

**ORIGINAL**  
**OPEN MEETING**



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**MEMORANDUM**  
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Arizona Corporation Commission  
**DOCKETED**

**MAR 12 2010**



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AZ CORP COMMISSION  
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: March 12, 2010

RE: TUCSON ELECTRIC POWER COMPANY – APPLICATION TO RESET THE PPFAC RATE FOR APRIL 2010 THROUGH MARCH 2011 (DOCKET NOS. E-01933A-05-0650 AND E-01933A-07-0402)

On October 31, 2009, Tucson Electric Power Company (“TEP”) filed a “Notice of Filing Preliminary Calculation of PPFAC Rate.” The document presented seven schedules with preliminary calculations of the rate for the Purchased Power and Fuel Adjustment Clause (“PPFAC”) to be applied during the period of April 1, 2010 to March 31, 2011. On February 1, 2010, TEP filed a required update to the October 31<sup>st</sup> filing. On February 10, 2010, TEP filed a revised set of schedules which included corrections to the February 1<sup>st</sup> filing.

The PPFAC was originally implemented by Commission Decision No. 70628, dated December 1, 2008. The PPFAC rate consists of a Forward Component and a True-up Component. The Forward Component reflects the forecasted fuel and purchased power costs for an annual period less the average Base Cost of Fuel and Purchased Power reflected in base rates. The True-up component reconciles any over or under-recovered amounts from the preceding 12 months to be credited to, or recovered from customers in the next 12 months. Low-Income customers are exempt from paying the PPFAC.

The PPFAC rate charged to TEP customers is currently zero and TEP proposes that the rate remain at zero for 12 months starting April 1, 2010. The rate is zero because the PPFAC rate is offset by a refund (bill credit) of some of the funds collected under a Fixed Competitive Transition Charge implemented several years ago.

Decision No. 62103, dated November 30, 1999, approved a settlement agreement which established the Fixed Competitive Transition Charge (“Fixed CTC”). The purpose of the charge was to recover TEP’s stranded costs related to electric competition. The CTC was set at \$0.0093 per kWh, intended to recover \$450 million and slated to terminate on December 31, 2008 or when the stranded costs were fully recovered, whichever date was sooner.

Decision No. 69568, dated May 21, 2007, allowed TEP to continue to collect the Fixed CTC beyond the termination date in order to support TEP’s cash flow position and to avoid customer confusion and disruption from rate fluctuations. The Decision also determined that the incremental revenue generated by continuing the CTC beyond its termination date would be subject to refund or credit, with interest, to customers. Decision No. 70628, referenced above,

THE COMMISSION

March 12, 2010

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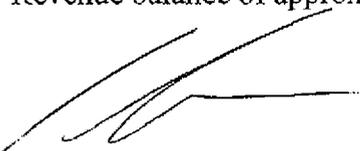
determined that the incremental revenues generated by charging the CTC beyond the date of termination should be credited in their entirety to the ratepayers by means of a credit to the PPFAC.

At January 1, 2009, the balance of CTC revenues to be refunded through the PPFAC rate ("CTC True-up Revenue") was \$58.8 million. From January 1, 2009 to December 31, 2009, \$12.5 million of the CTC True-up Revenue balance was used to offset the PPFAC rate resulting in a zero PPFAC rate for 12 months. TEP forecasts that by March 31, 2011, the remaining balance of the Fixed CTC True-up Revenue will be \$34.5 million.

TEP's February 10, 2010 filing requests a PPFAC Forward Component rate of negative \$0.000826 per kWh and a True-up Component of positive \$0.001762 resulting in a PPFAC rate of \$0.000936. This rate will be offset by Fixed CTC True-up Revenue of \$0.000936 per kWh, resulting in a zero PPFAC rate on customer bills for the period of April 1, 2010 through March 31, 2011.

Staff reviewed TEP's schedules and calculations for accuracy and compliance with previous orders and is satisfied that the schedules are in compliance with previous Commission decisions. Staff also reviewed TEP's assumptions used in developing its forecast of fuel and purchased power expenses, and finds the forecast to be reasonable.

Staff recommends that the Commission approve a PPFAC Forward Component rate of negative \$0.000826 per kWh and a True-up Component of \$0.001762 per kWh resulting in a PPFAC rate of \$0.000936. Staff also recommends the PPFAC rate be offset by Fixed CTC True-up Revenue of \$0.000936 per kWh, resulting in a zero PPFAC rate applied to customer bills for the period of April 1, 2010 through March 31, 2011. This should result in a Fixed CTC True-up Revenue balance of approximately \$34.5 million on March 31, 2011.



