

RECEIVED

**ORIGINAL
OPEN MEETING**



2006 JUN -9 P 2:11

AZ CORP COMMISSION
DOCUMENT CONTROL

**MEMORANDUM
(SUPPLEMENTAL)**

410

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 9, 2006

RE: IN THE MATTER OF THE APPLICATION OF MORENCI WATER & ELECTRIC COMPANY FOR AN ADJUSTMENT IN ITS PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE (DOCKET NO. E-01049A-06-0219)

(STAFF'S REVISED ORDER ATTACHED)

On April 4, 2006, Morenci Water & Electric Company ("Morenci" or "the Company") filed an application for a change in its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate. This item was scheduled for the Open Meeting on May 31, 2006 – June 1, 2006. However, because the Company failed to provide notice of the date of the Open Meeting and the proposed change in its PPFCA rate, the item was pulled from the agenda for that Open Meeting.

Morenci is currently in the process of publishing a notice, acceptable to Staff, in two local newspapers both on June 14, 2006, and on June 21, 2006, and has indicated it will mail the same notice to customers on June 21, 2006. The item is currently planned to be included on the June 27 – 28, 2006, Open Meeting agenda. Because of the notice issues and the fact that the item was changed to a later Open Meeting date, the following changes in the proposed Order are:

1. Finding of Fact No. 12. The notice in the local newspaper will be published both on June 14, 2006, and June 21, 2006 (rather than on May 24, 2006).
2. Finding of Fact No. 12. Morenci has also agreed to provide notice on the effect of removal of the temporary credit and implementation of any new Commission-approved adjustor with customer bills sent out in July 2006 (rather than in June 2006).
3. Finding of Fact No. 12. Morenci would also publish any new Commission-approved adjustor rate in the local newspaper as soon as possible after Commission approval and before the July billing (instead of the June billing).
4. Finding of Fact No. 14. Staff has recommended adoption of the proposed adjustor rate of $-\$0.01900$ per kWh to replace the current adjustor rate of $-\$0.01391$ per kWh, effective with bills sent in July 2006 (rather than June 2006).

THE COMMISSION

June 9, 2006

Page 2

5. Finding of Fact No. 15. Staff has further recommended that the new adjustor rate be implemented concurrently with the removal of the temporary adjustor rate credit of $-\$0.02939$ per kWh and that both shall be reflected on bills sent in July 2006 (instead of June 2006).
6. Finding of Fact No. 16. This may be in the form of a newspaper notice and must be published prior to the Company billing in July (instead of June).
7. 2nd ordering paragraph. IT IS FURTHER ORDERED that the new adjustor rate be implemented concurrently with the removal of the temporary adjustor rate credit of $-\$0.02939$ per kWh and that both shall be reflected on bills sent in July 2006 (rather than June 2006).
8. 3rd ordering paragraph. IT IS FURTHER ORDERED that Morenci provide timely notice (acceptable to Staff) to customers, informing them of the new adjustor rate to be implemented. This may be in the form of a newspaper notice and must be published prior to the Company billing in late July (rather than June).

The changes indicated above are included in the new proposed Order attached to this memorandum.



Ernest G. Johnson
Director
Utilities Division

EGJ:JDA:lhm\JMA

ORIGINATOR: Jerry D. Anderson

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
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
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION
OF MORENCI WATER & ELECTRIC
COMPANY FOR AN ADJUSTMENT IN ITS
PURCHASED POWER AND FUEL
ADJUSTMENT CLAUSE RATE

DOCKET NO. E-01049A-06-0219
DECISION NO. _____
ORDER

Open Meeting
June 27 and 28, 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. On April 4, 2006, Morenci filed an application for a change in its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate. In Decision No. 67676 (March 9, 2005), the Commission approved a temporary credit of $-\$0.02939$ per kWh in the PPFAC rate for Morenci to address the problem of a highly over-collected PPFAC bank balance. The temporary credit in Morenci's PPFAC rate was ordered to remain in place until such time as the bank balance is reduced to zero, or the end of February 2007, whichever occurs first. In Decision No. 68438 (February 2, 2006), the Commission-approved over-collected and under-collected threshold levels for Morenci and further ordered that "the Company file an application with the Commission to establish a new PPFAC rate either two months prior to the month the bank balance is projected by the Company to reach zero, or by December 31, 2006, whichever occurs first." This application is

....

1 Morenci's response to that requirement as its PPFAC bank balance is projected by the
2 Company to reach zero in April 2006.

