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MEMORANDUM

Arizona Corporation Commission

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AZ CORP COMMISSION
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TO: THE COMMISSION

FROM: Utilities Division

DATE: May 8, 2001

DOCKETED BY 

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF A POWER PURCHASE AND SALES AGREEMENT WITH ABITIBI CONSOLIDATED SALES CORPORATION (DOCKET NO. E-01345A-01-0344)

On April 23, 2000, Arizona Public Service Company ("APS") filed an application for approval of a power purchase and sales agreement with Abitibi Consolidated Sales Corporation ("Abitibi"). Abitibi (formerly known as Stone Container and previously Stone Southwest) operates a paper mill that is located within APS' service area near Snowflake.

Abitibi generates a large portion of its own electricity and buys a small amount from APS under an electric service agreement approved by the Commission on January 11, 1990 (Decision No. 56770). The proposed agreement would be in addition to the current agreement.

Near the end of 2000, Abitibi filed an application with the Federal Energy Regulatory Commission ("FERC") for its generating facility to be designated as a Qualifying Facility ("QF") pursuant to Section 292.207(a)(1) of FERC's regulations. A QF is either (a) a small power production facility, no greater than 80 MW, that uses biomass, waste, or renewable resources as fuel; or (b) a cogeneration facility that produces both electric energy and steam or heat which is used for industrial, commercial, heating, or cooling purposes. In addition, to be a QF, the facility must be owned by a person not primarily engaged in the generation or sale of electric power. Abitibi's QF is a cogeneration facility consisting of a coal-fired boiler and a natural gas-fired boiler, both of which produce steam that is used in the paper-making process.

At times, a QF can produce more electricity than is needed by the operating facility. The Public Utility Regulatory Policies Act ("PURPA"), enacted in 1978, requires utilities to purchase this excess electric energy from QFs. PURPA also requires the rates for purchases by electric utilities to (a) be just and reasonable to the electric consumers of the electric utility and in the public interest, (b) not discriminate against qualifying cogenerators or qualifying small power producers, and (c) not exceed the incremental cost to the electric utility of alternative electric energy. The term "incremental cost of alternative electric energy" is defined as "with respect to electric energy purchased from a qualifying cogenerator or qualifying small power producer, the cost to the electric utility of the electric energy which, but for the purchase from such cogenerator or small power producer, such utility would generate or purchase from another source." This incremental cost is also known as "avoided cost."

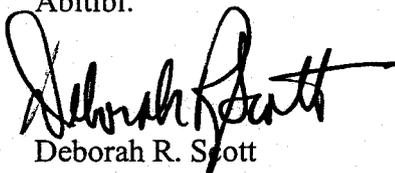
PURPA required state regulatory authorities to implement FERC's rules for the encouragement of cogeneration and small power production. On July 27, 1981 (Decision No. 52345), the Commission adopted a Cogeneration and Small Power Production Policy. One provision of the Policy is that all contracts for the sale and/or purchase of energy between utilities and QFs over 100 kW shall be submitted to the Commission for review and approval. No specific rate must be filed prior to the execution of the contract, but the rates would generally be based on the utility's avoided costs.

The proposed agreement is a master agreement that provides for the parties to enter into transactions for APS to buy energy from Abitibi. Either party could request a transaction, although PURPA requires APS to buy if Abitibi wants to sell. The price would be negotiated, but APS would not pay more than its avoided cost. Transactions would be agreed to orally by specifying the type of energy product, quantity, purchase price, delivery period, and any conditions. Unless the sale duration is for less than seven days, APS would send a written confirmation of the transaction within three business days of the date that oral agreement was reached. Abitibi could sell up to 12 MW, considering limitations in the distribution system.

The effective date of the proposed agreement is not clearly specified in the agreement. The agreement would remain in effect until terminated by either party with 30-days notice.

Staff recommends approval of the agreement. The agreement would give APS another means to help meet system demand during times of supply shortages. Staff further recommends that the effective date of the agreement be the date when APS filed it with the Commission (April 23, 2001) unless otherwise ordered by the Commission.

In addition, Staff recommends that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Abitibi.



Deborah R. Scott
Director
Utilities Division

DRS:BEK:lhm\JMA

ORIGINATOR: Barbara Keene

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
Chairman

3 JIM IRVIN
Commissioner

4 MARC SPITZER
Commissioner

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6 IN THE MATTER OF ARIZONA PUBLIC)
SERVICE COMPANY - APPLICATION FOR)
7 APPROVAL OF A POWER PURCHASE AND)
SALES AGREEMENT WITH ABITIBI)
8 CONSOLIDATED SALES CORPORATION)

DOCKET NO. E-01345A-01-0344

DECISION NO. _____

ORDER

9 Open Meeting
May 22 and 23, 2001
10 Phoenix, Arizona

11 BY THE COMMISSION:

12 FINDINGS OF FACT

13 1. Arizona Public Service Company ("APS") is certificated to provide electric service as
14 a public service corporation in the State of Arizona.

