

**UNITED STATES OF AMERICA
BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION**

Arizona Public Service Company

Docket No. ER16-938-000

**COMMENTS OF THE WESTERN POWER TRADING FORUM
ON THE ARIZONA PUBLIC SERVICE COMPANY TARIFF FILING**

Pursuant to Rule 211 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission”),¹ the Western Power Trading Forum (“WPTF”)² submits these comments in response to Arizona Public Service Company’s (“APS”), proposed revisions to its Open Access Transmission Tariff (“OATT”).³ The OATT revisions proposed by APS (“APS Tariff Filing”) are intended to implement the California Independent System Operator’s (“CAISO”) Energy Imbalance Market (“EIM”) within the APS Balancing Authority Area (“BAA”).

I. COMMUNICATIONS

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¹ 18 C.F.R. § 385.211, *et seq.* (2010).

² WPTF previously filed a timely document-less intervention in this docket on February 17, 2016.

³ *Arizona Public Service Company*, Tariff Filing per 35.13(a)(2)(iii): APS Energy Imbalance Market OATT Revisions, Docket No. ER16-938-000 (filed February 12, 2016) (“APS Tariff Filing”).

II. BACKGROUND

APS and the CAISO filed an EIM Implementation Agreement with the Commission on May 28, 2015.⁴ The Implementation Agreement set forth the terms under which the CAISO would extend the EIM to APS. The Implementation Agreement was approved by the Commission on July 31, 2015.⁵ Subsequently, APS initiated a stakeholder process to discuss the modifications to the APS OATT in order to implement the EIM. APS held stakeholder meetings in September 2015, November 2015, and January 2016. WPTF participated in each stakeholder meeting and submitted comments on several issues. Despite WPTF's comments and concerns, the APS Tariff Filing has retained a number of provisions that are unjust and unreasonable, and do not comport with the processes used or proposed by the other EIM Entities, including PacifiCorp, NV Energy and Puget Sound Energy ("PSE"). Below WPTF describes the APS's OATT provisions that require modification.

III. COMMENTS

A. The Use of Penalty Tiers in Schedule 4 and Schedule 10 is Unjust and Unreasonable When Market Prices are Used to Determine Imbalance Prices under the EIM

APS has elected to retain penalty tiers in its imbalance schedules (Schedules 4 and 10 of the OATT), despite the fact that all other EIM Entities have determined such penalty tiers are not necessary in the EIM, a determination that has been supported by the Commission as evidenced by the approval of the other EIM Entities' tariffs. WPTF submitted comments on multiple occasions during the APS stakeholder process providing justification for the elimination of penalty tiers under the EIM. Nevertheless, APS has elected to propose retention of penalty tiers.

⁴ *California Independent System Operator*, Filing of ISO Rate Schedule No. 79, Docket No. ER15-1802-000, filed May 28, 2015.

⁵ *Federal Energy Regulatory Commission*, Letter Order Accepting Implementation Agreement, Docket No. ER15-1802-000, filed July 31, 2015.

WPTF recognizes that penalty tiers may be appropriate when the pricing of imbalance service under an OATT is *not* based on actual, real-time market prices. For instance, the penalty tiers in APS’s existing OATT may be necessary to incent proper scheduling practices because the current OATT relies on index pricing, which may or may not be reflective of actual system conditions and actual costs of providing imbalance service. However, penalty tiers are not justified under the EIM, where locational marginal prices (“LMPs”) determined by the Market Operator’s security constrained economic dispatch will be used to price imbalances for load and generation. Under the EIM, Transmission Customers will be charged or paid based on the real-time costs or benefits associated with imbalances. This renders the penalty tier structure unnecessary in the EIM and inappropriate for retention in Schedule 4 and Schedule 10 of APS’s OATT upon implementation of the EIM.

