



0000067041

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

2002 FEB 25 P 2:55

AZ CORP COMMISSION
DOCUMENT CONTROL

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)
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-98-0471

**RESPONSE OF ARIZONANS FOR
ELECTRIC CHOICE AND
COMPETITION TO
COMMISSIONERS' QUESTIONS**

Arizonans for Electric Choice and Competition hereby submits its responses to the
questions of the Commissioners in the above-captioned proceedings.

Arizona Corporation Commission

DOCKETED

FEB 25 2002

DOCKETED BY	
-------------	--

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

FIRST SET OF QUESTIONS FROM CHAIRMAN MUNDELL

**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?**

In the strictest sense, retail competition is possible for most, if not all, of the goods and services traditionally provided by vertically-integrated electric utilities. However, not all of the goods and services traditionally provided by the electric utility should necessarily be delivered through retail competition. Retail electric competition is best applied when it opens the market to competitive delivery for those goods and services for which a reasonable expectation of consumer benefit exists: namely, the supply of electric generation and associated revenue cycle services (e.g., metering, metered data acquisition, meter data management, billing and payment).

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:**

The following table addresses the questions about specific competitive services. For the balance of these questions, AECC's responses regarding "retail competitive services" are directed toward generation and revenue cycle services.

1

TYPE OF GENERATION SERVICE	POSSIBLE TO PROVIDE IN RETAIL COMPETITION?	RECOMMENDED AS PART OF RETAIL COMPETITION?
Generation baseload	Yes	Yes
Generation intermediate	Yes	Yes
Generation peaking power	Yes	Yes
Generation green power	Yes	Yes
Distributed generation	Yes	Yes
Firm generation	Yes	Yes
Non-firm generation	Yes	Yes
Short-term contracts	Yes	Yes
Long-term contracts	Yes	Yes
Backup services	Yes	Yes
Coordination services	?	?

2

3

2. distribution services, including ownership, construction,

4

maintenance and repair of the physical lines; metering

5

ownership, installation, reading and data analysis; and the

6

process of planning for and negotiating with distributed

7

generators:

8

In AECC's view, competition in distribution services is generally unlikely to

9

benefit consumers and may result in negative impacts such as duplication of existing utility

10

infrastructure. AECC believes that negative affects such as these would unnecessarily

11

complicate distribution system management and not produce net benefits to consumers.

12

However, retail customers should be able to bypass the distribution system entirely by

13

taking service directly from the transmission system, while still remaining state

14

jurisdictional customers.

15

16

TYPE OF DISTRIBUTION SERVICE	POSSIBLE TO PROVIDE IN RETAIL COMPETITION?	RECOMMENDED AS PART OF RETAIL COMPETITION?
Distribution services	Yes	No
Distribution ownership	Yes	No
Distribution construction	Yes	No
Distribution maintenance	Yes	No
Distribution repair	Yes	No
Meter ownership	Yes	Yes
Meter installation	Yes	Yes
Meter reading	Yes	Yes
Meter data analysis	Yes	Yes
Distributed generation negotiations and planning	Yes	No, as it relates to UDC facility impacts

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

16

3. aggregation services, such as load profiling; 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.

“Load profiling” generally refers to the creation of standardized load shapes for use in imputing hourly demand levels for customers without interval meters. This exercise is necessary to enable customers without demand meters to be able to shop competitively. By its nature, load profiling involves the creation of a standardized product to be used by all retail providers. Consequently, load profiling does not lend itself to being provided competitively.

“Planning” is a broad term that covers many activities. Generally, planning to provide competitive services is a competitive activity, whereas planning to provide non-competitive services (e.g., transmission, distribution) is not.

TYPE OF "AGGREGATION" SERVICE	POSSIBLE TO PROVIDE IN RETAIL COMPETITION?	RECOMMENDED AS PART OF RETAIL COMPETITION?
Load profiling	No	No
Planning	Broad term: Encompasses non-competitive and competitive activities	Broad term: Encompasses non-competitive and competitive activities
Customer services	Yes	Yes
Billing	Yes	Yes
Generation planning	Yes	Yes
Power supply acquisition	Yes	Yes
Demand Side Management	Yes	Yes
Energy efficiency	Yes	Yes

1

2

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

3

possible benefits of competition for each good and service?

4

1. What are the potential price benefits?

5

As a general proposition, competitive markets cause goods to be sold at their long-

6

run marginal cost, and ensure that the long-run marginal costs are the lowest that are

7

technologically feasible. This is the potential price benefit of competition in generation

8

services, and is the basic economic premise underpinning the entire U.S. economy.

9

This is not to say that products will be priced at long-run marginal cost at all times.

10

During periods of excess capacity, prices can be expected to fall below long-run marginal

11

costs (although not below short-run marginal costs); conversely, during periods of supply

12

scarcity, prices can rise well above long-run marginal costs. Within the past five years,

13

western wholesale markets have experienced both of these phenomena.

14

Experience has shown that a large part of the potential price benefit of retail

15

competition will be driven by contract structures developed by providers in negotiations

16

with consumers. Consumer input to the contracting process has resulted in innovative

17

delivery of pricing and risk management structures in other deregulated electricity markets.

1 Retail electric contracts in current use run the gamut from fixed, multi-year structures to
2 monthly index-based designs, with and without risk management products such as caps,
3 floors, and collars.

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

6 They may differ. Short-term price benefits to customers may occur from an excess supply
7 situation in which price is temporarily driven below the long-run cost of production. Long-term
8 benefits are related to the establishment of long-run costs of production that are lower than they
9 would otherwise be without competition.

10 **3. What are the potential non-price benefits?**

11 Open markets breed product offerings with both price and non-price characteristics.
12 Potential non-price benefits of retail electric competition include innovations in customer
13 service, accelerated product development cycles, improved provision of information to
14 customers, more flexible product packaging opportunities (e.g., cogeneration combined
15 with Direct Access service), improvements in contract terms, increased availability of risk
16 management tools, greater consumer input in product development and service delivery,
17 and product innovation.

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

20 To a certain extent. For example, retail access can provide a market niche for
21 “green power.” In addition, more inefficient power plants are generally more costly to
22 operate than modern, energy-efficient plants, and, as generation supply increases due to
23 competition, inefficient plants are likely to be “out of the money” on an increasingly-

1 frequent basis. Note that this general tendency is sometimes offset by specific
2 circumstances, such as “must-run” conditions, in which a plant’s location on the grid
3 makes it necessary for it to operate for reliability reasons, even at costs that are above
4 market.

5

6 **II. Determination of the Feasibility of Competition**

7 **A. Are the product and geographic markets for the good or service**
8 **conducive to effective competition or manipulation by a single entity?**

9 **For example-**

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

12 Generally, in any geographic area, there are economies of scale in providing wires
13 services (i.e., distribution and transmission) that make it most efficient for the service to be
14 provided by a single company. For competitive retail services, economies of scale are
15 important – particularly for the establishment of “critical mass” – but these services are not
16 “natural monopolies.”

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

20 There may be some economies of scope that extend from one service to others. At
21 the same time, natural “economies of scope” must be distinguished from vertical market
22 power. The former is a matter of efficiency advantage, whereas the latter is a market
23 structure advantage that allows one participant to preclude other parties from making their

1 own efficiency gains. In the case of competitive retail services, AECC believes that
2 economies of scope are outweighed by the opportunity for competitive benefits.

3 **B. Are or will there be a sufficient number of competitors in each**
4 **potentially competitive market?**

5 **1. Is the product or service one which viable competitors will**
6 **actually be interested in providing?**

7 Yes. The AECC recently surveyed the energy service provider community to
8 determine the level of interest in supplying competitive energy services within Arizona.
9 Within the last six months, while market fundamentals have been improving and wholesale
10 prices for electricity have dropped toward historical averages, several ESPs have indicated
11 their expectation to pursue opportunities in Arizona as early as 2002. When wholesale
12 market conditions permit, we expect ESPs will reestablish their commodity marketing
13 efforts in Arizona, which will be accompanied by renewed interest in offering revenue
14 cycle services. Several DSM service providers are currently working with Arizona
15 customers and have been continuously active in marketing and installing demand
16 reduction, energy information, and energy efficiency projects.

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

20 One of the biggest challenges for new ESPs is creating sufficient critical mass to be
21 competitive with incumbent utilities. This critical mass is important not only for spreading
22 fixed costs, but also in providing load diversity. In this sense, all ESPs are "aggregators."
23 Challenges notwithstanding, aggregation of consumers for retail electric services has

1 occurred in the U.S. Where it has occurred, a variety of market approaches have been
2 adopted, many of which could occur here in Arizona under the appropriate market
3 conditions. In some states undergoing the transition to competition, ESPs have taken steps
4 to structure their mid-market sales, vis-a-vis aggregation, by using agents to reduce costs
5 and improve margins. Other aggregations are the output of industry organizations (eg;
6 manufacturers associations, hospital associations, etc) whose membership share common
7 goals and procurement interests. Still other aggregations occur due to the natural interest
8 of physically separate business units of the same company or holding company to exploit
9 the advantages of an aggregated transaction.

