

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission DOCKET CONTROL

TO: THE COMMISSION **DOCKETED** 2016 AUG 25 A 10:17
FROM: Utilities Division AUG 25 2016
DATE: August 25, 2016
RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF AN ELECTRIC SERVICE CONTRACT WITH ALIGNED DATA CENTERS, LLC. (DOCKET NO. E-01345A-16-0131).

DOCKETED BY

ORIGINAL

Introduction

Enclosed are the Commission Staff's memorandum and proposed order for the application of Arizona Public Service Company for approval of its electric service contract with Aligned Data Centers, LLC. (Docket No. E-01345A-16-0131). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

You may file comments to the recommendation(s) of the proposed order by filing an original and thirteen (13) copies of the comments with the Commission's Docket Control Center at 1200 West Washington, Phoenix, Arizona 85007 by 4:00 p.m. on or before **September 2, 2016**.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **September 7, 2016, at 10:00 a.m. and September 8, 2016, at 10:00 a.m.**

If you have any questions about this matter, please contact Julie McNeely-Kirwan of our Staff at (602) 542-0833, or Thomas Broderick, Director, at (602) 542-7270.

Background

On April 19, 2016, Arizona Public Service Company ("APS" or "Company") filed to request the Commission's approval of its experimental high load factor ("HLF-3") pricing structure contract with Aligned Data Centers, LLC ("Aligned"). The contract covers only the Aligned location at 2500 West Union Hills Avenue in Phoenix. Aligned is currently being served by APS at only this location.

Aligned is a new APS customer and is constructing a data center in North Phoenix. Aligned anticipates being a very high load factor customer, similar to two other large data centers in the APS service territory with special contracts approved by the Commission.

Under the terms of the electric service agreement ("ESA") addressed in this application, in order to achieve commercial operation, Aligned must meet a threshold requirement of [REDACTED] and a monthly load factor of at least [REDACTED]. Once this threshold is achieved, Aligned would be served

under the HLF-3 Pricing Structure, if this rate is approved by the Commission. As a new business, the timing for when Aligned meets the threshold is uncertain.

Aligned is currently served under the E-32 S rate schedule, for a small pump, and the E-32 M rate schedule, for the building where construction is taking place. When Aligned enters its Initial Start-Up Period, estimated at early 2017, it will be served under the E-32 L rate schedule and may also be served under the E-34 or E-35 rate schedules during periods when it does not meet the requirements set in the contract. Ramp up to a load factor consistently exceeding 90 percent could take approximately nine to 18 months, meaning that Aligned will possibly begin taking service under the HLF-3 rate by the Fall of 2018.

APS has sufficient generation capacity and reserves to serve Aligned. The marginal cost to serve Aligned arises primarily from the Company's cost of fuel, and the rates in the ESA will not only cover the cost to serve Aligned, but exceed the Company's marginal cost. In addition, the proposed HLF-3 rate includes all current applicable adjustors for the Company's extra-large general service customers.

In response to a data request, APS indicated that lower rates for High Load Factor customers will shift some costs to other extra-large customers in a new rate case, but that such a shift is cost-based.

"The high load factor pricing schedules and the Extra-High Load Factor rate schedule are cost based rates which create a new subclass within the Extra-Large customer group. This sub-grouping creates a more precise cost allocation to develop the cost to serve high load factor customers. While this process necessarily result in other extra-large customers paying slightly more, it is a more accurate reflection of the cost to serve these other extra-large customers that do not have a very high load factor."

Extra High Load Factor Tariff

Aligned has the right to terminate the ESA in order to take service under a generally available rate, such as the recently filed Extra High Load Factor ("EHLF") rate (included in APS rate application E-01345A-16-0036). Termination would require 30 days' written notice.

Microgrid Project

To enhance reliability, Aligned has backup generation in a microgrid configuration. APS is sharing costs with Aligned to develop a 62.5 MW diesel microgrid project with a new 69 kW enhanced capability substation. APS has indicated that this microgrid project will not only provide backup for Aligned, but can be used as a cost-effective system capacity resource for the benefit of all APS customers.

