

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: January 28, 2008

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RE: IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY FOR APPROVAL OF TRANSMISSION COST ADJUSTOR CHARGES (E-01345A-07-0713)

On December 31, 2007, Arizona Public Service Company ("APS") filed an application with the Arizona Corporation Commission ("ACC") seeking an increase in adjustment schedule TCA-1. Schedule TCA-1 establishes a portion of the transmission rate APS charges to its own standard offer retail customers.

APS' transmission cost adjustor mechanism ("TCA") was established in Decision No. 67744 (April 7, 2005). The TCA rate was initially set at \$0.00 per kWh and a rate of \$0.000476 per kWh was embedded in base rates to recover transmission costs. The transmission rate embedded in base rates was then adjusted by Decision No. 69663 (June 28, 2007). The TCA rate is currently set at \$0.00 and transmission costs are recovered only through base rates. When transmission costs change in the future the adjustor mechanism provided by TCA-1 can be used to collect the difference between transmission costs and the transmission rates embedded in base rates. The TCA mechanism is meant to provide recovery for costs associated with APS' costs of transmission of energy as enumerated in the APS Open Access Transmission Tariff ("OATT") approved by the Federal Energy Regulatory Commission ("FERC") (or a Regional Transmission Organization or similar organization as appropriate in the future).

Presently the APS OATT is comprised of various kWh and kW rates that apply depending on customer characteristics such as size of the customer's demand and whether the customer is a residential or general service customer. The \$0.000476 per kWh rate that was embedded in APS' current base rates was meant to recover from customers an annual sum equivalent to the revenue that would be recovered from customers had the OATT rates in place at the time been applied to APS customers. In other words, it was a rate meant to serve as a proxy for the set of rates included in the OATT and recover the same revenue that would be collected had the kWh and kW components of the OATT rate been used. This assumed that load factors remained the same as the sample year used as the basis for calculation of the proxy kWh rate. FERC has jurisdiction over electric transmission rates. Transmission costs are federally regulated as a result of the interstate nature of electric transmission.

Decision No. 67744 (April 7, 2005) also established an opportunity for APS to file with the ACC an application for an adjustment to the TCA rate should the FERC OATT rate exceed 5

THE COMMISSION

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percent of the test year base of \$0.000476 per kWh. On July 11, 2007, APS made a filing with the FERC to establish formula rates for calculation of its OATT. These formula rates would adjust annually without the requirement of a FERC rate case. The application includes calculation of a new OATT rate schedule to replace existing OATT rates.

The rates that APS proposes in its current FERC OATT filing are based on both kW and kWh rates. In Attachment C of its TCA application, APS illustrates a single kWh rate that would be needed to collect the same revenue that would be collected from the blend of kW and kWh charges that APS now proposes in its FERC OATT application. APS makes a comparison to the \$0.00476 per kWh transmission rate using single kWh rates as a proxy for the OATT rates because Decision No. 67744 includes a provision that the TCA can go into effect when the transmission component of retail rates exceeds the test year base rate amount of \$0.00476 per kWh by 5 percent and APS obtains ACC approval of a new TCA rate. Decision No. 67744 did not establish criteria for the timing of implementation of the TCA adjustor based on a benchmark that includes a blend of both kW and kWh charges. The single kWh rates calculated in attachment C are, therefore, calculated to create an equivalent measure of proposed FERC OATT rates that can be comparable to the \$0.00476 per kWh rate in order to test whether the proposed FERC OATT rates exceed the base rate established in Decision No. 67744 by more than 5 percent. In attachment C of its application, APS calculates two versions of this single kWh rate. One version is based on billing determinants from 2002 and the other uses data from 2006. Different averaged kWh rates are produced for each year as each year has a distinct load factor and the proposed FERC OATT rates include both kW and kWh charges. In the example using 2002 billing determinants, the FERC OATT rate is effectively a 25.04 percent increase over the \$0.00476 per kWh rate. In the example using 2006 billing determinants, the FERC OATT rate is effectively a 24.2 percent increase.

