

**ARIZONA CORPORATION COMMISSION
MEETING MINUTES**

DATE: April 25, 2007

TIME: 10:00 a.m.

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

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

TOPIC: RESOURCE PLANNING WORKSHOPS—Competitive Procurement Issues I

MATTERS DISCUSSED:

Ernest Johnson, the Director of the Utilities Division, welcomed everyone. Mr. Johnson indicated that with the extraordinary electrical growth facing Arizona, it was important to have procedures in place for procurement that would insure that good proposals were offered in any RFPs so that the lowest cost and reliable sources of power could be obtained. Each participant made a self-introduction.

Barbara Keene of the Commission Staff next gave an overview of the “Track B” decision, which had governed the RFPs that Arizona Public Service Company (“APS”) and Tucson Electric Power (“TEP”) issued in 2003. Ms. Keene indicated that a number of procedures were developed as part of Track B, and that the Staff would be interested in hearing the opinions of the parties as to what they liked about Track B, and if they would like to continue to see it used as a model. Ms. Keene provided a handout entitled “Detailed Staff Proposed Solicitation Process”, which was “Exhibit A” in the Commission’s Track B Decision, Decision No. 65743.

Bing Young of the Commission Staff next gave a presentation on research he had done looking at procurement rules that had been recently adopted in five other states: Washington, Oregon, Utah, Oklahoma and Iowa. Mr. Young indicated particular areas of interest and uniqueness he had observed in the different states’ rules, such as the fact that the procurement process in Washington State is tied to that state’s Integrated Resource Planning process. He indicated that Staff was interested in getting feedback on what parties liked from the processes in these states, or any other states, related to procurement practices. Mr. Young provided a handout with copies of the regulations from these five states, and a second handout containing bullet points of notable features of each state’s regulation he had reviewed.

Following Mr. Young’s presentation, Mr. Johnson asked for comments, issues and concerns by those present. Many of those present offered comments and recommendations.

Bob Baltes of Baltes Distributed Generation asked Mr. Young if utilities themselves were able to bid in the states he had referenced, and wondered if the utilities themselves accepted the bids.

Mr. Young said that there are provisions for the utility bidding in most or all of the states, though such a bid is sometimes known as a “benchmark” bid, and there were higher levels of scrutiny applied when the utility bids, though mechanics of the process, and how the bids were accepted, varied from state to state.

Tom Wray of Southwestern Power Group (“SWPG”) wondered if there were any prohibitions on utilities in those states without a required independent evaluator (i.e. Washington) from bidding, because of the perception of self-dealing. Mr. Young stated that while Washington did not explicitly require an independent evaluator, the utility still had to show that its process was fair and non-discriminating. Mr. Young also noted the unique circumstance of Arizona Public Service, which has a building moratorium in place—and therefore it is hard to find any direct comparison in other states.

Leesa Nayudu of Sempra said that her experience in Washington was that the utilities there obtained independent evaluators anyway, in order to make their RFP process look unbiased.

Larry Robertson of Mesquite/SWPG stated he thought utilities should be allowed to develop their own internal proposals so long as the Utility makes known ahead of time that it is providing its own proposal, that it submits its own proposal ahead of time, such as in the state of Iowa, and that Staff appoints an Independent Evaluator at the outset.

Ted Roberts of Sempra asked about the duties of independent evaluators in other states, and Mr. Young indicated that the Utah rules provide for a lot of qualifications and duties of an independent evaluator.

Mr. Johnson asked the group to consider whether there should be rules adopted in Arizona.

Greg Patterson of Arizona Competitive Power Alliance (“ACPA”) said that he did not favor rules, since it was a formal process that would take a long time. He stated that we should take the current “protocols”¹ from Track B and “tweak” them. He stated that a utility should determine the assumptions used in the evaluation, but an independent evaluator should review the assumptions.

Eric Woychik of Strategy Integration for Comverge stated he thought a rulemaking would take too long. He also wanted an analysis to be done that would make demand response comparable to other options.

Ms. Nayudu of Sempra indicated that competition was a good thing, but what was needed was a fair process, and related some personal experience.

The question was asked as to what APS and TEP had done post Track B, and Pat Dinkel of APS and Dave Hutchens of TEP briefly described the RFPs that have issued from each utility since Track B. Mr. Dinkel indicated that APS believes the Commission Staff serves, in effect, as an independent monitor or evaluator. Dale Fredericks of DG Power stated neither APS nor its

¹ The Track B Decision ordered APS to file a Secondary Procurement Protocol for Commission approval. The Commission approved the protocol as part of APS’s Code of Conduct in Decision No. 68741.

affiliate should be allowed to participate in a bid unless an independent monitor is obtained, and that the utility should be required to reveal self-build details in advance.

Amanda Ormond of the Ormond Group said that Arizona should have an integrated resource planning process, and that such a process would provide a public forum to discuss options for demand-side management and renewable resources, and a discussion of various risk factors.

Mr. Johnson informed the group that the Staff would be shortly issuing a Notice to address IRP issues in general.

