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February 25, 2002 RECEIVED

2002 FEB 25 P 3: 38

AZ CORP COMMISSION
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Arizona Corporation Commission
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Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

FEB 25 2002

Re: Commissioner Mundell's Questions on Electric Competition

Dear Commissioners and Interested Parties:

DOCKETED BY	
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AES NewEnergy is America's leading retail electric provider, serving commercial and industrial customers in California, Texas, Illinois, Ohio, Pennsylvania, Maryland, Delaware, New Jersey, New York, Massachusetts, Rhode Island, New Hampshire and Maine. The company offers customers energy-related products and services. AES NewEnergy, Inc. is a subsidiary of AES Corporation (NYSE: AES), a leading global power company comprised of competitive generation, distribution and retail businesses around the world. NewEnergy Southwest L.L.C., a wholly owned subsidiary of AES New Energy, Inc., received its CCN in Arizona in 1999 and is certified as an Energy Service Provider in Arizona.

AES NewEnergy is very interested in seeing a robust, competitive electric retail market develop in Arizona. We appreciate the opportunity to answer the Commissioners' questions and participate in this process, which we are confident will move Arizona towards a truly vibrant electric market, which will benefit all Arizona electric customers.

AES NewEnergy has answered Commissioner Mundell's questions relating to retail electric competition and have attached our answers.

Sincerely,

Aaron Thomas
 Vice President
 AES NewEnergy
 350 S. Grand Ave., Suite 2950
 Los Angeles, CA 90071

OPENING COMMENTS

AES NewEnergy is America's leading retail electric provider, serving commercial and industrial customers in California, Texas, Illinois, Ohio, Pennsylvania, Maryland, Delaware, New Jersey, New York, Massachusetts, Rhode Island, New Hampshire and Maine. The company offers customers energy-related products and services. AES NewEnergy, Inc. is a subsidiary of AES Corporation (NYSE: AES), a leading global power company comprised of competitive generation, distribution and retail businesses around the world.

NewEnergy Southwest L.L.C. received its CCN in Arizona in 1999 and is certified as an Energy Service Provider and is very interested in seeing a robust, competitive electric retail market develop in Arizona.

The AES Corporation, founded in 1981, is the world's largest independent power company. The Company's purpose is to supply safe, clean, reliable and reasonably priced electricity and other basic services globally. AES generates and distributes electricity and is also a retail marketer of heat and electricity and telecom services. AES owns or has an interest in one hundred and eighty two plants totaling over 63,000 megawatts in 12 countries. AES also distributes electricity in 11 countries through 22 distribution business. In addition to having assets in excess of \$36 billion, the Company has over 9,000 megawatts in advances development in another 12 countries.

AES NewEnergy has focused exclusively on the retail questions put out by the Commissioners; and therefore, our approach to the retail electric markets is developed in the questions pertaining to retail. As a guide to understanding our comments, we have layered in an alternative retail structure for the Arizona retail market that will invigorate customer choice and allow customers to truly realize the benefit of shopping for their own electric needs.

Fundamentally we are calling for a revision to Arizona's market structure that has large

industrial and commercial customers self-contracting for their retail electric supply requirements, while small customers continue to receive a standard offer from the utilities. In recognizing that the provider of standard offer service needs to have some stability in the loads they are serving, we have proposed an annual shopping window for small commercial and residential customers so that they notice the utilities of their intent to leave standard offer service in the coming year. Greater details are provided in our answers to the Commissioners' questions.

AES NewEnergy is very interested in seeing a robust, competitive electric retail market develop in Arizona. We appreciate the opportunity to answer the Commissioners' questions and participate in this process, which we are confident will move Arizona towards a truly vibrant electric market, which will benefit all Arizona electric customers.

I. Identification of Retail Electric Products and Services for Which Competition Could Bring Benefits

A. What are the possible goods and services traditionally provided by the electric utility for which retail competition is possible? You may address the following categories of goods and services:

1. generation, including baseload, intermediate and peaking power; green power; distributed generation; firm and nonfirm power; long- and short-term contracts; backup and coordination services:

2. distribution services, including ownership, construction, maintenance and repair of the physical lines; metering ownership, installation, reading and data analysis; and the process of planning for and negotiating with distributed generators:
3. aggregation services, such as load profiling; load planning; customer services; data analysis; billing; generation planning; power supply acquisition; demand side management, energy efficiency and other services relating to matching supply and demand.

