

ORIGINAL

# OPEN MEETING



0000135245

## MEMORANDUM RECEIVED

2012 MAR 19 A 9:27

Arizona Corporation Commission

**DOCKETED**

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION  
DOCKET CONTROL

MAR 19 2012

DATE: March 19, 2012

DOCKETED BY	
-------------	--

RE: TUCSON ELECTRIC POWER COMPANY - APPLICATION TO RESET THE PPFAC RATE FOR APRIL 2012 THROUGH MARCH 2013 (DOCKET NOS. E-01933A-07-0402 AND E-01933A-05-0650)

On November 3, 2011, 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, 2012, through March 31, 2013, pursuant to Decision No. 70628. On February 1, 2012, 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 be set at \$0.008465 for 12 months starting April 1, 2012. The rate has been zero because the PPFAC rate has been offset by a refund (bill credit) of some of the funds collected under a Fixed Competitive Transition Charge ("Fixed CTC") implemented several years ago.

Decision No. 62103, dated November 30, 1999, approved a settlement agreement which established the Fixed CTC. The purpose of the charge was to recover TEP's stranded costs related to electric competition. The Fixed 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.

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. As of November 2011, the CTC True-up Revenues have been fully credited.

TEP's February 1, 2012, filing requests a PPFAC Forward Component rate of \$0.002876 per kWh and a PPFAC True-up Component rate of \$0.005589 per kWh, resulting in a PPFAC rate of \$0.008465 per kWh. This rate would result in a bill impact on residential customers as shown in the following table.

Residential Usage	kWh per Month	PPFAC Rate per kWh	Bill Impact per Month
Summer Average	1,100	\$0.008465	\$9.31
Winter Average	680	\$0.008465	\$5.76
Annual Average	880	\$0.008465	\$7.45

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. In TEP's upcoming rate case, Staff intends to conduct a prudence review of TEP's fuel and purchased power costs and practices, hedging policy, and PPFAC accounting. The PPFAC balance can be trueed up at that time if adjustments are necessary due to any imprudence or accounting errors.

Staff recommends that TEP's PPFAC Forward Component rate be set at \$0.002876 per kWh and the PPFAC True-up Component rate be set at \$0.005589 per kWh, resulting in a PPFAC rate of \$0.008465 per kWh for the period of April 1, 2012 through March 31, 2013.

Staff further recommends that TEP provide notice (acceptable to Staff) of the rate increase to customers with the bill where the rate increase first appears.



Steven M. Olea  
Director  
Utilities Division

SMO:BEK:lhM\RM

ORIGINATOR: Barbara Keene

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**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 2012 THROUGH MARCH 2013 )

DOCKET NOS. E-01933A-05-0650  
 E-01933A-07-0402  
 DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
 March 27 and 28, 2012  
 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 November 3, 2011, TEP filed its Preliminary Calculation of the PPFAC Rate for the Purchased Power and Fuel Adjustment Clause ("PPFAC") year that runs from April 1, 2012, through March 31, 2013, pursuant to Decision No. 70628. On February 1, 2012, 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 be set at \$0.008465 for 12 months starting April 1, 2012. The rate has been  
8 zero because the PPFAC rate has been offset by a refund (bill credit) of some of the funds  
9 collected under a Fixed Competitive Transition Charge ("Fixed CTC") implemented several years  
10 ago.

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

16 7. Decision No. 69568, dated May 21, 2007, allowed the Fixed CTC to continue  
17 pending the outcome of an on-going rate case instead of terminating when anticipated by Decision  
18 No. 62103. The rate case Decision No. 70628 ordered the incremental revenues generated by  
19 charging the CTC beyond the date of termination ("CTC True-up Revenues") to be credited  
20 against the PPFAC in a manner that keeps the PPFAC rate at zero until the CTC True-up Revenues  
21 are fully credited. The total amount of CTC True-up Revenues was \$58,779,329.02, with interest  
22 to be applied each month on the balance. As of November 2011, the CTC True-up Revenues have  
23 been fully credited.

24 8. TEP's February 1, 2012, filing requests a PPFAC Forward Component rate of  
25 \$0.002876 per kWh and a PPFAC True-up Component rate of \$0.005589 per kWh, resulting in a  
26 PPFAC rate of \$0.008465 per kWh. This rate would result in a bill impact on residential  
27 customers as shown in the following table.

28 ...

Residential Usage	kWh per Month	PPFAC Rate per kWh	Bill Impact per Month
Summer Average	1,100	\$0.008465	\$9.31
Winter Average	680	\$0.008465	\$5.76
Annual Average	880	\$0.008465	\$7.45

9. 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.

10. In TEP's upcoming rate case, Staff intends to conduct a prudence review of TEP's fuel and purchased power costs and practices, hedging policy, and PPFAC accounting. The PPFAC balance can be trued up at that time if adjustments are necessary due to any imprudence or accounting errors.

11. Staff has recommended that TEP's PPFAC Forward Component rate be set at \$0.002876 per kWh and the PPFAC True-up Component rate be set at \$0.005589 per kWh, resulting in a PPFAC rate of \$0.008465 per kWh for the period of April 1, 2012 through March 31, 2013.

12. Staff has further recommended that TEP provide notice (acceptable to Staff) of the rate increase to customers with the bill where the rate increase first appears.

