

93 FERC ¶ 61, 231
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
William L. Massey, Linda Breathitt,
and Curt Hébert, Jr.

Arizona Independent Scheduling Administrator Association	Docket No. ER00-3583-000
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Arizona Public Service Company	Docket No. ER01-173-000
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Tucson Electric Power Company	Docket No. ER01-208-000
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ORDER ACCEPTING IN PART AND REJECTING IN PART TARIFF,
RELATED DOCUMENTS, AND RATE SCHEDULE,
DIRECTING MODIFICATION TO TARIFFS, AND
DIRECTING COMPLIANCE FILINGS

(Issued November 30, 2000)

This order accepts for filing in part, and rejects in part, tariffs and related filings made by the Arizona Independent System Administrator Association (AZ ISA), Arizona Public Service Company (Arizona Public Service), and Tucson Electric Power Company (Tucson) that will facilitate the implementation of retail electric competition in Arizona.

I. Background

In September 1999, the Arizona Corporation Commission (Arizona Commission) adopted an administrative rule which requires all utilities that fall under the Arizona Commission's jurisdiction to form an independent scheduling administrator to facilitate a retail choice program in Arizona. Currently, approximately 20 percent of retail load is eligible for choice; full retail competition is expected to begin on January 1, 2001.

On October 29, 1998, in Docket No. ER99-388-000, the AZ ISA filed, among other things, a protocols manual, which defined the operational and administrative functions of the AZ ISA. However, due to a lack of consensus on the protocols, the AZ

ISA filed a motion to withdraw its filing, with a commitment to submit a comprehensive filing within 90 days of that withdrawal.¹ In addition, Arizona Public Service and Tucson filed, in Docket Nos. ER99-4577-000 and ER00-771-000, respectively, amendments to their respective open access transmission tariffs (OATTs), including the protocols manual as filed by the AZ ISA in Docket No. ER99-388-000, to implement retail access. While the Commission accepted certain provisions relating to retail network integration transmission service, it rejected others and required Arizona Public Service and Tucson to remove the protocols manual as the protocols were incomplete.²

On September 1, 2000, in Docket No. ER00-3583-000, the AZ ISA filed a Protocols Manual, two pro forma agreements (Agreements), and a rate schedule (collectively AZ ISA Tariff), along with supporting documentation, including articles of incorporation and by-laws. The AZ ISA intends to implement retail access in two phases. Initially, the AZ ISA intends to oversee all activities on the OASIS of the member Control Area Operators and Transmission Providers, and to provide an independent forum for resolving disputes among the Control Area Operators, Transmission Providers, and transmission users. During Phase I, the AZ ISA will: (1) provide for the temporary allocation of a fixed amount of firm transmission capacity, approximately 300 MW, that is committed for retail uses by the Transmission Providers; (2) institute temporary must-run generation procedures (recovered in a distribution charge); and (3) implement a temporary imbalance settlement mechanism. The AZ ISA requests an effective date of November 1, 2000 for Phase I, to ensure a continuation of funding.

Phase II, which would add additional functions,³ will not begin until the designated capacity for retail choice becomes fully subscribed and the AZ ISA board

¹The Commission granted the motion to withdraw, by letter order issued June 14, 2000.

²See Arizona Public Service Co., 89 FERC ¶ 61,226 (1999), order on reh'g, 90 FERC ¶ 61,054 (2000)(Arizona Public Service); Tucson Electric Power Co., 90 FERC ¶ 61,108, order on compliance, 91 FERC ¶ 61,158 (2000). Tucson submitted a compliance filing, in Docket No. ER00-771-004, to revise Attachment L, which we do not address in this order.

³The proposed Phase II functions include an auction and trading mechanism for transmission rights used for retail transmission, and a trading mechanism for energy imbalances.

has approved a business plan demonstrating the AZ ISA's ability to implement the Phase II functions. If the Desert Star ISO becomes operational as currently anticipated, however, on December 15, 2001, Phase II may never go into effect. The AZ ISA states that, while it would prefer action on both phases, it would be amenable to the Commission acting now on Phase I, but would like action on Phase II no later than April 15, 2001.⁴ The AZ ISA emphasizes that the AZ ISA Tariff is not intended to create any precedent for any regional transmission organization which may be formed that includes Arizona parties and transmission facilities.

