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ARIZONA CORPORATION COMMISSION

BRIAN C. McNEIL
EXECUTIVE SECRETARY

July 17, 2002

Dear Parties in Docket Nos. E-00000A-02-0051, et al.:

In the First Procedural Order on Track B Issues, dated June 20, 2002, Staff was ordered to file, on or before July 17, 2002, a list of issues to be addressed at workshops to be held on July 24 and 25, 2002. Attached to this letter is that list of issues and the agenda for the workshops.

The workshops will be held on July 24 and 25, 2002, from 9:00 a.m. to 5:00 p.m. at the Arizona Corporation Commission, 1200 West Washington, Phoenix, Arizona 85007.

If you have any questions on this matter, please contact me at (602) 542-0745.

Sincerely,

Ernest G. Johnson
Director
Utilities Division

EGJ:bek

Issues to be Addressed at Track B Workshops

July 24, 2002

1. What is the appropriate way to structure the solicitation process?
    a. Dutch auctions (Declining price bids, e.g. APS's Descending Clock)
    b. Load Clearing auctions (Increasing prices as bids are accepted)
    c. RFP's
    d. Bilateral negotiations
    e. Reserve price
    f. Starting bid price

2. Are there power supplies that should be exempt from or treated differently in a competitive solicitation?
    a. Owned generation
    b. Local generation
    c. Must-run units
    d. Existing contracts
    e. Bilateral contracts
    f. Contracts for renewables/DSM

3. What role should Least Cost Planning play in competitive markets?
    a. On generation
    b. On transmission
    c. Should the focus be "Lowest Price Planning"?

4. Who should bear price risks?
    a. Suppliers (fuel and market price)
    b. Standard offer customers (PPFAC)
    c. Shareholders (carrying costs and prudence)

5. Should there be a standard approach to competitive solicitations?
    a. Can the solicitation process be UDC specific?
    b. Can all Arizona UDC's solicit for power?
    c. What are the anticipated benefits?
    d. Are there alternative approaches?
    e. Is the time right to implement competitive solicitations?
    f. Should it be phased in and over how long a period?

6. How should UDCs meet the Environmental Portfolio Standards?
    a. Separate solicitation
    b. Bilateral contracts
    c. Bidder requirement
    d. Selection requirements
    e. Different selection criteria

7. How should a competitively procured power supply portfolio be structured?
    a. Energy products
        i. Energy only
        ii. Capacity and energy
        iii. Firm power
        iv. Dispatchable resources
            1. Owned Assets
            2. Contracted Generation
        v. Slice of System commitments
        vi. On Peak
        vii. Off peak
        viii. Seasonal
        ix. Hourly/Daily
        x. Reserves
        xi. Emergency
    b. Contract term
        i. 1 year or less
        ii. Mid term
        iii. Long term
    c. Financial instruments

8. What are the acceptable pricing regimes?
    a. Fixed price (with or without escalators)
    b. Cost based
    c. Indexed
    d. Market based

Issues to be Addressed at Track B Workshops

July 25, 2002

9. Does a competitive solicitation address market power concerns?
    a. Affiliate bids
    b. Bid caps on capacity
    c. Caps on selection of capacity

10. Who can participate in the solicitation?
    a. IPPs
    b. Brokers
    c. Affiliates
    d. QFs and other customer-owned generation
    e. Utilities
    f. Demand-side managers
    g. UDC-owned generation

11. Are there requirements to qualify to bid?
    a. Asset backed
    b. Credit worthy
    c. Proposal fees
    d. Standard contract terms
    e. Demonstrated reliability
    f. Deliverability

12. How should bids be evaluated?
    a. Who will select winners?
        i. Independent evaluator
        ii. Auction administrator
        iii. UDC
        iv. ACC review and oversight
    b. What should the selection criteria be?
        i. Price
        ii. Reliability
        iii. Creditworthiness
        iv. Transmission upgrades and constraints
        v. Environmental impact
        vi. DSM

13. Failure of the solicitation
    a. Inadequate response
    b. Unacceptable pricing or terms
    c. Failure of bidder to perform
    d. Contingency planning
    e. Penalties

AGENDA

Track B Workshops
1200 W. Washington St.

July 24, 2002

9:00 a.m.– 12:00 p.m.

1. Introduction to competitive procurement of energy and capacity
    a. Overview of typical Components
    b. Case study of competitive procurement experiences

2. Potential structure for competitive procurement process
    a. Alternative approaches
       Issue # 1: What is the appropriate way to structure the solicitation process?
    b. Typical selection criteria
    c. Scope of solicitation (i.e., any exempt load)
       Issue #2: Are there power supplies that should be exempt from or treated differently in a competitive solicitation?
    d. Role of Least Cost Planning
       Issue #3: What role should Least Cost Planning play in competitive markets?

3. Risks and benefits of competitive procurement
   Issue #4: Who should bear price risks?

1:00 p.m. – 5:00 p.m.

4. Circumstances unique to Arizona
   Issue #5: Should there be a standard approach to competitive solicitations?
    a. Needs for the next 5 years
        i. Generation
        ii. Transmission
    b. Preserving options for long term
    c. Meeting Environmental Portfolio Standards
       Issue #6: How should UDCs meet the Environmental Portfolio Standards?

5. Appropriate competitive procurement components
   Issue #7: How should a competitively procured power supply portfolio be structured?
    a. Term of contracts
    b. Pricing to achieve long and short term goals
       Issue #8: What are the acceptable pricing regimes?

AGENDA

Track B Workshops
1200 W. Washington St.

July 25, 2002

9:00 a.m.– 12:00 p.m.

6. How should market power concerns be addressed
   Issue #9: Does a competitive solicitation address market power concerns?

7. Qualifications of bidders
   Issue #10: Who can participate in the solicitation?
   a. Who may bid?
      Issue #11: Are there requirements to qualify to bid?
   b. Enforcement
   c. Consumer protection requirements

8. Bid evaluation
   Issue #12: How should bids be evaluated?
   a. Selection criteria
   b. Role of Commission
   c. Third party evaluator
   d. UDC responsibility

1:00 p.m.– 5:00 p.m.

9. Role of Commission
   a. Contract review and approval
   b. Conduct auction
   c. Evaluator
   d. Dispute resolution

10. Tools to assess success of competitive procurement
    a. Consequence of failed process
       Issue #13: Failure of the solicitation
    b. Contingency planning