

**Prepared Comments of Jeff Guldner,  
On Behalf of Arizona Public Service Company**

**Panel One of the Staff Technical Conference on  
Designated Network Resource Issues (RM05-17-002)**

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On behalf of Arizona Public Service Company, I want to express our appreciation to the Commission and its Staff for the assistance and follow up that Staff has provided to help APS and others implement Order 890, and in particular for scheduling this technical conference on designated network resource issues. APS has been and continues to be supportive of the majority of the revisions and clarifications to the Commission's Open Access policy reflected in Order 890. There are, however, a handful of critical issues—including the designated network resource issues before you in this Technical Conference—that we believe the Commission should clarify on a generic basis.

**I. Introduction**

The designation of network resources is a fundamentally important issue for APS. We are both a transmission provider and a network customer serving the fastest growing metropolitan area in the United States. As a network customer, APS depends not just on APS-owned generation, but also on an appropriate mix of unit-contingent purchases (such as tolling agreements) and firm purchases from a very liquid bilateral physical power market. Sellers in this liquid market include utilities, public power, merchant generators, and banks such as Morgan Stanley who is participating in this panel today. We believe that it is critical that implementation of Order 890 not unnecessarily disrupt or diminish the existing liquid physical power markets that allow my company and others in the West to reliably and economically serve our growing native loads.

Some of the uncertainty over the eligibility of “seller’s choice” contracts to be DNRs may stem from differences between systems in the Eastern and Western Interconnections, and sometimes even differences among systems within the same region. Some of the uncertainty may also result from ambiguity in the meaning of terms such as “seller’s choice” or the difference between an “on-system” seller’s choice contract and an “off-system” seller’s choice contract. For example, a seller’s choice contract on Duke’s system may look fundamentally different than what we at APS think of as a seller’s choice contract. Thus, to determine what seller’s choice contracts should qualify to be designated network resources, it is necessary to consider the context presented.

## **II. Overview of the Rated-System Path Methodology**

The utilities in the Desert Southwest use a rated-system path methodology for determining total transfer capability (TTC) and available transfer capability (ATC). The methodology is approved by WECC, and is perhaps a more static approach than the flow-based systems in many parts of the Eastern Interconnection. In the West, we do not recalculate firm ATC based on updated generator dispatch assumptions outside of the planning horizon. ATC is simply decreased over a path when a transmission customer takes firm point to point service or to reflect a new network resource reservation from a specific point on the transmission provider’s system to a network load. If unacceptable loop flows occur in real time due to actual generator dispatch, there is a WECC procedure—the unscheduled flow mitigation procedure—that is used to address the impact of the loop flows. Outside of this “as necessary” unscheduled flow mitigation procedure, firm ATC is determined based on path ratings and “contract paths” and is not affected by the actual generation dispatch patterns in the WECC.

### **III. Seller's Choice Contracts in the Western United States**

The type of seller's choice contract prevalent in the WECC is a contract where the point at which the power will be delivered is specified, but the generator or control area from which the power will be sourced is not specified at the time the contract is executed and the resource is designated. For such a contract, the generator or control area sourcing the power does not matter to the network customer or the transmission provider. Because of the rated-system path methodology used in the WECC, if a seller agrees to supply a network customer with power at Palo Verde, the ATC on APS's system would be unaffected regardless of whether that power ultimately originates from one of the five balancing authorities at Palo Verde, or from the Nevada Power balancing authority, or from the Pacific Northwest.

This type of contract is a WSPP Schedule C Contract—a firm, physical contract that requires a seller to deliver power at a specified location. These contracts are an important part of the resource mix of most network customers. Because they are not unit contingent, an outage of a particular generator does not relieve the seller of an obligation to supply power. The seller will find an alternative source of power and will continue to perform. As a result, these contracts are more dependable than a contract that specifies a specific generator or control area.

Also, allowing sellers and particularly banks to have flexibility of supply when it does not adversely affect the transmission provider is critical in maintaining liquid power markets in the West. These types of contracts, particularly with banks, allow physical transactions that could not otherwise occur due to credit quality issue. For example, a utility may be unwilling to enter into a long-term purchase power transaction with a

neighboring BBB minus-rated utility due to credit exposure, but would have no issues entering into the same transactions with an A-rated bank. The bank, in turn, may well contract to purchase power from the BBB minus-rated utility, which was unable to transact directly with the bank's counterparty. Additionally, due to their broader perspective across multiple systems, banks add efficiencies in the overall use of generation resources throughout the West. If the banks conclude that the regulatory constraints are too limiting, and choose to move to a financial rather than a physical approach to trading power, an important market that is currently available to APS and our customers will be adversely affected.

For APS, a seller's choice contract is not a contract where a seller can elect delivery at one of several hubs on APS's transmission system. Because there are constraints across our system, it is necessary for a network customer to specify the point at which off-system power will be delivered to the APS system. For example, we have the Palo Verde trading hub on the western side of our system and the Four Corners trading hub on the far eastern side of the system. A network customer could not attempt to designate as a network resource a contract that provided for the seller to deliver at either Four Corners or Palo Verde because, in that case, the transmission provider would not be able to determine the impacts to ATC on (1) the Palo Verde to Phoenix path and (2) the Four Corners to Phoenix path until the seller has specified the point to which power will actually be delivered.<sup>1</sup>

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<sup>1</sup> Note, however, that this is a system-specific determination. If there were no constraints on APS's system between the two points identified by the seller and it was considered a node or a single zone, there might be no impact to ATC.

#### **IV. Conclusion**

The specific regulatory issue that we believe needs to be addressed by the Commission for seller's choice contracts in the West is to clarify that a network customer that acquires a firm power contract with a defined point of delivery need not specify the control area or balancing authority from which power originates if such information is not needed by the transmission provider. While this is not precisely the same "seller's choice" issue raised by those in the Eastern Interconnection, the underlying theme is consistent—network customers should be permitted to designate network resources if the designation does not adversely affect the transmission provider's ability to calculate ATC and operate its transmission system.

That concludes my prepared comments for the first panel.