BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
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IN THE MATTER OF THE GENERIC PROCEEDINGS CONCERNING ELECTRIC RESTRUCTURING ISSUES.	Docket No. E-00000A-02-0051
IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR VARIANCE OF CERTAIN REQUIREMENTS OF A.A.C. R14-2-1606	Docket No. E-01345A-01-0822
IN THE MATTER OF THE GENERIC PROCEEDINGS CONCERNING THE ARIZONA INDEPENDENT SCHEDULING ADMINISTRATOR	Docket No. E-00000A-01-0630
ISSUES IN THE MATTER OF TUCSON ELECTRIC POWER COMPANY'S APPLICATION FOR A VARIANCE OF CERTAIN ELECTRIC COMPETITION RULES COMPLIANCE DATES	Docket No. E01933A-02-0069

TUCSON ELECTRIC POWER COMPANY'S COMMENTS ON TRACK B SOLICITATION PROCESS

Pursuant to the request of Arizona Corporation Commission Staff in its October 23, 2003 Memorandum, Tucson Electric Power Company (TEP) submits its comments on the Track B solicitation process.

ACHIEVEMENT OF OVERALL GOALS

The goals of the solicitation process were two-fold. First, as stated in Staff's October 25 2002 report, the goal of the process was "to facilitate a manageable transition to a competitive wholesale power market that provides economic benefits to consumers in Arizona." This goal was accomplished through the collaborative efforts of all the stakeholders that participated throughout the Track B workshops and hearings. The result

was a reasonable, well-defined and implemented process to transition the utilities into a wholesale procurement strategy to benefit its consumers while remaining cognizant of the risks associated with over-reliance on an immature wholesale power market.

The second goal was to insure that the utilities utilized open, fair, and consistent bidding and evaluation processes that did not favor affiliates or any other bidder. This goal drove the development of many of the solicitation's requirements (*e.g.*, independent monitors, standards of conduct, communications). Although this goal focused primarily on APS due to its affiliate participating in its solicitation, it also applied to TEP. TEP's solicitation met this goal to the extent it required processes unrelated to the existence of an affiliate.

WHAT WORKED WELL IN THE PROCESS

As a result of the detailed workshops and hearing process leading up to the solicitation, several components of the process effectively provided for a streamlined evaluation process. Parties who had been active participants had a chance to provide their input along the way and engage in the development of the utilities procedures, timelines and information. TEP posted its information for bidders on a dedicated website early in the process to give ample time for comments and questions on the solicitation documents. Further, both the pre-solicitation activities and bidders conferences provided additional venues for bidder input. TEP also began its evaluation modeling process and addressing credit issues with potential bidders well in advance of bid receipt. All of this pre-solicitation activity allowed for a streamlined RFP process with little interaction needed with the bidders after receipt of bids.

AREAS FOR IMPROVEMENT

Although the 2003 Track B solicitation resulted in an acceptable process regarding TEP's procurement of power, it did not provide TEP any benefit that could not have been recognized outside the solicitation process. The strict requirements of the 2003 solicitation removed substantial flexibility in TEP's ability to procure power in amounts and timelines

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that it thought appropriate. TEP understands that part of the resulting inflexibility was the result of both a prolonged workshop/hearing process and a deadline of procuring power prior to its peak summer period. However, the timing and content of future solicitations should be designed at the utility's discretion.

As a result of the process, TEP only received five bids in the non-standard product portion of its solicitation and no bids for standard products or reliability must run ("RMR") generation. TEP believes the results reflect: (i) TEP's unique delivery/transmission considerations and (ii) the possible deterrent effect of the bid fee on bids for standard products. The results also suggest that a fairly rigid process, such as the Track B solicitation, may not be well suited for more complicated RMR and long-term procurement issues, which typically require a longer evaluation period, including more interaction with the bidders during the evaluation process.

SHORT-TERM PURCHASE PROTOCOLS

Pursuant to the Track B Order, TEP is not required to develop short-term purchase protocols unless it has an affiliate offering power in the wholesale markets.

FUTURE SOLICITATIONS

In light of the limited bidder participation in TEP's first solicitation and TEP's lack of a generation affiliate, TEP requests that it be allowed to develop a more flexible procurement plan that restores management's discretion in timing and contents, while still meeting the principles of the Track B Order. To achieve this result, TEP purposes that it develop such a procurement plan that would include a mix of auctions, RFP's and bilateral agreements with non-affiliated third parties. This plan would be provided to Staff for its input. TEP's plan would not require a bid fee or an independent monitor for its future solicitations and would remain in place until TEP has an affiliate that could participate as a bidder.

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RESPECTFULLY SUBMITTED this 13th day of November, 2003.

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TEP/elecRest/track B/Comments on Solicitation (final)

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