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A subsidiary of Pinnacle West Capital Corporation

Justin H. Thompson  
Manager  
Regulation, Policy & Analysis

Tel. 602-250-2060  
Fax 602-250-3003  
e-mail Justin.Thompson@aps.com

Mail Station 9708  
PO Box 53999  
Phoenix, Arizona 85072-3999

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October 17, 2005

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007-2996

Re: PLAN FOR ADMINISTRATION AND APPROVAL OF POWER SUPPLY  
ADJUSTOR SURCHARGE DOCKET No. E-01345A-03-0437 AND  
E-01345A-05-0526

Dear Sir/Madame:

Pursuant to the Procedural Order dated September 14, 2005, Arizona Public Service Company ("APS") hereby files Direct Testimony of David J. Rumolo in the above Docket's.

If you have any questions, please give me a call.

Sincerely,

Justin H. Thompson  
Manager  
Regulation, Policy & Analysis

JHT/bec

cc: Docket Control (Original, plus 15 copies)  
Parties of Record

AZ CORP COMMISSION  
DOCUMENT CONTROL

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**DIRECT TESTIMONY OF DAVID J. RUMOLO**

**On Behalf of Arizona Public Service Company**

**Docket No. E-01345A-05-0526**

**&**

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

**October 17, 2005**

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1 Commission in Decision No. 67744 (April 7, 2005) and the POA that is used to  
2 provide direction and detail for implementing the PSA. I also describe some of  
3 the key clarifications that were added to the POA since it was jointly filed by the  
4 Settlement Parties in June of this year.

5 **II. THE PSA**

6 **Q. PLEASE DESCRIBE THE PSA.**

7 A. The PSA applies to all retail electric schedules with the exception of Solar-1,  
8 Solar-2, E-3 (Residential Energy Support Program), E-4 (Medical Care  
9 Equipment Program), E-36 and Direct Access service. It tracks changes in the  
10 costs of obtaining power supplies. The PSA tracks the actual incurred costs  
11 compared to the system average cost included in base retail rates. A PSA  
12 Adjustor Rate will be credited or debited on customers' bills each month as an  
13 energy charge. This PSA Adjustor Rate will be the same for all affected Standard  
14 Offer customers. The PSA consists of four main components:

- 15 • a PSA Adjustor Rate that is adjusted annually;
- 16 • a Balancing Account with a defined threshold amount;
- 17 • a band that limits the amount of the PSA Adjustor Rate that can be  
18 applied each time it is changed, and which has a lifetime cap of 4  
19 mills per kilowatthour; and
- 20 • an Amortization Surcharge (or "Surcharge") that may be  
21 implemented to reduce the size of the Balancing Account.

22 **Q. PLEASE DESCRIBE THE PURPOSE OF THE BALANCING ACCOUNT.**

23 A. The Balancing Account accumulates dollars associated with under-collection or  
24 over-collection from the application of the base rate power supply cost and the  
25 PSA Adjustor Rate.  
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**Q. WILL THE BALANCING ACCOUNT ACCRUE INTEREST?**

A. Yes, interest will be accrued based on the one-year Nominal Treasury Constant Maturities rate.

**III. POA**

**Q. PLEASE DESCRIBE THE POA.**

A. The POA is the administrative document for the PSA. It describes the PSA, defines terms found in the PSA, lists the specific information that is filed by APS each month, provides sample calculations for the PSA Adjustor Rate and Balancing Account treatment, and describes the Amortization Surcharge.