10 **3. Are there technical, legal, or other barriers to entry in the**
11 **markets? For example:**

12 **a. Are there legal or technical barriers to the construction of**
13 **the different types of generation plants by non-utilities?**

14 While there are significant hurdles that must be overcome to bring a power plant
15 on-line, these hurdles are not unique to plants constructed by non-utilities. Non-utility
16 generation has demonstrated that it is a major source of new power supply across the
17 United States and in Arizona.

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

22 In the case of competitive generation, the answer is already well-established in the
23 affirmative. In the case of ESPs, the answer will depend on the opportunities vis-à-vis

1 standard offer service. Nationwide (and in Arizona) ESPs have shown a willingness to
2 invest to establish critical mass when there was a perceived opportunity to compete with
3 the incumbent utility.

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

8 Reliability and safety are provided through Control Area Operations (at the
9 transmission and ancillary services level) and by the UDC at the distribution level. Neither
10 Control Area Operations nor UDC services are competitive. Today, Control Area
11 Operations are performed by transmission providers such as APS, SRP, and TEP. In the
12 future, this function will be under the authority of an RTO (such as WestConnect).
13 Through the Desert STAR process (as adopted by WestConnect) a great deal of effort has
14 gone into developing Control Area protocols that would ensure reliability and safety in a
15 regime of competitive wholesale and retail generation markets.

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

19 Yes, although obviously, there will be differences from customer to customer.
20 Generally, when market conditions support shopping, more sophisticated customers are
21 likely to move to Direct Access service first. "More sophisticated" does not necessarily
22 mean "larger," as retail stores with high load factors are often sophisticated energy users
23 that will take advantage of shopping opportunities. AECC's understanding is that in the

1 first year of Direct Access in Arizona – prior to the run-up in wholesale prices – over 300
2 accounts in the APS territory took Direct Access service, an indication that the general
3 answer to this question is: “yes.”
4

5 **III. Relationship of the Current Regulatory Regime to Competition**

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

9 Federal regulation is generally neutral with respect to retail competition for
10 generation services, unless a state adopts a retail access program; if the latter occurs,
11 Federal regulation becomes generally supportive of retail competition, with FERC taking
12 the general position that access to transmission service for retail transactions shall be non-
13 discriminatory. AECC’s experience, however, is that FERC regulations and pro-forma
14 transmission tariffs generally do not anticipate the special considerations and detail
15 necessary to implement retail access fairly; for this reason the Arizona ISA and its
16 protocols were formulated. AECC views FERC’s approval of the Arizona ISA and its
17 protocols as evidence of FERC’s support for the implementation of Arizona’s retail access
18 program.

19 Arizona state regulation has been highly favorable for retail competition. The
20 primary barrier to customer participation has been high wholesale prices that have not been
21 able to compete favorably with standard offer rates. As this circumstance changes, and if
22 Arizona state regulation does not begin to impede retail access, AECC expects that retail
23 customers will again seek opportunities in the competitive generation market.

1 With respect to wholesale competition, Federal policy is generally supportive,
2 although last year's experience in California has stirred a great deal of criticism of the
3 quality of Federal regulation of wholesale markets. From a purely jurisdictional
4 standpoint, the state role in wholesale markets is much more limited, but is extremely
5 influential with respect to siting approval for new generation.

6 **B. How can the commission protect Arizona customers from the risks of**
7 **competition while promoting competition?**

8 The current transition plan has achieved this objective so far by offering customers
9 a choice: standard offer service at regulated prices or Direct Access service at market
10 prices. This transition plan will be in place in the APS territory through July 1, 2004 and in
11 the TEP territory through December 31, 2008. One of the elements differentiating
12 Arizona's transition plan from that of California is that Arizona's standard offer service
13 pricing requires "bottom line" results without micro-managing how the utilities achieve
14 these results. For example, unlike California, Arizona utilities have been free to purchase
15 power on the forward market and to manage their own generation resources to meet
16 standard offer pricing requirements in the Settlement Agreements.

17 With regard to post-2004 standard offer service in the APS territory, the
18 Commission faces an alternative presented by APS. The Commission can stick with the
19 original game plan that calls for the standard offer provider to procure the resources for
20 standard offer service in the competitive wholesale market, or the Commission can
21 consider APS' request to procure most of this resource from a long-term contract with its
22 affiliate. *In either case, the Commission's current policy of allowing the choice of Direct*
23 *Access service for all customers should not be impacted or changed.*

1 The alternatives for procuring standard offer service present a tradeoff. The very
2 substantial activity in building new generation resources in Arizona since the adoption of
3 the Competition Rules provides an endorsement of the original game plan. This type of
4 interest in providing generation – financed entirely at investors’ risk – is exactly the
5 outcome that was hoped-for when Arizona decided to allow market forces to determine
6 how much new generation would be constructed.

7 Countering that positive outlook are two issues raised by APS: (1) Will the 2000-01
8 experience with extraordinary wholesale prices in the West be repeated after 2004?; and (2)
9 Are the mechanics of purchasing 50 percent of the generation needed for standard offer
10 service feasible in light of merchant plant locations and existing transmission constraints?
11 APS’ alternative – a long-term contract with an affiliate at cost-based rates – would
12 insulate standard offer customers, to a certain extent, from extraordinary price spikes. At
13 the same time, standard offer customers would not receive the benefit of lower generation
14 prices when supply is plentiful. Thus, the APS proposal addresses the issue of standard
15 offer price risk – but at a cost.

16 AECC notes that regardless of the standard offer resource option selected, the
17 Commission will retain the final say over standard offer rates.

18 With respect to the APS Variance Proposal, AECC believes it is important that
19 competitive bidding proceed as required in the Competition Rule for substantially more of
20 the electric supply for standard offer service than the APS Variance request is willing to
21 consider. APS has raised concerns about whether a 50 percent requirement would create
22 undue upward price pressure on standard offer service. AECC does not object to the
23 Commission reviewing the amount of electric supply for standard offer service that should

1 be competitively bid. AECC believes that, after such review, this amount should be set at
2 the maximum level that is in the public interest.

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

6 Strictly speaking, the APS and TEP rate reductions implemented since the approval
7 of the Settlement Agreements are not “interim” in nature, as that term is usually used in
8 regulatory parlance.

9 All things being equal, rate reductions for standard offer service make it more
10 difficult for a competitive ESP to compete with the standard offer. Nevertheless, AECC
11 supports (and bargained for) the standard offer rate reductions in the Settlement
12 Agreements. AECC opposes a philosophy that would keep standard offer rates artificially
13 high in order to induce retail competition. Moreover, given the astronomical heights
14 reached by wholesale prices in 2000 and early 2001, the rate reduction for standard offer
15 service had no material impact on whether a customer opted to remain on the standard
16 offer.

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

21 All things being equal, stranded cost charges create a barrier to direct access
22 service. However, AECC considers this issue to have been resolved within the framework

1 of the Settlement Agreements, which provide for payment, and ultimate termination, of
2 stranded cost charges.

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

5 During periods of relatively high market prices, control of depreciated generation
6 assets may make it possible for a utility to sell below market prices without incurring
7 losses. However, AECC notes that one of the major questions addressed in the retail access
8 debate in Arizona (and elsewhere) concerned stranded cost – a concept which presumes
9 that utility assets would generally be burdened by high fixed costs and therefore *unable* to
10 compete at (low) market prices.

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

15 AECC has not had sufficient time to fully research the role of the Commission's
16 current regulation with respect to all these items. However, with regard to distributed
17 generation, the Commission should ensure that standby service rates and interconnection
18 requirements are reasonable. In particular, the former tend to be an obstacle to the
19 development of distributed generation in Arizona.

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

22 Please see response to III.B, above.

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

4 In AECC's view, the current "regime" is not an obstacle to retail competition for
5 generation service – the obstacle has been high wholesale prices.

6 **Specifically –**

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

9 AECC does not have any specific recommendations on this question at this time. We
10 note, however, the importance of "functional separation" with respect to wires services, i.e., the
11 provider of standard offer services should not receive any preferential treatment in receiving
12 transmission and distribution service vis-à-vis providers of generation service to Direct Access
13 service.

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

19 Aside from occasionally adopting postures that undercut the Arizona ISA,
20 AECC is not aware of any steps being taken by utilities under the Commission's
21 jurisdiction that would make competition more difficult down the road.

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

4 AECC is not aware of new long-term contracts between customers and utilities
5 under the Commission's jurisdiction. (SRP is offering 3 and 4-year contracts to larger
6 customers.) The existing Competition Rules allow long-term contracts under certain
7 conditions, which AECC supports.

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

11 It is AECC's understanding that billing and metering are already competitive in
12 accordance with the Electric Competition Rules.

13

14 **IV. Retail Generation Competition**

15 **A. Regarding each identifiable generation product –**

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

18 Arizona utilities have been buying and selling power in the western wholesale
19 market for a considerable period of time, and it appears that, with the significant exception
20 of 2000-01, this market works well. In fact, the largest wholesale trading hub in the
21 western United States is at Palo Verde. However, there is no question that during 2000-01
22 western wholesale markets experienced astronomical prices. Parties may differ as to
23 whether the market was "defective" or simply reflective of a severe capacity scarcity

1 following years of growing demand without sufficient additions to supply. After
2 considerable public pressure and controversy, FERC determined that western markets were
3 in fact “dysfunctional” during that period. A key finding was that at very high levels of
4 demand, generators accrued considerable market power that was exercised to send
5 wholesale prices sky-high. In addition to imposing wholesale price caps through September
6 2002, FERC also forbade generators from withholding supply from the market.

