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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR APPROVAL OF A POWER SUPPLY
ADJUSTOR SURCHARGE.

DOCKET NO. E-01345A-05-0526

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
TEHREON, TO APROVE RATE SCHEDULES
DESIGNED TO DEVELOP SUCH RETURN,
AND FOR APPROVAL OF PURCHASED
POWER CONTRACT.

DOCKET NO. E-01345A-03-0437

**NOTICE OF FILING
STAFF RESPONSIVE TESTIMONY ON
APPLICATION FOR POWER SUPPLY
ADJUSTOR SURCHARGE**

Pursuant to the Procedural Order issued September 23, 2005, Staff hereby files the Responsive Testimony of William Gehlen on the Application of Arizona Public Service Company for Approval of a Power Supply Adjustor Surcharge in this docket.

RESPECTFULLY SUBMITTED this 17TH day of October, 2005.

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AZ CORP COMMISSION
DOCUMENT CONTROL

Christopher C. Kempley
Christopher C. Kempley, Chief Counsel
Janet Wagner, Attorney
Jason Gellman, Attorney
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

1 Original and 15 copies of the foregoing
filed this 17th day of October, 2005, with:

2 Docket Control
3 Arizona Corporation Commission
1200 West Washington
4 Phoenix, AZ 85007

5 Copy of the foregoing mailed this
17th day of October, 2005 to:

6 Thomas L. Mumaw
7 Karilee S. Ramaley
8 Pinnacle West Capital Corporation
P. O. Box 53999, MS 8695
9 Phoenix, AZ 85072-3999

10 Kimberly Grouse
11 Snell & Wilmer
12 One Arizona Center
400 East Van Buren
13 Phoenix, AZ 85004-0001

14 Jana VanNess
15 Manager, Regulatory Compliance
16 Arizona Public Service
Mail Station 9905
17 P. O. Box 53999
Phoenix, AZ 85072

18 Jay L. Shapiro
19 Patrick J. Black
Fennemore Craig, P.C.
3003 N. Central, Suite 2600
20 Phoenix, AZ 85012
Attorneys for Panda Gila River

21 Raymond S. Heyman
22 Michael W. Patten
Roshka Heyman & DeWulf
23 One Arizona Center
400 E. Van Buren, Suite 800
Phoenix, AZ 85004
24 Attorneys for UniSource Energy Services

25 Lawrence V. Robertson, Jr.
26 Munger Chadwick, P.L.C.
National Bank Plaza
333 North Wilmot, Suite 300
27 Tucson, AZ 85711
28 Attorneys for Southwestern Power Group II,
Bowie Power Station and Mesquite Power

Walter W. Meek, President
Arizona Utility Investors Association
2100 N. Central, Suite 210
Phoenix, AZ 85004

Scott S. Wakefield
Chief Counsel
RUCO
1110 W. Washington, Suite 220
Phoenix, AZ 85007

C. Webb Crockett
Fennemore Craig, P.C.
3003 N. Central, Suite 2600
Phoenix, AZ 85012
Attorneys for AECC and Phelps Dodge

Theodore E. Roberts
Sempra Energy Resources
101 Ash Street, HQ 12-B
San Diego, CA 92101-3017

Greg Patterson
Arizona Competitive Power Alliance
5432 East Avalon
Phoenix, AZ 85018

Major Allen G. Erickson
AFCES A/ULT
139 Barnes Drive, Suite 1
Tyndall AFB, Florida 32403-5319
Attorney for FEA

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 E. Seventh Street, Suite 2110
Cincinnati, OH 45202
Attorneys for Kroger Company

1 Michael A. Curtis
William P. Sullivan
2 Larry Udall
Martinez & Curtis, P.C.
3 2712 North Seventh Street
Phoenix, AZ 85006
4 Attorneys for Town of Wickenburg

5 Timothy M. Hogan
Arizona Center for Law in the Public Interest
6 202 E. McDowell Road, Suite 153
Phoenix, AZ 85004
7 Attorneys for Western Resource Advocates
and Southwest Energy Efficiency Project
8
9 S. David Childers
Low & Childers, P.C.
2999 North 44th Street, Suite 250
10 Phoenix, AZ 85018

11 Cynthia Zwick
Executive Director
12 Arizona Community Action Association
2627 North Third Street, Suite 2
13 Phoenix, AZ 85004

14 Coralette Hannon
AARP Department of State Affairs
15 6705 Reedy Creek Road
Charlotte, NC 28215

16 Rebecca C. Salisbury
17 56th Fighter Wing JA
7383 N. Litchfield Road
18 Luke AFB, AZ 85309-1540
Attorney for Federal Executive Agencies
19
20 Eric C. Guidry
Western Resource Advocates
2260 Baseline Road, Suite 200
21 Boulder, CO 80302

22 Jeff Schlegel
SWEEP Arizona Representative
23 1167 West Samalayuca Drive
Tucson, AZ 85704-3224
24
25 Jay I. Moyes
Moyes Storey, Ltd.
1850 North Central, #1100
26 Phoenix, AZ 85004
Attorneys for PPL Sundance and PPL
27 Southwest Generation Holdings
28

Bill Murphy
Murphy Consulting
2422 E. Palo Verde Drive
Phoenix, AZ 85016
Consultant for Arizona Cogeneration Assn.

Robert W. Geake
Arizona Water Company
P. O. Box 29006
Phoenix, AZ 85038-9006

Andrew W. Bettwy
Bridget A. Branigan
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, NV 89150

J. William Moore
Attorney at Law
1144 East Jefferson
Phoenix, AZ 85034

David Berry
Western Resource Advocates
P. O. Box 1064
Scottsdale, AZ 85252-1064

James M. Van Nostrand
Stoel Rives, LLP
900 SW Fifth Avenue, Suite 2600
Portland, OR 97204

Jon Poston
AARP Electric Rate Project
6733 East Dale Lane
Cave Creek, AZ 85331

Katherine McDowell
Stoel Rives, LLP
900 SW Fifth Avenue, Suite 2600
Portland, OR 97204

George M. Galloway
Arizona Competitive Power Alliance
900 SW Fifth Avenue, Suite 2600
Portland, OR 97204

Nicholas J. Enoch
Lubin & Enoch, P.C.
349 North Fourth Avenue
Phoenix, AZ 85003
Attorneys for IBEW Locals 387, 640 and 769

