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WILLIAM A. MUNDELL
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Arizona Corporation Commission
DOCKETED
JUL -1 2002

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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 Reply Comments on the Staff List of Track B Issues

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing its Reply Comments on the Staff List of Track B Issues.

RESPECTFULLY SUBMITTED this 1st day of July, 2002.

Lindy Funkhouser
Lindy Funkhouser
Director

1 **Introduction:**

2 As requested in the Commission's First Procedural Order on Track B Issues dated June
3 20, 2002, RUCO is submitting its Reply Comments to the Staff's May 31, 2002 list of Track B
4 issues. In addition to the detailed comments enumerated below, RUCO would also like to refer
5 the Commission to the direct and rebuttal testimony of Dr. Richard A. Rosen in both this
6 generic proceeding, as well as in the APS Variance Docket No. E01345A-01-0822, which
7 address many of the same issues.

8 1. What types of competitive solicitation process(es) should be utilized?

9 a. When should the competitive solicitation process begin?

10 **The competitive solicitation process should not start until the ACC**
11 **has decided the relevant Track A and Track B issues. In the**
12 **meantime, the utilities should take prudent action to acquire short-**
13 **term power resources at least through the summer of 2003 if needed**
14 **to supplement their existing resources.**

13 b. How will the competitive solicitations be disseminated?

14 **We have no response at this time.**

15 c. What percentage of a utility's power requirements should be obtained through
16 the competitive solicitation process?

17 **This percentage can not be determined until the Staff proposed**
18 **market power study is completed.**

18 d. Should the percentage of a utility's power requirement obtained through the
19 competitive solicitation process be established at one time or should it be
20 phased-in?

20 **The percentage should probably be phased in, but a definitive**
21 **answer here necessarily will await the results of the market power**
22 **study.**

22 e. How will the competitive solicitation percentage be calculated?

23 **This methodology can not be developed until the market power**
24 **study is performed.**

1 f. Will a utility be subject to penalties if it does not meet the competitive
2 solicitation percentage?

3 **The ACC should determine if the utility's actions are prudent. If they
4 are not prudent, then some penalty would be appropriate.**

5 g. If a utility exceeds the annual competitive solicitation percentage, will the
6 excess carry over to next year?

7 **This is too detailed a question to answer at this time.**

8 h. What requirements, if any, should be imposed on the purchase of power
9 that is obtained outside of the competitive solicitation process?

10 **The requirements should be that the amount of power purchased is
11 within some pre-set limits, and is prudent.**

12 i. What are the time frames for initiating and completing the steps of the
13 competitive solicitation process?

14 **The schedule for this process can not be determined yet until after
15 most Track A issues are decided by the ACC.**

16 j. Who will determine the components of each utility's portfolio of
17 competitively solicited purchases?

18 **The utility or third party evaluator will make the proposed selection,
19 and the ACC should approve the selection.**

20 k. What are the criteria and process for determining which offer(s) in
21 response to competitive solicitations should be selected by a utility?

22 **As RUCO has described before, a least cost integrated resource
23 planning process should be established first in order to evaluate
24 bids.**

l. What mechanism will be in place for dispute resolutions related to
competitive solicitations?

This is too detailed a question to answer at this time.

m. What protections will be in place to maintain the confidentiality of utility
and participant information?

This is too detailed a question to answer at this time.

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n. In the event that a supplier of power defaults on the obligation to provide the power, how will replacement energy be obtained?

This is too detailed a question to answer at this time.

o. How should the competitive solicitation process factor alternative delivery and transmission points?

This is too detailed a question to answer at this time.

p. Will the competitive solicitation process utilize the "Western Systems Power Pool umbrella agreement" or similar agreements?

This is too detailed a question to answer at this time.

q. What are the appropriate contract duration periods?

The least cost planning process should solicit a wide range of short, medium, and long-term bids.

r. What are the appropriate delivery dates?

This is too detailed a question to answer at this time.

s. Will demand-side management options be allowed to compete?

Yes, demand-side investment options should be allowed to compete. In addition, required cost-effective DSM programs should be developed.

t. Will the costs for local transmission upgrades for proposed projects be directly assigned to each bid or included as general transmission costs?

Yes, for planning purposes all the costs for local transmission upgrades for proposed generation projects should be included in the cost of each bid for that generation project. A retail rate case should be used for the purpose of deciding the actual ratemaking treatment of these transmission investments.

u. Will there be a price ceiling for bids?

Yes. There should be a price ceiling for bids based on what price would be just and reasonable under federal and state law.

1 v. Will there be a maximum limit on the number of MW bid by an entity?

2 **Yes, there should be a maximum limit developed on the number of**
3 **MW that each generation owner can bid based on the results of the**
4 **proposed market power study.**

5 w. How will the competitive solicitation process be evaluated for future
6 improvements?

7 **This is too detailed a question to answer at this time.**

8 x. Will the utilization of this process(es) develop an optimal portfolio resulting
9 in the best price?

