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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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DEC 14 2004

MARC SPITZER, Chairman  
WILLIAM A. MUNDELL AZ CORP COMMISSION  
JEFF HATCH-MILLER DOCUMENT CONTROL  
MIKE GLEASON  
KRISTIN K. MAYES

DOCKETED BY

Docket No. E-01345A-03-0437

IN THE MATTER OF THE APPLICATION OF  
ARIZONA PUBLIC SERVICE COMPANY FOR A  
HEARING TO DETERMINE THE FAIR VALUE  
OF THE UTILITY PROPERTY OF THE  
COMPANY FOR RATEMAKING PURPOSES, TO  
FIX A JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATE  
SCHEDULES DESIGNED TO DEVELOP SUCH  
RETURN, AND FOR APPROVAL OF  
PURCHASED POWER CONTRACT.

NOTICE OF ERRATA

Commission Staff ("Staff") hereby gives notice that it inadvertently failed to mark the late filed exhibits it filed on December 10, 2004. Therefore Staff is filing substitute late filed exhibits marked as follows:

- S-33 Status of WREGIS
- S-34 American Jobs Creation Act of 2004
- S-35 Staff Response to Commissioner Mundell's Request for Additional PSA Scenarios
- S-36 Automatic Enrollment of Low-Income Customers
- S-37 Marketing Costs for Low-Income Discount Programs

Copies of the exhibits are being provided to the parties, the Administrative Law Judge and the court reporter in this matter.

RESPECTFULLY SUBMITTED this 14th day of December, 2004.

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1 Original and 13 copies of the foregoing  
2 filed this 14<sup>th</sup> day of December, 2004, with:

3 Docket Control

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7 Copy of the foregoing sent by electronic  
8 and first class mail this 14<sup>th</sup> day of  
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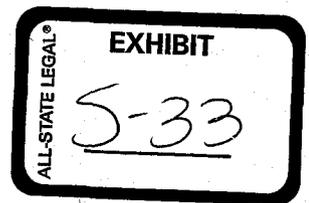
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## Status of WREGIS

Western Renewable Energy Generation Information System (WREGIS) is envisioned to operate as an independent accounting system and database that will track renewable energy generation and ownership of renewable energy certificates (RECs) within the Western Interconnect (11 states, 2 Canadian provinces, and northern Baja). WREGIS is currently being funded by the Western Governors' Association (WGA), the Western Regional Air Partnership and the California Energy Commission (CEC).

WREGIS is intended to be a tracking system and registry similar to a banking system that will enable the registration of generators and other account holders, the tracking of REC transfers in and out of the system, and the creation of public and private reports. The goals of WREGIS are the following:

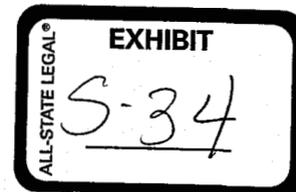
1. Establish a single institution in the West that will record renewable energy generation information and issue, register, and track RECs for use in verification of compliance with state regulatory and voluntary market programs;
2. Develop standard definitions, rules, and operating guidelines for participants in WREGIS;
3. Improve economics for the region's renewable energy resources; and
4. Support state renewable energy policies as well as regulatory programs.

WREGIS does not define what technologies are "renewables." The states set their own policies regarding what is acceptable as "renewables" for their own programs.

In December 2003, CEC and WGA issued a needs assessment report, documenting the basic functions and capabilities of WREGIS. The WREGIS Working Group was formed in January 2004. The WREGIS Operational Rules Committee issued *WREGIS Interim Operating Rules: Functional Requirements* in July 2004. Also in July 2004, the Western Electricity Coordinating Council agreed to be the institutional home for WREGIS. The WREGIS Institutional Committee issued its report on WREGIS governance and fee structures in November 2004.

The tentative schedule for the further development of WREGIS is the following:

- Feasibility Study Report approved - Winter 2004
- Request for Proposals released - Spring 2005
- Contractor Selected - Spring/Summer 2005
- WREGIS operational - Late 2005



## American Jobs Creation Act of 2004<sup>1</sup>

In regard to renewable energy, the American Jobs Creation Act of 2004 (signed into law on October 22, 2004) extended and expanded the renewable energy tax credit under Section 45 of the Internal Revenue Code. Before the Act, Section 45 provided power producers a 10-year production tax credit (PTC) equal to 1.5 cents (indexed for inflation, currently 1.8 cents) per kWh of electricity produced from qualified energy resources at qualified facilities placed in service before January 1, 2004.<sup>2</sup> Qualified energy resources only included wind, closed-loop biomass, and poultry waste.

