

ORIGINAL

OPEN MEETING



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MEMORANDUM RECEIVED

Arizona Corporation Commission DOCKETED

JUN 6 2011

TO: THE COMMISSION 2011 JUN -6 A 10:42

FROM: Utilities Division AZ CORP COMMISSION DOCKET CONTROL

DATE: June 6, 2011

DOCKETED BY [Signature]

RE: ARIZONA PUBLIC SERVICE COMPANY – APPLICATION FOR APPROVAL OF TRANSMISSION COST ADJUSTOR CHARGES. (DOCKET NO. E-01345A-11-0175)

On April 22, 2011, Arizona Public Service Company (“APS” or the “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 rates established a procedure for the Commission to review each of APS’ annual recalculations of the OATT rates (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. 6 of Adjustment Schedule TCA-1. Revision No. 6 of Adjustment Schedule TCA-1 reflects new OATT rates that were originally filed by APS with FERC in April 2011, amended in May 2011, and which will be effective for transmission customers on June 1, 2011.

THE COMMISSION

June 6, 2011

Page 2

Staff has begun, but not completed, the process of review of the new OATT rates that will become effective June 1, 2011, 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, 2012 pursuant to the protocols.

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

Table I

| | Current | Proposed | Difference | Difference (%) |
|---|----------------|----------------|----------------|----------------|
| Residential | \$0.002144/kWh | \$0.004211/kWh | \$0.002067/kWh | 96% |
| General Service 20 kW or less | \$0.001602/kWh | \$0.002464/kWh | \$0.000862/kWh | 54% |
| General Service over 20 kW and under 3,000 kW | \$0.740/kW | \$0.837/kW | \$0.097/kW | 13% |
| General Service 3,000 kW and over | \$0.259/kW | \$0.615/kW | \$0.356/kW | 137% |

These rates result from an approximately \$38.1 million annual increase in revenue requirement.

The transmission charge increase that results from implementation of the proposed TCA is \$0.002067/kWh for residential customers. In Attachment E of the application, APS indicates that it calculates the typical bill impact from this increase to be \$2.27 per month for residential customers (typical use is approximately 1,100 kWh per month).

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, June through September.

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 coincident peak demand. Each class's percentage share of the transmission revenue requirement is determined by dividing the class's coincident peak megawatt count by total coincident peak megawatts so that apportionment of the revenue requirement is equitable and calculated based solely on demand.

The distribution of revenue requirement is determined simply by the class's percentage contribution to demand without regard to which class it is.

The percentage demand of each of the classes for both the 2010 OATT and 2011 OATT are as follows in Table II:

Table II

| | 2010 | | 2011 | |
|---------------------------|---------|------------------------|---------|------------------------|
| | MW | % of coincident demand | MW | % of coincident demand |
| Residential | 3,100.8 | 54.50% | 3,221.8 | 57.34% |
| General Service < 3 MW | 2,204.0 | 38.74% | 2,026.3 | 36.07% |
| General Service > 3 MW | 384.4 | 6.76% | 370.1 | 6.59% |
| Total | 5,689.2 | | 5,618.3 | |

Note that in this calculation the General Service 20 kW or less and General Service over 20 kW and under 3,000 kW are combined and shown in the table as the < 3 MW class. The formula calculation subsequently apportions the transmission revenue requirement between these two rate classes. This is because demand (kW) is not measured for the General Service 20 kW or less class while demand is measured for the General Service over 20 kW and under 3,000 kW.

The percentages for the 2011 OATT in Table II 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.

The residential class experienced the combined effect of both increasing its proportional share of the transmission revenue requirement, as shown in Table I, and decreasing the number of kWh in 2010 that the revenue requirement is divided into. As the kW and kWh count decreases, this causes the revenue requirement to be spread among fewer kW or kWhs, resulting in a higher transmission rate than would have occurred had the kW and kWh count remained the same.

By comparison, the General Service 3,000 kW and over class reduced its proportional share of the revenue requirement while increasing the number of kW that the revenue

requirement is divided into, which results in a lower transmission rate than would have occurred had the kW count remained the same. These conditions still resulted in a rate increase due to the changes being small and the amount of the overall increase in revenue requirement.

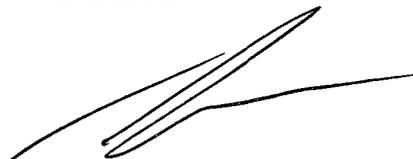
APS has communicated to Staff that it has provided notice of this application to ratepayers by means of a bill insert.

Recommendations

In order for the TCA rates to reflect transmission cost as contained in the OATT rates and updated in June of 2011, Staff recommends approval of Revision No. 6 of Adjustment Schedule TCA- 1.

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.

In addition, Staff recommends that APS file in Docket Control Adjustment Schedule TCA-1 consistent with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:LAF:lh\MAS

ORIGINATOR: Laura A. Furrey

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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 ARIZONA PUBLIC SERVICE)
COMPANY FOR APPROVAL OF)
TRANSMISSION COST ADJUSTOR)
CHARGES)

DOCKET NO. E-01345A-11-0175

DECISION NO. _____

ORDER

Open Meeting
June 21 and 22, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "the Company") is certificated to provide electric service as a public service corporation in the State of Arizona.
2. On April 22, 2011, 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.
3. 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 4. 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 5. 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 6. The instant filing seeks to implement Revision No. 6 of Adjustment Schedule TCA-
15 1. Revision No. 6 of Adjustment Schedule TCA-1 reflects new OATT rates that were originally
16 filed by APS with FERC in April 2011, amended in May 2011, and which will be effective for
17 transmission customers on June 1, 2011.