1 Jesse A. Dillon
PPL Services Corporation
2 Two North Ninth Street
Allentown, PA 18101
3

4 Paul R. Michaud
Michaud Law Firm, P.L.C.
23 Crimson Heights Road
5 Portland, CT 06480
Dome Valley Energy Partners
6

7 Robert Annan
Annan Group
6605 E. Evening Glow Drive
8 Phoenix, AZ 85262

9 David Crabtree
Teco Power Services
10 P. O. Box 111
Tampa, FL 33601-0111
11

Marvin S. Cohen
Sacks Tierney, P.A.
4250 N. Drinkwater Blvd., 4th Floor
Scottsdale, AZ 85251-3693
Attorneys for Contellation NewEnergy, Inc.
And Strategic Energy, LLC

Sean Seitz
President
Arizona Solar Energy Industries Association
5056 South 40th Street, Suite C
Phoenix, AZ 85040

12
13
14
15 *Monica A. Masterson*
16
17
18
19
20
21
22
23
24
25
26
27
28

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
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KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01345A-03-0437
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)
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-01345A-05-0526
ARIZONA PUBLIC SERVICE COMPANY FOR)
APPROVAL OF A POWER SUPPLY ADJUSTOR)
SURCHARGE)

DIRECT

TESTIMONY

OF

WILLIAM GEHLEN

PUBLIC UTILITY ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 17, 2005

TABLE OF CONTENTS

	<u>Page</u>
Introduction.....	1
Drivers of Energy Costs.....	4
Customer Impact.....	9
Summary of Testimony and Recommendations	10

ATTACHMENTS

Growth in Peak Demand and Resource Additions	Figure 1
Energy Mix by Resource Type	Figure 2
Fuel Price Changes 2002 – Aug 2005.....	Figure 3
Henry Hub Natural Gas Price	Figure 4
Calendar Year Around-the-Clock Power Price Palo Verde.....	Figure 5
Projected Post-Sharing PSA Monthly Balances With and Without the Surcharge	Figure 6

EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NOS. E-01345A-03-0437 & E-01345A-05-0526

On July 22, 2005, Arizona Public Service Company ("APS" or "Company") filed with the Commission an application for approval of a Power Supply Adjustor ("PSA") Surcharge (Docket No. E-01345A-05-0526). The request was for recovery of \$100 million to be collected over a period of 24 months. Subsequent to filing its application, APS agreed with Staff and the Residential Utility Consumer Office ("RUCO") to defer \$20 million from this specific application. APS now requests recovery of \$80 million over a 24 month period.

On September 14, 2005, this matter was consolidated for purposes of hearing with the review of the PSA Plan of Administration under Docket No. E-01345A-03-0437.

The result of Staff's analysis indicates that the PSA Surcharge amount of \$80 million requested by APS is reasonable. A combination of factors including rapid load growth, significant shift to the use of natural gas fired generation, and unforeseeable increase in the price of natural gas due to tight market conditions have caused natural gas and purchased power costs to increase at unanticipated amounts, resulting in significant increases in the PSA balancing account. The initial APS filing on July 22, 2005, was made in anticipation of the under-collected amount in the PSA balancing account reaching \$100 million. The most recent APS filing shows an under-collected balance of \$127.5 million as of August 31, 2005, and a projected increase of approximately \$20 million for September 2005. This balance did not include effects of Hurricane Katrina (August 29, 2005) and Hurricane Rita (September 24, 2005) which are having additional upward pressure on natural gas and purchased power costs.

Hurricanes Katrina and Rita and their resultant damage to the natural gas infrastructure and drilling rigs have driven natural gas prices to levels not deemed possible six weeks ago, much less four months ago when APS made their initial filing. At this point it is not likely that the under-collected balance in the PSA balancing account will fall below \$100 million even with the approval of the \$80 million surcharge as requested by APS. Present projections show the PSA balancing account increasing by an amount equal to, or more, per month than the average \$3.33 million per month offset by the requested APS Surcharge for ten (10) of the fourteen (14) months from November 2005 through December 2006. When the hurricane damage assessment has been completed, the natural gas and purchased power markets are expected to stabilize. At that point Staff will be able to better forecast increases or decreases in the PSA to determine the long run effects on the Company and the customers.

Staff recommends approval of the APS \$80 million PSA Surcharge request to be collected over a 24 month period. The Surcharge is to be implemented the first billing cycle in November 2005. The impact on the average residential bill will be an increase of \$1.48 per month, (or 1.3%) during the summer months, and \$0.96 per month, (or 1.6%) during the winter months.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is William Gehlen. I am a Public Utility Analyst V employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").
5 My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utility Analyst.**

8 A. In my capacity as a Public Utility Analyst V, I provide recommendations to the
9 Commission on energy related issues.
10

11 **Q. Please describe your educational background and professional experience.**

12 A. I earned a BS degree in Business Administration from Aquinas College, and an MBA
13 from Western Michigan University. My background includes 26 years of utility
14 experience with 16 years in investor owned utilities. In the fuels area, I have been
15 responsible for the planning, procurement and transportation of multiple fuel categories
16 (natural gas, gasoline, coal, oil and nuclear). In addition, I have been responsible for the
17 procurement of land, equipment, services, consulting and construction contracts, and
18 purchased power (short, medium and long term). Management positions also included
19 responsibility for integrated resource planning, long range forecasting, transmission
20 planning, environmental affairs and strategic planning. My most recent 10 years
21 experience includes 1 year with Office of Consumer Advocate for the State of Nevada as a
22 regulatory analyst, and 9 years in the development and marketing of energy trading
23 platforms, origination of purchase power agreements, real time energy trading, and
24 support of merchant generators in gathering market intelligence on regulatory, fuel and
25 product issues to aid in understanding inter and intra regional market design issues and
26 solutions.

1 **Q. What is the scope of your testimony in this case?**

2 A. I will address the Arizona Public Service Company's ("APS" or "Company") request for a
3 Power Supply Adjustor ("PSA") surcharge with a billing date to be effective the first
4 billing cycle in November 2005. I will evaluate the costs attributable to the request, and
5 put these costs into perspective in view of recent developments in the fuels and purchased
6 power markets. Estimated customer cost increases will be developed and discussed. In
7 addition, the impact of the Company hedging program will be addressed.

