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Department of Energy  
Western Area Power Administration  
Desert Southwest Customer Service Region  
P.O. Box 6457  
Phoenix, AZ 85005-6457

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AZ CORP COMMISSION

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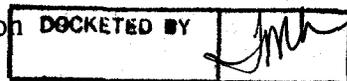
~~Arizona Corporation Commission~~

DOCKETED

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Mr. Ray T. Williamson  
Acting Director  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

MAY 26 1998



Docket #: RE-00000C-94-0165

Dear Mr. Williamson:

Thank you for the opportunity to comment on the, "Statement of Position of the ACC Staff" (Position). We offer the following observations in order to assist you in your consideration of these significant issues:

- A. The Western Area Power Administration (Western) is a Federal power marketing administration established on December 21, 1977, pursuant to Section 302 of the Department of Energy (DOE) Organization Act, Public Law 95-91, dated August 4, 1977. By law, Western markets Federal power resources to its electric service customers. Western's transmission system was built primarily to enable the delivery of Federal power to satisfy these contractual obligations. Western is not a public utility under Sections 205 and 206 of the Federal Power Act, and is not specifically subject to the requirements of the Federal Energy Regulatory Commission's (FERC) Final Order Nos. 888 and 888-A. Western is a transmitting utility subject to Section 211 of the Federal Power Act as amended by the Energy Policy Act of 1992. Use of transmission facilities that Western owns, operates, or to which it has contractual rights for delivery of Federal long-term firm capacity and energy to project use and electric service customers is a Western responsibility under the terms and conditions of marketing criteria and electric service contracts implementing statutory obligations to market Federal power.
- B. Western has approximately 16,857 miles of transmission lines and has power market responsibilities in 15 Western states. Although Western is not subject to FERC order 888, Western has had a long standing policy of providing open access transmission service. Western is complying with the intent of FERC Order 888, to the extent it is consistent with our existing statutory and contractual obligations.
- C. Western has approximately 3,100 miles of transmission line in the state of Arizona and provides essentially one-third of the transmission used in the wholesale markets. In the state of Arizona, Western provides transmission service to all of the ACC regulated electric utilities. This service is an extremely cost effective alternative to the construction of new transmission facilities. Any effective Independent Systems Operator (ISO) or Independent Scheduling Administrator (ISA) within the state of Arizona should be structured to recognize Western's role as a transmission provider in the region. Western

will be unable to participate if the ACC develops a system which is inconsistent with Western's statutory obligations; does not allow Western to honor its contractual obligations ; adversely impacts power system reliability; creates cost shifting; does not support a multi-regional approach to transmission system operations; or is not consistent with good business practices.

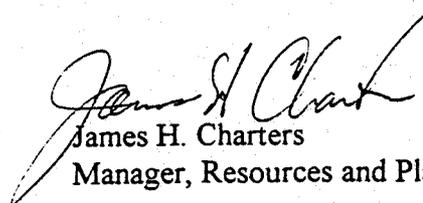
- D. If Western is to be able to participate in any type of wholesale market construct facilitating direct access at the distribution level, consideration must be given to each rule to assure that Federal entities may participate. To this end, rules cannot be developed which direct Western's participation, but must be phrased to allow participation. Western can voluntarily participate, but is not Federal Energy Regulatory Commission (FERC) or Arizona Corporation Commission (ACC) jurisdictional, and may not place itself in a position of being so governed.
- E. Western is concerned that any Arizona developed system does not preclude the participation of utilities in other states as the Independent Scheduling Administrator (ISA) is developed into a Desert Southwest Transmission And Reliability (DSTAR) Independent Systems Operator (ISO), and that the ISA is open to those other utilities' concerns and advice.
- F. The ISA or ISO must recognize and coexist with existing contracts. The only means for a contract to terminate is via the terms of that contract.
- G. In order for Western to consider participation in an ISA, we must be able to assure Federal concerns are addressed in the Alternate Dispute Resolution (ADR) processes.
- H. Western is responsible for repayment of the Federal obligation for the transmission systems over which it is steward. As such, Western may not delegate the responsibility for determining those items which impact the recovery of revenues to repay this obligation. The marketing of Available Transfer Capability (ATC) is Western's responsibility. Determining of the ATC on Western's system may only be done in a manner agreed upon by Western. In order for Western to consider participation, the ISA or ISO cannot unilaterally make any determination which reduces Western's project repayment responsibility.
- I. Western is extremely concerned that the cost and cost shifting of any construct must not exceed the benefit which might come of open access. Since direct access is possible within the systems existing in today's wholesale markets, any construct must be simple, economic, and provide a recognized economic advantage for the consumer for its existence. At the November 1997, ACC open meeting, Commissioners voiced concern about the excessive cost of other ISOs being implemented or proposed in the West. Western shares that concern and believes transmission providers in the region must look for cost effective methods of providing open access service.
- J. Reliability issues must continue to be addressed as the new operating constructs evolve. The divestiture of generation assets is an interesting approach to dealing with market

issues, but guarantees a whole new level of regulatory involvement in the generation business due to reliability responsibilities for control area performances, obligations to serve, etc.

Western can participate in a properly constructed ISA or ISO and indeed is working to that end. Western supports the voluntary, multi-state developing efforts of the DSTAR proposal.

If you have any questions or comments, please call me at (602) 352-2586.

Sincerely,



James H. Charters  
Manager, Resources and Planning