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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 CONTRACTS

Docket No.: E-01345A-03-0437

**SUPPLEMENTAL COMMENTS
OF ARIZONA PUBLIC SERVICE
COMPANY**

Arizona Corporation Commission

DOCKETED

OCT 21 2004

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I. INTRODUCTION

After reviewing the transcript of the Procedural Conference held in this matter, Arizona Public Service Company ("APS") wishes to submit the following supplemental comments into the record.¹ In doing so, APS hopes to put the questions that have been raised by some Commissioners and Commission Staff concerning the Company's bill estimation process into some perspective. APS further believes that such supplemental comments will clearly demonstrate why these questions, although important to the Company's efforts to fully understand and implement the Commission's rules relative to

¹ Since the Procedural Conference was also noticed for two other dockets, E-01345A-03-0775 and E-01345A-04-0657, APS will file these Supplemental Comments in those dockets as well.

1 bill estimation, should not adversely affect the Commission's consideration of the
2 pending rate settlement agreement in Docket No. E-01345A-03-0775.

3 APS understands that Staff is conducting an independent investigation of APS
4 meter reading and bill estimation practices. APS has and will continue to fully cooperate
5 with that review. The Company is confident that such review will validate the
6 Company's efforts to obtain accurate meter reads from its customers and the
7 reasonableness of its estimation procedures, and that it will also conclude that there is no
8 systemic bias against APS customers inherent in such estimation procedures. Similarly,
9 APS has fully and promptly responded to the allegations raised in the Read complaint
10 docket, and it looks forward to presenting its evidence refuting such allegations.²
11 However, neither that investigation nor the Read complaint raises substantive
12 implications that should prevent prompt Commission consideration of the proposed rate
13 settlement. And just as significant, the Commission's consideration and, hopefully,
14 approval of the proposed settlement will in no manner circumscribe the Commission's
15 ability to review the Company's meter reading and bill estimation practices in either or
16 both of the current dockets presently open on these matters, Docket Nos. E-01345A-03-
17 0775 and E-01345A-04-0657, or to issue any necessary orders affecting the Company's
18 meter reading and bill estimation practices.

19 II. SCOPE OF APS BILL ESTIMATION

20 Every utility that meters its customers' service, whether it be an electric, gas or
21 water utility, will have to issue bills based on estimated meter readings some of the time.
22 Reasons generally involve lack of customer meter access, weather, or equipment
23 malfunction. Each of these reasons, along with other less common circumstances, are
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25 ² APS is not, by this statement, implying that Ms. Read should not have the opportunity to first present
26 evidence that she believes may support one or more of her complaint's allegations.

1 recognized by Commission rules as being beyond the Company's control and sufficient
2 bases for issuing bills showing estimated usage. The instances in which APS issues such
3 bills are consistent with these Commission rules, but APS makes an extensive effort to
4 minimize the need to estimate customer usage, ranging from adequate staffing of its
5 meter reading function, financial incentives for obtaining actual meter reads to multiple
6 customer contacts to resolve meter access problems – the single largest cause of having
7 to estimate customer usage. And these efforts have been successful. Based on data
8 already provided Commission Staff as part of its investigation, only 1.21% of APS' total
9 residential customer bills were estimated for the twelve month period ending August of
10 2004. For the two residential rates having demand charges, which appear to be at the
11 center of Ms. Read's complaint, estimated bills accounted for just .85% of all customer
12 bills for those two rate schedules.³

13 APS bills resulting from an estimated meter read are clearly labeled as such in
14 accordance with Commission rules. The bills also provide historical usage information,
15 both demand and energy, to the customer by which the customer can evaluate the current
16 month's consumption. Yet APS would note that in the past six years, which encompass
17 the entire period since implementation of its current CIS system, which is the mainframe
18 computer system used by the Company since 1998 to store and process customer
19 information, including billing information, the Company can find only 73 informal
20 complaints to the Commission over estimated meter reads. This constitutes
21 approximately one dispute per 13,000 estimates. The Read complaint is the only formal
22 complaint over estimation in that same period. Thus, any impression left by Ms. Read's
23 complaint that APS has a significant number of estimated bills compared to non-

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25 ³ Although Ms. Read had both a demand account (which was closed in August 1999) and a standard rate
26 account, standard rate accounts are essentially self correcting – i.e., an under or over estimate of
consumption for a particular month is adjusted as soon as an actual read of the meter is obtained.

