

ORIGINAL



0000125539

ARIZONA PUBLIC SERVICE COMPANY

RECEIVED

2011 MAY 31 P 3:51

Arizona Corporation Commission

DOCKETED

MAY 31 2011

AZ CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY	
-------------	--

DOCKET NO. E-01345A-10-0474

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

LAWRENCE V. ROBERTSON, JR.  
ATTORNEY AT LAW  
P.O. Box 1448  
Tubac, Arizona 85646  
(520) 398-0411

DIRECT TESTIMONY OF:  
GREG PATTERSON

ON BEHALF OF:

THE ARIZONA COMPETITIVE POWER ALLIANCE

MAY 31, 2011

**PREPARED DIRECT TESTIMONY  
OF GREG PATTERSON**

**BACKGROUND INFORMATION ON**

**WITNESS AND THE ALLIANCE**

**Q. 1 Please state your name and your business address.**

A. 1 I am Greg Patterson. My business address is 916 West Adams Suite 3, Phoenix AZ  
85007

**Q. 2 By whom are you employed, and in what capacity?**

A. 2 I am employed as the Director of the Arizona Competitive Power Alliance (Alliance). I  
have held that position since 2001.

**Q. 4 Please summarize your educational background and business experience prior to  
joining the Alliance in 2001, with particular emphasis on those aspects of your  
career which you believe may be relevant to the testimony you will be providing at  
this time.**

A. 4 I graduated from the University of Arizona with a degree in Accounting in 1985. I  
practiced and taught public accounting for five years and became a CPA in 1990. That  
same year I was elected to the Arizona House of Representatives and was re-elected in  
1992. I served all four years on the Appropriations Committee and I served a session as  
Chairman of the Government Operations Committee and a session as Chairman of the  
Banking and Insurance Committee. In 1994, I ran for the Arizona Corporation  
Commission and was defeated in the primary election. In April of 1995, Governor  
Symington appointed me as Director of the Residential Utility Consumer Office. I held  
that position until the fall of 1999 when I accepted a position at the state Senate and was  
promoted to Chief of Staff. In 2001, I was hired as Director of the Alliance and I  
continue in that position. In 2006, I was accepted to the Sandra Day O'Connor college of

1 Law at Arizona State University. I graduated in 2008, passed the February 2009 Bar and  
2 was admitted to the Bar in August of 2009.  
3  
4

5 **Q. 5 In your tenure both as RUCO Director and as Director of the Alliance, have you**  
6 **participated in proceedings before the Commission?**

7 A. 5 Yes. As RUCO Director, I supervised over 100 cases that RUCO conducted before the  
8 Commission. Several of those cases are relevant to this case. For example, I participated  
9 in the settlement negotiations, and later signed, the Arizona Public Service Company  
10 1996 rate case Settlement Agreement. I also negotiated and signed the 1999 APS rate  
11 Settlement Agreement on behalf of RUCO, and I negotiated and signed the Retail  
12 Competition Settlements upon behalf of RUCO in the APS, Tucson Electric Power and  
13 Salt River Project cases

14 As Director of the Alliance, I have been involved in numerous proceedings before  
15 the Commission. Several of those proceedings related directly to the desire and ability of  
16 Alliance members to compete for current and future opportunities to provide capacity  
17 and energy at wholesale to Arizona Public Service Company ("APS") incident to the  
18 conduct of its operations as an electric public service corporation. Other proceedings  
19 involved issues bearing directly upon APS' financial integrity and creditworthiness, and  
20 thus its ability to viably participate as a purchaser in the competitive wholesale electric  
21 market in the State of Arizona.

