

**ORIGINAL  
OPEN MEETING**



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**MEMORANDUM**

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2006 MAR 21 P 3: 53

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: March 21, 2006

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF POWER SUPPLY ADJUSTOR SURCHARGES (DOCKET NO. E-01345A-06-0063)

Pursuant to Decision No. 67744 (April 7, 2005) and as permitted by Decision No. 68437 (February 2, 2006), Arizona Public Service Company ("APS") filed an application seeking approval of two Power Supply Adjustor ("PSA") surcharges totaling \$.002165 per kWh. Together, both PSA surcharges amount to approximately a 2.6 percent increase over the rates effective February 1, 2006, and would recover approximately \$59.9 million over their respective 12-month amortization periods.

The \$59.9 million represents the amount in the "Paragraph 19(d) Balancing Account" after taking into consideration the recovery of 2005 PSA deferrals via the 4 mill annual PSA adjustor rate that became effective February 1, 2006. The calculations of the amount in the "Paragraph 19(d) Balancing Account" are attached as Exhibit A. Exhibit A is a copy of an exhibit in the filing made by APS.

APS requests that the surcharges be implemented in two steps. The first step is a surcharge of \$.000554 per kWh to recover \$15.3 million over a 12-month amortization period with the surcharge to be effective concurrent with the decision in Docket No. E-01345A-06-0009 (application of APS for an emergency interim rate increase and for an interim amendment to Decision No. 67744). The second step is a surcharge of \$.001611 per kWh to recover \$44.6 million over a 12-month amortization period, with the second surcharge to become effective upon the completion of the Commission's inquiry regarding unplanned 2005 outages at the Palo Verde Nuclear Generating Station ("PVNGS") in Docket No. E-01345A-05-0826.

Staff calculated the impact of the \$15.3 million surcharge on residential customers. The E-12 rate (and rate structure) differ for summer and winter months. Also, the usage of E-12 customers differs substantially across the summer and winter. For these reasons, Staff examined the effect of the surcharge on E-12 customers in a representative summer month and a representative winter month. Chart 1 below is based on customer usage in July of 2005. Chart 2 below is based on customer usage from December 2004.

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

	kWh	Customer Bill (no surcharge)	Customer Bill (w/surcharge)	Increase Due to Surcharge (\$0.000554/kWh)	Surcharge % impact
<b>Median Use</b>	818	\$ 87.71	\$ 88.17	\$ 0.46	.52%
<b>Average Use</b>	1047	\$ 117.32	\$ 117.91	\$ 0.59	.50%

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

	kWh	Customer Bill (no surcharge)	Customer Bill (w/surcharge)	Increase Due to Surcharge (\$0.000554/kWh)	Surcharge % impact
<b>Median Use</b>	531	\$ 50.30	\$ 50.60	\$ 0.30	.59%
<b>Average Use</b>	677	\$ 61.84	\$ 62.22	\$ 0.38	.61%

Charts 1 and 2 show the APS proposed surcharge's impact on E-12 customers with different usage characteristics. The APS proposed surcharge will raise E-12 customers' summer bills by \$0.59 or 0.50 percent on average. APS' proposed surcharge will raise customers' winter bills by \$0.38 or 0.61 percent on average.

Staff calculated the impact of the \$15.3 million surcharge on commercial customers. The E-32 rate (and rate structure) differ for summer and winter months. Also, the usage of E-32 customers differs across the summer and winter. For these reasons, Staff examined the effect of the surcharge on E-32 customers in an average summer month and an average winter month. See Charts 3 and 4.

