

OPEN MEETING



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ORIGINAL

MEMORANDUM

RECEIVED

Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

FROM: Utilities Division

DATE: September 10, 2008

RE: ARIZONA PUBLIC SERVICE COMPANY - APPROVAL OF ITS PROPOSED PREFERENCE POWER RIDER SCHEDULE PPR (DOCKET NO. E-01345A-08-0365)

2008 SEP 10 P 4:51

SEP 10 2008

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY

BACKGROUND

On July 17, 2008, Arizona Public Service Company ("APS") filed an application for approval of its proposed Preference Power Rider, Schedule PPR.

This tariff would be needed to provide transmission and distribution delivery service to certain non-residential customers who have obtained a new allocation of hydro-electric preference power marketed by the Western Area Power Administration ("Western"), an agency of the United States Department of Energy.

WESTERN PREFERENCE POWER

Western is a federal power marketing agency that markets and delivers hydroelectric power from 55 hydro plants operated by the Bureau of Reclamation, the Corps of Engineers, and the International Boundary and Water Commission in the western United States.

One of the laws that Western must comply with is the Reclamation Power Act of 1939. This law gives rise to the term "preference power" and directs Western to give preference in selling federal power to so-called Preference Entities including municipalities, rural electric cooperatives, Native American tribes, state and federal agencies, irrigation districts, and public utility districts.

Along the Colorado River, the Parker and Davis hydroelectric plants (along with Hoover) are tied together through transmission systems owned and operated by Western. The Parker-Davis Project ("P-DP") provides electric power to 26 Preference Entities in Arizona, Nevada, and California.

Existing resource commitments for P-DP expire on September 30, 2008 and with additional generator capacity resulting from refurbishing the Parker and Davis machines, 17,000 kW has become available from the Parker-Davis Project forming a Post-2008 Resource Pool (the "Pool"). Western had made a call for applications, published in the October 1, 2004 Federal Register. Applications received by January 30, 2005, were considered for the Allocation of P-DP power from the Pool.

Seventy-nine applications were received for the Pool power of which 75 were qualified Preference Entities. Western published a notice of Final Allocation Procedures in the December 16,

2005 Federal Register (70 FR 74805) which provided that firm power would be allocated to qualified applicants in the following order of priority:

1. Preference Entities in the P-DP marketing area that do not have a contract with Western for Federal power resources or are not a member of a parent entity that has a contract with Western for Federal power resources.
2. Preference Entities in the P-DP marketing area that have a contract with Western for Federal power resources or are a member of a parent entity that has a contract with Western for Federal power resources.
3. Preference Entities in *adjacent* Federal marketing areas that do not have a contract with Western for Federal power resources or are not a member of a parent entity that has a contract with Western for Federal power resources.

Following this ranking, the allocation from the Pool was made by considering the following factors:

- (a) Priority consideration for Indian irrigation pumping on certain Indian lands adjacent to the Colorado River in the lower basin;
- (b) Widespread use of Federal resources;
- (c) Benefits from Federal resources; and
- (d) Load.

Shown below is Western's allocation of power to 12 applicants in the first priority of consideration, including the Arizona cities of Gilbert and Yuma, retail customers of APS. The allocations of power are a minimum of 1,000 kW in accordance with the Final Allocation Procedures.

Table of Allocations to Preference Entities

<u>PREFERENCE ENTITY</u>	<u>FIRM kW</u>	<u>INTERRUPTIBLE</u>	<u>TOTAL</u>
Aqua Caliente Band of Cahuilla Indians	1,000		
Aha Macav Power Service	2,000		
City of Corona, Calif.	2,000		
Eastern Arizona Preference Pooling	1,000		
Town of Gilbert, Ariz Utility	1,000		
Hohokam Irrigation & Drainage District	1,000		
Naval Facilities Engineering Command	1,131	869	2,000
Pechanga Band of Luiseno Mission	1,000		
San Luis Rey River Indian Water	2,000		
Town of Marana, Ariz Water Dept.	1,000		

Viejas Band of Kumeyaay Indians	1,000		
City of Williams, Ariz	1,000		
City of Yuma, Ariz. Public Works Dept	1,000		
TOTAL	16,131 kW	869	17,000

PROPOSED APS TARIFF

Although APS has waived any requirement that the Commission act on this proposed tariff within thirty (30) days under A.R.S. Sections 40-367 and 40-250(B), APS requests that the rider become effective before the October 1, 2008 date that these customers may begin receiving preference power, so they may take advantage of their new allocation of low-cost hydroelectric power.

