

OPEN MEETING



0000100514

MEMORANDUM RECEIVED

TO: THE COMMISSION
FROM: Utilities Division
DATE: July 10, 2009
RE: ARIZONA PUBLIC SERVICE COMPANY APPLICATION FOR APPROVAL OF TRANSMISSION COST ADJUSTOR CHARGES (DOCKET NO. E-01345A-09-0255)

2009 JUL 10 P 2:49

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

JUL 14 2009



On May 20, 2009, Arizona Public Service Company ("APS") filed an application with the Arizona Corporation Commission ("Commission") seeking an increase in Adjustment Schedule TCA-1 ("TCA-1"). Schedule TCA-1 lists the transmission cost adjustor ("TCA") charge. It is designed to recover the net difference between the transmission charges embedded in APS' base rates and APS' Federal Energy Regulatory Commission ("FERC") approved Open Access Transmission Tariff ("OATT") rates. Through the combination of transmission charges embedded in base rates and the TCA, APS collects the transmission costs reflected in the OATT rates. The transmission costs contained in the OATT rates are an expense directly related to the provision of electricity to APS customers.

The OATT rate is approved by FERC and designed to recover transmission costs from users of APS transmission facilities. APS charges this rate to users of its transmission facilities such as other utilities and to APS itself. The OATT rate is recalculated and reset annually through use of a FERC-approved formula. The formula makes use of an equation that is annually performed using data contained in APS' annual FERC Form 1 filing.

The Commission intervened and participated in the FERC docket which created the formula rate methodology used annually to establish APS' OATT rate (FERC Docket No. ER07-1142-000). The FERC order that establishes the formula rate method of calculating the OATT rate established a procedure for the Commission to review each of APS' annual recalculations of the OATT rate (124 FERC ¶61,088). There is also a procedure for the Commission to challenge APS' annual recalculations of the OATT rate should it be necessary.

In May of 2008, APS filed with FERC an update to the OATT rate and also filed with the Commission a corresponding change to TCA-1. Commission Decision No. 70400 (July 2008) approved the proposed TCA rates. The update to the OATT rate also took effect in July of 2008. The Commission took the opportunity to review APS' calculation of these formula OATT rates, and as a result of the Commission's review and findings, APS agreed to apply changes to the calculation of the OATT rates filed in May of 2008 and to reflect the resulting change in calculated rates in the form of reduction to the OATT rate calculated in the next annual OATT rate update. APS provided the Commission with a letter that memorialized its acceptance of the

stipulated changes to the calculation of the 2008 update to the formula OATT rate and its plans to apply the difference in the next update.

The quantitative results of these changes are reflected in the calculation of the OATT rate update that took effect June 1, 2009. This process of applying adjustments to the next calculation of the annual update of the OATT rate is set forth in FERC-approved protocols that regulate the operation of the formula OATT rates.

In the TCA-1 application, APS indicates that the reduction to the 2009 update to the formula OATT rate that results from the stipulations agreed to in the Commission's review of the 2008 update to the formula OATT calculation is approximately \$6 million, or \$0.28 per month for a typical APS residential customer. In other words, APS' calculated formula OATT rate that took effect June 1, 2009, is based on a transmission revenue amount that is \$6 million lower than what would have been calculated absent the stipulated agreement from the Commission's review of the 2008 formula OATT rate calculation. This \$6 million reduction equates to \$0.28 per month reduction for a typical APS residential customer.

While the Commission's review of the 2008 update to the formula OATT rates calculation causes a reduction to the calculation made in the 2009 update to the formula OATT rates, the TCA-1 rates proposed in the application are, nevertheless, a net increase in the TCA rates.

The following table depicts the present TCA rates and the TCA rates that APS proposes with this application:

Table I

	<u>Present</u>	<u>Proposed</u>	<u>Difference</u>
Residential	\$0.001210/kWh	\$0.002258/kWh	86.6 %
General Service 20 kW or less	\$0.001220/kWh	\$0.001889/kWh	54.8 %
General Service over 20 kW and under 3,000 kW	\$0.638/kW	\$0.902/kW	41.4 %
General Service 3,000 kW and over	\$0.346/kW	\$0.225/kW	-35.0 %

The transmission charge increase that results from implementation of the proposed TCA is \$0.001048/kWh for residential customers. In Attachment E of the application, APS indicates that it calculates that the typical bill impact from this increase is \$1.22 per month for residential

customers. Absent the \$0.28 decrease discussed above, the typical residential bill increase would be \$1.50 per month.