3 3. The Company's PPFAC bank balance has been over-collected since June 2003.
4 The over-collected bank balance had grown in a linear fashion to a maximum level of \$557,497 in
5 March 2005. At that time, the temporary credit of $-\$0.02939$ per kWh ordered in Decision
6 No. 67676 became effective, increasing the Company's negative adjustor by $-\$0.02939$ from
7 $-\$0.01391$ to $-\$0.04330$. The Company's PPFAC over-collected bank balance has declined each
8 month since that time and is rapidly approaching zero.

9 4. Both Staff and Morenci are concerned that when the $-\$0.02939$ per kWh temporary
10 credit expires as a result of the bank balance being reduced to zero, the Company's PPFAC
11 adjustor rate would revert to its former level of $-\$0.01391$, and the over-collected bank balance
12 could again begin to accumulate. The requirement from Decision No. 68438 that Morenci file an
13 application for a new PPFAC rate was imposed to allow for reevaluation of current purchased
14 power costs and market conditions and to provide an opportunity to establish a new adjustor rate
15 that would more closely reflect Morenci's current and projected costs for purchased power.

16

17 **Morenci Electric Rate Components for Purchased Power**

	Current Rate	Temporary Credit Removed	Proposed Rate
18 Base Cost of Purchased Power	\$0.07522	\$0.07522	\$0.07522
19 PPFAC Adjustor Rate	$-\$0.01391$	$-\$0.01391$	$-\$0.01900$
20 PPFAC Temporary Credit	$-\$0.02939$	0	0
21 Total Rate Collected From Customer	\$0.03192	\$0.06131	\$0.05622

22

23

24 5. In the chart above, the "Current Rate" column illustrates the components of the rate
25 for purchased power that are currently in effect including the temporary credit of $-\$0.02939$ put
26 into place to eliminate Morenci's over-collected bank balance. The total rate for purchased power
27 collected from the customer is significantly lower than Morenci's actual cost of purchased power
28 which averaged $\$0.05092$ for the 12 months ending March 2006. The "Temporary Credit

1 Removed" column illustrates the rate when Morenci's bank balance reaches zero if a new adjustor
2 rate is not put into place. The temporary credit is removed and the rate reverts back to the
3 \$0.06131 level where it was prior to implementation of the Decision No. 67676 credit. This rate is
4 higher than the current and forecast cost of purchased power and could again result in
5 accumulation of an over-collected bank balance, subject to the accuracy of the forecasts. The
6 "Proposed Rate" column shows the current adjustor rate of -\$0.01391 replaced with Morenci's
7 proposed new adjustor rate of -\$0.01900. This adjustor rate results in a total rate collected from
8 the customer of \$0.05622, a level estimated by Morenci and Staff to closely match Morenci's cost
9 for purchased power and to minimize the accumulation of an over-collected or under-collected
10 bank balance. This total rate for purchased power is 8.3 percent lower than the \$0.06131 that was
11 in effect prior to the implementation of the temporary credit.

12 6. Staff has reviewed Morenci's projections for future purchased power costs, sales,
13 and other estimations used in setting an appropriate new adjustor rate and finds them to be
14 reasonable. Staff has also examined the models used to calculate projected bank balance levels
15 into the future and finds the models to be consistent with the methodology Morenci uses to report
16 its monthly PPFAC bank balance information and also consistent with the methodology Staff uses
17 to verify Morenci's bank balance calculations.

18 7. Staff's analysis is based upon Morenci's models but is updated with actual data
19 through March 2006. Staff's analysis shows the bank balance reaching zero in May 2006 and
20 assumes implementation of the new adjustor rate in June 2006. In its application, Morenci had
21 assumed the bank balance would reach zero in April 2006 with implementation of the new rate in
22 May 2006.

23 8. Staff's analysis indicates the PPFAC bank balance would reach the \$200,000 over-
24 collected threshold level in December 2007 if no action is taken and the adjustor rate were allowed
25 to revert back to the -\$0.01391 level in effect before the temporary credit was implemented. Staff
26 concurs with Morenci that an adjustor rate of -\$0.01900 results in a total rate close to Morenci's
27 projected cost of purchased power and is a reasonable estimation of a PPFAC adjustor rate that, for
28 the foreseeable future, is likely to minimize the Company's accumulation of a significant over-

1 collected or under-collected balance. Staff's analysis projects a bank balance even closer to zero
2 through most of the analysis period than Morenci's and one that remains well within the over-
3 collected threshold level of \$200,000 and the under-collected threshold level of \$500,000.

