

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKETED

2016 FEB 29 A 11: 36

TO: THE COMMISSION

FROM: Utilities Division

FEB 29 2016

AZ CORP COMMISSION
DOCKET CONTROL

DATE: February 29, 2016

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF ELECTRIC SERVICE AGREEMENTS WITH THE ARIZONA BOARD OF REGENTS FOR AND ON BEHALF OF ARIZONA STATE UNIVERSITY (DOCKET NO. E-01345A-15-0394)

On November 18, 2015, Arizona Public Service Company ("APS" or "Company") filed an application for approval of electric service agreements with the Arizona Board of Regents for and on behalf of Arizona State University ("ASU"). Because the proposed Addendum contained competitively confidential information, the copy filed in the docket was redacted. An unredacted version was subsequently provided to Commission Staff for their confidential review pursuant to a Protective Agreement. Similarly, Staff has docketed a redacted copy of this Memo and Recommended Opinion and Order, and provided unredacted copies to the Commission.

Background

ASU is the largest institution of higher learning in APS's service territory. It is a comprehensive public research university whose charter includes advancing research and discovery of public value, as well as assuming fundamental responsibility for the economic, social, cultural and overall health of the communities it serves. ASU has multiple campuses in APS's service territory and serves a large number of students through on-line learning opportunities.

In pursuit of its mission, ASU is interested in purchasing additional amounts of renewable energy to enhance the overall resource profile that it receives from APS. Another large APS customer, eBay¹ also desires to purchase more renewable energy as contemplated in APS's Special Contract with eBay approved by the Commission on July 15, 2015, under Decision No. 75165.

APS proposes to meet the desires of ASU and PayPal by developing a new 40 MW solar photovoltaic generating system at the site of its existing Saguaro Power Plant located near Red Rock, Arizona. APS will own, operate, and maintain the solar facility, which will be procured through a competitive process and constructed by a third-party solar company. ASU and PayPal will buy an equivalent amount of renewable energy and associated environmental attributes from the new plant.

¹ APS's application in this docket states that eBay would be the customer that would purchase the excess energy generated from the proposed solar plant. However, in response to Staff's several Data Requests, APS indicated that PayPal would be the customer purchasing the excess energy from the proposed solar plant. The relationship between eBay and PayPal is discussed in the "Staff Analysis" section of this document.

APS intends to include the costs of the new solar facility in its post-test year plant adjustment in its upcoming rate case. APS states that all costs associated with the development and operation of the new solar plant, together with the cost of firming and load-shaping, will be paid by ASU and PayPal.

The subject application requests approval of the Addendum to the APS – ASU Electric Supply Agreements. APS further requests expedited review of the application, citing the pending expiration of the Investment Tax Credit in 2016.

Staff Analysis

The application submitted on November 18, 2015, by APS that opened the instant docket was vague in terms of the specifics of the agreement between APS, ASU and eBay. At the time of the application the parties had not agreed upon the quantity of energy and associated environmental attributes (aka Renewable Energy Credits, or "RECs") to be purchased and sold, the price for such products, or the term of the agreement. Accordingly Staff issued a series of Data Requests, the APS responses to which form the basis of Staff's analysis and recommendations.

APS's application in the instant docket states that eBay would be the customer that would purchase the excess energy generated from the proposed solar plant. However, in response to Staff's several Data Requests, APS indicated that PayPal would be the customer purchasing the excess energy from the proposed solar plant. APS states that previously eBay and PayPal were affiliated entities under the eBay name, but in mid-2015, PayPal was spun-off into a separate corporate entity. As part of that spin-off, the data center facilities operated by eBay in APS's service territory were eventually determined to be part of PayPal's facilities and the Electric Supply Agreement between APS and eBay was assigned to PayPal, consistent with the terms of the Electric Supply Agreement. APS provided a copy of the assignment document to Staff pursuant to the executed protective agreement in this docket.

APS states that it intends to build a new 40 MW photovoltaic solar power plant. ASU and PayPal will buy an equivalent amount of energy and associated RECs to the output of that plant.