On October 5, 2000, a deficiency letter was issued in Docket No. ER00-3583-000, requiring Arizona Public Service and Tucson to amend their respective OATTs to implement the proposed Protocols Manual, so that the Commission could process Arizona Public Service's and Tucson's proposed tariff modifications in conjunction with the proposed AZ ISA Tariff. On October 20, 2000, in Docket No. ER01-173-000, Arizona Public Service filed revisions to its OATT. On October 24, 2000, as completed on October 25, 2000, in Docket No. ER00-208-000, Tucson filed revisions to its OATT. Arizona Public Service and Tucson also request an effective date of November 1, 2000. On October 25, 2000, in Docket No. ER00-3583-000, the AZ ISA submitted a letter stating that it now believes its filing with the Commission is complete.

II. Notices, Interventions, and Responses

Notices of the filings in Docket Nos. ER00-3583-000, as completed, ER01-173-000, and ER01-208-000, as completed, were published in the Federal Register,⁵ with comments, protests, or motions to intervene due on or before November 15, 2000, November 8, 2000, and November 15, 2000, respectively.

In Docket No. ER00-3583-000, a notice of intervention was filed by the Arizona Commission, and motions to intervene were filed by Arizonans for Electric Choice and Competition (AECC), the Navajo Tribal Utility Authority (Navajo Authority), jointly by

⁴AZ ISA October 10, 2000 Answer at 4-5. The Arizona Commission also states that "[w]e wish to emphasize that the Phase I features are the functions most vital to allowing Arizona's retail competition plan to move forward." Arizona Commission October 11 Supplemental Comments at 4.

⁵65 Fed. Reg. 68,986 (2000), 65 Fed. Reg. 64,693 (2000), and 65 Fed. Reg. 66,982 (2000), respectively.

twelve Arizona electrical and irrigation districts (Arizona Districts), ⁶ Pinnacle West Energy Corporation (Pinnacle West), Salt River Project Agricultural Improvement and Power District (SRP), the California Independent System Operator Corporation (CA ISO), Tohono O'odham Utility Authority (Tohono O'odham), Citizens Communications Company (Citizens), ⁷ Arizona Electric Power Cooperative, Inc. (AEPCO), Arizona Power Authority (Arizona Authority), Tucson, Enron Power Marketing, Inc. (Enron), Arizona Public Service, APS Energy Services Company, Inc. (APS Energy Services), and Reliant Energy Power Generation, Inc. (Reliant).

The Arizona Commission, AECC, Pinnacle West, Tucson, Arizona Public Service, and APS Energy Services all filed comments in support of the filing. Citizens filed comments supporting implementation for the Phase I period.

Protests or comments raising concerns were filed by Arizona Districts, SRP, Arizona Authority, and Reliant. Only Arizona Districts request that the Commission reject the filing, arguing, among other things, that the Commission should order a full investigation and hearing.

SRP is concerned that resources might be better spent ensuring that the Desert Star ISO is in compliance with Commission orders. AEPCO and Reliant are concerned with the allocation of firm transmission capacity committed for retail wheeling.

On October 10, 2000, the AZ ISA filed an answer.

Timely motions to intervene were filed in Docket No. ER01-173-000 by the AZ ISA, Tucson, the Navajo Authority, Arizona Authority, and Arizona Districts. Arizona Districts also filed a motion to consolidate Docket Nos. ER00-3583-000, ER01-173-000, and ER01-208-000, and a protest. In addition to the issues already raised in

⁶Arizona Districts consists of: Aguila Irrigation District, Buckeye Water Conservation & Drainage District, Electrical District No. 1 of Pinal County, Electrical District No. 3 of Pinal County, Electrical District No. 6 of Pinal County, Electrical District No. 7 of Maricopa County, Electrical District No. 8 of Maricopa County, Harquahala Valley Power District, Maricopa County Municipal Water Conservation District No. 1, McMullen Valley Water Conservation & Drainage District, Roosevelt Irrigation District, and Tonopah Irrigation District.

⁷On October 19, 2000, Citizens filed notice that Citizens Utilities Company changed its name to Citizens Communications Company.

Docket No. ER00-3583-000, Arizona Districts request the filing be rejected because Arizona Public Service improperly failed to serve them with a copy of its filing, and that the filing failed to provide an adequate redline version and changed several sections without changing the corresponding cross references to these sections.

