FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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Docket Nos. PA04-11, PA04-13, and RM01-10-003 (Order No. 2004-C)

FERC AUDITS FAULT PRACTICES OF 2 ARIZONA UTILITIES; COMMISSION CLARIFIES, REAFFIRMS STANDARDS OF CONDUCT

The Federal Energy Regulatory Commission today found two Arizona utilities in violation of agency rules on transmission service and ordered monetary and procedural corrections, and in one case called for the utility to refund $4 million for unauthorized use of point-to-point transmission service.

The Commission found that on numerous occasions Arizona Public Service (APS) departed from procedures required by its tariff, including failure to: (1) arrange for necessary point-to-point transmission service when making off-system sales; (2) correctly post transmission paths for the Phoenix Valley 230 kilovolt system on the APS Open-Access Same-Time Information System (OASIS); (3) post all transmission outages and scheduled transmission curtailments on its OASIS; and (4) make timely filings with the Commission when deviating from its Standards of Conduct rules.

As a result of its unauthorized use of point-to-point transmission service, the Commission directed APS to pay $4 million, $1.25 million of which will be made to low income energy assistance programs in Arizona. The remaining $2.75 million will be used to upgrade the utility's West Phoenix-Lincoln Street 230-kV transmission system with high-capacity composite conductors to better serve customers. The Commission cautioned APS that it may not recover any of these monies through its rates. APS has 90 days to file a plan addressing the operational faults cited by the Commission, and must file quarterly progress reports until all corrective actions are completed.

In a second audit order issued today, the Commission faulted Tucson Electric Power Company (TEP), when acting as a wholesale power merchant, for obtaining point-to-point transmission service that was not posted on TEP's system and made available to other wholesale merchants. Among other violations, the Commission audit also found that TEP allowed control area personnel to interact with employees engaged in wholesale merchant functions – a violation of the Standards of Conduct rules.

The Commission directed TEP to refund any revenue generated in excess of its variable operation and maintenance costs. In addition, TEP must establish procedures to make sure all required OASIS postings are made on a timely basis; transmission information is given to all transmission customers at the same time; and employees are appropriately trained on Standards of Conduct requirements.

TEP must also file quarterly reports detailing the implementation of its corrective actions.

During the course of the audits, and in conjunction with other matters before the Commission, APS and TEP both filed proposals to establish independent market monitors. In the case of APS (EC05-20), the independent monitor would focus on identifying events that may cause price increases or affect competition. The proposal is pending before the Commission. TEP's proposed market monitoring plan (EC04-92), designed to help ensure that TEP's transmission system is operated on a non-discriminatory basis, was recently approved by the Commission.

The audits were conducted for the period January 1, 2002, through October 31, 2003. The Commission regularly conducts random audits of jurisdictional utilities to ensure compliance with Standards of Conduct and OASIS requirements, Codes of Conduct requirements and Open Access Transmission Tariff provisions.

In a separate order today, the Commission reaffirmed its Standards of Conduct rule (Order No. 2004), providing additional clarification to some of its provisions. Among the key issues addressed in today's order:

- The Commission said it would allow natural gas local distribution companies (LDCs) to participate in hedging related to on-system sales and still qualify for an exemption from energy affiliate status.
- The Commission denied rehearing regarding exemptions for electric local distribution companies. Many electric distribution divisions or companies are not energy affiliates, however, because they do not engage in wholesale market activities, the Commission said.

(3)

The Commission strengthened its Standards of Conduct, adopting broader rules in a November 2003 order to address the dramatic changes in the electric and gas industries that have occurred in recent years. The standards apply to interstate natural gas and electric transmission providers and their relationships with all of their energy affiliates and are designed to ensure that transmission providers are independent of all their energy affiliates.

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