

May 2, 2001

The Honorable David P. Boergers  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

Re: **Arizona Independent Scheduling Administrator Association  
Docket No. ER01-\_\_\_-000**

Dear Mr. Boergers:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Part 35 of the Regulations of the Federal Energy Regulatory Commission (“Commission”), the Arizona Independent Scheduling Administrator Association (“Az ISA”) hereby submits four agreements, two signed by the Az ISA and Arizona Public Service Company (“APS”), and two signed by the Az ISA and Tucson Electric Power Company (“TEP”). The Az ISA also is submitting proposed modifications to the Az ISA Protocols Manual’s definition of “System Incremental Cost” (“SIC”) and “Market Price.” The Az ISA respectfully requests that the Commission accept these agreements and the proposed modifications to the Protocols Manual definitions of SIC and Market Price without modification, waive any notice requirements that may apply, and establish an effective date of May 3, 2001, so that the process of developing a robust retail electric market in the State of Arizona can move forward without any further delay.

#### **CORRESPONDENCE AND COMMUNICATIONS**

All correspondence and communications concerning this filing should be made to:

Patrick J. Sanderson  
Acting Executive Director  
Arizona Independent Scheduling  
Administrator Association  
615 South 43<sup>rd</sup> Avenue  
APO BLG  
Phoenix, AZ 85009  
Tel: (602) 352-3532  
Fax: (602) 352-3530  
email: psanderson@az-isa.org

Barbara S. Jost  
John R. Matson, III  
Huber Lawrence & Abell  
1001 G Street, N.W., Suite 1225  
Washington, D.C. 20001  
Tel: (202) 737-3880  
Fax: (202) 737-6008  
email: bjost@huberlaw.com  
email: jmatson@huberlaw.com

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Stuart A. Caplan  
Huber Lawrence & Abell  
605 Third Avenue, 27th Floor  
New York, NY 10158  
Tel: (212) 682-6200  
Fax: (212) 661-5759  
email: scaplan@huberlaw.com

### NATURE OF FILING

On November 30, 2000, the Commission issued an order in Docket No. ER00-3583-000, *see Arizona Independent Scheduling Administrator Association, et al.*, 93 FERC ¶ 61,231 (2000), accepting in part, rejecting in part and directing modifications to the Az ISA Tariff and other documents related to the establishment of the Az ISA and the development of retail electric competition in the State of Arizona. The required modifications, specifically those related to charges for Unaccounted for Energy (“UFE”) and the calculation of losses, were based on the Commission’s conclusion that the filing lacked sufficient factual support for those provisions. *See Id.* at 61,762-63. In its Order on Rehearing issued March 16, 2001, the Commission reaffirmed its finding on this matter. *See Arizona Independent Scheduling Administrator Association, et al.*, 94 FERC ¶ 61,302 (2001) However, those provisions were critical components of the tariff as negotiated by the stakeholders. The required modifications have upset the delicate balance of interests originally incorporated in the Az ISA Tariff in a manner that disproportionately impacts the Transmission Providers (“TPs”).

The representative stakeholder Az ISA Board, by nearly unanimous vote, directed the Az ISA staff to work with the TPs to develop, organize and file sufficient factual support to demonstrate that the UFE and loss provisions of the Protocols Manual as originally filed are just and reasonable. The Az ISA submits that it is in the public interest to pursue this course because it restores the bargain negotiated by the stakeholders while providing the factual support that FERC seeks. At this time, the parties are still collecting and analyzing the data needed to provide the requisite factual support. Until this process is complete and a filing is made with the FERC, the TPs would remain hesitant to sign the Az ISA’s operating agreements (i.e. ISA-TP Agreement and ISA-SC-TP Agreement).<sup>1</sup>

In order to facilitate the immediate commencement of operations under the Az ISA Protocols Manual, APS and TEP have agreed to sign the operating agreements with the addition of a “sunset provision.” The Az ISA Board of Directors has agreed to the addition of this provision. Accordingly, the following provision has been added to the Withdrawal Section of the operating agreements for APS and TEP:

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<sup>1</sup> These agreements set forth the terms and conditions pursuant to which the Az ISA, the TPs and SCs will provide retail electric service and obligate the parties to comply with the Az ISA’s Protocols Manual.

In addition to the foregoing, the TP may withdraw from this Agreement, subject to the TP's obligations set forth at Sections 14 and 15, and upon three (3) months prior written notice to the Az ISA, should the FERC reject the FPA Section 205 filing to be made implementing the hourly losses and unaccounted-for-energy provisions as set forth at Sections 3 (Original Sheet Nos. 42-44) and 7 (Original Sheet No. 47) of Protocol IX (Energy Imbalance) as contained in the Az ISA's initial filing in Docket No. ER00-3583-000.

Because the TPs viewed the ability to withdraw from the agreements under this described circumstance as critical, the Az ISA further agreed to an additional "escape clause" to allow cancellation of these agreements should the Commission reject this sunset provision. Therefore, the Withdrawal Section of each of the operating agreements further provides:

In addition, the TP may withdraw from this Agreement should the FERC reject or modify the separate FPA Section 205 filing to be made to add the foregoing Sunset Provision to this Agreement and said withdrawal may be effective as of the date of the FERC's Order rejecting or modifying said Sunset Provision.

In all other respects, the agreements submitted today are identical to the *pro forma* agreements included in the Az ISA Tariff, which the Commission approved without modification. *See Arizona Independent Scheduling Administrator Association, et al.*, 93 FERC ¶ 61,231 (2000).

