



BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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NOV -9 2006

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IN THE MATTER OF THE
APPLICATION OF ARIZONA
PUBLIC SERVICE COMPANY
FOR AN EMERGENCY INTERIM
RATE INCREASE AND FOR AN
INTERIM AMENDMENT TO
DECISION NO. 67744

DOCKET NO. E-01345A-06-0009

**MOTION TO AMEND
DECISION NO. 68685**

Arizona Public Service Company ("APS" or the "Company") hereby moves the Arizona Corporation Commission ("Commission"), pursuant to A.R.S.§40-252, to amend Decision No. 68685 (May 5, 2006). Specifically, the Company requests that the Commission authorize continuation of the interim PSA adjustor of \$.007 per kilowatt-hour ("7 mill"), approved in Decision No. 68685, until the Commission issues a final order in APS' General Rate Case, Docket No. E-01345A-05-0816 ("Rate Case").

I. BACKGROUND

In response to APS' application for an emergency interim rate increase to recover unrecovered fuel and purchase power expenses, the Commission, in Decision No. 68685, set an interim PSA adjustor of 7 mill to be "implemented beginning May 1, 2006,"¹ to recover 2006 fuel and purchased power costs. The interim PSA adjustor will presently expire on January 1, 2007.

The Commission concluded that by acting timely in Decision No. 68685, rather than having APS wait until February 2007 to begin recovering these costs, interest savings for customers in the amount of "approximately five million dollars" would

¹ (See Decision No. 68685, Finding of Fact ¶ 38, page 34.)

1 result.² As part of the Decision, the Commission ruled that “it is in the public interest to
2 insure a more timely recovery of APS’ prudent fuel and purchased power costs.”³ The
3 modification of the PSA was an interim measure taken to address what the Commission
4 viewed as a significant and growing deferral of fuel and purchased power costs.⁴

5 **II. PROPOSED AMENDMENT TO DECISION NO. 68685**

6 **A. Overview**

7 A.R.S.§40-252 provides that the “Commission may, at any time, upon notice to
8 the corporation affected, and after opportunity to be heard as upon complaint, rescind,
9 alter or amend any order or decision made by it.” Pursuant to A.R.S.§40-252, the
10 Company respectfully requests that the Commission amend Decision No. 68685 for the
11 sole purpose of extending the interim PSA adjustor of 7 mill established therein, until
12 such time as the Commission issues its final Order in the Rate Case.⁵

13 Even if the interim PSA adjustor remains in effect until new rates are approved,
14 the Company will still under-recover its fuel and purchased power costs in 2007. Based
15 on the testimony of APS witness Peter M. Ewen in Docket No. E-01345A-05-0816, et al,
16 under-recovery is likely even if (1) the 3.2491 cents/kWh base fuel rate level
17 recommended by APS in that proceeding is adopted by the Commission; and (2) the
18 interim PSA adjustor is continued in 2007.⁶ The Company expects this under-recovery
19 to be approximately \$87 million. Moreover, if the Commission has concerns that
20 continuation of the interim PSA adjustor may somehow foreclose the Commission’s
21 ability to address the prudence of the APS’ 2007 fuel costs, this is simply not the case.
22 The Commission always has the authority to adjust the PSA balance or create a negative
23 balance.

24
25 ² (See Decision No. 68685, Finding of Fact ¶ 41, page 34.)

26 ³ (See Decision No. 68685, Finding of Fact ¶ 28, page 32.)

27 ⁴ (See Decision No. 68685, page 25.)

28 ⁵ APS has raised this issue in the Rate Case, and it has been addressed in testimony by Staff and
Intervenor witnesses. If the Commission believes additional evidentiary hearings are
necessary, the Rate Case would be the appropriate forum to conduct such additional hearings.

⁶ See Rejoinder Testimony of Peter M. Ewen in the Company’s Rate Case, page 2.

1 B. Interim PSA Adjustor

2 In Decision No. 68685, the Commission found that in order to prevent the buildup
3 of a large balance in the 2006 PSA purchased power and fuel costs, including interest
4 that will accrue and eventually be collected from ratepayers beginning in February 2007,
5 it authorized APS to implement an interim PSA adjustor to collect a portion of such
6 costs that were above the base fuel cost established in Decision No. 67744.⁷

7 Any deterioration of the Company's financial condition will have a direct and
8 adverse impact on APS customers in both the quality and cost of their service.⁸ To
9 combat such deterioration, regulatory bodies throughout the country have used a variety
10 of means, including interim rates, to both address the financial issues and mitigate their
11 impacts.⁹ This Commission has taken initial steps to address these concerns by
12 authorizing an interim PSA adjustor in Decision No. 68685. As the Rate Case
13 progresses, a continuation of the interim PSA adjustor to synchronize its expiration to
14 coincide with new rates being set in the Rate Case would slow the Company's financial
15 deterioration. In addition, it would avoid any "yo-yo" effect¹⁰ on customer rates caused
16 by the expiration of the interim PSA adjustor at year end and thereafter the
17 implementation of higher rates upon conclusion of the Rate Case in 2007. This
18 Commission has found that multiple price changes in a short period of time can be
19 confusing to ratepayers and may not send the appropriate price signals.¹¹

20 As noted above, APS will still have significant unrecovered fuel costs in 2007
21 even if the Commission adopts the base fuel rate requested by APS in the pending rate
22 case. However, extending the 7 mill interim PSA adjustor until such rates are
23 implemented will help reduce the amount of that under-recovery and mitigate the effects
24 on APS' tenuous financial condition.

