

OPEN MEETING



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ORIGINAL

MEMORANDUM

Arizona Corporation Commission

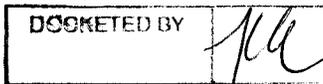
DOCKETED

JUL 26 2016

TO: THE COMMISSION

FROM: Utilities Division

DATE: July 26, 2016



RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF REVISIONS TO PREFERENCE POWER RIDER, SCHEDULE PPR. (DOCKET NO. E-01345A-16-0056)

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL
2016 JUL 26 P 4: 28

Introduction

On February 18, 2016, Arizona Public Service Company ("APS or Company") filed an application for approval of revisions to its Preference Power Rider, Schedule PPR ("Application").

APS states that the proposed revisions are necessary to accommodate a new allocation of Preference Power that has recently been made available from the Hoover Dam. The existing tariff would need to be updated to account for transmission and distribution delivery service to certain non-residential customers who have obtained a new allocation of hydro-electric preference power marketed by the Western Area Power Administration ("WAPA"), an agency of the United States Department of Energy.

Background

APS's current rate rider for Preference Power was approved by the Commission in Decision No. 70521 (September 30, 2008; Docket No. E-01345A-08-0365) to allow retail customers to take advantage of Arizona's allocation of hydro-electric power from federal dams. The rider allows customers to credit the preference power capacity and energy, scheduled each month, against the unbundled generation charges on their bill. Currently, there is only one customer taking service under this rider.

In 2014, WAPA awarded additional allocations of Preference Power from the Hoover Dam directly to various wholesale and retail customers. They also awarded some of the additional Preference Power to the Arizona Power Authority ("APA"), the state agency responsible for coordinating the Preference Power for the state and subsequently allocating that Preference Power to prospective customers. These additional allocations were completed in 2015. As a result of these allocations, APS believes that 10 to 15 new retail customers, primarily city governments, will be taking service under the revised Preference Power Rider.

In its Application, APS stated that it waived any requirement that the Commission act on this proposed tariff within thirty (30) days under A.R.S. Sections 40-367 and 40-250(B). However, APS requests that the rider become effective prior to the end of the third quarter of 2016, so that

new participants can be informed of program changes as they are completing their contractual commitments for the Preference Power.

On April 11, 2016, the Commission's Consumer Services Section received one opinion on APS's proposed changes to the Preference Power Rider from Charles Mosley, P.E., Director of Wastewater with the City of Sedona. Mr. Mosley stated that while he favored the proposed revisions, he requests that the Commission modify Elements 5 and 6 of the Preference Power Rider. His request is discussed below. In addition, on June 10, 2016, Chairman Little's Office docketed a letter that he received from Douglas E. Kupel, Ph.D. Deputy Water Services Director, Plans, Programs, and Environmental Resource Division, on behalf of the City of Glendale in support of the APS Preference Power Rider Application. The City states that under the Final Allocation Plan issued by the APA on July 17, 2015, Glendale would be entitled to the APA allocations along with the federal allocations amounting to annual use of 426 kilowatts and 930, 050 kilowatt-hours of low cost, renewable hydro power for the 50 year term of the federal Hoover contracts. Glendale states that it intends to utilize its allocation of low-cost hydropower to offset a portion of its higher-priced energy costs that it receives as an electric retail service customer of APS and pass these savings on to its citizens. In order to receive the benefit, Glendale is required to sign a Power Sales Contract with the APA. The City states that it would be imprudent for it to enter into a long-term agreement without a prior decision by the Arizona Corporation Commission approving the proposed revisions to the Preference Power Rider. Glendale urges the Commission to act swiftly and decisively to ensure that Glendale and its citizens can benefit from this federal program.

APS's Proposed Revisions to Preference Power Rider

In its Application, the Company has proposed a number of revisions to its existing Preference Power Rider ("PPR") that will (1) accommodate the delivery of power from the Hoover Dam location, (2) clarify how the Preference Power is scheduled and credited each month; (3) provide additional flexibility to customers if the Preference Power provided by WAPA is less than their expected allocation; and (4) simplify how the generation bill credits are calculated and applied.

