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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

Arizona Corporation Commission

DOCKETED

SEP 30 2008

DOCKETED BY *MM*

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE
COMPANY FOR APPROVAL OF NEW
RATE SCHEDULE EPR-2

DOCKET NO. E-01345A-08-0353

DECISION NO. 70520

ORDER

Open Meeting
September 23 and 24, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On June 11, 2008, APS filed an application with the Arizona Corporation Commission ("ACC") seeking to update Schedule EPR-2 ("EPR-2"). EPR-2 establishes the rates which APS pays to customers with generating units supplying power to APS pursuant to EPR-2. Only certain customers qualify as eligible sellers to APS under this rate schedule. The rate schedule is applicable to all cogeneration and small power production facilities (Qualifying Facilities as designated by the Federal Energy Regulatory Commission) with a nameplate continuous AC output power rating of 100 kW or less. Sellers must have systems configured to require partial requirement service from APS to meet their electric requirements.

3. Customers participating in Schedule EPR-2 occasionally generate more electricity than they require. The excess generation flows to the grid. Decision No. 52345 of July 1981 ordered APS and a number of other Arizona utilities to file standard rates for the purchase of

1 power from Qualifying Facilities 100 kW and under. The decision implements requirements of
2 The Public Utility Regulatory Policies Act of 1978 ("PURPA"). The decision requires that the
3 rates be based on utilities' avoided costs.

4 4. The first paragraph of the application includes an excerpt from Decision No. 52345.
5 The excerpt from the decision states that adjustments to rates may be permitted as often as
6 quarterly to reflect variations in fuel and purchased power costs. At present, EPR-2 includes the
7 sentence: "These rates are based on the Company's estimated avoided energy costs and will be
8 updated annually". Staff notes that Decision No. 59601 of April 1996 approved an amended
9 version of EPR-2 that included the sentence stating that the update to EPR-2 will occur annually.
10 Decision No. 69663 of June 2007 approved an updated version of EPR-2 that also included the
11 language specifying an annual update to the schedule.

12 5. APS submitted data to Staff demonstrating the calculation of the EPR-2 rates under
13 a protective agreement. The information used in the calculation is competitively confidential as it
14 contains cost data that is time specific. The method APS used to calculate avoided cost made use
15 of projected hourly cost data between September 2008 and August 2009. The projected hourly
16 cost data were calculated using a software program that models cost based on APS' generation
17 fleet and other inputs such as cost of energy in existing contracts and futures markets for fuel.
18 APS' calculation of avoided cost was made by finding the difference between a 'base case' and a
19 'purchase case'. The base case calculated APS hourly total energy costs between September 2008
20 and August 2009. The purchase case was then created from the base case model. In the purchase
21 case 100 MW from each hour of the base case was replaced with energy presumed to be
22 purchased. The purchased energy was assigned a \$0.00 cost. The purchase case was then
23 subtracted from the base case and the difference in cost was used to form an average cost of the
24 incremental energy.

25 6. Staff has evaluated the information provided to Staff by APS used to calculate its
26 avoided cost for purposes of setting rates in proposed Revision No. 14 of EPR-2. Based on
27 evaluation of the supporting data supplied by APS, Staff finds the proposed rates reasonable for
28 purposes of updating EPR-2.

1 7. Staff has recommended that Revision No. 14 to Schedule EPR-2 be approved in
2 order to update the rates contained in Schedule EPR-2.

3 8. The rates proposed in Revision No. 14 are as follows:

4

5 Cents per kWh

	<u>Non-Firm Power</u>		<u>Firm Power</u>	
	<u>On-Peak¹</u>	<u>Off-Peak²</u>	<u>On-Peak¹</u>	<u>Off-Peak²</u>
6 Summer Billing Cycles 7 (May – October)	7.400	6.112	9.631	6.528
8 Winter Billing Cycles 9 (November – April)	5.767	5.813	5.767	5.813

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11 ^{1/} On-Peak Periods: 9 a.m. to 9 p.m., weekdays or as reflected in the customer's otherwise applicable
12 retail rate schedule

^{2/} Off-Peak Periods: All other hours

13 9. Staff has recommended that the rates become effective for all energy delivered to
14 Arizona Public Service Company under the terms of this schedule on or after October 1, 2008 in
15 order to implement the new rate in a timely manner.

