



0000084329

21  
CD

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

BEFORE THE ARIZONA CORPORATION COMMISSION

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

Arizona Corporation Commission  
**DOCKETED**  
APR 24 2008  
DOCKETED BY nr

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. 70295  
) 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.

26 ...

27 ...

28 ...

11. 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	3,382
Customer Balance as of 12/31/07	\$271,768

12. 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.

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.

## CONCLUSIONS AND RECOMMENDATION

15. 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

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.

24 ...

25 ...

26 ...

27 ...

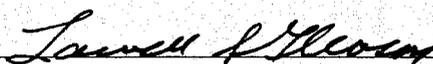
28 ...

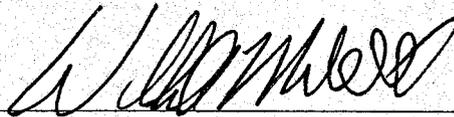
ORDER

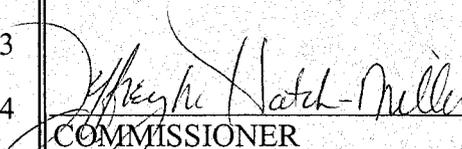
IT IS THEREFORE ORDERED that authorization for Arizona Public Service Company to apply the entire \$271,768 credit customer balance in its Net Gains on Utility Property account, as of December 31, 2007, to reduce the balance in the Company's Demand-Side Management Adjustor Charge account on April 30,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

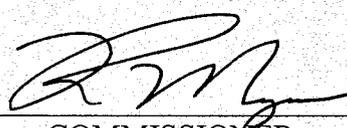
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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

  
CHAIRMAN

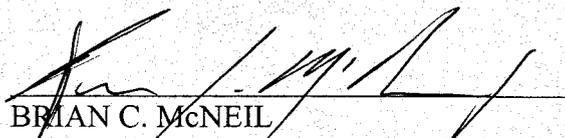
  
COMMISSIONER

  
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 24<sup>th</sup> day of April, 2008.

  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:JDA:lhmk\KT

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

3 Ms. Barbara Klemstine  
4 Director, Regulation and Pricing  
5 Arizona Public Service Company  
6 Post Office Box 53999, MS 9708  
7 Phoenix, Arizona 85072-3999

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

13 Mr. Christopher C. Kempley  
14 Chief Counsel, Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

