BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

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

DOCKET NO. E-00000A-01-0630

COMMENTS OF CITIZENS COMMUNICATIONS COMPANY

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Citizens Communications Company ("Citizens") submits these Comments in response to the issues identified in the August 3, 2001 Procedural Order.

1. __State and discuss the purpose of the AISA.__

The purpose of the Arizona Independent System Administrator (AISA) is to assure that utilities that own or operate transmission facilities provide nondiscriminatory open access to transmission facilities to serve all customers as required by the Commission's Retail Electric Competition Rules. The AISA was viewed as an interim organization to be formed by the utilities to facilitate retail competition until such time that an Independent System Operator could be developed. Specifically, under the Rules, the AISA's purpose was to:

- Calculate "Available Transmission Capacity" (ATC);
- Develop and operate a statewide Open Access Same-Time Information System (OASIS);
- Implement and oversee nondiscriminatory application of operating protocols to ensure statewide consistency for transmission access;
- Provide dispute resolution to resolve claims of discriminatory treatment;
- Receive all requests for reserving and scheduling the use of Arizona transmission facilities; and

- Implement a transmission planning process that included all AISA participants.

2. **<u>State and discuss the necessity of the AISA and whether it contributes to the development of retail competition</u>.**

The AISA served a valuable function by facilitating the development of operating protocols. Those protocols constitute the basic rules for nondiscriminatory access and use of transmission facilities. The protocols were filed and accepted by FERC as part of the AISA tariff. Certain of the utilities, however, have incorporated these protocols in their Open Access Transmission Tariffs (OATT) that are filed at FERC or indicated their intent to do so. By so doing, the utilities have assured that the protocols will continue to be used whether the AISA exists or not.

Other than serving as the facilitator for the development of the operating protocols, the AISA has not had any direct influence on the development of retail competition in the state.

3. **<u>State and discuss the functions of the AISA</u>.**

At the present time, the AISA is not in operating mode. Currently, there are no customers taking competitive service in any Affected Utility's service area. Therefore, there are no competitive capacity reservations to be made or scheduled, no disputes to be resolved and no need for a statewide OASIS. Coordinated planning of needed transmission facilities is occurring as evidenced by the Southeastern Arizona Transmission Study, completed March 2000, and the Central Arizona Transmission Study. (The transmission owners and users are presently finalizing Phase 1. Interested parties, including the Arizona Corporation Commission (ACC) staff, participated in this process.) Recent work by the ACC to complete the first Biennial Transmission Assessment and to require transmission studies to support future 10-year plans further reduces the need for implementation of a statewide transmission planning process under the auspices of the AISA.

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

Approximately two years of regularly scheduled stakeholder meetings preceded the formal incorporation of the AISA as a non-profit organization in September 1998. Arizona Public Service Company (APS), Arizona Electric Power Cooperative, Citizens, Salt River Project and Tucson Electric Power Company (TEP) jointly provided funding in the amount of $1.2 million. These funds were used to establish the formal organization, including hiring the initial staff (two people), hiring local and Washington DC attorneys, hiring a CPA Firm, and purchasing office equipment. Office space was initially provided by the Grand Canyon State Electric Cooperative Association and presently is being provided by the Western Area Power Administration.

The original funds were provided in the form of loans to be paid back after the AISA began to receive revenue from customers taking service under its tariff. Currently, money to pay back those loans is coming solely from retail Standard Offer Customers of Affected Utilities whose systems are open to competition. Neither the retail customers nor the Affected Utilities are receiving any useful services from the AISA. In addition to the initial funding, additional reimbursable funding for continuing operations is also being provided by APS and TEP. Citizens and AEPCO have offered to make additional payments to cover their proportionate share of such costs, but the AISA has been advised by its Washington counsel that it may not bill for or accept those payments.

The budget report for June indicates that the AISA presently has approximately $174,000 in assets and $1,353,000 in liabilities. Current operating expenses are approximately $50,000 per month, excluding re-payment of its debt to the Affected Utilities. During calendar year 2001, AISA expects to spend $638,000, as compared with income of $562,000 (excluding

Miscellaneous Income). The average cost per MWh currently reflected in AISA billings is 1.66 cents.