1 estimated bills or other utilities, or that there is a widespread concern by APS customers
2 over the appropriateness of APS estimation procedures is simply inaccurate.

3 III. IMPACT ON APS CUSTOMERS AND APS REVENUES

4 Just as every electric utility issues bills based on estimated usage, an estimate of
5 customer usage is just that – an estimate. Some will be higher than actual usage, and
6 some will be less. That would be true irrespective of the estimation methodology
7 employed. APS is conducting an analysis of its bill estimation process in terms of its
8 impact on overall revenue and overall level of customer bills, as compared to what
9 would have been achieved if, hypothetically, APS were able to do the impossible, i.e.,
10 read 100% of its customers' meters 100% of the time. Although such analysis is still
11 under final review, the preliminary results indicate that the Company has systematically
12 underestimated customers' usage in the aggregate, albeit by relatively small amounts
13 even when compared to the small number of bills issued using estimated usage (and by a
14 less than miniscule amount compared to total annual APS revenue). The annual amount
15 of such underestimation is in all instances significantly less than \$1 million for all
16 residential and general service customers combined (split fairly equally between
17 residential and non-residential usage estimation), as compared with adjusted 2002 test
18 period revenues in the pending APS rate case of some \$ 2 billion, a variance of well
19 below 0.05%.

20 As suggested above, APS has updated some of the data inputs to its standard bill
21 estimation formula since 1999. Most involve the use of differing class and rate schedule
22 load factors to calculate an estimate of kW demand for customers billed under
23 demand/energy rates. These changes to the load factor percentages used to translate
24 customer-specific kWh estimates into kW estimates appear to have somewhat reduced
25 the level of under-billing, thus increasing the overall accuracy of the APS estimation
26 process, but have not eliminated under-billing. Even the estimation methodology

1 approved by the Commission for residential demand accounts in APS Rate Schedules
2 EC-1 and ECT-1R, if uniformly applied to all residential demand estimates, produces
3 underestimates of actual customer demands comparable to APS' present load factor-
4 based computation and higher demands (and therefore higher customer billings) than
5 actually estimated by the Company for most of the period since 1999.⁴

6 APS continues to review customer load and usage data in an effort to further
7 increase the accuracy of its bill estimation. But the Company realizes that no estimation
8 process is or can be made to be perfect such as to replicate, in each and every instance,
9 the consumption that would have been obtained from an actual meter read.

10 IV. CONCLUSION

11 APS does not object to the Commission's review of its metering and bill
12 estimation processes. Indeed, the Company requested the latter in its October 2003
13 Application for Declaratory Order. APS also firmly believes that the Commission's rules
14 regarding bill estimation are ambiguous, legally suspect and in need of clarification in
15 several respects. But these bill estimation processes affect barely 1% of APS's
16 customers, and its bill estimations have been conservatively low during the years since
17 the Commission last examined APS estimation practices in the *Ciccone* decision. There
18 is neither a systemic problem affecting the Company's meter reading and bill estimation
19 procedures nor any logical connection between either of these procedures and the
20 pending rate settlement. APS and the other signatories to the proposed rate settlement
21 can not be reasonably blamed for the fact that the October 2003 Application has not been
22 acted upon by the Commission. Neither are they responsible for the Read complaint,
23 which was filed after the proposed rate settlement was submitted to the Commission for

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25 ⁴ Each of these rate schedules authorized APS to use the last valid demand meter read to estimate
26 demand in succeeding months. Although granted by the Commission in the early 1980s, APS has used
more complex procedures that on average produced lower estimated bills than strict application of this
rate schedule language.

1 consideration. Each of these three matters deserves to be promptly and fairly addressed
2 by the Commission. None should be held hostage to the others.

3 RESPECTFULLY SUBMITTED this 21st day of October, 2004.

4 PINNACLE WEST CAPITAL
5 CORPORATION LAW DEPARTMENT

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7 By: 
8 Thomas L. Mumaw

9 Attorney for Arizona Public Service
10 Company

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1 The original and 13 copies of the foregoing
2 filed this 21st day of October, 2004 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington
6 Phoenix, AZ 85007.

6 And a copy of the foregoing
7 served via U.S. Mail this
8 21st day of October, 2004, to:

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18 All Parties of Record in Docket No. E-01345A-03-0437

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