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1 Thomas A. Loquvam, AZ Bar No. 024058
2 Pinnacle West Capital Corporation
3 400 North 5th Street, MS 8695
4 Phoenix, Arizona 85004
5 Tel: (602) 250-3631
6 Fax: (602) 250-3393
7 E-Mail: Thomas.Loquvam@pinnaclewest.com

8 Attorney for Arizona Public Service Company

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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

9 COMMISSIONERS

DOCKETED

10 BOB STUMP, Chairman
11 GARY PIERCE
12 BRENDA BURNS
13 ROBERT L. BURNS
14 SUSAN BITTER SMITH

JUL 17 2014

DOCKETED BY

14 IN THE MATTER OF THE APPLICATION
15 OF ARIZONA PUBLIC SERVICE
16 COMPANY TO SELL TRANSMISSION
17 ASSETS TO SALT RIVER PROJECT
18 AGRICULTURAL IMPROVEMENT AND
19 POWER DISTRICT

DOCKET NO. E-01345A-14-0272
APPLICATION

18 Under A.R.S. § 40-285, Arizona Public Service Company requests authorization
19 to sell a 50% interest in two existing APS transmission lines¹ to the Salt River Project
20 Agricultural Improvement and Power District. Authorization is appropriate when a sale
21 would not be “injurious to the rights of the public.” *Trico Elec. Coop. v. Ralston*.² Here,
22 selling a half interest in the transmission lines to SRP would not hinder APS’s ability to
23 continue providing reliable service to the public. Accordingly, APS requests that the
24 Commission approve the sale.

27 ¹ The assets to be sold include half of two transmission lines between the Kyrene and Knox substations,
28 as well as associated facilities and land rights, described in Attachment A (“Transmission Assets”).
² 67 Ariz. 358, 364 (1948) (citations omitted).

1 **I. Background**

2 This Application concerns two 230kV transmission lines between the Kyrene and
3 Knox substations. The first line extends between these two substations (the “Kyrene-
4 Knox Line”). The second line begins at the Kyrene substation and extends to the
5 Ocotillo substation, but the sale only involves the portion of this line that extends
6 between the Kyrene and Knox Substations (the “Kyrene-Knox Segment”). Attachment
7 B shows the lines’ physical locations.

8 **A. SRP Will Take Transmission Service from APS on the Kyrene-Knox Line**
9 **Through May 2016.**

10 SRP and APS are currently parties to a transmission service agreement under
11 which SRP takes transmission service on the Kyrene-Knox Line.³ (SRP’s transmission
12 service then continues from the Knox Substation to the Desert Basin Substation.⁴) Under
13 this agreement, SRP reserves 148 MW of transmission capacity at APS’s standard Open
14 Access Transmission Tariff (OATT) rate. For this transmission capacity, SRP pays APS
15 approximately \$7 million a year. The parties’ transmission agreement will be ending in
16 May 2016. In connection with a transmission project, SRP needs its own 230kV line
17 between the Kyrene and Knox substations to be in service by June 2016. Upon
18 constructing or purchasing its own transmission line, SRP will terminate its transmission
19 agreement with APS.⁵

20 **B. Because SRP Will Not Contribute to APS’s Transmission Revenue After**
21 **2016, Selling to SRP is the Best Option for APS’s Customers.**

22 To meet the need of owning its own transmission line, SRP has two options:
23 build a new 230kV line or buy a portion of one or both of APS’s existing 230kV
24 transmission lines between the Knox and Kyrene substations. If SRP pursued the first
25 option and built a new 230kV line, SRP would encounter expense and other challenges
26 associated with siting and constructing a new line in the middle of a populated area. But,

27 ³ Declaration of Robert Smith at ¶ 4, Attachment C.

28 ⁴ Declaration of Robert Smith at ¶ 4.

⁵ Declaration of Robert Smith at ¶ 5.

1 if SRP builds its own line, SRP would terminate its transmission agreement with APS as
2 permitted by the parties' agreement. Thereafter, APS would continue to own and
3 maintain 100% of the line and incur 100% of the costs of ownership and maintenance,
4 but would no longer receive the transmission revenue from SRP.

