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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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Arizona Corporation Commission
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WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

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
IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS STRANDED COST RECOVERY.	DOCKET NO. E-01933A-98-471

NOTICE OF FILING COMMENTS

Attached are RUCO's responses to Commissioner Mundell's questions, dated January 14 and 30, 2002, and to Commissioner Spitzer's questions, dated January 22, 2002. In addition, the responses fairly address the questions posed by Commissioner Irvin on February 7, 2002.

RESPECTFULLY SUBMITTED this 25th day of February, 2002.

Scott S. Wakefield
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RUCO'S RESPONSES TO CHAIRMAN MUNDELL'S QUESTIONS

January 14, 2002 Letter

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:

   Small users generally want a load-serving entity to package these services and sell the bundled product at low, stable rates. The question remains whether, under Arizona's competitive regime, unbundled services can be obtained at wholesale and re-bundled at a stable retail price that is lower than or equal to marginal cost. This will depend on the viability of the western wholesale markets.

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:

   Most of these categories are outside the ambit of services that might be offered competitively, given current technology and infrastructure. Metering ownership might become competitive, depending on what the meter does. If meters are offered competitively, consumers should have the option of an efficient, cheap backup meter.

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.

   See the answer to I.A.1. These services are used to compile a portfolio for resale at retail. Consumers would normally expect the retail price to be stable and lower or equal to marginal variable cost. The success of such a strategy would depend on workably competitive wholesale markets.

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

Proponents originally argued that competition would give consumers enhanced services, lower prices and more convenience than traditional ratemaking. Some now question this promise after the price disruptions in improperly regulated western energy markets. Some contend that although restructuring brought higher absolute

prices in some areas of the country, consumers eventually would have experienced even higher prices under the traditional ratemaking regime.

The question remains whether competition is possible for the kind of service consumers are accustomed to receiving: reliable, reasonably priced power at stable rates. Generation is not particularly useful if it does not include ancillary services that ensure reliability.

1. What are the potential price benefits?

   The price benefits of competition are difficult to predict in large markets. Therefore, some skepticism is in order and the potential benefits of competition must be measured against the embedded costs of the current pricing regime. In the long run, market prices could be higher than Arizona's embedded costs.

2. Do the potential price benefits differ in the short-term and long-term?

   The answer depends on which generators are in the current rate base. This information can be found in the stranded cost calculations for the incumbent utilities. Long-term prices could be higher than in the short term.

3. What are the potential non-price benefits?

   See the answer to I.B.1, above.

4. Are there any other potential benefits (e.g., environmental, energy security, etc.)?

   Retail competition may not have much of an impact on environmental or security issues. "Green" power and distributed generation might become more prevalent as the regulatory regime gains experience with standardized market structure and interconnection requirements.

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 in a bundle with certain other services?

2. Are there economies of scope which make it most efficient for the service to be provided in a bundle with certain other services?

RUCO cannot answer this question because it does not have sufficient information concerning the geographic markets or the specific services or products that might be offered in those markets. Knowledge of the geographic market is critical for analyzing competition. One also must know whether a single entity is the most

efficient provider of each service or product within the geographic market.

The Federal Energy Regulatory Commission ("FERC") is reassessing its policy for screening potential geographic markets that might be susceptible to market power. To date, FERC has not reached a final decision.

A large city might provide sufficient bargaining power to efficiently price electricity services or products for residential consumers. However, pure trading by such an aggregator may not be economically efficient or viable. Note that increasing the scope of purchasing implies some cross-subsidization among classes of residential consumers.

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?

   It depends on the profit margin. Generally, higher prices will lead to larger margins until competitors are induced to enter the market and overcome barriers to entry.

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

   Costs are not likely to decrease unless an aggregator can purchase for a very large number of residential customers.

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?

      Some barriers appear to be transmission ownership and control; lack of interconnection standards for distributed generation that is intermittent; lack of verifiable calculations of available transmission capacity; lack of fair standards for pricing congestion management services.

   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?

      This is an insignificant concern compared with the huge market issues before the state and federal regulators.

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 [sic] provide the service subject to reliability and safety rules?

FERC believes the competitive system must have an independent control operator, like an independent system operator ("ISO") or a regional transmission operator ("RTO"). System reliability will depend on proper reserve margins, high-quality transmission, and operators who are truly independent.

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?

The answer depends on the available technology and the costs of the consumer's time to shop for the service.

III. Relationship of the Current Regulatory Regime to Competition

The Corporation Commission has established the current regulatory regime as a direct-access, retail-competition model. The Corporation Commission has approved agreements with APS and TEP to transition Arizona into this model. The settlement agreements have suspended, if not ended, the traditional ratemaking regime.