Staff has reviewed the calculations contained in attachment C and finds the methods used by APS to compare the transmission rates proposed in the FERC OATT tariff to the \$0.00476 per kWh rate established in Decision No. 67744 is reasonable. Staff also finds that the kWh proxy rates contained in attachment C of the application do exceed the \$0.00476 per kWh rate by more than 5 percent. This application seeks ACC authorization for an increase to the adjustor mechanism, Schedule TCA-1.

Staff recommends approval of the proposed TCA rate.

The FERC has not yet issued a decision in FERC Docket No. ER07-1142-000 that establishes a final OATT rate. Until such time, FERC will allow APS to charge the rates requested in its OATT application beginning March 1, 2008. These rates are subject to refund should the FERC decision in the matter approve rates different from those requested by APS.

APS has proposed in this application that the proposed rates be implemented subject to refund should FERC ultimately approve a rate different from the APS proposal in FERC Docket No. ER07-1142-000. The application describes that should a refund to Arizona ratepayers become appropriate, APS could implement a refund in the 2009 TCA charge or in a prior

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adjustment to the TCA depending on the timing of a final FERC order on the matter. The application does not describe further details about how APS' proposed refunding would be accomplished.

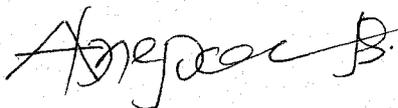
To provide an opportunity to more fully develop a plan for refunding, should the final FERC OATT rate be lesser than the rate proposed by APS, Staff further recommends that within 30 days of a decision by FERC establishing the final FERC OATT rate APS file with the ACC for approval a plan for refund.

To make customers aware of the TCA component of the bill, Staff also recommends that the TCA adjustor appear on the unbundled portion of the bill as a distinct line item near "Transmission and ancillary services."

In order to help customers notice and understand the appearance of the TCA rate in their bills, Staff recommends that APS provide notice to customers of the new TCA rate and a description of the adjustor in a bill insert in a form acceptable to Staff at the time the TCA rate first appears in the bill.

To further inform customers about the TCA rate and other components of bills, Staff also recommends that the APS website include information accessible to the general public that describes the components of APS bills and includes a description of the TCA adjustor rate.

Staff has discovered a typographical error in Attachment A Adjustment Schedule TCA-1 of the application. Through communications with APS, Staff has learned that the total figure (\$2.0908) shown in the middle column titled March 1, 2008, is incorrect. That figure should instead be \$2.0898. To correct this error, Staff recommends that this figure be corrected at the time of filing a final version of the tariff.



for Ernest G. Johnson
Director
Utilities Division

EGJ:SPI:lhmc\CKK

ORIGINATOR: Steve Irvine

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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 ARIZONA PUBLIC
SERVICE COMPANY FOR APPROVAL OF
TRANSMISSION COST ADJUSTOR
CHARGES

DOCKET NO. E-01345A-07-0713

DECISION NO. _____
ORDER

Open Meeting
February 12 and 13, 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 December 31, 2007, APS filed an application with the Arizona Corporation Commission ("ACC") seeking an increase in adjustment schedule TCA-1. Schedule TCA-1 establishes a portion of the transmission rate APS charges to its standard offer retail customers.
 3. APS' transmission cost adjustor mechanism ("TCA") was established in Decision No. 67744 (April 7, 2005). The TCA rate was initially set at \$0.00 per kWh and a rate of \$0.000476 per kWh was embedded in base rates to recover transmission costs. The transmission rate embedded in base rates was then adjusted by Decision No. 69663 (June 28, 2007). The TCA rate is currently set at \$0.00 and transmission costs are recovered only through base rates. When transmission costs change in the future the adjustor mechanism provided by TCA-1 can be used to
- ...

1 collect the difference between transmission costs and the transmission rates embedded in base
2 rates.

3 4. The TCA mechanism is meant to provide recovery for costs associated with APS'
4 costs of transmission of energy as enumerated in the APS Open Access Transmission Tariff
5 ("OATT") approved by the Federal Energy Regulatory Commission ("FERC").