7 Since Spring of 2001, wholesale prices have stabilized considerably as new
8 generation has come on line, demand has softened, gas prices have come down, and
9 purchasers have better utilized forward (instead of spot) markets to secure resources.
10 Arizona in particular is witnessing unprecedented growth of generating capacity, although
11 some of this activity may slow down in response to lower wholesale power prices.

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

15 Sellers here include both generation suppliers and ESPs. With Palo Verde being the
16 largest trading hub in the western United States, a large number of players can reach the
17 Arizona market. As new generation is added to the region by independent generators, the
18 prospects for competition improve further. As the western market stabilizes, the next
19 couple of years will be very revealing regarding its efficacy. AECC anticipates that the
20 marketplace will increase in robustness, but recognizes that nothing is guaranteed.

21 With respect to ESPs, a significant number went through the Arizona application
22 process, demonstrating a potential for viable retail competition. During the period of high
23 wholesale prices, most ESPs naturally became inactive. With a return to more attractive

1 wholesale prices, and with the prospect of stranded cost charges disappearing from most of
2 the state by the end of 2004, AECC expects that ESP interest in Arizona will improve.

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

6 Utility merger activity continues to proceed in the U.S., although at somewhat
7 reduced levels from the M&A heyday of the late 1990's. Nationwide, the effect of utility
8 mergers is that ownership of IOU power generation capacity is becoming more
9 concentrated. DOE research indicates that in 1992, 70 electric holding companies owned
10 78 percent of the IOU generating capacity. By 2000, only 53 holding companies were
11 expected to own nearly 86 percent of the IOU generating capacity – due, in large part, to
12 M&A activity. It is interesting to note that a report in *The Electricity Journal* in 1999
13 indicated that only 15 percent of the mergers to date had achieved their expected financial
14 results.

15 This national merger activity notwithstanding, the key issue here is whether there
16 are enough independent players in a the regional market to ensure robust competition.
17 AECC's observation is that with the influx of independent generators, the number of
18 players on the regional scene appears to be increasing.

19 Finally, we note that besides the traditionally generation-related merger activity by
20 IOUs and IPPs, a new trend has become evident. Due to the lower capital and O&M costs
21 of natural gas fired generation, 90 percent of future capacity is projected to come from
22 natural-gas-fired combined-cycle or combustion turbine technology. As a result, utilities,
23 IPPs, and marketers are enacting strategies to acquire upstream and mid-stream natural gas

1 transportation and storage resources both to supply proprietary generating resources and to
2 expand into gas sales markets. Mergers of electric and gas utilities, so-called
3 “convergence” mergers, are a reaction to the swing in reliance on natural gas as a fuel
4 source for generation built to meet current and future demand.

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

7 In a competitive market they will have no choice but to sell at the market-clearing
8 price.

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

11 Retail competition has been dormant in Arizona due to the high wholesale prices
12 experienced in 2000-01. With wholesale prices now stabilizing, we expect interest in
13 Direct Access to resume. When that occurs, the Arizona ISA will be necessary to ensure
14 the success of retail competition prior to the operations of an RTO.

15 Until an RTO is operational, there are simply no rules or protocols in place that
16 address the unique transmission access needs associated with implementing a state retail
17 access program. Some parties may contend that mere reliance on existing FERC-approved
18 open-access transmission tariffs is sufficient. Such a view is simply wrong. Standard
19 FERC-approved transmission tariffs were developed with wholesale transactions in mind:
20 they are woefully inadequate for dealing with the special challenges of retail competitive
21 service, as will be shown below. Obviously, FERC concurs with our view, at least
22 implicitly, as FERC has approved the Arizona ISA Protocols and Tariff, which were

1 developed to be used instead of the utilities' wholesale transmission tariffs for retail
2 transactions in Arizona.

3 Competitive retail service provides many special challenges that come under the
4 general rubric of "transmission access," including, among other things, the need to adapt
5 transmission scheduling requirements to be compatible with retail competitive service, the
6 tailoring of ancillary services to support retail transactions, the determination of equitable
7 energy balancing requirements, and the establishment of efficient and equitable rules to
8 ensure the provision of "must-run" generation in load pockets such as Phoenix and Tucson.
9 The Arizona ISA Protocols address each of these special challenges – and provides a
10 mechanism for resolving disputes associated with them.

11 But no special challenge in the establishment of competitive retail service is
12 important as the fundamental question of transmission allocation among retail customers.
13 When the Commission's Electric Competition Rules were being developed, transmission
14 allocation was a topic of considerable controversy. In a transmission system that is heavily
15 used, certain paths become "congested" – that is, parties wish to schedule more
16 transactions over certain paths connected to important generating facilities and market hubs
17 than the transmission facilities can reliably accommodate.

18 Initially, Arizona utilities contended that customers who purchased from
19 competitive suppliers would have access only to those transmission paths that were not
20 needed by the utility to serve its own standard offer customers. In other words, the most
21 valuable transmission paths would be unavailable to competitive customers. AECC and
22 other parties pointed out that such an approach would doom retail competition to failure.
23 Moreover, today's standard offer customer could be tomorrow's competitive customer –

1 and that customer should not be forced to forfeit its ability to be served using the most
2 important transmission paths simply because it switched power providers.

3 Ultimately, the Commission required that competitive customers receive a pro-rata
4 allocation of transmission rights on the paths used to provide retail service. The details
5 implementing this requirement were painstakingly negotiated under the auspices of the
6 Arizona ISA and incorporated into the Protocols Manual. Later, to resolve a "critical mass"
7 problem for the initial competitive suppliers, the Arizona ISA adopted an interim
8 transmission allocation (with the cooperation of the utilities and the approval of FERC) that
9 assured access to important market hubs for certain threshold amounts of competitive retail
10 service.

11 In short, retail competition cannot occur without a means for fairly and efficiently
12 allocating transmission. In Arizona, this function is performed by the Arizona ISA. This
13 function will transfer to an RTO (using a different allocation mechanism, but similar
14 principles) when an RTO becomes operational. Under the most optimistic projections, an
15 RTO will not be operational in Arizona until 2004.

16 By design, the Arizona ISA has no role in wholesale markets.

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

19 **1. Are there transmission constraints inside or outside Arizona that**
20 **currently impede the ability of competitors to reach Arizona**
21 **customers during any reasons of the year or times of the day?**

22 Yes. While transmission providers can provide better detail for this question,
23 AECC is aware of transmission constraints into Phoenix for peak hours of the day in the

1 summer, into Tucson for peak hours of the day for much of the year, into Yuma, and out of
2 Four Corners into Arizona.

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

4 AECC expects that transmission providers will provide the necessary detail for this
5 question. We are aware that three additional 500kV lines and one 345kV line connecting
6 several load centers, generation switchyards, and substations are being constructed in
7 Arizona, and that as of February 7, 2002, APS and SRP received the Commission's
8 approval of the Southwest Valley 500kV line. We note that while it is generally desirable
9 to see transmission constraints relieved, transmission construction is not always the most
10 efficient means for accomplishing this. In particular, it is sometimes more efficient to
11 construct new generation on the congested side of the transmission interface.

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

15 AECC expects that transmission providers will provide the necessary detail for this
16 question. We note that factors affecting the prospects for relief include: 1) individual
17 transmission owners' site selection processes, including public comment, 2) the state's site
18 approval process, and 3) the efficacy of the planning process ultimately adopted by an
19 RTO.

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

1 Yes. In retail markets this can occur when ESPs providing Direct Access service are
2 treated as "last in" or incremental to the existing transmission reserved for serving native
3 load. At one time this issue was hotly debated in Arizona, but was finally resolved in favor
4 of the AISA protocols that ensure fair treatment for ESPs. In AECC's opinion, the
5 congestion management protocols filed at FERC by WestConnect (as developed in the
6 Desert STAR process) will also treat ESPs (and other transmission customers) fairly with
7 respect to congestion management.

8 **5. Are these transmission owners currently doing things that will**
9 **allow them to exert more or less control in the future? If so,**
10 **please detail.**

11 Transmission owners have agreed to the formation of the Arizona ISA, which
12 provides a means for ensuring fair delivery of Direct Access service prior to the formation
13 of an RTO. When an RTO becomes operational (2004-05?), functional separation between
14 transmission and utilities' merchant operations will increase, and congestion management
15 will be performed by the RTO. This change will result in individual companies having less
16 control over congestion management functions.