[REDACTED]

[REDACTED]

APS states that over the 20-year term of the agreement, all costs associated with the development, operation and maintenance of the proposed 40 MW solar plant will be paid by the revenues derived from the sales of energy and RECs to ASU and PayPal. The revenues will also cover

[REDACTED]

APS's cost to firm and shape the resource to ASU and PayPal's respective loads. APS has submitted a spreadsheet to Staff that details the calculation of APS's revenue requirement for the new solar plant. The unit cost of the new solar plant is [REDACTED] based on firm proposals from EPC (Engineering, Procurement, and Construction) vendors, together with known interconnection costs. APS proposes to rate base the new solar plant as an APS asset, and in the initial years the revenue from ASU and PayPal will not cover the full revenue requirement. As the annual revenue requirement declines over time, the amounts paid by ASU and PayPal will exceed the revenue requirement. APS will treat the revenue from the new solar plant as a revenue credit in future rate filings. In the early years³, and depending on rate case timing and rate treatment, APS's other customers will likely incur the difference in cost, but in later years the other customers will receive a net credit that exceeds the revenue requirement. The levelized pricing to ASU and PayPal is equal to the year-by-year revenue requirement on a present value basis.

ASU's Electric Service Agreement was not reviewed or approved by the Commission, since the rates contained in that agreement were standard tariff rates (i.e. E-35). APS is requesting Commission approval of the Addendum to ASU's original Service Agreement because the rates contained in the Addendum are not standard tariff rates and are unique to this agreement.

APS states that an addendum to PayPal's Special Contract is not required because its contract contemplated and provides for the purchase of additional "green" power at the time APS is able to deliver such additional green power.

APS requested expedited review of the application, citing the pending expiration of the Investment Tax Credit (ITC) in 2016. Congress recently extended the expiration of the ITC until 2019.

For the purposes of evaluating this Electric Service Agreement Addendum, any impact to APS's fair value rate of return would likely be de minimus.

Staff notes that production from the new 40 MW solar plant will not count towards APS's Renewable Energy Standard Tariff compliance because the REC's will go to ASU and PayPal.

Staff Recommendations

Staff believes that the revenue requirement and resultant cost recovery calculations are appropriate for the proposed project. Further, Staff believes the solar premium included in ASU's and PayPal's rate are consistent with other "green power" rates. Based on the above analysis, Staff recommends approval of the Addendum to ASU's Electric Supply Agreements.

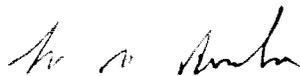
The Decision in this case does not address the ratemaking treatment of the Addendum.

To ensure that APS's other customers are not disadvantaged through the agreements entered into in the Addendum to APS-ASU Electric Supply Agreements and eBay or its assignee, Staff

recommends that APS be required to create a balancing account to track the difference between: 1) the cost of the new solar resources at APS's Saguaro plant as reflected in APS's rates; and 2) the total revenue for green energy from those specific customers. This balancing account will commence upon effectiveness of new rates which include the agreements and is anticipated to initially create a regulatory liability for APS that will be reversed over the term of the customer agreements. Once the balancing account balance reaches zero, the regulatory liability will be eliminated and the balancing account will cease to exist. Within 45 days following each anniversary of the balancing account (until elimination), APS shall file the amount of the regulatory liability and the accounting entries for that year. Within 45 days following the regulatory liability reaching zero, APS shall file the final entries related thereto and confirmation that going forward the annual revenues will exceed revenue requirement.

No approval of alternate solar plants as discussed at Page 2, Line 6 and Page 4, first full paragraph of the proposed Addendum is implied in Staff's recommendation.

No "used and useful" determination of the proposed solar plant is made in Staff's recommendation, and no particular treatment should be inferred for ratemaking or rate base purposes in the future.



Thomas M. Broderick
Director
Utilities Division

TMB:RBL:nr\CHH

ORIGINATOR: Rick Lloyd

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BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR APPROVAL OF)
ELECTRIC SERVICE AGREEMENTS)
WITH THE ARIZONA BOARD OF)
REGENTS FOR AND ON BEHALF OF)
ARIZONA STATE UNIVERSITY)

DOCKET NO. E-01345A-15-0394
DECISION NO. _____
ORDER

Open Meeting
March 2 and 3, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public utility company in the state of Arizona.

Background

2. On November 18, 2015, Arizona Public Service Company filed an application for approval of electric service agreements with the Arizona Board of Regents for and on behalf of Arizona State University ("ASU"). Because the proposed Addendum contained competitively confidential information, the copy filed in the docket was redacted. An unredacted version was subsequently provided to Commission Staff for their confidential review pursuant to a Protective Agreement.

