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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION)
OF MORENCI WATER & ELECTRIC)
COMPANY FOR AN ADJUSTMENT IN ITS)
PURCHASED POWER AND FUEL)
ADJUSTMENT CLAUSE RATE)

DOCKET NO. E-01049A-10-0449

DECISION NO. 72065

ORDER

Open Meeting
December 14 and 15, 2010
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Morenci Water & Electric Company ("Morenci" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

Introduction

2. On November 3, 2010, Morenci filed a request for an adjustment to its Purchased Power and Fuel Adjustment Clause ("PPFAC" or "adjustor") rate from negative \$0.027 per kWh to negative \$0.051 per kWh in order to address the current over-collected account balance. Morenci cites reduced gas prices and the resulting reduced wholesale power prices as the reason its account balance has quickly exceeded the over-collected threshold of \$200,000. Morenci estimates by the end of 2010 that it will have an over-collected account balance of \$527,403.

3. On November 17, 2010, Staff received Morenci's Purchase Power Fuel Adjustor Report containing actual sales and usage for October 2010. Staff updated Morenci's Bank Balance

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1 attachment contained in its application with this data and the updated account balance is reflected
2 in Attachment 1.

3 Background

4 4. Decision No. 54712 (Morenci's October 10, 1985 rate case) set a base cost of
5 purchased power at \$0.07522 per kWh that is embedded in base rates. A PPFAC mechanism is
6 established to deal with changes in purchased power costs between rate cases. When the actual
7 cost of purchased power exceeds the base cost of power, the PPFAC rate is set to a positive
8 number. However, when actual purchased power costs are lower than the base cost of power, as in
9 Morenci's situation, the PPFAC rate is set to a negative number. The PPFAC account balance
10 tracks the differences between actual purchased power costs and those recovered through the
11 combination of base rates and the PPFAC rate.

12 5. In Decision No. 68438 (February 2, 2006), the Commission approved the over-
13 collected threshold level of \$200,000 and the under-collected threshold level of \$500,000 for
14 Morenci and further ordered that the Company file an application to establish a new PPFAC rate
15 either two months prior to the month the account balance was projected by the Company to reach
16 zero, or by December 31, 2006, whichever occurred first.

17 6. In Decision No. 68813 (June 29, 2006), the Commission approved the proposed
18 adjustor rate of negative \$0.01900 per kWh to be implemented concurrently with the removal of
19 the temporary adjustor rate surcredit of negative \$0.02939 per kWh, with both actions being
20 reflected on bills sent in July 2006. The Commission further ordered Staff to develop alternative
21 adjustor mechanisms to include an alternative formula method that calculates the monthly adjustor
22 rates on an ongoing basis using a 24-month rolling average of Morenci's fuel and purchased power
23 costs. The Commission also ordered that Staff should not include any under-collected triggering
24 threshold or bandwidth with the proposals to be filed in the docket of Morenci's next application
25 for a change in its PPFAC rate or next rate case application, whichever came first.

26 7. In Decision No. 71468 (January 26, 2010), the Commission approved a temporary
27 PPFAC rate of negative \$0.027 per kWh for a 12-month period starting February 2010 through
28 January 2011. In addition, the Commission ordered the PPFAC rate to revert back to negative

1 \$0.019 per kWh beginning February 2011. Pursuant to Decision No. 68813, Staff had presented
2 an alternative adjustor mechanism but Staff did not recommend a mechanism change at that time.
3 The Commission did not change the adjustor mechanism but ordered Morenci to file a rate case by
4 March 31, 2011, using a 2010 test year.

5 Account Balance

6 8. Over- or under-collections are currently tracked and accumulated in an account
7 with a threshold of \$200,000 for over-collection and \$500,000 for under-collection. The
8 Company's PPFAC account balance has been over-collecting since February 2009 and exceeded
9 the over-collected threshold in July 2009 and has continued to do so, even after implementing the
10 negative \$0.027 per kWh PPFAC rate in February 2010 as ordered in Decision No. 71468.
11 Morenci states in its application the reason for the increasing over-collection is Morenci's unit cost
12 of purchase power in 2010 has been significantly less than anticipated due to a continuation of
13 reduced gas prices and resulting reduced wholesale power prices. Morenci's account balance as of
14 October 2010 is an over-collected amount of \$524,893 and Morenci estimates the over-collected
15 amount will be \$527,403 by the end of 2010.

