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BEFORE THE ARIZONA CORPORATION COMMISSION

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JIM IRVIN
Commissioner/Chairman
RENZ D. JENNINGS
Commissioner
CARL J. KUNASEK
Commissioner

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

DOCKET NO. E-01993A-98-0471

IN THE MATTER OF THE FILING OF)
TUCSON ELECTRIC POWER COMPANY)
OF UNBUNDLED TARIFFS PURSUANT)
TO A.A.C. R14-2-1601 ET SEQ.)

DOCKET NO. E-01993A-97-0772

IN THE MATTER OF COMPETITION IN)
THE PROVISION OF ELECTRIC)
SERVICES THROUGHOUT THE STATE)
OF ARIZONA)

DOCKET NO. RE-00000C-94-0165

IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR APPROVAL OF ITS)
PLAN FOR STRANDED COST)
RECOVERY)

DOCKET NO. E-01345A-98-0473

IN THE MATTER OF THE FILING OF)
ARIZONA PUBLIC SERVICE COMPANY)
OF UNBUNDLED TARIFFS)
PURSUANT TO A.A.C. R14-2-1601 ET SEQ.)

DOCKET NO. E-01345A-97-0773

ARIZONA ELECTRIC POWER COOPERATIVE, INC.'S
COMMENTS ON THE SETTLEMENT AGREEMENTS
AMONG STAFF, TUCSON ELECTRIC POWER COMPANY
AND ARIZONA PUBLIC SERVICE COMPANY

The Arizona Electric Power Cooperative, Inc. ("AEPKO"), submits these written
comments on (i) the Settlement Agreement between Staff and Tucson Electric Power Company
("TEP") dated November 4, 1998 and (ii) the Settlement Agreement between Staff and Arizona

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1 Public Service Company ("APS") dated November 4, 1998 (collectively, "the Settlement
2 Agreements"). These comments will be limited to certain transmission system issues raised by the
3 Settlement Agreements. They are submitted without waiver of the procedural objections previously
4 made by AEPCO and other parties to this docket. The procedural schedule adopted by the
5 Commission has not allowed AEPCO sufficient time to analyze the Settlement Agreements, consider
6 their ramifications, engage necessary consultants and prepare testimony. AEPCO reserves the right
7 to comment on all aspects of the Settlement Agreements based on further developments in this
8 docket.
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11 The pricing and reliable operation of the State and region's transmission system are
12 matters of vital importance to AEPCO, its member distribution cooperatives and the rural customer
13 owners they serve. Although AEPCO owns transmission facilities, it also relies heavily on the
14 transmission systems of others, including those of APS, TEP, the Salt River Project ("SRP") and the
15 Western Area Power Administration ("WAPA") to efficiently, reliably and cost effectively meet its
16 members' power needs.

17 The Settlement Agreements contemplate a sweeping redesign of the State's
18 transmission system including the following key points:
19

- 20 1. APS would transfer certain of its transmission assets consisting of all of its 345
21 kV and 500 kV facilities to TEP;
- 22 2. APS would retain all of its transmission facilities below the voltage level of 345
23 kV and would seek FERC approval to place those facilities under the jurisdiction
24 of this Commission;
- 25 3. APS and TEP would file comparable network and point-to-point tariffs providing
26 transmission service on a "license plate" basis over the combined APS/TEP
27 service areas; and
4. It is envisioned that TEP's transmission company ultimately will not only acquire
all transmission facilities owned by all entities in the state, but that it will be "the
sole builder and owner of transmission assets in the state."

1 Obviously, the Settlement Agreements, if approved, would produce substantial changes to a
2 historically reliable, integrated transmission system. Although AEPCO assumes that TEP, APS and
3 Staff believe that they are proposing what they hope will be a superior system, the Settlement
4 Agreements are supported by no study or analyses demonstrating that in fact that hope will become a
5 reality.
6

7 With these thoughts in mind, AEPCO has the following comments and questions in
8 relation to the Settlement Agreements which it would ask that the Commission carefully consider:
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- 10 • How will the transfer of APS's high voltage lines to TEP affect
11 current contract, joint ownership and open access rights to
12 transmission capability?
- 13 • How will the Settlement Agreements impact the development of
14 Desert Star?
- 15 • FERC Order 888 sets forth a seven element test to determine if a
16 line serves a transmission or distribution function. Have these
17 criteria been applied to the APS 230 kV and below system?
- 18 • How likely is it that FERC will consent to APS's request to place
19 the vast bulk of its transmission system under this Commission's
20 jurisdiction?
- 21 • How likely is it that FERC will consent to the APS transfer of
22 transmission lines to TEP in light of the stated goal that TEP's
23 Transco will become the sole transmission owner in Arizona?
- 24 • If this request is not granted, how will that impact achievement of
25 the Settlement Agreement's objectives that all network customers
26 in an access area or zone pay the same rate for transmission
27 service and all customers should have equal access to any
generation within the region at no additional cost?
- If the FERC does not grant the request, will the separation of
APS's 345 kV and above facilities from its other transmission
facilities make more or less efficient the functioning of the
integrated transmission grid?
- If APS retains ownership of 230 kV transmission and below, will
this result in "rate pancaking" as to those facilities?

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- What effect will transfer of the high voltage transmission lines have on rates in non-APS/TEP service territories in the State for users of those lines?
- Will the rate of return accorded the new TEP Transco reflect the 65-35 hypothetical capital structure? If so, how much will that increase current transmission rates?
- The Settlement Agreements contemplate the acquisition by TEP of the transmission assets of SRP, AEPCO and others (presumably including the considerable transmission system owned by WAPA). If this does not occur, what impact will that have on the Settlement Agreements' stated objectives "to eliminate vertical market power and achieve competition"?
- The transmission facilities owned by AEPCO, SRP and WAPA are 100% debt financed at favorable interest rates or have been funded by Congressional appropriation. How would acquisition of those facilities through a combination of higher cost debt and equity by TEP impact transmission costs in Arizona?
- Before the State has even commenced the introduction of competition in the electric industry, is it wise public policy to establish a monopoly in transmission?
- Is it legally possible to designate "TEP's transmission company affiliate [as] the sole builder and owner of transmission assets in the state"?

These questions only scratch the surface of a complicated series of issues posed by the Settlement Agreements. The time allotted by the Commission to consider the ramifications of this proposal has been wholly inadequate. At a minimum, AEPCO recommends postponement of the transmission aspects of the Settlement Agreements until a thorough examination of their consequences can be undertaken.

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1 RESPECTFULLY SUBMITTED this 30th day of November, 1998.

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3 GALLAGHER & KENNEDY, P.A.

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5
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10 Original and ten (10) copies
11 of the foregoing document filed
this ~~30~~ day of November, 1998, with:

12 Docket Control
13 Arizona Corporation Commission
14 1200 West Washington
Phoenix, Arizona 85007

15 Copy of the foregoing document
16 faxed or left at the Commission at the
party's request this ~~30~~ day of November, 1998, to:

17 All parties of record

18
19 d. Hill
#665746 v1 - Comments

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