

OPEN MEETING



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MEMORANDUM RECEIVED

Arizona Corporation Commission

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TO: THE COMMISSION

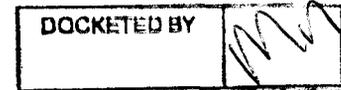
2009 AUG 11 P 12: 17

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

AUG 11 2009

DATE: August 11, 2009



RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF UPDATED GREEN POWER RATE SCHEDULES GPS-1 AND GPS-2, AND A PROPOSED NEW GREEN POWER RATE SCHEDULE GPS-3 (DOCKET NO. E-01345A-08-0614)

On December 23, 2008, Arizona Public Service Company ("APS" or "Company") filed an application to update Green Power rate schedules GPS-1 (Block Schedule) and GPS-2 (Percent Schedule) pursuant to Decision No. 69663 issued July 28, 2007. On December 30, 2008, APS waived the 30-day provisions referenced in Arizona Revised Statutes §§ 40-367 and -250(B) to allow time for the inclusion of a new Green Power rate schedule (GPS-3) option in its application and a proper review by the Commission.

APS' Green Power rate schedules provide customers with the ability to purchase electricity generated from renewable resources for their homes and businesses. APS proposed the following changes be made to rate schedules GPS-1 and GPS-2: (a) to revise premium power rates downward to reflect APS' updated renewable generation and avoided generation costs; (b) to include marketing costs in the premium charge rates where such costs have been incurred to increase customers' awareness of and participation in Green Power options; (c) to limit the amount of kilowatt hour ("kWh") blocks and kWh per customer in order to better administer these rates; and, (d) to clarify usage conditions and reflect language from the Renewable Energy Standard and Tariff ("REST") rules (A.A.C. R14-2-1801 through 1816). As of June 30, 2009, participation under Green Power schedules GPS-1 and GPS-2 is approximately 2,100 customers (response to Staff Data Request 2.2).

On May 5, 2009, APS filed a revised application that requested approval of the Company's updated GPS-1 and GPS-2 Green Power rate schedules as discussed above with minor revisions; and, also proposed adding a new Green Power rate schedule (GPS-3) that would offer APS' customers electricity that is generated using renewable resources as fuel. GPS-3 Green Power electricity would be used for special events (e.g. concerts, sporting events or fairs), where the energy would be needed for a relatively limited period of time. Such events may be held over single or contiguous multiple days at single or multiple sites.

As discussed in more detail below, Staff recommends approval of the proposed GPS-1 and GPS-2 premium rate schedules as revised by APS. Staff further recommends approval of the proposed GPS-3 premium rate schedule as filed except for the condition that would subject

Green Power kWh sales to the Environmental Improvement Surcharge (“EIS”) and the Renewable Energy Standard (“RES”) surcharge.

Staff’s Recommendations

Green Power Block Schedule (“GPS-1”)

Staff recommends approval of schedule GPS-1 as revised. Service under this rate schedule is currently billed in blocks of 100 kWh at a rate of \$0.01 per kWh. Decision No. 69663 states in part, that: “APS should have a single tariff with a single set of rates that are set each year based upon APS’ yearly filing of revisions to the premium.” Accordingly, APS has proposed a revised, lower premium rate in the amount of \$0.004 per kWh (from \$0.010 per kWh), which represents a reduction of 6 mills per kWh or approximately 60 percent. Staff has been provided redacted data that support the proposed premium rate filed by APS.

APS is proposing to limit, at APS’ discretion, the number of kWh blocks sold to any one customer to no more than 5 percent of total power procured for service under all GPS schedules. Staff supports this proposed option because APS expects that the vast majority (approximately 85 percent) of its renewable energy will be used to meet the Company’s 2009 REST rule requirements (response to Staff Data Request No. 2.1). It should be noted that Green Power sales through GPS schedules do not count toward satisfying APS’ REST requirements.

Green Power Percent Schedule (“GPS-2”)

Staff recommends approval of schedule GPS-2 as revised. Service under this rate schedule is currently billed in percents of total monthly kWh supplied by APS based on a 100 percent rate of \$0.01 per kWh. APS has proposed reducing the 100 percent rate to \$0.004 per kWh. The following table summarizes the rate categories under present and proposed rates:

APS’ Green Power Percent Schedule

Percent of Total kWh	Present Rate(\$/kWh)	Proposed Rate (\$/kWh)
100	.0100	.0040
50	.0050	.0020
35	.0035	.0014
10*	.0010	.0004

*not available to residential customers

Staff has confirmed that the present and proposed rate structures conform to Decision No. 69663 regarding the 35 percent and 10 percent categories. Similar to the GPS-1 schedule, APS’ proposed lower premium rate in the amount of \$0.004 per kWh is a reduction of 6 mills per kWh or approximately 60 percent. Staff has been provided redacted data that support the proposed premium rate.

