

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

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JUL 14 2010

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: July 14, 2010

DOCKETED BY	MM
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RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF TRANSMISSION COST ADJUSTOR CHARGES (DOCKET NO. E-01345A-10-0210)

On May 20, 2010, Arizona Public Service Company ("APS" or "Company") filed an application with the Arizona Corporation Commission ("Commission") seeking a change 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. The OATT rate is the FERC approved rate that provides for the recovery of transmission costs. APS recovers its transmission costs, reflected by the OATT rate, through the sum of two distinct rate components. One of the two rate components is a transmission charge embedded in base rates established in APS' last rate case. The second of the two rate components is the TCA charge which accounts for changes in the OATT rate between APS rate cases. The transmission costs contained in the OATT rates are an expense directly related to the provision of electricity to APS customers.

The OATT rates are approved by FERC and designed to recover transmission costs from users of APS transmission facilities. APS charges these rates to users of its transmission facilities such as other utilities and to APS itself. The OATT rates are recalculated and reset annually through use of a FERC-approved formula. The formula makes use of an equation that is annually populated with 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 rates (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.

The instant filing seeks to implement Revision No. 5 of Adjustment Schedule TCA-1. Revision No. 5 of Adjustment Schedule TCA-1 reflects new OATT rates that were filed by APS with FERC in May 2010 and made effective for transmission customers on June 1, 2010. Staff has begun, but not completed, the process of review of the new OATT rates that became effective June 1, 2010, pursuant to protocols that govern the operation of the formula OATT

rates. Any adjustments that result from review of the new OATT rates would take the form of an adjustment to the next formula OATT rate that would take effect June 1, 2011 pursuant to the protocols.

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	\$0.002258/kWh	\$0.002144/kWh	-5.05 %
General Service 20 kW or less	\$0.001889/kWh	\$0.001602/kWh	-15.19 %
General Service over 20 kW and under 3,000 kW	\$0.902/kW	\$0.740/kW	-17.96 %
General Service 3,000 kW and over	\$0.225/kW	\$0.259/kW	15.11 %

These rates result from an approximately \$10 million annual decrease in revenue requirement. The transmission charge decrease for residential customers that results from implementation of the proposed TCA is $-\$0.000114/\text{kWh}$. In Attachment E of the application, APS indicates that it calculates that the typical bill impact from this decrease is $-\$0.13$ per month for residential customers (typical use equals approximately 1,177 kWh per month).

Table I indicates that each of the rate categories decreases except for General Service 3,000 kW and over. This contrasts with the last change to the TCA in which each of the rate categories increased except for the General Service 3,000 kW and over.

APS explains in the application that changes in revenue allocation among the customer classes 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.

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 equitable and calculated based solely on demand.

THE COMMISSION

July 14, 2010

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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 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 other General Service classes make use of kW to calculate the OATT rate.

In order for the TCA rates to reflect transmission cost as contained in the OATT rates and updated in June of 2010, Staff recommends approval of Revision No. 5 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. 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.



Steven M. Olea
Director
Utilities Division

SMO:SPI:lm\MAS

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'S APPLICATION
FOR APPROVAL OF TRANSMISSION
COST ADJUSTOR CHARGES

DOCKET NO. E-01345A-10-0210

DECISION NO. _____

ORDER

Open Meeting
July 27 and 28, 2010
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, 2010, APS filed an application with the Arizona Corporation Commission ("Commission") seeking a change 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. The OATT rate is the FERC approved rate that provides for the recovery of transmission costs. APS recovers its transmission costs, reflected by the OATT rate, through the sum of two distinct rate components. One of the two rate components is a transmission charge embedded in base rates established in APS' last rate case. The second of the two rate components is the TCA charge which accounts for changes in the OATT rate between APS rate cases. The transmission

1 costs contained in the OATT rates are an expense directly related to the provision of electricity to
2 APS customers.

3 3. The OATT rates are approved by FERC and designed to recover transmission costs
4 from users of APS transmission facilities. APS charges these rates to users of its transmission
5 facilities such as other utilities and to APS itself. The OATT rates are recalculated and reset
6 annually through use of a FERC-approved formula. The formula makes use of an equation that is
7 annually populated with data contained in APS' annual FERC Form 1 filing.

