

**ARIZONA CORPORATION COMMISSION
MEETING MINUTES**

DATE: May 23, 2007

TIME: 10:00 a.m.

PLACE: Carnegie Center, Main Floor. 1101 West Washington Street, Phoenix
Arizona 85007

ATTENDANCE: See list of attendees in Attachment 1. Commissioner Mayes attended. No
quorum of Commissioners.

TOPIC: RESOURCE PLANNING WORKSHOPS—Competitive Procurement Workshop
No. 2

MATTERS DISCUSSED:

Elijah Abinah, the Deputy Director of the Utilities Division, welcomed everyone. The participants introduced themselves, and Bing Young of Commission Staff summarized the previous meeting. Mr. Young noted that in response to the 16 questions Staff had developed from the issues that were raised during the First Workshop, four entities had filed written comments. Those entities were Arizona Public Service (“APS”), Tucson Electric Power Company (“TEP”), the Arizona Electric Power Cooperative (“AEPCO”) and the Arizona Competitive Power Alliance (“ACPA”).

Two entities, APS and ACPA, made presentations. APS’ presentation was given by Mr. Pat Dinkel, who discussed the slides which are attached here as Attachment 2. Mr. Dinkel explained that different types of resources and different lead times for those resources can affect the nature of the procurement process. Mr. Dinkel also explained that the “self-build” option refers to utility asset ownership, not necessarily who constructs the plant. Mr. Dinkel stated that the use of independent monitors was appropriate in a procurement process if there is an affiliate proposal, and that utilities must always consider ownership along with purchase power contracts to ensure that customers get the best alternatives.

Mr. Dinkel’s presentation was followed by Mr. Greg Patterson of ACPA. Mr. Patterson stated that the participants were here in the context of the recent Yuma case, in which APS was permitted to construct generation in the Yuma load pocket notwithstanding a building moratorium that it had agreed to in a prior rate case. Mr. Dinkel stated that under the APS rate case settlement; he believed APS could only build if there were a market failure. Mr. Patterson stated he did not think that opening a rulemaking to consider rules for procurement was a good idea, since it would take too much time. He suggested that there be an amendment.

Following a break, Deb Scott of Pinnacle West responded to certain allegations in Mr. Patterson’s presentation. Commissioner Mayes noted that some Commissioners were concerned

about the process, and asked Mr. Patterson about his request for an “amendment”. Mr. Patterson explained that his request for an amendment was for a 40-252 process to adopt an amendment Commissioner Mundell offered in the recent Yuma case.

Commissioner Mayes asked Mr. Dinkel about how ratings agencies view long-term purchase power agreements as imputed debt and asked how APS deals with its ratings agencies as they continue to evolve their treatment of purchase power agreements. Mr. Dinkel responded that the ratings agencies treat some portion of the purchase power agreements as long term debt, regardless of the type of generation or the length of the contract.

Commissioner Mayes further queried as to whether plant construction is also treated negatively by the ratings agencies. Mr. Dinkel stated that APS looks at the total cost to customers of the options and that APS tries to look at the impact to its capital structure for either entering into purchase power agreements or building its own generation.

Mr. Patterson stated that S&P is the only rating agency that does what has been described. Mr. Patterson pointed out that purchase power agreements are not in rate base, that APS has a sharing mechanism for cost recovery of PPAs, and thus there is less incentive for the utility to enter into long-term purchase power agreements.

Mr. David Getts of Southwestern Power Group stated that it is clear that Arizona utilities are going to need substantial new resources in the future, and that the procurement process is very important to ensure that new resources are built.

Ms. Amanda Ormond made a point that any procurement process should ensure all players can participate, especially renewables and in the arena of future base load resources.

Mr. Getts stated that the utilities need to analyze options, but they should not finalize an option before an RFP. He also talked about financial markets being fickle. Policy should not be based on an assumption that merchant plants would not be financed, since they are being financed in some markets. The issue is risk on the third party to obtain permits; comparing the cost of a bid with that risk against a utility that has the permits. The question of who pays the risk depends on how the RFP is designed and how the evaluation is done. Mr. Getts stated that an Independent Monitor would bring some transparency to the procurement process and to make sure that all things are being included in the analysis.

In its presentation, APS had included a slide listing requirements for successful procurement. Those requirements are clarity, objectivity, timeliness, and certainty. Ms. Ormond suggested adding "information" and "experience" to the list. Mr. Getts added "transparency" as a criterion necessary for success.

In response to a question posed by Mr. Getts, Mr. Dinkel explained the “Secondary Protocol,” which the Commission approved for APS as part of its Code of Conduct last summer. Barbara Keene of the Commission Staff had copies of the Secondary Protocol and distributed them. (A copy of the Secondary Protocol is in Attachment 3.) Ted Roberts of Mesquite stated that APS should always utilize an independent evaluator and use the Secondary Protocol. Mr. Dinkel

stated that APS needs to look at all options, and that the objective is to get enough players at the table.