3. ASU is the largest institution of higher learning in APS's service territory. It is a comprehensive public research university whose charter includes advancing research and discovery of public value, as well as assuming fundamental responsibility for the economic, social, cultural and overall

1 health of the communities it serves. ASU has multiple campuses in APS's service territory and serves a
2 large number of students through on-line learning opportunities.

3 4. In pursuit of its mission, ASU is interested in purchasing additional amounts of
4 renewable energy to enhance the overall resource profile that it receives from APS. Another large APS
5 customer, eBay¹ also desires to purchase more renewable energy as contemplated in APS's Special
6 Contract with eBay approved by the Commission on July 15, 2015, under Decision No. 75165.

7 5. APS proposes to meet the desires of ASU and PayPal by developing a new 40 MW solar
8 photovoltaic generating system at the site of its existing Saguaro Power Plant located near Red Rock,
9 Arizona. APS will own, operate, and maintain the solar facility, which will be procured through a
10 competitive process and constructed by a third-party solar company. ASU and PayPal will buy an
11 equivalent amount of renewable energy and associated environmental attributes from the new plant.

12 6. APS intends to include the costs of the new solar facility in its post-test year plant
13 adjustment in its upcoming rate case. APS states that all costs associated with the development and
14 operation of the new solar plant, together with the cost of firming and load-shaping, will be paid by
15 ASU and PayPal.

16 7. The subject application requests approval of the Addendum to the APS – ASU Electric
17 Supply Agreements. APS further requests expedited review of the application, citing the pending
18 expiration of the Investment Tax Credit in 2016.

19 Staff Analysis

20 8. The application submitted on November 18, 2015, by APS that opened the instant
21 docket was vague in terms of the specifics of the agreement between APS, ASU and eBay. At the time
22 of the application the parties had not agreed upon the quantity of energy and associated environmental
23 attributes (aka Renewable Energy Credits, or "RECs") to be purchased and sold, the price for such
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27 ¹ APS's application in this docket states that eBay would be the customer that would purchase the excess energy generated
28 from the proposed solar plant. However, in response to Staff's several Data Requests, APS indicated that PayPal would be
the customer purchasing the excess energy from the proposed solar plant. The relationship between eBay and PayPal is
discussed in the "Staff Analysis" section of this document.

1 products, or the term of the agreement. Accordingly Staff issued a series of Data Requests, the APS
2 responses to which form the basis of Staff's analysis and recommendations.

3 9. APS's application in the instant docket states that eBay would be the customer that
4 would purchase the excess energy generated from the proposed solar plant. However, in response to
5 Staff's several Data Requests, APS indicated that PayPal would be the customer purchasing the excess
6 energy from the proposed solar plant. APS states that previously eBay and PayPal were affiliated
7 entities under the eBay name, but in mid-2015, PayPal was spun-off into a separate corporate entity.
8 As part of that spin-off, the data center facilities operated by eBay in APS's service territory were
9 eventually determined to be part of PayPal's facilities and the Electric Supply Agreement between APS
10 and eBay was assigned to PayPal, consistent with the terms of the Electric Supply Agreement. APS
11 provided a copy of the assignment document to Staff pursuant to the executed protective agreement
12 in this docket.

13 10. APS states that it intends to build a new 40 MW photovoltaic solar power plant to
14 provide ASU and PayPal with the energy and associated RECs. ASU has agreed to purchase a quantity
15 of renewable energy and associated environmental attributes annually for a period of 20 years. PayPal
16 has agreed to purchase the balance under a previously approved special contract.

17 11. APS states that over the 20-year term of the agreement, all costs associated with the
18 development, operation and maintenance of the proposed 40 MW solar plant will be paid by the
19 revenues derived from the sales of energy and RECs to ASU and PayPal. The revenues will also cover
20 APS's cost to firm and shape the resource to ASU and PayPal's respective loads. APS has submitted
21 a spreadsheet to Staff that details the calculation of APS's revenue requirement for the new solar plant.
22 The cost of the new solar plant is based on firm proposals from EPC (Engineering, Procurement, and
23 Construction) vendors, together with known interconnection costs. APS proposes to rate base the
24 new solar plant as an APS asset, and in the initial years the revenue from ASU and PayPal will not cover
25 the full revenue requirement. As the annual revenue requirement declines over time, the amounts paid
26 by ASU and PayPal will exceed the revenue requirement. APS will treat the revenue from the new
27 solar plant as a revenue credit. In the early years, and depending on rate timing and rate treatment,
28 APS's other customers will likely incur the difference in cost, but in later years the other customers will

1 receive a net credit that exceeds the revenue requirement. The levelized pricing to ASU and PayPal is
2 equal to the year-by-year revenue requirement on a present value basis.