**Chart 3 Surcharge Impact on E-32 Summer Bills**

	kWh	Customer Bill (no surcharge)	Customer Bill (w/surcharge)	Increase Due to Surcharge (\$0.000554/kWh)	Surcharge % impact
<b>Median Use</b>	1393	\$ 165.23	\$ 166.01	\$ 0.78	.47%
<b>Average Use</b>	9702	\$ 699.41	\$ 704.86	\$ 5.45	.78%

**Chart 4 Surcharge Impact on E-32 Winter Bills**

	kWh	Customer Bill (no surcharge)	Customer Bill (w/surcharge)	Increase Due to Surcharge amount (\$0.000554/kWh)	Surcharge % impact
<b>Median Use</b>	1067	\$ 119.38	\$ 119.98	\$ 0.60	.50%
<b>Average Use</b>	7691	\$ 494.22	\$ 498.54	\$ 4.32	.87%

THE COMMISSION

March 21, 2006

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Charts 3 and 4 show the APS proposed surcharge's impact on E-32 customers with different usage patterns. The APS proposed surcharge will raise E-32 customers' summer bills by \$5.45 or 0.78 percent on average. APS' proposed surcharge will raise E-32 customers' winter bills by \$4.32 or 0.87 percent on average.

The \$15.3 million requested by the first surcharge complies with the PSA mechanism as approved by the Commission, and Staff recommends approval. However, Staff reserves the right to evaluate the prudence of the costs associated with this request at a later date.

The \$44.6 million requested by the second surcharge (Docket No. E-01345A-05-0826) is premature at this time in light of the Palo Verde inquiry.

Staff's review of this application did not include an evaluation of the prudence of the APS fuel and purchased power costs. Approval of the \$15.3 million surcharge will not impair the Commission's ability to consider whether such costs are imprudent or otherwise subject to disallowance.

APS collects interest on amounts in the "Paragraph 19(d) Balancing Account". It is Staff's recommendation that, to provide consistent treatment, APS be allowed to collect interest on the surcharge balance based on the one year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release, H-15.

In summary, consistent with APS' request in its application, Staff recommends approval of the APS first 12-month surcharge request of \$.000554 per kWh effective concurrent with the Commission's decision in Docket No. E-01345A-06-0009 (application of APS for an emergency interim rate increase). This surcharge is to remain in effect until APS collects \$15.3 million, or one year has elapsed from the date of the Commission's decision in Docket No. E-01345A-06-0009, whichever occurs first.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:WPG:lhmJG

ORIGINATOR: William Gehlen

Exhibit A

**ARIZONA PUBLIC SERVICE COMPANY  
2005 Year End PSA Adjustor Rate Calculation**

Line No.	<b>PSA Adjustor Rate Calculation</b>		
1	Annual Tracking Account Amount (From Sch. 1)		\$ 167,929,726
2	Annual Tracking Account Interest (From Sch. 2)		\$ 1,652,349
3	Less: Approved Amortization Surcharge Balance		\$ -
4	Bandwidth Carry Forward from Prior Period		<u>\$ -</u>
5	Total (Credit)/Charge Amount (Line 1 + Line 2 + Line 3 + Line 4)		<u>\$ 169,582,075</u>
6	Annual Tracking Account Amount Plus Interest	\$ 169,582,075	
7	Projected Energy Sales without E-3, E-4 and E-36 (kWh)	<u>27,430,972,000</u>	
8	Computed Adjustor Rate per kWh (Line 6 / Line 7)		<u>\$ 0.006182</u>
	<b>Adjustor Rate Bandwidth</b>		
9	Adjustor Rate Bandwidth Upper Limit		<u>\$ 0.004000</u>
10	Adjustor Rate Bandwidth Lower Limit		<u>\$ (0.004000)</u>
11	Applicable Adjustor Rate per kWh		<u>\$ 0.004000</u>
12	Annual Adjustor Account (Line 7 * Line 11)		109,723,888
13	Surcharge Account		0
14	Amount Carried Forward to Paragraph 19d Balancing Account (Line 5 - Line 12 - Line 13)		<u>59,858,187</u>

Note: This calculation is done once a year for the change to the PSA Adjustor Rate in February.

