

ORIGINAL

OPEN MEETING



MEMORANDUM
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FEB 27 2008

TO: THE COMMISSION

2008 FEB 27 P 3: 15

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY	
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DATE: February 27, 2008

RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF ENVIRONMENTAL IMPROVEMENT SURCHARGE PLAN OF ADMINISTRATION (DOCKET NOS. E-01345A-05-0816, E-01345A-05-0826, AND E-01345A-05-0827)

On June 28, 2007, the Commission approved Decision No. 69663 ("Decision") that, in part, authorized Arizona Public Service Company ("APS" or "Company") to implement an Environmental Improvement Surcharge ("EIS" or "Surcharge") as set forth in the Decision. The Commission also ordered APS to file with Docket Control as a compliance item in the Docket, an EIS plan of administration ("POA" or "Plan") for Commission approval.

Effective July 1, 2007, the EIS began appearing on customer bills as the Federal Environmental Improvement Surcharge. Customers' bills contain an informative description of the EIS as follows: "A charge to recover a portion of the cost of investments for environmental improvements at APS' generation facilities designed to comply with environmental standards mandated by federal laws or regulations."

Pursuant to Decision No. 69663, on July 27, 2007, APS filed with Docket Control its proposed EIS Plan for Commission approval. APS' filing also contains a request to address what may be an oversight in the Decision. APS believes that Rate Schedules Solar-3 (Solar Power Pilot Program) and GPS-1 (Green Power Block Schedule) should be exempted from the Surcharge as are Rate Schedules SP-1 (Solar Partners), GPS-2 (Green Power Percent Schedule) and Solar-2.

The proposed Plan indicates that funds collected from the EIS will be recorded as a regulatory liability. Use of the funds on qualified projects will reduce the regulatory liability and be recorded as Contributions in Aid of Construction. Interest will be calculated on the EIS balance monthly based on the prior month's ending balance. As summarized on Page 3 of the proposed Plan, APS explicitly addresses ten of the eleven conditions ordered by the Commission on page 86 of the Decision. It should be noted that the unaddressed condition (Cumulative EIS Funds) is included in Schedule 1 of the proposed Plan.

In accordance with the Decision, the proposed Plan explicitly precludes the use of EIS funds for payment of fines or penalties. The Decision also requires APS to undertake a climate

change management plan, carbon emission reduction study, and commitment-action plan which according to APS, may produce initiatives that increase costs for environmental projects.

The EIS will not be based on forecast costs but may include costs associated with non-mandated projects. APS suggests that the Commission could review the prudence of adding non-mandated EIS-related capital expenditures to the EIS fund during the annual review of filed reports or a general rate case (Decision, p. 83). In the event APS collects excess funds, APS would have a regulatory liability on its balance sheet until such time as the Commission addresses disposition of it during annual review or during a general rate case.

KWh billings under Rate Schedules SP-1 (Solar Partners), GPS-2 (Green Power Percent Schedule) and Solar-2 are excluded from the EIS. APS' filings in this Docket propose also excluding Rate Schedules GPS-1 (Green Power Block Schedule) and Solar-3 (Solar Power Pilot Program) from the Surcharge. The Company believes that the energy served under all of its solar and green power rates should be excluded from the EIS, because customers already pay premium rates for energy provided under these environmentally friendly rate schedules. Staff recommends that Rate Schedules GPS-1 and Solar-3 be included in the group of rate schedules that are excluded from the EIS. Staff also makes the following recommendations regarding the POA proposed by APS.

- The proposed EIS Billing section contains an informative description that appears on customers' bills as follows: "A charge to recover a portion of the cost of investments for environmental improvements at APS' generation facilities designed to comply with environmental standards mandated by federal laws or regulations." According to the record in this case (June 2007 Open Meeting, Tr. Vol. IV, pp. 690-703), the projects included in the initial EIS are federally mandated environmental projects. If future non-mandated environmental projects are included in the EIS fund, Staff recommends that APS be required to change the informative description that appears on customers' bills to "A charge to recover a portion of the cost of investments for environmental improvements at APS' generation facilities designed to comply with environmental standards mandated or expected to be mandated by federal, state or local laws or regulations."
- In the event that non-mandated environmental projects are included in the EIS fund, and the projects are expected to be mandated in the foreseeable future, Staff recommends that no later than the next annual review of EIS-related projects, APS obtain the Commission's approval to use EIS funds for those projects.
- In the event that non-mandated environmental projects are included in the EIS fund, and the projects are not expected to be mandated in the foreseeable future, Staff recommends that APS obtain the Commission's approval to use EIS funds for those projects before construction begins on the projects. The purpose of the review is to give the Commission the opportunity to hear APS' reasons for proposing construction of non-mandated environmental improvement projects. APS shall not

consider the Commission's findings in these matters as being in lieu of future prudence reviews.