The Act expanded the definition of qualified energy resources to include open-loop biomass (such as mill and harvesting residues, certain wood wastes, and agricultural livestock waste), geothermal energy, solar energy, small irrigation power, and municipal solid waste (landfill gas and trash combustion facilities). The credit amount is reduced in half for open-loop biomass, small irrigation, landfill gas, and trash combustion facilities.

The Act provides an additional credit of \$4.375 per ton of refined coal produced and sold to third parties for the production of steam. Refined coal is defined as a liquid, gaseous, or solid synthetic fuel produced from coal or high-carbon fly ash that when burned emits 20 percent less nitrogen oxide and either sulfur dioxide or mercury compared to feedstock or comparable coal available in the marketplace as of January 1, 2003, and that sells for at least 50 percent more than the feedstock coal. The credit for refined coal is subject to inflation adjustments and a phase-out based on market prices.

To qualify for the PTC, open-loop biomass, geothermal, solar, small irrigation, landfill gas, and trash combustion facilities must be placed in service after the date of enactment of the Act and before January 1, 2006. The credit period for those technologies will be limited to five years. A refined coal facility must be placed in service after the date of enactment and before January 1, 2009.

In addition, the Act limits the cutback of the PTC for state and local grants, tax-exempt bond financing, subsidized energy financing, and other state and local tax credits.

Section 701 of the Act puts the U.S. Environmental Protection Agency in charge of a demonstration program to provide up to \$2 billion in tax-exempt financing to green building and sustainable design projects on brownfields. The aggregate goal for the program is to reduce electric consumption from traditional sources by 150 MW, reduce daily sulfur dioxide emissions by 10 tons, expand the solar photovoltaic market by 75 percent (compared to the market growth from 2001 to 2002), and generate at least 25 MW of power from fuel cells. The projects must be partly supported by state or local governments and must be nominated by state or local governments within six months.

<sup>1</sup> Sources include [www.perkinscoie.com](http://www.perkinscoie.com), [www.martinandalex.com](http://www.martinandalex.com), [www.stoel.com](http://www.stoel.com), and [www.newrules.org](http://www.newrules.org).

<sup>2</sup> The Working Families Tax Relief Act of 2004 extended the date to December 31, 2005.

Staff Response to Commissioner Mundell's Request for Additional PSA Scenarios

Attached are sheets showing the PSA accounting and customer bill impacts for the three scenarios requested by Commissioner Mundell. The scenarios work off the information contained in Scenario 11 contained in the previously provided Staff Response to Request for Analysis of How the Various Proposals for APS Rates Will Impact an Average Customer Bill. All three scenarios project customer bill impacts and PSA annual accounting through 2009 and assume 3 percent load growth with all load growth being met with additional natural gas-fired generation. Regarding the price of natural gas, Scenario 11A uses the base case cost of \$5.78 per MMBtu through 2009. Scenario 11B uses the natural gas prices cited by APS during the hearing, \$5.94 per MMBtu in 2006, \$5.50 per MMBtu in 2007, and \$5.08 per MMBtu in 2008. Scenario 11C reflects rising natural gas prices in the coming years, with the price increasing five percent annually, to \$6.07 per MMBtu in 2006, \$6.37 per MMBtu in 2007, and \$6.69 per MMBtu in 2009. All other adjustors and inputs are held constant with how they were reflected in Scenario 11.