22 Included among those proceedings were the original 2001 Variance request and  
23 the resulting Track "A" proceeding as well as the Track "B" proceeding. As Alliance  
24 Director, I also participated or followed the APS \$500 million financing proceeding,  
25 APS' acquisition of the Sundance Generating Station assets, APS' 2003 rate case, the  
26 2005 Power Supply Adjuster/Surcharge proceeding and APS' request for an emergency  
27 interim rate increase.  
28

1                    Additionally, on behalf of the Alliance, I negotiated, signed and testified in favor  
2 of the Settlement of the APS 2005 rate case. The 2005 Settlement contained the Self  
3 Build Moratorium (“Moratorium”) and I participated in the follow-up proceedings that  
4 implemented the Moratorium i.e. the APS Yuma RFP proceeding, the Best Practices  
5 workshops and the Rule Making proceedings. Additionally, I have participated in the  
6 2001, 2003, 2005, 2007, 2009 and 2011 Biennial Transmission Assessments. Finally, I  
7 participated in the Integrated Resource Planning meetings hosted by APS in the first 6  
8 months of 2008 and the first six months of 2010.  
9

10 **Q. 6 Is there a connection or a nexus between the Alliance’s interest in those previous**  
11 **proceedings and the Alliance’s interest in this proceeding?**

12 A. 6 Yes.

13 **Q. 7 What is the nature of that connection or nexus?**

14 A. 7 In connection with its active participation in several of the proceedings involving APS  
15 which I have just described, the Alliance has supported the creation of resource  
16 acquisition procedures and procurement practices designed to ensure that Arizona’s load-  
17 serving electric utilities acquire resources through a transparent and market-based process  
18 which (i) facilitates the Commission’s previously declared policy objective of promoting  
19 and maintaining a viable competitive wholesale electric market, and (ii) provides  
20 interested parties with an opportunity to offer proposals and suggestions on what  
21 constitutes an appropriate mix of generation resource alternatives to meet Arizona’s  
22 current and future needs for electricity.  
23  
24

25                    APS’ November 22, 2010 Application requesting Commission authorization for  
26 APS to purchase Southern California Edison’s (“SCE”) portion of Four Corners  
27 Generating Units 4 and 5 involves a power resource proposed by APS to meet a  
28 perceived need for its system. As such, APS’ suggestion represents one (1) of several

1 alternatives that might actually be available to the Company. However, it would be  
2 premature to reach a conclusion on the merits of APS' proposal without first determining  
3 through a transparent and market-based procurement process what other alternatives  
4 might exist, which process could consider APS' proposal as well as alternatives  
5 submitted by RFP participants. Such alternatives conceivably could include (a) the  
6 purchase of one of several existing natural-gas fired combined-cycle generating plants (or  
7 portions thereof) in Arizona developed by merchant generator/IPP firms and (b) a  
8 purchased power arrangement from either an existing generating resource or a new  
9 generating resource.

10  
11 At present, all the Commission has before it is (i) APS' proposed acquisition of  
12 SCE's ownership interest in Units 4 and 5 of the Four Corners' Generating Station, and  
13 (ii) APS' representation that

14 "APS has looked at what exists in the competitive wholesale market, but  
15 none of its offerings reasonably compare to the transaction with SCE."  
16 [APS Application at page 25, lines 11-12]

17 In that regard, when asked by SWPG/Bowie in a May 10, 2011 data request to "describe  
18 in detail what specific inquiries and investigations APS undertook which support" the  
19 above-quoted statement, APS responded on May 19, 2011 as follows:

20 "APS has maintained an awareness of market conditions in the  
21 competitive wholesale markets through a number of different sources.  
22 APS has participated in solicitations with merchant gas generators in the  
23 recent past with the intent of replacing gas generation that will be lost  
24 when long-term contracts for gas generation expire. APS was not  
25 successful in acquiring any gas generation in these solicitations. The data  
26 generated from those solicitations formed the basis for the estimated  
27 \$750/kW combined cycle capital cost assumed in the cost analysis  
28 presented in the application. See chart on page 10 of the testimony of  
Patrick Dinkel for a graphic demonstration of why those costs do not  
reasonably compare to that of the proposed transaction." [See APS  
Response to SWPG/Bowie Data Request 1.9, attached hereto as Appendix  
"A."]