On November 15, 2000, the Arizona Commission filed a motion for leave to intervene out of time, in Docket No. ER01-173-000. On November 20, 2000, Arizona Public Service filed an answer in Docket No. ER01-173-000.

Timely motions to intervene were filed in Docket No. ER01-208-000 by the AZ ISA, the Navajo Authority, and Arizona Districts. In addition to the issues already raised in Docket No. ER00-3583-000, Arizona Districts request the filing be rejected because Tucson improperly failed to serve them with a copy of its filing, and that the filing failed to provide an adequate redline version. On November 27, 2000, Tucson filed an answer in Docket No. ER01-208-000.

III. Discussion

A. Procedural Matters and Motion to Consolidate

Inasmuch as we are not setting these matters for hearing, consolidation of the dockets is unnecessary.

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,⁸ the notices of intervention of the Arizona Commission and the timely, unopposed motions to intervene of AECC, the Navajo Authority, Arizona Districts, Pinnacle West, SRP, the CA ISO, Tohono O'odham, Citizens, AEPCO, Arizona Authority, Tucson, Enron, Arizona Public Service, APS Energy Services, and Reliant serve to make them parties to the proceeding or proceedings in which they sought intervention.

We will grant the late intervention of the Arizona Commission in Docket No. ER01-173-000, given its interest in the proceeding, the early stage of the proceeding and the absence of any undue prejudice or delay.⁹

⁸18 C.F.R. § 385.214 (2000).

⁹See 18 C.F.R. § 385.214(d)(1)(iii) (2000).

Notwithstanding Rule 213 of the Commission's Rules of Practice and Procedure,¹⁰ we will accept the AZ ISA's October 10, 2000 answer in Docket No. ER00-3583-000, as it aids in our understanding of the issues in this case. However, pursuant to Rule 213, we will reject Arizona Public Service's November 20, 2000 answer in Docket No. ER01-173-000 and Tucson's November 27, 2000 answer in Docket No. ER01-208-000.

We will deny Arizona Districts' requests to reject Arizona Public Service's filing in Docket Nos. ER01-173-000 and ER01-208-000. As Arizona Districts admit, Arizona Public Service and Tucson made their filings in new dockets, in which Arizona Districts were not yet a party. Thus, under section 35.3 of the Commission's regulations, Arizona Public Service and Tucson had no obligation to serve Arizona Districts.¹¹ Moreover, we note that Arizona Districts received adequate notice from publication in the Federal Register. Furthermore, the requests for red-lined version of the proposed tariff changes are inappropriate in that the earlier tariff changes were rejected by the Commission.

B. Effective Date and Scope

We find that good cause has been shown by the AZ ISA, Arizona Public Service, and Tucson to grant waiver of our prior notice requirements under section 35.3(a) of the Commission's regulations,¹² to permit an effective date of November 1, 2000, as requested, for the AZ ISA Tariff and the OATT amendments filed by Arizona Public Service and Tucson.

In accordance with the statements by the Arizona Commission and the AZ ISA, we will address only the Phase I implementation provisions in this order. We will deny the AZ ISA's request for Commission action by April 15, 2001 on Phase II. Instead, to avoid unnecessary duplication of effort, given the uncertainty of Phase II implementation and the potential for the Desert Star ISO to supersede the AZ ISA in December 2001, the AZ ISA should file a request with the Commission sixty days prior to the anticipated Phase II implementation date, if Commission action is still necessary.

¹⁰18 C.F.R. § 385.213 (2000).

¹¹See 18 C.F.R. § 35.3 (2000).

¹²18 C.F.R. § 35.3(a) (2000).

C. Arizona Districts' Request for Rejection or Deferral

We will deny Arizona Districts' request that the Commission reject the AZ ISA filing or, in the alternative, defer action until Arizona Public Service and Tucson disclose how they will implement the proposals. We note that our deficiency letter in Docket No. ER00-3583-000 required this information, and Arizona Public Service and Tucson have provided the necessary information in the instant filings. Moreover, as discussed below, we do not agree with Arizona Districts that we need an investigation and hearing to evaluate these filings. However, we note that the Protocols Manual includes a number of definitions that differ from those of the pro forma tariff, and the AZ ISA has not demonstrated that its alternative proposal is consistent with or superior to the pro forma definitions. Accordingly, the pro forma definitions will control.

