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BEFORE THE ARIZONA CORPORATION COMMISSION

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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. 63670

ORDER Arizona Corporation Commission  
**DOCKETED**

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

MAY 24 2001

11 BY THE COMMISSION:

DOCKETED BY

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.

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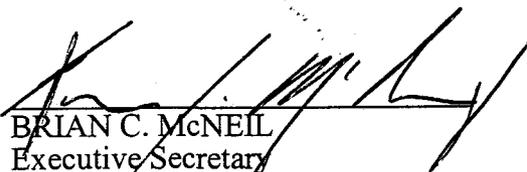
IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Abitibi.

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 24th day of May, 2001.

  
 BRIAN C. McNEIL  
 Executive Secretary

DISSENT: \_\_\_\_\_

DRS:BEK:ihm\JMA

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