

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: March 20, 2008

DOCKETED BY *MM*

RE: IN THE MATTER OF THE ARIZONA PUBLIC SERVICE COMPANY'S REQUEST FOR AUTHORIZATION TO APPLY THE CREDIT CUSTOMER BALANCE IN ITS NET GAINS ON UTILITY PROPERTY ACCOUNT TO ITS DEMAND-SIDE MANAGEMENT ADJUSTOR CHARGE ACCOUNT (DOCKET NO. E-01345A-06-0770)

On February 15, 2008, Arizona Public Service Company ("APS" or "the Company") made a filing in Docket Nos. E-01345A-03-0437 and E-01345A-05-0526 to fulfill an annual obligation in connection with resetting its Demand-Side Management Adjustor Charge ("DSMAC") rate established by Decision No. 67744. In its filing, APS reported that it had expended \$3,237,361 over its base rate allowance in recoverable Demand-Side Management ("DSM") program and incentive costs. However, because a new DSMAC rate calculated on that number would be very small, APS did not request the DSMAC rate be reset from its current level of zero. The Company instead requested that the balance continue to be deferred with interest until the next annual reset in the adjustor rate on March 1, 2009. APS also proposed that the customer balance in its Net Gains on Utility Property account, pursuant to Decision No. 69670, be credited to the DSMAC balance.

On February 29, 2008, APS filed its "Quarterly Report on Transfers of Utility Property" for the fourth quarter of 2007 in Docket No. E-1345A-06-0770 in compliance with Decision No. 69670. On March 12, 2008, the Company filed corrected reports for the third and fourth quarters of 2007. The Company reported a credit customer balance of \$271,768 in its Net Gains on Utility Property account as of December 31, 2007. APS stated in its filing that the Company believed that applying the \$271,768 credit customer balance in the account to the deferred DSMAC balance would: 1) reduce the impact of the DSMAC in 2009, 2) reduce associated interest on the DSMAC balance, 3) be reasonable, and 4) directly benefit APS customers.

BACKGROUND

On June 28, 2007, the Arizona Corporation Commission ("Commission") issued Decision No. 69670 authorizing APS to: 1) enter into and participate in an Edison Electric Institute Spare Transformer Sharing Agreement with other utilities in the event of an act of deliberate destruction, 2) sell a portion of its Round Valley Substation to Southwest Transmission Cooperative, 3) sell its Waddell Substation property to Suburban Land Reserve, Inc., and 4) pre-approve certain property transactions up to \$1 million.

The Commission, in granting APS pre-approval for certain transactions up to \$1 million, also established certain conditions and limitations that would apply to that pre-approval. Among those conditions and limitations, item e) stated in part, "No less often than once each two years on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater, will either be refunded to customers or utilized by APS to fund programs that will directly benefit customers as directed and approved by the Commission."

ANALYSIS

The balance APS reported in its Net Gains on Utility Property account on December 31, 2007, is \$271,768. Staff believes that it would be impractical and uneconomical for the Company to refund such a relatively small amount to APS customers. Staff, therefore, believes that APS' other option provided for in Decision No. 69670, to utilize the funds to directly benefit customers, would be the preferred course of action in this case.

APS' proposed application of these funds to reduce the deferred amount in the DSMAC account appears to be reasonable and in keeping with the spirit and intention of Decision No. 69670. Staff believes that application of these funds to reduce both the impact of the DSMAC in 2009 and the interest that would otherwise accrue on that part of the DSMAC balance meets the test of providing a direct benefit to APS customers.

If the Commission approves the application of these funds in APS' Net Gains on Utility Property account to reduce the Company's DSMAC account balance, all APS customers would benefit by paying a slightly lower DSM adjustor rate on their electric bill. When the new DSMAC adjustor rate to take effect with the first billing cycle in March 2009 is calculated, the amount used to calculate it would be lower by \$271,768 plus the amount of interest that \$271,768 would have accumulated in the account from the time it was paid down until March 1, 2009.

Staff reviewed the other conditions placed on APS' pre-approval authority to transfer, sell, mortgage, or lease used and useful Company property by Decision No. 69670. Staff concluded that APS has remained within the per-transaction cap of \$750,000, has remained within the annual limitation of \$7,500,000, and has met all other limitations, restrictions, and reporting requirements outlined in the Decision. Staff further confirmed that the amount in the account is \$100,000 or greater and, therefore, APS is required to take action at this time to make disposition of the funds.