5 The second option—SRP buying a portion of APS's existing lines—addresses
6 both sets of challenges. Under the second option, SRP would buy 50% of the Kyrene-
7 Knox Line and the Kyrene-Knox Segment. SRP would still cancel its transmission
8 service agreement with APS, and APS would still lose the resulting transmission
9 revenue from SRP. APS would also avoid, however, the operations and maintenance
10 expense associated with the sold assets as well as capital carrying costs associated with
11 the sold portion of the line. Because APS will lose the transmission revenue under any
12 option, the sale to SRP offers the best outcome for both parties. SRP will be able to
13 avoid the expense and possible disruption to the public associated with constructing a
14 new line and APS will be able to allocate the operations and maintenance and other cost
15 obligations to SRP.

16 **C. The Proposed Sale**

17 Under the proposed transaction, APS would sell to SRP (i) 50% of the Kyrene-
18 Knox Line, (ii) 50% of the Kyrene-Knox Segment, and (iii) the facilities, equipment and
19 land rights associated with each 50% share described in Attachment A. Under the
20 proposed sale, SRP would pay APS \$9.9 million for the 50% share in each of the two
21 transmission lines. SRP would continue taking transmission service on the Kyrene-Knox
22 Line until the estimated transaction closing date of May 2016. Upon closing, SRP would
23 assume a 50% ownership in both transmission lines, as well as a 50% responsibility for
24 operations and maintenance costs associated with the Kyrene-Knox Line. When SRP
25 completes a phase of its transmission project and begins using the Kyrene-Knox
26 Segment, it will begin paying for 50% of the operations and maintenance costs
27 associated with the Segment. As required by FERC regulations, proceeds from the sale
28

1 of the Transmission Assets will be cleared through FERC Account 102 – Electric Plant
2 Purchased or Sold.

3 **II. The Sale of The Transmission Assets Should be Approved Because it Would**
4 **Not Deprive APS of its Ability to Serve its Customers.**

5 Under A.R.S. § 40-285, the sole question raised by an application to sell utility
6 assets is “whether or not the proposed transfer will be injurious to the rights of the
7 public.” *American Cable Television Inc. v. APS*.⁶ This is consistent with the purpose
8 behind A.R.S. § 40-285: “to prevent looting of the utilities’ facilities and impairment of
9 service to the public.” *Babe Investments v. Ariz. Corp. Comm’n*.⁷ Here, selling a 50%
10 portion of the two transmission lines in question would not impair APS’s ability to serve
11 the public.⁸ Indeed, 150 MW of the Kyrene-Knox Line already is being used to serve
12 SRP as a transmission customer of APS. Moreover, after the sale, APS would still retain
13 50% of both transmission lines—an amount of transmission capacity more than
14 sufficient to meet APS’s current and projected transmission needs.⁹ Finally, selling 50%
15 of both lines would not jeopardize electric reliability. If APS were to sell 50%
16 ownership in these two lines, APS would continue to be able to provide reliable electric
17 service to all of its customers.¹⁰

18 **III. Conclusion**

19 The sale of a half interest in the Transmission Assets would not be injurious to
20 the rights of the public. After the sale, APS will continue to be able to provide
21 transmission service to its customers, have sufficient transmission capacity to serve its
22 load and continue to provide reliable service to all of its customers. Accordingly, APS
23 requests that the Commission grant APS’s Application under A.R.S. § 40-285 to sell to
24

25 ⁶ 143 Ariz. 273, 277 (1983) (citing opinion of the Attorney General of Arizona, Opinion No. 62-7 at 13 (1962)).

26 ⁷ 189 Ariz. 147, 151 (1997); see *Trico Electric Co-op v. Ralston*, 67 Ariz. 358, 364 (1948). (Holding that
27 under A.R.S. § 40-285 the Commission is solely “authorized to prevent an owner of a public utility from
disposing of it where such disposition would not safeguard the interests of the public.”).