Table I indicates that each of the rate categories increases except for General Service 3,000 kW and over.

APS explains in the application that changes in revenue allocation are a result of the FERC cost allocation method and changes to the load information used in the rate formula. The FERC cost allocation method assigns transmission costs based on customer class load during the four summer peak months.

In 2008, the residential customer class contributed a greater percentage of the total load to the summer peaks than in prior years and at the same time had lower total energy sales. This effect resulted in an increase to the residential customer class rate.

The 20 kW or less General Service class and the over 20 kW and under 3,000 kW General Service class rates also increased. These increases were offset by a reduction to the General Service 3,000 kW and over class as calculated by the rate formula.

The formula method used to calculate the OATT rate apportions the transmission revenue requirement among the rate classes based on each class's share of the transmission revenue requirement measured in megawatt hours. Each class's percentage share of the transmission revenue requirement is determined by dividing the class's coincident peak megawatt hour count, by total coincident peak megawatt hours so that apportionment of the revenue requirement is calculated based solely on demand. No mathematical factor is included in apportioning the revenue requirement among the classes that gives an advantage or disadvantage to any of the classes. The distribution of revenue requirement is determined simply by the class's percentage contribution to MW demand without regard to which class it is. Megawatt hours used in this calculation are a monthly average of peak demand from the months of June through September. Essentially, the same calculation is used to determine each rate, with the exception that two are determined on a kW basis and two are determined on a kWh basis.

In the 2007 OATT calculation, the percentage demand of each of the classes were as follows:

Table II

Residential	3,114.9 MW	52.4% of total coincident demand
< 3MW	2,452.5 MW	41.3% of total coincident demand
> 3MW	371.9 MW	6.3% of total coincident demand

Note that in this calculation the General Service 20 kW or less and General Service over 20 kW and under 3,000 kW are combined and shown in the table simply as the <3MW class. The formula calculation subsequently apportions the transmission revenue requirement between

these two rate classes. Also note that the General Service 3,000 kW and over class is described as the >3MW class.

In the 2008 OATT calculation, the percentage demand of each of the classes is as follows:

Table III

Residential	3,009.0 MW	53.0% of total coincident demand
< 3MW	2,290.6 MW	40.4% of total coincident demand
> 3MW	375.4 MW	6.6% of total coincident demand

When comparing these two tables, one can view that the residential class experienced a 0.6 percent increase in share of total coincident demand. The General Service 3,000 kW and over class experienced a 0.3 percent increase in share of total coincident demand. These were offset by a reduction to demand of the General Service 20 kW or less and General Service over 20 kW and under 3,000 kW classes (shown in the tables combined as <3MW).

These percentages are multiplied by the calculated transmission revenue requirement to determine the revenue requirement of each class. OATT rates for each class are then determined by simply dividing the class's revenue requirement by either total annual kW's or kWh, depending on the class. In the case of the Residential class and the General Service 20 kW or less class, kWh is used. The General Service over 20 kW and under 3,000 kW classes make use of kW to calculate the OATT rate.

Table IV indicates the kWh's and kW's used in the 2007 OATT calculation:

Table IV

Residential kWh	13,783,083,459 kWh
General Service 20 kW or less	194,048,295 kWh
General Service over 20 kW and under 3,000 kW	30,139,206 kW
General Service over 3,000 kW	5,012,172 kW

Table V indicates the kWh's and kW's used in the 2008 OATT calculation:

Table V

Residential kWh	13,413,806,963 kWh
General Service 20 kW or less	200,022,213 kWh
General Service over 20 kW and under 3,000 kW	29,721,524 kW
General Service over 3,000 kW	6,536,342 kW

When comparing Table IV and Table V, one can view that the residential class had fewer kWh in the 2008 calculation compared to the 2007 calculation. This caused the revenue requirement for the Residential class to be spread among fewer kWh and resulted in a higher transmission rate than what would have occurred had the kWh count remained unchanged.

A similar but opposite effect occurred with the General Service over 3,000 kW class. As the kW count increased from the 2007 calculation to the 2008 calculation, the revenue requirement for the class was spread among more kW. This resulted in a lower transmission rate than what would have occurred had the kW count remained unchanged.

The residential class experienced a combined effect of both increasing its proportional share of the transmission revenue requirement and decreasing the number of kWh that the revenue requirement is divided into. The General Service over 3,000 kW experienced a smaller increase in its proportional share of revenue requirement, but also experienced a large increase in the number of kW that the revenue requirement was divided into. The net result for the General Service over 3,000 kW class was a rate decrease as calculated by the OATT formula as the large increase in kW more than offset the modest increase in proportional share of revenue requirement.