Analysis and Recommendation

System Benefits and Decision No. 73183 (Economic Opportunities). Staff recommends that the ESA with Aligned be approved. The experimental high load factor rate is reasonable for Aligned because it represents the appropriate rate for a very high load factor customer. Very high load factor customers make more efficient use of existing infrastructure, rather than creating a demand for more generation, and thereby help to reduce the overall cost of serving customers. In addition, the ESA proposed in the application would be consistent with the provisions of Decision No. 73183, which authorized APS to pursue economic opportunities through the use of Commission-approved contracts.

Other Benefits. Aligned currently has five employees at the data center, but anticipates having an additional 15 by the end of 2016. Aligned also has four dozen contractors in place at the present time, including employees involved in engineering, construction, operations and security. Aligned will also contribute additional sales and property taxes. In addition, APS believes that Aligned has the potential to increase its business in the Company's territory and that additional locations are possible, since Aligned is a 'build to suit' data center provider to global corporate clients.

Fair Value Implications

Staff has also analyzed this application in terms of whether there were fair value implications. In Decision No. 73183, issued on May 24, 2012, the Commission determined the fair value of the APS jurisdictional rate base to be \$8,167,126,000. That determination is appropriate for purposes of this analysis. Compared to APS's total revenues, any revenue impact from this agreement would be *de minimus*, and any impact on APS's fair value rate base and rate of return would also be *de minimus*.

Impact of Special Contracts

APS utilized a cost based approach to the pricing structure proposed in its application. The proposed change in price only affects revenues to APS. Also, Staff recommends that the Commission specify in its Order that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Aligned.

Recommendations

Staff recommends that the Electric Service Agreement with Aligned Data Centers, LLC be approved.

Staff recommends that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Aligned Data Centers, LLC.



Thomas M. Broderick

Director

Utilities Division

TMB:jmk:nr\WVC

ORIGINATOR: Julie McNeely-Kirwan

THE COMMISSION

August 25, 2016

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On this 24th day of August, 2016, the foregoing document was filed with Docket Control as a Utilities Division Memorandum & Proposed Order, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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By: Nanisha Ross
Nanisha Ross
Admin Support Specialist

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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 ITS
ELECTRIC SERVICE CONTRACT WITH
ALIGNED DATA CENTERS, LLC.

DOCKET NO. E-01345A-16-0131
DECISION NO. _____
ORDER

Open Meeting
September 7 and 8, 2016
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (“APS” or “Company”) is certificated to provide electric service as a public service corporation in the State of Arizona.

Background

2. On April 19, 2016, APS filed to request the Commission’s approval of its experimental high load factor (“HLF-3”) pricing structure contract with Aligned Data Centers, LLC (“Aligned”). The contract covers only the Aligned location at 2500 West Union Hills Avenue in Phoenix. Aligned is currently being served by APS at only this location.

3. Aligned is a new APS customer and is constructing a data center in North Phoenix. Aligned anticipates being a very high load factor customer, similar to two other large data centers in the APS service territory with special contracts approved by the Commission.

4. Under the terms of the electric service agreement (“ESA”) addressed in this application, in order to achieve commercial operation, Aligned must meet a specified threshold requirement and monthly load factor. Once this threshold is achieved, Aligned would be served under the HLF-3 Pricing

1 Structure, if this rate is approved by the Commission. As a new business, the timing for when Aligned
2 meets the threshold is uncertain.

3 5. Aligned is currently served under the E-32 S rate schedule, for a small pump, and the E-
4 32 M rate schedule, for the building where construction is taking place. When Aligned enters its Initial
5 Start-Up Period, estimated at early 2017, it will be served under the E-32 L rate schedule and may also
6 be served under the E-34 or E-35 rate schedules during periods when it does not meet the requirements
7 set in the contract. Ramp up to a load factor consistently exceeding 90 percent could take approximately
8 nine to 18 months, meaning that Aligned will possibly begin taking service under the HLF-3 rate by the
9 Fall of 2018.

10 6. APS has sufficient generation capacity and reserves to serve Aligned. The marginal cost
11 to serve Aligned arises primarily from the Company's cost of fuel, and the rates in the ESA will not only
12 cover the cost to serve Aligned, but exceed the Company's marginal cost. In addition, the proposed
13 HLF-3 rate includes all current applicable adjustors for the Company's extra-large general service
14 customers.

