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Transcript Exhibit(s)

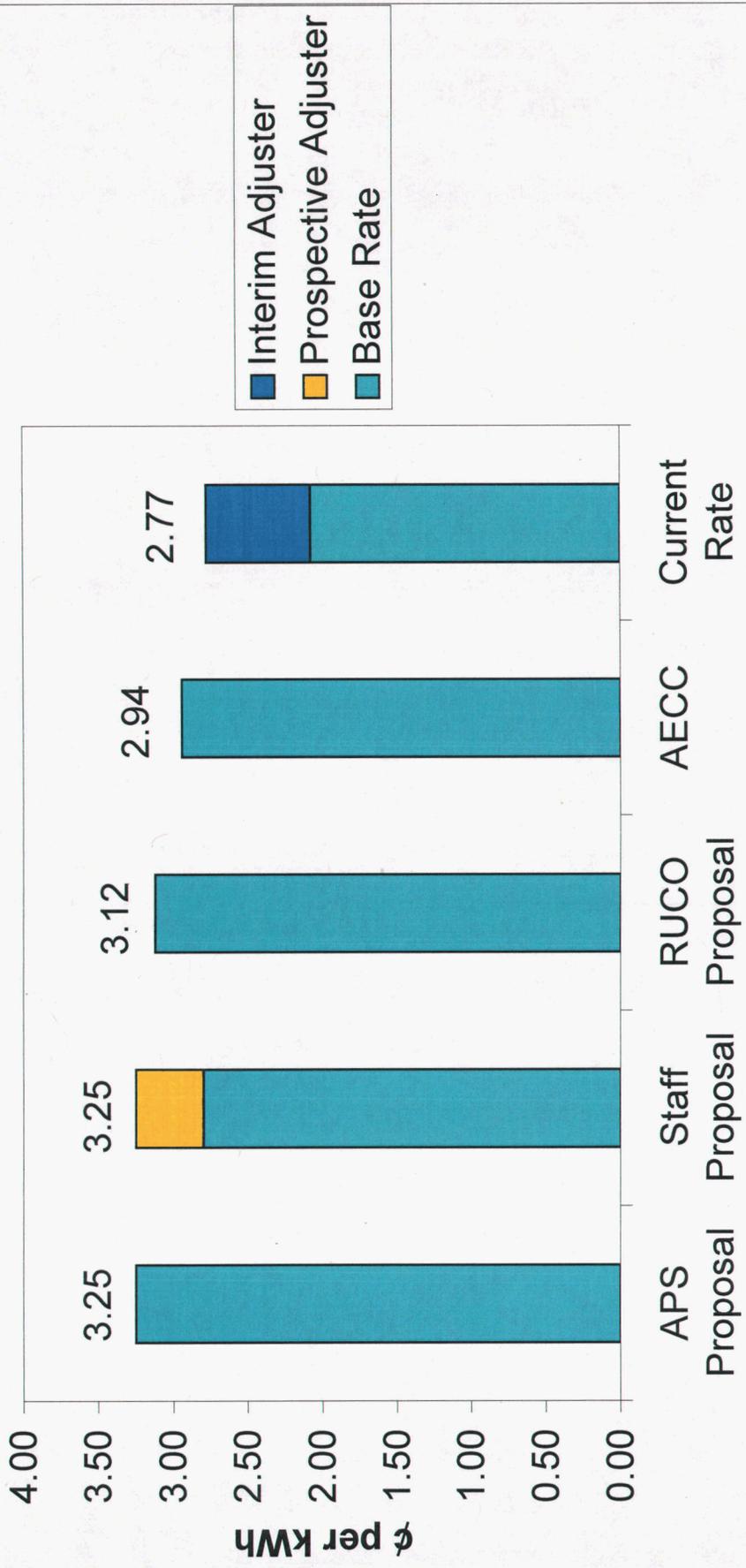
Docket #(s): E-01345A D6-0009

Exhibit #: APS1-APS3, AM-1, Mayer-1

Arizona Corporation Commission
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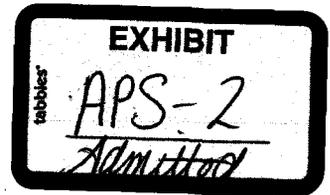
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Base Fuel Rate Proposals Compared to Current Rate with 7 mill Adjuster