- In the event that other than federally mandated environmental projects are included in the EIS fund, Staff recommends that the Commission require APS to change the name of the Surcharge from the "Federal Environmental Improvement Surcharge" to the "Environmental Improvement Surcharge".
- On page three of the proposed Plan submitted by APS, ten of the eleven conditions specified by the Commission have been bullet listed. Staff recommends that the Commission require APS to add the missing ninth condition as specified in the Decision at page 86, lines 23-24, to the proposed bullet list as follows: "Cumulative EIS funds collected from July 1, 2007 through June 30th of the current period, 10)...." In addition, Staff recommends that the Commission require APS to revise the proposed bullet list numbers to agree in format with the Commission's Decision.
- Staff recommends that the Commission require APS to use the 5-year Treasury Constant Maturities rate when calculating monthly earned interest applicable to the EIS fund. APS proposes using the 1-year Treasury Constant Maturities ("TCM") rate as established for cash deposits held by the Company for six months or longer. It should be noted that customer security deposits are normally only held for 12-month (residential) or 24-month (nonresidential) periods. These time periods are short term in nature compared to the typical four-to five-year construction periods associated with the environmental improvement projects originally filed by APS. In addition the 5-year rate would provide ratepayers with an opportunity to benefit from a slightly higher interest rate. For example, during the week ended January 18, 2008, the average 5-year TCM rate was only fourteen basis points higher than the comparable 1-year TCM rate. Staff believes that the slight interest rate premium is appropriate in this case because it applies to a longer fund retention period, and helps to alleviate the ratepayers' burden of incurring zero interest months that are expected to be a routine occurrence according to APS.
- Staff recommends that the Commission require APS to separately identify costs charged to the EIS fund that are a direct result of costs incurred by APS in complying with the Decision's requirement that APS prepare and file a climate management plan, carbon emission reduction study and commitment-action plan.

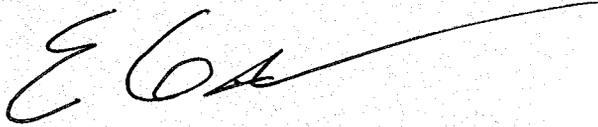
Staff recommends that the above noted revisions be incorporated into the Plan of Administration and that the Commission approve the Plan.

THE COMMISSION

February 27, 2008

Page 4

Within ten days of a decision in this matter Staff recommends that APS be required to file with Docket Control, as a compliance item in this case, a tariff setting forth its Environmental Improvement Surcharge Plan of Administration as recommended by Staff herein.

A handwritten signature in black ink, appearing to read 'EGJ', with a long horizontal flourish extending to the right.

Ernest G. Johnson

Director

Utilities Division

EGJ:WHM:lhm\JFW

ORIGINATOR: William H. Musgrove

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BEFORE THE ARIZONA CORPORATION COMMISSION

- MIKE GLEASON
Chairman
- WILLIAM A. MUNDELL
Commissioner
- JEFF HATCH-MILLER
Commissioner
- KRISTIN K. MAYES
Commissioner
- GARY PIERCE
Commissioner

IN THE MATTER OF THE ARIZONA
PUBLIC SERVICE COMPANY-
APPLICATION FOR APPROVAL OF
ENVIRONMENTAL IMPROVEMENT
SURCHARGE PLAN OF
ADMINISTRATION

DOCKET NOS. E-01345A-05-0816
E-01345A-05-0826
E-01345A-05-0827

DECISION NO. _____

ORDER

Open Meeting
March 11 and 12, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company (“APS” or “Company”) is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On June 28, 2007, the Commission approved Decision No. 69663 (“Decision”) that, in part, authorized APS to implement an Environmental Improvement Surcharge (“EIS” or “Surcharge”) as set forth in the Decision. The Commission also ordered APS to file with Docket Control as a compliance item in the Docket, an EIS plan of administration (“POA” or “Plan”) for Commission approval.
3. Effective July 1, 2007, the EIS began appearing on customer bills as the Federal Environmental Improvement Surcharge. Customers’ bills contain an informative description of the EIS as follows: “A charge to recover a portion of the cost of investments for environmental ...

