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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

AZ CORP COMMISSION  
DOCUMENT CONTROL

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 A PURCHASED POWER CONTRACT.

DOCKET NO. E-01345A-03-0437

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

POST-HEARING BRIEF  
OF  
ARIZONA PUBLIC SERVICE  
COMPANY

I. INTRODUCTION

Pursuant to the direction of the Presiding Officer in the above-captioned matter, Arizona Public Service Company ("APS" or "Company") hereby submits its Post-Hearing Brief. Because it was requested that the parties brief both the issue of the Power Supply Adjustment ("PSA") mechanism's Plan of Administration ("POA") and the Company's PSA surcharge application, APS has bifurcated its Post-Hearing Brief accordingly.

II. THE APS PSA SURCHARGE REQUEST

A. Background

The Commission approved the PSA in Decision No. 67744, effective April 1, 2005. The PSA is intended to ameliorate the impact of highly variable fuel and purchased power costs for both APS and its customers. More specifically, it provides a mechanism allowing APS to recover/refund a large portion (but not all) of its higher/lower fuel and purchased power costs in a timely fashion, thus preserving its financial integrity and corresponding ability to properly serve its customers. It also

1 sends appropriate price signals to customers about the cost of energy and can mitigate the need for  
2 even larger price adjustments during repeated general rate proceedings. Decision No. 67744 at 31.

3 In addition to annual PSA adjustments each April, the PSA also requires APS to seek a PSA  
4 surcharge prior to the PSA bank balance reaching \$100 million. *Id.* at 17. The Company's PSA bank  
5 balance reached over \$100 million by the end of August, 2005. (APS Exhibit 6, Testimony of Peter  
6 M. Ewen, at 3; APS Exhibit 4, Testimony of Steven M. Wheeler, at 2; and Staff Exhibit 2, Testimony  
7 of William Gehlen, at 3 and 8.)

8 Surcharge provisions in rate adjustment mechanisms are common. (Tr. Vol. I at 124-25.) All  
9 the purchased gas adjustment ("PGA") mechanisms, after which the PSA is modeled [Tr. Vol. I at 50  
10 and 123] approved by this Commission allow for surcharges to provide for recovery of costs that  
11 exceed the levels that can be handled through periodic increases to the regular gas cost adjustor. They  
12 also provide for balancing accounts. *See* Decision Nos. 61225 (October 30, 1999) and 62994  
13 (November 3, 2000); and also APS Exhibit 2. The PSA's surcharge provision is especially important  
14 when, unlike the PGAs (which can be adjusted monthly), APS can only increase the PSA factor  
15 annually and only then subject to a cumulative four mill cap.

16 In March of 2005, during this Commission's Open Meeting consideration of the PSA, APS  
17 witness Steve Wheeler informed the Commission that a PSA surcharge request was likely this year.  
18 (Tr. Vol. I at 64.) And on July 22, 2005, APS filed a request for a \$100 million PSA surcharge over  
19 two years. After consultation with APS and the Residential Utility Consumer Office ("RUCO"), Staff  
20 filed a Proposed Procedural Schedule for Consolidated Matters on September 14, 2005 indicating an  
21 agreement to reduce the request to \$80 million, or 1.7% over two years. This reduction in the request  
22 eliminated from the surcharge any additional fuel and purchased power costs above those in base  
23 rates attributable to unplanned Palo Verde outages. (Tr. Vol. II at 393.) Thus, such outages, which  
24 would not normally have been addressed in a surcharge proceeding in any event, were removed as  
25 even a potential issue. Rather, they would be considered by the Commission in a "subsequent  
26 proceeding." By Procedural Order dated September 23, 2005, the Commission accepted the Staff  
27 proposal.