With all due respect to APS, this response raises more questions than it answers.  
For example, how recent was the "recent past" to which APS refers; and, how reflective

1 would that recent past be of current competitive market conditions, and current and  
2 projected natural gas prices? What were the expiration date(s) of the long-term contracts  
3 for gas generation that APS was then seeking to replace vis-à-vis the availability date for  
4 the coal generating capacity APS now proposes to acquire from SCE? What was the  
5 MW amount of gas generation capacity APS was seeking to replace through such  
6 “solicitations” in relation to the MW coal generation capacity APS now proposes to  
7 acquire from SCE? Is it reasonable to assume that the “estimated \$750/kw combined  
8 cycle capital cost “assumption” APS relies upon from previous solicitations accurately  
9 and fully reflects what the cost per kw would be based upon competitive wholesale  
10 market responses to an RFP conducted in current market conditions?  
11

12  
13 **Q. 8 In essence, is it the position of the Alliance that APS has not as yet presented any**  
14 **probative evidence or information as to what alternative(s) the wholesale**  
15 **competitive market could provide in response to an RFP from APS specifically**  
16 **requesting proposals for generation capacity equivalent (or approximately**  
17 **equivalent) to that generation capacity which APS is proposing to acquire by**  
18 **purchasing SCE’s ownership interest in Four Corners Units 4 and 5?**

19 **A. 8 Yes, based on the information contained in the prepared Direct Testimony and Exhibits**  
20 **filed by APS in support of its November 22, 2010 Application, and its response(s) to**  
21 **SWPG/Bowie’s First Set of Data Requests to APS. Succinctly stated, APS appears to**  
22 **have constructed a composite “strawman,” based upon an aggregation of previous (and**  
23 **not necessarily pertinent) solicitation responses, against which to test the reasonableness**  
24 **of its proposed acquisition of SCE’s ownership interest in Four Corners Units 4 and 5.**

25  
26 **Q. 9 Can the reasonableness of APS’ proposal be adequately tested in this proceeding**  
27 **through the testimony of other parties’ witnesses, and the cross-examination of**  
28 **APS’ witnesses by other parties?**

1 A. 9 No, as a practical matter, and certainly not in terms of creating that transparent and  
2 market-based procurement process desired by the Commission, which (i) facilitates the  
3 Commission's previously declared policy objective of promoting and maintaining a  
4 viable competitive wholesale electric market, and (ii) provides interested parties with an  
5 opportunity to offer proposals and suggestions as to what constitutes an appropriate  
6 generation resource mix.

7  
8 **Q. 10 Why isn't it possible to "mimic" such a process in this proceeding?**

9 A. 10 Because, in order to create a credible process, you would need to include all participants  
10 from the competitive wholesale electric market who would have responded to an RFP by  
11 APS requesting resource generation alternatives to that generation resource target APS is  
12 endeavoring to meet through its proposed acquisition of SCE's ownership interest in Four  
13 Corners Units 4 and 5. APS' November 22, 2010 Application was not in the nature of  
14 such an RFP; and, as of this juncture, no one (including APS or the Commission) knows  
15 the number or nature of responses APS might have received to such an RFP. Moreover,  
16 there is no basis for suggesting or concluding that all prospective respondents to such an  
17 RFP have intervened in this proceeding. In fact, a review of the service list indicates just  
18 the opposite, which is not surprising, given that the tone of APS' November 22, 2010  
19 Application is in the nature of a "fait accompli."

20  
21 **Q. 11 APS has included several charts and related cost data within its Application and**  
22 **supporting testimony and exhibits. Does that provide sufficient information in and**  
23 **of itself to support a decision by the Commission as to APS' proposed acquisition of**  
24 **SCE's interest in Units 4 and 5?**

25 A. 11 No, not if the Commission's decision is to be a well-informed decision. In essence, APS  
26 is asking the Commission to accept APS' composite analyses as a "proxy" for an RFP  
27 that APS never issued for the specific generation resource it is now requesting  
28 authorization to acquire. It is the position of the Alliance that both (i) the Moratorium

LAWRENCE V. ROBERTSON, JR.  
ATTORNEY AT LAW  
P.O. Box 1448  
Tubac, Arizona 85646  
(520) 398-0411

1 agreed to by APS, as adopted by the Commission in Decision No. 69400, and (ii) the  
2 Best Practices for Procurement, as adopted by the Commission in Decision No. 70032,  
3 require more of a showing by APS than the “proxy” for a generation resource-specific  
4 RFP that APS has presented in this proceeding.

