

**ARIZONA CORPORATION COMMISSION
MEETING MINUTES**

DATE: July 6, 2005

TIME: 10:00 a.m.

PLACE: Arizona Corporation Commission, 1200 W. Washington Street, Hearing Room, Phoenix, Arizona 85007

ATTENDANCE: No Quorum of Commissioners. See list in Attachment 1.

TOPIC: RESOURCE PLANNING WORKSHOP

MATTERS DISCUSSED:

Bill Gehlen of the Commission Staff welcomed everyone. Each participant made a self-introduction.

Mr. Gehlen gave an overview of Resource Planning in Arizona. The Corporation Commission adopted the initial Resource Planning rules in 1989 (R14-2-701 through R14-2-704). In 1997, Decision No. 60385 suspended some of the rules for one year. There was a procedural order in 1999 that suspended those same rules until further order of the Commission. The rules requiring historical data remain in effect. The 2005 Arizona Public Service (APS) settlement agreement (approved in Decision No. 67744) requires Staff to schedule workshops on resource planning issues to focus on developing needed infrastructure and developing a flexible, timely, and fair competitive procurement process. These workshops will also consider whether and to what extent the competitive procurement should include an appropriate consideration of a diverse portfolio of short, medium, and long-term purchased power; utility-owned generation; renewables; DSM; and distributed generation. However, there is a need for Resource Planning anyway because of rapid load growth in Arizona and throughout the southwest, rising natural gas prices, and record temperatures. (The following handouts were provided: current Resource Planning rules, Decision No. 60385, 1999 procedural order, and pages 17-18 from APS settlement agreement.)

Greg Patterson, of the Arizona Competitive Power Alliance, spoke about Resource Planning. He explained that things need to be done globally and regionally. There are many things that need to be considered, such as the STEP process, Devers 2, East of the River, LNG projects, adequate natural gas, access to markets, the Arizona Independent System Administrator, and retail electric competition.

Barbara Klemstine, of APS, is supportive of Resource Planning. She mentioned that infrastructure is necessary. There has been phenomenal load growth in Arizona: 5,000 MW over the last 10 years. We need to learn from the experiences of California and Nevada. Resource Planning needs input from all parties. FERC's requirement that generation be separate from

transmission has made the planning process more complicated for utilities. It is important to bring all elements together, including demand-side management (DSM) and Environmental Portfolio Standard (EPS). Also, the financial situation has changed. Lenders require guarantees. Regulatory changes may be needed, such as pre-approval. Ms. Klemstine suggested the following points:

1. The Commission should establish goals.
2. Plans should be integrated with DSM and EPS goals, transmission, and generation.
3. Plans should be evaluated to be consistent with Commission goals. The "least cost" may not always be the best option.
4. Flexibility is needed to deal with changes.
5. Participation by merchants and marketers is needed. The best role for them needs to be determined.
6. The process needs to be rapid. It needs to be well-defined, with deadlines.
7. Regulatory certainty is needed for reliability.

Ms. Klemstine believes that the current rules are not adequate because they do not consider changes. Such detail may not be needed. Utilities should file plans, get buy-in, and then proceed with the plans.

Brian O'Donnell, of Southwest Gas, talked about the need for an adequate natural gas supply for merchant electric generators. There is little certainty about firm gas capacity. Agreements for electricity should contain firm natural gas capacity.

Jack Pigott, of Calpine, talked about sub-investment grade entities. Utilities need to find ways to contract with them for power. Collateral requirements should be based on actual risk. Asset-backed bids have less risk than other bids.

Bill Murphy, of the Distributed Energy Association of Arizona, spoke about what the outcome should be. Goals are load, traditional resources, and negative load (DSM, renewables, distributed generation). The negative load should be recognized and counted.

Mr. Gehlen then asked the group what they hope to accomplish. The questions were:

1. To what degree are participants supportive of reviewing and changing current rules?
2. What issues need to be addressed? Examples include fuel diversity and resource adequacy.
3. What is the expected outcome? An example would be the filing of resource plans.
4. What time frame? When should the workshops be completed?

Mr. Patterson suggested that Commission policy, other than rules, may need to be changed. There is a need for assurance of cost recovery. No pre-approval for plants to be put into rate base leads to increased risk. Other issues that need to be addressed include acquisition adjustments, regulatory lag, and the traditional test year.