28

1           B.       *Why the Requested PSA Surcharge is Necessary*

2           APS presented three witnesses in the PSA surcharge matter, and Staff presented one. There  
3 were no other witnesses. Each of the four witnesses testified in support of the modified APS request  
4 for an \$80 million PSA surcharge.<sup>1</sup> Indeed, there was no dispute as to any of the following facts:

- 5           1)       The Company's unrecovered fuel and purchased power costs presently  
6 are well over \$100 million through the end of October, 2005 and have  
7 been so since August 2005. (APS Exhibit 4, Testimony of Steven M.  
8 Wheeler, at 2 and 3; APS Exhibit 6, Testimony of Peter M. Ewen, at 2  
9 and 3; Staff Exhibit 2, Testimony of William Gehlen, at 3; and  
10 Gleason Exhibit 1 at 3.) This has occurred and will continue to occur  
11 despite an aggressive hedging program (the gas price workshop held  
12 on September 8, 2005 indicated that APS hedged significantly more of  
13 its needs than do other Arizona utilities) that has saved APS customers  
14 some \$30 million from April through August of 2005. (APS Exhibit 5,  
15 Testimony of Thomas J. Carlson, at 12.)
- 16           2)       These under-recoveries, and hence the PSA bank balance, will  
17 continue to increase in 2006 to well over \$200 million even if the full  
18 PSA surcharge request is granted and even with an increase in the  
19 annual PSA adjustor in April 2006.<sup>2</sup> (APS Exhibit 4, Testimony of  
20 Steven M. Wheeler, at 4 and 9; APS Exhibit 5, Testimony of Peter M.  
21 Ewen, at 6; and Staff Exhibit 2, Testimony of William Gehlen, at 8.)
- 22           3)       The requested \$80 million PSA surcharge is less than the actual PSA  
23 bank balance as of the end of August (\$115 million), September (\$138  
24 million), or that projected at the hearing for October 2005 (\$140

25 \_\_\_\_\_  
26 <sup>1</sup> Staff also made a number of recommendations concerning APS' monthly reporting on the PSA. (Staff Exhibit 2,  
27 Testimony of William Gehlen, at 12.) APS accepted all of these recommendations with the clarification noted in APS  
witness Pete Ewen's Rebuttal Testimony, with which Staff agreed. (APS Exhibit 7, Rebuttal Testimony of Peter M.  
Ewen, at 3-4; and also Tr. Vol. III at 651-53.)

28 <sup>2</sup> This is true irrespective of whether the Commission eliminates or increases the cap on annual retail fuel and purchased  
power costs, presently established at \$776.2 million, as requested by APS in its rate case filing of November 4, 2005.

1 million), and less than the then projected year end 2005 PSA bank  
2 balance (\$143 million), even excluding the additional fuel and  
3 purchased power costs of unplanned Palo Verde outages as of each of  
4 the aforementioned points in time. (APS Exhibit 4, Testimony of  
5 Steven M. Wheeler, at 2; Staff Exhibit 2, Testimony of William  
6 Gehlen, at 8; and Tr. Vol. II at 393.)

- 7 4) Reducing the PSA bank balance provides additional cash flow to APS  
8 that can be used to finance APS' capital expenditures for needed  
9 infrastructure without the need for additional borrowings or other  
10 outside capital, the cost of which will eventually be borne by APS  
11 customers. (APS Exhibit 4, Testimony of Steven M. Wheeler, at 10;  
12 and Tr. Vol. II at 347.)
- 13 5) Granting the requested 80 million surcharge can reduce both the size  
14 of the April 2006 annual PSA adjustment and the size of any requested  
15 PSA surcharge later in 2006. (APS Exhibit 6, Testimony of Peter M.  
16 Ewen, at 2 and 3; APS Exhibit 11; Staff Exhibit 2, Testimony of  
17 William Gehlen, at 8; and also Tr. Vol. I at 143.)
- 18 6) The requested \$80 million PSA surcharge will have the beneficial  
19 effect of reducing future rate impacts on APS customers irrespective of  
20 how the Commission eventually determines any issues relative to  
21 unplanned Palo Verde outages in 2005.
- 22 7) Reducing the PSA bank balance means less accrued interest on such  
23 balance that will also be borne by APS customers. (APS Exhibit 6,  
24 Testimony of Peter M. Ewen, at 2; and Tr. Vol. II at 352-53.)
- 25 8) Approving an \$80 million PSA surcharge now will provide at least a  
26 modest signal to APS customers concerning higher energy costs and,  
27 conversely, the increased value of energy efficiency and conservation  
28 – a signal consistent with the commitment to DSM embodied in

