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BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

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COMMISSIONERS

- MARC SPITZER, CHAIRMAN
- JIM IRVIN
- WILLIAM A. MUNDELL
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A.A. CORP. COM. DOCUMENT CONTROL

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 A VARIANCE OF CERTAIN REQUIREMENTS OF A.A.C. R14-2-1606.

Docket No. E-01345A-01-0822

IN THE MATTER OF THE GENERIC PROCEEDING CONCERNING THE ARIZONA INDEPENDENT SCHEDULING ADMINISTRATOR.

Docket No. E-00000A-01-0630

IN THE MATTER OF TUCSON ELECTRIC POWER COMPANY'S APPLICATION FOR A VARIANCE OF CERTAIN ELECTRIC COMPETITION RULES COMPLIANCE DATES.

Docket No. E-01933A-02-0069

IN THE MATTER OF TUCSON ELECTRIC POWER COMPANY FOR APPROVAL OF ITS STRANDED COST RECOVERY

Docket No. E-01933A-98-0471

NOTICE OF FILING TESTIMONY

Pursuant to AISA Hearing Procedural Order (dated June 18, 2003), Tucson Electric Power Company ("TEP"), through undersigned counsel, provides notice that it has filed the Direct Testimony of Edmond A. Beck, a copy of which is attached.

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Respectfully submitted this 28th day of July, 2003.

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By 

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DIRECT TESTIMONY OF EDMOND A. BECK

I. INTRODUCTION.

Q: Please state your name and address.

A: My name is Edmond A. Beck. My business address is Tucson Electric Power Company ("TEP"), P.O. Box 711, Tucson, Arizona 85702.

Q: What is your position with TEP?

A: I am the Supervisor of Transmission Planning and Administration. In that capacity, I am responsible for TEP's transmission system planning and transmission system service requests, including requests for interconnection and transmission-related contract matters.

Q: Please describe your educational background.

A: I received a Bachelor of Science degree in Civil Engineering and a Masters Degree in Business Administration from the University of Arizona. I am a Registered Professional Engineer in the State of Arizona and a member of the American Society of Civil Engineers.

Q: Please summarize your work experience.

A: I have worked in the electric utility industry for 24 years. Currently, in addition to my role as Supervisor of Transmission Planning and Administration, I am TEP's representative in the WestConnect development process, a Member of the Board of Directors of the Arizona Independent System Administrator ("AISA"), a member of the Western Electric Coordinating Council ("WECC") Market Interface Committee, a member of the Seams Steering Group – Western Interconnection ("SSG-WI") Planning Work Group, and one of WestConnect's representatives on the SSG-WI Steering Group. I am also involved in other various transmission-related committees in the region.

1 Prior to assuming my present position, I was Project Engineer and Project Manager for
2 various transmission line and substation projects, Contract Negotiator for Contracts and
3 Wholesale Marketing, Contract Negotiator for System Operations for the implementation of
4 the Federal Energy Regulatory Commission's ("FERC") OASIS requirements, and
5 Supervisor of Resource Planning. In connection with these assignments, I have designed
6 and managed the construction of various 138kV, 345kV and 500kV transmission projects.
7 I also have negotiated agreements related to transmission in the region, including
8 development of TEP's Open Access Transmission Tariff ("OATT"), and TEP's FERC
9 rates. I was TEP's lead negotiator in the creation of the Southwest Reserve Sharing Group.

10
11 Q: Have you previously testified in transmission-related regulatory proceedings?

12 A: Yes, I have testified in FERC proceedings regarding TEP's OATT. I have also testified in
13 proceedings before the Arizona Power Plant and Transmission Line Siting Committee
14 ("Committee") and the Arizona Corporation Commission ("Commission") regarding TEP
15 transmission issues. For example, I testified in the support of TEP's 345kV transmission
16 project to Nogales, TEP's 500kV transmission project between Saguaro and Tortolita and
17 TEP's 345kV Winchester Substation project. I also have testified in an arbitration case
18 involving the TEP transmission system. And, before the FERC, I have testified regarding
19 Capacity Benefit Margin issues and AISA issues.

20
21 Q: What is the purpose of your direct testimony?