Retail competition is possible for any of the services listed above. Retailers possess the knowledge, resources and flexibility (don't require regulator pre-approval) to offer any of these products and services. In fact, currently, across the country where markets have opened, retailers are already offering many if not all of these products and services to customers. However, retailers will not be in a position to offer any of these secondary products and services if rules are not adopted allowing them to compete equally with the utilities for core services such as electricity procurement. Retailers must be afforded a fair and equal opportunity to establish a decent sized commodity-based business, which can then serve as the anchor for the provision of these value-added aggregation services.

- B. For each good or service for which competition is possible, what are the possible benefits of competition for each good and service?

1. What are the potential price benefits?
2. Do the potential price benefits differ in the short-term and long-term?
3. What are the potential non-price benefits?
4. Are there any other potential benefits (e.g., environmental, energy security, etc.)?

II. Determination of the Feasibility of Competition

A. Are the product and geographic markets for the good or service conducive to effective competition or manipulation by a single entity? For example--

1. Are there economies of scale which make it most efficient for the service to be provided by a single company?

Economies of scale can have an impact on residential and small commercial markets, but larger commercial and industrial customers are relatively indifferent to economies of scale. The economies of scale usually present themselves in the form of marketing, billing and customer service costs. These costs are difficult to support for the residential and small commercial market, but can be overcome in cases where the newly opened market is structured to encourage shopping in the residential markets.

An excellent example of a tool the Commission can use to encourage competition in the residential market is community aggregation. Community aggregation allows a city or public utility district to aggregate their residential customers under an opt out program (i.e. the customer is assumed to be part of the program unless the customer opts out). This allows public entities to provide a competitive retail electricity program to their residential customers in a manner that overcomes the economies of scale challenges associated with serving the residential class.

In the case of commercial and industrial customers, economies of scale are not a factor in servicing these customers. From a macro perspective, the additional value of customer specific tailored retail electricity products overshadows any potential efficiencies gained by having a single company provide a regulated service offering to all customers. Product specialization by industry type or individual customer requirements simply cannot be expected from a one size fits all service option provided through a single regulated entity.

2. Are there economies of scope which make it most efficient for the service to be provided in a bundle with certain other services?
- B. Are or will there be a sufficient number of competitors in each potentially competitive market?
1. Is the product or service one which viable competitors will actually be interested in providing?

Yes. There are over 13 states in the U.S. with significant amounts of penetration by competitive providers of retail electricity supply service. Penetration levels approach 40% in certain industrial rate classes and range between 10-20 percent in the commercial sectors in these markets. In the case of Texas, these numbers are even more significant as the regulatory structure dictates that customers above 1 MW demand contract with competitive providers for their retail electricity service needs.

2. Is the cost of aggregating customers sufficiently small, relative to likely revenues, which new suppliers will find it profitable to enter?

Market entry and marketing costs can be high when pursuing residential and small commercial customers and often discourages suppliers from entering this market. As noted above, one way of overcoming this barrier that has been very successful is community aggregation programs. This is a tool that policy makers in other states have can used to successfully expand competition.¹

3. Are there technical, legal, or other barriers to entry in the markets? For example:
 - a. Are there legal or technical barriers to the construction of the different types of generation plants by non-utilities?

- b. Is the cost of obtaining licenses, resources, knowledge and employees sufficiently small, relative to the expected revenues, such that new entrants will find the market attractive?

- C. Is it necessary for the product or service to be provided by a single regulated company to assure reliability and safety, or can multiple companies that provide the service subject to reliability and safety rules?

- D. For customers, is the cost associated with learning how to shop and actually shopping sufficiently small, relative to the expected benefit, that customers will want to shop?

III. Relationship of the Current Regulatory Regime to Competition

- A. For each potentially competitive product or service, how does current state and federal regulation foster or inhibit (a) retail competition and (b) wholesale competition?

To date there has been very little retail competition in the electric market in Arizona. When the state regulations were put into place, it was anticipated that most Arizona customers would be able to achieve significant savings from competition. However, the potential savings from competition have been limited for all Arizona customers because of the requirement for customers to pay off the utilities' stranded costs

from past investments in power plants through a competitive competition charge ("CTC"). This payment period extends to 2004 for APS and SRP, and 2008 for TEP. Potential savings for customers are driven by allowed shopping credits, which is the key driver for a competitive energy market. In the near term, part of the potential savings is kept by the utilities to pay for stranded costs. The shopping credit acts like a voucher for generation, transmission, and ancillary services. In order to save, a customer must procure competitive generation, and pay for transmission and ancillary services, all for less money than the shopping credit.

