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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

2 COMMISSIONERS

DOCKETED

3 JEFF HATCH-MILLER, Chairman  
4 WILLIAM A. MUNDELL  
5 MIKE GLEASON  
6 KRISTIN K. MAYES  
7 BARRY WONG

DEC 12 2006

DOCKETED BY  
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6 IN THE MATTER OF THE APPLICATION OF  
7 ARIZONA PUBLIC SERVICE COMPANY FOR  
8 AN EMERGENCY INTERIM RATE INCREASE  
9 AND FOR AN INTERIM AMENDMENT TO  
10 DECISION NO. 67744.

DOCKET NO. E-01345A-06-0009

DECISION NO. 69184

ORDER AMENDING DECISION NO.  
68685

10 DATES OF HEARING:

December 8, 2006

11 PLACE OF HEARING:

Phoenix, Arizona

12 IN ATTENDANCE:

Jeff Hatch-Miller, Chairman  
William A. Mundell, Commissioner  
Kristin K. Mayes, Commissioner  
Barry Wong, Commissioner

14 APPEARANCES:

15 Mr. Thomas L. Mumaw, PINNACLE WEST CAPITAL  
16 CORPORATION, on behalf of Arizona Public Service  
Company;

17 Mr. C. Webb Crockett, FENNEMORE CRAIG, P.C., on  
behalf of AECC and Phelps Dodge;

18 Mr. Scott S. Wakefield, Chief Counsel, on behalf of the  
19 Residential Utility Consumer Office;

20 Mr. Nicholas J. Enoch, LUBIN & ENOCH, on behalf of  
the International Brotherhood of Electrical Workers  
21 Local Unions 387, 640 and 769;

22 Mr. Michael Grant, GALLAGHER & KENNEDY, on  
behalf of Arizona Utility Investors Association;

23 Mr. Jay I. Moyes, MOYES STOREY, on behalf of  
24 Arizona Agricultural Group; and

25 Mr. Christopher Kempley, Chief Counsel, Legal  
26 Division, on behalf of the Utilities Division of the  
Arizona Corporation Commission.

**BY THE COMMISSION:**

1 On January 6, 2006, the Arizona Public Service Company ("APS") filed an application with  
2 the Arizona Corporation Commission ("Commission") for an emergency interim rate increase and for  
3 an interim amendment to Decision No. 67744 (April 7, 2005) ("Application").

4 By various Procedural Orders, intervention was granted to: Phelps Dodge Mining Company  
5 ("Phelps Dodge"), Arizonans for Electric Choice and Competition ("AECC"), the Residential Utility  
6 Consumer Office ("RUCO"), the Arizona Utility Investors Association, Inc. ("AUIA"), Arizona  
7 Agricultural Group ("AzAg"), Western Resource Advocates ("WRA"), Unisource Energy Services  
8 ("UES"), Southwestern Power Group II, L.L.C., Mesquite Power, L.L.C. and Bowie Power Station,  
9 L.L.C. (collectively "Power Group"), Arizona Water Company ("AWC"), the Town of Wickenburg  
10 ("Wickenburg"), the Arizona Community Action Association ("ACAA"), the Federal Executive  
11 Agencies ("FEA"), the International Brotherhood of Electrical Workers, AFL-CIO, CLC, Local  
12 Unions 387, 640 and 769 (collectively, "IBEW"), and the Arizona Competitive Power Alliance  
13 ("Alliance").

14 On May 5, 2006, the Commission issued Decision No. 68685, which authorized APS to  
15 implement an interim PSA adjustor for purchased power and fuel costs incurred in 2006.

16 On November 9, 2006, APS filed a Motion to Amend Decision No. 68685, pursuant to A.R.S.  
17 § 40-252. The Company requested that the Commission authorize continuation of the interim PSA  
18 adjustor of \$.007 per kilowatt-hour until the Commission issues a final order in APS' General Rate  
19 Case, Docket No. E-01345A-0816 ("Rate Case").

20 On November 14, 2006, Chairman Hatch-Miller filed a letter indicating his belief that the  
21 Commission should schedule an Open Meeting under A.R.S. § 40-252 to consider APS' request.

22 On November 17, 2006, Commissioner Gleason filed a letter agreeing that the matter should  
23 be placed on an Open Meeting agenda pursuant to A.R.S. § 40-252.

