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EXCEPTION

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BEFORE THE ARIZONA CORPORATION COMMISSION 1:17

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3 WILLIAM A. MUNDELL  
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Commissioner  
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AZ CORP COMMISSION  
DOCUMENT CONTROL

7 IN THE MATTER OF A.R.S § 40-360.02 )  
8 REQUIRING THE ARIZONA )  
9 CORPORATION COMMISSION TO )  
10 PERFORM A BIENNIAL TRANSMISSION )  
11 ASSESSMENT OF EXISTING AND )  
12 PLANNED TRANSMISSION FACILITIES )  
AND ISSUE A DECISION REGARDING )  
ADEQUACY TO MEET ARIZONA'S )  
ENERGY NEEDS IN A RELIABLE )  
MANNER. )

DOCKET NO. E-00000A- 01-0120

Arizona Corporation Commission  
**DOCKETED**

APR 13 2001

DOCKETED BY  
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14 **EXCEPTIONS OF ARIZONA PUBLIC SERVICE COMPANY**  
15 **TO STAFF'S PROPOSED FORM OF ORDER REGARDING THE BIENNIAL**  
16 **TRANSMISSION ASSESSMENT**

17 Arizona Public Service Company ("APS") respectfully requests the Arizona  
18 Corporation Commission ("Commission") to decline Staff's request to formally "adopt"  
19 the Biennial Transmission Assessment, 2001 – 2009, filed March 1, 2001 ("Assessment").  
20 Instead, the Commission should order additional proceedings and workshops, and provide  
21 for stakeholder comment and review of the Assessment, before making any formal  
22 findings on the adequacy of Arizona's integrated transmission system.

23 **I. INTRODUCTION**

24 Staff's efforts in preparing the Assessment provide useful information on  
25 transmission issues in Arizona. However, the Commission should decline to "adopt" a  
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1 report that: (1) includes specific factual findings and legal conclusions directly affecting  
2 parties such as APS that are contrary to information already before the Commission, and  
3 without allowing affected parties any meaningful opportunity to comment or respond; (2)  
4 purports to analyze and resolve highly technical and complex issues without any peer  
5 review; and (3) makes critical policy recommendations without complying with statutory  
6 rulemaking procedures, including an opportunity for public and industry involvement. The  
7 Assessment itself admits that more detailed technical studies are “necessary” to properly  
8 conduct an assessment of transmission adequacy in Arizona, but due to resource  
9 constraints no such technical studies were performed.

10 Although APS appreciates the efforts of the two authors in applying their industry  
11 experience and knowledge, particularly with the limited resources they note in the  
12 Assessment, the lack of peer review and a meaningful opportunity to comment on the  
13 report has resulted in conclusions that are too alarmist and in some cases are simply  
14 wrong. Many of these deficiencies could be readily corrected—and perhaps other issues  
15 uncovered and addressed—in a technical workshop setting. Further, in those cases where  
16 the Assessment presents a policy conclusion, the Commission should not act without  
17 considering the views, criticisms, clarifications, and input of other stakeholders to guide  
18 its decision-making.

19 Accordingly, APS asks the Commission: (1) decline to adopt the Assessment in its  
20 present form, (2) schedule workshops before a revised report is forwarded to the  
21 Commission for consideration, (3) allow for formal comments with responses by affected  
22 parties, (4) modify the Assessment based upon the record developed, and (5) include all  
23 parties’ comments as appendices in the final Assessment. Only through such a  
24 deliberative process can this Commission ultimately make fully-informed and well-  
25 reasoned conclusions regarding Arizona’s current and future transmission adequacy.  
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1 Alternatively, if the Commission wishes to in some fashion accept the Assessment “as is,”  
2 Staff’s proposed order should be amended as set forth in Appendix A to these Exceptions  
3 so that the most troubling and controversial aspects of the Assessment do not become  
4 formal findings of fact and conclusions of law of the Commission.  
5

### 6 III. SUMMARY OF SUBSTANTIVE ISSUES

7 APS’ preliminary substantive responses to the Assessment are summarized below.<sup>1</sup>  
8 In general, APS believes that core policy issues and principles should not be adopted by  
9 the Commission based solely on this Assessment. As explained below, APS has  
10 fundamental substantive disagreements with many of the primary conclusions of the  
11 Assessment.

