

ORIGINAL

OPEN MEETING



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MEMORANDUM

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AZ CORP COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 23, 2015

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF AN ELECTRIC SERVICE CONTRACT WITH eBay, INC. (DOCKET NO. E-01345A-15-0117)

**BACKGROUND**

On April 8, 2015, Arizona Public Service Company ("APS" or "Company") filed an application requesting approval of its Electric Service Agreement ("ESA") with eBay, Inc. ("eBay" or "the Customer"). The ESA is contingent upon Commission approval. APS has requested that the price terms of the ESA be deemed effective as of the date of the application. The ESA was provided confidentially to Staff under a Protective Agreement. On April 16, 2015, APS filed a waiver of the time clock to process the application. On May 5, 2015, APS filed a revised redacted version of the ESA.

Pursuant to Decision No. 73183 (May 24, 2012), a Settlement Agreement was approved which established the rates currently in effect for APS. The Settlement Agreement states "APS is authorized to pursue economic development opportunities through the use of Commission-approved special contracts." APS states that the ESA is necessary and appropriate not only for retaining eBay's present load, but for encouraging eBay to continue its growth in APS's service territory. APS also states that the experimental rate offered through the ESA may assist in developing a high load factor rate designed to "help attract additional high load factor customers to Arizona, for the benefit of all ratepayers."

The Customer, eBay, is an online marketplace that enables commerce, providing technologies and services that facilitate buying and selling on a global basis. eBay includes the core ecommerce platform ebay.com, localized sites such as ebay.co.uk, vertical shopping websites, such as StubHub, and classifieds websites, such as Marktplaats.nl.

eBay also operates PayPal, a form of payment for online shoppers, including those using Internet-enabled mobile devices. On September 30, 2014, eBay announced that it would be separating PayPal into an independent publicly traded company. Completion of this process is projected to take place in the second half of 2015. APS states that, given its separation with PayPal, eBay is evaluating the long term data centers for both PayPal and eBay, and that the proposed ESA is "an important component in retaining eBay's current load in APS's service territory, as well as encouraging expansion."

Arizona Corporation Commission

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AMU

eBay has two service locations in the APS service territory, a data center in Phoenix and a software development site in Scottsdale. The ESA relates to only the data center location in Phoenix, which is currently served under two accounts, an E-32 tariff and an E-35 tariff. Under the proposed contract the two accounts would be rolled into one account, based on the rates in the ESA.

eBay recently expanded its data center footprint to accommodate more growth, and APS has updated its facilities serving eBay to facilitate such growth.

Rationales for Proposed Rate Structure. The rationales for the proposed ESA include the following:

- Retention and Growth. The experimental rate is designed to facilitate eBay's retention and growth as an APS customer.

Should eBay leave the APS service territory, its contribution to fixed costs would be lost. In addition, the system would lose the benefits associated with high load factor customers. High load factor customers allow the generation fleet to operate at a lower cost, with better fuel to energy conversion, and fewer stops and starts. APS states that eBay is a very high load factor customer (over 90%) and, as such, provides operational and economic benefits to the APS distribution system by flattening the overall system load profile and reducing APS's cost to serve all customers. Expansion of eBay's data center in Arizona would provide additional such benefits.

- Cost Alignment. The experimental high load factor pricing structure described in the ESA better aligns with how much it actually costs APS to serve eBay, compared to the current tariffs.
- Development of Experimental Rate. The experimental rate may also assist APS in the development of a more permanent high load factor rate which would, in turn, attract additional high load factor customers to Arizona, benefiting all ratepayers.

## **CURRENT TARIFFS AT THE PHOENIX DATA CENTER**

APS is currently supplying power at the 3rd Street location under two tariffs, the E-35 Extra Large General Service Time of Use Rate Schedule and the E-32 L Large General Service Rate Schedule. As stated elsewhere herein, under the ESA, the two accounts would be combined into one.

THE COMMISSION

June 23, 2015

Page 3

The E-35 Rate has an energy charge of \$0.04076 per kWh during On-Peak hours, plus \$0.03219 per kWh during Off-Peak hours. The following Bundled Standard Offer Service rates also apply:

Basic Service Charge:		
For service through Self-Contained Meters:	\$1.183	Per day, or
For service through Instrument-Rated Meters:	\$1.795	Per day, or
For service at Primary Voltage	\$3.881	Per day, or
For service at Transmission Voltage:	\$26.574	Per day
Demand Charge:		
Secondary Service:	\$16.768	Per On-Peak kW,
	\$3.064	plus Per Off-Peak kW, or
Primary Service:	\$15.792	Per On-Peak kW,
	\$2.966	plus Per Off-Peak kW, or
Transmission Service:	\$10.755	Per On-Peak kW,
	\$2.462	plus Per off-Peak kW

The E-32 L Rate has a Summer (May-October) energy charge of \$0.05517 per kWh and a Winter (November-April) energy charge of \$0.03804 per kWh.