Staff reviewed APS' Quarterly Reports on Transfers of Utility Property and substantiated the Company's reported customer balance of \$271,768. The reported customer balance of \$271,768 represents only the customer portion of the net gain on the property transactions and is equal to 50 percent of the entire net gain realized from the property transactions plus interest.

2007 Transactions in the Net Gains on Utility Property Account:

Customer Balance as of 12/31/06	\$186,601
Interest from 01/01/07 – 06/30/07	4,652
Redhawk Power Plant Easement 07/01/07	74,723
Southwest 4 Substation Site Agricultural Lease 09/15/07	0
Interest on 06/30/07 – 09/30/07 Account Balance	2,410
Interest from 09/30/07 – 12/31/07	<u>3,382</u>
Customer Balance as of 12/31/07	<u>\$271,768</u>

APS has completed only two transactions under the Company's pre-approval authority from June 28, 2007, when Decision No. 69670 was issued, through December 31, 2007. Brief descriptions of the transactions follow:

1. APS granted an easement to Salt River Project ("SRP") encumbering 30.06 acres of land adjacent to the Redhawk Power Plant for SRP to construct its Palo Verde-Pinal West-Browning 500kV Project. The project was approved December 8, 2006, by Commission Decision No. 69183. APS stated that the transmission line SRP is building will benefit APS customers by strengthening the interconnected grid and will not negatively impact the safety, quality, reliability, and economy of APS customers' service.
2. APS leased a two-acre parcel that is the future site of a substation and is currently vacant. The lease mitigates APS' need to provide dust and weed control but will end on March 15, 2008. Lease payments are credited to Rent from Utility Property, where customers receive the full benefit of the payments. The lease payments are not credited to APS' Net Gains on Utility Property account where they would benefit customers only in the amount of 50 percent of the lease payment amounts.

Staff has also examined the calculation of interest in the account during 2007 and has concluded that the amounts reported in the revised filings appear to be correct. The interest rate used is the same rate used to accrue interest on customer deposits as specified in Decision No. 69670. More specifically, the rate used is the one-year Nominal Treasury Constant Maturities rate from the Federal Reserve H-15 as of the first business day of each year.

CONCLUSIONS AND RECOMMENDATION

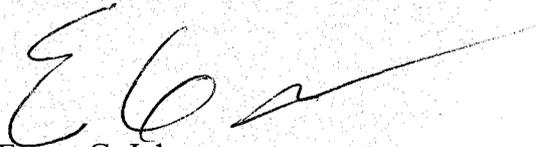
Based on Staff's analysis discussed above, Staff believes that application of the credit customer balance in the Net Gains on Utility Property account to reduce the Company's DSMAC balance is an appropriate way to utilize the property transaction proceeds to benefit APS customers. Staff furthermore believes that such a disposition of the funds is in compliance with Decision No. 69670, and that APS has complied with other related conditions and limitations the Commission imposed in connection with granting APS pre-approval to transfer, sell, mortgage, lease, assign, or otherwise dispose of used and useful property.

THE COMMISSION

March 20, 2008

Page 4

For these reasons, Staff recommends that the Commission grant APS authorization to apply the entire \$271,768 credit customer balance in its Net Gains on Utility Property account, as of December 31, 2007, to reduce the balance in the Company's Demand-Side Management Adjustor Charge account on April 30, 2008, in compliance with provisions of Decision No. 69670. Staff emphasizes that its recommendation is not for blanket approval for this disposition of funds in the Net Gains on Utility Property account henceforth. Staff is recommending approval for this particular disposition in this instance for April 30, 2008, only. Prior Commission approval must be obtained each time disposition is to be made.



Ernest G. Johnson
Director
Utilities Division

EGJ:JDA:lhmkT

ORIGINATOR: Jerry D. Anderson

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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'S REQUEST
FOR AUTHORIZATION TO APPLY THE
CREDIT CUSTOMER BALANCE IN ITS
NET GAINS ON UTILITY PROPERTY
ACCOUNT TO ITS DEMAND-SIDE
MANAGEMENT ADJUSTOR CHARGE
ACCOUNT

DOCKET NO. E-01345A-06-0770
DECISION NO. _____
ORDER

Open Meeting
April 8 and 9, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or the "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On February 15, 2008, APS made a filing in Docket Nos. E-01345A-03-0437 and E-01345A-05-0526 to fulfill an annual obligation in connection with resetting its Demand-Side Management Adjustor Charge ("DSMAC") rate established by Decision No. 67744. In its filing, APS reported that it had expended \$3,237,361 over its base rate allowance in recoverable Demand-Side Management ("DSM") program and incentive costs. However, because a new DSMAC rate calculated on that number would be very small, APS did not request the DSMAC rate be reset from its current level of zero. The Company instead requested that the balance continue to be deferred with interest until the next annual reset in the adjustor rate on March 1, 2009. APS also

1 proposed that the customer balance in its Net Gains on Utility Property account, pursuant to
2 Decision No. 69670, be credited to the DSMAC balance.

