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Commissioner

Arizona Corporation Commission

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IN THE MATTER OF THE GENERIC
PROCEEDINGS CONCERNING
ELECTRIC RESTRUCTURING ISSUES.

Docket No. E-00000A-02-0051

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S REQUEST FOR
A VARIANCE OF CERTAIN
REQUIREMENTS OF A.A.C. R14-22-1606.

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

**RESPONSE OF THE LAND AND WATER FUND OF THE ROCKIES
TO THE SECOND PROCEDURAL ORDER ON TRACK B ISSUES**

In a Procedural Order dated September 24, 2002, the Administrative Law Judge in the above captioned matter requested parties to file the following information:

1. A statement listing the specific issues that remain to be addressed at hearing.
2. Proposed procedural schedules for the conduct of Track B proceedings following the workshop held on September 26 and 27, 2002.

The Land and Water Fund of the Rockies (LAW Fund) provides the requested information below.

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(b) Demand Side Management (DSM)

DSM can significantly lower the costs of meeting the demand for electric energy services. For these savings to be achieved, the competitive solicitation process must explicitly seek out cost-effective DSM resources separately from the acquisition of supply-side resources. Staff's proposal for the first round competitive solicitation will not result in the acquisition of significant DSM.

The LAW Fund, therefore, recommends that the Administrative Law Judge include in the list of Track B issues the topic of setting up a process for acquiring DSM resources, without delaying the first round of competitive solicitations. The desired outcome of the pending hearing is an order of the Commission directing Staff to set up workshops and request a subsequent hearing with the purpose of determining the amount of DSM to be obtained by utilities and establishing the process for utilities to acquire DSM. The Commission's policy on DSM would then be applied in the second and subsequent rounds of competitive solicitations and the capacity and energy savings resulting from DSM would be reflected in utilities' load and resource analyses prior to conducting future competitive solicitations. The target date for the DSM hearing would be the spring of 2004. There will be many other issues to be considered in developing the competitive solicitation process for the second cycle of resource acquisitions, and DSM could be overlooked if the Commission does not start developing a policy at this time.

(c) Public Input

Public input may be missing at critical points of Staff's competitive solicitation framework. If Staff's revised report does not adequately allow for public input, the hearing should rectify this shortcoming. Areas where public input is needed include: public review of resource plans submitted by utilities; the right of non-bidding interested parties (other than Staff and RUCO) to be present at bid openings; public dissemination of the list of bidders to seek out potential additions to the list; and public dissemination of draft solicitation materials for comment.

(d) Reporting of Environmental Impacts

Staff's framework does not include environmental information in the monitor's and Staff's reports. Consistent with Commissioners' environmental concerns, the hearing should address environmental information provided to the Commission by the monitor and Staff. Such information would be instructive for the Commission to evaluate whether the competitive solicitation process is resulting in improved environmental performance.

1 (e) **The Price to Beat**

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3 Staff's framework employs a price to beat as part of the evaluation of the
4 reasonableness of resource acquisitions. The LAW Fund is concerned that the
5 concept of a price to beat, as envisioned by Staff, may not provide reliable
6 information to the Commission. Use of a price to beat should, therefore, be
7 reviewed by the Commission at hearing.
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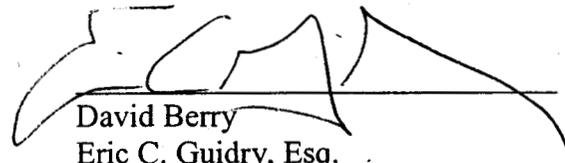
9 (f) **Risk Management**

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11 Staff's framework does not focus adequate attention on risk management in
12 the evaluation of bids. More guidance is needed regarding trade-offs between
13 expected prices and price volatility, for example. The hearing should address
14 how the risks of price uncertainty and poor performance should be considered
15 by utilities in the evaluation of competing bids. For example, under the
16 current Staff framework, there is the danger that bids with seemingly lower
17 prices will be selected but actual prices could be much higher if they are not
18 properly hedged.
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20 **Procedural Schedules**

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22 The LAW Fund finds Staff's proposed schedule acceptable. Under Staff's proposal,
23 Staff's report is due October 25, 2002, pre-filed testimony from parties other than Staff is
24 due November 8, 2002, Staff's responsive testimony is due November 15, 2002, and the
25 hearing starts on November 20, 2002.
26

27 RESPECTFULLY SUBMITTED this 30th day of September 2002.
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41 Original and 18 copies of the foregoing filed this 30th day of September 2002 with
42 Docket Control, Arizona Corporation Commission. Copies also mailed/e-mailed
43 to the service list for E-00000A-02-0051, E-01345A-01-0822, E-00000A-01-0630,
44 E-01933A-02-0069.
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46 By Penny Anderson 