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MARC SPITZER, Chairman
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WILLIAM A. MUNDELL
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MIKE GLEASON

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IN THE MATTER OF THE GENERIC) DOCKET NO. E-00000A-02-0051
PROCEEDING CONCERNING ELECTRIC)
RESTRUCTURING ISSUES.)

IN THE MATTER OF ARIZONA PUBLIC) DOCKET NO. E-01345A-01-0822
SERVICE COMPANY'S REQUEST FOR A)
VARIANCE OF CERTAIN REQUIREMENTS)
OF A.A.C. R14-2-1606.)

IN THE MATTER OF THE GENERIC) DOCKET NO. E-00000A-01-0630
PROCEEDING CONCERNING THE)
ARIZONA INDEPENDENT SCHEDULING)
ADMINISTRATOR.)

IN THE MATTER OF TUCSON ELECTRIC) DOCKET NO. E-01933A-02-0069
POWER COMPANY'S APPLICATION FOR)
A VARIANCE OF CERTAIN ELECTRIC)
COMPETITION RULES COMPLIANCE)
DATES.)

IN THE MATTER OF THE APPLICATION) DOCKET NO. E-01933A-98-0471
OF TUCSON ELECTRIC POWER COMPANY)
FOR APPROVAL OF ITS STRANDED COST)
RECOVERY.)

NOTICE OF FILING TESTIMONY

The Arizona Electric Power Cooperative gives notice of the filing of the testimony of
Larry D. Huff in the AISA Hearing matter.

///

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RESPECTFULLY SUBMITTED this 28th day of July, 2003.

GALLAGHER & KENNEDY, P.A.

By: Michael M. Grant
Michael M. Grant
Attorneys for AEPCO

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filed with Docket Control.

COPY of this notice and testimony
mailed to each party listed on the
June 18, 2003 Procedural Order.

Beth Oakley

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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER, Chairman
JIM IRVIN
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OF TUCSON ELECTRIC POWER COMPANY))
FOR APPROVAL OF ITS STRANDED COST)
RECOVERY.)

Direct Testimony of

LARRY D. HUFF

**On Behalf of
Arizona Electric Power Cooperative, Inc.**

July 28, 2003

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1 **Q. Please briefly describe your background, educational qualifications and**
2 **experience as it pertains to this matter.**

3
4 **A.** I have a degree in Electrical Technology from the North Dakota College of
5 Science and have been associated with cooperatives in the area of Power
6 Production and Delivery for over 27 years. For 12 years, I served as a power plant
7 manager for combustion turbines as well as a large coal plant in the upper Great
8 Plains states. I have been with AEPCO/SWTC for more than fifteen years.
9 During this time, I have served as Manager of Production, which involved Power
10 Generation, Transmission, Engineering, System Planning and
11 Telecommunications. About five years ago, the power delivery function was split
12 out from the production group and became its own division of AEPCO. I retained
13 the responsibility for Transmission, Engineering, System Planning and
14 Telecommunications. At the time of AEPCO's restructuring in July of 2001, I
15 became Senior Vice President and Chief Operating Officer for SWTC. SWTC's
16 primary responsibility is to provide adequate, reliable and efficient wholesale
17 electric transmission for the delivery of AEPCO generation to the Class A
18 distribution cooperative members. This responsibility includes system planning,
19 design and construction, maintenance and operations.
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1 **Q. With respect to the Arizona Independent Scheduling Administrator**
2 **("AISA"), please describe your, AEPCO and SWTC's background and**
3 **involvement in the AISA.**

4
5 A. AEPCO and/or SWTC have been involved in the AISA since its inception.
6 AEPCO together with other Arizona utilities and stakeholders devoted resources
7 to form the AISA including the development of its Articles and Bylaws. I
8 personally was involved in these formative stages of the AISA and have served on
9 its Board of Directors as the transmission provider member group representative
10 since September, 1998. We estimate that we have directly expended
11 approximately \$100,000 in forming and supporting the AISA. Those direct
12 expenditures, of course, do not include amounts expended on countless hours of
13 staff time and related expenses the cooperatives have incurred on the AISA effort.
14 A more detailed discussion of the evolution of the AISA is set forth in the
15 comments AEPCO filed in this Docket (No. E-00000A-01-0630) on September 5,
16 2001.
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19 **II. Summary of Testimony.**