APS argues that penalty tiers are necessary to “ensure that customers do not ‘lean’ on the system in a market in which the submission of economic bids is voluntary.”⁶ However, APS has not provided any analysis or clear reasoning for why penalty tiers are just and reasonable when imbalances prices are determined by the Market Operator in the EIM. In fact, the use of penalty tiers under the EIM is unjust and unreasonable when considered in conjunction with the earlier scheduling deadlines necessitated by the EIM. And, although the APS Tariff Filing commits to monitoring customer behavior to determine if LMPs can act as a suitable incentive for accurate scheduling, honoring this commitment is impossible unless APS first observes the behavior of customers under the EIM *without* the existence of penalty tiers. For these reasons, as explained in more detail in the sections that follow, the Commission should reject APS’s proposed use of penalty tiers under the EIM.

⁶ APS Tariff Filing at p.11.

1. APS Has Not Justified Penalty Tiers Which Arbitrarily Redistribute Market Results for the EIM

The retention of penalty tiers in Schedule 4 and Schedule 10 of the APS has the practical effect of *arbitrarily* and significantly modifying the market prices of the EIM by collecting additional revenue from customers that did not accurately schedule and redistributing those revenues to other Transmission Customers. In order for the EIM price signals to function properly, the EIM's imbalance prices should remain intact when they are passed on to Transmission Customers and should not be redistributed in this administrative manner. WPTF understands APS's desire is to incent customers to schedule properly, but the EIM should already achieve that goal by providing market signals to loads and generators. In fact, the EIM prices are designed to pay or charge the actual market price of addressing imbalances that occur for a specific generator or for load. There is no need or justification for administrative penalty tiers to incent proper scheduling behavior in the EIM.

2. Penalty Tiers are Unjust and Unreasonable when Considered in Conjunction with Earlier Scheduling Deadlines under the EIM

The use of penalty tiers, in conjunction with the earlier scheduling deadline in the EIM is unjust and unreasonable. The use of penalty tiers will unfairly penalize well-intentioned Transmission Customers that have large imbalances quantities simply due to the greater uncertainty associated with load and generation schedule submissions made 57 minutes before the operating hour (T-57), as required by the EIM.

These requirements are inappropriate for all generation and load, but are especially problematic for variable energy resources. The use of penalty tiers and a financially binding scheduling timeline of T-57 violates the Commission's Order 890 principle that energy and generator imbalances provisions must account for the special circumstances presented by

intermittent generators and their limited ability to precisely forecast or control generation levels.⁷ APS's proposal will, in fact, create more barriers for variable energy resources and unnecessarily penalize variable resources through the combination of penalty tiers and earlier scheduling deadlines. Taken together, these requirements undermine the Commission's intent in Order 764 to increase the flexibility afforded to Transmission Customers seeking to make schedule changes close to the operating horizon by providing customers the ability to update transmission schedules on an intra-hour basis. These same concerns also apply to non-variable resources and loads which will still have substantial uncertainty surrounding their schedules at 57 minutes before the operating hour and will also be subject to penalty tiers for imbalances >1.5%.

The combination of earlier scheduling deadlines and penalty tiers included in imbalance under the EIM could cause significant financial impacts for loads and resources that have good intentions. Under the APS Tariff Filing, penalty tiers would begin to kick in for deviations that are >1.5% and penalty tiers would further increase for deviations >7.5%. Under this proposed regime, variable energy resources with good forecasting practices and the best intentions could easily trigger these penalty tiers when required to submit schedules 57 minutes before the operating hour, as will be the case under APS's EIM. For instance, assume a wind resource scheduled 100 MW at T-57, but as the hour approached wind forecasts dropped and the wind resource produced only 85 MW. The wind generator would not only have to pay the market price (LMP), which reflects the actual costs of making up for the generator's 15 MW deficit, but would also pay APS penalty tiers requiring it to compensate APS up to 125% of the LMP produced by the market (for the deviations >7.5% of the schedule). The same problem exists for loads and non-variable generation resources. This result is unjust and unnecessary. APS should

⁷ Order No. 890, *Preventing Undue Discrimination and Preference in Transmission Service*, 118 FERC ¶61,119, at P 663, ("Order 890").

be required to address this problem by eliminating penalty tiers, just as the other EIM Entities have elected to do.

