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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. R14-2-1606.	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.	[illegible]

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Testimony Summary of Dr. Richard A. Rosen, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 20th day of November, 2002.

Scott S. Wakefield
Scott S. Wakefield
Chief Counsel

AN ORIGINAL AND TWENTY-SIX COPIES
of the foregoing filed this 20th day
of November, 2002 with:

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E-00000A-02-0051
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E-01933A-98-0471

By Cheryl Fraulob
Cheryl Fraulob
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SUMMARY OF TESTIMONY OF DR. RICHARD A. ROSEN
RESIDENTIAL UTILITY CONSUMER OFFICE
DOCKET No. E-00000A-02-0051, Et. Al.

After reviewing the direct and rebuttal testimony of all the witnesses in this case, I find that the basic conclusion enumerated in my direct testimony are still valid:

1. The Staff Report does not provide an adequate approach to determining which competitive bids for power should be selected by a distribution utility in order to ensure that the resulting electricity prices are reasonable. The Staff did not recognize that resource bids need to be evaluated in groups or portfolios, and they cannot be evaluated individually. Yet, there is no need to "reinvent the wheel", namely to try to develop a new methodology for bid selection, when a methodology for this purpose has already previously been used in Arizona and in many other places throughout the world. (See, for example, the suspended Arizona IRP rules.) Fortunately, the Staff has recently withdrawn their "price to beat" methodology.

2. There is only one reasonable way in which these competitive bids can be evaluated with respect to price, and that is to utilize a standard least-cost planning methodology. Almost all the witnesses in this case have by now agreed with this point. Each utility would have to take this approach anyway if it wanted to ensure that its selection methodology was prudent. The "bottom-line" for least cost planning is to minimize the present value of revenue requirements (or total social costs) over a pre-specified planning period of at least 20 years. This process will yield reasonable retail electric rates.

3. Demand-side management (DSM) program bids should be <u>allowed</u> from third parties, and a wide variety of DSM bids to serve all customer classes should be <u>required</u> from each distribution utility in amounts up to an incremental 2 percent of annual peak load in each year. If about 2 percent of the peak load is bid to be met by DSM, perhaps DSM programs of various types that will meet about 1 percent of the load will actually be chosen as more cost-effective than new generation resources. This will help guarantee that the lowest cost resources available to ratepayers will actually be evaluated as part of the competitive solicitation process.

4. Each distribution utility should be required to provide bids for real peaking, cycling, and baseload power resources that could be constructed on a <u>regulated</u> basis in their own solicitation process in order to provide a "competitive price baseline" against which <u>unregulated</u> market bids can be compared. Only if this is done can ratepayers be assured that they will end up paying reasonable rates as a result of this new competitive solicitation process. Only bids for new generation from highly responsible and financially capable entities should be considered in this process.

5. Once an appropriate least-cost planning process is established and correctly utilized for the purpose of evaluating resource bids, this process should automatically

establish a presumption that the distribution utility, which utilized the process, carried out prudent planning for the resource portfolio selected.

In light of the conclusions listed above, I would like to make the following set of recommendations to the Arizona Corporation Commission:

1. Establish the entire competitive solicitation process within a Least Cost Planning rubric, similar to that previously contained in the suspended Arizona IRP rules. This would not change the overall process described by the Staff in its October 25, 2002 report significantly, but it would significantly change the key details of how the price evaluation process for bids would need to be done. A least-cost planning framework allows the evaluation of all types of electric power products and contract durations at one time, on a self-consistent basis. Do not allow the utilities to limit the types of wholesale electricity products bid into the solicitation process. A least-cost planning process would also allow DSM investments to be evaluated on a consistent economic basis along with new power supplies and new transmission investments.

2. The Commission should also require the utilities involved in a competitive solicitation process to prepare their own bids for "proxy" power plants that could actually be constructed on a regulated cost-of-service basis in parallel with their solicitation of third party bids, in order to have a set of resources available on a "fall-back" basis. The Commission might have to order the construction of one or more of these new power plants on a regulated basis if doing so turns out to be lower in cost than a portfolio of competing bids offered by the independent power market. Arizona ratepayers should not be required to pay more for power as the result of a competitive solicitation process than they could pay under a continuation of traditional rate regulation. To do so would both indicate that the independent power market was not really sufficiently competitive at this time in history, and it would also provide a signal from Arizona's regulators that they were unwilling to hold the unregulated power market to a reasonable competitive standard in order to try to make it more competitive.

3. The Commission should not rush the establishment of an appropriate least-cost planning process. One approach, of course, would be to revive the existing Arizona IRP rules that were suspended in 1999, with appropriate modifications. If such a process cannot be in place to select resource bids for the summer of 2003, which it probably can not, those resources could be selected in a more *ad hoc* manner by each distribution utility, to which the usually prudent planning standards would apply. The final bid evaluation process based on least-cost planning principles could be used during the latter part of 2003 to select resources for 2004-2007, if the summer of 2003 cannot be included.

4. Allow both TEP and APS to purchase economy power on an "as available" basis, after a least-cost resource plan has been implemented. This could only serve to further reduce electric rates.

5. Allow TEP to include the two new combustion turbines that it completed within its regulated subsidiary as "existing generating capacity".

6. Allow wholesale competition to occur for RMR generating resources, but for those resources it is particularly important to have cost-of-service bids from the distribution utilities as well, in order to eliminate the possibility that bidders for RMR resources could exercise market power within the various load pockets. A dispatch model with a accurate representation of the Arizona electric system is needed to determine how the total need for power should be divided between RMR and non-RMR resources.

7. Do not include a specific amount of electric generation when specifying the "unmet need" for each distribution utility. Only specify the amount of generating capacity that needs to be solicited, because the amount of generation "needed" from each resource can only be determined by the use of a dispatch model once the complete least-cost portfolio of resources for each utility has been selected.