The Company has proposed that delivery of the Hoover Dam power be taken at the Mead substation, located near the dam in Boulder City, Nevada. APS's transmission grid is already interconnected at this point; and the total potential level of Preference Power for retail customers will be less than 20 MW. As a result, APS can deliver power from the Mead substation to the customer's site at no additional charge above the current retail rate for power transmission and delivery, already billed in a Preference Power customer's retail tariff.

Proposed Schedule PPR clarifies how APS will manage and schedule preference power for customers with an allotment of Preference Power each month. Under the revised schedule, APS will prepare and coordinate an hourly schedule of Preference Power each month based on APS system requirements (i.e. peak load hours). This will allow APS to use Preference Power to lower peak load requirements while providing Preference Power customers with a credit for both their capacity and energy usage.

Additionally, the proposed Schedule PPR clarifies seasonal and annual allocation limits for each customer. Under the proposed PPR rider, customers can shift some of their annual allocation from winter months to summer months as long as the total allotment for the year is not exceeded. In addition, PPR customers will now be able to participate in an energy firming option. This option will allow customers to find additional sources of energy, such as non-hydro power or Preference Power purchased from another customer in a given month when the availability of preference power is below their allotment.

Lastly, the proposed PPR rider simplifies the crediting process by basing the credit amounts off of the amount of a Preference Power customer's power allotment. Previously, the credit was based off the specific retail rate for kWh and kW consumption levels for each billing account designated to the PPR program. The proposed change will help customers more easily calculate and track their monthly credit amounts as monthly allotments change month to month.

Staff Analysis and Recommendations

Staff believes that the proposed revisions to the Preference Power Rider, Schedule PPR are reasonable. Further, the revisions will conform the existing PPR rider to new guidelines required for Preference Power customers to receive power allotments from Hoover Dam.

Charles Mosley, the Director of Wastewater for the City of Sedona, supports the Preference Power Rider, with two modifications. He states that the modifications are requested to assure that the stated intent of the rate rider is met. He requests that Element 5 of the Preference Power Rider be revised to allow use of Layoff Power even if that results in an annual or seasonal allotment being exceeded. The City of Sedona receives its Hoover Allocation through the APA which in turn received it from the Western Area Power Administration. The APA's Final Marketing Plan Post-2017 (page 19), refers to A.R.S. Section 30-124(B), which states that APA is to dispose of power "as nearly as practical, shall be disposed of in an equitable manner so as to render the greatest public service and at levels calculated to encourage the widest practical use of electrical energy." The Layoff Power element of the APA power management program promotes this goal by allowing an entity which is allocated power to layoff unused power for other program participants to use. The City states that such a provision allows for the "greatest public service" by allowing an entity which may be experiencing a temporary or seasonal reduction in power need to allow other participating entities to use a portion of its allocation. The City states that such a use of the Layoff power could result in an entity using the layed off power exceeding its annual or seasonal allotment as defined in the proposed APS Preference Power Rate Rider. Not allowing the power to be layed off could harm the public interest by discouraging conservation and/or leading to higher per unit costs for energy actually used since entities must pay APS their monthly allocation of costs that can't be layed off. To address this issue, the City of Sedona requests that Element 5 of the Preference Power Rider be revised to "allow the annual total of Preference Power to be limited to the customer's annual and seasonal Allotment plus up to twenty percent of the allotment value in Layoff Power." The City states that Element 6 will also need to be amended to allow credit for up to this quantity.

Staff has reviewed the City of Sedona's comments and discussed them with the City of Sedona, APA and APS. The APA has indicated that it is unlikely that entities entitled to Preference

Power would see annual loads less than their annual allotments. Thus, it is unlikely that entities entitled to Preference Power, would have a surplus of Preference Power in any given year. Staff believes that the intent of the Layoff Power provision was to provide Preference Power customers with the ability to trade Preference Power among one another when load patterns change month to month. Staff believes that changing the language pertaining to Layoff Power and crediting could create a potential market among Preference Power customers. For these reasons, Staff believes that the Application should be approved as submitted.

