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BEFORE THE ARIZONA CORPORATION C

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

Arizona Corporation Commission
DOCKETED
MAR 20 2008
DOCKETED BY nr

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. 70213

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 . . .

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

4. Pursuant to Decision No. 69663, on July 27, 2007, APS filed with Docket Control its proposed EIS Plan for Commission approval. APS' filing 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.

5. 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.

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

7. 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.

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

9. 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.

10. 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).

11. 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.

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Staff's Findings and Recommendations

12. 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 has recommended that Rate Schedules GPS-1 and Solar-3 be included in the group of rate schedules that are explicitly excluded from the EIS.

13. 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 has recommended 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."

14. 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 has recommended 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.

15. 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 has recommended 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.

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

17. On page three of the proposed Plan submitted by APS, ten of the eleven conditions specified by the Commission have been bullet listed. Staff has recommended 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 has recommended that the Commission require APS to revise the proposed bullet list to numbers to agree in format with the Commission's Decision.

18. Staff has recommended 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. Staff notes 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.

19. Staff has recommended 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.

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

21. Within ten days of a decision in this matter Staff has recommended 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.

CONCLUSIONS OF LAW

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

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

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

ORDER

IT IS THEREFORE ORDERED that the Arizona Public Service Company Environmental 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 in conformance with the revisions discussed herein.

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 20th day of March, 2008.

DEAN S. MILLER
Interim Executive Director

DISSENT: _____

DISSENT: _____

EGJ:WHM:lhm\JFW

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