AISA staff appears to be principally occupied producing bills to the Affected Utilities, generating financial reports, preparing agendas and minutes of board meetings, making contingency plans and making interim arrangements to take care of bills. In the recent past, there has been an insufficient number of board members in attendance at meetings, which has prevented the organization from conducting business. Notwithstanding the fact that its tariff has been accepted at FERC, the AISA continues to incur additional expense associated with other matters at FERC.

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

There is no present need for the AISA to continue. Transmission access is provided under the utilities' Open Access Transmission Tariffs. One of the service schedules in those tariffs is Retail Network Integration Service, which incorporates the Protocols Manual and references the dispute resolution procedure set out in the AISA's by-laws. If the AISA were to cease operations, transmission reservations would still occur as described in the AISA Protocols Manual. If a competitive customer or competitive scheduling coordinator had a complaint, and the AISA no longer existed, the dispute resolution procedure in the Affected Utility's OATT would apply.

6. **<u>State and discuss the timing and procedures for terminating the AISA. (Discuss the legal ramifications of withdrawing funding)</u>**

The AISA Articles of Incorporation envisioned that the organization would have no more than a five-year life.[1] Provisions for "winding-up" were included in its 205 Compliance filing at

[1] AISA Articles of Incorporation, Section I.

FERC for two of the Affected Utilities, APS and TEP, who have signed the AISA-TP Agreement. Section 14 of that document states:

> The surviving provisions shall include, but not be limited to: (i) those provisions necessary to permit the orderly conclusion, or continuation pursuant to another agreement, of transactions entered into prior to the termination of or withdrawal from this Agreement; (ii) those provisions necessary to conduct final billing, collection, and accounting with respect to all matters arising hereunder; and (iii) the indemnification and limitation of liability provisions as applicable to claims arising or accruing prior to the effective date the TP's [transmission provider] of withdrawal from *or termination of Az ISA operations or dissolution.* [Emphasis added].

Because Salt River has not chosen to participate in the AISA, it has an unresolved claim for repayment of the funds advanced to create the AISA. For the companies under ACC jurisdiction, the presumption is that funds advanced by them could be recovered in a future rate case because they were complying with a Commission Order in creating the AISA.[2] If the ACC were to allow the Affected Utilities to cease funding the AISA, the "winding-up" process would commence and steps would be taken to cancel the AISA tariff at FERC.

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

The ACC rule (R14-2-1609) that requires the Affected Utilities to create the AISA also includes a statement that the Commission supports the development of an Independent System Operator (ISO).[3] The rules further contemplate that the AISA would be an interim organization whose assets and duties would be transferred to an ISO as the ISO becomes able to carry out those functions.[4] At this point in time, there is no AISA relationship to or with Desert Star (DSTAR), which is the only currently proposed multi-state, wholesale, regional transmission

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[2] Rule R14-1609 G.
[3] Rule R14-2-1609 C.
[4] Rule R14-2-1609 F.

organization applicable to Arizona. Its tariff will address all transmission related issues required by FERC. Currently, there are no DSTAR processes that address deliveries to retail customers under state rules. It is not expected that retail deliveries, under diverse retail competition state rules, will be addressed by a multi-state regional transmission organization. When deliveries of competitive energy at the retail level in Arizona occur, these transactions will be covered by an Affected Utility's unbundled tariffs, filed with the ACC, and its OATT rates, filed with FERC.

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

The AISA has no present or prospective relationship with a multi-state RTO for the reasons cited above. It appears that the FERC is now advocating a much larger geographic area for a Western RTO organization than DSTAR would cover. A larger geographic area would exacerbate the problems that are associated with a multi-state organization, particularly the difficulty a multi-state RTO faces in dealing with diverse retail competition rules promulgated by each of the various states within its operating area.

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

Citizens has no comment on this subject.

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

Until there are sellers willing to provide competitive energy to retail customers at substantially lower costs than the incumbent utilities, there is little justification for an organization such as the AISA to exist. Such sellers currently do not exist. A major component of power supply cost is and will continue to be the cost of production, yet the primary focus of the AISA has been on the access to and use of existing wires. A better use of the funding and resources would be to promote the construction of economical energy supply resources in places that otherwise are limited by transmission and to seek ways to eliminate barriers that prohibit construction of needed new transmission. Citizens recommends that the AISA be terminated.

DATED this 5th day of September, 2001.

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By [signature]
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