Basic Service Charge:		
For service through Self-Contained Meters:	\$1.068	Per day, or
For service through Instrument-Rated Meters:	\$1.627	Per day, or
For service at Primary Voltage	\$3.419	Per day, or
For service at Transmission Voltage:	\$22.915	Per day.
Demand Charge:		
Secondary Service:	\$21.149	Per kW for the
	\$14.267	first 100 kW, plus per kW for all additional kW, or
Primary Service:	\$19.091	Per kW for the
	\$13.209	first 100 kW, plus per kW for all additional kW, or
Transmission Service:	\$14.284	Per kW for the
	\$9.105	first 100 kW, plus per kW for all additional kW.

## TERMS OF THE PROPOSED ESA

The unredacted ESA is not docketed because it includes competitively confidential information, but it has been reviewed by Staff pursuant to an executed Protective Agreement.

## MARGINAL COSTS

Staff reviewed the projected energy and capacity costs for serving the eBay data center with the rates proposed in the ESA. Staff determined that the rates proposed in the ESA cover APS's marginal costs for each year of the contract.

## RETENTION AND ALTERNATIVES TO BUYING POWER FROM APS

Alternative Data Centers/Virtualization. The Customer has multiple data centers within the United States, including Denver, Salt Lake City, Reno, Las Vegas, and Los Angeles. The Las Vegas, Phoenix and Salt Lake City data centers are operated so that any two of these sites can back up the third site using disaster recovery virtualization. APS believes that eBay could modify this arrangement so that the Phoenix data center was used primarily as a backup. APS states that eBay "would be able to shift up to 100% of its load to other eBay data centers" if Phoenix became a backup site or given the time to develop an alternative data center site.

Alternate Data Centers/Relocation. In addition to having the appropriate infrastructure in other states, the eBay data center is modular, which would ease physical relocation. Any location with "both adequate electric infrastructure and fiber communication would be suitable for either data center development or relocation." APS believes that eBay's most feasible alternative, with respect to physical relocation, would be to move its data center to another service territory in Arizona.

Self-generation. APS also believes that eBay could choose to self-generate, due to the size of its electric load. The Customer is not presently permitted for such use, although it has installed significant on-site generation for emergency purposes. eBay has deployed fuel cell generation technology for daily operations in Utah, and uses the local utility as the backup service provider, but APS believes it is more likely that eBay would shift its Arizona load through virtualization.

Analysis. Loss of a High Load Factor customer means loss of the operational and economic benefits to the Company's distribution system that are associated with such a customer, and which reduce the average cost to serve. Should eBay leave the APS service territory, its contribution to fixed costs would also be lost. In addition, other APS customers would have to cover the costs associated with the infrastructure dedicated to eBay until it is re-purposed. It is, therefore, in the best interests of both APS and its ratepayers to retain eBay as a customer. There are, however, factors indicating that eBay is unlikely to physically relocate from Phoenix in the near term. eBay has not only invested heavily in its existing facility, but has recently significantly expanded its data center footprint in order to increase capacity and accommodate ongoing growth. Also, its existing on-site generation is designed for emergency purposes, rather than for supporting the facility's daily needs. In addition, while it is possible that eBay would shift its load through virtualization, this would require eBay to make significant operational changes.

## FAIR VALUE IMPLICATIONS

Staff has also analyzed this application in terms of whether there are fair value implications. In Decision No. 73183, issued on May 24, 2012, the Commission determined the fair value of the APS jurisdictional rate base to be \$8,167,126,000. That determination is appropriate for purposes of this analysis. Compared to APS's total revenues, any revenue impact from this agreement would be *de minimus*, and any impact on APS's fair value rate base and rate of return would also be *de minimus*.

## RECOMMENDATIONS

Given the level of eBay's investment in the Phoenix facility, and other factors discussed herein, Staff believes that the current application has more immediate bearing on business development, as authorized by Decision No. 73183, than on retention of eBay as a customer. While expansion by eBay would mean fuel savings from improved generation fleet operation, the ESA also means that eBay will pay less for energy based on APS's standard mix, reducing its contribution to revenue. While any revenue reduction would be borne by shareholders in the short term, Staff is concerned about reallocation of revenue responsibility in the next rate case, (either due to the ESA or the development of a High Load Factor rate). Staff recommends that there be language in the Order clearly indicating that Commission approval does not guarantee any future ratemaking treatment of the agreements with eBay, Inc., and that approval does not indicate that the Commission will approve a High Load Factor tariff in a future Arizona Public Service rate case.

