

OPEN MEETING



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ORIGINAL

MEMORANDUM

Arizona Corporation Commission

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TO: THE COMMISSION

SEP 30 2011

2011 SEP 30 P 3:16

FROM: Utilities Division

DOCKETED BY

Ross

AZ CORP COMMISSION
DOCKET CONTROL

DATE: September 30, 2011

RE: ARIZONA PUBLIC SERVICE COMPANY – APPLICATION FOR APPROVAL OF REDUCED SYSTEM BENEFITS CHARGES (DOCKET NO. E-01345A-11-0247)

On June 17, 2011, Arizona Public Service Company (“APS” or the “Company”) filed an application with the Arizona Corporation Commission (“Commission”) seeking a reduction to its currently authorized System Benefits Charge (“SBC”), with proposed charges becoming effective January 1, 2012.

Background

In Decision No. 71448 (December 30, 2009), the Commission approved a Settlement Agreement that, among other things, authorized APS to adjust depreciation rates used for recording depreciation expense on Palo Verde Nuclear Generating Station’s units upon the later date of (1) receiving approval of APS’ then-pending license extension request from the Nuclear Regulatory Commission (“NRC”) for Palo Verde or (2) January 1, 2012.¹ APS further agreed to request approval of a reduced SBC effective with implementation of the depreciation rate change to reflect a corresponding reduction of the decommissioning trust funding obligations collected through the SBC and related to the Palo Verde license extension.

The SBC was implemented by the Commission in the late 1990’s to move toward retail electric competition. “System benefits” are defined in Arizona Administrative Code (“A.A.C.”) R14-2-1601(41) as including: “Commission-approved utility low income, demand side management, Consumer Education, environmental, renewable, long-term public benefit research and development, and nuclear fuel disposal and nuclear plant decommissioning programs, and other programs that may be approved by the Commission from time to time.”² The SBC applies to all customers, even those that would have chosen another electric supplier in a competitive market, so that these programs would continue to receive adequate funding.

¹ See Decision No. 71448 at 10. See also Settlement Agreement at §11.1.

² APS is proposing changes to the SBC in its pending rate case for reasons unrelated to Palo Verde life extension. Those proposed changes to the SBC reflect revisions to Four Corner/Navajo Coal Reclamation (\$6.2M increase); Pre Shut-Down ISFSI/Casks (\$5.6M decrease); E-3/E-4 Discounts (\$3.6M increase); EPS/RES in base rates (\$6M decrease). See Docket No. E-01345A-11-0224, filed June 1, 2011.

Proposed System Benefits Charge Reduction

On April 21, 2011, APS received notice that the NRC had issued renewed facility operating licenses for Palo Verde Units 1 – 3. Because January 1, 2012 is the later date of April 21, 2011 and January 1, 2012, if approved by the Commission, the proposed change in the SBC would take effect January 1, 2012, according to the Settlement Agreement approved in Decision No. 71448.

Extending the life of Palo Verde allows its capital recovery (depreciation) and decommissioning and spent fuel storage costs to be spread over more years, reducing the annual expense. The Company has proposed new earnings assumptions associated with the annual amounts deposited into the decommissioning fund and decommissioning study cost estimates in the context of its pending rate case (Docket No. E-01345A-11-0224). These proposed adjustments are reflected in the proposed SBC.

Staff believes that the proposed earnings assumptions and decommissioning study cost estimates are reasonable for the sole purpose of establishing the SBC at this time. However, should the Commission decide differently and approve alternate earnings assumptions or refute the decommissioning study cost estimates in the context of APS' current rate case, the SBC should then be revised accordingly.

Impact of Proposed System Benefits Charge

The impact on Company retail revenues from the new SBC is an overall reduction of \$7.008 million per year.³ For a typical APS residential customer, the SBC would be reduced by approximately \$0.28 per month, or less than 1 percent on a total bill basis. The actual change in the SBC based on the reduced revenue requirement results in a \$0.00025/kWh reduction, or a new proposed SBC of \$0.00185/kWh as detailed in Table 1.

Table 1. Proposed Changes to SBC

	Current SBC (authorized in Decision No. 71448)	Proposed SBC
All Customers Excluding Low Income Customers	\$0.00210/kWh	\$0.00185/kWh
Low Income Customers	\$0.00185/kWh	\$0.00160/kWh

Proposed Power Supply Adjustment

A portion of the Company's expense for the storage of spent nuclear fuel is recovered through the Power Supply Adjustment ("PSA") charge. Accordingly, there is a reduction in the PSA associated with the extended life of Palo Verde. The PSA provides for the tracking of

³ The total adjustment to Palo Verde depreciation and fuel storage expense is \$7.183 million per year, with \$7.008 million attributable to retail customers.

changes in purchased power and fuel costs. The adjustor "rate" is reset annually, taking effect on February 1 of each year unless otherwise ordered by the Commission. Through the PSA, ratepayers pay for the actual costs of purchased power and fuel.