In short, administratively set shopping credits fundamentally frustrate retail competition as a result of the fact that they are not calibrated to the market price for electricity. This is the primary reason for the failing retail market in Arizona. Additionally, in the service territory of TEP retail competition is further undermined by a floating CTC component.

In the TEP service area, though, it is much more difficult for customers to make a price comparison and make an informed decision because of the way the shopping credit is calculated. TEP has attempted to calculate a market generation credit ("MGC") directly for each customer rate class, rather than the residual approach of APS and SRP. Under this method, TEP directly computes a shopping credit for each customer class, which is intended to estimate energy costs. That is, the credit would attempt to cover the competitive wholesale block power costs while an MGC adder covers the additional cost of shaping the load to a customer's actual usage pattern. The MGC is not designed to cover a competitor's other operating costs or any return on investment. TEP's credit is calculated on a quarterly basis, and varies with the competitive wholesale power market. If market prices go up, so will the

MGC. If prices go down, the MGC will also fall. Unfortunately customers trying to evaluate, for example, a one year contract being offered by an ESP versus the TEP standard offer rate cannot make an intelligent decision because they do not know what the shopping credit from TEP will be for the whole year period because it will fluctuate quarterly. Because most commercial and industrial customers are working with budgets when making these types of decisions, they have to go with the known rate (the TEP standard offer rate) and have to forego potential savings.

B. How can the Commission protect Arizona customers from the risks of competition while promoting competition?

C. How have the interim rate reductions for customers receiving standard service affected the ability or desire of generation suppliers to compete in Arizona retail markets?

Yes. The interim rate reductions for standard service customers have negatively impacted the retail market. The injury is the result of the fact that rate reduction serves to further separate the shopping credit from the market price for electricity, which as discussed above greatly harms retail competition.

D. Do Commission policies or legal requirements ensuring that utilities recover investments from ratepayers affect the prospects for competition in any market for which competition otherwise would be possible?

Yes. However, we are not here to argue the appropriateness of stranded cost

recovery by all customers but the manner in which the fee is structured can be detrimental to the retail market with the exception of stating that the floating mechanism for recovery in the service territory of TEP significantly harms the retail market. Please see question 3.A for comments on the problems caused by the floating CTC recovery mechanism in TEP's territory.

E. Does continuing utility control of depreciated generation assets affect the ability of competing suppliers to enter retail markets?

for Yes. We believe that if the utilities are allowed to retain their depreciated generating assets, they should only be used to serve the utilities' "core" customers defined as residential and small commercial and industrial customers (defined as having less than 50 kW demand the purpose of these comments). These "small" customers deserve a known, fixed default electricity price. The utilities should be required to offer a fixed price to small customers so they know in advance what their costs will be and can make rational comparisons of other options such as competitive offers from retailers.

At the same time, we believe that the utilities' "noncore" customers defined as commercial and industrial customers (defined as having greater than 50 kW demand for illustrative purposes) should be required to procure their own electricity supply from the open market. Unlike the small customers, these "large" customers possess the sophistication and resources to look after their own supply requirements thereby obviating the need for protection afforded the small customers through the utilities' lower-priced retained generation. This is a fundamental step the Commission can and should take to advance the retail market in Arizona.

F. How does current Commission regulation promote or deter the ability of (1) renewables, (2) distributed generation, and (3) energy efficiency and demand side management to compete with traditional generation resources?

G. What are the risks of moving to a regime of retail competition for each product or service and what are the methods for managing those risks?

If the concern is the risk of price volatility to end users, structure matters. Specifically, Arizona should not do what California did, which is to force all retail customers into the spot market. Risk to retail customers can be reduced when the utilities are allowed to contract for power in the forward markets for core customers (under 50 kW). In the case of commercial and industrial customers (above 50 kW), the risk of price volatility is managed on a customer-by-customer basis. Some customers will find that it is to their benefit to stay in the spot market because they have the ability to curtail load, while others will enter fix price term contracts to insulate themselves from price volatility.

H. If the current regime is not conducive to retail competition for a particular product or service, what actions should the Commission take to promote its success in the future? Specifically --

1. Should the Commission require existing utilities to procure particular products or services from unaffiliated competitors?

