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BEFORE THE ARIZONA CORPORATION

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

Arizona Corporation Commission
DOCKETED
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IN THE MATTER OF THE APPLICATION OF AJO IMPROVEMENT COMPANY FOR AN ADJUSTMENT IN ITS PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE	DOCKET NO. E-01025A-12-0003 DECISION NO. 73079 OPINION AND ORDER

Open Meeting
March 27 and 28, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On January 4, 2012, Ajo Improvement Company ("AIC" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of an adjustment to the Purchased Power and Fuel Adjustment Clause ("PPFAC") rate. On January 18, 2012, AIC filed an amended application maintaining its request to approve an adjustment to the PPFAC rate and incorporating updates to the calculations in the spreadsheets that were filed as Exhibit A to the original application. According to AIC, the purpose of the proposed rate adjustment is to prevent any rapid over-collection of its PPFAC bank balance. AIC is requesting to decrease its PPFAC rate to $0.01000 per kilowatt hour ("kWh") from $0.05000 per kWh. This would be a decrease of $0.04000 per kWh. The application requests an effective date of April 1, 2012.

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Background

2. AIC's last electric rate application resulted in the Commission approving new rates in Decision No. 62764, dated August 2, 2000. In that case, the Commission approved a base cost of power equal to $0.034699 per kWh and a PPFAC rate of $0.005332 per kWh. A PPFAC mechanism is established to deal with changes in purchased power costs between rate cases. When the actual cost of purchased power exceeds the base cost of power, the PPFAC rate is set to a positive number. However, when actual purchased power costs are lower than the base cost of power, as in AIC's situation, the PPFAC rate is lowered or even set to a negative number. The PPFAC bank balance tracks the differences between actual purchased power costs and those recovered through the combination of base rates and the PPFAC rate.

3. In Decision No. 63828, dated June 28, 2001, the Commission approved a PPFAC rate of $0.05000 per kWh. This PPFAC rate was approved in order to stop rapidly-continuing increases in AIC's under-collected PPFAC bank balance. According to AIC, the current PPFAC rate has reduced the under-collected bank balance to the point where it was eliminated before the end of 2011. If the current PPFAC rate of $0.05000 per kWh remains in effect, AIC anticipates that the PPFAC bank balance would reflect an over-collection of $503,946 by the end of 2012.

4. AIC is an Arizona public service corporation certificated by the Commission to provide electric, water and wastewater service to customers in Pima County, Arizona. According to its December 2011 fuel adjustor report, AIC provides electric service to approximately 1,029 customers.

AIC's Proposal

5. AIC proposes to reduce the PPFAC from $0.05000 per kWh to $0.01000 per kWh effective April 1, 2012. Based on its current approximation of power costs, AIC estimates that a PPFAC rate of $0.01000 per kWh beginning in April 2012 should eliminate the over-collection before the end of 2013 (resulting in an under-collection of $40,758 by the end of 2013). AIC anticipates purchase power prices will remain relatively stable for the Company and believes the PPFAC rate of $0.01000 along with the base purchase power rate currently in effect of $0.034699 per kWh will accurately reflect AIC's purchase power costs for the foreseeable future.

6. Based on average residential monthly usage of approximately 416 kWh, AIC estimates the residential customer's bill would reflect a savings of approximately $16.64 per month (starting in April 2012) if the Commission approves reducing the PPFAC rate to $0.01000 per kWh versus having the PPFAC rate remain at $0.05000 per kWh.

Staff Analysis

7. Staff has reviewed AIC's projections for future purchased power costs and sales. While the Company's projections may be slightly higher than actual power costs and sales volumes and dollars from 2011, Staff's analysis projecting historical data forward leads to the same conclusions as AIC including: (1) the under-collection bank balance was eliminated before the end of 2011, (2) if no change is made to the current PPFAC rate of $0.05000 per kWh, the bank balance will continue to grow as an over-collected balance, and (3) if supply prices remain relatively stable for AIC, as they have in the past, reducing the PPFAC rate to $0.01000 per kWh should eliminate the over-collection. However, Staff projects the over-collection to be eliminated by the summer of 2013 resulting in an under-collected balance of approximately $20,244 at the end of December 2013.