22 A: The purpose of my testimony is to respond, on behalf of TEP¹, to the AISA Hearing
23 Procedural Order dated June 18, 2003 ("AISA Procedural Order"). Specifically, I am filing
24 my testimony in response to the instruction in the AISA Procedural Order that direct

25
26 ¹ This direct testimony is being filed on July 28, 2003. It is contemplated that UniSource Energy
27 Corporation, the parent company of TEP will acquire Citizens Communications' Arizona Electric and Gas
properties prior to the hearing scheduled in this matter. Accordingly, representatives of UniSource, TEP and
Citizens have agreed that my testimony will be sponsored by each of those entities through TEP.

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testimony “shall address, in addition to those issues raised in the May 30, 2003 Staff Report, all other issues associated with the continuation of the AISA that a party wishes to raise in this proceeding.” Accordingly, my testimony discusses: (1) a general history of the AISA; (2) a review of TEP’s involvement with the AISA; (3) an update of the activity of the AISA; and (4) TEP’s response to the recommendations of the Staff Report concerning the AISA filed on June 2, 2003 (“Staff Report”).

Q: Mr. Beck, do you have any preliminary comments that you wish to make?

A: Yes, I do. I want to make sure that my testimony is received in its proper context. I recognize that for testimony to be valuable to the Commission it must be, among other things, candid. For example, I note that the Staff Report addressed both successes and failures of the AISA process. In fact, I think it would be difficult to properly analyze the AISA without acknowledging both the accomplishments that have been achieved and the problems that have been encountered. It should not be a surprise then that in my testimony I, too, discuss both successes and failures of the AISA.

However, nothing in my testimony should be construed to be contrary to TEP’s obligation to “fully support the development of the Arizona Independent Scheduling Administrator [] and Desert STAR.” [Decision No. 62103 (Settlement Agreement at Section 9.1)] As I discuss in greater detail below, TEP has been a strong supporter of the AISA. I believe that, by sponsoring my testimony (even though in part it may seem to be critical of the ongoing role of the AISA), TEP is continuing to demonstrate its commitment to the proper development of the AISA.

1 **II. HISTORY OF THE AISA.**

2
3 Q: Mr. Beck, please provide a general history of the AISA.

4 A: I will not attempt to detail each and every event that has transpired related to the AISA.
5 But, I will discuss key events that have shaped the AISA into the organization that it is
6 today.

7
8 The AISA has its origins in the Commission's effort to establish retail electric competition
9 in Arizona. In my mind, the AISA and retail competition were intended to be, and are,
10 inseparably linked.

11
12 The earliest starting point for the AISA is the Commission-sponsored retail electric
13 competition workshop that was held on September 7, 1994. At this workshop represen-
14 tatives of the Commission's Utilities Division ("Staff"), incumbent utilities, and other
15 concerned parties discussed the potential for retail electric competition in the State and
16 eventually resulted in the formation of the Electric Competition Working Group.

17
18 On January 25, 1995, the Electric Competition Working Group met and formed three task
19 forces: (1) Energy Efficiency and Environment; (2) Regulatory; and (3) System and
20 Markets. In particular, the System and Markets task force was charged with addressing
21 transmission access and prices; transmission and generation system operations; system
22 reliability; and other related issues. The Systems and Markets task force investigated
23 various methods for operating a transmission system in connection with a competitive retail
24 electric market. This investigation also touched on the need for an entity such as the AISA.

25
26 On December 26, 1996, the Commission issued Decision No. 59943, approving A.A.C.
27 R14-2-1601 *et seq.* (the "Retail Electric Competition Rules"). One portion of those rules,

1 A.A.C. R14-2-1609.D, required incumbent utilities that owned or operated Arizona
2 transmission facilities to form an Arizona Independent Scheduling Administrator that
3 would file with the Federal Energy Regulatory Commission for approval of an Independent
4 Scheduling Administrator.