Arizona Districts also argue that Arizona courts have determined that the Arizona Commission's order "requiring creation" of the AZ ISA has been found by Arizona courts to violate Arizona law, "which create a substantial cloud over the legality of the continued existence of the [AZ ISA]." ¹³

We disagree that the legal challenges in the Arizona courts should preclude our action now. As the Arizona Commission states, there has not been final court action, and under "Arizona law, [Arizona Commission] orders remain in effect during the pendency of appeal; accordingly, rule 1609 is currently in effect and is likely to remain in effect for the foreseeable future." ¹⁴ Moreover, as the AZ ISA points out, it has an independent right to seek Commission approval of its proposed tariff under the Federal Power Act, even without the challenged Arizona Commission rules.

D. Transfer of Existing Native Load Network Transmission Capacity to Retail Access Loads

Protocol V of the AZ ISA Protocols Manual provides for the transfer of existing network transmission capacity, previously committed for serving native load, to retail access loads. Each transmission provider will apportion the existing network capacity used to serve native load among scheduling coordinators based on the percentage of that load that they serve. There are two classes of Scheduling Coordinators: Standard Offer

¹³Arizona Districts Protest at 8, 11.

¹⁴Arizona Commission Supplemental Comments at 3 (citations omitted). See also AZ ISA Answer at 10.

Scheduling Coordinators (Standard Offer SCs) and Competitive Scheduling Coordinators (Competitive SCs). Competitive SCs schedule the loads for retail native load customers who have switched suppliers under Arizona's retail choice program, while Standard Offer SCs are the incumbent host utilities (e.g., Arizona Public Service and Tucson) who schedule the loads of retail customers who have not elected to purchase power from another supplier. The initial apportionment will reflect a load ratio share of each transmission path that the transmission provider has currently reserved to serve native load. For this initial apportionment, retail access customers will not be required to designate a network resource in advance of commencement of service. However, to ensure that new suppliers have sufficient access to external resources, Arizona Public Service and Tucson have committed to increase the allocations to Competitive SCs to 200 MWs, and 80 MWs, respectively, on specified transmission paths that are presumed to be most likely used for retail access in exchange for other reserved transmission paths.¹⁵ This is a temporary mechanism intended to allow Competitive SCs to aggregate meaningful amounts of capacity over certain transmission paths to facilitate access to energy trading hubs to serve retail load.

Arizona Districts argue that the allocation of fixed amounts of network capacity on specific paths is inconsistent with the pro forma tariff and should be rejected. Arizona Districts also argue that the transfer results in a hybrid point-to-point service rather than a true network service, and that Competitive SCs would be able to reserve the equivalent of point-to-point transmission capacity without paying a reservation charge. Reliant expresses concern that the Transmission Providers and their affiliates will have a competitive advantage in offering service to Competitive SCs, because the Transmission Providers' generation resources are the only resources with the available transmission capacity necessary to serve those loads. Reliant also urges that retail transmission capacity be reserved only when actual network resources, which are to be used to serve the retail loads, are known. Reliant maintains that the actual flows may require much different paths, would affect reservations, reduce liquidity in the wholesale market, and preclude the use by retail suppliers of alternative wholesale resources.

Arizona Districts also allege that the Competitive SCs will be afforded a scheduling priority at the interfaces inconsistent with Section 30.8 of the pro forma tariff. Arizona Districts state that section 30.8 prohibits all priority allocations of interface capacity to network customers. According to Arizona Districts, the proposed firm transmission allocated to this service will prevent other wholesale and retail customers

¹⁵Arizona Public Service's capacity is from Palo Verde to the Arizona Public Service Load Zones; Tucson's capacity is from Four Corners to the Tucson Load Zone.

from scheduling over constrained interfaces. Arizona Districts argue that in Sierra Pacific Power Company,¹⁶ the Commission rejected a proposal to establish a scheduling priority for retail customers when interfaces are constrained.