1 Decision No. 67744. (APS Exhibit 4, Testimony of Steven M.  
2 Wheeler, at 10; and Tr. Vol. II at 400-03.)

3 Aside from the obvious advantages of beginning to address the issue of escalating fuel  
4 and purchased power costs in this proceeding, APS asks the Commission to be mindful of the  
5 stated concerns of the financial community concerning both the "pace and disposition" of the  
6 Company's surcharge request, this being the first and likely easiest test of the PSA. (APS Exhibit  
7 3, Standard & Poor's Report dated October 4, 2005, at 1; and Tr. Vol. II at 355.) Specifically, the  
8 Commission should consider the following public statements from both and credit rating  
9 agencies and equity analysts:

- 10 1) "Timely recovery of fuel and purchased power costs is essential to any  
11 utility's credit quality and especially for APS . . ." (APS Exhibit 8,  
12 Standard & Poor's Report date October 19, 2005, at 1.)
- 13 2) "Thus, it is clear that timely near-term cost recovery will be the key  
14 driver of [APS's] credit quality." (APS Exhibit 3, Standard & Poor's  
15 Report dated October 4, 2005, at 1.);
- 16 3) "The stable outlook [of APS] reflects Standard & Poor's expectation  
17 that the ACC will resolve APS's large deferred power cost through a  
18 surcharge ruling no later than year end that supports timely recovery of  
19 the \$80 million request." (APS Exhibit 3, Standard & Poor's Report  
20 dated October 4, 2005, at 2.)
- 21 4) "While the PSA [surcharge] filing should be relatively routine, we  
22 note that this is the first such proceeding under the new mechanism.  
23 Given the somewhat unpredictable regulatory environment in Arizona  
24 of late, investors likely will watch the progression of this case with  
25 interest." (APS Exhibit 8, Merrill Lynch Report dated July 27, 2005, at  
26 1.)
- 27 5) "The company [APS] proposed for the [PSA] surcharge to begin in  
28 November. However, there has been no pre-established timeline for

1 the surcharge recovery period or the timing by which the commission  
2 must act. As a result we believe there is a fair amount of uncertainty  
3 regarding the recovery of this cash and the company's cash flows."  
4 (APS Exhibit 8, JP Morgan Report dated July 28, 2005, at 3.)

5 6) "In the best case scenario, regulators would allow for recovery of all  
6 fuel and operating expenses, but this will not likely be on a timely  
7 basis." (APS Exhibit 8, Morgan Stanley Report dated September 19,  
8 2005, at 2.)

9 Suffice it to say that there is great concern expressed by these financial observers about  
10 both the inherent structure of the PSA and the willingness of the Commission to implement it as  
11 intended by all the parties in the Company's last rate case. (Tr. Vol. II at 496-97.) They, like  
12 APS witness Wheeler, see the incongruity of the Commission imposing a requirement that the  
13 Company file for a surcharge prior to reaching \$100 million in PSA deferrals but then declining  
14 to address recovery of those deferrals or to prevent them from increasing more than necessary.  
15 (Tr. Vol. II at 379-80 and 449-50.) Although there was some discussion during the course of the  
16 proceeding about the distinction that ought to be drawn by the financial community between the  
17 "certainty of recovery" versus the "timing of recovery," it is clear that both matter greatly with  
18 regard to that community's evaluation of the Company's creditworthiness. This is in part due to  
19 the operating cash flow considerations that increasingly dominate credit rating decisions. It is  
20 also the result of fears that the longer recovery is delayed and the more that must be recovered at  
21 any point in time, the less likely it is that there will be full recovery. (Tr. Vol. II at 362-63 and  
22 384-85.) All three of these factors come into play here, which is why timely and favorable action  
23 by the Commission on the Company's \$80 million surcharge request is critical.