8
9 **Q. Describe the PSA Rate Mechanism.**

10 A. In Decision No. 67744, a PSA Rate Mechanism was authorized for the Company. The
11 purpose of the PSA is to track APS' costs of obtaining fuel for internal generation,
12 revenue from off-system sales, and the costs of obtaining purchased power from the
13 market. The actual costs of fuel and purchased power on an ongoing basis would be
14 compared to the base cost of \$0.020743 per kWh (Base Fuel Recovery Amount)
15 established in Decision No. 67744. The PSA permits the Company to defer for later
16 recovery/refund, through the Adjustor Rate, 90 percent of the fuel and purchased power
17 costs in excess of/below the amount recovered through the Base Fuel Recovery Amount.
18 The major features of the PSA are: a 90 percent ratepayer/10 percent APS sharing
19 mechanism, the recognition of off-system sales revenues, the inclusion of fuel and
20 purchased power costs, a bandwidth on changes in the Adjustor Rate of plus or minus
21 \$0.004 per kWh over the life of the PSA, a balancing account and a surcharge mechanism.

22
23 The results of the PSA mechanism are applied to customer bills through the Adjustor Rate.
24 The Adjustor Rate is to be reset April 1st of each year and maintained for a one year
25 period. In subsequent years, the Company would file with the Commission on March 1
26 their calculation for the Adjustor rate to become effective April 1 for the next 12 months.

1 Per Decision No. 67744, if the on going fuel and purchased power expense in the PSA
2 reaches plus or minus \$50 million, as compared to the base Fuel Recovery Amount, the
3 Company is required to file a request for Commission approval of a PSA surcharge/credit,
4 or an explanation of why a surcharge/credit is not necessary. In addition a cap of \$100
5 million was placed on the balancing account.

6
7 **Q. Describe the Company's PSA Surcharge request.**

8 A. On July 22, 2005, the Company filed for approval of a PSA Surcharge due to a projected
9 under-collection of its fuel and purchased power expenses of \$100 million by August 31,
10 2005. The filing anticipated a surcharge of \$0.00177 per kWh with a recovery period of
11 24 months and the surcharge to be effective the first billing cycle in November 2005,
12 which would result in approximately a 2.2 percent revenue increase relative to the Base
13 Fuel Recovery Amount of \$0.020743 per kWh for the requested two year amortization
14 period. Subsequent to this request, the Company agreed with Staff and the Residential
15 Utility Consumer Office ("RUCO") to defer \$20 million from the PSA Surcharge request
16 from this specific filing. As a result, the surcharge request was reduced to \$80 million
17 with a recovery period of 24 months and the same implementation date. The effective
18 surcharge request is \$0.001416 per kWh and would result in approximately a 1.7 percent
19 revenue increase relative to the Base Fuel Recovery Amount of \$0.020743 per kWh.

20
21 **Q. Describe the review performed on the Company's application.**

22 A. The application was reviewed for reasonableness comparing natural gas and purchased
23 power costs against known market information. In addition, a high level overview of the
24 Company's natural gas, purchased power, coal and nuclear fuel procurement practices was
25 performed through data requests and on site meetings with trading, procurement, hedging,
26 and back office personnel.

1 **Q. Was a prudence review performed?**

2 A. No. With the removal from the application of \$20 million attributable to Palo Verde
3 outages during the period April 1, 2005, through July 2005, the discussion of prudence has
4 been deferred to a later date.

5
6 A formal prudence review is typically performed during a rate case where there is time to
7 adequately review the Company's policies and procedures, dispatch practices and
8 software, compliance with contract provisions as well as to compare fuel and purchased
9 power to market hubs such as Palo Verde, Henry Hub and futures markets such as
10 NYMEX.

11

12 **Q. Did the procedural schedule allow time to perform a prudence review?**

13 A. No. The estimated time to do a thorough prudence audit could approach six months plus
14 require the services of outside consultants to address nuclear plant outages.

15

16 **DRIVERS OF ENERGY COSTS**

17 **Q. What factors are responsible for the rapid growth in the PSA account?**

18 A. The majority of growth in the PSA account can be attributed to load growth, Company
19 generation makeup, power market shift to gas generation, and price increases in
20 generation feedstock (natural gas, coal, and nuclear). Also, the Base Fuel Recovery
21 Amount of \$0.020743, which was based on 2003 actual costs, is not adequate to
22 compensate for the fuel and purchased power market prices that have developed over the
23 last two years. It is a combination of all the preceding factors that have driven up the PSA
24 account to amounts that precipitated the filing for a PSA Surcharge.

1 **Q. Discuss Company load growth.**

2 A. The Company has experienced significant peak demand load growth, 600 MW over the
3 last three years with an additional 300 MW forecasted for 2006. Figure 1 illustrates the
4 growth in the APS peak load requirement for the period 2000 through 2005 as well as the
5 projected 2006 peak. Load growth by itself does not necessarily result in uncollected fuel
6 and purchased power costs when fuel costs are relatively stable and the on and off peak
7 demands are relatively stable. The nature of the Company load during the summer is not
8 stable, and based on the generation mix available to meet load the primary fuel source
9 involved is natural gas for internally generated power and/or purchased power. The price
10 of natural gas has had a direct correlation to the price of power required to meet peak load
11 requirements.

12
13 **Q. Discuss the Company's generation mix and purchased power markets.**

14 A. Since 2001 the Company has added 1800 MWs of generation. It has all been natural gas-
15 fired generation. Figure 1 illustrates the APS generation mix and the growth in gas-based
16 generation utilized to meet peak demand. The coal and nuclear generation totals, which
17 have provided a moderating effect on the PSA account, have remained constant. The MW
18 amount of the Company's coal and nuclear generation is relatively constant, while the
19 amount and percentage of natural gas fired generation and gas based purchased power has
20 continued to increase. Figure 2 illustrates the percentage shift by generation type and
21 purchased power from 2000 through the third quarter 2005. This increasing reliance on
22 natural gas-fired generation and gas-based purchased power increases the Company's
23 exposure to volatile gas prices. When required to go to the market for purchased power,
24 the market price is determined once again by the price of natural gas. Almost all new
25 generation added by merchant generators is gas-fired, including 4000 MW of generation
26 within the state of Arizona since 2002. This means that when the Company must go to the

1 purchased power market, now and for the foreseeable future, to meet load requirements it
2 will pay a market price based on volatile gas prices.

