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IN THE MATTER OF THE GENERIC ) DOCKET NO. E-00000A-02-0051  
PROCEEDING CONCERNING ELECTRIC )  
RESTRUCTURING ISSUES )

IN THE MATTER OF ARIZONA PUBLIC ) DOCKET NO. E-01345A-01-0822  
SERVICE COMPANY'S REQUEST FOR )  
VARIANCE OF CERTAIN REQUIREMENTS )  
OF A.A.C. R14-2-1606 )

IN THE MATTER OF THE GENERIC ) DOCKET NO. E-00000A-01-0630  
PROCEEDING CONCERNING THE ARIZONA )  
INDEPENDENT SCHEDULING )  
ADMINISTRATOR )

IN THE MATTER OF TUCSON ELECTRIC ) DOCKET NO. E-01933A-02-0069  
POWER COMPANY'S APPLICATION FOR A )  
VARIANCE OF CERTAIN ELECTRIC )  
COMPETITION RULES COMPLIANCE )  
DATES )

**NOTICE OF FILING POST-HEARING BRIEF OF  
WELLTON-MOHAWK GENERATING FACILITY**

Wellton-Mohawk Generating Facility, by and through its attorneys,  
hereby files its Post-Hearing Brief.

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RESPECTFULLY submitted this 18th day of December, 2002.

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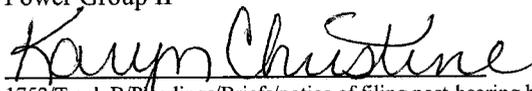
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**WILLIAM A. MUNDELL  
COMMISSIONER - CHAIRMAN  
JIM IRVIN  
COMMISSIONER  
MARC SPITZER  
COMMISSIONER**

**IN THE MATTER OF THE GENERIC ) DOCKET NO. E-00000A-02-0051  
PROCEEDING CONCERNING ELECTRIC )  
RESTRUCTURING ISSUES. )**

**IN THE MATTER OF ARIZONA PUBLIC ) DOCKET NO. E-01345A-01-0822  
SERVICE COMPANY'S REQUEST FOR A )  
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**IN THE MATTER OF THE GENERIC ) DOCKET NO. E-00000A-01-0630  
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INDEPENDENT SCHEDULING )  
ADMINISTRATOR. )**

**IN THE MATTER OF TUCSON ELECTRIC ) DOCKET NO. E-01933A-02-0069  
POWER COMPANY'S APPLICATION FOR A )  
VARIANCE OF CERTAIN ELECTRIC )  
COMPETITION RULES COMPLIANCE DATES. )**

**POST-HEARING BRIEF OF WELLTON-MOHAWK GENERATING FACILITY**

Wellton-Mohawk Generating Facility ("WMGF" or "Wellton-Mohawk")  
hereby files its Initial Brief as directed by the Administrative Law Judge at the close of the  
Track B Hearing on November 27, 2002.

**I. INTRODUCTION**

This Brief identifies the three issues on which WMGF presented evidence  
during the hearings held as part of the Track B competitive solicitation process and  
demonstrates that WMGF's position on these issues is supported by substantial evidence in  
the record. Based on the record, WMGF recommends that the Arizona Corporation

1 Commission ("ACC" or "the Commission") conclude in its opinion and order in this  
2 proceeding that:

- 3 1. Reliability Must Run ("RMR") capacity and energy resources, including  
4 both utility owned and non-utility owned resources, should be contestable  
5 in the competitive solicitation process to help resolve Arizona's load  
6 pocket problem in the most economical, efficient and environmentally  
7 friendly manner;
- 8 2. Generators with a renewable resource component should be permitted to  
9 submit proposals in the competitive solicitation, and such proposals  
10 should receive appropriate credit in recognition of the "added value" they  
11 provide the utilities in meeting their renewable resource requirements  
12 under the Environmental Portfolio Standard ("EPS"), and the  
13 Commission should adopt WMGF's proposed method for calculating this  
14 credit; and
- 15 3. The Commission should require the utilities to seriously consider a well-  
16 balanced mixture of contracts, including long-term contracts, in the  
17 competitive solicitation to protect ratepayers from future upswings in  
18 power prices and to allow new and proposed generating projects the  
19 opportunity to meaningfully participate in the competitive solicitation  
20 process.

21 In order to assist the Commission in understanding the recommendations and  
22 evidence that WMGF has presented on the record, this section also provides background  
23 information on WMGF, its owners, and its reasons for participating in the Track B  
24 proceeding.

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1 WMGF is nearing completion of the Arizona permitting process and intends  
2 to be certificated concurrent with the solicitation process in the first part of 2003. WMGF  
3 will be a state-of-the-art natural gas fired 620 MW (peak) combined cycle generating facility  
4 located about 25 miles east of Yuma, Arizona and 9 miles west of Wellton, Arizona. WMGF  
5 will be constructed in two phases with the first phase of 310 MW (peak) projected to be in  
6 commercial operation during the spring of 2005. The project participants in WMGF are  
7 Dome Valley Energy Partners, L.L.C. ("Dome Valley"), the Wellton-Mohawk Irrigation and  
8 Drainage District, and the Yuma County Water Users Association. It is expected that the  
9 members of Dome Valley will be Jasper Energy Development LLC, and Primesouth, Inc., a  
10 wholly-owned subsidiary of the SCANA Corporation. (Kendall, Direct Testimony, Pages 2 -  
11 3).

12 WMGF has two unique features that distinguish it from other operating and  
13 planned generating facilities in Arizona. First, WMGF will provide RMR generation which  
14 will help resolve the RMR generation problem in the Yuma load pocket. Second, WMGF  
15 will produce large amounts of relatively inexpensive solar energy in the normal course of  
16 operation which would help Arizona Public Service Company ("APS"), as well as some of  
17 Arizona's other electric utilities including the cooperatives, meet their solar energy resource  
18 requirements under the Commission's Environmental Portfolio Standard mandate within  
19 existing portfolio funding levels.

