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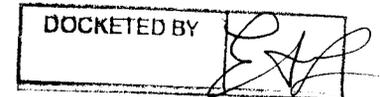
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SEP 15 2014

Commissioner Susan Bitter Smith
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

ORIGINAL



RE: Arizona Public Service Company's Response to Commissioner Bitter Smith's Letter dated August 26, 2014 Regarding Emerging Technologies
Docket No. E-00000J-13-0375

Dear Commissioner Bitter Smith,

Arizona Public Service (APS or the Company) appreciates the interest of the Commission and other stakeholders in gathering more information concerning the due diligence efforts APS is conducting to evaluate the value to customers of joining the California Independent System Operator (CAISO) Energy Imbalance Market (EIM). EIMs are not new and are demonstrating some value in other markets; however the structure of this particular market is unique as it is comprised of participants within the CAISO balancing authority area, as well as participants such as PacifiCorp on the outside. As a result, the CAISO market rules are quite complex. Before spending significant customer money, APS is conducting a thorough and expeditious assessment to determine if joining the CAISO EIM will provide a corresponding benefit for APS' customers.

In conducting its analysis, APS is evaluating several key factors: how the market will work, the costs involved, and how the CAISO - PacifiCorp start-up effort will proceed. To that end, APS is actively participating in transitional governance committee meetings to provide input on the design of the permanent governance structure. There are many considerations, in addition to financial concerns, that must be factored in before APS can make a final decision. As part of the analysis process, APS is evaluating and closely monitoring the following areas:

Market Economics - APS is reviewing production cost modeling studies and comparing operating costs within EIM against a business as usual case. Several scenarios will be studied to analyze the impacts of various possible future operating states. This review will allow the Company to determine the impact of an active EIM market on such questions as:

- whether provision or procurement of ancillary services will require operational changes;
- how intertie transfer capacity limits may impact resource availability or outage management;
- whether implementation of the CAISO EIM Congestion Management Process will require changes to APS's current transmission management practice;
- whether the CAISO EIM Market Power Mitigation Procedure will negatively impact any energy bids APS may make into the EIM; and
- how a contingency event in a neighboring EIM entity's scheduling area may impact the Company's ability to reliably serve its customers.

Internal Costs - Identify and estimate the cost (both start up and on-going) of implementing EIM for APS. Utilities engaging in EIMs in other markets have incurred significant IT costs, including those associated managing transactions internally but with other external participants as well. Along with these infrastructure costs, data security associated with these transactional platforms must be robust and evaluated as well.

Market Rules and Operations - APS is seeking to understand the extensive list of market rules, charges, workflows, timelines, and their effects on traders, transmission operators, and scheduling coordinators. APS must understand how the Company would apply/implement market rules and mitigate any operational impacts. For example, the Company is reviewing the following CAISO EIM business practices and determining implementation requirements:

- the roles and responsibilities of the EIM Entity, the EIM Entity Scheduling Coordinator, and the EIM Participating Resource Scheduling Coordinator;
- certification of scheduling coordinators;
- credit management policies and processes;
- settlement quality data and other settlement requirements;
- transmission of meter data and other communications protocol;
- outage management processes; and
- records development and retention requirements.

In addition to these key operational and cost considerations, APS is carefully considering regulations at the federal and state level; the role of other utilities, including in particular those that share generation and transmission resources with APS; and the needs of our customers. The timing of interaction and impacts to each of these groups are of key consideration.

APS understands that the decision to join an EIM has significant potential opportunities along with real cost and operational considerations. The team leading the APS analysis is diligently working to complete their detailed analysis by Spring of 2015 and commits to keep the Commission and interested stakeholders informed of its progress on this evaluation.

If you have any questions regarding this information, please contact me or Gregory Bernosky at (602)250-4849.

Sincerely,



Barbara D. Lockwood

cc: Docket Control
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