24 The views of the financial community matter because that community determines  
25 whether and on what terms, including but not limited to the price, the Company will have access  
26 to the capital it needs to continue to serve the growing needs of Arizona. And in that regard, it is  
27 the perceptions of that community (well-founded or not) that determine the reality of its  
28 investment decisions. As the Commission will recall from the testimony presented in the

1 Company's last rate proceeding, the consequences to customers of a financial down-rating are  
2 quite significant, with higher interest costs alone approaching \$1 billion or more over a ten-year  
3 period.

4 The Commission is also well aware of the skyrocketing natural gas prices that are the  
5 single largest cause of the Company's current and anticipated under-recovery of fuel and  
6 purchased power costs. (Staff Exhibit 2, Testimony of William Gehlen, at 5 and 11; and APS  
7 Exhibit 6, Testimony of Peter M. Ewen, at 8.) The impact of higher natural gas prices on the  
8 PSA bank balance is compounded by the fact that virtually all of the Company's incremental  
9 sales come from either its own gas-fired generation or from purchased power that is  
10 incrementally priced based on natural gas. (APS Exhibit 6, Testimony of Peter M. Ewen, at 3;  
11 Staff Exhibit 2, Testimony of William Gehlen, at 5; and Tr. Vol. at 668.)

12 Indeed, in the time since APS filed its surcharge request, the Commission has approved,  
13 without hearing, gas surcharge requests for UNS Gas (22-50%),<sup>3</sup> Duncan Rural Services (48%),  
14 and Graham County Utilities (71%). *See* Decision Nos. 68241 (October 25, 2005), 68297  
15 (November 14, 2005), and 68298 (November 14, 2005); and also Tr. Vol. II at 312. And, on  
16 November 8, 2005, Southwest Gas Corporation ("Southwest") filed for its second gas surcharge  
17 this year, which if granted would increase average residential bills this winter by 13.7% over last  
18 winter and by 16.3% for the peak usage month of January. *See* Southwest Application in Docket  
19 No. G-01551A-05-0823. These gas surcharges became necessary despite the fact that under the  
20 model gas utility PGA mechanism developed by Commission Staff, there are monthly  
21 adjustments that ordinarily serve to prevent the accumulation of large bank balances. (Tr. Vol. I  
22 at 101 and 125; *see also* Decision Nos. 61225 and 62994.) APS would also note that unlike the  
23 PGA mechanisms, APS has already absorbed 10% of its increased fuel and purchased power  
24 costs (\$15 million through October 2005 and some \$16 million by year-end 2005) even though  
25 there is no evidence that any of these costs were imprudently incurred. (APS Exhibit 6,  
26 Testimony of Peter M. Ewen, at Schedule PME-3; and APS Exhibit 9.)

27 \_\_\_\_\_  
28 <sup>3</sup> Estimate is based on information contained in Commission Decision No. 68241 and depends on both season of the year  
and average usage during that season.

1 Under provisions of the POA, discussed later in this brief, APS must seek interest on the  
2 unrecovered portion of the PSA surcharge as part of the surcharge request. (Staff Exhibit 1,  
3 Testimony of Barbara Keene, at 7.) Given the fact that the surcharge amount is removed from the  
4 regular PSA balancing account, where it would automatically receive interest [Tr. Vol. I at 86], it  
5 is appropriate and fair that the Commission allow APS to earn the same interest on the  
6 unrecovered surcharge balance.