The key issue is what market rules the Commission needs to adopt to promote

retail competition which does not include requiring existing utilities to procure particular products or services from unaffiliated competitors. Rather, we see the adoption of two rules as fundamental to promoting retail competition. The first rule is that large customers must be responsible for procuring their own supply needs as addressed in III.E. During the infancy stages of the transition period the threshold defining core and non-core can be set at a higher consumption level. For example, during the first stage of transition the customers that are required to procure for themselves may be defined as those with greater than 1 MW demand (which is what was implemented in Texas). Then, as the market progressively matures, the kW threshold can be gradually lowered, for example, to 500 kW then 100 kW and finally stop at 50 kW.

The second rule is to ensure that retailers compete with utilities on a level playing field for the customers that continue to have a service option provided by the utility. This means that the utilities' generation rates must include all of its retail costs. We will use CA's faulty rules on this issue to illustrate what should not be replicated in Arizona.

Retailers were forced to compete against the utilities' generation rate which was essentially based on its wholesale costs. Why? The CA utilities' generation rate charged to bundled customers did not represent their full "retail service costs" incurred to procure on behalf of their customers. The utilities' generation rate did not include all of the usual cost elements incurred in connection with the provision of electric commodity to retail customers, such as salaries, office space, benefits, consultants, legal and regulatory fees, and any number of normal business costs that

all competitors have to incur. Instead, the utilities buried these "other" retail costs into their distribution rates charged to all customers, both bundled and direct access, essentially making direct access customers pay twice for these "other" retail costs. From the perspective of a retailer trying to be competitive with the utility, this frustrating structure is akin to asking a gas station attendant to compete against the refinery cost of gasoline. The inclusion of these retail costs in the distribution rates payable by all customers, rather than solely by those customers who remain with utility service, constituted a highly significant barrier to retail competition in California which should not be repeated in Arizona.

2. Are utilities taking steps that will make competition more difficult down the road (e.g., retail marketing, internal restructuring, entering into agreement to avoid customer self generation)? If so, identify those steps and how the Commission should respond.

3. Are utilities entering into long-term contracts with existing customers? If so, how do they affect prospects for future retail competition? Should the Commission allow them?

Any negotiated long-term contracts between utilities and customers have to have approval by the ACC before they can be executed. With a competitive retail market being open in Arizona since 2000, it would be our assumption that the

Commission has not allowed these types of contracts to be executed. Utilities should not be able to enter into bi-lateral agreements with customers. They should only be allowed to provide standard offer tariffs.

4. Should the Commission consider instituting competition for billing and metering services even if retail generation competition is premature?

IV. Retail Generation Competition

A. Regarding each identifiable generation product --

1. Identify with particularity any defects in the wholesale market structure affecting Arizona.
2. Are there an adequate number of competitors to sell in Arizona to make the product sufficiently competitive? How many sellers are there?
3. How have mergers and consolidations in the industry affected the competitiveness of the product in the region at the wholesale and retail levels?
4. Are competitors building new generation able to price their generation at

rates competitive with existing generation?

5. How has the Independent System Administrator affected the success of (a) retail competition and (b) wholesale competition?

The ISA facilitated discussions among the utilities and stakeholders on the issues surrounding transmission access for retail competitors. The ISA protocols set forth a reasonable means for retail competitors to access transmission into the Arizona load centers. Effective retail competition, however, requires successful implementation of these protocols. The utilities' FERC-approved tariffs should be sufficient to address wholesale competition.

- B. Regarding the transmission and distribution infrastructure necessary to support competition for each identifiable generation product --

1. Are there transmission constraints inside or outside Arizona that currently impede the ability of competitors to reach Arizona customers during any seasons of the year or times of the day?
2. What plans are in place to relieve transmission constraints?
3. How long will it take to relieve any existing transmission constraints and what factors are affecting and will affect prospects for relief?

4. Are the owners of constrained transmission facilities, or holders of transmission rights, able to use their control to affect market prices?
5. Are these transmission owners currently doing things that will allow them to exert more or less control in the future? If so, please detail.
6. Will the transmission system be adequate prospectively (e.g., in the next, 5, 10, 15, 20 years) to deliver power from new generation plants?
7. Is the natural gas pipeline infrastructure adequate to support all proposed new gas-fired generation plants? How many plants can it support?
8. Does the transmission and distribution system facilitate or deter --
 - a. the development of renewable energy technologies?
 - b. the development of distributed generation?
 - c. the development of demand-side management and energy efficiency?

C. Regarding competitive bidding --

1. Identify with particularity any adverse consequences that would result from Commission approval of a substantial variance to the electric competition rules that require competitive bidding for 50% of the electric supply for standard offer customers, starting in 2003. Specifically:

a. How would retail customers be affected?

b. How would retail generation competition be affected?