15 Morenci's Proposal

16 9. Morenci is proposing to change the PPFAC rate from negative \$0.027 per kWh to
17 negative \$0.051 per kWh starting January 2011 through the end of 2011 instead of reverting back
18 to a PPFAC rate of negative \$0.019 in February 2011 as ordered in Decision No. 71468. Based on
19 its current estimate of power costs, Morenci believes its proposal will reduce the over-collected
20 balance to \$13,710 by the end of 2011. Since Morenci was ordered in Decision No. 71468 to file a
21 general rate application by March 31, 2011, using 2010 as the test year, the Company states the
22 general rate proceeding is the best forum to resetting the PPFAC base rate, based on other findings
23 the Commission makes at that time. Attachment 1 is a worksheet illustrating Morenci's actual
24 demand, current PPFAC rate and the associated account balance based on actual data from January
25 2009 to October 2010 and forecasted demand, proposed PPFAC rate and the associated balance
26 from November 2010 to December 2011.

27 10. The current and proposed PPFAC adjustor rates are both negative as Morenci's
28 actual costs for purchased power continue to be lower than the base cost of power set in Decision

1 No. 54712. Approximately 98 percent of the Company's electric sales are contract sales to its two
2 industrial customers, both copper mines. These sales fall outside the PPFAC because the customer
3 is served under a special contract. The PPFAC mechanism is relevant only to the other two
4 percent of Morenci's sales consisting of 2,069 residential and 269 commercial customers as of
5 October 2010. Staff calculated the average monthly use per residential user to be 595 kWh and,
6 based on the average usage, Staff estimates residential customers will have an average savings of
7 \$18.64 per month. Staff believes that approval of the proposed PPFAC rate of negative \$0.051
8 beginning January 2011 is in the public interest because it is projected to reduce the over-collected
9 balance to \$13,710 by the end of 2011 and will result in an estimated average savings of \$18.64
10 per month for residential customers.

11 Notice

12 11. Morenci has notified Staff that it has published notice of its proposed adjustor rate
13 in the *Copper Era* on November 24, 2010. Morenci will publish any new Commission-approved
14 adjustor rate in the local newspaper as soon as possible after Commission approval and before the
15 January 2011 billing.

16 Recommendations

17 12. Staff has recommended that a PPFAC rate of negative \$0.051 be approved starting
18 January 2011 and continue through the conclusion of Morenci's general rate proceeding.
19 Implementing this PPFAC rate in January 2011 will supersede the requirements in Decision No.
20 71468 to reduce the PPFAC rate to negative \$0.019 effective February 2011 and provide the
21 associated customer notice and thus, these requirements are no longer necessary.

22 13. Staff has recommended that Morenci notify its customers of the amount of the
23 PPFAC rate and the potential bill impacts at average monthly levels of kWh use within 30 days of
24 the effective date of the Decision in this case.

25 CONCLUSIONS OF LAW

26 1. Morenci is an Arizona public service corporation within the meaning of Article XV,
27 Section 2, of the Arizona Constitution.

28 ...

1 IT IS FURTHER ORDERED that this Decision shall supersede the requirements in
2 Decision No. 71468 to change the PPFAC rate to negative \$0.019 effective February 2011 and
3 provide the associated customer notice.

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

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

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CHAIRMAN

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COMMISSIONER

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COMMISSIONER

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COMMISSIONER

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COMMISSIONER

12 IN WITNESS WHEREOF, I ERNEST G. JOHNSON,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto, set my hand and caused the official seal of
15 this Commission to be affixed at the Capitol, in the City of
16 Phoenix, this 6th day of JANUARY, ~~2011~~
17 2011

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ERNEST G. JOHNSON
Executive Director

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21 DISSENT: _____

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23 DISSENT: _____

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1 SERVICE LIST FOR: Morenci Water and Electric Company
2 DOCKET NO. E-01049A-10-0449