3. APS Cannot Determine whether LMPs are Sufficient Incentives while Penalty Tiers are in Effect

APS has attempted to justify the retention of its current OATT penalty tiers in the EIM tariff due to concerns that some Transmission Customers may abuse scheduling practices in some manner. APS commits to monitoring customer behavior to determine if LMPs alone can act as a suitable incentive for accurate scheduling.⁸ However, it is illogical to conclude that APS will have any means of determining whether the LMPs alone are a suitable incentive for proper scheduling, if its EIM tariff imposes penalty tiers from the start.

Indeed, all other EIM Entities have eliminated penalty tiers in their EIM tariffs. These other EIM Entities have recognized that if further incentives are needed to ensure proper scheduling behavior under the EIM, they can initiate such action at a later time. APS's EIM tariff should adopt the same approach in this regard.

B. APS Should Clarify Why its Available Balancing Capacity Definitions Differ from Other EIM Entities

APS has proposed definitions for Balancing Authority Area Resource ("BAAR") and EIM Available Balancing Capacity that differ from the definitions used by other EIM Entities.⁹ As these definitions are integral to the operation of the EIM, WPTF believes that consistency in the definitions of such terms across the EIM Entities will reduce the possibility of seams issues and unintended consequences. Specifically, APS has proposed the following definitions:

BAAR: An APS Participating or Non-Participating Resource that 1) is unit specific, 2) can provide regulation and load following services to enable the APS EIM Entity to meet

⁸ APS Tariff Filing at P.11.

⁹ APS Tariff Filing at P.20.

reliability criteria, and 3) is either owned by APS or APS has contracted for the right to call upon the capacity for regulation or load-following services from that resource.

EIM Available Balancing Capacity: Any upward or downward capacity from a BAA Resource APS has a right to, by virtue of ownership or a voluntary contractual arrangement, which has not been bid into the EIM and is included in the APS EIM Entity's Resource Plan.

In contrast, PacifiCorp and NV Energy have proposed the following definitions:^{10,11}

BAAR: A resource owned or voluntarily contracted for by PacifiCorp that can provide regulation and load following services to enable the PacifiCorp EIM Entity to meet reliability criteria. No resource unaffiliated with the PacifiCorp EIM Entity shall be a Balancing Authority Area Resource solely on the basis of one or more of the following reasons: (1) the resource is a Designated Network Resource; (2) the resource flows on a Point-To-Point Transmission Service reservation; and/or (3) the resource is an Interconnection Customer under the Tariff.

EIM Available Balancing Capacity: Any upward or downward capacity from a Balancing Authority Area Resource that has not been bid into the EIM and is included in the PacifiCorp EIM Entity's Resource Plan.

APS's proposed definitions for BAAR and EIM Available Balancing Capacity *appear* to address the concerns WPTF has previously expressed in response to the original proposals of NV

¹⁰ Nevada Power Company, OATT Revisions Attachment P Schedule 9 and Definitions, Docket No. ER15-1196-005 (filed January 4, 2016).

¹¹ PacifiCorp, OATT Revised Sections (EIM Available Balancing Capacity 2), Docket No. ER16-682-000 (filed January 4, 2016).

Energy and PacifiCorp.^{12,13} But, WPTF sees no reason why the definitions employed by the APS EIM tariff should be any different from the definitions that have been proposed by PacifiCorp, NV Energy and PSE, which ensure that no third-party is obligated to act as a BAAR, and be dispatched by the EIM, without the existence of an underlying voluntary, contractual relationship. The Commission should direct APS to modify its tariff to mirror the definitions used by other EIM Entities in order to reduce the potential for seams issues in the EIM, reduce the likelihood of disparate implementation of resource by EIM Entities, and help ensure that third-parties could not be involuntarily counted as a BAAR as a result of being a Designated Network Resource, flowing on a Point-to-Point Transmission Service reservation, or being an Interconnection Customer under the tariff. If the Commission declines to direct these modifications, WPTF requests, at a minimum, that APS clarify why it has proposed definitions that differ from the other EIM Entities and whether APS's implementation of the EIM Available Balancing Capacity mechanism will be any different than the other EIM Entities.