5 In that regard, the Alliance was an active participant in the settlement negotiations  
6 in APS’ 2005 rate case, which resulted in the Moratorium; and, it also actively  
7 participated in the several Commission proceedings which led up to the Commission’s  
8 adoption of the Best Practices for Procurement. Thus, I believe the Alliance has a good  
9 understanding as to what the Commission had in mind as to the attributes of a meaningful  
10 RFP within the context of those Commission decisions; and, APS’ attempted “proxy”  
11 RFP in this proceeding simply does not measure up to the Commission’s prescribed  
12 standards.

13  
14 **THE ALLIANCE’S SUGGESTED PROCESS FOR**  
15 **ADDRESSING APS’ ACQUISITION PROPOSAL**

16 **Q. 12 Did SWPG/Bowie inquire of APS in their data requests as to what APS would do if**  
17 **APS were to assume that Units 4 and 5 at Four Corners were going to be shut down**  
18 **in 2016, for whatever reason?**

19 A. 12 Yes. Data Request SWPG 1.5 in SWPG/Bowie’s First Set of Data Requests to APS  
20 contained a series of questions to APS based upon that assumption. A copy of that data  
21 request and APS’ responses is attached to my prepared Direct Testimony as Appendix  
22 “B.” There are several aspects of APS responses which are quite interesting.

23  
24 **Q. 13 Please be more specific.**

25 A. 13 First, APS indicates a timeline for replacement capacity under this threshold assumption  
26 which is achievable by 2016, with (i) Planning during 2011, (ii) Permitting and  
27 Procurement during 2012-2013, and (iii) Construction during 2013-2016, assuming new  
28 generation units are to be the means of resource replacement. Second, although APS

1 refers to various types of alternative means of generation at page 11, lines 1-3 of its  
2 Application, in its response to Data Request SWPG 1.5.2 it states that

3 “Natural gas is the only alternative of those listed that APS believes is an  
4 alternative (albeit not the lowest cost alternative.)”

5 Third, while APS appears to express a preference for new gas-fired generation as  
6 opposed to existing gas-fired generation, under the assumed unavailability of Units 4 and  
7 5 after 2016, APS states that

8 “APS would conduct a procurement effort which would entertain bids for  
9 existing and new resources.” [emphasis added]

10 That is precisely what the Alliance believes the Commission should require of APS in  
11 this instance

12  
13 **Q. 14 Has APS indicated whether the owners of Four Corners Units 4 and 5, other than**  
14 **SCE and APS, are interested in continuing to operate those units after 2016, in the**  
15 **event that the Commission does not approve that aspect of APS’ Application in this**  
16 **proceeding?**

17 A. 14 Yes. SWPG/Bowie posed that specific line of inquiry to APS in Data Request SWPG 1.2  
18 of SWPG/Bowie’s First Set of Data Requests to APS. A copy of that data request and  
19 APS’ response is attached to this testimony as Appendix “C.”

20  
21 **Q. 15 What was the nature of APS’ response?**

22 A. 15 In the interest of completeness and accuracy, I have incorporated APS’ response verbatim  
23 into my testimony at this juncture:

24 “The owners of Units 4 and 5 have not reached a decision as to whether to  
25 continue to operate those units beyond 2016, in the event the ACC does  
26 not approve APS’ application in this proceeding.