**Q. PLEASE DESCRIBE THE CLARIFICATIONS ADDED TO THE POA SINCE THE POA WAS FILED BY THE SETTLEMENT PARTIES IN JUNE OF THIS YEAR.**

A. The current version of the POA, as presented by Staff, provides additional clarity and explains the calculation of the annual PSA Adjustor Rate and monthly Balancing Account entries when there is an Amortization Surcharge in place. The changes include adding a list of definitions of the terms used in the PSA, adding clarification of when the PSA Adjustor Rate took effect and when an Amortization Surcharge can take effect, adding clarifying language on the administration of the Balancing Account and the application of the \$100 million bank balance trigger, and elimination of Broker Fees in the description of recoverable PSA costs. This latter change is consistent with Staff's earlier recommendation of July 25, 2005 relative to the June POA and was made not because Broker Fees are not a legitimate fuel cost, but because Staff believed such Broker Fees were already included in the Base Fuel Cost. The sample PSA calculations found in the POA reflect the changes listed above.

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**Q. DO YOU AGREE WITH REVISED POA FILED BY STAFF?**

A. I participated in discussions with Staff and the other settlement parties concerning its content, and I reviewed a draft of the POA to which I provided comments to Staff. I anticipate that we will be in agreement with the Staff's revised POA as filed however I would like to reserve the right to comment upon the final POA should the need arise.

**Q. HAVE YOU INCLUDED A REVISED PSA ADJUSTMENT SCHEDULE THAT INCLUDES THE CLARIFICATIONS DESCRIBED ABOVE?**

A. Yes. Attached as revised Schedule DJR-1 is Adjustment Schedule PSA-1.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.

**Appendix A**  
**Statement of Qualifications**  
**David J. Rumolo**

David J. Rumolo is Arizona Public Service Company's Manager of Regulation and Pricing. He has over 30 years experience in the electric utility business as a consultant and utility professional. Mr. Rumolo holds Bachelor of Science Degrees in Electrical Engineering and Business (Finance as an area of emphasis) from the University of Colorado. He is a registered professional engineer in the states of Arizona, California, and New Mexico.

Mr. Rumolo's areas of expertise include utility rate design; embedded and marginal cost analysis; formulation of utility service policies; contract development and negotiation; utility valuation analyses; and evaluation of utility revenue requirements. Mr. Rumolo has testified on utility matters before state regulatory bodies in the states of Arizona, Colorado, Florida, and Wyoming and before judicial bodies in the states of Arizona and California. Mr. Rumolo is also experienced in the many aspects of electric utility planning and design including preparation of resource plans; transmission and distribution system planning; system protection analyses; and reliability assessments.

Mr. Rumolo has been a manager in the APS Regulation and Pricing area for approximately six years. Prior to joining that area of APS, he served as the Manager of Transmission and Market Structure Assessment for Pinnacle West Energy Corporation ("PWEC"). Before joining PWEC, Mr. Rumolo had a 15-year career as a consultant with Resource Management International, Inc., where he provided utility rate and engineering consulting services to utility clients across the United States and overseas. He began his career providing consulting services to utility clients when he joined the firm of Miner and Miner Consulting Engineers in Greeley, Colorado where he became the Manager of Planning and Rates. He later became a partner in Electrical Systems Consultants where he focused on cost of service and rate analyses, as well as transmission and distribution planning.



**Schedule DJR-1**  
**ADJUSTMENT SCHEDULE PSA-1**  
**POWER SUPPLY ADJUSTMENT**

APPLICATION

The Power Supply Adjustment ("PSA") shall apply to all retail electric schedules with the exception of Solar-1, Solar-2, SP-1, E-3, E-4, E-36 and Direct Access service. All provisions of the customer's current applicable rate schedule will apply in addition to this charge. The PSA will apply to all fuel and purchased power costs incurred on or after April 1<sup>st</sup> 2005.

