



ORIGINAL

RECEIVED

2002 AUG 12 P 3:07

AzCPA

Arizona Competitive Power Alliance AZ CORP COMMISSION
DOCUMENT CONTROL

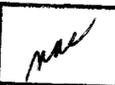
August 12, 2002

Arizona Corporation Commission

DOCKETED

AUG 12 2002

Commissioner Marc Spitzer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

DOCKETED BY 

Re: Docket Nos. E-00000-02-0051, E-01345-01-0822, E-00000A-06-0630,
E-01933A-02-0069 and ~~E-01933A-98-0471~~
Generic Proceeding to Electric Restructuring

Dear Commissioner Spitzer,

As you know, the Arizona Competitive Power Alliance (the "Alliance") and its individual members have been active participants in the above dockets. The Alliance writes now to express its appreciation for your continued "deep commitment to wholesale electric competition" and to affirmatively support your call "to reach resolution and consensus" now for the benefit of both Arizona ratepayers and the development of the electricity market. Furthermore, as you note in your letter of July 18, 2002 to Chairman Mundell and Commissioner Irvin, "Independent Power Producers ("IPPs") have invested hundreds of millions of dollars in Arizona . . ." Many, if not all, of the IPPs referenced in your letter are members of the Alliance and their investment, in fact, has been in the billions of dollars with additional investment planned. That investment places Arizona in the enviable position of moving toward competitive procurement with more than an ample supply of generating capacity that is independent of the incumbent utilities.

The Alliance and its members share your commitment and the belief that wholesale electric competition will benefit Arizona ratepayers. In this regard, the Alliance has been a supporter of the Electric Competition Rules. Many of the Alliance members continue to believe the current requirements that Utility Distribution Companies acquire 100% of their standard offer requirements through competitive procurement with at least 50% acquired through competitive bidding beginning January 1, 2003 are still achievable.

Notwithstanding the belief that the wholesale marketplace stands poised and ready to fulfill the intent of the competition rules as written, members of the Alliance had engaged in discussions with one of the incumbent utilities in an effort to reach a mutual

resolution of the outstanding issues. Unfortunately, when resolution appeared unlikely prior to the initiation of the Track A hearings and the Track B workshops those discussions were halted. Now that a Recommended Opinion and Order has been issued in Track A and the Track B workshops are moving toward a consensus competitive procurement process, the members of the Alliance believe it is now timely to make a concerted effort to resolve all or most of the Track A and Track B issues through settlement and compromise. The members of the Alliance also believe that the competitive procurement schedule proposal put forth as a settlement proposal by Panda Gila River, L.P. ("Panda") in its July 22, 2002, letter provides a key component around which such a total settlement can be built. Support for the Panda proposal represents a significant compromise on the part of the Arizona IPPs.¹

Members of the Alliance view the Panda Gila River proposal for the first phase of competitive procurement as a firm foundation for an orderly transition to competitive procurement of one hundred percent of Standard Offer Service requirements. That first step, as applied to APS, will require competitive procurement for (1) load growth, which, as recognized by the Recommended Opinion and Order in Track A, should be competitively procured anyway, (2) power to replace APS's most aged and highly polluting plants, which alone represent at least several hundred megawatts, and (3) 2000 MW, loosely representing the capacity APS had intended to procure from its merchant affiliate without a competitive test. The replacement of the aged and highly polluting plants with the "modern, efficient and clean generation" developed by the Alliance members will provide an environmental benefit to Arizona residents that warrants the inclusion of those units in the initial phase of competitive procurement. In addition, these units do not need to be retired altogether, but could be used by the incumbent utility to meet emergency reserve requirements.

Finally, the Alliance must address the view that there has been a "failure of IPPs to invest in solutions to Arizona's transmission constrained areas (the same areas in which they proclaim a desire to serve)." The Alliance members do in fact have a desire to serve Arizona's transmission constrained areas, as well as all other areas of the state, which is why they support transitioning to a competitive wholesale marketplace as soon as reasonably possible. As testimony in the Track A Hearing indicated, a number of IPPs were significant participants in the efforts to solve transmission constraints in Arizona. What was missing each time in those efforts was a buyer for any of the power the IPPs would deliver over the expanded transmission lines. Without a buyer, no transmission credits are generated for the IPPs to recover the transmission investments sought by Commission Staff. When competitive procurement begins, proposals to solve transmission constraints will substantially increase. Conversely, so long as the incumbent utilities stand as a barrier to market participation by IPPs, transmission constraints will continue and the projected inability of the market to serve standard offer needs, if even true in the first place, surely will be a self-fulfilling prophecy.

¹ Panda Gila River's acquiescence to the delay in retail competition suggested in your letter is not included in the Alliance proposal herein.

In conclusion, the Alliance supports your call for consensus and supports the proposal for phased implementation of competitive procurement set forth in Panda's recent letter as the foundation for one key component for such a consensus. The Alliance stands ready to meet with all interested parties to work toward implementing this proposal and creating the other necessary components for a comprehensive settlement.

Sincerely,

A handwritten signature in black ink, consisting of a stylized 'G' followed by a long horizontal flourish that loops back to the start of the signature.

Greg Patterson
AzCPA Director

cc: Chairman William A. Mundell
Commissioner Jim Irvin