Residential Rate Schedule E-12 Rate Scenarios

June 2004 Average Residential Consumption (kwh)

738

assume summer rates used in all calculations

Scenario 11A - \$5.78 Gas Price Through 2009

Rate Element	Today	2006 Settlement W/Adjustors	2007 Settlement W/Adjustors	2008 Settlement W/Adjustors	2009 Settlement W/Adjustors
PSA Rate		\$0.00182	\$0.00084	\$0.00263	\$0.00163
Basic Service Charge	\$7.50	\$7.70	\$7.70	\$7.70	\$7.70
Summer, 1st 400 kwh (\$/kwh)	0.07376	\$0.07570	\$0.07570	\$0.07570	\$0.07570
Summer, Next 400 kwh (\$/kwh)	0.10281	\$0.10556	\$0.10556	\$0.10556	\$0.10556
Summer, Over 800 kwh (\$/kwh)	0.11991	\$0.12314	\$0.12314	\$0.12314	\$0.12314
Winter kwh (\$/kwh)	0.07394	\$0.07361	\$0.07361	\$0.07361	\$0.07361
Bill, No Adjustments	\$71.75	\$73.65	\$73.65	\$73.65	\$73.65
Removal of Franchise Fee	-\$1.02				
Base Rates, Absent Franchise Fee	\$70.74	\$73.65	\$73.65	\$73.65	\$73.65
PSA Rate		\$1.34	\$0.62	\$1.94	\$1.20
TCA		\$0.07	\$0.07	\$0.07	\$0.07
DSM Adjustor		\$0.19	\$0.19	\$0.19	\$0.19
EPS Surcharge/Adjustor	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35
CRCC		\$0.25	\$0.25	\$0.25	\$0.25
Subtotal	\$71.09	\$75.85	\$75.13	\$76.46	\$75.71
Franchise Fee	\$1.02	\$1.39	\$1.37	\$1.40	\$1.39
Final Bill	\$72.10	\$77.24	\$76.51	\$77.85	\$77.10
% Change From Previous Year		7.1%	-1.0%	1.8%	-1.0%
% Change in Base Rates From Today		4.1%			

# Scenario 11B - APS Projected Gas Price Through 2009

Rate Element	2006 Settlement W/Adjustors	2007 Settlement W/Adjustors	2008 Settlement W/Adjustors	2009 Settlement W/Adjustors	
PSA Rate	\$0.00182	\$0.00118	\$0.00164	\$0.00087	
Rate Element	Today	2006 Settlement W/Adjustors	2007 Settlement W/Adjustors	2008 Settlement W/Adjustors	2009 Settlement W/Adjustors
Basic Service Charge	\$7.50	\$7.70	\$7.70	\$7.70	\$7.70
Summer, 1st 400 kwh (\$/kwh)	0.07376	\$0.07570	\$0.07570	\$0.07570	\$0.07570
Summer, Next 400 kwh (\$/kwh)	0.10281	\$0.10556	\$0.10556	\$0.10556	\$0.10556
Summer, Over 800 kwh (\$/kwh)	0.11991	\$0.12314	\$0.12314	\$0.12314	\$0.12314
Winter kwh (\$/kwh)	0.07394	\$0.07361	\$0.07361	\$0.07361	\$0.07361
Bill, No Adjustments	\$71.75	\$73.65	\$73.65	\$73.65	\$73.65
Removal of Franchise Fee	-\$1.02				
Base Rates, Absent Franchise Fee	\$70.74	\$73.65	\$73.65	\$73.65	\$73.65
PSA Rate		\$1.34	\$0.87	\$1.21	\$0.64
TCA		\$0.07	\$0.07	\$0.07	\$0.07
DSM Adjustor		\$0.19	\$0.19	\$0.19	\$0.19
EPS Surcharge/Adjustor	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35
CRCC		\$0.25	\$0.25	\$0.25	\$0.25
Subtotal	\$71.09	\$75.85	\$75.38	\$75.72	\$75.16
Franchise Fee	\$1.02	\$1.39	\$1.38	\$1.39	\$1.38
Final Bill	\$72.10	\$77.24	\$76.76	\$77.11	\$76.53
% Change From Previous Year		7.1%	-0.6%	0.5%	-0.8%
% Change in Base Rates From Today		4.1%			