17 **6. Will the transmission system be adequate prospectively (e.g., in**
18 **the next, 5, 10, 15, 20 years) to deliver power from new**
19 **generation plants?**

20 AECC expects that transmission providers will provide the necessary detail for this
21 question.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

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

Based on discussions with both El Paso Natural Gas and Southwest Gas, AECC has learned that the currently existing natural gas infrastructure would not adequately supply all the gas-fired generation plants proposed for Arizona. However, the Line 2000 conversion by EPNG, other intra- and interstate pipeline projects, and gas storage project development in Arizona indicate that transporters are responding to the demand for natural gas. In all likelihood, some portion of the planned generation will not be built as scheduled, or perhaps will never be built. We also believe that generation developers are unlikely to take the risk of building out gas-fired generating projects without long-term gas supplies.

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

As a general proposition, the transmission and distribution system neither facilitates nor deters the development of renewable energy technologies. We note, however, that many applications of renewable electricity technologies such as biomass, geothermal, hydro, and wind power are confined to geographic and geologic areas where their feedstock exists. The likelihood that these renewable feedstocks will be in close proximity to the transmission system is a matter of chance.

b. The development of distributed generation?

As a general proposition, the transmission and distribution system neither facilitates nor deters the development of distributed generation. Perhaps the greatest institutional barrier to distributed generation is the structure and pricing of utility standby service tariffs

1 and demand ratchets. We note also that the operator of a distributed generation facility
2 must sign an interconnection agreement with the local utility. For interconnection into the
3 transmission system, a FERC-approved pro-forma interconnection agreement is used. For
4 interconnection into the distribution system, a “non-FERC” interconnection agreement is
5 used in Arizona. While the distribution system interconnection agreement has the
6 advantage of being tailored to smaller-scale projects, many of the terms of this agreement
7 are less favorable to the distributed generator than the FERC-approved pro-forma
8 agreement.

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

11 As a general proposition, the transmission and distribution system neither facilitates
12 nor deters the development of DSM and energy efficiency.

13 **C. Regarding competitive bidding –**

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

19 AECC believes it is important that competitive bidding proceed as required in the
20 Competition Rule for substantially more of the electric supply for standard offer service
21 than the APS Variance request is willing to consider. APS has raised concerns about
22 whether a 50 percent requirement would create undue upward price pressure on standard
23 offer service. AECC does not object to the Commission reviewing the amount of electric

1 supply for standard offer service that should be competitively bid. AECC believes that,
2 after such review, this amount should be set at the maximum level that is in the public
3 interest.

4 **Specifically:**

5 **a. How would retail customers be affected?**

6 Standard Offer retail customers: In general, the APS proposal for a variance to the
7 competitive bidding requirement appears to offer the following trade-off for standard offer
8 customers. Standard offer customers would receive long-term price stability based on cost-
9 of-service while foregoing the opportunity for standard offer prices to be driven downward
10 by discounted generation purchases when supply is plentiful. Consequently, the effect on
11 standard offer customers will be different from year-to-year. In a year in which generation
12 supply is plentiful, standard offer prices are likely to wind up somewhat higher under the
13 “APS variance proposal.” In years in which a seller’s market prevails (e.g., 2000 – Spring,
14 2001) standard offer customers would be better off with cost-of-service-based pricing
15 because they would be insulated, to an extent, from extraordinary price spikes.

16 Beyond this general tradeoff, there are particular issues that will play a role in
17 governing the effect on standard offer retail customers. For instance, the size of the bidding
18 requirement (e.g. 50%) relative to the amount of generation available for bid is an
19 important consideration. If the bidding requirement is set too high, it can have two
20 negative effects for standard offer retail customers: (1) the market-clearing bid price would
21 be set by the higher-cost producers, and (2) the volume of standard offer retail sales so
22 priced by the higher-cost producers would be higher than would occur with a lower bidding
23 requirement. If the bidding requirement is set too low, standard offer customers will be

1 deprived the benefits of competitive supply, and generators will be unfairly denied an
2 opportunity to participate in the Arizona wholesale market as originally contemplated in
3 the Competition Rule.

4 Direct Access customers: APS asserts that its Variance Proposal is not intended to
5 affect Direct Access service. AECC concurs that Direct Access service is not directly
6 affected by the APS proposal, so long as any implementation of that proposal did not
7 become a vehicle to undermine any of the customer benefits achieved in the Settlement
8 Agreement. (These benefits include the permanent eradication of stranded costs after 2004,
9 and the right, with proper notice, to switch from Direct Access to Standard Offer service).

10 An argument can be made that Direct Access customers will be indirectly affected
11 by the Variance Proposal if its adoption results in less generation being built in Arizona.

12 **b. How would retail generation competition be affected?**

13 As we stated above, AECC believes that Direct Access service is not directly
14 affected by the APS proposal, so long as any implementation of that proposal does not
15 become a vehicle to undermine customer benefits achieved in the Settlement Agreement. In
16 general, if competitive bidding does not proceed, generation resources that end up not
17 being committed to providing wholesale service to APS (e.g., in fulfillment of the bidding
18 provision), would be available for sale to ESPs to be re-marketed to Direct Access retail
19 customers.

20 Also as stated above, an argument can be made that Direct Access customers will
21 be indirectly affected by the Variance Proposal if its adoption results in less generation
22 being built in Arizona. This could occur if generation project developers are relying on the
23 bidding provision in the Electric Competition Rules to economically justify continuing

1 their investments in Arizona. Alternatively, developers might consider a change in the
2 Rules to be a negative “signal” relative to the state’s (de)regulatory climate, and choose to
3 discontinue development in response.

4 AECC believes it is most likely that in determining whether to proceed with
5 generation investments, project developers will rely primarily on their projections of
6 wholesale market prices and growth of aggregate regional demand, together with their
7 assessment of transmission availability, project siting approval, and their ability to line up
8 profitable long-term sales contracts. AECC believes these aforementioned factors will
9 trump any decision the Commission makes with respect to competitive bidding.

10 **c. How would wholesale generation competition be affected?**

11 As stated above, an argument can be made that adoption of the APS Variance
12 proposal would result in less generation being built in Arizona. This could occur if
13 generation project developers are relying on the bidding provision in the Electric
14 Competition Rules to economically justify continuing their investments. Alternatively,
15 developers might consider a change in the Rules to be a negative “signal” relative to the
16 state’s (de)regulatory climate.

17 AECC believes it is most likely that in determining whether to proceed with
18 generation investments, project developers will rely primarily on their projections of
19 wholesale market prices and growth of aggregate regional demand, together with their
20 assessment of transmission availability, project siting approval, and their ability to line up
21 profitable long-term sales contracts. AECC believes these aforementioned factors will
22 trump any decision the Commission makes with respect to competitive bidding.

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

4 At this time, AECC does not have sufficient information to determine whether there
5 are sufficient competitors for an effective bidding process for 50% of standard offer
6 service.

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

10 Yes. While AECC supports the full package that emerged from the Settlement
11 Agreement (including the competitive bidding provisions), AECC does not view the
12 success of Direct Access service as being dependent on the implementation of competitive
13 bidding rules for standard offer service. The bidding rules are more important for ensuring
14 competitive prices for standard offer service. The success of Direct Access service is more
15 directly related to the delivered price of wholesale power relative to standard offer service
16 and the availability of non-discriminatory access to the transmission system for retail
17 transactions.

18 **4. How would retail competition be affected by other deviations to**
19 **the competitive bid rules? Be specific about the changes in the**
20 **rules and their consequences.**

21 AECC has not evaluated other deviations to the competitive bid rules.

22 **5. Instead of entertaining individual requests for substantial**
23 **variances to the competitive bid requirements, should the**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Commission proceed on a generic basis to modify the rules for competitive bidding?

No. The burden with respect to seeking changes in this Rule should be on the party seeking the change. APS has come forward with a specific alternative plan that can be evaluated vis-à-vis the current Rule. AECC believes that in putting forward an alternative plan, APS has an obligation to ensure that customers retain the benefit of their Settlement Agreement bargain. If the Commission itself were to initiate a modification of the rules for competitive bidding, it would run the risk of upsetting the fundamental balance of interests achieved between customers and utilities in their respective settlement agreements.

(Example: The APS and TEP Settlement Agreements result in the elimination of stranded cost charges over time pursuant to fixed schedules. A Commission-led reevaluation of competitive bidding that resulted in a the establishment of new, long-term, cost-based contracts could lead to new arguments for extended stranded cost coverage.)

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?

Yes. The Commission can reconfirm its support for the Arizona ISA, which, prior to the formation of an RTO, is necessary for ensuring access to the transmission system for retail transactions.

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

1 **answer should define “long term” as compared with “short**
2 **term” contract.)**

3 The primary benefit to Standard Offer customers from such a contract would be
4 long-term price stability based on cost-of-service. For example, during periods in which a
5 seller’s market prevails in wholesale markets (e.g., 2000 – Spring, 2001) Standard Offer
6 customers would be insulated, to an extent, from significant upward price pressure. [For
7 purposes of this discussion, AECC is viewing a long-term contract to be of 5 years’
8 duration or longer. An intermediate-term contract would describe a contract less than 5
9 years, but greater than one year. A short-term contract would be one year or less in
10 duration.]

