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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

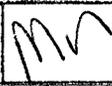
BOB STUMP

Commissioner

Arizona Corporation Commission

DOCKETED

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DOCKETED BY 

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY'S APPLICATION
FOR APPROVAL TO RESET ITS DEMAND
SIDE MANAGEMENT ADJUSTOR
CLAUSE RATES

DOCKET NOS. E-01345A-03-0437
E-01345A-05-0526

DECISION NO. 70961

ORDER

Open Meeting
~~March 31 and April 1, 2009~~
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 17, 2009, APS made a filing to reset its Demand-Side Management Adjustor Charge ("DSMAC") rates in Docket Nos. E-01345A-03-0437 and E-01345A-05-0526. The DSMAC mechanism was established in the Settlement Agreement in Decision No. 67744 (Docket No. E-01345A-03-0437). A Procedural Order dated September 14, 2005, consolidated Docket Nos. E-01345A-03-0437 and E-01345A-05-0526. Although the DSM adjustor mechanism was established by Decision No. 67744, April 7, 2005, this is the first time APS has requested that the DSMAC rate be reset from zero.

BACKGROUND

3. Under Commission Decision No. 67744, APS is obligated to spend at least \$16 million per year, or \$48 million over the initial three-year period of 2005 to 2007, on Commission-

1 approved DSM programs. The Decision included an annual \$10 million in base rates for approved
2 eligible Demand Side Management (“DSM”) programs and related items. It further obligated APS
3 to spend, on average, at least another \$6 million annually on approved eligible DSM-related items,
4 such additional amounts to be recovered by means of a DSM adjustment mechanism that was also
5 established therein.

6 4. On July 1, 2005, APS filed an application for approval of its DSM Portfolio Plan in
7 response to APS’ DSM obligations provided for in Commission Decision No. 67744. The
8 Portfolio Plan included various DSM programs that would provide DSM opportunities for both
9 residential and non-residential participants. APS filed revisions to its original filing on
10 November 14, 2005, and November 21, 2005.

11 5. The Commission acted upon APS’ proposed Portfolio Plan programs and activities
12 in a series of decisions in 2005 and 2006. On August 17, 2005, the Commission approved the
13 lighting portion of APS’ Residential Consumer Products program in Decision No. 68064. On
14 February 23, 2006, in Decision No. 68488, the Commission granted interim approval for six APS
15 Non-Residential DSM programs and further ordered APS to re-file the non-residential portion of
16 its Portfolio Plan within 13 months (“13-month filing”), for final Commission approval. On
17 April 12, 2006, the Commission approved two additional APS’ Residential programs in
18 Decision No. 68648 and its Low Income Weatherization program in Decision No. 68647.

19 6. During 2007 and 2008, the Commission acted on various components of APS’ 13-
20 month filing. On August 28, 2007, the Commission rendered Decision No. 69879 for expedited
21 approval of certain time-sensitive initiatives contained in its 13-month filings. On December 4,
22 2007, the Commission rendered Decision No. 70033 in response to the residential components of
23 the Company’s 13-month filing. Decision No. 70637, December 11, 2008, granted final approval
24 for five of APS’ six Non-Residential programs as well as a large number of changes and
25 enhancements to improve the programs based on actual program experience and performance.

26 7. On December 24, 2008, in Decision No. 70666, the Commission approved APS’
27 DSM Portfolio Plan Update for 2008 through 2010 for ongoing operations of the programs with
28 certain restrictions and requirements.

1 PORTFOLIO PLAN SPENDING

2 8. APS' spending obligation under Decision No. 67744 is a \$16 million annual
3 obligation, however, the initial period of 2005 through 2007 was regarded as a ramp-up period
4 during which the programs were being approved by the Commission and implemented by APS.
5 Because the programs were not in operation for the full three year period, APS spending fell short
6 of \$48 million over the three-year period. By the end of the 2005 through 2007 ramp-up period,
7 APS' DSM spending reached \$33,237,362, exceeding the \$30 million collected in base rates over
8 the same period, but not reaching the \$48 million three-year spending goal. APS' unfulfilled 2005
9 through 2007 spending obligations were carried forward into its 2008 through 2010 spending
10 requirements.