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22 **Q. What is the purpose of your testimony?**
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1 A. I will address issues raised in the May 30, 2003 Staff Report ("Staff Report") and
2 other issues associated with the AISA. AEPCO and SWTC strongly believe that
3 the AISA is not needed now and will not be necessary in the future to facilitate
4 retail competition. I'll also discuss the fact that continued involvement and
5 funding by the Affected Utilities is not necessary to the continuation of the AISA.
6 Particularly in light of the recent reduction in the AISA budget, if large
7 consumers, ESP's, merchant plant operators or other interested stakeholders wish
8 to continue the AISA they are free to do so.

9
10
11 **Q. What is your recommendation for the Commission?**

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13 A. We suggest that the Commission simply issue its order that AEPCO has fulfilled
14 its responsibilities under A.A.C. R14-2-1609 in relation to the AISA. The AISA
15 has been formed as required by R14-1609.D and the utilities long ago filed the
16 implementation plan as required by R14-2-1609.G. As Chairman Spitzer stated in
17 his July 12, 2001 letter to Commissioners Mundell and Irvin:

18 AEPCO, APS and TEP have participated in the governance,
19 incorporation, financing and staffing of the AISA and have spent
20 hundreds of thousands of dollars funding the AISA. TEP and APS
21 have agreed to the AISA protocols and incorporated them in their
22 FERC filings; AEPCO stands prepared to do so upon the opening of
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its market. I believe a reasonable reading of the rules would indicate that compliance has occurred.

I agree with Chairman Spitzer that Affected Utilities' compliance with the Rules has been accomplished and believe that this constitutes a fifth option which was not discussed in the Staff Report. The Commission can simply state in its Decision that the Affected Utilities Rules' obligations to the AISA have been met. At that point, the AISA will be free to fashion its own future as it sees fit.

III. Response to Staff Report.

Q. Mr. Huff, I'll ask you to respond to several issues raised in the Staff Report in just a moment. But first, if this Commission is to conclude that the Affected Utilities have complied with their Rules' responsibilities in relation to the AISA will that necessarily mean the discontinuance of the AISA?

A. No. First, Affected Utilities may not necessarily discontinue their involvement, financial or otherwise, if the Commission issues such an order. I do not mean to be disingenuous here. AEPCO will not continue its participation because participation simply imposes costs on our members and their member/owners without providing benefits. But, that does not necessarily mean that other utilities

1 will follow suit. Second, and more importantly, there certainly is nothing which
2 prohibits the AISA from broadening its base of financial support. It is an
3 organization independent of this Commission or the Affected Utilities. To the
4 extent that its other members such as Electric Service Providers, large commercial
5 or industrial consumers, merchant power plants or other interested stakeholders
6 feel the AISA is either in their short or long term best interests, they will be free to
7 and should step forward to finance the organization. That financing arrangement
8 would be far more just, reasonable, equitable and fair than the current one where
9 the vast majority of ratepayers who have received, and can expect to receive, no
10 benefits from the AISA provide its support.
11

12
13 **Q. Is your suggestion of different funding feasible?**

14
15 **A.** Yes. As is noted at page 3 of the Staff Report, the AISA recently downsized its
16 operations and reduced the annual AISA budget to just over \$150,000. To the
17 extent that its other market participants think the AISA can provide a valuable
18 service for them sometime in the future, only 15 of them would have to provide
19 \$10,000 each year to assure its continued existence.
20

21
22 **Q. Staff's basic position is that Arizona may need the AISA sometime in the next**
23 **two to five years to perform the following functions: (1) implementation and**
24 **oversight of operating protocols for fair and equitable transmission access, (2)**

1 **conduct of a dispute resolution process, (3) calculation of Available**
2 **Transmission Capacity and development and operation of a statewide OASIS,**
3 **(4) utilization of a single standardized procedure for transmission use**
4 **reservation and scheduling and (5) implementation of a transmission**
5 **planning process to assure that future load requirements are met. First, is**
6 **the AISA needed to implement and oversee operating protocols?**
7

