

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **COMMISSIONERS**

4 **JEFF HATCH-MILLER - CHAIRMAN**
5 **WILLIAM A. MUNDELL**
6 **MARC SPITZER**
7 **MIKE GLEASON**
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10 **IN THE MATTER OF THE GENERIC**
11 **INVESTIGATION INTO ELECTRIC RESOURCE**
12 **PLANNING.**

) **DOCKET NO. E-00000E-05-0431**

) **RESPONSE TO WORKSHOP**
) **QUESTIONS**

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14 Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric"),
15 through undersigned counsel, hereby respond to three questions posed at the Resource Planning
16 Workshop held on July 6, 2005 (the "Resource Planning Workshop"). The three questions, as
17 noted in the Meeting Minutes of the Resource Planning Workshop, are:

- 18 1. What should a resource plan look like? Provide a straw man representing your
19 views.
20 2. What should be the results of the Resource Planning Process?
21 3. What time frames were envisioned for this Resource Planning workshop process?

22 **1. What should a resource plan look like?**

23 **A. Overview**

24 TEP and UNS Electric believe that the Commission should take advantage of the existing
25 processes that already analyze utilities' resource planning rather than attempt to implement an
26 additional resource planning procedure.

27 TEP and UNS Electric also believe that the Commission should take a broad look at the
adequacy of utilities' overall resource plans. The lessons learned from the problems experienced
in California during 2000-2001 highlight the need to consider (i) the interdependency of
generation and transmission planning; and (ii) a regional approach to resource planning.

1 Consequently, utilities and their customers would be better served through the development of
2 regional guidelines that could be adapted to the particular circumstances in Arizona.

3 Currently, the Southwest Area Transmission group ("SWAT"), which is an outgrowth of
4 the Central Arizona Transmission Studies group ("CATS"), provides a forum for analysis of the
5 transmission needs of the states of Arizona and New Mexico. This forum can be expanded to
6 include generation, so that both generation and transmission providers come together to discuss
7 plans and needs. The Commission Staff's participation in SWAT activities provides it valuable
8 insight into plans for and needs of load serving entities and generation developers. The
9 Commission also has developed a beneficial methodology for review of transmission capability in
10 its Biennial Transmission Assessment.

11 There are two additional efforts ongoing in the West to analyze issues of resource
12 adequacy and to develop potential criteria for analyzing resource adequacy. These efforts stem
13 from interest by the Western Governors Association ("WGA") as a result of the California
14 problems.

15 The Western Electric Coordinating Council ("WECC") is developing a resource adequacy
16 subgroup to help in reporting of resource adequacy as well as in setting criteria for measurement.
17 For detailed information regarding the WECC's subgroup please see the internet web page
18 addresses listed below:

19 <http://www.wecc.biz/modules.php?op=modload&name=Downloads&file=index&req=getit&lid=1650>,
20 <http://www.wecc.biz/modules.php?op=modload&name=Downloads&file=index&req=getit&lid=1651>).

21 Also, the Western Interstate Energy Board ("WIEB"), is in the early stages of developing a
22 process to undertake a resource adequacy review.¹

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25 ¹ Related to this, however, the WGA has recently adopted Policy Resolution 05-02 which states,
26 "Western Governors request that: (a) the Western Electricity Coordinating Council collect and pass through
27 revenue from a voluntary, opt-in fee on all control area transactions... The added cost to consumers of
improving the states' ability to resolve regional challenges facing the electric industry is proposed to be
\$600,000 per year, with an average residential customer impact of less than \$.05 cents per year." TEP and
UNS Electric do not support the WGA's proposed surcharge.

B. Resource Plan Strawman

TEP and UNS Electric believe that several relevant processes already exist that could be expanded to accommodate a resource adequacy review in Arizona.

First, Arizona utilities currently provide a "summer preparedness" presentation to the Commission on an annual basis. This presentation could be revised for the utilities to provide a comprehensive look at the utilities adequacy of resources and infrastructure.

Second, the current Biennial Transmission Assessment procedure can be modified to provide for a resource and infrastructure adequacy review.

TEP and UNS Electric recognize that there are many aspects and components of generation and transmission adequacy that could be addressed in a resource plan. TEP and UNS Electric believe that the following items could be addressed in a resource plan:

- Transmission availability and constraints;
- Trade-offs related to transmission versus generation alternatives;
- Relevant siting and permitting considerations;
- Reliability considerations:
 - Transmission versus generation
 - Supply characteristics;
- Demand characteristics:
 - Growth projections
 - Load Shape;
- Environmental Risks:
 - Emissions
 - Future Compliance Costs;
- Demand Side Management issues;
- Renewable Portfolio Standard compliance issues;
- Ownership related issues:
 - Purchased Power
 - Short Term
 - Long Term

- Self Build;
- Financing alternatives;
- Plant type:
 - Baseload, Intermediate, Peaking;
- Procurement Process factors:
 - RFP
 - Bilateral; and
- Fuel type (coal, nuclear, natural gas)
 - Fuel delivery infrastructure (pipelines, rail)
 - Fuel diversity.

These components should be analyzed with the goal in mind of each utility serving its load reliably and economically as well as meeting applicable environmental standards.

2. What should be the results of a resource plan?

TEP and UNS Electric believe that the Commission should develop guidelines related to the components of resource planning, rather than attempting to develop a prescriptive approach to resource planning. Customers are better served when each utility is allowed flexibility to determine the correct mix of resources for its specific circumstances. TEP and UNS Electric believe that the analysis of each utility's resource mix, its process for developing the mix, and its compliance with Commission and regional criteria and guidelines should be reviewed in rate cases.

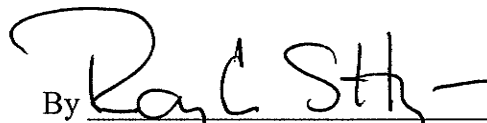
TEP and UNS Electric note that another important and relevant issue that was raised in the Resource Planning Workshop is the issue of "certainty." It appears that the financial community is seeking a higher degree of certainty from regulators regarding cost recovery in connection with the financing generation and transmission projects. A resource plan-related proceeding could be adapted to provide more certainty regarding cost recovery of generation and transmission projects thereby improving the terms and conditions for constructing these types of projects.

1 **3. What time frames were envisioned for this Resource Planning workshop process?**

2 TEP and UNS Electric recommend that the Resource Planning workshop process be
3 conducted in a timeframe that would allow the fourth Biennial Transmission Assessment to serve
4 as the next Resource Plan Review Proceeding. TEP and UNS Electric are committed to assisting
5 the Commission Staff work towards concluding this Resource Planning workshop in a timely
6 manner to allow either of these proceedings to serve as the Commission's forum for analyzing
7 resource plans.

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9 RESPECTFULLY SUBMITTED this 4th day of August 2005.

10 ROSHKA HEYMAN & DEWULF, PLC

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