Green Power Special Events Schedule ("GPS-3")

Staff recommends approval of schedule GPS-3 as filed, except for the "surcharge" matter discussed below. Schedule GPS-3 would be available to APS customers requesting Green Power energy for special events, where the energy would be needed for a relatively limited period of time. Schedule GPS-3 would be available to all APS Standard Offer customers taking service under a retail rate. In addition, GPS-3 would not impose a one-year minimum contract term as is required under GPS-1 and GPS-2, nor would GPS-3 service prohibit customers from also receiving Green Power under schedules GPS-1 or GPS-2. Service under the proposed GPS-3 rate schedule would be billed in blocks of 100 kWh, at a premium rate of \$0.004 per kWh, but with a minimum purchase of \$500 per transaction. Staff interpreted the proposed minimum purchase to equal 125,000 kWh per transaction, and APS confirmed the minimum in its response to Staff Data Request No. 2.3. APS also confirmed that purchase requests under GPS-3 that are above 125,000 kWh would be billed at the proposed Green Power premium rate of \$0.004 per kWh. Similar to schedules GPS-1 and GPS-2, the GPS-3 premium rate is designed to be revenue neutral.

Regarding unused kWhs, APS is not proposing any expiration time limit on unused Green Power energy, but does limit such energy to being applied to subsequent events (response to Staff Data Requests 1.7 and 2.3). Staff recommends approval of this implicitly proposed provision.

Staff does not support APS' proposal to subject GPS-3 kWh sales to EIS and RES surcharges. Staff asked APS why GPS-3 customers should help pay for clean or renewable energy-related expenses while GPS-1 and GPS-2 customers' energy is exempt from these surcharges. APS' response to Staff Data Request 1.4 indicates that GPS-3 purchases are "...temporary and sporadic in nature." and "...the customer makes no commitment [to] stay on the service for one year." Therefore, the Company concludes that similar exemptions from EIS and RES surcharges would not be appropriate for GPS-3 sales. Staff is concerned that prospective customers could view GPS-3 Green Power as an inferior version of Green Power energy, because from an energy-related surcharge perspective, GPS-3 customers will have been placed into the same customer class category as the customers who use energy generated from conventional fuel sources, and thereby would be required to pay EIS and RES surcharges. In fact, prospective GPS-3 customers would be asked to pay a premium surcharge for trying to help the environment by using energy created with renewable resources while having to pay surcharges designed to help APS recover expenses it incurred in trying to meet air quality standards and increase the usage of energy that was created using renewable resources. Staff believes that GPS-3 customers could conclude that they are paying extra surcharges because they elected to support the Green Power program.

Fair Value Analysis

Staff also analyzed this application in terms of whether there were fair value implications. Staff has concluded that there would be no impact on APS' fair value rate base and rate of return.

Additional Staff Recommendations

Staff recommends that schedules GPS-1, GPS-2 and GPS-3, as approved, be effective September 1, 2009.

Furthermore, Staff recommends that APS file tariff pages for the approved schedules GPS-1, GPS-2 and GPS-3 consistent with the Decision in this matter within 15 days from the effective date of the Decision.

Summary of Staff's Recommendations

1. Staff recommends approval of the proposed GPS-1 premium rate schedule as revised and discussed herein.
2. Staff recommends approval of the proposed GPS-2 premium rate schedule as revised and discussed herein.
3. Staff recommends approval of the proposed GPS-3 premium rate schedule as filed excluding the condition that would subject Green Power kWh sales to the Environmental Improvement Surcharge and the Renewable Energy Standard surcharge.
4. Regarding the disposition of unused GPS-3 energy, Staff recommends that there be no expiration time limit on unused Green Power energy.
5. Staff recommends that schedules GPS-1, GPS-2 and GPS-3, as approved, be effective September 1, 2009.
6. Staff recommends that APS file tariff pages for the approved schedules GPS-1, GPS-2 and GPS-3 consistent with the Decision in this matter within 15 days from the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

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ORIGINATOR: William H. Musgrove

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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 THE APPLICATION)
OF ARIZONA PUBLIC SERVICE)
COMPANY FOR APPROVAL OF)
UPDATED GREEN POWER RATE)
SCHEDULES GPS-1 AND GPS-2 AND A)
NEW GREEN POWER RATE SCHEDULE)
GPS-3)

DOCKET NO. E-01345A-08-0614

DECISION NO. _____

ORDER

Open Meeting
August 25 and 26, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

2. On December 23, 2008, APS filed an application to update Green Power rate schedules GPS-1 (Block Schedule) and GPS-2 (Percent Schedule) pursuant to Decision No. 69663 issued July 28, 2007.