27 The primary factor that will influence such a decision is whether some or  
28 all of the current co-owners will decide that continued operation of or  
investment in Units 4 and 5 past 2016 is sufficiently attractive for their  
customers such that Edison’s share of the Units should be assumed by

1 those co-owners, in proportions to be agreed, or possibly by adding a third  
2 party to the group.”

3 **Q. 16 On a related note, have the owners of Units 4 and 5 other than SCE and APS**  
4 **previously expressed any interest in acquiring SCE’s ownership interest in those**  
5 **units?**

6 A. 16 That very question was posed by SWPG/Bowie as Data Request SWPG 1.1 in their First  
7 Set of Data Requests to APS. In its response, APS stated as follows:

8 “No. The other owners of Four Corners had a right of first refusal that  
9 expired on March 8, 2011. None of the owners exercised their right of first  
10 refusal.”

11 A copy of that data request is attached as Appendix “D” to my testimony.

12 **Q. 17 Assuming for purposes of this question that (i) the Commission denies the request**  
13 **set forth in APS’ Application as to its proposed acquisition of SCE’s ownership**  
14 **interest in Four Corners Units 4 and 5, and (ii) the Commission directs APS to**  
15 **conduct a transparent and market-based procurement process utilizing an RFP and**  
16 **an independent monitor, could APS’ acquisition of SCE’s aforesaid ownership**  
17 **interest be included as one of the resource acquisition alternatives to be considered**  
18 **within that process?**

19 A. 17 Certainly, from the perspective of the Alliance. We are not contending that that  
20 particular proposal is not in fact the most appropriate resource replacement alternative. It  
21 might or might not be, but no one knows either way as of this point in time. Rather, we  
22 are saying that (i) the information needed to make an informed determination of that  
23 nature has not been presented thus far, and (ii) this proceeding cannot be transformed into  
24 an RFP which would demonstrate what alternatives might in fact be available from the  
25 competitive wholesale electric market as of this juncture.  
26  
27  
28

1 **Q. 18 In the event that the Commission does in fact direct APS to conduct such an RFP,**  
2 **who should be the entity proposing the acquisition of SCE's ownership interest in**  
3 **Four Corners Units 4 and 5, APS or SCE?**

4 A. 18 Without any question, the Alliance believes that it should be SCE. Otherwise, there  
5 could be an ongoing air of uncertainty as to whether APS had been completely objective  
6 and impartial in its analysis and evaluation of the competing responses to the RFP.  
7

8 **Q. 19 Would the participation of an independent monitor remove this air of uncertainty?**

9 A. 19 Possibly, and one would hope so. But why even incur the risk, when there is no need to  
10 do so. One would think SCE is more than qualified to be an articulate spokesperson as to  
11 the perceived merits of APS acquiring SCE's ownership interest in Units 4 and 5.  
12

13 **Q. 20 Has there been a situation in the past where such an air of uncertainty arose in**  
14 **connection with APS' evaluation of a generation resource proposal it had played a**  
15 **role in developing vis-à-vis its evaluation of competing proposals submitted by**  
16 **others in response to an RFP issued by APS?**

17 A. 20 Yes, that very issue arose within the context of APS' Yuma RFP proceeding several  
18 years ago. Although the Commission ultimately approved APS' request in the case, it  
19 also subsequently issued and thereafter adopted the Best Practices for Procurement,  
20 which were intended to prevent similar situations from even arising in the future.

21 It is against this background that the Alliance firmly believes that the entity  
22 submitting and advocating an RFP response that APS acquire SCE's ownership interest  
23 should be SCE, not APS.  
24

25 **NEED FOR NEW TRANSMISSION**

26 **INFRASTRUCTURE**

27 **Q. 21 In its Application and prepared Direct Testimony, APS appears to suggest that new**  
28 **transmission infrastructure would be necessary in connection with any generation**

1 resource alternative to its proposed acquisition of SCE's ownership interest in Four  
2 Corners Units 4 and 5. Does the Alliance believe that APS has demonstrated that  
3 this in fact would be the case?