The annual spent fuel storage expense related to the extended life of Palo Verde recoverable through the PSA would decrease by \$3.2 million, or approximately \$0.00019/kWh. Staff is not making a recommendation regarding the actual amount of the reduction in the PSA. Staff will evaluate the proposed PSA when APS files the relevant documentation later this year.

Recommendations

Staff recommends that the Commission approve the proposed SBC.

Staff recommends that APS provide notice to customers of the reduced SBC in a bill insert/message in a form acceptable to Staff at the time the new SBC first appears in the bill.

Staff recommends that APS reflect the proposed reduction to the SBC as a "temporary adjustment" on customers' bills beginning January 1, 2012.

Staff further recommends that complete changes to the SBC, including changes to the SBC approved in APS' pending rate case, be reflected in rate schedules, consistent with the Decision in the pending rate case.

Staff recommends that APS file a tariff page, within 15 days of the effective date of the Decision in this case, that shows the amount of the reduction in the SBC.



Steven M. Olea
Director
Utilities Division

SMO:LAF:lhmm\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)
 REDUCED SYSTEM BENEFITS CHARGES)

DOCKET NO. E-01345A-11-0247
 DECISION NO. _____
ORDER

Open Meeting
 November 8 and 9, 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 June 17 2011, APS filed an application with the Arizona Corporation Commission (“Commission”) seeking a reduction to its currently authorized System Benefits Charge (“SBC”), with proposed charges becoming effective January 1, 2012.

Background

3. In Decision No. 71448 (December 30, 2009), the Commission approved a Settlement Agreement that, among other things, authorized APS to adjust depreciation rates used for recording depreciation expense on Palo Verde Nuclear Generating Station’s units upon the later date of (1) receiving approval of APS’ then-pending license extension request from the Nuclear Regulatory Commission (“NRC”) for Palo Verde or (2) January 1, 2012.¹ APS further

¹ See Decision No. 71448 at 10. See also Settlement Agreement at §11.1.

1 agreed to request approval of a reduced SBC effective with implementation of the depreciation rate
2 change to reflect a corresponding reduction of the decommissioning trust funding obligations
3 collected through the SBC and related to the Palo Verde license extension.

4 The SBC was implemented by the Commission in the late 1990's to move toward retail electric
5 competition. "System benefits" are defined in Arizona Administrative Code ("A.A.C.") R14-2-
6 1601(41) as including: "Commission-approved utility low income, demand side management,
7 Consumer Education, environmental, renewable, long-term public benefit research and
8 development, and nuclear fuel disposal and nuclear plant decommissioning programs, and other
9 programs that may be approved by the Commission from time to time."² The SBC applies to all
10 customers, even those that would have chosen another electric supplier in a competitive market, so
11 that these programs would continue to receive adequate funding.

12 **Proposed System Benefits Charge Reduction**

13 4. On April 21, 2011, APS received notice that the NRC had issued renewed facility
14 operating licenses for Palo Verde Units 1 – 3. Because January 1, 2012 is the later date of
15 April 21, 2011 and January 1, 2012, if approved by the Commission, the proposed change in the
16 SBC would take effect January 1, 2012, according to the Settlement Agreement approved in
17 Decision No. 71448.

18 5. Extending the life of Palo Verde allows its capital recovery (depreciation) and
19 decommissioning and spent fuel storage costs to be spread over more years, reducing the annual
20 expense. The Company has proposed new earnings assumptions associated with the annual
21 amounts deposited into the decommissioning fund and decommissioning study cost estimates in
22 the context of its pending rate case (Docket No. E-01345A-11-0224). These proposed adjustments
23 are reflected in the proposed SBC.

24 6. Staff believes that the proposed earnings assumptions and decommissioning study
25 cost estimates are reasonable for the sole purpose of establishing the SBC at this time. However,

26 _____
27 ² APS is proposing changes to the SBC in its pending rate case for reasons unrelated to Palo Verde life extension.
28 Those proposed changes to the SBC reflect revisions to Four Corner/Navajo Coal Reclamation (\$6.2M increase); Pre
Shut-Down ISFSI/Casks (\$5.6M decrease); E-3/E-4 Discounts (\$3.6M increase); EPS/RES in base rates (\$6M
decrease). See Docket No. E-01345A-11-0224, filed June 1, 2011.

1 should the Commission decide differently and approve alternate earnings assumptions or refute the
 2 decommissioning study cost estimates in the context of APS' current rate case, the SBC should be
 3 revised accordingly.