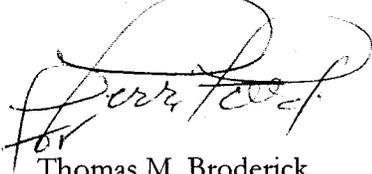
Staff has analyzed this Application in terms of whether there were fair value implications. Compared to APS's total revenues; any impact from this PPR rate schedule would be de minimis, and any impact on APS's fair value rate base and rate of return would also be de minimis.

Staff has reviewed the proposed credits under the revised PPR rider and found that they were calculated appropriately using values derived from the most recent rate case (Decision No. 73183). Staff would note that there is currently an APS rate case before the Commission, and at the conclusion of that case, the Company should update the PPR credit rates so that they are consistent with rates approved in that rate case.

Staff recommends approval of APS's proposed revisions to the Preference Power Rider, Schedule PPR.

Staff further recommends that the Company update the credit rates in Schedule PPR the preference power rider, at the conclusion of each rate case going forward. The calculation used to determine the credit rates should remain consistent with the calculations used in this case. (Generation Capacity Charge¹ (\$/kWh) + Generation Energy Charge (\$/kWh)) for each participating rate schedule, averaged together within each preference power allotment bucket, less average system line losses.

Staff further recommends that APS file with Docket Control, as a compliance item in this case, tariff pages consistent with the terms of the Commission's Decision within 15 days from the effective date of the Decision.



Thomas M. Broderick
Director
Utilities Division

TMB:EMV:vsc\MAS

ORIGINATOR: Eric Van Epps

¹ Generation Capacity (Demand) Charges are converted from kW to the equivalent energy (kWh) amounts based on class billing determinants in the most recent rate case.

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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
REVISIONS TO PREFERENCE POWER
RIDER, SCHEDULE PPR.

DOCKET NOS. E-01345A-16-0056
DECISION NO. _____
ORDER

Open Meeting
August, 9 and 10, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. Arizona Public Service Company ("APS or Company") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On February 18, 2016, APS filed an application for approval of revisions to its Preference Power Rider, Schedule PPR ("Application").
3. APS states that the proposed revisions are necessary to accommodate a new allocation of Preference Power that has recently been made available from the Hoover Dam. The existing tariff would need to be updated to account for transmission and distribution delivery service to certain non-residential customers who have obtained a new allocation of hydro-electric Preference Power marketed by the Western Area Power Administration ("WAPA"), an agency of the United States Department of Energy.

1 **Background**

2 4. APS's current rate rider for Preference Power was approved by the Commission in
3 Decision No. 70521 (September 30, 2008; Docket No. E-01345A-08-0365) to allow retail customers
4 to take advantage of Arizona's allocation of hydro-electric power from federal dams. The rider allows
5 customers to credit the Preference Power capacity and energy, scheduled each month, against the
6 unbundled generation charges on their bill. Currently, there is only one customer taking service under
7 this rider.

8 5. In 2014, WAPA awarded additional allocations of Preference Power from the Hoover
9 Dam directly to various wholesale and retail customers. They also awarded some of the additional
10 preference power to the Arizona Power Authority ("APA"), the state agency responsible for
11 coordinating the Preference Power for the state and subsequently allocating that Preference Power to
12 prospective customers. These additional allocations were completed in 2015. As a result of these
13 allocations, APS believes that 10 to 15 new retail customers, primarily city governments, will be taking
14 service under the revised preference power rider.

15 6. In its Application, APS stated that waived any requirement that the Commission act on
16 this proposed tariff within thirty (30) days under A.R.S. Sections 40-367 and 40-250(B). However,
17 APS requests that the rider become effective prior to the end of the third quarter of 2016, so that new
18 participants can be informed of program changes as they are completing their contractual
19 commitments for the preference power.

