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Via Hand Delivery

Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission

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Re: The Rural Electric Distribution Cooperatives' Responses to Electric Competition Rules Questions; Docket No. E-00000A-02-0051

Dear Commissioners:

Enclosed are the responses of Duncan Valley Electric Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative, Navopache Electric Cooperative, Trico Electric Cooperative and Sulphur Springs Valley Electric Cooperative (collectively "the Rural Electric Distribution Cooperatives") to the questions posed by each of you. Duncan Valley Electric Cooperative's, Graham County Electric Cooperative's, Sulphur Springs Valley Electric Cooperative's and Trico Electric Cooperative's responses are submitted without waiver of the positions taken and issues stated in Phelps Dodge et al v. AEPCO, No. CA-CV01-0068 and No. CV1977-03748 (Consol.)

The Rural Electric Distribution Cooperatives have focused these responses primarily on distribution issues. Arizona Electric Power Cooperative, Southwest Transmission Cooperative and Sierra Southwest Cooperative Services are submitting separate responses directed primarily to generation and transmission related matters.

Letter to Chairman William Mundell
Commissioner Jim Irvin
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Several of the questions posed by you venture into areas which the Rural Electric Distribution Cooperatives did not have the internal or external resources nor, in some cases, the time or direct experience to address. Consequently, the Rural Electric Distribution Cooperatives did not respond to all of your questions. A "no response" does not necessarily indicate no opinion or position, but rather reflects these factors.

The Rural Electric Distribution Cooperatives appreciate this opportunity to provide input on these issues and reserve the right to change or supplement answers based on further development. We look forward to continued future participation in these dockets.

Sincerely,

Grand Canyon State Electric
Cooperative Association, Inc.

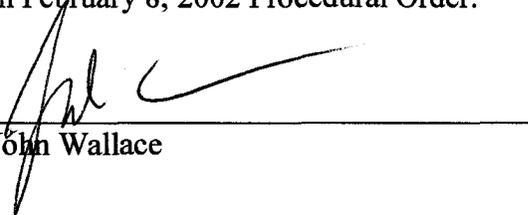
By:


John Wallace

JW:jl

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in February 8, 2002 Procedural Order.


John Wallace

Chairman Mundell's Questions
(Dated January 14, 2002)
Electric Restructuring Docket No. E-00000A-02-0051

Introduction

The following responses are provided by Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. (collectively "Rural Electric Distribution Cooperatives"). Certain individual Rural Electric Distribution Cooperatives will supplement these responses. Please note that the Rural Electric Distribution Cooperatives have provided responses only to questions that directly relate to, or directly impact, the Rural Electric Distribution Cooperatives' respective electric distribution operations. Since the Rural Electric Distribution Cooperatives strongly believe that distribution and transmission services should continue to be regulated, if they respond to questions that you refer to competition generally, unless their responses indicate otherwise, it will not pertain to generation services. The Rural Electric Distribution Cooperatives reserve the right, individually and collectively, to provide comments and positions on any of the issues raised in this questionnaire as becomes necessary in the future. The Rural Electric Distribution Cooperatives, individually and collectively, also reserve the right to change opinions expressed below as new information becomes available.

I. Identification of Retail Electric Products and Services for Which Competition could bring Benefits

A. What are the possible goods and service 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:

Response:

Retail competition in power delivery clearly is possible. Whether it makes sense for the vast majority of customers or the Rural Electric Distribution Cooperatives' service areas is an issue subject to serious debate.

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:

Response:

The Rural Electric Distribution Cooperatives believe that all Distribution Services should remain regulated and not subject to competition. Competitive distribution service would be an unnecessary duplication of facilities. Competing Distribution Service providers would disrupt reliability enjoyed by electric customers in the State for the last several decades. Also, it is simply not economically or technically feasible for separate distribution lines to be constructed to a customer's meter/home. Additionally, the owner of the distribution system, in this case the Rural Electric Distribution Cooperative, must be the party that constructs and maintains repairs of the physical lines because the it has designed and engineered the distribution system and is in the best position to economically construct, maintain and repair the system in a safe and reliable manner.

Concerning the process of planning for and negotiating with distribution generators, distributed generation is being offered as a competitive service. However, an integral part of effective distributed generation is installing that generation where it is required in the distribution system so it benefits all the customers of the distribution system and not just one customer. To ensure that the safety and reliability of the distribution system is maintained, the Rural Electric Distribution Cooperative must be included in the planning of distributed generation. Each utility distribution system configuration is unique. Consequently it should be the responsibility of the Rural Electric Distribution Cooperative and distributed generator to negotiate interconnection standards that would ensure that the safety and reliability of the distributions system is maintained. One generic set of interconnection standards will be beneficial but must be flexible and broad enough to address the uniqueness of each distribution systems' reliability, safety, other concerns of connecting to the system.

Concerning meter ownership and installation, the Rural Distribution Cooperatives believe that several safety and reliability issues arise when the Rural Electric Distribution Cooperative is no longer the owner and installer of the meter. The first is that the meter must be installed, maintained and tested by qualified personnel. The meter is directly connected to the distribution system and to the customer's home. A meter that is not installed correctly will be a hazard to both. Currently, Rural Electric Distribution Cooperatives ensure that only qualified

personnel install, test and maintain meters. The Rural Electric Distribution Cooperative or customer has no way of ensuring that a competitive meter supplier/installer meets these qualifications or that the meter is being maintained properly.

The Distribution Cooperatives believe that the meter installed must also be reliable, meet industry standards and be able to be read by the Rural Electric Distribution Cooperative. In addition, it is doubtful that in the rural service territories that the Rural Electric Distribution Cooperatives serve, that it is economically feasible for companies other than the Rural Electric Distribution Cooperatives to own, install and maintain meters, especially given the that the meter and installation charge is a small portion of any customers bill and the Rural Electric Distribution Cooperatives do not charge and retain a profit margin. Any margin collected by Rural Electric Distribution Cooperatives is eventually returned to customers in the form of a capital credit.

