

OPEN MEETING



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ORIGINAL

MEMORANDUM

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TO: THE COMMISSION **DOCKETED**

Arizona Corporation Commission

2016 APR 19 A 9:39

FROM: Utilities Division

APR 19 2016

AZ CORP COMMISSION
DOCKET CONTROL

DATE: April 19, 2016

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA ELECTRIC POWER COOPERATIVE, INC. FOR A TEMPORARY TARIFF RIDER (DOCKET NO. E-01773A-15-0324)

INTRODUCTION

On September 9, 2015, Arizona Electric Power Company, Inc. ("AEPSCO") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of a temporary rate rider ("Temporary Tariff Rider No. 2") to return to its six Class A members approximately \$2.51 million for gas reservation charges that AEPSCO paid from 2009 through 2015. On December 23, 2015, AEPSCO amended its application to request an additional amount of approximately \$660,000 in reparations ordered by the Surface Transportation Board ("STB")¹, for charges paid by AEPSCO from 2010 through 2013, to be returned to its six Class A members.²

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. AEPSCO provides generation and transmission services to three all-requirements distribution cooperative members (Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; and Anza Electric Cooperative, Inc.)³ ("ARM" or collectively "ARMS") and three partial-requirements distribution cooperative members (Mohave Electric Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc.) ("PRM" or collectively "PRMs"). 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. AEPSCO's board members consist of officers from each Class A member cooperative.

¹ STB is the regulatory agency which has jurisdiction over railroad rates, service issues, and rail restructuring transactions (mergers, line sales, line construction, and line abandonments); certain trucking company, moving van, and non-contiguous ocean shipping company rate matters; certain intercity passenger bus company structure, financial, and operational matters; and rates and services of certain pipelines not regulated by the Federal Energy Regulatory Commission.

² In Decision No. 74904, the Commission approved AEPSCO's Temporary Tariff No. 1 which is currently refunding approximately \$7.8 million, in reparations ordered by the STB, to AEPSCO's six Class A members for overpayment of coal transportation costs between 2009 and 2011.

³ Anza Electric Cooperative is located in southern California.

APPLICATION

In 2011, AEPCO filed a lawsuit against El Paso Natural Gas (“EPNG”) with the Federal Energy Regulatory Commission (“FERC”) challenging the reasonableness of the rates established by EPNG for firm natural gas transportation to AEPCO’s Apache Generating Station. In 2015, AEPCO and EPNG entered into a settlement agreement which resulted in AEPCO receiving approximately \$2.53 million in total settlement proceeds. During a portion of the time that AEPCO paid the disputed EPNG rates, it had a Firm Power Sale Agreement (“Agreement”) with Electrical District No. 2 Pinal County (“ED2”) which expired in 2012. AEPCO’s monthly energy charges paid by ED2 as part of the Agreement included the EPNG firm natural gas transportation costs. Pursuant to the Agreement, the portion of the EPNG settlement proceeds owed to ED2 was approximately \$19,500. The remaining settlement proceeds of approximately \$2.515 million will be refunded to AEPCO’s six Class A members.

Also in 2011, AEPCO petitioned the STB to adjust the rail rates of BNSF Railway Company (“BNSF”) (formerly Burlington Northern and Santa Fe Railway) to remove some or all of the acquisition premium associated with the purchase of BNSF by Berkshire Hathaway. In 2013, STB ordered that the transportation costs be revised to exclude the acquisition premium for years 2010 through 2012. In 2015, STB issued a decision extending the rate revision through 2013. As a result, AEPCO received an additional amount of approximately \$665,500 in reparations from BNSF. Similar to the EPNG settlement, AEPCO had in place an Agreement with ED2 which included rail transportation costs as a component of the cost of coal. Therefore, pursuant to that agreement, and as a result of the STB Decision to issue additional reparations, AEPCO owed ED2 approximately \$5,490. The remaining funds of approximately \$660,000 will be refunded to AEPCO’s six Class A members.

AEPCO is proposing to refund each Class A member cooperative its share of the total EPNG settlement proceeds and additional STB reparations of approximately \$3.175 million over a 12-month period beginning January 1, 2017. AEPCO is requesting that the refund period begin in January 2017 so as to not overlap with the current payment of Temporary Tariff No. 1 which was approved by the Commission in Decision No. 74904, which is scheduled to end in December 2016. In addition, AEPCO’s board has approved the timeframe for repayment as well as the calculations of the repayment amounts. Below is a table that shows the allocation of the monthly amounts and total amounts to be returned to AEPCO’s members.