11 9. According to the provisions of the DSMAC, APS could have reset its adjustor rate
12 from zero on March 1, 2008, to collect the \$3,237,362 that it spent over and above the \$30 million
13 base rate allocation for 2005 through 2007. However, in a letter filed in this same docket on
14 February 15, 2008, APS proposed to the Commission that the DSMAC remain at zero and that the
15 balance continue to be deferred with interest until the next annual reset. APS explained that the
16 balance was fairly small at that time and would have resulted in a very small DSM adjustor rate.

17 10. APS' March 1, 2008 letter also proposed that its customer balance in the Net Gains
18 on Utility Property account be credited to the DSMAC balance pursuant to Decision No. 69670.
19 Decision No. 69670, June 28, 2007, requires that no less often than once each two years on April
20 30 of even numbered years, the entire amount in the account, if \$1,000,000 or greater, either be
21 refunded to APS customers or be used by APS to fund programs that will directly benefit
22 customers as directed and approved by the Commission. Decision No. 70295, April 24, 2008,
23 authorized APS to apply the entire \$271,768 credit customer balance in its Net Gains on Utility
24 Property account, as of December 31, 2007, to reduce the balance in the Company's DSMAC
25 account on April 30, 2008.

26 11. APS DSM spending during 2008 was reported to be \$24,177,758. It should be
27 noted that authorized spending for purposes of the DSMAC rate calculations includes 1) DSM
28 ...

1 program spending; 2) measurement, evaluation, and research spending; and 3) APS' performance
2 incentive.

3 CALCULATION OF DSMAC RATE

4 12. Table 1:

APS DSMAC Rate Calculation Calculation of Amount to be Recovered March 1, 2009			
2005 through 2007			
1.	DSM Spending 2005 - 2007	\$33,237,362	
2.	Minus Collected in Base Rates	\$30,000,000	
3.	Equals 2005-2007 for Adjustor	\$ 3,237,362	
4.	Plus Interest	\$ 113,804	
5.	Equals Total 2005-2007 to Recover	\$ 3,351,166	\$ 3,351,166
2008			
6.	DSM Spending 2008	\$24,177,758	
7.	Minus Collected in Base Rates	\$10,000,000	
8.	Equals 2008 for Adjustor	\$14,177,758	
9.	Minus Net Gains on Utility Property	\$ 271,768	
10.	Equals Adjustor Amt. - Prop. Gains	\$13,905,990	
11.	Plus Interest	\$ 215,551	
12.	Equals Total 2008 to Recover	\$14,121,541	\$14,121,541
Total 2005 through 2008			
13.	Total to Recover Through Adjustor		\$17,472,707
Note: Decision No. 69663, June 28, 2007, added the provision that APS could accrue interest on its un-recovered DSM adjustor balance at the One-Year Nominal Treasury Constant Maturities Rate contained in the Federal Reserve Statistical Release H-15 or its successor publication.			

19 13. Table 2:

APS DSMAC Rate Calculation Calculation of Adjustor Rates March 1, 2009		
For All but Demand Billed General Service Customers		
1.	Recoverable Costs (from Table 1)	\$17,472,707
2.	Divided by 2008 Total Retail Sales (kWh)	28,902,977,000
3.	Equals DSM Adjustor Rate per kWh	\$0.000605
For Demand Billed General Service Customers		
4.	2008 kWh for Demand Billed GS Customers (kWh)	15,473,866,986
5.	Revenue to be Recovered from Demand Billed GS Customers ¹	\$9,361,690
6.	Divided by 2008 kW for Demand Billed GS Customers (kW)	34,250,708
7.	Equals DSM Adjustor Rate per kW	\$0.273328
¹ - Revenue to be recovered from demand billed General Service customers (5) is calculated by multiplying (4) the 2008 kWh for demand billed General Service customers by (3) the DSM Adjustor Rate per kWh.		

1 **STAFF ANALYSIS AND RECOMMENDATIONS**

2 14. Staff has verified the numbers APS used to calculate its DSMAC rates from the
3 sources it has available. Staff has also examined APS' calculation methods and has re-calculated
4 the adjustor rates independently. Staff has also requested and received APS' workpapers for
5 calculation of interest charges and verified the accuracy of those calculations. In addition, Staff
6 has examined the various Commission Decisions that relate to the calculation of these DSMAC
7 rates.

