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Arizona Corporation Commission

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7 IN THE MATTER OF THE GENERIC
8 PROCEEDINGS CONCERNING ELECTRIC
9 RESTRUCTURING

DOCKET NO. E-00000A-02-0051

9 IN THE MATTER OF ARIZONA PUBLIC
10 SERVICE COMPANY'S REQUEST FOR VARIANCE
11 OF CERTAIN REQUIREMENTS OF A.A.C. 4-14-2-
12 1606

DOCKET NO. E-01345A-01-0822

12 IN THE MATTER OF THE GENERIC PROCEEDING
13 CONCERNING THE ARIZONA INDEPENDENT
14 SCHEDULING ADMINISTRATOR

~~DOCKET NO. E-01345A-01-0822~~

14 IN THE MATTER OF TUCSON ELECTRIC POWER
15 COMPANY'S APPLICATION FOR A VARIANCE
16 OF CERTAIN ELECTRIC POWER COMPETITION
17 RULES COMPLIANCE DATES

DOCKET NO. E-01933A-98-0471

17 ISSUES IN THE MATTER OF TUCSON ELECTRIC
18 POWER COMPANY'S APPLICATION FOR A
19 VARIANCE OF CERTAIN ELECTRIC
20 COMPETITION RULES COMPLIANCE DATES.

DOCKET NO. E-01933A-02-0069

20 **COMMENTS OF ARIZONA PUBLIC SERVICE COMPANY**
21 **IN RESPONSE TO STAFF REQUEST FOR PROCEDURAL ORDER**

22 Arizona Public Service Company ("APS" or "Company") hereby submits its
23 Comments in response to Arizona Corporation Commission ("Commission") Utilities
24 Division Staff's ("Staff") Request for Procedural Order dated May 13, 2002 ("Staff
25 Request"). Although Staff's proposed solicitation of comments on four specific issues has
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1 not, as of this date, been adopted in a formal Procedural Order, APS will to provide its
2 limited input on such issues in the time suggested by the Staff Request.

3 4 STAFF'S ISSUES

5 *Issue No. 1 – What should be the criteria for selecting the “independent*
6 *evaluator?”*

7 Without fully understanding the necessity for or role of such an “independent
8 evaluator,” it is difficult to propose specific criteria. However, in general APS would
9 stress the adjective “independent.” Staff’s consultant should be, to the greatest extent
10 possible, 100% free from actual or apparent conflicts of interest. Clearly consultants that
11 are working or have very recently worked for merchant plant interests in developing or
12 participating in competitive procurement schemes should be avoided absent special
13 circumstances. The same would be true if the proposed consultant had ties to the
14 generation affiliate of a UDC. Also, the consultant should have a strong background in
15 bid theory and, if possible, relevant practical experience on behalf of either a regulatory
16 agency or a UDC buyer.

17
18 *Issue No. 2 – What is the role of the “Independent Evaluator.”*

19 The Staff Request appears to have already established this role as one of a
20 consultant to Staff on competitive procurement issues rather acting as some manner of
21 independent arbitrator. However, Staff itself is a party to this contested proceeding, and
22 its consultants, although perhaps independent from either the buyer or the sellers in a
23 competitive procurement process, are not completely “independent” of the litigation in
24 any traditional sense of the word. With such qualification, APS does not object to the
25 Staff’s proposed retention of an outside expert on competitive power solicitation.

26

1 *Issue No. 3 – What are the payment arrangements for the “Independent*
2 *Evaluator?”*

3 APS would presume this consultant would be paid in the same manner as other
4 Staff consultants, i.e., from funds appropriated by the Legislature for such purposes. The
5 Company is unaware of any circumstances or legal authority warranting a different
6 conclusion. Moreover, any other funding mechanism could create an appearance of
7 conflict of interest that would likely undermine whatever degree of true independence
8 could be ascribed to the proposed consultant’s recommendations and advice.

9
10 *Issue No. 4 – What are the various types of competitive solicitations that should be*
11 *considered by the Commission and what are their attributes?*

12 APS continues to believe that the proposed Purchase Power Agreement (“PPA”)
13 with Pinnacle West Marketing & Trading, as modified in its rebuttal testimony in Docket
14 No. E-01345A-01-0822, represents the preferred mode of procurement for Standard Offer
15 requirements. But that PPA does require, both expressly and by implication, very
16 significant amounts of power from the competitive wholesale market. Hence, competitive
17 solicitation is a relevant topic with or without the proposed PPA.

