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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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Docket No. E-00000V-13-0070

IN THE MATTER OF RESOURCE
PLANNING
AND PROCUREMENT

**WESTERN GRID GROUP COMMENTS
ON ENERGY IMBALANCE MARKET**

Western Grid Group (WGG), a non-profit, public benefit organization, has supported the development of an Energy Imbalance Market (EIM) since 2012 as a logical step to improve and modernize transmission operations for Arizona Public Service Company (APS) and other Western utilities. WGG has reviewed the APS filing¹ on its participation in the EIM and find their analysis to be sound. We concur with the conclusion² that accessing this market is in the best interest of their customers. **We believe that APS' participation in the western EIM is a prudent decision because it is in the best interest of customers, will improve reliability of the transmission system, and is consistent with its 2014 Integrated Resource Plan (IRP). We recommend that APS join the market at the earliest possible date, which we estimate to be approximately 18 months from now.**

¹ APS filing in Integrated Resource Planning Docket <http://images.edocket.azcc.gov/docketpdf/0000161758.pdf>

² "Based on this analysis of the operational and financial benefits to APS customers, APS believes it would be in the best interest of customers if APS were to participate in the ISO EIM."
<http://images.edocket.azcc.gov/docketpdf/0000161758.pdf> Page 7

Participating in the EIM is a Prudent Decision and in the Best Interest of Customers

APS has followed a similar course of analysis as other current and potential EIM participants to determine if accessing the market for short term energy needs will provide financial benefits. After performing an internal assessment, APS contracted for an independent study by Energy and Environmental Economics (E3) to quantify expected costs and savings. This study has been publicly released and provided to the Commission. It builds on and confirms expected savings reported in other regional studies. As APS notes in its filing, the positive results anticipated for the utility are similar to projections from earlier regional studies. More importantly, savings for actual market participants are similar to projected savings building a case that studies have been able to accurately assess costs and benefits of participating in the market.

We believe the savings range cited in APS' filing are conservative.³ In its filing APS cites the range of savings of \$7.0 to \$18.1 million per year. The E3 study base case projects the lower end of the savings to be \$9.9 million⁴. It should be noted that under the ten sensitivities run on the base case all but one project minimum savings of at least \$9.0 million. The exception is an unlikely scenario where natural gas prices remain at a low \$3.1 per million BTU.

System Reliability will be Improved

In February 2013, the Federal Energy Regulatory Commission released a staff paper, *Qualitative Assessment of Potential Reliability Benefits from a Western Energy Imbalance Market*.⁵ In its conclusion the report states:

"An EIM has the potential to enhance reliability in the Western Interconnection by providing improved visibility and situational awareness, better management of

³ APS cites a saving range of \$7.0 to 18.0 million per year.
<http://images.edocket.azcc.gov/docketpdf/0000161758.pdf>, page 3.

⁴ <http://images.edocket.azcc.gov/docketpdf/0000161758.pdf>, page 15

⁵ www.caiso.com/Documents/QualitativeAssessment-Potential

transmission flows and system operating limits and faster, more diverse operational options and automated response to imbalances.”

The study of the September 2011 Arizona/Southern California outage⁶ found that a lack of situational awareness made it difficult for APS to know exactly what was happening on the transmission system during the cascading outage. This lack of real-time, actual information on the conditions of the grid will be, in part, addressed by the connectivity and automation that comes with system upgrades to participate in the imbalance market, thus improving reliability.

As stated by APS and the consultant report, the dollar savings reported above do not include any quantification of any reliability benefits. While not specifically quantified, these benefits could dwarf direct cost reductions as improvements needed to participate in the EIM will greatly improve situational awareness and enhance reliability.

The Proposal is Consistent with APS' Integrated Resource Plan (IRP)

In its 2014 IRP, APS detailed the need for investment to modernize and upgrade the transmission system over the 15 year planning period. Specifically, APS stated that they anticipate significant spending on transmission investments to “support reliability, balancing authority coordination, aging infrastructure and integration of renewable energy.” In the section on Reliability and Reserves Optimizations APS discusses possible participation in the EIM.

There are many technological improvements that APS can make. EIM, like many of the other improvements contemplated will require investment of capital and resources. WGG is gratified that APS has chosen to complete the study of EIM as part of their process to invest and modernize their system. As noted in our December 16, 2014 filing in this docket, we support APS participating in the EIM as expenditures for upgrades will save customers money.

⁶ http://www.nerc.com/files/AZOutage_Report_01MAY12.pdf, pages 5-7

Emerging EIM Governance will Allow Arizona and APS to Provide Input into Market Design and Management

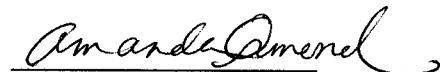
WGG has closely monitored the development of the EIM market and participated in efforts to create separate governance. We believe this effort is moving in the right direction as the new structure being designed will allow for both Arizona regulators and APS to have a direct say in the operation and management of the market. We remind the Commission that participating in this market is voluntary. If, as the market expands, it is not in the best interest of APS or its customers to participate, the utility can withdraw with no penalty. We believe that improvements in reliability and access to lower cost energy resources available through the market will pay such substantial dividends that withdrawing from the market will be unnecessary and imprudent. Active participation by the Company and the Commission in the design of governance will ensure that the market will continue to meet the needs of the utility and state.

Conclusion

We believe APS has accurately assessed the costs and benefits of participating in the EIM and concur with their conclusion that market participation is in their customers' best interest. We strongly support APS moving forward expeditiously to join the energy imbalance market.

Thank you for your consideration of these comments.

RESPECTFULLY SUBMITTED THIS 7th day of May, 2015.



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