C. **Use of Dynamic Schedules for EIM Dispatch Should be Extended to all External Resources Meeting APS's Technical Criteria**

APS has proposed to allow external resources to participate in the EIM in two ways. First, similar to other EIM Entities, external resources may participate in the EIM by implementing a pseudo-tie into APS's BAA. APS also proposes to allow BAARs to participate in the EIM via a dynamic schedule and several other technical requirements.¹⁴ WPTF supports the use of dynamic schedules to facilitate EIM participation. However, APS's dynamic scheduling proposal would limit the use of dynamic scheduling to "two third-party generators

¹² *Western Power Trading Forum*, Comments and Protest to the Nevada Power Company Tariff Filing, Docket No. ER15-1196-004 (filed September 22, 2015).

¹³ *Western Power Trading Forum*, Comments and Protest to the PacifiCorp Tariff Filing, Docket No. ER15-2591-000 (filed September 22, 2015).

¹⁴ APS Tariff Filing at p. 17.

located in generator-only BAAs that are dynamically scheduled into the APS BAA and that are equipped with AGC and *currently operated under tolling agreements with APS* (emphasis added).”¹⁵ APS contends that, “this proposal is not unduly discriminatory as it is generally available to any similarly situated external resource that *voluntarily contracts with APS to be a BAAR* and satisfies the requirements of Sections 3.2 of Attachment Q (emphasis added).”

WPTF disagrees with APS’s claim its proposal is not unduly discriminatory because APS’s proposal would in fact treat similarly situated resources differently. Specifically, WPTF does not agree that external resources wishing to participate in the EIM through a dynamic schedule should be required to have an underlying contract with APS. Put simply, there is no *technical* reason that a resource must be a BAAR in order to satisfy the requirements of Section 3.2 of Attachment Q. WPTF urges the Commission to direct modifications to APS’s dynamic scheduling proposal that eliminate any reference to a requirement that the resource have an underlying contract with APS, so that all external resources meeting the technical specifications proposed by APS will be eligible to participate in the EIM. This will ensure that other similarly situated resources, including *all* generation-only BAAs located near the APS BAA which may wish to participate in the EIM in the future, are treated equally to those generator-only BAAs which have a contractual relationship with APS.

WPTF recommends the following modifications to Section 3.2.3 of Attachment Q to ensure equal treatment of similarly situated resources and avoid the potential for discrimination:

3.2.3 ~~Balancing Authority Area Resources~~ Use of Dynamic Schedules

~~BAARs~~ **External resources** may participate in the EIM as a APS Participating Resource if the resource (1) is dynamically scheduling to the APS BAA, (2) is AGC-equipped and

¹⁵ APS Tariff Filing at P. 11.

fully dispatchable by APS, (3) has arranged firm transmission over any third-party transmission systems to a APS BAA intertie boundary equal to the amount of energy that will be Dynamically Transferred into APS's BAA, and (4) has secured transmission service consistent with Section 3.1 of this Attachment Q.

IV. **CONCLUSION**

WPTF supports, in principle, the development of the EIM and the expansion of the EIM to APS. However, EIM implementation must be done in a manner that is just, reasonable and not unduly discriminatory. As described in these comments, APS's proposal includes several provisions that must be modified to ensure that these goals are achieved in the implementation of the EIM in the APS BAA. To address these concerns, WPTF urges the Commission to require APS to modify its tariff as recommended herein.

Respectfully submitted,



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March 4, 2016

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the *Comments of the Western Power Trading Forum on the Arizona Public Service Company Tariff Filing* on all parties of record in proceeding *ER16-938-000* by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is not available.

Executed on March 5, 2016, at Calabasas, California.

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