15 2. On April 23, 2000, APS filed an application for approval of a power purchase and sales
16 agreement with Abitibi Consolidated Sales Corporation ("Abitibi"). Abitibi (formerly known as Stone
17 Container and previously Stone Southwest) operates a paper mill that is located within APS' service
18 area near Snowflake.

19 3. Abitibi generates a large portion of its own electricity and buys a small amount from
20 APS under an electric service agreement approved by the Commission on January 11, 1990 (Decision
21 No. 56770). The proposed agreement would be in addition to the current agreement.

22 4. Near the end of 2000, Abitibi filed an application with the Federal Energy Regulatory
23 Commission ("FERC") for its generating facility to be designated as a Qualifying Facility ("QF")
24 pursuant to Section 292.207(a)(1) of FERC's regulations. A QF is either (a) a small power production
25 facility, no greater than 80 MW, that uses biomass, waste, or renewable resources as fuel; or (b) a
26 cogeneration facility that produces both electric energy and steam or heat which is used for industrial,
27 commercial, heating, or cooling purposes. In addition, to be a QF, the facility must be owned by a
28 person not primarily engaged in the generation or sale of electric power. Abitibi's QF is a cogeneration

1 facility consisting of a coal-fired boiler and a natural gas-fired boiler, both of which produce steam that
2 is used in the paper-making process.

3 5. At times, a QF can produce more electricity than is needed by the operating facility. The
4 Public Utility Regulatory Policies Act ("PURPA"), enacted in 1978, requires utilities to purchase this
5 excess electric energy from QFs. PURPA also requires the rates for purchases by electric utilities to
6 (a) be just and reasonable to the electric consumers of the electric utility and in the public interest, (b)
7 not discriminate against qualifying cogenerators or qualifying small power producers, and (c) not
8 exceed the incremental cost to the electric utility of alternative electric energy. The term "incremental
9 cost of alternative electric energy" is defined as "with respect to electric energy purchased from a
10 qualifying cogenerator or qualifying small power producer, the cost to the electric utility of the electric
11 energy which, but for the purchase from such cogenerator or small power producer, such utility would
12 generate or purchase from another source." This incremental cost is also known as "avoided cost."

13 6. PURPA required state regulatory authorities to implement FERC's rules for the
14 encouragement of cogeneration and small power production. On July 27, 1981 (Decision No. 52345),
15 the Commission adopted a Cogeneration and Small Power Production Policy. One provision of the
16 Policy is that all contracts for the sale and/or purchase of energy between utilities and QFs over 100
17 kW shall be submitted to the Commission for review and approval. No specific rate must be filed
18 prior to the execution of the contract, but the rates would generally be based on the utility's avoided
19 costs.

20 7. The proposed agreement is a master agreement that provides for the parties to enter into
21 transactions for APS to buy energy from Abitibi. Either party could request a transaction, although
22 PURPA requires APS to buy if Abitibi wants to sell. The price would be negotiated, but APS would
23 not pay more than its avoided cost. Transactions would be agreed to orally by specifying the type of
24 energy product, quantity, purchase price, delivery period, and any conditions. Unless the sale duration
25 is for less than seven days, APS would send a written confirmation of the transaction within three
26 business days of the date that oral agreement was reached. Abitibi could sell up to 12 MW,
27 considering limitations in the distribution system.

28 ...

1 8. The effective date of the proposed agreement is not clearly specified in the agreement.
2 The agreement would remain in effect until terminated by either party with 30-days notice.

3 9. Staff has recommended approval of the agreement. The agreement would give APS
4 another means to help meet system demand during times of supply shortages.

5 10. Staff has further recommended that the effective date of the agreement be the date when
6 APS filed it with the Commission (April 23, 2001) unless otherwise ordered by the Commission.

7 11. In addition, Staff has recommended that the Commission specify in its Order that
8 approval of the agreement at this time does not guarantee any future ratemaking treatment of the
9 agreement with Abitibi.

10 CONCLUSIONS OF LAW

11 1. APS is an Arizona public service corporation within the meaning of Article XV, Section
12 2, of the Arizona Constitution.

13 2. The Commission has jurisdiction over APS and over the subject matter of the
14 application.

15 3. The Commission, having reviewed the application and Staff's Memorandum dated May
16 8, 2001, concludes that it is in the public interest to approve the agreement.

17 ORDER

18 THEREFORE, IT IS ORDERED that the proposed agreement with Abitibi be and hereby is
19 approved.

20 IT IS FURTHER ORDERED that the effective date of the agreement is April 23, 2001.

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IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Abitibi.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2001.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DRS:BEK:ihm/JMA

1 SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-01-0344

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