3 12. ASU's Electric Service Agreement was not reviewed or approved by the Commission,
4 since the rates contained in that agreement were standard tariff rates (i.e. E-35). APS is requesting
5 Commission approval of the Addendum to ASU's original Service Agreement because the rates
6 contained in the Addendum are not standard tariff rates and are unique to this agreement.

7 13. APS states that an addendum to PayPal's Special Contract is not required because its
8 contract contemplated and provides for the purchase of additional "green" power at the time APS is
9 able to deliver such additional green power.

10 14. APS requested expedited review of the application, citing the pending expiration of the
11 Investment Tax Credit (ITC) in 2016. Congress recently extended the expiration of the ITC until 2019.

12 15. For the purposes of evaluating this Electric Service Agreement Addendum, any impact
13 to APS's fair value rate of return would likely be de minimus.

14 16. Staff notes that production from the new 40 MW solar plant will not count towards
15 APS's Renewable Energy Standard Tariff compliance because the REC's will go to ASU and PayPal.

16 Staff Recommendations

17 17. Staff believes that the revenue requirement and resultant cost recovery calculations are
18 appropriate for the proposed project. Further, Staff believes the solar premium included in ASU's and
19 PayPal's rate are consistent with other "green power" rates. Based on the above analysis, Staff has
20 recommended approval of the Addendum to ASU's Electric Supply Agreements.

21 18. To ensure that APS's other customers are not disadvantaged through the agreements
22 entered into in the Addendum to APS-ASU Electric Supply Agreements and eBay or its assignee, Staff
23 recommends that APS be required to create a balancing account to track the difference between: 1) the
24 cost of the new solar resources at APS's Saguaro plant as reflected in APS's rates; and 2) the total revenue
25 for green energy from those specific customers. This balancing account will commence upon
26 effectiveness of new rates which include the agreements and is anticipated to initially create a regulatory
27 liability for APS that will be reversed over the term of the customer agreements. Once the balancing
28 account balance reaches zero, the regulatory liability will be eliminated and the balancing account will
cease to exist. Within 45 days following each anniversary of the balancing account (until elimination),

1 APS shall file the amount of the regulatory liability and the accounting entries for that year. Within 45
2 days following the regulatory liability reaching zero, APS shall file the final entries related thereto and
3 confirmation that going forward the annual revenues will exceed revenue requirement.

4 19. No approval of alternate solar plants as discussed at Page 2, Line 6 and Page 4, first full
5 paragraph of the proposed Addendum is implied in Staff's recommendation.

6 20. No "used and useful" determination of the proposed solar plant is made in Staff's
7 recommendation, and no particular treatment should be inferred for ratemaking or rate base purposes
8 in the future.

9 CONCLUSIONS OF LAW

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

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

14 3. The Commission, having reviewed the application and Staff's memorandum dated
15 February 29, 2016, concludes that it is in the public interest to approve Arizona Public Service
16 Company's application as discussed herein.

17 ORDER

18 IT IS THEREFORE ORDERED that Arizona Public Service Corporation's proposed
19 Addendum to its Electric Service Agreement with the Arizona Board of Regents on behalf of Arizona
20 State University is hereby approved.

21 IT IS FURTHER ORDERED that this Decision does not address the ratemaking treatment of
22 the Addendum.

23 IT IS FURTHER ORDERED that APS shall create a balancing account to track the difference
24 between: 1) the cost of the new solar resources at APS's Saguaro plant reflected in APS's rates; and 2)
25 the total revenue for green energy from those specific customers.

26 IT IS FURTHER ORDERED that no approval of alternate solar plants as discussed at Page 2,
27 Line 6 and Page 4, first full paragraph of the proposed Addendum is implied in the Commission's
28 decision.

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IT IS FURTHER ORDERED that no "used and useful" determination of the proposed solar plant is made in the Commission's decision, and no particular treatment should be inferred for ratemaking or rate base purposes in the future.

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 _____, 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

TMB:RBL:nr/CHH

- 1 SERVICE LIST FOR: Arizona Public Service Company
- 2 DOCKET NO. E-01345A-15-0394
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- 4 Ms. Melissa M. Krueger
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