Scenario 11C - Assumes a 5% gas price increase annually through 2009

PSA Rate	\$0.00182	\$0.00146	\$0.00339	\$0.00315
	2006	2007	2008	2009
Rate Element	Settlement W/Adjustors	Settlement W/Adjustors	Settlement W/Adjustors	Settlement W/Adjustors
Basic Service Charge	Today			
Summer, 1st 400 kwh (\$/kwh)	\$7.50	\$7.70	\$7.70	\$7.70
Summer, Next 400 kwh (\$/kwh)	0.07376	\$0.07570	\$0.07570	\$0.07570
Summer, Over 800 kwh (\$/kwh)	0.10281	\$0.10556	\$0.10556	\$0.10556
Winter kwh (\$/kwh)	0.11991	\$0.12314	\$0.12314	\$0.12314
	0.07394	\$0.07361	\$0.07361	\$0.07361
Bill, No Adjustments	\$71.75	\$73.65	\$73.65	\$73.65
Removal of Franchise Fee	-\$1.02			
Base Rates, Absent Franchise Fee	\$70.74	\$73.65	\$73.65	\$73.65
PSA Rate		\$1.34	\$2.50	\$2.32
TCA		\$0.07	\$0.07	\$0.07
DSM Adjustor		\$0.19	\$0.19	\$0.19
EPS Surcharge/Adjustor	\$0.35	\$0.35	\$0.35	\$0.35
CRCC		\$0.25	\$0.25	\$0.25
Subtotal	\$71.09	\$75.85	\$77.01	\$76.84
Franchise Fee	\$1.02	\$1.39	\$1.41	\$1.41
Final Bill	\$72.10	\$77.24	\$78.42	\$78.24
% Change From Previous Year		7.1%	1.9%	-0.2%
% Change in Base Rates From Today		4.1%		

base cost \$0.020743

### Scenario 11A - \$5.78 gas price through 2009

	April 2006 reset	April 2007 reset	April 2008 reset	April 2009 reset
Annual Gas Cost (\$000)	2005 gas cost	2006 gas cost	2007 gas cost	2008 gas cost
Annual Gas Volume (000 MMBtu)	\$332,500	\$376,428	\$421,671	\$468,272
Average Cost of Gas (\$/MMBtu)	57,527	65,126	72,954	81,016
Annual Native Load Sales (MWH)	\$5.78	\$5.78	\$5.78	\$5.78
Annual Net Fuel and PP Costs	26,743,000	27,545,290	28,371,649	29,222,798
Annual Costs Recovered Thru Base Cost	\$608,700,000	\$652,600,000	\$697,900,000	\$744,500,000
Over/Undercollection (negative = overcollected)	\$554,730,049	\$571,371,950	\$588,513,109	\$606,168,502
Balance After 90/10 Application	\$53,969,951	\$81,228,050	\$109,386,891	\$138,331,498
Previous Year's Balance Carryover	\$48,572,956	\$73,105,245	\$98,448,202	\$124,498,348
Previous Year's Collection from PSA Rate	\$0	\$0	\$0	\$0
Remaining Balance to Address Through New PSA Rate	\$0	-\$50,030,145	-\$23,767,353	-\$76,921,274
Balance per kwh of Native Load Sales	\$48,572,956	\$23,075,100	\$74,680,849	\$47,577,074
Balance per kwh Captured Within \$0.004 band	\$0.00182	\$0.00084	\$0.00263	\$0.00163
Balance per kwh Remaining Outside \$0.004 band	\$0.00182	\$0.00084	\$0.00263	\$0.00163
Balancing Account Balance	\$0.00000	\$0.00000	\$0.00000	\$0.00000
Amount Balancing Account Exceeds \$50 million.	\$0	\$0	\$0	\$0

base cost \$0.020743

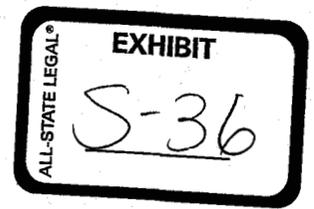
### Scenario 11B - APS Projected Gas Cost Through 2009