The General Service 20 kW or less class had both a decrease in its proportional share of the transmission revenue requirement and an increase in the number of kWh that the revenue requirement is divided into. A rate increase resulted anyway, due to these changes being small and the overall increase in revenue requirement.

The General Service over 20 kW and under 3,000 kW had a decrease in its proportional share of the transmission revenue requirement, but a decrease in the number of kW that the revenue requirement is divided into. These conditions, combined with the overall increase in revenue requirement, resulted in a rate increase.

In order for the TCA rates to reflect transmission cost as contained in the OATT rates and updated in July of 2009, Staff recommends approval of Revision No. 3 of Adjustment Schedule TCA-1.

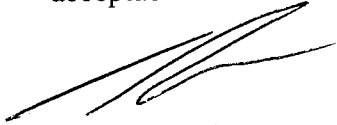
APS has communicated to Staff that it has provided notice of this application to ratepayers by means of a bill insert.

THE COMMISSION

July 10, 2009

Page 6

In order to make customers aware of the new TCA rate in their bills, Staff further recommends that APS provide notice to customers of the new TCA rate in a bill insert in a form acceptable to Staff at the time the new TCA rate first appears in the bill.



Ernest G. Johnson
Director
Utilities Division



EGJ:SPI:lm\CH

ORIGINATOR: Steve Irvine

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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

IN THE MATTER OF ARIZONA PUBLIC
SERVICE COMPANY FOR APPROVAL OF
TRANSMISSION COST ADJUSTOR
CHARGE

DOCKET NO. E-01345A-09-0255
DECISION NO. _____
ORDER

Open Meeting
July 28 and 29, 2009
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 May 20, 2009, APS filed an application with the Arizona Corporation Commission ("Commission") seeking an increase in Adjustment Schedule TCA-1 ("TCA-1"). Schedule TCA-1 lists the transmission cost adjustor ("TCA") charge. It is designed to recover the net difference between the transmission charges embedded in APS' base rates and APS' Federal Energy Regulatory Commission ("FERC") approved Open Access Transmission Tariff ("OATT") rates. Through the combination of transmission charges embedded in base rates and the TCA, APS collects the transmission costs reflected in the OATT rates. The transmission costs contained in the OATT rates are an expense directly related to the provision of electricity to APS customers.
3. The OATT rate is approved by FERC and designed to recover transmission costs from users of APS transmission facilities. APS charges this rate to users of its transmission

1 facilities such as other utilities and to APS itself. The OATT rate is recalculated and reset annually
2 through use of a FERC-approved formula. The formula makes use of an equation that is annually
3 performed using data contained in APS' annual FERC Form 1 filing.

4 4. The Commission intervened and participated in the FERC docket which created the
5 formula rate methodology used annually to establish APS' OATT rate (FERC Docket No. ER07-
6 1142-000). The FERC order that establishes the formula rate method of calculating the OATT rate
7 established a procedure for the Commission to review each of APS' annual recalculations of the
8 OATT rate (124 FERC ¶61,088). There is also a procedure for the Commission to challenge APS'
9 annual recalculations of the OATT rate should it be necessary.

10 5. In May of 2008, APS filed with FERC an update to the OATT rate and also filed
11 with the Commission a corresponding change to TCA-1. Commission Decision No. 70400 (July
12 2008) approved the proposed TCA rates. The update to the OATT rate also took effect in July of
13 2008. The Commission took the opportunity to review APS' calculation of these formula OATT
14 rates, and as a result of the Commission's review and findings, APS agreed to apply changes to the
15 calculation of the OATT rates filed in May of 2008 and to reflect the resulting change in calculated
16 rates in the form of reduction to the OATT rate calculated in the next annual OATT rate update.
17 APS provided the Commission with a letter that memorialized its acceptance of the stipulated
18 changes to the calculation of the 2008 update to the formula OATT rate and its plans to apply the
19 difference in the next update.

20 6. The quantitative results of these changes are reflected in the calculation of the
21 OATT rate update that took effect June 1, 2009. This process of applying adjustments to the next
22 calculation of the annual update of the OATT rate is set forth in FERC-approved protocols that
23 regulate the operation of the formula OATT rates.