We find that the proposal to allow existing native load transmission capacity to follow the retail load as it is released to retail choice is consistent with the rollover rights afforded under Section 2.2. of the pro forma tariff. While all retail or native load customers qualify for rollover rights under the pro forma tariff, that renewal right does not guarantee any particular transmission reservation, i.e., the proposed rollover provision does not guarantee that formerly captive customers will have unfettered access to imports so as to reach outside suppliers. Moreover, this provision is a reasonable accommodation to spur competitive access and reduce the dependence of new competitive suppliers on internal generation resources that are owned by the transmission provider and its affiliates. We agree with the AZ ISA that the temporary allocations do not result in a reduction to the amount of total transmission capability available, but rather simply reflect a reallocation of the existing amount of transmission capacity used to serve retail load, i.e., existing retail loads will use designated transmission import capability that the transmission providers had been using to reach previously designated network resources. We also note that as network customers, all network users will be required to designate network resources to serve retail load, and may not use this capacity to make third-party sales.

However, because we agree with the AZ ISA that the allocations are appropriate as a temporary mechanism, and because it is intended that these allocations will be superseded by the earlier of Desert Star becoming operational or the Phase II implementation, we will permit these allocations only through December 15, 2001, the anticipated operational date of Desert Star.

Finally, we note that as part of the transfer proposal, the AZ ISA has included a provision that contemplates that certain generators will provide must-run energy to retail load-serving entities at rates on file with the Arizona Commission. This constitutes a sale for resale, subject to regulation by this Commission. Accordingly, the jurisdictional Transmission Providers must amend their OATTs to include these sales when such service commences.

¹⁶Sierra Pacific Power Company, 81 FERC ¶ 61,136 at 61,638 (1997), order on clarification, 82 FERC ¶ 61,272 (1998).

Contrary to Arizona Districts' allegation, Competitive SCs will be subject to redispatch costs. As the AZ ISA states in its answer, all SCs will be subject to redispatch costs consistent with Section 33.3 of the pro forma tariff and Section 4.6 of Protocol X of the Protocols.¹⁷

We note that Tucson's OATT includes Part IV (Retail Direct Access Network Integration Transmission Service), Section 41.3, which provides that, if Tucson implements least-cost redispatch procedures in response to a transmission constraint, Tucson and the scheduling coordinators will be responsible for a share of these costs based on a load ratio share. Arizona Public Service's OATT, however, does not have a similar provision in its Retail Network Integration Transmission Service provision covering redispatch procedures. Consequently, we will condition our approval of Arizona Public Service's tariff revisions to require a compliance filing to add the same redispatch provision as in Tucson's OATT.

E. Real Power Losses

The AZ ISA Protocols Manual provides that each Transmission Provider shall forecast or estimate an hourly loss factor for retail customers which shall be used by the SCs in preparation of schedules and by the Transmission Providers for settlement.¹⁸ The Transmission Provider will make available and post on its OASIS forecasted

¹⁷See Order No. 888, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (May 10, 1996), FERC Stats. & Regs. ¶ 31,036 at 31,957-58 (1996), Order No. 888-A, 62 Fed. Reg. 12,274 (March 14, 1997), FERC Stats. & Regs. ¶ 31,048 (1997), order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997), order on reh'g, Order No. 888-C, 82 FERC ¶ 61,046 (1998), aff'd in part, Transmission Access Policy Study Group, et al. v. FERC, 225 F.3d 667 (D.C. Cir. 2000), petition for cert. filed, 69 U.S.L.W. 3281 (U.S. Oct. 12, 2000) (No. 00-568).

¹⁸The Arizona Public Service and Tucson OATTs presently include an annual average real power loss factor of 2.5 percent and 3.3 percent, respectively, for Retail Network Integration Transmission Service customers. The Tucson OATT specifies 3.3 percent for EHV service and one percent for non-EHV service.

hourly loss factors by voltage level or service (transmission or distribution) by the 15th of each month, for service to be scheduled during the following month.¹⁹

In Arizona Public Service,²⁰ the Commission rejected hourly loss factors noting that we typically require the use of an average system loss factor when the rate for transmission service is based on average system fixed transmission costs. The Commission explicitly put the AZ ISA on notice in Arizona Public Service that the Commission was concerned that hourly loss factor calculation represented a snapshot of the transmission system, relied heavily on assumptions, and could result in drastically different loss factors throughout the year, and that any subsequent filing must respond to the concerns raised in the Arizona Public Service proceeding.

