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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission
DOCKETED
DEC 09 2003

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DEC 10 2003
AZ CORPORATION COMMISSION
DIRECTOR OF UTILITIES

DOCKETED BY nr

IN THE MATTER OF SERVICE QUALITY ISSUES,
ANALYSIS OF TRANSMISSION ALTERNATIVES
AND PROPOSED PLAN OF ACTION IN THE SANTA
CRUZ ELECTRIC DIVISION OF CITIZENS
UTILITIES COMPANY (NOW THE SANTA CRUZ
DIVISION OF UNISOURCE ELECTRIC)

DOCKET NO. E-01032A-99-0401
DECISION NO. 66615
ORDER

Open Meeting
December 2 and 3, 2003
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. In Decision No. 62011 (November 2, 1999), the Commission approved a Settlement Agreement between Citizens Communications Company ("Citizens") and Staff of the Utilities Division ("Staff") which mandated the construction of a second transmission line to Nogales, Arizona by December 31, 2003. The purpose of the second transmission line is to improve the reliability of service to Citizens' customers in Santa Cruz County. The Settlement Agreement states that Citizens would pay a penalty of \$30,000 per month for each full month of delay in the construction after December 31, 2003. The Settlement Agreement also allows for Citizens to file for a delay in the construction date and/or the waiver of the penalty no later than December 31, 2003.

2. In Decision No. 64356 (January 15, 2002), the Commission granted Joint Applicants Tucson Electric Power Company ("TEP") and Citizens a Certificate of Environmental Compatibility ("CEC") to construct the proposed Gateway 345 kV and 115 kV Transmission Project ("Gateway Project") for the preferred western route, which had been granted by the Arizona Power Plant and

1 Transmission Line Siting Committee ("Committee"). The Gateway Project incorporated the second
2 transmission line required by the Commission in Decision 62011. Need for the Gateway Project was
3 established in that docket.

4 3. Staff testified as to the need for the second transmission line in both proceedings
5 (Docket Nos. E-01032A-99-0401 and L-00000C-01-0111/L-00000F-01-0111). Customers of
6 Citizens in Santa Cruz County had been experiencing more outages over a greater period of time such
7 that construction of a second transmission line is essential in order for an acceptable quality of
8 service to be achieved. Staff testified that continuity of service could not be assured for residents of
9 Santa Cruz County as long as a radial transmission line is the sole means of connecting Citizens'
10 Santa Cruz Electric Division Facilities to the western electric grid. During the hearings under Docket
11 No. L-00000C-01-0111/L-00000F-01-0111, Citizens offered a load forecast as exhibit RAC-2 and
12 testified that Santa Cruz County load could exceed the 60 MW rating of the existing 115 kV line as
13 early as the summer of 2003.

14 4. A second transmission line to Citizens' electric service area is required and is the only
15 means to resolve the service reliability problem to Santa Cruz County.

16 5. The Gateway Project approved in Decision No. 64356 addresses the service reliability
17 problem in Santa Cruz County and offers added benefits, such as improved reliability with an
18 additional 345 kV transmission line and an interconnection with Mexico.

19 6. On August 5, 2003, TEP and Citizens filed a Joint Application for Delay of the In-
20 Service Deadline or, in the Alternative, Waiver of Penalties and For Other Appropriate Relief ("Joint
21 Application") under this Docket. The Joint Application requests for a delay in the in-service date of
22 the second transmission line from December 31, 2003, and a waiver in the penalty provision of the
23 Settlement Agreement approved in Decision 62011. The reasons for the delay cited in the Joint
24 Application are to obtain the required approvals from federal agencies. The Joint Application states
25 that because the western route approved by the Commission in Decision No. 64356 crosses a
26 substantial amount of federal land, including portions of the Coronado National Forest, the approval
27 of a land-use plan amendment for U.S. Forest Service lands and a right-of-way permit from the U.S.
28 Forest Service are required. Furthermore a Final Environmental Impact Statement ("EIS") is also

1 required. The federal agencies involved in approving the Gateway Project include the Department of
2 Energy ("DOE"), the Bureau of Land Management ("BLM"), the U.S. Forest Service ("USFS"), and
3 the US International Boundary Water Commission ("USIBWC")..

4 7. Substantial efforts have been made by TEP and Citizens to construct the Gateway
5 Project since receiving a CEC from the Commission. These efforts include, but are not limited to, (1)
6 substation design and site work; (2) design of the 115 kV and 345 kV interconnections; and (3)
7 preliminary engineering, routing and environmental work for the lines and contacts with landowners
8 regarding surveying right of way and easement paths and acquisition.

9 8. TEP and Citizens cite that the delays in the federal EIS process are beyond their
10 control. The federal EIS process began in August, 2000. However, the federal EIS efforts were
11 impacted by numerous local and national events, including, but not limited to the September 11, 2001
12 terrorist attacks, the anthrax scare and the forest fires, which lead to the closing of the Coronado
13 National Forest in 2002 and a competing Public Service Company of New Mexico transmission
14 project. The above circumstances adversely impacted the federal EIS process and contributed to
15 delays for the Gateway Project.