APS developed the ESA pricing structure for eBay by using the cost of service for E-34 and E-35 customers and separating out the high load factor customers to create an experimental high load factor customer class. With rates based more closely on the actual cost of serving eBay, and taking into account other factors discussed herein, the proposed Experimental High Load Factor tariff is more appropriate for eBay than the tariffs under which eBay is currently being served. Staff recommends that the Commission approve the APS Experimental High Load Factor Pricing Structure Contract.



Steven M. Olea  
Director  
Utilities Division

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ORIGINATOR: Julie McNeely-Kirwan

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

- SUSAN BITTER SMITH  
Chairman
- BOB STUMP  
Commissioner
- BOB BURNS  
Commissioner
- DOUG LITTLE  
Commissioner
- TOM FORESE  
Commissioner

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR APPROVAL OF  
ELECTRIC SERVICE CONTRACTS WITH  
eBAY, INC.

DOCKET NO. E-01345A-15-0117  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
July 7 and 8, 2015  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (“APS” or “Company”) is certificated to provide electric service as a public service corporation in the State of Arizona.

**Background**

2. Filings: Application and Waiver. On April 8, 2015, APS filed an application requesting approval of its Electric Service Agreement (“ESA”) with eBay, Inc. (“eBay” or the “Customer”). The ESA is contingent upon Commission approval. APS has requested that the price terms of the ESA be deemed effective as of the date of the application. The ESA was provided confidentially to Staff under a Protective Agreement. On April 16, 2015, APS filed a waiver of the time clock to process the application. On May 5, 2015, APS filed a revised redacted version of the ESA.

3. Business and Economic Development. Pursuant to Decision No. 73183 (May 24, 2012), a Settlement Agreement was approved which established the rates currently in effect for APS. The Settlement Agreement states “APS is authorized to pursue economic development opportunities through the use of Commission-approved special contracts.” APS states that the ESA is necessary

1 and appropriate not only for retaining eBay's present load, but for encouraging eBay to continue its  
2 growth in APS's service territory. APS also states that the experimental rate offered through the ESA  
3 may assist in developing a high load factor rate designed to "help attract additional high load factor  
4 customers to Arizona, for the benefit of all ratepayers."

5 4. Description of eBay. The Customer, eBay, is an online marketplace that enables  
6 commerce, providing technologies and services that facilitate buying and selling on a global basis.  
7 eBay includes the core ecommerce platform ebay.com, localized sites such as ebay.co.uk, vertical  
8 shopping websites, such as StubHub, and classifieds websites, such as Marktplaats.nl.

9 5. PayPal. eBay also operates PayPal, a form of payment for online shoppers, including  
10 those using Internet-enabled mobile devices. On September 30, 2014, eBay announced that it would  
11 be separating PayPal into an independent publicly traded company. Completion of this process is  
12 projected to take place in the second half of 2015. APS states that, given its separation with PayPal,  
13 eBay is evaluating the long term data centers for both PayPal and eBay, and that the proposed ESA is  
14 "an important component in retaining eBay's current load in APS's service territory, as well as  
15 encouraging expansion."

16 6. Employment by eBay. eBay employs approximately 35,000 people worldwide, with  
17 approximately 22,300 of those employees being located in the United States. The Customer has nearly  
18 600 employees and contractors at its two facilities in the APS service territory. APS states that eBay  
19 provides "high quality jobs that pay above average wages for the Phoenix marketplace."

20 7. Arizona Facilities. eBay has two service locations in the APS service territory, a data  
21 center in Phoenix and a software development site in Scottsdale. The ESA relates to only the data  
22 center location in Phoenix, which is currently served under two accounts, an E-32 tariff and an E-35  
23 tariff. Under the proposed contract the two accounts would be rolled into one account, based on the  
24 rates in the ESA.

25 8. Recent Expansion of Arizona Facility. eBay recently expanded its data center footprint to  
26 accommodate more growth, and APS has updated its facilities serving eBay to facilitate such growth.

27 9. Rationales for Proposed Rate Structure. The rationales for the proposed ESA include the  
28 following:

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- Retention and Growth. The experimental rate is designed to facilitate eBay’s retention and growth as an APS customer.  
  