Michael Curtis, representing Mohave Electric Cooperative, agreed with Mr. Patterson. He also added that the impact on rural entities needs to be considered.

Jerry Smith, of Commission Staff, asked the group if we need to think more globally.

Bud Annan, of the Annan Group, asked if APS should be used as a baseline.

Jeff Schlegel, of the Southwest Energy Efficiency Project (SWEET), said that the APS case is the most recent case that addresses resources. Resource plans should include resources that were included in the order and settlement; types of resources, not specific amounts. Mr. Schlegel is interested in resource adequacy; a diverse portfolio of resources (not dominated by conventional resources); and a fair, open, and transparent process including least cost (includes DSM). SWEET recommends that incremental resources consist of 1/3 DSM, 1/3 renewables, and 1/3 conventional resources. SWEET will resist biased criteria in procurement, such as dispatchability.

Ms. Klemstine suggested that we first develop a straw man of what the process should be, such as how you want the plans to be, and then look at the rules. Mr. Schlegel agreed that we should determine what a resource plan should be like and then work on the rules.

Prem Bahl, of Commission Staff, mentioned that the North American Energy Standards Board has issued a report on electric-gas interdependency. It can be found at www.naesb.org.

The group agreed that participants would respond to the following questions by **August 4, 2005**:

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

Responses are to be sent in writing to Docket Control, 1200 W. Washington St. and e-mailed to wgehlen@azcc.gov and lmiller@azcc.gov. Written responses must include reference to Docket No. E-00000E-05-0431.

Staff will review suggestions, straw men, and comments and provide a draft agenda by August 19, 2005.

Mr. Gehlen emphasized that participation throughout the process was important if any group wanted to help shape the final resource planning rules.

The next Resource Planning Workshop will be held on August 24, 2005, from 10:00 a.m. to 3:00 p.m.

Barbara Keene
Utilities Division

Attendees at the Resource Planning Workshop
July 6, 2005

| Name | Organization |
|----------------------|---|
| Stephen Ahearn | Residential Utility Consumer Office |
| Bud Annan | Annan Group |
| Erinn Andreasen | Commission Staff |
| Prem Bahl | Commission Staff |
| Patrick Black | Gila River Power, L.P. |
| Jana Brandt | Salt River Project |
| Richard Brill | Deluge, Inc. |
| Ian Calkins | CSCG |
| Clifford A. Cathers | Arizona Electric Power Cooperative |
| Rebecca Chavez | Tucson Electric Power/UNS Electric |
| Michael Curtis | Mohave Electric Cooperative |
| Pat Dinkel | Arizona Public Service |
| Charles N. Emerson | Trico Electric Cooperative |
| Patrick Ferguson | 3M |
| Bill Gehlen | Commission Staff |
| Brian Hageman | Deluge, Inc. |
| Bill Henry | Tucson Electric Power |
| Barbara Keene | Commission Staff |
| Thomas Klabunde | U.S. Forest Service |
| Barbara Klemstine | Arizona Public Service |
| Dimitrios Laloudakis | City of Phoenix |
| Keith Layton | Commission Staff |
| Paul Li | ATDUG |
| Joe McGuirk | Sun Miner LLC |
| Tom McKenna | Tucson Electric Power |
| Bill Murphy | Distributed Energy Association of Arizona |
| Brian O'Donnell | Southwest Gas |
| Greg Patterson | Arizona Competitive Power Alliance |
| Caren A. Peckerman | Deluge, Inc. |
| Jack Pigott | Calpine |
| Karilee Ramaley | Arizona Public Service/Pinnacle West |
| Rita L. Ransom | Southwest Gas |
| Don Robinson | Arizona Public Service |
| Russ Romney | Curtis, Goodwin, Sullivan |
| Jeff Schlegel | Southwest Energy Efficiency Project |
| Kathy Senseman | Southwest Gas |
| Mike Sheehan | Tucson Electric Power |
| Chuck Skidmore | City of Scottsdale |

| Name | Organization |
|-----------------|---|
| Jerry Smith | Commission Staff |
| M.E. Smith | Arizona Electric Power Cooperative |
| Paul Smith | Arizona Public Service |
| John Sterling | Arizona Public Service |
| Justin Thompson | Arizona Public Service |
| John Wallace | Grand Canyon State Electric Cooperative Association |
| Ray Williamson | Commission Staff |