3
4 **Q. Discuss increases in fuel cost.**

5 A. The Company has experienced increased costs in all fuel areas as well as purchased
6 power. The costs of coal and nuclear fuel have increased but at a much slower rate than
7 natural gas. Figure 3 illustrates the relative cost increase per fuel type in the Company's
8 fuel feedstock and purchased power mix. Using 2002 as a base year the cumulative cost
9 increase for coal has been 18 percent, nuclear fuel 9 percent, natural gas 122 percent, and
10 purchased power 67 percent. To a degree, the Company is able to exert some control over
11 the coal and nuclear fuel costs because they are based on negotiated contracts that are
12 primarily cost based and escalated on negotiated indices. The market price of natural gas
13 presently has little to no correlation to cost of production. Neither the Company, nor
14 anyone else, can control the price of natural gas at this time. It was apparent that natural
15 gas is becoming a scarce commodity even prior to recent hurricanes; recent damage to
16 drilling rigs, as well as other infrastructure, has added more uncertainty to the market and
17 has resulted in gas prices that were viewed as impossible six months ago. See figure 4
18 which illustrates the rapid run up in natural gas forward prices.

19
20 **Q. Has the Company been able to mitigate natural gas and purchased power costs?**

21 A. Yes. The Company developed procedures in the late 1990's that were designed to limit its
22 exposure to volatility in the fuel and purchased power markets. The program has evolved
23 over the years as the development of relatively liquid commodity markets and financial
24 equivalency contracts became available. The Company intended hedging to provide price
25 stability, not profit maximization, and has strict hedging guidelines which prevent market
26 speculation. In response to increased reliance on natural gas, accompanied by rapidly

1 escalating commodity prices, the Company in 2003 initiated a hedge plan that required
2 near term (one year) gas and purchased power requirements, to be 75 percent hedged. In
3 response to recent forecasted increases in market prices for gas and purchased power, the
4 Company raised the hedge percentage to 85 percent for the last five months of 2005, and
5 calendar year 2006. The Company is presently hedged 50 percent for 2007 and 35 percent
6 for 2008. The amount of fuel and purchased power expense was reduced by
7 approximately \$30 million during the four month period April 1 through August 1, 2005
8 because of the Company's hedging activities. The Company hedging strategy has worked
9 effectively to limit cost increases. Additional savings will accrue through years 2005 and
10 2006, barring a complete collapse of the gas and purchased power markets.

11
12 **Q. Is it possible to accurately predict the future price of natural gas and purchased**
13 **power?**

14 A. No. Until the natural gas and purchased power markets know with any degree of certainty
15 the extent of damage caused by recent hurricanes, the time frame for infrastructure repair
16 and the extent of damage to drilling rigs, prices will remain high and volatile. See figures
17 4 and 5 which illustrate market price increases in natural gas and purchased power. A
18 clearer picture of where the gas and purchased power markets are headed could be more
19 transparent by December 31, 2005. A better market view, and additional Company cost
20 data, will provide the information base needed to effectively evaluate the amount of
21 change to the Base Fuel Recovery Amount Adjustor Rate for implementation in April
22 2006.

1 **Q. Is it likely for the under-collected PSA account balance to fall below \$100 million**
2 **without the PSA Surcharge requested by the Company?**

3 A. No. Per Company provided cost information there is an under-collected fuel and
4 purchased power expense of \$127.7 million for the period April 1, 2005, through August
5 31, 2005. Of this amount, \$115.2 million has been deferred, and \$12.5 million has been
6 paid for by Company stockholders, reflecting the 90/10 sharing of fuel costs mandated by
7 Decision No. 67744. Figures 4 and 5 illustrate higher gas and purchased power market
8 prices for September than for August which will result in the continued growth of the
9 under-collected balance through the September reporting period. Additions to the under-
10 collected balance should moderate for the last quarter of the year since the need for gas-
11 fired generation and purchased power will decrease over the fall and winter shoulder
12 months.

13
14 **Q. Is it likely for the under-collected PSA account balance to fall below \$100 million**
15 **with approval of the PSA Surcharge requested by the Company?**

16 A. No. The \$80 million surcharge requested by the Company is to be collected over 24
17 months from November 2005 through April 2006. The under-collected balance will
18 continue to grow during the September reporting period. Predicted peak load growth of an
19 additional 300 MW for 2006 only increases the reliance by the Company on high priced
20 natural gas and purchased power to meet load, the costs of which will most likely be
21 higher than the Base Rate Fuel Amount and Adjustor Rate was designed to recover. The
22 Company in their filing projected an under-collected balance at year end 2006 of \$255
23 million with the Surcharge approval and an increase of 3 mills per kWh in the Adjustor
24 Rate in April 2006. Without the Surcharge approval, the Company projects an under-
25 collected amount of \$274 million with an increase of 4 mills per kWh in the Adjustor Rate
26 in April 2006. Staff has reviewed the Company's projections and found them to be

1 reasonable. The year end 2006 under-collected balance amounts were based on August
2 31, 2005, forward price curves for natural gas and purchased power (Figure 6 illustrates
3 the growth in the under-collected balance through year end 2006). As of September 30,
4 2005, the latest forward price curves show additional price escalation in both natural gas
5 and purchased power through year end 2006. A more precise picture of under-collected
6 balances will emerge from the upcoming review of actual Company cost data for the
7 period April through year end 2005. This review will determine any change to be made in
8 the Adjustor Rate which will have a direct correlation on the growth, or decline, in under-
9 collected fuel and purchased power expenses going forward.

10
11 **CUSTOMER IMPACT**

12 **Q. Has Staff examined the impact APS' proposed PSA Surcharge would have on**
13 **customers' bills?**

14 **A.** Yes. Staff examined the impact of the surcharge on residential customers taking service
15 on Rate Schedule E-12. E-12 is the Company's basic residential tariff which does not
16 include demand charges. As of the end of September 2005, 416,095 residential customers
17 were taking service on E-12. The E-12 rate (and rate structure) differ for summer and
18 winter months. Also, the usage of E-12 customers differs substantially across the summer
19 and winter. For these reasons, Staff examined the effect of the surcharge on E-12
20 customers in a representative summer month and a representative winter month. Chart 1
21 below is based on customer usage in July of 2005.

22

1 **Chart 1 Surcharge Impact on E-12 Summer Bills**

		Customer Bill	Surcharge amount	Surcharge
	kWh	(no surcharge)	(\$0.001416/kWh)	% impact
Low Use	785	\$ 80.27	\$ 1.11	1.39%
Median Use	818	\$ 84.13	\$ 1.16	1.4%
Average Use	1047	\$ 112.81	\$ 1.48	1.31%
High Use	1309	\$ 145.63	\$ 1.85	1.27%

2
3 Chart 2 below is based on customer usage from December 2004.