Should eBay leave the APS service territory, its contribution to fixed costs would be lost. In addition, the system would lose the benefits associated with high load factor customers. High load factor customers allow the generation fleet to operate at a lower cost, with better fuel to energy conversion, and fewer stops and starts. APS states that eBay is a very high load factor customer (over 90%) and, as such, provides operational and economic benefits to the APS distribution system by flattening the overall system load profile and reducing APS’s cost to serve all customers. Expansion of eBay’s data center in Arizona would provide additional such benefits.
- Cost Alignment. The experimental high load factor pricing structure described in the ESA better aligns with how much it actually costs APS to serve eBay, compared to the current tariffs.
- Development of Experimental Rate. The experimental rate may also assist APS in the development of a more permanent high load factor rate which would, in turn, attract additional high load factor customers to Arizona, benefiting all ratepayers.

**Current Tariffs At the Phoenix Data Center**

10. APS is currently supplying power at the 3rd Street location under two tariffs, the E-35 Extra Large General Service Time of Use Rate Schedule and the E-32 L Large General Service Rate Schedule. As stated elsewhere herein, under the ESA, the two accounts would be combined into one.

11. The E-35 Rate has an energy charge of \$0.04076 per kWh during On-Peak hours, plus \$0.03219 per kWh during Off-Peak hours. The following Bundled Standard Offer Service rates also apply:

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1	Basic Service Charge:		
2	For service through Self-Contained Meters:	\$1.183	Per day, or
3	For service through Instrument-Rated Meters:	\$1.795	Per day, or
4	For service at Primary Voltage	\$3.881	Per day, or
5	For service at Transmission Voltage:	\$26.574	Per day
6	Demand Charge:		
7	Secondary Service:	\$16.768	Per On-Peak kW,
8		\$3.064	plus
9			Per Off-Peak kW,
10			or
11	Primary Service:	\$15.792	Per On-Peak kW,
12		\$2.966	plus
13			Per Off-Peak kW,
14			or
15	Transmission Service:	\$10.755	Per On-Peak kW,
16		\$2.462	plus
17			Per off-Peak kW

12. The E-32 L Rate has a Summer (May-October) energy charge of \$0.05517 per kWh and a Winter (November-April) energy charge of \$0.03804 per kWh.

13	Basic Service Charge:		
14	For service through Self-Contained Meters:	\$1.068	Per day, or
15	For service through Instrument-Rated Meters:	\$1.627	Per day, or
16	For service at Primary Voltage	\$3.419	Per day, or
17	For service at Transmission Voltage:	\$22.915	Per day.
18	Demand Charge:		
19	Secondary Service:	\$21.149	Per kW for the
20		\$14.267	first 100 kW, plus
21			per kW for all
22			additional kW, or
23	Primary Service:	\$19.091	Per kW for the
24		\$13.209	first 100 kW, plus
25			per kW for all
26			additional kW, or
27	Transmission Service:	\$14.284	Per kW for the
28		\$9.105	first 100 kW, plus
			per kW for all
			additional kW.

#### 24 Terms of the Proposed ESA

25 13. The unredacted ESA is not docketed because it includes competitively confidential  
26 information, but it has been reviewed by Staff pursuant to an executed Protective Agreement.

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28 ...

**Marginal Costs**

14. Staff reviewed the projected energy and capacity costs for serving the eBay data center with the rates proposed in the ESA. Staff determined that the rates proposed in the ESA cover APS's marginal costs for each year of the contract.

**Retention and Alternatives to Buying Power from APS**

15. Alternative Data Centers/Virtualization. The Customer has multiple data centers within the United States, including Denver, Salt Lake City, Reno, Las Vegas, and Los Angeles. The Las Vegas, Phoenix and Salt Lake City data centers are operated so that any two of these sites can back up the third site using disaster recovery virtualization. APS believes that eBay could modify this arrangement so that the Phoenix data center was used primarily as a backup. APS states that eBay "would be able to shift up to 100% of its load to other eBay data centers" if Phoenix became a backup site or given the time to develop an alternative data center site.

16. Alternate Data Centers/Relocation. In addition to having the appropriate infrastructure in other states, the eBay data center is modular, which would ease physical relocation. Any location with "both adequate electric infrastructure and fiber communication would be suitable for either data center development or relocation." APS believes that eBay's most feasible alternative, with respect to physical relocation, would be to move its data center to another service territory in Arizona.

17. Self-generation. APS also believes that eBay could choose to self-generate, due to the size of its electric load. The Customer is not presently permitted for such use, although it has installed significant on-site generation for emergency purposes. eBay has deployed fuel cell generation technology for daily operations in Utah, and uses the local utility as the backup service provider, but APS believes it is more likely that eBay would shift its Arizona load through virtualization.