The sunset provision permits services under the Commission-approved version of the Protocols Manual to commence immediately, pursuant to the terms of the Az ISA Tariff, as modified by the compliance filing submitted simultaneously herewith in Docket No. ER00-3583-00\_. It does not prejudice in any fashion the merits of the subsequent UFE/losses Section 205 filing to be made by the parties, as outlined above. Thus, although APS and TEP will be initially implementing a Protocols Manual that lacks UFE and the hourly losses provisions as originally filed by the Az ISA, the expectation is that an additional Section 205 filing containing the requisite factual support for these provisions will be submitted in the near future. Should the Commission reject the UFE and loss proposals to be set forth in this additional Section 205 filing, the sunset provision gives APS and TEP the ability to withdraw from the operating agreements. Absent the inclusion of this provision, it is unlikely that APS and TEP would be willing to sign the referenced agreements.

The Protocols Manual as approved by the Commission contains the following definition of SIC:

The cost (\$/MWh) incurred or avoided by the TP as a result of providing Energy Imbalance Service under these Protocols, through the dispatch of generation or through purchases/sales with Third Party Suppliers.

At the Az ISA's February 21, 2001 Board Meeting, APS requested that the Az ISA seek Commission authorization to modify this definition so as to conform to the definition of SIC as set forth in APS' Commission-approved Open Access Transmission Tariff ("OATT"). The revised definition of SIC, as proposed by APS, is as follows:

Any increase in cost incurred by a TP as a result of performing Energy Imbalance Service requiring the utilization of dispatchable generation or purchases from third-parties. SIC shall be computed as the weighted average price of the highest-cost dispatchable generation resource and/or third-party purchase made by the TP's real-time operators up to an amount of energy equal to the system net Energy Imbalance. The cost of SIC for both the generation and purchased power components shall be determined by the TP's real-time operator on an hourly basis at the time the real-time operator makes a decision on the source of the energy supply.

This definition is identical to the definition in APS' OATT, with the exception of the substitution of the phrase "TP" for "APS." At this meeting, TEP indicated that the revised definition of SIC is acceptable and that it would make the necessary regulatory filing with FERC to modify its OATT to include this definition as well. Accordingly, the Az ISA Board of Directors then approved this modification to the Protocols Manual and instructed that it should be included in the instant Section 205 filing.

A comparison of the two definitions demonstrates that the APS version, although setting forth a more detailed explanation of the methodology for determining SIC, is fully consistent with the SIC definition previously included and approved by the Commission as part of the Az ISA's Protocols Manual. This revision enables the Protocols Manual definition of SIC to track the definition already used by APS and to be used by TEP in the balance of their OATTs, thereby eliminating a possible source of confusion for parties participating in both the wholesale and retail markets. Accordingly, Az ISA submits that approval of this modification is consistent with Order No. 888 requirements.

Finally, the definition of "Market Price" as set forth in the Protocols Manual references, in four separate places, the "California ISO SP-15 Hourly Ex-Post" price. With the termination

of the activities of the California PX, this indice no longer exists. Accordingly, the Az ISA Board has agreed to replace this term with the only other hour ahead published price currently available, the SP-15 Average Ex Post Energy price, and instructed that it be included in this Section 205 filing.

#### **WAIVERS**

The Az ISA requests waiver of any regulations necessary to implement this filing, including the notice requirements in Sections 35.3(a) and 35.12(b) of the Commission's regulations, 18 C.F.R. §§ 35.3(a) and 35.12(b) (2000). Waiver is appropriate due to the unique circumstances presented in this instance. The Commission has approved the *pro forma* agreements. The only difference in these agreements is a single provision, the sunset provision. By definition, this provision will not be implemented, if ever, until after the Commission rules in an as-yet unfiled proceeding under section 205 of the FPA. Furthermore, waiver will allow service under the Az ISA's Protocols Manual to take effect as soon as possible, thereby enhancing retail competition in the State of Arizona.

#### **DOCUMENTS SUBMITTED**

In addition to this Transmittal Letter, the Az ISA submits the following documents:

1. Original Service Agreement No. 1, signed by the Az ISA and APS;
2. Original Service Agreement No. 2, signed by the Az ISA and APS;
3. Original Service Agreement No. 3, signed by the Az ISA and TEP;
4. Original Service Agreement No. 4, signed by the Az ISA and TEP;
5. Clean and redlined versions of the tariff sheets setting forth the modified definition of SIC and Market Price; and
6. A form of Notice suitable for publication, in hard copy and electronically (in Word Perfect 6/7/8 on a computer diskette).

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**SERVICE COPIES**

The Az ISA served copies of this filing on the Arizona Corporation Commission via U.S. Mail, first class postage prepaid, and on Arizona Public Service Company and Tucson Electric Power Company.

**CONCLUSION**

As this filing is just and reasonable, the Az ISA respectfully requests that the Commission accept this filing and establish an effective date of May 3, 2001.

Respectfully submitted,

ARIZONA INDEPENDENT SCHEDULING  
ADMINISTRATOR ASSOCIATION

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Barbara S. Jost  
John R. Matson, III  
Huber Lawrence & Abell  
1001 G Street, N.W., Suite 1225  
Washington, D.C. 20001  
(202) 737-3880

Stuart A. Caplan  
Huber Lawrence & Abell  
605 Third Avenue, 27<sup>th</sup> Floor  
New York, NY 10158  
(212) 682-6200

Attachments