Cooperative	Monthly EPNG Refund Amount	Total EPNG Refund Amount	Monthly Additional STB Refund	Total Additional STB Refund
Anza	\$4,721.40	\$56,656.78	\$1,339.49	\$16,073.88
Duncan Valley	\$2,874.29	\$34,491.51	\$748.66	\$8,983.94
Graham County	\$16,143.44	\$193,721.31	\$4,117.30	\$49,407.64
Mohave	\$74,230.40	\$890,764.74	\$17,750.18	\$213,002.19
Sulphur Springs	\$66,892.37	\$802,708.50	\$16,941.80	\$203,301.65
Trico	\$44,774.33	\$537,291.93	\$14,109.18	\$169,310.18
Member Total	\$209,636.23	\$2,515,634.77	\$55,006.62	\$660,079.48
Total EPNG and Total Additional STB = \$3,175,714.25				

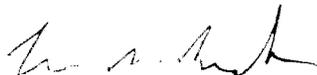
THE COMMISSION

April 19, 2016

Page 3

RECOMMENDATIONS

Staff has reviewed AEPCO's application and recommends approval of its proposed Temporary Tariff Rider No. 2 to go into effect starting January 1, 2017, which will be applied as a bill credit. In addition, Staff recommends that AEPCO file with Docket Control, as a compliance item, a revised Temporary Tariff Rider No. 2, consistent with the Decision in this matter within 15 days of the effective date of the Decision. Further, Staff recommends that at the conclusion of the 12-month period, AEPCO file, in this docket, a letter informing the Commission that the payment of Temporary Tariff Rider No. 2 has ended.



Thomas M. Broderick
Director
Utilities Division

TMB:CLA:nr/WVC

ORIGINATOR: Candrea Allen

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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 ELECTRIC POWER
COOPERATIVE, INC. FOR A TEMPORARY
TARIFF RIDER

DOCKET NO. E-01773A-15-0324
DECISION NO. _____
ORDER

Open Meeting
May 3 and 4, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Electric Power Company, Inc. ("AEPCO") is certificated to provide electric service as a public service corporation in the State of Arizona

INTRODUCTION

2. On September 9, 2015, AEPCO filed an application with the Arizona Corporation Commission ("Commission") requesting approval of a temporary rate rider ("Temporary Tariff Rider No. 2") to return to its six Class A members approximately \$2.51 million for gas reservation charges that AEPCO paid from 2009 through 2015. On December 23, 2015, AEPCO amended its application to request an additional amount of approximately \$660,000 in reparations ordered by the Surface Transportation Board ("STB")¹,

...

¹ STB is the regulatory agency which has jurisdiction over railroad rates, service issues, and rail restructuring transactions (mergers, line sales, line construction, and line abandonments); certain trucking company, moving van, and non-contiguous ocean shipping company rate matters; certain intercity passenger bus company structure, financial, and operational matters; and rates and services of certain pipelines not regulated by the Federal Energy Regulatory Commission.

1 for charges paid by AEPCO from 2010 through 2013, to be returned to its six Class A members.²

2 **BACKGROUND**

3 3. AEPCO is a not-for-profit, generation and transmission cooperative that was initially
4 granted a Certificate of Convenience & Necessity ("CC&N") by the Commission in Decision No.
5 33677, dated February 13, 1962. AEPCO provides generation and transmission services to three all-
6 requirements distribution cooperative members (Duncan Valley Electric Cooperative, Inc.; Graham
7 County Electric Cooperative, Inc.; and Anza Electric Cooperative, Inc.)³ ("ARM" or collectively
8 "ARMs") and three partial-requirements distribution cooperative members (Mohave Electric
9 Cooperative, Inc.; Sulphur Springs Valley Electric Cooperative, Inc.; and Trico Electric Cooperative,
10 Inc.) ("PRM" or collectively "PRMs"). The ARMs receive all of their power and energy needs from
11 AEPCO while each PRM only commits to purchase a fixed amount of capacity from AEPCO and
12 may secure additional power and energy from other sources. AEPCO's board members consist of
13 officers from each Class A member cooperative.

14 **APPLICATION**

15 4. In 2011, AEPCO filed a lawsuit against El Paso Natural Gas ("EPNG") with the
16 Federal Energy Regulatory Commission ("FERC") challenging the reasonableness of the rates
17 established by EPNG for firm natural gas transportation to AEPCO's Apache Generating Station. In
18 2015, AEPCO and EPNG entered into a settlement agreement which resulted in AEPCO receiving
19 approximately \$2.53 million in total settlement proceeds. During a portion of the time that AEPCO
20 paid the disputed EPNG rates, it had a Firm Power Sale Agreement ("Agreement") with Electrical
21 District No. 2 Pinal County ("ED2") which expired in 2012. AEPCO's monthly energy charges paid
22 by ED2 as part of the Agreement included the EPNG firm natural gas transportation costs. Pursuant
23 to the Agreement, the portion of the EPNG settlement proceeds owed to ED2 was approximately
24 \$19,500. The remaining settlement proceeds of approximately \$2.515 million will be refunded to
25 AEPCO's six Class A members.