Meter reading and data analysis has been provided as a competitive service in the Investor Owned Utilities' service territories when enough customers' meters could be read and a competitive meter reader could realize a profit. However, given that customers are remotely located within an Rural Electric Distribution Cooperative's territory, that these charges are a small portion of any customers total bill and that the cooperatives do not charge and retain a profit margin, it is unlikely it would be economically feasible for a competitive meter reader service provider to read meters and analyze data in cooperative service territories. Also the costs incurred by the Rural Electric Distribution Cooperatives in allowing only a few likely competitive customers to use these services burden the remaining customers with the costs caused by these few customers.

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.

Response:

With the exception of aggregation and power supply acquisition services, all other customer services listed have long been offered by competitive suppliers in the energy services field. They have never been considered solely functions of certificated public

service corporation services. As well, some of these services, e.g. demand side management and energy efficiency, have also been offered by traditional host utilities. Large commercial and industrial customers with incentives to reduce costs will still continue to shop for most of these services whether or not competition in electric generation exists. Similarly, smaller commercial customers, when advantageous, will seek out billing aggregation services that receive, review and bundle a customers' multiple utility bills into a "one-pay" bill while performing other energy services, such as data analysis, performance contracting, etc.

Regarding aggregation services, the Rural Electric Distribution Cooperatives already act as aggregators of rural customers. Thus, to allow a competitive aggregation would be redundant.

Regarding 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, the Rural Electric Distribution Cooperatives, as distribution utilities, have the best information to perform these services on behalf of their member-customers. While a number of these services historically have been provided in metropolitan areas by energy services companies that are not utilities, that has not been the case in the rural areas of Arizona. Due to dispersed population, it simply is not profitable as a stand-alone service.

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

Response:

Theoretically, competition supplies goods and services efficiently and at a lower cost. However, the lessons of competitive generation experiments in California, Texas, Pennsylvania and elsewhere are that competition does not necessarily bring benefits; instead, many have found that its burdens can be substantial.

As indicated in Section A, given the low customer density and remote customer locations associated with the Rural Electric Cooperatives' service areas, it is doubtful that there would be a price benefit or any other benefit to consumers from competition in meter installation, meter reading, billing or data analysis. In addition, the costs associated with integrating these services for a

few into the distribution cooperatives' costs also drive up the costs for everyone else. As mentioned previously, the fact that these charges are a small portion of any customer's total bill and that the cooperatives do not charge and retain a profit it is unlikely that competitive service providers would be able to provide these service at a lower cost to consumers. Conversely, competitive "cherry picking" of larger or more desirable customers will increase costs to remaining customers.

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

Response:

It is unlikely that the price benefits for meter installation, meter reading, billing or data analysis will be different in the short-term versus the long-term due to the low customer density, no profit margins and these charges are a small portion of any customers total bill in the Rural Electric Distribution Cooperatives' service areas.

3. What are the potential non-price benefits?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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 economics of scale, which make it most efficient for the service to be provided by a single company?

Response:

Yes. The Rural Electric Distribution Cooperatives believe there are economics of scale involved with a utility distribution system because of the miles of utility line, rights of way and line siting, other distribution plant etc. The larger the customer base from which these fixed costs can be recovered, the lower the rates are on a per customer basis.

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

Response:

Yes. The Rural Electric Distribution Cooperatives believe there are economics of scope involved with a utility distribution system because of the large proportion of a customers' bill that is associated with substations, lines, transformers, and other distribution plant versus the small portion that is associated with meter installation, meter reading, billing or data analysis.

- 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?

Response:

As mentioned in previous responses, the Rural Electric Distribution Cooperatives believe that it is not viable for competitive suppliers to provide meter installation, meter reading or data analysis. For example, Navopache's service area has been open to competition since June of 2000 (Decision No. 62612). Since June of 2000, no competitive ESPs have expressed interest in providing competitive electric service, and none of Navopache's customers have expressed interest in receiving competitive electric service.

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

Response:

Since the Rural Electric Distribution Cooperatives have only a few large loads and high load factor customers, competitive aggregators will most likely target "cherry pick" these customers. No new suppliers will find it profitable to aggregate the small but widely dispersed customers of the Rural Electric Distribution Cooperatives. Cooperatives, by their very nature of being "member-owned" are the aggregation entity. But unlike competitive ("investor-owned") ESPs, cooperatives are not in the business of returning a profit to investors. This is the only reason why electric service is possible in rural Arizona in the first place.

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?

Response:

As distribution utilities, the Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- 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?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- 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?

Response:

The Rural Electric Distribution Cooperatives believe that utility distribution services should be provided by a single regulated company to assure reliability and safety because the utility distribution is directly connected to the consumer's premises as well as the other reasons stated in previous responses.

- 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?

Response:

Both the risk and cost associated with shopping is sufficiently high so as to deter many small residential and commercial loads from undertaking the assignment. The Rural Electric Distribution Cooperatives believe that cost associated with shopping is not the most important factor to customers in making a competitive choice. What is most important to customers is reliability and reasonable rates over the long term. For example, if customers could save 15 percent by choosing a competitive supplier but by doing so could be exposed to the risk that their costs could double at some time in the future, customers will not choose a competitive supplier.

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?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- 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?

Response:

Navopache is the only Rural Electric Distribution Cooperative, which has a stranded cost settlement and this settlement resulted in permanent rate reductions. Accordingly, the Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- 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?

Response:

The Commission's Environmental Portfolio Standard ("EPS") mandate and corresponding surcharge, as a subsidy, promote the ability of renewable and distributed generation to compete with traditional generation resources. The Cooperatives do believe in the value of allowing customers choice as to these programs rather than mandated subsidies. The market place will determine which energy efficiency and DSM programs 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?