7 APS would also note that although there was significant discussion of the \$776.2 million  
8 cap on annual fuel and purchased power cost recovery and the Company's desire to increase or  
9 eliminate that cap, such a modification of that provision of the PSA is not part of the present  
10 surcharge request. Indeed, the POA submitted by Staff witness Keene reflects the current impact  
11 of the \$776.2 million cap, to which POA the Company has taken no exception. Therefore, no  
12 ruling on: (1) modifications of this cap; or (2) the circumstances under which such modification  
13 would or would not be warranted, is either necessary or appropriate in this proceeding.

14 In conclusion, the evidence presented by APS in support of the Company's requested \$80  
15 million PSA surcharge is overwhelming and uncontradicted. The request was supported by  
16 Commission Staff and not opposed by a single APS customer group, residential or commercial,  
17 either during the hearing or in the public comments taken prior to the hearing. APS urges the  
18 Commission to take this important first step in both honoring the intent of the PSA and heading  
19 off even higher electric price increases in the future.

### 20 III. THE POA

21 Decision No. 67744 required all the settling parties to jointly submit a POA to describe the  
22 ongoing operation of the PSA. Decision No. 67744 at 19, 37 and 42. This was done on June 6, 2005.  
23 (Staff Exhibit 1, Testimony of Barbara Keene, at 2; and Tr. Vol. I at 52.) At that time, there were two  
24 open items as between APS and Commission Staff: (1) the inclusion of third-party wheeling costs  
25 and broker fees in the PSA<sup>4</sup>; and (2) treatment of the \$100 million mandatory surcharge application  
26

27 <sup>4</sup> Neither the 2004 APS Settlement, Section II, Paragraph 19 nor Decision No. 67744 delineates what specific cost  
28 accounts are includable as "fuel and purchased power expense."

1 provision once APS has made such an application for a surcharge. (APS Exhibit 1, Testimony of  
2 David Rumolo, at 3; Tr. Vol. I at 52-3; and Tr. Vol. II at 257-58.)

3 On July 25, Staff filed a report and recommendation concerning the June 6th POA. That  
4 recommendation resolved the first of the above items by including third-party wheeling and  
5 excluding broker fees. (Tr. Vol. I at 53; and Tr. Vol. II at 297-99.) Staff concluded that the former  
6 had been included in the base fuel cost approved by the Commission in Decision No. 67744, and thus  
7 logically should be considered in the PSA, while the latter was not included in base fuel cost.<sup>5</sup>

8 Subsequent to the filing of the Staff Report on the POA, to which Report no party to the  
9 Company's prior rate proceeding took exception, several Commissioner letters were docketed that  
10 indicated some continuing uncertainty over the operation of the PSA and the terminology used in the  
11 POA recommended by the Staff Report. As a result, the settling parties undertook to further clarify  
12 terms used in the PSA and to incorporate the recommendations of Staff from the earlier Staff Report.  
13 The final product, to which again no party has taken exception, is attached to Ms. Keene's testimony.  
14 See Staff Exhibit 1. In addition to Ms. Keene, APS witness David Rumolo and RUCO witness  
15 Marylee Diaz-Cortez presented testimony on the POA. Both witnesses supported the revised joint  
16 POA as presented by Staff. (APS Exhibit 1, Testimony of David Rumolo, at 1; and RUCO Exhibit 1,  
17 Testimony of Marylee Diaz Cortez, at 2.)

18 Based on the questions posed to the above three witnesses, APS believes that the only issues  
19 concerning the POA revolve around: (1) the interpretation given Paragraphs 19 and 20 to the 2004  
20 APS Settlement Agreement, more specifically, subparagraphs 19 (b) and (d) as well as 20 (a); and (2)  
21 the \$100 million PSA deferral "trigger" before which APS is required to request a surcharge. APS  
22 will address each of these subparagraphs in addition to the \$100 million PSA surcharge "trigger," but  
23 notes that the POA supported by all three witnesses uses the interpretation of both the 2004 APS  
24 Settlement and Decision No. 67744 that is shared by all the 23 settling parties in that proceeding.<sup>6</sup>

25 <sup>5</sup> APS believes that broker fees were included in base fuel cost and are legitimate costs of acquiring power and fuel but  
26 for purposes of this proceeding is not contesting their exclusion from the PSA.