4 A. 21 No, based upon the information provided to date.

5  
6 **Q. 22 Please be more specific.**

7 A. 22 First, as a part of its response to Data Request SWPG 1.5, which I have previously  
8 discussed, APS also indicated

9 "Depending on where the [new gas-fired combined cycle generating] units  
10 would be constructed, new transmission projects may also be needed.]  
11 [emphasis added]

12 Thus, APS itself acknowledges that new transmission infrastructure may not be  
13 necessary.

14 Second, although elsewhere in its response to Data Request SWPG 1.5.2 APS  
15 does state that

16 "APS would conduct a procurement effort which would entertain bids for  
17 new and existing resources." [emphasis added],

18 the general thrust of its Application and prepared Direct Testimony appears to assume  
19 that the only viable alternative to its proposed purchase of SCE's ownership interest in  
20 Units 4 and 5 would be new natural gas-fired combined cycle generation. However,  
21 given (i) the fact that APS has not conducted an RFP specific to the generation resource  
22 target here in question, and (ii) the excess generation capacity which currently appears to  
23 be available from existing natural gas-fired combined cycle units at several locations in  
24 the State of Arizona, one must question the accuracy of any unqualified statement at this  
25 time that significant new transmission infrastructure would in fact be needed for any  
26 generation resource alternative to the resource acquisition proposed by APS in its  
27 November 22, 2010 Application.  
28

1 **ALLIANCE POSITION ON RELEVANCE**  
2 **OF FOUR CORNERS UNITS 1, 2 AND 3 TO**  
3 **APS' ACQUISITION PROPOSAL**

4 **Q. 23 Let's examine another aspect of APS' November 22, 2010 Application. More**  
5 **specifically, what is the relevance of APS' seemingly indicated intent to retire Four**  
6 **Corners Units 1, 2 and 3 vis-à-vis APS' request for approval to acquire SCE's**  
7 **ownership interest in Four Corners Units 4 and 5?**

8 A. 23 From the perspective of the Alliance, there is no direct relationship. Those two (2) facets  
9 of APS' Application involve separate sets of questions and issues, which can and should  
10 be resolved by the Commission independent of one another.

11 More specifically, the Units 1, 2 and 3 aspect of APS' Application involves the  
12 central question of whether or not it makes sense for APS to retrofit those units in the  
13 manner described, given both the known and as yet unknown costs of complying with  
14 known and as yet unknown impending and future environmental standards. It is apparent  
15 from APS' discussion in its Application that APS believes it should not undertake such  
16 retrofitting.

17 Whereas, the Units 4 and 5 aspect of APS' Application raises the essential  
18 question of whether APS should be allowed to in effect by-pass the requirements of the  
19 Moratorium and the Commission's Best Practices for Procurement by simply acquiring  
20 SCE's ownership interest in those generating units, without testing the reasonableness of  
21 that alternative against competing alternatives within the context of a properly conducted  
22 RFP issued by APS to address that particular generation resource target.

23 Previously, I have indicated in this testimony why the Alliance believes that (i)  
24 this proceeding is not suitable for mimicking an RFP, and (ii) APS' internally developed  
25 composite "strawman" analysis should not be accepted by the Commission as a "proxy"  
26 for that RFP which should be conducted. To those lines of argument, I would add at this  
27 time the observation that the deficiencies regarding Units 1, 2 and 3 noted by APS should  
28

LAWRENCE V. ROBERTSON, JR.  
ATTORNEY AT LAW  
P.O. Box 1448  
Tubac, Arizona 85646  
(520) 398-0411

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

not be accepted as “makeweight” arguments for why its proposal as to Units 4 and 5 should be approved.

