

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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2017 MAR 22 A 10:25

TO: THE COMMISSION

FROM: Utilities Division

DATE: March 22, 2017

RE: IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC POWER COOPERATIVE, INC. TO REDUCE CERTAIN RATES UNDER ITS ANCILLARY SERVICE TARIFF (DOCKET NO. E-01773A-17-0061)

INTRODUCTION

Enclosed are the Arizona Corporation Commission ("Commission") Staff's memorandum and proposed order for the Application of the Arizona Electric Power Cooperative, Inc. ("AEPSCO") to reduce certain rates under its Ancillary Services Tariff (E-01773A-17-0061). 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 W. Washington St., Phoenix, AZ 85007 by 4:00 p.m. on or before **April 3, 2017**.

This matter may be scheduled for Commission deliberation at its Open Meetings scheduled **April 5, 2017**, at 10:00 a.m. and **April 6, 2017**, at 10:00 a.m.

If you have any questions about this matter, please contact Pamela Genung of our Staff at (602) 542-0664 or Elijah Abinah, Acting Director, at (602) 542-6935.

BACKGROUND

AEPSCO is a not-for-profit, generation and transmission cooperative that was initially granted a Certificate of Convenience and Necessity ("CC&N") by the Arizona Corporation Commission ("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.)¹ ("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

¹ Anza Electric Cooperative is located in southern California.

from other sources. AEPCO's board members consist of officers from each Class A member cooperative.

In the early 2000s, AEPCO was restructured to create a separate, affiliated entity, Southwest Transmission Cooperative, Inc. ("SWTC") that assumed ownership and operational control of AEPCO's transmission assets. In 2016, AEPCO and SWTC merged back into a single entity, with AEPCO as the surviving generation and transmission cooperative.²

Prior to the AEPCO/SWTC merger, the Commission approved SWTC's Ancillary Services Tariff in Decision No. 74172 (October 25, 2013). As part of the merger approval, the Commission's Decision No. 74591 (July 30, 2014) also authorized AEPCO to re-issue SWTC's tariffs under the AEPCO name.

APPLICATION

On February 28, 2017, AEPCO filed an application with the Commission requesting a reduction to certain rates under its Ancillary Services Tariff. AEPCO reevaluated three categories of service under the Ancillary Services Tariff. Due to recent developments in the requirements for AEPCO's participation in the Southwest Reserve Sharing Group ("SRSG"), AEPCO concluded that three ancillary service rates should be reduced.

AEPCO is proposing a reduction in rates under Schedule 3 (Regulation and Frequency Response Service), Schedule 5 (Operating Reserve - Spinning Reserve Service), and Schedule 6 (Operating Reserve - Supplemental Reserve Service) as follows:

Service	Current Rate	Revised
Schedule 3 Regulation and Frequency Response Service	0.2575 \$/kW Mo.	0.1852 \$/kW Mo.
Schedule 5 Operating Reserve – Spinning Reserve Service	0.7157 \$/kW Mo.	0.1348 \$/kW Mo.
Schedule 6 Operating Reserve – Supplemental Reserve Service	0.4959 \$/kW Mo.	0.1157 \$/kW Mo.

As noted in the application, AEPCO's Board of Directors and its Operating Committee unanimously approved the proposed rate reductions.

As requested by AEPCO, the proposed rate reductions would become effective on April 1, 2017.

² Commission Decision No. 74591.

Staff has reviewed AEPCO's application in terms of whether there are fair value implications. In Decision No. 74173, the Commission determined the fair value rate base to be \$261,075,032. According to AEPCO's Financial and Operating Report filed with the Commission, as part of its 2015 annual report (filed May 2016) as of December 31, 2015, the net value of AEPCO's plant was \$240,574,408. Staff considered both of these values for purposes of this analysis. Staff believes that the impact to AEPCO's revenue, fair value rate base, or rate of return would be negligible.

STAFF ANALYSIS AND RECOMMENDATIONS

Staff has reviewed AEPCO's application and recommends approval to reduce certain rates under the Ancillary Services Tariff. In addition, Staff believes that an effective date of April 1, 2017, is appropriate, and therefore recommends approval. Further, Staff recommends that AEPCO file with Docket Control, as a compliance item, a revised Ancillary Services Tariff, consistent with the Decision in this matter within fifteen (15) days of the effective date of the Decision.