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

12 Basing a long-term contract with an affiliate generator on market-based rates would
13 seem to defeat the purpose of entering into such a contract in the first instance. That is, as
14 argued by APS, the primary purpose of a long-term contract with an affiliate generator is to
15 reduce the exposure of Standard Offer customers to market volatility. If a long-term
16 contract is to be based on market prices, the service may as well be competitively bid as
17 provided in the Rule, in order to allow other sellers an opportunity to provide the lowest
18 bid and win the business.

19 **3. Describe how FERC’s new approach for analyzing the ability of**
20 **sellers with market rate authority to exercise market power**
21 **affects generation companies selling into Arizona.**

22 AECC has not yet evaluated the implications of this new approach for Arizona.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

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?

Yes. To the extent that the Commission ensures that the terms and conditions of any long-term contract are fair and reasonable, the interests of standard offer customers can be protected. In addition, in the proposal put forward by APS, there is an important natural “cap” on the ability of the utility to pass through unreasonable costs in its long-term contract: namely, the existence of the competitive shopping option (without the burden of stranded costs after 2004). For this reason, if the APS Proposal were adopted, it would be particularly important for all customers to retain their right to shop.

To foster competition, it is important to ensure that the rights of Direct Access customers established in the Competition Rules and Settlement Agreements are preserved.

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.

- In the next year: FERC will continue to press for RTO formation and will make some determination regarding the WestConnect application. As wholesale prices stabilize, we expect to see increased interest in Direct Access opportunities in Arizona. An additional 3400 MW of generation is

1 scheduled to come on line in Arizona. In other parts of the west, Direct
2 Access will go forward in Oregon, Washington, and Nevada.

- 3 • In two years, Arizona customers will have a greater number of ESPs bidding
4 for their business. Stranded cost charges are scheduled to terminate in the
5 SRP territory by June 2004, and APS regulatory assets are scheduled to be
6 amortized by June 2004, reducing the cost of Direct Access service. Another
7 5600 MW of generation is scheduled to come on line in Arizona.
- 8 • In three years an RTO should be operational in Arizona. The APS stranded
9 cost charge is scheduled to be terminated effective January 2005.

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

12 Yes. The Commission should bear in mind that retail competition was a *casualty* of
13 the California debacle – not the cause. The cause was related to the structure of California's
14 wholesale market, which forced standard offer resource procurement to take place on the
15 spot market (during a period of capacity scarcity). AECC recommends the following:

- 16 ▪ Focus on bottom line standard offer results within the framework of the
17 Competition Rules, but without micro-managing the resource acquisition
18 practices of the standard offer provider.
- 19 ▪ Do not require resource procurement from spot markets.
- 20 ▪ Encourage utilities with standard offer customers to hedge wholesale costs.
- 21 ▪ Continue to allow customers to take direct access service.
- 22 ▪ Avoid undue regulatory obstacles to generation and transmission
23 development.

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

3 Supplies of electricity and natural gas have continued unabated since announcement
4 of the Enron bankruptcy. The absence of Enron from these markets has increased the
5 possibility of higher market share for existing and future competitors. The loss of Enron
6 Online, a web-based wholesale energy trading platform, did temporarily result in a
7 reduction in market liquidity which has since been remedied by migration of wholesale
8 transactions to other trading systems and goes on largely unaffected.

9 The lesson learned by many retail providers, whose generation portfolio contained
10 supply contracts with Enron, emphasizes a previously understood principle to manage a
11 supply portfolio that is not unduly reliant on any one provider, trader, generator, or
12 marketer. Some industry analysts expect that the potential losses to energy suppliers, due
13 to myriad contracts now in limbo due to the Enron bankruptcy, will refocus the industry's
14 risk management practices and result in more balanced and stable supply portfolios for
15 retail energy suppliers.

16 As the Enron failure relates specifically to retail customers, one lesson learned is
17 that Direct Access customers should be protected both by regulation and contract. Relative
18 to regulation, competition rules should not impede a customer's return to the competitive
19 market should their supplier terminate a contract due to bankruptcy. Relative to contract,
20 competition rules should permit the assignment of contracts from one supplier to another
21 (with the customer's permission) without any restriction imposed by rule or regulation.
22 From time to time, and specifically in the case of a retail provider bankruptcy, Arizona
23 retail customers should be allowed to confidently rely on contract assignment provisions,

1 so long as the assignee is a certificated retail service provider under the Commission's rules
2 and in accordance with Arizona law. This precise issue has come to the fore in California
3 where Enron customers are not at all sure that their previous contracts with Enron, which
4 allowed for assignment, will be upheld. The result is that many former Enron customers
5 are at risk of return to utility service at the highest rates ever charged for electric service in
6 California, with no hope of future access to the competitive market.

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

9 The FERC's RTO initiative will be helpful to the realization of effective retail
10 competition in Arizona because it will provide for the elimination of pancaked tariffs
11 (thereby increasing the customer's viable generation options) and will ensure functional
12 separation of transmission. Another area of promise is congestion management – although
13 whether this function is managed in a way supportive of retail competition depends on the
14 specific proposal adopted by an RTO. The congestion management protocols filed at FERC
15 by WestConnect *are* helpful to Direct Access because the ultimate congestion management
16 "rights" reside with load, and are not permanently parceled out to individual market
17 participants.

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

21 AECC is not aware of such changes.

22
23 **VI. System Security**

1 The subject matter of the questions in this section is outside the expertise of
2 AECC.

- 3
- 4 **A. Are there compelling reasons to be concerned about security for electric**
5 **generation facilities since the Sept 11, 2001 tragedy? Please include**
6 **discussion of interconnection at a central location such Palo**
- 7 **B. Does transferring ownership of generation facilities out from traditional**
8 **Commission jurisdiction have any potential negative security**
9 **consequences?**
- 10 **C. What if ownership after transfer results in a foreign corporation**
11 **eventually controlling Arizona's generation?**
- 12 **D. Does such a transfer to a non-Arizona entity potentially impact security**
13 **issues for Arizona?**
- 14 **E. Are there any positive security aspects to transferring electric**
15 **generation out from Commission traditional regulation to a foreign**
16 **corporation?**
- 17 **F. Provide specific examples to support your answers.**
- 18

19 **VII. Vision**

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

1 After a period of significant disruption, wholesale competition is back on track. We
2 believe the prospects for wholesale competition will improve as RTO development
3 proceeds and the new “rules of the road” for transmission scheduling, congestion
4 management, and transmission planning are established. The primary metrics for
5 measuring the success of wholesale competition are: (1) How closely do wholesale prices
6 correspond to long-run marginal cost?, and (2) Do real long-run marginal costs decline
7 over time due to innovation and efficiency improvement?

8 We believe that retail competition will become more viable as: (1) forward
9 wholesale prices become more competitive with the standard offer, and (2) stranded cost
10 charges are terminated as scheduled. This viability is predicated on fair and efficient
11 access to the wires for retail transactions. This requires either an RTO to be operational or
12 an interim substitute to be in place, i.e., Arizona ISA.

13 The key operative word in this vision is customer CHOICE. The first level of
14 choice is between standard offer service and Direct Access service. AECC supports the
15 retention of the standard offer option for any customer who elects not to shop in the
16 competitive market. Similarly, the option to shop in the competitive market should be
17 retained for all customers. That represents the choice all Arizona customers have today. It
18 is the choice all Arizona customers should have tomorrow as well.

19 Whereas during the formulation stages of the Competition Rules there was a great
20 deal of concern over the utilities being inundated by a flood of requests to switch providers,
21 due to the recent experience with very high wholesale prices, the opposite has occurred.
22 Customers have either remained on, or returned to, the standard offer. Consequently, we

1 expect the return to Direct Access service to be a gradual one, allowing for an orderly
2 transition.

3 The success of retail competition can be measured a number of ways. One obvious
4 way is to measure the number of customers who elect to take Direct Access service. Final
5 judgment in this regard should not be made until stranded cost charges are paid off.
6 Perhaps the best overall measure is the price customers pay for power. In this regard,
7 Arizona's customer choice program has been successful even during the past period of high
8 wholesale prices, despite little or no Direct Access activity. Arizona's customer choice
9 program permitted the choice of standard offer service at stable rates, while not interfering
10 in the utilities' ability to make the resource acquisition decisions necessary to deliver the
11 bargained-for rates. With dramatic rate increases being imposed or under consideration in
12 Nevada, California, Oregon, and Washington – Arizona stands out as an island of retail
13 price stability. And with new generation coming on line, Arizona is well-positioned to
14 enjoy rate stability in the future.

1 **SUPPLEMENTAL QUESTIONS FROM CHAIRMAN MUNDELL**
2

3 The corporate structure analysis required by these questions is outside the
4 expertise of AECC at this time.
5

6 **QUESTIONS FROM COMMISSIONER SPITZER**
7

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

11 The first incentive is economic: Is the technology competitive with the least-cost
12 alternatives? In the case of hydropower, the answer has often been yes. If, however, the
13 answer is “no,” then the regulated utility will seek to ensure that any renewable energy
14 expenditures undertaken in support of regulatory directives are recoverable in rates. These
15 costs are then added into rate base and operating expenses (as appropriate) in the
16 determination of the utility’s revenue requirements. A variation of this approach is the
17 levying of a renewable energy surcharge that is earmarked for funding renewable energy
18 expenditures, as in the Environmental Portfolio Standard currently in force in Arizona.