PSA ADJUSTOR RATE ANNUAL ADJUSTMENT

The main components of the PSA are: 1) a risk sharing mechanism whereby APS and its customers share in the costs/savings on a 90% customer, 10% APS basis; 2) a bandwidth that limits the amount the PSA Adjustor Rate ("Adjustor Rate") can change over the entire term of the PSA to plus or minus \$0.004 per kWh; 3) a balancing account; 4) a balancing account surcharge mechanism, separate from the Adjustor Rate, to clear the balancing account under circumstances described below; and 5) the inclusion of off-system sales. The monthly PSA calculations shall be adjusted for the calculated net savings from the methodology approved in Decision No. 67504 from the PPL Sundance docket. This adjustment will no longer be made once rates are effective that recover the capital and operating costs of the Sundance plant. The calculation method is set forth in the filed Power Supply Adjustment Plan of Administration (the "Plan"). Standard Offer services covered by this charge include a Base Rate Power Supply Cost of \$0.020743 per kilowatt-hour. An annual adjustment to the Base Rate Power Supply Cost will be made through a change in the Adjustor Rate that is based upon the annual total of PSA retail energy sales (less E-3, E-4 and E-36 sales) and power supply costs. The annual costs are compared to the base rate costs to determine the year's total over/under collection after the 90%/10% sharing incentive. If the Commission approves an Amortization Surcharge the balance will be subtracted from the total costs used to calculate the April 1<sup>st</sup> Adjustor Rate. The annual amount of PSA Retail Power Supply Costs that can be used to calculate the annual Adjustor Rate cannot exceed \$776,200,000.

The Adjustor Rate is initially set at zero as of April 1, 2005. It is calculated and reset on April 1, 2006 and thereafter on April 1<sup>st</sup> of each subsequent year. Any additional recoverable or refundable amounts shall be recorded in a balancing account and shall carry over to the subsequent year or years. The carryover amount shall not be subject to further sharing. The Adjustor Rate must remain within the plus or minus \$0.004 per kWh bandwidth that limits the amount it can increase or decrease each year. Balancing account amortization surcharges are not included in the calculation of the band limits. Balancing account entries are made each month starting with April 2005 to reflect the difference between 90 percent of incurred fuel and purchased power costs, less the balance of any approved Amortization Surcharge, and the sum of costs collected through the base cost of fuel and purchased power rate of \$0.020743 plus the applicable Adjustor Rate. An Amortization Surcharge may go into effect prior to the April 1<sup>st</sup> adjustment to the Adjustor Rate if it is approved by the Commission. The Amortization Surcharge is described in greater detail below. The total (credit)/charge collection amount is recovered over twelve months. Any revenue collected from the Adjustor Rate or any applicable Amortization Surcharge is credited to the Balancing Account described below. The Adjustor Rate is applied to the customer's bill as a monthly kilowatt-hour charge and is the same for all affected customer classes. The Adjustor Rate will change in billing cycle 1 of the April revenue month and it will not be prorated.

RATES

The charges shall be calculated at the following rates:

PSA Adjustor Rate

All kWh	\$0.000000	per kWh
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ARIZONA PUBLIC SERVICE COMPANY  
 Phoenix, Arizona  
 Filed by: David J. Rumolo  
 Title: Manager, Regulation and Pricing  
 Original Effective Date: April 1, 2005

A.C.C. No. 5634  
 Canceling A.C.C. No. 5613  
 Adjustment Schedule PSA-1  
 Revision No. 1  
 Effective: To be determined



Schedule DJR-1  
**ADJUSTMENT SCHEDULE PSA-1  
POWER SUPPLY ADJUSTMENT**

Amortization Surcharge

All kWh

\$0.000000

per kWh

AMORTIZATION SURCHARGE

Although the Company may file a request for an Amortization Surcharge at any time, the Company is required to make a filing in the following circumstance: If the size of the Balancing Account, as recorded in the monthly reports filed with the Commission, reaches plus or minus \$50 million, the Company has forty-five days to either file a request for Commission approval of an Amortization Surcharge, or an explanation of why such a surcharge isn't necessary. Should the Company seek to recover or refund an amount from the Balancing Account, the timing and manner of recovery, or refund, and whether interest will be allowed to accrue on the Surcharge balance will be addressed at that time. In no event shall the Company allow the Balancing Account to reach \$100 million prior to seeking recovery or refund.