26 _____
27 ² In Decision No.74904, the Commission approved AEPCO's Temporary Tariff No. 1 which is currently refunding
28 approximately \$7.8 million, in reparations ordered by the STB, to AEPCO's six Class A members for overpayment of coal
transportation costs between 2009 and 2011.

³ Anza Electric Cooperative is located in southern California.

1 5. Also in 2011, AEPCO petitioned the STB to adjust the rail rates of BNSF Railway
2 Company ("BNSF") (formerly Burlington Northern and Santa Fe Railway) to remove some or all of
3 the acquisition premium associated with the purchase of BNSF by Berkshire Hathaway. In 2013, STB
4 ordered that the transportation costs be revised to exclude the acquisition premium for years 2010
5 through 2012. In 2015, STB issued a decision extending the rate revision through 2013.

6 6. As a result, AEPCO received an additional amount of approximately \$665,500 in
7 reparations from BNSF. Similar to the EPNG settlement, AEPCO had in place an Agreement with
8 ED2 which included rail transportation costs as a component of the cost of coal. Therefore, pursuant
9 to that agreement, and as a result of the STB Decision to issue additional reparations, AEPCO owed
10 ED2 approximately \$5,490. The remaining funds of approximately \$660,000 will be refunded to
11 AEPCO's six Class A members.

12 7. AEPCO is proposing to refund each Class A member cooperative its share of the total
13 EPNG settlement proceeds and additional STB reparations of approximately \$3.175 million over a 12-
14 month period beginning January 1, 2017. AEPCO is requesting that the refund period begin in
15 January 2017 so as to not overlap with the current payment of Temporary Tariff No. 1 which was
16 approved by the Commission in Decision No. 74904, which is scheduled to end in December 2016.
17 In addition, AEPCO's board has approved the timeframe for repayment as well as the calculations of
18 the repayment amounts. Below is a table that shows the allocation of the monthly amounts and total
19 amounts to be returned to AEPCO's members.

Cooperative	Monthly EPNG Refund Amount	Total EPNG Refund Amount	Monthly Additional STB Refund	Total Additional STB Refund
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Member Total	\$209,636.23	\$2,515,634.77	\$55,006.62	\$660,079.48
Total EPNG and Total Additional STB = \$3,175,714.25				

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1 RECOMMENDATIONS

2 8. Staff has reviewed AEPCO's application and has recommended approval of its
 3 proposed Temporary Tariff Rider No. 2 to go into effect starting January 1, 2017, which will be
 4 applied as a bill credit. In addition, Staff has recommended that AEPCO file with Docket Control, as
 5 a compliance item, a revised Temporary Tariff Rider No. 2, consistent with the Decision in this matter
 6 within 15 days of the effective date of the Decision. Further, Staff has recommended that at the
 7 conclusion of the 12-month period, AEPCO file, in this docket, a letter informing the Commission
 8 that the payment of Temporary Tariff Rider No. 2 has ended.

9 CONCLUSIONS OF LAW

10 1. Arizona Electric Power Cooperative, Inc. is a public service corporation within the
 11 meaning of Article XV, of the Arizona Constitution.

12 2. The Commission has jurisdiction over Arizona Electric Power Cooperative, Inc. and
 13 the subject matter of the application.

14 3. The Commission, having reviewed the application and Staff's memorandum dated
 15 April 19, 2016, concludes that it is in the public interest to authorize Arizona Electric Power
 16 Cooperative, Inc.'s Temporary Tariff Rider No. 2 to refund monies owed to its member cooperatives.

17 ORDER

18 IT IS THEREFORE ORDERED that the Arizona Electric Power Cooperative, Inc.
 19 Temporary Tariff Rider No. 2, is hereby approved as discussed herein.

20 IT IS FURTHER ORDERED that the Temporary Tariff Rider No. 2 shall become effective
 21 as of January 1, 2017.

22 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with
 23 Docket Control, as a compliance item, a revised Temporary Tariff No. 2, consistent with the Decision
 24 in this matter within 15 days of the effective date of the Decision.

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IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file, at the end of the 12-month period, a letter informing the Commission that the payment of Temporary Tariff Rider No. 2 has ended.

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:CLA:nr/WVC

1 SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.
2 DOCKET NO.: E-01773A-15-0324

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4 Gallagher & Kennedy, PA
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6 Phoenix Arizona 85016-9225

7 Mr. Thomas M. Broderick
8 Director, Utilities Division
9 Arizona Corporation Commission
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11 Phoenix, Arizona 85007

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

17 Ms. Dwight Nodes
18 Chief Administrative Law Judge, Hearing Division
19 Arizona Corporation Commission
20 1200 West Washington Street
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