1 improvements at APS' generation facilities designed to comply with environmental standards
2 mandated by federal laws or regulations.”

3 4. Pursuant to Decision No. 69663, on July 27, 2007, APS filed with Docket Control
4 its proposed EIS Plan for Commission approval. APS' filing contains a request to address what
5 may be an oversight in the Decision. APS believes that Rate Schedules Solar-3 (Solar Power Pilot
6 Program) and GPS-1 (Green Power Block Schedule) should be exempted from the Surcharge as
7 are Rate Schedules SP-1 (Solar Partners), GPS-2 (Green Power Percent Schedule) and Solar-2.

8 5. The proposed Plan indicates that funds collected from the EIS will be recorded as a
9 regulatory liability. Use of the funds on qualified projects will reduce the regulatory liability and
10 be recorded as Contributions in Aid of Construction.

11 6. Interest will be calculated on the EIS balance monthly based on the prior month's
12 ending balance.

13 7. As summarized on Page 3 of the proposed Plan, APS explicitly addresses ten of the
14 eleven conditions ordered by the Commission on page 86 of the Decision. It should be noted that
15 the unaddressed condition (Cumulative EIS Funds) is included in Schedule 1 of the proposed Plan.

16 8. In accordance with the Decision, the proposed Plan explicitly precludes the use of
17 EIS funds for payment of fines or penalties.

18 9. The Decision also requires APS to undertake a climate change management plan,
19 carbon emission reduction study, and commitment-action plan, which according to APS may
20 produce initiatives that increase costs for environmental projects.

21 10. The EIS will not be based on forecast costs but may include costs associated with
22 non-mandated projects. APS suggests that the Commission could review the prudence of adding
23 non-mandated EIS-related capital expenditures to the EIS fund during the annual review of filed
24 reports or a general rate case (Decision, p. 83).

25 11. In the event APS collects excess funds, APS would have a regulatory liability on its
26 balance sheet until such time as the Commission addresses disposition of it during annual review
27 or during a general rate case.

28 ...

1 **Staff's Findings and Recommendations**

2 12. KWh billings under Rate Schedules SP-1 (Solar Partners), GPS-2 (Green Power
3 Percent Schedule) and Solar-2 are excluded from the EIS. APS' filings in this Docket propose
4 also excluding Rate Schedules GPS-1 (Green Power Block Schedule) and Solar-3 (Solar Power
5 Pilot Program) from the Surcharge. The Company believes that the energy served under all of its
6 solar and green power rates should be excluded from the EIS, because customers already pay
7 premium rates for energy provided under these environmentally friendly rate schedules. Staff has
8 recommended that Rate Schedules GPS-1 and Solar-3 be included in the group of rate schedules
9 that are explicitly excluded from the EIS.

10 13. The proposed EIS Billing section contains an informative description that appears
11 on customers' bills as follows: "A charge to recover a portion of the cost of investments for
12 environmental improvements at APS' generation facilities designed to comply with environmental
13 standards mandated by federal laws or regulations." According to the record in this case (June
14 2007 Open Meeting, Tr. Vol. IV, pp. 690-703), the projects included in the initial EIS are federally
15 mandated environmental projects. If future non-mandated environmental projects are included in
16 the EIS fund, Staff has recommended that APS be required to change the informative description
17 that appears on customers' bills to "A charge to recover a portion of the cost of investments for
18 environmental improvements at APS' generation facilities designed to comply with environmental
19 standards mandated or expected to be mandated by federal, state or local laws or regulations."

20 14. In the event that non-mandated environmental projects are included in the EIS fund,
21 and the projects are expected to be mandated in the foreseeable future, Staff has recommended that
22 no later than the next annual review of EIS-related projects, APS obtain the Commission's
23 approval to use EIS funds for those projects.

24 15. In the event that non-mandated environmental projects are included in the EIS fund,
25 and the projects are not expected to be mandated in the foreseeable future, Staff has recommended
26 that APS obtain the Commission's approval to use EIS funds for those projects before construction
27 begins on the projects. The purpose of the review is to give the Commission the opportunity to
28 hear APS' reasons for proposing construction of non-mandated environmental improvement

1 projects. APS shall not consider the Commission's findings in these matters as being in lieu of
2 future prudence reviews.