Response:

In general, the rural areas are at a particular risk for reasons explained previously. Rural areas are not desirable markets generally. Further, the loss of certain desirable loads drives up costs for remaining customers. Managing those risks requires a recognition of these issues and special treatment concerning rural areas. The Rural Electric Distribution Cooperatives believe that Retail Electric Competition will not benefit rural Arizona and will only bring rate instability to these areas. Rate instability is an inherent risk in a truly free market. There is little that the Commission can do to minimize these risks without re-regulation.

- 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?

Response:

No, for both legal and practical reasons. Utility Micro-management is neither permissible nor desirable.

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.

Response:

The Rural Electric Distribution Cooperatives are not taking any such steps.

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?

Response:

Rural Electric Distribution Cooperatives must be allowed to enter into long-term contracts in order for the Rural Electric Distribution Cooperatives to recover the cost of its distribution system that is dedicated to a contract customer. If a Rural Electric Distribution Cooperatives cannot enter into a special contract to recover its cost of dedicated facilities, and that contract customer does not pay the cost of the dedicated facilities, then eventually the other remaining customers will pay for the dedicated facilities. Further, such customers are sophisticated buyers in the energy marketplace and when entering into such contracts balance the anticipated benefits of the contract against the perceived competitive market risks.

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

Response:

For the reasons stated in previous responses, the Rural Electric Distribution Cooperatives believe that the Commission should not 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 the particularity any defects in the wholesale market structure affecting Arizona.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives are not certain of the precise number of sellers, but there are certainly a number of competitive plants being built or planned. Whether it is an adequate number depends on a variety of factors including demand, actual completion of plants and sales and operational strategies.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives believe that the Arizona Independent System Administrator (AISA) does not initiate, create or drive either retail or wholesale competition. The energy market does. The AISA only provides a monitoring service of third-party independent wholesale transmission transaction(s) to give a higher comfort level to those third-parties that the transactions will be fair because they are monitored. Since those third-parties also have access to FERC procedures (including a telephone complaint hot line) for complaints about those same wholesale transactions, the AISA has no effect on the success or lack of success of Arizona competition, especially at the retail level. The protocols produced have been useful in standardizing processes which can be used once competitive transactions occur.

However, such protocols could have been produced by other means and can now be used absent the AISA's existence.

- 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?

Response:

The Rural Electric Distribution Cooperatives believe that transmission constraints exist inside and outside Arizona. They are physical and/or contractual and exist at all times of the year. The FERC's requirement of open access transmission coupled with the recognition by incumbent utilities in their OATT that the same transmission that served a monopoly customer will serve a competitive customer will solve the contractual constraints. Building more transmission facilities in accordance with the FERC's requirements will relieve the physical constraints.

The transmission entities providing transmission service to the respective Rural Electric Distribution Cooperatives are as follows. Southwest Transmission Cooperative (STC) provides transmission service to Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. Public Service Company of New Mexico (PNM) provides transmission service to Navopache Electric Cooperative, Inc. STC and PNM are participating in an EHV transmission study with other utilities and independent power producers. The study is called the Central Arizona Transmission System (CATS) Study and encompasses an area bounded by the Phoenix Metropolitan area to the north and the Tucson Metropolitan area to the south. The purpose of the CATS study is to evaluate the long-term high voltage transmission facility needs for central and southeast Arizona.

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

Response:

It is the Rural Electric Distribution Cooperatives' understanding that the CATS study group has completed initial studies that

address the physical limitations on today's transmission system to deliver the future generation patterns to the anticipated load centers. The group is proceeding with determining alternative transmission additions to provide the needed transmission capacity in future years.

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

Response:

The Rural Electric Distribution Cooperatives believe that relieving any existing transmission constraints could take several years. For example, STC is planning to build the Winchester Project. The Winchester Project will include a new substation that ties into a TEP 345 kV line along with construction of 23 miles of double circuit 230 kV line from the new substation to Apache Station. This will provide additional transmission capacity to deliver Apache or other generation. This project is one of the projects identified in the CATS study to provide needed transmission capacity. The Winchester Project will take three years to place into service from initial planning, if no unexpected hindrances are encountered. The other projects identified in the CATS work are greater in scope and cost. The factors affecting these projects' in-service date will be issues with siting, permitting and financing. Any delay in obtaining one item could delay the entire project. The Winchester Project is scheduled to be in service by the middle of 2004. Gaining appropriate regulatory and environmental approvals may extend the planned in-service date.

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

Response:

The Rural Electric Distribution Cooperatives believe that economic theory states that limited transmission capacity will affect market prices because it would limit lower cost generation from getting to market and do so at the expense of the end-user of electricity. However, the economic dispatch policies of most utilities often belie that economic theory. More often, transmission constraints limit the importation of power from other generators or the construction of new generation in certain areas since the cost of building both generation and needed transmission can make a

project too costly and, therefore, non-competitive. This is because the transmission system was privately built by each utility to deliver power and energy from a generator to its retail load; it was not designed as a public roadway to maximize the movement of power for all comers. FERC now has in place rules that govern the conduct of transmission owners, of rights holders and of users.

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.

Response:

Less control. As discussed above, the transmission system was built by each transmission owner to serve its utility system and needs. By following FERC open access regulations enacted over the past several years, originating the AISA, participating in the formation of Desert Star and its successor WestConnect, posting on the OASIS, planning and construction of new facilities to accommodate new generation plants and wheeling for non-native loads, transmission owners are continuously ceding more and more control of their owned facilities to others.

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?

Response:

The Rural Electric Distribution Cooperatives believe that if all entities, including developers of the new generation plants, timely follow the FERC regulations (as they are required to do) for planning, studies, interconnection and facility construction, and, assuming prompt siting approval and the ability to secure adequate rights of way, the transmission system will continue to meet the needs of new plants as well as existing and future load.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

8. Does the transmission and distribution system facilitate or deter --
- a. the development of renewable energy technologies?