Meaningful competition has not occurred within the current regulatory regime for a variety of reasons, including wholesale market dysfunctions throughout the western United States prior to July 2001. The Federal Energy Regulatory Commission continues to work on wholesale power markets in the western United States.

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?

Experience suggests that retail and wholesale competition depend upon FERC establishing a workably competitive wholesale market system for dispatching energy and ancillary services at marginal variable cost. The least cost dispatched power pool model, similar to those that pre-existed the three ISOs in the northeastern United States, seems to be the most objective measure of whether efficient markets can exist in the western states. However, the western states have very little experience with the "tight" power pool model.

The western states also need to have an installed capacity market, if generation is deregulated, including a required reserve margin. The absence of such a market in California was a key reason for last year's high prices.

Federal and state regulations have also not yet created a system for price-responsive demand. At a minimum, RUCO believes that policy makers must engage the public at large and explain what consumers

must be prepared to do for price-responsive systems to mitigate market power in western energy markets.

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

Presumably, the "risks of competition" include dysfunctional wholesale markets, market power pricing, insolvent electricity providers, insufficient supplies, and inelasticity of demand to mitigate price spikes. Add to that the risk that system operators, like RTO's, might become captive to independent generators and complacent about market abuse or reliability problems. These problems will suggest that meaningful competition has decreased.

The question might be restated to say, "How can the Commission protect Arizona customers from the risks of dysfunctional markets while promoting competitive markets?" The Commission might protect Arizona consumers through close collaboration with FERC, provided FERC has established a workably competitive, well-regulated wholesale market.

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?

The rate reductions probably have had some effect. The difference between current cost-of-service rates and market rates under perfect competition is probably minimal. Few retail providers could compete for even the largest retail customers under such circumstances, where the retail margin might be only 1-2 mills per kwh. This could change if wholesale prices fell significantly, but retail competition would disappear again as soon as wholesale prices rose again.

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?

No, so long as stranded costs are set properly. See the answer to III.C.

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

Only if these assets give utilities market power to underbid a competitor due to excessive stranded cost recovery. But this is true whether the incumbent utility or another supplier controls supplies at the margin.

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?

RUCO has insufficient information to answer this question.

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?

A power pool might be one way to manage the risks, but the West is not ready for such a concept. The West also is not close to having an RTO with proven benefits exceeding costs.

Another method for managing the risks of retail competition is to maintain a regulated price cap in the form of the Standard Offer, at least for small customers. But a price cap should be re-done periodically on a cost-of-service basis, like in a regulated rate case. That way, customers could get their own supplier if the prices were cheaper, thus preserving retail competition with strong ratepayer protections.

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?

   Not if the utilities have to donate ancillary services to keep the system going. However, as demand grows, a utility could supply Standard Offer service from the competitive IPP market on a least cost basis. Self-building could be just another least cost option so that, when wholesale market prices are too high, the utility might be required to build new resources under a regulated return.

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.

   Competitors of the incumbent utilities are in the best position to answer this question.

3. Are utilities entering into long-term contracts with existing customers? **RUCO has insufficient information to respond to this question.** If so, how do they affect prospects for future retail competition? **RUCO has insufficient information to respond to this question.** Should the Commission allow them?

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

   RUCO has insufficient information to respond to this question.

IV. Retail Generation Competition

A. Regarding each identifiable generation product—

1. Identify with particularity any defects in the wholesale market structure affecting Arizona.

   The wholesale market participants are in the best position to identify the problems, if any.

2. Are there an adequate number of competitors to sell in Arizona to make the product sufficiently competitive? How many sellers are there?

   No.

3. How have mergers and consolidations in the industry affected the competitiveness of the product in the region at the wholesale and retail levels?

   RUCO has insufficient information to respond to this question.

4. Are competitors building new generation able to price their generation at rates competitive with existing generation?

   The independent generators in Arizona are in the best position to answer this question.

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

   The ISA should provide this information.

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?

   Yes. *See* Western Governors' Association, WGA Policy Resolution No. 01-01, *Western States Energy Policy Roadmap* (August 14, 2001); Western Governors' Association, *Conceptual Plans for Electricity Transmission in the West, Report to the Western Governors Association* (August 2001). These documents are available at www.westgov.org.

2. What plans are in place to relieve transmission constraints?

   See IV.B.1, above.

3. How long will it take to relieve any existing transmission constraints and what factors are affecting and will affect prospects for relief?

   See IV.B.1, above. Some maintain that the western system needs only minor additions or adjustments to relieve region wide transmission constraints. RUCO believes that national (Congress and FERC), regional (WECC, Cal/ISO, WGA), state (Governors, Legislators and PUC's), and local (municipalities, public power, etc.) political entities should determine the optimum configuration

for a transmission system that will promote workable electricity markets. The public must understand and be willing to accept the costs and benefits necessary to create that system. If the changes are relatively minor, perhaps this will not be a difficult task. Note that constraints will always exist to some extent. The real issue is how to relieve the constraints on a cost-effective basis to ratepayers.