5
6 The Retail Electric Competition Rules also prompted the formation of additional working
7 groups that focused on the necessary steps to transition to a competitive retail electric
8 market. During 1997 and the early part of 1998, Staff conducted numerous meetings
9 involving the working groups, that addressed such issues as metering, meter reading,
10 billing, safety, reliability, ancillary services, committed uses, must-run generation,
11 development of operational protocols, and the feasibility of developing an independent
12 system operator ("ISO") or an independent scheduling administrator ("ISA").
13 Concurrently, during the 1998 the Arizona legislative session, House Bill No. 2663 (the
14 "Electric Power Competition Act") was enacted. The Electric Power Competition Act
15 provides that public power entities and the Commission should coordinate their efforts in
16 the transition to retail competition to promote consistent statewide application of rules,
17 procedures, and orders.

18
19 Through these working groups, it was determined that (a) in order for there to be retail
20 electric competition in Arizona there should first be a means for providing non-
21 discriminatory retail transmission access; and (b) an ISO should be implemented.
22 Consequently, interested parties evaluated the feasibility of forming "Desert STAR", to be a
23 regional ISO that would include Arizona. I should note that over time the concept of
24 forming and operating Desert STAR has evolved to seeking authorization from FERC to
25 form a for-profit Regional Transmission Organization ("RTO") called "WestConnect".
26 However, initially, the focus was on the creation of Desert STAR. In order to meet the
27

1 potential immediate need for retail transmission access during the development of Desert
2 STAR, the AISA was formed.

3
4 Q: Could you briefly describe the structure and funding of the AISA?

5 A: On September 1, 1998 the Arizona "Affected Utilities" submitted a plan to the Commission
6 for implementation of the AISA. This plan included the Articles of Incorporation, Bylaws,
7 Financing, Timeline and Contingency Plan, as well as other documentation. In this
8 submittal the budget for the AISA was estimated at \$1,475,000 capital start up costs and
9 \$2,548,000 annual operating and maintenance ("O&M") costs for the first two years and
10 \$1,648,000 for years three through five. The Affected Utilities agreed to initial funding of
11 the capital startup costs and \$900,000 of the first two years of O&M costs with the
12 understanding that all of these costs would be recovered from customers through a
13 transmission surcharge. As various delays in start-up of the organization occurred, as well
14 as a recognition by the AISA Board that a contingency "shut down" fund should be
15 maintained, the ultimate funding and timeline for cost recovery was adjusted. The initial
16 repayment to TEP was received in August of 2001 and on May 20, 2003 the final
17 repayment was made. In June of this year, the AISA Board of Directors requested the
18 AISA staff to look at ways of reducing the cost of the organization. Effective July 1, 2003,
19 the AISA Board of Directors downsized the AISA staff from two full-time employees to
20 one three-quarter-time employee. Also, reductions were made in insurance levels and
21 office space.

22
23 Q: Mr. Beck, when the AISA was created, was it intended to be a permanent organization?

24 A: No. It was apparent that Desert STAR (and then WestConnect) would not be operational
25 within the time frames adopted by the Commission for the commencement of retail electric
26 competition in Arizona. Thus, the AISA was created to implement retail electric
27 competition in Arizona, by ensuring non-discriminatory retail access to the Arizona

1 transmission system, until Desert STAR/WestConnect could be established. It was
2 expected that, once an ISO or RTO (such as WestConnect) was established to serve
3 Arizona, the AISA's responsibilities would be transferred to the new entity. Moreover, an
4 ISA is more limited in its abilities than an ISO or an RTO because the ISA would cover
5 only use of transmission within the State of Arizona and then only transmission that was
6 being used to serve retail load. For those seeking to use the transmission systems for
7 wholesale transactions, the ISA provides no value. The RTO is contemplated to span
8 several states and cover all transmission within the RTO, whether for retail or wholesale
9 use. Also, the costs of expanding the ISA to full functionality would be cost prohibitive
10 when spread only over the relatively few retail customers in Arizona, particularly when
11 compared to the ability to spread such costs over a much larger RTO customer base.

12
13 Q: Please summarize the original purpose for the AISA?