	April 2006 reset 2005 gas cost	April 2007 reset 2006 gas cost	April 2008 reset 2007 gas cost	April 2009 reset 2008 gas cost
Annual Gas Cost (\$000)	\$332,500	\$386,848	\$401,244	\$411,560
Annual Gas Volume (000 MMBtu)	57,527	65,126	72,954	81,016
Average Cost of Gas (\$/MMBtu)	\$5.78	\$5.94	\$5.50	\$5.08
Annual Native Load Sales (MWH)	26,743,000	27,545,290	28,371,649	29,222,798
Net Fuel and PP Costs	\$608,700,000	\$663,000,000	\$677,400,000	\$687,800,000
Costs Recovered Thru Base Cost	\$554,730,049	\$571,371,950	\$588,513,109	\$606,168,502
Over/Undercollection (negative = overcollected)	\$53,969,951	\$91,628,050	\$88,886,891	\$81,631,498
Balance After 90/10 Application	\$48,572,956	\$82,465,245	\$79,998,202	\$73,468,348
Previous Year's Balance Carryover	\$0	\$0	\$0	\$0
Previous Year's Collection from PSA Rate	\$0	-\$50,030,145	-\$33,408,153	-\$47,987,750
Remaining Balance to Address Through New PSA Rate	\$48,572,956	\$32,435,100	\$46,590,049	\$25,480,598
Balance per kwh of Native Load Sales	\$0.00182	\$0.00118	\$0.00164	\$0.00087
Balance per kwh Captured Within \$0.004 band	\$0.00182	\$0.00118	\$0.00164	\$0.00087
Balance per kwh Remaining Outside \$0.004 band	\$0.00000	\$0.00000	\$0.00000	\$0.00000
Balancing Account Balance	\$0	\$0	\$0	\$0
Amount Balancing Account Exceeds \$50 million	\$0	\$0	\$0	\$0

base cost \$0.020743

### Scenario 11C - Gas Cost Assumes a 5% increase annually through 2009

	April 2006 reset	April 2007 reset	April 2008 reset	April 2009 reset
Annual Gas Cost (\$000)	\$332,500	\$395,250	\$464,893	\$542,083
Annual Gas Volume (000 MMBtu)	57,527	65,126	72,954	81,016
Average Cost of Gas (\$/MMBtu)	\$5.78	\$6.07	\$6.37	\$6.69
Annual Native Load Sales (MWH)	26,743,000	27,545,290	28,371,649	29,222,798
Net Fuel and PP Costs	\$608,700,000	\$671,500,000	\$741,100,000	\$818,300,000
Costs Recovered Thru Base Cost	\$554,730,049	\$571,371,950	\$588,513,109	\$606,168,502
Over/Undercollection (negative = overcollected)	\$53,969,951	\$100,128,050	\$152,586,891	\$212,131,498
Balance After 90/10 Application	\$48,572,956	\$90,115,245	\$137,328,202	\$190,918,348
Previous Year's Balance Carryover	\$0	\$0	\$0	\$0
Previous Year's Collection from PSA Rate	\$0	-\$50,030,145	-\$41,287,653	-\$98,921,765
Remaining Balance to Address Through New PSA Rate	\$48,572,956	\$40,085,100	\$96,040,549	\$91,996,583
Balance per kwh of Native Load Sales	\$0.00182	\$0.00146	\$0.00339	\$0.00315
Balance per kwh Captured Within \$0.004 band	\$0.00182	\$0.00146	\$0.00339	\$0.00315
Balance per kwh Remaining Outside \$0.004 band	\$0.00000	\$0.00000	\$0.00000	\$0.00000
Balancing Account Balance	\$0	\$0	\$0	\$0
Amount Balancing Account Exceeds \$50 million	\$0	\$0	\$0	\$0

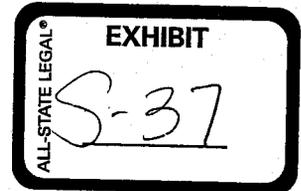


## Automatic Enrollment of Low-Income Customers

At the hearing, Commissioner Mayes asked the parties to analyze the issue of automatically enrolling low-income customers in utility programs when they apply for other income-based financial assistance programs such as Food Stamps.

At first blush, the concept appears desirable. One-stop shopping may enable low-income customers to enroll in more programs for which they are eligible, more quickly, and without as much hassle.

However, Staff has not had an opportunity to evaluate implementation issues that may arise from an automatic process. Staff has talked with a representative from Arizona Community Action Association (ACAA) for information on the subject. ACAA will be filing comments in this docket that we understand to be generally supportive of the concept of automatic enrollment.



Marketing Costs for Low-Income Discount Programs

<u>Company</u>	<u>Annual Expenditures</u>
Arizona Public Service (proposed Settlement)	\$150,000 (includes \$75,600 for DES)
Southwest Gas (10/03-9/04)	5,163
Tucson Electric Power (2004)	46,508
UNS Electric (2004)	15,404
UNS Gas (2004)	73,549