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MEMORANDUM



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TO: Docket Control
Arizona Corporation Commission

FROM: Deborah Scott
Director
Utilities Division

DATE: March 23, 2001

RE: IN THE MATTER OF THE APPLICATION OF MORENCI WATER AND ELECTRIC COMPANY, FOR AN INCREASE IN ITS PURCHASED POWER AND FUEL ADJUSTER CLAUSE ("PPFAC") RATE (DOCKET NO. E-01049A-00-0761)

Attached is the Staff Report for the above referenced application. Staff is recommending approval of the application without a hearing.

DRS:REL:jbc

Originator: Ronald E. Ludders

Attachment: Original and Eleven Copies

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

MORENCI WATER AND ELECTRIC, INC.

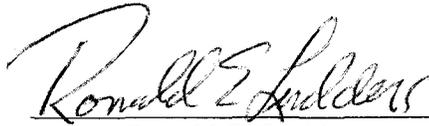
DOCKET NO. E-01049A-00-0761

APPLICATION
FOR A
INCREASE OF THE
PURCHASED POWER FUEL ADJUSTER

MARCH 2001
STAFF ACKNOWLEDGEMENT

The Staff member designated below contributed elements of this Staff Report.

CONTRIBUTING STAFF MEMBER:

A handwritten signature in cursive script that reads "Ronald E. Ludders". The signature is written in black ink and is positioned above a horizontal line.

Ronald E. Ludders
Senior Rate Analyst

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Introduction

On September 29, 2000, Morenci Water & Electric Company's ("MW&E" or "Company") requested a change in its Purchase Power Fuel Adjuster Clause ("PPFAC") rate.

The Company is desirous of receiving Commission approval of the proposed PPFAC rate that is projected to reduce the under-collected PPFAC bank balance over a period of approximately two (2) years.

Since the establishment of the current PPFAC rate, significant changes in the cost of wholesale electrical power has caused the cost of purchased power to increase significantly leaving the PPFAC bank balance under-collected by \$496,715 as of February 28, 2001. Under the current circumstances, the under-collection is projected to be approximately \$929,240 by December 31, 2001, without any adjustment in the current PPFAC rate.

On September 29, 2000, the Company requested the Commission approve a new PPFAC rate of a negative \$0.020916 per kilowatt-hour ("kWh"). This rate, when applied, would reduce the under-collected amount to zero by approximately December 31, 2002. On January 10, 2001, the Company filed an updated amendment to its original application indicating that the under-collected PPFAC bank balance has grown significantly faster than anticipated. Therefore, MW&E has requested a higher PPFAC rate of a negative \$0.012475 per kWh.

The currently approved PPFAC rate for MW&E was established in Decision No. 61705, dated May 13, 1999, and amounts to a negative \$0.05052 per kWh. This adjuster was designed to refund \$279,128 to MW&E customers and to reflect the reduced cost of purchased power at that time. The refund was completed in July 2000.

Staff Analysis

Staff has reviewed the Company's application and related attachment (Attachment A) projecting the effect on the Company's bank balance with and without the implementation of the proposed adjuster and the effect on a typical bill if the adjuster is adapted.

Staff also reviewed the Company's December 31, 2000, bank balance of \$408,879 and found it to balance to Staff's control mechanism (Attachment B).

Staff estimates the increase in the PPFAC from a negative \$0.05052 to a negative \$0.012475 per kWh will increase the average residential bill with a monthly usage of 526 kWh by \$20.01, from \$32.32 to \$52.33.

While the monthly bill increases significantly, the rates charged by the Company have not increased. For the past several years, ratepayers have enjoyed lower electrical costs due primarily to the size of the negative PPFAC that was designed to reimburse customers for the

over-collected bank balance. Although the repayment to customers has been completed, the negative adjuster remains in effect at a time when wholesale power costs are escalating.

Prior to the approval of the current reimbursement adjuster, the Company employed a negative adjuster rate of \$0.01391 or \$0.001435 per kWh below the requested adjuster¹.

The actual increase in customer bills will be calculated by the individual usage of each customer.

Recommendations

Staff recommends that the December 31, 2000, Morenci fuel adjuster bank balance of \$408,879 be accepted by the Commission without a hearing.

Staff further recommends that the negative fuel adjuster of \$0.05052 per kWh as approved in Decision No. 61705, be reduced to a negative \$0.012475 and remain in effect until the bank balance is reduced to zero or until further order from the Commission.

¹ \$0.013391 (previous adjuster) less \$0.012475 (requested adjuster) = \$0.001435

MORENCI WATER AND ELECTRIC

Purchased Power and Fuel Adjustor
 Docket No. E-1049
 Year Ended December 31, 2000
 LAST ACT. - Decision No. 59928 12/18/96
 FILE: MORCELFA RANGE: 2000

** - Company stopped taking line loss and own use and reducing actual cost of purchased power 12/94.

RATES - Decision NO. 54712 10/10/85
 PREV FUEL ADJUSTO Decision No. 57767 3/16/92
 FA Only Refund Over-Collected Bank Balance as of 12/31/96.