20 Regarding RMR generation, Arizona now has five Transmission Import  
21 Constrained Areas or load pockets. WMGF will be located directly within Arizona's third  
22 largest load pocket -- Yuma. Thus, if the Commission agrees that RMR capacity and energy  
23 resources, both utility owned and non-utility owned, should be included as contestable load  
24 in the competitive solicitation, WMGF will submit a proposal to APS to physically supply  
25 the utility with the RMR capacity and energy it requires to safely and reliably serve the needs  
26

1 of its customers in the load pocket.

2           Regarding renewable energy generation, WMGF will use solar thermal  
3 technology to convert solar energy into thermal energy for inlet air-cooling of the  
4 Combustion Turbine Generator ("CTG"). This will result in an increase of up to 12 percent  
5 in CTG electric output during times of peak solar radiation, as well as improve efficiency  
6 and/or lower the heat rate. Using this system, WMGF will generate kilowatt-hours that  
7 qualify as solar energy credits under Arizona's Environmental Portfolio Standard, and that  
8 will also likely qualify as renewable energy purchases under similar renewable energy  
9 programs in Nevada and California. (Kendall, Direct Testimony, Page 2). Thus, if the  
10 Commission agrees that the competitive solicitation process should allow proposals to supply  
11 a portion of the utilities' unmet renewable energy requirements under the Environmental  
12 Portfolio Standard, and appropriately recognizes the "added value" of renewable energy as a  
13 component of any power supply proposal, WMGF will include in its power supply proposal a  
14 substantial and relatively inexpensive amount of renewable energy that would help the  
15 utilities meet their requirements under the Environmental Portfolio Standard.

16           Finally, WMGF demonstrated on the record that it is in the public interest for  
17 the utilities competitive solicitation processes to be open to proposals of supplies for varying  
18 length not just to relatively short-term proposals. Given the current state of the financial and  
19 energy markets, in order to obtain non-recourse financing, new power generation projects  
20 require long-term off-take contracts to satisfy lenders' requirements. With today's power  
21 supply glut in Arizona and relatively low power prices, the inclusion of long-term contracts  
22 in utilities' supply portfolios, may also mitigate the risks to ratepayers of significant increases  
23 in the market for power in the future. Thus, if the Commission agrees that the utilities'  
24 power supply portfolios should include a well-balanced mixture of short-term, medium and  
25 long-term contracts to promote a robust power supply market and protect ratepayers, WMGF

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1 will have the opportunity to submit a proposal in the competitive solicitation process, that, if  
2 accepted, could provide significant benefits to Arizona's utilities and ratepayers.

3 **II. STATEMENT OF THE ISSUES**

4 Although the various parties in the Track B proceeding addressed numerous  
5 issues, the three issues on which WMGF focused are:

6 A. Whether RMR capacity and energy resources, including utility owned  
7 and non-utility owned resources, should be contestable in the competitive solicitation process  
8 to help resolve Arizona's load pocket problem in the most economical, efficient and  
9 environmentally friendly manner.

10 B. Whether generators with a renewable resource component should be  
11 permitted to make proposals in the competitive solicitation, and whether such proposals  
12 should receive appropriate credit in recognition of the "added" value they provide the utilities  
13 in meeting their renewable resource requirements under the Environmental Portfolio Standard,  
14 and whether the Commission should adopt WMGF's proposed method for calculating this  
15 credit.

16 C. Whether the Commission should require the utilities to seriously  
17 consider a well-balanced mixture of contracts, including long-term contracts, in the  
18 competitive solicitation to protect ratepayers from future upswings in power prices, and to  
19 allow new and proposed generating projects the opportunity to meaningfully participate in the  
20 competitive solicitation process.

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**III. ARGUMENT**

**A. RELIABILITY MUST-RUN**

**RELIABILITY MUST-RUN CAPACITY AND ENERGY RESOURCES, INCLUDING BOTH UTILITY OWNED AND NON-UTILITY OWNED RESOURCES, SHOULD BE CONTESTABLE IN THE COMPETITIVE SOLICITATION PROCESS TO HELP RESOLVE ARIZONA'S LOAD POCKET PROBLEM IN THE MOST ECONOMICAL, EFFICIENT AND ENVIRONMENTALLY FRIENDLY MANNER.**

The record supports WMGF contention that all RMR capacity and energy resources, including those resources owned by the load serving utilities and those owned by other entities should be contestable in the Track B solicitation process in order to help resolve the Arizona load pocket problems in the most economical, efficient, and environmentally friendly manner.

**1. New Generation Located Within Arizona's Load Pockets Will Help Relieve The RMR Problems.**

Transmission Import Constrained Areas, commonly referred to as load pockets, have been defined as geographic locations within a state's electric system where the load cannot be served solely by local transmission (Second Biennial Transmission Assessment 2003-2011, Section 7.1, Page 69). Arizona identified three such load pockets in the first Biennial Transmission Assessment—Phoenix, Tucson, and Yuma—and has identified two additional load pockets in the second Biennial Transmission Assessment—Santa Cruz County and Mohave County (Second Biennial Transmission Assessment 2003-2011, Section 7.1, Page 70). During peak times of the year, local generation located within these load pockets must serve that portion of the local load that cannot be served by existing local transmission lines. The Commission has identified this current utility resource requirement as RMR generation (Second Biennial Transmission Assessment, 2002-2011, Section 7.1, Page 69). The Commission has also recognized that the construction of new

1 generating plants or expanding existing plants located within the load pockets would achieve  
2 the greatest system efficiency and would also negate or delay the need for new transmission  
3 (Second Biennial Transmission Assessment, 2002-2011, Section 7.1, Page 69). There is  
4 substantial evidence in the record in this proceeding to support a determination that the Track  
5 B competitive solicitation process should be used as a mechanism by the Commission, the  
6 utilities and generators to identify any generation solutions that could help resolve the local  
7 transmission import constraints and associated RMR conditions. The record also supports  
8 the conclusion that all RMR Generation (capacity and energy) electrically located within the  
9 load pockets should be contestable in the Track B competitive solicitations, including both  
10 utility owned and non-utility owned generation, consistent with the Commission's intent in  
11 the Track A order.