6 5. Presently the APS OATT is comprised of various kWh and kW rates that apply
7 depending on customer characteristics such as size of the customer's demand and whether the
8 customer is a residential or general service customer.

9 6. The \$0.000476 per kWh rate that was embedded in APS' current base rates was
10 meant to recover from customers an annual sum equivalent to the revenue that would be recovered
11 from customers had the OATT rates in place at the time been applied to APS customers. In other
12 words, it was a rate meant to serve as a proxy for the set of rates included in the OATT and recover
13 the same revenue that would be collected had the kWh and kW components of the OATT rate been
14 used. This assumed that load factors remained the same as the sample year used as the basis for
15 calculation of the proxy kWh rate.

16 7. FERC has jurisdiction over electric transmission rates. Transmission costs are
17 federally regulated as a result of the interstate nature of electric transmission.

18 8. Decision No. 67744 (April 7, 2005) also established an opportunity for APS to file
19 with the ACC an application for an adjustment to the TCA rate should the FERC OATT rate
20 exceed 5 percent of the test year base of \$0.000476 per kWh.

21 9. On July 11, 2007, APS made a filing with the FERC to establish formula rates for
22 calculation of its OATT. These formula rates would adjust annually without the requirement of a
23 FERC rate case. The application includes calculation of a new OATT rate schedule to replace
24 existing OATT rates.

25 10. The rates that APS proposes in its current FERC OATT filing are based on both kW
26 and kWh rates. In Attachment C of its TCA application, APS illustrates a single kWh rate that
27 would be needed to collect the same revenue that would be collected from the blend of kW and
28 kWh charges that APS now proposes in its FERC OATT application. APS makes a comparison to

1 the \$0.00476 per kWh transmission rate using single kWh rates as a proxy for the OATT rates
2 because Decision No. 67744 includes a provision that the TCA can go into effect when the
3 transmission component of retail rates exceeds the test year base rate amount of \$0.00476 per kWh
4 by 5 percent and APS obtains ACC approval of a new TCA rate. Decision No. 67744 did not
5 establish criteria for the timing of implementation of the TCA adjustor based on a benchmark that
6 includes a blend of both kW and kWh charges. The single kWh rates calculated in attachment C
7 are, therefore, calculated to create an equivalent measure of proposed FERC OATT rates that can
8 be comparable to the \$0.00476 per kWh rate in order to test whether the proposed FERC OATT
9 rates exceed the base rate established in Decision No. 67744 by more than 5 percent. In
10 attachment C of its application, APS calculates two versions of this single kWh rate. One version
11 is based on billing determinants from 2002 and the other uses data from 2006. Different averaged
12 kWh rates are produced for each year as each year has a distinct load factor and the proposed
13 FERC OATT rates include both kW and kWh charges. In the example using 2002 billing
14 determinants, the FERC OATT rate is effectively a 25.04 percent increase over the \$0.00476 per
15 kWh rate. In the example using 2006 billing determinants, the FERC OATT rate is effectively a
16 24.2 percent increase.

17 11. Staff has reviewed the calculations contained in attachment C and finds the methods
18 used by APS to compare the transmission rates proposed in the FERC OATT tariff to the \$0.00476
19 per kWh rate established in Decision No. 67744 reasonable. Staff also finds that the kWh proxy
20 rates contained in attachment C of the application do exceed the \$0.00476 per kWh rate by more
21 than 5 percent.

22 12. This application seeks ACC authorization for an increase to the adjustor
23 mechanism, Schedule TCA-1.

24 13. Staff has recommended approval of the proposed TCA rate.

25 14. The FERC has not yet issued a decision in FERC Docket No. ER07-1142-000 that
26 establishes a final OATT rate. Until such time, FERC will allow APS to charge the rates requested
27 in its OATT application beginning March 1, 2008. These rates are subject to refund should the
28 FERC decision in the matter approve rates different from those requested by APS.

1 15. APS has proposed in this application that the proposed rates be implemented
2 subject to refund should FERC ultimately approve a rate different from the APS proposal in FERC
3 Docket No. ER07-1142-000.