4
5 **Chart 2 Surcharge Impact on E-12 Winter Bills**

		Customer Bill	Surcharge amount	Surcharge
	kWh	(no surcharge)	(\$0.001416/kWh)	% impact
Low Use	508	\$ 46.16	\$ 0.72	1.56%
Median Use	531	\$ 47.89	\$ 0.75	1.6%
Average Use	677	\$ 58.84	\$ 0.96	1.63%
High Use	846	\$ 71.52	\$ 1.20	1.68%

6
7 Charts 1 and 2 show the Company's proposed surcharge's impact on E-12 customers with
8 different usage characteristics. The Company's proposed surcharge will raise E-12
9 customers' summer bills by \$1.48 or 1.3 percent on average. APS' proposed surcharge
10 will raise E-12 customers' winter bills by \$0.96 or 1.6 percent on average.

11
12 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

13 **Q. Summarize your testimony and recommendations in the filing.**

14 A. Testimony addressed the Company load growth, generation mix, and increasing natural
15 gas and purchased power costs. The preceding were evaluated in order to draw a
16 correlation to the large under-collected balance in the Company PSA account. Analysis
17 indicates the Base Rate Fuel Amount, which was based on 2003 cost data, is not adequate
18 to compensate for a growing peak load requirement which is being met with gas-fired
19 generation and purchased power. Natural gas prices have increased 58 percent while

1 purchased power prices have increased 45 percent during the period 2003 through the
2 third quarter 2005. The \$80 million PSA Surcharge request is modest in comparison to
3 the actual under-collected balance and should be approved. The impact on residential
4 customers based on a 24-month recovery period will be an increase of \$1.48 per month,
5 (1.3%) during the summer months and \$0.96 per month (1.6%) during the winter months.
6

7 Staff understands that the Company's request represents a burden on the Company's
8 customers. However, Staff does not believe rejecting or delaying the Company's
9 application will result in any long-term benefit for those customers. If the Company's
10 request were to be denied or deferred, the \$80 million in question would remain an under-
11 collection in the balancing account, accrue interest, and would have to be recovered at a
12 later date. Additionally, given the state of the natural gas market, the under-collected
13 balance is likely to grow over the near term with, or without, approval of the Company's
14 request (refer to Figure 6). Denying, or deferring the Company's current request will
15 result in future Surcharge requests of even greater magnitude. Staff believes there is some
16 value in addressing the current under-collection now so that the effect of increased fuel
17 costs on the Company's customers can be spread over time.
18

19 Because this proceeding did not include an evaluation of the prudence of the Company's
20 fuel and purchased power purchases, approval of the Surcharge in this proceeding shall
21 not impair the Commission's ability to consider whether such costs are imprudent or
22 otherwise subject to disallowance in a later rate case or proceeding specifically intended to
23 consider the reasonableness of costs associated with the Surcharge. In other words, should
24 the Commission determine that costs allowed for recovery in the proceeding were
25 imprudent or not recoverable; their allowance in this proceeding shall not prevent their
26 subsequent disallowance and implementation of a true-up related to those costs. Such

1 findings could occur either in the Company's next rate case, or in a separate proceeding
2 commenced specifically for that purpose.

3
4 Therefore, Staff recommends approval of the Company's requested \$0.001416 per kWh
5 Surcharge. Staff recommends that the Surcharge remain in effect until it collects \$80
6 million or two years have elapsed from the date of Commission approval, whichever
7 comes first.

8
9 The complexity of the PSA balancing account, and rapid changes in fuel and purchase
10 power costs require changes in the timing, and content of the PSA Report. The changes
11 must enable quicker and more in-depth evaluations, of the PSA Balancing Account under
12 and over-collected balances. To enable these improvements, Staff makes the following
13 additional recommendations:

14
15 APS provide the Power Supply Adjustor Report within thirty (30) days of the end of the
16 reporting period. As an example, the August report would be due the last working day in
17 September.

18
19 APS provide in the Power Supply Adjustor Report any costs attributable to unplanned
20 outages during the reporting period, and report these costs as a separate line item. Indicate
21 whether the outage(s) are on-going, or completed.

22
23 APS provide with the Power Supply Adjustor Report, a monthly projection for the next 12
24 month period showing the estimated under/over-collected balance in the PSA balancing
25 account utilizing the latest forward price curves for natural gas and purchased power.
26 Provide in tabular and figure formats.

1 **Q. Does this conclude your direct testimony?**

2 **A. Yes, it does.**

Figure 1
 ARIZONA PUBLIC SERVICE COMPANY
 Growth in Peak Demand and Resource Additions
 2000 - 2005