8
9 A. No. The operating protocols were formulated and filed with the Commission
10 more than four years ago. Since that time, APS and TEP have incorporated those
11 protocols in their OATT's and SWTC will incorporate those protocols in its OATT
12 at such time as its member distribution cooperative service territories are opened
13 for competition. Thus, that function has been accomplished. As for oversight, if,
14 as and when the retail market develops, there may be some need for adjustment of
15 the protocols as different or unanticipated circumstances arise. But, that is no
16 different than the normal situation for many tariffs or operating procedures that
17 must be re-visited and adjusted as conditions warrant. That possible function
18 certainly does not require the additional bureaucracy, costs and expense associated
19 with the AISA. Each transmission provider is responsible for keeping its OATT
20 current. Transmission customers can suggest adjustments either directly to the
21 provider or through some action at the FERC.
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24 **Q. Is the AISA needed to resolve disputes?**

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A. I don't believe so. First, a few hundred customers took competitive service in Arizona on the APS, TEP and SRP systems throughout the year 2000 as the retail market first started and prior to its collapse. It's important to note that this start-up phase, of course, would have been the time when disputes over transmission access and protocol interpretation were most likely to occur. Despite that, as an AISA Board Member, I am not aware of a single instance when the AISA was called upon to resolve any dispute concerning any of these transactions or other start up issues. Second, consistent with Section 12 of the pro forma Open Access Transmission Tariff ("OATT") prescribed by FERC, SWTC's OATT and, I believe, the OATT's of the Affected Utilities contain provisions that require mediation and arbitration of disputes as they arise. Thus, the AISA would only be duplicating a process required by those tariffs in any event. Third, I'd stress that the AISA dispute resolution process is not binding. It has no power to enforce its decisions. If any party is dissatisfied with the result, it will still have to turn to the FERC for resolution. Finally, the FERC has set up a complete dispute resolution process, from a telephone hotline procedure to a full complaint and evidentiary hearing system.

Q. But, Staff states at page 10 of its report that having FERC resolve disputes especially for relatively small ESPs on thin profit margins is not an economically viable alternative.

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A. I'm not sure why Staff makes that statement--particularly in light of the informal dispute resolution process the FERC provides. The Enforcement Hotline is part of that Commission's Office of Market Oversight and Investigations and can be reached by toll free phone, email or regular mail. According to information on the FERC's website, it's available to market participants and the general public to complain about or report "market activities or transactions that may be an abuse of market power, an abuse of an affiliate relationship, a tariff violation, or another possible violation by a FERC regulated entity." The FERC states that Hotline staff mediators have been very effective in resolving disputes "in matters within the Commission's jurisdiction without litigation or other formal, lengthy proceedings." Obviously, there is no guarantee that the FERC Hotline is going to resolve a dispute short of more formal proceedings. There is also no guarantee that the mediation and arbitration techniques built into OATT's will resolve complaints to everyone's satisfaction. But, there's also no guarantee that the AISA's process will fare any better and it certainly does not have a vital role to fill given all of these other options. At most, AISA involvement is duplicative of institutions and/or procedures already present and those other institutions have expertise and experience the AISA lacks. Further, to the extent you're concerned about providing a dispute resolution process for those with limited resources, inserting a duplicative, non-binding arbiter like the AISA will likely make the process more, not less, expensive.

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Q. Is the AISA needed to calculate Available Transmission Capacity?

A. No. FERC-jurisdictional transmission providers are required to operate an OASIS (“Open-Access Same-Time Information System”) and the information required to be posted on the OASIS includes the amount of available transmission capability. While SWTC is not FERC-jurisdictional, SWTC has established an OATT and an OASIS (on which available transmission capability is posted) that meets FERC’s comparability standards.

Q. Another anticipated function for the AISA is development and operation of a statewide OASIS. Is the AISA necessary to perform that role?

A. No. As an initial matter, very early the SRP and WAPA withdrew from AISA membership and no longer participate in its activities. Therefore, it would not be possible for AISA to develop and operate a statewide OASIS in any event, absent the voluntary participation of those entities. APS, TEP and SWTC own and operate only about 40% of the state's transmission capacity (although their OASIS sites are available through a common address). I'd also point again to the historic experience of the year 2000. The AISA never moved to its Phase II operations which were to have included OASIS development and operation. Despite that, several hundred retail transactions were successfully scheduled and completed

