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Arizona Corporation Commission

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

DOCKET NO. E-00000A-01-0630

COMMENTS OF THE ARIZONA
ELECTRIC POWER
COOPERATIVE, INC.

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9
10 Pursuant to the August 3, 2001 procedural order, the Arizona Electric Power
11 Cooperative, Inc, ("AEP CO") submits these comments on the issues identified. The Arizona
12 Independent Scheduling Administrator ("AISA") is not necessary for competition
13 implementation, entails a needless expenditure of Arizona ratepayer monies and should be
14 terminated promptly.

15 COMMENTS

16 1. State and discuss the purpose of the AISA.

17 **Statement:** The AISA's original purpose was simply to facilitate retail electric
18 competition in Arizona by assisting in the delivery of comparable, non-discriminatory
19 transmission access. It was to act: (1) as an "auditor" or monitor of Arizona "retail competition"
20 transactions on the OASIS; (2) with a set of procedures (or "protocols") developed by member
21 transmitting utilities to use in those transactions; and (3) with a simple, quick (24-hour
22 turnaround) dispute resolution process for problems arising out of those transactions.

23 **Discussion:** The AISA was originally conceived by Arizona's utilities as an outgrowth
24 of Desert Star discussions when it appeared an "ISO lite" would be a useful alternative to the

1 very expensive, very complex, very large organization then being proposed for Desert Star. The
2 utilities then believed that a viable competitive retail market was at hand in Arizona. They also
3 believed that a simple set of common operating procedures and a monitor who could settle small
4 disputes quickly (the rest would go to FERC for “hotline” resolution or other proceeding) would
5 be helpful in avoiding phase-in problems. The utilities made it a priority, sent staff to form it and
6 Articles of Incorporation and Bylaws were proposed.

7 Certain utilities then felt it would be helpful to include stakeholders in discussions to give
8 them an understanding of the process. Rounds of “negotiations” began and the governing
9 documents were modified. The ACC Reliability and Safety Work Group¹ became part of the
10 process, ultimately supplanting the original organization in drafting the protocols. Interest
11 groups lobbied the ACC staff, resulting in A.A.C. R14-2-1609(D) (“Rule 1609”) which required
12 certain jurisdictional utilities to form a private entity, the AISA, on a specific timetable with
13 specified functions and characteristics. It was to be funded almost exclusively by utilities from
14 their wholesale customers and retail standard offer and competitive customers.

15 Thus, original simple AISA purposes mushroomed into an organization that would for
16 certain jurisdictional utilities: (i) calculate the available transmission capability (ATC) for each
17 transmission line/facility; (ii) develop and operate an overarching statewide OASIS; (iii)
18 implement and oversee the protocols; (iv) provide dispute resolution processes (for claims in the
19 reservation, scheduling, use and curtailment of transmission services); (v) require all reservations
20 and scheduling of transmission service go through the AISA; (vi) implement a transmission
21 planning process to assure that the future load requirements of all participants will be met; (vii)

22
23 ¹ The work group was originally formed after a widespread WSCC blackout to find ways to
24 assure reliability in a retail competition market when investigators found IPP and marketer
conduct had contributed to the cascade which resulted in the blackout.

1 develop statewide protocols for pricing and availability of services from must-run units; and (vii)
2 identify statewide services and develop fair and reasonable pricing mechanisms for a transaction
3 settlement process.

4 With such a broad imprimatur, the AISA (over utility protestations about excessive cost
5 and questionable need) had, by August 2000, added to its implementation plan: monitoring ATC
6 releases, calculating OASIS/ATC, administration of a statewide OASIS, oversight of total retail
7 committed use determinations, and the establishment of a trading floor to trade energy
8 imbalances, trading of allocated retail network transmission (ARNT) and ARNT auction
9 settlement-the latter to be implemented on a phased-in basis when AISA retail transactions
10 reached a 400MW trigger level.

11 **2. State and discuss the necessity of the AISA and whether it contributes (or not) to the**
12 **development of retail competition.**

13 **Statement:** The AISA is not required in order to operate a transmission system that
14 accommodates retail competition. The AISA does not contribute to electric retail competition or
15 add value to any service now being provided in Arizona.

16 **Discussion:** The AISA was organized primarily to eliminate the need for market
17 participants to look to FERC with every perceived open access problem during the phase-in of
18 retail competition. The AISA was never needed operationally for retail competition to occur.
19 FERC has already required all transmitting utilities to provide open access transmission on a
20 wholesale level and all buyers of transmission for retail purposes are wholesale buyers. Further,
21 FERC has set up a complete dispute resolution process, from a quick telephone hotline process to
22 a full complaint and evidentiary hearing system, backed up by FERC orders, federal regulations
23 and the Federal Power Act.