Our review of the AZ ISA's filing indicates that the AZ ISA has provided no support for this hourly loss factor proposal and failed even to include the proposed methodology for calculating such losses. In not so responding, the AZ ISA has not met its burden of justifying its proposed hourly loss factors and we will reject them. Therefore, the AZ ISA, Arizona Public Service, and Tucson must submit compliance filings to eliminate the proposed hourly loss factors.

F. Energy Imbalance

Section IX of the Protocols Manual, Energy Imbalance Protocol, contains an Energy Imbalance mechanism and a provision to charge for Unaccounted for Energy. The Phase I energy imbalance deadband is the greater of 2 MW or +/- ten percent. For underscheduling within the deadband, the price is the higher of the System Incremental Cost or Market Price, where Market Price is based on the prices reported at regional trading points, such as Palo Verde. For overdeliveries within the deadband, payment is the lower of System Incremental Cost or Market Price. The penalty for underdeliveries outside the deadband is 110% of the greater of the Transmission Providers' System Incremental Cost or Market Price and, for overdeliveries, outside the deadband the payment is 90% of the lower of System Incremental Cost or Market Price. The AZ ISA argues that this expanded deadband is superior to that required under the pro forma tariff and permits a substantial room for error in scheduling before a penalty is imposed. This Energy Imbalance provision is applicable to Competitive SCs but not Standard Offer

¹⁹Section 7, Article VI, Scheduling Protocols and Section 6, Schedule IX, Energy Imbalance Protocols.

²⁰89 FERC at 61,669.

SCs. In support of the different treatment, the AZ ISA points out that the Standard Offer SCs will have the responsibility to be "providers of last resort" or, as the providers of Energy Imbalance Services required for the Control Area Operators, to comply with Western Systems Coordinating Council reliability requirements.²¹ Additionally, Arizona Public Service states that Standard Offer SCs who are responsible for serving the loads of standard offer retail customers taking service under bundled rates set by the Arizona Commission, are not required to take service under the Transmission Providers' OATT.²²

With respect to the Energy Imbalance provision, we find that the proposed mechanism and charges are reasonable.²³ However, we find that the different treatment of the Energy Imbalance provision for Competitive SCs and Standard Offer SCs is unreasonable. As an initial matter, Arizona Public Service is incorrect in its assumption that Standard Offer SCs will continue to provide bundled retail services. The AZ ISA has stated that all of Arizona will be open to retail choice on January 1, 2001. A retail customer that chooses to remain with the incumbent supplier is taking unbundled retail transmission just as is the retail customer that chooses a new supplier.²⁴ Thus, the Transmission Providers providing Standard Offer service will be required to take unbundled retail transmission service under their OATTs, and therefore, consistent application of the Energy Imbalance provision to all Scheduling Coordinators is also required. Therefore, we direct AZ ISA to modify its Protocols Manual and Transmission Providers OATTs accordingly in the ordered compliance filings.

²¹Section 8 of Protocol X, Energy Imbalance, provides that a Standard Offer SC that does not act as a passive provider of last resort and actively negotiates new agreements that do not qualify as standard offer, shall be subject to the same Energy Imbalance requirements as Competitive SCs.

²²Arizona Public Service Motion to Intervene at 3.

²³See Allegheny Energy Supply Co., L.L.C., 91 FERC ¶ 61,255 at 61,893 (2000); Commonwealth Edison Co., et al., 88 FERC ¶ 61,296 at 61,901 (1999).

²⁴In its initial filing the Arizona Public Service proceeding, Arizona Public Service stated that to accommodate retail direct access in Arizona, the Arizona Commission has required it to unbundle retail sales. Supplemental Information at 1.

Consistent with Order No. 888,²⁵ the Transmission Providers are required to file with the Commission network service agreements in order to implement unbundled retail service.

G. Unaccounted for Energy

The proposed Unaccounted for Energy charge is intended to recover costs that may result from a combination of factors, such as actual system losses, loss calculation errors, and metering inaccuracies or variations. Each Transmission Provider will calculate Unaccounted for Energy for each hour as the total amount of energy input into its system from all sources during the hour minus the total amount of energy delivered to retailed metered loads during the hour. Each Scheduling Coordinator will be allocated a share of this hourly Unaccounted for Energy based on the ratio of the Scheduling Coordinator's actual hourly load to the total system hourly delivered load. The charge for Unaccounted for Energy will be the Transmission Provider's System Incremental Cost. The proposed Unaccounted for Energy will not be assessed to wholesale loads.