1 using the individual OASIS sites then and now in place. Finally, this is another
2 area where regional developments have simply rendered this AISA anticipated
3 function unnecessary. As an outgrowth of developments of the Western Public
4 Power Initiative and West Connect, approximately 15 utilities throughout the west
5 including WAPA, SRP, APS, TEP and SWTC are joining together to form a
6 single, regional OASIS. This single regional OASIS is currently expected to be
7 operational by early next year. A July 22, 2003 news release concerning this
8 regional OASIS is attached to my testimony as Exhibit LDH-1.
9

10
11 **Q. Please comment on the AISA functions for a single standardized procedure**
12 **for reservation and scheduling as well as implementation of a transmission**
13 **planning process.**

14
15 **A.** The AISA is not necessary for either function and its involvement would likely
16 prove duplicative and counterproductive. Procedures for reservation and
17 scheduling are adequately covered in the OATT's of the Affected Utilities and,
18 once again, I'm aware of no problems with them nor the need for AISA
19 involvement in that area. As for transmission planning, the AISA would simply
20 duplicate a vast number of other processes which are better positioned to assess
21 and analyze Arizona's transmission needs. Those include this Commission's
22 biennial transmission assessment process, the activities of the CATS and WATS
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1 groups, individual utilities' transmission planning functions and the activities of
2 the WECC.

3
4 **Q. Mr. Huff, let me ask you to comment on a few other issues raised in the Staff**
5 **Report. At page 4, Staff states that there would be a “substantial cost in the**
6 **future to establish a new organization” if the AISA is shut down. Do you**
7 **agree?**

8
9
10 **A.** No. First, Staff's statement assumes that if the Commission concludes that the
11 Affected Utilities have discharged their Rules' obligations concerning the AISA
12 that will automatically lead to the AISA's termination. As I've mentioned
13 previously, that is not necessarily the case and it would be a simple, inexpensive
14 matter for other stakeholders to carry on and fund its existence. But, even if the
15 AISA ceases operations and then sometime in the future is thought to be needed,
16 all of the work, protocols (including the Reliability Must Run Protocols), FERC
17 filings, corporate documents and other tasks that have been developed and
18 accomplished will continue to exist and could be used again. Staff's statement
19 implies that more than \$1 million expended to date will be lost if the AISA has to
20 resume activities sometime in the future. That simply is not the case, regardless of
21 whether the FERC allows or encourages West Connect to perform the retail
22 functions that are the focus of the AISA protocols manual. Moreover, the
23 Reliability Must Run Protocols are likely to be revisited in conjunction with West
24

1 Connect as the units that are needed to be dispatched for reliability purposes are
2 likely to be needed with or without retail open access. Finally, the AISA is
3 unlikely to play any significant role, especially as compared to this Commission,
4 in the resolution of the issue of whether native load is to receive any priority in the
5 allocation of transmission along constrained transmission paths. FERC's recent
6 standard market design "white paper" indicates that it will afford more deference
7 to the states in such matters.
8

9
10 **Q. Finally, please comment on Staff's assertion that the AISA is a necessary**
11 **condition to encourage retail competition in Arizona and closing the AISA**
12 **could cause Arizona to lose potential competitors.**

13
14 **A.** I suppose my crystal ball is no better than anyone else's when it comes to the
15 subject of what forces will shape retail competition and the decisions of those who
16 want to compete. I do know this, however. The AISA was only in its formative
17 stages when more than a dozen ESP's nonetheless made application to this
18 Commission for certificates to compete. The AISA never moved beyond Phase I
19 of its efforts in the year 2000 and, as I've mentioned previously, several hundred
20 competitive transactions still occurred before the market collapsed. I just don't see
21 any evidence that the AISA was, in the past, or will be, in the future, a critical
22 decision element for any potential competitor to decide to enter the market. The
23 more critical fact is that Arizona has now become literally a "retail" island in this
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1 area as California, New Mexico and Nevada among others have either completely
2 abandoned or effectively shutdown retail competition. I certainly agree with Staff
3 that the Commission should undertake a wholesale review of its Electric
4 Competition Rules and we have suggested that in our comments supplied to Staff
5 in conjunction with the efforts of the Electric Competition Advisory Group. I just
6 do not agree that the decision on whether to continue the AISA or conclude that
7 the Affected Utilities like AEPCO have discharged their duties in relation to the
8 Rules needs to be tied to that process.