3. On December 30, 2008, APS waived the 30-day provisions referenced in Arizona Revised Statutes §§ 40-367 and -250(B) to allow time for the inclusion of a new Green Power rate schedule (GPS-3) option in its application and a proper review by the Commission.

4. APS' Green Power rate schedules provide customers with the ability to purchase electricity generated from renewable resources for their homes and businesses. APS proposed the following changes be made to rate schedules GPS-1 and GPS-2: (a) to revise premium power rates

1 downward to reflect APS' updated renewable generation and avoided generation costs; (b) to
2 include marketing costs in the premium charge rates where such costs have been incurred to
3 increase customers' awareness of and participation in Green Power options; (c) to limit the amount
4 of kilowatt hour ("kWh") blocks and kWh per customer in order to better administer these rates;
5 and, (d) to clarify usage conditions and reflect language from the Renewable Energy Standard and
6 Tariff ("REST") rules (A.A.C. R14-2-1801 through 1816). As of June 30, 2009, participation
7 under Green Power schedules GPS-1 and GPS-2 is approximately 2,100 customers (response to
8 Staff Data Request 2.2).

9 5. On May 5, 2009, APS filed a revised application that requested approval of the
10 Company's updated GPS-1 and GPS-2 Green Power rate schedules as discussed above with minor
11 revisions; and, also proposed adding a new Green Power rate schedule (GPS-3) that would offer
12 APS' customers electricity that is generated using renewable resources as fuel. GPS-3 Green
13 Power electricity would be used for special events (e.g. concerts, sporting events or fairs), where
14 the energy would be needed for a relatively limited period of time. Such events may be held over
15 single or contiguous multiple days at single or multiple sites.

16 6. As discussed in more detail below, Staff has recommended approval of the
17 proposed GPS-1 and GPS-2 premium rate schedules as revised by APS. Staff has further
18 recommended approval of the proposed GPS-3 premium rate schedule as filed except for the
19 condition that would subject Green Power kWh sales to the Environmental Improvement
20 Surcharge ("EIS") and the Renewable Energy Standard ("RES") surcharge.

21 **Staff's Recommendations**

22 Green Power Block Schedule ("GPS-1")

23 7. Staff recommends approval of schedule GPS-1 as revised. Service under this rate
24 schedule is currently billed in blocks of 100 kWh at a rate of \$0.01 per kWh. Decision No. 69663
25 states in part, that: "APS should have a single tariff with a single set of rates that are set each year
26 based upon APS' yearly filing of revisions to the premium." Accordingly, APS has proposed a
27 revised, lower premium rate in the amount of \$0.004 per kWh, which represents a reduction of 6

28 ...

1 mills per kWh or approximately 60 percent. Staff has been provided redacted data that support the
2 proposed premium rate filed by APS.

3 8. APS is proposing to limit, at APS' discretion, the number of kWh blocks sold to
4 any one customer to no more than 5 percent of total power procured for service under all GPS
5 schedules. Staff supports this proposed option because APS expects that the vast majority
6 (approximately 85 percent) of its renewable energy will be used to meet the Company's 2009
7 REST rule requirements (response to Staff Data Request No. 2.1). It should be noted that Green
8 Power sales through GPS schedules do not count toward satisfying APS' REST requirements.

9 Green Power Percent Schedule ("GPS-2")

10 9. Staff recommends approval of schedule GPS-2 as revised. Service under this rate
11 schedule is currently billed in percents of total monthly kWh supplied by APS based on a 100
12 percent rate of \$0.01 per kWh. APS has proposed reducing the 100 percent rate to \$0.004 per
13 kWh. The following table summarizes the rate categories under present and proposed rates:

14 **APS' Green Power Percent Schedule**

Percent of Total kWh	Present Rate(\$/kWh)	Proposed Rate (\$/kWh)
100	.0100	.0040
50	.0050	.0020
35	.0035	.0014
10*	.0010	.0004

15
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17
18
19 *not available to residential customers

20
21 10. Staff has confirmed that the present and proposed rate structures conform to
22 Decision No. 69663 regarding the 35 percent and 10 percent categories. Similar to the GPS-1
23 schedule, APS' proposed lower premium rate in the amount of \$0.004 per kWh is a reduction of 6
24 mills per kWh or approximately 60 percent. Staff has been provided redacted data that support the
25 proposed premium rate.