12 **2. WMGF Agrees With Staff And TECO/Panda Gila River That All RMR**  
13 **Generation Should Be Contestable In the Track B Competitive**  
14 **Solicitation Process.**

15 Staff, WMGF and other parties, including TECO/Panda Gila River, presented  
16 evidence that the Track B competitive solicitation process is the appropriate mechanism to use  
17 to identify any generation solutions that could help resolve local transmission import  
18 constraints and associated RMR conditions. (See Kendall, Direct Testimony, Page 24; Smith,  
19 Rebuttal Testimony, Page 1 – 4; and Roach, Direct Testimony, Page 27). The record also  
20 shows that Staff totally agrees with WMGF's position that all RMR Generation (capacity and  
21 energy) both utility-owned and non-utility owned, should be contestable in the 2003  
22 competitive solicitation (Smith, Rebuttal Testimony, Page 5, Lines 4 – 7).

23 Utility Owned Local Generation In The Yuma Load Pocket

24 As explained and supported below, the record shows that generation in the  
25 Yuma load pocket consists of peaking generation units that are of older vintage, which are  
26 less efficient, less economic, and less environmentally friendly than a modern gas-fired

1 combined cycle unit that could replace them. In a response to a WMGF data request, APS  
2 provided its RMR generation (capacity) estimates for the Yuma Load Pocket for years 2003  
3 to 2012 (Kendall Rebuttal Testimony, Appendix RK-1). This Exhibit is attached for easy  
4 reference. The 139 MW shown as "APS Resources" in this exhibit is the same as the 139  
5 MW of "Yuma Resource Capacity" shown as contestable in Staff's Exhibit S-5. On cross-  
6 examination, APS confirmed that the 139 MW of APS-owned generation resources identified  
7 in its data request response and by Staff in its exhibit is the combined capacity of its four  
8 Yucca Peaking Units (Transcript, Volume III, Page 667, Lines 20 – 25). APS also confirmed  
9 that: 1) the Yucca Units are of 1970's vintage (Transcript, Volume III, Page 667, Line 20  
10 through Page 669, Line 11); 2) there have been technological advancements in power plant  
11 design and operation since the Yucca Units came on-line in terms of plant efficiency and  
12 environmental applications (Transcript, Volume III, Page 662, Lines 12 – 22); and 3) since  
13 the 1970's, such advancements identified by APS include improved technologies in  
14 environmental baghouses, scrubbers, efficiencies from gas-fired combined cycle units, and  
15 new emission quality technology (Transcript, Volume III, Page 662, Lines 12 – 22). The  
16 record conclusively demonstrates that simple-cycle plants of the 1970's vintage (such as the  
17 Yucca Units) are less efficient than modern combined-cycle plants. (Transcript, Volume III,  
18 Page 670, Lines 2 – 5 and Page 671, Lines 9 – 12).

19 In contrast to the older vintage Yucca Units currently serving APS' needs in  
20 the Yuma Load Pocket, WMGF intends to construct a modern, state-of-the-art, gas-fired  
21 combined cycle power plant that could potentially replace all or at least a portion of the  
22 Yucca Units through the Track B competitive solicitation process. (See generally, Kendall,  
23 Direct Testimony, Page 24, Lines 5 – 21.) Indeed, both the Commission and APS have  
24 identified the proposed WMGF as a possible local generation solution to the Yuma Load  
25 Pocket concern (Second Biennial Assessment, 2002 – 2011, Section 7.5, Page 89). At the  
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1 hearing, APS reiterated that it views the proposed WMGF as a possible future resource for  
2 meeting APS' load serving needs in the Yuma area (Transcript, Volume III, Page 680, Lines  
3 18 - 21). Accordingly, based on the record and given the public's interest in having the  
4 RMR issue resolved in the most economical, efficient and environmentally friendly manner,  
5 the Commission should adopt Staff's, WMGF's and TECO/Panda Gila River position in this  
6 proceeding that all RMR Generation in the load pockets, including utility owned generation  
7 resources, should be contestable in the Track B competitive solicitation.

8 Non-Utility Owned Local Generation In The Yuma Load Pocket

9 The record also shows that both Staff and TECO/Panda Gila River agree with  
10 WMGF that existing non-utility owned generation resources should be contestable in the  
11 Track B competitive solicitation (Kendall, Rebuttal Testimony, Page 9, Smith, Rebuttal  
12 Testimony, Page 5, Lines 4 - 14 and Roach, Direct Testimony, Page 27). Based on their  
13 testimony, APS' witnesses Ewen and Carlson also appear to agree that:

- 14 (1) Non-APS owned RMR should be included as contestable load in the  
15 competitive solicitation,  
16 (2) Contestable load in both the Phoenix and Yuma Load Pockets should  
17 be treated in the same manner, and  
18 (3) APS will rely on the current RMR Study ordered by the Commission  
19 to determine the numbers and the deliverability aspects with respect to  
20 both the Phoenix and Yuma Load Pockets.

21 (Transcript, Volume III, Page 677 line 11 through Page 679 line 4)

22 However, a third APS witness, Mr. Glock, appeared to contradict Messrs. Carlson's and  
23 Ewen's testimony. APS witness Glock testified that the RMR Generation capacity  
24 attributable to the Yuma Cogeneration Project and the Yucca Steam Project should not be  
25 contestable. (Transcript, Volume III, Page 676, Lines 3 - 5). A close review of the record  
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1 confirms, however, that Mr. Glock's position is without either support or logic.

2           Thus, APS' contradictory testimony has left the record unclear as to whether  
3 APS intends to classify all existing non-APS owned RMR generation as being contestable.  
4 Looking specifically at the Yuma Load Pocket, APS credits itself with 132 MW of existing  
5 non-APS generation resources to serve its RMR needs in Yuma. (See Kendall Rebuttal  
6 Testimony, Appendix RK-1) At the hearing, APS indicated that the 132 MW of non-APS  
7 owned generation was comprised of the combined generating capacity from the Yuma  
8 Cogeneration Project (owned by an entity unknown to APS) and the Yucca Steam Project  
9 (owned by the Imperial Irrigation District ("IID") a load serving utility located in California).  
10 (Transcript, Volume III, Page 674, Line 10 through Page 675, Line 15.) Importantly, APS  
11 also confirmed that it had no contract with either of these two plant owners to purchase  
12 output for its local needs and that power from these projects was being sold into California.  
13 (Transcript, Volume III, Page 674 Line 22 through Page 675 Line 7).

