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MEMORANDUM

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FROM: Ernest G. Johnson
Director
Utilities Division

2007 JUL 27 A 9:35

AZ CORP COMMISSION
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Arizona Corporation Commission

DOCKETED

JUL 27 2007

DATE: July 27, 2007

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RE: ARIZONA PUBLIC SERVICE COMPANY - STEP 2 SURCHARGE
(DOCKET NOS. E-01345A-05-0816, E-01345A-05-0826 AND E-01345A-05-0827)

Decision No. 69663 approved a Step 2 surcharge for Arizona Public Service Company ("APS") to recover its costs related to the recovery of Palo Verde outage costs. APS was to calculate the correct amount and submit the proposed surcharge level to Commission Staff for review and approval, within 30 days of the Decision. The Step 2 surcharge was not to include the costs resulting from imprudent outages at Palo Verde as determined by Decision No. 69663.

On July 2, 2007, APS filed its calculation of the Step 2 surcharge. Staff has reviewed the filing and has verified that the calculations are correct and are consistent with the findings in Decision No. 69663. The Step 2 surcharge rate is \$0.001176 per kWh to be charged to customers (excluding those on E-3, E-4, and E-36 rate schedules) effective July 1, 2007. The recoverable balance is \$33,634,777 including interest as of June 2007. The total disallowance in Decision No. 69663 was \$14,327,737.

EGJ:BEK:tdp

Originator: Barbara Keene