26 Green Power Special Events Schedule ("GPS-3")

27 11. Staff has recommended approval of schedule GPS-3 as filed, except for the
28 "surcharge" matter discussed below. Schedule GPS-3 would be available to APS customers

1 requesting Green Power energy for special events, where the energy would be needed for a
2 relatively limited period of time. Schedule GPS-3 would be available to all APS Standard Offer
3 customers taking service under a retail rate. In addition, GPS-3 would not impose a one-year
4 minimum contract term as is required under GPS-1 and GPS-2, nor would GPS-3 service prohibit
5 customers from also receiving Green Power under schedules GPS-1 or GPS-2. Service under the
6 proposed GPS-3 rate schedule would be billed in blocks of 100 kWh, at a premium rate of \$0.004
7 per kWh, but with a minimum purchase of \$500 per transaction. Staff interpreted the proposed
8 minimum purchase to equal 125,000 kWh per transaction, and APS confirmed the minimum in its
9 response to Staff Data Request No. 2.3. APS also confirmed that purchase requests under GPS-3
10 that are above 125,000 kWh would be billed at the proposed Green Power premium rate of \$0.004
11 per kWh. Similar to schedules GPS-1 and GPS-2, the GPS-3 premium rate is designed to be
12 revenue neutral.

13 12. Regarding unused kWhs, APS is not proposing any expiration time limit on unused
14 Green Power energy, but does limit such energy to being applied to subsequent events (response to
15 Staff Data Requests 1.7 and 2.3). Staff has recommended approval of this implicitly proposed
16 provision.

17 13. Staff does not support APS' proposal to subject GPS-3 kWh sales to EIS and RES
18 surcharges. Staff asked APS why GPS-3 customers should help pay for clean or renewable
19 energy-related expenses while GPS-1 and GPS-2 customers' energy is exempt from these
20 surcharges. APS' response to Staff Data Request 1.4 indicates that GPS-3 purchases are
21 "...temporary and sporadic in nature" and "...the customer makes no commitment [to] stay on the
22 service for one year." Therefore, the Company concludes that similar exemptions from EIS and
23 RES surcharges would not be appropriate for GPS-3 sales. Staff is concerned that prospective
24 customers could view GPS-3 Green Power as an inferior version of Green Power energy, because
25 from an energy-related surcharge perspective, GPS-3 customers will have been placed into the
26 same customer class category as the customers who use energy generated from conventional fuel
27 sources, and thereby would be required to pay EIS and RES surcharges. In fact, prospective
28 GPS-3 customers would be asked to pay a premium surcharge for trying to help the environment

1 by using energy created with renewable resources while having to pay surcharges designed to help
2 APS recover expenses it incurred in trying to meet air quality standards and increase the usage of
3 energy that was created using renewable resources. Staff believes that GPS-3 customers could
4 conclude that they are paying extra surcharges because they elected to support the Green Power
5 program.

6 Fair Value Analysis

7 14. Staff also analyzed this application in terms of whether there were fair value
8 implications. Staff has concluded that there would be no impact on APS' fair value rate base and
9 rate of return.

10 Additional Staff Recommendations

11 15. Staff has recommended that schedules GPS-1, GPS-2 and GPS-3, as approved, be
12 effective September 1, 2009.

13 16. Furthermore, Staff has recommended that APS file tariff pages for the approved
14 schedules GPS-1, GPS-2 and GPS-3 consistent with the Decision in this matter within 15 days
15 from the effective date of the Decision.

16 **Summary of Staff's Recommendations**

17 17. Staff has recommended approval of the proposed GPS-1 premium rate schedule as
18 revised and discussed herein.

19 18. Staff has recommended approval of the proposed GPS-2 premium rate schedule as
20 revised and discussed herein.

21 19. Staff has recommended approval of the proposed GPS-3 premium rate schedule as
22 filed excluding the condition that would subject Green Power kWh sales to the Environmental
23 Improvement Surcharge and the Renewable Energy Standard surcharge.

24 20. Regarding the disposition of unused GPS-3 energy, Staff has recommended that
25 there be no expiration time limit on unused Green Power energy.

26 21. Staff has recommended that schedules GPS-1, GPS-2 and GPS-3, as approved, be
27 effective September 1, 2009.

28 ...

1 IT IS FURTHER ORDERED that Arizona Public Service Company file tariff pages for the
2 approved schedules GPS-1, GPS-2 and GPS-3 consistent with the Decision in this matter within 15
3 days from the effective date of the Decision.

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

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

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8 _____
CHAIRMAN

COMMISSIONER

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11 COMMISSIONER

COMMISSIONER

COMMISSIONER

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

18 _____
ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT: _____

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22 DISSENT: _____

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1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-08-0614

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