#### 12 A. The Assessment’s Conclusion that APS’ Current and Planned 13 Transmission System is Inadequate and Untimely.

14 The Assessment’s ultimate conclusion that APS’ existing and planned transmission  
15 system is inadequate is simply not true and is not supported by the analysis in the  
16 Assessment. For example, the Assessment’s definition of “adequacy”—which the  
17 Assessment states is that of the North American Electric Reliability Council (“NERC”)—  
18 omits a critical component of the NERC definition. The omitted portion of the NERC  
19 definition of adequacy requires an evaluation of “scheduled and reasonably expected  
20 unscheduled outages of system elements.” The Assessment, however, improperly  
21 concludes that “adequacy” requires sufficient transmission to deliver energy under “all  
22 conceivable generation and load patterns.”

23  
24 <sup>1</sup> After the Assessment was issued, APS began reviewing the report and compiling detailed  
25 comments. The Assessment had recommended that supplements be filed and workshops should  
26 commence approximately three months from the date of the report. Thus, APS had not anticipated  
the Commission itself addressing the Assessment on the April 17, 2001 Open Meeting until it  
received the Staff Report last week. In an effort to provide the Commission with APS’ review to  
date, APS has attempted to summarize its more significant concerns in these Exceptions.

1           Also, APS presented testimony demonstrating the adequacy of its existing and  
2 planned transmission at a Special Open Meeting on February 16, 2001. The Assessment  
3 does not refer to this presentation or why the Assessment reached a different conclusion  
4 regarding APS' transmission adequacy. Similarly, the Western Systems Coordinating  
5 Council ("WSCC"), the NERC regional authority for transmission reliability, concluded  
6 in its most recent reliability security assessment for the Western Interconnection (which  
7 includes APS) that both existing and planned transmission facilities were adequate. The  
8 Assessment does not identify this study nor explain why the Assessment has reached a  
9 different conclusion. It is also unclear as to what specific reports and studies were  
10 evaluated in the Assessment, and whether the most recent reports and studies have been  
11 considered.

12           Finally, the Guiding Principles document at Appendix A of the Assessment  
13 provides that transmission adequacy and compliance with A.A.C. R14-2-1609(B) will be  
14 determined by "analysis of power flows and transient stability simulation of single  
15 contingency outages." The Guiding Principles document—which has also not been  
16 subject to industry or public comment or a rulemaking—cannot and should not establish  
17 Commission policy on transmission or generation adequacy.<sup>2</sup> Even so, the Assessment  
18 does not show how the existing or planned transmission systems fail the analysis set forth  
19 in the Guiding Principles document. Indeed, the Assessment states that resource  
20 constraints prevented any independent study work from being conducted. Further, APS  
21 does not believe that the discussion of adequacy in the Guiding Principles document  
22 provides for sufficient metrics or other methods to reasonably measure system adequacy.  
23

24 <sup>2</sup> Staff has previously taken the position that one reason a rulemaking was not required for  
25 the Guiding Principles document was that it was not a formal Commission policy. If the  
26 Commission intends to adopt or endorse the Guiding Principles, a rulemaking process is  
necessary.

1 Accordingly, the Assessment does not provide evidence that APS' existing or planned  
2 transmission system is either inadequate or untimely, and the Commission should reject  
3 the Assessment's conclusions to the contrary.

4 **B. Conclusion No. 1: There is very little long-term firm regional**  
5 **transmission capacity available to export or import energy over**  
6 **Arizona's transmission system.**

7 This Assessment conclusion is incorrect. There is over 4,900 MW of transmission  
8 capacity between Arizona and California excluding capacity reserved for California-based  
9 joint owners of Arizona power plants. APS alone has over 1,100 MW of transmission  
10 import capability from California. It appears that the Assessment's conclusion is premised  
11 on a determination that there is not enough additional transmission capacity to allow for  
12 every power marketer to import or export all of the energy theoretically available all of  
13 the time.

