For Power Marketing (Market Organization)**
- **Costs of Participating in Market (Transaction Costs)**
 - ◆ **Management of Price & Performance Risks**
 - ◆ **Cost of Obtaining & Evaluating Information**
 - ◆ **Efficient Dispute Resolution Process**

Box 3

MAJOR IMPLEMENTATION ISSUES

- **Service Offerings**
 - ◆ **Traditional Bundled Services**
 - ◆ **Unbundled Services (e.g. voltage control, dispatch services)**
- **Price Determination (There May Be a Mixture of Regulated and Market Services)**
 - ◆ **Regulated Prices**
 - * **Traditional Rate of Return Regulation**
 - * **Performance Based Regulation**
 - * **Subsidization of Rates for Some Types of Consumers**
 - ◆ **Market Prices**
 - ◆ **Supplier Cost Structures**
- **Obligation to Serve**
- **Efficient Use of Transmission & Generation**
 - ◆ **Duplicate Facilities**
 - ◆ **Obtaining Rights of Way for Transmission**
 - ◆ **Assurance of Fair Access to Transmission System**
 - ◆ **Obligations to Add Transmission Capacity/Transmission Capacity Planning**
 - ◆ **Use of Transmission and Generation Capacity**
 - * **Centralized Pooled Dispatch**
 - * **Bilateral Contracts**
 - **Accounting for Deviations from Scheduled Sales**
 - **Physics of Power Flow/Loop Flow**
 - * **Priorities Among Users**
 - * **Dispatch in the Case of Joint Ownership**
- **Legal Issues**
 - ◆ **State vs Federal Jurisdiction**
 - ◆ **Regulated vs Unregulated Entities**
 - ◆ **Use of Cooperatives' Facilities by Nonmembers**
 - ◆ **Status of Existing Contracts**
- **Treatment of Stranded Investment**
 - ◆ **Definition, Scope (Which Assets, Valuation, Changes Over Time)**
 - ◆ **Who Bears Stranded Investment Cost and How?**
 - * **Accounting for Collections to Cover Stranded Investment**
 - * **Effect on Consumers Relative to Other States**
 - * **Effect on Utility & Its Investors**

Box 4