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BEFORE THE ARIZONA CORPORATION COMMISSION

1
 2 GARY PIERCE
 Chairman
 3 BOB STUMP
 Commissioner
 4 SANDRA D. KENNEDY
 Commissioner
 5 PAUL NEWMAN
 Commissioner
 6 BRENDA BURNS
 Commissioner
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Arizona Corporation Commission

DOCKETED

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8 IN THE MATTER OF THE APPLICATION
 9 OF TUCSON ELECTRIC POWER
 10 COMPANY TO RESET THE PPFAC RATE
 11 FOR APRIL 2012 THROUGH MARCH 2013

DOCKET NOS. E-01933A-05-0650
 E-01933A-07-0402

DECISION NO. 73086

ORDER

12
 13 Open Meeting
 14 March 27 and 28, 2012
 Phoenix, Arizona

15 BY THE COMMISSION:

FINDINGS OF FACT

17 1. Tucson Electric Power Company ("TEP") is certificated to provide electric service
 18 as a public service corporation in the State of Arizona.

19 2. On November 3, 2011, TEP filed its Preliminary Calculation of the PPFAC Rate for
 20 the Purchased Power and Fuel Adjustment Clause ("PPFAC") year that runs from April 1, 2012,
 21 through March 31, 2013, pursuant to Decision No. 70628. On February 1, 2012, TEP filed its
 22 updated calculations.

23 3. Commission Decision No. 70628 (December 1, 2008) approved the creation of the
 24 PPFAC through which TEP is to recover its purchased power and fuel expenses. The PPFAC
 25 consists of a Forward Component and a True-up Component. The Forward Component consists of
 26 the forecasted fuel and purchased power costs for the year commencing on April 1 and ending on
 27 March 31 of the ensuing year, less the average Base Cost of Fuel and Purchased Power reflected in
 28 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 implemented several years ago.

10 6. Decision No. 62103, dated November 30, 1999, approved a settlement agreement
11 which established the Fixed Competition Transition Charge ("Fixed CTC") The purpose of the
12 charge was to recover TEP's stranded costs related to electric competition. The CTC was set at
13 \$0.0093 per kWh, intended to recover \$450 million and slated to terminate on December 31, 2008,
14 or when the stranded costs were fully recovered, whichever date was sooner.

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

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

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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. We find that TEP's projected kWh sales should be increased by 10 percent. Therefore, the PPFAC Forward Component rate shall be set at \$0.002615 per kWh and the PPFAC True-up Component rate shall be set at \$0.005081 per kWh, resulting in a PPFAC rate of \$0.007696 per kWh for the period of April 1, 2012 through March 31, 2013. Any shortfall not collected under these reduced PPFAC rates, shall be recovered through the PPFAC rate set for the period beginning April 1, 2013.

13. This PPFAC rate of \$0.007696 per kWh will result in a bill impact on residential customers as shown in the following table.

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Residential Usage	kWh per Month	PPFAC Rate per kWh	Bill Impact per Month
Summer Average	1,100	\$0.007696	\$8.47
Winter Average	680	\$0.007696	\$5.23
Annual Average	880	\$0.007696	\$6.77

14. 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 \$0.007696 per kWh for the April 1, 2012 through March 31, 2013 PPFAC year.

ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company's PPFAC Forward Component rate be set at \$0.002615 per kWh and the PPFAC True-up Component rate be set at \$0.005081 per kWh, resulting in a PPFAC rate of \$0.007696 per kWh for the period of April 1, 2012 through March 31, 2013.

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

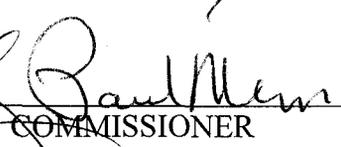
4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

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

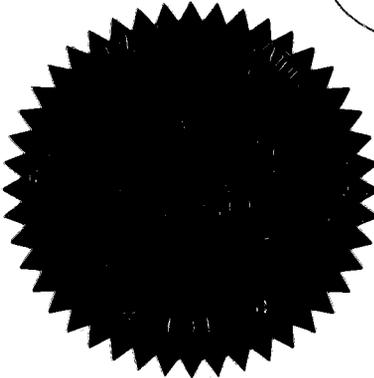
7 
8 CHAIRMAN


COMMISSIONER

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11 COMMISSIONER


COMMISSIONER


COMMISSIONER



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13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of this
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 4th day of April, 2012.

18 
19 ERNEST G. JOHNSON
20 EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

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