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

21 Again, the first incentive power producers will look for is economic. Some
22 renewable development could fit into this category in fulfillment of a green power market
23 niche. Unlike the regulatory model, however, to the extent that economic signals do not
24 support renewable energy development, the “rate base” option is not available. The

1 surcharge/subsidy approach that can be adopted in a vertically-integrated model, may also
2 be used in a competitive model, as has been required in Arizona.

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

6 The primary disincentive is economic. For some technologies, there is also a
7 potential disincentive with respect to unit availability (i.e., capacity). For example, a wind
8 farm may be a source of energy (MWH) when the wind is blowing, but may not be
9 considered a reliable source of capacity (MW) if the site is prone to a significant number of
10 days when the resource is unavailable. Another possible disincentive is concern that
11 investments made on the basis of a subsidy will lead to additional “stranded cost” at some
12 future date if the subsidy is removed.

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

15 Please see response to 3, above.

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

18 AECC has not had the opportunity to research a response to this question.

19 **6. Since Arizona’s adoption of a competitive market model, what**
20 **renewable energy programs have been enacted in Arizona?**

21 AECC has not had the opportunity to research a full response to this question, but is
22 aware of the Commission’s adoption of the Environmental Portfolio Standard to support
23 renewable technologies.

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

4 All things being equal, there is not a lot of incentive to do this unless the new plant
5 can be put into rate base; to get a new plant into rate base generally requires the filing of a
6 rate case, a rather infrequent occurrence in Arizona.

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

10 Generally, competitive generators would not build new plants for the express purpose of
11 replacing older, dirtier plants. However, more inefficient power plants are generally more costly
12 to operate than modern, energy-efficient plants, and, as generation supply increases due to
13 competition, inefficient plants are likely to be “out of the money” on an increasingly-frequent
14 basis. Note that this general tendency is sometimes offset by specific circumstances, such as
15 “must-run” conditions, in which a plant’s location on the grid makes it necessary for it to operate
16 for reliability reasons, even at costs that are above market.

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

20 Generally, older plants have the advantage of being heavily depreciated and
21 therefore cost little in rate base. In addition, their typically-higher operating costs are fully
22 recovered as an operating expense in rates. It is also not unusual for an older plant to have a
23 locational advantage on the transmission system, in which it provides voltage support

1 and/or relief from load pocket congestion. Truly “replacing” the plant may mean having to
2 construct a new one at the same location, an undertaking that may be problematic.

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

6 AECC is not aware of any disincentives.

7 **11. During Arizona’s period of reliance on the vertically integrated utility**
8 **model, what emphasis has the Commission placed on pollution control**
9 **measures in Certificates of Environmental Compatibility?**

10 **(a) What is the most stringent pollution control measure placed on a**
11 **CEC during Arizona’s reliance on the vertically integrated utility**
12 **model?**

13 AECC has not had the opportunity to research the response to this question.

14 **12. Since Arizona’s adoption of a competitive market model, what**
15 **emphasis has the Commission placed on pollution control measures in**
16 **Certificates of Environmental Compatibility?**

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

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

21 AECC has not had the opportunity to research the responses to this question.

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

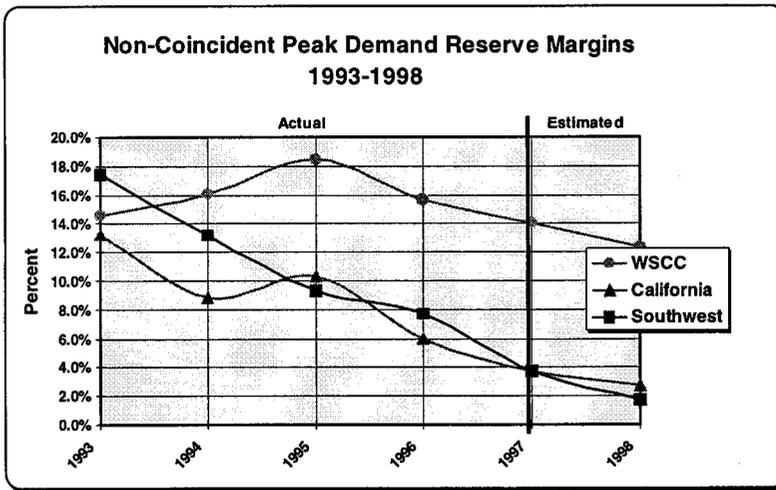
1
2
3
4
5
6
7

Arizona's vertically integrated utilities, like most western utilities, experienced a considerable "bubble" of excess generating capacity for many years. In recent years, the capacity bubble contracted substantially with growth in demand.

The trend in excess capacity has been documented by the WSCC and subsequently by Commission staff in a March 2001 presentation. As shown in the table and chart below, reserve margins have dropped steadily in the region and in Arizona.

From ACC staff presentation 3/16/01
Non-coincident Peak Reserve Margins

Year	WSCC	California	Southwest
1993	14.5%	13.2%	17.4%
1994	16.0%	8.8%	13.2%
1995	18.4%	10.3%	9.3%
1996	15.7%	6.0%	7.7%
1997	14.0%	3.7%	3.7%
1998	12.3%	2.7%	1.7%



8
9
10
11
12
13
14
15
16
17
18

The U.S. EIA reports that Arizona-based generation capacity increased 1.7% from 1990 to 1999, while Arizona-based demand for the same period grew 28%. During the same period, megawatt-hour production from Arizona generation facilities increased 25%. In short, the growth in demand appears to have been managed by increases in capacity factor of existing plants (not accounting for sales to out of state marketers or utilities), as well as contract purchases, with practically no capacity additions.

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

1 Little or none. For example, APS projected in its Energy Outlook Presentation on
2 May 3, 2001 that in 2001, over 22% of their expected summer peak load of 5,793mW
3 (including 12% reserve margin) was to be covered by purchases and contracts. This
4 shortfall covered by third-party generation is consistent with the reduction in the
5 Arizona/Western capacity bubble.

1 **without the AISA? How many times has the AISA been used to resolve**
2 **disputes over transmission issues to date?**

3 Any such modification raises several concerns: (1) To take effect, it would have to
4 be approved by FERC. In the past, FERC has been unwilling to accept such modifications
5 except as part of the AISA. (2) Even if approved by FERC, such an arrangement would
6 lack the forum provided by the AISA for making protocol modifications to address any
7 changed conditions and would likely lead to different protocols being employed in different
8 utility territories. (3) Future retail access activity may lead to a need for protocol
9 interpretation to resolve disputes. The AISA provides this function.

10 To date, due to the lack of retail access activity during 2000-01, we are not aware of
11 any transmission dispute resolution performed by the AISA.

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

16 AECC does not believe that customer “bargaining power” should be determined or
17 limited by fiat. All Arizona customers should retain the right to shop.

18 **5. What will be a UDC’s primary functions in a competitive market?**

19 The primary role of a UDC in a competitive market is to provide
20 distribution service, default revenue cycle services, and standard offer service.

21 **6. Is it important to first establish functional wholesale markets before**
22 **creating robust retail markets in electric generation? If so, why? If not,**
23 **why?**

1 The more robust are wholesale markets, the better retail markets will perform.
2 However, degree of robustness is a matter of opinion. Even if some believe wholesale
3 markets are imperfect, that is not a good reason to limit customer choice in Arizona,
4 because Arizona customers retain the right to choose standard offer service. Customers can
5 decide for themselves whether they believe the wholesale market is sufficiently functional
6 to warrant taking Direct Access service.

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

11 There are no price guarantees in competitive markets. The best assurance for
12 reasonable price levels is to encourage generation supply from a variety of producers, and
13 promote needed transmission construction and RTO development, as well as needed
14 additions to pipeline capacity.

15 Because generation from natural gas power plants is likely to be the energy
16 production that is on the margin, natural gas prices will play an important role in
17 influencing electricity prices in the West.

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

21 AECC believes that the current provisions do not preclude 3-5 year contracts. In
22 general, standard offer providers should seek to hold a portfolio of contracts of differing

1 lengths. While the prudence of contracting decisions would be subject to Commission
2 review, the Commission should not legislate contract length *a priori*.

3 **9. What are the real benefits to residential consumers and small**
4 **businesses in retail competition, other than consumer choice? Will IPPs**
5 **market their power directly to retail customers, or are their efforts**
6 **mainly focused on selling power to wholesale customers?**

7 Consumer choice *is* a real benefit. In addition, generation competition should lower
8 the long-run cost of production, from which all customers will benefit. It will also shift
9 project development risk and capital costs to investors, benefiting all customers. Moreover,
10 competition will encourage the construction of plants that are energy efficient, thereby
11 conserving natural resources.

12 Under current federal and state regulations, IPPs cannot market power directly to
13 retail customers. IPPs will sell to wholesale customers, which includes ESPs. Direct Access
14 generation sales to retail customers will be from ESPs.

15 **10. Currently, is residential choice a real option? If not now, when?**

16 Currently, residential choice does not appear to be an economic option in Arizona.
17 It may become more viable after stranded cost charges are paid off.