APS presently delivers Western preference power to two Arizona military bases, Luke Air Force Base (“Luke”) and the Yuma Marine Corps Air Station (“YMCAS”). It does so under FERC contracts for wheeling preference power that were approved specifically for Luke and YMCAS prior to APS’ Open Access Transmission Tariff (“OATT”) and the unbundling of retail rates. The contracts are still in effect because they were grandfathered arrangements when the OATT was established. However, they are not available to any new preference power customers, such as Yuma and Gilbert, because they are retail customers of APS. With the new PPR, APS would standardize terms for serving preference power customers now and in the future. The two military bases would be eligible for the Preference Power Rider Schedule PPR after providing required notification by either party to terminate the contracts.

Yuma and Gilbert are already buying power from APS, and with the Western purchases they would have two power providers, with one delivering utility (APS). Both the APS service and the preference power are for the cities’ own loads; they are not wholesale for resale customers.

APS’ PPR rider would provide for service such that a customer receiving preference power would continue to receive service under its current applicable APS rate schedule. The PPR rider would be used in conjunction with that rate schedule and allow the Preference Entity to receive a subtraction from total metered demand and energy equal to the preference power and energy received from Western and delivered by APS to the customer’s site. Line losses would be accounted for.

This preference power subtraction would be applied to the customer’s unbundled generation charges in the existing rate schedule as well as to charges in Adjustment Schedules PSA-1 and EIS. All other charges in the customer’s existing rate schedule and any other applicable adjustment schedules would be applied to the total energy or total demand, as required.

STAFF ANALYSIS AND RECOMMENDATION

Staff believes that the proposed Preference Power Rider Schedule PPR is a reasonable method of delivering Western preference power to APS customers.

Staff has analyzed this application in terms of whether there were fair value implications. Compared to APS' total revenues; any impact from this PPR rate schedule would be de minimus, and any impact on APS' fair value rate base and rate of return would also be de minimus.

Staff recommends approval of the proposed PPR tariff.

Staff further recommends that the Commission require APS to file with Docket Control, as a compliance item in this case, tariff pages consistent with the terms of the Commission's Decision within 15 days from the effective date of the Decision.



for Ernest G. Johnson
Director
Utilities Division

EGJ:JJP:lhm\AH

ORIGINATOR: Jeffrey Pasquinelli

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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 ARIZONA PUBLIC
SERVICE COMPANY'S APPLICATION
FOR APPROVAL OF PROPOSED
PREFERENCE POWER RIDER SCHEDULE
PPR

DOCKET NOS. E-01345A-08-0365
DECISION NO. _____
ORDER

Open Meeting
September 23 and 24, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On July 17, 2008, APS filed an application for approval of its proposed Preference Power Rider, Schedule PPR.
3. APS states that this tariff would be needed to provide transmission and distribution delivery service to certain non-residential customers who have obtained a new allocation of hydro-electric preference power marketed by the Western Area Power Administration ("Western"), an agency of the United States Department of Energy.
4. APS included a statement that waived any requirement that the Commission act on this proposed tariff within thirty (30) days under A.R.S. Sections 40-367 and 40-250(B), However, APS requests that the rider become effective before October 1, 2008, the date that these customers

1 may begin receiving preference power from Western, so they may take advantage of their new
2 allocation of low-cost hydroelectric power.

3 **Western Preference Power**

4 5. Western is a federal power marketing agency that markets and delivers
5 hydroelectric power from 55 hydro plants operated by the Bureau of Reclamation, the Corps of
6 Engineers, and the International Boundary and Water Commission in the western United States.

7 6. One of the laws that Western must comply with is the Reclamation Power Act of
8 1939. This law gives rise to the term "preference power" and directs Western to give preference in
9 selling federal power to so-called Preference Entities including municipalities, rural electric
10 cooperatives, Native American tribes, state and federal agencies, irrigation districts, and public
11 utility districts.

12 7. Along the Colorado River, the Parker and Davis hydroelectric plants (along with
13 Hoover) are tied together through transmission systems owned and operated by Western. The
14 Parker-Davis Project ("P-DP") provides electric power to 26 Preference Entities in Arizona,
15 Nevada, and California.

