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OPEN MEETING



MEMORANDUM

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Arizona Corporation Commission

TO: THE COMMISSION

DOCKETED 2008 SEP 10 A 11:03

FROM: Utilities Division

SEP 10 2008

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: September 10, 2008

DOCKETED BY 

RE: ARIZONA PUBLIC SERVICE COMPANY APPLICATION FOR APPROVAL OF NEW RATE SCHEDULE EPR-2 (DOCKET NO. E-01345A-08-0353)

On June 11, 2008, Arizona Public Service Company ("APS") filed an application with the Arizona Corporation Commission ("ACC") seeking to update Schedule EPR-2 ("EPR-2"). EPR-2 establishes the rates which APS pays to customers with generating units supplying power to APS pursuant to EPR-2. Only certain customers qualify as eligible sellers to APS under this rate schedule. The rate schedule is applicable to all cogeneration and small power production facilities (Qualifying Facilities as designated by the Federal Energy Regulatory Commission) with a nameplate continuous AC output power rating of 100 kW or less. Sellers must have systems configured to require partial requirement service from APS to meet their electric requirements.

Customers participating in Schedule EPR-2 occasionally generate more electricity than they require. The excess generation flows to the grid. Decision No. 52345 of July 1981 ordered APS and a number of other Arizona utilities to file standard rates for the purchase of power from Qualifying Facilities 100 kW and under. The decision implements requirements of The Public Utility Regulatory Policies Act of 1978 ("PURPA"). The decision requires that the rates be based on utilities' avoided costs.

The first paragraph of the application includes an excerpt from Decision No. 52345. The excerpt from the decision states that adjustments to rates may be permitted as often as quarterly to reflect variations in fuel and purchased power costs. At present, EPR-2 includes the sentence: "These rates are based on the Company's estimated avoided energy costs and will be updated annually". Staff notes that Decision No. 59601 of April 1996 approved an amended version of EPR-2 that included the sentence stating that the update to EPR-2 will occur annually. Decision No. 69663 of June 2007 approved an updated version of EPR-2 that also included the language specifying an annual update to the schedule.

APS submitted data to Staff demonstrating the calculation of the EPR-2 rates under a protective agreement. The information used in the calculation is competitively confidential as it contains cost data that is time specific. The method APS used to calculate avoided cost made use of projected hourly cost data between September 2008 and August 2009. The projected hourly cost data were calculated using a software program that models cost based on APS' generation fleet and other inputs such as cost of energy in existing contracts and futures markets for fuel.

APS' calculation of avoided cost was made by finding the difference between a 'base case' and a 'purchase case'. The base case calculated APS hourly total energy costs between September 2008 and August 2009. The purchase case was then created from the base case model. In the purchase case 100 MW from each hour of the base case was replaced with energy presumed to be purchased. The purchased energy was assigned a \$0.00 cost. The purchase case was then subtracted from the base case and the difference in cost was used to form an average cost of the incremental energy.

Staff has evaluated the information provided to Staff by APS used to calculate its avoided cost for purposes of setting rates in proposed Revision No. 14 of EPR-2. Based on evaluation of the supporting data supplied by APS, Staff finds the proposed rates reasonable for purposes of updating EPR-2.

Staff recommends that Revision No. 14 to Schedule EPR-2 be approved in order to update the rates contained in Schedule EPR-2.

The rates proposed in Revision No. 14 are as follows:

	Cents per kWh			
	<u>Non-Firm Power</u>		<u>Firm Power</u>	
	<u>On-Peak<sup>1</sup></u>	<u>Off-Peak<sup>2</sup></u>	<u>On-Peak<sup>1</sup></u>	<u>Off-Peak<sup>2</sup></u>
Summer Billing Cycles (May – October)	7.400	6.112	9.631	6.528
Winter Billing Cycles (November – April)	5.767	5.813	5.767	5.813

<sup>1/</sup> On-Peak Periods: 9 a.m. to 9 p.m., weekdays or as reflected in the customer's otherwise applicable retail rate schedule

<sup>2/</sup> Off-Peak Periods: All other hours

Staff recommends that the rates become effective for all energy delivered to APS under the terms of this schedule on or after October 1, 2008 in order to implement the new rate in a timely manner.

EPR-2 makes use of the phrases 'qualifying facilities' and 'qualifying facility'. Qualifying facility has a meaning formally established by PURPA. The phrase 'qualifying facility' as used in EPR-2 has the same meaning as 'Qualifying Facility' as established by PURPA. As 'Qualifying Facility' is a title with a formal meaning, Staff recommends that it be capitalized and appear as 'Qualifying Facility' in the tariff. This will help to signal to the readers of EPR-2 that the schedule makes reference to 'Qualifying Facilities' as established by PURPA.

EPR-2 makes reference to 'qualifying facilities' in the section titled Application. In that reference the schedule creates the acronym convention (QFs) presumably for use later in the document. In the following section, titled Type of Service, the schedule uses the phrase 'qualifying facility' and makes reference to 'the QF' in the same sentence. The language used in the schedule is awkward as it creates an acronym convention in the plural, subsequently makes reference to 'qualifying facility' without making use of an acronym convention, and also makes use of singular version of the acronym convention, 'QF', in the same sentence. In order to make the schedule more clear to the reader, Staff recommends that EPR-2 not make use of an acronym convention for the phrase 'qualifying facility'.

Staff recommends that Arizona Public Service Company provide notice of the new rates to customers participating in Schedule EPR-2 at the time of, or prior to, the first billing issued that includes this change in a form found acceptable to Commission Staff in order to make customers participating in Schedule EPR-2 aware of the change.