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

22 Because more inefficient power plants are generally more costly to operate than
23 modern, energy-efficient plants, as generation supply increases due to competition,

1 inefficient plants are likely to be “out of the money” on an increasingly-frequent basis.
2 Note that this general tendency is sometimes offset by specific circumstances, such as
3 “must-run” conditions, in which a plant’s location on the grid makes it necessary for it to
4 operate for reliability reasons, even at costs that are above market.

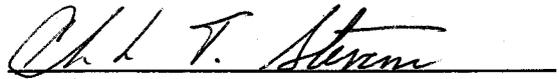
5 **12. What re the long-term effects of divestiture for APS? How does the**
6 **Commission guard against a PG&E situation, where the distribution**
7 **company declares bankruptcy after profits have flowed to its parent**
8 **holding company?**

9 By “divestiture,” AECC assumes the question is referring to the required APS spin-
10 off of its Genco. The long-term effects will likely differ depending on decisions made in
11 the upcoming proceeding regarding the relationship between APS and its Genco affiliate.
12 If a straight spin-off proceeds as planned, one issue that may come to the fore (after 2004)
13 is whether Pinnacle West has too much market power in the Arizona market. (A finding
14 that too much market power was present could lead to FERC-regulated cost-based pricing.)
15 AECC is encouraged by the new generation construction that is occurring, which will
16 mitigate this potential problem.

17 *Arizona has* successfully avoided the PG&E situation by taking a very different
18 route to restructuring. In part, this is due to focusing on bottom line standard offer results
19 while not over-constraining or micro-managing the standard offer provider.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

RESPECTFULLY SUBMITTED this 25th day of February, 2002.



Charles T. Stevens
Attorney for Arizonans for Electric Choice
and Competition
245 W. Roosevelt
Phoenix, AZ 85003
(602) 229-1010

Original and ten (10) copies of the foregoing
filed this 25th day of February, 2002, with:

Docket Control Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing were mailed/delivered this 25th day of February 2002 to the attached
service list.

1
 2 Walter W. Meek, President
 3 ARIZONA UTILITY INVESTORS
 4 ASSOCIATION
 5 2100 N. Central Avenue, Suite 210
 6 Phoenix, Arizona 85004
 7
 8 Rick Gilliam
 9 Eric C. Guidry
 10 LAND AND WATER FUND OF THE
 11 ROCKIES
 12 ENERGY PROJECT
 13 2260 Baseline Road, Suite 200
 14 Boulder, Colorado 80302
 15
 16 Terry Frothun
 17 ARIZONA STATE AFL-CIO
 18 5818 N. 7th Street, Suite 200
 19 Phoenix, Arizona 85014-5811
 20
 21 Norman J. Furuta
 22 DEPARTMENT OF THE NAVY
 23 900 Commodore Drive, Building 107
 24 San Bruno, California 94066-5006
 25
 26 Barbara S. Bush
 27 COALITION FOR RESPONSIBLE ENERGY
 28 EDUCATION
 315 West Riviera Drive
 Tempe, Arizona 85252
 Sam Defraw (Attn. Code 001)
 Rate Intervention Division
 NAVAL FACILITIES ENGINEERING
 COMMAND
 Building 212, 4th Floor
 901 M Street, SE
 Washington, DC 20374-5018
 Rick Lavis
 ARIZONA COTTON GROWERS
 ASSOCIATION
 4139 East Broadway Road
 Phoenix, Arizona 85040
 Steve Brittle
 DON= T WASTE ARIZONA, INC.
 6205 South 12th Street
 Phoenix, Arizona 85040
 COLUMBUS ELECTRIC COOPERATIVE,
 INC.
 P.O. Box 631
 Deming, New Mexico 88031

CONTINENTAL DIVIDE ELECTRIC
 COOPERATIVE
 P.O. Box 1087
 Grants, New Mexico 87020
 DIXIE ESCALANTE RURAL ELECTRIC
 ASSOCIATION
 CR Box 95
 Beryl, Utah 84714
 GARKANE POWER ASSOCIATION, INC.
 P.O. Box 790
 Richfield, Utah 84701
 ARIZONA DEPT OF COMMERCE
 ENERGY OFFICE
 3800 North Central Avenue, 12th Floor
 Phoenix, Arizona 85012
 Christopher J. Emge
 ARIZONA COMMUNITY ACTION ASSOC.
 2627 N. 3rd Street, Suite 2
 Phoenix, Arizona 85004
 TUCSON ELECTRIC POWER CO.
 Legal Dept - DB203
 229 W 6th Street
 P.O. Box 711
 Tucson, Arizona 85702-0711
 A.B. Baardson
 NORDIC POWER
 4281 N. Summerset
 Tucson, Arizona 85715
 Jessica Youle
 PAB300
 SALT RIVER PROJECT
 P.O. Box 52025
 Phoenix, Arizona 85072-2025
 Joe Eichelberger
 MAGMA COPPER COMPANY
 P.O. Box 37
 Superior, Arizona 85273
 Craig Marks
 CITIZENS UTILITIES COMPANY
 2901 N. Central Avenue, Suite 1660
 Phoenix, Arizona 85012-2736

1 Barry Huddleston
2 DESTEC ENERGY
3 P.O. Box 4411
Houston, Texas 77210-4411

4 Steve Montgomery
JOHNSON CONTROLS
5 2032 West 4th Street
Tempe, Arizona 85281

6 Terry Ross
7 CENTER FOR ENERGY AND
ECONOMIC DEVELOPMENT
8 P.O. Box 288
Franktown, Colorado 80116-0288

9 Clara Peterson
AARP
10 HC 31, Box 977
Happy Jack, Arizona 86024

11 Larry McGraw
12 USDA-RUS
6266 Weeping Willow
13 Rio Rancho, New Mexico 87124

14 Jim Driscoll
ARIZONA CITIZEN ACTION
15 5160 E. Bellevue Street, Apt. 101
Tucson, AZ 85712-4828

16 William Baker
17 ELECTRICAL DISTRICT NO. 6
P.O. Box 16450
18 Phoenix, Arizona 85011

19 John Jay List
General Counsel
20 NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORP.
21 2201 Cooperative Way
Herndon, Virginia 21071

22 Robert Julian
PPG
23 1500 Merrell Lane
Belgrade, Montana 59714

24

25

26

27

28

C. Webb Crockett
Jay L. Shapiro
FENNEMORE CRAIG, PC
3003 N. Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913

Robert S. Lynch
340 E. Palm Lane, Suite 140
Phoenix, Arizona 85004-4529
Attorney for Arizona Transmission Dependent
Utility Group

K.R. Saline
K.R. SALINE & ASSOCIATES
Consulting Engineers
160 N. Pasadena, Suite 101
Mesa, Arizona 85201-6764

Carl Robert Aron
Executive Vice President and COO
ITRON, INC.
2818 N. Sullivan Road
Spokane, Washington 99216

Douglas Nelson
DOUGLAS C. NELSON PC
7000 N. 16th Street, Suite 120-307
Phoenix, Arizona 85020-5547
Attorney for Calpine Power Services

Lawrence V. Robertson Jr.
MUNGER CHADWICK, PLC
333 North Wilmot, Suite 300
Tucson, Arizona 85711-2634
Attorney for PG&E Energy Services Corp

Albert Steman
ARIZONA CONSUMERS COUNCIL
2849 East 8th Street
Tucson, Arizona 85716

Michael Grant
GALLAGHER & KENNEDY
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for AEPSCO, Graham County Electric
Cooperative, and Duncan Valley Electric
Cooperative.

1 Suzanne Dallimore
2 Antitrust Unit Chief
3 Department of Law Building
4 ARIZONA ATTORNEY GENERAL'S
5 OFFICE
6 1275 West Washington Street
7 Phoenix, Arizona 85007
8
9 Vinnie Hunt
10 CITY OF TUCSON
11 Department of Operations
12 4004 S. Park Avenue, Building #2
13 Tucson, Arizona 85714
14
15 Elizabeth S. Firkins
16 INTERNATIONAL BROTHERHOOD OF
17 ELECTRICAL WORKERS, L.U. #1116
18 750 S. Tucson Blvd.
19 Tucson, Arizona 85716-5698
20
21 Carl Dabelstein
22 2211 E. Edna Avenue
23 Phoenix, Arizona 85022
24
25 Roderick G. McDougall, City Attorney
26 CITY OF PHOENIX
27 Attn: Jesse Sears, Assistant Chief Counsel
28 200 W Washington Street, Suite 1300
Phoenix, Arizona 85003-1611
William J. Murphy
CITY OF PHOENIX
200 West Washington Street, Suite 1400
Phoenix, Arizona 85003-1611
Russell E. Jones
WATERFALL ECONOMIDIS CALDWELL
HANSHAW & VILLAMANA, P.C.
5210 E. Williams Circle, Suite 800
Tucson, Arizona 85711
Attorneys for Trico Electric Cooperative, Inc.
Christopher Hitchcock
HITCHCOCK & HICKS
P.O. Box 87
Bisbee, Arizona 85603-0087
Attorney for Sulphur Springs Valley
Electric Cooperative, Inc.