24 For a number of reasons not contemplated when the ACC required greatly increased

1 functions for the AISA in Rule 1609, a viable retail competition market has not occurred in
2 Arizona. Further, it will be well into the future before conditions change that would facilitate
3 retail competition. The handful of transactions that have or are occurring involve long term
4 agreements and AEPCO believes the AISA neither monitors nor has involvement in these
5 transactions. Southwest Transmission Cooperative, Inc. ("SWTransco") has a director on the
6 AISA Board of Directors. He is unaware of any transactions the AISA has monitored or
7 reviewed.

8 The reasons for the lack of retail competitive activity in Arizona have nothing to do with
9 AISA and everything to do with: (1) the current market cost of energy and (2) to a certain
10 extent, the competition transition charges (CTC's) of Arizona's two biggest jurisdictional electric
11 utilities. Since CTCs will last through 2008 for Tucson Electric Power and 2004 for Arizona
12 Public Service, the AISA has no contribution to make nor purpose to fulfill during the interim.
13 Also, even if market prices decline dramatically, as already discussed the AISA is still not
14 needed operationally for retail competition to occur.

15 **3. State and discuss the functions of the AISA.**

16 **Statement:** At this time, the AISA has and performs no function other than to send bills
17 to recover its expenses and hold board meetings.

18 **Discussion:** According to its August, 2000 Implemental Plan, the AISA should currently
19 operate phase one with two functions: 1) to monitor "retail" transmission usage and requests for
20 such transactions providing an independent review of the terms and conditions of the
21 transactions and 2) to provide dispute resolution. For all practical purposes, there has not been
22 nor is there currently any retail electric competition transactions occurring in Arizona. With no
23 transactions, there is nothing to monitor. Without transactions, there are no disputes to resolve.

24

1 The AISA simply has nothing to do.

2 **4. State and discuss the costs of the AISA. (How many employees, what they do on a**
3 **daily basis, etc.).**

4 **Statement:** To date, the AISA has cost \$857,878, an amount which has been advanced
5 by the utilities. It projects revenues of \$201,258 for August 2001. Monthly expenses for July
6 2001 were \$64,461. AISA has two employees, an Acting Executive Director and an Office
7 Manager. The AISA also pays for the following monthly expenses: 1) facilities rent; 2) legal
8 costs of FERC and local corporate attorneys; 3) accounting and bookkeeping services; 4) office
9 expenses, such as office supplies, telephone, FAX, Internet services, and postage; 5) Director
10 E&O Insurance; and 6) other Board expenses, such as lunches at board meetings and costs of
11 conference calls for directors to attend Board meetings.

12 **Discussion:** SWTransco's director on the AISA Board states that he does not know what
13 the daily activities of the two AISA employees involve and can only judge by work product
14 presented to the Board, which includes the monthly bills to TEP and APS. AISA Staff processes
15 these bills after the utilities send in estimated retail loads. They determine the funds needed to
16 cover AISA monthly operating costs as well as the amount needed to collect from TEP and APS
17 to send back to TEP and APS as the AISA monthly payment for start-up loans advanced by
18 them. The funds are collected and deposited, after which the process repeats the next month.
19 AISA Staff schedules Board meetings and prepares Board reports. It also consults with AISA's
20 attorneys and files various actions intervening in its member's FERC cases. Some AISA
21 directors are very concerned about the legal costs of the AISA, which they believe to be
22 exceptionally high in light of the dearth of AISA business activity.
23
24

1 **5. State and discuss the need to continue the AISA. (If the AISA is terminated, how**
2 **will independent transmission oversight be managed?).**

3 **Statement:** There is absolutely no need to continue the AISA.

4 **Discussion:** As discussed previously, there is an extremely limited, if any, amount of
5 retail competitive activity currently occurring in Arizona. The instability of the energy markets
6 and CTC costs strongly indicate that it will be a number of months--and possibly years--before
7 Arizona sees substantive activity. The question is, what is there for the AISA to manage?

8 As importantly, once a competitive marketplace materializes and transmission access is
9 needed, the protocols (as adopted and approved by both the AISA board and FERC) have been
10 approved by FERC for use by TEP and APS and have been included--independent of the AISA--
11 in the OATT of TEP and APS. Unless requested to be deleted in a publicly noticed FERC docket
12 by the utility (in which a transmission user may seek intervention), the protocols are an approved
13 part of each of those utilities' tariffs and will continue, regardless of the status or viability of the
14 AISA. Further, SWTransco has told FERC that it will add the same protocols to its OATT tariff
15 when the distribution cooperatives' systems are opened to competition.

16 FERC Rule 888 also requires transmitting utilities to provide open access. FERC has the
17 power to enforce its jurisdiction through § 206 of the Federal Power Act for public utilities and
18 §211 for transmitting utilities (transmission providers, including cooperatives). Thus, federal
19 and state rules (including the ACC's version of open access transmission in R14-2-1609.A) are
20 in place to govern retail access transactions without the AISA's help.

21 **6. State and discuss the timing and procedures for terminating the AISA. (Discuss the**
22 **legal ramifications of withdrawing funding.)**

23 **Statement:** The AISA should be terminated as soon as possible. The procedures for
24 doing so are simple.