Becky Turner of Entegra/Gila River Power had a question about the role of the Independent Monitor and stated that the role of the Independent Monitor needed to be defined. She also asked whether ratings agencies treated purchase power agreements differently if there is an affiliate. Mr. Dinkel said he would not know, since APS no longer has an affiliate.

Ms. Turner stated that a price cap is viewed negatively. Mr. Dinkel responded that no prudence determination was made in the Yuma case. The Commission only granted permission to pursue the unit. If the Commission imposed a cap on the price of a unit, APS would inform potential bidders that they need to stay under the cap. Bidders could apply a risk premium to their bids.

Following a lunch break, the parties got back together to discuss the comments that had been filed in response to Staff's questions.

Deb Scott of APS stated that the procurement process is really part of the overall resource planning process, and that rulemaking was needed to apply resource planning across the board. She also stated that APS had procurement protocols in place, but if they were to be applied to everyone, then procurement protocols should be part of resource planning rules.

Mr. Patterson stated his view that there was not enough time for rules. He read the comments of Commissioner Hatch-Miller from the transcript in the Yuma case regarding 150 days.

Mr. Young stated that it was his understanding that the workshops were not specific to the APS/Yuma case, and were designed to consider procurement rules for all jurisdictional Arizona utilities, not just APS. Mr. Young indicated that these workshops were an opportunity for competitive power providers and merchants to indicate how the procurement process for utility resources could be improved, so that all would believe that it was a fair and transparent process. He stated he did not know how that would be possible, and enforceable across the board, short of the adoption of rules by the Commission.

Mr. Patterson stated his view that the Commission did not want to bind itself by adopting rules, and that the adoption of rules would take far too long. Ms. Ormond stated that it makes more sense in the long run to have rules.

Mr. Patterson reiterated his belief that the purpose of the workshops was to clarify the settlement agreement made in the APS rate case where APS agreed to a moratorium for self-build or self-owned generation.

Kevin Torrey, of the Commission Staff's legal office, stated that this was not true. This was not an opportunity to reopen or reconsider the Yuma case or to obtain clarification on the exact meaning of the APS settlement language from its rate case. This was a discussion among the parties to consider whether rulemaking, or something else, made sense to be applicable for the entire industry in the future.

Mr. Getts stated that the Commission could adopt a policy is a practical approach.

Mr. Torrey noted that many of the potentially interested parties had not filed comments. He indicated that any other party that was interested in commenting be given another opportunity to do so. He indicated that June 15, 2007 would be a good date for the parties to make a filing.

Mr. Abinah then indicated that the remaining discussion of Staff's questions, and further comments of the parties to be filed, would take place at the next workshop, scheduled for June 25, 2007. **[The next workshop has been rescheduled for July 13, 2007.]** Mr. Abinah indicated that a draft Staff Report would be issued 30 days after the next workshop.

Bing E. Young
Barbara Keene
Utilities Division

Note: The above minutes summarize the discussions in the workshop but are not intended to represent a verbatim transcript.

Attachment 1

Attendees at the Resource Planning Workshop
May 23, 2007

Name	Organization
Amanda Ormond	Ormond Group
Barbara Keene	Commission Staff
Barbara Klemstine	Arizona Public Service
Becky Turner	Entegra/Gila River Power
Bill Sullivan	Mohave Electric and Navopache Electric Cooperatives
Bing Young	Commission Staff
Brian O'Donnell	Southwest Gas
Dan Austin	Strategy Integration for Comverge
Dan Brickley	Salt River Project
Dave Couture	Tucson Electric Power/Unisource Energy Services
David Getts	Southwestern Power
David Leevan	Global Energy Decisions
Deb Scott	Arizona Public Service
Dick Kurtz	Arizona Electric Power Cooperative
Elijah Abinah	Commission Staff
Eric Bronner	Gila River Power
Greg Patterson	Arizona Competitive Power Alliance
Ian Quinn	Mohave Electric and Navopache Electric Cooperatives
Jana Brandt	Salt River Project
Jerry Anderson	Commission Staff
Joe McGuirk	Sun Miner LLC
John Wallace	Grand Canyon State Electric Cooperative Association
Julie McNeely-Kirwan	Commission Staff
Justin Thompson	Arizona Public Service
Kevin Torrey	Commission Staff
Leland Snook	Tucson Electric Power/Unisource Energy Services
Marceleno Flores	Pasqua Yaqui Tribe
Michael Bowling	Tucson Electric Power Company
Pam Genung	Commission Staff
Pat Dinkel	Arizona Public Service
Patrick Black	Fennimore Craig
Prem Bahl	Commission Staff
Steve Bloch	Harquahala Generation
Ted Roberts	Mesquite
Tom Jenkins	Harquahala Generation