26 ⁷ (See Decision No. 68685, Finding of Fact ¶ 36, page 33.)

27 ⁸ (See Rebuttal Testimony of Steven M. Wheeler in Company's Rate Case, page 4.)

27 ⁹ (See Rebuttal Testimony of Steven M. Wheeler in Company's Rate Case, page 4.)

28 ¹⁰ (*Id.*)

28 ¹¹ (See Decision No. 68685, Finding of Fact ¶ 31, page 33.)

1 C. Base Rate Proposals in Rate Case Exceed the Existing Base Fuel Rate Plus
2 the Interim PSA Adjustor

3 The sum of APS' current base fuel rate plus the 7 mill interim PSA adjustor is
4 2.7743 cents per kWh. Each party that presented recommendations in the Rate Case as
5 to the new base fuel rate (Staff, RUCO and AECC/Phelps Dodge) recognized the
6 urgency of maintaining a level of recovery equal or greater to that being recovered under
7 the interim PSA adjustor. Specifically, each has recommended a base fuel rate that
8 would allow recovery of fuel costs above that being recovered through the current
9 interim PSA adjustor. For example, not only did Staff recommend an increase in the
10 base rate from 2.0743 cents per kWh to 2.7975 cents per kWh,¹² but Staff also
11 recommended that the Commission use forecasted fuel and energy prices to set the PSA
12 adjustor.¹³ RUCO proposed a base fuel recovery amount of 3.1202 cents per kWh.¹⁴
13 Finally, AECC witness Kevin C. Higgins agreed that all of the base fuel rate
14 recommendations in the Rate Case, including that of AECC, were higher than APS'
15 current base fuel rate plus the 7 mill adjustor.¹⁵

16 D. Parties to the Rate Case That Have Made Recommendations as to the New
17 Base Fuel Rate Have No Objection to a Continuation of the Interim PSA
18 Adjustor Until the Commission Authorizes New Rates

19 Staff has recommended that the interim PSA be continued until the
20 implementation of new base rates in the Rate Case.¹⁶ In his Surrebuttal Testimony, Mr.
21 Dittmer testified that it was Staff's assumption that new base rates would be
22 implemented at about the time that the interim increase would expire, and further stated
23 that Staff had no objection to the continuation of the interim PSA until the Commission
24 implemented new base rates in the Rate Case.¹⁷ Counsel for APS presented this very
25 question to counsel for Staff, RUCO and AECC, and each confirmed that their client
would have no objection to the continuation of the interim PSA adjustor until the

26 ¹² (See Direct Testimony of James R. Dittmer in Rate Case, page 6.)

27 ¹³ (See Direct Testimony of John Antonuk in Rate Case, page 6.)

28 ¹⁴ (See Surrebuttal Testimony of J. Richard Hornby, page 5.)

¹⁵ (See Rate Case Transcript Volume XV, page 3036.)

¹⁶ (See Surrebuttal Testimony of James R. Dittmer in Rate Case, page 21.)

¹⁷ (Id.)

1 Commission authorized new rates in the Rate Case. AECC/Phelps Dodge witness
2 Higgins testified in the Rate Case that he supported the continuation of the 7 mill
3 adjustor until superseded by rates coming out of the Rate Case.¹⁸

4 **III. CONCLUSION**

5 In Decision No. 68685, the Commission determined that it was in the public
6 interest to implement an interim PSA adjustor to prevent the buildup of a large balance
7 in the 2006 PSA purchased power and fuel costs, which includes the accrual of interest
8 that will be collected from ratepayers, beginning in February 2007. Maintaining the
9 7 mill adjustor until rates are established in the Rate Case will allow the Company to
10 continue to collect a portion of its fuel and purchased power costs that have already been
11 incurred, as well as reduce the potential interest expenses that would accrue due to
12 increased shortfalls in the PSA account, which would subsequently be collected from
13 customers. In addition, a continuation of the interim PSA adjustor to synchronize its
14 expiration with new rates being set in the Rate Case would avoid an undesirable "yo-yo"
15 effect on customer rates, which would be confusing to customers and would not send the
16 appropriate price signals.

17 For all the foregoing reasons, the Company respectfully requests that the
18 Commission issue an Order prior to year end:

- 19 1. Finding and concluding that it is in the public interest to amend Decision
20 No. 68685; and
- 21 2. Ordering that Decision No. 68685 be amended to provide that the interim
22 PSA adjustor of 7 mill remain in effect until a final Order is issued by the
23 Commission in the Rate Case.

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¹⁸ (See Rate Case Transcript Volume XV, page 3036.)

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RESPECTFULLY SUBMITTED this 9th day of November 2006.

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