Response:

If other than customer on-site technology, the location and size (power output) of the renewable energy technology will dictate whether the transmission and distribution system facilitates or deters its use, i.e., central station or distributed generation (see response to Question 8.b. below). If the renewable energy technology is central station, then its location and its impact on the transmission grid due to that location (and size) will determine availability. If it is located so that facilities are needed to mitigate its impact on the existing transmission system, then a higher transmission cost would be assigned to it and the transmission system would be viewed as deterring the resource. However, note the fact that it is renewable has no effect on the analysis, it is the size and location of the resource that governs.

Much of the service area of the Rural Electric Distribution Cooperatives is rural and remote. Renewable energy technologies such as solar photovoltaic can be efficiently used in some cases to provide electricity to remote areas. In such instances, the cost and availability of the transmission and distribution systems can be the driving force for selecting or locating a renewable resource.

- b. the development of distributed generation?

Response:

The transmission and distribution system can facilitate the development of distributed generation as Arizona continues to grow. As the need for system additions grows, distributed generation can be a cost-effective alternative. In certain cases, the use of distributed generation can be a cost-effective means of deferring, and possibly eliminating,

the need for transmission and distribution facility additions. Also, distributed generation may be a viable option for an aging distribution system requiring major upgrades.

Because of the rural and remote service Rural Electric Distribution Cooperatives, distributed generation can be a very viable and cost effective means of providing power.

Further, the Rural Electric Distribution Cooperatives are supportive of distributed generation particularly as a means of serving remote areas and providing additional reliability as well as an added business opportunity. System protection is required for distributed generation for the protection of both the personnel and facilities of the owner and of the local distribution company. Most utilities understand that distributed generation is a viable option for a customer and have established reasonable standards for the protection of all parties. Others, however, have erected barriers to losing a customer and only talk about interconnect requirements, while not acting to establish any interconnection standards. The way to resolve this issue is to establish uniform and reasonable standards for interconnected facilities, whether by FERC at the transmission level, or by the ACC at the distribution level, so that each party specifically knows in advance what is expected.

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

Response:

As stated in the response above concerning distributed generation, the costs, need for expansion and location of the transmission and distribution system can also facilitate the development of demand-side management and energy efficiency due to the need to continually build transmission and distribution facilities to meet system growth. The use of demand-side management and energy efficiency programs may be a cost-effective means of deferring, and possibly eliminating, transmission and distribution facility additions.

- C. Regarding competitive bidding --

1. Identify the 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:

Response:

A.A.C. R14-2-1606(B) requires power purchased by "Investor Owned" Utility Distribution Companies for Standard Offer Service to be acquired from the competitive market with a least 50% percent through a competitive bid process. Because the Rural Electric Distribution Cooperatives are "Member-Customer Owned" and not "Investor Owned," the Rural Electric Distribution Cooperatives are not subject to the bidding requirements of A.A.C. R14-2-1606(B). Accordingly, the Rural Electric Distribution Cooperatives have no response to this line of questions other than to opine that their customers have suffered no adverse consequences as a result of the Rural Electric Distribution Cooperatives' exemption from the Rule. Because of financing, mortgage and all requirements issues, the Cooperatives do believe their continued exemption from this requirement is vital.

- a. How would retail customers be affected?

Response:

See response to Question C.1. above.

- b. How would retail generation competition be affected?

Response:

See response to Question C.1. above.

- c. How would wholesale generation competition be affected?

Response:

See response to Question C.1. above.

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

Response:

See response to Question C.1. above.

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?

Response:

See response to Question C.1. above.

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.

Response:

See response to Question C.1. above.

5. Instead of entertaining individual requests for substantial variance to the competitive bid requirements, should the Commission proceed on a generic basis to modify the rules for competitive bidding?

Response:

See response to Question C.1. above.

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?

Response:

See response to Question C.1. above.

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 were based solely on cost-based rates. (Your answer should define "long term" as compared with "short term" contract.)

Response:

See response to Question C.1. above.

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

Response:

See response to Question C.1. above.

3. Describe the FERC's new approach for analyzing the ability of sellers with market rate authority to exercise market power affects generation companies selling into Arizona.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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?

Response:

See response to Question C.1 above.

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.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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

Response:

Yes:

1. *That not everything comes quickly nor should it.*
 2. *That competition in the electric industry does not, in and of itself, automatically carry benefits to consumers.*
 3. *That the legitimate business objective of energy trading and merchant marketers is realizing a profit on the transactions they undertake and that higher profits can be made in a market environment that is characterized by price volatility, inefficiency and a general lack of vigorous competition in the wholesale market.*
 4. *That there is value in hard assets.*
 5. *That consumer protection and customer service comes from utilities with a history of production and delivery of energy to consumers as their primary business, not as only a small part of their portfolio.*
- D. How will FERC's RTO initiative affect the realization of effective retail generation competition in Arizona?

Response:

The effect is unclear. The theory is that an RTO will facilitate open access transmission and make more efficient use of the existing transmission system. This is to be accomplished through an independent central operator who will route delivery through unconstrained paths, dispatch least-cost units regardless of contract requirements (making later balancing payments as compensation), plan for the most efficient system additions, etc. However, RTO's are a new creature. Those working well are an outgrowth of already in-place power pools located in small geographic markets.

Further, and perhaps as importantly, there has been no cost-benefit analysis conducted by FERC to demonstrate their usefulness to end-use customers. Their purpose is to promote and facilitate competition – a policy choice. Apparently forgotten in the \$120 to \$150 million RTO start up costs and \$100 million in annual RTO operating costs is the

requirement that they benefit those whom the industry was originally designed to serve -- consumers. The majority of an RTO's functions are currently already being provided by existing utilities. An RTO only adds another layer performing essentially duplicative functions to meet the policy goal. There has yet been no demonstration of market power or failure of open access in Arizona which would require an RTO as a solution needed to accomplish retail (or even wholesale) competition.

- 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.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- B. Does transferring ownership of generation facilities out from traditional Commission jurisdiction have any potential negative security consequences?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- C. What if ownership after transfer results in a foreign corporation eventually controlling Arizona's generation?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- D. Does such a transfer to a non-Arizona entity potentially impact security issues from Arizona?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- E. Are there any positive security aspects to transferring electric generation out form Commission traditional regulation to a foreign corporation?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- F. Provide specific examples to support your answers.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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.