8. Staff has examined the models used to calculate the projected account balance levels in the future and finds the models to be consistent with the methodology AIC uses to report its monthly PPFAC account balance information, and is also consistent with the methodology Staff uses to verify AIC's account balance calculations. Since the original and amended application filing dates by AIC, the Company has filed its December 2011 purchased power fuel adjustor reports so Staff was able to complete its analysis based upon actual 2011 power purchases and sales. Staff's analysis, as detailed on the attached spreadsheets, incorporating AIC's proposal for decreasing the PPFAC rate to $0.01000 per kWh effective April 1, 2012, shows the estimated account balance at the end of 2012 to be an over-collection of $80,403 and eliminating the over-collection by July of 2013 (resulting in an under-collection of $20,244 by the end of 2013). If the current PPFAC rate is not decreased as proposed by AIC, Staff's analysis estimates the over-collected bank balance to be $393,357 at the end of 2012 and over-collected $688,124 by the end of 2013.

9. While it is impossible to predict future power prices, AIC estimates little volatility in its supply cost over the next two years based on its current portfolio mix of fixed and index priced supply. The Energy Information Administration ("EIA") publishes natural gas futures prices. The current EIA forecast for 2012 natural gas prices is significantly lower than at this time last year, due to continued growth in production and a warmer winter leading to higher natural gas inventories. EIA anticipates the Henry Hub spot price will average $3.53 per million British thermal units ("MMBtu") in 2012 and rise to an average of $4.14 per MMBtu in 2013. While AIC is not purchasing natural gas supply, it is purchasing supply indexed to natural gas pricing. EIA's forecast indicates that the indexed portion of AIC's portfolio should remain at a relatively stable recovery level for AIC. In addition, AIC's actual purchased power costs over the past three years have remained stable averaging in a range from $0.04000 to $0.07000 per kWh.

10. After reviewing AIC's original and amended application, Staff agrees with AIC's assessment that the reduction is necessary to prevent a rapid over-collection by the Company. Staff also agrees with AIC's estimate of savings on an average residential customer's bill of approximately $16.64 per month if the PPFAC rate is lowered effective April 1, 2012. Staff has recommended for approval the reduction of the current PPFAC rate from $0.05000 per kWh to $0.01000 per kWh effective April 1, 2012.

CONCLUSIONS OF LAW

1. Ajo Improvement Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Ajo Improvement Company and over the subject matter of the Application.

3. The Commission, having reviewed the application and Staff's Memorandum dated February 28, 2012, concludes that it is in the public interest to approve a decrease to the PPFAC rate.

ORDER

IT IS THEREFORE ORDERED that for Ajo Improvement Company the PPFAC rate decrease to $0.01000 per kWh be, and hereby is, approved.

IT IS FURTHER ORDERED that this change to the Purchased Power and Fuel Adjustment Clause rate become effective April 1, 2012.

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 4th day of April, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RSP:lhm\BES

SERVICE LIST FOR: Ajo Improvement Company
DOCKET NO.: E-01025A-12-0003

Mr. Jason D. Gellman
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren, Suite 800
Phoenix, Arizona 85004

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

AJO IMPROVEMENT COMPANY
ADJUSTMENT TO PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE
E-01025A-12-0003
ESTIMATED 2012-13 NO CHANGE TO PPFAC

2012	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ENDING BANK BALANCE FROM PREVIOUS MONTH	$ (98,589)	$ (112,412)	$ (126,712)	$ (149,389)	$ (162,958)	$ (173,961)	$ (195,892)	$ (209,883)	$ (254,873)	$ (287,300)	$ (318,807)	$ (355,005)
JURISDICTIONAL SALES (kWh) (Applicable to FUEL ADJ.)	704,292	667,766	689,482	581,138	632,039	1,136,128	988,209	1,340,956	1,023,815	694,611	637,750	789,187
TOTAL SALES (excluding Special contracts not applicable to fuel adj)	833,003	805,796	870,383	757,763	750,356	1,157,003	1,153,176	1,529,730	1,233,148	1,072,521	1,170,722	1,452,644
ACTUAL COST OF PURCHASED POWER	$ 54,205	$ 50,994	$ 45,094	$ 46,489	$ 50,492	$ 75,663	$ 81,347	$ 78,243	$ 65,388	$ 42,193	$ 32,710	$ 52,445
UNIT COST ($/kWh) OF PURCHASED POWER	$ 0.065072	$ 0.063284	$ 0.051809	$ 0.061351	$ 0.067290	$ 0.065396	$ 0.070541	$ 0.051148	$ 0.053026	$ 0.039340	$ 0.027940	$ 0.036103
AUTHORIZED BASE COST ($/kWh) OF PUR. POWER	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699
AUTHORIZED PUR. POWER ADJUSTOR ($/kWh)	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000
TOTAL RATE COLLECTED FROM CUSTOMER ($/kWh)	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699
INCREMENTAL DIFFERENCE BETWEEN AUTHORIZED AND ACTUAL RECOVERY ($/kWh)	$ (0.019627)	$ (0.021415)	$ (0.032890)	$ (0.023348)	$ (0.017409)	$ (0.019303)	$ (0.014158)	$ (0.033551)	$ (0.031673)	$ (0.045359)	$ (0.056759)	$ (0.048596)
NET CHANGE TO BANK BALANCE:	$ (13,823)	$ (14,300)	$ (22,677)	$ (13,568)	$ (11,003)	$ (21,931)	$ (13,991)	$ (44,990)	$ (32,427)	$ (31,507)	$ (36,198)	$ (38,351)
ENDING BANK BALANCE: Cr=Overpmt by customer	$ (112,412)	$ (126,712)	$ (149,389)	$ (162,958)	$ (173,961)	$ (195,892)	$ (209,883)	$ (254,873)	$ (287,300)	$ (318,807)	$ (355,005)	$ (393,357)

