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OPEN MEETING



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MEMORANDUM

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TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION  
DOCUMENT CONTROL

DATE: March 1, 2002

RE: IN THE MATTER OF SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC. - APPLICATION FOR APPROVAL OF AN ELECTRIC SERVICE AGREEMENT WITH APACHE NITROGEN PRODUCTS, INC. (DOCKET NO. E-01575A-01-0716)

On September 10, 2001, Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") filed an application for approval of an Electric Service Agreement ("Agreement") between SSVEC and Apache Nitrogen Products, Inc. ("Apache"). On September 18, 2001, the application was suspended for up to sixty days. On November 13, 2001, the application was suspended for up to an additional one hundred twenty days.

Apache previously took electric service under an electric service agreement with SSVEC and Arizona Electric Power Cooperative, Inc. ("AEPSCO") which expired on April 30, 2000. SSVEC buys all of its power from AEPSCO. Under the proposed Agreement, SSVEC would sell power to Apache for its ammonium nitrate manufacturing facility near Benson, Arizona. SSVEC's tariffs contain a Contract Power Service rate schedule for customers that require more than 1000 kilovolt ampere ("kVa") of service on a twelve-month, non-seasonal basis. Under that schedule, rates, terms, and conditions are to be negotiated with the customer and set forth in a contract to be approved by the Arizona Corporation Commission ("Commission").

The term of the proposed Agreement is fifteen years beginning May 1, 2001 and ending May 1, 2016. The proposed Agreement would become effective upon approval by the Commission, the Cooperative Finance Corporation, and the Rural Utilities Service. Under the proposed Agreement, each party has the right to cancel the contract with ninety-days prior notice before the fifth and tenth anniversary, subject to an early termination penalty. The early termination penalty would be calculated at the date of termination and is equal to the amount Apache would have been charged had the contract been operated at a service availability charge of \$9,000 per month and a rate of \$0.05440 per kWh for the first 400 kWh/kW of demand and \$0.0344 per kWh for all excess kWh, less what Apache actually paid.

Under the proposed Agreement, Apache would pay an annual service availability charge of \$2,000 in year one, \$3,500 in year two, \$6,000 in year three, \$8,000 in year four, and \$9,000 in years five through fifteen; a contract capacity charge of \$9.00 per kW based on the higher of a contract minimum of 1,800 kW or the highest thirty-minute kW demand during the billing

period; an energy charge of \$0.05234 per kWh for the first 400 kWh/KW and \$0.03234 per kWh for all excess kWh in year one, \$0.05343 per kWh for the first 400 kWh/KW and \$0.03343 per kWh for all excess kWh in years two and three, \$0.05362 per kWh for the first 400 kWh/KW and \$0.03362 per kWh for all excess kWh in year four and \$0.05475 per kWh for the first 400 kWh/KW and \$0.03475 for all excess kWh in years five through fifteen. Apache would also be subject to a power factor penalty which provides an incentive to Apache to maintain a favorable ratio between the amount of power used by Apache's electrical equipment and the total power supplied by SSVEC. The rates in the proposed Agreement provide a larger discount to Apache early on in the Agreement which is gradually reduced through the life of the Agreement.

Using historical consumption data for the most recent twelve months, Staff expects that Apache would pay an average of \$0.073 per kWh including taxes under the proposed Agreement. This rate is slightly higher than the rate charged to Apache by SSVEC in the previous agreement with AEPCO. The revenues to be received from Apache would cover SSVEC's marginal cost of providing the power.

Staff has recommended approval of the proposed Agreement.

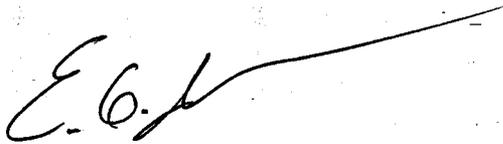
The proposed Agreement allows Apache to terminate the Agreement with a ninety-day notice on the fifth and tenth anniversary only. A.R.S. 14-2-1606(C)(6) precludes a contract from preventing a customer from accessing the competitive market. SSVEC has indicated that it would require notice if Apache chose to take direct access service. Therefore, Staff has recommended that a provision be added to the Agreement, which would allow Apache to access the competitive market when SSVEC's territory is open to competition with a ninety-day notice.