15 7. In response to a data request, APS indicated that lower rates for High Load Factor
16 customers will shift some costs to other extra-large customers in a new rate case, but that such a shift is
17 cost-based. "The high load factor pricing schedules and the Extra-High Load Factor rate schedule are
18 cost based rates which create a new subclass within the Extra-Large customer group. This sub-grouping
19 creates a more precise cost allocation to develop the cost to serve high load factor customers. While
20 this process necessarily result in other extra-large customers paying slightly more, it is a more accurate
21 reflection of the cost to serve these other extra-large customers that do not have a very high load factor."

22 **Extra High Load Factor Tariff**

23 8. Aligned has the right to terminate the ESA in order to take service under a generally
24 available rate, such as the recently filed Extra High Load Factor ("EHLF") rate (included in APS rate
25 application E-01345A-16-0036). Termination would require 30 days' written notice.

26 **Microgrid Project**

27 9. To enhance reliability, Aligned has backup generation in a microgrid configuration. APS
28 is sharing costs with Aligned to develop a 62.5 MW diesel microgrid project with a new 69 kW enhanced

1 capability substation. APS has indicated that this microgrid project will not only provide backup for
2 Aligned, but can be used as a cost-effective system capacity resource for the benefit of all APS
3 customers.

4 **Analysis and Recommendation**

5 10. System Benefits and Decision No. 73183 (Economic Opportunities). Staff has
6 recommended that the ESA with Aligned be approved. The experimental high load factor rate is
7 reasonable for Aligned because it represents the appropriate rate for a very high load factor customer.
8 Very high load factor customers make more efficient use of existing infrastructure, rather than creating
9 a demand for more generation, and thereby help to reduce the overall cost of serving customers. In
10 addition, the ESA proposed in the application would be consistent with the provisions of Decision No.
11 73183, which authorized APS to pursue economic opportunities through the use of Commission-
12 approved contracts.

13 11. Other Benefits. Aligned currently has five employees at the data center, but anticipates
14 having an additional 15 by the end of 2016. Aligned also has four dozen contractors in place at the
15 present time, including employees involved in engineering, construction, operations and security.
16 Aligned will also contribute additional sales and property taxes. In addition, APS believes that Aligned
17 has the potential to increase its business in the Company's territory and that additional locations are
18 possible, since Aligned is a 'build to suit' data center provider to global corporate clients.

19 **Fair Value Implications**

20 12. Staff has also analyzed this application in terms of whether there were fair value
21 implications. In Decision No. 73183, issued on May 24, 2012, the Commission determined the fair
22 value of the APS jurisdictional rate base to be \$8,167,126,000. That determination is appropriate for
23 purposes of this analysis. Compared to APS's total revenues, any revenue impact from this agreement
24 would be *de minimus*, and any impact on APS's fair value rate base and rate of return would also be *de*
25 *minimus*.

26 **Impact of Special Contracts**

27 13. APS utilized a cost based approach to the pricing structure proposed in its application.
28 The proposed change in price only affects revenues to APS. Also, Staff has recommended that the

1 Commission specify in its Order that approval of the agreement at this time does not guarantee any
2 future ratemaking treatment of the agreement with Aligned.

3 CONCLUSIONS OF LAW

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

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

8 3. The Commission, having reviewed the application and Staff's Memorandum dated August
9 25, 2016, concludes that it is in the public interest to approve the APS Electric Service Agreement with
10 Aligned Data Centers, LLC, as discussed herein.

11 ORDER

12 IT IS THEREFORE ORDERED that the Electric Service Agreement with Aligned Data
13 Centers, LLC is approved.

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1 IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee
2 any future ratemaking treatment of the agreement with Aligned Data Centers, LLC.

3 IT IS FURTHER ORDERED that this Order shall take effect immediately.

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

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CHAIRMAN LITTLE

COMMISSIONER STUMP

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COMMISSIONER FORESE

COMMISSIONER TOBIN

COMMISSIONER BURNS

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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.

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JODI JERICH
EXECUTIVE DIRECTOR

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DISSENT: _____

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DISSENT: _____

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TMB:jmk:nr/WVC

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1 SERVICE LIST FOR: Arizona Public Service Company
2 Docket No. E-01345A-16-0131

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