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BEFORE THE ARIZONA CORPORATION COMMISSION

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- SUSAN BITTER SMITH, Chairman
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ORIGINAL

IN THE MATTER OF THE APPLICATION OF
SOUTHWEST TRANSMISSION COOPERATIVE,
INC. FOR A HEARING 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

Docket No. E-04100A-12-0353

**APPLICATION FOR APPROVAL
OF REVISED TRA RIDER**

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
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Pursuant to Decision No. 74172 (the "Rate Decision"), Southwest Transmission Cooperative, Inc. ("SWTC" or the "Company") hereby files its first revised Network Transmission Revenue Adjustor ("TRA") Rider with an effective date of December 1, 2015, a copy of which is attached as Exhibit A.

As brief background, SWTC filed an application for a rate decrease on August 3, 2012. In the rate case, SWTC proposed the TRA mechanism as a means of adjusting its network transmission rates downward to account for increased revenues from any new Firm Point-To-Point ("PTP") transmission agreements. The mechanism was intended to pass the benefits associated with additional PTP contract revenue through to the Company's six Class A member distribution cooperatives without the need for a full rate case. On October 25, 2013, the Commission issued the Rate Decision in which it approved the Company's requested rate decrease as well as the TRA and associated Plan of Administration ("POA").¹ As compliance

¹ Second Ordering Paragraph at page 11 of the Rate Decision.

1 items, SWTC filed a revised Network Transmission Service Tariff as well as the TRA Rider and
2 POA on October 30, 2013. The Tariff set a monthly revenue requirement for Network
3 Transmission Service of \$1,579,106 and a separate monthly revenue requirement for Mohave 2
4 Network Transmission Service of \$1,260,481, both subject to future adjustment by the TRA.
5 The TRA Rider was set at an initial rate of \$0.00.

6 Under the terms of the POA, in the event that the Company enters into an additional PTP
7 contract, SWTC is authorized to file a revised Rider reflecting the amount of the downward
8 adjustment to the Network Transmission Service Tariff monthly revenue requirements. The
9 Company recently executed a new PTP contract with one of its Class A members. See Executive
10 Staff Summary, attached as Exhibit B.² The monthly revenue that will flow from this contract is
11 \$36,008.³ Accordingly, the Rider attached as Exhibit A adjusts SWTC's monthly revenue
12 requirements under its Network Transmission Service Tariff downward by \$36,008. The
13 resulting adjusted monthly revenue requirements for Network Transmission Service and Mohave
14 2 Network Transmission Service will be \$1,543,098 and \$1,224,473, respectively.

15 The procedure established by the POA and the Rate Decision provides that Staff will
16 review SWTC's Application and, within sixty (60) days, prepare a Memorandum and Proposed
17 Order for the Commission's consideration. Therefore, SWTC requests that Staff review and the
18 Commission issue its Order approving the TRA Rider attached as Exhibit A. Further, in order to
19 expeditiously recognize the additional revenue associated with the new PTP contract, SWTC
20

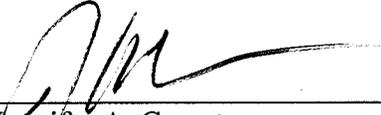
21 _____
22 ² Pursuant to the POA and the Protective Agreement dated December 4, 2012, simultaneous with this filing, SWTC
23 is transmitting to the Commission's Utilities Division Staff ("Staff") a confidential copy of the new PTP contract.
24 By its terms, the contract becomes effective the first day of the month following Commission approval of the revised
TRA Rider.

³ Pursuant to the POA, the calculation of the adjustment is based on the contract reserve capacity of 14,000 kW at
the rate of \$2.572 per kW.

1 requests that this Application be processed for consideration at the Commission's November
2 2015 Open Meeting so that the revised Rider can go into effect on December 1, 2015.

3 RESPECTFULLY SUBMITTED this 3rd day of September, 2015.

4 GALLAGHER & KENNEDY, P.A.

5
6 By 
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9 **Original and 13 copies** filed this
10 3rd day of September, 2015, with:

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13 **Copies** of the foregoing delivered this
14 3rd day of September, 2015, to:

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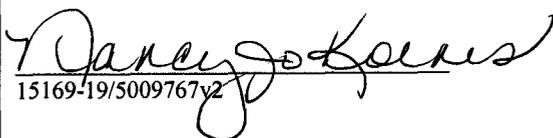
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EXHIBIT A

SOUTHWEST TRANSMISSION COOPERATIVE, INC.