The proposed Agreement contains a typo on page four under Section 11 entitled "Contract Capacity". Therefore, Staff recommends that the reference to "the class A member kVA demand charge" should be changed to the "class A kW demand charge."

The proposed Agreement was filed with the Commission four (4) months after the effective date of the Agreement. Therefore, Staff has recommended that in the future SSVEC should file agreements in a more timely fashion.

Staff has recommended that an amended agreement incorporating Staff's recommended changes should be filed with the Commission within thirty (30) days of the Decision approving the Agreement.

In addition, Staff has recommended 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 Apache.

A handwritten signature in black ink, appearing to read 'E.G.J.', with a long horizontal line extending to the right.

Ernest G. Johnson  
Director  
Utilities Division

EGJ:EAA:rdp/JMA

ORIGINATOR: Erinn Andreasen



1           4.     The term of the proposed Agreement is fifteen years beginning May 1, 2001 and  
2 ending May 1, 2016. The proposed Agreement would become effective upon approval by the  
3 Commission, the Cooperative Finance Corporation, and the Rural Utilities Service. Under the  
4 proposed Agreement, each party has the right to cancel the contract with ninety-days prior notice  
5 before the fifth and tenth anniversary, subject to an early termination penalty. The early  
6 termination penalty would be calculated at the date of termination and is equal to the amount  
7 Apache would have been charged had the contract been operated at a service availability charge of  
8 \$9,000 per month and a rate of \$0.05440 per kWh for the first 400 kWh/kW of demand and  
9 \$0.0344 per kWh for all excess kWh, less what Apache actually paid.

10           5.     Under the proposed Agreement, Apache would pay an annual service availability  
11 charge of \$2,000 in year one, \$3,500 in year two, \$6,000 in year three, \$8,000 in year four, and  
12 \$9,000 in years five through fifteen; a contract capacity charge of \$9.00 per kW based on the  
13 higher of a contract minimum of 1,800 kW or the highest thirty-minute kW demand during the  
14 billing period; an energy charge of \$0.05234 per kWh for the first 400 kWh/KW and \$0.03234 per  
15 kWh for all excess kWh in year one, \$0.05343 per kWh for the first 400 kWh/KW and \$0.03343  
16 per kWh for all excess kWh in years two and three, \$0.05362 per kWh for the first 400 kWh/KW  
17 and \$0.03362 per kWh for all excess kWh in year four and \$0.05475 per kWh for the first 400  
18 kWh/KW and \$0.03475 for all excess kWh in years five through fifteen. Apache would also be  
19 subject to a power factor penalty which provides an incentive to Apache to maintain a favorable  
20 ratio between the amount of power used by Apache's electrical equipment and the total power  
21 supplied by SSVEC. The rates in the proposed Agreement provide a larger discount to Apache  
22 early on in the Agreement which is gradually reduced through the life of the Agreement.

23           6.     Using historical consumption data for the most recent twelve months, Staff expects  
24 that Apache would pay an average of \$0.073 per kWh including taxes under the proposed  
25 Agreement. This rate is slightly higher than the rate charged to Apache by SSVEC in the previous  
26 agreement with AEPCO. The revenues to be received from Apache would cover SSVEC's  
27 marginal cost of providing the power.

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ORDER

IT IS THEREFORE ORDERED that the proposed Agreement be and hereby is approved.

IT IS FURTHER ORDERED that a provision shall be added to the Agreement which would allow Apache to access the competitive market when SSVEC's territory is open to competition with a ninety-day notice.

IT IS FURTHER ORDERED the reference to "the class A member kVA demand charge" shall be changed to the "class A kW demand charge."

IT IS FURTHER ORDERED that in the future SSVEC should file agreements in a more timely fashion.

IT IS FURTHER ORDERED that an amended agreement incorporating the changes discussed in Findings of Fact Nos. 8 and 9 shall be filed with the Commission within thirty (30) days of the effective date of this Decision.

IT IS FURTHER ORDERED that approval of the Agreement at this time does not guarantee any future rate making treatment of the Agreement with SSVEC.

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: \_\_\_\_\_

EGJ:EAA:rdp/JMA

1 SERVICE LIST FOR: Sulphur Springs Electric Cooperative and Apache Nitrogen Products, Inc.  
DOCKET NO. E-01575A-01-0716.

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