8 4. The Commission intervened and participated in the FERC docket which created the
9 formula rate methodology used annually to establish APS' OATT rates (FERC Docket No. ER07-
10 1142-000). The FERC order that establishes the formula rate method of calculating the OATT
11 rates established a procedure for the Commission to review each of APS' annual recalculations of
12 the OATT rates (124 FERC ¶61,088). There is also a procedure for the Commission to challenge
13 APS' annual recalculations of the OATT rate should it be necessary.

14 5. The instant filing seeks to implement Revision No. 5 of Adjustment Schedule
15 TCA-1. Revision No. 5 of Adjustment Schedule TCA-1 reflects new OATT rates that were filed
16 by APS with FERC in May 2010 and made effective for transmission customers on June 1, 2010.

17 6. Staff has begun, but not completed, the process of review of the new OATT rates
18 that became effective June 1, 2010, pursuant to protocols that govern the operation of the formula
19 OATT rates. Any adjustments that result from review of the new OATT rates would take the form
20 of an adjustment to the next formula OATT rate that would take effect June 1, 2011 pursuant to the
21 protocols.

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

Table I

	<u>Present</u>	<u>Proposed</u>	<u>Difference</u>
26 Residential	\$0.002258/kWh	\$0.002144/kWh	-5.05 %
27 General Service 28 20 kW or less	\$0.001889/kWh	\$0.001602/kWh	-15.19 %

1	General Service	\$0.902/kW	\$0.740/kW	-17.96 %
2	over 20 kW			
3	and under 3,000 kW			
4	General Service	\$0.225/kW	\$0.259/kW	15.11 %
	3,000 kW and over			

5 8. These rates result from an approximately \$10 million annual decrease in revenue
6 requirement.

7 9. The transmission charge decrease for residential customers that results from
8 implementation of the proposed TCA is $-\$0.000114/\text{kWh}$. In Attachment E of the application,
9 APS indicates that it calculates that the typical bill impact from this decrease is $-\$0.13$ per month
10 for residential customers (typical use equals approximately 1,177 kWh per month).

11 10. Table I indicates that each of the rate categories decreases except for General
12 Service 3,000 kW and over. This contrasts with the last change to the TCA in which each of the
13 rate categories increased except for the General Service 3,000 kW and over.

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

18 12. The formula method used to calculate the OATT rate apportions the transmission
19 revenue requirement among the rate classes based on each class's share of the transmission
20 revenue requirement measured in megawatt-hours. Each class's percentage share of the
21 transmission revenue requirement is determined by dividing the class's coincident peak megawatt-
22 hour count by total coincident peak megawatt-hours so that apportionment of the revenue
23 requirement is equitable and calculated based solely on demand.

24 13. These percentages are multiplied by the calculated transmission revenue
25 requirement to determine the revenue requirement of each class. OATT rates for each class are
26 then determined by simply dividing the class's revenue requirement by either total annual kW or
27 kWh, depending on the class. In the case of the Residential class and the General Service 20 kW

28 ...

1 or less class, kWh is used. The other General Service classes make use of kW to calculate the
2 OATT rate.

3 14. In order for the TCA rates to reflect transmission cost as contained in the OATT
4 rates and updated in June of 2010, Staff has recommended approval of Revision No. 5 of
5 Adjustment Schedule TCA-1.

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

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

11 CONCLUSIONS OF LAW

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

14 2. The Commission has jurisdiction over APS and the subject matter of the
15 application.

16 3. Approval of the proposed tariff does not constitute a rate increase as contemplated
17 by A.R.S. Section 40-250.

18 4. The Commission, having reviewed the application and Staff's Memorandum dated
19 July 14, 2010, concludes that it is in the public interest to approve Adjustment Schedule TCA-1.

20 ORDER

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

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

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

IT IS FURTHER ORDERED that this Decision 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 _____, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:SPI:lhM\MAS

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