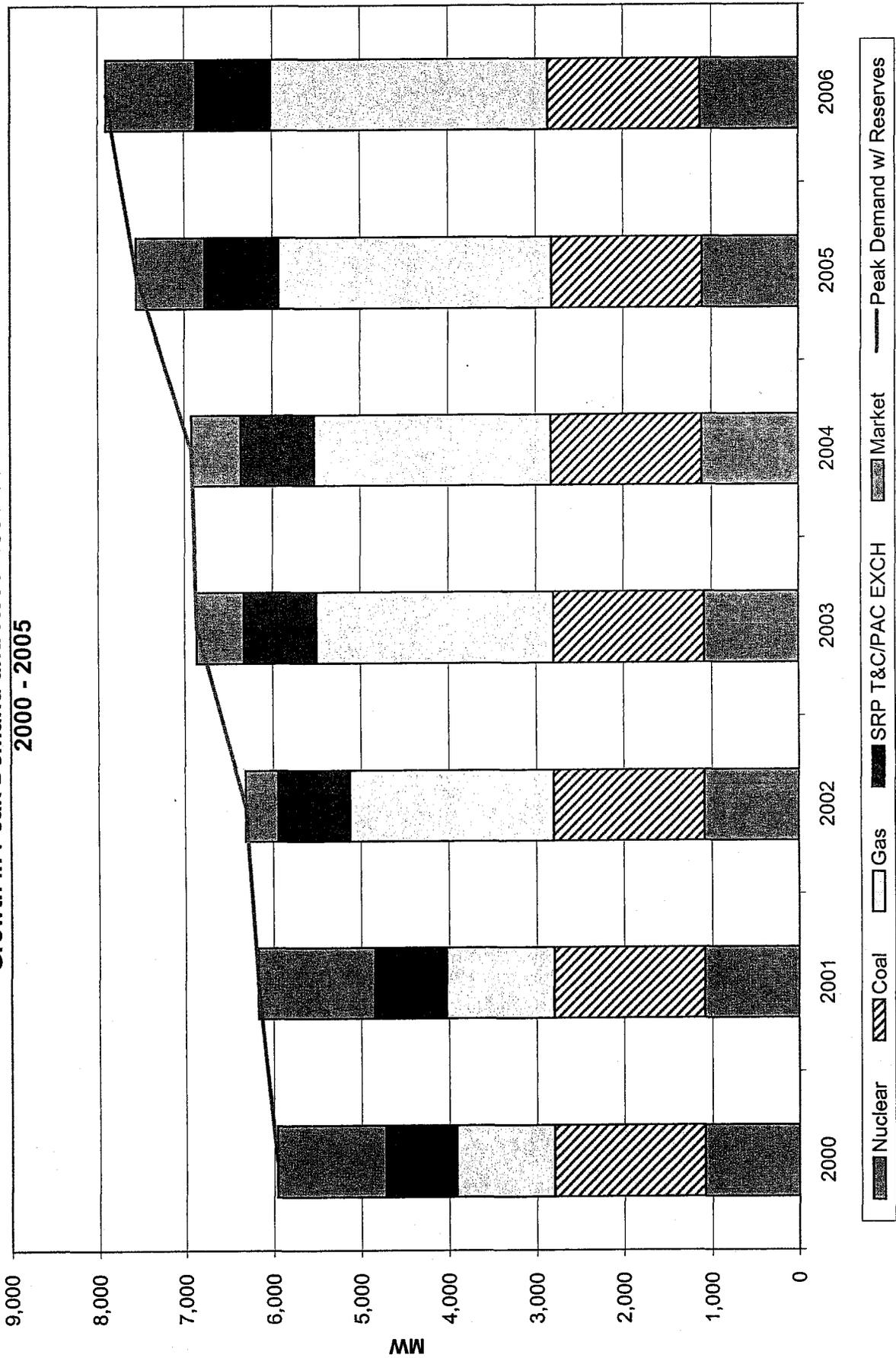
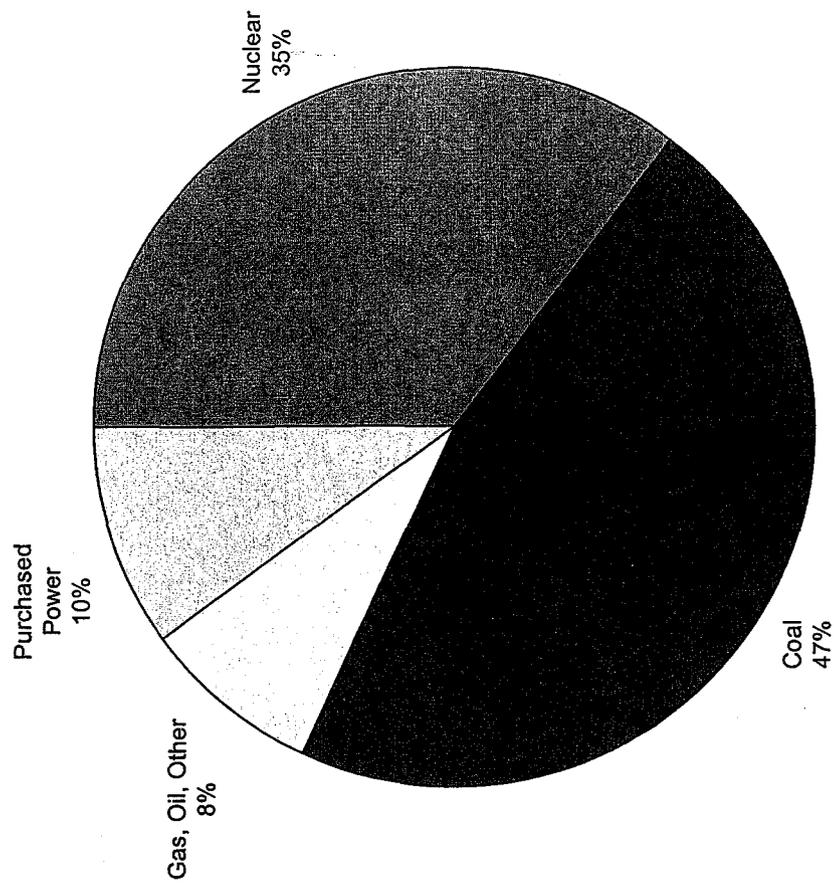