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MORENCI WATER ELECTRIC CO.
PURCHASED POWER FUEL ADJUSTOR
BANK BALANCE

Attachment 1

	Actual Jan-09	Actual Feb-09	Actual Mar-09	Actual Apr-09	Actual May-09	Actual Jun-09	Actual Jul-09	Actual Aug-09	Actual Sep-09	Actual Oct-09	Actual Nov-09	Actual Dec-09
1 Ending Bank Balance from Previous Month	20,374	(14,954)	(52,366)	(100,182)	(137,230)	(173,868)	(231,480)	(286,832)	(336,226)	(385,044)	(416,758)	(449,442)
2A Jurisdictional Sales	2,235,561	2,373,537	2,273,770	1,766,834	1,918,999	2,266,257	3,001,589	2,823,819	3,034,260	2,652,802	2,312,401	2,128,029
2B Total Sales(Incl Spec Cont)	141,828,531	107,989,000	92,482,135	83,337,084	91,402,448	95,621,864	98,740,518	97,982,254	95,497,866	97,590,108	94,045,211	94,814,115
2C Special Contract Sales (Industrial kWh)	139,592,970	105,615,545	90,208,365	81,570,250	89,483,449	93,355,607	95,738,929	95,158,435	92,463,606	94,937,306	91,732,810	92,686,086
3 Actual Cost of Purchased Power	5,732,332	4,369,082	3,254,505	2,937,742	3,393,549	2,944,977	3,730,319	3,794,654	3,832,440	4,319,843	3,957,973	4,788,672
4 Unit Cost of Purchased Power	0.040417	0.040498	0.035251	0.037128	0.037098	0.030798	0.037779	0.038728	0.040131	0.044265	0.042086	0.050506
5 Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522

	Actual Jan-10	Actual Feb-10	Actual Mar-10	Actual Apr-10	Actual May-10	Actual Jun-10	Actual Jul-10	Actual Aug-10	Actual Sep-10	Actual Oct-10	Actual Nov-10	Actual Dec-10
6 Authorized Purchased Power Adjustor: Per Decision No 68813 Dated 6/29/09	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)	(0.01900)
7 Total Rate Collected From Customer	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622	0.05622
8 Incremental Difference between authorized and actual recovery:	(0.015803)	(0.015762)	(0.021029)	(0.020969)	(0.019092)	(0.025422)	(0.018441)	(0.017492)	(0.016089)	(0.011955)	(0.014134)	(0.005714)
9 Net change to Bank balance:	(35,328)	(37,412)	(47,816)	(37,048)	(36,638)	(57,612)	(55,352)	(49,394)	(48,818)	(31,714)	(32,684)	(12,160)
10 Ending Bank Balance:	(14,954)	(52,366)	(100,182)	(137,230)	(173,868)	(231,480)	(286,832)	(336,226)	(385,044)	(416,758)	(449,442)	(461,602)

	Actual Jan-10	Actual Feb-10	Actual Mar-10	Actual Apr-10	Actual May-10	Actual Jun-10	Actual Jul-10	Actual Aug-10	Actual Sep-10	Actual Oct-10	Actual Nov-10	Actual Dec-10
1 Ending Bank Balance from Previous Month	(461,602)	(473,375)	(457,111)	(457,545)	(464,150)	(478,353)	(482,100)	(483,971)	(491,735)	(504,337)	(524,893)	(526,132)
2A Jurisdictional Sales	2,796,782	2,295,693	2,132,995	2,348,759	2,201,705	2,132,695	2,970,744	3,132,714	3,396,870	2,873,669	2,062,149	2,114,186
2B Total Sales(Incl Spec Cont)	96,297,915	83,668,817	93,852,633	103,387,355	104,627,239	102,866,027	104,071,540	105,118,571	106,847,287	114,232,056	105,000,000	105,000,000
2C Special Contract Sales (Industrial kWh)	93,501,133	81,373,124	93,852,633	101,038,596	102,425,534	100,733,332	101,100,796	101,985,857	103,450,417	111,358,387	102,000,000	102,000,000
3 Actual Cost of Purchased Power	5,008,500	4,627,254	4,608,903	4,694,601	4,370,177	4,779,481	4,952,787	4,808,307	4,755,793	4,691,125	5,000,000	5,000,000
4 Unit Cost of Purchased Power	0.052010474	0.05304403	0.048016596	0.045407884	0.041769016	0.046463163	0.047590218	0.045741746	0.04451019	0.041066621	0.047619048	0.047619048
5 Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522