14 A: The purpose is detailed in A.A.C. R14-2-1609. In general, the AISA was to temporarily (a)
15 oversee the application of operating protocols for non-discriminatory transmission access;
16 (b) provide a dispute resolution service regarding Arizona transmission problem; (c) be
17 responsible for the determination of available transmission capacity and operate the Open
18 Access Same Time Information System ("OASIS"); (d) implement the standardized
19 procedures for reserving and scheduling Arizona transmission facilities; and (e) oversee a
20 transmission planning process for future load requirements.

21 Q: Has the AISA been able to meet those purposes?

22
23 A: Not all of them. As you can see, the AISA was originally envisioned to meet all the needs
24 of retail customers in the state. When the costs of implementing all of the systems and
25 hiring the manpower required to provide the various functions was reviewed, all parties to
26 the AISA realized that the full functionality of the AISA would be very expensive. As a
27 result, the parties agreed to develop the functionality in two distinct phases and implement

1 only Phase I initially. The Staff Report discusses this phasing. The initial phase would
2 provide limited functionality for the AISA, but at a minimal cost. This is the only phase
3 that has been approved by FERC and the only phase that has been implemented to-date.
4 The present functionality of the AISA covers items a, b, and d of the purposes identified for
5 the AISA in my previous answer. Two significant (and potentially costly) items that were
6 contemplated, but never developed, are: (1) calculation of available transmission capacity
7 (“ATC”) and operation of an OASIS; and (2) a planning process for the state. While the
8 AISA never developed a planning process for Arizona, the utilities themselves (as well as
9 other stakeholders such as the Commission and Independent Power Producers) have
10 developed such a process through the Central Arizona Transmission Study (“CATS”). The
11 concept of this process is being expanded throughout the West under the banner of the
12 Seams Steering Group – Western Interconnection. The function of calculating ATC by the
13 AISA is one that has not been pursued and would require considerable professional level
14 staffing for the organization. Operation of an AISA OASIS has likewise never been
15 pursued and would be very costly to develop. In the meantime, through the WestConnect
16 effort, the Affected Utilities and others stakeholders throughout the Southwest are currently
17 developing a single OASIS site for the Southwest that would be much broader than the
18 OASIS originally contemplated by the AISA. This would eliminate the need for AISA to
19 perform the function.

20
21 Q: Mr. Beck, what were the specific initial activities that were to be undertaken by the AISA?

22 A: As noted in the Staff Report, the AISA Board of Directors determined that protocols to
23 assist in ensuring non-discriminatory retail access to the Arizona transmission system
24 needed to be developed. That development was to take place in phases, as also noted in the
25 Staff Report.

26
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1 Q: Was a set of protocols ever developed?

2 A: Yes. A set of operational and administrative protocols (the "Protocols Manual") was
3 established to govern operations of the AISA. The Protocols Manual defines the duties to
4 be performed and the procedures to be followed by the AISA, Control Area Operators
5 ("CAOs"), Transmission Providers ("TPs") and Scheduling Coordinators ("SCs"). The
6 Protocols Manual was approved by the AISA Board of Directors and filed as part of the
7 AISA's Tariff at FERC on September 1, 2000. *See* FERC Docket No. ER00-3583-000.
8

9 Q: What was the FERC's reaction to the AISA Protocols Manual filing?

10 A: The FERC initially found this filing deficient. This required TEP and Arizona Public
11 Service Company ("APS") to modify their existing OATTs to incorporate the Protocols
12 Manual. Subsequently, the FERC jurisdictional utilities in the AISA filed with FERC to
13 incorporate the Protocols Manual into their individual OATTs. FERC subsequently
14 approved the implementation of Phase I of the AISA effective November 1, 2000 in Docket
15 No. ER00-3583-000, issued November 30, 2000.
16

17 Q: What was the purpose of the Protocols Manual?

18 A: The Protocols Manual addresses, among other subjects: transmission allocation for retail
19 service; transmission reservations and OASIS management; congestion management for
20 retail service; emergency operations; must-run generation; ancillary services for retail
21 service; scheduling for retail service; and checkout. It is further intended that adoption of
22 and adherence to the Protocols Manual will result in CAOs and TPs employing uniform
23 standards and procedures applicable to retail electric service in Arizona that will facilitate
24 the use of Interconnected Transmission facilities for retail electric service on a non-
25 discriminatory basis. Finally, consistent with the AISA's Bylaws, Schedule Administration
26 Agreement, and Tariff, an ultimate objective of the Protocols Manual is to coordinate the
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1 reservation, allocation, scheduling and uses of transmission, ancillary services, and must-
2 run generation resources by Scheduling Coordinators for retail service.