16 8. Existing resource commitments for P-DP expire on September 30, 2008 and with
17 additional generator capacity resulting from refurbishing the Parker and Davis machines, 17,000
18 kW has become available from the Parker-Davis Project forming a Post-2008 Resource Pool (the
19 "Pool"). Western had made a call for applications, published in the October 1, 2004 Federal
20 Register. Applications received by January 30, 2005, were considered for the Allocation of P-DP
21 power from the Pool.

22 9. Seventy-nine applications were received for the Pool power of which 75 were
23 qualified Preference Entities. Western published a notice of Final Allocation Procedures in the
24 December 16, 2005 Federal Register (70 FR 74805) which provided that firm power would be
25 allocated to qualified applicants in the following order of priority:

- 26 a) Preference Entities in the P-DP marketing area that do not have a contract with
27 Western for Federal power resources or are not a member of a parent entity that
28 has a contract with Western for Federal power resources.

- 1 b) Preference Entities in the P-DP marketing area that have a contract with
2 Western for Federal power resources or are a member of a parent entity that has
3 a contract with Western for Federal power resources.
- 4 c) Preference Entities in adjacent Federal marketing areas that do not have a
5 contract with Western for Federal power resources or are not a member of a
6 parent entity that has a contract with Western for Federal power resources.

7 10. Following this ranking, the allocation from the Pool was made by considering the
8 following factors:

- 9 a) Priority consideration for Indian irrigation pumping on certain Indian lands
10 adjacent to the Colorado River in the lower basin;
- 11 b) Widespread use of Federal resources;
- 12 c) Benefits from Federal resources; and
- 13 d) Load.

14 11. Shown below is Western's allocation of power to 12 applicants in the first priority
15 of consideration, including the Arizona cities of Gilbert and Yuma, retail customers of APS. The
16 allocations of power are a minimum of 1,000 kW in accordance with the Final Allocation
17 Procedures.

Table of Allocations to Preference Entities

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Aha Macav Power Service	2,000		
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Eastern Arizona Preference Pooling Assoc.	1,000		
Town of Gilbert, Ariz Utility Department.	1,000		
Hohokam Irrigation & Drainage District	1,000		
Naval Facilities Engineering Command	1,131	869	2,000
Pechanga Band of Luiseno Mission Indians	1,000		
San Luis Rey River Indian Water Authority	2,000		
Town of Marana, Ariz Water Dept.	1,000		
Viejas Band of Kumeyaay Indians	1,000		
City of Williams, Ariz	1,000		
City of Yuma, Ariz. Public Works Dept	1,000		
TOTAL	16,131 kW	869	17,000

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Proposed Preference Power Rider, Schedule PPR

12. APS presently delivers Western preference power to two Arizona military bases, Luke Air Force Base ("Luke") and the Yuma Marine Corps Air Station ("YMCAS"). It does so under FERC contracts for wheeling preference power that were approved specifically for Luke and YMCAS prior to APS' Open Access Transmission Tariff ("OATT") and the unbundling of retail rates. The contracts are still in effect because they were grandfathered arrangements when the OATT was established. However, they are not available to any new preference power customers, such as Yuma and Gilbert, because they are retail customers of APS. With the new PPR, APS would standardize terms for serving preference power customers now and in the future. The two military bases would be eligible for the Preference Power Rider Schedule PPR after providing required notification by either party to terminate the contracts.

13. Yuma and Gilbert are already buying power from APS, and with the Western purchases they would have two power providers, with one delivering utility (APS). Both the APS service and the preference power are for the cities' own loads; they are not wholesale for resale customers.

14. APS' PPR rider would provide for service such that a customer receiving preference power would continue to receive service under its current applicable APS rate schedule. The PPR rider would be used in conjunction with that rate schedule and allow the Preference Entity to receive a subtraction from total metered demand and energy equal to the preference power and energy received from Western and delivered by APS to the customer's site. Line losses would be accounted for.

15. This preference power subtraction would be applied to the customer's unbundled generation charges in the existing rate schedule as well as to charges in Adjustment Schedules PSA-1 and EIS. All other charges in the customer's existing rate schedule and any other applicable adjustment schedules would be applied to the total energy or total demand, as required.

Staff Analysis and Recommendations

16. Staff believes that the proposed Preference Power Rider Schedule PPR is a reasonable method of delivering Western preference power to APS customers.

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

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	
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COMMISSIONER	COMMISSIONER	COMMISSIONER
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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:JJP:lm\AH

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345-08-0365

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4 Director, Regulation & Pricing
5 Arizona Public Service Co.
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9 Mr. Ernest G. Johnson
10 Director, Utilities Division
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