27 <sup>6</sup> At least initially in this proceeding, there appeared to be some confusion over the use of "balancing account"  
28 [Paragraph 19(d), (e) and (h)] versus "PSA balance" [Paragraph 19(f)] and "bank balance" [Paragraph 20(a)] in the 2004  
APS Settlement agreement. However, the Company believes that the exchanges between APS witness Rumolo and  
Chairman Hatch-Miller, as well as Staff witness Keene with Chief Commission Counsel Kempley and Chief

1           A.       *Paragraphs 19 and 20 of the 2004 APS Settlement Agreement*

2           Subparagraph 19(b) establishes the [PSA] “adjustor rate” at zero and indicates it (the  
3 “adjustor rate”) will be “reset on April 1, 2006 and thereafter on April 1<sup>st</sup> of each subsequent year.”  
4 (Emphasis supplied.) Thus, it is clear that an “adjustor rate” has been in effect since the effective date  
5 of the rates approved in Decision No. 67744, which is April 1, 2005. (Tr. Vol. I at 137.)

6           Subparagraph 19(d) does several things. First it limits any change to a previously established  
7 annual “adjustor rate” to four mills. Note that this first sentence to the subparagraph does not purport  
8 to establish an “adjustor rate” of four mills or of any specific level – it is a limitation on the amount  
9 of the annual “adjustor rate.” (Tr. Vol. I at 135-36.) The “adjustor rate” is established in subparagraph  
10 (b), as is the mechanism for adjusting that “adjustor rate.” Second, subparagraph 19(d) addresses in  
11 the second sentence “any additional recoverable or refundable amounts,” indicating that they would  
12 be “recorded in a balancing account.” In the context of the entire Paragraph 19, it is evident that the  
13 word “additional” is in reference to the “adjustor rate,” whether that rate be zero, two mills or four  
14 mills. (Tr. Vol. I at 136-37.) To suggest that “additional” means additional to a hypothetical “adjustor  
15 rate” of four mills or even if it did that this therefore prevents amounts above any lesser “adjustor  
16 rate” from being deferred into the PSA balancing account does violence to the language of the  
17 subparagraph and would create the potential for very significant disallowances of prudently incurred  
18 costs. Indeed, what if the “adjustor rate” never reached four mills? Would that mean there would  
19 never be anything to defer into a balancing account? Would APS be expected to absorb indefinitely  
20 all fuel and purchased power costs above the base fuel amounts \$.020743/per kWh but less than  
21 \$.024743 (base fuel costs plus four mills)? No utility would have agreed to such systematic  
22 confiscation. This is simply a misinterpretation of both the language itself and of the intent of the  
23 parties and the Commission.

24  
25  
26           Administrative Law Judge Farmer have resolved that confusion. (Tr. Vol. I at 68-71; Tr. Vol. I at 251-55; and Tr. Vol. I at  
27 260-63.) Just as a person may reference his or her “checking account” in one context, his or her “checking account  
28 balance” in another, and his or her “bank balance” in yet another, it is clear that he or she is talking at all times about  
either the same subject or different aspects of the same subject. Moreover, these terms, or analogous terms are a part of  
other adjustment mechanisms approved by the Commission [APS Exhibit 2; and also Tr. Vol. I at 141] and were used  
interchangeably in Decision No. 67744 itself without any apparent confusion. (Tr. Vol. I at 138-40.)