PINNACLE WEST
CAPITAL CORPORATION
LAW DEPARTMENT



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2006 DEC -4 P 2:17

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December 4, 2006
CORRECTED

Jeff Hatch-Miller, Chairman
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007-2996

Re: Arizona Public Service Company Interim Emergency Rate Case
Docket Nos. E-01345A-06-0009

Dear Chairman Hatch-Miller:

In response to your letter dated November 30, please find the following responses to your inquiries. APS has not finalized its books for November, so information is provided as of October 31, 2006. Also note that the subject of continuing the interim PSA adjustor has been discussed (and universally supported) by a number of witnesses in Docket No. E-01345A-05-0816, et al. (the APS general rate case), and thus there is already an evidentiary record of which you can take official notice under A.A.C. R14-3-109(T) or incorporate into this docket under A.A.C. R14-3-109(U).

Question No. 1: What is APS' current balance in all PSA accounts for fuel and purchased power costs as of November 30, 2006?

Answer: As noted above, APS does not have final November figures as of this date. The balances as of October 31, 2006 were:

- (1) For the 2006 Annual Adjustor Account (representing the 4 mill adjustor approved 2/1/06): \$27.7 million;
- (2) For the Step 1 Surcharge of the Paragraph 19(d) Account (approved 5/1/06): \$6.7 million;

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- (3) For the Step 2 Surcharge of the Paragraph 19(d) Account (pending approval): \$46.4 million;
- (4) For the 2006 Tracking Account (against which the Interim PSA Adjustor is credited): \$128.8 million.

The total for all four of these balancing accounts is \$209.9 million.

Question No. 2: What is APS' total amount of 2006 fuel and purchased power costs (using an estimate for the month of December)?

Answer: The current estimate is \$845 million using estimates for November and December. This includes the off-system sales credits and is before application of the 90/10 sharing.

Question No. 3: How much does APS estimate will be collected through the 4 mill PSA adjustor scheduled to commence on February 1, 2007?

Answer: APS estimates that the February 1, 2007 Annual PSA Adjustor will be approximately 3.7 mills and would collect approximately \$102 million by January 31, 2008.

Question No. 4: If the Commission decides to continue the interim PSA adjustor of 7 mills until a final Order in the general rate case is issued, what is APS' estimated balance in all the PSA accounts of for fuel and purchased power costs as of May 31, 2007?

Answer:

- (1) For the 2006 Annual Adjustor Account (representing the 4 mill adjustor approved 2/1/06): \$ 0 million (all amounts collected) ;
- (2) For the Step 1 Surcharge of the Paragraph 19(d) Account (approved 5/1/06): \$0 million (all amounts collected);
- (3) For the Step 2 Surcharge of the Paragraph 19(d) Account (pending approval): \$48.1 million;
- (4) For the 2006 Tracking Account (against which the 2007 Annual PSA Adjustor is credited): \$78.6 million;
- (5) For the 2007 Tracking Account (against which the Interim PSA Adjustor would now be credited): \$(13.6 million)

The total of these balances as of May 31, 2007 is estimated as \$113.1 million.

Question No. 5: If the Commission takes no action to continue the interim PSA adjustor of 7 mills until a final Order is the general rate case is issued, what is APS' estimated balance in all PSA accounts for fuel and purchased power costs as of May 31, 2007?

Answer:

- (1) For the 2006 Annual Adjustor Account (representing the 4 mill adjustor approved 2/1/06): \$ 0 million (all amounts collected) ;
- (2) For the Step 1 Surcharge of the Paragraph 19(d) Account (approved 5/1/06): \$0 million (all amounts collected);
- (3) For the Step 2 Surcharge of the Paragraph 19(d) Account (pending approval): \$48.1 million;
- (4) For the 2006 Tracking Account (against which the 2007 Annual PSA Adjustor is credited): \$78.6 million;
- (5) For the 2007 Tracking Account: \$56.8 million.