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

Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhm\AH

ORIGINATOR: Steve Irvine

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF ARIZONA PUBLIC SERVICE )  
COMPANY FOR APPROVAL OF NEW )  
RATE SCHEDULE EPR-2 )  
\_\_\_\_\_ )

DOCKET NO. E-01345A-08-0353  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
September 23 and 24, 2008  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On June 11, 2008, APS filed an application with the Arizona Corporation Commission ("ACC") seeking to update Schedule EPR-2 ("EPR-2"). EPR-2 establishes the rates which APS pays to customers with generating units supplying power to APS pursuant to EPR-2. Only certain customers qualify as eligible sellers to APS under this rate schedule. The rate schedule is applicable to all cogeneration and small power production facilities (Qualifying Facilities as designated by the Federal Energy Regulatory Commission) with a nameplate continuous AC output power rating of 100 kW or less. Sellers must have systems configured to require partial requirement service from APS to meet their electric requirements.

3. Customers participating in Schedule EPR-2 occasionally generate more electricity than they require. The excess generation flows to the grid. Decision No. 52345 of July 1981 ordered APS and a number of other Arizona utilities to file standard rates for the purchase of

1 power from Qualifying Facilities 100 kW and under. The decision implements requirements of  
2 The Public Utility Regulatory Policies Act of 1978 ("PURPA"). The decision requires that the  
3 rates be based on utilities' avoided costs.

4 4. The first paragraph of the application includes an excerpt from Decision No. 52345.  
5 The excerpt from the decision states that adjustments to rates may be permitted as often as  
6 quarterly to reflect variations in fuel and purchased power costs. At present, EPR-2 includes the  
7 sentence: "These rates are based on the Company's estimated avoided energy costs and will be  
8 updated annually". Staff notes that Decision No. 59601 of April 1996 approved an amended  
9 version of EPR-2 that included the sentence stating that the update to EPR-2 will occur annually.  
10 Decision No. 69663 of June 2007 approved an updated version of EPR-2 that also included the  
11 language specifying an annual update to the schedule.

12 5. APS submitted data to Staff demonstrating the calculation of the EPR-2 rates under  
13 a protective agreement. The information used in the calculation is competitively confidential as it  
14 contains cost data that is time specific. The method APS used to calculate avoided cost made use  
15 of projected hourly cost data between September 2008 and August 2009. The projected hourly  
16 cost data were calculated using a software program that models cost based on APS' generation  
17 fleet and other inputs such as cost of energy in existing contracts and futures markets for fuel.  
18 APS' calculation of avoided cost was made by finding the difference between a 'base case' and a  
19 'purchase case'. The base case calculated APS hourly total energy costs between September 2008  
20 and August 2009. The purchase case was then created from the base case model. In the purchase  
21 case 100 MW from each hour of the base case was replaced with energy presumed to be  
22 purchased. The purchased energy was assigned a \$0.00 cost. The purchase case was then  
23 subtracted from the base case and the difference in cost was used to form an average cost of the  
24 incremental energy.

25 6. Staff has evaluated the information provided to Staff by APS used to calculate its  
26 avoided cost for purposes of setting rates in proposed Revision No. 14 of EPR-2. Based on  
27 evaluation of the supporting data supplied by APS, Staff finds the proposed rates reasonable for  
28 purposes of updating EPR-2.



1 the schedule more clear to the reader, Staff recommends that EPR-2 not make use of an acronym  
2 convention for the phrase 'qualifying facility'.

3 12. Staff has recommended that Arizona Public Service Company provide notice of the  
4 new rates to customers participating in Schedule EPR-2 at the time of, or prior to, the first billing  
5 issued that includes this change in a form found acceptable to Commission Staff in order to make  
6 customers participating in Schedule EPR-2 aware of the change.

7 CONCLUSIONS OF LAW

8 1. Arizona Public Service Company is a public service corporation within the meaning  
9 of Article XV of the Arizona Constitution.

10 2. The Commission has jurisdiction over Arizona Public Service Company and the  
11 subject matter of the application.

12 3. The Commission, having reviewed the application and Staff's Memorandum dated  
13 September 10, 2008, concludes that it is in the public interest to approve Revision No. 14 to  
14 Schedule EPR-2.

15 ORDER

16 IT IS THEREFORE ORDERED that Revision No. 14 to Schedule EPR-2 be approved.

17 IT IS FURTHER ORDERED that Arizona Public Service Company shall file with Docket  
18 Control, as a compliance item in this matter, tariff pages consistent with the terms of this Decision  
19 within 15 days from the effective date of this Decision.

20 IT IS FURTHER ORDERED that the rates contained in this schedule shall become  
21 effective for all energy delivered to Arizona Public Service Company under the terms this schedule  
22 on or after October 1, 2008.

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1 IT IS FURTHER ORDERED that Arizona Public Service Company shall provide notice of  
 2 the new rates to customers participating in Schedule EPR-2 at the time of, or prior to, the first  
 3 billing issued that includes this change in a form found acceptable to Commission Staff.

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

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**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN	COMMISSIONER	
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director 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 \_\_\_\_\_, 2008.

\_\_\_\_\_  
 BRIAN C. McNEIL  
 EXECUTIVE DIRECTOR

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

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

EGJ:SPI:lhmvAH

1 SERVICE LIST FOR: Arizona Public Service Company  
2 DOCKET NO. E-01345A-08-0353

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4 Director Regulation and Pricing  
5 Arizona Public Service Company  
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10 Arizona Corporation Commission  
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