1 As testified to by Staff witness Keene and APS witness Rumolo, you cannot have this manner  
2 of rate adjustment mechanism without a “balancing account.” (Tr. Vol. I at 43-44; and Tr. Vol. II at  
3 284 and 308.) Thus, the balancing account must be in existence from day one of the PSA, which per  
4 Decision No. 67744 is April 1, 2005. This is further confirmed by the language of subparagraph  
5 20(a), which calls for APS to report information on the PSA balancing account beginning with the  
6 very first monthly PSA report. (Tr. Vol. I at 138; and Tr. Vol. II at 286.) And as previously noted, all  
7 gas utility PGAs authorized by this Commission include and have included from day one a balancing  
8 account mechanism.

9 *B. The \$100 Million PSA Surcharge Trigger*

10 Decision No, 67744 clearly requires APS to seek a PSA surcharge prior to the PSA back  
11 balance (which is nothing more than the net sum of all the debits and credits entered into the PSA  
12 balancing account) reaching \$100 million. What was left unaddressed in that Decision is what  
13 happens if the bank balance continues to grow during the Commission’s consideration of such a  
14 surcharge request to where it exceeds \$100 million. Under the revised joint POA, Staff’s  
15 recommendation of July 25, 2005, is adopted. The amount of the bank balance that is subject to the  
16 surcharge request is “excluded” in determining whether the remainder of such balance is above the  
17 \$100 million “trigger.” (Staff Exhibit 1, Testimony of Barbara Keene, at 7; Staff Memorandum of  
18 July 25, 2004; Tr. Vol. I at 87-88; and Tr. Vol. II at 291.) If during the Commission’s consideration  
19 of the initial surcharge application, the bank balance should again approach \$100 million (again  
20 without consideration of the amount requested in the initial surcharge application), the Company  
21 would file a second surcharge request. (Staff Exhibit 1, Testimony of Barbara Keene, at 7; and APS  
22 Exhibit 4, Testimony of Steven M. Wheeler at 13.) Once a PSA surcharge is granted, the amount of  
23 such surcharge is removed from the PSA balancing account altogether and is tracked in a special PSA  
24 surcharge balancing account. (Staff Exhibit 1, Testimony of Barbara Keene, at 7.)

25 This resolution of the \$100 million “trigger” issue results in no automatic disallowance of fuel  
26 and purchased power costs during the time a surcharge application is pending. As such, it is  
27 consistent with the Commission’s repeated statements during consideration of the amendment to the  
28

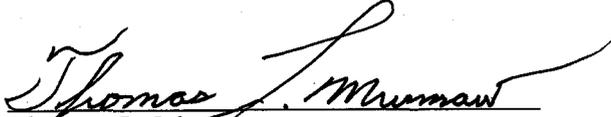
1 2004 APS Settlement Agreement creating the \$100 million "trigger." (Staff Exhibit 1, Testimony of  
2 Barbara Keene, at 9; Staff Memorandum of July 25, 2005; and Tr. Vol. II at 255-56 and 292-96.)

3 **IV. CONCLUSION**

4 APS believes the requested PSA surcharge of \$.001470 per kWh is in the public interest.  
5 Unless the Commission moves expeditiously to grant such a surcharge, the Company's PSA bank  
6 balance will continue to increase to a level even further above the \$100 million figure established by  
7 this Commission in Decision No. 67744 for the express purposes of triggering a mandatory filing by  
8 APS for a PSA surcharge. Indeed, it will reach well over \$200 million by the end of 2006 even with  
9 the requested surcharge.

10 The revised joint POA is supported by all parties to the 2004 APS Settlement Agreement,  
11 including consumer representatives. It addresses the concerns and questions raised by the  
12 Commissioners during the pendancy of this matter.

13 RESPECTFULLY SUBMITTED this 21st day of November, 2005.

14  
15   
16 Thomas L. Mumaw  
17 Karilee S. Ramaley

18 Attorneys for Arizona Public Service Company  
19  
20

21 The original and 13 copies of the foregoing were  
22 filed this 21st day of November, 2005 with:

23 Docket Control  
24 Arizona Corporation Commission  
25 1200 West Washington  
26 Phoenix, AZ 85007

27 Copy to all parties of record.

28   
Birdie Cobb