Arizona Districts argue that the Unaccounted for Energy has not been adequately justified and is contrary to Commission precedent. Arizona Districts also state that, contrary to the pro forma tariff, the Unaccounted for Energy charge will not allow transmission customers to totally self supply losses because of the after-the-fact check-out procedures whereby customers will be allocated a load ratio share of Unaccounted for Energy. Finally, Arizona Districts argue that the Unaccounted for Energy charge violates the doctrine of cost causation because it will be assigned to all Scheduling Coordinators.

The AZ ISA responds that: (1) Arizona Districts are wholesale customers who are unaffected by the proposed Unaccounted for Energy charge; (2) retail customers currently pay for Unaccounted for Energy as part of their bundled retail rates as approved by the Arizona Commission; and (3) the Unaccounted for Energy is an attempt to balance the economic benefits accorded Scheduling Coordinators by virtue of the broad Phase I deadband with a mechanism to allow Transmission Provider's to recover all of their out-of-pocket costs.

The AZ ISA has proposed to recover under its Unaccounted for Energy charge, amounts for losses and metering variations or inaccuracies. With respect to the loss

²⁵FERC Stats. & Regs. at 31, 781; see also Order No. 888-A, FERC Stats. & Regs. at 30,225-26.

component of this Unaccounted for Energy charge, we note that the Commission recently held in Sierra Pacific Power Company that any unrecovered losses in addition to stated loss factors should be recovered through an adjustment to the loss factor initiated through a filing under section 205 of the Federal Power Act.²⁶ The AZ ISA has not convinced us to depart from that decision here. With respect to the AZ ISA's remaining argument for Unaccounted for Energy, *i.e.*, metering errors, we note that Section 3.1.1 of Article IX, Energy Imbalance Protocol, specifically states that Standard Offer SCs will not have the same metering requirements (or Energy Imbalance requirements) as Competitive SCs. The Competitive SCs are required to have, pursuant to the Transmission Providers' OATTs, metering equipment that will allow the hourly tracking of energy while Standard Offer retail customers do not have such metering. The AZ ISA has not met its burden of demonstrating that the Unaccounted for Energy is attributable to the Competitive SCs, given the different metering requirements, and therefore, we reject this proposed charge. We expect that Transmission Providers will seek recovery of all non-transmission related costs under their local distribution tariff.²⁷

H. Compliance with Order Nos. 888 and 889²⁸

Arizona Districts dispute the AZ ISA's contention that it is not required to file a pro forma tariff or OATT because it will not own, maintain, or control transmission facilities. Arizona Districts argue that certain aspects of the Transmission Providers' transmission facilities will be controlled by the AZ ISA because the Transmission Providers have agreed to follow the requirements of the Protocols Manual and Agreements. As a result, Arizona Districts contend that the AZ ISA will control a comprehensive system of reserving and scheduling transmission and ancillary services for retail customers. Arizona Districts also claim that the AZ ISA will in fact control the transmission system when the AZ ISA implements Phase II of the Protocols Manual, allowing SCs to bid for the capacity on transmission paths and trade that capacity among themselves. Accordingly, Arizona Districts argue that the Commission should require

²⁶93 FERC ¶ 61,107 at ____ (2000), slip op. at 9-10 (Sierra Pacific).

²⁷See id. at ____, slip op. at 9.

²⁸Open Access Same-Time Information System (Formerly Real-Time Information Networks) and Standards of Conduct, Order No. 889, 61 Fed. Reg. 21,737 (May 10, 1996), FERC Stats. & Regs. ¶ 31,035 (1996), order on reh'g, Order No. 889-A, 62 Fed. Reg. 12,484 (March 14, 1997), FERC Stats. & Regs. ¶ 31,049 (1997), order on reh'g, Order No. 889-B, 81 FERC ¶ 61,253 (1997).

the AZ ISA to file a pro forma tariff that is consistent with or superior to Order Nos. 888 and 889.

We disagree. All transmission service will be provided under the Transmission Providers' OATTs so the requirements of Order No. 888 are being met.

In Phase I, which we are addressing here, the AZ ISA will monitor the OASIS of Arizona Public Service and Tucson, not the AZ ISA's, so there is no need for the AZ ISA to comply with the requirements of Order No. 889.