Response:

The Rural Electric Distribution Cooperatives have grave doubts as to whether

retail competition will benefit rural Arizona. Experience in the airline, banking and telecommunications fields demonstrates that such initiatives usually leave rural areas unserved or underserved. Wholesale competition may offer new opportunities to acquire, through various means, least cost resources throughout the state.

The Rural Electric Distribution Cooperatives believe that if competitive wholesale and retail markets are developed in Arizona, the focus should be on the service areas served by APS, SRP and TEP where conditions are more favorable to competition. The Rural Electric Distribution Cooperatives serving the rural areas of the State should be exempted from the ACC's Retail Electric Competition Rules, at least in the near term until competition could be feasible and reliable in the Rural Electric Distribution Cooperatives' service territories.

**Chairman Mundell's Supplemental Questions
(Dated January 30, 2002)
Electric Restructuring Docket No. E-00000A-02-0051**

For the purposes of the questions below --

1. an "affiliate company" means (a) any person or company that owns or has the power to control the outstanding securities of 5% or more of the entity or (b) any officer or director of the entity;
2. a "retail supplier" may be a public utility, including a distribution company or a competitive provider of energy or other retail electric services such as Electric Service Providers (ESPs) under our rules;
3. a "subsidiary company" means any company in which the entity owns or controls five percent or more of the outstanding securities of such company.

Introduction

The following responses are provided by Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. (collectively "Rural Electric Distribution Cooperatives"). Certain individual Rural Electric Distribution Cooperatives will supplement these responses. Please note that the Rural Electric Distribution Cooperatives have provided responses only to questions that directly related to, or directly impact, the Rural Electric Distribution Cooperatives' respective electric distributions operations. Since the Rural Electric Distribution Cooperatives strongly believe that distribution and transmission services should continue to be regulated, if they respond to questions that you refer to competition generally, unless their responses indicate otherwise, it will not pertain to generation services. The Rural Electric Distribution Cooperatives reserve the right to, individually and collectively, to provide comments and positions on any of the issues raised in this questionnaire as becomes necessary in the future. The Rural Electric Distribution Cooperatives, individually and collectively, also reserve the right to change opinions expressed below as new information becomes available.

Corporate Structure and Affiliate Relations

1. If the U.S. Congress repeals the Public Utility Holding Company Act of 1935 ("PUHCA" or "Act") PUHCA --
 - a. what regulatory protections would be lost for Arizona consumers?

Response:

The PUHCA issues are not relevant to the Rural Electric Distribution Cooperatives. The Rural Electric Distribution Cooperatives do not have adequate expertise or experience with the issues to respond meaningfully, but reserve the right to provide an opinion on these issues as necessary in the future.

- b. what would be the risks for Arizona consumers?

Response:

See response to Question 1.a. above.

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

Response:

See response to Question 1.a. above.

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

Response:

See response to Question 1.a. above.

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

Response:

See response to Question 1.a. above.

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?

Response:

See response to Question 1.a. above.

Questions Specifically for Retail Suppliers as Defined Above

5. Explain the retail supplier's corporate structure.

Response:

Regarding retail supply, not all of the Rural Electric Distribution Cooperatives take their power supply from the same generation provider.

Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. all take their power supply, through all requirements or partial requirements contracts, from the Arizona Electric Power Cooperative, Inc. ("AEPSCO"). AEPSCO, Sierra Southwest Electric Cooperative, Inc. ("Sierra") and Southwest Transmission Cooperative, Inc. ("STC") are organized as separate, non-profit entities that are owned by their members/customers. The members/customers of the Rural Electric Distribution Cooperatives elect board members to represent their interests. With the exception of Navopache Electric Cooperative, Inc. ("Navopache"), the Rural Electric Distribution Cooperatives' board members also serve on the boards of AEPSCO, Sierra and STC.

Navopache Electric Cooperative, Inc. takes its power supply from Public Service Company of New Mexico ("PNM") under a ten-year Power Sale Agreement. It is Navopache's understanding that PNM is a wholly owned subsidiary of PNM Resources. As a public service corporation, PNM is engaged in the generation, transmission and sale of wholesale power in the State of Arizona, and in generation, distribution, transmission and retail and wholesale sale of power in the State of New Mexico.

AEPSCO, Sierra, STC and all of the Rural Electric Distribution Cooperatives are members of Grand Canyon State Electric Cooperative Association (GCSECA). The Arizona electric cooperatives formed GCSECA in 1950. GCSECA's primary purpose is to create a nonprofit, nonpartisan group to give Arizona's electric cooperatives a unified voice in state and national regulatory and legislative matters. AEPSCO, Sierra, STC, the Rural Electric Distribution Cooperatives and other members have designated people to serve on GCSECA's Board of Directors.

6. Identify all subsidiary companies and the business in which they are engaged.

Response:

The Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC have no subsidiaries.

7. Identify all affiliate companies and the businesses in which they are engaged.

Response:

The Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC have no affiliates.

8. Identify each entity that owns or has control of 5% or more of an affiliate of the retail supplier, and describe the businesses in which that entity is engaged.

Response:

The Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC have no affiliates.

9. Describe the financial relationships among the various affiliates and subsidiaries, such as pledges of assets and encumbrances and contracts for services and goods.

Response:

The Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC have no affiliates or subsidiaries.

10. Explain whether the retail supplier, or any affiliate or subsidiary of the retail supplier, is regulated by the Securities and Exchange Commission (SEC) as either an "exempt" or "registered" public utility holding.

Response:

The Rural Electric Distribution Cooperatives are not regulated by the SEC and have no affiliates or subsidiaries.

11. Identify any waivers or "no-action" letters the retail supplier, its affiliates, its subsidiaries, or other associated companies has received in the last 15 years from the SEC under PUHCA or the Investment Act of 1940 or the FERC under the Federal Power Act.

