

---

# **Federal Regulatory Developments**

**Steve Wheeler**

**Analyst Conference  
October 18, 2002**



**PINNACLE WEST  
CAPITAL CORPORATION**

# **Overview of Federal Developments Affecting Pinnacle West**

---

- **FERC agenda**
- **SMD**
- **EPNG capacity allocation**
- **Federal energy legislation**

# The FERC Agenda

---

- **Standard market design (SMD)**
- **RTO formation**
- **Standards of Conduct**
- **Interconnection procedures**
- **Market abuse investigation**
- **Contract “sanctity” hearings**
- **Expanded jurisdiction**

# **FERC WestConnect RTO Declaratory Order (October 10, 2002)**

---

- **Preliminary approval – Finds many aspects of the proposal satisfy Order 2000 requirements (e.g., governance structure, license plate rates, grid charges, etc.)**
- **Accepts for-profit RTO structure**
- **Recognizes need for regional flexibility and necessity of public power participation**
- **Directs resolution of seams issues among RTOs in the West**
- **Addresses relevance of final SMD rule**

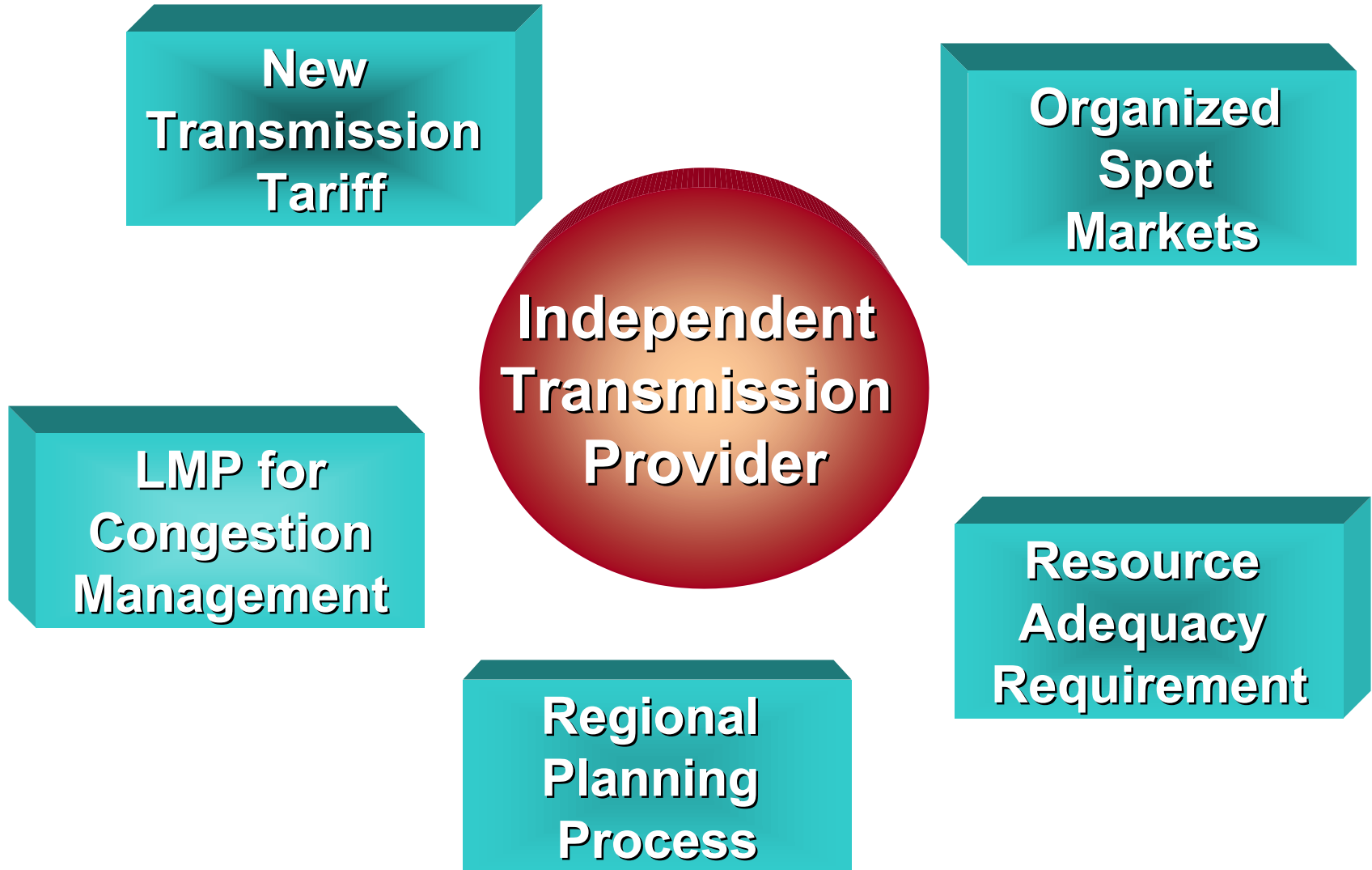
# **Why SMD (According to FERC)?**

---

- **Increasingly regional nature of electricity trade**
- **Residual discrimination**
- **Minimize “Seams” issues**
- **Avoid market manipulation**
- **Promote investment in necessary infrastructure**
  - **gx vs. tx vs. demand response**
  - **encourage development of new technology**
- **Lower costs to customers**
- **Framework for effective state & federal regulation**

# Core Elements of SMD

---



# Post-NOPR Process

---

- Initial comments due November 15
- More technical conferences
- Additional outreach sessions
- Final rule implementation (*January 2003?*)
  - July 31, 2003 – APS files interim tariff
  - Sept. 30, 2003 – Bundled retail under tariff
  - Dec. 1, 2003 – SMD compliance filings
  - 1 yr. after Rule – Regional planning
  - Jan. 31, 2004 – Security standards
  - Sept. 30, 2004 – SMD in effect

