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MEMORANDUM

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2016 APR 18 P 2: 25

APR 18 2016

AZ CORP COMMISSION
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TO: THE COMMISSION

FROM: Utilities Division

DATE: April 18, 2016

RE: IN THE MATTER OF THE JOINT APPLICATION OF UNS ELECTRIC, INC. AND MOHAVE ELECTRIC COOPERATIVE FOR AN ORDER APPROVING A BORDERLINE AGREEMENT. (DOCKET NOS. E-01750A-16-0031 AND E-04204A-16-0031)

On January 28, 2016, UNS Electric, Inc. ("UNS") and Mohave Electric Cooperative, Inc. ("MEC") (jointly "Applicants") filed a joint application with the Commission for approval of a Borderline Agreement ("Agreement") between UNS and MEC. The purpose of the Agreement is to facilitate the construction of an 11 MW solar facility in UNS' service territory, in close proximity to MEC's service territory, which would provide electricity to MEC. Certain on-site electricity needs would be served by MEC. The 11 MW solar facility is being developed on an 84.5 acre site by Constellation Solar Arizona 2, LLC ("Constellation"). MEC has entered into a purchased power agreement ("PPA") to take the output of the 11 MW facility. The PPA has an initial 30 year term with provisions for possible extensions beyond the initial term. The facility involves single axis tracking photovoltaic panels and is expected to be operational by the end of 2016. Under the PPA, Constellation is responsible for the cost of constructing the distribution line, interconnection facilities, distribution upgrades, and communications upgrades.

A copy of the Agreement was attached to the application. MEC has indicated to Staff that the 11 MW facility is not needed to meet its 2016 Renewable Energy Standard and Tariff ("REST") plan, but MEC plans to reflect the 11 MW facility in its upcoming 2017 REST plan.

This application presents unique circumstances in that it is quite similar in nature to a borderline agreement between UNS and MEC ("previous case") that was approved by the Commission in Decision Number 74972 (March 16, 2015). That borderline agreement was for MEC to take the power from and provide service to a 5 MW solar facility that was constructed by an affiliate of Constellation. The 5 MW solar facility involved in the previous borderline agreement is in proximity to the location of the 11 MW solar facility under consideration in this docket, but the two sites are separate. Staff's analysis of the borderline agreement approved in Decision Number 74972 compared the options of connecting to MEC directly for delivery and service or having the 5 MW facility connect to UNS for service and to wheel the power through UNS to MEC. The Commission in that case found that the borderline agreement facilitating a direct connection to MEC was a lower cost and less complicated option and was reasonable. Staff believes from information reviewed to date that the Agreement under consideration in this proceeding is very likely to have similar benefits related to a direct connection to MEC.

A distribution line of approximately 945 feet would be needed to connect the proposed facility with MEC at a cost of approximately $85,000 to Constellation, as well as an additional $17,000 for other distribution upgrades and $23,000 for communications upgrades. In contrast, UNS indicated that if the proposed facility was interconnected with UNS for the purposes of serving site load and wheeling the power through UNS' system to MEC, the cost of required studies would be more than $100,000 and a transmission line approximately 2.5 miles long would be required. With the addition of some level of wheeling charges MEC would pay UNS for running the power across UNS' system for the life of the contract, it is clear that the direct connect to MEC for both power delivery and serving the on-site load is a lesser cost option.

Both in the current case and previous case there is a relatively small amount of on-site or parasitic consumption that is served by MEC during times when no electricity is being generated on-site. One issue considered in the previous case was how the on-site consumption served by MEC would be billed by MEC to Constellation. In the previous case, MEC proposed that the power be netted against the production of the facility. Staff opposed such netting as it would have in essence given Constellation a discount in comparison to other small commercial customers served by MEC and could have resulted in confusion in accounting for power production and associated renewable energy credits ("RECs") from the 5 MW facility. In Decision Number 74972, the Commission ordered MEC to bill the 5 MW facility at the applicable tariffed rate for identified on-site consumption and other similar uses that may arise in the future.