Once the Company has filed seeking recovery or refund through an Amortization Surcharge, the amount requested in such filing will be excluded from the balance used to determine if the \$100 million threshold has been reached. The \$100 million threshold would apply each time the Company makes a filing with the Commission to address a Balancing Account balance between \$50 and \$100 million. After the Company makes the filing, if new accumulations in the Balancing Account were between \$50 and \$100 million, the Company could make a second, separate filing. Subsequently, it is possible that additional filings could be made with the \$100 million threshold being applied separately to the amount being addressed in each filing. Following a proceeding authorizing recovery or refund of a bank balance between \$50 million and \$100 million, the balance considered in the proceeding shall be reset to zero unless otherwise ordered by the Commission.

BALANCING ACCOUNT

The PSA Balancing Account is where the monthly sum of the Company's post-sharing (over)/under collection is posted and also where interest on the balance in the account is accrued. It is used to track the cumulative total of the monthly postings. APS shall establish a PSA Balancing Account on April 1, 2005. Entries to the Balancing Account shall be made each month as follows:

1. A debit or credit entry equal to the difference between the Post-Sharing (Over)/Under Collection and the sum of the amounts recovered by the Applicable Adjustor Rate. The Post-Sharing (Over)/Under Collection is calculated by taking the amount recovered through the Base Rate Power Supply Cost of \$0.020743 and subtracting it from the PSA Retail Power Supply Cost. The product of that subtraction is then multiplied by 90% to reduce the recoverable costs in accordance with the 90%/10% sharing incentive.
2. Any Amortization Surcharge balance will be shown separately on the monthly reports for the Commission Staff, and, unless otherwise ordered by the Commission, shall not be considered as part the Balancing Account.
3. A monthly debit or credit entry for interest to be applied to the account balance based on the effective one-year Nominal Treasury Constant Maturities rate that is contained in the Federal Reserve Statistical Release, H-15, or its successor publication. This includes the Amortization Surcharge balance(s) if the Surcharge balance was approved to accrue interest on the uncollected Surcharge balance. This is called the Monthly Interest and is used above in the Adjustor Rate calculations. The interest rate will be

ARIZONA PUBLIC SERVICE COMPANY  
Phoenix, Arizona  
Filed by: David J. Rumolo  
Title: Manager, Regulation and Pricing  
Original Effective Date: April 1, 2005

A.C.C. No. 5634  
Canceling A.C.C. No. 5613  
Adjustment Schedule PSA-1  
Revision No. 1  
Effective: To be determined



Schedule DJR-1  
ADJUSTMENT SCHEDULE PSA-1  
POWER SUPPLY ADJUSTMENT

adjusted annually on the first business day of the calendar year in the same manner as the APS customer deposit rate.

4. A debit or credit entry for refunds or payments authorized by the Commission.

COMPLIANCE REPORTS

The Adjustor Rate and Balancing Account calculations and supporting information will be provided to the Commission monthly as specified in Decision No. 67744. Workpapers and other documents supporting the calculations that contain proprietary or confidential information will be provided to the Commission Staff under an appropriate confidentiality agreement. APS will keep fuel and purchased power invoices and contracts available for Commission review. All of the information is available during the year, upon Commission request. The Commission has the right to review the prudence of fuel and power purchases and any calculations associated with the PSA at any time. Any costs flowed through the PSA are subject to refund, if those costs are found to be imprudently incurred.

DIRECTLY ASSIGNED POWER SUPPLY COSTS EXCLUDED

In cases when power supply costs are incurred for a specific customer or group of customers, the customer or group of customers will be directly charged the identified costs in accordance with the Plan. Power supply costs and related energy sales recovered through direct assignments for both existing and returning customers as described on rate schedule RCDAC -1 will be excluded from the computation of the above charges applied to other Standard Offer service customers.