3 16. In the event that other than federally mandated environmental projects are included
4 in the EIS fund, Staff has recommended that the Commission require APS to change the name of
5 the Surcharge from the "Federal Environmental Improvement Surcharge" to the "Environmental
6 Improvement Surcharge".

7 17. On page three of the proposed Plan submitted by APS, ten of the eleven conditions
8 specified by the Commission have been bullet listed. Staff has recommended that the Commission
9 require APS to add the missing ninth condition as specified in the Decision at page 86, lines 23-24,
10 to the proposed bullet list as follows: "Cumulative EIS funds collected from July 1, 2007 through
11 June 30th of the current period, 10)...." In addition, Staff has recommended that the Commission
12 require APS to revise the proposed bullet list numbers to agree in format with the Commission's
13 Decision.

14 18. Staff has recommended that the Commission require APS to use the 5-year
15 Treasury Constant Maturities rate when calculating monthly earned interest applicable to the EIS
16 fund. APS proposes using the 1-year Treasury Constant Maturities ("TCM") rate as established
17 for cash deposits held by the Company for six months or longer. Staff notes that customer security
18 deposits are normally only held for 12-month (residential) or 24-month (nonresidential) periods.
19 These time periods are short term in nature compared to the typical four-to five-year construction
20 periods associated with the environmental improvement projects originally filed by APS. In
21 addition the 5-year rate would provide ratepayers with an opportunity to benefit from a slightly
22 higher interest rate. For example, during the week ended January 18, 2008, the average 5-year
23 TCM rate was only fourteen basis points higher than the comparable 1-year TCM rate. Staff
24 believes that the slight interest rate premium is appropriate in this case because it applies to a
25 longer fund retention period, and helps to alleviate the ratepayers' burden of incurring zero interest
26 months that are expected to be a routine occurrence according to APS.

27 19. Staff has recommended that the Commission require APS to separately identify
28 costs charged to the EIS fund that are a direct result of costs incurred by APS in complying with

1 the Decision's requirement that APS prepare and file a climate management plan, carbon emission
2 reduction study and commitment-action plan.

3 20. Staff has recommended that the above noted revisions be incorporated into the Plan
4 of Administration and that the Commission approve the Plan.

5 21. Within ten days of a decision in this matter Staff has recommended that APS be
6 required to file with Docket Control, as a compliance item in this case, a tariff setting forth its
7 Environmental Improvement Surcharge Plan of Administration.

8 CONCLUSIONS OF LAW

9 1. APS is a public service corporation within the meaning of Article XV, Section 2 of
10 the Arizona Constitution.

11 2. The Commission has jurisdiction over APS and the subject matter of the
12 Application.

13 3. The Commission having reviewed the proposed Plan and Staff's Memorandum
14 dated February 27, 2008, concludes that it is in the public interest to approve the Plan as submitted
15 by APS and revised by Staff.

16 ORDER

17 IT IS THEREFORE ORDERED that the Arizona Public Service Company Environmental
18 Improvement Surcharge Plan of Administration as revised herein is approved.

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IT IS FURTHER ORDERED that within ten days of a decision in this matter Arizona Public Service Company is required to file with Docket Control, as a compliance item in this case, a tariff setting forth its Environmental Improvement Surcharge Plan of Administration.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I DEAN S. MILLER, Interim 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 _____, 2008.

DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:WHM:lhv\JFW

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NOS. E-01345A-05-0816, et al.

3 Deborah R. Scott
4 Kimberly A. Grouse
5 SNELL & WILMER
6 One Arizona Center
7 400 East Van Buren
8 Phoenix, AZ 85004-2202

9 Thomas L. Mumaw
10 Karilee S. Ramaley
11 Pinnacle West Capital Corporation
12 P. O. Box 53999, MS 8695
13 Phoenix, AZ 85072-3999

14 C. Webb Crockett
15 Patrick J. Black
16 FENNEMORE CRAIG, P.C.
17 3003 North Central, Suite 2600
18 Phoenix, AZ 85012-2913

19 Michelle Livengood
20 UniSource Energy Services
21 One South Church Street, Suite 200
22 Tucson, AZ 85702

23 Steven B. Bennett
24 Deputy City Attorney
25 City of Scottsdale
26 City Attorney's Office
27 3939 North Drinkwater Blvd.
28 Scottsdale, AZ 85251