4. Are the owners of constrained transmission facilities, or holders of transmission rights, able to use their control to affect market prices?

   RUCO has insufficient information to respond to this question.

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.

   RUCO has insufficient information to respond to this question.

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?

   RUCO has insufficient information to respond to this question.

7. Is the natural gas pipeline infrastructure adequate to support all proposed new gas-fired generation plants? How many plants can it support?

   RUCO has insufficient information to respond to this question.

8. Does the transmission and distribution system facilitate or deter—

   a. The development of renewable energy technologies?

      It could go both ways depending on the technology.

   b. The development of distributed generation?

      On balance, the system is a facilitator and a burden for distributed generation. Technical, business practice and regulatory burdens must be worked out so that the consumer may choose distributed generation when it is optimally economical.

   c. The development of demand-side management and energy efficiency?

      The system is potentially an avoided cost of DSM and in that sense the system facilitates the economics of DSM.

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?

Retail customers probably would not be *per se* adversely affected by such a variance, provided that power remains available to customers on a cost basis.

b. How would retail generation competition be affected?

Independent generators and the incumbent utilities are in the best position to answer this question.

c. How would wholesale generation competition be affected?

Independent generators and the incumbent utilities are in the best position to answer this question.

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

Independent generators and the incumbent utilities are in the best position to answer this question.

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?

Retail competition could develop if non-affiliated companies can provide generation at a lower cost than the incumbent's affiliate.

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?

If consumers receive cost-based rates then competition will have to produce a price that is below marginal cost.

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?

Yes.

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?

RUCO has insufficient information to respond to this question.

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.)

If the contract provides power at "cost" then consumers would have an advantage because market prices are likely to be higher in

the long run than cost-based prices. A long-term contract also would better protect consumers from price volatility of unstable cost inputs, such as natural gas costs. If the contract is meant to reflect "cost" then "long term" might be the time that one would expect a utility to file a rate case to prevent under- or over-recovery in a fixed retail rate setting.

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

   Then the quality of the market will be crucial to consumer health, safety and welfare.

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.

   FERC recently indicated that it is considering a new approach, but has pulled back from formally implementing the approach. Chances are that such analysis would severely limit the use of market-based rates in 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?

   The commission can probably find a way to do both and RUCO will file testimony to expand on this concept in the APS Variance Case, Docket No. E-01345A-01-0822.

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 West will continue to resist creating an RTO and formal energy balance and ancillary service markets under the jurisdiction of such an organization. Federal jurisdiction over such formal wholesale markets might actually undermine the competitiveness of the market that currently exists.

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

This assumes that Arizona has avoided the effects of California's retail electric competition experience. See the Citizens Communications PPFAC Docket, No. E 01032C-00-0751.

One safeguard is to make sure utilities are not forced to buy only from the unregulated market. This will be discussed to some extent in RUCO's testimony in the APS Variance Case, Docket No. E-01345A-01-0822.

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

The lesson of the Enron bankruptcy, if any becomes available, has not fully played out for the wholesale and retail energy markets. Time will tell whether Enron had sufficient margin to pursue a legitimate business strategy in the energy markets.

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

Not for a long time.

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.

No.

VI. System Security

General answer:

This is an area of uncertain authority among the various state and federal entities. Unfortunately the grid will continue to be vulnerable to acts of war.

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.

VI. 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 determing [sic] at various stages how successful the process has been.

RUCO has insufficient information to respond to this question.

January 30, 2002 Letter

Corporate Structure and Affiliate Relations

1. If the U.S. Congress repeals the Public Utility Holding Company Act of 1935 ("PUHCA" or "Act") PUHCA [sic]—

   a. what regulatory protections would be lost for Arizona consumers?

   b. What would be the risks for Arizona consumers?

   c. For any identifiable risks, are the risks reduced or increased under a competitive retail regime?

   General answer: The National Association of State Utility Consumer Advocates, in Resolution 1996-04, states that "Congress enacted the Public Utility Holding Company Act (PUHCA) ... to reduce and constrain the exercise of market power in the investor-owned electric and natural gas utility industries as well as to prevent abusive stock and business practices of far flung investor-owned electric and gas utility holding companies." The resolution further states, "The mitigation or elimination of market power through PUHCA's protections or other statutory and regulatory means is necessary to ensure competitive outcomes that are consistent with the public interest…."

   The resolution also calls on Congress to "require federal regulatory agencies to: 1) prevent abusive or preferential affiliate transactions, 2) continue oversight and protection over corporate and market structure to prevent abuses to consumers and competition, 3) disallow costs which are not prudent and reasonable from wholesale rates, 4) exercise sufficient regulatory authority to prevent ratepayers from bearing any risk of utility diversification and to prohibit cross-subsidies between regulated and nonregulated subsidiaries…."

