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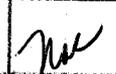
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March 14, 2001

AZ CORP COMMISSION  
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DOCKETED

MAR 14 2001

Ms. Deborah Scott  
Director, Utilities Division  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

DOCKETED BY 

Re: ***Operating Agreement for Voluntary Interruptions ("Agreement")  
Between Arizona Public Service Company and Phelps Dodge Bagdad, Inc.;***  
*ACC Docket No. E-01345A-01-0175*

Dear Ms. Scott:

Enclosed please find a substitute Agreement between the Company and Phelps Dodge. This Agreement supercedes and replaces that filed with the Commission on February 28, 2001, and will become effective upon Commission approval.

Per Staff's request, we have deleted Section 3.5 (Customer-Pre-scheduled Interruption). Paragraph vi to Section 3.4.D. was then added to ensure that Phelps Dodge is not penalized under Rate Schedule E-35 because of its decision to voluntarily curtail its load at the Company's request. The remainder of the Agreement is identical to that previously submitted, and we would ask that certain of the provisions in this Agreement, which correspond with provisions deemed CONFIDENTIAL by the Company in the February 28th agreement with Phelps Dodge, be treated as CONFIDENTIAL under the terms of the protective agreement previously entered into by Staff and the Company in this docket.

I hope these changes have adequately addressed Staff's concerns and would urge Commission consideration of the substitute Agreement as soon as possible. With the expiration on April 1, 2001 of the interim agreement with Phelps Dodge that was approved last December, APS will no longer have a contractual mechanism in place to address voluntary curtailment by this large customer. Please call me if you have any questions.

Very truly yours

  
Jana Van Ness

Attachment

**APS**  
**Arizona Public Service Company**  
COMPANY CORRESPONDENCE

cc: Mike McElrath, PD Bagdad, Inc.  
Patrick Williams,  
Manager, Compliance & Enforcement  
Docket Control, (Original and 10 copies)

# **OPERATING AGREEMENT FOR VOLUNTARY INTERRUPTIONS**

**BETWEEN  
ARIZONA PUBLIC SERVICE COMPANY  
AND  
PHELPS DODGE BAGDAD, INC.**

**APS CONTRACT NO. 200100028**

## **1. BACKGROUND:**

This Operating Agreement (or "Agreement") is made by and between Arizona Public Service Company, an Arizona corporation ("APS"), and Phelps Dodge Bagdad, Inc., a Delaware corporation ("Customer" or "PDB") (collectively the "Parties"), and is applicable to Customer's load at its Bagdad Mine, located near the Town of Bagdad, in Yavapai County, Arizona.

Commencing on April 1, 2001, APS will sell and Customer will purchase electricity for the Bagdad Mine pursuant to the terms and conditions set forth in the Electric Supply Agreement for service on Rate E-35.

On December 14, 2000, the Parties executed a Letter Agreement specifying the terms and conditions by which Customer may interrupt power on a voluntary basis, if requested by APS, and receive payment for the interruption. This Letter Agreement amended the Conformed Electric Supply Agreement (the "Supply Agreement") between the Parties dated May 3, 1997, as amended on March 17, 1999 (Contract No. 9944), which Contract No. 9944 expires on April 1, 2001. The Arizona Corporation Commission ("ACC") on January 8, 2001 approved the Letter Agreement. Under the Letter Agreement, APS may request interruption for any reason, however, Customer is under no obligation to accept the interruption. The initial term of the Letter Agreement also expires on April 1, 2001. The Letter Agreement has offered financial and operating benefits to both Parties. This Agreement provides continuity of this interruptible service and specifies more flexible terms and conditions for interruptions that hereinafter are referred to as "APS-Requested Voluntary Interruptions."

## **2. CONTACTS:**

APS: 602-250-3585.

PD's Mill Control Room: 520-633-3300 or 520-633-3200

PD's Security Gate: 520-633-3211.

### 3. TERMS AND CONDITIONS FOR INTERRUPTION:

- 3.1 This Agreement becomes effective upon its approval by the ACC or April 1, 2001, whichever is later. Either Party may cancel it within thirty days of the ACC's order in the event that the ACC changes the terms and conditions herein unless the Parties otherwise agree in good faith to amend their agreement to adopt the changes made by the ACC.
- 3.2 The term of this Agreement extends through December 31, 2002.
- 3.3 If Customer chooses to receive direct access service during the term of this Agreement, this Agreement shall be terminated effective as of the date Customer begins receiving direct access service.
- 3.4 **APS-Requested Voluntary Interruption**
- A. Under an APS-Requested Voluntary Interruption, Customer may interrupt power at the Bagdad Mine on a voluntary basis and receive payment for the interruption.
  - B. APS may request interruption for any reason.
  - C. Customer is under no obligation to accept the interruption.
  - D. The terms of each interruption are:
    - i. A mutually agreed-upon load (in MW) shall be available for interruption on at least one-hour notice. For purposes of this section of this Agreement, a circumstance in which PDB agrees not to increase load during the interruption period shall also be considered an interruption. Therefore, by way of example, a situation in which PDB's load is reduced by mutual agreement hereunder from 75 MW to 25 MW is a 50 MW interruption, and a situation in which PDB's load is maintained at 25 MW by mutual agreement hereunder is also a 50 MW interruption. The actual interrupted energy for which PDB is paid for each interruption shall be based on:
      - a. a 75 MW load less PDB's hourly load during the interruption period. Or,
      - b. interruptible energy may alternatively be determined by mutual agreement for each interruption event.
    - ii. Four-hour minimum interruption time per each interruption call.
    - iii. No maximum number of hours of interruption for each interruption.
    - iv. The payment to Customer for each interruption shall be calculated for each hour of the interruption period and shall be based on \_\_\_\_\_ per MWH for all energy interrupted, the calculation of which is described in i., above. Alternatively, the payment may be determined by mutual agreement for each interruption.
    - v. Telephone communication shall be followed by fax or e-mail confirmation.
    - vi. If an APS-Requested Voluntary Interruption occurs in any billing month, purchases by PDB for that billing month shall be priced at a level equal to the average price of service under Rate E-35 for the last billing month for which no APS-Requested Voluntary Interruption occurred.

vii. Credits or payments for interruption will appear on the Customer's regular monthly bill.

3.5 This Agreement is separate from the Electric Supply Agreement, and is not an amendment thereto. However, to the extent that there is any conflict between this Operating Agreement and the Electric Supply Agreement, this Operating Agreement supercedes the Electric Supply Agreement.

ARIZONA PUBLIC SERVICE COMPANY

BY Alan Propper  
Alan Propper

DATE 3/13/01

PHELPS DODGE BAGDAD, INC.

BY WS Brack  
WS Brack

DATE 3/14/01