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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO. E-00000A-01-0630
ARIZONA COMPETITIVE POWER
ALLIANCE'S COMMENTS ON AISA
ISSUES

Pursuant to the Arizona Corporation Commission's ("Commission") August 30, 2001 Procedural Order, Arizona Competitive Power Alliance¹ ("AZCPA"), a group of electric power generators who support the development of a competitive market for power in Arizona, hereby files the following comments concerning the Arizona Independent Scheduling Administrator ("AISA"):

1. State and discuss the purpose of the AISA.

The Purpose of the AISA is to ensure non-discriminatory retail transmission access in a competitive electric environment. According to its bylaws, the AISA will operate as an "interim electric transmission scheduling administrator to facilitate the operation of Arizona's competitive electric retail market until a regional independent system operator, currently known as Desert

¹ Arizona Competitive Power Alliance is a coalition in favor of competition and includes Allegheny Energy Supply, Duke Energy North America, LLC, Gila Partners, Mirant Americas, Inc., Panda Energy International, Inc./Teco Power Services Corporation, PG&E National Energy Group, PPL Montana, LLC, Reliant Energy, Sempra Energy Resources and Southwestern Power Group II, LLC.

1 STAR, becomes operational."

2 This non-discriminatory retail transmission access is
3 obtained, in large part, by having a stakeholder board comprised
4 of Transmission Facilities Providers, Local Load Serving
5 Entities, Aggregators, Independent Generators/Wholesale Power
6 Marketers and End Users craft a FERC-approved Protocol Manual to
7 be used as a guide by the Director and Board to resolve
8 transmission disputes.

9 Market participants recognize that a well-functioning board
10 is essential to the operation of the AISA, and the AZCPA is
11 committed to taking the actions necessary to ensure that the
12 board operates effectively in the future.

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

15 The Retail Electric Competition Rules (the "Rules")
16 recognize that retail electric competition cannot survive unless
17 competitive electric providers are given non-discriminatory
18 transmission access. As the following quotes demonstrate, the
19 Commission envisioned the need for the AISA when it crafted the
20 Rules:

21 "The Affected Utilities shall provide non-
22 discriminatory open access to transmission
23 and distribution facilities to serve all
24 customers. No preference or priority shall
25 be given to any distribution customer based
26 on whether the customer is purchasing power
under the Affected Utility's Standard Offer
or in the competitive market". R14-2-1609
(A).

26 "The Commission supports the development of

1 a Federal Energy Regulatory Commission-
2 approved Regional Transmission Organization
3 or an Independent System Operator (ISO) or
4 absent a Regional Transmission Organization
5 or an Independent System Operator, an
6 Arizona Independent Scheduling Administrator
7 (AISA). The Commission believes that such
8 organizations are necessary in order to
9 provide nondiscriminatory retail access and
10 to facilitate a robust and efficient
11 electricity market." R14-2-1609
12 (C) (Emphasis added).

13 The Commission's original vision still holds true. Retail
14 access cannot exist without non-discriminatory open access to
15 transmission and that access cannot exist without an independent,
16 authoritative, FERC-empowered, Commission-supported agency.
17 Until a Regional Transmission Organization ("RTO") is operational
18 in the southwest - the AISA is that agency. Even with an RTO
19 running the wholesale transmission system, an organization like
20 the AISA may still be needed to address retail access issues.

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

22 The Rules delineate the AISA functions including:
23 calculating Available Transmission Capacity (ATC), developing an
24 overarching statewide OASIS, implementing and overseeing the
25 nondiscriminatory application of operating protocols to ensure
26 statewide consistency for transmission access, providing a
dispute resolution process, standardizing scheduling procedures
and implementing a transmission planning process.

Naturally, the Rules envision the requirements of a thriving
retail market and during the transition to competition many of
these functions are dormant or are being handled by other

1 parties. The AISA is currently concentrating on the
2 implementation of the Protocol Manual and dispute resolution.