14           APS' witness Glock seems to believe that the generation capacity from the  
15 Yuma Cogeneration Project and the Yucca Steam Project should not be contestable simply  
16 because their sale of power west into California increases APS' import capability east into  
17 the Yuma Load Pocket. (Transcript, Volume III, Page 716 Line 10 through Page 717 Line  
18 1).

19           WMGF strongly disagrees with Mr. Glock's argument. Such reliance on  
20 transmission counter flows or "leaning" on the transmission facilities owned by a third party,  
21 although potentially free to the utility, leaves the utility's electric consumers extremely  
22 vulnerable. APS admitted on the record that it has no power contracts with either the Yuma  
23 Cogeneration Project or the Yucca Steam Project. (Transcript, Volume III, Page 675, Line  
24 16 through Page 676 Line 2). If APS has no such contracts with these projects to provide  
25 RMR generation, then neither the Yuma Cogeneration Project nor the Yucca Steam Project  
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1 have any obligation to APS to generate energy, have no obligation to inform APS when they  
2 intend to shut-down, and have no obligation to continue running during APS' Yuma summer  
3 peak when it is 123 degrees in Yuma – in the shade (See Transcript, Volume IV, Page 815,  
4 Line 22 through Page 817, Line 6). Thus, neither APS nor its Yuma area customers have any  
5 assurance that they will receive power over this path when it is needed. Therefore, as a  
6 matter of public interest, this kind of reliance on the hope that “free transmission” will be  
7 available when needed should be discouraged and the actual non-APS owned RMR  
8 generation in the load pocket should be contestable in APS' competitive solicitation.

9 Accordingly, WMGF recommends that the Commission adopt WMGF's,  
10 Staff's and TECO/Panda Gila River position that the Track B competitive solicitation process  
11 be used to identify any generation solutions that could help resolve local transmission import  
12 constraints and associated RMR conditions, and that all RMR generation (capacity and  
13 energy), both utility-owned and non-utility owned, should be considered contestable in the  
14 2003 competitive solicitation.

15 **3. The Elimination Of The RMR Problem Is An Objective Of The**  
16 **Commission In The Competitive Solicitation Under The Track A Order.**

17 As indicated above, WMGF, Staff, and TECO/Panda Gila River have testified  
18 that the Track B competitive solicitation process should be used to identify generation  
19 solutions that could help resolve local transmission import constraints and associated RMR  
20 conditions, and that RMR Generation (capacity and energy), both utility-owned and non-  
21 utility owned, should be considered contestable in the 2003 competitive solicitation. A  
22 reading of Decision No. 65154 (Track A Order) in its totality also shows that the elimination  
23 or mitigation of RMR generation problems in Arizona's load pockets is an objective of the  
24 Track B competitive solicitation since such problems limit the opportunities of the utilities  
25 and their ratepayers to take full advantage of the competitive wholesale market contemplated  
26 in Track B. There are several aspects of the Track A Order which lead to this conclusion. For

1 example, in the Track A proceeding Staff recommended that the Commission order APS and  
2 TEP to resolve RMR generation concerns (See Decision No. 65154, Page 18, Line 13).  
3 Specifically, Staff recommended that APS and TEP should:

- 4 (1) Perform a study analyzing the merits of existing dependence on RMR  
5 instead of building new transmission;
- 6 (2) Perform a study analyzing the merits of any future contemplated  
7 utilization of RMR to defer transmission projects; and
- 8 (3) File such RMR Study Reports prior to implementing any new RMR  
9 generation strategies.

10 (Decision No. 65154, Page 18, Lines 22 – 28).

11 The Commission in two Findings of Fact of the Track A Order adopted these Staff  
12 recommendations. (Decision No. 65154, Finding of Fact Number 40 and Finding of Fact 41,  
13 Pages 30 – 31).

14 In adopting Staff's recommendations, the Commission directed APS and TEP  
15 to work with Staff to develop a plan to resolve RMR generation concerns and include the  
16 results in the 2004 Biennial Transmission Assessment (Decision No. 65154, Page 33, Lines  
17 21 - 23). The Commission in the Track A Order further directed APS and TEP to file annual  
18 RMR Study Reports with the Commission in concert with their January 31 ten-year plans for  
19 review prior to implanting any new RMR generation strategies until the 2004 Biennial  
20 Transmission Assessment is issued (Decision No. 65154, Page 33, Lines 24 - 27).

21 Concurrent with ordering the development of an RMR plan to determine and  
22 resolve RMR generation concerns of the utilities within their respective service areas, the  
23 Commission also directed APS and TEP to acquire, through the Track B competitive  
24 solicitation proceeding, "at a minimum" any power that cannot be produced from their own  
25 existing assets. (Decision No. 65154, Page 33, Lines 6 – 14). The fact that the Commission  
26

1 intended that the Track B proceeding should set the utilities "minimum" power requirements  
2 for inclusion in the competitive solicitation, rather than "maximum" power requirements,  
3 coupled with its ordering of the RMR Study, demonstrates the Commission's intent to create  
4 a placeholder for all RMR power requirements, whether utility-owned or otherwise, to be  
5 determined when the results of the RMR Studies become known. As Staff witness Jerry  
6 Smith testified, Staff expects the utilities to finalize these RMR numbers and submit them for  
7 public review by the end of January 2003, which will be in time for inclusion in the  
8 competitive solicitation. (Transcript, Volume II, Page 274 Line 15 through Page 276 Line  
9 16).

10 Accordingly, WMGF recommends that the Commission make both utility-  
11 owned and non-utility owned RMR generation contestable in the Track B competitive  
12 solicitation as such a determination is supported by substantial evidence on the record and is  
13 entirely consistent with the Commission's intent in the Track A Order to eliminate the RMR  
14 problem in Arizona's load pockets.

