



ORIGINAL



0000130666

Pinnacle West Capital Corp., Law Department

RECEIVED

2011 OCT 24 P 4: 28

AZ CORP COMMISSION  
DOCKET CONTROL

Mail Station 8695  
PO Box 53999  
Phoenix, Arizona 85072-3999  
Tel 602-250-2454  
Meghan.Gabel@pinnaclewest.com

October 24, 2011

Arizona Corporation Commission  
DOCKETED

OCT 24 2011

Paul Newman, Commissioner  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

DOCKETED BY	<i>mm</i>
-------------	-----------

RE: October 13, 2011 Letter regarding Docket No. E-01345A-10-0474

Dear Commissioner Newman:

This letter responds to your request for comments on three items from parties to the above-captioned docket, which entertains an application from Arizona Public Service Company ("APS" or "Company") relating to Four Corners Power Plant ("Four Corners"). APS comments on each of these items identified below.

**(1) "Four Corners Lawsuit"**

APS understands your inquiry on this topic to refer to a recent complaint filed by the law firm Earthjustice against each of the Four Corners co-owners (APS, Salt River Project, Tucson Electric Power Company, Public Service Company of New Mexico, El Paso Electric Company, and Southern California Edison ("SCE")), alleging violations of a Clean Air Act program commonly known as "New Source Review" ("NSR"). As a general matter, APS denies each of the Complaint's allegations. Specific to this docket, while the Sierra Club is both a party to the Four Corners Commission proceeding and one of the plaintiffs bringing the NSR lawsuit, the suit itself has no impact on the issues raised in the Commission proceeding. In fact, the Four Corners Plant co-owners have been aware of the potential for this lawsuit since May 5, 2010, when Earthjustice formally notified them of its intent to sue (consistent with other strategic litigation aimed at several coal plants throughout the country). So informed, APS and SCE anticipated the possibility of NSR litigation as they drafted the November 8, 2010 purchase contract for SCE's share of Four Corners Units 4 and 5 and allocated the potential liability that could result. The fact that the anticipated lawsuit was filed introduces nothing new that would impact the analysis presented in the Commission proceeding.

**(2) "Re-Sale of Cost of Natural-Gas Fired Power Plants"**

On this topic, you requested comments regarding a \$467/kW purchase price reported by Power Engineering for a portfolio of natural gas generating assets. That price is not relevant to the economic analyses presented and discussed in this docket,

which compare what APS customers would pay in present value revenue requirements if APS were to purchase SCE's share of Four Corners Units 4 and 5 and close Units 1-3 to what they would pay if APS instead purchased or built a combined cycle natural gas plant, the likely alternative. Although other types of natural gas plants exist, including simple cycle plants (*e.g.*, "combustion" or "gas" turbines) and co-generation facilities, these types of assets have unique operational needs and uses that make them less attractive than a combined cycle unit as an alternative to a coal option. For this reason, only data regarding the cost to acquire a combined cycle natural gas plant is probative of the value of the Four Corners transaction. The \$467/kW price cited in your letter reflects the sale by a highly motivated seller of a blend of four natural gas-fired generating facilities that use three different technologies, not just combined cycle, and one of which is over 20 years old. Considering the mixed bag of technologies and the vintage of the assets, this blended cost provides no useful insight as to the going rate for a combined cycle unit alone, and therefore is not an appropriate comparator to the economic data in the record on this point.

Nor would such a figure undermine the value of the proposed transaction in any event. As Judah Rose of ICF consultants (a firm that specializes in power plant valuations) testified after reviewing the sum history of all combined cycle power plant transactions in the United States, there has never been any combined cycle natural gas transaction that could beat the Four Corners deal. As Mr. Rose testified, a seller of such an asset "would have to give away [its] power plants or offer them at a price that's a fraction of any reasonable expectation" to beat the Four Corners purchase price. See Rose Testimony, Hearing Tr. at 138, 172.

### **(3) "Recent Study on the Economics of Coal-fired Electricity"**

APS is not familiar with the study to which your letter refers, entitled "Environmental Accounting for Pollution in the United States Economy." When APS values environmental factors in its resource planning efforts, it uses the data developed by the National Research Council of the National Academies ("NRCNA"), published in the study "Hidden Costs of Energy: Unpriced Consequences of Energy Production and Use." Data from the NRCNA study indicates that the environmental externality costs associated with continued operation of Four Corners is relatively small, approximately \$6/MWH. This is so for three reasons: (1) Four Corners is already equipped with some pollution controls, and significant new environmental controls will be installed at the plant within the next several years, which will further mitigate emissions; (2) geographically, Four Corners is located remote from large population centers, thus minimizing health effects; and (3) the Western coal used at Four Corners typically has a lower sulfur content compared to coal from other parts of the country, leading to lower SO<sub>2</sub> emissions and health effects.

Paul Newman, Commissioner  
October 24, 2011  
Page 3

We appreciate your inquiries and hope that this letter addresses them.

Sincerely,



Meghan H. Grabel

MHG

Copies of the foregoing delivered this 24<sup>th</sup>  
day of October, 2011 to:

Lyn Farmer  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ, 85007-2927

David Berry  
Western Resource Advocates  
PO Box 1064  
Scottsdale, AZ, 85252-1064

Janice Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ, 85007

Greg Patterson  
Arizona Competitive Power Alliance  
916 West Adams, Suite 3  
Phoenix, AZ, 85007

Steve Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ, 85007

Travis Ritchie  
Sierra Club Environmental Law Program  
85 Second Street, 2nd Floor  
San Francisco, CA, 94105

Daniel Pozefsky  
Chief Counsel  
RUCO  
1110 W. Washington, Suite 220  
Phoenix, AZ, 85007

Lawrence Robertson, Jr.  
Attorney  
PO Box 1448  
Tubac, AZ, 85646

Tim Hogan  
Arizona Center for Law in the Public  
Interest  
202 East McDowell Road, Suite 153  
Phoenix, AZ, 85004

Pamela Campos,  
Attorney  
Environmental Defense Fund  
2060 Broadway  
Boulder, CO, 80302