*As noted previously, a healthy competitive market requires many of buyers and sellers. To move a competitive market forward requires large customers to be in the market and taking care of their own needs. To the extent that the utilities' proposals force customers to remain with utility or pay an exit fee to leave then the proposal **definitely** harms the retail market because it would eliminate the Commission's ability to establish a core/non-core market (see section III. E)*

c. How would wholesale generation competition be affected?

2. Are sufficient competitors available for an effective bidding process for 50% of standard offer service? A higher or lower percentage?

3. Can retail competition develop if current rules are modified to allow a utility to procure all its generation for standard service from an affiliated company?

No. Retail competition won't flourish because large customers will be

captive to utility service under the PPA structure proposed by the utilities. Large customers should be responsible for their own procurement requirements and the utilities proposals frustrate this end. Small customers should be provided a rate from the utility that is market based in nature. Meeting this requirement will dictate that the utility make power purchases from the market. The affiliate of the utility should not get preferential treatment in the utilities' procurement activities. The affiliate should compete with all other market participants in attempting to win the regulated utilities business.

4. How would retail competition be affected by other deviations to the competitive bid rules? Be specific about the changes in the rules and their consequences.
5. Instead of entertaining individual requests for substantial variances to the competitive bid requirements, should the Commission proceed on a generic basis to modify the rules for competitive bidding?
6. If the Commission would change the 50% bidding requirement for standard offer service, are there other specific measures the Commission can take to promote retail competition?

D. Regarding the pricing of power supply contract rates --

1. Identify any advantages that would result if the Commission approved a long-

term supply contract for standard offer customers that was based solely on cost-based rates. (Your answer should define "long term" as compared with "short term" contract.)

Price stability is one possible advantage for approving a long-term supply contract for standard offer customers. However, this option should only be provided to residential and small commercial customers (under 50 kW). The Commission should adhere to the principle described above that large customers should be responsible for procuring their own supply from the open market (i.e. no service offering from the regulated utility). In addition, the standard offer term should not exceed one year. Terms that exceed one year in duration serve as a disadvantage to competition as retailers would not have a meaningful opportunity to compete for these customers because these customers may be bound to the term purchases made by the utility. With an annual standard offer rate the Commission has the flexibility to institute annual "open shopping season" for customers that have this rate option available to them. The purpose to the open shopping season would be for small customers to have the opportunity to give notice of their departure for the coming year such that the utility knows what their supply requirements are for the coming year. This shopping period needs to be sufficiently noticed in advance and of adequate duration so that consumers have time to assess their options.

2. What if the contracts are based solely on market-based rates?

3. Describe how FERC's new approach for analyzing the ability of sellers with market rate authority to exercise market power affects generation companies selling into Arizona.
4. Does the Commission have the ability to assure that approval of a long-term contract would protect ratepayers receiving standard offer service as well as foster competition?

V. Industry Events External to Arizona

- A. Describe in detail developments you believe will occur in both the wholesale and retail competitive electric generation markets nationally and in Arizona over the next 12 months, 24 months, 36 months, 48 months and 60 months.

The responses to this question from AES NewEnergy focuses exclusively on events to occur in Arizona over the next 48 months. AES NewEnergy has set forth two major concepts through its answers to the questions in this document. One, commercial and industrial customers should be responsible for procuring their own energy needs. Two, residential and small customers that are receiving standard offer should have an annual opportunity to shop while giving the standard offer supplier an adequate notice so that they will know the standard offer load they need to procure.

Below we are providing a high level transition plan for modifying the current retail electric structure in Arizona to increase retail competition.

- By third quarter 2002, all transition cost components for the utilities should be fixed in nature, i.e. modify floating CTC formula of TEP.*
- By fourth quarter 2002, the Commission notifies all industrial and commercial customers above 1 MW demand that they shall be expected to procure their retail electric requirements directly from retail providers starting January 2004.*
- Standard offer service will no longer be available to the industrial and commercial customers above 1 MW after January 1, 2004.*
- By second quarter 2003, the Commission shall notify small commercial and residential customers of the open window shopping season in the third quarter of 2003. Residential and small commercial customers that elect to procure their own electric needs during this third quarter 2003 open window shopping season shall be applicable for calendar year 2004. This open window shopping season should be at least six weeks minimum in length and should close by the end of third quarter 2003 in order to provide sufficient notice to the standard offer supplier that they will not need to procure the energy needs of those customers.*
- By fourth quarter 2003, the Commission notifies all industrial and commercial customers above 500 kW demand that they shall be expected to procure their retail electric requirements directly from retail providers starting January 2005.*
- Standard offer service will no longer be available to industrial and commercial customers above 500 kW after January 1, 2005.*

By fourth quarter 2004, the Commission notifies all industrial and commercial customers above 200 kW demand that they shall be expected to procure their retail electric requirements directly from retail providers starting January 200

Standard offer service will no longer be available to industrial and commercial customers above 200 kW after January 1, 2006.