14 The Assessment is correct that much of the existing transmission import and export  
15 capacity is committed to Arizona loads or Arizona-based utilities. However, given the  
16 amount of planned merchant generation for this state, Arizona consumers should not be  
17 required to fund transmission capacity solely to allow power marketers to export their  
18 energy to California and Nevada. Likewise, if Arizona generation resources are sufficient  
19 (with the addition of new proposed power plants), those parties seeking to import even  
20 more generation should bear any associated costs. In fact, this appears consistent with the  
21 Commission's recent comments to the Federal Energy Regulatory Commission ("FERC")  
22 in the "Removing Obstacles" proceeding, FERC Docket No. ER01-47-000.

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26 <sup>3</sup> The conclusions are from the Assessment's Executive Summary, at p. iii.

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**C. Conclusion No. 2: Southeastern Arizona utilities rely on restoration of service rather than continuity of service following transmission outages due to service via radial lines.**

It is unclear whether the Assessment's conclusion applies to APS, which serves Bisbee and Douglas. If it does, APS would note that it is implementing the transmission system improvements identified in the Southern Arizona Regional Transmission Study, which the Assessment acknowledges is a sound plan. The Assessment, however, fails to recognize that restoration of service may be a preferable approach to constructing additional transmission, when factors such as the probability of an outage, time to restore, economic cost of constructing additional transmission facilities, and the environmental costs of such facilities are balanced. APS thus disagrees with the Assessment's conclusion that its existing system fails to comply with WSCC transmission reliability requirements, or that APS' service is either inadequate or insecure.

**D. Conclusion No. 3: There are transmission import constraints for three geographical load zones in Arizona: Phoenix metropolitan area, Tucson and Yuma. Planned transmission enhancements fail to resolve this situation in a timely manner.**

Although there are transmission import constraints in Arizona's metropolitan areas, the presence (or absence) of transmission constraints does not alone support any conclusion regarding transmission adequacy or dictate whether additional transmission facilities are either necessary or desirable. The Assessment's analysis of transmission constraints is flawed for several reasons. First, the Assessment rejects the use of local generation in the overall reliability equation—despite the fact that the Commission expressly recognized the critical role of local generation. *See* Decision No. 61969 (Sept. 29, 1999) at 40. As a result, the Assessment wholly eliminates existing and future generation projects inside the Phoenix load zone from its consideration of transmission adequacy. Second, the Assessment incorrectly assumes that “exposure” to local generation will increase as population growth increases, without considering APS' planned

1 transmission additions into Phoenix. Third, the existence of transmission constraints sends  
2 appropriate price signals to encourage merchant generators to site power plants near load  
3 centers, reducing overall customer costs and improving economic efficiency. *See* Decision  
4 No. 61969 at 41 (“ideally market forces, and not UDC decisions, should drive plant-siting  
5 decisions by new market entrants or merchant generators”). Finally, the Assessment did  
6 not consider an additional 68 MW of firm transmission rights to Yuma held by APS, and  
7 thus APS does not know whether the Assessment’s conclusions would be altered by this  
8 fact.

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10 **E. Conclusion No. 4: The existing and planned additions to the Palo Verde transmission system fail to accommodate the full output of all new power plants proposing to interconnect at Palo Verde requiring curtailment and scheduling restriction procedures to be developed.**

11  
12 If every proposed power plant seeking to interconnect at the Palo Verde hub were  
13 fully constructed, and all were operated at full capacity concurrently, there would be  
14 inadequate transmission capacity to accommodate the output. But that is not necessarily  
15 an undesirable situation, nor does it mean that the transmission system is somehow  
16 inadequate for the cost-effective and reliable delivery of energy to retail customers. Some  
17 plants may be used as spinning reserve, some plants may be inactive for maintenance  
18 reasons, some plants may come online and displace less-economic generation, and some  
19 plants (or at least units) may never be constructed. Indeed, some merchant generators may  
20 elect to deliver energy to utilities with existing transmission rights on the system and  
21 require the utility to arrange for transmission service—a transaction that would not require  
22 the generator to itself obtain any transmission rights. The Assessment’s assertion that  
23 sufficient transmission must be constructed to allow all power plants to reach their  
24 markets at all times simply ignores practicality and would result in large-scale  
25 overbuilding of transmission. Moreover, FERC specifically recognizes that generators can  
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1 obtain interconnection service without any request for transmission service. *Re Tennessee*  
2 *Power Company*, 90 FERC ¶61,238 (2000). Also, under FERC Order No. 888 and other  
3 authority, merchant generators cannot dispatch energy into the system without holding  
4 transmission rights, so no system-wide curtailment plan is necessary.