9
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11 **IV. Conclusion.**

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13 **Q. What is your recommendation for the Commission?**

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15 **A.** There is no evidence that the AISA is necessary now or in the near future and it is
16 very doubtful that the AISA will ever be needed even should a competitive retail
17 market develop. Most of its functions are unnecessary, duplicate processes
18 performed by others or have been overtaken by other entities or developments. If,
19 in the future, there proves to be some need for an entity like the AISA it could be
20 re-started and build on the efforts already accomplished or if the Affected Utilities
21 are allowed to withdraw it can be sustained by those stakeholders which consider
22 it an asset. Right now and for the foreseeable future, it simply is not needed and is
23 a waste of ratepayer money. We would ask that the Commission enter its order
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concluding that AEPCO has fulfilled its Rule 1609 obligations in relation to the
AISA.

Q. Does that conclude your testimony?

A. Yes, it does.

EXHIBIT LDH-1

IMPERIAL IRRIGATION DISTRICT – WESTCONNECT RTO

News Release

July 22, 2003

Western Utilities Launch Effort to Build A Common Transmission Market Interface

A diverse group of Western utilities has launched a voluntary cooperative effort to establish a common platform for the posting of available electric transmission capacity on the Internet. This independently operated common transmission platform, or Open Access Same-Time Information System (OASIS), will allow for path-based reservations of transmission, regardless of ownership. Sophisticated tools will also be available on the OASIS to establish a robust secondary market for transmission within the Western Interconnection. An added feature will be an energy bulletin board, which will be available to facilitate bilateral energy transactions.

This independently operated common transmission market interface will replace the participating transmission owners' present individual OASIS sites with a single Internet site utilizing a common user interface. Challenges posed by individual sites, which users have found burdensome to master, will be eliminated. The interface is a cost-effective means for streamlining non-discriminatory access to transmission and promoting bilateral energy markets throughout the West. The anticipated increased effectiveness and ease of use provided by the common OASIS, OASIS tools for access to the secondary transmission market, and the energy bulletin board that comprise the common transmission market interface will provide economic benefits to consumers. At the same time, participating transmission owners will continue to operate their individual systems.

The initial participants in this voluntary effort come from the Western Public Power Initiative (WPPI) and WestConnect RTO. They own and operate significant high-voltage transmission assets across nine states, including Arizona, California, Colorado, Western Nebraska, New Mexico, Nevada, West Texas, Utah and Wyoming.

WPPI is a group of governmental utilities and cooperatives which, while not subject to Federal Energy Regulatory Commission (the Commission) jurisdiction, have met on a regular basis over the last eighteen months to consider various options for enhancing the use of their transmission systems and energy related services for the benefit of their customers.

WestConnect RTO, a proposed regional transmission organization in the southwestern United States, has been considering a similar concept. It was created in response to the Commission's Order No. 2000. The WestConnect proponents received preliminary approval of their planned organization by the Commission on October 9, 2002.

Participants in WestConnect and WPPI have joined together to coordinate the development of the common interface. This joint initiative will eliminate duplication while allowing the two groups to pursue additional goals, both separately and in common. They are now finalizing the scope of work that will be used by an independent OASIS operator and are confident that operation of the common transmission market interface will be initiated in early 2004.

Transmission owners and operators launching the effort to build the common transmission market interface include Arizona Public Service Company, El Paso Electric Company, Imperial Irrigation District, Los Angeles Department of Water and Power, Public Service Company of New Mexico, Sacramento Municipal Utility District, Salt River Project, Southwest Transmission Cooperative, Tri-State Generation and Transmission Association, Tucson Electric Power Company, and Western Area Power Administration. Other utility entities, including Southern California Public Power Authority, have expressed interest in this effort and are considering participation in the initial construction of the common transmission market interface.

Jeffrey Sterba, Chairman, President and Chief Executive Officer of Public Service Company of New Mexico, stated "We believe that the common transmission market interface will be a significant step forward in market development in the West by simplifying the grid user's ability to complete transactions. It will also be the first step in WestConnect's phased implementation plan that will provide immediate benefit to consumers."

"We are especially pleased with the response and willingness of transmission owners throughout the Western Interconnection, both public and private, to share their expertise and work cooperatively in this effort to improve reliability and reduce costs to customers," said David H. Wiggs, General Manager of Los Angeles Department of Water and Power.

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