



BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission
DOCKETED

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IN THE MATTER OF THE PURCHASED
POWER AND FUEL ADJUSTMENT
THRESHOLD LEVEL FOR THE MORENCI
WATER & ELECTRIC COMPANY

DOCKET NO. E-01049A-04-0936
DECISION NO. 68438
ORDER

Open Meeting
January 24 and 25, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. The Morenci Water & Electric Company ("Morenci" or "the Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. In Decision No. 67676 (March 9, 2005), the Commission approved a temporary reduction of \$0.02939 per kWh in the Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate for Morenci. In that Decision, the Commission also ordered, "Staff shall, by December 31, 2005, file with the Commission a recommendation establishing a threshold over/under collected (trigger) bank balance for Morenci Water and Electric Company's Purchased Power and Fuel Adjustment Clause."

3. An important point in considering the threshold level to set is to recognize that, by nature, such a level is somewhat arbitrary and that the intent is to trigger some type of action by the Company to come to the Commission to address the bank balance when it reaches or exceeds a designated level. The purpose of such action is to preclude the possibility of enormous growth in the bank balance without consideration of any substantive action to address it. Another

1 consideration is that the level of the threshold should strive to be a reasonable compromise
2 balancing the need to possibly come to the Commission and take action to address an excessive
3 bank balance with an attempt to avoid having to come to the Commission more often than is
4 necessary. Another important point in considering the threshold level is that reaching that given
5 level does not necessarily result in any PPFAC rate change or other specific action being taken by
6 the Commission. The threshold simply serves as a review point to highlight that the bank balance
7 is becoming relatively large, and that the Company should come to the Commission in some
8 manner to address it. The Commission may or may not choose to act on it at that time.

9 4. Morenci currently does not have a threshold level associated with its PPFAC. Staff
10 has had several conversations with the Company about the implementation of a bank balance
11 threshold, and the Company has indicated that it regards the concept of establishing a threshold
12 positively. Staff has discussed threshold levels with the Company and has identified similar
13 structures and levels which both parties believe may be appropriate.

14 5. Morenci exhibits an atypical distribution of electric sales. Approximately 98
15 percent of the Company's electric sales are contract sales to its single industrial customer and fall
16 outside the PPFAC because the customer is served under a special contract. The PPFAC
17 mechanism is relevant only to the other two percent of Morenci's sales to 1,732 residential and
18 257 commercial customers as of September 2005. During the last three years, the Company's
19 electric sales subject to the PPFAC exhibited a slow and stable growth pattern, but with some
20 seasonality during the summer cooling season and the winter heating season. Although the costs
21 to serve the large industrial customer are not included in the PPFAC, Morenci is able to negotiate
22 long-term contracts for all of its customers because of this large industrial load, resulting in lower
23 prices and added stability in its purchased power costs for all customers.

24 6. The Company's PPFAC bank balance has been over-collected since June 2003.
25 From June 2003 through December 2003, the balance grew from \$6,712 to \$164,141. Throughout
26 2004, the over-collected balance continued to grow to a level of \$475,753. The over-collected
27 balance continued to grow through March 2005, at which time it reached a maximum level of
28 \$557,497. At this time, the temporary reduction of \$0.02939 per kWh ordered in Decision

1 No. 67676 became effective, increasing the Company's negative adjustor from -\$0.01391 to -
2 \$0.04330. The Company's PPFAC bank balance has been declining each month since that time to
3 a level of \$310,177 as of September 2005.

4 7. One factor that Staff examined in its consideration of a threshold level is the bank
5 balance per residential customer.¹ As the bank balance became over-collected in mid-2003, the
6 balance per residential customer grew from approximately \$2 in June 2003 to \$48 at the end of
7 2003. During 2004, the bank balance per residential customer continued to grow to \$129 by the
8 end of the year. During the first quarter of 2005, the bank balance per residential customer
9 climbed to its maximum level of \$144 in January 2005. Beginning in February 2005, it dropped to
10 its current level of \$73. For an over-collected bank balance, Staff is concerned that these levels
11 may represent an excessive amount of money for residential customers to have paid in advance.
12 One possible solution to such a high bank balance per residential customer would be to propose a
13 range that may seem more reasonable, such as \$40 - \$60 per residential customer. Staff analysis
14 has indicated that a balance per residential customer of just under \$50, the approximate mid-point
15 of the range, would be associated with a bank balance of \$200,000.

16 8. While it may be more desirable to keep the bank balance per residential customer
17 lower than \$50, the Company's bank balance has experienced movements of as much as \$50,000
18 per month and has been experiencing typical monthly changes in the \$30,000 through \$40,000
19 range. This would suggest that growth in the bank balance from zero to a trigger level of \$200,000
20 could be reached in about six months. This rapid movement in the Company's bank balance could
21 be mitigated, however, by having the Company come to the Commission to establish a new
22 adjuster level closer to the Company's actual costs when its bank balance nears zero.

