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MEMORANDUM
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FROM: Steven M. Olea
Director
Utilities Division

~~ARIZONA CORPORATION COMMISSION
DOCKET CONTROL~~

ORIGINAL

DATE: October 21, 2014

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN-APPLICATION FOR APPROVAL OF THE ECAR PLAN OF ADMINISTRATION AND TARIFF (DOCKET NO. E-01773A-12-0305)

Attached is the Staff Report for the Application of Arizona Electric Power Cooperative, Inc. for approval of its proposed Environmental Compliance Adjustment Rider Tariff and Plan of Administration. Staff recommends approval of the application as discussed below.

SMO:CLA:vsc\BH

ORIGINATOR: Candrea Allen

Attachment: Original and Thirteen Copies

Arizona Corporation Commission
DOCKETED
OCT 17 2014
DOCKETED BY

SERVICE LIST FOR: ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-12-0305

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

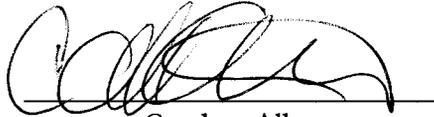
ARIZONA ELECTRIC POWER COOPERATIVE, INC.
DOCKET NO. E-01773A-12-0305

IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER
COOPERATIVE, INC. TO DETERMINE THE FAIR VALUE OF ITS PROPERTY FOR
RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON
AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN-APPLICATION
FOR APPROVAL OF THE ECAR PLAN OF ADMINISTRATION AND TARIFF

OCTOBER 21, 2014

STAFF ACKNOWLEDGEMENT

The Staff Report for the application of Arizona Electric Power Cooperative, Inc., Docket No. E-01773A-12-0305, for approval for approval of the ECAR plan of administration and tariff was the responsibility of the staff member listed below.

A handwritten signature in black ink, appearing to read 'C. Allen', written over a horizontal line.

Candrea Allen
Public Utilities Analyst

INTRODUCTION

The Arizona Corporation Commission (“Commission”) Decision No. 74173, dated October 25, 2013, was held open until April 30, 2014, to allow Arizona Electric Power Cooperative, Inc. (“AEPSCO”), to file, after collaboration with Staff, a proposed Environmental Compliance Adjustment Rider (“ECAR”) tariff and Plan of Administration (“POA”), for Commission approval. After collaboration with Staff, on April 30, 2014, AEPSCO filed, for Commission approval, its proposed ECAR tariff and POA.

Decision No. 74173 also required AEPSCO to provide notice of the proposed ECAR to the customers of its Class A member distribution cooperatives, within 30 days of filing its ECAR documents for Commission approval. On May 23, 2014, AEPSCO filed a motion to extend the deadline to file proof of the notice of the ECAR application. In Decision No. 74600, the Commission granted AEPSCO an extension of time to file the required notice until July 28, 2014, amending the deadline required by Decision No. 74173. On July 28, 2014, AEPSCO filed its proof of the notice initially required in Decision No. 74173 and amended by Decision No. 74600.

BACKGROUND

AEPSCO is a not-for-profit, generation and transmission cooperative that was initially granted a Certificate of Convenience & Necessity (“CC&N”) by the Commission in Decision No. 33677, dated February 13, 1962. As part of the restructuring of AEPSCO in the late 1990s and early 2000s, the Commission approved Decision No. 63868, dated July 25, 2001, which transferred AEPSCO’s transmission assets and transmission portion of its CC&N to Southwest Transmission Cooperative, Inc. (“SWTC”). In Decision No. 74591, dated July 30, 2014, the transmission portion of AEPSCO’s CC&N granted in Decision No. 33677 and transferred to SWTC in Decision No. 63868 was transferred back to AEPSCO, among other approvals.

AEPSCO provides generation and transmission services to three all-requirements distribution cooperative members (“ARM” or collectively “ARMs”) (Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Anza Electric Cooperative, Inc.)¹ and three partial-requirements distribution cooperative members (“PRM” or collectively “PRMs”) (Mohave Electric Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc.). The ARMs receive all of their power and energy needs from AEPSCO while each PRM only commits to purchase a fixed amount of capacity from AEPSCO and may secure additional power and energy from other sources.

THE ECAR MECHANISM

The ECAR is a monthly surcharge intended to provide cost recovery of potential costs associated with future Environmental Protection Agency (“EPA”) Regional Haze environmental compliance requirements for AEPSCO’s two coal-fired units at the Apache Generating Station (“Apache Station”) and also any other potential obligations mandated by federal, state and/or local

¹ Anza Electric Cooperative is located in southern California.

environmental regulations. The ECAR would be applicable to all of AEPCO's Class A member distribution cooperatives. In addition to the ECAR, AEPCO would develop an Environmental Compliance Strategy ("ECS") plan to accompany the ECAR. The ECS plan would include the scope of work, anticipated timelines, and cost estimates specific to the ECAR that would apply. The ECS plan would specify the Qualified Environmental Compliance Projects ("QECP") that would be implemented in order to comply with any mandated environmental regulations. The costs associated with any QECP, as identified in an ECS plan, would be recovered through the ECAR, as approved by the Commission.

According to the proposed ECAR POA, the monthly ECAR amount would be calculated based on costs detailed in the accompanying ECS plan. Each member distribution cooperative would be apportioned a share of the costs specified in the ECS plan based on the Allocated Capacity Percentage ("ACP") of each cooperative. The monthly dollar amount to be collected from the ARMs would be based on the monthly demand ratio share. The term for collection of the costs would be determined by AEPCO in the ECS and/or the ECAR tariff. The proposed ECAR POA also specifies the qualifying Rural Utility Service ("RUS") accounts that would be recoverable through the ECAR and how the funds will be recorded for accounting purposes. The funds collected from the ECAR would be deposited into an interest bearing investment account that would be used only for QECP identified in an ECS plan.

Upon completion/termination of an ECS plan, any funds remaining would be refunded to the distribution cooperative members, which would return the ECAR to zero, using the same method used to calculate the collection of the ECAR. The rates would remain at zero until AEPCO filed a new ECS plan and corresponding ECAR tariff in response to new environmental regulations. Further, the proposed ECAR POA specifies the reporting requirements and process for filing semi-annual reports with the Commission which would be filed on September 1 for the previous January through June and March 1 for the prior year July to December period of each year. AEPCO would be required to obtain board approval prior to submitting an application for an ECS plan and ECAR tariff for Commission approval.

RECOMMENDATIONS

Staff and AEPCO came to agreement on the proposed ECAR POA and tariff filed in the instant application and Staff recommends approval of the ECAR surcharge mechanism. However, AEPCO is proposing to recover the costs for chemical expenses associated with the installation of the Selected Non-Catalytic Reduction ("SNCR") retrofit and the employment of an activated carbon injection system that would reduce NO_x and mercury emissions, respectively. Staff does not believe that these costs should be recovered through the ECAR.² In addition, Staff notes that no other utility has been granted Commission approval to recover such costs through the respective environmental surcharges. Therefore, Staff does not recommend that chemical expenses be recovered through the ECAR surcharge. Further, Staff recommends that upon completion/termination of an ECS Plan, after any remaining funds have been refunded to the distribution cooperative members, and rates are returned to zero (as described above), AEPCO

²These chemical costs would be recorded in RUS account 502-Steam Expenses.

should be required to file the revised ECAR tariff reflecting the zero rates, as a compliance item to the Decision approving the corresponding ECAR tariff, within 30 days of the surcharge rates going to zero. Finally, Staff recommends that AEPCO file a revised ECAR POA removing the reference to RUS account 502-Steam Expenses, as a compliance item, within 15 days of a Decision in this matter.