15 **B. RENEWABLE ENERGY**

16 **GENERATORS WITH A RENEWABLE RESOURCE COMPONENT**  
17 **SHOULD BE PERMITTED TO SUBMIT PROPOSALS IN THE**  
18 **COMPETITIVE SOLICITATION AND SUCH PROPOSALS SHOULD**  
19 **RECEIVE APPROPRIATE CREDIT IN RECOGNITION OF THE "ADDED**  
20 **VALUE" THEY PROVIDE THE UTILITIES IN MEETING THEIR**  
21 **RENEWABLE RESOURCE REQUIREMENTS UNDER THE**  
22 **ENVIRONMENTAL PORTFOLIO STANDARD, AND THE COMMISSION**  
23 **SHOULD ADOPT WMGF'S PROPOSED METHOD FOR CALCULATING**  
24 **THIS CREDIT.**

25 WMGF's position is that: (1) power generation providers should be allowed to  
26 provide bids containing renewable energy resources in the competitive solicitation; (2) such  
bids should receive appropriate credit in recognition of the additional value they bring to the  
utilities in meeting their renewable energy requirements under the Environmental Portfolio  
Standard ("EPS"); and (3) the Commission should adopt WMGF's recommendation on how

1 the additional value of bids containing renewable energy should be calculated.

2 **1. Generators With A Renewable Resource Component Should Be Allowed**  
3 **To Submit Proposals In The Competitive Solicitation.**

4 WMGF's position is that generators whose plants have a renewable resource  
5 component should be allowed to submit proposals to the utilities in the competitive  
6 solicitation process. Renewable energy resources were identified in the October 25, 2002;  
7 Staff Report as a specific deduction in the utilities' unmet needs energy needs calculation.  
8 (Staff Report, Page 35, Lines 1 - 8). However, during the hearings, it became clear that APS,  
9 as well as Staff agreed with WMGF that generators whose plants have a renewable resource  
10 component should be allowed to include renewable energy in their proposals in the Track B  
11 competitive solicitation (Kessler, Rebuttal Testimony, Page 13, Lines 18 - 24, Transcript,  
12 Volume III, Page 687, Lines 5 - 20, Direct Testimony, Kendall, Page 4 Line 14 through Page  
13 5 Line 2). APS has already prepared its projected unmet needs for renewable energy  
14 resources under the EPS through 2012, which is now in the public record (See WMGF  
15 Hearing Exhibit 2 attached). Thus, any generator wishing to include a renewable energy  
16 resource as part of its proposal need simply specify in its proposal the amount of qualifying  
17 renewable resources that it is offering by year, at what price, and under what terms and  
18 conditions. APS could then consider this information during its evaluation of proposals and  
19 apply an appropriate credit as part of the evaluation process in recognition of the  
20 acknowledged "added value" of renewable resources (Kendall, Direct Testimony, Page 18,  
21 Lines 4 - 9).

22 Accordingly, WMGF recommends that the Commission's order in this  
23 proceeding contain language specifically stating that generators whose plants have a  
24 renewable resources component may submit proposals to the utilities in the competitive  
25 solicitation and that the utilities should consider these proposals in meeting their unmet  
26 renewable resource needs under the EPS.

1           **2. Proposals Containing Renewable Resources Should Receive Appropriate**  
2           **Credit in Recognition Of The “Added Value” They Provide The Utility In**  
3           **Meeting Its Renewable Energy Requirements Under The EPS.**

4           Proposals from generators whose plants contain a renewable resources  
5           component should receive appropriate recognition in the competitive solicitation evaluation  
6           process for the “added value” that they provide the utility in meeting its renewable energy  
7           requirements under the EPS. The record shows that APS agrees with WMGF that proposals  
8           containing a renewable energy component provide “added value” to the utility because they  
9           may help the utility satisfy its renewable quotas under the EPS. (Carlson, Rebuttal  
10           Testimony, Page 21, Lines 22 – 25).

11           The record also shows that APS will have substantial shortfalls in meeting its  
12           unmet solar electric resource requirements through 2012 under current funding levels  
13           (Transcript, Volume III, Page 685, Lines 20 - 25 and WMGF Exhibit W-1). The competitive  
14           solicitation presents a meaningful opportunity for the utilities to access the market for  
15           competitive proposals to fill this unmet EPS obligation and to encourage potential suppliers  
16           to propose innovative technologies to provide cost effective renewable resources. An  
17           example of such an innovative technology is WMGF’s plan to combine renewable with fossil  
18           fuel technologies (“Hybrid Renewable Generation”). WMGF’s approach can provide  
19           utilities, such as APS, a cost effective way of reducing its substantial shortfalls in meeting its  
20           unmet solar electric resource requirements at current funding levels. (Kendall, Direct  
21           Testimony, Page 17, Lines 6 – 17; Kendall, Rebuttal Testimony, Page 14 Line 20 through  
22           Page 15, Line 17).

23           It is imperative that this “added value” provided by proposals relying on some  
24           or all renewable resources be explicitly recognized in the bid evaluation process (Kendall,  
25           Direct Testimony, Page 4, Lines 16 – 21). Without such recognition, proposals based on  
26           renewable resources must compete head-to-head against proposals containing solely fossil

1 fuel resources. As the Commission has already recognized, such an approach would deny the  
2 public the benefits of clean renewable resources. Accordingly, WMGF recommends that the  
3 Commission's order in this proceeding provide that proposals from generators whose plants  
4 have a renewable resource component receive appropriate recognition in the competitive  
5 solicitation's evaluation process to explicitly credit such proposals with the "added value"  
6 they provide the utility in meeting its renewable energy requirements under the EPS and the  
7 public interest.

8 **3. The Commission Should Adopt WMGF's Proposed Method For**  
9 **Calculating The Additional Credit That Should Be Given To Proposals**  
10 **Utilizing Renewable Energy Resources.**

11 The Commission should adopt WMGF's recommendation as to how the  
12 "added value" for proposals utilizing renewable energy resources should be calculated. In  
13 adopting the EPS, the Commission recognized that while most renewable resources at  
14 present are more expensive than fossil fuel resources, there were significant public interest  
15 benefits associated with clean renewable energy resources versus fossil fuel resources.  
16 Commissioner Spitzer's statement while voting in favor of the EPS evidences this fact:

17 Billions of dollars are being spent on clean air and  
18 clean water. It only follows that the utilities should  
19 be encouraged to invest in clean energy  
20 technologies. This, I believe, is a good example of  
21 government balancing the sometimes-competing  
22 interests of cost with the very real issue of  
23 preserving our environment.