3 3. On February 29, 2008, APS filed its "Quarterly Report on Transfers of Utility
4 Property" for the fourth quarter of 2007 in Docket No. E-1345A-06-0770 in compliance with
5 Decision No. 69670. On March 12, 2008, the Company filed corrected reports for the third and
6 fourth quarters of 2007. The Company reported a credit customer balance of \$271,768 in its Net
7 Gains on Utility Property account as of December 31, 2007. APS stated in its filing that the
8 Company believed that applying the \$271,768 credit customer balance in the account to the
9 deferred DSMAC balance would 1) reduce the impact of the DSMAC in 2009, 2) reduce
10 associated interest on the DSMAC balance, 3) be reasonable, and 4) directly benefit APS
11 customers.

12 **BACKGROUND**

13 4. On June 28, 2007, the Arizona Corporation Commission ("Commission") issued
14 Decision No. 69670 authorizing APS to: 1) enter into and participate in an Edison Electric
15 Institute Spare Transformer Sharing Agreement with other utilities in the event of an act of
16 deliberate destruction, 2) sell a portion of its Round Valley Substation to Southwest Transmission
17 Cooperative, 3) sell its Waddell Substation property to Suburban Land Reserve, Inc., and 4) pre-
18 approve certain property transactions up to \$1 million.

19 5. The Commission, in granting APS pre-approval for certain transactions up to \$1
20 million, also established certain conditions and limitations that would apply to that pre-approval.
21 Among those conditions and limitations, item e) stated in part, "No less often than once each two
22 years on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater,
23 will either be refunded to customers or utilized by APS to fund programs that will directly benefit
24 customers as directed and approved by the Commission."

25 **ANALYSIS**

26 6. The balance APS reported in its Net Gains on Utility Property account on
27 December 31, 2007, is \$271,768. Staff believes that it would be impractical and uneconomical for
28 the Company to refund such a relatively small amount to APS customers. Staff, therefore, believes

1 that APS' other option provided for in Decision No. 69670, to utilize the funds to directly benefit
2 customers, would be the preferred course of action in this case.

3 7. APS' proposed application of these funds to reduce the deferred amount in the
4 DSMAC account appears to be reasonable and in keeping with the spirit and intention of Decision
5 No. 69670. Staff believes that application of these funds to reduce both the impact of the DSMAC
6 in 2009 and the interest that would otherwise accrue on that part of the DSMAC balance meets the
7 test of providing a direct benefit to APS customers.

8 8. If the Commission approves the application of these funds in APS' Net Gains on
9 Utility Property account to reduce the Company's DSMAC account balance, all APS customers
10 would benefit by paying a slightly lower DSM adjustor rate on their electric bill. When the new
11 DSMAC adjustor rate to take effect with the first billing cycle in March 2009 is calculated, the
12 amount used to calculate it would be lower by \$271,768 plus the amount of interest that \$271,768
13 would have accumulated in the account from the time it was paid down until March 1, 2009.

14 9. Staff reviewed the other conditions placed on APS' pre-approval authority to
15 transfer, sell, mortgage, or lease used and useful Company property by Decision No. 69670. Staff
16 concluded that APS has remained within the per-transaction cap of \$750,000, has remained within
17 the annual limitation of \$7,500,000, and has met all other limitations, restrictions, and reporting
18 requirements outlined in the Decision. Staff further confirmed that the amount in the account is
19 \$100,000 or greater and, therefore, APS is required to take action at this time to make disposition
20 of the funds.

21 10. Staff reviewed APS' Quarterly Reports on Transfers of Utility Property and
22 substantiated the Company's reported customer balance of \$271,768. The reported customer
23 balance of \$271,768 represents only the customer portion of the net gain on the property
24 transactions and is equal to 50 percent of the entire net gain realized from the property transactions
25 plus interest.