8 15. Staff believes that the methodology employed by APS and the calculation of the
9 DSMAC adjustor rates by APS are correct and in conformance with the Commission Orders that
10 set forth the requirements for their calculation. Staff has recommended that the Commission
11 approve APS' proposed DSMAC rate of \$0.000605 per kWh for all retail sales except demand
12 billed General Service customers, and its DSMAC rate of \$0.273328 per kW for demand billed
13 General Service customers, effective with sales beginning March 1, 2009 (See Tables 1 and 2).

14 16. The addition of the recommended DSMAC rate on a typical residential customer
15 bill, billed on APS' E-12 rate during summer months using 882 kWh per month, would increase
16 that customer's monthly bill by \$0.53.

17 17. In order to protect APS' low income residential customers from an increase in their
18 monthly bills, we believe that any residential customer on an APS low income discount rate should
19 not be charged the DSMAC rate at this time. The monies that APS would otherwise recover from
20 the low income residential customers should be retained in APS' DSMAC account and be dealt
21 with in APS' pending rate case in Docket No. E-01345A-08-0172. In APS' pending rate case, we
22 will consider how APS will recover these funds. This initiative would have no effect on the
23 DSMAC rate all other retail customers would pay at this time.

24 18. In an effort to add clarity for APS and to ensure that the Commission has adequate
25 time to process future applications to reset APS' DSMAC rates, Staff suggests APS file its
26 application to reset its DSMAC rates with supporting data and documentation no later than the last
27 business day of January of each year.

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CONCLUSIONS OF LAW

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

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

6 3. The Commission, having reviewed the application and Staff's Memorandum dated
7 February 20, 2009, concludes that it is in the public interest to approve APS' Request to reset its
8 DSMAC rates with certain modifications, additions, and requirements as discussed herein.

ORDER

9
10 IT IS THEREFORE ORDERED that Arizona Public Service Company's proposed
11 Demand Side Management Adjustor Clause rate of \$0.000605 per kWh for all retail sales except
12 demand billed General Service customers, and its DSMAC rate of \$0.273328 per kW for demand
13 billed General Service customers, are hereby approved and shall become effective with APS' first
14 April 2009 billing cycle.

15 IT IS FURTHER ORDERED that any residential customer on an Arizona Public Service
16 Company low income discount rate shall not be charged the Demand-Side Management Adjustor
17 Clause rate and the monies that Arizona Public Service Company would otherwise recover from
18 the low income residential customers shall be retained in Arizona Public Service Company's
19 Demand-Side Management Adjustor Charge account and be dealt with in Arizona Public Service
20 Company's pending rate case in Docket No. E-01345A-08-0172.

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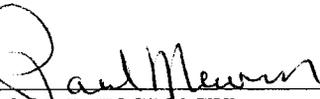
1 IT IS FURTHER ORDERED that Arizona Public Service Company shall provide
2 appropriate notice of the Commission's consideration of this matter (exempting low income
3 customers for DSMAC and recovery of DSMAC funds not paid by low income customers) in its
4 pending rate case to its customers and all parties of record in its last permanent rate case and its
5 pending rate case.

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

7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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CHAIRMAN

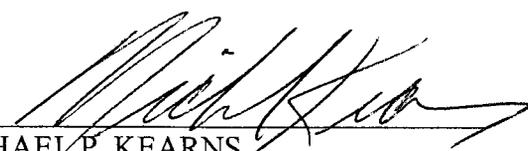
COMMISSIONER

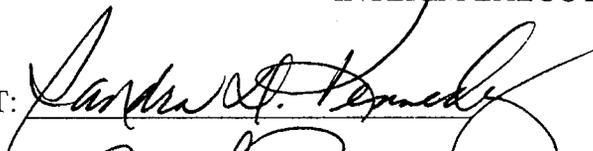
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COMMISSIONER

COMMISSIONER

16 IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim
17 Executive Director of the Arizona Corporation Commission,
18 have hereunto, set my hand and caused the official seal of this
19 Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 7th day of APRIL, 2009.

21 
22 _____
MICHAEL P. KEARNS
23 INTERIM EXECUTIVE DIRECTOR

24 DISSENT: 
25 _____

26 DISSENT: 
27 _____

28 EGJ:JDA:jhm\JFW

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