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AZ CORP COMMISSION
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May 16, 2007

Ernest Johnson, Esq.
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

RE: Resource Planning Workshop on Procurement Issues
Docket No. E-00000E-05-0431

Dear Mr. Johnson:

Enclosed are Tucson Electric Power Company's ("TEP") and UNS Electric's ("UNSE") initial comments on the competitive procurement issues that were identified at the April 25, 2007 Resource Planning Workshop on Competitive Procurement Issues.

TEP and UNSE remain willing to, and intend to, participate in further workshops or proceedings concerning these and other resource planning issues.

Respectfully Submitted,

Michael W. Patten

MWP:mi
Enclosures

cc: Docket Control
Barbara Keene
Bing Young

Arizona Corporation Commission
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Tucson Electric Power Company's ("TEP")
and UNS Electric's Responses
Docket No. E-00000E-05-0431
May 16, 2007

1. Whether the Commission should go through a formal Rulemaking to formalize procurement procedures.

TEP/UNSE Response: The Commission should, at most, provide guidelines to utilities relating to components of resource planning. This does not require a formal rulemaking process.

2. What types of generation, purchase power, or fuel resources should be subject to formalized procurement procedures.

TEP/UNSE Response: A Resource Planning process, such as workshops, should discuss what resources are appropriate. For example, some resources, such as traditional base-loaded coal and nuclear generation, have long lead times (5 to 10 years), and may also require construction of transmission facilities. In this instance, utilities would still be subject to traditional prudence review to ensure costs were reasonable.

3. Whether or not an Independent Evaluator should be required as part of the process, and if so, the Independent Evaluator's role in the process.

TEP/UNSE Response: If there is a process for purchasing power, an Independent Evaluator should only be part of the process to the extent the utility or an affiliate also bid in the process. Recovery of Independent Evaluator costs should be recovered through bid fees or through a Purchased Power and Fuel Adjustor mechanism. For RFPs specific to DSM and Renewables, Independent Evaluator costs should be recovered through the DSM or Renewable surcharge.

4. Any required protocols for the utility self-build or affiliate bid and build options.

TEP/UNSE Response: Utilities should have the option to self-build or have an affiliate bid in the process. It is reasonable to require affiliates to make known in advance their intent to bid, submit their bid at the same time as other parties and that an Independent Evaluator be used if an affiliate bid is offered. The utility self-build option should have to

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and UNS Electric's Responses
Docket No. E-00000E-05-0431
May 16, 2007

demonstrate that the cost of building and owning an asset is lower to the customer than purchasing the power based on a comparison to bids received over time.

5. Whether the Commission should have a direct role in the procurement process (i.e. whether the Commission should approve Draft RFPs, the timing of any required Commission proceedings, and cost recovery and prudence issues for utilities).

TEP/UNSE Response: The Commission should not have a direct role in the procurement process, such as approving draft RFPs.

6. The design, mechanics, and timing of the RFP, including evaluation criteria to be used.

TEP/UNSE Response: An RFP should be designed to obtain as much exposure from counterparties as possible and include a timeline, preferred products, and respective delivery points, similar to the original Track B process. System modeling tools should be utilized to evaluate products to determine least cost.

7. The interaction of a formalized procurement process with a utility which is presently subject to a building moratorium.

TEP/UNSE Response: If there is a formalized procurement process that addresses utility self-build and affiliate bid options, a building moratorium is inappropriate.

8. Protocols for the process of evaluating RFPs that insure integrity of the process.

TEP/UNSE Response: All counterparties should be provided a single point of contact. A teleconference should be held to for an open question and answer period and a bulletin board established on an RFP website where specific questions and answers can be posted for all bidders to see; direct questions over the phone and email should be discouraged. All emails sent and received during the RFP period should be

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Docket No. E-00000E-05-0431
May 16, 2007

filed. Once RFP's are received a separate group should be responsible for analyzing the products using system modeling tools with updated power and gas prices. Utilities should be allowed to negotiate further with counterparties that are "short-listed" in the RFP process.

9. How confidential and trade secret information provided by bidders should be handled.

TEP/UNSE Response: All information received from bidders should be kept confidential and retained in accordance with appropriate corporate record retention policies.

10. Whether and to what extent there should be bid fees, or other prequalification requirements for bidders.

TEP/UNSE Response: Bid fees are an appropriate way to recover the cost of an Independent Evaluator in traditional RFPs. DSM and Renewable RFPs should recover the cost of an Independent Evaluator through the DSM or Renewable surcharge.

TEP and UNS Electric presently utilize a pre-qualified bidders list of counterparties within the Western Electric Coordinating Council ("WECC"). In addition, TEP and UNS Electric require a counterparty to be a Western Systems Power Pool ("WSPP") member in good standing.

11. The treatment of "non-conforming" proposals.

TEP/UNSE Response: If the RFP process has been determined through a broader Resource Planning process, there should be limited consideration of non-conforming proposals. However, the process should allow utilities to retain the right to consider non-conforming proposals as well as the right to reject all bids, if necessary. If a non-conforming proposal is selected, the evaluation criteria should be transparent as to why the non-conforming proposal was more appropriate.

Tucson Electric Power Company's ("TEP")
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Docket No. E-00000E-05-0431
May 16, 2007

12. What to do about bids received outside the RFP process.

TEP/UNSE Response: If the RFP process has been determined through a broader Resource Planning process, there should be limited consideration of bids received outside the RFP process. However, the process should allow utilities to retain the right to consider bids received outside the RFP process, if necessary. In this instance, utilities would still be subject to traditional prudence review to ensure costs were reasonable. Utilities should be allowed to negotiate with potential suppliers outside a formal RFP process.

13. How to handle demand-side management and renewables proposals and the evaluation criteria for each to insure that the value of each is fairly reflected.

TEP/UNSE Response: The RFP process should be determined through a broader Resource Planning process, which determines what resources are appropriate to be subject to formalized procurement procedures. The Resource Planning process is the appropriate forum for DSM and Renewable resources to compete rather than in a side-by-side RFP. Once quantities and/or types of generation resources, DSM and Renewables have been determined through an approved Resource Plan, specific RFPs, as necessary, should be conducted for each separately. As discussed in response to Issue 2 above, some resources should be exempt from a formalized procurement process.

14. Whether the procurement process should be tailored to interact with a utility's integrated resource plan, should the Commission begin to require the filing of such plans.

TEP/UNSE Response: The procurement process should be tailored to interact with a utility's integrated resource plan.

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May 16, 2007

15. The adoption of "Codes of Conduct" and "Best Practices" procedures by the utility.

TEP/UNSE Response: Adoption of Codes of Conduct and Best Practices procedures by the utility are appropriate.

16. What waivers or exceptions to this process should be adopted?

TEP/UNSE Response: The process should allow utilities to retain the right to consider non-conforming proposals as well as the right to reject all bids, or consider bids received outside the RFP process, if necessary.

17. Other issues related to competitive procurement

TEP/UNSE Response: TEP and UNS Electric have not identified any additional issues at this time.