16 9. On October 10, 2003, TEP and UniSource Electric, Inc. ("UNS Electric") filed their
17 supplement to the Joint Application. Citizens sold its electric assets to UniSource Energy
18 Corporation, which then formed UNS Electric. Unisource Energy Corporation is also the parent
19 holding company for TEP. The CEC for Citizens has since been transferred to UNS Electric. The
20 supplement proposes to provide short-term relief until the second transmission line is constructed and
21 becomes operational by (1) installing 25 MVAR capacitor banks on the 115 kV system to support
22 system voltage in the Nogales area and (2) installing an emergency tie between TEP's existing 46 kV
23 line and the Kantor substation. TEP claims these two actions when coupled with operation of the
24 Valencia generating units in Nogales are expected to enable service restoration capability to 70 MW
25 of load in Santa Cruz County following a transmission line outage. The existing transmission line is
26 currently rated at 60 MW.

27 10. Staff believes the improvements proposed by TEP and UNS Electric are needed and
28 would likely be required even with the addition of the second line to Nogales. While the

1 improvements will be able to serve load in excess of 60 MW without relying on the Valencia
2 generating units, the improvements will not obviate the interruption of service to Santa Cruz County
3 when the outage of the existing transmission line occurs.

4 11. The Settlement Agreement approved in Decision No. 62011 committed Citizens to
5 Plan of Action as filed by Citizens on April 15, 1999, and supplemented on May 7 and July 13, 1999
6 and incorporating Staff recommendations contained in pre-filed testimony of those proceedings. The
7 Plan of Action included construction, operation and maintenance of new distribution infrastructure,
8 improved restoration of service following transmission outages by use of newly developed restorative
9 switching protocol, maintaining a distribution system operation center with remote supervisory
10 control and data acquisition ("SCADA") capability and placing the Valencia generating units in
11 standby mode during storm season.

12 12. Staff believes that UniSource Energy Corporation's acquisition of Citizens' Santa
13 Cruz electric assets will offer operational improvements by relying on the operational expertise and
14 close proximity of field personnel from TEP. Staff recommends that TEP and UNS Electric update
15 the Plan of Action to take full advantage of such opportunities per Decision No. 66028. Staff
16 recommends that TEP and UNS Electric submit an updated "Outage Response Plan" within ninety
17 (90) days of the effective date of this order that addresses the following:

- 18 a. Can Citizens operating procedures be improved to shorten the restoration time
19 for transmission outage events utilizing TEP's operations center and field
20 personnel?
- 21 b. Are any of the following improvements cost effective as interim restoration of
22 service solutions to the construction of a second transmission line?
- 23 i. A limited number of automated or remote controlled distribution feeder ties
24 between substations.
25 ii. Improved remote electronic dispatch control capability of the Valencia
26 generator or improved generator controls.
- 27 c. What refinements are appropriate in Citizens' RAC-2 peak load forecast?
28 Please define the annual hours of exposure when load is forecast to exceed the
capacity of the existing transmission line.
- d. Is the proposed interconnection with Mexico at the Gateway substation an
interim service restoration solution for delay of the proposed South to Gateway
transmission line through the Coronado National Forest?

1 e. How much emergency service is available from TEP via a Kantor feeder tied
2 to TEP's 46 kV line?

3 13. Staff further recommends that Staff would then file a subsequent report commenting
4 on the sufficiency of the updated Outage Response Plan within thirty (30) days of the updated Outage
5 Response Plan being filed by TEP and UNS Electric.

6 14. Staff recommends that the in-service/need date for the second transmission line
7 required by Decision No. 62011 not be changed. The fact, that the required in-service date is not
8 going to be achieved does not negate the need for the line.

9 15. Staff further recommends that the penalties that would become effective January 1,
10 2004 be waived until June 1, 2004. Staff believes TEP and UNS Electric have made substantial
11 efforts to construct the second transmission line by December 31, 2003. Furthermore, Staff believes
12 the reasons for the delay are attributable to the circumstances that impacted the federal EIS and
13 permitting processes and obtaining all of the requisite federal approvals. Staff recommends a waiver
14 until June 1, 2004, so that TEP and UNS Electric have sufficient time to investigate, budget and
15 update the Citizens Plan of Action to reflect the added value of their operational expertise and
16 personnel, as well as affording an opportunity for the DOE to publish the Final EIS in the Federal
17 Register reflecting the recommended action of each of the cooperating federal agencies.