The total for all PSA accounts would be approximately \$183.6 million.

Question No. 6: If the Commission takes no action to continue the interim PSA adjustor of 7 mills until a final Order in the general rate case is issued, what is the amount of interest charges that will accrue through May 31, 2007?

Answer: The additional interest through May 31, 2007 would be approximately \$1 million, but because the PSA balances will be higher throughout the year, total additional interest for 2007 would be in the \$3 million range.

Question No. 7: If the Commission decides to continue the interim PSA adjustor of 7 mills until a final Order in the general rate case is issued and an over recovery results, does APS have a position on how the over collection could be addressed in the pending general rate case with respect to holding ratepayers harmless?

Answer: The negative balance in the 2007 Tracking Account shown in response to Question No. 4 is a temporary seasonal phenomenon and will quickly reverse in the summer. Even if the base fuel rate (or, in the case of Staff's PSA proposal, the combination of the base fuel rate and the 2007 Prospective PSA Adjustor) is set at \$.032491 per kWh (as proposed by APS and Staff), the 2007 Tracking Account as of year end 2007 would show \$51.2 million in 2007 fuel and purchased power deferrals. Thus, APS

Jeff Hatch-Miller
December 4, 2006
Page 4

does not believe any action in the general rate case to address what is merely an expected seasonal fluctuation in PSA collections versus costs is necessary.

I hope this has been responsive and helpful.

Sincerely,



Thomas L. Mumaw

TLM/na
Enclosure

cc: William A. Mundell, Commissioner
Mike Gleason, Commissioner
Kristin K. Mayes, Commissioner
Barry Wong, Commissioner
Parties of Record



PINNACLE WEST
CAPITAL CORPORATION
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EXHIBIT
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APS-3
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Thomas L. Mumaw
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December 6, 2006

Kristin K. Mayes
Commissioner
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Re: Arizona Public Service Company, Motion to Amend Decision No. 68685;
Docket No. E-01345A-06-0009

Dear Commissioner Mayes:

I am responding to your letter of December 1, 2006, wherein you made certain requests for information concerning APS' 2006 fuel and purchased power costs. For the sake of convenience, I have divided your request into two general categories: unplanned outage costs¹ and off-system sales.

UNPLANNED OUTAGES

APS has estimated that the additional fuel and purchased power PSA deferrals attributable to overall APS power plant performance in 2006 was approximately \$39.5 million. On a stand-alone basis, the additional deferrals for the Palo Verde units were some \$76.3 million. As you can see, superior performance of both the Company's coal and gas units provided a significant offset mitigating the net impact of the Palo Verde outages. Attached as Appendix A is a summary of the Company's calculations of these outage costs.

The 2005 Palo Verde outage costs have always been treated differently than the 2006 outages. Indeed, when the interim PSA adjustor was first being considered by the Commission, it was clearly understood that this interim adjustor would likely recover, subject to later reconciliation or refund, costs associated with unplanned 2006 Palo Verde outages:

¹ Your letter literally requested information on all outages. APS does not calculate replacement power costs for planned outages such as unit refuelings.

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(Chairman Hatch-Miller):

So the fact that the dollars associated with unplanned Palo Verde outages may arguably be included in dollars that you're permitting recovery of in this order, doesn't mean that at the end of that prudence review you couldn't then go back and adjust rates in a way to give customers the credit for dollars that you found to be imprudent.

