



Engineering, Operations, and Technology Committee

# Authorize Amendments to the Agreements with the Arizona Electric Power Cooperative (AEPCO)

Item 7-6

February 12, 2024

## Item 7-6

Authorize  
Amendments to the  
Agreements with the  
Arizona Electric Power  
Cooperative (AEPCO)

### Subject

Authorize amendments to the Power System Operation Services (PSOS) Agreement and Scheduling and Trading Services (STS) Agreement, both with the Arizona Electric Power Cooperative, related to the termination and credit services provisions of those agreements

### Purpose

Approve revisions to the PSOS and STS to reflect changes in the electric compliance environment and to mitigate perceived regulatory and financial risks

### Recommendation and Fiscal Impact

Recommendation – Approve proposed amendments

Fiscal Impact – No immediate fiscal impact

# CRA Transmission System



- 300+ Miles of 230 kV & 69 kV transmission
- 10 power transformer banks at 5 pumping plants
- 13 high-voltage breakers (plus 4 owned by Southern California Edison)
- 1 switching station (Camino)
- Interconnections with SCE & WAPA

# Amendments to AEPCO Agreements

(\*) NERC – North  
American Electric  
Reliability Corporation

## Operating Agreements with AEPCO/ACES

- Southern California Edison (SCE) previously operated the CRA transmission system for Metropolitan
- Replaced by AEPCO and ACES Power Marketing at the expiration of the 30-year agreement in 2017
- Two agreements cover the AEPCO and Metropolitan relationship
  - Power System Operation Services agreement (PSOS) covers the NERC(\*) Transmission Operator (TOP) and related functions
  - Scheduling & Trading Services agreement (STS) covers Metropolitan's energy procurement and related market activities



Reflects potential impact to the grid

## NERC Risk Categories



High Impact



Medium Impact



Metropolitan's 230 kV  
transmission system classified  
as Low Impact

# Amendments to AEPCO Agreements

## AEPCO/ACES concerns

- Metropolitan is the largest single AEPCO member
- Reclassification of the 230 kV CRA system from low to medium impact would impose significant new obligations and costs on AEPCO
- Market volatility, declining USBR generation, and higher energy prices have caused the CAISO to request greater collateral deposits from market participants
- AEPCO has concerns that Metropolitan's membership may impose unmitigated risks on AEPCO's other members

# Amendments to AEPCO Agreements

## Proposed changes to the agreements

Modifications negotiated with AEPCO's senior management:

### Power System Operation Services (PSOS)

- Reduces the termination notice from 3 years to 1 year if the 230 kV CRA transmission system's NERC reliability impact level is upgraded from low impact to medium/high

### Scheduling & Trading Services (STS)

- Reduces termination notices & specifies how Metropolitan will indemnify AEPCO for credit risks

# Amendments to AEPCO Agreements

## Impact of changes to Metropolitan

- Minimal operational impact
  - The risk of a NERC impact classification upgrade is likely very small
- No immediate financial impact
  - Metropolitan already covers its portion of the increased CAISO collateral demands so this would formalize what is currently done in practice
- Provides excellent value to Metropolitan
  - AEPCO's combined costs for both TOP and STS functions are well within industry norms at \$1.3 million/year



# Amendments to AEPCO Agreements

## Recommended next steps

- Seek approvals for PSOS & STS Agreement Modifications
  - Metropolitan Board on February 13, 2024
  - AEPCO Board in second half of February 2024
- Continued analysis to investigate future alternatives, if needed, for meeting Metropolitan's TOP and STS functions

# Board Options

- Option #1
  - Authorize amendments to the PSOS and STS Agreements, both with the Arizona Electric Power Cooperative, related to the termination and credit services provisions of those agreements
- Option #2
  - Do not authorize amendments to the PSOS and STS Agreements

# Board Options

## Staff Recommendation

- Option #1