2013	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ENDING BANK BALANCE FROM PREVIOUS MONTH	$ (393,357)	$ (407,180)	$ (421,480)	$ (444,157)	$ (457,726)	$ (468,729)	$ (490,659)	$ (504,650)	$ (549,641)	$ (582,068)	$ (613,575)	$ (649,773)
JURISDICTIONAL SALES (kWh) (Applicable to FUEL ADJ.)	704,292	667,766	689,482	581,138	632,039	1,136,128	988,209	1,340,956	1,023,815	694,611	637,750	789,187
TOTAL SALES (excluding Special contracts not applicable to fuel adj)	833,003	805,796	870,383	757,763	750,356	1,157,003	1,153,176	1,529,730	1,233,148	1,072,521	1,170,722	1,452,644
ACTUAL COST OF PURCHASED POWER	$ 54,205	$ 50,994	$ 45,094	$ 46,489	$ 50,492	$ 75,663	$ 81,347	$ 78,243	$ 65,388	$ 42,193	$ 32,710	$ 52,445
UNIT COST ($/kWh) OF PURCHASED POWER	$ 0.065072	$ 0.063284	$ 0.051809	$ 0.061351	$ 0.067290	$ 0.065396	$ 0.070541	$ 0.051148	$ 0.053026	$ 0.039340	$ 0.027940	$ 0.036103
AUTHORIZED BASE COST ($/kWh) OF PUR. POWER	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699
AUTHORIZED PUR. POWER ADJUSTOR ($/kWh)	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.050000
TOTAL RATE COLLECTED FROM CUSTOMER ($/kWh)	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.084699
INCREMENTAL DIFFERENCE BETWEEN AUTHORIZED AND ACTUAL RECOVERY ($/kWh)	$ (0.019627)	$ (0.021415)	$ (0.032890)	$ (0.023348)	$ (0.017409)	$ (0.019303)	$ (0.014158)	$ (0.033551)	$ (0.031673)	$ (0.045359)	$ (0.056759)	$ (0.048596)
NET CHANGE TO BANK BALANCE:	$ (13,823)	$ (14,300)	$ (22,677)	$ (13,568)	$ (11,003)	$ (21,931)	$ (13,991)	$ (44,990)	$ (32,427)	$ (31,507)	$ (36,198)	$ (38,351)
ENDING BANK BALANCE: Cr=Overpmt by customer	$ (407,180)	$ (421,480)	$ (444,157)	$ (457,726)	$ (468,729)	$ (490,659)	$ (504,650)	$ (549,641)	$ (582,068)	$ (613,575)	$ (649,773)	$ (688,124)

Decision No. 73079

Docket No. E-01025A-12-0003

AJO IMPROVEMENT COMPANY
ADJUSTMENT TO PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE
E-01025A-12-0003
ESTIMATED 2012-13 WITH PROPOSED CHANGE TO PPFAC