4 16. The application describes that should a refund to Arizona ratepayers become
5 appropriate, APS could implement a refund in the 2009 TCA charge or in a prior adjustment to the
6 TCA depending on the timing of a final FERC order on the matter. The application does not
7 describe further details about how APS' proposed refunding would be accomplished.

8 17. To provide an opportunity to more fully develop a plan for refunding, should the
9 final FERC OATT rate be lesser than the rate proposed by APS, Staff further recommends that
10 within 30 days of a decision by FERC establishing the final FERC OATT rate APS file with the
11 ACC for approval a plan for refund.

12 18. To make customers aware of the TCA component of the bill, Staff has also
13 recommended that the TCA adjustor appear on the unbundled portion of the bill as a distinct line
14 item near "Transmission and ancillary services."

15 19. In order to help customers notice and understand the appearance of the TCA rate in
16 their bills, Staff has recommended that APS provide notice to customers of the new TCA rate and
17 a description of the adjustor in a bill insert in a form acceptable to Staff at the time the TCA rate
18 first appears in the bill.

19 20. To further inform customers about the TCA rate and other components of bills,
20 Staff has also recommended that the APS website include information accessible to the general
21 public that describes the components of APS bills and includes a description of the TCA adjustor
22 rate.

23 21. Staff has discovered a typographical error in Attachment A Adjustment Schedule
24 TCA-1 of the application. Through communications with APS, Staff has learned that the total
25 figure (\$2.0908) shown in the middle column titled March 1, 2008, is incorrect. That figure should
26 instead be \$2.0898. To correct this error, Staff has recommended that this figure be corrected at
27 the time of filing a final version of the tariff.

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CONCLUSIONS OF LAW

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2 1. APS is an Arizona public service corporation within the meaning of Article XV,
3 Section 2 of the Arizona Constitution.

4 2. The ACC has jurisdiction over APS and the subject matter of the application.

5 3. Approval of the proposed tariff does not constitute a rate increase as contemplated
6 by A.R.S. Section 40-250.

7 4. The ACC, having reviewed the application and Staff's Memorandum dated
8 January 28, 2008, concludes that it is in the public interest to approve Adjustment Schedule
9 TCA-1.

10 ORDER

11 IT IS THEREFORE ORDERED that Adjustment Schedule TCA-1 be and hereby is
12 approved as discussed herein.

13 IT IS FURTHER ORDERED that within 30 days of a decision by FERC establishing the
14 final FERC OATT rate, Arizona Public Service Company file with the ACC a plan for refund
15 should the OATT rate approved by FERC be lower than the rate proposed by Arizona Public
16 Service Company.

17 IT IS FURTHER ORDERED that the TCA adjustor appear on the unbundled portion of the
18 bill as a distinct line item near "Transmission and ancillary services."

19 IT IS FURTHER ORDERED that Arizona Public Service Company provide notice to
20 customers of the new TCA rate and a description of the adjustor in a bill insert in a form
21 acceptable to Staff at the time the TCA rate first appears in the bill.

22 IT IS FURTHER ORDERED that the Arizona Public Service Company website include
23 information accessible to the general public that describes the components of Arizona Public
24 Service Company bills and includes a description of the TCA adjustor rate.

25 IT IS FURTHER ORDERED that the typographical error included in Schedule TCA-1 of
26 the application be corrected at the time of filing a final version of the tariff.

27 ...

28 ...

1 IT IS FURTHER ORDERED that Arizona Public Service Company file with Docket
2 Control, as a compliance item in this matter, tariff pages consistent with the terms of this Decision
3 within 15 days from the effective date of this Decision.

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

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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 CHAIRMAN

COMMISSIONER

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11 COMMISSIONER

COMMISSIONER

COMMISSIONER

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13 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of
16 this Commission to be affixed at the Capitol, in the City of
17 Phoenix, this _____ day of _____, 2008.

18 _____
19 DEAN S. MILLER
Interim Executive Director

20
21 DISSENT: _____

22 DISSENT: _____

23 EGJ:SPI:lm\CCK
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SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-07-0713

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