4 9. Morenci's analysis illustrates the proposed adjustor rate of $-\$0.01900$ being
5 implemented in May 2006 and being replaced with another new adjustor rate of $-\$0.01290$ in
6 January 2008. This less negative adjustor is to track increasing purchased power costs and to
7 minimize a growing under-collected balance projected for the latter half of 2008. Staff's analysis
8 assumes the $-\$0.01900$ rate will remain in effect through the end of 2008, as far as the analysis
9 projects. Staff's analysis shows a rapidly growing under-collected bank balance near the end of
10 2008, but one that is well within Morenci's \$500,000 under-collected threshold level. Morenci
11 informed Staff that it was not proposing that the Commission approve a two-step adjustor rate, and
12 Staff does not recommend a two-step adjustor.

13 10. The current and proposed PPFAC adjustor rates are both negative as Morenci's
14 actual costs for purchased power continue to be lower than the base cost of power set in Decision
15 No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to its
16 single industrial customer. These sales fall outside the PPFAC because the customer is served
17 under a special contract. The PPFAC mechanism is relevant only to the other two percent of
18 Morenci's sales to 1,789 residential and 261 commercial customers as of March 2006. During the
19 last few years, the Company's electric sales subject to the PPFAC exhibited a slow growth pattern,
20 but with some seasonality during the summer cooling season and the winter heating season. The
21 number of jurisdictional customers and usage per customer are both slowly increasing. Although
22 the costs to serve Morenci's large industrial customers are not included in the PPFAC, the
23 Company is able to negotiate long-term contracts for all of its customers because of this large
24 industrial load, resulting in added stability and possibly lower purchased power costs for all
25 customers.

26 11. Implementation of the new adjustor rate, including automatic discontinuance of the
27 temporary credit of $-\$0.02939$ and replacement of the current adjustor of $-\$0.01391$ with the
28 proposed adjustor of $-\$0.01900$, would have the effect of increasing the residential customer's

1 monthly bill from \$35.76 to \$48.40, assuming 2005 average usage of 521 kWh monthly. This
2 would be a 35.3 percent increase in the current residential monthly bill. In a peak month, this
3 would have the effect of increasing the residential customer's monthly bill from \$45.37 to \$62.01,
4 assuming 2005 peak usage of 685 kWh per residential customer. This would be a 36.7 percent
5 increase in the current peak month bill.

6 12. Staff and Morenci have discussed the provision of notice to customers regarding its
7 application for adjustor rate changes. The Company is currently publishing a notice, acceptable to
8 Staff, on the effect of removal of the temporary credit and implementation of the proposed adjustor
9 rate. Morenci anticipates that it will include such notice in two local weekly newspapers to be
10 published both on June 14, 2006 and June 21, 2006. Morenci has also agreed to provide notice on
11 the effect of removal of the temporary credit and implementation of any new Commission-
12 approved adjustor with customer bills sent out in July 2006. This would be the same billing that
13 would utilize the new adjustor rates in the calculation of customer bills. Morenci would also
14 publish any new Commission- approved adjustor rate in the local newspaper as soon as possible
15 after Commission approval and before the July billing.

16 13. In summary, Staff feels that implementation of the proposed adjustor rate would set
17 the total rate closer to the actual and projected cost of purchased power and, therefore, minimize
18 the accumulation of either an over-collected or under-collected bank balance. Although the rate
19 represents a 35.3 percent increase, the increase is over a current rate deliberately set well below the
20 cost of purchased power in order to remove a significant over-collected bank balance and would
21 result in a total rate lower than the rate in effect prior to the implementation of the temporary
22 credit.

23 14. Staff has recommended adoption of the proposed adjustor rate of $-\$0.01900$ per
24 kWh to replace the current adjustor rate of $-\$0.01391$ per kWh, effective with the bills sent in July
25 2006.

26 15. Staff has further recommended that the new adjustor rate be implemented
27 concurrently with the removal of the temporary adjustor rate credit of $-\$0.02939$ per kWh and that
28 both shall be reflected on bills sent in July 2006.

1 IT IS FURTHER ORDERED that Morenci provide timely notice (acceptable to Staff) to
 2 customers, informing them of the new adjustor rate to be implemented. This may be in the form of
 3 a newspaper notice and must be published prior to the Company billing in late July.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

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:JDA:lhm\JMA

1 SERVICE LIST FOR: Morenci Water & Electric Company
2 DOCKET NO. E-01049A-06-0219

3 Mr. Michael W. Patten
4 Roshka DeWulf & Patten, PLC
5 One Arizona Center
6 400 East Van Buren Street, Suite 800
7 Phoenix, Arizona 85004

8 Mr. Ernest G. Johnson
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Mr. Christopher C. Kempley
14 Chief Counsel
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, Arizona 85007

18
19
20
21
22
23
24
25
26
27
28