1 **Discussion:** From a corporate standpoint, the AISA was from inception designed to be a
2 short-lived, limited purpose entity. Procedures set forth in Title 10 of the Arizona Revised
3 Statutes for corporate terminations would apply. The withdrawal of funding from AISA should
4 be staged in such a way as to assure the corporation would have sufficient funds to wind up its
5 business and affairs.

6 From a regulatory standpoint, the AISA should be terminated promptly. As discussed in
7 the responses to previous questions, the AISA is not necessary to the development of retail
8 competition and its functions are adequately covered by procedures specified in the Affected
9 Utilities' Open Access Transmission Tariffs. There is no need to continue the AISA's existence
10 pending FERC approval and formation of an RTO.

11 The Commission may effectuate the termination of the regulatory requirements
12 concerning the AISA in one of three ways. First, the Commission could simply conclude in an
13 Order issued in this docket that the Affected Utilities have complied with their responsibilities.
14 The Affected Utilities have formed the AISA as required by R14-2-1609.D and filed last year the
15 implementation plan required by R14-2-1609.E. Protocols have been developed and filed
16 pursuant to R14-2-1609.I and statewide services/mechanisms have been developed pursuant to
17 R14-2-1609.J. Those are the only requirements imposed on Affected Utilities by Rule 1609 and
18 each has been met.

19 Alternatively, the Commission could issue a waiver order in this docket waiving any
20 further requirements on Affected Utilities concerning the AISA. See R14-2-1614.C. Finally, the
21 Commission could commence a rulemaking proceeding to amend R14-2-1609 by (1) repealing
22 R14-2-1609.D and E and (2) deleting the references to the AISA in R14-2-1609.C, F, G, H, I and
23 J.

24

1 **7. State and discuss the AISA relationship to and with Desert Star.**

2 **Statement:** There has never been any formal relationship between the AISA and
3 DSTAR.

4 **Discussion:** Rule 1609 and the AISA participants originally contemplated AISA as a
5 bridge to facilitate retail competition until an RTO was formed. Since there has been no retail
6 competition and none is expected to occur before DSTAR's FERC filing, no bridge is necessary.
7 Operationally, AISA and DSTAR are in the same place. They each have a Board of directors.
8 They each have an executive director. AISA has a FERC tariff and no retail transactions.
9 DSTAR is close to filing for FERC approval of its tariff and DSTAR participants have numerous
10 wholesale transactions. Therefore, it is only logical to terminate the AISA bridge that never saw
11 traffic.

12 **8. State and discuss the AISA relationship to and with any regional (multi-state) ISO**
13 **or RTO that will serve Arizona.**

14 **Statement:** SWTransco is unaware of any current AISA involvement with any regional
15 or state ISO or RTO other than DSTAR as set forth above.

16 **9. Address the legal ramifications to the APS and TEP settlement agreements if those**
17 **utilities are no longer required to support the AISA.**

18 **Statement:** AEPCO was not a party to those proceedings and is not a party to the
19 settlement agreements. Because of that, it defers comment on this issue to those more familiar
20 with those matters.

21 **10. State and discuss any other relevant/pertinent items/information that you believe**
22 **the Commission should consider regarding the AISA.**

23 Most people today understand that costs will increase. However, with increasing costs
24 we expect added value. Given what we now know about the current and foreseeable future of
retail electric competition people should not be expected to pay for the AISA. Right now, a large

1 number of ratepayers in Arizona are paying for an organization that does not add any value to the
2 services they receive.

3 It is reasonable to expect that some form of a regional RTO will be operational within the
4 next 24 months. Because of FERC mandates, at least two of the major transmission providers,
5 TEP and APS, will be involved operationally with this RTO. SWTransco will likely be involved
6 in some manner with that RTO as well. Since it appears that some form of RTO, requiring the
7 involvement of the major transmission providers in Arizona, will be operational before the retail
8 electric competition market materializes in Arizona, why should the ratepayers of Arizona
9 continue to pay the costs of an organization that is not providing a service or adding any value?

10 The proponents of the AISA argue that it doesn't matter--the costs of the AISA are
11 insignificant and the Commission should order its continued life. They say that with the TEP
12 and APS settlements, ratepayers received a rate decrease that more than compensates for the
13 costs of the AISA. This misses the point. Ratepayers should never be required to pay for a
14 service not provided.

15 Also, most of the proponents of the AISA or the corporations they represent do not live in
16 Arizona and thus are not Arizona ratepayers. The proponents of the AISA would have Arizona
17 ratepayers continue to pay for AISA costs that add nothing to the value ratepayers receive, while
18 they, themselves, do not share in these costs.

19 Finally, Salt River Project is not a part of the AISA. Early on there were a few retail
20 competition transactions which occurred on the SRP system. While these transactions have since
21 been discontinued, it's important to note that SRP successfully managed and made available the
22 required transmission for these competitive transactions without AISA participation.

23 The Affected Utilities have performed the duties required of them by Rule 1609. The
24

1 AISA should be terminated.

2 DATED this 5th day of September, 2001.

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