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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner  
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Commissioner  
BOB STUMP  
Commissioner

Arizona Corporation Commission  
**DOCKETED**  
AUG 06 2009

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

DOCKET NO. E-01345A-09-0255  
DECISION NO. 71244  
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:

23 Table II

24	Residential	3,114.9 MW	52.4% of total coincident demand
	< 3MW	2,452.5 MW	41.3% of total coincident demand
25	> 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:

5 Table III

6 Residential	3,009.0 MW	53.0% of total coincident demand
< 3MW	2,290.6 MW	40.4% of total coincident demand
7 > 3MW	375.4 MW	6.6% of total coincident demand

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:

21 Table IV

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

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

26 Table V

27 Residential kWh	13,413,806,963 kWh
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
2	General Service over 3,000 kW	6,536,342 kW

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.

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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.     The Commission believes that because the TCA has become a significant source of  
7 recovery for transmission related costs, TCA funds are being collected through an adjustor  
8 mechanism, and the (infrastructure) projects facilitated by the TCA are a matter of public interest,  
9 the Company should prepare a report each year detailing the transmission plant or other costs  
10 underlying the TCA reset. This report, which should be docketed along with the Company's  
11 Application for a TCA reset, should be broken down by projects and Operation an Maintenance  
12 related to those projects, and any other information that would help the Commission and  
13 ratepayers determine how and where the TCA funds are spent. The report should also include the  
14 projects and operation and maintenance expenses that the Company believes will be included in  
15 the following year's TCA reset. The Commission further believes that such a report should be  
16 provided to the Commission for the TCA reset that is the subject of this Order.

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

#### 20                                     CONCLUSIONS OF LAW

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

23           2.     The Commission has jurisdiction over APS and the subject matter of the  
24 application.

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

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

4                                       ORDER

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

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

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

13           IT IS FURTHER ORDERED that Arizona Public Service Company shall prepare a report  
14 each year detailing the transmission plant or other costs underlying the TCA reset and docket the  
15 report with Arizona Public Service Company's Application for a TCA reset. The report shall be  
16 broken down by projects and Operation and Maintenance related to those projects, and any other  
17 information that would help the Commission and ratepayers determine how and where the TCA  
18 funds are spent. The report shall also include the projects and operation and maintenance expense

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1 that Arizona Public Service Company believes will be included in the following year's TCA reset.  
 2 This report for the TCA reset that is the subject of this Order shall be submitted to Docket Control  
 3 within 60 days of the effective date of the Order.

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

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

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 CHAIRMAN

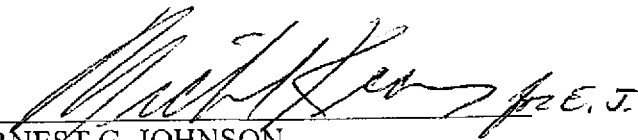
  
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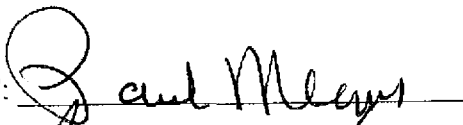
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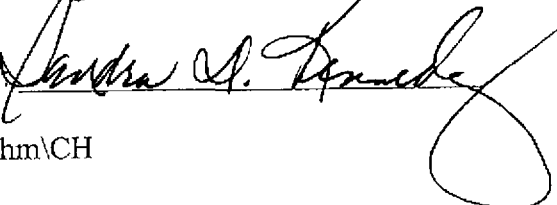
  
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\_\_\_\_\_ COMMISSIONER

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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 this  
 Commission to be affixed at the Capitol, in the City of  
 Phoenix, this 6th day of AUGUST, 2009.

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 ERNEST G. JOHNSON  
 19 EXECUTIVE DIRECTOR

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 21 DISSENT:   
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22 DISSENT:   
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23 EGJ:SPI:lm\CH

1 SERVICE LIST FOR: Arizona Public Service Company  
2 DOCKET NO. E-01345A-09-0255

3 Mr. Thomas Mumaw  
4 Attorney for Arizona Public Service Company  
5 400 North Fifth Street  
6 Post Office Box 53999 / MS 9708  
7 Phoenix, Arizona 85004

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

13 Ms. Janice M. Alward  
14 Chief Counsel, Legal Division  
15 Arizona Corporation Commission  
16 1200 West Washington Street  
17 Phoenix, Arizona 85007

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