**CONCLUSION**

**Q. 24 Please summarize the position of the Alliance as it pertains to APS’ request for a Commission order authorizing APS to acquire SCE’s ownership interest in Four Corners Units 4 and 5, as proposed by APS.**

A. 24 We believe that the Commission should enter an appropriate order in this proceeding directing APS to conduct an RFP, consistent with the requirements of the Moratorium and the Commission’s Best Practices for Procurement, which is expressly designed to solicit proposals from the competitive wholesale electric market for one (1) or more generation resource alternatives which could be objectively and transparently evaluated vis-à-vis the acquisition of SCE’s ownership interest in Four Corners Units 4 and 5 proposed by APS. The scope of the RFP should be such as to allow for proposals involving such new and existing generation resources as respondents to the RFP might desire to submit. Presumably, these proposals would also offer informed insight as to whether or not any new transmission infrastructure was needed as to a given proposal.

**Q. 25 Would the Commission need to deny that aspect of APS’ Application relating to Four Corners Units 4 and 5, in order to implement the procedure that you have just described?**

A. 25 Not necessarily. The Commission could deny APS’ Application as to that request. Alternatively, it could enter an order suspending further activity in this proceeding, pending (i) APS’ conduct of such an RFP, and (ii) APS’ report on the result(s) of that RFP. At that stage, the Commission would then be in a position to fully evaluate APS’ request.

1 **Q. 26 What about that aspect of APS' Application which relates to Units 1, 2 and 3 at**  
2 **Four Corners?**

3 A. 26 As I have previously indicated, the Alliance believes that that portion of APS'  
4 Application raises a different set of questions and issues to be resolved on the basis of  
5 those matters alone. While APS' suggested (i) acquisition of SCE's ownership interest in  
6 Units 4 and 5, and (ii) corollary retirement of APS' Units 1, 2 and 3 might appear to be a  
7 convenient solution to the situation it has described, it may not be the best solution  
8 available. In that regard, it is probably best to leave to APS the decision as to how it  
9 desires to proceed with respect to Units 1, 2 and 3, in the event that the Commission  
10 decides to direct APS to conduct the RFP that SWPG/Bowie are recommending.  
11

12 **Q. 27 Does that complete your Direct Testimony on behalf of the Alliance?**

13 A. 27 Yes.  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**SOUTHWESTERN POWER GROUP II, LLC AND BOWIE POWER STATION LLC  
FIRST SET OF DATA REQUESTS TO  
ARIZONA PUBLIC SERVICE COMPANY REGARDING AUTHORIZATION  
FOR THE PURCHASE OF GENERATING ASSETS FROM SOUTHERN  
CALIFORNIA EDISON AND FOR AN ACCOUNTING ORDER  
DOCKET NO. E-01345A-10-0474  
MAY 10, 2011**

**SWPG 1.1:** Have any of the owners of Units 4 and 5 of the Four Corners Generating Station ("Units 4 and 5") other than Arizona Public Service Company ("APS") and Southern California Edison Company ("SCE") expressed any interest in acquiring all or a portion of SCE's ownership interest in Units 4 and 5?

**1.1.1** If so, please provide copies of all communications between APS and such other owners, including any communications relating to a scenario in which the Arizona Corporation Commission ("ACC") does not approve APS' currently pending Application in Docket No. E-01345A-10-0474 ("instant proceeding").

**Response:** No. The other owners of Four Corners had a right of first refusal that expired on March 8, 2011. None of the owners exercised their right of first refusal.

**SOUTHWESTERN POWER GROUP II, LLC AND BOWIE POWER STATION LLC  
FIRST SET OF DATA REQUESTS TO  
ARIZONA PUBLIC SERVICE COMPANY REGARDING AUTHORIZATION  
FOR THE PURCHASE OF GENERATING ASSETS FROM SOUTHERN  
CALIFORNIA EDISON AND FOR AN ACCOUNTING ORDER  
DOCKET NO. E-01345A-10-0474  
MAY 10, 2011**

**SWPG 1.2:** Have the owners of Units 4 and 5 reached a decision as to whether to continue the operation of those units beyond 2016, in the event that the ACC does not approve APS' Application in the instant proceeding?

**1.2.1** If so, please provide copies of all communications among the owners of Units 4 and 5 relating to such decision.