Steven M. Olea  
Director  
Utilities Division

SMO:LAJ:lhmv

ORIGINATOR: Linda A. Jaress

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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 TUCSON ELECTRIC POWER )  
COMPANY TO RESET THE PPFAC RATE )  
FOR APRIL 2009 THROUGH MARCH 2010 )

DOCKET NOS. E-01933A-05-0650  
E-01933A-07-0402  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
March 31 and April 1, 2010  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Tucson Electric Power Company ("TEP") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On October 31, 2009, TEP filed a "Notice of Filing Preliminary Calculation of PPFAC Rate." The document presented a preliminary calculation of the rate for the Purchased Power and Fuel Adjustment Clause ("PPFAC") to be applied during the period of April 1, 2010 to March 31, 2011. On February 1, 2010, TEP filed a required update to the October 31<sup>st</sup> filing. On February 10, 2010, TEP filed a revised set of schedules which included corrections to the February 1<sup>st</sup> filing.
3. The PPFAC was originally implemented by Commission Decision No. 70628, dated December 1, 2008. The PPFAC rate consists of a Forward Component and a True-up Component. The Forward Component reflects the forecasted fuel and purchased power costs for an annual period less the average Base Cost of Fuel and Purchased Power reflected in base rates.

1 The True-up component reconciles any over or under-recovered amounts from the preceding 12  
2 months to be credited to, or recovered from customers in the next 12 months. Low-Income  
3 customers are exempt from paying the PPFAC.

4 4. The PPFAC rate charged to TEP customers is currently zero and TEP proposes that  
5 the rate remain at zero for 12 months starting April 1, 2010. The rate is zero because the PPFAC  
6 rate is offset by a refund (bill credit) of some of the funds collected under a Fixed Competitive  
7 Transition Charge implemented several years ago.

8 5. Decision No. 62103, dated November 30, 1999 approved a settlement agreement  
9 which established the Fixed Competitive Transition Charge ("Fixed CTC"). The purpose of the  
10 charge was to recover TEP's stranded costs related to electric competition. The CTC was set at  
11 \$0.93 per kWh, intended to recover \$450 million and slated to terminate on December 31, 2008 or  
12 when the stranded costs were fully recovered, whichever date was sooner.

13 6. Decision No. 69568, dated May 21, 2007, allowed TEP to continue to collect the  
14 Fixed CTC beyond the termination in order to support TEP's cash flow position and to avoid  
15 customer confusion and disruption from rate fluctuations. The Decision also determined that the  
16 incremental revenue generated by continuing the CTC beyond its termination date be subject to  
17 refund or credit, with interest, to customers. Decision No. 70628, referenced above, determined  
18 that the incremental revenues generated by charging the CTC beyond the date of termination  
19 should be credited in their entirety to the ratepayers by means of a credit to the PPFAC.

20 7. On January 1, 2009, the balance of CTC revenues to be refunded through the  
21 PPFAC rate ("CTC True-up Revenue") was \$58.8 million. During the calendar year 2009, \$12.5  
22 million of the CTC True-up Revenue balance was used to offset the PPFAC rate resulting in a zero  
23 PPFAC rate for 12 months. TEP forecasts that by March 31, 2011, the balance of the Fixed CTC  
24 True-up Revenue will be \$34.5 million.

25 8. TEP's February 1, 2010 filing, requests a PPFAC Forward Component rate of  
26 negative \$0.000826 per kWh, and a True-up Component of positive \$0.001762 resulting in a  
27 PPFAC rate of \$0.000936. This rate will be offset by Fixed CTC True-up Revenue of \$0.000936  
28

1 per kWh, resulting in a zero PPFAC rate on customer bills for the period of April 1, 2010 through  
2 March 31, 2011.

3 9. Staff reviewed the filing along with TEP's assumptions used in developing its  
4 forecast of fuel and purchased power expenses, and finds the forecast to be reasonable. Staff  
5 recommends that the Commission approve a PPFAC Forward Component rate of negative  
6 \$0.000826 per kWh and a True-up Component of positive \$0.001762 per kWh, resulting in a  
7 PPFAC rate of \$0.000936. Staff also recommends the PPFAC rate be offset by Fixed CTC True-  
8 up Revenue of \$0.000936, resulting in a zero PPFAC rate on customer bills for the period of  
9 April 1, 2010 through March 31, 2011.

10 CONCLUSIONS OF LAW

11 1. TEP is an Arizona public service corporation within the meaning of Article XV,  
12 Section 2, of the Arizona constitution.

13 2. The Commission has jurisdiction over TEP and over the subject matter of the  
14 application.

15 3. The Commission, having reviewed TEP's application and Staff's Memorandum  
16 dated March 12, 2010, concludes that it is in the public interest that TEP's PPFAC rate of  
17 \$0.000936 per kWh be offset by \$0.000936 per kWh of Fixed CTC True-up Revenue, resulting in  
18 a zero PPFAC rate on customer bills for the April 1, 2010 through March 31, 2011 PPFAC year.

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ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's PPFAC rate be set at \$0.000936 per kWh and be offset by \$0.000936 per kWh of Fixed CTC True-up Revenue, resulting in a zero PPFAC rate on customer bills for the April 1, 2010 through March 31, 2011 PPFAC year.

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

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

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, 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 \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:LAJ:lh\

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