All of the costs that you're dealing with in this case are costs under the PSA, and those costs are explicitly subject to consideration upon your prudence review. So I think it's important to recognize that that's not a problem for you. [Open Meeting Transcript at 197]

(Commissioner Spitzer):

The distinction is between the timing of the recovery, which is this proceeding, as opposed to the fact of recovery, which is for other forums and other proceedings to be determined. [Open Meeting Transcript at 197]

(Commissioner Mayes):

This also subjects the \$40 million that would be recovered to a prudence review like the one that we have going on on the 2005 Palo Verde outage costs. And it means that it can be rebated back to customers at a later time if we decide that APS was imprudent in the way that it managed Palo Verde. [Open Meeting Transcript at 243]

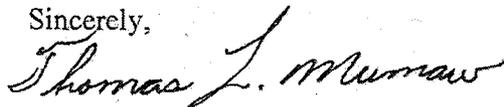
These costs are presumptively prudent, and there is simply no basis for treating them any differently, for PSA purposes, than the remaining roughly \$800 million of also presumptively prudent 2006 fuel and purchase power costs.

OFF-SYSTEM SALES

APS' off-system sales for 2006 (actual through October and estimated to years end) are \$91.7 million with associated margins of \$16.8 million. This compares to an average annual off-system sales margin of \$17.4 million for the prior four years. Off-system sales margins for 2001 were considerably higher than any of these years because of the extremely high market prices being paid during the California "meltdown" of 2001. Attached as Appendix B is a chart showing the requested comparison of off-system margins for the years 2001-2006.

I hope this letter has been responsive to your request.

Sincerely,



Thomas L. Mumaw

Attachments

Kristin K. Mayes
December 6, 2006
Page 3

cc: Jeff Hatch-Miller, Chairman
William A. Mundell, Commissioner
Mike Gleason, Commissioner
Barry Wong, Commissioner
Parties of Record

Appendix A

ARIZONA PUBLIC SERVICE COMPANY

SUMMARY OF UNPLANNED OUTAGE COST

FOR THE MONTHS OF:
JANUARY - OCTOBER 2006

Line No.	Resource Type			
	<u>Nuclear</u>	<u>Coal</u>	<u>Gas Combined Cycle</u>	<u>Total</u>
<u>Actual Net Replacement Cost [\$000]</u>				
1 Gross Replacement Cost	126,125	31,321	29,623	187,069
2 Less Avoided Cost	10,511	8,859	19,325	38,695
3 Actual Net Replacement Cost	115,615	22,462	10,297	148,374
<u>Normalized Net Replacement Cost [\$000] *</u>				
4 Gross Replacement Cost	26,476	61,942	54,580	142,997
5 Less Avoided Cost	948	10,514	29,896	41,358
6 Normalized Net Replacement Cost	25,528	51,427	24,684	101,639
7 Actual Greater/(Less) than Normalized Net Replacement Cost (Ln. 3 - Ln. 6)	90,087	(28,965)	(14,386)	46,735
8 Retail Jurisdiction Share of Net Replacement Cost	84,783	(27,304)	(13,553)	43,926
9 Amount Deferred (90% * Ln. 8)	76,305	(24,574)	(12,198)	39,533

*Normalized replacement energy represents the planned effective forced outage rate (EFOR) used in the Company's 2006 budget and actual 2006 market prices.

Appendix B

Arizona Public Service Off-System Sales 2001 - 2006

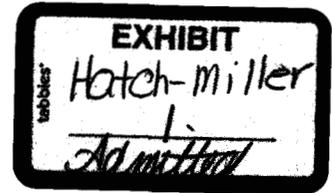
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>Total</u>
						<u>Oct YTD</u>	<u>Nov-Dec</u>	
<u>Gross Revenues (\$000)</u>								
Off-System Sales	437,013	111,467	222,407	120,770	110,657	87,283	4,463	91,746
<u>Margin (\$000)</u>								
Off-System Sales	114,962	23,244	14,813	15,037	16,684	14,758	2,015	16,773

COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG



BRIAN C. McNEIL
Executive Director

ARIZONA CORPORATION COMMISSION



November 30, 2006

Mr. Thomas L. Mumaw
Senior Attorney
Pinnacle West Capital
P.O. Box 53999, Mail Station 8695
Phoenix, Arizona 85072-3999

**Re: Arizona Public Service Company – Motion to Amend Decision No. 68685
Docket No. E-01345A-06-0009**

Dear Mr. Mumaw:

As you stated in your Motion to Amend Decision No. 68685 (Emergency Interim Rate Increase), the interim PSA adjustor of 7 mills, save any Commission action, is scheduled to expire on January 1, 2007. Prior to the Commission convening the ARS § 40-252 proceeding on December 8th to consider your Motion, I would like you to respond in writing to a number of questions aimed at building an evidentiary record that will aid us in our deliberations.