**Analysis**

18. Loss of a High Load Factor customer means loss of the operational and economic benefits to the Company's distribution system that are associated with such a customer, and which reduce the average cost to serve. Should eBay leave the APS service territory, its contribution to fixed costs would also be lost. In addition, other APS customers would have to cover the costs associated with the infrastructure dedicated to eBay until it is re-purposed. It is, therefore, in the best interests of

1 both APS and its ratepayers to retain eBay as a customer. There are, however, factors indicating that  
2 eBay is unlikely to physically relocate from Phoenix in the near term. eBay has not only invested  
3 heavily in its existing facility, but has recently significantly expanded its data center footprint in order  
4 to increase capacity and accommodate ongoing growth. Also, its existing on-site generation is  
5 designed for emergency purposes, rather than for supporting the facility's daily needs. In addition,  
6 while it is possible that eBay would shift its load through virtualization, this would require eBay to  
7 make significant operational changes.

### 8 **Fair Value Implications**

9         19. Staff has also analyzed this application in terms of whether there are fair value  
10 implications. In Decision No. 73183, issued on May 24, 2012, the Commission determined the fair  
11 value of the APS jurisdictional rate base to be \$8,167,126,000. That determination is appropriate for  
12 purposes of this analysis. Compared to APS's total revenues, any revenue impact from this agreement  
13 would be *de minimus*, and any impact on APS's fair value rate base and rate of return would also be *de*  
14 *minimus*.

### 15 **Recommendations**

16         20. Given the level of eBay's investment in the Phoenix facility, and other factors  
17 discussed herein, Staff believes that the current application has more immediate bearing on business  
18 development, as authorized by Decision No. 73183, than on retention of eBay as a customer. While  
19 expansion by eBay would mean fuel savings from improved generation fleet operation, the ESA also  
20 means that eBay will pay less for energy based on APS's standard mix, reducing its contribution to  
21 revenue. While any revenue reduction would be borne by shareholders in the short term, Staff is  
22 concerned about reallocation of revenue responsibility in the next rate case, (either due to the ESA or  
23 the development of a High Load Factor rate). Staff has recommended that there be language in the  
24 Order clearly indicating that Commission approval does not guarantee any future ratemaking  
25 treatment of the agreements with eBay, Inc., and that approval does not indicate that the Commission  
26 will approve a High Load Factor tariff in a future Arizona Public Service rate case.

27         21. APS developed the ESA pricing structure for eBay by using the cost of service for E-  
28 34 and E-35 customers and separating out the high load factor customers to create an experimental

1 high load factor customer class. With rates based more closely on the actual cost of serving eBay, and  
2 taking into account other factors discussed herein, the proposed Experimental High Load Factor tariff  
3 is more appropriate for eBay than the tariffs under which eBay is currently being served. Staff has  
4 recommended that the Commission approve the APS Experimental High Load Factor Pricing  
5 Structure Contract.

6 CONCLUSIONS OF LAW

7 1. Arizona Public Service Company is an Arizona public service corporation within the  
8 meaning of Article XV, Section 2, of the Arizona Constitution.

9 2. The Commission has jurisdiction over Arizona Public Service Company and over the  
10 subject matter of the application.

11 3. The Commission, having reviewed the application and Staff's Memorandum dated  
12 June 23, 2015, concludes that it is in the public interest to approve the APS Electric Service  
13 Agreement with eBay, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company's Electric Service Agreement with eBay, Inc. is approved, as discussed herein.

IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreements with eBay, Inc., nor does it indicate whether the Commission will approve a High Load Factor tariff in a future Arizona Public Service Company rate case.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN	COMMISSIONER
COMMISSIONER	COMMISSIONER
	COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:JMK:red\CHH

1 SERVICE LIST FOR: Arizona Public Service Company  
2 DOCKET NO. E-01345A-15-0117

3 Mr. Thomas L. Mumaw  
4 Mr. Thomas A. Loquvam  
5 Pinnacle West Capital Corporation  
6 400 North 5th Street, MS 8695  
7 Phoenix, Arizona 85004

8 Mr. Steven M. Olea  
9 Director, Utilities Division  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward  
14 Chief Counsel, Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18 Mr. Dwight Nodes  
19 Acting Chief Administrative Law Judge, Hearing Division  
20 Arizona Corporation Commission  
21 1200 West Washington Street  
22 Phoenix, Arizona 85007

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