24 7. In the TCA-1 application, APS indicates that the reduction to the 2009 update to the
25 formula OATT rate that results from the stipulations agreed to in the Commission's review of the
26 2008 update to the formula OATT calculation is approximately \$6 million, or \$0.28 per month for
27 a typical APS residential customer. In other words, APS' calculated formula OATT rate that took
28 effect June 1, 2009, is based on a transmission revenue amount that is \$6 million lower than what

1 would have been calculated absent the stipulated agreement from the Commission's review of the
 2 2008 formula OATT rate calculation. This \$6 million reduction equates to \$0.28 per month
 3 reduction for a typical APS residential customer.

4 8. While the Commission's review of the 2008 update to the formula OATT rates
 5 calculation causes a reduction to the calculation made in the 2009 update to the formula OATT
 6 rates, the TCA-1 rates proposed in the application are, nevertheless, a net increase in the TCA
 7 rates.

8 9. The following table depicts the present TCA rates and the TCA rates that APS
 9 proposes with this application:

Table I

	<u>Present</u>	<u>Proposed</u>	<u>Difference</u>
12 Residential	\$0.001210/kWh	\$0.002258/kWh	86.6 %
13 General Service 14 20 kW or less	\$0.001220/kWh	\$0.001889/kWh	54.8 %
15 General Service 16 over 20 kW and under 3,000 kW	\$0.638/kW	\$0.902/kW	41.4 %
17 General Service 18 3,000 kW and over	\$0.346/kW	\$0.225/kW	-35.0 %

19 10. The transmission charge increase that results from implementation of the proposed
 20 TCA is \$0.001048/kWh for residential customers. In Attachment E of the application, APS
 21 indicates that it calculates that the typical bill impact from this increase is \$1.22 per month for
 22 residential customers. Absent the decrease discussed in Finding of Fact No. 7, the typical
 23 residential bill increase would be \$1.50 per month.

24 11. Table I indicates that each of the rate categories increases except for General
 25 Service 3,000 kW and over.

26 12. APS explains in the application that changes in revenue allocation are a result of the
 27 FERC cost allocation method and changes to the load information used in the rate formula. The
 28

1 FERC cost allocation method assigns transmission costs based on customer class load during the
2 four summer peak months.

3 13. In 2008, the residential customer class contributed a greater percentage of the total
4 load to the summer peaks than in prior years and at the same time had lower total energy sales.
5 This effect resulted in an increase to the residential customer class rate.

6 14. The 20 kW or less General Service class and the over 20 kW and under 3,000 kW
7 General Service class rates also increased. These increases were offset by a reduction to the
8 General Service 3,000 kW and over class as calculated by the rate formula.

9 15. The formula method used to calculate the OATT rate apportions the transmission
10 revenue requirement among the rate classes based on each class's share of the transmission
11 revenue requirement measured in megawatt hours. Each class's percentage share of the
12 transmission revenue requirement is determined by dividing the class's coincident peak megawatt
13 hour count, by total coincident peak megawatt hours so that apportionment of the revenue
14 requirement is calculated based solely on demand. No mathematical factor is included in
15 apportioning the revenue requirement among the classes that gives an advantage or disadvantage
16 to any of the classes. The distribution of revenue requirement is determined simply by the class's
17 percentage contribution to MW demand without regard to which class it is. Megawatt hours used
18 in this calculation are a monthly average of peak demand from the months of June through
19 September. Essentially, the same calculation is used to determine each rate, with the exception that
20 two are determined on a kW basis and two are determined on a kWh basis.

21 16. In the 2007 OATT calculation, the percentage demand of each of the classes were
22 as follows:

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> 3MW	371.9 MW	6.3% of total coincident demand

26 17. Note that in this calculation the General Service 20 kW or less and General Service
27 over 20 kW and under 3,000 kW are combined and shown in the table simply as the <3MW class.
28 The formula calculation subsequently apportions the transmission revenue requirement between

1 these two rate classes. Also note that the General Service 3,000 kW and over class is described as
2 the >3MW class.

3 18. In the 2008 OATT calculation, the percentage demand of each of the classes is as
4 follows:

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6 Residential	3,009.0 MW	53.0% of total coincident demand
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8
9 19. When comparing these two tables, one can view that the residential class
10 experienced a 0.6 percent increase in share of total coincident demand. The General Service 3,000
11 kW and over class experienced a 0.3 percent increase in share of total coincident demand. These
12 were offset by a reduction to demand of the General Service 20 kW or less and General Service
13 over 20 kW and under 3,000 kW classes (shown in the tables combined as <3MW).

