APA Transmission Policy for Post-2017 Period:

Summary and Request for Comments

The Arizona Power Authority's (APA) current transmission policy reflects existing contractual arrangements with the Western Area Power Administration (Western) that provide for delivery of APA Hoover power to APA customers' points of receipts over Western's transmission system. These contracts will expire soon, and the APA Commission believes it prudent to consider and study various options for the post-2017 period, which differ from the current policy.

APA's current contracts with Western provide for transmission access that covers all of APA's Post-1987 statutory allocation of Hoover power (about 377 MW). These transmission contracts cover multiple delivery points on Western's Parker Davis and Intertie Transmission systems with some flexibility with respect to which transmission path Hoover deliveries can take. The reservation includes 246 MW on Parker Davis and 188 MW on Intertie for a total of 434 MW. The total reservation is higher than APA's statutory allocation because of the limited capacity on the Parker Davis transmission system between the Mead and Liberty substations. APA is limited to 189 MW between Mead and Liberty, and not all of APA's customers can be served from this limited capacity. Instead, these customers must be served by Intertie connections to Parker Davis. This results in some amount of pancaking.

The total charge to APA and its customer's for transmission through Western this past operating year was $7,188,660. In addition, APA and its customers must pay for a small amount of shared transmission costs from APA's ED-5 Substation and an annual amount paid to SRP of $63,898 for transmission. Currently, APA socializes all of the charges for transmission reservations, allocating one-half to Hoover capacity allocations and one-half to Hoover energy allocations.

Notwithstanding that APA's contracts with Western for Parker Davis and Intertie transmission access terminate at the end of September 2017, APA has the ability to "roll over" these agreements with Western. The contracts for Hoover power for the post-2017 period begin October 1, 2017. Under the Hoover Power Allocation Act of 2011, APA's statutory allocation of Hoover power for the post-2017 period increases to about 392 MW plus any allocations to new allottees in Arizona from the pool of Schedule D power allocated by Western (D-1). Transmission arrangements will be necessary to accommodate the delivery of Hoover power to D-1 allottees along with APA's share of Schedule A, Schedule B, and the pool of Schedule D allocated by APA (D-2).

Some APA customers could obtain transmission access on their own and contract directly with Western for transmission, potentially optimizing transmission for all of their generation resources. However, it is likely that many APA customers will continue to rely on APA to secure transmission access, in which case, APA will need to enter into agreements with Western for transmission over Western's systems. Due to Parker Davis system limitations, it is also likely that some pancaking will continue to exist.

Well before the post-2017 period begins, it will be necessary to determine (1) the transmission arrangements for delivery of Hoover power to entities in Arizona; (2) whether individual entities can secure the necessary transmission, or whether APA needs to secure transmission on behalf of its customers; and (3) if APA must secure transmission, how these costs be should recovered from its customers. At this time, the Commission asks interested parties to comment on the following policy question:

> Assuming APA must secure transmission access on behalf of some 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 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)?

Along with implications for cost shifting and transmission flexibility, it is noted that this policy issue has implications for the scheduling entity agreement as presently structured, which will require further investigation.

The Commission does not anticipate taking action on this issue at the November 18, 2014 meeting, but would like to use this opportunity to begin the discussion. To ensure consideration by the Commissioners before the November 18, 2014 meeting, written comments on this policy question should be submitted to Mike Gazda at mike@powerauthority.org, no later than November 14, 2014. Interested parties may also provide oral comments at the meeting on November 18, 2014, subject to appropriate time limitations.

Following the period provided for oral comments at the November 18, 2014 Commission meeting, the Commissioners may hold an Executive Session pursuant to section 38-431.03 of the Arizona Revised Statutes in the Authority's office, 1810 W. Adams Street, Phoenix, Arizona, for purposes of discussion with counsel for legal advice on this issue. The Executive Session will not be open to the public.