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October 25, 2006

Ernest G. Johnson
Director of Utilities
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

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**Re: Proposed Staff Conditions, Devers-Palo Verde 2 Line Siting,
Docket No. L-00000A-06-0295-00130 (Case No. 130)**

Dear Mr. Johnson:

Arizona Public Service Company ("APS") and Salt River Project ("SRP") provide the following joint comments on the conditions proposed by the Arizona Corporation Commission Utilities Division Staff in the above referenced docket. It should be noted that neither APS nor SRP intervened in this proceeding and the companies are providing these comments at the request of Ms. Laurie Woodall, Chairman of the Arizona Power Plant and Transmission Line Siting Committee ("Siting Committee").

APS and SRP address the specific recommendations below. As a general overview, however, the companies are concerned that these conditions could interfere with contractual business arrangements and do not believe that a Certificate of Environmental Compatibility for construction of a transmission line is the appropriate way to address these issues.

Staff Proposed Condition 1: *Southern California Edison agrees to make good faith efforts to work within future California and regional proceedings to encourage regional access to natural gas storage facilities in California in a manner that addresses natural gas service reliability and efficiency in the region, including Arizona.*

APS/SRP Response: Both APS and SRP have actively supported the development of additional natural gas infrastructure in Arizona, including natural gas storage and additional pipelines. Although Transwestern Pipeline's application is proceeding before the Federal Energy Regulatory Commission ("FERC"), none of the storage projects have yet come to fruition. Because access

to regional natural gas storage would benefit Arizona utilities, APS and SRP would support good faith efforts being taken by SCE to encourage the opening of the natural gas storage market in California to Arizona utilities, at rates not to exceed those afforded to California's intrastate utilities. Such steps could include SCE's submitting a filing to the California Public Utilities Commission to support such an action.

Staff Proposed Condition 2: To ensure the second Palo Verde to Devers 500 kV transmission line does not adversely effect reliability of the Arizona Extra High Voltage (EHV) grid and power plants interconnected at the Palo Verde Hub, one of the following options must be adopted by Southern California Edison for construction of the new line:

a. The line must be constructed on separate towers or monopoles for its entire length and have sufficient physical separation from the existing Palo Verde to Devers line to assure a common mode outage frequency of less than one in thirty years (per NERC/WECC Planning Standards S-2) or that no cascading outages would occur for such a common mode outage (per NERC Category C.5) without the use of a special protection scheme,

OR

b. The WECC rated Path 49 shall not be operated above a level at which a, NERC Category C.5, common mode outage of the two Palo Verde to Devers lines would cause cascading outages unless a special protection scheme were activated. Studies are to be performed annually to establish with WECC such a Path 49 Operational Transfer Capability (OTC) limit for the common mode outage of the two Palo Verde transmission lines. If the Applicant does not want to perform annual studies, the Applicant may choose to request a lower rating of the line from the appropriate regulatory authority. The lower rating must achieve the above goals.

APS/SRP Response: The Western Electricity Coordinating Council ("WECC") is charged with setting the standards that govern what constitutes "sufficient physical separation." Consistency throughout the western interconnection is important. APS and SRP believe that determinations like line ratings and construction requirements, and whether the requirements are satisfied, should continue to be made by WECC. In addition, compliance with proposed condition 2.b could lower the rating of the line significantly thereby reducing the potential benefits to Arizona for off-system sales.

Staff Proposed Condition 3: The second Palo Verde to Devers 500 kV line shall terminate at the new Harquahala Junction Switchyard along with the existing Harquahala to Hassayampa 500 kV line in order to mitigate prevailing reliability risks associated with extreme contingencies in the vicinity of the Palo Verde trading hub. The Harquahala Switchyard is to be jointly owned by the Palo Verde to TS5 participants. The Harquahala Junction Switchyard to Hassayampa Switchyard line is to be jointly owned by Southern California Edison and the same Palo Verde to TS5 transmission participants.

APS/SRP Response: Although it is anticipated that both the Harquahala Junction Switchyard and the Harquahala Junction to Hassayampa transmission line will be owned jointly by SCE and the TS5 participants (APS, SRP, and Central Arizona Water Conservation District), the companies currently are in negotiations regarding the specific business structure for that ownership. APS and SRP do not believe the CEC should be conditioned in such a way that it might pre-determine the outcome of those negotiations due to the breadth of issues involved.