24 On November 17, 2006, AUIA filed its Response in Support of APS' Motion to Amend  
25 Decision No. 68685.

26 On November 20, 2006, Commissioner Mundell filed a letter agreeing that the matter should  
27 be placed on an Open Meeting agenda pursuant to A.R.S. § 40-252.

28 On November 27, 2006, the Power Group filed its Response in Support of APS' Motion to

Amend Decision No. 68685.

1 On December 4, 2006, IBEW filed its Joinder to APS' Motion to Amend Decision No. 68685.

2 On December 8, 2006, the Commission convened an Open Meeting and held a hearing  
3 pursuant to A.R.S. § 40-252.

#### 4 DISCUSSION

5 During the proceeding held pursuant to A.R.S. § 40-252 on December 8, 2006, the  
6 Commission took testimony regarding the amendment proposed by Chairman Jeff Hatch-Miller. In  
7 its Motion to Amend Decision No. 68685, APS requested the Commission to extend the seven mill  
8 interim PSA adjustor until the adoption of a base fuel rate in the pending general rate proceeding  
9 (Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-05-0827). Making this change  
10 would continue the status quo for APS customers by "smoothing" their rates until the general rate  
11 case is concluded. In addition, this change will prevent the buildup of a large balance in 2006 PSA  
12 purchased power and fuel costs, including the accrual of interest that will be collected from  
13 ratepayers, beginning in February 2007. Allowing the interim PSA adjustor to expire on January 1,  
14 2007 and subsequently implementing a potential higher base fuel rate in the general rate case will  
15 cause a "yo-yo" effect on APS ratepayers. This outcome should be avoided because multiple price  
16 changes over a short span of time can be confusing to ratepayers and may not send the appropriate  
17 price signals. Staff, RUCO and AECC have expressed no opposition to such a continuation of the  
18 interim PSA adjustor. Therefore, we find that it is in the public interest to keep the interim PSA  
19 adjustor of seven mills in place until rates become effective as a result of the pending APS general  
20 rate proceeding (Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-05-0827).

21 During the proceeding held pursuant to A.R.S. § 40-252 on December 8, 2006, the  
22 Commission took testimony regarding the amendment proposed by Commissioner Mayes. In 2005,  
23 APS voluntarily withheld the costs related to unplanned outages at Palo Verde Nuclear Generating  
24 Station ("PVNGS") until a prudence review was conducted by Commission Staff. From January 1,  
25 2006 through October 31, 2006, APS estimated that the deferred costs for fuel and purchased power  
26 related to PVNGS unplanned outages is approximately \$76.3 million. The Commission believes that  
27 these, and any additional fuel and purchased power costs related to unplanned outages during 2006 at  
28 PVNGS, should be identified within the adjustor mechanism and will be subject to refund once the

1 Commission has issued a decision on Commission Staff's prudence review on the 2006 PVNGS  
2 unplanned outages.

3 \* \* \* \* \*

4 Having considered the entire record herein and being fully advised in the premises, the  
5 Commission finds, concludes, and orders that:

6 **FINDINGS OF FACT**

7 1. APS is a public service corporation principally engaged in furnishing electricity in the  
8 State of Arizona.

9 2. On January 6, 2006, APS filed with the Commission an application for a \$299 million,  
10 or 14 percent, emergency interim rate increase in annual electric revenues and for an amendment to  
11 Decision No. 67744, on an interim basis, to remove the \$776.2 million "cap" on total retail fuel and  
12 purchased power costs recoverable in rates. In its rebuttal testimony filed on March 13, 2006, the  
13 Company modified its request to \$232 million to reflect declines in fuel prices between November  
14 2005 and the end of February 2006.

15 3. Intervention was granted to AECC, FEA, RUCO, AUIA, AzAg, Phelps Dodge,  
16 IBEW, AWC, WRA, UES, ACAA, Alliance, Wickenburg, AARP, and the Power Group.

17 4. Hearings were held in March, 2006, and the Commission issued its Decision No.  
18 68685 on May 6, 2006.

19 5. On November 9, 2006, APS filed a Motion to Amend Decision No. 68685, pursuant to  
20 A.R.S. § 40-252. The Company requested that the Commission authorize continuation of the interim  
21 PSA adjustor of \$.007 per kilowatt-hour until the Commission issues a final order in APS' General  
22 Rate Case, Docket No. E-01345A-0816 ("Rate Case").