We also note that Citizens has been granted waiver of having to file an OATT with the Commission,²⁹ yet is a participating Transmission Provider of the AZ ISA. Citizens' waiver was conditioned on its showing that it owned, operated, or controlled "only limited and discrete transmission facilities (facilities that do not form an integrated transmission grid)." ³⁰ Accordingly, in light of the proposed transmission service herein, we will direct Citizens to file with the Commission, within 30 days of the date of this order, an OATT. We note that, in its intervention in Docket No. ER00-3583-000, Citizens states that it has agreed to divest all of its electric utility operations, and that it expects to have completed such divestiture in 2001. In the interim, however, Citizens is required to have an OATT on file with the Commission.

I. Operating Costs and Start-Up Costs

The AZ ISA proposes to recover its operating costs through a monthly charge to be allocated among the Transmission Providers. Each month, the AZ ISA will estimate its total operating costs during the prior month and the Transmission Providers will estimate their total retail load. To the extent these estimates of costs and load turn out to be inaccurate, the funding mechanism includes a monthly true-up mechanism. The AZ ISA also proposes to collect monies to pay off start-up loans that certain Transmission Providers advanced to the AZ ISA during its developmental stage.

The Arizona Commission expressed concern that the AZ ISA Tariff fails to identify the magnitude of start-up costs that it seeks to recover, the total amount of

²⁹See Northern States Power Company, et al., 76 FERC ¶ 61,250 at 62,296, order on reh'g, Black Creek Hydro, Inc., et al., 77 FERC ¶ 62,232 at 61,944-45 (1996) (Black Creek).

³⁰Black Creek, 77 FERC at 61,941.

outstanding debt to be repaid, or the time period for repayment. The Arizona Commission opposes an open-ended framework for cost recovery.

Arizona Public Service requests clarification of two sections of the Protocols Manual: Section 5 of Protocol VII, Ancillary Services, and Section 5.11 of Protocol IX, Energy Imbalance. In its Answer, the AZ ISA agreed with these two proposed changes, and we find these changes reasonable.

We find that the proposed monthly collection of operating costs with a true-up provision is reasonable. However, we agree with the Arizona Commission that the AZ ISA should identify the amount of start-up costs owed to each participating Transmission Provider and the expected amortization period for repayment of such costs. Accordingly, we will direct the AZ ISA to submit such information in a compliance filing.

The Commission orders:

- (A) Arizona Districts' motions are hereby denied.
- (B) The Arizona Commission's motion to intervene in Docket No. ER01-173-000 is hereby granted.
- (C) The AZ ISA's answer in Docket No. ER00-3583-000 is hereby granted.
- (D) Arizona Public Service's answer in Docket No. ER01-173-000 and Tucson's answer in Docket No. ER01-208-000 are hereby denied.
- (E) The filings by the AZ ISA, Arizona Public Service, and Tucson are hereby accepted in part and rejected in part, as discussed in the body of this order.
- (F) The AZ ISA, Arizona Public Service, and Tucson are hereby directed to file, within 30 days of the date of this order, revisions to reflect discussion in the body of this order.
- (G) Citizens is hereby directed, within 30 days of the date of this order, to file an open access transmission tariff.
- (H) The parties are hereby informed of the rate schedule designations shown on the attachment to this order.

Docket No. ER00-3583-000, et al.

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By the Commission.

(S E A L)

Linwood A. Watson, Jr.,
Acting Secretary.

Rate Schedule Designations
Effective Date: November 1, 2000

Arizona Independent Scheduling Administrator Association
Docket No. ER00-3583-000

Designation	Description
(1) FERC Electric Tariff, Original Volume No. 1 (Original Sheet Nos. 1-137)	Independent Scheduling Administrator Tariff

Arizona Public Service Company
Docket No. ER00-173-000

(2) FERC Electric Tariff, Original Volume No. 2 (Sixth Revised Sheet Nos. 1-154; Seventh Revised Sheet Nos. 154-205)	Revised Open Access Transmission Tariff
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Tucson Electric Power Company
Docket No. ER00-208-000

(3) FERC Electric Tariff, Third Revised Volume No. 2 (Original Sheet Nos. 2-291)	Revised Open Access Transmission Tariff
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