3 **4. State and discuss the costs of the AISA.**

4 The thousands of hours that were invested in constructing
5 the Protocols that govern non-discriminatory open access to
6 transmission were paid for by stakeholders. At its current
7 scaled-down level the AISA costs approximately \$500,000 annually.

8 The annual cost for the AISA is a reasonable and necessary
9 expenditure to bring about open access to the transmission system
10 that ultimately brings lower prices to Arizonans. The cost pales
11 in comparison to the hundreds of millions of dollars now being
12 invested in Arizona by merchant power plants.

13 **5. State and discuss the need to continue the AISA.**

14 There are six reasons why the AZCPA believes it is critical
15 to continue the AISA.

16 First, the AISA serves as the only means to quickly resolve
17 transmission related disputes using an independent entity
18 specifically trained for this purpose. While it is true that the
19 protocols are complete, when disputes arise, their interpretation
20 is best conducted by an independent entity. As we all know,
21 questions of interpretation will occur.

22 When there is a dispute, it would be unacceptable for the
23 other party to the dispute to be the party to decide the outcome
24 or to be the party selecting a third party to resolve the
25 dispute. AZCPA understands, however, that these alternatives are
26 being suggested. These are not viable alternatives.

1 AZCPA can support dispute resolution being the role of the
2 Commission, but AZCPA believes the AISA may be in a better
3 position to perform the day-to-day activities required,
4 especially responding immediately to disputes as the AISA
5 protocols require.

6 As an example of an actual dispute that could soon arise,
7 the AISA may have to deal with issues related to competition for
8 limited transmission capacity out of Palo Verde. Without the
9 AISA such an issue would most likely come before a transmission
10 owner that also owns generation at Palo Verde - it would be
11 difficult for the transmission owner to be impartial in this
12 situation.

13 At its current minimum staffing level, the AISA is in place,
14 capable and willing to perform its important dispute resolution
15 function and to help further define any changes that may be
16 needed to help make the market work. The AISA is the
17 institutional knowledge base that set the protocols into place.
18 The AISA is most likely to address the real marketplace issues
19 now and as they revise to reflect changes in reality. AZCPA
20 would recommend that AISA become more involved in the Desert STAR
21 stakeholder process or any other process for a new RTO for the
22 west.

23 Second, the AISA provides an important public forum for
24 stakeholder members to meet periodically face to face. This
25 forum allows parties to bring up and discuss issues, reducing the
26 opportunity for subsequent misunderstandings. It also provides a

1 context for bringing issues before the Commission or FERC.

2 Third, it is unclear that the FERC will accept the existing
3 AISA protocols without the AISA itself continuing to exist.
4 Hence, the AISA protocols may also cease to have applicability,
5 yet FERC may still claim jurisdiction over transmission in
6 standard offer service with little local guidance. Admittedly,
7 this is a complex legal issue that will take time to resolve, but
8 dissolving the AISA in the middle of it may only complicate
9 matters further.

10 Fourth, the AISA exists because the Commission has the
11 regulatory authority to make it exist. It is still unclear when
12 Desert STAR or some other RTO covering the southwest will exist.
13 Presently, the transmission owners are preparing a new "for
14 profit transco" concept for consideration by the Desert STAR
15 Board. This concept will need to be carefully reviewed in detail
16 to ensure that it meets the functionality required for access in
17 Arizona. AZCPA fears that re-creating the AISA would be very
18 difficult once it is dissolved. AZCPA believes it is best if the
19 AISA continues to exist at least until the Desert STAR, or some
20 other RTO serving the southwest that provides the required
21 functionality, is operational.

22 Fifth, dissolving the AISA sends the wrong signal at a time
23 when thousands of megawatts are being constructed in the state.
24 It would very likely be perceived as a step backward for electric
25 competition and non-discriminatory transmission access in
26 particular. Arizona policy makers are clearly concerned about

1 enhancing transmission in Arizona on a timely basis. AZCPA knows
2 that the market and the Rules that are in operation will help
3 define the future solutions to Arizona's needs. It is an
4 inexpensive insurance policy to keep the AISA in place while the
5 transition to Desert STAR or its alternative is occurring.