- What is APS' current balance in all PSA accounts for fuel and purchased power costs as of November 30, 2006?
- What is APS' total amount for 2006 fuel and purchased power costs (using an estimate for the month of December)?
- How much does APS estimate will be collected through the 4 mill PSA adjustor scheduled to commence on February 1, 2007?
- If the Commission decides to continue the interim PSA adjustor of 7 mills until a final Order in the general case rate is issued, what is APS' estimated balance in all PSA accounts for fuel and purchased power costs as of May 31, 2007?
- If the Commission takes no action to continue the interim PSA adjustor of 7 mills until a final Order in the general rate case is issued, what is APS' estimated balance in all PSA accounts for fuel and purchased power costs as of May 31, 2007?
- If the Commission takes no action to continue the interim PSA adjustor of 7 mills until a final Order in the general rate case is issued, what is the amount in interest charges that will accrue as of May 31, 2007?

Page 2

Arizona Public Service Company – Motion to Amend Decision No. 68685

Docket No. E-01345A-06-0009

- If the Commission decides to continue the interim PSA adjustor of 7 mills until a final Order in the general rate case is issued and an over-recovery results, does APS have a position on how the over collection could be addressed in the pending general rate case with respect to holding ratepayers harmless?

I look forward to your expeditious response to my questions.

Sincerely,



Jeff Hatch-Miller
Chairman

Cc: Parties to the Docket
Brian C. McNeil
Lyn Farmer
Chris Kempley
Ernest Johnson

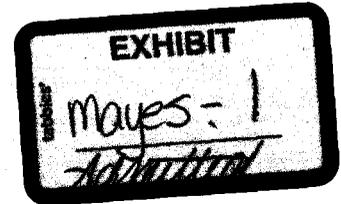
COMMISSIONERS
JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG



ARIZONA CORPORATION COMMISSION

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December 1, 2006



Mr. Thomas L. Mumaw
Senior Attorney
Pinnacle West Capital Corporation
P.O. Box 53999, Mail Station 8695
Phoenix, AZ 85072-3999

Re: Arizona Public Service Company, Motion to Amend Decision No. 68685; Docket No. E-01345A-06-0009

Dear Mr. Mumaw:

In addition to the questions posed to Arizona Public Service Company by Chairman Hatch-Miller in his November 30, 2006 letter, I have several questions that I would like you to respond to in writing prior to the December 8, 2006 proceeding in this matter.

First, what is the total cost of all 2006 outages at the Palo Verde Nuclear Generating Station ("PVNGS")? Please provide an account of all planned and unplanned outages during this timeframe. As you know, costs associated with the 2005 PVNGS outages were withheld from the surcharge and adjustor mechanisms and will be the subject of the hearing the week of December 11, 2006. I would like APS to state why it believes outage costs from 2006 should be treated any differently than the 2005 outages. Specifically, please tell the Commission why we shouldn't keep these costs from being passed on to consumers until the 2006 prudence review is complete.

Second, I would like APS to provide the Commission an update on its off-system sales through November 30, 2006, and how this compares to APS' off-system sales the previous five years.

I would appreciate your timely response to my questions.

Sincerely,

Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller

Mr. Thomas L. Mumaw
December 1, 2006
Page 2

Commissioner William A. Mundell
Commissioner Mike Gleason
Commissioner Barry Wong
Brian McNeil
Lyn Farmer
Chris Kempley
Ernest Johnson
Docket