NETWORK TRANSMISSION REVENUE ADJUSTOR (TRA)

TARIFF RIDER

TEMPORARY*

Effective Date: December 1, 2015

APPLICABILITY OF NETWORK TRANSMISSION REVENUE ADJUSTOR (TRA)

Applicable to all customers that receive service under SWTC's Network Transmission Service Tariff.

TERMS AND CONDITIONS OF TRANSMISSION REVENUE ADJUSTOR (TRA)

The TRA adjusts SWTC's monthly Network Transmission Service Revenue Requirement and its monthly Mohave 2 Network Transmission Service Revenue Requirement (collectively, the "NTS Revenue Requirements") in the event of the addition of a long term point-to-point transmission service agreement ("Firm Point-To-Point Contract"), defined as a firm (i.e., includes a monthly capacity charge), non-energy based, point-to-point contract that is of a term one year or longer.

In the event that an additional Firm Point-To-Point Contract is entered into, the Company's monthly NTS Revenue Requirements in effect at the time the contract takes effect will be adjusted downward.

Only those revenues derived from the actual transmission service component of a Firm Point-To-Point Contract shall be used in calculating the TRA adjustment. System Control and Load Dispatch revenues and any other Ancillary Service revenues associated with the Firm Point-To-Point Contract(s) will not be included in the calculation of the TRA adjustment.

RATE

As of the Effective Date of this Rider, the following TRA amounts would be applied as credits to the NTS Revenue Requirements as specified in the Network Transmission Service Tariff:

\$36,008

*These revised rates will remain in effect until Commission approval of a subsequent TRA adjustment in response to an additional Firm Point-To-Point Contract.

EXHIBIT B

Southwest Transmission Cooperative, Inc.
EXECUTIVE STAFF SUMMARY
(Board Meeting of August 13, 2015)

TITLE OF ITEM: Point to Point (PTP) Transmission Service Agreement for Un-designated Thornydale Load between Trico Electric Cooperative, Inc. (Trico) and Southwest Transmission Cooperative, Inc. (SWTC) (Thornydale Un-designation PTP Agreement).

BOARD ACTION RECOMMENDED: Management requests approval by the SWTC Board of Directors of (1) execution of the Thornydale Un-designation PTP Agreement between SWTC and Trico, and associated amendments to (a) the Transmission Agreement between SWTC and Trico dated May 11, 2010, as amended (Trico Transmission Agreement) and (b) the Service Agreement for Network Transmission Service for Non-AEPCO Resources, dated May 11, 2010, as amended (Second Network Agreement), and (2) filing with the Arizona Corporation Commission (ACC) of the application under SWTC's Network Transmission Revenue Adjustor (Network TRA) of the associated increase to the point-to-point revenue and equivalent decreases to the revenue requirements for SWTC's network transmission services. The Thornydale Un-designation PTP Agreement will need to be executed to submit to the ACC as part of the application under the Network TRA filing.

BACKGROUND: The Thornydale Un-designation PTP Agreement is desired by Trico to allow Trico to reduce its overall transmission costs using certain transmission service and resource contracts it has in effect with Tucson Electric Power Company (TEP) as of January 1, 2015. In 2012, the SWTC Board of Directors approved the conditions under which SWTC can provide the opportunity for a Partial Requirements Member (PRM) to un-designate Network Load. Those approvals are embodied in: (1) certain "Principles for Un-designating Network Load", and (2) amendments to the transmission agreements of the PRMs. The approved conditions include that: (1) the Network Load to be un-designated must be able to be served by a non-AEPCO resource, i.e. a Member Resource, delivered to it over non-SWTC transmission capacity; and (2) the PRM must enter into an accompanying and appropriate point-to-point transmission service agreement with SWTC to serve a portion of the load that is un-designated, such portion to be determined in accordance with the Principles for Un-designating Network Load. The Principles for Un-designating Network Load also ensure that the PRM has enough transmission service from SWTC (notwithstanding its non-SWTC transmission capacity) to deliver its Allocated Capacity (AC) in AEPCO Resources to its loads and to cover the winter peak load of the un-designated load.