23 9. Staff believes that it is reasonable that the threshold level should be based to some
24 extent upon the size of the Company. This concept would be more relevant to the under-collected
25 threshold level than it would be to the over-collected threshold level, as a larger company would
26 be better able to carry a higher bank balance than would a smaller company. Because of the

27 ¹ This balance is the portion of the bank balance attributable to residential sales divided by the number of residential
28 customers.

1 Company's high contract industrial sales outside the PPFAC, it should be able to carry an under-
2 collected bank balance significantly higher than another company having a similar level of sales
3 under the PPFAC. Companies that have had trigger levels set under the jurisdiction of the
4 Commission have trigger levels of about three to six percent of current annual sales. Taking the
5 midpoint of this range, 4.5 percent, would suggest that a trigger level of \$3.8 million for Morenci,
6 with annual sales of about \$85 million, would not be unreasonable. Because sales under the
7 PPFAC are only about two percent of Morenci's total sales and because Morenci's sales and costs
8 of purchased power are relatively stable, a trigger level of this magnitude would not be necessary.
9 However, an under-collected trigger level of two to three times the over-collected trigger level
10 should not pose a problem for the Company. Taking the midpoint of this range would suggest an
11 under-collected trigger level of \$500,000.

12 10. Staff believes that, given Morenci's particular situation, a non-symmetrical
13 threshold may be appropriate. Taking the issues discussed above into consideration, Staff has
14 recommended an over-collected threshold level of \$200,000 and an under-collected threshold level
15 of \$500,000.

16 11. Staff is concerned that when the current PPFAC \$0.02939 per kWh credit ordered
17 in Decision No. 67676 expires (either when the bank balance is reduced to zero, or the end of
18 February 2007, whichever occurs first), the Company's PPFAC will revert to the former level, and
19 the bank balance could again begin to accumulate at a rapid rate. Taking this into consideration,
20 Staff has recommended that the Company file an application with the Commission to establish a
21 new PPFAC rate either two months prior to the month the bank balance is projected by the
22 Company to reach zero, or by December 31, 2006, whichever occurs first.

23 CONCLUSIONS OF LAW

24 1. Morenci is certificated to provide electric service as a public service corporation in
25 the State of Arizona.

26 2. The Commission has jurisdiction over Morenci and over the subject matter of the
27 application.

28 ...

1 3. The Commission, having reviewed the application and Staff's Memorandum dated
2 December 23, 2005, concludes that it is in the public interest to approve the Purchased Power and
3 Fuel Adjustment Threshold Level for Morenci.

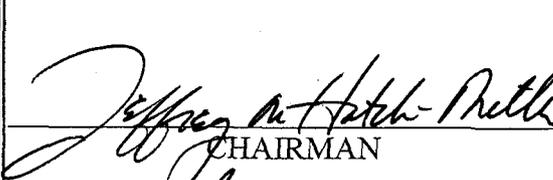
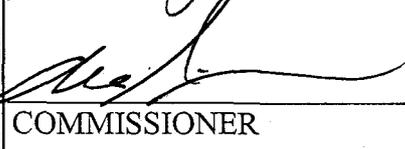
4 ORDER

5 IT IS THEREFORE ORDERED that the PPFAC over-collected threshold level of
6 \$200,000 and the under-collected threshold level of \$500,000 are approved.

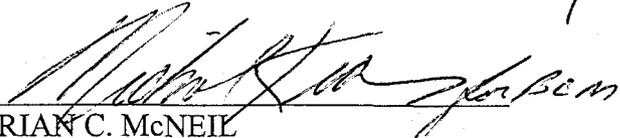
7 IT IS FURTHER ORDERED that the Company file an application with the Commission to
8 establish a new PPFAC rate either two months prior to the month the bank balance is projected by
9 the Company to reach zero, or by December 31, 2006, whichever occurs first.

10 IT IS FURTHER ORDERED that this decision should become effective immediately.

11 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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|  CHAIRMAN |  COMMISSIONER | |
|  COMMISSIONER |  COMMISSIONER |  COMMISSIONER |

18 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
19 Director of the Arizona Corporation Commission, have
20 hereunto, set my hand and caused the official seal of this
21 Commission to be affixed at the Capitol, in the City of
22 Phoenix, this 2nd day of February, 2006.

22 
23 BRIAN C. McNEIL
24 Executive Director

25 DISSENT: _____

27 DISSENT: _____

28 EGJ:JDA:lhmd\DR

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