# **SMD Issues of Concern to APS**

---

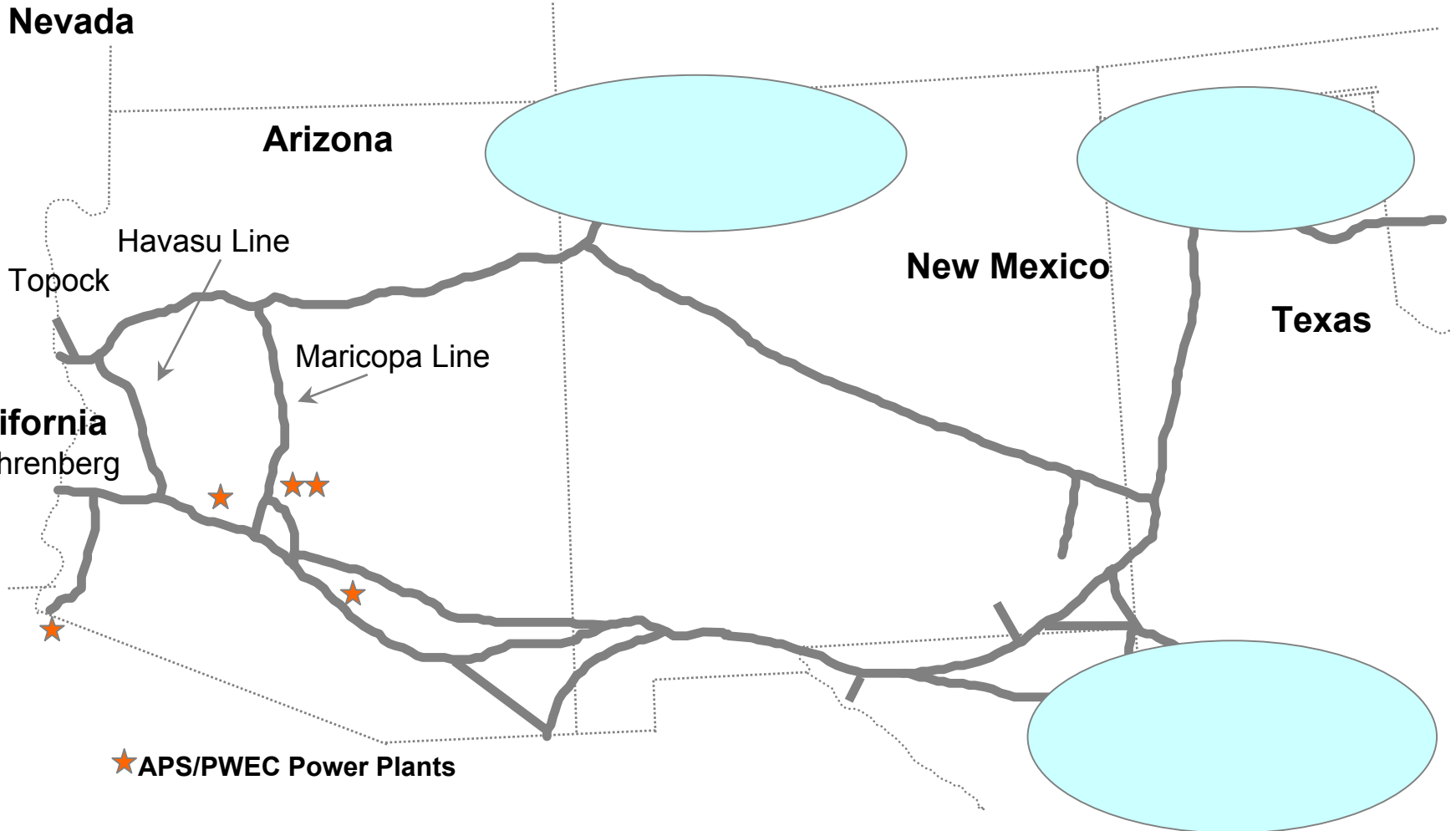
- 1. The SMD cannot work without public power participation**
- 2. Failure to recognize regional differences**
- 3. The protection of native load**
- 4. Pricing and cost shifts**
- 5. The regulatory “vise”**
- 6. Impact on resource planning**

# **SMD Issues of Concern to APS (cont.)**

---

- 7. No meaningful incentives for transmission ownership and infrastructure expansion**
- 8. Compliance dates unrealistic**
- 9. No demonstrated overall benefit for transmission owners, generators and customers**
- 10. The interplay between the ITP and WestConnect**

# APS/PWEC Power Plants Locations on El Paso's System



# EPNG Capacity Issue

---

- **FERC has ordered that APS' long-standing "Full Requirements" service rights be converted to specific Contract Demand levels based on historic usage**
- **FERC and El Paso actions will increase cost of gas and gas transportation and could affect "firmness" of service**
- **More administrative and litigation action to follow**

# Federal Energy Legislation

---

- Theme:  
competition needs more regulation
- Prospects: uncertain  
(conference committee has convened)
- PNW position: actively involved
- Significance:  
best chance for energy legislation in  
foreseeable future

# **Federal Energy Legislation: Top 10 Topics of Interest**

---

- 1. FERC public power jurisdiction**
- 2. RTO policy**
- 3. Renewable energy mandates**
- 4. Reliability standards**
- 5. Limits on market-based rates**
- 6. PUHCA repeal**
- 7. More restrictive merger review**
- 8. Distributed generation**
- 9. Additional consumer protections**
- 10. PURPA repeal**