10 **Yes, if a least cost planning/IRP process is used, then the results will**
11 **be "optimal" for Arizona, and will have the best price given the**
12 **nature of the components.**

13 2. What types of products will be subject to competitive solicitation?

14 a. Will the competitive solicitation process include financial and physical
15 options?

16 **The solicitation process should probably only include physical**
17 **options, though RUCO is willing to discuss this issue further with the**
18 **other parties.**

19 b. Will the competitive solicitation percentage include standard block
20 purchases through a broker or power pool?

21 **It could include block purchases if the physical source of the power**
22 **is clearly specified.**

23 c. How will power produced by "must-run" generators be considered in the
24 competitive solicitation process?

Through the same least cost planning framework as other types of
components are evaluated.

d. Should the competitive solicitation percentage consist of block energy
purchases, purchases shaped like the utility's load, or a combination
thereof?

The package of components could include any type of components,
though it will probably prove to be less costly for the UDC to shape
the resources to the load.

1 e. What are the characteristics of the power to be bid (peak/off-peak,
2 energy/capacity, etc.)?

3 **Again, all types of resource options could be included.**

4 3. What transmission constraints have been identified or anticipated by the utilities that will
5 affect delivery of competitively procured power?

6 a. To what extent would transmission constraints affect delivery of
7 competitively procured power?

8 **This would need to be determined in the proposed market power
9 study.**

10 b. How and when could the constraints be resolved?

11 **This would need to be determined in the proposed market power
12 study.**

13 c. How will constraints be reflected in bid evaluation?

14 **This issue requires substantial additional analysis.**

15 4. What issues will affect the participants to the competitive solicitation process?

16 a. How will potential suppliers become qualified participants in the
17 competitive solicitation process?

18 **This is too detailed a question to answer at this time.**

19 b. Will potential suppliers be required to obtain authorization from the
20 Commission?

21 **This is too detailed a question to answer at this time.**

22 c. Will potential suppliers be required to submit proposal fees or bonds?

23 **This is too detailed a question to answer at this time.**

24 d. How will utility affiliates be treated in the competitive solicitation process?

This depends on the outcome of the proposed market power study.

1 e. How will utility-owned generating units be treated in the competitive
2 solicitation process?

3 **This should depend on the outcome of the market power study, as**
4 **well as the prices of the bids. However, RUCO believes that it is**
5 **probably best to keep all existing utility plants in the retail rate base**
6 **and not include them in a competitive solicitation.**

7 f. Will the Commission keep a list of qualified suppliers?

8 **This is too detailed a question to answer at this time.**

9 5. How will the cost of procured power be recovered by the utility?

10 a. What will be the scope, terms, and effect of a utility's purchase power
11 adjustment clause?

12 **This is too detailed a question to answer at this time.**

13 6. If a competitive bid process is adopted, will least-cost planning be used for the
14 evaluation of all competitive bids?

15 a. If not, how will the bids be evaluated?

16 **Yes, as stated above.**

17 b. Will a least-cost planning framework be used to evaluate the benefits of
18 more transmission given the location of existing and planned generating
19 units?

20 **No, the least cost planning process should include the development**
21 **of preferred sites for new transmission lines simultaneously with**
22 **sites for new generation units on a least cost basis. Neither type of**
23 **site should be assumed initially.**

24 7. How will the potential for the exercise of market power be assessed for competitive
bids, in order to determine whether or not the bids are reasonably competitive?

a. If there are not enough competitive bids, will there be a re-bid?

The potential for the exercise of market power should be assessed
for all bids by comparing the price of the bids to the cost to the
bidder of providing the product bid. For IPP's an appropriate risk-
adjusted ROE (return on equity) should be assumed for that industry.
Thus, certain underlying cost data for each project bid will need to
be included with each bid on a confidential basis. Yes, if there are

1 **not enough competitive bids, there should be a re-bid for the portion**
2 **of the resources not yet purchased.**

- 3 b. Will the utilities be obligated to calculate a price baseline derived from a
4 least-cost plan consisting of self-built generation at regulated prices in
5 order to determine if the "competitive" bids are likely to save ratepayers
6 money?

7 **Yes, the utilities should be required to calculate a cost-of-service**
8 **price baseline for each product bid, and a total cost of service on a**
9 **least cost basis for all new resources required. The latter price**
10 **baseline will reflect the economies of scale and scope of the utilities**
11 **providing all new resources to their Standard Offer customers.**

12 AN ORIGINAL AND EIGHTEEN COPIES
13 of the foregoing filed this 1st day
14 of July, 2002 with:

15 Docket Control
16 Arizona Corporation Commission
17 1200 West Washington
18 Phoenix, Arizona 85007

19 COPIES of the foregoing hand delivered
20 this 1st day of July, 2002 to:

21 Lyn Farmer
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6 All parties of record on the service list
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E-01345A-01-0822
8 E-00000A-01-0630
E-01933A-02-0069
9 E-01933A-98-0471

10 By Linda Reeves
11 Linda Reeves

12 E:\Electric\Electric Restructuring Issues (02-0051)\reply comments-track B.doc

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