3
4 Q: Please describe the general activities of the AISA since its inception.

5 A: The activity of the AISA has ebbed and flowed since its inception. Initially, the AISA
6 employed a Director and then several months later, an Assistant Director. These two
7 positions comprised the staff of the AISA who were engaged in the administrative details of
8 starting up the organization including overseeing the discussions of various workgroups
9 writing the Protocols Manual. The Director resigned after approximately five months upon
10 which the Board of Directors then named the Assistant Director as the Acting Director, a
11 position that continues today. Subsequently, the Acting Director hired an assistant for
12 administrative functions and retained Arizona legal counsel and a Certified Public
13 Accountant. The AISA has held periodic Board of Directors meetings to deal with issues of
14 approving the Protocols Manual, developing the agreements between Transmission
15 Owners, Scheduling Coordinators and the AISA. The Board of Directors spent many hours
16 on the FERC process including developing a filing at FERC, dealing with deficiency orders
17 from FERC and Compliance filings.

18
19 The AISA Acting Director participated in various industry activities to keep abreast of
20 current industry practices, such as Western Electric Coordinating Council ("WECC")
21 activities, Central Arizona Transmission Study workgroups and Commission meetings. I
22 should note that, to-date, the AISA has not been called upon to perform its "dispute
23 resolution" function. Another function that the AISA is expected to perform is the
24 operation of an Open Access Same Time Information System ("OASIS") for the affected
25 utilities. Early in the process, the parties realized that such an undertaking would incur
26 significant expense for the AISA. The parties held discussion regarding consolidation of
27 existing OASIS systems. The Affected Utilities ultimately agreed to consolidate their

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postings onto one website with individual nodes for each provider. This would allow the AISA to have one website to which it could go and review all OASIS postings for conformity with the Protocols Manual. However, this has not occurred as anticipated. I feel that I should note that all of these AISA activities have costs associated with them, which have been borne by Affected Utility participants and customers.

III. CURRENT STATUS OF THE AISA.

Q: Mr. Beck, please describe the current status of the AISA.

A: Today, the AISA is not really very active. For the reasons that I have already discussed and because direct access has not developed in Arizona as originally anticipated, the AISA is not currently providing any of the functions it was originally established to serve.

Q: What action has the AISA Board of Directors recently taken regarding the operation of the AISA?

A: On April 25, 2003, the AISA Board of Directors met and reviewed the operations of the AISA. The Board of Directors requested that AISA staff provide a proposal to reduce the AISA's personnel, office space, insurance and accounting expenses. As I previously mentioned, at one time the AISA employed two full-time people. Now, the AISA is staffed with one employee who works three-quarter time. On May 14, 2003, the AISA Board of Directors voted to revise the AISA Articles of Incorporation to extend the existence of the organization "until Federal Energy Regulatory Commission approved Regional Transmission Organization is operational and serving Arizona." That vote eliminated the sunset provisions that were originally included in the incorporation documents for the organization. Without this change, the AISA would terminate later this year.

1 Q: Why did the AISA Board of Directors vote to extend the AISA, if it is providing little or no
2 service at this time?

3 A: Some of the AISA Board of Directors felt that the AISA would be the only appropriate
4 dispute resolution facilitator in the event that retail access was viable in Arizona. These
5 members of the Board of Directors also felt that the cost of maintaining the organization
6 was a small price for customers to pay for the ability to utilize this dispute resolution
7 mechanism in the future.

8
9 Q: What is the current status of Desert STAR and WestConnect?

