

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKETED

MAR 8 2011

TO: THE COMMISSION

2011 MAR -8 P 3:00

FROM: Utilities Division

PPFAC COMMISSION  
DOCKET CONTROL

DOCKETED BY [Signature]

DATE: March 8, 2011

RE: TUCSON ELECTRIC POWER COMPANY - APPLICATION TO RESET THE PPFAC RATE FOR APRIL 2011 THROUGH MARCH 2012 (DOCKET NOS. E-01933A-07-0402 AND E-01933A-05-0650)

On October 29, 2010, Tucson Electric Power Company ("TEP") filed its Preliminary Calculation of the PPFAC Rate for the Purchased Power and Fuel Adjustment Clause ("PPFAC") year that runs from April 1, 2011, through March 31, 2012, pursuant to Decision No. 70628. On February 1, 2011, TEP filed its updated calculations.

Commission Decision No. 70628 (December 1, 2008) approved the creation of the PPFAC through which TEP is to recover its purchased power and fuel expenses. The PPFAC consists of a Forward Component and a True-up Component. The Forward Component consists of the forecasted fuel and purchased power costs for the year commencing on April 1 and ending on March 31 of the ensuing year, less the average Base Cost of Fuel and Purchased Power reflected in base rates (\$0.028896 per kWh). The True-up Component reconciles any over-recovered or under-recovered amounts from the preceding PPFAC year to be credited to, or recovered from, customers in the next PPFAC year. Low-income customers are not subject to the PPFAC.

Decision No. 70628 provides for TEP to file the PPFAC rate for the upcoming year by October 31 of each year and an update to the filing by February 1 of the next year. The new rate goes into effect on April 1, but only after Commission approval.

The PPFAC rate charged to TEP customers is currently set at zero, and TEP proposes that the rate remain at zero for 12 months starting April 1, 2011. 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 Competition 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 \$0.93 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.

THE COMMISSION

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Decision No. 69568, dated May 21, 2007, allowed the Fixed CTC to continue pending the outcome of an on-going rate case instead of terminating when anticipated by Decision No. 62103. The rate case Decision No. 70628 ordered the incremental revenues generated by charging the CTC beyond the date of termination ("CTC True-up Revenues") to be credited against the PPFAC in a manner that keeps the PPFAC rate at zero until the CTC True-up Revenues are fully credited. The total amount of CTC True-up Revenues was \$58,779,329.02, with interest to be applied each month on the balance.

On December 31, 2010, the balance of CTC True-up Revenues was \$36.4 million. TEP forecasts that the CTC True-up Revenues will be fully credited by November 2011.

TEP's February 1, 2011, filing requests a PPFAC Forward Component rate of \$0.001014 per kWh and a PPFAC True-up Component rate of \$0.004337 per kWh, resulting in a PPFAC rate of \$0.005351 per kWh. This rate would be offset by Fixed CTC True-up Revenue of \$0.005351 per kWh, resulting in a zero PPFAC rate on customer bills for the April 1, 2011 through March 31, 2012, PPFAC year.

Although it may seem unusual for the Commission to take action on a request to maintain the PPFAC rate at zero, it is important for the Commission to determine that the amounts of the Forward Component and True-up Component rates are appropriate. The amount of Fixed CTC True-up Revenue that is used to offset the PPFAC rate will affect the balance of the Fixed CTC True-up Revenue available to be used in future PPFAC rate resets.

Staff has reviewed the filing along with TEP's assumptions used in developing its forecast of fuel and purchased power expenses and finds the forecast to be reasonable.

Staff recommends that Tucson Electric Power Company's PPFAC Forward Component rate be set at \$0.001014 per kWh and the PPFAC True-up Component rate be set at \$0.004337 per kWh, resulting in a PPFAC rate of \$0.005351 per kWh. Staff also recommends that the PPFAC rate be offset by Fixed CTC True-up Revenue of \$0.005351 per kWh, resulting in a zero PPFAC rate on customer bills for the period of April 1, 2011 through March 31, 2012.