   A competitive retail regime probably would not reduce the risks alluded to in Resolution 1996-04.

2. What is the extent of the Commission's authority to protect retail consumers from any potential adverse consequences resulting from multistate companies operating in either wholesale or retail markets in the state?

   The Commission might protect ratepayers from misbehavior by multistate companies selling power in Arizona through its power to set local retail rates for public service companies and requiring those companies, if necessary, to build facilities to meet their obligations to serve the public. The self-build requirement might be a way to respond to price disruptions in the wholesale market.

   Public service companies could still be required to obtain Commission approval before disposing of assets dedicated to public service or before entering into mergers with larger companies. FERC's developing RTO policy should be carefully watched for potential conflicts with the Commission's jurisdiction under Arizona law. FERC avoids conflict so long as RTO policy

remains "voluntary" in the sense that a utility might exercise one of several options in transferring control of transmission assets. The Commission avoids conflict so long as its orders do not frustrate the exercise of FERC's exclusive powers.

3. How would the existence of effective retail competition in Arizona affect your responses to questions 1 and 2 above?

   The Commission's coercive powers probably become more of a "backstop" for disciplining market participants and coercing appropriate behavior by public service companies.

4. What is the extent of any impact on effective federal or state regulation to protect Arizona wholesale and retail consumers, if a holding company is (a) registered or (b) "exempt" under PUHCA?

   The major difference between registered and exempt holding companies is the extent of federal regulation as enforced by the SEC. The state's regulatory structure is not materially affected. The state might have slightly broader authority over exempt entities' affiliate transactions in the sense that federal oversight would not exist to preclude exercise of the state's regulatory powers.

Divestiture or Corporate Separation

14. How would the divestiture or transfer of assets of vertically integrated utilities now serving Arizona affect the Commission's regulatory authority over the divested entities? What controls or limitations might the Commission place on divestiture or transfer of assets to limit any loss of authority over the divested assets?

    Some argue that when a regulated entity transfers to a "wholesale" power entity assets dedicated to local public service the FERC becomes the sole and exclusive authority to determine whether rates for such services are just and reasonable. This argument suggests that the transfer changes regulatory jurisdiction, thereby creating the potential problem that "controls" or contractual agreements over regulatory jurisdiction might be unenforceable and illusory. A similar issue seems to be developing in the Citizens PPFAC Docket before this Commission, No. E 01032C-00-0751.

    A solution might be to require a conditional conveyance with a reversionary feature that immediately transfers title back to the regulated entity in the event the Commission loses or is about to lose jurisdiction. The condition would be difficult to draft and probably would so effectively burden the title to the property one might wonder whether any point exists in doing it at all.

15. How would the divestiture or transfer of assets of vertically integrated utilities now serving Arizona affect federal jurisdiction under the FERC and the SEC over the divested entities?

    See the answer to 4 and 14.

16. How would the potential effects of divestiture or transfer of assets on Commission authority differ under a competitive retail regime than under a monopoly regime?

    See the answer to 14.

17. How would a requirement that competitive services, such as generation services be offered only through a separate corporate affiliate affect the Commission's regulatory authority and any risks identified in response to the questions above?

    See the answer to 14.

18. For any risks resulting from a divestiture requirement or a requirement that competitive services be offered through separate affiliate, how might those risks be eliminated or reduced? Specifically –

    a. What actions might the Arizona Commission take?

    b. Are there actions that the Commission might encourage the FERC or the SEC to take to maintain adequate oversight for the protection of ratepayers?

    These questions are ultimate policy questions for the Commission to decide. The answers are fraught with legal uncertainty at the state and federal level.

RESPONSE TO COMMISSIONER SPITZER'S QUESTIONS

1-6. The incumbent utilities are in a better position to discuss the incentives and disincentives of the two regimes relating to renewable energy. These questions were answered, to some extent, in the Commission's rule-making docket for the Solar Portfolio Standard Rules.

Regulators in the vertically integrated utility regime might support renewable resources by setting a voluntary standard offer rate for "green" power or establishing a state resource portfolio standard that includes renewable resources.

7-10. The competitive electric market and the vertically integrated utility models do not necessarily cause utilities to replace older, more polluting plants with cleaner plants. In either environment, the older coal-fired plants will have lower variable costs and will have lower fixed costs due to substantial depreciation. In either scenario, coal-fired plants will continue to be economic.

11-12. These answers can be found in the Commission's records.

13-14. Excess capacity appears to be prevalent in both regimes, except for recent "tightening" of reserve margin attributable to a pause in construction in the mid- to late-1990's. Some would argue that less reserve capacity would be needed to preserve reliability under the vertically integrated utility model than under the competitive electric market regime.