18 In general terms, there are numerous different methods of conducting “competitive
19 solicitations” and several potential variations on each of these methods. A generic
20 discussion of some of these types of competitive solicitation is provided below:

21 **Simultaneous Multiple Round (SMR) Auction.** In this process, bids are
22 submitted in successive bidding rounds that each have pre-defined beginning and ending
23 times. Bids are simultaneously taken on available products with a price and quantity pair
24 specified for each product. At the end of each round, the auctioneer determines the
25 current winning bids for each product by ranking bids received in ascending order of price
26 until the desired quantity is met for each product. The bid price at which this occurs is

1 called the "current price" and "current winning bids" are those at or below the current
2 price. Then, a maximum acceptable bid price is determined for each product, which will
3 be some increment below the current price, and new bids in the next round must be at or
4 below the maximum acceptable bid price. The auction ends after a round in which no
5 new bids are submitted on any product, at which time the current winning bids are
6 provisionally determined to be the winning bids, pending execution of contracts.

7 The generic advantages of an SMR auction method include an efficient price
8 discovery mechanism that reduces the effect of the "winner's curse" (i.e., overly
9 conservative bidding to reduce the risk of submitting a below-market bid), and thus often
10 results in efficient auction outcomes. An SMR auction method could also allow bidders
11 to form preferred packages of products. The process is transparent and offers flexibility
12 (e.g., controlling the pace of the auction).

13 **Descending Clock Auction.** A descending clock auction is a simpler version of an
14 SMR auction. At the start of each round, the auctioneer announces the current price for
15 each product, and each bidder submits a quantity of the product that it is willing to supply
16 for that price. At the end of each round, the current price is reduced, and those bidders
17 remaining in the auction can bid at the reduced current price in the next round of the
18 auction. The auction ends when no new bids are received and the quantity of each
19 product matches the purchaser's requirements. The advantages of descending clock
20 auctions are similar to SMR auctions, but descending clock auctions tend to be simpler
21 and quicker.

22 **RFPs and Sealed-Bid Auctions.** Competitive procurement processes involving
23 requests for proposals ("RFP") often are implemented essentially as a two-step sealed-bid
24 "auction." Winning bidders in the first step earn the right to enter into multi-lateral
25 negotiations with the purchaser. This auction process may have some advantages if the
26 bidding competition is expected to be weak and the products being solicited are not

1 related in value (i.e., they are neither product substitutes or complements). RFPs and
2 sealed-bid auctions are, however, less transparent than the various forms of auctions
3 discussed above.

4 **Anglo-Dutch Hybrid Auction.** This process is a blend of the SMR-type of
5 auction and sealed-bid format. The first phase of the auction is an SMR or clock auction
6 that proceeds until only a few bidders remain. The second phase involves a one-shot
7 sealed-bid to determine the final winning bidders. To some extent, this hybrid auction
8 process blends the advantages and disadvantages of the other auction processes.

9 Although the auction/RFP processes described above capture, in broad terms, the
10 range of potential bidding mechanisms, it is difficult to comment on a specific mechanism
11 until more is known about the overall process. For example, the products that are
12 ultimately involved (i.e., vertical slice versus horizontal block, the term of contract, etc.)
13 could affect which auction/RFP process is most likely to yield the lowest competitively-
14 bid price to APS and its customers for an energy product or products of acceptable
15 reliability. Accordingly, APS will be able to better comment in detail on the “fairness,
16 efficiency, and transparency” of these respective processes, or their specific benefits and
17 drawbacks, or what potential “benefits” each process will bring to competition when more
18 is known about the scope of this “Track B” process. Additionally, the non-competitively
19 bid 50% of Standard Offer power may affect the selection of an appropriate competitive
20 bidding process.

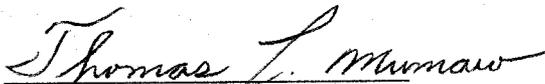
22 CONCLUSION

23 APS has attempted to be responsive to the Staff Request in the limited time
24 available. Once further details are developed on the issues that APS identified in its May
25 13, 2002 Statement of Issues, which may well be the result of Staff’s proposed May 24,
26 2002 meeting on “Track B,” APS reserves the right to provide additional responses to

1 Staff's four inquiries and to amend the general discussion of competitive procurement
2 options given above.

3 RESPECTFULLY SUBMITTED this 20th day of May 2002.

4 SNELL & WILMER L.L.P.

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6 
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8 Jeffrey B. Guldner
9 Faraz Sanei

10 Attorneys for Arizona Public Service Company

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14 Original and 18 copies of the foregoing
15 filed this 20th day of May, 2002, with:

16 Docket Control
17 Arizona Corporation Commission
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20 Copies of the foregoing mailed, faxed or
21 transmitted electronically this 20th day
22 of May, 2002, to:

23 All parties of record

24 
25 Sharon Madden

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