24 (ACC Press Release dated February 1, 2002, Transcript, Volume II, Page 221, Lines 14 - 21).

25 The Commission has further recognized the need to diversify Arizona's fuel  
26 resource mix so that there is not an over-reliance on somewhat volatile natural gas supplies  
and prices. As Commissioner Irvin stated in voting in favor of adoption of the EPS:

The Environmental Portfolio Standard breaks new  
ground for Arizona, ...if we are ever going to see a

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broader mix of fuels; we have to take the first step.  
My vote in favor of the [EPS Rule] sends a message  
that the time is now.

(ACC Press Release dated February 1, 2002, Transcript, Volume II, Page 221, Line 25).  
Chairman Mundell's statement casting the final vote in favor of the EPS Rule made the plain  
case in favor of the necessity to encourage the development and application of renewable  
energy technologies:

It is critical to encourage electricity providers to  
reduce their reliance on fossil fuels. Government  
has a responsibility to encourage change where  
public health and safety can be enhanced. These  
measures are intended to bring down the cost of  
solar and other renewable energy technologies so  
they become more cost competitive with other  
energy technologies.

(ACC Press Release dated February 1, 2002, Transcript, Volume II, Page 22, Lines 8 – 18).  
The Commission made the EPS a mandate and provided a funding mechanism through a  
special EPS surcharge on customer bills and the reallocation of all existing System Benefits  
Charge funding including Demand Side Management ("DSM") Program funding to EPS uses  
(jointly the EPS surcharge and System Benefits Charge referred to as "EPS Funds"). Thus,  
the Commission has already effectively determined that the reasonable "added value" of  
renewable energy is the amounts of funds generated from these two charges. The goal then  
should be to procure as much renewable resource energy as possible to achieve EPS at the  
lowest reasonable prices. (Kendall, Direct Testimony, Page 18 Line 13 through Page 19 Line  
8). WMGF recommends that the most appropriate way of calculating this "added value" of a  
proposal utilizing renewable energy resources is to simply add monies collected by the utility  
from its ratepayers under the EPS surcharges and divide this amount by the total megawatt  
hours that APS must purchase from renewable energy providers in compliance with the EPS.  
(Kendall, Direct Testimony, Pages 18 –19).

1                   Accordingly, WMGF recommends that the Commission adopt WMGF's  
2 proposed method as to how the "added value" of proposals containing renewable energy  
3 components should be calculated.

4                   **C.    LONG-TERM CONTRACTS**

5                   **THE COMMISSION SHOULD REQUIRE THE UTILITIES TO SERIOUSLY**  
6                   **CONSIDER A WELL-BALANCED MIXTURE OF CONTRACTS,**  
7                   **INCLUDING LONG-TERM CONTRACTS, IN THE COMPETITIVE**  
8                   **SOLICITATION TO PROTECT RATEPAYERS FROM FUTURE**  
9                   **UPSWINGS IN POWER PRICES AND TO ALLOW NEW AND PROPOSED**  
                  **GENERATING PROJECTS THE OPPORTUNITY TO MEANINGFULLY**  
                  **PARTICIPATE IN THE COMPETITIVE SOLICITATION PROCESS.**

10                   WMGF's position is that in order for the Track B solicitation to provide the  
11 greatest economic and environmental benefits to Arizona's electric ratepayers, it should  
12 produce a portfolio of contracts with varying contract terms, including long-term contracts  
13 with terms of up to 15 to 20 years in length. This approach will allow new generation  
14 projects to submit more aggressive proposals as they will have the ability to obtain non-  
15 recourse financing if selected thereby encouraging competition with existing older generating  
16 plants (Kendall, Direct Testimony, Pages 7 - 9). WMGF's position is consistent with the  
17 Commission's stated purposes of the Track B solicitation, which are to:

18                                   ...encourage the development of a robust wholesale  
19                                   market for generation, and obtain some of the  
20                                   benefits of the new Arizona generation resources,  
                                  while at the same time protecting ratepayers.

21 (Decision No. 65154, Pages 23-24).

22                   WMGF's position is also consistent with Staff's position regarding the issue  
23 of long-term contracts:

24                                   It is Staff's view consistent with page 6 of the Staff  
25                                   Report that the utility needs to make business  
26                                   decisions on behalf of ratepayers that result in  
                                  ratepayer benefits. Included in my definition of

1 benefit for the purposes of this question is  
2 reliability, deliverability, as well as price, and that  
3 may be, that should be a result of the utility  
4 considering both long-term and short-term contracts  
5 for meeting its needs, including an assessment of  
6 products that are appropriately acquired, et cetera.  
7 [Emphasis Added]

8 (Transcript, Volume II, Page 253, Lines 3 – 12).

9 APS on the other hand has been unclear as to its willingness to consider long-  
10 term contracts in the solicitation process on a fair and impartial basis with short-term  
11 contracts. In its direct testimony, APS expressed its intent that contracts would be limited to  
12 4 years and less in its supply portfolio mix:

13 Contract lengths will be as short as one quarter and  
14 as long as four years. The percent mix of the  
15 product types that APS will procure in the initial  
16 RFP will be determined by the then-existing market  
17 conditions, credit quality, deliverability, and other  
18 relevant factors.