23 6. On November 14, 2006, Chairman Hatch-Miller filed a letter indicating his belief that  
24 the Commission should schedule an Open Meeting under A.R.S. § 40-252 to consider APS' request.

25 7. On November 17, 2006, Commissioner Gleason filed a letter agreeing that the matter  
26 should be placed on an Open Meeting agenda pursuant to A.R.S. § 40-252.

27 8. On November 17, 2006, AUIA filed its Response in Support of APS' Motion to  
28 Amend Decision No. 68685.

9. On November 20, 2006, Commissioner Mundell filed a letter agreeing that the matter

1 should be placed on an Open Meeting agenda pursuant to A.R.S. § 40-252.

2 10. On November 24, 2006, the Power Group filed its Response in Support of APS'  
3 Motion to Amend Decision No. 68685.

4 11. On December 1, 2006, IBEW filed its Joinder to APS' Motion to Amend Decision No.  
5 68685.

6 12. The Commission held a hearing pursuant to A.R.S. § 40-252 on December 8, 2006.

7 13. The interim PSA adjustor of seven mills should remain in place until rates become  
8 effective as a result of the pending general rate proceeding (Docket Nos. E-01345A-05-0816, E-  
9 01345A-05-0826 and E-01345A-05-0827).

10 14. All fuel and purchased power costs associated with unplanned outages at PVNGS  
11 during 2006 should be identified within the adjustor mechanism and will be subject to refund once  
12 the Commission has issued a decision on Commission Staff's prudence review on the 2006 PVNGS  
13 unplanned outages.

#### 14 CONCLUSIONS OF LAW

15 1. Arizona Public Service Company is a public service corporation within the meaning of  
16 Article XV of the Arizona Constitution and A.R.S. §§ 40-203, 204, 221, 250, 251, and 361.

17 2. The Commission has jurisdiction over Arizona Public Service Company and the  
18 subject matter of the application.

19 3. Notice of the application was provided in accordance with the law.

20 4. Notice was given that the Commission would consider this matter pursuant to A.R.S. §  
21 40-252.

22 5. The Commission held a hearing pursuant to A.R.S. § 40-252 on December 8, 2006.

23 6. The interim PSA adjustor of seven mills adopted in Decision No. 68685 should be  
24 modified pursuant to A.R.S. § 40-252 to allow for its continuance until rates become effective as a  
25 result of the pending general rate proceeding (Docket Nos. E-01345A-05-0816, E-01345A-05-0826  
26 and E-01345A-05-0827).

27 7. APS shall identify all costs associated with unplanned outages at PVNGS during 2006  
28 within the adjustor mechanism. These costs will be subject to refund once the Commission has  
issued a decision on Commission Staff's prudence review on the 2006 PVNGS unplanned outages.

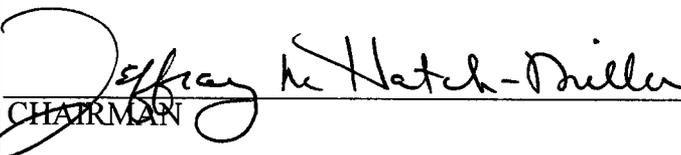
**ORDER**

IT IS THEREFORE ORDERED that Arizona Public Service Company is authorized to continue the interim PSA adjustor of seven mills for 2007 costs until rates become effective as a result of the pending Arizona Public Service Company's general rate proceeding (Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-05-0827).

IT IS FURTHER ORDERED that all fuel and purchased power costs associated with unplanned outages at Palo Verde Nuclear Generating Station during 2006 should be identified within the adjustor mechanism and will be subject to refund once the Commission has issued a decision on Commission Staff's prudence review on the 2006 Palo Verde Nuclear Generating Station unplanned outages.

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

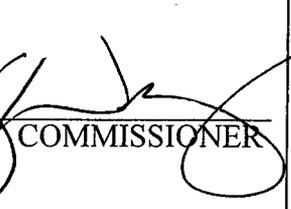
BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

  
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 the Commission to be affixed at the Capitol, in the City of Phoenix, this 12<sup>th</sup> day of Dec., 2006.

  
BRIAN C. McNEIL  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

## SERVICE LIST FOR:

ARIZONA PUBLIC SERVICE CO.

DOCKET NO.:

E-01345A-06-0009

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