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**BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

DOCKETED

SEP 25 2014

COMMISSIONERS

BOB STUMP, Chairman  
 GARY PIERCE  
 BRENDA BURNS  
 ROBERT L. BURNS  
 SUSAN BITTER SMITH

DOCKETED BY	
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IN THE MATTER OF THE APPLICATION  
 OF ARIZONA PUBLIC SERVICE  
 COMPANY FOR APPROVAL OF  
 ELECTRIC SERVICE CONTRACTS WITH  
 IO CAPITAL PRINCESS, LLC AND IO  
 PHOENIX ONE, LLC

DOCKET NO. E-01345A-14-0350

**REQUEST TO APPROVE  
EXPERIEMENTAL HIGH LOAD  
FACTOR PRICING STRUCTURE  
CONTRACTS**

On September 17, 2014, Arizona Public Service Company ("APS" or "Company") entered into Electric Service Agreements ("ESA(s)") with IO Capital Princess, LLC and IO Phoenix One, LLC (collectively "IO").

Because the executed ESAs contain Competitively Confidential Information, APS has not docketed them. However, APS will provide them to Arizona Corporation Commission ("ACC" or "Commission") Staff for their confidential review pursuant to an executed Protective Agreement.

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1 In an August 2014 Issue Paper, Anthesis, a global consulting firm and the Natural  
2 Resources Defense Council stated that: "Data centers are the backbone of the modern  
3 economy." IO is a global leader in software-defined data centers and pioneered the next  
4 generation of data center infrastructure technology. IO's products are manufactured and  
5 designed to lead the industry in energy efficiency. IO commenced operations of its  
6 Scottsdale data center in 2007, and opened its Phoenix data center in 2009. Since  
7 inception, IO has demonstrated a 60% compound annual growth rate in kWh  
8 consumption, making it one of APS's largest and fastest growing customers. IO's  
9 customers include many of the world's largest enterprises, such as the financial services  
10 and banking industry, internet service providers, mass media providers and various state  
11 and federal government agencies.

12  
13 IO has grown rapidly over the years and is now a significant APS customer.  
14 Given IO's need for high reliability and power quality, the cost of electricity is a  
15 material component of IO's cost to operate its business. The price for electricity that IO  
16 pays will drive whether or not it will continue to stay, and even grow, in APS's service  
17 territory for the benefit of Arizona and the remainder of APS's customers.

18  
19 Further, IO is a very high load factor customer (above 90%), which makes it all  
20 the more important that APS retain the load. Such customers provide operational and  
21 other economic benefits to the Company's distribution system, as described below. This  
22 elevates the desirability to APS and its customers of retaining and expanding that load.

23  
24 Very high load factor customers help reduce the overall cost for APS to serve its  
25 customers because they help flatten the overall system load profile, which, in turn,  
26 allows APS to operate its generation fleet in a more optimal manner. These ESAs  
27 employ an experimental high load factor pricing structure that better aligns the price that  
28 IO will pay to the cost that APS incurs to serve them.

1 APS believes these ESAs are appropriate and necessary to both retain IO's  
2 present load and to encourage IO to continue to grow in APS's service territory. IO has  
3 data centers in other jurisdictions and can choose to site their business at any location  
4 that has the appropriate infrastructure, chiefly power and fiber. If IO were to move its  
5 operations to a location outside of APS service territory, a substantial amount of revenue  
6 requirement responsibility would be shifted to other APS customers.

7  
8 These ESAs include terms beyond pure price. For example, they recognize IO's  
9 interest in a greater renewable resource commitment through provisions that allow IO to  
10 purchase additional amounts of renewable energy to enhance the overall resource profile  
11 that it receives from APS. This approach encourages a greater use of renewable energy  
12 on the APS system without increasing the cost for other APS customers. The ESAs also  
13 provide for APS and IO to collaborate on demand response ("DR") opportunities,  
14 leveraging IO's existing investment in both backup generation and energy storage  
15 devices. Properly used in a DR mode, these IO assets could provide significant value to  
16 APS and its other customers.

17  
18 APS believes these ESAs are justifiable as an important means of economic  
19 development, consistent with the provisions the Commission approved in Decision No.  
20 73183 that authorized APS to pursue economic development opportunities through the  
21 use of Commission-approved contracts. (See Decision No. 73183 at Exhibit A,  
22 Paragraph 17.4.) The ESAs are also permitted under A.A.C. R14-2-1606 (C)(6) in that  
23 they are for load retention and do not prevent IO from accessing a competitive retail  
24 market if such market should develop in Arizona during the term of the ESAs. APS  
25 further believes that the experimental rate contained in these ESAs may provide valuable  
26 insight into the development of a more permanent high load factor rate to be developed  
27 by APS, which rate would help attract additional high load factor customers to Arizona,  
28 for the benefit of all ratepayers.

1 APS requests the Commission approve the ESAs. APS further requests that,  
2 upon approval, the price terms of such ESAs are deemed effective as of the date of this  
3 Application.

4 RESPECTFULLY SUBMITTED this 25<sup>m</sup> day of September 2014.

6  
7 By: Thomas L. Mumaw  
8 Thomas L. Mumaw  
9 Thomas A. Loquvam

10 Attorneys for Arizona Public Service Company

11 ORIGINAL and thirteen (13) copies  
12 of the foregoing filed this 25<sup>m</sup> day of  
13 September 2014, with:

14 Docket Control  
15 ARIZONA CORPORATION COMMISSION  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Copies of the foregoing delivered/mailed this 25<sup>th</sup>  
19 day of September 2014, to:

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