Andrew Bettwy
Debra Jacobson
SOUTHWEST GAS CORPORATION
5241 Spring Mountain Road
Las Vegas, Nevada 89150-0001
Barbara R. Goldberg
OFFICE OF THE CITY ATTORNEY
3939 Civic Center Blvd.
Scottsdale, Arizona 85251
Bradford A. Borman
PACIFICORP
201 S. Main, Suite 2000
Salt Lake City, Utah 84140
Timothy M. Hogan
ARIZONA CENTER FOR LAW
IN THE PUBLIC INTEREST
202 E. McDowell Rd., Suite 153
Phoenix, Arizona 85004
Marcia Weeks
18970 N. 116th Lane
Surprise, Arizona 85374
John T. Travers
William H. Nau
272 Market Square, Suite 2724
Lake Forest, Illinois 60045
Timothy Michael Toy
WINTHROP, STIMSON, PUTNAM & ROBERTS
One Battery Park Plaza
New York, New York 10004-1490
Raymond S. Heyman
Michael W. Patten
ROSHKA HEYMAN & DEWULF, PLC
400 E. Van Buren, Suite 800
Phoenix, Arizona 85004
Attorneys for Tucson Electric Power Co.
Chuck Miessner
NEV SOUTHWEST LLC
P.O. Box 711, Mailstop-DA308
Tucson, Arizona 85702-0711
Billie Dean
AVIDD
P O Box 97
Marana, Arizona 85652-0987

1 Raymond B. Wuslich
2 WINSTON & STRAWN
1400 L Street, NW
3 Washington, DC 20005
4 Steven C. Gross
PORTER SIMON
5 40200 Truckee Airport Road
Truckee, California 96161-3307
6 Attorneys for M-S-R Public Power Agency
7 Donald R. Allen
John P. Coyle
8 DUNCAN & ALLEN
1575 Eye Street, N.W., Suite 300
9 Washington, DC 20005
10 Ward Camp
PHASER ADVANCED METERING
SERVICES
11 400 Gold SW, Suite 1200
Albuquerque, New Mexico 87102
12 Theresa Drake
13 IDAHO POWER COMPANY
P.O. Box 70
14 Boise, Idaho 83707
15 Libby Brydolf
CALIFORNIA ENERGY MARKETS
16 NEWSLETTER
2419 Bancroft Street
17 San Diego, California 92104
18 Paul W. Taylor
R W BECK
19 2201 E. Camelback Rd Suite 115-B
Phoenix, Arizona 85016-3433
20 James P. Barlett
5333 N. 7th Street, Suite B-215
21 Phoenix, Arizona 85014
22 Attorney for Arizona Power Authority
Jay I. Moyes
23 MOYES STOREY
3003 N. Central Ave., Suite 1250
24 Phoenix, Arizona 85012
25
26
27
28

Stephen L. Teichler
Stephanie A. Conaghan
DUANE MORRIS & HECKSCHER, LLP
1667 K Street NW, Suite 700
Washington, DC 20006
Kathy T. Puckett
SHELL OIL COMPANY
200 N. Dairy Ashford
Houston, Texas 77079
Andrew N. Chau
SHELL ENERGY SERVICES CO., LLC
1221 Lamar, Suite 1000
Houston, Texas 77010
Peter Q. Nyce, Jr.
DEPARTMENT OF THE ARMY
JALS-RS Suite 713
901 N. Stuart Street
Arlington, Virginia 22203-1837
Michelle Ahlmer
ARIZONA RETAILERS ASSOCIATION
224 W. 2nd Street
Mesa, Arizona 85201
Dan Neidlinger
NEIDLINGER & ASSOCIATES
3020 N. 17th Drive
Phoenix, Arizona 85015
Chuck Garcia
PNM, Law Department
Alvarado Square, MS 0806
Albuquerque, New Mexico 87158
Sanford J. Asman
570 Vinington Court
Dunwoody, Georgia 30350-5710
Patricia Cooper
AEP/SSWEP/CO
1000 South Highway 80
Benson, Arizona 85602
Steve Segal
LEBOEUF, LAMB, GREENE, & MACRAE
633 17th Street, Suite 2000
Denver, Colorado 80202-3620

1 Holly E. Chastain
 2 SCHLUMBERGER RESOURCE
 MANAGEMENT SERVICES, INC.
 3 5430 Metric Place
 Norcross, Georgia 30092-2550
 4
 5 Leslie Lawner
 ENRON CORP
 712 North Lea
 6 Roswell, New Mexico 88201
 7 Alan Watts
 Southern California Public Power Agency
 529 Hilda Court
 8 Anaheim, California 92806
 9 Frederick M. Bloom
 Commonwealth Energy Corporation
 10 15991 Red Hill Avenue, Suite 201
 Tustin, California 92780
 11 Margaret McConnell
 Maricopa Community Colleges
 2411 W. 14th Street
 13 Tempe, Arizona 85281-6942
 14 Chris King
 UTILITY.COM INC.
 15 828 San Pablo Avenue, Suite 115
 Albany, California 94706
 16 Brian Soth
 FIRSTPOINT SERVICES, INC.
 17 1001 S.W. 5th Ave. Suite 500
 Portland, Oregon 92704
 18 Ian Calkins
 PHOENIX CHAMBER OF COMMERCE
 201 N. Central Ave., 27th Floor
 20 Phoenix, Arizona 85073
 21 Kevin McSpadden
 MILBANK, TWEED, HADLEY AND
 22 MCCLOY, LLP
 601 S. Figueroa, 30th Floor
 23 Los Angeles, California 90017
 24 M.C. Arendes, Jr.
 C3 COMMUNICATIONS, INC.
 25 2600 Via Fortuna, Suite 500
 Austin, Texas 78746
 26
 27
 28

Patrick J. Sanderson
 ARIZONA INDEPENDENT SCHEDULING
 ADMINISTRATOR ASSOCIATION
 P.O. Box 6277
 Phoenix, Arizona 85005-6277

Roger K. Ferland
 QUARLES & BRADY STREICH LANG, L.L.P.
 Renaissance One
 Two North Central Avenue
 Phoenix, Arizona 85004-2391

Charles T. Stevens
 ARIZONANS FOR ELECTRIC CHOICE &
 COMPETITION
 245 W. Roosevelt
 Phoenix, Arizona 85003

Mark Sirois
 ARIZONA COMMUNITY ACTION ASSOC.
 2627 N. Third Street, Suite 2
 Phoenix, Arizona 85004

Jeffrey Guldner
 Thomas L. Mumaw
 SNELL & WILMER
 400 E. Van Buren,
 One Arizona Center
 Phoenix, Arizona 85004-0001

Steven J. Duffy
 RIDGE & ISAACSON PC
 3101 N. Central Avenue, Suite 740
 Phoenix, Arizona 85012

Greg Patterson
 5432 E. Avalon
 Phoenix, Arizona 85018

John Wallace
 Grand Canyon State Electric Co-op
 120 N. 44th Street, Suite 100
 Phoenix, Arizona 85034-1822

Steven Lavigne
 DUKE ENERGY
 4 Triad Center, Suite 1000
 Salt Lake City, Utah 84180

Dennis L. Delaney
 K.R. SALINE & ASSOC.
 160 N. Pasadena, Suite 101
 Mesa, Arizona 85201-6764

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Kevin C. Higgins
ENERGY STRATEGIES, LLC
30 Market Street, Suite 200
Salt Lake City, Utah 84101

Michael L. Kurtz
BORHM KURTZ & LOWRY
36 E. Seventh Street, Suite 2110
Cincinnati, Ohio 45202

David Berry
P.O. Box 1064
Scottsdale, Arizona 85252

William P. Inman
Dept. of Revenue
1600 W. Monroe, Room 911
Phoenix, Arizona 85007

Robert Baltes
ARIZONA COGENERATION ASSOC.
7250 N. 16th Street, Suite 102
Phoenix, Arizona 85020-5270

Jana Van Ness
APS
Mail Station 9905
P.O. box 53999
Phoenix, Arizona 85072-3999

David Couture
TEP
4350 E. Irvington Road
Tucson, Arizona 85714

Jana Brandt
SRP
Mail Station PAB211
P.O. Box 52025
Phoenix, Arizona 85072-2025

Randall H. Warner
JONES SKELTON & HOCHULI PLC
2901 N. Central Avenue, Suite 800
Phoenix, Arizona 85012

John A. LaSota, Jr.
MILLER LASOTA & PETERS, PLC
5225 N. Central Ave., Suite 235
Phoenix, Arizona 85012

DOCKET NO. E-01933A-02-0069

Christopher Kempley, Chief Counsel
ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

Ernest G. Johnson, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

ARIZONA REPORTING SERVICE, INC.
2627 N. Third Street, Suite Three
Phoenix, Arizona 85004-1104

Michael A. Curtis
MARTINEZ & CURTIS, P.C.
2712 North 7th Street
Phoenix, Arizona 85006
Attorneys for Arizona Municipal Power Users
Association, Mohave Electric Cooperative, Inc. &
Navopache Electric Cooperative, Inc.

Lindy Funkhouser
Scott S. Wakefield
RUCO
2828 N Central Ave, Suite 1200
Phoenix, Arizona 85004