B. *Is there anything the Commission should do to continue to avoid California's retail electric competition experience? Please be specific.*

The California experience is a story of missed opportunities. The state's failure to promote a healthy and robust retail market led to extreme pricing fluctuations in the wholesale market. It has restricted the availability of competitive alternatives to the investor-owned utilities' high-priced reliance on short-term purchases. In so doing, it has harmed the economic well-being of millions of California consumers and handicapped the state's ability both to attract and retain large commercial and industrial customers.

An effective retail market can alleviate the pressures on consumers and help mitigate the pricing fluctuations in the wholesale market. There are several reasons why this is so:

1. *Effective retail competition increases the number of buyers in the market.*

The California power market currently is characterized by a limited number of buyers, with the utilities (and now the State itself) purchasing the overwhelming share of available supplies to meet the needs of their bundled service customers. This limited number of buyers means that the utilities' actions have a disproportionate effect on market prices. Increased retail competition would mitigate this effect, by adding more buyers and increasing the volumes purchased by those buyers.

2. *Retail competition offers greater hedging opportunities for end-use customers.*

Retailers have greater flexibility than do utilities to offer hedging products to end-users. The differences in the way in which retailers serve customers vis a vis the way the utility serves its customers make it clear why the retailer is apt to forward hedge. If a retailer enters into a contract to deliver energy at a fixed price of 6.5 cents/kWh for one year, the retailer would buy (either on a physical or a financial basis) products to ensure that the retailer could meet the terms of its contract with its customer.

In that way, the customer assumes no risk but gets exactly what it agreed to. Meanwhile, the retailer has managed its risk through forward contracts and other risk management tools to fulfill the contract. By contrast, the California utilities were continually concerned that if they had entered into forward contracts, the California Public Utilities Commission might at some point in the future determine that decision to be unreasonable and invalidate the contracts. This effectively left both the utility and the customer in an open, unhedged position and was a primary factor in the utilities' financial meltdown.

- 3. *While a utility has to be concerned about the reasonableness review aspects of its hedging decisions, retailers have no such concerns.***

Retailers in fact have greater incentives to hedge as an effective way to manage the risk inherent in power transactions. There is significant evidence that those CA end-users who were astute enough to have hedged their purchases in advance of the price volatility seen during the summer of 2001, enjoyed extremely significant savings when contrasted with other ratepayers. An effective retail market with greater customer penetration would have greatly increased the opportunities for ratepayers to avoid market price fluctuations.

- 4. *Retailers have greater incentives to offer demand responsiveness products.***

As part of their hedging strategies, retailers wish to see peak demand mitigated, so that they are not forced into the short-term spot market to meet customer demand. The risks of such spot market price volatility provides a clear incentive for retailers to offer effective demand responsiveness products.

C. Does the Enron bankruptcy have any lesson for retail electric competition in Arizona?

No. The causes of the Enron bankruptcy have nothing to do with retail electric competition and as such there are no lessons to be drawn.

D. How will FERC's RTO initiative affect the realization of effective retail generation competition in Arizona?

E. Do you anticipate changes in federal utility statutes to affect the jurisdiction of the Commission and its ability to foster retail competition in Arizona? Please detail.

VI. System Security

A. Are there compelling reasons to be concerned about security for electric generation facilities since the Sept 11, 2001 tragedy? Please include discussion of interconnection at a central location such as Palo Verde/Hassayampa.

- B. Does transferring ownership of generation facilities out from traditional Commission jurisdiction have any potential negative security consequences?
- C. What if ownership after transfer results in a foreign corporation eventually controlling Arizona's generation?
- D. Does such a transfer to a non-Arizona entity potentially impact security issues for Arizona?
- E. Are there any positive security aspects to transferring electric generation out from Commission traditional regulation to a foreign corporation?
- F. Provide specific examples to support your answers.

VII. Vision

Please provide your vision for how viable competitive wholesale and retail electric markets will (or will not) develop in Arizona. Please be specific regarding dates, the development process, and measures for determining at various stages how successful the process has been.