Michael W. Patten
ROSHKA DEWULF & PATTEN, PLC
One Arizona Center
400 East Van Buren, Suite 800
Phoenix, AZ 85004

Gary Yaquinto, President
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, AZ 85004

Sein Seitz, President
Arizona Solar Energy Industries Association
3008 North Civic Center Plaza
Scottsdale, AZ 85251

Dan Austin
Comverge, Inc.
6509 West Frye Road, Suite 4
Chandler, AZ 85226

Timothy M. Hogan
Arizona Center for Law in the Public Interest
202 East McDowell Road, Suite 153
Phoenix, AZ 85004

Jay I. Moyes
MOYES STOREY LTD.
1850 North Central Avenue, Suite 1100
Phoenix, AZ 85004

Kenneth R. Saline, P.E.
K.R. SALINE & ASSOC., PLC
160 North Pasadena, Suite 101
Mesa, AZ 85201

Robert W. Geake
Vice President and General Counsel
Arizona Water Company
P. O. Box 29006
Phoenix, AZ 85038-9006

Lieutenant Colonel Karen S. White
Chief, Air Force Utility Litigation Team
AFLSA/JACL-ULT
139 Barnes Drive
Tyndall AFB, FL 32403

Greg Patterson
Arizona Competitive Power Alliance
916 West Adams, Suite 3
Phoenix, AZ 85007

1	Jim Nelson 12621 North 17th Place Phoenix, AZ 85022	Amanda Ormond The Ormond Group LLC Southwest Representative Interwest Energy Alliance 7650 South McClintock, Suite 103-282 Tempe, AZ 85284
2		
3	George Bien-Willner 3641 North 39th Avenue Phoenix, AZ 85014	
4		
5	Gary L. Nakarado ARIZONA SOLAR ENERGY INDUSTRIES ASSOCIATION 24657 Foothills Drive North Golden, CO 80401	Michael L. Kurtz Kurt J. Boehm BOEHM, KURTZ & LOWRY 36 East Seventh Street, Suite 1510 Cincinnati, OH 45202
6		
7		
8		
9	Scott S. Wakefield RUCO 1110 West Washington, Suite 220 Phoenix, AZ 85007	Tammie Woody 10825 West Laurie Lane Peoria, AZ 85345
10		
11		
12	Lawrence V. Robertson, Jr. MUNGER CHADWICK P. O. Box 1448 Tubac, AZ 85646	Joseph Knauer, President Jewish Community of Sedona and the Verde Valley 100 Meadowlark Drive Post Office Box 10242 Sedona, AZ 86339-8242
13		
14		
15	Bill Murphy Murphy Consulting 5401 North 25th Street Phoenix, AZ 85016	David C. Kennedy, Esq. 3819 East Indian School Road Phoenix, AZ 85018
16		
17		
18	Andrew W. Bettwy Karen S. Haller Assistants General Counsel Legal Affairs Department SOUTHWEST GAS CORPORATION 5241 Spring Mountain Road Las Vegas, Nevada 89150	Michael F. Healy MORGAN, LEWIS & BOCKIUS 1111 Pennsylvania Avenue, NW Washington, DC 20004
19		
20		
21		
22	Tracy Spoon Sun City Taxpayers Association 12630 North 103rd Avenue, Suite 144 Sun City, AZ 85351	Barbara Klemstine Brian Brumfield Arizona Public Service P.O. Box 53999, Mail Station 9708 Phoenix, AZ 85072-3999
23		
24		
25	Douglas V. Fant Law Offices of Douglas V. Fant 3655 West Anthem Drive Suite A-109 PMB 411 Anthem, AZ 85086	Jon Poston AARP Electric Rate Project 6733 East Dale Lane Cave Creek, AZ 85331
26		
27		
28		
		Coralette Hannon AARP Government Relations & Advocacy 6705 Reedy Creek Road Charlotte, NC 28215

1 Michael M. Grant
2 GALLAGHER & KENNEDY, P.A.
3 2575 E. Camelback Road
4 Phoenix, AZ 85016-9225

4 Jana Van Ness
5 Arizona Public Service Company
6 400 North 5th Street, MS 8695
7 Phoenix, AZ 85004

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

10 Mr. Christopher C. Kempley
11 Chief Counsel, Legal Division
12 Arizona Corporation Commission
13 1200 West Washington Street
14 Phoenix, Arizona 85007

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