	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTALS
ENDING BANK BALANCE FROM PREVIOUS MONTH:	\$ 157,183	\$ 142,946	\$ 128,950	\$ 117,826	\$ 95,456	\$ 66,578	\$ 3,935	\$ (67,381)	\$ (159,006)	\$ (231,696)	\$ (281,153)	\$ (334,438)	
JURISDICTIONAL SALES (Applicable to FUEL ADJ.):	KWH 2,160,711	1,827,198	1,632,568	1,493,153	1,963,413	1,871,049	2,596,231	2,763,931	2,333,944	1,960,940	2,129,950	2,090,619	
ACTUAL COST OF PURCHASED POWER:	\$ 67,606	\$ 59,128	\$ 51,449	\$ 53,020	\$ 67,374	\$ 98,869	\$ 135,443	\$ 159,893	\$ 150,389	\$ 97,882	\$ 105,895	\$ 126,077	\$ 1,172,875
UNIT COST OF PURCHASED POWER:	\$ /KWH 0.031289	0.032360	0.031514	0.035509	0.044501	0.052836	0.052169	0.057850	0.055845	0.049921	0.049717	0.060306	
AUTHORIZED BASE COST OF PUR. POWER:	\$ /KWH 0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	0.075220	
AUTHORIZED PURCHASED POWER ADJUSTOR:	\$ /KWH -0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	-0.050520	
TOTAL RATE COLLECTED FROM CUSTOMER:	\$ /KWH 0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	0.0247	
INCREMENTAL DIFFERENCE BETWEEN AUTHORIZED AND ACTUAL RECOVERY:	\$ /KWH 0.006589	0.007660	0.006614	0.010809	0.019801	0.028136	0.027469	0.033150	0.031145	0.025221	0.025017	0.035606	
NET CHANGE TO BANK BALANCE:	\$ (\$14,237)	(\$13,996)	(\$11,124)	(\$16,139)	(\$38,878)	(\$52,644)	(\$71,316)	(\$91,624)	(\$72,691)	(\$49,457)	(\$53,285)	(\$74,439)	
ADJUSTMENTS TO BANK BALANCE:	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
PPFA REFUND (unaudited - not added in BB)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
PREAPPROVED DSM COSTS	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (6,288,000)
ENDING BANK BALANCE:	\$ 142,946	\$ 128,950	\$ 117,826	\$ 95,456	\$ 56,578	\$ 3,935	\$ (67,381)	\$ (159,006)	\$ (231,696)	\$ (281,153)	\$ (334,438)	\$ (408,877)	
TOTAL KWH GENERATED / PURCHASED	2,186,871	1,940,394	1,866,006	2,240,191	3,240,801	3,382,266	3,469,784	3,569,450	5,652,763	2,488,856	2,079,476	2,742,748	\$34,979,606
SALES	2,160,711	1,827,198	1,632,568	1,493,153	1,963,413	1,871,049	2,596,231	2,763,931	2,333,944	1,960,940	2,129,950	2,090,619	\$24,823,707
DIFFERENCE - LINE LOSS / OWN USE	26,160	113,196	353,438	747,038	1,277,388	1,511,217	873,553	805,519	3,318,819	527,916	(50,474)	652,129	\$10,155,899
LINE LOSS	26,160	113,196	353,438	747,038	1,267,615	1,501,444	863,780	795,746	3,309,046	518,143	(60,247)	642,356	\$10,077,715
OWN USE	0	0	0	0	0	9,773	9,773	9,773	9,773	9,773	9,773	9,773	\$78,184
PERCENT (to Total Line Loss)	1.20%	5.83%	17.80%	33.35%	39.11%	44.39%	24.89%	22.29%	58.54%	20.82%	-2.90%	23.42%	28.81%
SALES (KWH):	1,346,515	906,992	850,744	722,896	952,746	1,140,278	1,173,046	1,333,366	985,417	918,154	771,895	691,860	\$11,989,889
Residential	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
Commercial	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
Wholesale	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
Promotional	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
Industrial	814,196	920,216	775,624	770,267	1,010,667	730,771	1,423,185	1,430,565	1,348,527	1,042,786	1,358,055	1,198,759	\$12,823,818
Irrigation	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
Municipality	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
Street Lights	0	0	0	0	0	0	0	0	0	0	0	0	\$ 0
TOTAL SALES (KWH):	2,160,711	1,827,198	1,632,568	1,493,153	1,963,413	1,871,049	2,596,231	2,763,931	2,333,944	1,960,940	2,129,950	2,090,619	\$24,823,707