Response:

The Rural Electric Distribution Cooperatives are not regulated by the SEC and have no waivers or "no action" letters from the SEC under PUHCA or the Investment Act of 1940 or the FERC under the Federal Power Act. As explained above, AEPCO, Sierra and STC have no affiliates or subsidiaries. See response to Question 5.

12. Provide copies of filings to the SEC and FERC made by the retail supplier and any affiliates or subsidiaries in the last five years pursuant to the agency's administration of PUHCA.

Response:

The Rural Electric Distribution Cooperatives have made no filings to the SEC and FERC in the last five years pursuant to the agency's administration of PUHCA. As explained above, the Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC have no affiliates or subsidiaries.

13. If the retail supplier is a subsidiary of a registered holding company, identify any SEC-approved contracts with affiliates or subsidiaries in the last 5 years.

Response:

The Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC are not subsidiaries of a registered holding company.

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?

Response:

The Rural Electric Distribution Cooperatives, AEPCO, Sierra and STC are not vertically integrated. Distribution is separate from generation and transmission. Consequently, the Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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?

Response:

See response to Question 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?

Response:

See response to Question 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?

Response:

This question is not applicable to the Rural Electric Distribution Cooperatives. The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

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?

Response:

This question is not applicable to the Rural Electric Distribution Cooperatives. The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- 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?

Response:

This question is not applicable to the Rural Electric Distribution Cooperatives. The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

Commissioner Spitzer's Questions
(Dated January 22, 2002)
Electric Restructuring Docket No. E-00000A-02-0051,
RE-00000C-00-0275, E-00000A-01-0630 & E-01345A-01-0822

Introduction

The following responses are provided by Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. (collectively "Rural Electric Distribution Cooperatives"). Certain individual Rural Electric Distribution Cooperatives may supplement these responses. Please note that the Rural Electric Distribution Cooperatives have provided responses only to questions that directly relate to, or directly impact, the Rural Electric Distribution Cooperatives' respective electric distribution operations. Since the Rural Electric Distribution Cooperatives strongly believe that distribution and transmission services should continue to be regulated, if they respond to questions that you refer to competition generally, unless their responses indicate otherwise, it will not pertain to generation services. The Rural Electric Distribution Cooperatives reserve the right, individually and collectively; to provide comments and positions on any of the issues raised in this questionnaire as becomes necessary in the future. The Rural Electric Distribution Cooperatives, individually and collectively, also reserve the right to change opinions expressed below as new information becomes available.

Environmental impacts to the discussion

1. In a vertically integrated utility model, what incentives (regulatory, financial and ratemaking) exist for the expanded use of renewable energies?

Response:

In a regulated model, the regulator may assure a revenue stream to support renewable applications regardless of whether they are a least cost solution.

2. In a competitive electric market model, what incentives exist for the expanded use of renewable energies?

Response:

In general, none. However, competitors may seek out "niche" markets for renewable applications under Green Pricing Programs.

3. In a vertically integrated utility model, what disincentives (regulatory, financial and ratemaking) exist for the expanded use of renewable energies?

Response:

To the extent that a regulatory goal is to deliver power to the consumer at least cost, renewables often cannot meet that test. Also, a regulator may mandate certain renewable requirements, but not provide a revenue stream sufficient to support them.

4. In a competitive electric market utility model, what disincentives exist for the expanded use of renewable energies?

Response:

To the extent that the market looks only at cost, renewable energies are normally more expensive.

5. During Arizona's period of reliance on the vertically integrated utility model, what renewable energy programs were enacted in Arizona?

Response:

It is the Rural Electric Distribution Cooperatives' understanding that the larger investor owned utilities such as APS and TEP may have implemented renewable energy programs focused mainly on research and development.

6. Since Arizona's adoption of a competitive electric market model, what renewable energy programs have been enacted in Arizona?

Response:

Under the Environmental Portfolio Standard (EPS) contained in A.A.C. R14-2-1618, most of the Affected Utilities are implementing renewable energy programs. With the exception of Navopache Electric Cooperative, Inc., the Rural Electric Distribution Cooperatives have entered into agreements with Arizona Electric Power Cooperative, Inc. (AEPSCO) concerning the EPS Rule requirements. Navopache Electric Cooperative, Inc. is implementing a very robust renewable energy program in compliance with the EPS.

7. Under the vertically integrated utility model, what incentives exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

Response:

Under either regulation or competition, an incentive may exist to remain with installed, depreciated resources. On the other hand, if newer more efficient plants are economically beneficial, then they may be constructed.

8. Under the competitive electric market model, what incentives exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

Response:

See response to Question 7.

9. Under the vertically integrated utility model, what disincentives (regulatory, financial and ratemaking) exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

Response:

See response to Question 7.

10. Under the competitive electric market model, what disincentives exist to build newer plants that are less damaging to the environment to replace older, dirtier plants?

Response:

See response to Question 7.

11. During Arizona's period of reliance on the vertically integrated utility model, what emphasis did the Commission place on pollution control measures in Certificates of Environmental Compatibility?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- (a) What is the most stringent pollution control measure placed on a CEC since Arizona's adoption of a de-regulated utility model?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

12. Since Arizona's adoption of a competitive electric market model, what emphasis has the Commission placed on pollution control measures in Certificates of Environmental Compatibility?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- (a) What is the most stringent pollution control measure placed on a CEC since Arizona's adoption of a de-regulated utility model?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

- (b) What is the likelihood that measure would have been placed on a similar CEC in a vertically integrated utility model?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

13. During Arizona's period of reliance on the vertically integrated utility model, what amount of excess generating capacity existed in Arizona?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

14. Since Arizona's adoption of a competitive electric market model, what amount of excess generating capacity existed in Arizona?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

Commissioner Irvin's Questions
(Dated February 7, 2002)
Docket Nos. E-00000A-02-0051, RE-00000C-00-0275,
E-00000A-01-0630 & E-01345A-01-0822