10 A: As I mentioned earlier Desert STAR no longer exists. It was the genesis for the proposed
11 WestConnect. WestConnect is proposed as a for-profit RTO that is being developed in
12 response to FERC Order 2000. The current timeline for WestConnect contemplates
13 implementation of WestConnect functionality in phases. It is anticipated that Phase One
14 will be implemented in the first quarter of 2004. This phase will include a single OASIS
15 system for the Southwest and a market-posting mechanism for energy products. The goal
16 of WestConnect is to provide a single market interface for energy transactions in the
17 Southwest. WestConnect is currently undertaking a cost-benefit analysis of the RTO with
18 the specific review of the costs and benefits of full RTO functionality. Based on this
19 analysis, WestConnect will develop a proposed timeline for implementation of future
20 phases.

21

22 **IV. TEP'S SUPPORT OF THE AISA.**

23

24 Q: Mr. Beck can you please discuss TEP's involvement in and support of the AISA?

25 A: Yes. TEP has fully supported the AISA from its inception. TEP participated in the
26 rulemaking proceedings and workshops that gave rise to the AISA. TEP was heavily

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involved in the development of the AISA Protocols Manual. TEP has invested many man-hours in the development of the AISA.

TEP also has supported the AISA through my participation on the AISA Board of Directors. I have been a member of the AISA Board of Directors since September 2000.

Further, TEP has participated in all Commission inquiries related to the AISA and supported the AISA before the FERC staff in June of 2000. I should also note that TEP intervened in support of the AISA at FERC and modified its OATT as required by FERC related to the AISA.

Q: Did TEP file an AISA implementation plan as required by the Commission?

A: Yes. The TEP AISA implementation plan was filed with the Commission on September 1, 1998 in conjunction with the other Affected Utilities.

V. **TEP'S RESPONSE TO STAFF'S REPORT FOR THE GENERIC PROCEEDING CONCERNING THE ARIZONA INDEPENDENT SCHEDULING ADMINISTRATOR.**

Q: Mr. Beck, have you reviewed the Staff Report?

A: Yes. The result of Staff's analysis of the AISA was four recommended options for the future of the AISA. These four options are:

Option 1: End the retail electric competition effort in Arizona, close down the AISA and return to a traditional regulated monopoly structure.

Option 2: Retain the existing Retail Electric Competition Rules and close down the AISA.

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Option 3: Retain the existing Retail Electric Competition Rules and the downsized AISA.

Option 4: Combine the consideration of the AISA with the Commission requirement in the Track A Decision that Staff open a rulemaking to review Retail Electric Competition Rules. This could include a review of all aspects of competition in Arizona and would specifically invite participation by potential national competitors that may be interested in becoming Electric Service Providers in Arizona. The review would include a full discussion of the role of AISA in Arizona's marketplace, to include an evaluation of the AISA structure, functions, and organization. The downsized AISA would remain in place while the review is undertaken.

After assessing the options, the Staff recommended that the Commission approve Option 4. Staff further noted that "[t]his option serves as the best insurance for the possibility that interest in retail competition can be renewed." In addition, in assessing Option 4, Staff stated that:

The Staff-led Retail Electric Competition Rules review can consider any appropriate changes to the Rules, while, at the same time, consider how the AISA will fit in Arizona's future competitive market and how the AISA structure, functions, or organization could be changed to enhance Arizona's future competitive market. Keeping AISA at this bare minimum level would allow Arizona to be prepared to respond quickly if renewed retail competition were to commence in the state.

1 Q: What is your opinion on Staff's recommendation that Option 4 be implemented?

2 A: This recommendation is a reasonable option for the Commission. However, I believe there
3 are several concerns that should be considered before adopting Staff's recommendation.
4

5 Q: What are those concerns?

6 A: First, the AISA has been incorporated since 1998, but has been providing little, if any, of
7 the expected benefits. Indeed, there continues to be a great deal of discussion about the
8 functionality of the AISA. During its tenure, due to the limited direct access activity in
9 Arizona, the AISA has yet to be involved in any dispute resolution proceeding. The
10 argument that keeping the AISA at a bare bones level would "allow Arizona to be prepared
11 to respond quickly if renewed retail competition were to commence in the state" should be
12 analyzed on a cost-benefit basis.
13

14 Second, the Protocols Manual that was developed for handling retail access is extensive
15 and, I believe, adequately provides for dealing with the eventuality of vibrant retail access.
16 In my opinion, the Protocols have worked well so far and will serve to reduce any
17 likelihood of the need for dispute resolution by the AISA.
18

19 Third, in order for the AISA to reach the functionality that was originally envisioned for
20 retail purposes – namely that the AISA would be the entity that receives and deals with all
21 requests for retail access transmission service – and to allow a "quick response" to
22 increased retail competition, the AISA would have to move on to "Phase II." This would
23 be a very costly change, require the addition of a considerable number of staff and require a
24 new filing at FERC. This is not something that could be done quickly.
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1 Q: If the AISA would cease to exist, how could retail access disputes involving transmission
2 be resolved?