14 20. These percentages are multiplied by the calculated transmission revenue
15 requirement to determine the revenue requirement of each class. OATT rates for each class are
16 then determined by simply dividing the class's revenue requirement by either total annual kW's or
17 kWh, depending on the class. In the case of the Residential class and the General Service 20 kW
18 or less class, kWh is used. The General Service over 20 kW and under 3,000 kW classes make use
19 of kW to calculate the OATT rate.

20 21. Table IV indicates the kWh's and kW's used in the 2007 OATT calculation:

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25 22. Table V indicates the kWh's and kW's used in the 2008 OATT calculation:

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28 General Service 20 kW or less	200,022,213 kWh

1	General Service over 20 kW and under 3,000 kW	29,721,524 kW
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3 23. When comparing Table IV and Table V, one can view that the residential class had
4 fewer kWh in the 2008 calculation compared to the 2007 calculation. This caused the revenue
5 requirement for the Residential class to be spread among fewer kWh and resulted in a higher
6 transmission rate than what would have occurred had the kWh count remained unchanged.

7 24. A similar but opposite effect occurred with the General Service over 3,000 kW
8 class. As the kW count increased from the 2007 calculation to the 2008 calculation, the revenue
9 requirement for the class was spread among more kW. This resulted in a lower transmission rate
10 than what would have occurred had the kW count remained unchanged.

11 25. The residential class experienced a combined effect of both increasing its
12 proportional share of the transmission revenue requirement and decreasing the number of kWh that
13 the revenue requirement is divided into. The General Service over 3,000 kW experienced a
14 smaller increase in its proportional share of revenue requirement, but also experienced a large
15 increase in the number of kW that the revenue requirement was divided into. The net result for the
16 General Service over 3,000 kW class was a rate decrease as calculated by the OATT formula as
17 the large increase in kW more than offset the modest increase in proportional share of revenue
18 requirement.

19 26. The General Service 20 kW or less class had both a decrease in its proportional
20 share of the transmission revenue requirement and an increase in the number of kWh that the
21 revenue requirement is divided into. A rate increase resulted anyway, due to these changes being
22 small and the overall increase in revenue requirement.

23 27. The General Service over 20 kW and under 3,000 kW had a decrease in its
24 proportional share of the transmission revenue requirement, but a decrease in the number of kW
25 that the revenue requirement is divided into. These conditions, combined with the overall increase
26 in revenue requirement, resulted in a rate increase.

27 ...

28 ...

1 28. In order for the TCA rates to reflect transmission cost as contained in the OATT
2 rates and updated in July of 2009, Staff has recommended approval of Revision No. 3 of
3 Adjustment Schedule TCA-1.

4 29. APS has communicated to Staff that it has provided notice of this application to
5 ratepayers by means of a bill insert.

6 30. In order to make customers aware of the new TCA rate in their bills, Staff has
7 further recommended that APS provide notice to customers of the new TCA rate in a bill insert in
8 a form acceptable to Staff at the time the new TCA rate first appears in the bill.

9 CONCLUSIONS OF LAW

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

12 2. The Commission has jurisdiction over APS and the subject matter of the
13 application.

14 3. Approval of the proposed tariff does not constitute a rate increase as contemplated
15 by Arizona Revised Statutes § 40-250.

16 4. The Commission, having reviewed the application and Staff's Memorandum dated
17 July 10, 2009, concludes that it is in the public interest to approve Adjustment Schedule TCA-1 as
18 discussed herein.

19 ORDER

20 IT IS THEREFORE ORDERED that Adjustment Schedule TCA-1 be and hereby is
21 approved as discussed herein.

22 IT IS FURTHER ORDERED that Arizona Public Service Company shall provide notice to
23 customers of the new TCA rate in a bill insert in a form acceptable to Staff at the time the TCA
24 rate first appears in the bill.

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

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

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
8 _____
CHAIRMAN

COMMISSIONER

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11 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

12
13 IN WITNESS WHEREOF, I, MICHAEL P. KEARNS, Interim
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of this
16 Commission to be affixed at the Capitol, in the City of
17 Phoenix, this _____ day of _____, 2009.

18 _____
19 MICHAEL P. KEARNS
20 INTERIM EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 EGJ:SPI:lhм\CH
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1 SERVICE LIST FOR: Arizona Public Service Company
DOCKET NO. E-01345A-09-0255

2

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

10 Ms. Janice M. Alward
Chief Counsel, Legal Division
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