19 (Carlson, Direct Testimony, Page 10, Lines 12 -13)

20 In its rebuttal testimony, APS altered its position somewhat by stating that  
21 bids of longer than four years would not be rejected out of hand, but then characterizes such  
22 bids as “non-conforming,” and indicates that there may be insufficient time to consider such  
23 bids in the Track B process, and proposes additional requirements on bidders proposing such  
24 terms (Carlson Rebuttal Testimony, Page 20). If APS’ true intent is not to seriously consider  
25 any long-term contract offers, this would be contrary to the Commission’s stated Track B  
26 solicitation purposes for the reasons discussed below:

27 **1. Long-Term Contracts Advance The Commission’s Purpose Of**  
28 **Encouraging The Development Of A Robust Wholesale Market For**  
29 **Generation In Arizona.**

30 Since one of the Commission’s purposes of the Track B solicitation is to  
31 encourage the development of a robust wholesale market for generation in Arizona, then the

1 best way to advance this purpose is to allow a broad base of generation projects the  
2 opportunity to compete in the solicitation. This would include new or proposed generation  
3 projects in addition to existing, older generating plants. Unlike the existing older generating  
4 plants, however, the new or proposed generation projects will be able to compete in the  
5 competitive solicitation process only if the utilities fairly and impartially consider long-term  
6 contract bids. Given the turmoil in the energy industry and financial markets, new generation  
7 projects must obtain long-term contracts from a creditworthy entity before they can obtain  
8 non-recourse financing. Simply put, if long-term contracts are not available as part of the  
9 Track B process, it is virtually certain that no new generation projects will be developed in  
10 Arizona absent a radical change for the better in the energy industry and a significant  
11 infusion of confidence to lenders that financing new generation projects on any basis other  
12 than long-term contracts makes business sense.

13 As explained by WMGF witness Robert Kendall in his Direct Testimony,  
14 today's business environment for development and construction of new power plants  
15 throughout the United States has changed dramatically from the business environment prior  
16 to mid-2001, making it highly unlikely that a developer can obtain non-recourse financing for  
17 a new power plant over roughly 50 MW in size without having a significant amount of the  
18 project's output contracted to a credit-worthy entity. Today the financial community is  
19 extremely hesitant to loan any funds for new generating facilities due in large part to the  
20 financial meltdown of Enron, several other large generation developers, and energy traders.  
21 We are also seeing throughout the West spot market prices at far lower levels than before  
22 mid-2001. Thus, new generation facilities cannot generally be financed without having a  
23 significant portion of their output sold through contracts such as long-term power purchase  
24 agreements ("PPAs") to a credit-worthy entity. In order for the generator to be economically  
25 competitive the term of the loan needs to extend out 15 to 20 years. The key for the lenders  
26

1 is that the minimum needed PPA contract term must tie to the length of the financing. Thus,  
2 in Arizona, a minimum 15-year contract term and preferably a 20-year term are probably  
3 needed in order for a developer to offer what would be viewed as a competitive price (See  
4 Kendall, Direct Testimony, Pages 10-11).

5 Accordingly, consistent with the Commission's stated purpose of the Track B  
6 solicitation to encourage the development of a robust wholesale market for generation in  
7 Arizona, WMGF recommends that the Commission's order in this proceeding include  
8 language requiring the utilities to specifically allow bids of varying contract terms of up to 15  
9 to 20 years and to evaluate all bids on an equal basis. This would allow new or proposed  
10 generation projects to compete with existing older generating plants on a level playing field,  
11 thereby advancing the development of a robust, wholesale market for generation in Arizona.

12 **2. Long-Term Contracts Advance The Commission's Purpose Of Allowing**  
13 **The Utilities And Their Customers To Obtain The Benefits Of New**  
14 **Arizona Generation Resources.**

15 As explained above, the acceptance and evaluation of bids proposing long-  
16 term contracts on an equal basis with bids proposing short-term contracts will allow new  
17 generation projects the opportunity to compete with the already existing older generating  
18 plants, and thus encourage the development of a robust wholesale market for generation in  
19 Arizona. Additionally, the existence of these new generation projects would advance the  
20 Commission's purpose of allowing the utilities and their customers the opportunity to obtain  
21 the benefits that can only be derived from new Arizona generation resources (Kendall, Direct  
22 Testimony, Page 9, Lines 11 - 22). For example, as the record shows and as agreed by APS,  
23 new generation facilities are generally more efficient and more environmentally friendly than  
24 older existing generation due to lower heat rates and the ability to employ more easily the  
25 newest pollution control technologies. (Transcript, Volume III, Page 670, Lines 2 - 4, and  
26 Page 670, Line 23 through Page 671 Line 12). In addition, the record shows that new

1 generation would add incremental power to the grid thereby increasing supply margins and  
2 improving reliability for Arizona electric consumers (Kendall, Direct Testimony, Page 9).

3 Accordingly, consistent with the Commission's stated purpose of the Track B  
4 solicitation of allowing the utilities and their customers the opportunity to obtain the benefits  
5 that can only be derived from new Arizona generation resources, WMGF recommends that  
6 the Commission's order in this proceeding include language requiring the utilities to  
7 specifically allow bids of varying contract terms of up to 15 to 20 years and to evaluate all  
8 bids on an equal basis.

9 **3. Long-Term Contracts Advance the Commission's Purpose of Protecting**  
10 **Ratepayers.**

11 By developing a well-balanced portfolio of contracts, including some long-  
12 term contracts which would lock-in current low electricity prices, the utilities will further the  
13 Commission's purpose of protecting ratepayers by shielding them from an uncertain future.  
14 Staff agreed with WMGF that the State of Arizona is currently experiencing low electricity  
15 prices due in part to reduced demand for electricity coupled with a surplus of generation.  
16 Specifically, Staff stated on the record that:

17 (1) A surplus of generation currently exists in Arizona, (Johnson,  
18 Rebuttal Testimony, Page 3, Line 10 and Transcript, Volume II, Page 250, Lines 13 – 21);

19 (2) The current generation surplus is one contributing factor to the current  
20 low wholesale electricity prices in Arizona, (Transcript, Volume II, Page 251, Lines-23 – 25,  
21 and Page 252, Lines 1 – 23);

22 (3) The current economic slowdown is an additional contributing factor to  
23 the current low electricity prices in Arizona, (Transcript, Volume II, Page 251, Lines 24 – 25  
24 and Page 252, Lines 1 – 6); and

25 (4) The current generation surplus and economic slowdown in Arizona,  
26 and corresponding lower electricity prices will not last forever. (Transcript, Volume II, Page

1 251, Lines 7 – 12).