2012	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ENDING BANK BALANCE FROM PREVIOUS MONTH	$ (98,589)	$ (112,412)	$ (126,712)	$ (149,389)	$ (139,712)	$ (125,434)	$ (101,919)	$ (76,382)	$ (67,734)	$ (59,209)	$ (62,931)	$ (73,620)
JURISDICTIONAL SALES (kWh) (Applicable to FUEL ADJ.)	704,292	667,766	689,482	581,138	632,039	1,136,128	988,209	1,340,956	1,023,815	694,611	637,750	789,187
TOTAL SALES (excluding Special contracts not applicable to fuel adj)	833,003	805,796	870,383	757,763	750,356	1,157,003	1,153,176	1,529,730	1,233,148	1,072,521	1,170,722	1,452,644
ACTUAL COST OF PURCHASED POWER	$ 54,205	$ 50,994	$ 45,094	$ 46,489	$ 50,492	$ 75,663	$ 81,347	$ 78,243	$ 65,388	$ 42,193	$ 32,710	$ 52,445
UNIT COST ($/kWh) OF PURCHASED POWER	$ 0.065072	$ 0.063284	$ 0.051809	$ 0.061351	$0.067290	$ 0.065396	$ 0.070541	$ 0.051148	$ 0.053026	$ 0.039340	$ 0.027940	$ 0.036103
AUTHORIZED BASE COST ($/kWh) OF PUR. POWER	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699
AUTHORIZED PUR. POWER ADJUSTOR ($/kWh)	$ 0.050000	$ 0.050000	$ 0.050000	$ 0.010000	$0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000
TOTAL RATE COLLECTED FROM CUSTOMER ($/kWh)	$ 0.084699	$ 0.084699	$ 0.084699	$ 0.044699	$0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699
INCREMENTAL DIFFERENCE BETWEEN AUTHORIZED AND ACTUAL RECOVERY ($/kWh)	$(0.019627)	$ (0.021415)	$(0.032890)	$ 0.016652	$0.022591	$ 0.020697	$ 0.025842	$ 0.006449	$ 0.008327	$ (0.005359)	$ (0.016759)	$ (0.008596)
NET CHANGE TO BANK BALANCE:	$ (13,823)	$ (14,300)	$ (22,677)	$ 9,677	$ 14,278	$ 23,514	$ 25,537	$ 8,648	$ 8,525	$ (3,722)	$ (10,688)	$ (6,784)
ENDING BANK BALANCE: Cr=Overpmt by customer	$ (112,412)	$ (126,712)	$ (149,389)	$ (139,712)	$ (125,434)	$ (101,919)	$ (76,382)	$ (67,734)	$ (59,209)	$ (62,931)	$ (73,620)	$ (80,403)

2013	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
ENDING BANK BALANCE FROM PREVIOUS MONTH	$ (80,403)	$ (66,055)	$ (53,644)	$ (48,742)	$ (39,065)	$ (24,787)	$ (1,272)	$ 24,265	$ 32,913	$ 41,438	$ 37,716	$ 27,028
JURISDICTIONAL SALES (kWh) (Applicable to FUEL ADJ.)	704,292	667,766	689,482	581,138	632,039	1,136,128	988,209	1,340,956	1,023,815	694,611	637,750	789,187
TOTAL SALES (excluding Special contracts not applicable to fuel adj)	833,003	805,796	870,383	757,763	750,356	1,157,003	1,153,176	1,529,730	1,233,148	1,072,521	1,170,722	1,452,644
ACTUAL COST OF PURCHASED POWER	$ 54,205	$ 50,994	$ 45,094	$ 46,489	$ 50,492	$ 75,663	$ 81,347	$ 78,243	$ 65,388	$ 42,193	$ 32,710	$ 52,445
UNIT COST ($/kWh) OF PURCHASED POWER	$ 0.065072	$ 0.063284	$ 0.051809	$ 0.061351	$0.067290	$ 0.065396	$ 0.070541	$ 0.051148	$ 0.053026	$ 0.039340	$ 0.027940	$ 0.036103
AUTHORIZED BASE COST ($/kWh) OF PUR. POWER	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699	$ 0.034699
AUTHORIZED PUR. POWER ADJUSTOR ($/kWh)	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000	$ 0.010000
TOTAL RATE COLLECTED FROM CUSTOMER ($/kWh)	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699	$ 0.044699
INCREMENTAL DIFFERENCE BETWEEN AUTHORIZED AND ACTUAL RECOVERY ($/kWh)	$ 0.020373	$ 0.018585	$ 0.007110	$ 0.016652	$0.022591	$ 0.020697	$ 0.025842	$ 0.006449	$ 0.008327	$ (0.005359)	$ (0.016759)	$ (0.008596)
NET CHANGE TO BANK BALANCE:	$ 14,349	$ 12,410	$ 4,902	$ 9,677	$ 14,278	$ 23,514	$ 25,537	$ 8,648	$ 8,525	$ (3,722)	$ (10,688)	$ (6,784)
ENDING BANK BALANCE: Cr=Overpmt by customer	$ (66,055)	$ (53,644)	$ (48,742)	$ (39,065)	$ (24,787)	$ (1,272)	$ 24,265	$ 32,913	$ 41,438	$ 37,716	$ 27,028	$ 20,244

Decision No. 73079

Docket No. E-01025A-12-0003