Staff Proposed Condition 4: *To assure that prevailing Palo Verde Hub commercial practices are not compromised by the transmission interconnections at Harquahala Junction Switchyard, Southern California Edison must prior to commencing operation:*

- a. *File with the Federal Energy Regulatory Commission and receive approval of a request, on behalf of all Palo Verde Hub interconnecting parties, for modification of the transmission tariff free zone at the Palo Verde Hub to include all transmission lines currently interconnecting power plants to either the Palo Verde Switchyard or the Hassayampa Switchyard,*

OR

- b. *File with the Arizona Corporation Commission (ACC) an executed transmission agreement with Harquahala Power Plant and the participants of the Palo Verde to TS5 transmission line that establishes that Harquahala Power Plant can schedule its full capacity over the Harquahala Junction Switchyard to Hassayampa Switchyard transmission line without transmission tariff costs and that all three parties will assume pro-rata obligations to share in the cost of an additional transmission line between these two switchyards as needed at some future date.*

APS/SRP Response: APS and SRP do not support this proposed condition. First, the companies are concerned that the condition would dictate the terms of commercial arrangements governed by the Federal Energy Regulatory Commission ("FERC") under established rules. The condition could result in cost shifting among parties. Indeed, the proposed condition, if adopted, would impose obligations on several entities that are not party to the docket, such as FERC, the Harquahala Power Plant, Palo Verde interconnecting parties other than SCE, and the owners of the Palo Verde Hub to TS5 transmission line. It is unclear in the proposed tariff free zone who reimburses Harquahala Power Plant for the capital investment in the line between the Harquahala Switchyard and the Hassayampa Switchyard. If the proposed condition assumes SCE and TS5 Participants reimburse Harquahala Power Plant for this section of line, how do SCE and TS5 Participants receive reimbursement for this significant expense? Additionally, there are significant on-going O&M costs (e.g., regular inspections, maintenance, taxes, insurance, energy losses, and operational scheduling activity) that need to be paid and are not addressed in the proposed condition.

Second, there are practical limitations on SCE's ability to comply with this condition. Under the participation agreements relating to the Palo Verde Switchyard and the Common Bus (Palo Verde Hub), SCE may not file anything with FERC that could impact existing business arrangements at the Common Bus without the prior consent of the other participants. The Common Bus was approved by FERC due to unique circumstances that do not apply in this docket.

Finally, it is difficult to expect that the owners of the Harquahala Power Plant would agree to pay for any portion of a future line between the two switchyards in light of its construction of the existing line.

Staff Proposed Condition 5. Control area authority and associated operational reliability obligations placed by the ACC upon power plants originally interconnected at the Palo Verde Hub are to be maintained with the new interconnection at Harquahala Junction. Such power plant obligations can be transferred to the transmission control area to which they are interconnected in the event that they desire to discontinue as a generator only control area operator.

APS/SRP Response: APS and SRP would not oppose this condition and anticipate that such obligations would be included in the agreement for the Harquahala Junction Switchyard.

Staff Proposed Condition 6. To assure that non-discriminatory open-access transmission principles are not compromised, commercial barriers to Arizona transmission users do not occur on lines serving as tie lines between CAISO and the forming WestConnect RTO operational footprint, and that no new seams issues between the two RTOs result from the construction of the Palo Verde to Devers 2 transmission line:

- a. Arizona Public Service Company shall have operational control of the Harquahala Junction Switchyard, the Harquahala Junction Switchyard to Hassayampa Switchyard transmission line and the Harquahala Junction Switchyard termination of the second Palo Verde to Devers transmission line and the Harquahala Power Plant line.*
- b. The Applicant executes a binding written agreement with the CAISO to limit its control area. The CAISO operational control and transmission tariff application shall initially end at the Devers termination of the Palo Verde to Devers 2 transmission line and may extend eastward to any future switchyard interconnecting with the line between Devers and the Colorado River. This implies a new Southern California Edison transmission tariff will be required should a future switchyard interconnect occur with the Palo Verde to Devers 2 line between Harquahala Junction and the Colorado River. The Applicant must file the executed agreement with the Commission prior to commencing operations of the line.*

APS/SRP Response: Condition 6a appears to be inconsistent with Condition 5 with respect to the Harquahala Power Plant.

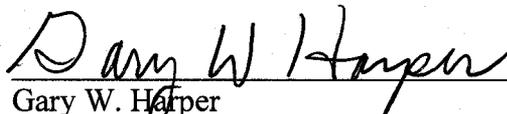
As with some of the above proposed conditions, this proposed condition would dictate commercial arrangements that could interfere with existing agreements or arrangements without resulting in any benefit to Arizona. APS does not need to have operational control of the Harquahala Power Plant line. Instead, for example, the Harquahala Power Plant may elect to continue to provide operational control over the Harquahala Power Plant-Harquahala Junction line, while the TS5 Participants may elect to have APS or SRP perform operational control on the Harquahala Junction-Hassayampa line.

In addition, moving the control area boundaries will not change the tariff provisions for the Palo Verde to Devers 2 line, a 100% SCE-owned transmission line. APS and SRP, through WestConnect,¹ are in discussions with the CAISO to understand the impacts of their Market Redesign and Technology Upgrade. The companies will work with CAISO and the Western Interconnection to resolve seams issues as they are defined.

Sincerely,



Cary Deise
Director, Transmission
Arizona Public Service Company



Gary W. Harper
Manager, System Operations
Salt River Project

cc: Laurie Woodall, Chairman, Line Siting Committee
Docket Control

¹ WestConnect is not a Regional Transmission Organization. As stated on its website (www.westconnect.com), "WestConnect is composed of utility companies providing transmission of electricity in the southwestern United States, working collaboratively to assess stakeholder and market needs and develop cost-effective enhancements to the western wholesale electricity market."