28 ⁸ Declaration of Robert Smith at ¶ 7.

⁹ Declaration of Robert Smith at ¶ 7.

¹⁰ Declaration of Robert Smith at ¶ 7.

1 SRP 50% of the Kyrene-Knox Line, 50% of the portion of the Kyrene-Knox Segment
2 and the associated facilities, equipment and rights as described in Attachment A.

3 RESPECTFULLY SUBMITTED this 17th day of July 2014.

4
5 By: _____

6 Thomas A. Loquvam

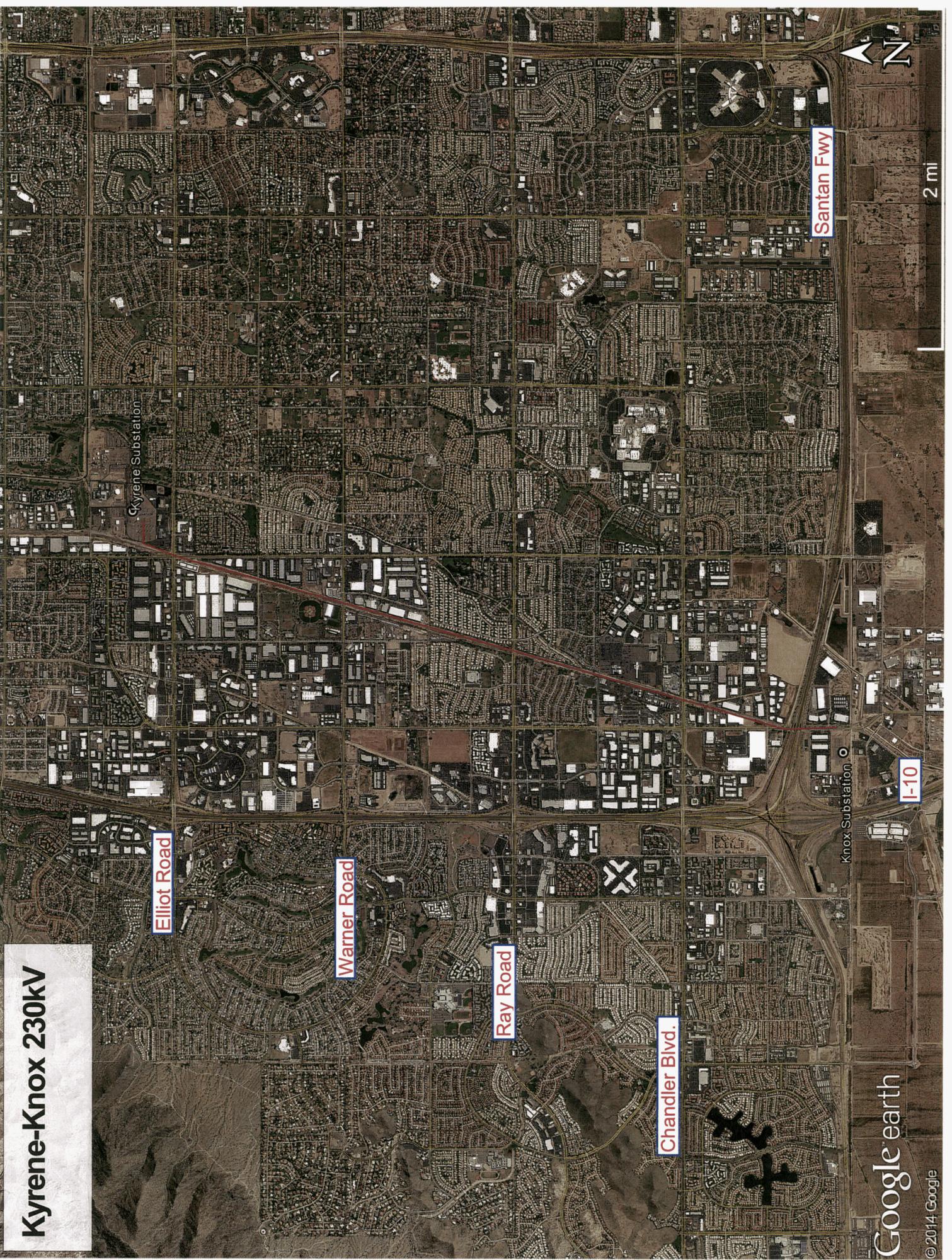
7 Attorney for Arizona Public Service Company