Figure 2
Arizona Public Service Company
Energy Mix by Resource Type

2002



2005

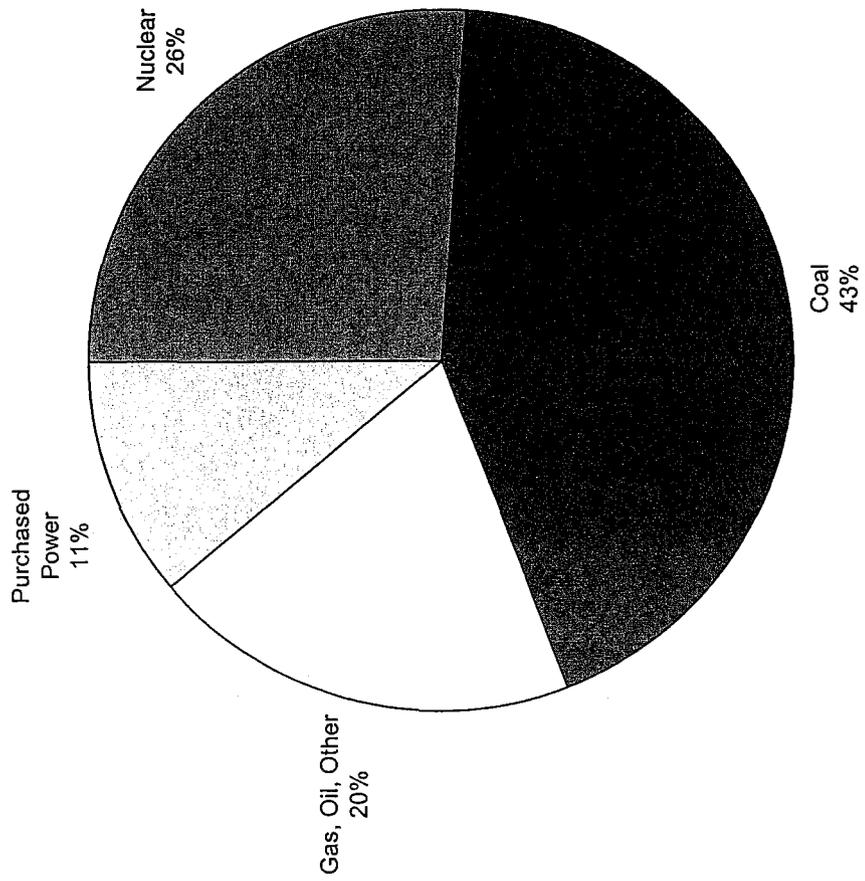
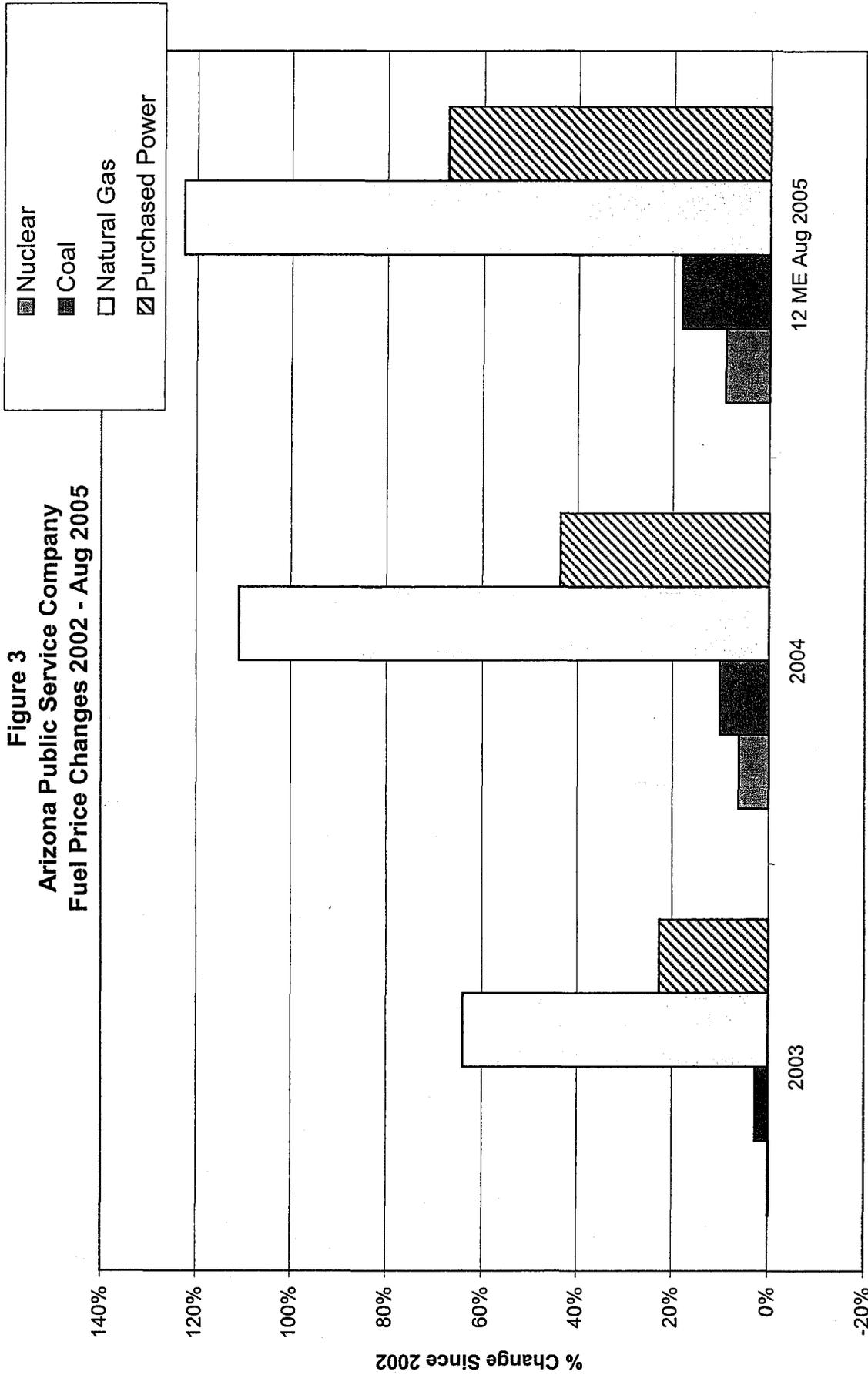
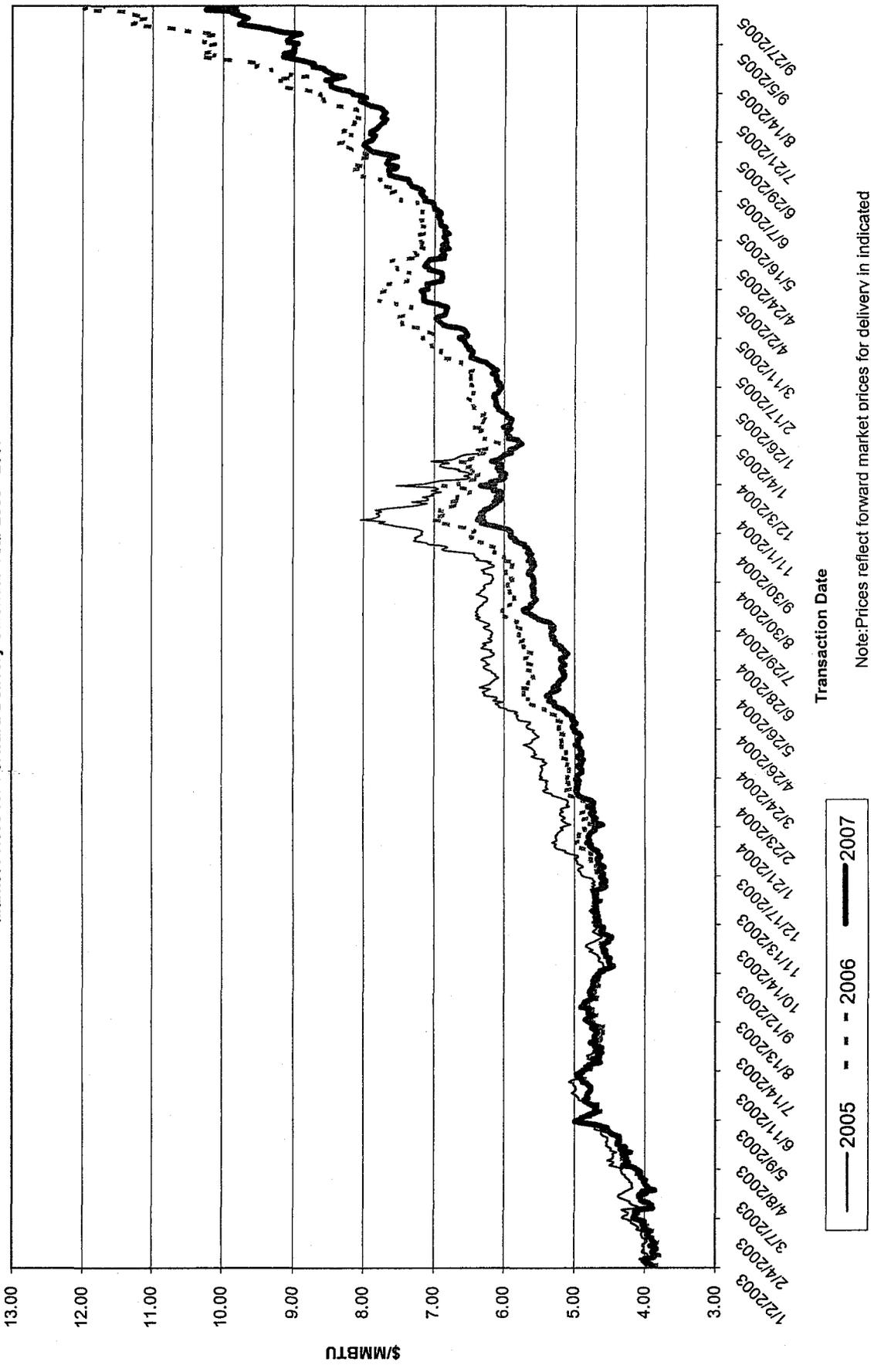