Mr. Patterson of ACPA then claimed that the protocols should be used, and stated that APS has an incentive to self-build, because it was a way in which APS could build rate base.

Mr. Dinkel of APS said that Mr. Patterson's statements were incorrect—but then indicated that Track B didn't provide for sufficient flexibility. Mr. Dinkel said that the protocols worked well, but that APS was not opposed to rules—they just wanted to know where the “goal line” was.

Following these comments, Mr. Johnson moved to the next point of the agenda—that of identifying issues or topics to be briefed and/or discussed at the next workshop. The parties identified some twenty-five (25) issues of interest. After identifying these issues, several of the parties suggested that Staff re-organize and consolidate these issues. Staff has therefore restated the issues as follows:

1. Whether the Commission should go through a formal Rulemaking to formalize procurement procedures
2. What types of generation, purchase power, or fuel resources should be subject to formalized procurement procedures
3. Whether or not an Independent Evaluator should be required as part of the process, and if so, the Independent Evaluator's role in the process
4. Any required protocols for the utility self-build or affiliate bid and build options
5. Whether the Commission should have a direct role in the procurement process (i.e. whether the Commission should approve Draft RFPs, the timing of any required Commission proceedings, and cost recovery and prudency issues for utilities)
6. The design, mechanics, and timing of the RFP, including evaluation criteria to be used
7. The interaction of a formalized procurement process with a utility which is presently subject to a building moratorium
8. Protocols for the process of evaluating RFPs that insure integrity of the process
9. How confidential and trade secret information provided by bidders should be handled
10. Whether and to what extent there should be bid fees, or other prequalification requirements for bidders
11. The treatment of “non-conforming” proposals
12. What to do about bids received outside the RFP process
13. How to handle demand-side management and renewables proposals and the evaluation criteria for each to insure that the value of each is fairly reflected
14. Whether the procurement process should be tailored to interact with a utility's integrated resource plan, should the Commission begin to require the filing of such plans

15. The adoption of “Codes of Conduct” and “Best Practices” procedures by the utility
16. What waivers or exceptions to this process should be adopted
17. Other issues related to competitive procurement

Following the identification of the issues, Mr. Johnson told the group that if any of the parties have comments and positions on these issues or topics, that they please be put in writing and filed with the Commission’s Docket Control (1200 W. Washington St., Phoenix, AZ 85007) under Docket No. E-00000E-05-0431 **by Wednesday, May 16, 2007**. Mr. Johnson asked the group if anyone would like to make a presentation at the next workshop. Representatives from Comverge, ACPA, APS, and possibly the Ormond Group stated they wished to make a presentation.

The date for the **second Resource Planning Workshop on Procurement Issues is Wednesday, May 23, 2007**, and will commence at **10:00 a.m. on the Main Floor of the Carnegie Center, 1101 West Washington St., Phoenix, AZ 85007**. Parking is available in a parking garage across the street, or at the Commission. At the second workshop, parties will have the opportunity to make any presentation related to procurement issues. Staff will also discuss the comments that have been filed and outline suggestions for the third procurement workshop.

Bing E. Young
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
April 25, 2007

Name	Organization
Amanda Ormond	Ormond Group
Barbara Keene	Commission Staff
Barbara Klemstine	Arizona Public Service
Bill Musgrove	Commission Staff
Bill Sullivan	Mohave Electric—Navopache Electric
Bing Young	Commission Staff
Bob Baltes	Baltes Distributed Generation
Brian Hageman	Deluge, Inc.
Dale Fredericks	DG Power
Dan Brickley	Salt River Project
Dave Couture	Tucson Electric Power/Unisource Energy Services
Dave Hutchens	Tucson Electric Power/ Unisource Energy Services
David Berry	Western Resource Advocates
David Getts	Southwestern Power
Deb Scott	Snell & Wilmer
Eric Bronner	Gila River Power
Eric Woychik	Strategy Integration for Comverge
Ernest Johnson	Director, Utilities Division, Commission Staff
Gary Mirich	Arizonans for Electric Choice and Competition
Greg Patterson	Arizona Competitive Power Alliance
Jana Brandt	Salt River Project
Jerry Anderson	Commission Staff
Jim Hinrichs	Dynegy
John Wallace	Grand Canyon State Electric Cooperative Association
Jose Esperza	Southwest Gas
Justin Thompson	Arizona Public Service
Ken Jacobs	Southwest Gas
Larry Robertson	Mesquite/Southwestern Power Group
Leesa Nayudu	Sempra Generation
Leland Snook	Tucson Electric Power/ Unisource Energy Services
Malcomb Hubbard	Harquahala Generation
Marshall Magruder	Self
Pat Dinkel	Arizona Public Service
Patrick Black	Fennimore Craig

Name	Organization
Prem Bahl	Commission Staff
Ray Williamson	Commission Staff
Steve Ahearn	Residential Utility Consumer Office
Steve Bloch	Harquahala Generation
Steve Taylor	Commission Staff
Ted Roberts	Mesquite
Tom Jenkins	Harquahala Generation
Tom Wray	Southwestern Power Group
Walter Bray	Arizona Electric Power Cooperative