8 ORIGINAL and thirteen (13) copies
9 of the foregoing filed this 17th day of
10 July 2014, with:

11 Docket Control
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, Arizona 85007
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ATTACHMENT A
Description of Transmission Assets

The purchased assets comprise of (a) a one-half undivided interest in the Kyrene-Knox Line, including a one-half undivided interest in associated equipment, facilities, fixtures, real and personal property, land rights including without limitation pertinent land grants, easements and licenses, permits, rights and contracts to own, operate and maintain said line; and (b) a one-half undivided interest in that portion of the existing Kyrene-Ocotillo Line that runs between Kyrene Substation and the turning tower on the Kyrene-Knox Line at the Knox Substation and a one-half undivided interest in associated equipment, facilities, fixtures, real and personal property, land rights including without limitation pertinent land grants, easements and licenses, permits, rights and contracts to own, operate and maintain said line.



Kyrene-Knox 230kV

Elliot Road

Warner Road

Ray Road

Chandler Blvd.

Santan Fwy

I-10

ATTACHMENT C

Declaration of Robert Smith

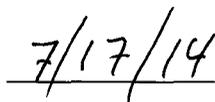
1. I am Robert Smith. I have been an employee of Arizona Public Service Company for 28 years. Beginning in 2009, I was the Director of Energy Delivery Asset Management and Planning. Recently, I began new responsibilities as a Director in Corporate Development.
2. I have represented APS in its discussions with the Salt River Project Agricultural Improvement and Power District regarding the potential sale of a 50% interest in two transmission lines between the Kyrene and Knox Substations. Based upon my experience, I have personal knowledge of the facts contained in this Declaration.
3. APS is finalizing an agreement to sell half of two 230kV transmission lines and the associated facilities and land rights. The first line extends between the Kyrene and Knox substations (the "Kyrene-Knox Line"). The second line begins at the Kyrene substation and extends to the Ocotillo substation. The sale, however, only involves the portion of this line that extends between the Kyrene and Knox Substations (the "Kyrene-Knox Segment"). This Declaration refers to the 50% interest in the Kyrene-Knox Line and Kyrene-Knox Segment, together with the associated facilities and land rights, as the "Transmission Assets."
4. APS and SRP are currently parties to a transmission service agreement under which SRP takes transmission service on the Kyrene-Knox Line. SRP's transmission service continues from the Knox Substation to the Desert Basin Substation. SRP reserves 148 MW of transmission capacity, and under APS's current Open Access Transmission Tariff, pays approximately \$7 million per year for this capacity. The transmission service agreement gives SRP the right to terminate the agreement should SRP acquire its own transmission line between the Kyrene and Knox Substations.

5. I understand that SRP is pursuing a transmission project that includes SRP owning its own transmission line between the Kyrene and Knox Substations instead of continuing to take service under its transmission service agreement with APS.
6. Under the proposed sale, SRP would immediately assume a 50% responsibility for the operations and maintenance costs associated with the Kyrene-Knox Line. After SRP completes a future phase of its transmission project, SRP would begin using the Kyrene-Knox Segment. At that point, SRP would assume a 50% responsibility for the operations and maintenance costs associated with the Kyrene-Knox Segment.
7. The sale of the Transmission Assets to SRP would not hinder APS's ability to serve its customers and the public. After the sale, APS would continue to hold more than sufficient transmission capacity to meet current and projected needs. Moreover, the sale would not jeopardize electric reliability or otherwise hinder APS's ability to continue providing reliable electric service to its customers.

Under penalty of perjury, I declare that the foregoing is correct and true to the best of my knowledge.



Robert Smith



Date