2 Assuming that the Commission agrees with the above assessment that Arizona  
3 is currently experiencing a “buyers’ market” characterized by low electricity prices and that  
4 there is the likelihood these low electricity prices will increase in the future when the  
5 economy improves and the energy surplus no longer exists, then the Commission should  
6 recognize that ratepayers will best be protected from future price increases if the utilities’  
7 obtain a portion of their requirements from long-term contracts. Accordingly, WMGF  
8 recommends that the Commission’s order in this proceeding include language stating that  
9 ratepayers are best served if the utilities acquire through the competitive solicitation process  
10 a well balanced mixture of contracts, including contracts with terms of up to 15 to 20 years in  
11 order to protect ratepayers from future market price uncertainty.

12 **IV. CONCLUSION AND RECOMMENDATIONS**

13 Based on evidence in the record, WMGF concludes and recommends the  
14 following regarding: (1) Reliability Must Run Generation; (2) Unmet Renewable Energy  
15 Resources under the Environmental Portfolio Standard; and (3) Long-Term Contracts:

- 16 1. Reliability Must Run (“RMR”) capacity and energy resources, including both  
17 utility owned and non-utility owned resources, should be contestable in the  
18 competitive solicitation process to help resolve Arizona’s load pocket problem  
19 in the most economical, efficient and environmentally friendly manner;
- 20 2. Generators with a renewable resource component should be permitted to  
21 submit proposals in the competitive solicitation, and such proposals should  
22 receive appropriate credit in recognition of the “added value” they provide the  
23 utilities in meeting their renewable resource requirements under the EPS, and  
24 the Commission should adopt WMGF’s proposed method for calculating this  
25 credit; and  
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3. The Commission should require the utilities to seriously consider a well-balanced mixture of contracts, including long-term contracts, in the competitive solicitation to protect ratepayers from future upswings in power prices and to allow new and proposed generating projects the opportunity to meaningfully participate in the competitive solicitation process.

RESPECTFULLY submitted this 18th day of December, 2002.

MARTINEZ & CURTIS, P.C.

By Paul R. Michaud

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November 13, 2002

Mr. Paul R. Michaud  
Martinez & Curtis, P. C.  
2712 North Seventh Street  
Phoenix, AZ 85006-1090

RE: WELLTON-MOHAWK GENERATING FACILITY FIRST SET OF DATA REQUESTS TO  
ARIZONA PUBLIC SERVICE COMPANY PURSUANT TO ACC DOCKET NO. E-00000A-02-0051  
ET AL., TRACK B

Dear Mr. Michaud:

Attached is Arizona Public Service Company's response to Wellton-Mohawk Generating Facility's First Set of Data Requests dated November 8, 2002.

If you or your staff have any questions, please feel free to call me.

Sincerely,

A handwritten signature in black ink, reading "Jana Van Ness", is written over the typed name.

Jana Van Ness  
Manager  
Regulatory Compliance

Attachments

JVN/srm

WELLTON-MOHAWK GENERATING FACILITY'S FIRST SET OF  
DATA REQUESTS TO ARIZONA PUBLIC SERVICE COMPANY  
DOCKET NO. E-00000A-02-0051, E-01345A-01-0822, E-00000A-01-0630, E-01933A-02-0069  
TRACK B  
November, 6, 2002

RK 1.1 Please provide a table in the same format as page 18 in the package titled "Projected Unmet Capacity and Energy Needs" presented by APS's Pete Ewen to the ACC workshop on Track B Issues on November 6, 2002 for Reliability Must Run Estimates for the Yuma load pocket.

RESPONSE:

See Attachment. [ATTACHMENT WM DR 1 Q. RK 1.1]

**APS Yuma Area Reliability Must Run Estimates  
2003 - 2012**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Capacity Need (MW)</b>										
Yuma Area Peak Demand	303	322	330	339	344	355	363	372	382	392
Transmission Import Limit	148	148	148	148	148	148	148	148	148	148
RMR Need	155	174	182	191	196	207	215	224	234	244
<b>APS Resources</b>	139	139	139	139	139	139	139	139	139	139
Existing Non-APS Resources	132	132	132	132	132	132	132	132	132	132
APS Reserves	52	52	52	52	52	52	52	52	52	52
Unmet Need	(64)	(45)	(37)	(28)	(23)	(12)	(4)	5	15	25

**WELLTON-MOHAWK GENERATING FACILITY'S FIRST SET OF  
DATA REQUESTS TO ARIZONA PUBLIC SERVICE COMPANY  
DOCKET NO. E-00000A-02-0051, E-01345A-01-0822, E-00000A-01-0630, E-01933A-02-0069  
TRACK B  
November, 6, 2002**

RK 1.7 Please provide a year-by-year listing of APS's unmet EPS renewable resource requirement under the EPS.

RESPONSE:

See Attachment [ATTACHMENT WM DR 1 Q. RK 1.7]

ATTACHMENT WM DR 1 Q. RK 1.7

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Solar electric (or equivalent EPS credits) required (MWh)	75,194	124,982	161,573	174,789	188,440	193,803	199,130	204,697	210,288	215,909
Solar electric (or equivalent EPS credits) planned (MWh) *	15,745	23,428	32,535	38,466	48,698	55,479	62,261	76,050	82,832	83,832
Shortfall (MWh)	59,449	101,554	129,038	136,323	139,742	138,324	136,869	128,647	127,456	132,077
"Other" (or equivalent EPS credits) required (MWh)	75,194	83,322	107,715	116,526	125,627	129,202	132,753	136,465	140,192	143,940
"Other" (or equivalent EPS credits) planned (MWh) *	35,301	75,419	100,385	125,351	133,235	172,874	193,898	233,537	254,561	264,561
Shortfall (MWh)	39,893	7,903	7,330	(8,825)	(7,608)	(43,672)	(61,145)	(97,072)	(114,369)	(110,621)

\* Includes off-grid applications and multipliers not appropriate for determining APS unmet needs.

\* Please note this assumes current funding levels. To the extent the funding levels are increased, APS shortfall would be reduced accordingly.