20 7. On April 11, 2016, the Commission's Consumer Services Section received one opinion
21 on APS's proposed changes to the Preference Power Rider form Charles Mosley, P.E., Director of
22 Wastewater with the City of Sedona. Mr. Mosley stated that while he favored the proposed revisions,
23 he requests that the Commission modify elements 5 and 6 of the Preference Power Rider. His request
24 is discussed below. In addition, on June 10, 2016, Chairman Little's Office docketed a letter that he
25 received from Douglas E. Kupel, Ph.D. Deputy Water Services Director, Plans, Programs, and
26 Environmental Resource Division, on behalf of the City of Glendale in support of the APS Preference
27 Power Rider Application. The City states that under the Final Allocation Plan issued by the KAPA on
28 July 17, 2015, Glendale would be entitled to the APA allocations along with the federal allocations

1 amounting to annual use of 46 kilowatts and 930,050 kilowatt-hours of low cost, renewable hydro
2 power for the 50 year term of the federal Hoover contracts. Glendale states that it intends to utilize
3 its allocation of low-cost hydropower to offset a portion of its higher priced energy costs that it
4 receives as an electric retail service customer of APS and pass these savings on to its citizens. In order
5 to receive the benefit, Glendale is required to sign a Power Sales Contract with the APA. The City
6 states that it would be imprudent for it to enter into a long-term agreement without a prior decision by
7 the Arizona Corporation Commission approving the proposed revisions to the Preference Power
8 Rider. K Glendale urges the Commission to act swiftly and decisively to ensure that Glendale and its
9 citizens can benefit from this federal program.

10 **APS's Proposed Revisions to Preference Power Rider**

11 8. In its Application, the Company has proposed a number of revisions to its existing
12 Preference Power Rider ("PPR") that will: (1) accommodate the delivery of power from the Hoover
13 Dam location, (2) clarify how the Preference Power is scheduled and credited each month; (3) provide
14 additional flexibility to customers if the Preference Power provided by WAPA is less than their
15 expected allocation; and (4) simplify how the generation bill credits are calculated and applied.

16 9. The Company has proposed that delivery of the Hoover Dam power be taken at the
17 Mead substation, located near the dam in Boulder City, Nevada. APS's transmission grid is already
18 interconnected at this point; and the total potential level of preference power for retail customers will
19 be less than 20 MW. As a result, APS can deliver power from the Mead substation to the customer's
20 site at no additional charge above the current retail rate for power transmission and delivery, already
21 billed in a Preference Power customer's retail tariff.

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23 for customers with an allotment of Preference Power each month. Under the revised schedule, APS
24 will prepare and coordinate an hourly schedule of Preference Power each month based on APS system
25 requirements (i.e. peak load hours). This will allow APS to use Preference Power to lower peak load
26 requirements while providing Preference Power customers with a credit for both their capacity and
27 energy usage.

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1 11. Additionally, the proposed Schedule PPR clarifies seasonal and annual allocation limits
2 for each customer. Under the proposed PPR rider, customers can shift some of their annual
3 allocation from winter months to summer months as long as the total allotment for the year is not
4 exceeded. In addition, PPR customers will now be able to participate in an energy firming option.
5 This option will allow customers to find additional sources of energy, such as non-hydro power or
6 Preference Power purchased from another customer in a given month when the availability of
7 Preference Power is below their allotment.

8 12. Lastly, the proposed PPR rider simplifies the crediting process by basing the credit
9 amounts off of the amount of a preference power customer's power allotment. Previously, the credit
10 was based off the specific retail rate for kWh and kW consumption levels for each billing account
11 designated to the PPR program. The proposed change will help customers more easily calculate and
12 track their monthly credit amounts as monthly allotments change month to month.

13 **Staff Analysis and Recommendations**

14 13. Staff believes that the proposed revisions to the Preference Power Rider, Schedule
15 PPR are reasonable. Further, the revisions will conform the existing PPR rider to new guidelines
16 required for preference power customers to receive power allotments from Hoover Dam.

17 14. Charles Mosley, the Director of Wastewater for the City of Sedona, supports the
18 Preference Power Rider, with two modifications. He states that the modifications are requested to
19 assure that the stated intent of the rate rider is met. He requests that Element 5 of the Preference
20 Power Rider be revised to allow use of Layoff Power even if that results in an annual or seasonal
21 allotment being exceeded. The City of Sedona receives its Hoover Allocation through the APA which
22 in turn received it from the Western Area Power Administration. The APS's Final Marketing Plan
23 Post-2017 (page 19) refers to A.R.S. Section 30-124(B), which states that APA is to dispose of power
24 "as nearly as practical, shall be disposed of in an equitable manner so as to render the greatest public
25 service and at levels calculated to encourage the widest practical use of electrical energy." The Layoff
26 Power element of the APA power management program promotes this goal by allowing an entity
27 which is allocated power to layoff unused power for other program participants to use.