The terms and conditions of the Thornydale Un-designation PTP Agreement are consistent with those of the Point to Point Transmission Service Agreement for Un-designated Airport Load between Mohave Electric Cooperative, Inc. and SWTC that has been in effect since June 2012. The terms and conditions of the Thornydale Un-designation PTP Agreement (Agreement) are summarily described as follows:

1. **Start Date:** The Agreement's initial service date will be the first day of the month following approval by the ACC of SWTC's Network TRA, which could be as early as November 1, 2015.

2. Termination: Service under the Agreement continues until terminated with no less than six months prior notice by Trico. Inherently, the Agreement will terminate automatically when and if Trico loses its ability to serve the Thornydale Delivery Point using non-SWTC transmission, or if the load is permanently removed.
3. Annual Update: As of May 1 of each year, the reserved transmission capacity for the un-designated load will be re-determined based on any load or other changes and reset as of May 1 through April 30 of the next year.
4. Reserved Capacity: The reserved transmission capacity under the Agreement for the contract year May 1 through April 30 of the following year is the greater of the winter peak load of the un-designated Delivery Point or the amount needed to have SWTC capacity sufficient to serve the AC of the PRM. The initial reserved capacity is set at 14MW (14,000 kW) based on Thornydale's projected 2015-16 winter peak load.
5. Rates: The rates applicable to charges under the Agreement are those established under SWTC's OATT for firm transmission service plus Ancillary Service Schedules 1 and 2. These rates total \$2.841 per kW-month currently, with the point to point transmission service rate currently set at \$2.572 per kW-month.
6. Losses: Losses for the transmission service are settled financially based on the cost per MWh of the resources delivered to the undesignated load. For deliveries from Trico's AC, the loss percentage chargeable is 0.66%, the difference between the loss factors of SWTC's PTP service (currently 2.97%) and SWTC's network service (currently 2.31%), which is already taken into account in the AC of each PRM. For deliveries of energy from non-AEPCO resources and/or economy purchases, the applicable loss factor will be the PTP one, which is currently 2.97%.

BUDGET AND FINANCIAL CONSIDERATIONS: Pursuant to SWTC's Network TRA, which was approved by the ACC in SWTC's last rate case, any additional PTP transmission service revenues (not including any additional Ancillary Service revenues) will add to SWTC's PTP revenues and simultaneously reduce SWTC's network transmission service revenue requirements (NTS Revenue Requirements). The PTP revenue associated with the Thornydale Un-designation PTP Agreement is approximately \$432,100 per year, assuming PTP demand billing units of 168 MW-months (14 MW for 12 months). The resulting reduced NTS Revenue Requirements are spread to all network transmission customers under a revised Load Ratio Share that reduces the total network demand billing units by the total billing units of the Thornydale Delivery Point. The load of the Thornydale Delivery Point accounted for 166 MW of network demand billing units in the 12 months preceding May of 2015. The current network billing units are lower than the PTP billing units because Trico has been unloading 8-10 MW of demand through distribution switching in May through September to avoid overloading the Thornydale 46/24.9 kV transformer. If Trico adds transformation at Thornydale, the peak summer demand will increase. In the alternative, Trico and SWTC are looking at plans that may result in a new delivery point substation to serve any overload at Thornydale.

The estimated result with 14 MW of Thornydale load served under the PTP agreement and removed as network load, taking into account the Network TRA result, is that SWTC annual revenues will decrease minimally by about \$2,000, while AEPCO revenue will increase by about

\$16,400 due to new Ancillary Service 2 revenues under the Agreement. Trico will see a savings estimated at approximately \$104,000 per year, while the remaining network customers, including Safford and Thatcher, will see an aggregate annual cost increase estimated at approximately \$118,000.

Under the Network TRA, the decrease in NTS Revenue Requirements cannot occur prior to the ACC acting on SWTC's application. SWTC plans to file the application in mid-August, and the ACC Staff is allowed 60 days to review it. If the ACC Staff takes the entire 60 days, the decrease in NTS Revenue Requirements can be no earlier than November 1, 2015. Hence the expectation that the earliest start date is November 1, 2015.

ALTERNATIVES CONSIDERED: None, as SWTC is contractually obligated to provide un-designation arrangements for PRM qualifying substation load.

CONCLUSION: Management requests approval to finalize and execute the Thornydale Un-designation PTP Agreement, and associated amendments to the Trico Transmission Agreement and the Second Network Agreement to remove the Thornydale Delivery Point as Network Load. In addition, Management requests approval to file an application with the ACC to recognize the new PTP revenues and seek the associated reduction in SWTC's NTS Revenue Requirement pursuant to the Network TRA.