5 APS is obligated to construct sufficient transmission to reliably serve its native  
6 load. Transmission above this level, to be used for power marketing and other wholesale  
7 transactions, is the responsibility of merchant generators and power marketers. Ultimately,  
8 if more generating capacity is actually built than can be simultaneously accommodated by  
9 the transmission system, multiple generators competing for economically scarce resources  
10 will result in the most efficient generator reaching its market to the benefit of Arizona  
11 consumers. The Commission should not, as an unqualified rule, encourage Arizona  
12 utilities to overbuild transmission so that every merchant plant can access any market at  
13 any time.

14 **F. Conclusion No. 5: Some proposed power plants are being**  
15 **interconnected to Arizona's bulk transmission system via a single**  
16 **transmission line or tie rather than continuing Arizona's best**  
**engineering practice of multiple lines emanating from plants.**

17 The Guiding Principles document—a document that has not been subject to peer  
18 review, industry or public comment, or a rulemaking—does not reflect best engineering  
19 practices in Arizona. Based on data requests sent to Arizona utilities seeking historical  
20 information and using the results out of context, Staff compiled what it believes is  
21 evidence of a two transmission line requirement for Arizona power plants. However, the  
22 determination of how many transmission lines are appropriate or desirable to intertie a  
23 specific generator to the transmission system is a case-specific inquiry that depends on  
24 system topology, economic considerations, and environmental impacts. The Commission  
25 itself (and the Siting Committee) has properly rejected a “two line” requirement in those  
26 cases where the circumstances did not warrant the construction of a second transmission

1 line. Here, outside a formal rulemaking, the Commission cannot (and should not) adopt  
2 the Guiding Principles document as the basis for transmission design and engineering in  
3 this state.

4 **G. The Recommendation that APS File a Supplement to its 10-Year**  
5 **Transmission Plan by April 30, 2001.**

6 The Proposed Order directs transmission providers, including APS, to supplement  
7 their 10-Year Plans to address the issues identified in the Assessment. However, due to  
8 the significant disagreement with both the factual, legal, and policy conclusions of the  
9 Assessment, attempting to supplement APS' 10-Year Plan before the Assessment itself is  
10 addressed in technical workshops and subject to public and industry comment would be  
11 imprudent, if not impossible. Even if it were possible to respond to the Assessment in its  
12 current form, two weeks is insufficient time to meaningfully address highly-technical and  
13 complicated transmission planning issues that involve coordination with many entities  
14 besides APS.

15  
16 **III. PROCEDURAL ISSUES**

17 The opportunity for meaningful participation in an adjudication affecting a party's  
18 interests is a fundamental element of due process recognized under both Arizona and  
19 federal law. U.S. Const. amends. 5 & 14; Ariz. Const. art. II, § 4. The Assessment and  
20 the recommended order, if adopted by the Commission, could be interpreted by some as a  
21 formal and final Commission determination that APS, and other Arizona utilities, have  
22 inadequate transmission systems and have not timely planned transmission additions. That  
23 conclusion would appear to suggest that these utilities are in violation of A.A.C. R14-2-  
24 1609(B). Under settled principles of administrative law, finders of fact have a duty to  
25 consider all of the evidence, *Lorion v. United States NRC*, 785 F.2d 1038, 1042 (D.C.Cir.  
26 1986), and to enter findings of fact demonstrating that they have considered all of the

1 evidence, *Brown v. Rock Creek Min. Co.*, 996 F.2d 812, 816 (6th Cir. 1993). The  
2 Commission's acceptance of findings and conclusions in the Assessment, without  
3 allowing affected parties any meaningful opportunity to participate in this proceeding,  
4 would clearly violate those parties' constitutional due process rights.