4 **Impact of Proposed System Benefits Charge**

5 7. The impact on Company retail revenues from the new SBC is an overall reduction
 6 of \$7.008 million per year.³ For a typical APS residential customer, the SBC would be reduced by
 7 approximately \$0.28 per month, or less than 1 percent on a total bill basis. The actual change in
 8 the SBC based on the reduced revenue requirement results in a \$0.00025/kWh reduction, or a new
 9 proposed SBC of \$0.00185/kWh as detailed in Table 1.

10 **Table 1. Proposed Changes to SBC**

	Current SBC (authorized in Decision No. 71448)	Proposed SBC
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Low Income Customers	\$0.00185/kWh	\$0.00160/kWh

14
 15 **Proposed Power Supply Adjustment**

16 8. A portion of the Company's expense for the storage of spent nuclear fuel is
 17 recovered through the Power Supply Adjustment ("PSA") charge. Accordingly, there is a
 18 reduction in the PSA associated with the extended life of Palo Verde. The PSA provides for the
 19 tracking of changes in purchased power and fuel costs. The adjustor "rate" is reset annually,
 20 taking effect on February 1 of each year unless otherwise ordered by the Commission. Through
 21 the PSA, ratepayers pay for the actual costs of purchased power and fuel.

22 9. The annual spent fuel storage expense related to the extended life of Palo Verde
 23 recoverable through the PSA would decrease by \$3.2 million, or approximately \$0.00019/kWh.
 24 Staff is not making a recommendation regarding the actual amount of the reduction in the PSA.
 25 Staff will evaluate the proposed PSA when APS files the relevant documentation later this year.

26 ...

27 _____
 28 ³ The total adjustment to Palo Verde depreciation and fuel storage expense is \$7.183 million per year, with \$7.008 million attributable to retail customers.

1 **Recommendations**

2 10. Staff has recommended that the Commission approve the proposed SBC.

3 11. Staff has recommended that APS provide notice to customers of the reduced SBC
4 in a bill insert/message in a form acceptable to Staff at the time the new SBC first appears in the
5 bill.

6 12. Staff has recommended that APS reflect the proposed reduction to the SBC as a
7 "temporary adjustment" on customers' bills beginning January 1, 2012.

8 13. Staff has further recommended that complete changes to the SBC, including
9 changes to the SBC approved in APS' pending rate case, be reflected in rate schedules, consistent
10 with the Decision in the pending rate case.

11 14. Staff has recommended that APS file a tariff page, within 15 days of the effective
12 date of the Decision in this case, that shows the amount of the reduction in the SBC.

13 **CONCLUSIONS OF LAW**

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

16 2. The Commission has jurisdiction over APS and over the subject matter of the
17 Application.

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

20 4. The Commission, having reviewed the application and Staff's Memorandum dated
21 September 30, 2011, concludes that it is in the public interest to approve the proposed SBC, as
22 discussed herein.

23 **ORDER**

24 IT IS THEREFORE ORDERED that the reduced System Benefits Charge be and hereby is
25 approved, as discussed herein.

26 IT IS FURTHER ORDERED that Arizona Public Service Company shall provide notice to
27 customers of the reduced System Benefits Charge in a bill insert/message in a form acceptable to
28 Staff at the time the new System Benefits Charge first appears in the bill.

1 IT IS FURTHER ORDERED that Arizona Public Service Company shall reflect the
2 proposed reduction to the System Benefits Charge as a “temporary adjustment” on customers’ bills
3 beginning January 1, 2012.

4 IT IS FURTHER ORDERED that complete changes to the System Benefits Charge,
5 including changes to the System Benefits Charge approved in Arizona Public Service Company’s
6 pending rate case, be reflected in rate schedules, consistent with the Decision in the pending rate
7 case.

8 IT IS FURTHER ORDERED that Arizona Public Service Company shall file a tariff page,
9 within 15 days of the effective date of the Decision in this case, that shows the amount of the
10 reduction in the System Benefits Charge.

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1 IT IS FURTHER ORDERED that Arizona Public Service Company shall reflect the
2 proposed reduction to the System Benefits Charge as a "temporary adjustment" on customers' bills
3 beginning January 1, 2012.

4 IT IS FURTHER ORDERED that complete changes to the System Benefits Charge,
5 including changes to the System Benefits Charge approved in Arizona Public Service Company's
6 pending rate case, be reflected in rate schedules, consistent with the Decision in the pending rate
7 case.

8 IT IS FURTHER ORDERED that Arizona Public Service Company shall file a tariff page,
9 within 15 days of the effective date of the Decision in this case, that shows the amount of the
10 reduction in the System Benefits Charge.

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

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

13
14 CHAIRMAN

COMMISSIONER

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17 COMMISSIONER

COMMISSIONER

COMMISSIONER

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

24 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

25
26 DISSENT: _____

27 DISSENT: _____

28 SMO:LAF:lhM\MAS

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-11-0247

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