#### CONCLUSIONS OF LAW

1. TEP is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona constitution.

2. The Commission has jurisdiction over TEP and over the subject matter of the application.

3. The Commission, having reviewed TEP's application and Staff's Memorandum dated March 16, 2012, concludes that it is in the public interest that TEP's PPFAC rate be set at \$0.008465 per kWh for the April 1, 2012 through March 31, 2013 PPFAC year.

...

...

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's PPFAC Forward Component rate be set at \$0.002876 per kWh and the PPFAC True-up Component rate be set at \$0.005589 per kWh, resulting in a PPFAC rate of \$0.008465 per kWh for the period of April 1, 2012 through March 31, 2013.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall provide notice (acceptable to Staff) of the rate increase to customers with the bill where the rate increase first appears.

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 \_\_\_\_\_, 2012.

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

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

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

SMO:BEK:lhm\RM

1 SERVICE LIST FOR: Tucson Electric Power Company  
 2 DOCKET NOS. E-01933A-05-0650 and E-01933A-07-0402

3 Mr. Michael W. Patten  
 4 One Arizona Center  
 400 East Van Buren Street, Suite 800  
 5 Phoenix, Arizona 85004

6 Mr. Phillip J. Dion  
 7 Tucson Electric Power Company  
 88 E. Broadway Blvd., P.O. Box 711  
 8 Tucson, Arizona 85702

9 Ms. Jessica Bryne  
 10 Tucson Electric Power Company  
 88 E. Broadway Blvd., P.O. Box 711  
 11 Tucson, Arizona 85702

12 Mr. Daniel Pozefsky  
 13 RUCO  
 1110 West Washington Street, Suite 220  
 14 Phoenix, Arizona 85007

15 Mr. Michael Grant  
 16 Gallagher & Kennedy, PA  
 2575 East Camelback Road  
 17 Phoenix, Arizona 85016-9225

18 Mr. Gary Yaquinto  
 19 AUIA  
 2100 North Central Avenue, Suite 210  
 20 Phoenix, Arizona 85004

21 Mr. Peter Q. Nyce, Jr.  
 22 General Attorney, Regulatory Law Office  
 Office of the Judge Advocate General  
 Department of the Army  
 23 901 North Stuart Street, Room 713  
 Arlington, Virginia 22203-1644

24 Mr. Dan Neidlinger  
 25 Neidlinger & Assoc.  
 3020 North 17th Drive  
 26 Phoenix, Arizona 85015

Mr. Daniel D. Haws  
 OSJA, AITN: ATZS-JAD  
 USA Intelligence Center  
 and Ft. Huachuca  
 Ft. Huachuca, Arizona 85613-6000

Mr. C. Webb Crockett  
 Fennemore Craig, PC  
 3003 North Central Avenue, Suite 2600  
 Phoenix, Arizona 85012-2913

Mr. Nicholas J. Enoch  
 Lubin & Enoch, PC  
 349 North Fourth Avenue  
 Phoenix, Arizona 85003

Mr. Timothy M. Hogan  
 AZ Center for Law in the Public Interest  
 202 East McDowell Road, Suite 153  
 Phoenix, Arizona 85004

Mr. David Berry  
 Western Resource Advocates  
 Post Office Box 1064  
 Scottsdale, Arizona 85252-1064

Mr. Eric Guidry  
 Energy Program Staff Attorney  
 Western Resource Advocates  
 2260 Baseline Road, Suite 200  
 Boulder Colorado 80302

Mr. Jeff Schlegel  
 SWEEP  
 1167 West Samalayuca Drive  
 Tucson, Arizona 85704-3224

Mr. Thomas L. Mumaw  
 Arizona Public Service Company  
 Post Office Box 53999/MS 8695  
 Phoenix, Arizona 85072-3999

1 Mr. Michael L. Kurtz  
Mr. Kurt J. Boehm  
2 Boehm, Kurtz & Lowry  
3 36 East Seventh Street, Suite 1510  
Cincinnati, Ohio 45202  
4  
5 Mr. William P. Sullivan  
Curtis, Goodwin, Sullivan,  
6 Udall & Schwab, PLC  
501 East Thomas Road  
7 Phoenix, Arizona 85012  
8  
9 Mr. John E. O'Hare  
3865 North Tucson Boulevard  
Tucson, Arizona 85716-1041  
10  
11 Ms. Cynthia Zwick  
1940 East Luke Avenue  
Phoenix, Arizona 85016  
12  
13 Mr. Robert Metli  
Snell & Wilmer, LLP  
One Arizona Center  
14 400 East Van Buren  
15 Phoenix, Arizona 85004-2202  
16  
17 Mr. Lawrence Robertson  
Post Office Box 1448  
Tubac, Arizona 85646  
18  
19 Mr. Greg Patterson  
916 West Adams, Suite 3  
Phoenix, Arizona 85007  
20  
21 Mr. S. David Childers  
Low & Childers, PC  
2999 North 44th Street, Suite 250  
22 Phoenix, Arizona 85018  
23  
24 Law Offices of Christopher Hitchcock  
Post Office Box AT  
25 Bisbee, Arizona 85603-0115  
26  
27 Mr. Billy L. Burtnett  
3351 North Riverbend Circle East  
Tucson, Arizona 85750-2509  
28

Mr. Steven M. Olea  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ms. Janice M. Alward  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007