Steven M. Olea  
Director  
Utilities Division

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ORIGINATOR: Barbara Keene

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

GARY PIERCE  
Chairman

BOB STUMP  
Commissioner

SANDRA D. KENNEDY  
Commissioner

PAUL NEWMAN  
Commissioner

BRENDA BURNS  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF TUCSON ELECTRIC POWER )  
COMPANY TO RESET THE PPFAC RATE )  
FOR APRIL 2011 THROUGH MARCH 2012 )

DOCKET NOS. E-01933A-05-0650  
E-01933A-07-0402

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
March 29 and 30, 2011  
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 29, 2010, TEP filed its Preliminary Calculation of the PPFAC Rate for the Purchased Power and Fuel Adjustment Clause ("PPFAC") year that runs from April 1, 2011, through March 31, 2012, pursuant to Decision No. 70628. On February 1, 2011, TEP filed its updated calculations.

3. Commission Decision No. 70628 (December 1, 2008) approved the creation of the PPFAC through which TEP is to recover its purchased power and fuel expenses. The PPFAC consists of a Forward Component and a True-up Component. The Forward Component consists of the forecasted fuel and purchased power costs for the year commencing on April 1 and ending on March 31 of the ensuing year, less the average Base Cost of Fuel and Purchased Power reflected in base rates (\$0.028896 per kWh). The True-up Component reconciles any over-recovered or

1 under-recovered amounts from the preceding PPFAC year to be credited to, or recovered from,  
2 customers in the next PPFAC year. Low-income customers are not subject to the PPFAC.

3 4. Decision No. 70628 provides for TEP to file the PPFAC rate for the upcoming year  
4 by October 31 of each year and an update to the filing by February 1 of the next year. The new  
5 rate goes into effect on April 1, but only after Commission approval.

6 5. The PPFAC rate charged to TEP customers is currently set at zero, and TEP  
7 proposes that the rate remain at zero for 12 months starting April 1, 2011. The rate is zero because  
8 the PPFAC rate is offset by a refund (bill credit) of some of the funds collected under a Fixed  
9 Competitive Transition Charge implemented several years ago.

10 6. Decision No. 62103, dated November 30, 1999, approved a settlement agreement  
11 which established the Fixed Competition Transition Charge ("Fixed CTC") The purpose of the  
12 charge was to recover TEP's stranded costs related to electric competition. The CTC was set at  
13 \$0.93 per kWh, intended to recover \$450 million and slated to terminate on December 31, 2008, or  
14 when the stranded costs were fully recovered, whichever date was sooner.

15 7. Decision No. 69568, dated May 21, 2007, allowed the Fixed CTC to continue  
16 pending the outcome of an on-going rate case instead of terminating when anticipated by Decision  
17 No. 62103. The rate case Decision No. 70628 ordered the incremental revenues generated by  
18 charging the CTC beyond the date of termination ("CTC True-up Revenues") to be credited  
19 against the PPFAC in a manner that keeps the PPFAC rate at zero until the CTC True-up Revenues  
20 are fully credited. The total amount of CTC True-up Revenues was \$58,779,329.02, with interest  
21 to be applied each month on the balance.

22 8. On December 31, 2010, the balance of CTC True-up Revenues was \$36.4 million.  
23 TEP forecasts that the CTC True-up Revenues will be fully credited by November 2011.

24 9. TEP's February 1, 2011, filing requests a PPFAC Forward Component rate of  
25 \$0.001014 per kWh and a PPFAC True-up Component rate of \$0.004337 per kWh, resulting in a  
26 PPFAC rate of \$0.005351 per kWh. This rate would be offset by Fixed CTC True-up Revenue of  
27 \$0.005351 per kWh, resulting in a zero PPFAC rate on customer bills for the April 1, 2011 through  
28 March 31, 2012, PPFAC year.



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ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's PPFAC rate be set at \$0.005351 per kWh and be offset by \$0.005351 per kWh of Fixed CTC True-up Revenue, resulting in a zero PPFAC rate on customer bills for the April 1, 2011 through March 31, 2012 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 \_\_\_\_\_, 2011.

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

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

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

SMO:BEK:lh\RM

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