Elijah O. Abinah
Acting Director
Utilities Division

EOA:PJG:red\CHH

ORIGINATOR: Pamela Genung

THE COMMISSION

March 22, 2017

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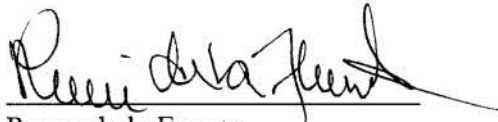
On this 22nd day of March, 2017, the foregoing document was filed with Docket Control as a **Utilities Division Memorandum & Proposed Order**, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon 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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1200 West Washington Street
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1200 W. Washington
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By:



Renee de la Fuente
Administrative Support Specialist

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BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE
Chairman
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
ANDY TOBIN
Commissioner
BOYD DUNN
Commissioner

IN THE MATTER OF THE APPLICATION)
OF THE ARIZONA ELECTRIC POWER)
COOPERATIVE, INC. TO REDUCE)
CERTAIN RATES UNDER ITS ANCILLARY)
SERVICE TARIFF)

DOCKET NO. E-01773A-17-0061
DECISION NO. _____
ORDER

Open Meeting
April 5 and 6, 2017
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

Background

2. AEPSCO is a not-for-profit, generation and transmission cooperative that was initially granted a Certificate of Convenience and 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.)¹ ("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

_____ ¹ Anza Electric Cooperative is located in southern California.

1 AEPCO while each PRM only commits to purchase a fixed amount of capacity from AEPCO and
2 may secure additional power and energy from other sources. AEPCO's board members consist of
3 officers from each Class A member cooperative.

4 3. In the early 2000s, AEPCO was restructured to create a separate, affiliated entity,
5 Southwest Transmission Cooperative, Inc. ("SWTC") that assumed ownership and operational control
6 of AEPCO's transmission assets. In 2016, AEPCO and SWTC merged back into a single entity, with
7 AEPCO as the surviving generation and transmission cooperative.²

8 4. Prior to the AEPCO/SWTC merger, the Commission approved SWTC's Ancillary
9 Services Tariff in Decision No. 74172 (October 25, 2013). As part of the merger approval, the
10 Commission's Decision No. 74591 (July 30, 2014) also authorized AEPCO to re-issue SWTC's tariffs
11 under the AEPCO name.

12 **Application**

13 5. On February 28, 2017, AEPCO filed an application with the Commission requesting a
14 reduction to certain rates under its Ancillary Services Tariff. AEPCO reevaluated three categories of
15 service under the Ancillary Services Tariff. Due to recent developments in the requirements for
16 AEPCO's participation in the Southwest Reserve Sharing Group ("SRSG"), AEPCO concluded that
17 three ancillary service rates should be reduced.

18 6. AEPCO is proposing a reduction in rates under Schedule 3 (Regulation and Frequency
19 Response Service), Schedule 5 (Operating Reserve - Spinning Reserve Service), and Schedule 6
20 (Operating Reserve - Supplemental Reserve Service) as follows:

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²Commission Decision No. 74591.

Service	Current Rate	Revised
Schedule 3 Regulation and Frequency Response Service	0.2575 \$/kW Mo.	0.1852 \$/kW Mo.
Schedule 5 Operating Reserve – Spinning Reserve Service	0.7157 \$/kW Mo.	0.1348 \$kW Mo.
Schedule 6 Operating Reserve – Supplemental Reserve Service	0.4959 \$/kW Mo.	0.1157 \$/kW Mo.

7. As noted in the application, AEPCO's Board of Directors and its Operating Committee unanimously approved the proposed rate reductions.

8. As requested by AEPCO, the proposed rate reductions would become effective on April 1, 2017.

9. Staff has reviewed AEPCO's application in terms of whether there are fair value implications. In Decision No. 74173, the Commission determined the fair value rate base to be \$261,075,032. According to AEPCO's Financial and Operating Report filed with the Commission, as part of its 2015 annual report (filed May 2016) as of December 31, 2015, the net value of AEPCO's plant was \$240,574,408. Staff considered both of these values for purposes of this analysis. Staff believes that the impact to AEPCO's revenue, fair value rate base, or rate of return would be negligible.

Recommendations

10. Staff reviewed AEPCO's application and has recommended approval to reduce certain rates under the Ancillary Services Tariff.

11. Staff believes that an effective date of April 1, 2017, is appropriate, and therefore has recommended approval.

12. Staff has recommended that AEPCO file with Docket Control, as a compliance item, a revised Ancillary Services Tariff, consistent with the Decision in this matter within fifteen (15) days of the effective date of the Decision.

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CONCLUSIONS OF LAW

1. Arizona Electric Power Cooperative, Inc. is a public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

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

3. The Commission, having reviewed the application and Staff's memorandum dated March 22, 2017, concludes that it is in the public interest to approve Arizona Electric Power Cooperative, Inc.'s reduction of certain rates under its Ancillary Services Tariff.

ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. proposed reduction of certain rates under its Ancillary Services Tariff are hereby approved as discussed herein.

IT IS FURTHER ORDERED that the Ancillary Services Tariff rate reductions shall become effective as of April 1, 2017.

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IT IS FUTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with Docket Control, as a compliance item, a revised Ancillary Service Tariff, consistent with the Decision in this matter within fifteen (15) days of the effective date of the Decision.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN FORESE

COMMISSIONER DUNN

COMMISSIONER TOBIN

COMMISSIONER LITTLE

COMMISSIONER BURNS

IN WITNESS WHEREOF, I, TED VOGT, 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 _____, 2017.

TED VOGT
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EOA:PJG:red/CHH

1 Arizona Electric Power Cooperative, Inc.
2 Docket No. E-01773A-17-0061

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4 Gallagher & Kennedy, P.A.
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6 Suite 1100
7 Phoenix, Arizona 85016-9225

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