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1 11. 2007 Transactions in the Net Gains on Utility Property Account:

2	Customer Balance as of 12/31/06	\$186,601
3	Interest from 01/01/07 – 06/30/07	4,652
4	Redhawk Power Plant Easement 07/01/07	74,723
5	Southwest 4 Substation Site Agricultural Lease 09/15/07	0
6	Interest on 06/30/07 – 09/30/07 Account Balance	2,410
7	Interest from 09/30/07 – 12/31/07	3,382
8	Customer Balance as of 12/31/07	\$271,768

9 12. APS has completed only two transactions under the Company's pre-approval
10 authority from June 28, 2007, when Decision No. 69670 was issued, through December 31,
11 2007. Brief descriptions of the transactions follow:

- 12 1. APS granted an easement to Salt River Project ("SRP") encumbering
13 30.06 acres of land adjacent to the Redhawk Power Plant for SRP to
14 construct its Palo Verde-Pinal West-Browning 500kV Project. The
15 project was approved December 8, 2006, by Commission Decision No.
16 69183. APS stated that the transmission line SRP is building will
17 benefit APS customers by strengthening the interconnected grid and
18 will not negatively impact the safety, quality, reliability, and economy
19 of APS customers' service.
- 20 2. APS leased a two-acre parcel that is the future site of a substation and
21 is currently vacant. The lease mitigates APS' need to provide dust and
22 weed control but will end on March 15, 2008. Lease payments are
23 credited to Rent from Utility Property, where customers receive the full
24 benefit of the payments. The lease payments are not credited to APS'
25 Net Gains on Utility Property account where they would benefit
26 customers only in the amount of 50 percent of the lease payment
27 amounts.

28 13. Staff has also examined the calculation of interest in the account during 2007
and has concluded that the amounts reported in the revised filings appear to be correct. The
interest rate used is the same rate used to accrue interest on customer deposits as specified
in Decision No. 69670. More specifically, the rate used is the one-year Nominal Treasury
Constant Maturities rate from the Federal Reserve H-15 as of the first business day of each
year.

26 **CONCLUSIONS AND RECOMMENDATION**

27 15. Based on Staff's analysis discussed above, Staff believes that application of the
28 credit customer balance in the Net Gains on Utility Property account to reduce the Company's

1 DSMAC balance is an appropriate way to utilize the property transaction proceeds to benefit APS
 2 customers. Staff furthermore believes that such a disposition of the funds is in compliance with
 3 Decision No. 69670, and that APS has complied with other related conditions and limitations the
 4 Commission imposed in connection with granting APS pre-approval to transfer, sell, mortgage,
 5 lease, assign, or otherwise dispose of used and useful property.

6 16. For these reasons, Staff has recommended that the Commission grant APS
 7 authorization to apply the entire \$271,768 credit customer balance in its Net Gains on Utility
 8 Property account, as of December 31, 2007, to reduce the balance in the Company's Demand-Side
 9 Management Adjustor Charge account, on April 30, 2008, in compliance with provisions of
 10 Decision No. 69670. Staff emphasizes that its recommendation is not for blanket approval for this
 11 disposition of funds in the Net Gains on Utility Property account henceforth. Staff has
 12 recommended approval for this particular disposition in this instance for April 30, 2008, only.
 13 Prior Commission approval must be obtained each time disposition is to be made.

14 CONCLUSIONS OF LAW

15 1. APS is certificated to provide electric service as a public service corporation in the
 16 state of Arizona.

17 2. The Commission has jurisdiction over APS and of the subject matter in this
 18 Application.

19 3. The Commission, having reviewed the application and Staff's Memorandum dated
 20 March 20, 2008, concludes that it is in the public interest to authorize APS to apply the entire
 21 \$271,768 credit customer balance in its Net Gains on Utility Property account, as of December 31,
 22 2007, to reduce the balance in the Company's Demand-Side Management Adjustor Charge
 23 account on April 30, 2008.

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ORDER

IT IS THEREFORE ORDERED that authorization for Arizona Public Service Company to apply the entire \$271,768 credit customer balance in its Net Gains on Utility Property account, as of December 31, 2007, to reduce the balance in the Company's Demand-Side Management Adjustor Charge account on April 30, 2008, as discussed herein, is hereby granted.

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, BRIAN C. McNEIL, 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.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:JDA:lhmkT

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-06-0770

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4 Director, Regulation and Pricing
5 Arizona Public Service Company
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7 Phoenix, Arizona 85072-3999

8 Mr. Ernest G. Johnson
9 Director, Utilities Division
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