28

1 15. The City states that such a provision allows for the “greatest public service” by
2 allowing an entity which may be experiencing a temporary or seasonal reduction in power need to
3 allow other participating entities to use a portion of its allocation. The City states that such a use of
4 the Layoff Power could result in an entity using the Layoff Power exceeding its annual or seasonal
5 allotment as defined in the proposed APS Preference Power Rate Rider. Not allowing the power to
6 be layed off could harm the public interest by discouraging conservation and/or leading to higher per
7 unit costs for energy actually used since entities must pay APS their monthly allocation of costs that
8 can’t be layed off. To address this issue, the City of Sedona requests that Element 5 of the Preference
9 Power Rider be revised to “allow the annual total of Preference Power to be limited to the customer’s
10 annual and seasonal Allotment plus up to twenty percent of the allotment value in Layoff Power.”
11 The City states that Item 6 will also need to be amended to allow credit for up to this quantity.

12 16. Staff has reviewed the City of Sedona’s comments and discussed them with the City of
13 Sedona, APA and APS. The APA has indicated that it is unlikely that entities entitled to Preference
14 Power would see annual loads less than their annual allotments. Thus, it is unlikely that entities
15 entitled to Preference Power, would have a surplus of Preference Power in any given year. Staff
16 believes that the intent of the Layoff Power provision was to provide Preference Power customers
17 with the ability to trade Preference Power among one another when load patterns change month to
18 month. Staff believes that changing the language pertaining to Layoff Power and crediting could create
19 a potential market among Preference Power customers. For these reasons, Staff believes that the
20 Application should be approved as submitted.

21 17. Staff has analyzed this application in terms of whether there were fair value
22 implications. Compared to APS's total revenues; any impact from this PPR rate schedule would be de
23 minimis, and any impact on APS's fair value rate base and rate of return would also be de minimis.

24 18. Staff has reviewed the proposed credits under the revised PPR rider and found that
25 they were calculated appropriately using values derived from the most recent rate case (Decision No.
26 73183). Staff would note that there is currently an APS rate case before the Commission, and at the
27 conclusion of that case, the Company should update the PPR credit rates so that they are consistent
28 with rates approved in that rate case.

1 used to determine the credit rates should remain consistent with the calculations used in this case.
2 (Generation Capacity Charge (\$/kWh) + Generation Energy Charge (\$/kWh)) for each participating
3 rate schedule, averaged together within each Preference Power allotment bucket, less average system
4 line losses.

5 IT IS FURTHER ORDERED that Arizona Public Service Company shall file with Docket
6 Control, as a compliance item in this matter, tariff pages consistent with the provisions of this
7 Decision within 15 days from the effective date of the Decision.

8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
9

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

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12 _____
CHAIRMAN LITTLE

COMMISSIONER STUMP

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15 _____
COMMISSIONER FORESE

COMMISSIONER TOBIN

COMMISSIONER BURNS

16
17 IN WITNESS WHEREOF, I, JODI A. JERICH, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2016.

21 _____
22 JODI A. JERICH
23 EXECUTIVE DIRECTOR

24 DISSENT: _____

25
26 DISSENT: _____

27 TMB:EMV:vsc/MAS

28

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345-16-0056

3 Thomas L. Mumaw
4 Pinnacle West Capital Corporation
5 400 N. Fifth Street, MS 8695
6 Phoenix, Arizona 85004

7 Mr. Thomas M. Broderick
8 Director, Utilities Division
9 Arizona Corporation Commission
10 1200 West Washington Street
11 Phoenix, Arizona 85007

12 Ms. Janice M. Alward
13 Chief Counsel, Legal Division
14 Arizona Corporation Commission
15 1200 West Washington Street
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17 Mr. Dwight Nodes
18 Chief Administrative Law Judge, Hearing Division
19 Arizona Corporation Commission
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