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MEMORANDUM

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FROM: Steven M. Olea
Director
Utilities Division

Arizona Corporation Commission

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DATE: October 24, 2011

RE: ARIZONA PUBLIC SERVICE COMPANY – DOCKET NO. E-01345A-10-0474 – COMMISSIONER NEWMAN’S LETTER DATED OCTOBER 13, 2011

In regard to questions posed by Commissioner Newman to parties and interested persons on October 13, 2011, in the Matter of the Application of Arizona Public Service Company for Authorization for the Purchase of Generating Assets from Southern California Edison and for an Accounting Order, Staff offers the following comments.

Four Corners Lawsuit

The recent action filed by Diné Citizens Against Ruining Our Environment, To’ Nizhoni Ani, Sierra Club, and National Parks Conservation Association in the United States District Court for the District of New Mexico¹ (“Diné lawsuit”) does not affect Staff’s recommendation regarding the request of Arizona Public Service Company (“APS” or “Company”) for approval to purchase Southern California Edison’s (“SCE”) share of Four Corners Units 4 and 5.

The issues that are pending before the Arizona Corporation Commission (“Commission”) regarding the Four Corners Power Plant are 1) whether the self-build moratorium imposed by Decision No. 67744 should be lifted to allow APS to pursue the purchase of SCE’s interest in Four Corners, should APS choose to do so, and 2) whether an accounting order should be granted authorizing APS to defer for future recovery certain costs related to the transaction and assurance related to Four Corners Units 1-3.

Commission approval for APS to pursue the proposed transaction does not constitute Commission approval of the transaction itself nor does it determine the ultimate regulatory treatment that can or will be accorded to any interest in a generating facility ultimately acquired by APS. Staff is not recommending approval or denial of the acquisition itself, nor is Staff recommending that APS purchase or not purchase SCE’s share of Four Corners. Staff’s position is that APS management should make the decision regarding this purchase. Whether the Diné lawsuit affects APS’s decision will need to be addressed by APS.

¹ *Diné Citizens Against Ruining Our Environment, et al v. Arizona Public Service Company, et al.* U.S. District Court for the District of New Mexico. Case 1:11-cv-00889-RHS-KBM (filed October 4, 2011).

Resale Cost of Natural Gas-Fired Power Plants

The recent article, *Natural gas-fired power plants sold for \$1 billion*, posted on Power Engineering's website² tends to show that different transactions result in different prices for electric generation resources. The sales price of approximately \$467/kW for four natural gas-fired generating assets owned by a subsidiary of NextEra Energy Resources, LLC ("NextEra") may have been influenced by, amongst other factors, the fact that the sale involved a portfolio of assets. Moreover, this is an average price for the bundle of resources, which vary from 98 MW of capacity to 879 MW of capacity. Additionally, it is difficult to determine the levelized costs (costs over the lifetime) of these plants and the impact on the purchasing company's revenue requirement, both of which are important aspects of the proposed APS-SCE transaction.

While the capital cost of a block of natural-gas combined-cycle plants may seem low at \$467/kW, Staff believes this one value provides an incomplete view of the full implications of the NextEra transaction.

General Comments on *Environmental Accounting for Pollution in the United States Economy* by Nicholas Z. Muller, Robert Mendelsohn, and William Nordhaus

Staff does not have enough information about *Environmental Accounting for Pollution in the United States Economy* to provide meaningful comments on this issue.

SMO:LAF:red\WVC

ORIGINATOR: Laura A. Furrey

² *Natural gas-fired power plants sold for \$1 billion*, September 1, 2011. Available at <http://www.power-eng.com/articles/2011/08/natural-gas-fired-power-plants-sold-for-1-billion.html>

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