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Arizona Independent Scheduling Administrator Association

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August 14, 2013

AZ CORP COMMISSION
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Arizona Corporation Commission

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Attention: ACC Docket Control

AUG 16 2013

Via Federal Express

Re: Docket No. E-00000W-13-0135

DOCKETED BY
MR

Please find an original and 13 copies of AZISA's REPLY comments to be filed in the above Docket.

Enclosed is a self-addressed and stamped envelope to return a copy of the REPLY date stamped to the Executive Director of AISA:

Vicki Sandler
Executive Director
Arizona Independent Scheduling Administrator's Association (AZISA)
14402 S. Canyon Dr.
Phoenix, Arizona 85048

Thank you,

Vicki Sandler
Executive Director, AZISA

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BEFORE THE ARIZONA CORPORATION COMMISSION

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2013 AUG 16 P 12:47

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ARIZONA CORP COMMISSION
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BOB BURNS
COMMISSIONER

SUSAN BITTER SMITH
COMMISSIONER

DOCKETED BY	
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IN THE MATTER OF THE COMMISSION'S) Docket No. E-00000W-13-0135
 INQUIRY INTO RETAIL ELECTRIC))
 COMPETITION)) INDEP. SCHEDULING ADMIN'S ASSC'N (AZISA)

On May 23, 2013, the Executive Director of the Arizona Corporation Commission (ACC) invited comments on retail electric competition in Arizona. On July 15, 2013 numerous parties submitted comments, some in support and some in opposition, to resuming retail electric competition in Arizona. The Arizona Independent Scheduling Administration Association (AZISA) submitted comments regarding the readiness of the AZISA to perform the independent transmission scheduling functions necessary for the successful operation of a retail choice market, and estimated costs to operationalize the AZISA.

Introduction

The purpose of these reply comments is to review and respond to the range of opening comments that discuss the reasonableness of the associated costs, the legality and ability of the AZISA to provide for the delivery of power to direct access customers over transmission and distribution lines in Arizona, essentially, the functions for which it was formed.

A review of the many comments demonstrates that several parties supported the role and functions of the AZISA. For example, in the Goldwater Institute And Roy Miller's Comments In Support of Restructuring Arizona's Electricity Markets For Choice And Competition (Institute), on page 31, the Institute opined that, "the existing Arizona Independent Scheduling Administrator Association (AZISA) could become the state's RTO or Arizona could join with other states to form an RTO with a wider region." On page 11, it continues, stating that, "the AZISA would be responsible for scheduling and dispatching the transmission lines between the three systems of the incumbent utilities. Another possibility would be to expand the CAISO into Arizona. Expansions of RTOs are not uncommon... The presence of economies of scale implies that expanding an RTO is relatively inexpensive once the RTO has been established. Expanding CAISO to Arizona would eliminate the current seam between Arizona and California. This in turn would encourage more building of generation facilities in Arizona, a tremendous

growth opportunity for Arizona since building electricity generators is so much more difficult in California.”

Another supporter, in the Comments of Retail Competition Advocates and the Retail Energy Supply Association Addressing Retail Electric Competition Issues, on p. 22, states, “The Retail Competition Advocates and RESA will continue to work with AZISA to review and update those protocols to ensure that they are consistent with current Western Electricity Coordination Council (WECC) reliability standards, address any other legal and tariff related issues, and work toward appropriate AZISA staffing.” Support is found in the comments of Freeport-McMoRan Copper & Gold Inc. and Arizonans For Electric Choice (AECC) and Competition Initial Comments and Response To Staff’s May 23, 2013 Letter Concerning Electric Retail Competition. The AECC expresses complete support on p 6: “In the absence of an RTO, Arizona stakeholders formed - with the encouragement of the Commission - the Arizona Independent Scheduling Administrator Association (“AZISA”), which is a FERC-jurisdictional entity charged with supporting the provision of comparable, non-discriminatory retail access to the Arizona transmission system, and to facilitate a robust and efficient competitive electric market in Arizona.” AECC continues, on p. 7, “Thus, while certain federal approvals are still necessary to fully implement retail competition in the state, the structure is already in place for the Commission to facilitate an expedient and smooth transition towards choice and competition.”

Other parties, notably the incumbent providers, commented that the AZISA is an interim entity and that an expensive RTO is the only way competition can move forward. These types of comments are from the states’ existing transmission providers (TPs) – Arizona Public Service (APS), Tucson Electric Power (TEP), Salt River Project (SRP), and the Cooperatives.¹

Response

APS acknowledges in its comments, that the AZISA was formed to ensure that transmission scheduling functions would be available and ready as retail choice began in Arizona, while the incumbent transmission providers finalized their membership in a Regional Transmission Organization.² The fact that RTO membership was contemplated does not diminish the fact that APS’s protocols and bylaws comprehensively provide for the AZISA to fulfill the independent transmission scheduling functions for whatever period of time it takes for the TPs to join an RTO. If they choose to never join an RTO, then the AZISA can be ramped up to fulfill these functions on a continuous basis. In short, the AZISA exists and has tariffs and protocols in place pursuant to which independent

¹ The Cooperatives are Arizona Electric Power Cooperative, Inc. (AEPCO), Southwest Transmission Cooperative (SWTC), Duncan Valley Electric Cooperative (Duncan), Graham County Electric Cooperative, Inc. (Graham), Mohave Electric Cooperative, Inc. (Mohave), Navopache Electric cooperative (Navopache), Trico Electric Cooperative (Trico), and Sulphur Springs Valley Electric Cooperative, Inc. (Sulphur).

² See footnotes 28 and 29 in APS’ Opening Comments.

transmission scheduling functions can be provided. Consequently, the TPs statements that the provision of such service will take “years and years” or up to “5 years”³ under the presumption that competition now requires an RTO are off point.