18 7. Staff has begun, but not completed, the process of review of the new OATT rates
19 that will become effective June 1, 2011, pursuant to protocols that govern the operation of the
20 formula OATT rates. Any adjustments that result from review of the new OATT rates would take
21 the form of an adjustment to the next formula OATT rate that would take effect June 1, 2012
22 pursuant to the protocols.

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

25 ...
26 ...
27 ...
28 ...

Table I

| | Current | Proposed | Difference | Difference (%) |
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| General Service 3,000 kW and over | \$0.259/kW | \$0.615/kW | \$0.356/kW | 137% |

9. These rates result from an approximately \$38.1 million annual increase in revenue requirement.

10. The transmission charge increase that results from implementation of the proposed TCA is \$0.002067/kWh for residential customers. In Attachment E of the application, APS indicates that it calculates the typical bill impact from this increase to be \$2.27 per month for residential customers (typical use is approximately 1,100 kWh per month).

11. 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, June through September.

12. 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 coincident peak demand. Each class's percentage share of the transmission revenue requirement is determined by dividing the class's coincident peak megawatt count by total coincident peak megawatts so that apportionment of the revenue requirement is equitable and calculated based solely on demand. The distribution of revenue requirement is determined simply by the class's percentage contribution to demand without regard to which class it is.

13. The percentage demand of each of the classes for both the 2010 OATT and 2011 OATT are as follows in Table II:

...

Table II

| | 2010 | | 2011 | |
|------------------------|---------|------------------------|---------|------------------------|
| | MW | % of coincident demand | MW | % of coincident demand |
| Residential | 3,100.8 | 54.50% | 3,221.8 | 57.34% |
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| General Service > 3 MW | 384.4 | 6.76% | 370.1 | 6.59% |
| Total | 5,689.2 | | 5,618.3 | |

14. Note that in this calculation the General Service 20 kW or less and General Service over 20 kW and under 3,000 kW are combined and shown in the table as the < 3 MW class. The formula calculation subsequently apportions the transmission revenue requirement between these two rate classes. This is because demand (kW) is not measured for the General Service 20 kW or less class while demand is measured for the General Service over 20 kW and under 3,000 kW.

15. The percentages for the 2011 OATT in Table II 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.

16. The residential class experienced the combined effect of both increasing its proportional share of the transmission revenue requirement, as shown in Table I, and decreasing the number of kWhs in 2010 that the revenue requirement is divided into. As the kW and kWh count decreases, this causes the revenue requirement to be spread among fewer kW or kWhs, resulting in a higher transmission rate than would have occurred had the kW and kWh count remained the same.

17. By comparison, the General Service 3,000 kW and over class reduced its proportional share of the revenue requirement while increasing the number of kW in 2010 that the

1 revenue requirement is divided into, which results in a lower transmission rate than would have
2 occurred had the kW count remained the same. These conditions still resulted in a rate increase
3 due to the changes being small and the amount of the overall increase in revenue requirement.

4 18. APS has communicated to Staff that it has provided notice of this application to
5 ratepayers by means of a bill insert.

6 **Recommendations**

7 19. In order for the TCA rates to reflect transmission cost as contained in the OATT
8 rates and updated in June of 2011, Staff has recommended approval of Revision No. 6 of
9 Adjustment Schedule TCA- 1.

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

13 21. In addition, Staff has recommended that APS file in Docket Control Adjustment
14 Schedule TCA-1 consistent with the Decision in this case within 15 days of the effective date of
15 the Decision.

16 **CONCLUSIONS OF LAW**

17 1. Arizona Public Service Company is an Arizona public service corporation within
18 the meaning of Article XV, Section 2, of the Arizona Constitution.

19 2. The Commission has jurisdiction over APS and over the subject matter of the
20 Application.

21 3. Approval of the proposed tariff does not constitute a rate increase as contemplated
22 by Arizona Revised Statutes § 40-250.

23 4. The Commission, having reviewed the application and Staff's Memorandum dated
24 June 6, 2011, concludes that it is in the public interest to approve Revision No. 6 of Adjustment
25 Schedule TCA- 1, as discussed herein.

26 **ORDER**

27 IT IS THEREFORE ORDERED that Adjustment Schedule TCA-1 be and hereby is
28 approved as discussed herein.

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

4 IT IS FURTHER ORDERED that Arizona Public Service Company shall file with Docket
5 Control, as a compliance item in this matter, Schedule TCA-1 consistent with the terms of this
6 Decision within 15 days of the effective date of this Decision.

7 IT IS FURTHER ORDERED that this Decision become effective immediately.

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
11 _____
CHAIRMAN

COMMISSIONER

12
13
14 _____
COMMISSIONER

COMMISSIONER

COMMISSIONER

15
16 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
17 Executive Director of the Arizona Corporation Commission,
18 have hereunto, set my hand and caused the official seal of
19 this Commission to be affixed at the Capitol, in the City of
20 Phoenix, this _____ day of _____, 2011.

21 _____
ERNEST G. JOHNSON
22 EXECUTIVE DIRECTOR

23 DISSENT: _____

24
25 DISSENT: _____

26 SMO:LAF:lh\MAS

1 SERVICE LIST FOR: Arizona Public Service Company
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