**PROJECTED PURCHASED POWER BANK BALANCE
PRESENT AND PROPOSED PURCHASED POWER ADJUSTER**

Present PPFA Rate:	2000	2001	2002
Beginning Bank Balance - Under (Over)	(157,183)	408,879	929,240
kWh Sales - Total	1,313,242,442	1,314,883,995	1,316,527,600
Cost of Purchased Power - Total	58,982,995	59,156,631	59,243,742
kWh Sales Subject to PPFA	24,979,104	24,906,310	25,279,934
Current Base Rate Per kWh	0.075220	0.075220	0.075220
Current PPFA Rate Per kWh	(0.050520)	(0.050520)	(0.050520)
Net PPFA Collection Rate Per kWh	0.024700	0.024700	0.024700
Purchased Power Collected	616,984	615,186	624,414
Under (Over) Collected	515,415	571,008	556,709
Ending Bank Balance - Under (Over) @ 12/31	408,879	929,240	1,485,949

Proposed PPFA Rate:	2000	2001	2002
Beginning Bank Balance - Under (Over)	(157,183)	408,879	399,720
Current Base Rate Per kWh	0.075220	0.075220	0.075220
Proposed PPFA Rate Per kWh as of April 2001	(0.050520)	(0.012475)	(0.012475)
Net PPFA Collection rate Per kWh	0.024700	0.062745	0.062745
Purchased Power Collected	616,984	1,562,746	1,586,189
Under (Over) Collected	515,415	(9,159)	(399,716)
Ending Bank Balance - Under (Over) @ 12/31	408,879	399,720	4

Typical Bill Analysis - Residential:	Present Adjuster	Proposed Adjuster	Proposed Increase
Monthly kWh Usage	526	526	
Customer Service Charge	5.50	5.50	
Energy Rate Per kWh	0.1015	0.1015	
Less: PPFA	(0.050520)	(0.012475)	
Net Energy Rate Per kWh	0.050980	0.089025	0.038045
Average Monthly Bill - Residential	32.32	52.33	20.01

	Jan-01	Feb-01	Mar-01	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01
Ending Bank Balance from												
1 Previous Month	408879	441172	470970	495837	468551	455251	462522	460978	471929	468440	434814	406499
2A Jurisdictional Sales	2193122	1853828	1657057	1515550	1992864	1899115	2485512	2516388	2396293	2215593	2094554	2086434
2B Total Sales (incl Spec Cont)												
3 Special Contract Sales	0	0	0	0	0	0	0	0	0	0	0	0
3 Actual Cost of Purchased Power	0.0394	0.0408	0.0397	0.0447	0.0561	0.0666	0.0621	0.0671	0.0613	0.0476	0.0492	0.0595
4 Unit Cost of Purchased Power												
Authorized Base Cost of Pur.												
Pow: Per Decision No 57712												
5 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
Authorized Purchased Power												
Adjuster: Per Decision No 57767												
6 Dated 3/16/92	-0.05052	-0.05052	-0.05052	-0.012475	-0.012475	-0.012475	-0.012475	-0.012475	-0.012475	-0.012475	-0.012475	-0.012475
Total Rate Collected From												
7 Customer	0.0247	0.0247	0.0247	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627
Incremental Difference between												
8 authorized and actual recovery:	0.0147	0.0161	0.0150	-0.0180	-0.0067	0.0038	-0.0006	0.0044	-0.0015	-0.0152	-0.0135	-0.0032
9 Net change to Bank balance:	32,293	29,798	24,867	-27,286	-13,300	7,271	-1,544	10,951	-3,489	-33,626	-28,315	-6,779
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	441,172	470,970	495,837	468,551	455,251	462,522	460,978	471,929	468,440	434,814	406,499	399,720

	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Ending Bank Balance from												
1 Previous Month	399720	336800	285836	238712	202384	174661	165946	144723	134343	112102	64554	22687
2A Jurisdictional Sales	2226018	1881636	1681912	1538284	2022757	1927601	2522794	2554134	2432238	2248827	2125972	2117761
2B Total Sales(Incl Spec Cont)												
2C Special Contract Sales												
3 Actual Cost of Purchased Power	0	0	0	0	0	0	0	0	0	0	0	0
4 Unit Cost of Purchased Power	0.0345	0.0357	0.0347	0.0391	0.0490	0.0582	0.0543	0.0587	0.0536	0.0416	0.0431	0.0520
Authorized Base Cost of Pur. Pow: Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522
Authorized Purchased Power Adjuster: Per Decision No 57767 Dated 3/16/92	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248	-0.01248
6 Total Rate Collected From Customer	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627	0.0627
Incremental Difference between authorized and actual recovery:	-0.0283	-0.0271	-0.0280	-0.0236	-0.0137	-0.0045	-0.0084	-0.0041	-0.0091	-0.0211	-0.0197	-0.0107
9 Net change to Bank balance:	-62,920	-50,964	-47,124	-36,328	-27,723	-8,715	-21,223	-10,380	-22,241	-47,548	-41,867	-22,683
10 Adjustments to Bank Balance	0	0	0	0	0	0	0	0	0	0	0	0
11 Preapproved DSM costs	0	0	0	0	0	0	0	0	0	0	0	0
12 Ending Bank Balance:	336,800	285,836	238,712	202,384	174,661	165,946	144,723	134,343	112,102	64,554	22,687	4