As conveyed in the AZISA initial comments, retail competitive transactions could take place immediately for the first 300 MW of retail competitive service under Phase 1 of the existing FERC approved Tariffs and Protocols. In the report from Utilities Systems Efficiencies (U.S.E.), authored by Cary Deise, the time estimate to ramp up, assuming outsourcing to existing, experienced providers, could be as early as 2 years. In the interim, the AZISA will provide the more limited Phase 1 functions, at a cost estimate calculated at \$1 million/year in labor, \$10,000 startup capital and \$500,000 in added operations costs. There are many options to scale the AZISA that may not even rise to include the projected 73 full time equivalents with labor costs at \$11 million/year, \$3.9 million start-up capital, and \$5.2 million/year in added operations costs. More detailed scoping of the IT systems is needed, as are staffing levels and their respective costs. But services can commence now, and as the AZISA develops the Phase 2 protocols, costs will be further refined. Nothing in the examinations of ramping up the AZISA to date suggests it could cost anywhere close to the “hundreds of millions” loosely described by the TPs.⁴ Much has been learned since the CAISO was started. Systems and communication methods have changed dramatically and are being implemented in other jurisdictions at fractions of the early days costs of ISO systems.⁵

The AZISA is fully capable of and can ramp up to perform the necessary independent transmission scheduling functions to support retail competition. The sweeping statements made by the TPs about the costs and difficulties of such that are not supported by facts. For instance, TEP in its initial comment, posited on pages, 15-17, that, “Arizona (must) ... establish an ISO or RTO before first attempting to institute competition at the retail level.” And continued, “...utilities in Arizona have resisted the establishment of an ISO due to significant startup costs...” Notably, the hundreds of millions in costs to develop an RTO do not take into account the likely significant efficiencies and benefits being experienced in other RTO environments.

SRP attempts to discount the report dated October 19, 2012 entitled, *RTO and ISO*

³ APS states that, “the initial formation of an RTO and establishment of energy, ancillary and potentially capacity markets and related financial-hedging tools should be expected to take at least five years and an investment in the hundreds of millions of dollars, with the FERC making all key decisions.”

⁴ On p. 13 of APS’ initial comment, APS hypothesizes that the start up costs will be hundreds of millions of dollars. The Cooperatives similarly state an “...RTO will need to be formed...and could cost hundreds of millions of dollars.”

⁵ See, <http://www.energyaction.com.au/wa-electricity.html> and note that the costs of starting up 80% of the Australian market which is much greater load (48,000MW approximately) than all of Arizona were less than \$50 million in 1997 (\$7 million on market systems, \$1 million on a dispatch system, \$10 million on new SCADA systems, \$23 million on legal fees, and the rest on project management travel, office accommodation, etc.) and costs to do this now would be far less today.

Challenge, with a scare tactic that the costs will be too high. See, <http://www.competecoalition.com/files/RTO%20White%20Paper%20Updated%20FINAL.pdf>. Certainly, a fair and objective evaluation of today's costs and system experience should be undertaken before buying in to such statements. And while the AZISA is not espousing an RTO structure, since it can perform the required functions under its Phase 2 protocols, the report is worth considering as it demonstrates that an RTO or ISO structure (and in Arizona's case it may well be the AZISA structure) is "the best way to assure an affordable, efficient and adequate supply of electricity... to meet the nation's current and future energy and environmental needs." When and if the Commission fully considers RTO membership in the future, it will be advisable for the Commission to take into account additional studies that recognize that ISO/RTO costs are a very small component (less than 1%) of a typical consumer's monthly electric bill, or about 22-60 cents per month, as illustrated by Line 6 of the table..." <http://www.caiso.com/Documents/PeerISO2007BudgetandRateComparison.pdf>. And see, <http://www.isorto.org/atf/cf/%7B5B4E85C6-7EAC-40A0-8DC3-003829518EBD%7D/2010%20ISO-RTO%20Metrics%20Report.pdf>.

Finally, regarding various TP assertions that the AZISA is not legally supported, please read the 2005 Response to the ACC's ALJ attached to the AZISA's initial comment. In pertinent part, it relates the correct legal position that, "the Court of Appeals' finding (*in the Phelps Dodge decision*) regarding the Rules, while invalidating any requirement to compel utilities to participate in the AZISA or an RTO, has no impact on the legal status of the AZISA nor on the continued economic viability of the organization, nor do they lessen in any way the continued public benefits associated with the functions the AZISA performs to support competition. TEP and APS have also entered into AZISA-TP Agreements that are included as part of the FERC-approved Tariff, as noted on page 4 of the attached Response."

The primary point of this response is that once the Arizona Corporation Commission establishes that the policy of this State favors retail electric choice for Arizonans, the details of independent transmission scheduling management by the AZISA or through RTO membership CAN be worked out, and are imminently manageable from both a time and resource perspective.

Conclusion

In conclusion, the AZISA has and is intended to perform critical functions to support the delivery of power over the interconnected transmission and distribution systems in Arizona to retail consumers. Considerable stakeholder input, thoughtfulness and expense lead to the FERC acceptance of the AZISA and created a strong foundation to build upon. Operationalizing the AZISA is clearly a manageable task given this foundation. The AZISA can and will facilitate a non-discriminatory, open access retail market to bring the benefits of retail competition coming into fruition with the resumption of retail choice.

RESPECTULLY SUBMITTED this 16th day of August 2013.

A handwritten signature in black ink, appearing to read "Vicki Sandler". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Vicki Sandler
Executive Director, AZISA

Original and 13 copies filed this
16th day of August 2013, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Copies sent via electronic mail to the service list.