Figure 3
Arizona Public Service Company
Fuel Price Changes 2002 - Aug 2005



Note: Natural gas and power price changes do not include commodity hedging impacts.

Figure 4
Henry Hub Natural Gas Price
Market Prices for Forward Delivery Calendar Year 2005 - 2007



Note: Prices reflect forward market prices for delivery in indicated

Transaction Date
 — 2005 - - - 2006 . . . 2007

Figure 5
Calendar Year Around-the-Clock Power Price Palo Verde

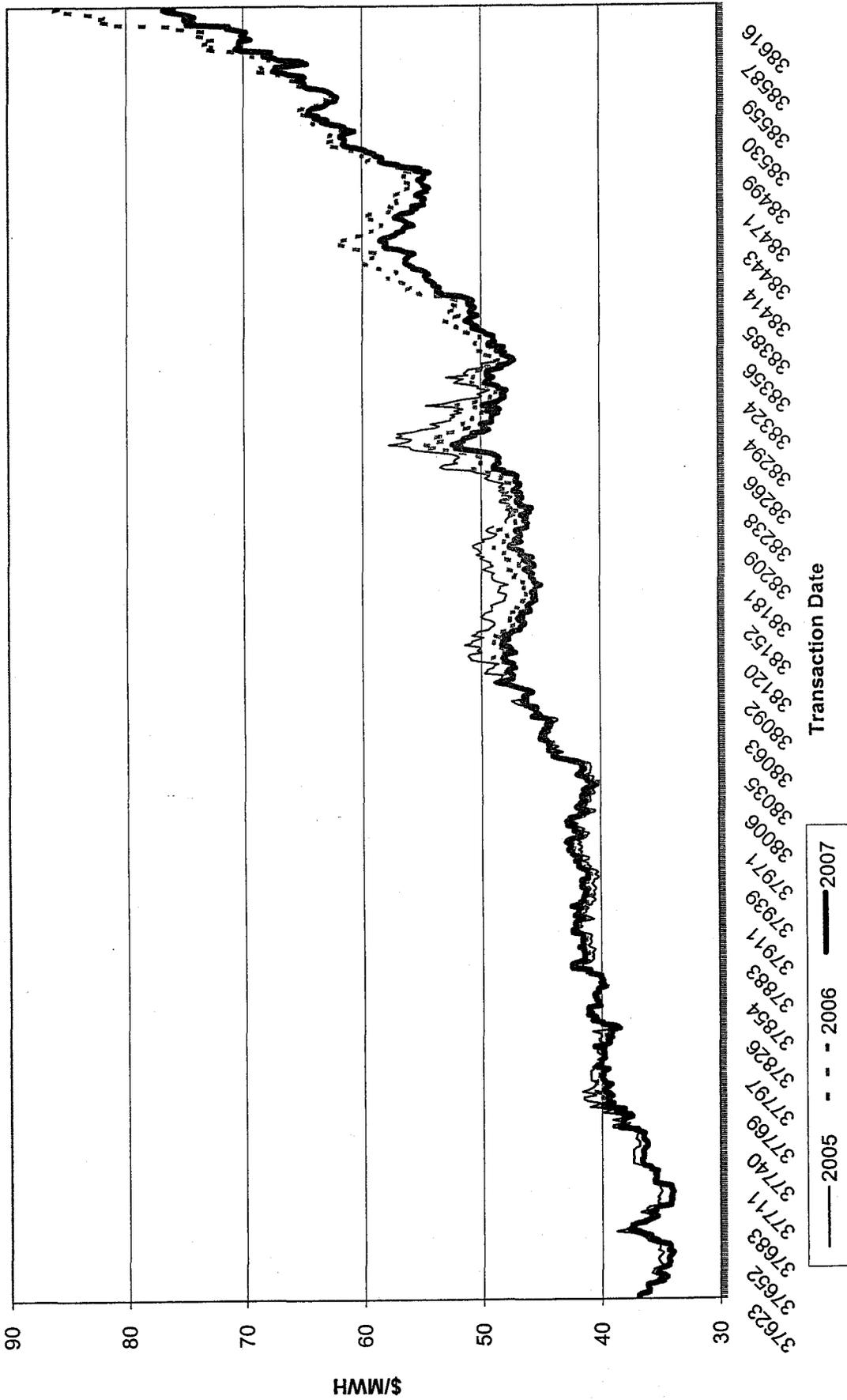


Figure 6
Projected Post-Sharing PSA Monthly Balances
With and Without the \$.001416 Surcharge