In the current application, MEC has proposed that some of the parasitic loads be billed separately as was done in the previous case. These miscellaneous site loads would be metered separately, are estimated by MEC to be approximately 136 kWh per month and would be served on MEC's Small Commercial Service – Energy ("SCS-E") tariff and the monthly bill would be approximately $35.55. If UNS were to serve the customer under UNS' Small General Service ("SGS-10") tariff, the monthly bill would be approximately $26.52. However, given the small amount of on-site consumption, the difference in the monthly bill is not a significant cost factor in comparing an interconnection with MEC versus UNS.

In discussions with MEC, Staff learned that some on-site consumption, for actuators related to the solar panels tracking ability, was expected to be netted against production from the facility rather than billed separately. MEC and Constellation indicated to Staff that their preference was to net the actuator consumption rather than have it billed under the applicable tariff, but that either outcome would work. Staff's believes that billing actuator consumption at the otherwise applicable rate is consistent with the Commission's action in the previous case and with Staff's understanding of how on-site consumption is treated by other Arizona electric utilities. However, in this particular instance MEC has indicated that it would cost MEC approximately $40,000 more to meter the actuator load separately and MEC estimates that the actuator load would only be 317 kWh per month. Given the small actuator load and the high cost to build additional infrastructure to undertake such metering, in this specific case Staff recommends that MEC be allowed to net the actuator load against the power Constellation is delivering to MEC, as requested by MEC.

In summary, Staff believes that the Borderline Agreement between UNS and MEC is reasonable and recommends approval by the Commission.

Thomas M. Broderick
Director
Utilities Division

TMB:RRG:nr\BES

ORIGINATOR: Bob Gray

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 JOINT APPLICATION OF UNS ELECTRIC, INC. AND MOHAVE ELECTRIC COOPERATIVE FOR AN ORDER APPROVING A BORDERLINE AGREEMENT.	DOCKET NOS. E-01750A-16-0031 E-04204A-16-0031 DECISION NO. ___________ ORDER

Open Meeting
May 3 and 4, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Mohave Electric Cooperative, Inc. ("MEC") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission").

2. UNS Electric, Inc. ("UNS") is engaged in providing electric service within portions of Arizona, pursuant to authority granted by the ACC.

3. On January 28, 2016, UNS Electric, Inc. ("UNS") and Mohave Electric Cooperative, Inc. ("MEC") (jointly "Applicants") filed a joint application with the Commission for approval of a Borderline Agreement ("Agreement") between UNS and MEC. The purpose of the Agreement is to facilitate the construction of an 11 MW solar facility in UNS' service territory, in close proximity to MEC's service territory, which would provide electricity to MEC. Certain on-site electricity needs would be served by MEC. The 11 MW solar facility is being developed on an 84.5 acre site by Constellation

Solar Arizona 2, LLC ("Constellation"). MEC has entered into a purchased power agreement ("PPA") to take the output of the 11 MW facility.

4. The PPA has an initial 30 year term with provisions for possible extensions beyond the initial term. The facility involves single axis tracking photovoltaic panels and is expected to be operational by the end of 2016. Under the PPA, Constellation is responsible for the cost of constructing the distribution line, interconnection facilities, distribution upgrades, and communications upgrades.

5. A copy of the Agreement was attached to the application. MEC has indicated to Staff that the 11 MW facility is not needed to meet its 2016 Renewable Energy Standard and Tariff ("REST") plan, but MEC plans to reflect the 11 MW facility in its upcoming 2017 REST plan.

6. This application presents unique circumstances in that it is quite similar in nature to a borderline agreement between UNS and MEC ("previous case") that was approved by the Commission in Decision Number 74972 (March 16, 2015). That borderline agreement was for MEC to take the power from and provide service to a 5 MW solar facility that was constructed by an affiliate of Constellation. The 5 MW solar facility involved in the previous borderline agreement is in proximity to the location of the 11MW solar facility under consideration in this docket, but the two sites are separate.

