

November 14, 2014

Via: Email

Mr. Michael Gazda
Acting Executive Director
Arizona Power Authority
1810 W. Adams St.
Phoenix, AZ 85007

RE: INQUIRY ON PROPOSED TRANSMISSION ARRANGEMENTS

Dear Mr. Gazda:

On behalf of Arizona Electric Power Cooperative, Inc., and Southwest Transmission Cooperative, Inc., (Arizona's G&T Cooperatives), I am providing comments in response to the Arizona Power Authority's ("APA" or "Commission") recent inquiry on potential transmission arrangements for the delivery of the Boulder Canyon Project (BCP) power post 2017. We truly appreciate the courtesy of the APA in asking customers and potential customers for their views on potential transmission needs. As discussed below, we have examined the following two threshold questions posed in the November 7, 2014 notice.

Assuming the APA must secure transmission access on behalf of some of its customers for the post-2017 period, should the APA continue its current practice and socialize these transmission costs among all customers? In the alternative, should the APA implement a different practice, such as, by way of example, having each customer pay APA its respective delivery costs for transmission from Hoover to its respective delivery point(s)?

At the outset, we believe the Commission must first question whether there is a legal obligation to procure transmission service for allottees of Hoover power. With respect to the delivery of power that the Western Area Power Administration (Western) will allocate under Schedule D-1, there is no affirmative duty placed on the APA to secure transmission service for D-1 allottees. The marketing criteria published on December 30, 2013 in the Federal Register explicitly states that the "applicant will ultimately be responsible for acquiring transmission" to delivery points other than the Mead substation or other preferred delivery points on Western's transmission

system.¹ There is no statement or suggestion that an allottee of power made available under Schedule D-1 must rely upon the APA to provide transmission service. It remains the responsibility of an applicant to secure necessary transmission rights by October 1, 2016. The Commission should not otherwise assume that it has the responsibility to provide transmission service for power made available under Schedule D-1.

There is the further question whether the Commission bears the responsibility to secure transmission service for all other allottees including those entities who will receive an allocation of power under Schedules A, B, or D. The regulations governing the allocation process, such as R12-14-301 explain that the purchaser must “provide evidence to the Authority that a transmission system is available to enable the Purchaser to take and receive Long-term Power at the locations and voltages designated by the Authority.” While the regulations do not preclude the Commission from entering into transmission service arrangements on behalf of customers, there is no explicit obligation for the APA to secure transmission rights. Therefore, we do not believe that the APA should assume at the outset of the allocation process the obligation to secure transmission service for allottees.

With regard to the question on the design of transmission service including the allocation of costs, we profess a disadvantage to answer this question with any precision. No analysis of a proposed transmission service structure can be performed without an understanding of details such as Available Transmission Capacity (ATC), loads, and relevant rate structures. It is impossible to answer a question on whether to exercise rollover rights in an existing contract without examining alternative options with a detailed understanding of the fundamental transmission requirements and potential costs. Neither our board nor any of our Member boards would ever approve an agreement for transmission service without evaluating the underlying cost and service obligations.

Nonetheless, having noted the difficulty in evaluating the questions posed by the Commission in the absence of relevant details, we do note that the Commission should carefully consider the implications of relying on a transmission agreement that predates Federal Energy Regulatory Commission Order No. 888 for future transmission service. In this context, we encourage the APA to review the need for flexibility for individual customers and how unbundling the components of transmission service may best achieve this goal. Indeed, it becomes a much more important consideration if we consider the longer-term allocation contracts that have been suggested by many potential post 2017 customers.

Ultimately, we believe it is important for the Commission to recognize several fundamental components that relate to the transmission service for BCP resources:

¹ Federal Register, Vol. 78, No. 250, December 30, 2013, p. 79444.

1. There is no obligation for the APA to provide transmission service for customers/allottees;
2. Customers/allottees should be provided the relevant information and/or data to determine whether or not to retain the APA to secure necessary transmission service; and
3. The Commission should presumptively favor transmission arrangements that promote the greatest flexibility possible for customers/allottees.

As we consider our possible involvement with the Hoover power program through the APA as a beneficiary of D-2 power, we believe that the Commission should present potential customers with a rate structure that includes the costs of transmission service and a rate structure that requires a customer to acquire transmission service on its own. At that point in time, a potential customer can perform the appropriate due diligence and make a decision that is in the best interest of its ratepayers. Indeed, this type of transparency will undoubtedly benefit all stakeholders.

We would appreciate the opportunity to augment these views in the future as the discussion on appropriate transmission service comes more in focus. In the meantime, we thank the Commission for the opportunity to share these views.

Sincerely,



Patrick F. Ledger
Chief Executive Officer