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Q. Name & Position?

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AZ CORP COMMISSION
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A. Mark Bonsall, Associate General Manager, Commercial & Customer Services-SRP

Q. This means you are in charge of generation resource planning at SRP?

A. Yes.

Q. Can you briefly describe this function?

A. Yes.

The generation resource planning function continually evaluates the needs of our customers and the best ways of meeting those needs. Our planners review both the demand side of our system, and the supply side, creating a portfolio of resources tailored to the demands of our customers, with some allowance for reserves. Their objective is to put together a portfolio that optimizes performance based on several criteria – criteria such as **timing, reliability issues, environmental factors, risk characteristics, cost and congruence with our mission**, among others.

Generation resource planning requires forecasting many critical variables. These include such things as load, or the amount of electricity customers will demand; load shape, or how customers go about consuming their electricity over the course of the day, season or year; and resource economics, or the costs of various types of supply and fuel sources, among others. These factors can, of course, change over the course of time, which means that both flexibility and diversity in a resource portfolio are important. That SRP has sustained a distinct price advantage to our

customers for so long is to a great degree due to a history of effective resource planning.

The advent of deregulation in the electric industry has made resource planning a more complicated effort, nationally and locally. There are new entrants in the industry, and it is less clear what their intentions and capabilities are as compared to the incumbent utilities. Investment in both new transmission and generation resources has been delayed as legislatures and regulatory bodies have wrestled with creating new industry structures. California, for instance, decided that their existing utilities should sell most of their generating resources. Arizona considered this, but eventually concluded otherwise. For SRP, the legislature as well, chose to impose a "provider of last resort" obligation, meaning SRP has to be prepared to serve all customers who consume less than 100,000 kWh a year – essentially, most all of our customers - irrespective of who they buy energy from. This is an important and unique provision, and impacts our resource plan.

While there remain new elements of uncertainty as to resource planning, the culmination of the deregulation discussions in the spring of 1998 for SRP did clarify that we remain in the generation resource part of the industry, and that we do so with unique obligations. It left us with sufficient time, albeit barely sufficient, to plan and effect resources for the future.

Q. Mr. Bonsall, what are your current expectations for serving load in the Valley?

A. Our current projection over the next five years is a load growth of about 3.7%, with the majority of that growth occurring in the East Valley. As you have heard from Jennifer Tripp, the load serving capability for the East Valley will limit out in around 2004 to 2005, something that as well can be said for the entire Valley. We are roughly at parity as of now between loads and resources. Thus, the basic outline of our resource plan is to develop incremental resources in the Valley in order to meet load, enhance reliability and relieve pressure on the transmission system, to make incremental transmission investments in order to increase import capability into the

Valley, to seek additional purchases from outside the Valley using that import capability, and longer time to seek to develop and own incremental capacity outside the load center. We believe that this plan best satisfies the criteria I mentioned earlier, and that the Santan Expansion Project is both the single most critical element thereof, and far superior to any other alternatives.

Q. Mr. Bonsall, did you do a specific study on alternatives to Santan?

A. Not per se. As I mentioned, our planning process is ongoing, and periodically we would compile comparisons of alternatives. They were all similar in nature, comparing local generation options to merchant plant proposals to "greenfield" sites. On the basis of the criteria I mentioned, we have consistently considered local generation options to be far superior to others.

Q. Mr. Bonsall, can you elaborate on these planning criteria as they apply to the Santan Expansion Project?

A. Yes. Let me go through them one by one.

First, timing.

Timing is tight. Timing is tight regionally and nationally. Arizona is not an electrical island, so it is affected by these regional and national conditions. Load growth continues. Our actual load growth over the last several years has been over 5%. In fact, in a recent article in the October 20 Tribune, the East Valley cities were noted for their phenomenal growth, with Gilbert topping the list at a huge 225% change from 1990-1999, followed by Fountain Hills and Chandler at 109% and 86.4%, respectively.

SRP, along with the Department of Economic Security, ASU, U of A and the Blue Chip forecast, expect growth to moderate somewhat, with our own forecast being at 3.7%. It does not appear that growth will evaporate. Even if the growth initiatives

pass, it is more likely than not that growth would accelerate into our service regions, not decelerate.

SRP as the distribution utility and as the "provider of last resort", has a legal, as well as ethical, obligation to take all reasonable steps to be sure that our customers have a reliable and low cost supply of electricity when it is needed. Santan is ideal from a timing perspective. SRP already owns the site. It has access to water, water disposal and natural gas. It needs no new transmission to get the energy there, for it would be there already. We are planning Santan for the summer of 2005. It is possible we could need it, or a portion thereof, for the summer of 2004. We can meet this timeframe. We don't believe other alternatives could do this. From a timing perspective, Santan is far, far better than any alternative.