7. Staff's analysis of the borderline agreement approved in Decision Number 74972 compared the options of connecting to MEC directly for delivery and service or having the 5 MW facility connect to UNS for service and to wheel the power through UNS to MEC. The Commission in that case found that the borderline agreement facilitating a direct connection to MEC was a lower cost and less complicated option and was reasonable. Staff believes from information reviewed to date that the Agreement under consideration in this proceeding is very likely to have similar benefits related to a direct connection to MEC.

8. A distribution line of approximately 945 feet would be needed to connect the proposed facility with MEC at a cost of approximately $85,000 to Constellation, as well as an additional $17,000 for other distribution upgrades and $23,000 for communications upgrades.

9. In contrast, UNS indicated that if the proposed facility was interconnected with UNS for the purposes of serving site load and wheeling the power through UNS' system to MEC, the cost of required studies would be more than $100,000 and a transmission line approximately 2.5 miles long

would be required. With the addition of some level of wheeling charges MEC would pay UNS for running the power across UNS' system for the life of the contract, it is clear that the direct connect to MEC for both power delivery and serving the on-site load is a lesser cost option.

10. Both in the current case and previous case there is a relatively small amount of on-site or parasitic consumption that is served by MEC during times when no electricity is being generated on-site. One issue considered in the previous case was how the on-site consumption served by MEC would be billed by MEC to Constellation. In the previous case, MEC proposed that the power be netted against the production of the facility. Staff opposed such netting as it would have in essence given Constellation a discount in comparison to other small commercial customers served by MEC and could have resulted in confusion in accounting for power production and associated renewable energy credits ("RECs") from the 5 MW facility. In Decision Number 74972, the Commission ordered MEC to bill the 5 MW facility at the applicable tariffed rate for identified on-site consumption and other similar uses that may arise in the future.

11. In the current application, MEC has proposed that some of the parasitic loads be billed separately as was done in the previous case. These miscellaneous site loads would be metered separately, are estimated by MEC to be approximately 136 kWh per month and would be served on MEC's Small Commercial Service – Energy ("SCS-E") tariff and the monthly bill would be approximately $35.55. If UNS were to serve the customer under UNS' Small General Service ("SGS-10") tariff, the monthly bill would be approximately $26.52. However, given the small amount of on-site consumption, the difference in the monthly bill is not a significant cost factor in comparing an interconnection with MEC versus UNS.

12. In discussions with MEC, Staff learned that some on-site consumption, for actuators related to the solar panels tracking ability, was expected to be netted against production from the facility rather than billed separately. MEC and Constellation indicated to Staff that their preference was to net the actuator consumption rather than have it billed under the applicable tariff, but that either outcome would work. Staff's believes that billing actuator consumption at the otherwise applicable rate is consistent with the Commission's action in the previous case and with Staff's understanding of how on-site consumption is treated by other Arizona electric utilities. However, in this particular instance MEC

has indicated that it would cost MEC approximately $40,000 more to meter the actuator load separately and MEC estimates that the actuator load would only be 317 kWh per month.

13. Given the small actuator load and the high cost to build additional infrastructure to undertake such metering, in this specific case Staff recommends that MEC be allowed to net the actuator load against the power Constellation is delivering to MEC, as requested by MEC.

14. In summary, Staff believes that the Borderline Agreement between UNS and MEC is reasonable and recommended approval by the Commission.

CONCLUSIONS OF LAW

1. Mohave Electric Cooperative, Inc. and UNS Electric, Inc. are Arizona public service corporations within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Mohave Electric Cooperative, Inc., UNS Electric, Inc., and over the subject matter of the application.

3. The Commission, having reviewed the filing and Staff's Memorandum dated April 18, 2016, concludes that it is in the public interest to approve the borderline agreement between Mohave Electric Cooperative, Inc. and UNS Electric, Inc.

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ORDER

IT IS THEREFORE ORDERED that the borderline agreement between Mohave Electric Cooperative, Inc. and UNS Electric, Inc. be and hereby is approved as discussed herein.

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:RRG:nr/BES

SERVICE LIST FOR: MOHAVE ELECTRIC COOPERATIVE AND UNS ELECTRIC, INC.
DOCKET NO. E-01750A-16-0031 and E-04204A-16-0031

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