5 Moreover, attempting to hold parties such as APS to new interpretations of  
6 regulatory standards that contradict previous Commission positions would also violate  
7 those parties' rights to due process. For example, prior to promulgating the Assessment,  
8 the Commission has never held that to comply with A.A.C. R14-2-1609(B) a Utility  
9 Distribution Company could not rely on local generation. In fact, the only previous  
10 Commission guidance on this rule specifically recognized that a UDC's obligation  
11 "depends upon the adequacy of its distribution system, local generation, and  
12 interconnections with the bulk transmission system." Decision No. 61969 at 41 (emphasis  
13 added). Here, the Assessment's conclusion that APS has failed to meet the obligations  
14 imposed by Rule 1609(B) appears dependent on the unsupported interpretation of how the  
15 rule should be applied. (*See* Assessment at p. 30.)

16 Finally, interested parties must be allowed to participate in the development of the  
17 Assessment. When making critical policy choices, whether in this proceeding or in a  
18 rulemaking, the public interest requires as much collaborative participation among  
19 interested stakeholders as possible. The give-and-take between parties approaching  
20 disputed issues from different directions, with different interests, and on behalf of  
21 different constituents, affords the Commission with the most evidence on which to make  
22 correct policy decisions.



1 adopt the Assessment in its present form, but initiate further proceedings as described  
2 above.

3 RESPECTFULLY SUBMITTED this 13th day of April, 2001.

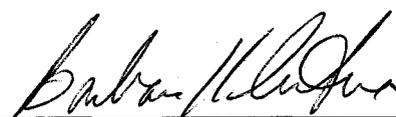
4 SNELL & WILMER L.L.P.

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6   
7 \_\_\_\_\_  
8 Steven M. Wheeler  
9 Thomas L. Mumaw  
10 Jeffrey B. Guldner  
11 400 E. Van Buren  
12 Phoenix, AZ 85004-2202  
13 Attorneys for Arizona Public Service  
14 Company  
15  
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**CERTIFICATE OF SERVICE**

The original and ten (10) copies of the foregoing document were filed with the Arizona Corporation Commission on this 13th day of April, 2001, and service was completed by mailing, e-mailing or hand-delivering a copy of the foregoing document this 13th day of April, 2001 to all parties of record herein.

  
\_\_\_\_\_  
Barbara Klemstine

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# **APPENDIX A**

## APPENDIX A

COMPANY: BIENNIAL TRANSMISSION ASSESSMENT AGENDA ITEM NO. U-1

DOCKET NO. E-00000A-01-0120

OPEN MEETING DATE: April 17, 2001

=====

Page 2, line 1

**DELETE** "are supported in the Assessment, and"

Page 2, lines 17-22

**DELETE** Findings of Fact 6 and 7 **and renumber accordingly.**

Page 3

After line 3, **INSERT** the following:

11. Several interested parties, including Arizona Public Service Company, have filed comments ("Comments") responding to the Assessment and have taken issue with certain portions of Staff's methodology, data, procedures, conclusions, and recommendations and have urged the Commission not to formally adopt the Assessment in its present form. Instead they ask the Commission to schedule collaborative public workshops so that all interested parties can comment and be heard. The Comments raise significant factual, legal, and policy issues which should be further reviewed by Staff and considered by the Commission before any final decisions are reached.

Page 3, line 8

**DELETE** "The Commission, having reviewed"

Page 3, line 10

**DELETE** "concludes that the Biennial Transmission Assessment, 2000-2009" and **REPLACE** with "and the Comments constitute compliance with"

Page 3, lines 10-11

**DELETE** "should be adopted as the basis for the Commission's Biennial Transmission Assessment Decision required by"

Page 3, line 13

After "2001," **INSERT** "and the Comments"

Page 3, line 14

**REPLACE** "7" with "8"

Page 3, line 18

After "2001" **INSERT** "and the Comments are"

**REPLACE** "adopted" with "accepted"

Page 3, lines 20-22

**DELETE** paragraph

Page 3, lines 24-26

**DELETE** "for the purpose of reviewing the supplemental filings ordered above to assure that the plans as supplemented will achieve the reliability required in a timely manner to deliver Arizona's energy needs."

**REPLACE** with "to further review Staff's Assessment and the comments of interested parties."