Second, reliability.

Local generation is important for two reasons related to reliability. First, it provides necessary voltage support. Voltage support is essential to maintain power quality. As power travels over distances, voltage drops. A load center this size cannot exclusively depend on remote resources. We have not added local generation in a long time. The system needs additional voltage support. Santan will provide much needed local voltage support to both our 69 kV and 230 kV systems. No other option meets this essential need as effectively as new generation at Santan.

Second, since the substantial majority of outages result from outages on the transmission and distribution system, local generation will increase system reliability because of its proximity to the load. Local generation acts as a surrogate, or replacement, for transmission, providing backstop to whatever interruption occurs.

Third, environmental factors.

Transmission: Santan is unique in that it can add significant capacity to the system without building new transmission, because the supply would be at the load center already. Other alternatives would have to get it there. Other alternatives, thus, would require significant new transmission at the 500 kV and/or 230 kV levels. By necessity, this new transmission must go through existing neighborhoods and areas planned for new residential development. In his testimony, Mr. Areghini discussed a possible alternative with two 500 kV lines and three or four 230 kV lines, involving more than 600 new transmission structures. While this is only one alternative, all alternatives other than Santan would require significant amounts of new local transmission. The impact to homeowners of any of these transmission alternatives is, in our experience with our customers, greater than the impact of the facilities in Santan.

We conclude on the basis of this consideration that Santan is the preferred environmental alternative.

Fourth, risk parameters.

There are three elements of "risk" this proposal effectively addresses. First, this proposal increases assurance of adequate resources. An advantage of SRP building at Santan is that it provides assurance that the resource will be built when (as well as where) it is needed. There are many merchant plants proposed. They all have transmission challenges getting to the load center. Some are being built, some will be, others will remain proposals. Some will look to serve this market, others will look elsewhere. We maintain communications with these developers in pursuit of reasonable transactions for our customers. There is some capability here, and we continue to pursue it. However, we believe Santan will absolutely be necessary to assure sufficient resources to serve the load in the Valley, in any case.

Secondly, the addition of local, SRP owned, gas fired resources provides an attractive and desirable addition to the portfolio of resources SRP uses to meet customer loads. Natural gas fired resources are a small portion of SRP's current portfolio. Adding additional gas-fired resources will help balance SRP's portfolio for meeting customer needs.

Lastly, both the Kyrene and Santan projects provide our customers with a critically important layer of "price risk management". During tight market conditions, market prices become decoupled from underlying costs as a result of supply shortages. This is particularly the case during periods of transmission congestion or outage. Prices rise to whatever the market will bear. Such is the condition today, and it appears it is going to stay that way for some time. It is this condition that has led to enormous consumer unrest in California. The Santan resource is strongly preferred because it will help insulate SRP customers from these kinds of price movements.

Fifth, cost.

Clearly Santan is a preferred option on cost grounds. It uses an existing site, some existing common facilities, does not require incremental transmission, and less investment in gas supply than alternatives. Being positioned where it is, as well, has benefits associated with voltage support and other reliability factors. Being the type of resource it is – highly efficient, flexible and environmentally friendly combined cycle natural gas technology – it can respond to changes in load as well as produce energy effectively. All in all, Santan is a cost advantaged proposal.

This leads me to my last criteria, congruence to mission.

SRP is a "public power" entity and a political subdivision of the State of Arizona. As such, we do not have equity investors. We don't have stock options, because we don't have stock. There is neither a door through which institutional equity investors get enriched, or a cushion of outside investment to absorb losses. Cost savings

benefit our customers, and additional cost burdens our customers. Even our energy remarketing arm, New West Energy, is wholly owned by SRP, and any benefits derived therefrom come right back to the parent, SRP, and thus to its customers.

SRP exists, in effect, only for the purpose of serving its customers, as to power, with low cost and reliable energy. We are cost minimizers, not profit maximizers. We have no desire to charge, for instance, what the market will bear, because the beneficiaries of our operations are our customers themselves. This plant is being proposed, in fact, only to serve our native load customers first and foremost – Arizona consumers. It is beneficial to these customers, and beneficial to this market, to have SRP fulfill this mission. But we must have the tools to do so. While we do not expect absolutely all of our 730,000 customers to concur, we believe that on the basis of timing, reliability, environmental considerations, risk, including price risk management, and cost, this Santan proposal is clearly to the much greater good, and is the preferred course of action.

Q. Do you have any further comments?

A. No.