3 A: The Staff Report suggests that an alternative to AISA dispute resolution would be FERC
4 dispute resolution. I believe that this, too, is a reasonable option. However, I believe there
5 could be three alternative options for dealing with disputes other than by utilizing the
6 AISA. One option is the current dispute resolution provisions that exist in the transmission
7 providers' OATTs. TEP would be willing to discuss with Staff the development of an "on
8 call" list of parties that could be called on for quick dispute resolution. Such a
9 methodology was part of the Southwest Regional Transmission Association before it was
10 subsumed by the WECC. A second option would be a complaint proceeding before the
11 FERC. This process already exists. The third option could be filing an informal or formal
12 complaint with this Commission. Again, the procedures and rules for this type of a
13 proceeding already exist.

14
15 Q: Is the AISA necessary to develop a robust wholesale generation market in Arizona?

16 A: The present focus of the Commission concerning electric competition is to develop a
17 healthy wholesale generation market. That was a key result of the Track A proceeding and
18 a key purpose of the Track B proceeding. However, the AISA is not critical to achieving
19 that goal. From a historical perspective competition in the wholesale generation market in
20 the West, and particularly in Arizona, has existed independent of the AISA. For example,
21 the Western Systems Power Pool (WSPP) began as an agreement among a group of utilities
22 in the western states. The agreement, which was filed with the FERC by Pacific Gas and
23 Electric Company on behalf of the group, established a multi-state bulk power marketing
24 experiment. The agreement was meant to test whether broader pricing flexibility for
25 coordination and transmission services would promote increased efficiency, competition,
26 and coordination. The WSPP began operations in 1987, first as an experiment allowed by
27 FERC and then, beginning in 1991, as a more permanent entity. Its initial purpose was to

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allow sales of power for short-term transactions to take place with a maximum of flexibility and minimum of regulatory filings and to test market efficiency and competition. Today, it is used to allow transactions to occur without constant renegotiations of contract terms and to standardize terms, thereby promoting liquidity in the market. The current WSPP agreement is open to power sellers and customers and is the result of a consensus reached by a diversified group of power sellers and consumers, including most of the major players in the industry. Right now, the WSPP Agreement is the most commonly used standardized power sales contract in the electric industry.

Moreover, throughout the time that the AISA has been developing, the wholesale market has mushroomed. There are now additional independent generators competing with incumbent utilities for business. While maintaining a base of self-owned generation has allowed most of the Arizona utilities to eliminate rate shock during the "California Problem," the current glut of generation in Arizona is allowing these utilities to now reap the benefit of competition amongst the various generation owners in the real-time markets.

VI. CONCLUSION.

Q: Do you have any concluding direct testimony?
A: Yes, I do. Given the uncertain state of retail access in Arizona, the Staff's recommendation (Option 4) is reasonable. Should the Commission choose to adopt the Staff's recommendation, TEP would urge the Commission to conduct a cost-benefit analysis of the AISA and to clearly state the specific expectations for the AISA.

Alternatively, to the extent the Commission believes that the Protocols currently incorporated in the Affected Utilities' OATTs can meet the perceived role of an ISA – with the exception of dispute resolution – then the Commission should consider suspending the

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AISA and ordering the Affected Utilities to rely upon the Protocols. TEP believes that the Protocols would enable retail competition to take place in Arizona. Moreover, a suspension of the AISA would not foreclose transmission access dispute resolution because, as noted above, there options other than the AISA for such dispute resolution, assuming such disputes will even arise in the near term.

Q: Does this conclude your direct testimony?

A: Yes, it does.