6 Sixth, even though the AISA has a limited role to play
7 today, retail electric competition in Arizona can rebound
8 quickly. Generators presently are constructing thousands of
9 megawatts in Arizona and some are already having discussions with
10 Arizona utilities, retailers and others interested in the future
11 output from these plants. Furthermore, the upcoming completion
12 of stranded cost recovery in some portions of Arizona will help
13 revive the market. Finally, the Rules and several utility
14 settlements wisely embrace a competitive bidding process for the
15 generation portion of standard offer service that is scheduled to
16 commence on or before January, 2003 or later.

17 **6. State and discuss the timing and procedures for terminating**
18 **the AISA.**

19 As previously stated, the AISA bylaws state that the AISA
20 will exist "until a regional independent system operator,
21 currently known as Desert STAR, becomes operational." Based on
22 its current schedule Desert STAR will not be functioning until
23 the end of 2003 or later.

24 Additionally, Desert STAR has gone through a variety of
25 incarnations. As currently envisioned, Desert STAR is primarily
26 responsible for facilitating wholesale access to transmission.

1 Desert STAR is not presently focusing on retail access functions
2 such as customer registration, load profiling, retail settlement,
3 etc.

4 Therefore, before considering whether the AISA should be
5 terminated the Commission may wish to evaluate whether Desert
6 STAR is capable of providing retail access related functions.
7 Perhaps, the AISA should provide retail access functions even
8 after Desert STAR is in place.

9 **7. State and discuss the AISA relationship to and with Desert**
10 **STAR.**

11 AISA was intended to be a precursor to Desert STAR.
12 However, Desert STAR is not focusing on the retail issues handled
13 by the AISA at the present time. Therefore, even with Desert
14 STAR in place, not having an organization like the AISA may leave
15 a significant void for a period of time until Desert STAR
16 provides the same functions. The AISA needs to be in place to
17 help retail market develop. The AISA is a precursor to the
18 development of effective retail competition.

19 **8. State and discuss the AISA relationship to and with any**
20 **regional multi-state ISO or RTO that will serve Arizona.**

21 See answers to questions 6 and 7 above.

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

25 Incumbent support for the AISA and the subsequent RTO is an
26 integral component of the APS and TEP settlement agreements. If

1 the Commission decides to selectively approve a change to the
2 AISA, it may open the door for many more requests for selective
3 changes from the utilities or other parties. The settlements
4 were intended to balance the interests of many parties. By their
5 very nature, these agreements are intended to remain in place
6 despite developments that are not preferable to any one party.

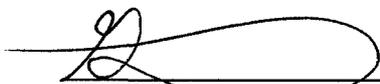
7 Competition cannot exist without non-discriminatory open
8 access to transmission, the AISA helps ensure open access during
9 the transition to Desert STAR and the AISA cannot exist without
10 the support of the incumbents.

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

14 Arizona is benefiting from lower electric rates and hundreds
15 of millions of dollars in new investment in generation.
16 Additional benefits of electric restructuring that were
17 originally envisioned will continue to accrue to Arizona. The
18 organizational infrastructure that exists in the form of the AISA
19 will be needed to ensure that Arizonans can take advantage of
20 those benefits.

21 DATED this 5th day of September, 2001.

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Greg Patterson, Executive
Director, Arizona Competitive
Power Alliance

1 Original and 10 copies filed
this 5th day of September, 2001
2 with Docket Control, Arizona
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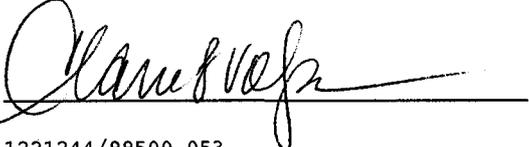
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14 Copy of the foregoing mailed
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15 Electric Competition Service List
16 RE-000001-94-0165

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