16 10. EPR-2 makes use of the phrases 'qualifying facilities' and 'qualifying facility'.
17 Qualifying facility has a meaning formally established by PURPA. The phrase 'qualifying
18 facility' as used in EPR-2 has the same meaning as 'Qualifying Facility' as established by PURPA.
19 As 'Qualifying Facility' is a title with a formal meaning, Staff recommends that it be capitalized
20 and appear as 'Qualifying Facility' in the tariff. This will help to signal to the readers of EPR-2
21 that the schedule makes reference to 'Qualifying Facilities' as established by PURPA.

22 11. EPR-2 makes reference to 'qualifying facilities' in the section titled Application. In
23 that reference the schedule creates the acronym convention (QFs) presumably for use later in the
24 document. In the following section, titled Type of Service, the schedule uses the phrase
25 'qualifying facility' and makes reference to 'the QF' in the same sentence. The language used in
26 the schedule is awkward as it creates an acronym convention in the plural, subsequently makes
27 reference to 'qualifying facility' without making use of an acronym convention, and also makes
28 use of singular version of the acronym convention, 'QF', in the same sentence. In order to make

1 the schedule more clear to the reader, Staff recommends that EPR-2 not make use of an acronym
2 convention for the phrase 'qualifying facility'.

3 12. Staff has recommended that Arizona Public Service Company provide notice of the
4 new rates to customers participating in Schedule EPR-2 at the time of, or prior to, the first billing
5 issued that includes this change in a form found acceptable to Commission Staff in order to make
6 customers participating in Schedule EPR-2 aware of the change.

7 CONCLUSIONS OF LAW

8 1. Arizona Public Service Company is a public service corporation within the meaning
9 of Article XV of the Arizona Constitution.

10 2. The Commission has jurisdiction over Arizona Public Service Company and the
11 subject matter of the application.

12 3. The Commission, having reviewed the application and Staff's Memorandum dated
13 September 10, 2008, concludes that it is in the public interest to approve Revision No. 14 to
14 Schedule EPR-2.

15 ORDER

16 IT IS THEREFORE ORDERED that Revision No. 14 to Schedule EPR-2 be approved.

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

20 IT IS FURTHER ORDERED that the rates contained in this schedule shall become
21 effective for all energy delivered to Arizona Public Service Company under the terms this schedule
22 on or after October 1, 2008.

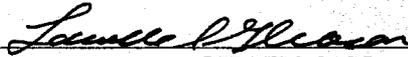
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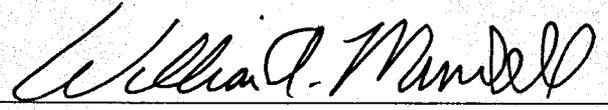
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IT IS FURTHER ORDERED that Arizona Public Service Company shall provide notice of the new rates to customers participating in Schedule EPR-2 at the time of, or prior to, the first billing issued that includes this change in a form found acceptable to Commission Staff.

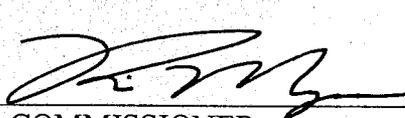
IT IS FURTHER ORDERED that this Decision shall become effective immediately.

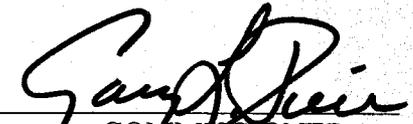
BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

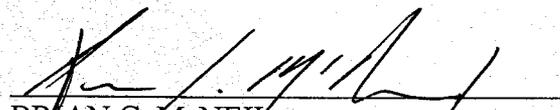

COMMISSIONER

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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 30th day of September, 2008.


BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:SPI:lhmvAH

1 SERVICE LIST FOR: Arizona Public Service Company
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4 Director Regulation and Pricing
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10 Arizona Corporation Commission
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