Introduction

The following responses are provided by Duncan Valley Electric Cooperative, Inc., Graham County Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Trico Electric Cooperative, Inc. and Sulphur Springs Valley Electric Cooperative, Inc. (collectively "Rural Electric Distribution Cooperatives"). Certain individual Rural Electric Distribution Cooperatives will supplement these responses. Please note that the Rural Electric Distribution Cooperatives have provided responses only to questions that directly relate to, or directly impact, the Rural Electric Distribution Cooperatives' respective electric distribution operations. Since the Rural Electric Distribution Cooperatives strongly believe that distribution and transmission services should continue to be regulated, if they respond to questions that you refer to competition generally, unless their responses indicate otherwise, it will not pertain to generation services. The Rural Electric Distribution Cooperatives reserve the right, individually and collectively, to provide comments and positions on any of the issues raised in this questionnaire as becomes necessary in the future. The Rural Electric Distribution Cooperatives, individually and collectively, also reserve the right to change opinions expressed below as new information becomes available.

I. Arizona Independent Scheduling Administrator

1. Please address whether Arizona's Constitution prohibits the Commission from giving up any authority with respect to the pricing of services by public service corporations which occur solely within the state.

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

2. Should Arizona be willing to let the federal government take over pricing jurisdiction (market-based rates) for all retail transactions which occur in the state, or is this an inevitable (and proper) result of opening retail markets to competition?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.

3. Can Arizona's UDCs modify their tariffs with the FERC to conform with AISA protocols so that retail transactions can still take place without the AISA? How many times has the AISA been used to resolve disputes over transmission issues to date?

Response:

The Rural Electric Distribution Cooperatives are Utility Distribution Companies under the ACC's Retail Electric Competition Rules and are not subject to FERC jurisdiction. The Rural Electric Distribution Cooperatives have no tariffs with the FERC. The Rural Electric Distribution Cooperatives are unaware of any dispute that the AISA has resolved involving specific transmission issues for retail competitive transactions.

II. Retail Electric Competition Rules ("Rules")

1. If the majority of market participants intend to market electricity only to industrial, large commercial and load serving ESPs entities, should retail markets be limited by load size to allow those entities with the bargaining power to negotiate Direct Access?

Response:

Summarizing what the Rural Electric Distribution Cooperatives set forth in response to Question 2. below, residential and small commercial and industrial service are essentially undesirable loads because they do not provide the profits and rate of return that wholesale sales do. They are costly to maintain (low load factors, high transactional costs of dealing with multiple UDCs, high customer service costs, high individual transaction costs, economic inefficiency, reliability problems) often undesirable in location, e.g., geographically dispersed rural areas; and generally consist of low load factor loads – requiring the dedication of capacity that often sits unsold. Further, there are practical difficulties for market generators in providing anything but wholesale service. It is much easier and far more rewarding to market power only for sales for resale. A competitor needs to believe there is a potential to realize profits. Certain loads by their nature will never provide them.

2. What will be a UDC's primary functions in a competitive market?

Response:

The Rural Electric Distribution Cooperatives believe that all Distribution Services should remain regulated and not subject to competition. Competitive distribution service would be an unnecessary duplication of facilities. Competing Distribution Service providers would disrupt reliability enjoyed by electric customers in the State for the last several decades. Also, it is simply not economically or technically

feasible for separate distribution lines to be constructed to a customer's meter/home. Additionally, the owner of the distribution system, in this case the Rural Electric Distribution Cooperative, must be the party that constructs and maintains repairs of the physical lines because the it has designed and engineered the distribution system and is in the best position to economically construct, maintain and repair the system in a safe and reliable manner.

The process of planning for and negotiating with distribution generators, distributed generation is being offered as a competitive service. However, an integral part of effective distributed generation is installing that generation where it is required in the distribution system so it benefits all the customers of the distribution system and not just one customer. To ensure that the safety and reliability of the distribution system is maintained, the Rural Electric Distribution Cooperative must be included in the planning of distributed generation. Each utility distribution system configuration is unique. Consequently it should be the responsibility of the Rural Electric Distribution Cooperative and distributed generator to negotiate interconnection standards that would ensure that the safety and reliability of the distributions system is maintained. One generic set of interconnection standards will be beneficial but must be flexible and broad enough to address the uniqueness of each distribution systems' reliability, safety, other concerns of connecting to the system.

Concerning meter ownership and installation, the Rural Distribution Cooperatives believe that several safety and reliability issues arise when the Rural Electric Distribution Cooperative is no longer the owner and installer of the meter. The first is that the meter must be installed, maintained and tested by qualified personnel. The meter is directly connected to the distribution system and to the customer's home. A meter that is not installed correctly will be a hazard to both. Currently, Rural Electric Distribution Cooperatives ensure that only qualified personnel install, test and maintain meters. The Rural Electric Distribution Cooperative or customer has no way of ensuring that a competitive meter supplier/installer meets these qualifications or that the meter is being maintained properly.

The Distribution Cooperatives believe that the meter installed must also be reliable, meet industry standards and be able to be read by the Rural Electric Distribution Cooperative. In addition, it is doubtful that in the rural service territories that the Rural Electric Distribution Cooperatives serve, that it is economically feasible for companies other than the Rural Electric Distribution Cooperatives to own, install and maintain meters, especially given the that the meter and installation charge is a small portion of any customers bill and the Rural Electric Distribution Cooperatives do not charge and retain a profit margin. Any margin collected by Rural Electric Distribution Cooperatives is eventually returned to customers in the form of a capital credit.

Meter reading and data analysis has been provided as a competitive service in the Investor Owned Utilities' service territories when enough customers' meters could be read and a competitive meter reader could realize a profit. However, given that

customers are remotely located within an Rural Electric Distribution Cooperative's territory, that these charges are a small portion of any customers total bill and that the cooperatives do not charge and retain a profit margin, it is unlikely it would be economically feasible for a competitive meter reader service provider to read meters and analyze data in cooperative service territories. Also the costs incurred by the Rural Electric Distribution Cooperatives in allowing only a few likely competitive customers to use these services burden the remaining customers with the costs caused by these few customers.

