

ORIGINAL

OPEN MEETING



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MEMORANDUM  
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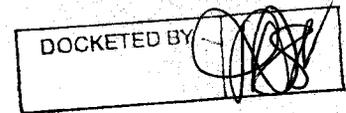
FEB 27 2008

2008 FEB 27 P 3: 15

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL



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 30<sup>th</sup> 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.

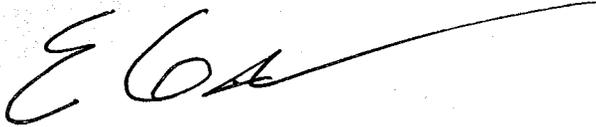
Staff recommends that the above noted revisions be incorporated into the Plan of Administration and that the Commission approve the Plan.

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:lhmfJFW

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 30<sup>th</sup> 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:lhm\JFW

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

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