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BEFORE THE ARIZONA CORPORATION COMMISSION

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GARY PIERCE  
Chairman  
BOB STUMP  
Commissioner  
SANDRA D. KENNEDY  
Commissioner  
PAUL NEWMAN  
Commissioner  
BRENDA BURNS  
Commissioner

Arizona Corporation Commission

DOCKETED

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DOCKETED BY  
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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. 72681  
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.<sup>1</sup> APS further

<sup>1</sup> 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."<sup>2</sup> 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 <sup>2</sup> 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.<sup>3</sup> 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
All Customers Excluding Low Income Customers	\$0.00210/kWh	\$0.00185/kWh
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 . . .

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 28 <sup>3</sup> 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.

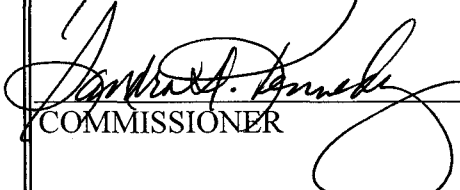
8 IT IS FURTHER ORDERED that Arizona Public Service Company shall file a tariff page,  
9 within 15 days of the effective date of the Decision in this case, that shows the amount of the  
10 reduction in the System Benefits Charge.

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

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

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14 CHAIRMAN

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14 COMMISSIONER

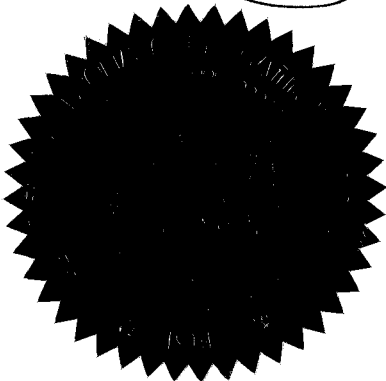
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16 COMMISSIONER

15 **EXCUSED**  
16 COMM. NEWMAN

17 COMMISSIONER

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16 COMMISSIONER

17 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 17th day of November, 2011.

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24 ERNEST G. JOHNSON  
25 EXECUTIVE DIRECTOR

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

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

28 SMO:LAF:lhM\MAS

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2 DOCKET NO. E-01345A-11-0247

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