18 16. Staff further recommends that prior to June 1, 2004, this matter appear on a
19 subsequent open meeting so that the Commission could (1) determine sufficiency of the TEP and
20 UNS Electric updated Outage Response Plan; (2) receive updates on the federal process; (3) address
21 further waiving of the penalty for a prescribed period beyond June 1, 2004; and (4) establish a
22 process for (a) reviewing the TEP and UNS Electric Outage Response Plan such that it remains
23 sufficient, (b) providing further updates on the federal process, and (c) addressing future waivers of
24 the penalty beyond the prescribed period.

25 17. It is reasonable to require TEP and UNS Electric to submit the updated "Critical
26 Response Plan" described in Findings of Fact No. 12 within sixty (60) days of the effective date of
27 this order.

28 ...

CONCLUSIONS OF LAW

1
2 1. TEP and UNS Electric are public service corporations within the meaning of Article
3 XV, Section 2 of the Arizona Constitution.

4 2. The Commission has jurisdiction over TEP and UNS Electric and over the subject
5 matter of this docket.

6 3. Staff's recommendations in Findings of Fact Nos. 12, 13, 14, 15 and 16 are
7 reasonable, in the public interest and should be adopted.

8 4. It is reasonable to require TEP and UNS Electric to submit the updated "Critical
9 Response Plan" described in Findings of Fact No. 12 within sixty (60) days of the effective date of
10 this order.

11 5. There is good cause justifying waiver of the \$30,000 per month penalty included in the
12 Settlement Agreement approved in Decision No. 62011 until June 1, 2004, pending an updated
13 Outage Response Plan.

ORDER

14
15 IT IS THEREFORE ORDERED that the \$30,000 per month penalty in the Settlement
16 Agreement that was approved in Decision No. 62011 shall be waived until June 1, 2004.

17 IT IS FURTHER ORDERED that the in-service/need date for the second transmission line
18 shall remain December 31, 2003.

19 IT IS FURTHER ORDERED that TEP and UNS Electric shall submit an updated "Outage
20 Response Plan" within sixty (60) days of the effective date of this order that addresses the following:

- 21 a. Can Citizens operating procedures be improved to shorten the restoration time for
22 transmission outage events utilizing TEP's operations center and field personnel?
- 23 b. Are any of the following improvements cost effective as interim restoration of
24 service solutions to the construction of a second transmission line?
 - 25 i. A limited number of automated or remote controlled distribution feeder ties
between substations.
 - 26 ii. Improved remote economic dispatch control capability of the Valencia
generator or improved generator controls.
- 27 c. What refinements are appropriate in Citizens' RAC-2 peak load forecast? Please
28 define the annual hours of exposure when the load is forecast to exceed the
capacity of the existing transmission line.

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- d. Is the proposed interconnection with Mexico at the Gateway substation an interim service restoration solution for delay of the proposed South to Gateway transmission line through the Coronado National Forest?
- e. How much emergency service is available from TEP via a Kantor feeder tied to TEP's 46 kV line?

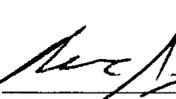
IT IS FURTHER ORDERED that Staff of the Utilities Division shall file a Report within thirty (30) days of the filing of the updated Outage Response Plan by TEP and UNS Electric, which comments on the sufficiency of the updated Outage Response Plan.

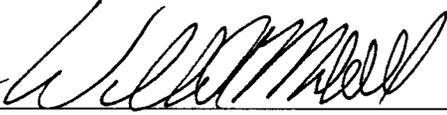
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1 IT IS FURTHER ORDERED that prior to June 1, 2004, that this matter be placed on a
 2 subsequent open meeting be held in order to (1) determine sufficiency of the TEP and UNS Electric
 3 updated Outage Response Plan; (2) receive updates on the federal process; (3) address further waiver
 4 of the penalty for a prescribed period beyond June 1, 2004; and (4) establish a process for (a)
 5 reviewing the TEP and UNS Electric Outage Response Plan such that it remains sufficient, (b)
 6 providing further updates on the federal process, and (c) addressing future waivers of the penalty
 7 beyond the prescribed period.

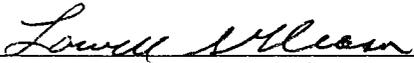
8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9
 10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

11 
 12 CHAIRMAN

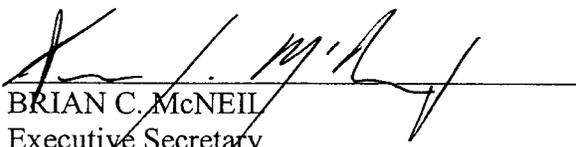
11 
 12 COMMISSIONER

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 12 COMMISSIONER

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 15 COMMISSIONER

16 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
 17 Secretary of the Arizona Corporation Commission, have
 18 hereunto, set my hand and caused the official seal of this
 19 Commission to be affixed at the Capitol, in the City of Phoenix,
 20 this 9th day of December, 2003.

21 
 22 BRIAN C. McNEIL
 23 Executive Secretary

24 DISSENT: _____

25 DISSENT: _____

26 EGJ:JDS:lhvJDG

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2 DOCKET NO. E-01032A-99-0401

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