**1.2.2** If not, please describe the factors and/or circumstances which will influence such a decision.

**Response:** The owners of Units 4 and 5 have not reached a decision as to whether to continue to operate those units beyond 2016, in the event the ACC does not approve APS' application in this proceeding.

The primary factor that will influence such a decision is whether some or all of the current co-owners will decide that continued operation of or investment in Units 4 and 5 past 2016 is sufficiently attractive for their customers such that Edison's share of the Units should be assumed by those co-owners, in proportions to be agreed, or possibly by adding a third party to the group.

**SOUTHWESTERN POWER GROUP II, LLC AND BOWIE POWER STATION LLC  
 FIRST SET OF DATA REQUESTS TO  
 ARIZONA PUBLIC SERVICE COMPANY REGARDING AUTHORIZATION  
 FOR THE PURCHASE OF GENERATING ASSETS FROM SOUTHERN  
 CALIFORNIA EDISON AND FOR AN ACCOUNTING ORDER  
 DOCKET NO. E-01345A-10-0474  
 MAY 10, 2011**

**SWPG 1.5:** With reference to page 11, lines 3-11 of APS' Application in the Instant proceeding, what timeline does APS anticipate would be involved if the generation capacity represented by Units 4 and 5 was to be replaced with one or more new natural gas-fired combined cycle generating unit(s)? For purposes of this inquiry, please assume that Units 4 and 5 "were to shut down in 2016."

**1.5.1** If so, what date of commencement of construction of such unit(s) has been assumed by APS; and, what time period for construction has been assumed?

**1.5.2** If new combined-cycle units are not assumed, please (i) identify the existing natural gas-fired combined-cycle unit(s) APS has in mind when it states

"Few of these alternative resources are realistically available to fill the void left if Four Corners Units 4 and 5 were to shut down in 2016";

and, (ii) describe why APS questions the availability to APS of sufficient generating capacity from those combined-cycle units either prior to or as of 2016.

**Response:** The planning aspect of this timeline would be 2011, followed by permitting and procurement in 2012 - 2013. Construction would occur in the 2013-2016 timeframe. Depending on where the units would be constructed, new transmission projects may also be needed.

**1.5.1** See above.

**1.5.2** The quoted sentence refers to nuclear, geothermal, solar, wind and similar resources, as discussed in the Application. Natural gas is the only alternative of those listed that APS believes is an alternative (albeit not the lowest cost alternative).

APS compared this Four Corners transaction to new build, one which APS would have some certainty and to existing generation, assuming it was available (APS cannot control if the existing generation will already be contracted for and would therefore not be available). APS would conduct a procurement effort which would entertain bids for existing and new resources.

**SOUTHWESTERN POWER GROUP II, LLC AND BOWIE POWER STATION LLC  
FIRST SET OF DATA REQUESTS TO  
ARIZONA PUBLIC SERVICE COMPANY REGARDING AUTHORIZATION  
FOR THE PURCHASE OF GENERATING ASSETS FROM SOUTHERN  
CALIFORNIA EDISON AND FOR AN ACCOUNTING ORDER  
DOCKET NO. E-01345A-10-0474  
MAY 10, 2011**

**SWPG 1.9:** With reference to page 25 of APS' Application, as well as the related discussion in APS' Application and the prepared Direct Testimony of APS' witnesses, please describe in detail what specific inquiries and investigations APS undertook which support the following statement:

**"APS has looked at what exists in the competitive wholesale market, but none of its offerings reasonably compare to the transaction with SCE."**

**Response:** APS has maintained an awareness of market conditions in the competitive wholesale markets through a number of different sources. APS has participated in solicitations with merchant gas generators in the recent past with the intent of replacing gas generation that will be lost when long-term contracts for gas generation expire. APS was not successful in acquiring any gas generation in these solicitations. The data generated from those solicitations formed the basis for the estimated \$750/kW combined cycle capital cost assumed in the cost analysis presented in the application. See chart on page 10 of the testimony of Patrick Dinkel for a graphic demonstration of why those costs do not reasonably compare to that of the proposed transaction.