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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION
STATE OF ARIZONA

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.

Docket No. E-01933A-98-0471

RUCO's Response to Request for Order to Show Cause

Pursuant to Chief Administrative Law Judge Farmer's order from the bench on March 20, 2002, RUCO responds to Panda Gila River, L.P.'s ("Panda") Request for Order to Show Cause ("Motion"). Panda proposes to stay this docket's procedural schedule so that APS might issue and evaluate responses to a Request for Proposal ("RFP") to supply at least half of APS's projected Standard Offer service requirements.

1 **Discussion**

2 RUCO, in testimony filed in this proceeding, agrees that current and foreseeable
3 conditions do not support requiring APS to seek competitive bids for 50 percent of its Standard
4 Offer requirements. RUCO's testimony concludes that the fuel mix of APS's current
5 generation will provide lower and more stable rates than competitive bidding and that
6 independent power producers typically will have higher costs of capital requiring bids above
7 the price under the PPA.

8 The transition to competitive wholesale markets is potentially a very lengthy process.
9 Requiring APS to put its Standard Offer power requirements out to bid immediately is unwise,
10 given the uncertain outcome of that transition. The transition will have to deal with the following
11 conditions, among many others:

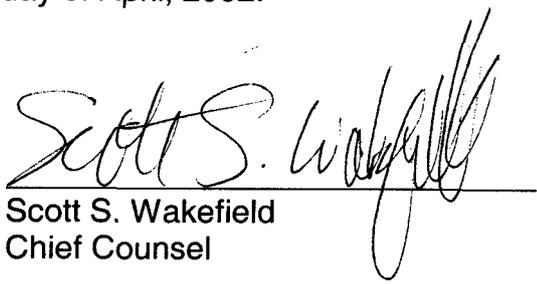
- 12 1. How the Enron bankruptcy will affect the IPP industry's cost of capital and overall
13 effectiveness in serving residential customers.
- 14 2. How the western region will address the Federal Energy Regulatory Commission's
15 ("FERC") controversial cost/benefit analysis of regional transmission organizations
16 ("RTO").
- 17 3. Whether or when the FERC will attempt to establish some type of power pool in a
18 western United States RTO strategy.
- 19 4. The unforeseen difficulties that might arise in any Arizona RFP, given that the only
20 politically acceptable process will require "least-cost" selection.

21 RUCO has recommended that the Commission conduct a least-cost RFP selection for
22 incremental demand. RUCO's recommendation gives the Commission the opportunity to
23 model and look at the results of the bidding for incremental load demand. This process will be
24 difficult enough without taking on the unforeseen difficulties and attendant risks inherent in

1 Panda's recommendation. Further, much remains to be learned about the direction and costs
2 of the FERC initiatives for "open access" to the transmission grid.

3 Rather than granting Panda's Motion, the Commission should proceed to consider
4 APS's application, and proceed with the generic docket on electric restructuring. Those
5 dockets will give the Commission a finer sense of how much time and uncertainty will be
6 involved in the transition to a competitive wholesale market. The Commission will have a better
7 idea when large-scale competitive bidding might become appropriate for Standard Offer
8 customers.

9 RESPECTFULLY SUBMITTED this 5th day of April, 2002.

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11 
12 Scott S. Wakefield
13 Chief Counsel

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15 AN ORIGINAL AND TEN COPIES
16 of the foregoing filed this 5th day
of April, 2002 with:

17 Docket Control
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20 COPIES of the foregoing hand delivered
this 5th day of April, 2002 to:

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9 All parties of record on the service list
for Consolidated Docket Nos.:

10 E-00000A-02-0051
11 E-01345A-01-0822
12 E-00000A-01-0630
13 E-01933A-02-0069
14 E-01933A-98-0471

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13 By Cheryl Fraulob
Cheryl Fraulob

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