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

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

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY FOR APPROVAL OF POWER  
SUPPLY ADJUSTOR SURCHARGES

DOCKET NO. E-01345A-06-0063  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
April 4 and 5, 2006  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On February 2, 2006, APS filed an application seeking approval of power supply adjustor surcharges ("Application").
3. Pursuant to Decision No. 67744 (April 7, 2005) and as permitted by Decision No. 68437 (February 2, 2006), Arizona Public Service Company ("APS") filed an application seeking approval of two Power Supply Adjustor ("PSA") surcharges totaling \$.002165 per kWh. Together, both PSA surcharges amount to approximately a 2.6 percent increase over the rates effective February 1, 2006, and would recover approximately \$59.9 million over their respective 12-month amortization periods.
4. The \$59.9 million represents the amount in the "Paragraph 19(d) Balancing Account" after taking into consideration the recovery of 2005 PSA deferrals via the 4 mill annual PSA adjustor rate that became effective February 1, 2006. The calculations of the amount in the ...

1 "Paragraph 19(d) Balancing Account" is attached as Exhibit A. Exhibit A is a copy of an exhibit  
2 in the filing made by APS.

3 5. APS requests that the surcharges be implemented in two steps. The first step is a  
4 surcharge of \$.000554 per kWh to recover \$15.3 million over a 12-month amortization period with  
5 the surcharge to be effective concurrent with the decision in Docket No. E-01345A-06-0009  
6 (application of APS for an emergency interim rate increase and for an interim amendment to  
7 Decision No. 67744). The second step is a surcharge of \$.001611 per kWh to recover \$44.6  
8 million over a 12-month amortization period, with the second surcharge to become effective upon  
9 the completion of the Commission's inquiry regarding unplanned 2005 outages at the Palo Verde  
10 Nuclear Generating Station ("PVNGS") in Docket No. E-01345A-05-0826.

11 6. Staff calculated the impact of the \$15.3 million surcharge on residential customers.  
12 The E-12 rate (and rate structure) differ for summer and winter months. Also, the usage of E-12  
13 customers differs substantially across the summer and winter. For these reasons, Staff examined  
14 the effect of the surcharge on E-12 customers in a representative summer month and a  
15 representative winter month. Chart 1 below is based on customer usage in July of 2005. Chart 2  
16 below is based on customer usage from December 2004.

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7. Charts 1 and 2 show the APS proposed surcharge's impact on E-12 customers with different usage characteristics. The APS proposed surcharge will raise E-12 customers' summer bills by \$0.59 or 0.50 percent on average. APS' proposed surcharge will raise customers' winter bills by \$0.38 or 0.61 percent on average.

8. Staff calculated the impact of the \$15.3 million surcharge on commercial customers. The E-32 rate (and rate structure) differ for summer and winter months. Also, the usage of E-32 customers differs across the summer and winter. For these reasons, Staff examined the effect of the surcharge on E-32 customers in an average summer month and an average winter month. See Charts 3 and 4.

**Chart 3 Surcharge Impact on E-32 Summer Bills**

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ORDER

IT IS THEREFORE ORDERED that the first surcharge of \$0.000554/kWh as discussed herein be in effect concurrent with the Commission's decision in Docket No. E-01345A-06-0009, until APS collects \$15.3 million, or one year has elapsed from the date of the Commission's decision in Docket No. E-01345A-06-0009, whichever occurs first.

IT IS FURTHER ORDERED that this surcharge shall not apply to customers served under the Solar-1, Solar-2, SP-1, E-3, E-36 and Direct Access Service electric schedules.

IT IS FURTHER ORDERED that the second surcharge (Docket No. E-01345A-05-0826) is premature at this time in light of the Palo Verde inquiry.

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

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:WPG:lm\JG

1 SERVICE LIST FOR: Arizona Public Service Company  
2 DOCKET NO. E-01345A-06-0063

3 Ms. Karilee S. Ramaley  
4 Mr. Thomas L. Mumaw  
5 Pinnacle West Capital Corporation  
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9 Mr. Patrick J. Black  
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11 3003 North Central Avenue, Suite 260  
12 Phoenix, Arizona 85012-2913

13 Mr. Ernest G. Johnson  
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17 Phoenix, Arizona 85007

18 Mr. Christopher C. Kempley  
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20 Arizona Corporation Commission  
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Decision No. \_\_\_\_\_