Regarding aggregation services, the Rural Electric Distribution Cooperatives already act as aggregators of rural customers. Thus, to allow a competitive aggregation would be redundant. Regarding other 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, the Rural Electric Distribution Cooperatives, as distribution utilities, have the best information to perform these services on behalf of their member-customers. While a number of these services historically have been provided in metropolitan areas by energy services companies that are not utilities, that has not been the case in the rural areas of Arizona. Due to dispersed population, it simply is not profitable as a stand-alone service.

3. Is it important to first establish functional wholesale markets before creating robust retail markets in electric generation? If so, why? If not, why?

Response:

It's easier to establish wholesale markets first because regardless of the nature of the retail market, whether traditional or competitive model, as growth occurs and older plants deteriorate, more generation is needed and new generation, if competitively priced, will find a market. Once that is established - its establishment is having its own set of problems - and a ready supply of competitively priced wholesale generation is available, retail competition can begin, if suppliers see the potential for profit from the efforts needed to make retail sales. Without such a ready source, the risks of supply price and availability are too high for suppliers to undertake.

4. When price caps are lifted for the majority of Arizona consumers, what assurances do we have that volatility in the market (for both natural gas and electricity) will not result in unstable or inflated rates? Will the generation price of electricity fluctuate with the price of natural gas?

Response:

There is no assurance that the volatility in the market will not result in unstable or inflated rates. It is almost a certainty that at some point in the future, demand will exceed supply, and rates will be unstable and inflated. The generation price of electricity will fluctuate with the price of natural gas.

5. Should there be a provision added to R14-2-1606(B) which would allow/limit a UDC to contract for wholesale power in three or five year intervals? What would be a proper length for contracts?

Response:

A.A.C. R14-2-1606(B) requires power purchased by "Investor Owned" Utility Distribution Companies for Standard Offer Service to be acquired from the competitive market with a least 50% percent through a competitive bid process. Because the Rural Electric Distribution Cooperatives are "Member-Customer Owned" and not "Investor Owned," the Rural Electric Distribution Cooperatives are not subject to the bidding requirements of A.A.C. R14-2-1606(B). The Rural Electric Distribution Cooperatives' customers have suffered no adverse consequences as a result of the Rural Electric Distribution Cooperatives' exemption from the Rule. Because of financing, mortgage and all requirements issues, the Rural Electric Distribution Cooperatives do believe their continued exemption from this requirement is vital.

The Rural Electric Distribution Cooperatives believe there should be no provision added to R14-2-1606(B) which would allow/limit a UDC to contract for wholesale power in three or five year periods. With the exception of Navopache Electric Cooperative, Inc. (Navopache) the Rural Electric Distribution Cooperatives have signed all or partial requirements contracts with AEPCO whose term currently expires December 31, 2020. However, and as in the past, should AEPCO undertake the construction of new generation plants, RUS will require the extension of the terms of the Wholesale Power Contracts substantially beyond 2020. In the event R14-1606(B) were amended to require the Rural Electric Distribution Cooperatives to obtain some of their power by bidding or otherwise obtain their power from other than AEPCO, this would clearly impair the obligations of the Wholesale Power Contracts. AEPCO's current and future loans from RUS and CFC are predicated on these all or partial requirements contracts. Navopache takes its power supply from Public Service Company of New Mexico ("PNM") under a ten-year Power Sale Agreement. Based on these contract and mortgage terms and covenants, the Rural Electric Distribution Cooperatives believe there should be no provision added to R14-2-1606(B) which would allow/limit a UDC to contract for wholesale power in three or five year periods. If such a provision is added, the Rural Electric

Distribution Cooperatives would request that the Commission exempt the Rural Electric Distribution Cooperatives from the provision.

6. What are the real benefits to residential consumers and small businesses in retail competition, other than consumer choice?

Response:

The Rural Electric Distribution Cooperatives believe that there are no real benefits to residential consumers and small businesses in retail competition for the reasons stated in previous responses.

7. Will IPPs market their power directly to retail customers, or are their efforts mainly focused on selling power to wholesale customers?

Response:

It will depend on the IPP. It should be assumed that certain IPPs will market directly to retail customers. Others will sell primarily to wholesale customers

8. Currently, is residential choice a real option? If not now, when?

Response:

Navopache's service area is the only service area of the Rural Electric Distribution Cooperatives that has been open to competition since June of 2000 (Decision No. 62612). Since June of 2000, no competitive ESPs have expressed interest in providing competitive electric service, and none of Navopache's customers have expressed interest in receiving competitive electric service. The Rural Electric Distribution Cooperatives do not believe residential choice is a real option because of the reasons stated in previous responses. The Rural Electric Distribution Cooperatives believe that residential choice, especially in rural areas, is too far into the future to make an accurate prediction.

9. What provisions, if any, are necessary to effectuate a gradual replacement of those existing plants in Arizona which are older, more polluting and less efficient than the newer combined cycle plants currently being built?

Response:

The Rural Electric Distribution Cooperatives believe no regulatory provisions are necessary to replace older plants with newer ones. This is because that process will happen on its own.. A great number of plants currently in use are more than 30 years old. They will, over the next few years, require major replacements (which may trigger environmental permitting consequences) to remain useful for any role other

Commissioner Irvin's Questions

Docket Nos. E-00000A-02-0051, RE-00000C-00-0275

E-00000A-01-0630 & E-01345A-01-0822

than emergency backup or occasional peaking. Consequently, they will be decommissioned as economics dictate.

10. What are the long-term effects of divestiture for APS? How does the Commission guard against a PG&E situation, where the distribution company declares bankruptcy after profits have flowed to its parent holding company?

Response:

The Rural Electric Distribution Cooperatives have no response at this time, but reserve the right to provide an opinion on these issues as necessary in the future.