	Forecast Jan-11	Forecast Feb-11	Forecast Mar-11	Forecast Apr-11	Forecast May-11	Forecast Jun-11	Forecast Jul-11	Forecast Aug-11	Forecast Sep-11	Forecast Oct-11	Forecast Nov-11	Forecast Dec-11
6 Authorized Purchased Power Adjustor: Per Decision No 71468 Dated 1/26/2010	(0.01900)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)	(0.02700)
7 Total Rate Collected From Customer	0.05622	0.04822	0.04822	0.04822	0.04822	0.04822	0.04822	0.04822	0.04822	0.04822	0.04822	0.04822
8 Incremental Difference between authorized and actual recovery:	(0.004210)	0.007084	(0.000203)	(0.002812)	(0.006451)	(0.001757)	(0.000630)	(0.002478)	(0.003710)	(0.007153)	(0.000601)	(0.000601)
9 Net change to Bank balance:	(11,773)	16,264	(434)	(6,605)	(14,203)	(3,747)	(1,871)	(7,764)	(12,602)	(20,556)	(1,239)	(1,271)
10 Ending Bank Balance:	(473,375)	(457,111)	(457,545)	(484,150)	(478,353)	(482,100)	(483,971)	(491,735)	(504,337)	(524,893)	(526,132)	(527,403)

	Forecast Jan-11	Forecast Feb-11	Forecast Mar-11	Forecast Apr-11	Forecast May-11	Forecast Jun-11	Forecast Jul-11	Forecast Aug-11	Forecast Sep-11	Forecast Oct-11	Forecast Nov-11	Forecast Dec-11
1 Ending Bank Balance from Previous Month	(527,403)	(486,456)	(444,457)	(405,320)	(372,676)	(337,324)	(298,187)	(244,529)	(193,384)	(138,636)	(90,432)	(52,530)
2A Jurisdictional Sales	2,235,000	2,295,000	2,132,000	1,766,000	1,918,000	2,132,000	2,970,000	2,823,000	3,034,000	2,652,000	2,062,000	2,114,000
2B Total Sales(Incl Spec Cont)	122,235,000	122,295,000	122,132,000	121,766,000	121,918,000	122,132,000	122,970,000	122,823,000	123,034,000	122,652,000	122,062,000	122,114,000
2C Special Contract Sales (Industrial kWh)	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000	120,000,000
3 Actual Cost of Purchased Power	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000	5,200,000
4 Unit Cost of Purchased Power	0.042541007	0.042520136	0.042576884	0.04270486	0.042651618	0.042576884	0.042286737	0.042337347	0.04226474	0.042396373	0.042601301	0.04258316
5 Authorized Base Cost of Pur. Pow. Per Decision No 57712 Dated 10/10/85	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522	0.07522

	Forecast Jan-11	Forecast Feb-11	Forecast Mar-11	Forecast Apr-11	Forecast May-11	Forecast Jun-11	Forecast Jul-11	Forecast Aug-11	Forecast Sep-11	Forecast Oct-11	Forecast Nov-11	Forecast Dec-11
6 Proposed Purchased Power and Fuel Adjustor	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)	(0.05100)
7 Total Rate Collected From Customer	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422	0.02422
8 Incremental Difference between authorized and actual recovery:	0.018321	0.018300	0.018357	0.018485	0.018432	0.018357	0.018067	0.018117	0.018045	0.018176	0.018381	0.018363
9 Net change to Bank balance:	40,947.45	41,998.81	39,136.88	32,644.26	35,351.84	39,136.88	53,658.21	51,145.27	54,747.74	48,203.74	37,902.24	38,819.72
10 Ending Bank Balance:	(486,456)	(444,457)	(405,320)	(372,676)	(337,324)	(298,187)	(244,529)	(193,384)	(138,636)	(90,432)	(52,530)	(13,710)